GLAECONOMICS

Forecast report

London's Economic Outlook: Spring 2021
The GLA's medium-term planning projections

May 2021

MAYOR OF LONDON

copyright

Published by
Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

www.london.gov.uk
Tel 020 7983 4000

Minicom 020 7983 4000

Cover photograph

For more information about this publication, please contact:

GLA Economics

Tel 020 7983 4000

Email glaeconomics@london.gov.uk

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data. The GLA will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this report.

Contents

1. Executive summary

GLA Economics' 38th London forecast[1] suggests that:

- London's real Gross Value Added (GVA) growth rate is forecast to be 5.4% this year due to the recovery from the COVID-19 crisis. This growth rate is expected to increase slightly to 6.9% in 2022 before moderating to 3.1% in 2023.
- London is forecast to see a fall in the number of workforce jobs[2] in 2021 (-3.6% in annual terms) although this will recover in 2022 (2.9%) before accelerating in 2023 (4.2%).
- Similarly to GVA, London's household income and expenditure are both forecast to grow in all years of the forecast period.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. Given the unprecedented uncertainty resulting from the current COVID-19 crisis, the forecasts presented in this document should be interpreted as a projection of our reference scenario – i.e., the most likely scenario under GLA Economics' criterion – for London's economy in the medium-term.

Table 1.1: Summary of economic forecasts under GLA Economics reference scenario

Annual growth rates (per cent)	2020[3]	2021	2022	2023
London GVA (constant 2016, £ billion)	-7.6%	5.4%	6.9%	3.1%
Consensus (average of independent forecasts)		5.6%	5.9%	2.0%
London workforce jobs	-1.9%	-3.6%	2.9%	4.2%
Consensus (average of independent forecasts)		-0.9%	2.5%	1.7%
London household expenditure (constant 2018, £ billion)	-8.6%	2.5%	4.1%	2.2%
Consensus (average of independent forecasts)		2.6%	4.0%	2.5%
London household income (constant 2018, £ billion)	3.8%	2.5%	4.1%	2.2%
Memo: Projected UK RPI[4] (Inflation rate)	1.5%	2.5%	3.0%	3.0%
Projected UK CPI[5] (Inflation rate)	0.8%	1.5%	2.2%	2.1%

Sources: GLA Economics' Spring 2021 forecast

At the time of writing of this London's Economic Outlook (LEO), the UK economy is continuing to experience a historic crisis resulting from the COVID-19 pandemic and the unprecedented restrictions on freedom of movement and economic activity imposed by the Government. The impact of the first lockdown and subsequent easing are covered in the previous LEO[6]. The second lockdown to stop the spread of

[1] The forecast is based on a recently updated econometric model built by GLA Economics. For more details see 'The new GLA Economics forecast models for London's economy, GLAE Working Paper n°98, June 2020'.
[2] Unless stated otherwise, any reference to jobs in the main text refers to workforce jobs.
[3] Historic data for London's real GVA – except for Q2-Q4 2020 - and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics forecasts.
[4] RPI = Retail Price Index. Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2021). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2021. Data for 2020 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics.
[5] CPI = Consumer Price Index. . Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2021). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2021. Data for 2019 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics.. Since December 2003, the Bank of England's symmetrical inflation target is annual CPI inflation at 2%.
[6] GLA Economics (2020). 'London's Economic Outlook: Autumn 2020'. 7 December 2020.

COVID-19 in England commenced 5 November 2020 and was eased on 2 December. After this date London entered Tier 2, or the middle tier, of three tiers of further restrictions then in place but rapidly moved up to Tier 3 before entering the newly created Tier 4. This was followed by another England-wide lockdown on 5 January, which has been gradually eased over the following months.

The ongoing global pandemic is a major negative economic shock the size of which has not been seen in centuries. After contracting by 19.5% in the second quarter of 2020 the UK economy grew in the second half of the year despite a second lock before contracting by 1.5% in the first quarter of 2021 following a third lockdown according to the Office for National Statistics (ONS)[7]. Following this further drop UK GDP remains 8.7% below its pre-pandemic rate[8], with certain non-tradable sectors such as Accommodation and food services and Arts, entertainment and recreation seeing large drops. Jobs have been lost during this downturn, but given the size of the decline in GDP the rise in unemployment has been contained so far, with the unemployment rate rising to 6.8% in the first quarter of 2021[9]. This is due largely to the Government's Coronavirus Job Retention Scheme, commonly known as the furloughing scheme, which has now been further extended to the end of September 2021. In London there were 710,800 employments furloughed at 28 February 2021, the highest take up rate in the UK. Public finances have also deteriorated markedly. The Government has spent over £400bn since March 2020 to tackle the COVID-19 crisis and its effects[10].

In response to the ongoing large economic shock, which is affecting both aggregate demand and aggregate supply, the UK Government and the Bank of England have taken a range of unprecedented measures since March last year with further measures planned through the year (Box 3.1). These new policies aim to reduce the negative effects of the pandemic crisis this year and support a recovery in the economy in the later parts of 2021 and into 2022. Most forecasters expect these measures to have a positive impact on economic activity, although concerns remain for the long-term prospects of the economy. Still, strong growth in the later part of this year and into 2022 would mostly offset the output losses seen so far. The successful rollout of the vaccination programme supports the view that there will be a gradual return to normality over the course of the year, however the prospect of long-term economic scarring caused by the pandemic cannot be discounted.

Looking at London, our forecasts and the available economic indicators up to the point of writing suggest that the downturn in economic output is slightly more positive than the national one in this crisis. However, the rise in unemployment in the capital has been significantly higher than at a national level. The unemployment rate in the capital started to rise from 4.3% in Q4 2019 to 6.8% in the first quarter of 2021 but as yet official statistics only provide limited insight on the possible long-term impact of the crisis due to the size of the Government support schemes. Despite this the picture on indicators is generally more positive. All PMIs – business activity, new business, and employment – have returned to levels indicating growth after experiencing historic falls in 2020. House price expectations have also improved, but consumer confidence has remained negative since the start of the crisis. Given this background, the GLA Economics reference scenario for London sees London's output recovering markedly this year and into next year before growth slows in 2023. The recovery in employment is expected to be slower than in output (see Figures 1.1 & 1.2 and Chapter 5 for more detail). In particular, the forecast is for real GVA in London to return to its pre-crisis levels – i.e., Q4 2019 – in Q1 2022 while workforce jobs will take until the middle of 2023 to return to their pre-crisis levels (Figure 1.3). Our forecast assumes that some of London's local characteristics might become a comparative advantage in this crisis. Specifically, some of London's main sectors – Financial services, Real Estate, Professional & technical activities and Information & communications activities – have

[7] ONS (2021). 'GDP first quarterly estimate, UK: January to March 2021'. 12 May 2021.
[8] Ibid.
[9] ONS (2021). 'Labour market overview, UK'. 18 May 2021.
[10] HM Treasury (2021). 'Budget 2021 documents'. 3 March 2021.

been hit less severely by lockdown restrictions and have a relative greater proportion of workers being able to work from home. However, these positive effects might be offset by other features such as the high reliance of London workers on public transport – who may be reluctant to use transport at pre-pandemic levels – and a very negative shock in terms of tourism and international students in the capital. There may also be a large and persistent negative shock for certain sectors such as Accommodation & food services, Arts, entertainment & recreation, Education, and Other services.

The expected path for recovery of both London and the UK economies is tied to a high level of uncertainty. Since our previous forecast in December 2020, both global and domestic risks on the downside have continued to dominate. However, recently more positive developments have included the successful roll out of a vaccine programme in the UK and some other developed economies, which should help in the lifting of restrictions on freedom of movement and economic activity as infection rates reduce. Secondly, the new Biden administration has seen some moves towards more collaboration between western countries, and more certainty of US foreign policy.

Beyond this, another risk to the UK economy (and therefore to this forecast) continues to be the impact of Brexit. As although a trade agreement was agreed with the EU this does not include a service element yet. Given the importance of the EU to London's service exports, the UK's future relationship with the block in this regard will have a significant impact on London's economic outlook. The introduction of non-tariff barriers (NTBs) may well also affect London's export-oriented service sectors in the long term, with evidence at a national level of their short-term disruption. Adverse effects from the restructuring of the economy are likely to continue over a period of years – the Office for Budget Responsibility (OBR) reports[11] that the long-term negative impact of Brexit on the economy may be 4% lower output than against a base case of EU membership mainly due to lack of a deal on services. For businesses that are also facing COVID-19, Brexit further increases costs both in domestic and overseas markets (Box 3.2 says more on these issues).

The other main UK risk is to the public finances from the borrowing needed to support public services and the economy through the COVID-19 crisis. As the Bank of England (BoE) has lowered interest rates and kept them low since last year, debt servicing costs are lower than they were prior to the pandemic. If, however, there is another shock to the economy or there are inflationary pressures and the BoE raises interest rates in response, debt financing costs may become unsustainable. The Government would need to reduce spending, raise taxes, or both, with adverse effects for economic growth and investment. Although it should be noted at the moment the expectation is for rates to rise gradually with this having a limited impact on debt financing costs.

Outside of COVID-19 and the ongoing fall out from Brexit, other global risks continue with potential effects on London's economy. Firstly, a serious increase in global protectionism which could be damaging to trade flows, or there might be a contraction of supply chains to make them more resilient. Secondly, UK's labour productivity growth remains weak and it is not expected to improve in the medium-term due to the current crises and may be further damaged by long-term scarring from the pandemic. Thirdly, although geopolitical risks are generally lower, an intensification of the current regional conflicts in the world cannot be discarded. Finally, the international economic context remains highly volatile at this moment as well. Structural problems and macroeconomic imbalances remain in the Eurozone and the pandemic may speed up the manifestation of negative consequences.

The COVID-19 crisis is damaging for all economies. The US reached its highest unemployment rate since at least the start of World War 2, in April 2020[12] but has since fallen back as growth resumed, although it

[11] OBR (2021). 'Economic and fiscal outlook – March 2021'. March 2021.
[12] US Bureau of Labor Statistics (2021). 'Employment Situation Summary'. 7 May 2021.

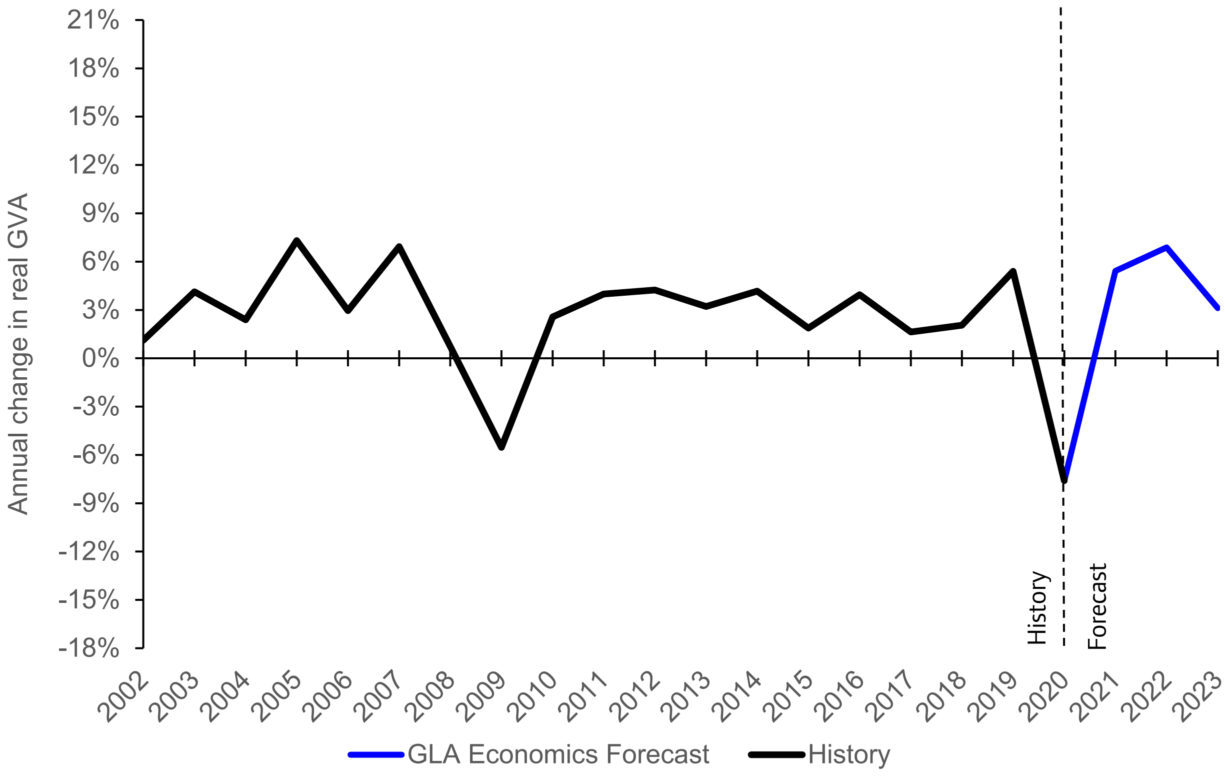
remains above pre crisis levels while the Federal Reserve has stimulated the economy with the most expansionary monetary policy ever seen. All of which indicates the size of the current crisis in the advanced economies, although this has eased since the end of last year for some of them. Meanwhile, emerging market economies face problems around the availability of vaccine supplies and new COVID-19 variants.

There remains a very high degree of uncertainty about the future path of the economy at the current moment. In response GLA Economics has developed and continue to use macroeconomic scenarios[13] which have been updated regularly to maintain an up-to-date view on how the economy is evolving. What is clear is that the recovery will also take longer than originally expected. GLA Economics has also developed alternative scenarios on which it reports which are shown in Chapter 5.

In conclusion, the global economic environment remains extremely uncertain due to the ongoing COVID-19 outbreak (as shown in the evolution of our London Forecast (Figures 1.4 & 1.5)). There was a historically unprecedented drop in UK output last year but growth is expected to be strong this year (Figure 1.1). Most forecasters expect a continued bounce back into 2022, thus returning to pre-crisis levels in the medium-term (Figure 1.3). The effectiveness of the unprecedented fiscal and monetary policies put in place by national and international public authorities are mitigating some of the negative economic effects of the pandemic especially in terms of employment (Figure 1.2). All sectors should see a recovery although Accommodation and food services, Other services, and Arts, entertainment, and recreation will most likely continue to be the worst hit as they are the most affected by social distancing which is likely to continue in some form for part of this year at least. This is also the picture we can draw for London's economy in broad terms at this moment. Production capacity, and internal and external demand have fallen but not at the unprecedented rate seen in the second quarter of 2020 and therefore despite this we expect a recovery in 2021 and into 2022. However, it can be anticipated that London's economy will not recover its previous 'normality' until the global vaccination process is well advanced.

[13] London Datastore (2021). 'Macroeconomic scenarios for London's economy post COVID-19'.

Figure 1.1: Historic and forecast output growth (GLA Economics reference scenario)

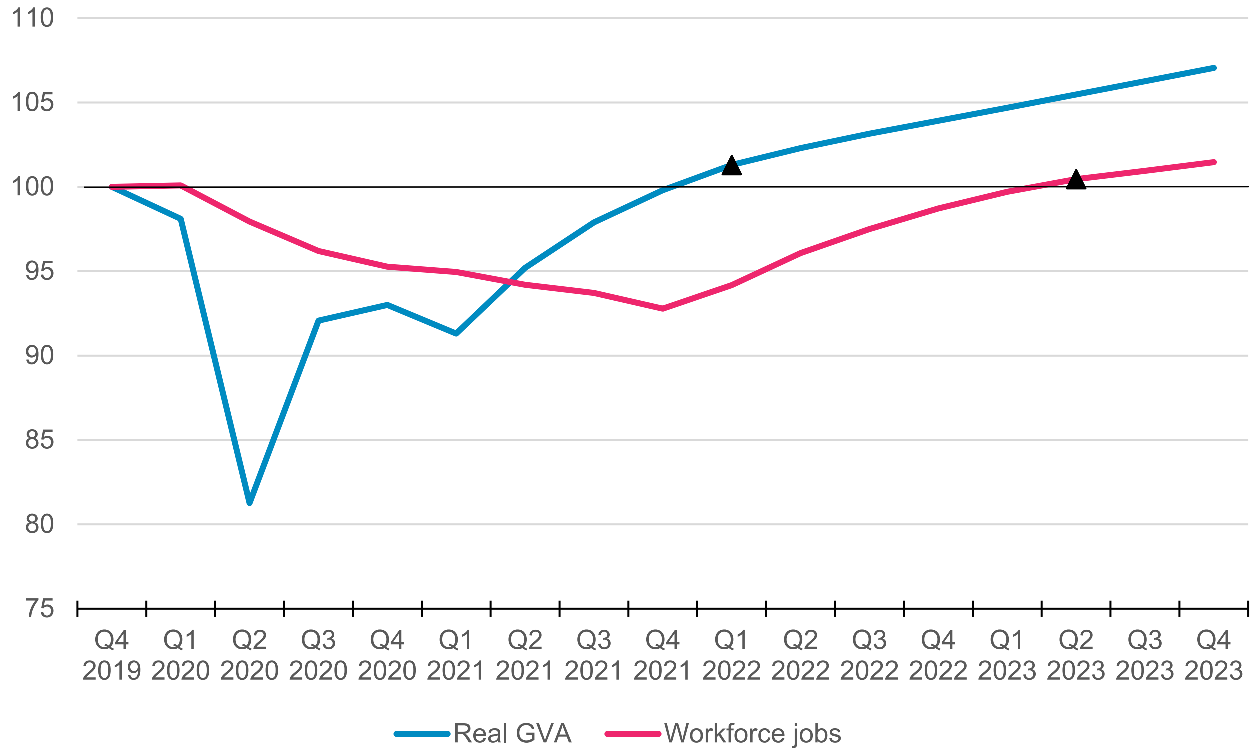


Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.2: Historic and forecast employment growth (GLA Economics reference scenario)

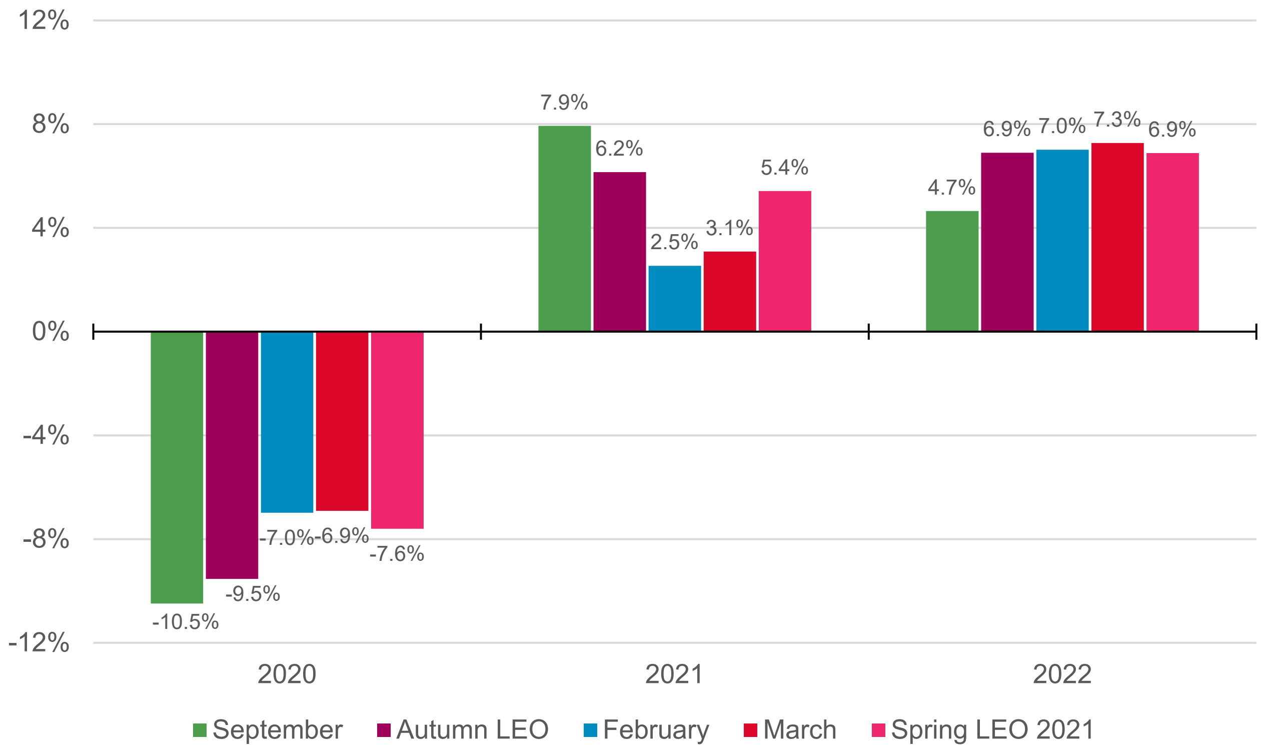
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.3: Expected shape of the economic recovery under the GLA Economics reference scenario (index)



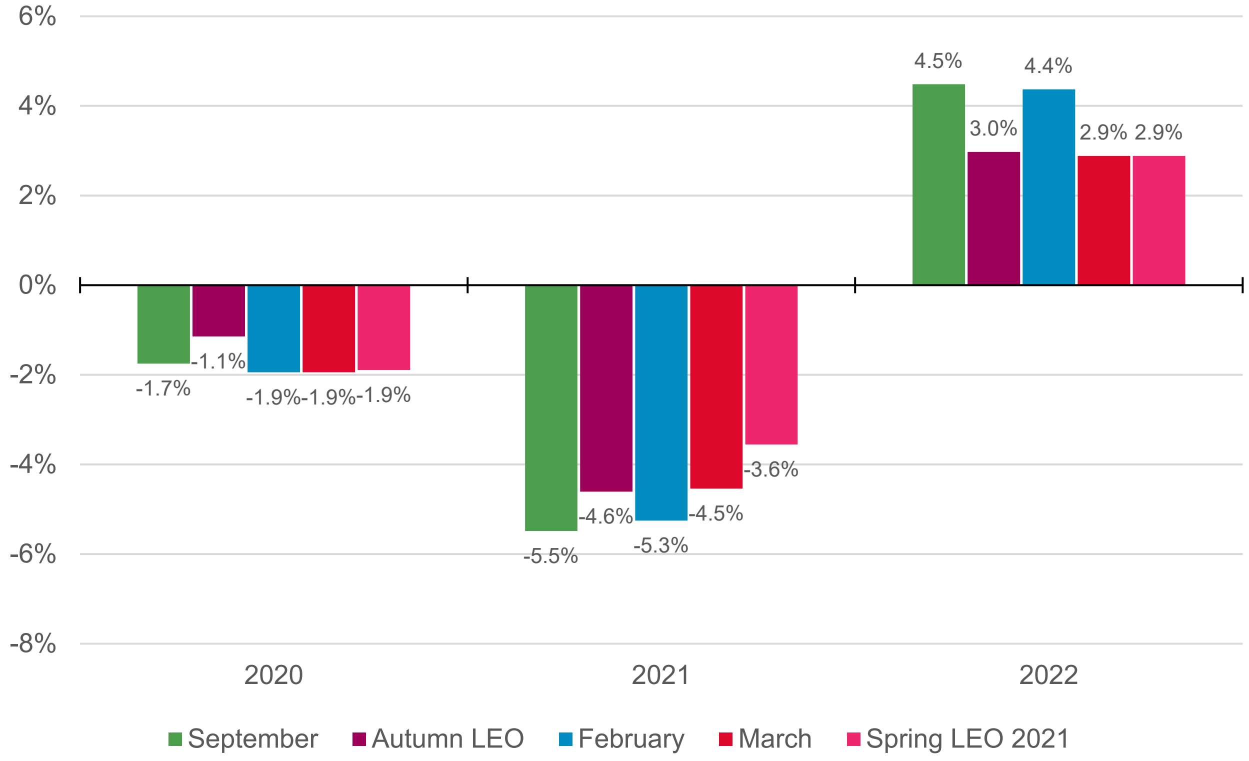
Source: GLA Economics

Figure 1.4: Development of reference scenarios for London annual real GVA growth rates 2020-2022



Source: GLA Economics

Figure 1.5: Development of reference scenarios for London annual employment growth rates 2020-2022



Source: GLA Economics

2. Introduction

The spring 2021 edition of London's Economic Outlook (LEO) is GLA Economics' 38th London forecast. The forecasts are issued roughly every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of the recent economic conditions in London, the UK and the world economies and includes analysis of important events, trends and risks to short and medium-term growth (Chapter 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Chapter 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Chapter 5).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast is based on an in-house model built by GLA Economics[14]. Before that, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)[15]
- Experian Economics (EE)
- Oxford Economics (OE)

Economic forecasting is not a precise science. Further, these projections unlike previous GLA Economics forecasts are a scenario consistent with the BoE's COVID-19 forecast published in May[16] and OBR scenario published in March[17] and provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen if this scenario came to pass. There are thus significant risks, mainly on the downside, associated with this scenario.

[14] The forecast model used in this forecast has updated the model described in this publication: Douglass, G & van Lohuizen, A (2016). 'The historic performance of the GLA's medium-term economic forecast model', GLA Economics Current Issues Note 49, November 2016. A description of this new forecast model can be found in Orellana, E. (2020) 'The new GLA Economics forecast models for London's economy', GLA Economics Working Paper 98.
[15] CEBR does not provide a forecast for household expenditure in London.
[16] Bank of England (2021). 'Monetary Policy Report', May 2021.
[17] OBR (2021). 'Economic and fiscal outlook – March 2021'. March 2021.

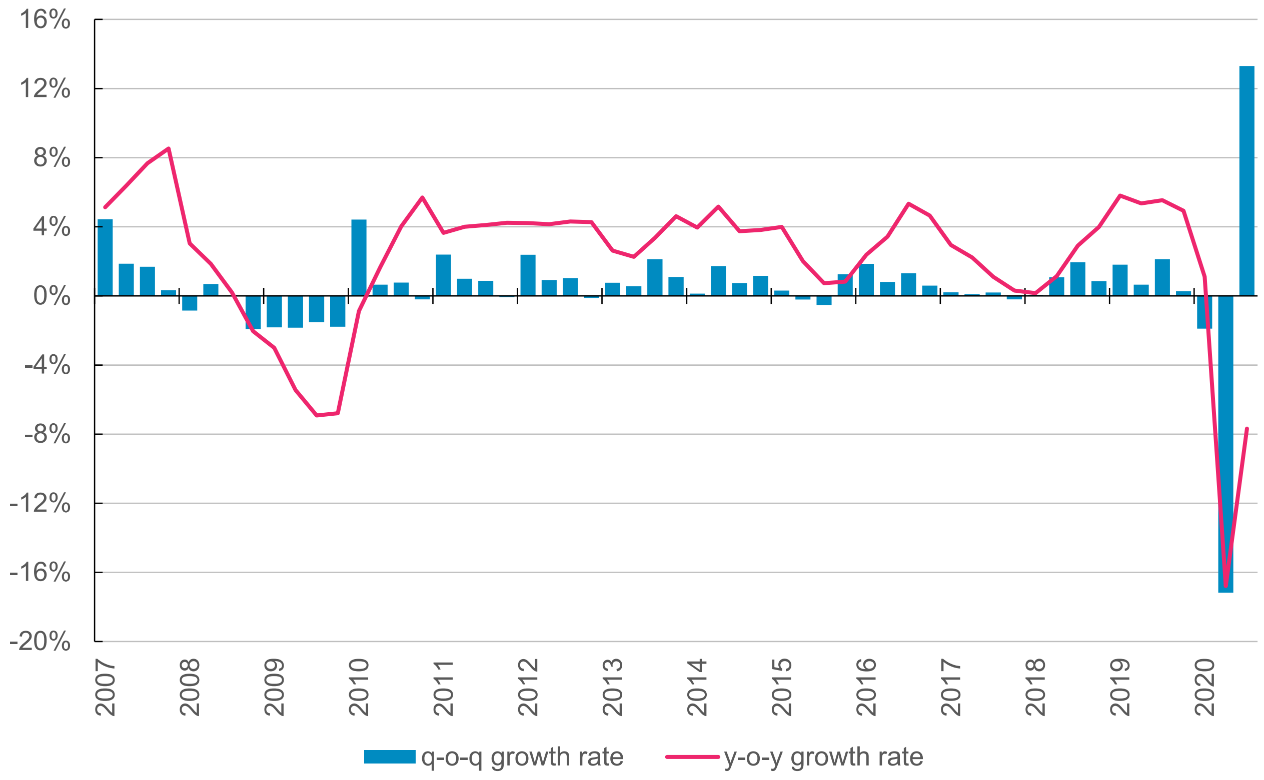
3. Economic background: London is recovering from the unprecedented economic shock last year

This Chapter provides an overview of recent developments in the London, UK and world economies, as well as risks to the London economy.

3.1 London's economy

According to the latest regional data by the ONS, London's economy – as measured by real gross value added (GVA) – grew by 13.3% between Q2 2020 and Q3 2020, which is equivalent to an annual growth rate of -7.7% in the third quarter of the year. As can be observed from Figure 3.1, the quarter-on-previous-quarter (q-o-q) growth rate represents the largest output growth on record after the sharpest fall on record in Q2. By Q3 London's economy remained 7.9% below its recent pre-pandemic peak in 2019 Q4. However, this shock was smaller in London than for the UK, where the quarterly growth rates were -18.8% and 16.9% respectively in the second and third quarter of 2020. Overall, though, the UK economy shrank by 7.7%. London has a relatively large services sector. In some sub-sectors there are many people who have been able to continue to work from home, which may have dampened the still large movements in output. London also has a relatively large hospitality sector which has been disproportionately hit by social distancing measures, which may in turn partly account for London's slower recovery.

Figure 3.1: Real GVA in London (Q1 2007 – Q3 2020)



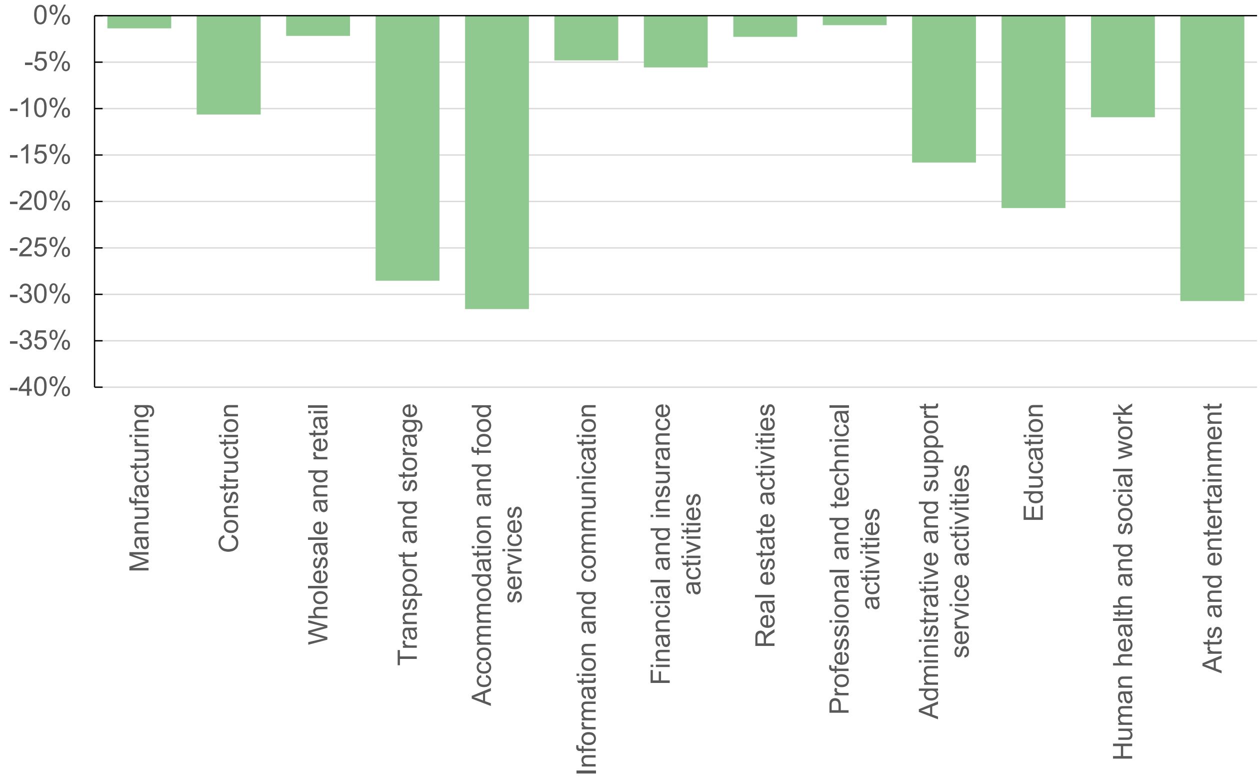
Source: GLA Economics based on ONS - UK regional GVA and GDP data.

As might be expected the decline in activity has been broadly based across London's economy, if not even across sectors. Figure 3.2 indicates that the main four industries in terms of their contribution to output[18] –

[18] Representing 57.6% of London's real GVA in 2018.

i.e., Real estate activities, Financial and insurance activities, Professional and scientific/technical activities, and Information and communication activities – all registered relatively small declines by Q3 2020 compared with Q4 2019. In comparison, Arts and entertainment, Accommodation and food services, and Transportation and storage all shrank by over a quarter over this period.

Figure 3.2: Proportionate change in real GVA by industry* in London Q4 2019 – Q3 2020



*Source: GLA Economics based on ONS – UK regional GVA and GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

Beyond Q3 2020, there have been further lockdowns in December and the first quarter of 2021. Evidence from external forecasters[19] and our analysis of the available faster macroeconomic indicators for London suggest that the London and UK economies have suffered less during these lockdowns as businesses and individuals have learnt to respond more effectively. For further details on the Government's lockdown measures in England and economic policy response for the UK see Box 3.1.

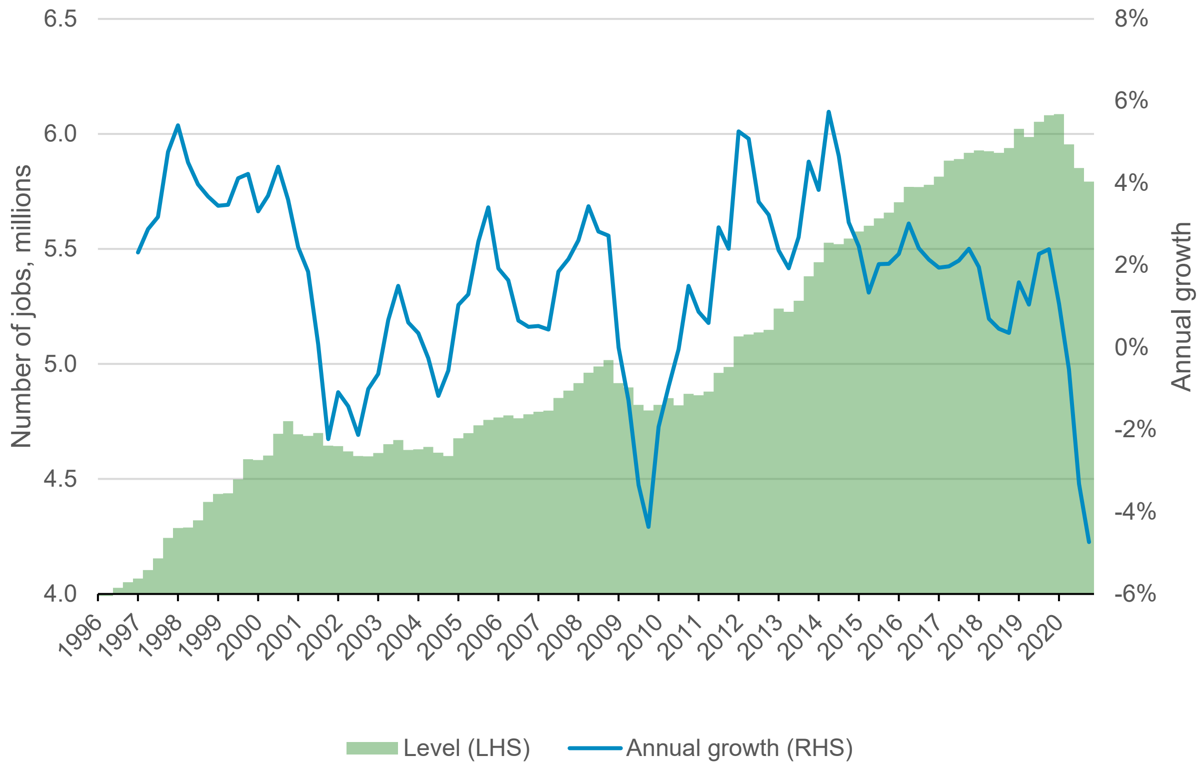
The latest data on London's labour market is for March 2021. The employment rate shows the percentage of residents aged 16-64 who are in work and stood at 74.8% in the three months to March 2021, down 1.8 percentage points on the year. The unemployment rate shows the proportion of the 16 and over resident population who are unemployed but are wanting to work and stood at 6.8% in the three months to March, up 2.0 percentage points on a year earlier, and near to a seven year high. For comparison, the UK's employment rate stood at 75.2% in the three months to March and the unemployment rate was 4.8%.

The trend in the number of jobs in London's economy has been less erratic than for output and has been falling gradually over 2020. By Q4 the number had fallen by 4.7% (288,000 jobs) which is comparable with, in proportionate terms, if slightly higher than, the fall during the 2008/09 financial crisis, (Figure 3.3). The

[19] See Chapter 4 of this report for more detail.

government's furlough scheme, officially known as the Coronavirus Job Retention Scheme, has been credited with keeping workers attached to their employers, and has enabled employers to give work to existing employees as the economy picks up saving on redundancy and recruitment costs. As the economy restructures, moving into sectors which have benefited from the pandemic such as digital activities, it is expected that there will continue to be a loss of jobs from sectors which have done less well. A further loss of jobs is likely when the furlough scheme ends in the Autumn.

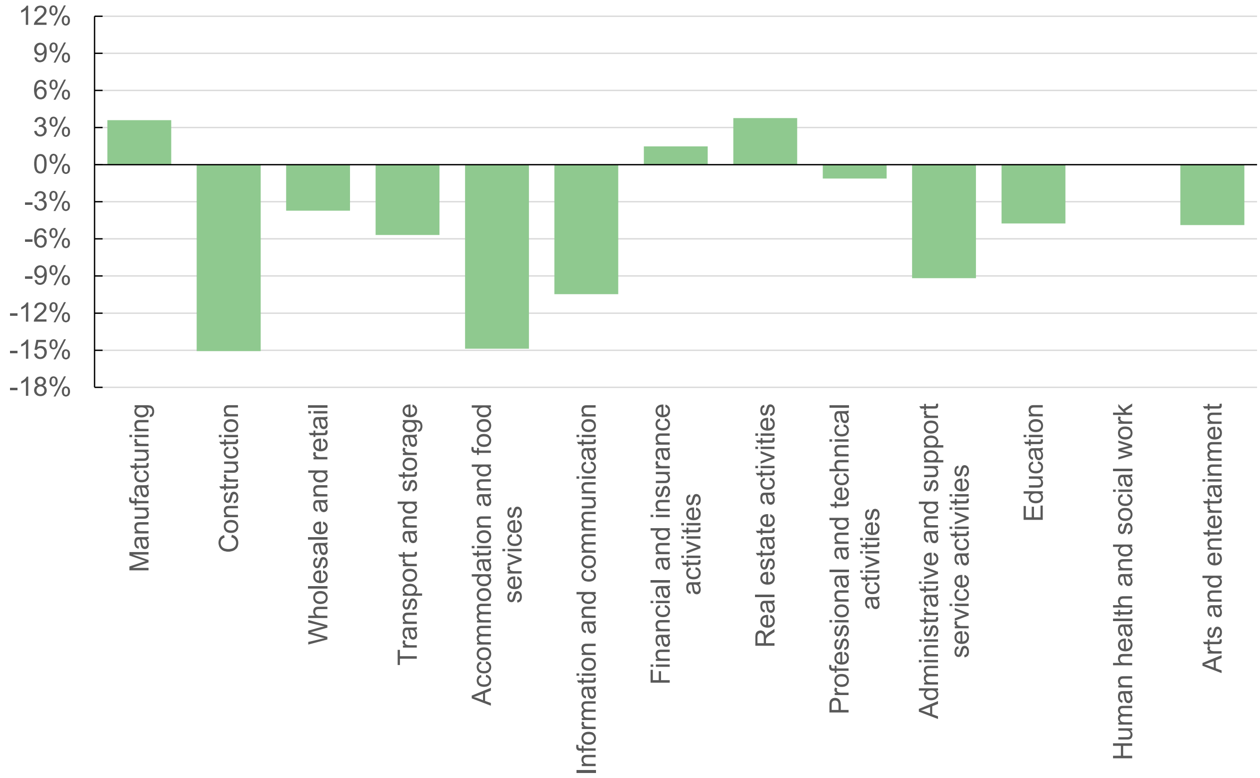
Figure 3.3: Number of workforce jobs in London
Last data point is Q4 2020



Source: ONS Workforce Jobs

On a sectoral basis there is more of a mixed picture for changes in workforce jobs over 2020. Figure 3.4 indicates that there has been some jobs growth in Real estate, Manufacturing, and Finance between Q4 2019 and Q4 2020. In comparison, Construction, Accommodation and food services, and Information and communication all shrank by over 10% during this period. This highlights the way the furlough scheme is protecting jobs in some, but not all, sectors most affected by the pandemic, and it is perhaps in some sectors with weaker employment protection that there have been the greatest job losses.

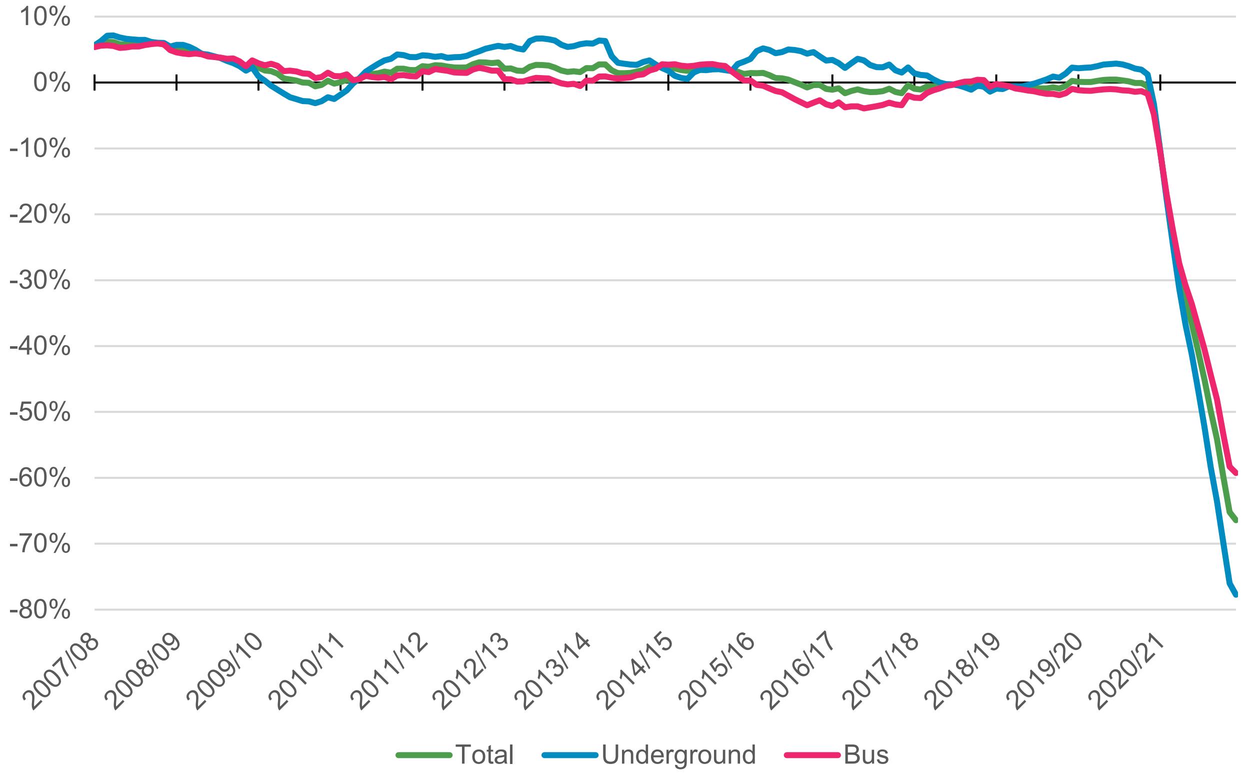
Figure 3.4: Proportionate change in workforce jobs by industry* in London Q4 2019 – Q4 2020



*Source: GLA Economics based on ONS – workforce jobs data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

In the context of lockdowns, public transport use can be a handy indicator to track the state of the London economy. For example, more people travelling in London could reflect more people commuting to work because there are more jobs being undertaken at workplaces. Alternatively, it could reflect increased leisure activities like shopping, which might indicate an increase in household spending. Having noted this, the variation of the 12-month moving average in total passenger journeys in London's public transport had been increasing throughout 2019 before starting to fall slightly by the end of the year and the beginning of 2020. However, this indicator has sunk from March 2020 and has remained at historic lows since then due to the persisting lower demand for the use of public transport in London (Figure 3.5). As a reference, in the period 7 to 31 March 2021 the actual number of passenger journeys in London's public transport was 66% below the equivalent period in the previous year.

Figure 3.5: Variation (%) of the 12-month moving average in public transport passenger journeys in London

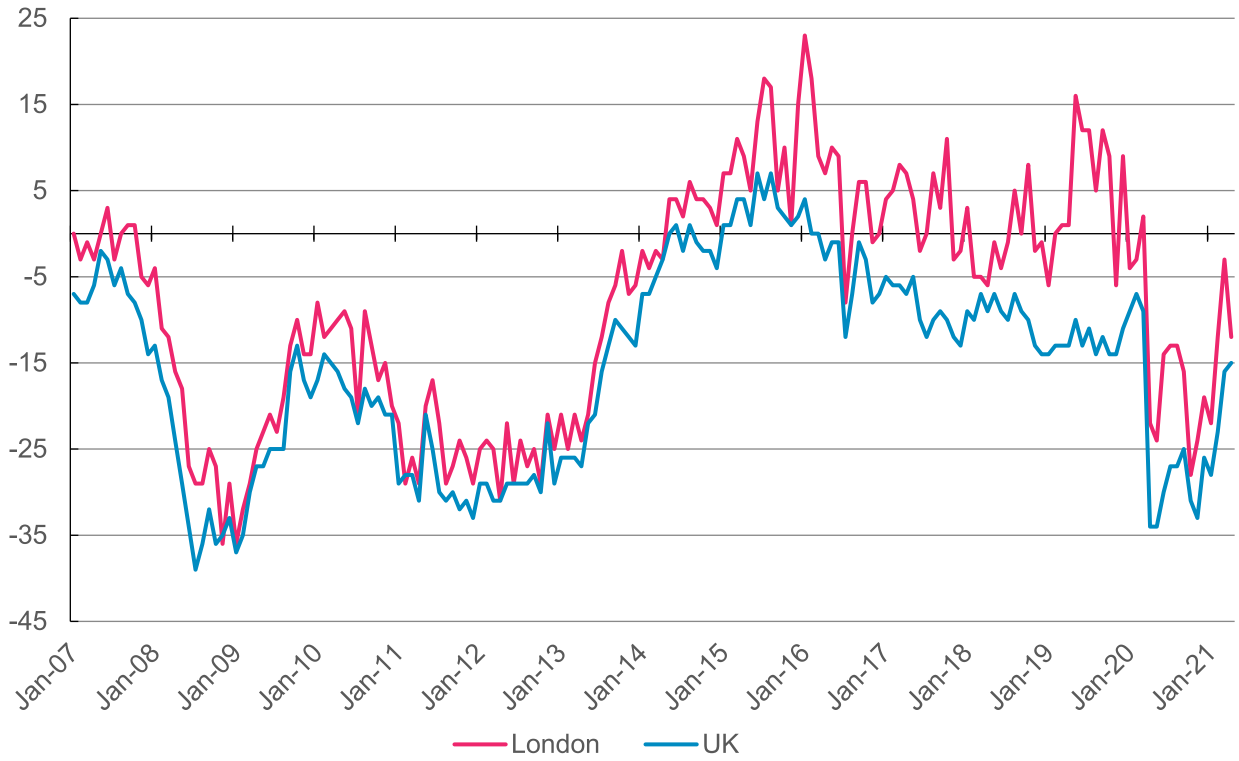


Source: GLA Economics based on Transport for London data. Last data point is the 25-day period ending on 31 March 2021.

The decline in transport mobility is one factor that negatively affects London's economy through lower spending in London's Central Activity Zone. The broader lack of opportunity to go out, or go on holiday, while there are social restrictions in place has also had a bearing on spending. Other factors such as the current uncertainty on the control of the pandemic, the speed and size of the economic recovery and the UK's future commercial relationship with the EU may all also have a bearing. The GfK Consumer Confidence Barometer, a consumer confidence index, is a reliable indicator to measure how private consumption in London is being affected by overall uncertainty[20]. Looking at this indicator, the virus outbreak and the consequent first lockdown caused consumer confidence in London to drop sharply in April and May 2020 (Figure 3.6). As lockdown eased in June, this index recovered slightly for some months - although always remaining negative - but the second wave of infections and the announcement and subsequent introduction of the new lockdown sunk the London index to eight-year lows in October and November. There has been some recovery since although sentiment remains in negative territory. These recent figures suggest that London consumers are still either very worried about their household finances or simply opting to save more as a precautionary behaviour while the present climate of uncertainty continues. On the positive side, data for London is usually less pessimistic than for the UK in terms of consumer confidence and the evidence provided in Figure 3.6 confirms this fact for the current crisis as well.

[20] The GfK Consumer Confidence Barometer reflects people's views on their financial position and the general economy over the past year and the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Figure 3.6: GfK Consumer Confidence Barometer for London and the UK

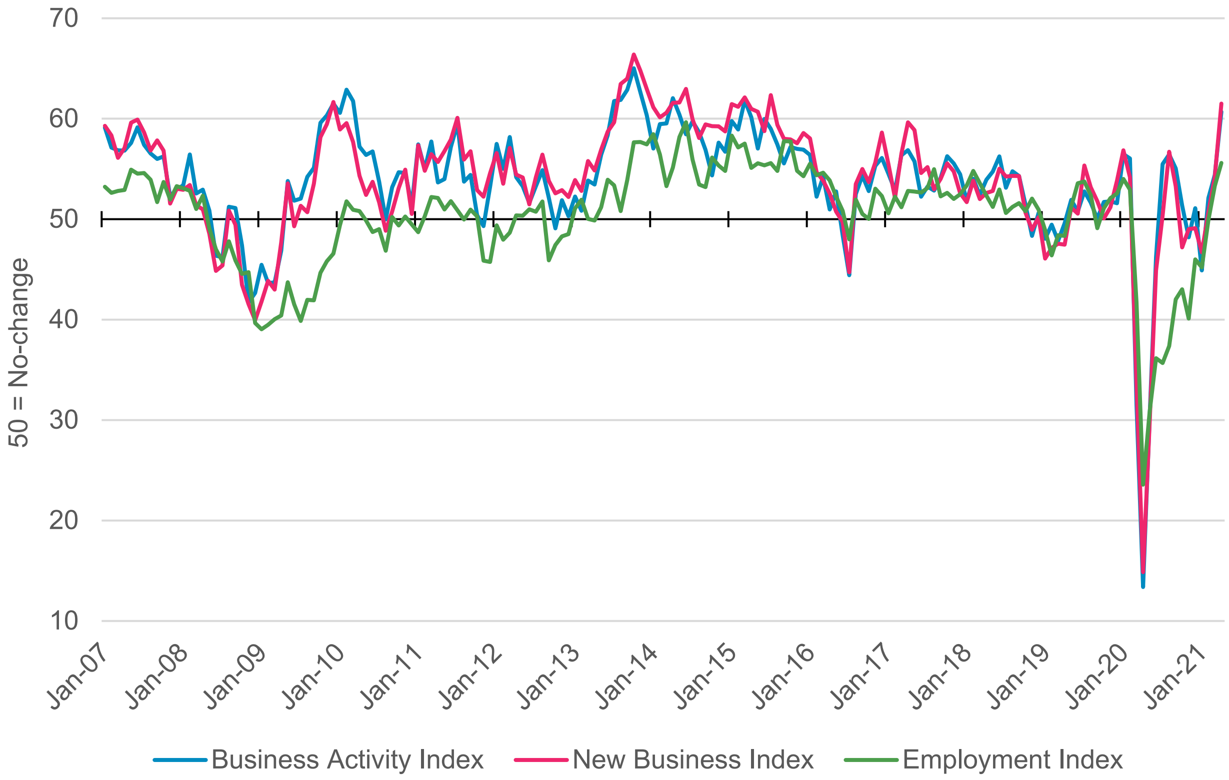


Source: GLA Economics based on GfK-NOP data. Last data point is April 2021.

Another high frequency indicator that correlates strongly with economic activity is the Natwest Purchasing Managers' Index (PMI) survey which focuses on the sentiment of businesses in London[21]. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators like workload and employment. PMI data in 2019 prior to the pandemic remained slightly above 50 on average - indicating slightly expanding conditions. A few months later, the emergence of COVID-19 dragged down these indicators to all-time lows in March and April 2020 but a rapid recovery started in May continuing over the summer before again turning negative with the autumn and winter lockdowns. However, with the easing of the third lockdown all the indicators again show an expansion of activity (Figure 3.7). In fact, PMI Business Activity and PMI New Business indices returned to growth in February with the PMI Employment Index doing so in March. The latest indicators for April show levels of business activity not seen in more than half a decade.

[21] PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading is away from the 50 mark, the faster the rate of growth or decline.

Figure 3.7: Natwest PMI Business Activity for London, New Business and Employment Indices



Source: GLA Economics based on IHS Markit data. Last data point is April 2021.

The housing market had been picking up prior to the onset of COVID-19 as house prices and expectations of house prices had been rising through 2019. There was volatility in both measures over 2020, and both were moving downwards in the latter part of the year reflecting worse economic news. Accordingly, there has been a recovery in 2021 as the successful vaccine roll-out progressed (Figure 3.8). It is clear that housing has become more affordable for many households, who have built up savings over the last year. What is not known is the extent to which these might be used to purchase houses, or on other spending.

Figure 3.8: RICS house prices net balance index for London, change during last three months

Source: GLA Economics based on RICS data. The net balance index measures monthly the proportion of property surveyors reporting a rise in prices minus those reporting a decline in the last three months.

Beyond the unprecedented challenge that London's economy is facing this year and its unclear outlook, it seems evident that some labour market scarring of the economy cannot be ruled out. It is less certain if there will be business scarring if a lack of liquidity leads to closure of otherwise solvent firms, although the capital's hospitality sector may be particularly at risk.

Box 3.1: Policy responses to and selected economic research on COVID-19

Since the Autumn 2020 LEO a third lockdown has been imposed in England although it is now in the process of being eased. This followed a rapid increase in the rate of infections and hospitalisations after Christmas and the spread of a more infectious variant of COVID-19. While, this further lockdown has had a significant negative impact on London's economy, as outlined in the rest of this chapter, this box sets out the timeline and details of the Government's policy response to the pandemic since December 2020[22] before summarising some selected recent research on the impact of the pandemic. Thus:

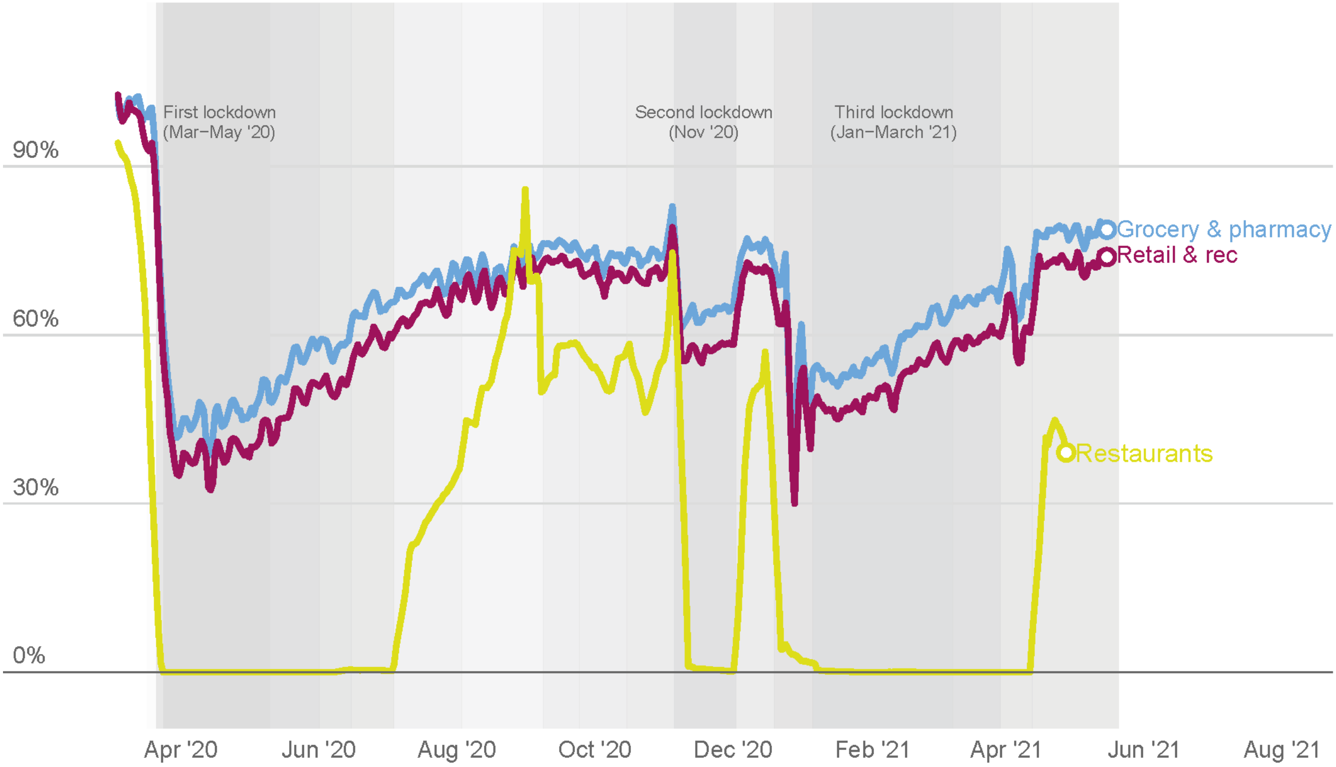
- The second England wide lockdown ended on 2 December 2020, with London returning to Tier 2 restrictions which amongst other things allowed pubs and restaurants to serve drinks but only if accompanied by "a substantial meal".
- 8 December saw the start of the roll out of the UK's vaccination programme. As of 16 May 2021 3,919,150 people had received their first vaccination in London. Of these 2,039,998 had received their second injection. The Government vaccine roll out timeline expects that every adult in the UK will be offered their first injection by the end of July 2021.

[22] A list of policy responses before December 20202 can be found in the Autumn 2020 LEO.

- On 16 December 2020 London was moved up to the Tier 3 restrictions level which closed hospitality venues amongst other tighter restrictions.
- On 20 December London was placed into the newly created Tier 4 which imposed even tighter restrictions including removing the easing of restrictions for Christmas, which the Government had previously announced.
- On 5 January 2021 a third England wide lockdown came into force which saw the closure of all schools (like in the first lockdown but unlike in the second lockdown) as well as a stay at home order.
- Following on from the "additional measures" for non-exempt travellers from certain countries hotel quarantine was introduced for red list country travellers from 15 February.
- On 3 March the Chancellor of the Exchequer delivered his second Budget, which saw the extension of a number of the Government's COVID-19 support measures. The Coronavirus Job Retention Scheme (CJRS or 'furlough') will now continue until the end of September 2021. The scheme will be phased out gradually from July onwards, as the economy is expected to reopen. In London there were 710,800 employments furloughed at 28 February 2021, the highest take up rate in the UK. The Self-Employment Income Support Scheme was also extended until the end of September. Around 899,000 people in London were assessed for eligibility for the third SEISS grant up to 31 January 2021.
- It was also announced that the business rates holiday for retail, hospitality and leisure businesses and nurseries in England will be extended at the 100% discount for three months from 1 April, and a 66% discount for the rest of the financial year. The temporary reduced rate of VAT on supplies of accommodation, food and beverage services (excluding alcohol) will be extended at 5% for another six months to 30 September 2021, and at 12.5% until 31 March 2022 before returning to 20%.
- Also, on 3 March the Office for Budget Responsibility published their latest Economic and fiscal outlook report[23] which forecast that public sector net borrowing (PSNB) was expected to reach 16.9% of GDP in the fiscal period 2020-21 (£355 billion). This is £298 billion higher than the deficit in 2019-20. Total public spending is expected to hit a post-WW2 peak of 54.4% of GDP in 2020-21 before unwinding in the next financial year. The total cost of the pandemic support measures has now reached £344 billion. As a result of the unparalleled shock to public finances that COVID-19 has generated, headline public sector net debt (PSND) is forecast to rise by £399.7 billion in 2020-21 to above 100% of GDP (the first time it has been so high since 1960–61) and peaks at 109.7% of GDP in 2023-24 (its highest level since 1958-59).
- The easing of lockdown rules in England began on 8 March with the reopening of schools.
- This was followed on 12 April with the opening of non-essential retail and personal care premises. Following the easing of lockdown, footfall in London quickly rebounded in establishments that had been closed but remain significantly below pre-pandemic levels (Figure 3.9).

[23] Office for Budget Responsibility (2021). 'Economic and fiscal outlook', March 2021.

Figure 3.9: Individual personal activities in London, February 2020 – May 2021, relative to pre-COVID-19 baseline



Source: Grocery and retail metrics from Google Mobility, social venues (bars, event spaces etc) from Purple public Wifi and restaurant bookings from OpenTable

- On 17 May restrictions on serving persons in indoor venues were relaxed in England. Also restrictions on international travel were removed for a select number of countries. This means that travellers returning from "green list" countries won't have to quarantine on their return to the UK but will have to take COVID-19 tests.
- The Government plans for all lockdown restrictions to be removed on 21 June or later.

A number of organisations have tracked and analysed the impacts of the pandemic on businesses and business sectors, places and society. Thus, ONS analysis[24] shows that the UK travel and tourism industry has been affected significantly by the pandemic. The industry saw the sharpest decline in turnover in the first lockdown, falling to 26.0% of February levels in May 2020 compared to 73.6% in all other industries. As restrictions were gradually relaxed in the summer of 2020, operations in these industries became easier, although regions were impacted differently. London saw the weakest recovery of any region in terms of hotel occupancy, with just 20% of rooms occupied in July 2020 compared with 90% the previous year. This contrasted with 2019 when London had the highest occupancy rate in every month except for August, suggesting the loss of international tourism has been felt most severely in the capital. Elsewhere, the Centre for Cities[25] has examined the impact of the pandemic on city centres. In the report they argue that a large part of the damage appears to be temporary, but there is a risk that any permanent shift towards working from home would stunt recovery. Meanwhile, Resolution Foundation[26] research has concluded that businesses are overall in good financial health largely thanks to government support available through the

[24] Roberts, D. (2021). 'Coronavirus and the impact on the UK travel and tourism industry', Office for National Statistics, February 2021.
[25] Breach, A. (2021). 'Core Cities: the impact of the first wave of Covid-19', Centre for Cities, February 2021.
[26] Cominetti, N., Leslie, J. & Smith, J. (2021). 'On firm ground? The impact of Covid-19 on firms and what policy makers should do in response', Resolution Foundation, February 2021.

furlough scheme, loans, and other measures. The support is such that the level of company liquidations fell by around a quarter in 2020 compared with 2019 – aggregate cash holdings have risen by £118bn since the start of last year, despite falls in revenue. There has been a rise in corporate debt, but debt levels remain below their pre-financial crisis peak.

Looking more long term, a recent report from the British Academy[27] commissioned by the Government Office for Science argues against thinking that we will soon leave the pandemic behind. They argue that we now are in a COVID decade, which will be deeply affected by the social, economic and cultural effects of the pandemic. The lasting impacts they note among others are the increased importance of local communities, widening geographic inequalities and increased structural inequalities. They argue that awareness of these long-term impacts is needed for tackling these effects adequately at all levels. Elsewhere, the Bank of England[28] has argued that productivity in the private sector may be reduced by 1% in the medium term. This longer-term scarring – they argue – is due to reduced R&D investment and to managers' time being diverted towards dealing with the pandemic. Although others have argued[29] for the possibility of a post-pandemic productivity boost, partially driven by automation/AI and by the efficiency benefits of cloud technology/remote working. While, in terms of public finances the Institute for Fiscal Studies[30] has highlighted how increases in spending by and reductions in income of local authorities are likely to persist at least in part in the next few years, exacerbating a fiscal outlook that was already challenging for local government.

There, thus remains a number of longer-term challenges facing London from the COVID-19 crisis even when the pandemic comes under control, and these challenges will be examined by GLA Economics and reported on our publications web page.

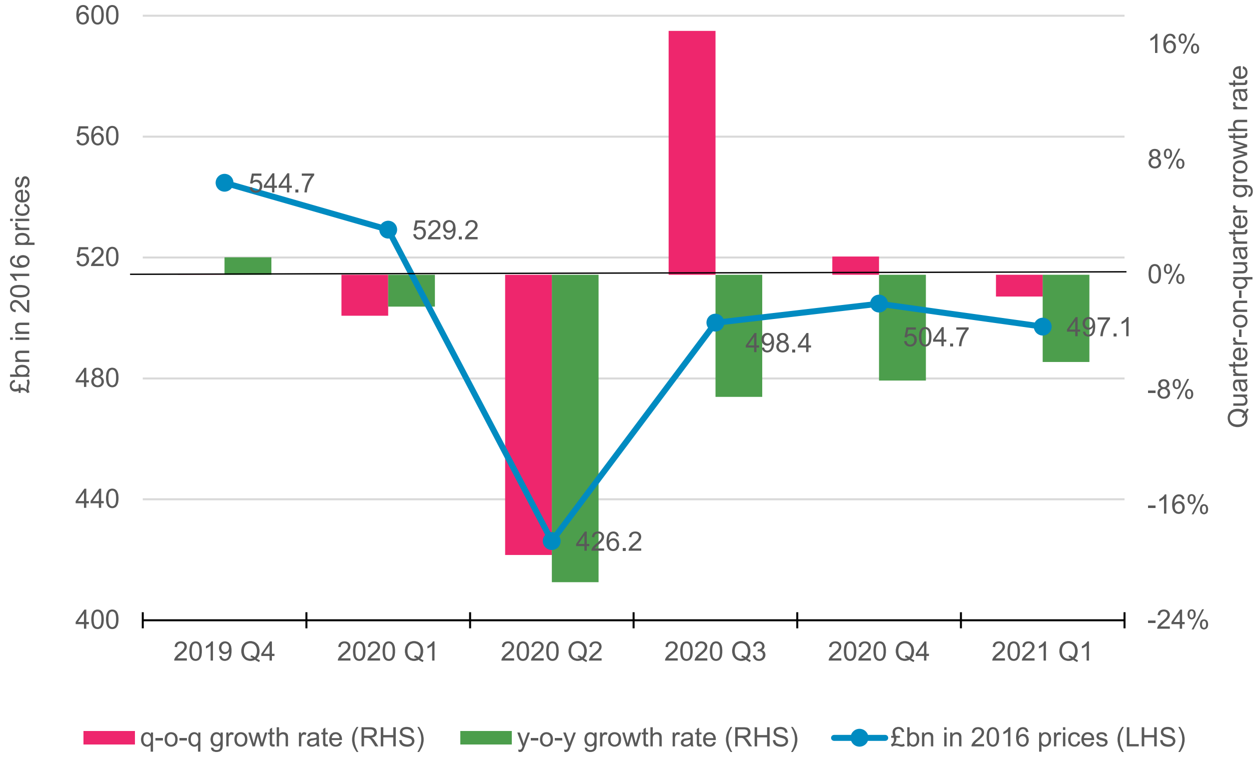
3.2 The UK economy

During the first half of the year – and especially from late March to late May, the UK economy experienced the largest contraction of real GDP for over 300 years (-2.2% in Q1 2020 and -21.0% in Q2 2020, when compared to the previous quarter). The decline in the economy by a fifth compares with a fall of 6% during the 2008-2009 financial crisis. This historic decline in national output was the result of the initial outbreak of COVID-19 and the public restrictions taken to contain its spread.

As lockdown rules were eased from June 2020 economic activity started to recover - up to some extent - over the summer, led essentially by private consumption. As an example, retail sales in the third quarter returned to above their level in February. Beyond this, it is thought that public spending through initiatives such as the Government's Eat Out to Help Out Scheme had a positive impact on the pickup of household expenditure during the summer. Similarly, housing transactions, mortgage approvals, and house price inflation improved strongly in that period. However, the recovery in business investment was much weaker than that seen in consumption since June. Uncertainty about future demand, economic and COVID-19-related developments and the final trade agreement between the UK and the EU may have been discouraging businesses from making new investments. Further, economic activity contracted again during the lockdown in Q1 2021. As a result, UK real GDP increased by 16.9% in Q3 2020, and 1.3% in Q4 2020, while shrinking by 1.5% in Q1 2021. It still remained 8.7% below pre-crisis levels. (Figure 3.10).

[27] The British Academy (2021). 'The COVID Decade: Understanding the long-term societal impacts of COVID-19', March 2021.
[28] Bloom, N. et al. (2020). 'The impact of Covid-19 on productivity', Staff Working Paper No. 900. Bank of England, December 2020.
[29] The Economist (2020). 'The pandemic could give way to an era of rapid productivity growth', December 2020.
[30] Phillips, D. (2021). 'Lessons and issues for sub-national government finances post-COVID', IFS Briefing Note BN318. Institute for Fiscal Studies, March 2021.

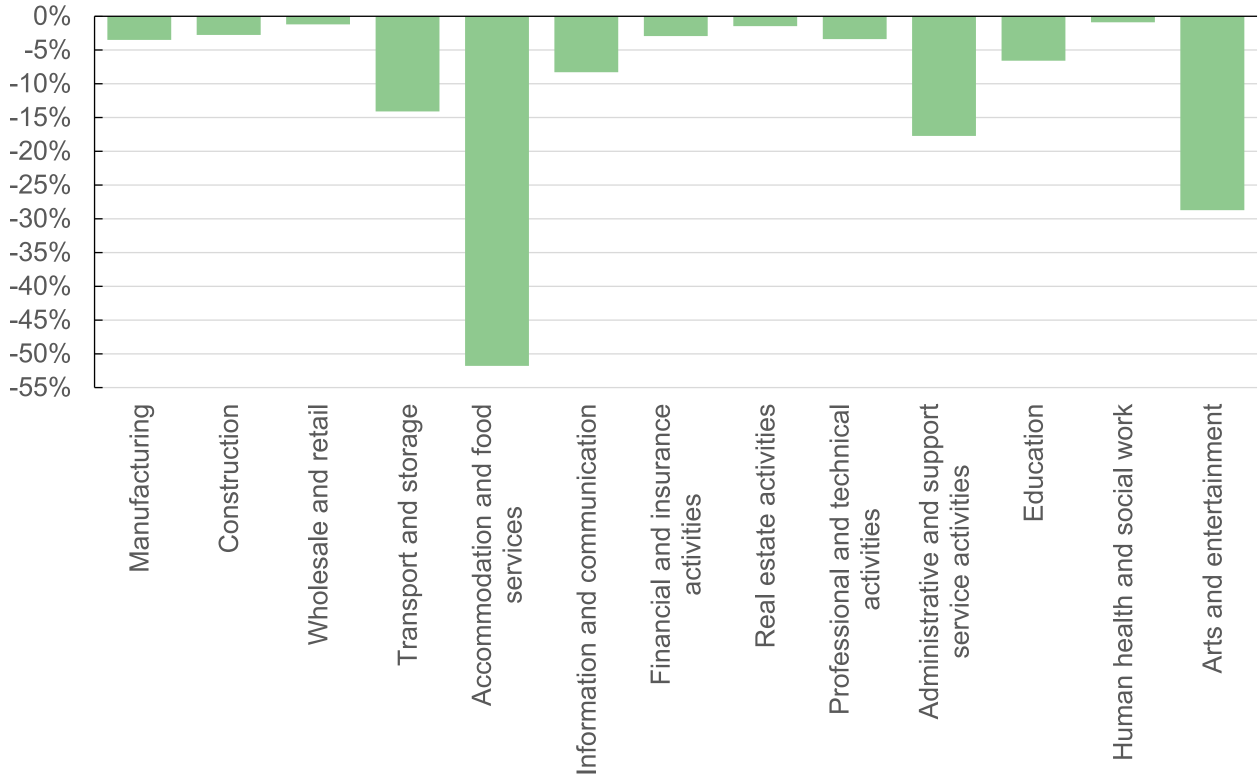
Figure 3.10: UK real GDP (Q4 2019 – Q1 2021)



Source: GLA Economics based on ONS – UK National Accounts data.

As with London, the UK sector distribution of the impacts of the pandemic is uneven, although again all sectors have been adversely affected. Most impacted is Accommodation and food services which has contracted by over half. Again, as with London, Arts and recreation has had a significant impact, although the impact for Transportation and storage has been relatively less severe (Figure 3.11).

Figure 3.11: Proportionate change in real GVA by industry* in the UK Q4 2019 – Q4 2020



*Source: GLA Economics based on ONS – UK GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

GDP data can also be split into different types of final expenditure. That is, the expenditure on goods and services which are not used in the production process (i.e. as intermediate consumption). This includes final expenditure by households, general government and the non-profit institutions serving households, as well as expenditure used in gross capital formation (e.g. business investment)[31]. For the most recent period, the year to Q4 2020, there has been a decline across all types of expenditure (Table 3.1).

Table 3.1: Annual rates of real growth in domestic final expenditure for the UK

	2019				2020			
Expenditure	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Households	1.2%	1.6%	1.2%	0.3%	-2.3%	-23.0%	-7.9%	-9.2%
Non-profit institutions	1.9%	0.6%	1.5%	1.9%	-3.7%	-25.9%	-22.6%	-24.3%
General Government	3.1%	5.8%	4.3%	2.8%	-0.4%	-19.5%	-6.0%	0.3%
Gross fixed capital formation	2.3%	1.1%	2.1%	0.6%	-2.5%	-21.8%	-8.2%	-2.6%

Source: ONS (2020). 'GDP first quarterly estimate, UK: October to December 2020', 12 February 2021.

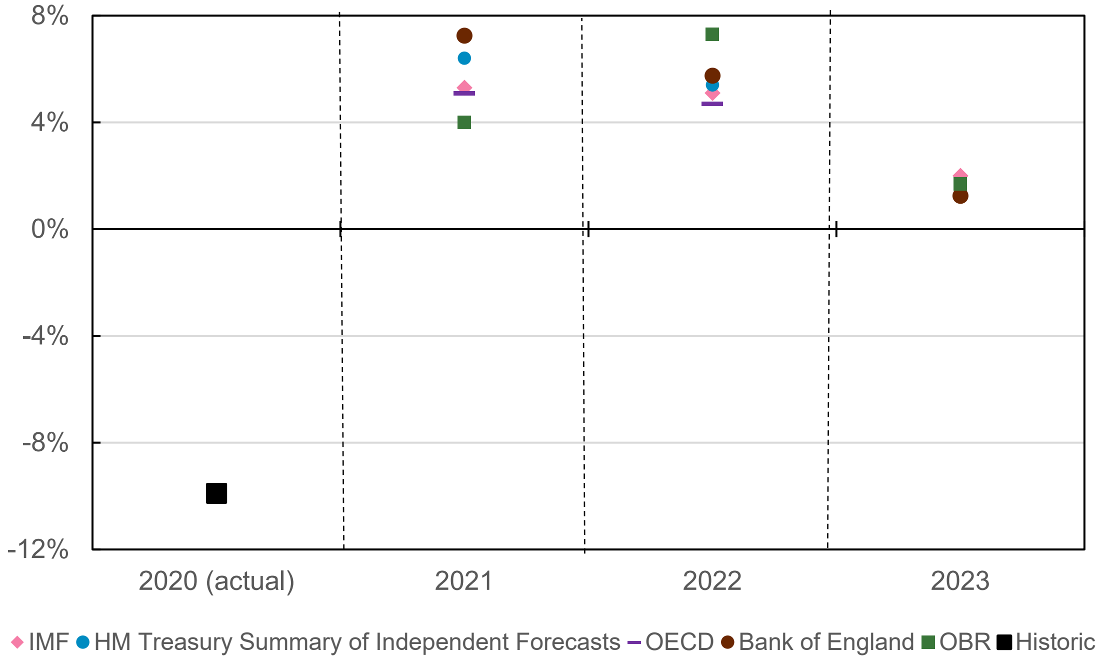
Household expenditure is important to the UK economy, with it contributing three-fifths to UK GDP in 2020. However, the latest estimates showed that consumer spending fell by -9.2% year-on-year in real terms in Q4 2020. The other notable trend is for non-profit institutions which fell by -24.3% over the same period.

[31] It also includes net trade in goods and services.

Forecasts of the UK economy

Looking to the outlook of the UK economy next year, other uncertain elements such as the global economic recovery, the degree of scarring of the economy, and the prolonged concerns on low productivity add to the risks already mentioned for the very short term. There is a more stable policy environment for forecasts compared to earlier forecasts as the March Budget extended fiscal support for businesses, and notably the furlough scheme to the end of September. There is also an agreement in place supporting trading relationships with the EU, which should be reflected across the latest forecasts. Despite this there remains a range of opinion around how quickly the economy will recover over the next two years before settling on a narrower range in 2023 (Figure 3.12). Broadly speaking forecasters (like the Bank of England (BoE)) either expect stronger growth this year, and weaker next year or the reverse, as the Office for Budget Responsibility (OBR) does.

Figure 3.12: External forecasts of UK real GDP growth for 2020-2023



Source: GLA Economics based on ONS, HM Treasury, Bank of England, OECD, IMF, and OBR projections

The OBR and HM Treasury also publishes forecasts for other variables like the labour market and public-sector net borrowing (PSNB). These are shown in Table 3.2.

Table 3.2: Selected OBR and HM Treasury consensus forecasts for the UK economy

	HM Treasury's Average of Independent Forecasters (May 2020)		Office for Budget Responsibility (March 2021)	
	2021	2022	2021	2022
Annual real GDP growth rate	6.4%	5.4%	4.0%	7.3%
LFS unemployment rate	5.9%	5.2%	7.3%	6.0%
Current account	-£88.9bn	-£97.2bn	-	-
Public sector net borrowing (financial year)	£216.9bn	£120.4bn	£233.9bn	£106.9bn

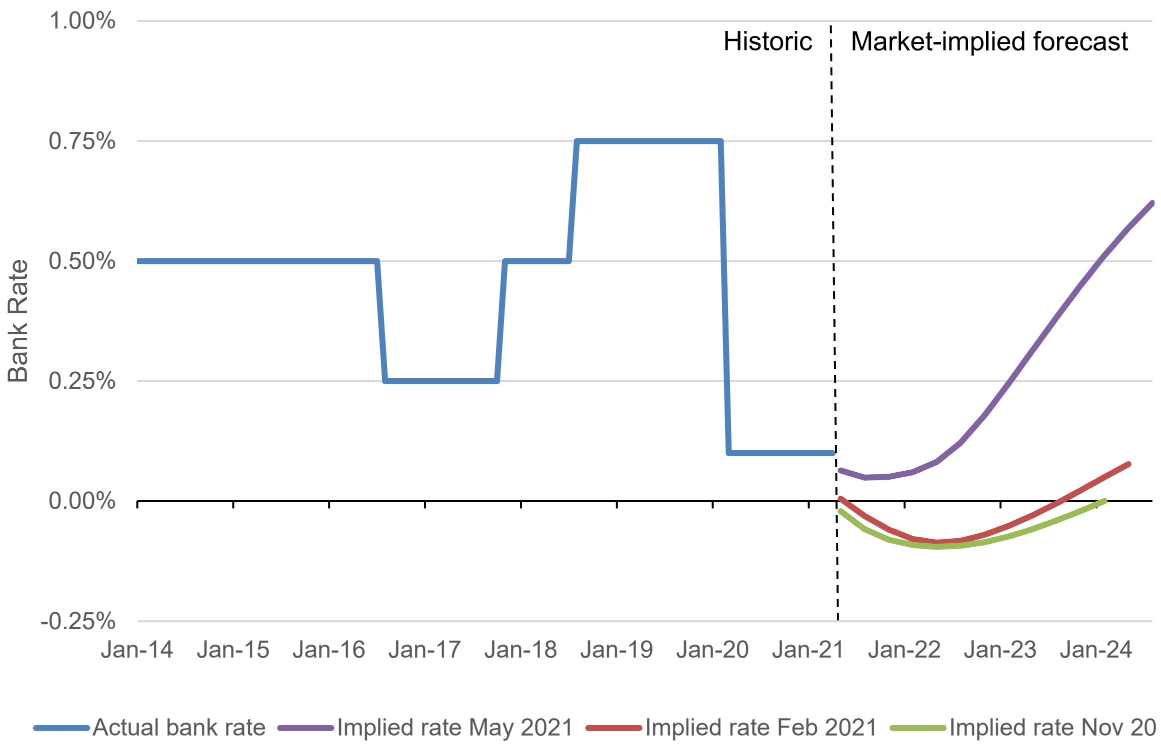
Sources: HM Treasury (2021). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2021; and OBR (2021). 'Economic and Fiscal Outlook – March 2021', March 2021.

Other UK economic indicators

Beyond GDP, another important economic indicator is inflation as measured by the Consumer Price Index (CPI). Inflation, which had been above the Bank of England's central symmetrical target of 2% since February 2017, in part due to the large depreciation of sterling following the EU referendum making the price of imported goods and services more expensive, fell back in 2019. This decline in inflation was expected as the pickup in inflation from 2017 was expected to be short-lived as the sterling-related price increases worked its way through the economy. This indeed does seem to have now happened with CPI inflation standing at 1.5% in March 2020 and being at or below 1.0% over the following year although it has now risen to 1.5% in April 2021[32]. The weakness of demand in the economy during the pandemic has subdued inflationary pressures. The BoE has commented that, "the weakness of recent CPI outturns has largely reflected the direct and indirect effects of Covid on the economy … Inflation is projected to rise to close to the target in the near term as some of those effects fade".

In part given low past inflation expectations, the sluggishness of the economy and uncertainty of the economic outlook the Bank had not raised interest rates since August 2018 when rates were raised 0.25 percentage points to 0.75%. While as the scale of the impact of social distancing measures to tackle COVID-19 became apparent in March, the Bank lowered interest rates to 0.25% and then to 0.1%. Prior to the Budget in March market expectations were that interest rates might go negative. However, the faster than expected vaccine roll-out in boosting the economy and the additional fiscal stimulus announced for this year are now expected have a marked effect on demand and to increase inflationary pressures. Accordingly, future interest rates are now expected to rise to 0.6% over the next couple of years (Figure 3.13).

Figure 3.13: Market-implied interest rate path for the UK



Source: Bank of England (2020), 'Monetary Policy Report', May 2020.

[32] ONS (2021). 'Consumer price inflation, April 2021', May 2021.

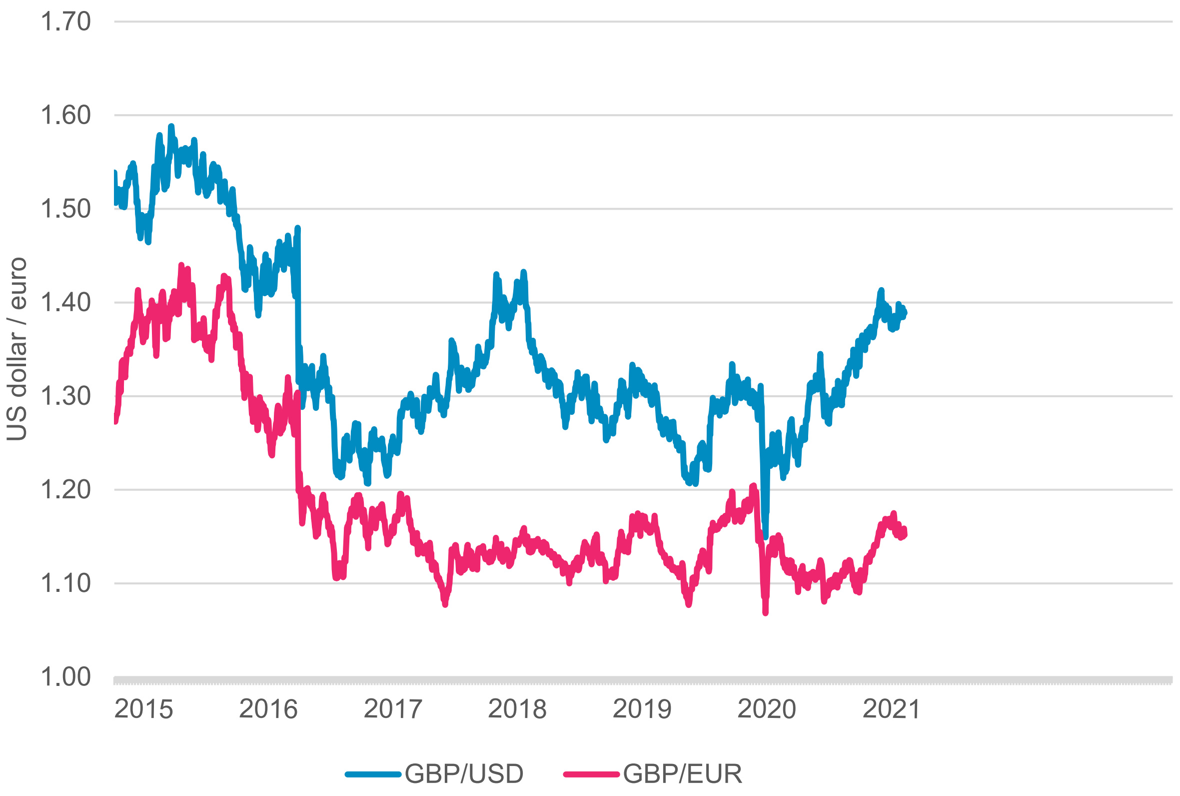
Interest rate changes can have several influences on the economy[33]. All other things held constant, rises can bolster sterling as returns (interest) on sterling would be relatively higher than other countries leading to an increase in demand for sterling-based assets by foreigners. They can also reduce consumer demand as higher interest on savings raises the 'opportunity cost' of spending. Likewise, it can reduce the appetite to invest and borrow as the cost in terms of debt interest would be higher. It can thus slow the rate of inflation and negatively affect the rate of economic growth in the short run through the combined effect of weaker demand for goods and services. Lowering interest rates would have the reverse of these effects. However, the magnitude of these effects will be dependent on several factors – i.e. the speed and scale of the interest rate changes, the time it takes for interest rates to work through the transmission mechanism, and the current state of the wider economy – and therefore provides some further uncertainty to economic forecasts. It should also be noted that interest rates in the UK remain at historically very low levels and any changes in rates are expected to be slow and limited, indicating that the dampening effect of interest rates on the UK in the near term is likely to be very limited.

The value of sterling fell following the result of the EU referendum in June 2016 and this is shown in Figure 3.14. Sterling had been relatively steady against the Euro since mid-2017, although there have been marked down and then upward movements in the second half of 2019 as first a no deal Brexit became more likely, and then a deal became more likely. At the same time, sterling appreciated against the US dollar through 2017 and into the early part of 2018 but had since dropped back largely due to continuing Brexit uncertainty.

In early March 2020 when it became apparent that the UK economy would be significantly affected by COVID-19 the pound depreciated again against both the US dollar and the Euro. In part, this reflects a flight to strong currencies, but it may also reflect the comparative weakness of the UK economy after leaving the EU. Despite this the pound has more than recovered against the dollar perhaps reflecting the poor US response to the COVID crisis, and has recovered against both the dollar and the euro this year which may reflect the strength of the UK vaccination programme.

[33] For more information, see Bank of England (1999). 'The transmission mechanism of monetary policy', Bank of England Quarterly Bulletin, May 1999.

Figure 3.14: Sterling to US dollar and euro exchange rates
Last data point is 6 May 2021



Source: Bank of England

Box 3.2: An update on Brexit

The nine previous editions of LEO[34, 35, 36, 37, 38, 39, 40, 41, 42] up to December 2020 have provided updates on the process of the UK leaving the EU and estimates of the impact on the London economy. Now that the UK has left the Single Market this edition provides early evidence of emerging impacts. It focuses on trade in the absence of information on migration or investment, or wider impacts on the economy and jobs.

For a fuller discussion, GLA Economics published in 2019 an assessment[43] of the impacts on businesses, migrants and visitors, and households.

1 The Trade and Cooperation Agreement[44]

The UK left the European Union in January 2020, and the transition period concluded at the end of 2020. The UK and the EU announced a Trade and Cooperation Agreement (TCA) on 24 December 2020 to come

[34] GLA Economics (2016). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections', November 2016.
[35] GLA Economics (2017). 'London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections', June 2017.
[36] GLA Economics (2017). 'London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections', November 2017.
[37] GLA Economics (2018). 'London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections', May 2018.
[38] GLA Economics (2018). 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', November 2018.
[39] GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019.
[40] GLA Economics (2019). 'London's Economic Outlook: Autumn 2019 The GLA's medium-term planning projections', December 2019.
[41] GLA Economics (2020). 'London's Economic Outlook: Spring 2020 The GLA's medium-term planning projections', June 2020.
[42] GLAE Economics (2020). 'London's Economic Outlook: Autumn 2020 The GLA's medium-term planning projections', December 2020.
[43] Hope, M. (2019). 'The economic impact of Brexit on London'. GLA Economics
[44] This section draws from, House of Commons library (2020). 'The UK-EU Trade and Cooperation Agreement: summary and implementation', December 2020.

into effect on 1 January 2021. The Government published the European Union (Future Relationship) Bill on 29 December which passed through its parliamentary stages and received royal assent before the end of the year. The Council of the EU (Member State Government representatives) approved provisional application of the TCA on 29 December. The final stage was for the European Parliament to give its approval, which it did on 27 April.

The key economic features of the agreement include the following:

Trade: There will be no tariffs or quotas on trade in goods provided rules of origin are met. There are increased non-tariff barriers, but measures on customs and trade facilitation to ease them for trade in goods

Governance: The Agreement is overseen by a UK-EU Partnership Council supported by other committees. There are binding enforcement and dispute settlement mechanisms covering most of the economic partnership, involving an independent arbitration tribunal.

Both parties can engage in cross-sector retaliation in case of non-compliance with arbitration rulings (through suspension of obligations, including imposition of tariffs). This cross-sector retaliation applies across the economic partnership.

Level playing field provisions: Both parties have the right to take counter-measures including the imposition of tariffs, subject to arbitration, where they believe divergences are distorting trade. There is also a review mechanism were this to occur frequently.

Subsidies/state aid: Both parties are required to have an effective system of subsidy control with independent oversight. Either party can impose remedial measures if a dispute is not resolved by consultation.

There are also provisions around fisheries, security, participation in EU programmes, and for review and termination of the agreement.

There is, as of yet, no comprehensive agreement on services. 90% of London's economy is in services. In 2017, London's exports were worth £153bn, 75% of London's exports were in services, and 30% of both goods and service exports went to the EU. UK exports were £607bn, and while again around 30% of both UK goods and service exports went to the EU, over half of total exports were goods exports. London's service exports account for 40% of the UK's service exports to the EU and the world[45].

The effect of the TCA for service sector exporters of leaving the Single Market is that they are now facing a range of non-tariff barriers (NTBs), such as:

- Loss of equivalence-based access for the Finance sector, which means that the EU does not recognise UK regulations, and vice versa;
- Loss of EU 'data adequacy' status, that the UK's data protection rules are comparable to those in the EU, which may mean that companies will not be able to freely pass personal information between the jurisdictions;
- Difficulties for individuals to travel into another jurisdiction for the purpose of providing a service;
- Non-recognition of UK-awarded qualifications by the EU requiring recognition by each Member State.

[45] Hope M (2020), An update on London's trade, in London's Economy Today, August 2020 with some additional material from the same statistical sources

There will also be NTBs on traded goods despite zero tariffs:

- Introduction of rules of origin criteria – a qualifying proportion of the value of that good has to have been produced in the UK or EU to be eligible for tariff-free export;
- New costs to fill out customs declarations, and gain licences to export;
- Implementation of regulatory barriers, registration and product standards[46].

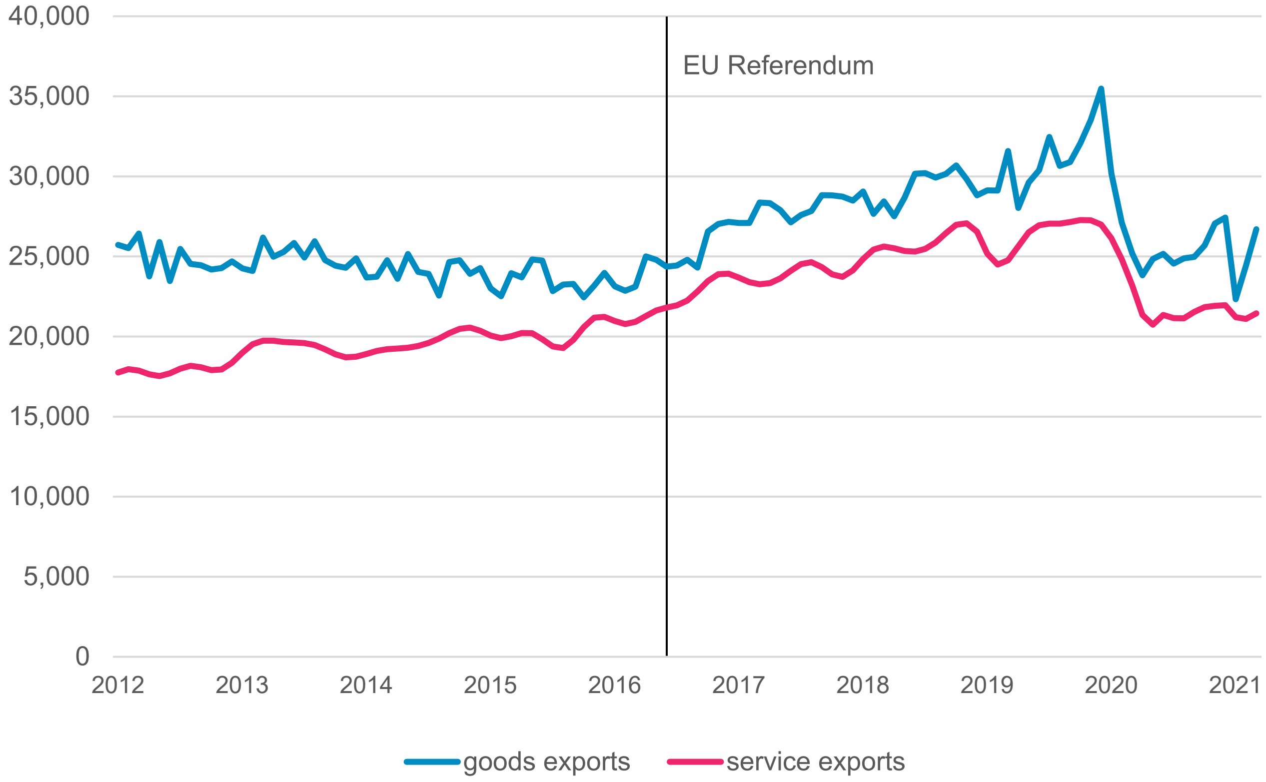
The Centre for Economics and Business Research (CEBR) in a short piece of analysis[47] for the GLA revisiting earlier work for the London Chamber of Commerce and Industry (LCCI) has estimated that London may lose £9.5bn a year in economic output because of Brexit. This is more than 2% of London's output. The CEBR notes that there remains a considerable amount of uncertainty on the impacts of the UK leaving the EU, and the deal agreed upon leaves much undecided. For example, there are unresolved tensions around the development of mutual recognition of regulations for the Finance sector.

2 Early impacts of Brexit on exports

Prior to 2020 UK goods and service exports continued to grow (in nominal terms), assisted by a marked exchange rate depreciation after the EU Referendum. Restrictions on national and international economic activity with the spread of COVID-19 had a marked downward effect on trade in both goods and services in the first half of 2020. Between December 2019 and July 2020 the value of goods exports fell from £35.5bn to £24.6bn that is by 31%, and for service exports it was from £27.0bn to £21.1bn, by 22%. Goods exports had picked up to £27.4bn by December and have since fallen back by 3% to £26.7bn in March 2021. The recovery in service exports was more modest at £22.0bn in December, as was the subsequent fall by 2% to £21.4bn in March 2021 (Figure 3.15)[48].

[46] This includes sanitary and phytosanitary rules (e.g. restrictions for substances, hygienic requirements, measures for preventing dissemination of disease and related to food safety), technical barriers to trade (e.g. labelling and certification), non-technical measures such as measures to protect intellectual property and rules on public procurement, and other measures aimed at creating a level playing field between imports and domestically-produced goods and services. Description comes from EU withdrawal scenarios and monetary and financial stability | Bank of England.
[47] CEBR (2021). 'Trade and Cooperation Agreement – London impact', January 2021.
[48] The Brexit box in the Autumn 2020 LEO discussed the effects for exports of the exchange rate depreciation after the EU Referendum.

Figure 3.15: UK goods and service exports, January 2012-March 2021, £m seasonally adjusted

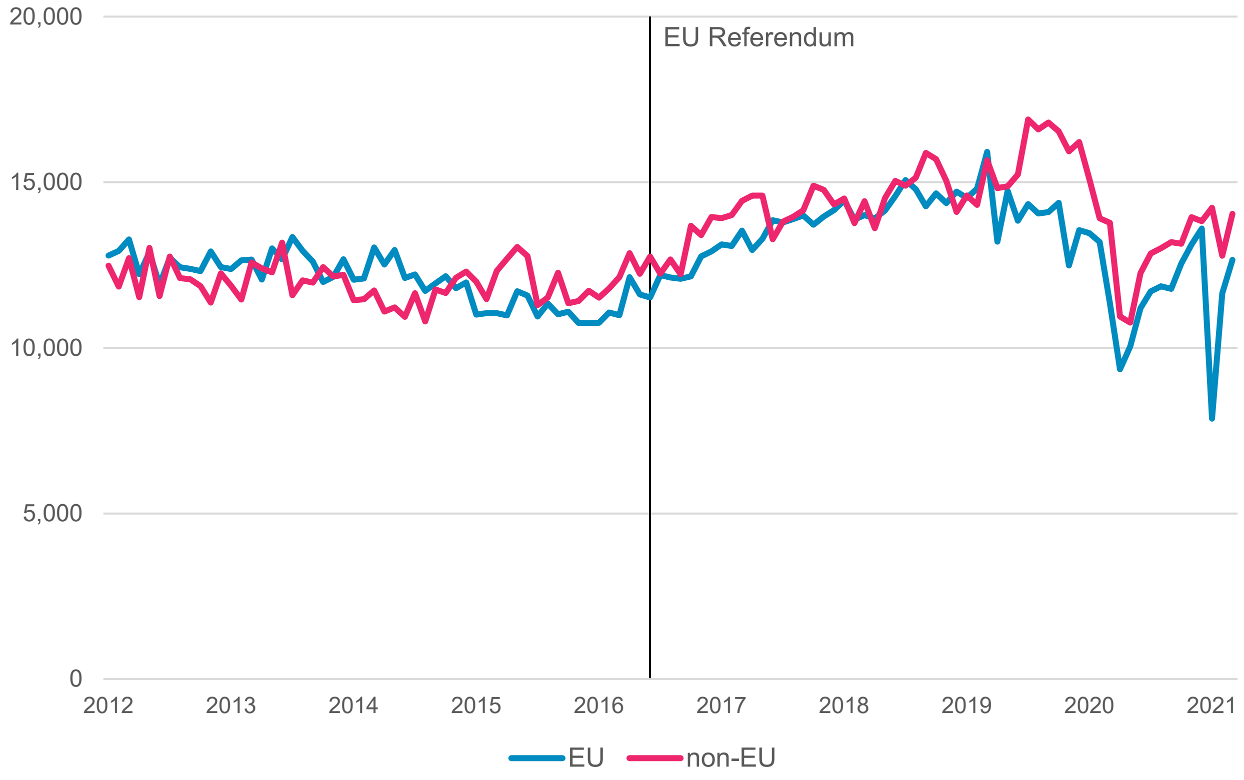


Source: ONS monthly trade statistics

In the first two months after the expiry of the Withdrawal Agreement and exit from the EU Single Market it appeared that there had been a marked impact on goods exports. It now initially appears more plausible to attribute the fall to teething problems with the new administrative arrangements and the effects of unravelling stockpiles – both for Christmas and to manage the uncertainty around what the new arrangements would be, and how they would work. It may be premature to be looking for significant impacts on trade flows at this point. Theory indicates that introducing trade barriers will lead to a restructuring of the economy, and that this will take years to become apparent. Conceivably, there may have been some shift in exports to non-EU countries, and the imminent end of the Withdrawal Agreement after the easing of COVID-19-related restrictions may have discouraged some exporters from recovering lost markets.

The ONS publishes more UK information on the destination of exports for goods exports, and this can be used to assess the impact of Brexit. This analysis excludes exports of precious metals which are volatile. Both exporters to the EU and non-EU countries benefitted from the exchange rate depreciation after the EU referendum. In the period December 2019-July 2020 exports outside the EU fell by more than those to the EU, by 21% and 14% respectively. In the two months after December 2020 the reverse was the case with exports to the EU falling by 7%, and those outside the EU rising by 2% (Figure 3.16).

Figure 3.16: UK goods exports (excluding precious metals), EU and non-EU, January 2012-March 2021, £m seasonally adjusted



Source: ONS monthly trade statistics

3 Early impacts of Brexit on the Finance sector[49]

There is some anecdotal evidence of the nature of impacts on the Finance sector. On the first trading day of 2021 nearly €6bn of EU share dealing shifted away from the City of London. Business on London hubs for euro-dominated share trading shifted to their new EU venues set up late last year to cater for the end of the Brexit transition. The volume amounted to a sixth of all business on exchanges in Europe on the first trading day. Previously up to 30% of all EU shares traded across the continent passed through the City.

Also, in January Amsterdam surpassed London as Europe's largest share trading centre. Trading in euro-denominated swaps in London dropped from nearly 40% of the market in July 2020 to 10% in January as business moved to New York, Amsterdam and Paris. Further, International Exchange Inc. plans to move its €1bn daily market for European carbon emissions contracts to the Netherlands from London.

Also, as the EU and the UK are now distinct jurisdictions EU regulators have withdrawn registration of six UK-based credit rating agencies and four trade repositories – data warehouses that provide authorities with information on derivatives and securities financing trades. EU companies and investors will have to use EU-based entities.

More positively the EU is set to allow data to continue to flow freely from the EU to the UK after concluding that the British had ensured an adequate level of protection for personal information. This will be of benefit

[49] This section is drawn from the January and February 2021 London's Economy Today.

to businesses, particularly in the health, insurance and technology sectors, that regularly transfer customer personal information such as bank details.

4 Early impacts of Brexit on firms

Some insights for London have been provided by a survey commissioned by the GLA[50] of small and medium-sized enterprises (SMEs, those firms with up to 250 employees). There will be wide ranging impacts by size and sector extending beyond firms which trade directly with the EU:

- Brexit is the top challenge for businesses who have traded with the EU in the last three years; for all surveyed businesses a possible recession, and another lockdown are more significant challenges;
- A third (34%) of SMEs have traded with the EU in the past year, rising to a half of small (10-49 employees) (49%) and over half of medium (50-249 employees)(55%) sized businesses;
- Of those SMEs who have traded with the EU in the past year, over half (53%) say they expect trade with the EU to decrease over the next 12 months;
- This decrease is driven by micro businesses. Small and medium-sized businesses are less likely to say trade with the EU will decrease (36% and 33% respectively);
- The sectors most likely to have traded with the EU in the last year are Information and communication technologies/Professional services; Wholesale, transport and retail; and, Accommodation and food services/Arts;
- The sectors most likely to see Brexit as a challenge are Wholesale, transport and retail (33% say this is a top three concern) and Accommodation and food services/Arts (33%);
- 6 in 10 SMEs who have traded with the EU in the last three years say their business will be negatively impacted for each of business growth, revenue and sales;
- 3 in 10 SMEs who have not traded with the EU in the last three years say their business will be negatively impacted for each of business growth, revenue, supplies and sales.

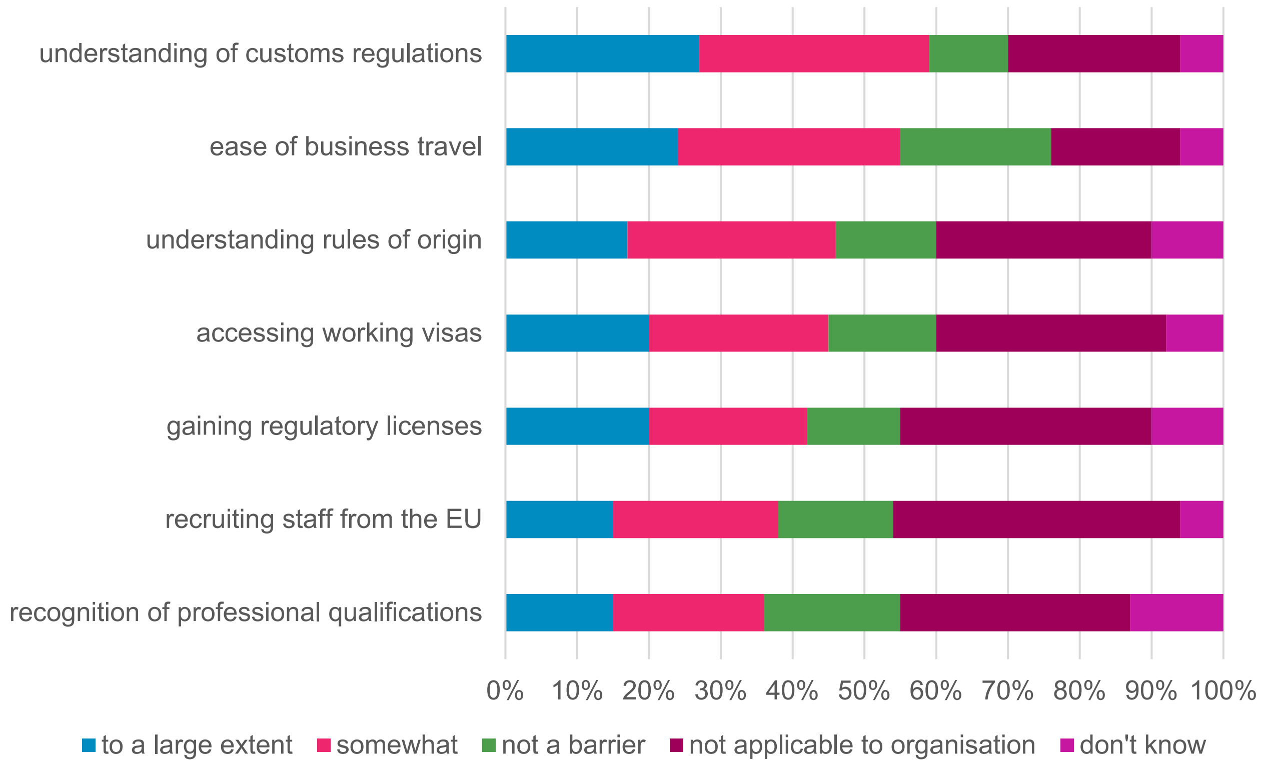
Despite 90% of the activity in London's economy being in the service sector an important component of London-wide Brexit-related activities were to address barriers to goods trade. (A business will be classified as in the service sector if the majority of its output is in services, and so it might still trade in goods.) There were also actions to reduce exposure to international trade. The main preparations for the end of the Brexit period were to:

- Introduce processes for new customs requirements (34% of businesses who made preparations);
- Limit services exported to the EU (27%);
- Limit goods and services imported from the EU (27%);
- Make changes to supply chains (20%).

The barriers to trade from leaving the EU Single Market are prevalent across businesses which trade with the EU. Across a range of barriers there was a potential impact for over a half of firms. Again, there are both barriers to goods trade, and barriers to services trade. The largest barriers were from understanding of customs regulations affecting 59% of firms, and from ease of business travel affecting 55% of firms (Figure 3.17).

[50] A survey conducted by YouGov between 5 and 19 March of 1,012 London businesses (owners or senior decision makers only).

Figure 3.17: Barriers to EU market facing London SMEs, those which have traded with the EU in the last three years



Source: YouGov survey for the GLA of Brexit impact on SMEs

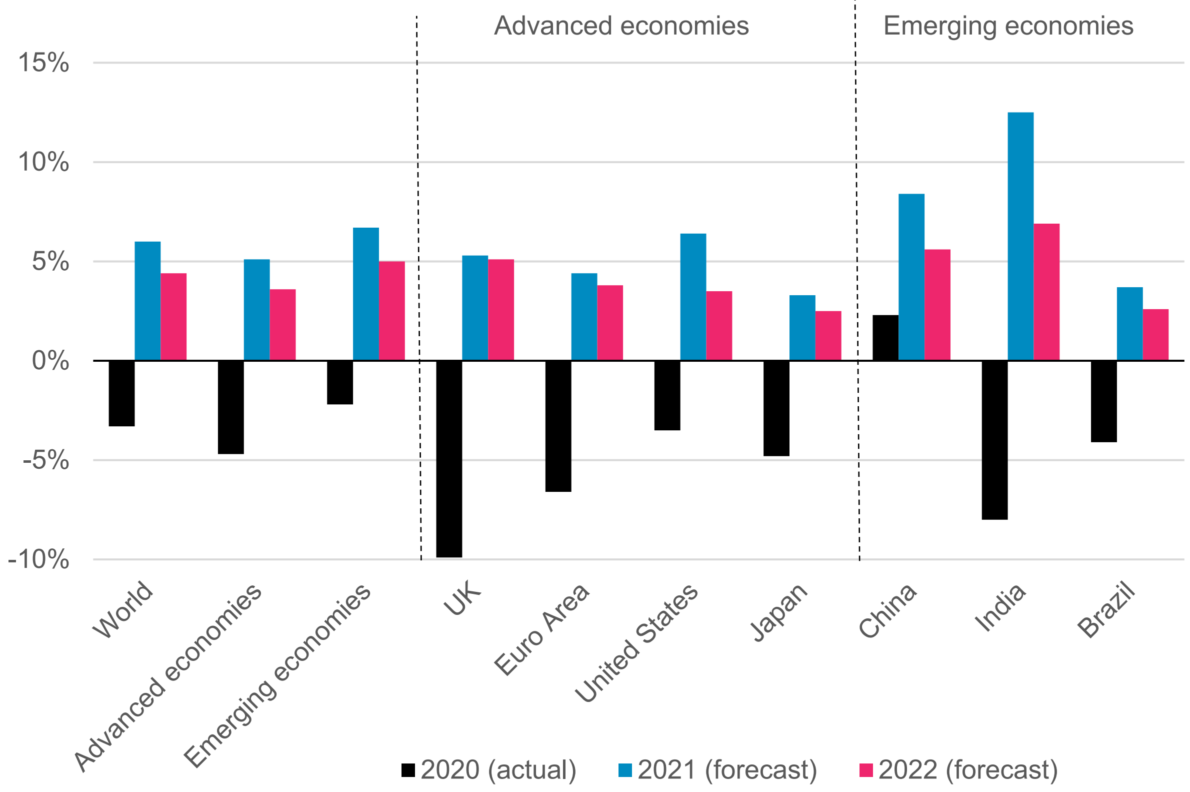
3.3 The global economy

Economies across the world contracted in 2020 with the spread of COVID-19 and the introduction of public health restrictions to protect populations. In 2021, the pandemic continues to have a major effect on the running of the world's economies with quite divergent effects. The roll-out of vaccines in Europe and the USA has, or will, lead to easing of restrictions. At the same time the global number of cases continues to grow as variants of the virus becomes more established in emerging market countries, notably at the time of writing in Bangladesh, Brazil, and India.

According to the latest IMF World Economic Outlook[51], the world's economy is expected to grow by 6.0% this year (0.8 percentage points up from its autumn forecast) before easing to 4.4% next year (0.2 percentage points more than expected in the autumn forecast). Advanced economies are projected to expand – on average – by 5.1% this year while emerging economies will grow – on average as well - by 6.7%. This implies that there will be broadly based expansion after the global recession in 2020 (Figure 3.18).

[51] IMF (2021). 'World Economic Outlook: 'Managing divergent recoveries'', April 2021.

Figure 3.18: IMF forecasts of real GDP growth for selected economies



Source: IMF – World Economic Outlook, April 2021.

The advanced economies shrank by -4.8% on an annual basis in 2020. The IMF expects growth in 2021 of 5.1% (up 1.2 percentage points on the October 2020 forecast), with it expected to moderate to 3.6% in 2022 (up 0.7 percentage points on their October forecast). Across the advanced economies output should have recovered to its pre-COVID level by 2022.

Looking at the advanced economies in greater detail, the **US** economy grew by 6.4% year on year in Q1 2020. This follows a year on year expansion of 4.3% in Q4 2019[52]. In April 2021, non-farm payroll employment rose by 266,000 and the unemployment rate was little changed at 6.1%[53]. The US President, Joe Biden, has signed into law a $1.9tn (£1.4tn) economic relief bill that aims to help Americans impacted by the pandemic[54]. He is also seeking Congressional approval to spend $2tn (£1.4tn) over eight years on infrastructure, care for the elderly and disabled, job training for disadvantaged groups, education and climate change abatement[55]. Looking forward the IMF expects the US economy to expand by 6.4% in 2021 overall and 3.5% in 2022. Compared with the IMF's October 2020 forecasts, these latest IMF forecasts are upwards revised for 2021 (by 3.3 percentage points) and downwards revised (by 0.6 percentage points) for 2022.

Meanwhile, the **Eurozone's** economy has contracted. In Q1 2021, GDP fell by 0.6% on a quarter-by-quarter basis, and 1.8% on an annual basis[56]. The growth rate was -0.7% in Q4 2020. The IMF forecasts the Eurozone to grow by 4.4% in 2021 and by 3.8% in 2022. There has been a coordinated monetary response

[52] Bureau of Economic Affairs (2021). 'Gross Domestic Product, First Quarter 2021', 29 April 2021.
[53] US Bureau of Labor Statistics (2021). 'Employment Situation Summary', 7 May 2021.
[54] BBC (2021). 'Covid stimulus: Biden signs $1.9tn relief bill into law', 11 March.
[55] FT (2021). 'Joe Biden's infrastructure plan is much more than that', 7 April.
[56] Eurostat (2021). 'GDP and employment flash estimates for the first quarter of 2021', 30 April 2021.

through the European Central Bank (ECB)[57]. It has initiated a €750bn Pandemic Emergency Purchase Programme (PEPP) to lower borrowing costs and increase lending in the Zone, and increased the amount of money that banks can borrow specifically to make loans to the hardest hit businesses. The interest rate on deposits remains negative. The EU agreed on 9 April 2020 a €540bn package of crisis-fighting measures, including the deployment of loans from the European Stability Mechanism with few strings attached[58]. The European Commission president, Ursula von der Leyen, announced on 27 May 2020 a €750bn debt-funded EU "recovery fund" to distribute according to need, €500bn in non-refundable grants, and €250bn in loans[59].

In **Japan**, the economy shrank by 1.3% in the fourth quarter of 2020 and by 5.8% in the third quarter[60]. Looking forward, the IMF notes that Japan's economy is projected to expand by 3.3% in 2021 (1.0 percentage point higher than in the October 2020), and grow by 2.5% in 2022 (0.8 percentage points higher than the previous forecast).

Emerging market economies
Growth in the emerging market economies is also expected to recover this year. The IMF expects growth of 6.7% in 2021 and growth of 5.0% in 2022[61] (an upgrade of 0.7 percentage points for 2021, and a downgrade of 0.1 percentage points for 2022 on their October forecast). The IMF has noted, "given large external financing needs, several emerging markets face challenges, especially if a persistent rise in US rates brings about a repricing of risk and tighter financial conditions".[62]

Of the major emerging markets, **China's** economy grew by 18.3% year-on-year in Q1 2021, partly flattered by a -6.8% decline in the year to Q1 2020, and this compares with growth of 6.5% in Q4 2020[63]. It is the only major economy which grew in 2020. The IMF expects growth to reach 8.4% in 2021 before steadying at 5.6% in 2022 (an upgrade of 0.2 percentage points for 2021 and a downgrade of 0.2 percentage points for 2022 on their October forecast). This is generally in line with the forecasts by the Asian Development Bank (ADB) that expects growth of 8.1% in 2021 and 5.5% in 2022[64].

Meanwhile, **India's** economy is estimated by the IMF to have shrunk by -8.0% in 2020[65] . Looking forward the IMF expects growth of 12.5% in 2021, and 6.9% in 2022 (an upgrade of 3.7 percentage points for 2021, and a downgrade of 1.1 percentage points for 2022 compared with their October forecast). The ADB also expects stronger growth this year prior to some cooling off in 2022 – 11.0% in 2021 and 7.0% in 2022. It is likely that these forecasts have been completed prior to the recent outbreak of the new variant of the virus in India.

In **Russia**, the economy shrank by -2.8% in the fourth quarter of 2020 and by -3.0% in the third quarter[66]. The IMF, as it does with other economies, expects growth over the next couple of years with forecasts of 3.8% in 2021 and 3.8% in 2022.

---

[57] European Central Bank (2020). 'ECB response to COVID-19'.
[58] Financial Times (2020). 'The chain of events that led to Germany's change over Europe's recovery fund', 22 May 2020.
[59] Financial Times (2020). 'Brussels wants €750bn borrowing power to fund virus recovery', 27 May 2020.
[60] Source: OECD
[61] IMF (2021). 'World Economic Outlook: 'Managing divergent recoveries'', April 2021.
[62] IMF (2021). 'Global Financial Stability Report', April 2021.
[63] Source: National Bureau of Statistics of China.
[64] Asian Development Bank (2021). 'Financing a green and inclusive recovery', April 2021.
[65] IMF (2021). 'World Economic Outlook: 'Managing divergent recoveries', April 2021.
[66] Source: OECD

3.4 Risks to London's economy

The outlook for the UK's economy is unusually uncertain at the moment, and this situation applies to the capital as well. There are both upside and downside risks to the economy and they come from several sources. This subsection analyses the most relevant ones.

At present, the main risk to London's economic outlook in the short to medium term is around the recovery from the COVID-19 crisis. The initial outbreak produced a historic decline in both aggregate demand and aggregate supply as a result of two main factors coexisting: first, a precautionary behaviour by economic agents under a new and extraordinarily uncertain context and, second, the Government restrictions on mobility and economic activity to control the virus spread. As seen over the summer, as these factors reduced the economy recovered, if less than fully, before weakening again during the second and third lockdowns.

The roll-out of the vaccination programme has been extremely effective and has contributed to a decline in the number of people with the virus as the economy opens up. It is likely that business and consumer confidence will improve, and consumers will spend some of the savings hoarded over the last year from diminished opportunities to travel and socialise. There are upside risks to the economy if these trends continue. There are downside risks if new variants which enter the country cannot be effectively countered by the existing vaccines. There may be a challenge for interest rate setting if the Bank of England seeks to keep interest rates low to promote job creation and growth, while inflationary pressures emerge from the excess spending of households with savings. This may be exacerbated if there is a restructuring of the economy, and some unemployed find it difficult to find work because they do not have the right skills.

In this context, labour productivity growth – which has remained below historical standards in London since the 2008-2009 financial crisis[67] - is not expected to be one of the levers of economic recovery from this crisis. On the contrary, our judgement is that it will presumably remain weak in the medium term due to continued low private investment and a larger share of the workforce working remotely. Analysis for the GLA[68] has concluded that the Central Activities Zone will recover, but the time this takes to happen will limit the economic benefits reaped from agglomeration economies. The effects on the long-term remain very uncertain.

A second factor of risk – which also has a direct effect on the evolution of the London economic recovery - is the international context. In this sense, while the election of Joe Biden as President of the United States may have reduced some global geopolitical risks, the world's economy shrank in 2020 and the outlook remains highly uncertain as already described in Subsection 3.3 of this report. There are direct losses to London from reduced tourism and trade, and it is implausible that the world's economy will recover from the pandemic crisis until the world's population is vaccinated.

Another risk to London's economy is the potential adverse effects of the unprecedented expansionary monetary and fiscal policies that UK authorities have undertook this and last year to mitigate the negative impact of the COVID-19 crisis[69]. On the fiscal policy side, the risk of a prolonged subsidised internal demand and bail out of non-viable businesses is real given the size of the fiscal package. Furthermore, the extraordinary cost of the announced policy measures, the additional welfare spending, and a big fall in public revenues as a result of a much smaller economy will lead to a rapid increase of both public sector net borrowing and net debt up to 16.9% and 100.2% respectively of GDP[70] this financial year. These figures represent a historic shock to UK public finances which breaks all fiscal targets and, therefore, the

[67] See GLA Economics (2019). '*Productivity trends in London: An evidence review to inform the Local Industrial Strategy evidence base*'.
[68] Arup and others (2021). 'Central Activities Zone (CAZ) economic futures research', March 2021.
[69] See Box 3.1 above in this Chapter to read the full list of public interventions to date.
[70] Source: OBR (2021). 'Economic and fiscal Outlook', March, 2021.

Government has announced tax measures to return to a sustainable path in public finances as the economic recovery becomes solid. There continues to be a risk of further fiscal consolidation measures, especially if, say, an increase in interest rates pushes up public sector borrowing costs, or pressures on public services, as reflected for example by health waiting lists, leads to further public spending. The risk that current fiscal policies are withdrawn prematurely resulting in a slower economic recovery has reduced as the Chancellor has extended fiscal support to the Autumn. On the monetary policy side, the Bank of England has set interest rates at historic lows, provided record liquidity to businesses, and the size of its Quantitative Easing Programme was 4.5 times larger in November 2020 than it was during the 2009 financial crisis[71]. These measures can certainly help to avoid deflation and stimulate economic activity while in place. But they also have potential adverse impacts on the economy such as higher inflation in particular financial and real assets (including housing[72]), discouraging people from saving as negative real interest rates make consumption more relatively attractive, and the distortion of information that prices in financial markets provide naturally without intervention (i.e., prices do not reflect the actual asset risk under the current monetary expansion so riskier assets cannot be differentiated from safer assets, thus promoting non-viable investment projects eventually).

Finally, and regardless of the COVID-19 crisis, the main long-term risk to London's economy is around how the final trading arrangements between the UK and the EU will eventually affect activity in the capital. The reaching of the Trade and Cooperation Agreement is a positive development, although its silence on measures to ease trading frictions in services from exiting the Single Market is to the detriment of the London economy which is likely to become less export-oriented as a result. As well as longer-term implications trade has been falling in the first half of 2021 as local businesses - especially small and medium-sized enterprises - need time and resources to adjust to the new legal framework, and some have been deterred completely from exporting. As shown in previous GLA Economics publications[73], Brexit-related uncertainty is thought to have negatively affected London's economy through lower investment, labour productivity and consumer confidence since the 2016 referendum (Box 3.2).

3.5 Conclusion

The unprecedented fall in London's economic activity over 2020 reflects a decline in both demand and supply because of the COVID-19 pandemic. This impact started in the first quarter of the year but showed with a special intensity in the second quarter resulting from Government restrictions on mobility and activity and economic agents adapting to an exceptional uncertainty. As these two elements reduced, the economy started to recover to some extent over the summer, but activity has been more subdued through the winter months of 2021. The success of the vaccine programme provides renewed hope for a strong recovery over the rest of 2021.

The policy response by UK authorities is also unique in the historical context and some of the adverse impacts produced by such economic shocks are being mitigated with success. Yet, all London industries are being affected by the COVID-19 crisis to some extent, with Accommodation and food services, Construction, and Transport and storage being among the most hit sectors in terms of both output and jobs so far.

Looking to the future, the outlook for London's economy remains unusually uncertain as risks to the economic recovery are many and skewed to the downside. Factors such as the actual control or end of the pandemic, the evolution of the national and global economies, the ongoing effects of the Brexit deal and

[71] Source: Bank of England.
[72] See Johnson, P. (2020). '*Ultra-low interest rates have huge consequences for the country and its citizens*'.
[73] See GLA Economics (2019). '*The economic impact of Brexit on London*'.

the response of economic agents to all these upcoming developments will critically determine the evolution of the capital's economy for the next months.

Considering all these elements, GLA Economics provides its medium-term scenario-based forecasts for London's economy in Chapter 5 of this document.

4. Review of independent forecasts

GLA Economics' forecast of four economic indicators is provided in Chapter 5: workforce jobs, real GVA, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 14 May 2021 on the first three of these indicators is summarised[74], drawing on forecasts from outside (independent) organisations[75].

All the external forecasts were produced after the March Budget, and over the period March to May.

Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling, which in turn relies on ONS data. The source of historic data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for absolute levels data.

Additionally, both the consensus and GLA Economics' own forecasts provide forecasts of employment and output growth in six broad sectors:

- Manufacturing
- Construction
- Transportation and storage
- Distribution[76], accommodation and food service activities
- Finance and business services[77]
- Other (public & private) services[78].

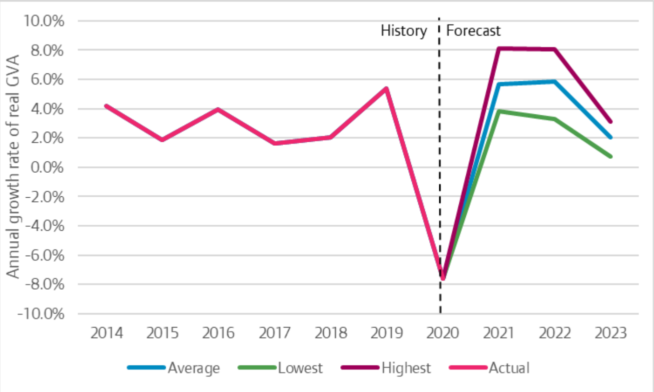
It should be noted, that since our spring 2012 forecast GLA Economics has been using the new Standard Industrial Classification (SIC 2007)[79].

[74] The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE.
[75] Most forecasters do not yet provide forecasts of household income, while a number of forecasters have not produced estimates of household expenditure post pandemic.
[76] Distribution is made from the summation of Wholesale and Retail.
[77] Business services is made from the summation of Information and Communication, Professional, scientific and technical services and Real estate, and Administrative and support service activities.
[78] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services.
[79] For more information see Appendix A of: GLA Economics (2012). 'London's Economic Outlook: Spring 2012', June 2012.

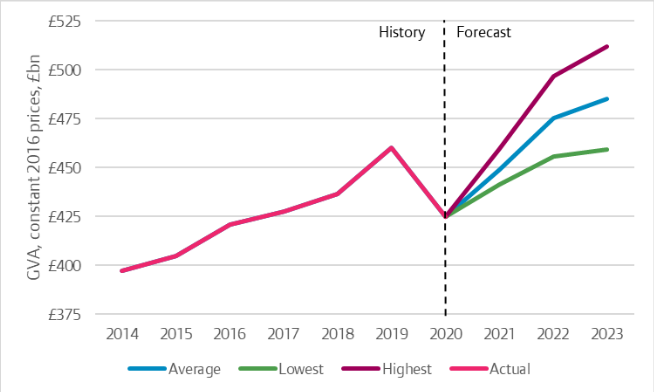
Output
(London GVA, constant prices (base year 2016), £ billion)

The consensus (mean average view) is for real output growth to grow by 5.6% in 2021, by 5.9% in 2022, and by 2.0% in 2023.

Annual growth



Level (constant year 2016, £ billion)



Annual growth (%)					Level (constant year 2016, £ billion)			
	2021	2022	2023			2021	2022	2023
Average	5.6	5.9	2.0		Average	449.1	475.4	485.0
Lowest	3.9	3.3	0.8		Lowest	441.5	455.9	459.4
Highest	8.1	8.0	3.1		Highest	459.6	496.6	512.1

History: Annual growth (%)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
3.2	1.1	4.1	2.4	7.3	3.0	6.9	0.7	-5.5	2.6	4.0	4.2	3.2	4.2	1.9	3.9	1.6	2.1	5.4	-7.6

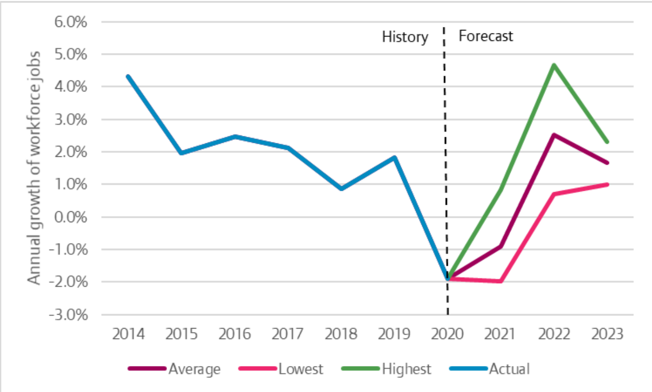
History: Level (constant year 2016, £ billion)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
274.3	277.4	288.8	295.7	317.3	326.7	349.4	352.0	332.5	341.0	354.6	369.7	381.5	397.4	404.9	420.9	427.7	436.5	460.1	425.1

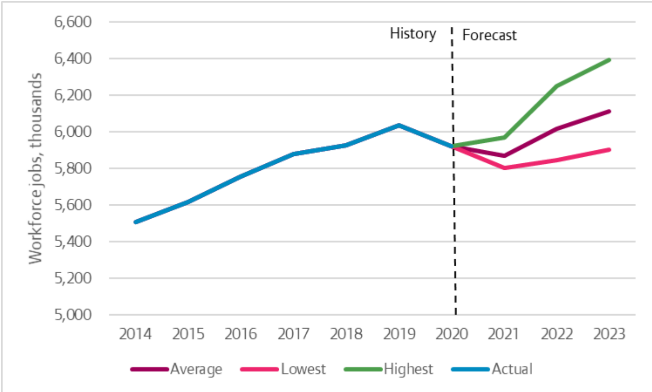
Employment
(London workforce jobs)

The consensus forecasts a decline in jobs this year and then a recovery in workforce jobs in the next two years: -0.9% this year, 2.5% in 2022, and 1.7% in 2023.

Annual growth



Level (thousands of workforce jobs)



Annual growth (%)					Level (millions of persons)			
	2021	2022	2023			2021	2022	2023
Average	-0.9	2.5	1.7		Average	5.87	6.01	6.11
Lowest	-2.0	0.7	1.0		Lowest	5.80	5.85	5.90
Highest	0.8	4.7	2.3		Highest	5.97	6.25	6.39

History: Annual growth (%)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.5	-1.4	0.5	-0.4	2.0	1.2	1.2	2.9	-2.3	-0.4	1.7	4.2	2.9	4.3	2.0	2.5	2.1	0.9	1.8	-1.9

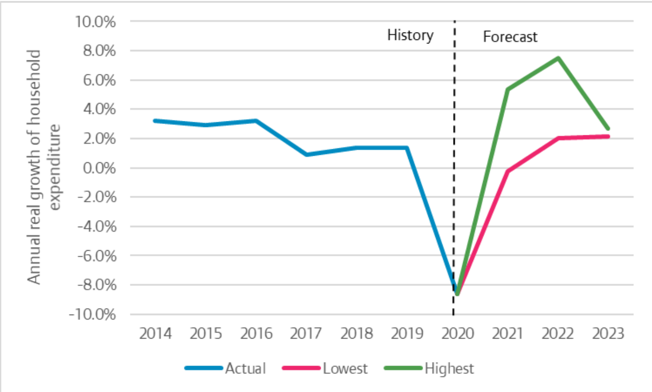
History: Level (millions of persons)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.88	5.93	6.04	5.92

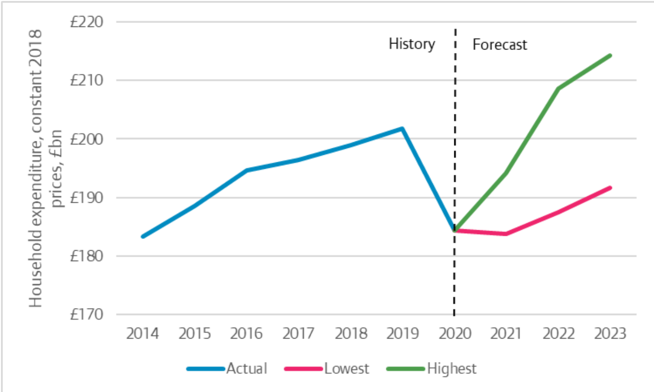
Household expenditure

The consensus forecasts a recovery over the medium-term: 2.6% this year, 4.0% in 2022, and 2.5% in 2023.

Annual growth



Level (constant year 2018, £ billion)



Annual growth (%)					Level (constant year 2016, £ billion)			
	2021	2022	2023			2021	2022	2023
Average	2.6%	4.0%	2.5%		Average	189.0	196.7	201.5
Lowest	-0.2%	2.0%	2.2%		Lowest	183.9	187.5	191.6
Highest	5.3%	7.5%	2.7%		Highest	194.2	208.7	214.3

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2.4	0.0	2.1	2.8	3.2	2.9	3.2	0.9	1.3	1.4	-8.6

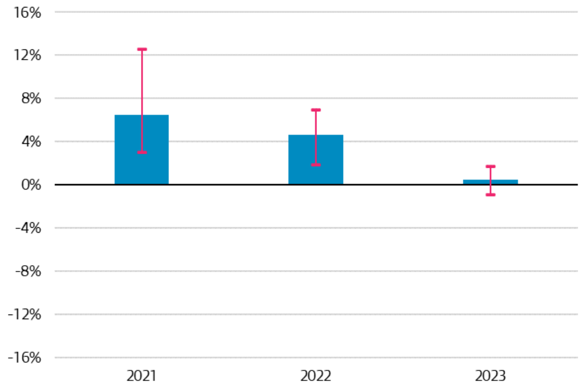
History: Level (constant year 2018, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
169.2	169.3	172.9	177.6	183.3	188.6	194.7	196.4	199.0	201.8	184.3

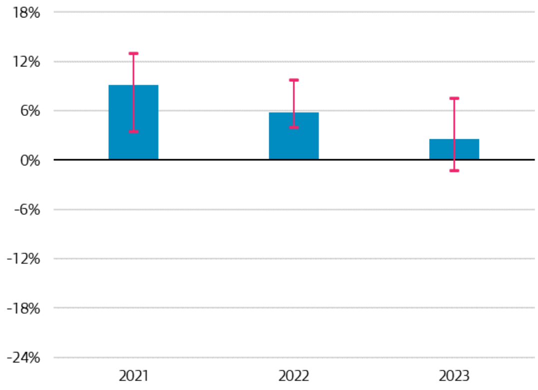
Output growth by sector (annual change)

In terms of output, the consensus sees all sectors across the economy growing over the medium-term.

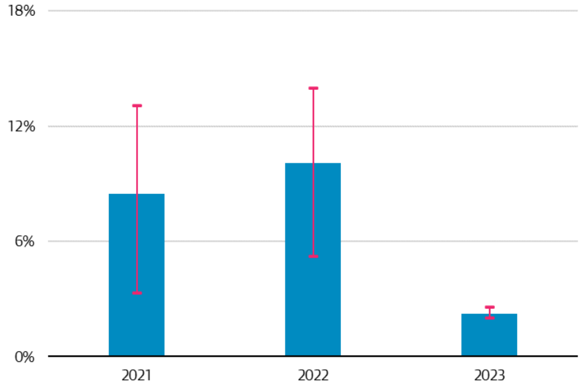
Manufacturing



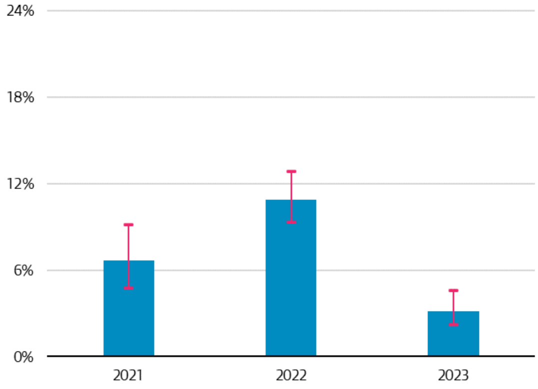
Construction



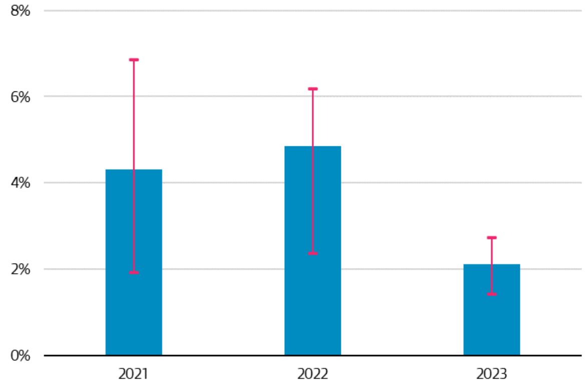
Distribution, accommodation and food service activities



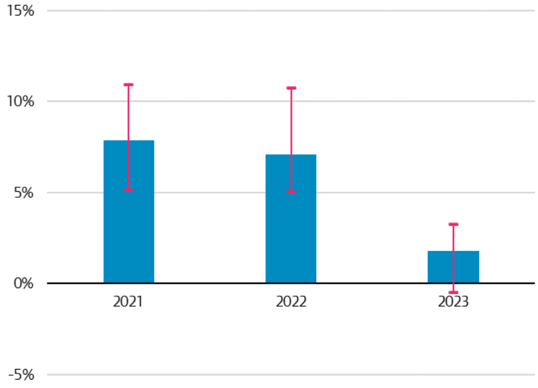
Transportation and storage



Finance and business



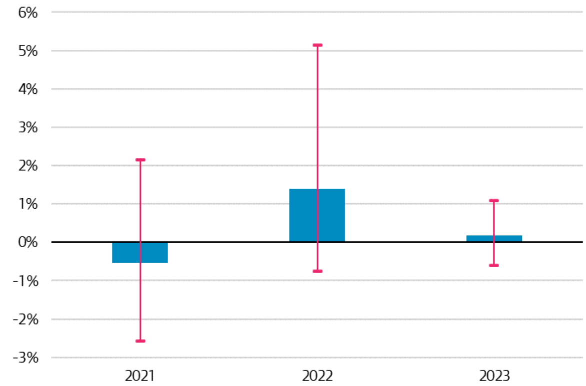
Other services (public and private)



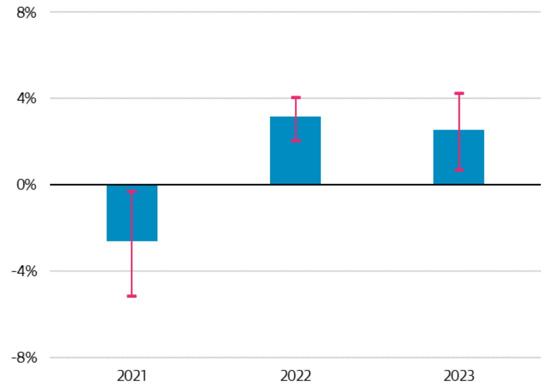
		2021	2022	2023			2021	2022	2023
Manufacturing	Average	6.5	4.6	0.5	**Construction**	Average	9.2	5.8	2.5
	Lowest	3.0	1.9	-0.9		Lowest	3.5	4.0	-1.3
	Highest	12.6	6.9	1.7		Highest	12.9	9.7	7.5
Distribution, accomodation and food service activities	Average	8.5	10.1	2.2	**Transportation and storage**	Average	6.7	10.9	3.1
	Lowest	3.3	5.2	2.0		Lowest	4.8	9.4	2.2
	Highest	13.1	14.0	2.6		Highest	9.2	12.8	4.6
Finance and business	Average	4.3	4.9	2.1	**Other services (public and private)**	Average	7.8	7.1	1.8
	Lowest	1.9	2.4	1.4		Lowest	5.1	5.0	-0.5
	Highest	6.9	6.2	2.7		Highest	10.9	10.7	3.3

Employment growth by sector (annual change)
The consensus sees contraction in employment in most sectors in 2021 and then recovery in 2022 & 2023

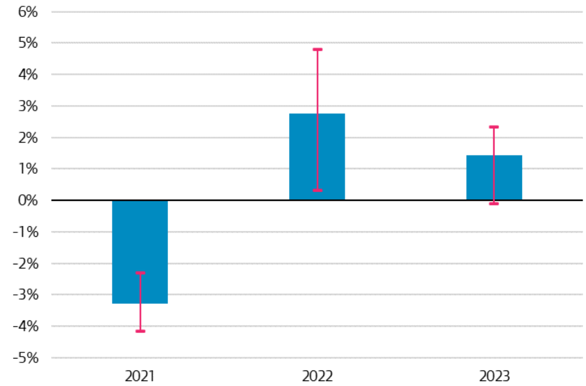
Manufacturing



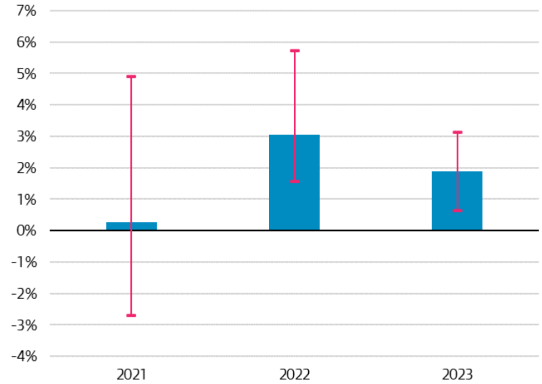
Construction



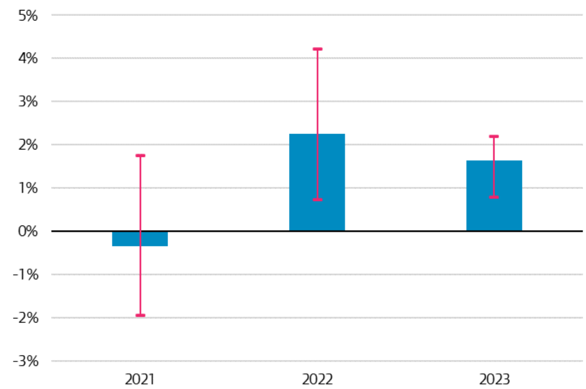
Distribution, accommodation and food service activities



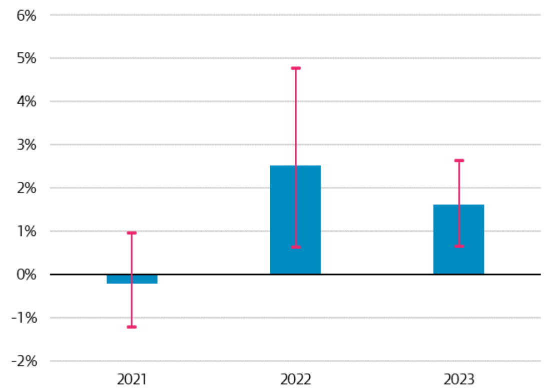
Transportation and storage



Finance and business



Other services (public and private)



		2021	2022	2023			2021	2022	2023
Manufacturing	Average	-0.5	1.4	0.2	**Construction**	Average	-2.6	3.2	2.6
	Lowest	-2.6	-0.7	-0.6		Lowest	-5.1	2.1	0.7
	Highest	2.1	5.1	1.1		Highest	-0.3	4.1	4.3
Distribution, accommodation and food service activities	Average	-3.3	2.8	1.4	**Transportation and storage**	Average	0.3	3.1	1.9
	Lowest	-4.2	0.3	-0.1		Lowest	-2.7	1.6	0.6
	Highest	-2.3	4.8	2.3		Highest	4.9	5.7	3.1
Finance and business	Average	-0.3	2.3	1.6	**Other services (public and private)**	Average	-0.2	2.5	1.6
	Lowest	-1.9	0.7	0.8		Lowest	-1.2	0.6	0.7
	Highest	1.8	4.2	2.2		Highest	1.0	4.8	2.6

5. The GLA Economics reference forecast

For business planning (for example, the likely course of revenue), estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections (this forecast) provide these estimates. It is thus necessary to distinguish carefully between the GLA's long-term employment projections[80], which are trend projections, and this forecast. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points, whereas business planning requires estimates of actual numbers. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for the historic data in the following tables and charts is GLA Economics modelling using ONS data. As in the Autumn 2020 LEO this analysis includes a measure of uncertainty around the central scenario using alternative scenarios developed by GLA Economics.

[80] GLA Economics (2017). 'London labour market projections 2017'.

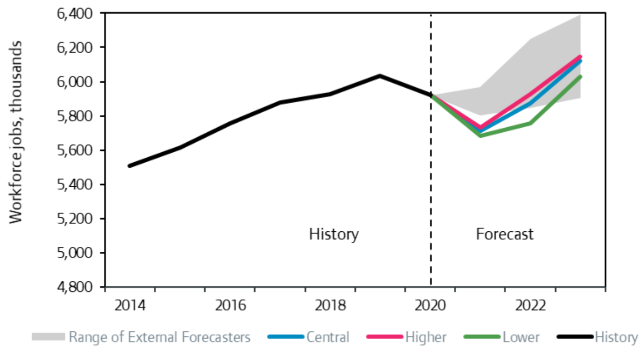
5.1 Results

London's economic output had been growing every year from 2010 to 2019 before a major contraction in 2020. Our Bank of England and OBR consistent central scenario suggests there will be a recovery in output growth this year, and the loss in output is only expected to be regained fully in 2022. Employment is expected to fall again this year, and only recover partially in 2022.

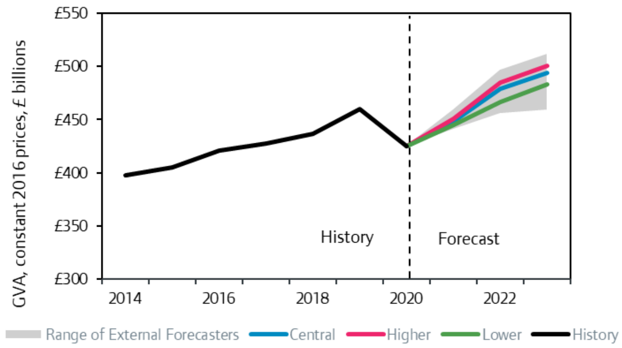
Household income and spending are also expected to grow over the medium term.

Figure 5.1: Trend and scenario-based forecasts employment and output

Employment



Output



Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Table 5.1: Central scenario-based forecast and historical growth rates
(Annual % change)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
GVA	1.9	3.9	1.6	2.1	5.4	-7.6	5.4	6.9	3.1
Workforce jobs	2.0	2.5	2.1	0.9	1.8	-1.9	-3.6	2.9	4.2
Household spending	2.9	3.2	0.9	1.3	1.4	-8.6	2.5	4.1	2.2
Household income	7.6	2.0	0.2	3.3	2.0	3.8	2.5	4.1	2.2

Table 5.2: Scenario-based forecast and historical levels
(constant year 2016, £ billion except jobs)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
GVA	404.9	420.9	427.7	436.5	460.1	425.1	448.2	479.0	494.0
Workforce jobs (millions)	5.62	5.76	5.88	5.93	6.04	5.92	5.71	5.88	6.12
Household spending	188.6	194.7	196.4	199.0	201.8	184.3	188.9	196.7	201.0
Household income	243.9	248.8	249.3	257.4	262.6	272.5	279.3	290.8	297.1

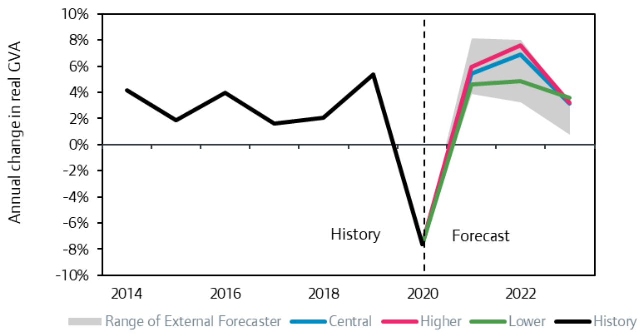
Output

(London GVA, constant year 2016, £ billion)

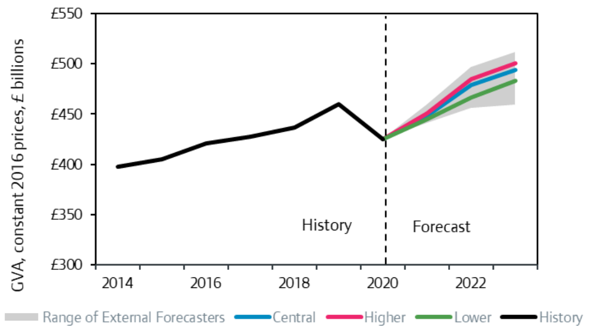
London's real GVA is forecast to recover between 2021 and 2023 at growth rates of 5.4%, 6.9%, and 3.1%, respectively.

Under all scenarios London's economy recovers its 2019 level in 2022.

Annual growth (%)



Level (constant year 2016, £ billion)



Growth (annual %)						Level (constant year 2016, £ billion)				
	2020	2021	2022	2023			2020	2021	2022	2023
Gradual return to economic recovery	-7.6	5.4	6.9	3.1		Gradual return to economic recovery	425.1	448.2	479.0	494.0
Fast economic recovery		5.9	7.6	3.2		Fast economic recovery		450.4	484.6	500.1
Slow economic recovery		4.6	4.9	3.6		Slow economic recovery		444.8	466.4	483.3

History: Annual growth (%)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
3.2	1.1	4.1	2.4	7.3	3.0	6.9	0.7	-5.5	2.6	4.0	4.2	3.2	4.2	1.9	3.9	1.6	2.1	5.4	-7.6

History: Level (constant year 2016, £ billion)

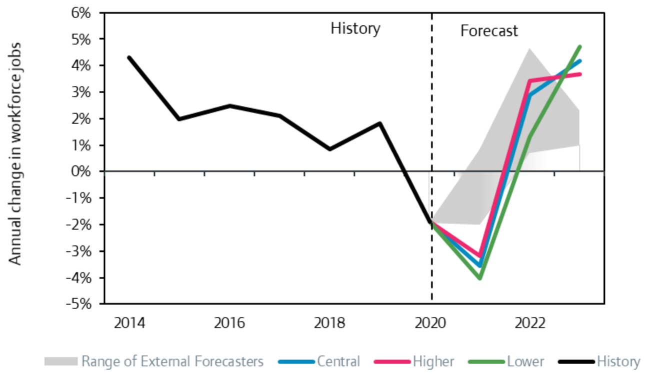
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
274.3	277.4	288.8	295.7	317.3	326.7	349.4	352.0	332.5	341.0	354.6	369.7	381.5	397.4	404.9	420.9	427.7	436.5	460.1	425.1

Employment
(London workforce jobs)

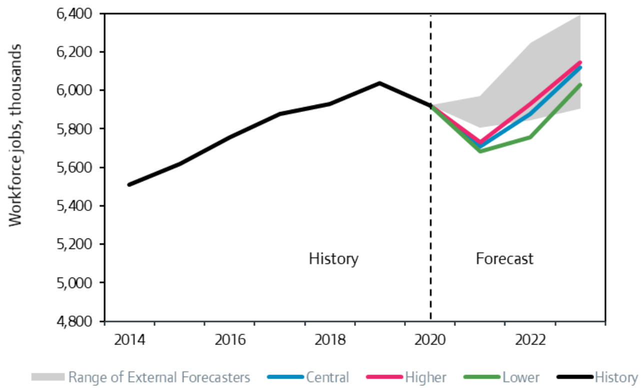
London’s employment is forecast to decline this year and recover gradually over the rest of the forecast period. The rates of growth are predicted at -3.6% in 2021, 2.9% in 2022, and 4.2% in 2023.

Under all scenarios London only returns in 2023 to the level of jobs seen in 2019.

Annual growth (%)



Level (millions of workforce jobs)



Growth (annual %)						Level (millions of workforce jobs)				
	2020	2021	2022	2023			2020	2021	2022	2023
Gradual return to economic recovery	-1.9	-3.6	2.9	4.2		Gradual return to economic recovery	5.92	5.71	5.88	6.12
Fast economic recovery		-3.2	3.4	3.7		Fast economic recovery		5.73	5.93	6.15
Slow economic recovery		-4.0	1.3	4.7		Slow economic recovery		5.68	5.76	6.03

History: Annual growth (%)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.5	-1.4	0.5	-0.4	2.0	1.2	1.2	2.9	-2.3	-0.4	1.7	4.2	2.9	4.3	2.0	2.5	2.1	0.9	1.8	-1.9

History: Level (millions of persons)

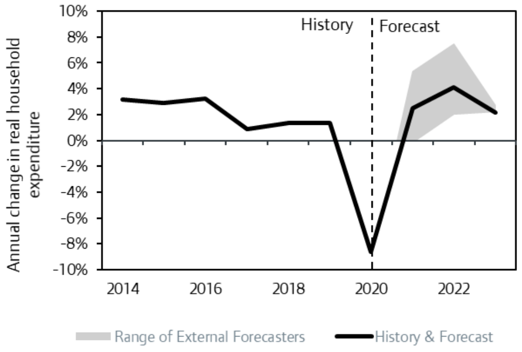
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.88	5.93	6.04	5.92

Household expenditure
(London household spending, constant year 2018 £ billion)

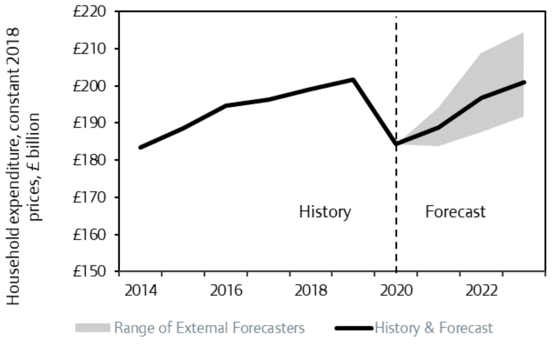
London's is expected to recover over the forecast period. The rates of growth are predicted at -2.5% in 2021, 4.1% in 2022, and 2.2% in 2023.

London is expected to be just below its pre-pandemic levels of expenditure by the end of the forecast period.

Annual growth (%)



Level (constant year 2018, £ billion)



History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2.4	0.0	2.1	2.8	3.2	2.9	3.2	0.9	1.3	1.4	-8.6

History: Level (constant year 2018, £ billion)

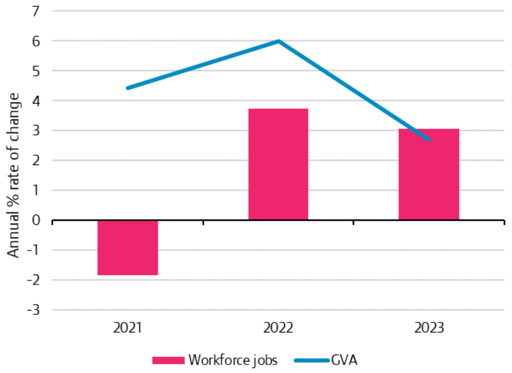
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
169.23	169.28	172.85	177.63	183.30	188.59	194.68	196.38	199.02	201.75	184.31

Output and employment growth by sector (% annual changes)

Financial services

Business services

Finance and business (combined)



Distribution, accommodation and food service activities

Transportation and storage

Other (public & private) services

Manufacturing

Construction

Output and employment growth by sector (% annual change)

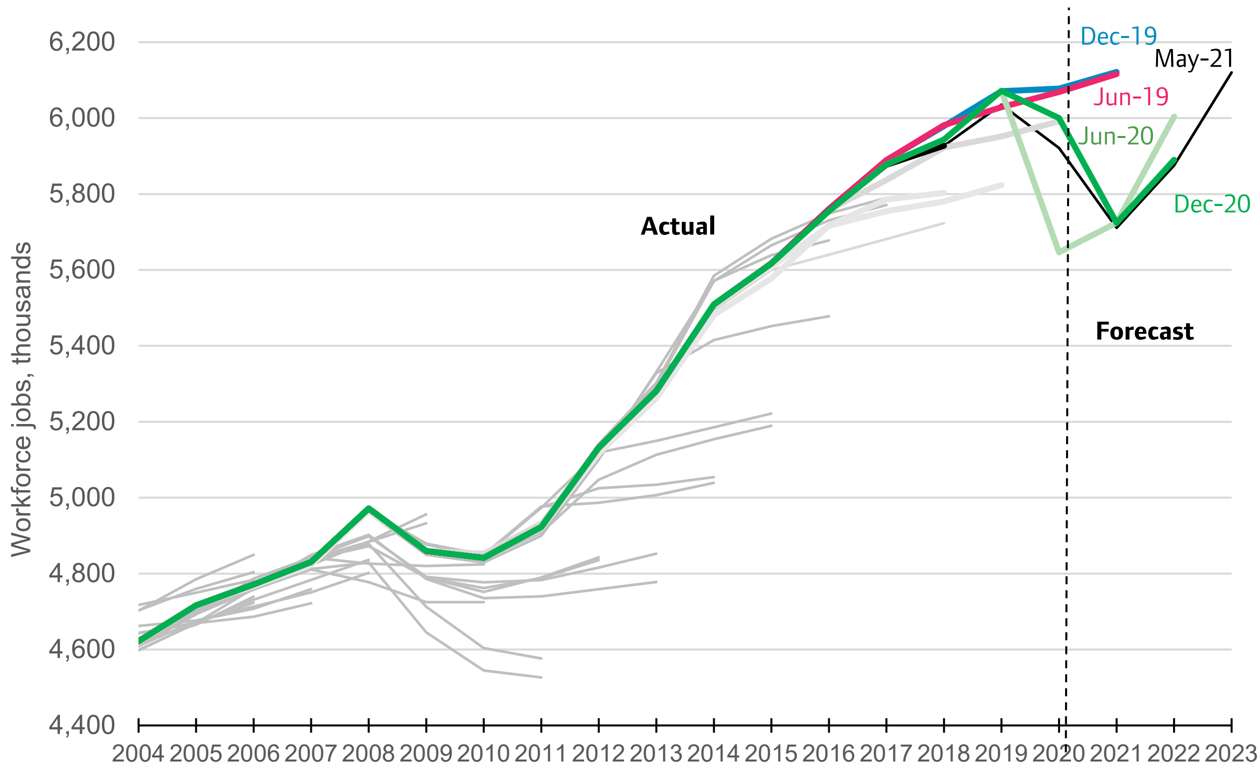
	2021	2022	2023
Financial services			
Output	2.8	3.8	3.1
Jobs	2.0	2.6	3.2
Business services			
Output	4.9	6.7	2.6
Jobs	-2.6	4.0	3.0
Financial and business services combined			
Output	4.4	6.0	2.7
Jobs	-1.8	3.7	3.1
Distribution, accommodation and food service activities			
Output	5.9	8.1	4.4
Jobs	-6.7	0.0	4.8
Transportation and storage			
Output	3.1	9.4	1.3
Jobs	-6.4	0.5	3.5
Other (public & private) services			
Output	7.6	10.0	2.7
Jobs	-2.6	3.0	4.3
Manufacturing			
Output	10.7	4.9	6.3
Jobs	-7.3	-4.6	1.2
Construction			
Output	10.5	3.5	8.3
Jobs	-7.6	11.2	12.0
(Memo: non-manufacturing)			
Output	5.3	6.9	3.1
Jobs	-3.5	3.1	4.2

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparisons in Figures 5.2 and 5.3. It should also be noted that the large variation seen in the forecasts produced in 2020 and 2021 compared to previous forecasts reflect the challenges of undertaking economic forecasts in an environment of unprecedented uncertainty and reflects in part the evolving knowledge of public health and economic policy responses.

The level of London's workforce jobs is only expected to reach its 2019 level in 2023. The profile of the forecast is similar to that of the December 2020 forecast.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(thousands of workforce jobs)



Note: the grey lines show levels of employment given historic GLA Economic forecasts of employment growth rates. The last four GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 5.3[81]: Comparisons with previous published forecasts
(London workforce jobs, % annual growth)

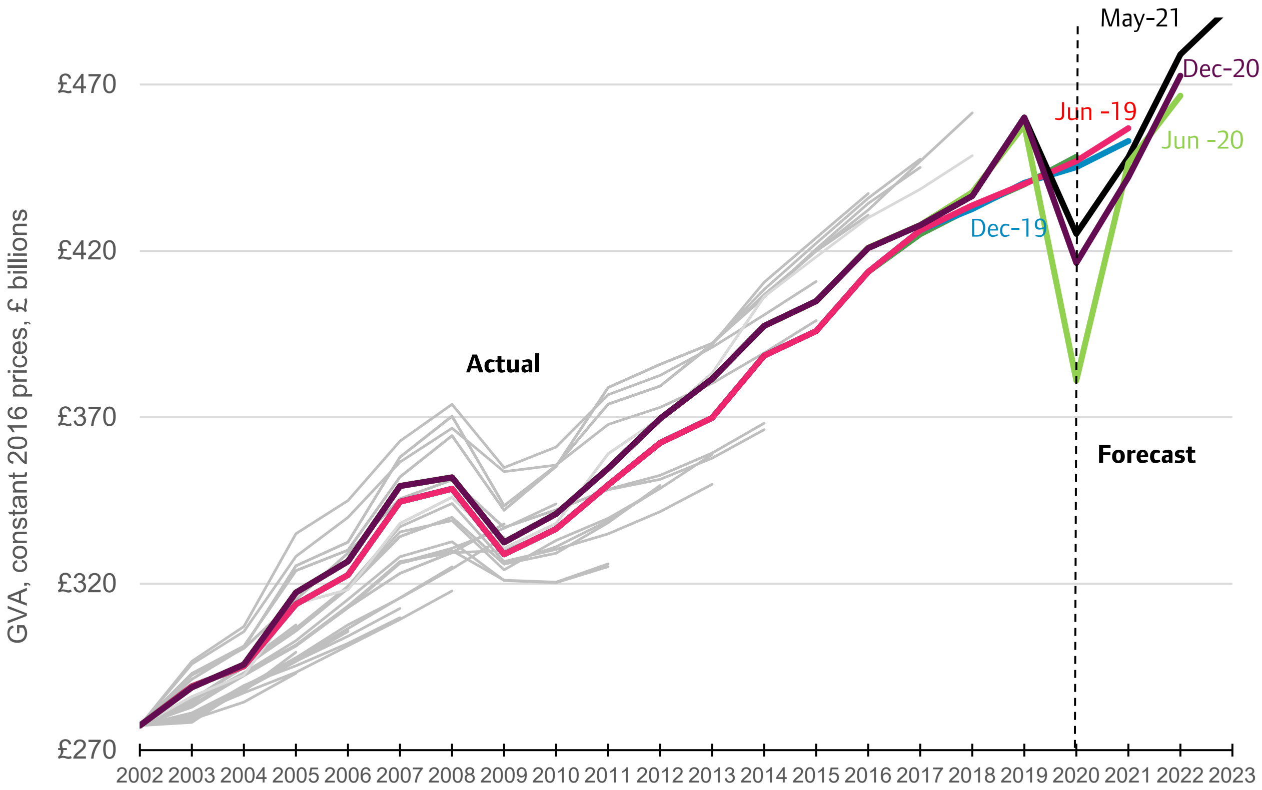
Forecast	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
May-21	**-2.3%**	**-0.4%**	**1.7%**	**4.2%**	**2.9%**	**4.3%**	**2.0%**	**2.5%**	**2.1%**	**0.9%**	**1.8%**	**-1.9%**	**-3.6%**	**2.9%**	**4.2%**
Dec-20												-1.1%	-4.6%	3.0%	
Jun-20												-7.0%	1.4%	4.9%	
Dec-19											1.5%	0.1%	0.7%		
Jun-19											0.8%	0.7%	0.8%		
Nov-18										1.5%	0.5%	0.7%			
May-18										0.6%	0.3%	0.7%			
Nov-17									1.4%	0.3%	0.5%				
Jun-17									0.7%	0.5%	0.7%				
Nov-16								2.5%	1.2%	0.3%					
May-16								0.7%	0.7%	0.7%					
Nov-15							1.7%	1.2%	0.7%						
May-15							1.7%	1.2%	0.7%						
Nov-14						4.5%	1.2%	0.7%							
May-14						1.6%	0.7%	0.5%							
Nov-13					1.3%	0.8%	0.7%								
Jul-13					0.6%	0.7%	0.7%								
Nov-12				1.0%	0.2%	0.4%									
Jun-12				0.2%	0.4%	0.6%									
Nov-11			0.1%	0.4%	0.4%										
May-11			0.1%	0.7%	0.8%										
Oct-10		-0.6%	0.6%	1.0%											
Jun-10		-0.8%	0.8%	1.1%											
Oct-09	-3.4%	-2.3%	-0.6%												
Apr-09	-3.8%	-2.2%	-0.4%												
Oct-08	-1.1%	0.0%													
May-08	-0.1%	0.1%													
Oct-07	1.0%														
Apr-07	1.5%														

Source: Various London's Economic Outlooks

[81] This table only reports forecasts for 2009 onwards unlike Figure 5.2. For earlier GLA Economics' forecasts please see previous editions of London's Economic Outlook.

The most recent medium-term scenario-based forecast for London's GVA level has output a little higher than the December 2020 scenario-based forecast. There has been an upward revision to GVA for 2020. Also, at the time of the December forecast it was not known that there would be a lockdown in the first quarter of the year, or that there would be a successful vaccine rollout, or that the furlough scheme would see a further extension. The effects of these factors largely cancel each other out.

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 2016, £ billion)



Note: the grey lines show levels of GVA given historic GLA Economic forecasts of GVA growth rates. The last four GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 5.4[82]: Comparisons with previous published forecasts
(London GVA, % annual growth)

Forecast	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
May-21	**-5.5%**	**2.6%**	**4.0%**	**4.2%**	**3.2%**	**4.2%**	**1.9%**	**3.9%**	**1.6%**	**2.1%**	**5.4%**	**-7.6%**	**5.4%**	**6.9%**	**3.1%**
Dec-20												-9.5%	6.2%	6.9%	
Jun-20												-16.8%	17.2%	4.5%	
Dec-19											1.8%	1.1%	1.8%		
Jun-19											1.5%	1.6%	2.2%		
Nov-18										1.9%	1.6%	1.9%			
May-18										1.6%	1.9%	2.2%			
Nov-17									2.1%	1.8%	2.6%				
Jun-17									2.3%	2.4%	2.9%				
Nov-16								2.8%	2.0%	2.3%					
May-16								2.9%	3.4%	3.3%					
Nov-15							3.4%	3.2%	2.7%						
May-15							3.6%	3.2%	2.5%						
Nov-14						4.8%	3.3%	3.1%							
May-14						3.8%	3.2%	2.6%							
Nov-13					2.2%	2.5%	2.5%								
Jul-13					1.9%	2.4%	2.5%								
Nov-12				0.9%	1.8%	2.4%									
Jun-12				1.2%	1.9%	2.5%									
Nov-11			1.4%	2.0%	2.4%										
May-11			2.0%	2.6%	2.9%										
Oct-10		1.6%	2.4%	2.9%											
Jun-10		1.0%	2.8%	3.3%											
Oct-09	-3.5%	-0.2%	1.5%												
Apr-09	-2.7%	-0.2%	1.7%												
Oct-08	0.2%	1.9%													
May-08	1.8%	2.2%													
Oct-07	2.6%														
Apr-07	3.0%														

Source: Various London's Economic Outlooks

[82] This table only reports forecasts for 2009 onwards unlike Figure 5.3.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report 'employment' refers to 'workforce jobs' and uses the ONS historical series as a base for the forecast.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

At the time of writing national statistics estimates of real regional GVA are available up to 2018 from the ONS[83]. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases, the expenditure of non-profit organisations is included and in other cases it is not.

[83] ONS Regional GVA (balanced approach).

Appendix B: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
BoE	Bank of England
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
Fed	Federal Reserve
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HM Treasury	Her Majesty's Treasury
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
m	Million
MPC	Monetary Policy Committee
OBR	Office for Budget Responsibility
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
TfL	Transport for London

Appendix C: Bibliography

Arup and others (2021). 'Central Activities Zone (CAZ) economic futures research'. March 2021.

Asian Development Bank (2021). 'Financing a green and inclusive recovery', April 2021.

Bank of England (2018). 'EU withdrawal scenarios and monetary and financial stability'. 28 November 2018.

Bank of England (2020). 'Monetary Policy Report and Interim Financial Stability Report'. May 2020.

Bank of England (2020). 'Monetary Policy Report - November 2020'. 5 November 2020.

Bank of England (2021). 'Monetary Policy Report', May 2021.

Bank of England (1999). 'The transmission mechanism of monetary policy', Bank of England Quarterly Bulletin, May 1999.

Bloom, N. et al. (2020). 'The impact of Covid-19 on productivity', Staff Working Paper No. 900. Bank of England, December 2020.

Breach, A. (2021). 'Core Cities: the impact of the first wave of Covid-19', Centre for Cities, February 2021.

Bureau of Economic Affairs (2021). 'Gross Domestic Product, First Quarter 2021', 29 April 2021.

Cambridge Econometrics (2021). 'Economic prospects for the nations and regions of the UK', March 2021.

Centre for Economic and Business Research (2021). 'The Prospects Service, London, City, and Regional Prospects', May 2021.

Centre for Economic and Business Research (2021), 'Trade and Cooperation Agreement – London impact', January 2021.

Cominetti, N., Leslie, J. & Smith, J. (2021). 'On firm ground? The impact of Covid-19 on firms and what policy makers should do in response', Resolution Foundation, February 2021.

Douglass, G. & Hope, M. (2021). 'London's Economy Today - Issue 224', April 2021.

Douglass, G. & van Lohuizen, A. (2016). 'The historic performance of the GLA's medium-term economic forecast model', GLA Economics Current Issues Note 49, November 2016.

European Central Bank (2020). 'ECB response to COVID-19'.

Eurostat (2021). 'GDP and employment flash estimates for the first quarter of 2021', 30 April 2021.

Experian Economics (2021). 'UK Regional Forecast Quarterly', April 2021.

GLA Economics (2012). 'London's Economic Outlook: Spring 2012', June 2012.

GLA Economics (2016). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections', November 2016.

GLA Economics (2017). 'London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections', June 2017.

GLA Economics (2017). 'London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections', November 2017.

GLA Economics (2018). 'London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections', May 2018.

GLA Economics (2018). 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', November 2018.

GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019.

GLA Economics (2019). 'London's Economic Outlook: Autumn 2019 The GLA's medium-term planning projections', December 2019.

GLA Economics (2020). 'London's Economic Outlook: Spring 2020'. 15 June 2020.

GLA Economics (2020). 'London's Economic Outlook: Autumn 2020'. 7 December 2020.

HM Treasury (2021). 'Budget 2021 documents'. 3 March 2021.

HM Treasury (2021). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2021.

Hope, M. (2019). 'The economic impact of Brexit on London', GLA Economics October 2019.

Hope, M. (2021). 'London's Economy Today - Issue 221', January 2021.

Hope, M. (2021). 'London's Economy Today - Issue 222', February 2021.

Hope, M. & Orellana, E. (2020). 'London's Economy Today - Issue 216', August 2020.

House of Commons library (2020). 'The UK-EU Trade and Cooperation Agreement: summary and implementation', December 2020.

IMF (2021). 'Global Financial Stability Report', April 2021.

IMF (2021). '*World Economic Outlook: 'Managing divergent recoveries''*, April 2021.

Johnson, P. (2020). '*Ultra-low interest rates have huge consequences for the country and its citizens*'. Institute for Fiscal Studies November 2020.

Keijonen, M & van Lohuizen, A (2016). 'Modelling real quarterly GVA data for London', GLA Economics Current Issues Note 50, December 2016.

London Chamber of Commerce and Industry (2021). 'Capital 500 Quarterly Economic Survey – Q1 2021'. April 2021.

London Datastore (2021). '*Macroeconomic scenarios for London's economy post COVID-19*'.

OBR (2020). '*Economic and fiscal outlook*'. March 2020.

OBR (2020). '*Economic and fiscal outlook*'. November 2020.

OBR (2021). '*Economic and fiscal outlook – March 2021*'. March 2021.

OECD (2021). 'Economic Outlook – Interim Report'. March 2021.

ONS (2021). 'Consumer price inflation, April 2021', May 2021.

ONS (2021). 'GDP first quarterly estimate, UK: October to December 2020', 12 February 2021.

ONS (2021). 'GDP first quarterly estimate, UK: January to March 2021'.12 May 2021.

ONS (2021). 'GDP monthly estimate, UK'. 12 May 2021.

ONS (2021). 'Labour market overview, UK'. 18 May 2021.

Orellana, E. (2020). 'The new GLA Economics forecast models for London's economy' GLA Economics Working Paper 98, June 2020.

Oxford Economics (2021). 'Regional forecasts', April 2021.

Phillips, D. (2021). 'Lessons and issues for sub-national government finances post-COVID', IFS Briefing Note BN318. Institute for Fiscal Studies, March 2021.

Roberts, D. (2021). 'Coronavirus and the impact on the UK travel and tourism industry', Office for National Statistics, February 2021.

Rocks, C., (2019). 'Productivity trends in London: An evidence review to inform the Local Industrial Strategy evidence base'. September 2019.

The British Academy (2021). 'The COVID Decade: Understanding the long-term societal impacts of COVID-19', March 2021.

The Economist (2020). 'The pandemic could give way to an era of rapid productivity growth', December 2020.

US Bureau of Labor Statistics (2021). 'Employment Situation Summary'. 7 May 2021.

GLAECONOMICS

Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

Tel 020 7983 4000
Minicom 020 7983 4000
Email glaeconomics@london.gov.uk

MAYOR OF LONDON