GLAECONOMICS

London's Economy Today

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London shops see business resume as lockdown is eased

By **Gordon Douglass**, Supervisory Economist, **Mike Hope**, Economist

On 12 April non-essential shops were allowed to open again and outside drinking and dining was permitted as the current lockdown was eased further. This followed on from the return of children to school in March. Following the easing of lockdown, footfall in London quickly rebounded in establishments that had been closed but remain significantly below pre-pandemic levels (Figure 1).

In England data monitoring firm Springboard found footfall was still down around 10% compared to the equivalent day pre-pandemic in 2019. This compares to a 34% year-on-year drop seen last June when reopening happened after the first lockdown. However, analysis from the ONS found that although "on Monday 12 April 2021, estimates for UK seated diner reservations were at 79% of the level seen on the equivalent Monday of 2019" for London this figure stood at only 47% compared to 153% in Manchester. And in an indication of the problems faced by retailers Hammerson, which partly owns the Brent Cross shopping centre, said it would cut rents for its retail tenants by 30%.

London still facing significant challenges from the pandemic

With the lockdown expected to ease further and the continued rollout of the vaccine programme it is expected that footfall will further pickup over the summer. However, London continues to face challenges from COVID-19 as shown by the surge testing for the South African variant in a number of London boroughs in mid-April.

Also in this issue

Datastore

The main economic indicators for London are available to download from the London Datastore.

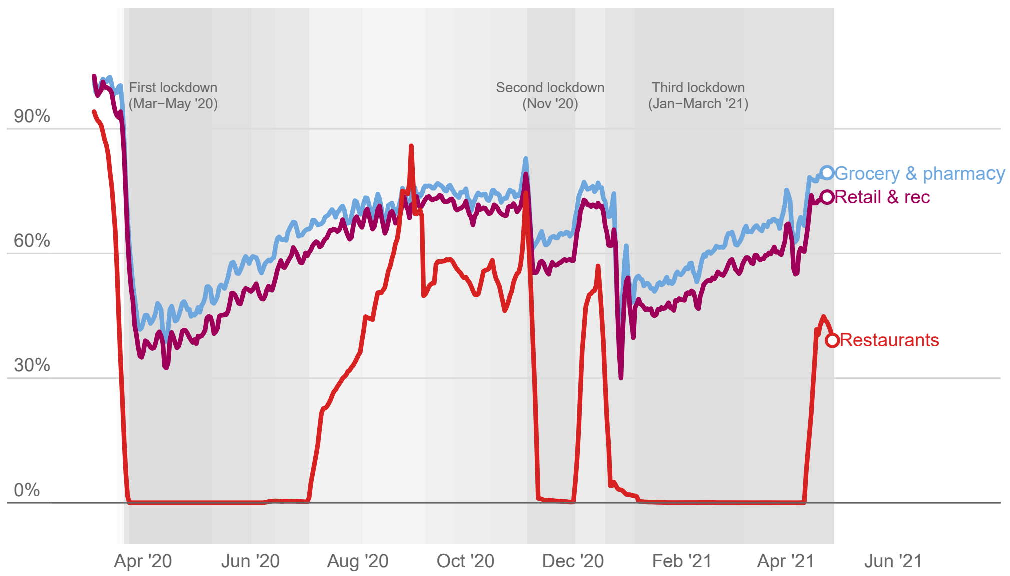


Figure 1: Retail and recreational activity in London

Source: Grocery and retail metrics from Google Mobility, and restaurant bookings from OpenTable

Even despite this it will take time for London businesses to recover from the impact of the third lockdown with a number of firms treading water at best at the moment. For instance, the Q1 2021 Capital 500 survey for the London Chamber of Commerce and Industry (LCCI) found that domestic demand was little changed in the first quarter while the "share of firms who reported a decrease in exports sales in Q1 was 15% - up from 11% in Q4 2020". Nevertheless they found that "the net balance for turnover expectations jumped 12 percentage points to -5% in Q1".

London sees the highest UK unemployment rate

Data published by the ONS showed that London's labour market continues to be hard hit by the pandemic. Thus, in the three months to February, London's unemployment rate stood at 7.2%, the highest of any UK nation or region and significantly higher than the UK's rate of 4.9%. In terms of those claiming claimant count related benefits London also saw a higher year-on-year rise in all age groups making claims compared to that seen in the UK as a whole (Figure 2).

Looking further at UK employment data, the ONS analysing HMRC data has found that in the year to March 2021 there had been a decline in payroll employees in the UK by 813,000. The ONS noted that 223,000 of these can be attributed to employees living in London, this was a decline of 5.4% almost double the UK's decline. UK data also showed that 436,000 or over 50% of the 813,000 lost employees were aged 25 years old or younger and around 80% of the total were 35 years old or younger. Official statistics from the ONS also show that UK vacancies in the three months to March, at 607,000, were 178,000 or 22.7% lower than for the same period a year earlier. Still, experimental statistics from the ONS for March found that UK job vacancies had picked up by 16% from the previous month

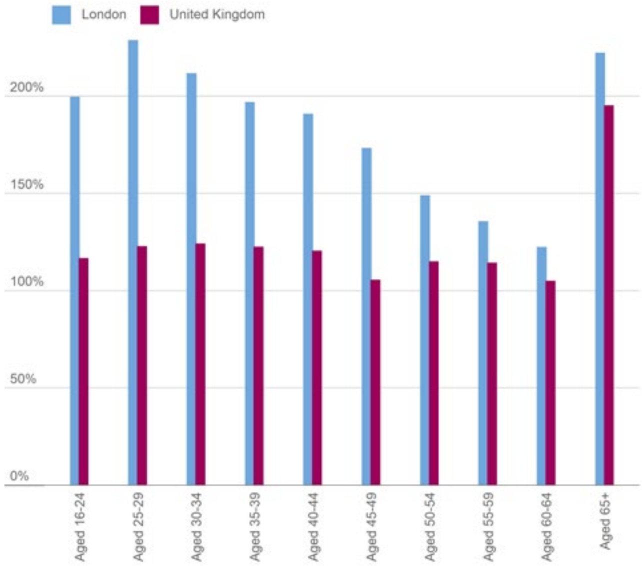


Figure 2: Year-on-year percentage change in the claimant count for London and the UK, Latest data point (March 2021)

Source: ONS Claimant Count by sex and age (NSA). Note: an increasing number of people recently became eligible for unemployment related benefit support, although still employed. Changes in the claimant count will not be due wholly to changes in unemployment.

The ONS found an unsurprising rise in home working among the employed UK population in 2020, with its prevalence increasing by 9.4 percentage points to 35.9% compared with 2019. The ONS added that "the average gross weekly pay of workers who had recently worked from home was about 20% higher in 2020 than those who never worked from home in their main job", continuing a long-term trend. And "London reported the highest proportion of homeworkers in 2020 as 43.0% worked from home at some point in the past year, up from 31.0% in 2019".

Looking forward polling results from YouGov found that nearly three quarters of those polled think that London employers will allow home working post-pandemic. The polling also showed that prior to the pandemic, of those Londoners polled, 54% never worked from home but only 30% would like to never work from home post pandemic. Some 19% would like to work from home full time and 43% would like to do it some of the time. The poll also found that 29% of Londoners would consider "moving to a different area of the country that is not within commuting distance of my company's workplace". This number rose to 33% of those polled who live in inner London.

UK trade with Europe recovers some of its losses from January but remains below pre-Brexit levels

Having fallen by a large amount in January a lot of attention was placed on the February trade figures for the UK with the EU. These ONS figures showed that exports recovered by £3.7 billion or 46.6% in February after falling by £5.7 billion or 42% in January. However, trade with the EU remains below 2020 levels, while a survey from the ONS showed that "of businesses that had exported or imported goods or services in the last 12 months…38% experienced exporting challenges and 45% experienced importing challenges because of additional paperwork". Further, "26% experienced exporting challenges and 39% experienced importing challenges because of a change in transportation costs", while "21% experienced exporting challenges and 36% experienced importing challenges because of customs duties or levies" and "15% experienced exporting challenges and 25% experienced importing challenges because of disruption at the UK borders".

Despite the lockdown the UK economy grew in February

ONS data shows that UK GDP grew by 0.4% in February after falling by 2.2% in January (Figure 3). The service sector also returned to growth, although only marginally, with it increasing by 0.2%. Nevertheless, output for services still remains 8.8% below the levels seen in February 2020 and the sector is the only sector whose output remains notably lower (3.9% lower) than the initial recovery peak in October 2020. Looking at March, which has yet to have GDP data published, the ONS observed that the "Business Insights and Conditions Survey (BICS), which covered the dates 8 to 21 March 2021, found that of businesses currently trading, 40% reported a negative impact on their turnover compared with what is normally expected for this time of year. This compares with 44% reporting decreases" over the period 8 to 21 February 2021.

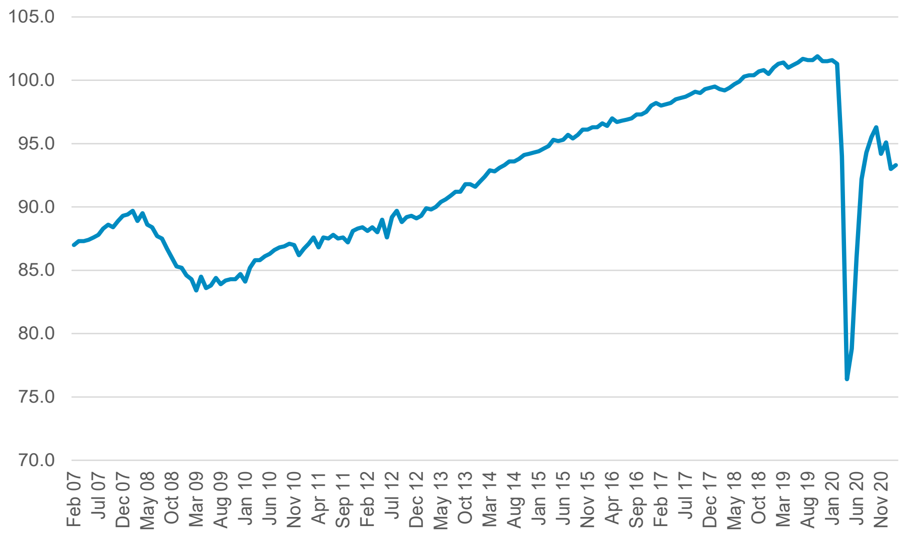


Figure 3: Monthly UK GDP, Monthly index, January 2007 until February 2021, 2018 = 100

Source: ONS

IMF improves forecast for the UK economy

The International Monetary Fund (IMF) published their latest World Economic Outlook forecast in April. This saw them upgrading their forecasts for both world economic growth and UK growth for this year and next. In particular, they now forecast UK growth of 5.3% in 2021 and of 5.1% in 2022, which represent upgrades of 0.8 and 0.1 percentage points respectively on their January forecast. They also expect little long-term damage to advanced economies from the pandemic with them expected to produce just 1% less output in 2024 than if there had been no pandemic, in part due to firms showing more resilience than was expected. However, emerging market economies, except China, are expected to be 8% below where they would have been without the pandemic. The IMF also warned that "actions taken during the pandemic may have unintended consequences such as stretched valuations and rising financial vulnerabilities", and expressed concern about the credit quality of hard-hit borrowers.

Indicating the expected recovery in the global economy the International Energy Agency (IEA) have also revised up their forecast for oil demand in 2021. They now expect daily demand to stand at 5.7m barrels an upward revision of 230,000 barrels a day. However, despite the more positive outlook for the world economy the costs of the pandemic are still feeding through to many businesses, with Lloyd's of London warning that it could cost them £6bn in claims.

With vaccination rollouts picking up pace across a number of countries and lockdowns easing in some of them it is possible that the global economy will see strong growth over coming months. This is supported by research by Moody's which found that global savers increased savings by $5.4tn or 6% of global GDP compared to their savings in 2019, which they may run down post pandemic. However, there remains causes for concern such as the appearance of new variants of COVID-19 such as in India which is seeing a record number of daily new cases and rising deaths, which is putting its health system under extreme pressure.

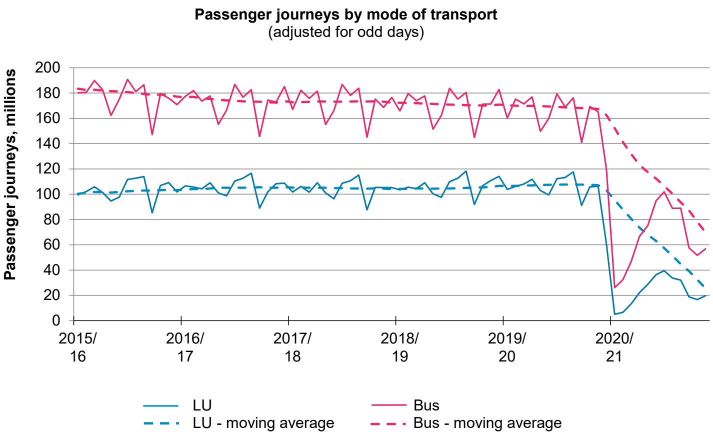
Still, despite facing a number of challenges such as the above mentioned risk of new variants, there is some cause for optimism for the London, UK and global economies. GLA Economics will continue to monitor and report on how these opportunities and risks develop over the coming months in our publications which can be found on our publications page.

Economic indicators

Passenger journeys on London public transport recover marginally

- 76.6 million passenger journeys were registered between 7 February 2021 and 6 March 2021, 8.2 million journeys more than in the previous period (10 January – 6 February). This is despite the continuation of the third lockdown.
- In the latest period, 19.8 million of all journeys were underground journeys and 56.9 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys fell further from 110.5 in the previous period to 95.5 in the latest period.

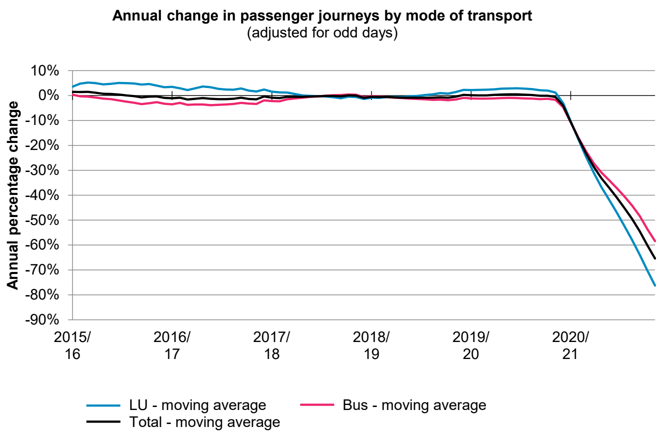
Source: Transport for London
Latest release: April 2021, Next release: May 2021



The moving average annual change in passenger journeys in London continues its dramatic fall

- The 13-period moving average annual growth rate in the total number of passenger journeys was -65.4% in the period 7 February – 6 March, further down from -60.2% in the period 10 January – 6 February and reaching a new historic low.
- The moving average annual growth rate of bus journeys decreased from -53.6% to -58.4% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went down from -70.3% to -76.3% between those periods.

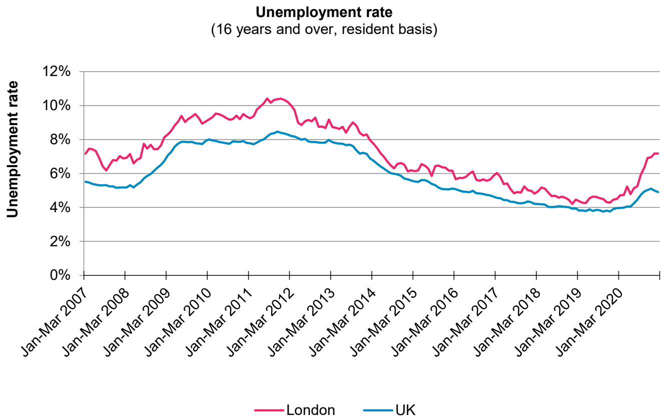
Source: Transport for London
Latest release: April 2021, Next release: May 2021



London's unemployment rate remained at 7.2% in the period December – February 2021, the highest rate in over six years

- Around 366,000 residents 16 years and over were unemployed in London in the period December to February 2021. The unemployment rate in London was 7.2% in that period, up from 6.9% in the previous period September to November 2020 and representing the highest rate in over six years.
- The UK's unemployment rate decreased if very marginally, from 5.0% in September - November to 4.9% in December - February.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

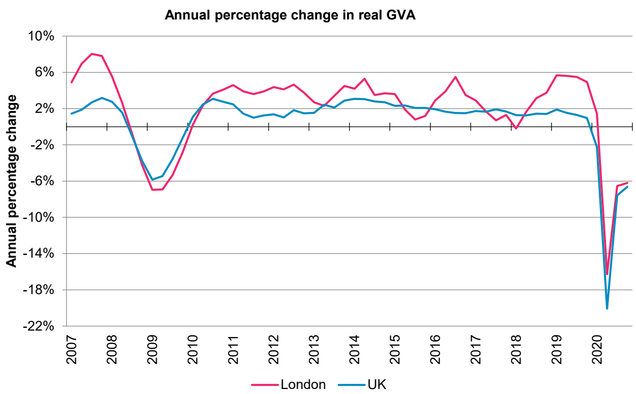
Source: ONS Labour Force Survey
Latest release: April 2021, Next release: May 2021



London's economy is estimated to have contracted by -6.2% in the year to Q4 2020

- London's real GVA grew by 0.9% in Q4 - compared with Q3 - after growth of 13.3% in the previous quarter. This has not been sufficient to offset the decline of 16.6% in the second quarter.
- London's real GVA in Q4 2020 remained 6.2% below its pre-crisis level in Q4 2019.
- The UK's real GVA quarterly growth rate for Q4 2020 was 1.0% after a fall by 18.2% in the second quarter and a recovery of 16.1% in the third quarter. Overall UK GVA in Q4 remained 6.6% below its pre-crisis level in Q4 2019.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the two most recent quarters have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

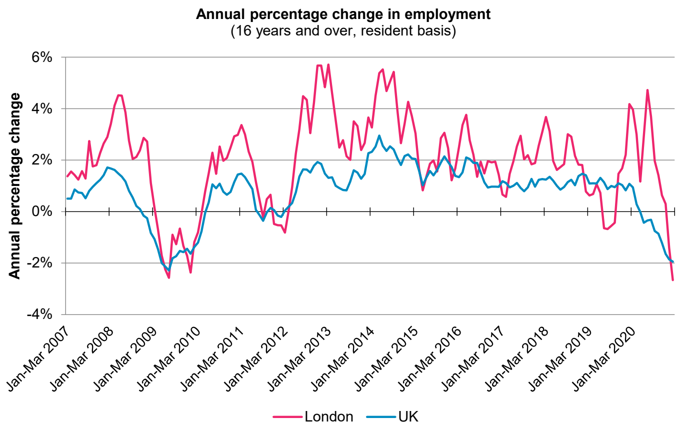
Source: ONS and GLA Economics calculations
Latest release: March 2021, Next release: May 2021



London’s annual employment growth rate fell by -2.7% in the period Dec to Feb 2021

- Around 4.74 million London residents over 16 years old were in employment during the three-month period December – February 2021.
- The rate of employment growth in the capital was -2.7% in the year to this quarter, and the lowest rate since the same quarter in 2010. It is 3.3 percentage points down from September - November 2020 and is the lowest rate since 1994.
- In the same direction, UK’s employment annual growth rate continued its fall from -1.2% in September - November to -1.9% in December to February, the lowest rate since 2009.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

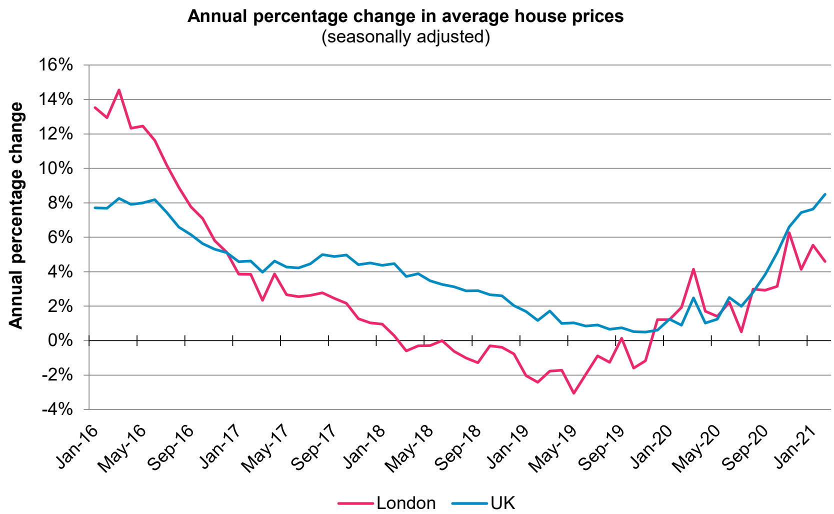
Source: ONS Labour Force Survey
Latest release: April 2021, Next release: May 2021



Annual growth in house prices in London remains steady

- In February 2021, the average house price in London was £499,000 while for the UK it was £250,000.
- The annual growth rate in average house prices in the capital was 4.6% in February, down on January (5.5%).
- Average house prices in the UK rose by 8.5% in annual terms in February, 0.9 percentage points below the same rate in January.
- The stamp duty holiday may be a contributory factor to rising house prices.

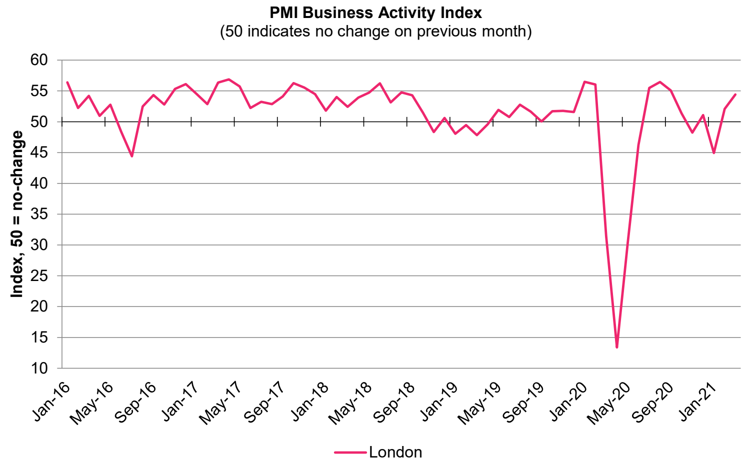
Source: Land Registry and ONS
Latest release: April 2021, Next release: May 2021



In March, the sentiment London's PMI business activity index remained positive

- The business activity PMI index for London private firms rose to 54.4 in March from 52.1 in February.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

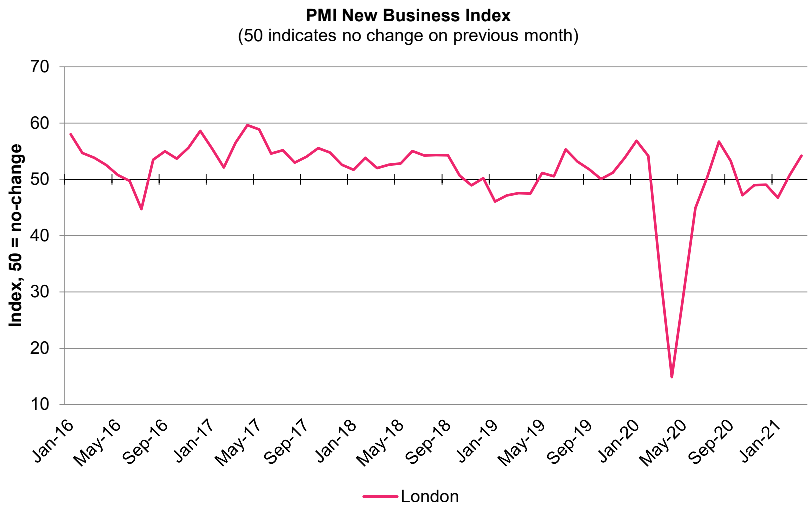
Source: IHS Markit for NatWest
Latest release: April 2021, Next release: May 2021



In March, the sentiment of the PMI new business index remained positive

- The PMI new business index in London rose in March to 54.2 from 50.7 in February. These two months are the first time there has been positive sentiment since September.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

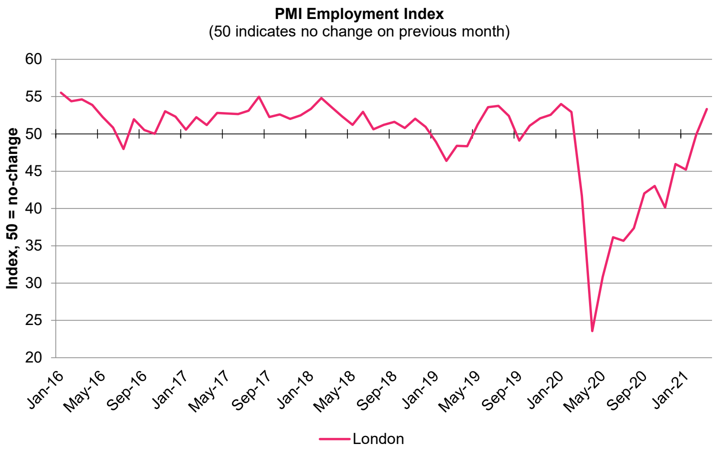
Source: IHS Markit for NatWest
Latest release: April 2021, Next release: May 2021



In March, the PMI employment index in London became positive

- The Employment Index for London rose from 49.9 in February to 53.3 in March. The last time sentiment was positive was in February 2020.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

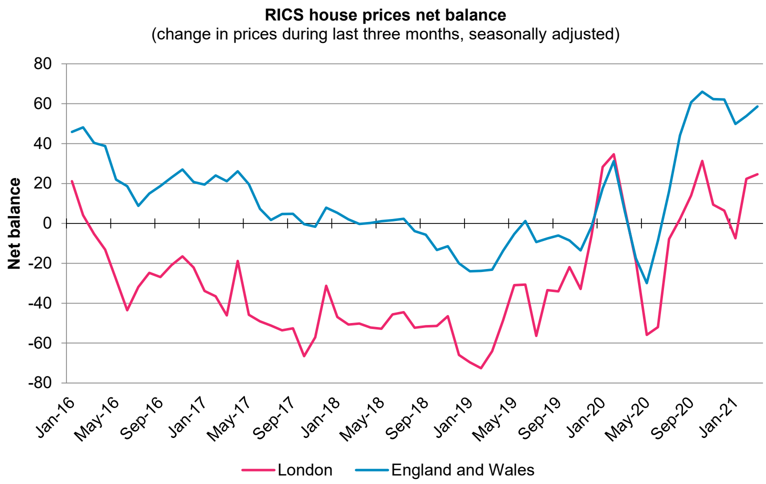
Source: IHS Markit for NatWest
Latest release: April 2021, Next release: May 2021



The net balance of property surveyors reported a rise in house prices in London in March

- In the three months to March, the net balance of property surveyors reporting a rise in house prices was 25, up from 22 in February.
- For England and Wales, the RICS house prices net balance index also rose in March to 59 from 54 in February.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

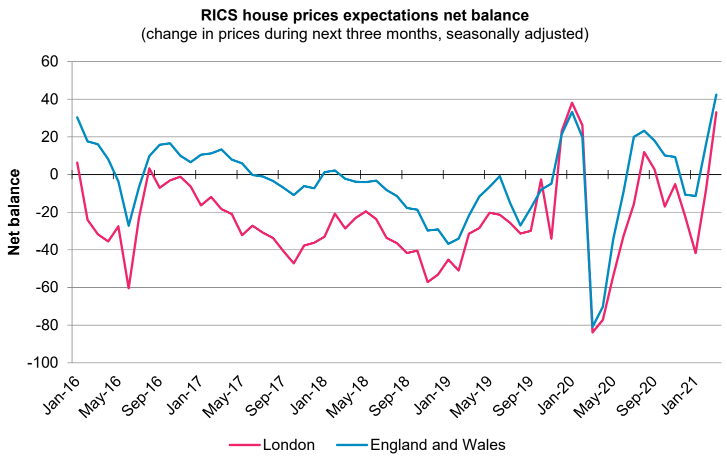
Source: Royal Institution of Chartered Surveyors
Latest release: April 2021, Next release: May 2021



In March, expectations for house prices for the next three months improved significantly and became positive according to surveyors

- The net balance of house prices expectations was 33 in March in London, higher than the figure for February of -8.
- Sentiment in England and Wales also rose to 42 in March from 16 in February.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

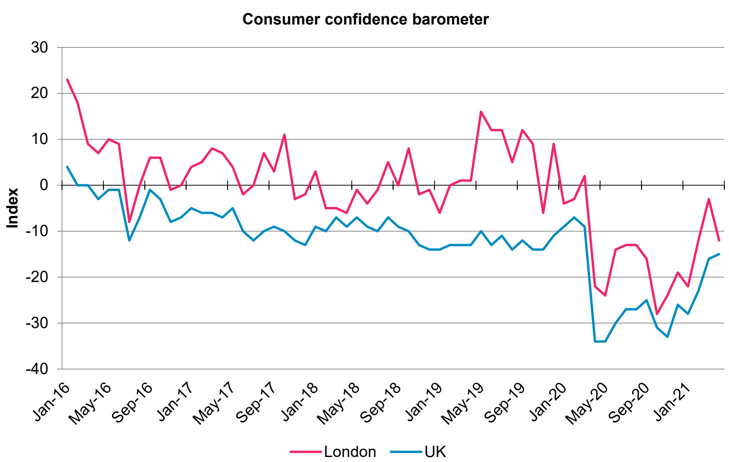
Source: Royal Institution of Chartered Surveyors
Latest release: April 2021, Next release: May 2021



Consumer confidence in London worsened and remained negative in April

- In April, the consumer confidence index in London fell to -12, from -3 in March. It is now at a level comparable with that of Summer 2020.
- The sentiment for the UK rose very slightly from -16 in March to -15 in April. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: April 2021, Next release: May 2021



The retail sector in London and the impact of COVID-19 on trends

By **Mike Hope**, Economist

1 Overview

Last month GLA Economics published its latest report on the retail sector. The paper provides an assessment of developments prior to the outbreak of COVID-19. It uses these findings to form a view of some of the impacts of the spread of the virus. This supplement focuses on this and possible implications for high streets.

2 The retail sector prior to COVID-19

The retail sector is an important part of London's economy:

- Retail goods accounted for 4.2% of London's output in 2018
- Retail goods output in London was growing faster than in the UK, by 3.7% a year for London, and by 2.2% a year for the UK, between 2010 and 2018
- There were 446,000 retail goods jobs in 2019, or 7.4% of the 6.1m jobs in the capital
- The number of retail goods jobs peaked in 2015 at 462,000
- Retail floorspace is 22% of total commercial floorspace in London, and is 35% of floorspace on high streets
- There were over 70,000 retail shops in London in 2019, and the numbers grew at 0.9% a year between 2015 and 2019
- Retail shops are a central feature of the Central Activities Zone (CAZ), town centres and high streets across the capital
- Around a third (34%) of consumer expenditure by Londoners is on commodities which correspond broadly to the retail sector

Unusually within the London and the UK economies retail goods productivity has experienced relatively strong growth since 2010. The productivity of the sector in London is 30% higher than the national average. Since 2010, productivity growth has been driven by Westminster, and seems to be a consequence of greater pressure on the use of space in the centre of London. The expansion of e-commerce is the most likely explanation of the growth in UK retail goods productivity from 2017 and is also likely to have contributed to London's productivity growth.

This is a time of significant change for the sector caused by:

- Increased demands for the use of land for housing and the leisure sector, and office space in central London
- The development of e-commerce
- Rising costs from the minimum wage, new immigration rules, and the 2017 business rates revaluation

3 There has been a weakening of the relationship between the location of shops and where people work over the last few years

Over the last 50 years the strength of local economic areas has tended to be more important to the health of local retail than the reverse. Retail activity has tended to concentrate where economic activity is rather than where people live. This may, in part, be because shoppers can make use of public transport links for major trips, and because tourists are important for some shops in the CAZ, (Figure A1).

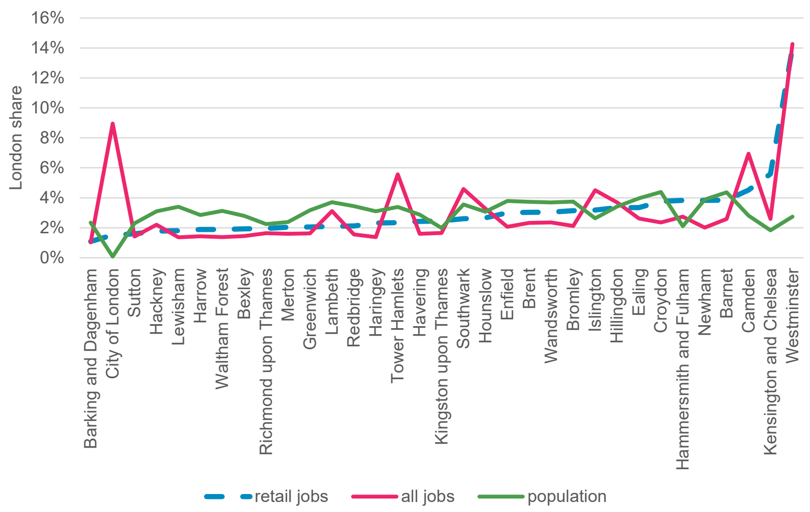


Figure A1: Shares of retail goods and all employee jobs, and populations by local authority, 2015

Source: GLA borough by sector jobs series and ONS local authority population estimates

Retail shops have tended to locate in areas, such as town centres, high streets and the Central Activities Zone (CAZ), where land has become more valuable in other uses. The CAZ takes up 2% of the area of London but accounted for 16% of the city's retail and leisure shops in 2019.

A source of pressure on retail shops in the CAZ has been the expansion of office space in central London to take advantage of agglomeration economies.

Population and employment are growing faster on high streets (this uses the definition developed by the Ordnance Survey) than elsewhere in London. Leisure activities have been favoured by households over retail activities. The next sections cover these points more extensively.

4 The demand for comparison shops was already falling before COVID-19

In 2019, there were 102,000 shops in London, of which 71,000 were retail shops, and 31,000 were leisure shops. The number of shops had been growing since 2015 (by 0.9% a year for retail shops, 1.7% a year for leisure shops, and 1.1% a year for all shops). The growth in shops, though, has been faster outside the main shopping and other areas, with the exception of Opportunity Areas, in part due to the increasing demand for this land for other uses. Yet despite this broadly rising trend there has been a decline in the number of comparison shops across London, as well as in the main shopping and other areas, (Table A1).

Table A1: Annual growth rate of shops 2015-19 by category of shop and main shopping and other areas

	comparison	convenience	service	retail	leisure	all shops
London	-0.2%	1.1%	2.2%	0.9%	1.7%	1.1%
CAZ	-1.4%	-1.0%	-0.1%	-0.9%	0.8%	-0.2%
Town Centres	-1.2%	0.3%	1.0%	-0.2%	0.9%	0.1%
High Streets	-1.0%	0.4%	1.5%	0.3%	1.2%	0.5%
OS High Streets	-1.1%	0.3%	1.5%	0.1%	1.0%	0.4%
Opportunity Areas	-0.0%	1.5%	2.5%	1.1%	2.5%	1.5%
Business Improvement Districts	-1.5%	0.3%	0.9%	-0.5%	0.7%	-0.1%

Source: GLA Economics analysis of Local Data Company data

The natural explanation for this phenomenon is the growth of e-commerce. E-commerce is broadly based, and expanding:

- The growth in households in Britain with internet has risen steadily over the last 20 years with growth now easing off as over 90% of households have access
- The proportion of retail goods sales over the internet is still rising steadily with no sign of slowing down and was over 19% of sales in 2019
- The internet-only retailers have only done as well as all retailing in terms of retail goods sales growth, growing by just under 125%, after inflation, in the period 2008 to 2018
- All types of store have established an internet presence
  - Retailers with clothing stores have a substantial reliance on internet sales
  - Over half of clothing and footwear sales are over the internet

In 2020 there was a further expansion of e-commerce, and continued closure of comparison stores. The purchase by online retailers of the fashion brands of Debenhams and Arcadia but not their stores has been a watershed moment. Between 2015 and 2019 the number of clothes and fashion stores had been falling by 1.6% a year.

5 High streets had been diversifying

The decline of the retail sector on the high streets has been offset by growth in the leisure sector. This is apparent across the countries and regions of Britain, (Figure A2), as well as London's local authorities. (Accommodation and food services represents the leisure sector in the figure.)

The hospitality sector has suffered disproportionately from COVID-19 restrictions. At the time of writing it remains unclear how quickly the sector will recover, and so how important it will be to the evolution of the high street.

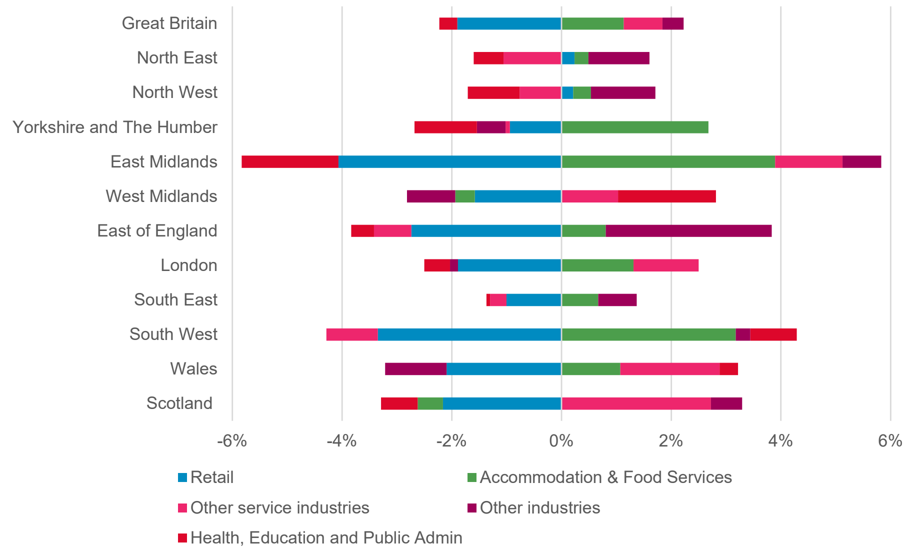


Figure A2: Change in sector share of high street employment 2015-2018, countries and regions of Britain

Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

6 The future role of the retail sector on the high street is unclear

High streets are more important in London than elsewhere in Britain as a place to live and work. London is the only region of Britain where population and employment per high street is above the national average, (Figure A3).

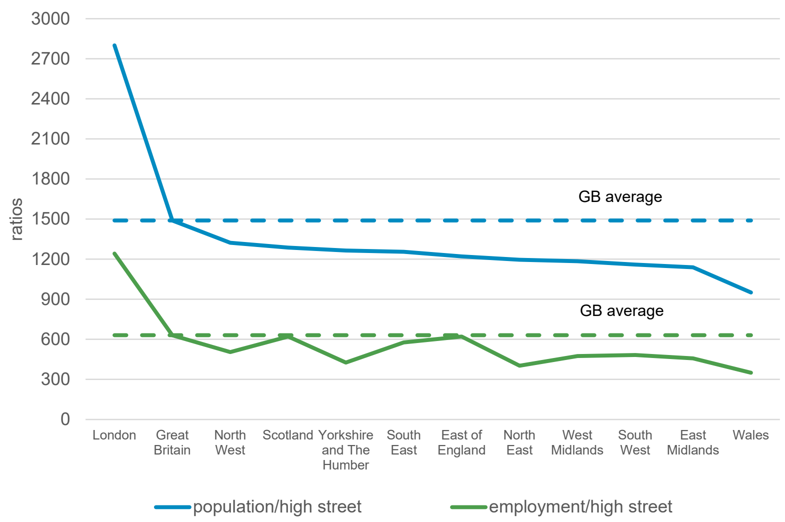


Figure A3: Population and employment per high street, countries and regions of Britain, 2018

Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

At the same time the decline of comparison shops and the restrictions on the hospitality sector matter for the high street. Shopping and leisure activities have been the most important reason for people to come to town centres and high streets. The incentives to invest in the street environment may decline with a further downturn in comparison shops and a decline in leisure activities – it is for these reasons for visiting high streets that they need to be pleasant and aesthetic to encourage people to come and stay longer. Finally, a fall in the number of comparison shops is associated with a fall in all shops, so there is a risk of a domino effect. More positively, there are areas which have enjoyed increases in both comparison and all shops.

7 Next steps

The retail sector continues to change rapidly. GLA Economics will continue to monitor trends, and report on developments in our regular publications. Other analysis on London's economy can be found on our publications page.

Our latest publications

We publish regularly on the state of London's economy, providing the latest economic data for London and interpret how this may affect policy. This includes analysis of recent developments in London's economy and forecasts for the next couple of years.

We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

We analyse recent developments in London's labour market, by sector and borough.

View all the GLA Economics publications on our website.

The Evidence Base for London's Local Industrial Strategy - Final report
This is the final report on the evidence base that is informing and supporting the development of London's Local Industrial Strategy, following on from the interim report published in August 2019. It presents clear, robust and comprehensive evidence on London's economy with a view to supporting the overall objective of achieving inclusive growth in London. It reports on London's strengths, key constraints, issues and risks for the five foundations of productivity introduced by the Industrial Strategy White Paper (Business Environment, People, Infrastructure, Ideas and Place), while also highlighting the linkages between the economy of London and the rest of the UK.

Download the full publication.

Retail in London
This report provides an assessment of developments in the retail sector before the outbreak of COVID-19. The conclusion uses these findings to provide an assessment of some of the impacts of the spread of the virus on the sector.

The growth in ecommerce has been impacting adversely on the number of comparison shops since 2015. Despite this the number of retail shops in London rose in 2019.

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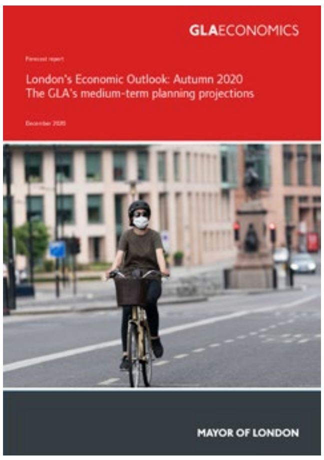

London's Economic Outlook: Autumn 2020
GLA Economics' 37th London forecast isuggests that:

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

MAYOR OF LONDON