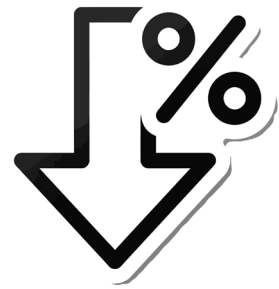


London's Economy Today

Issue 285 | May 2026



UK inflation drops in April

By **Jubair Ahmed**, Economist, **Gordon Douglass**, Supervisory Economist, **Ali Ögcem**, Economist and **Sixia Zhang**, Economist

The latest data on [Consumer Price Inflation \(CPI\)](#) from the Office for National Statistics (ONS) showed that it slowed to 2.8% in the 12 months to April 2026, down from 3.3% in March (Figure 1).

The slowdown in CPI inflation was below that expected by surveyed analysts who had expected it to stand at 3%. CPIH inflation (a broader measure that includes owner occupiers' housing costs and Council Tax) also slowed, standing at 3.0% year on year, down from 3.4%.

The ONS notes that "housing and household services made the largest downward contribution to the monthly change in both CPIH and CPI annual rates; an upward contribution from a large increase in motor fuel prices was counteracted by downward effects from other categories in the transport division". Core CPI fell (from 3.1% to 2.5%), with services inflation also falling (from 4.5% to 3.2%) but goods inflation picked up slightly (from 2.1% to 2.4%).

Inflation, although above the Bank of England's 2% target, is now within the Bank's ± 1 percentage point tolerance band. The ONS observed that the UK's CPI inflation rate of 2.8% was lower than the first (or "flash") estimate of inflation for Germany (2.9%) but higher than that for France (2.5%) in April 2026. This is the first month since December 2024 that the UK's rate of inflation has been below that of Germany. However, with the closure of the Strait of Hormuz and the associated inflationary pressures due to the disruption of the trade in key commodities, the latest downturn in inflation is likely to be a temporary reprieve with upward pressures expected to be seen in coming months.

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Datastore

The main economic indicators for London are available to download from the [London Datastore](#).

As an indication of this, Ofgem has announced a rise in the energy price cap from July. The new cap will mean a typical annual household energy bill for a dual-fuel customer paying by direct debit will cost £1,862, an increase of £221 a year or 13%. For further analysis of inflation in London please see the supplement to this month's publication.

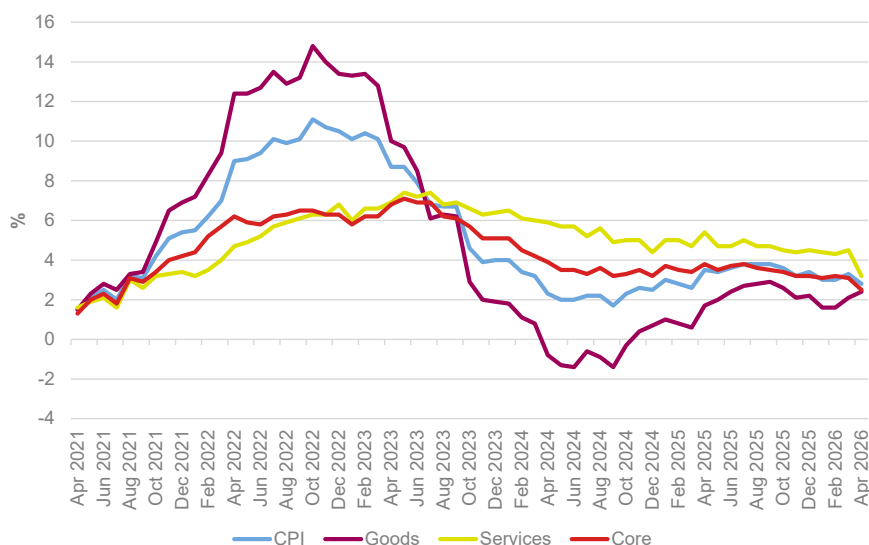


Figure 1: CPI, goods, services and core annual inflation rates, UK, April 2021 to April 2026

Source: ONS, GLA Economics

UK economy saw good growth in Q1 2026, but the Middle East conflict dampens the outlook

The ONS also [published data this month](#) which showed that the UK economy grew quite strongly at the start of 2026. Output increased by 0.6% in Q1 2026 after growing by an upwardly revised 0.2% in Q4 2025 (Figure 2).

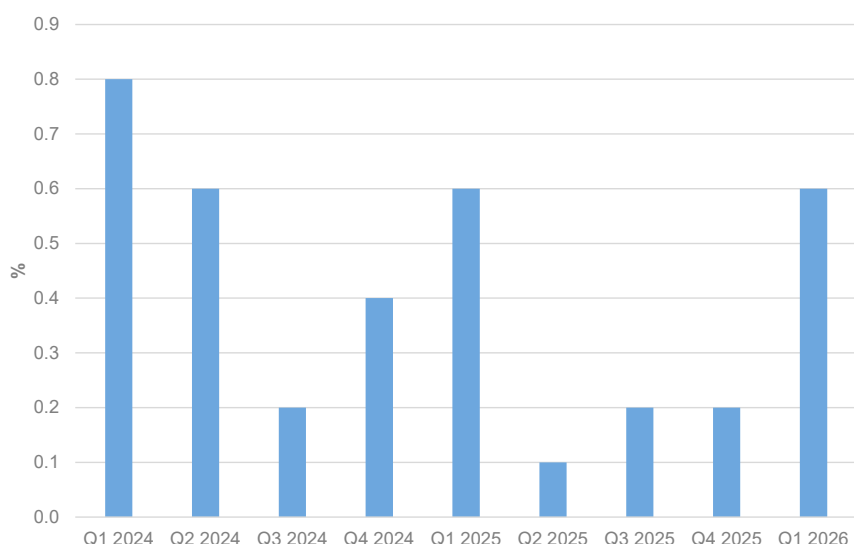


Figure 2: UK real quarterly GDP growth, Q1 2024 to Q1 2026

Source: ONS

The annual growth rate for 2025 was also revised upwards with GDP now estimated to have grown by 1.4% in 2025 as a whole, faster than the revised downwards 1.0% annual growth seen in 2024.

Looking at the major sectors of the economy the ONS observes that the services sector, an important sector for London, grew by 0.8% in Q1 2026 compared to growth of 0.2% in Q4 2025, and the construction sector grew by 0.4% in the quarter “but remains 1.3% lower compared with the same quarter a year ago”. However, the production sector saw growth of 0.2%, slower than the growth of 1.3% seen in the previous

quarter. Real GDP per head grew by 0.6% in Q1 2026 after growing by 0.1% in the two previous quarters. Compared to the same quarter a year earlier GDP per head was 0.9% higher.

Alongside the published GDP numbers, the ONS also published a blog looking at how the ONS deals with seasonal effects in the data. In this, James Benford, the ONS director-general for economic statistics, observed that the seasonal effect of Christmas on the data has become smaller post the pandemic. A number of factors could be causing this but he noted that businesses had told them that turnover had been weaker in the run up to last year's Budget "because firms and households were waiting for the autumn Budget before making significant financial decisions". It has therefore been expressed by some that a move to a single fiscal event in the year may have led to the quarter following the event measuring artificially higher growth due to problems in adjusting for seasonality.

Bank of England scenarios point to a weaker UK growth outlook

The Bank of England's [April 2026 Monetary Policy Report](#) presents a more uncertain outlook for UK growth than in February. While the February report expected UK GDP growth to strengthen gradually over the forecast period, the April report sets out three scenarios "to illustrate a range of possible outcomes for the UK economy". These see that four-quarter GDP growth is expected to remain weak in the near term, at 0.7% in 2026 Q2, before recovering to around 1.7% by 2028 Q2.

The change mainly reflects the impact of the Middle East conflict on global energy prices. Higher oil and gas prices are expected to push up inflation, squeeze real household incomes and weaken demand. The Bank also notes that financial conditions have tightened, with market expectations for a Bank Rate higher than at the time of the February report. Still, in more positive news for the UK the International Monetary Fund slightly improved their forecast this month for GDP growth in 2026 to 1.0%, up from the 0.8% growth they had forecast last month.

For London, these weak growth forecasts point to a more challenging external environment. While the capital's economy has continued to expand, recent indicators show signs of softening in consumer confidence, business activity and the housing market. A weaker UK growth outlook could therefore weigh on London through slower household spending, weaker business investment and continued pressure on interest-rate sensitive sectors.

Chancellor announces several measures to address the economic impact of the Middle East conflict

In response to the ongoing economic shock due to the closure of the Strait of Hormuz the Chancellor of the Exchequer, Rachel Reeves, announced several support packages. These included a "Great British Summer Saving Scheme" from when schools break up in Scotland at the end of June until they return in England, Wales and Northern Ireland on 1 September with a temporary VAT rate cut from 20% to 5% on summer attractions such as theme parks, zoos etc. While under 16 bus travel will also be free in England in August. Other measures include a £350m critical chemical resilience fund, a £120m fund to support the ceramics sector to help with efficiency and energy costs and extending the 5p fuel duty cut until the end of year. Also, tariffs on over 100 different foods sold in supermarkets will be suspended to reduce costs on customers (with the expectation that supermarkets will pass these savings on to consumers).

New evidence on recent UK productivity performance

Recent analysis from the [Centre for Economic Performance](#) argues that the UK's recent productivity performance is stronger than earlier estimates have indicated. Drawing on payroll based measures of employment and hours, rather than the Labour Force Survey (LFS) alone, the analysis finds that output per hour has risen faster over the past year than previous figures implied - largely because the number of total hours worked in the economy seems lower than LFS data suggests. This is consistent with analysis from the

[Resolution Foundation](#), which estimates that productivity grew by around 3% between early 2024 and late 2025 – more than in the previous seven years combined.

This work underlines the importance of measurement in understanding the UK's productivity performance. Traditional statistics tend to capture investment in physical capital (such as buildings and machinery) more accurately than investment in intangible assets like software, data and organisational know how. In a services heavy economy, where an increasing share of business investment takes these intangible forms, both output and business investment can therefore be understated, and productivity growth can appear lower than underlying performance would imply.

For London, this matters because any improvement in the UK wide productivity picture is likely to be reflected in the capital. London also has a large concentration of high productivity, knowledge intensive services that rely heavily on hard to measure intangible investment, so if the national picture on productivity and intangible investment has been understated, London's underlying performance is likely to have been understated too.

Softer house price growth, but persistent rental rises

The latest [UK House Price Index](#) shows that average UK house prices in March 2026 were broadly unchanged on a year earlier (at around £270,000). London remains the highest priced region but has seen weaker nominal house price growth than most other parts of the UK over the past year, continuing a recent pattern of relative underperformance. At the same time, data on [private rent and house prices for the UK](#) confirms that London's private rents remain the highest in the country, with annual growth still above most other regions.

This combination of softer sale prices and rising rents has mixed implications for affordability. For higher income households looking to buy, slower house price growth and a gradual easing in mortgage rates offer some improvement in buying conditions. For lower income renters, the main challenge remains high and ever-increasing rents relative to earnings, alongside limited access to social and affordable housing. Recent [GLA housing statistics and monitoring](#) show that affordable housing starts and completions are improving, but still fall short of estimated long term needs.

For London's economy, persistently high rental costs may make it more difficult for lower and middle income workers to live close to employment centres, widening [spatial and income inequalities](#) within the city. Over time, this risks expanding [spatial mismatches](#) between where jobs are located and where workers can afford to live, making it harder for firms to recruit and retain staff - reducing how efficiently London's labour market can match workers to jobs.

GLA Economics will continue to monitor these (and other) aspects of London's economy over the coming months in our analysis and publications, which can be found on [our publications page](#) and on the [London Datastore](#).

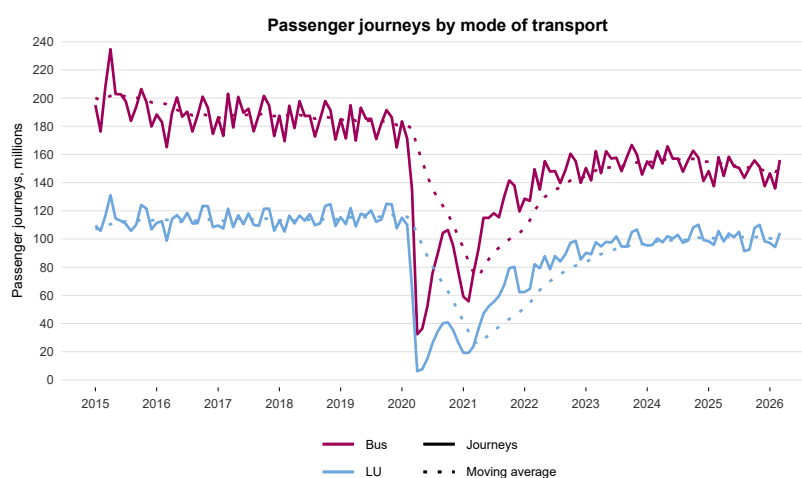
Economic indicators

The underlying trend in passenger journeys on London public transport increased in March 2026

- 260.4 million passenger journeys were registered in March 2026, 30.3 million more than in February.
- In the latest period, 104.3 million of all journeys were underground journeys and 156.1 million were bus journeys.
- The 13-period moving average in the total number of passenger journeys rose slightly from 247.9 million in the previous period to 250.0 million in the latest period.

Source: Transport for London

Latest release: April 2026, Next release: June 2026

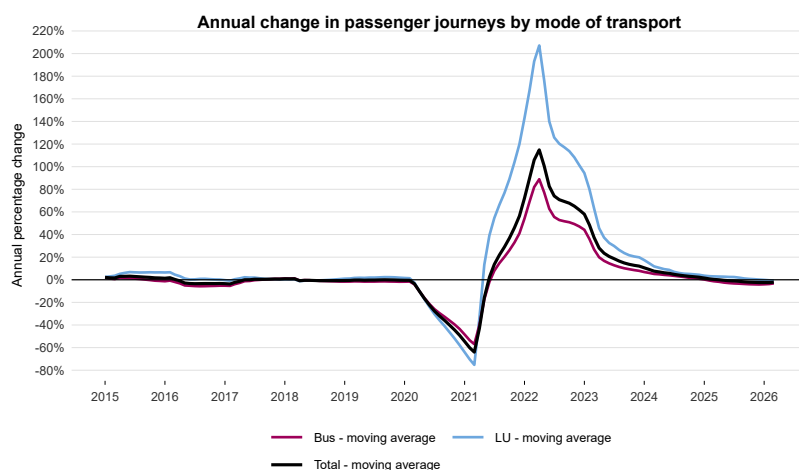


The decline in the annual growth in passenger journeys slowed

- In March 2026, the 13-period moving average annual growth rate in the total number of passenger journeys improved, from a decline of 2.5% in February to a decline of 2.2% in March.
- The moving average annual growth rate of bus journeys improved from a decline of 3.8% in February to a decline of 3.2% in March.
- The moving annual average growth rate of underground passenger journeys weakened from a decline of 0.5% in February to a decline of 0.6% in March.

Source: Transport for London

Latest release: April 2026, Next release: June 2026

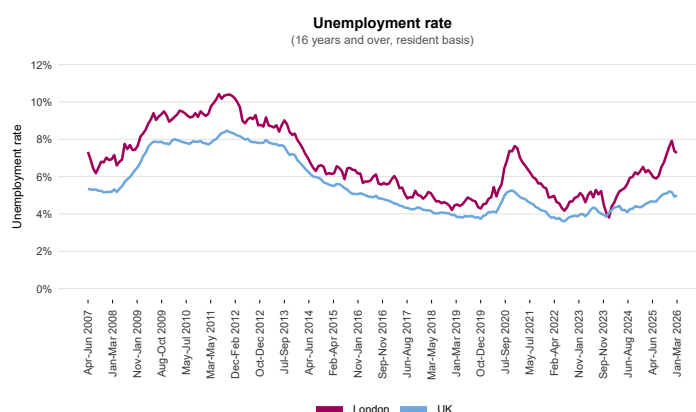


London's unemployment rate decreased over the last quarter

- Around 383,000 residents aged 16 and over were unemployed in London in the period from January to March 2026.
- The unemployment rate in London for that period was 7.3%, a decrease from 7.6% in the previous quarter October - December 2025.
- The UK's unemployment rate decreased slightly to 5.0% in January - March 2026, from 5.2% in October - December 2025.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

Source: ONS Labour Force Survey

Latest release: May 2026, Next release: June 2026

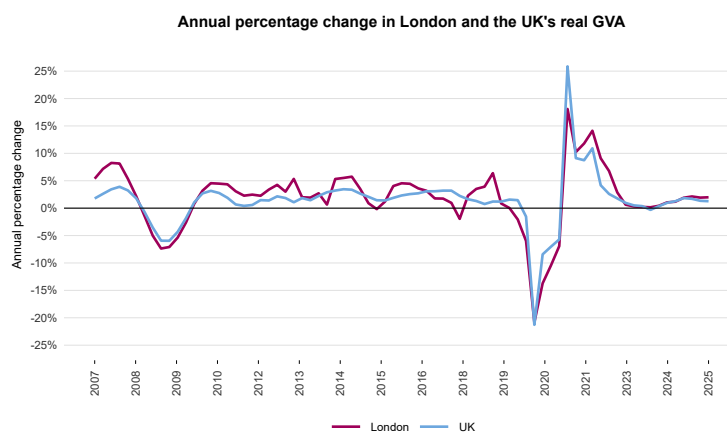


London's economy continues to expand through Q3 2025

- The ONS has published annual real GVA data for London for 2023, alongside revised figures for 1998 to 2022. Based on these revisions, GLA Economics has updated its quarterly GVA estimates for 1998 Q1 to 2023 Q4, and produced nowcasts for 2024 Q1 to 2025 Q3.
- According to the latest data, London's real GVA grew by 0.3% in 2023, matching the UK-wide growth rate. This followed a significant upward revision to 2022, with growth now estimated at 8.1%, up from the previously reported 4.8%.
- GLA Economics nowcasts that London's output rose by 1.1% in 2024.
- GLAE estimates indicate that London's economy expanded by 0.8% in Q1 2025, followed by growth of 0.4% in Q2 and 0.3% in Q3. Growth in each quarter exceeded that of the UK as a whole, which recorded increases of 0.7%, 0.3% and 0.1% respectively. By Q3 2025, London's GVA stood 6.7% above its pre-pandemic level (Q4 2019), continuing to outperform the UK overall, where output was 5.5% above its pre-pandemic level.

Source: ONS and GLA Economics calculations

Latest release: December 2025, Next release: June 2026

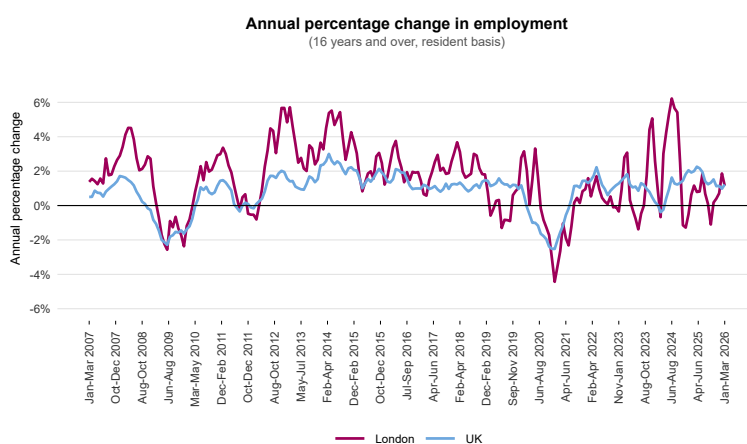


London's year-on-year employment growth rate rose in the quarter to March 2026

- Around 4.9 million London residents aged 16 and over were in employment during the three-month period from January to March 2026.
- London's annual change in employment rose by 1.2% in the year to this quarter, compared with a 0.4% growth in the quarter leading up to December 2025.
- Employment in the UK as a whole grew by 1.2% in the year to this quarter, a marginal increase from the 1.1% growth in the previous quarter.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

Source: ONS Labour Force Survey

Latest release: May 2026, Next release: June 2026

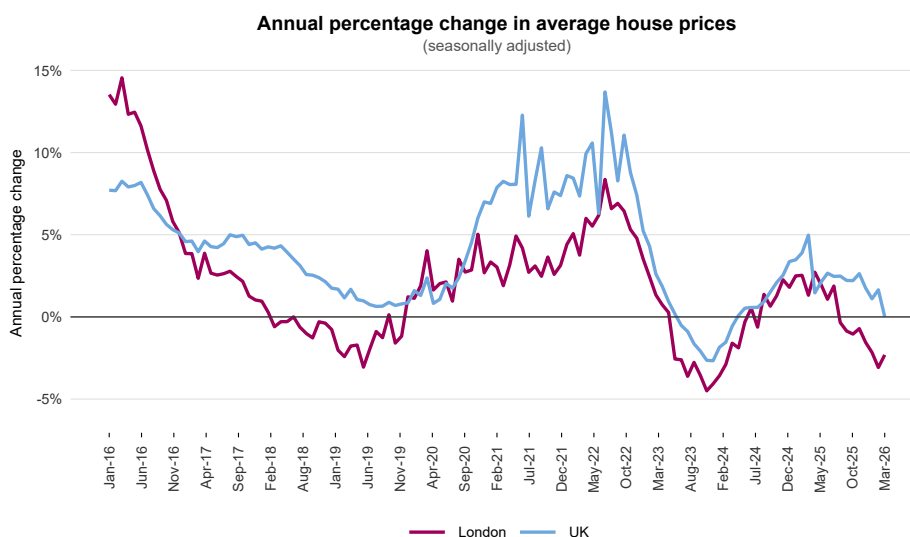


On an annual basis house prices fell in London in March 2026

- In March 2026, the average house price in London was £547,000 while in the UK it was £270,000.
- Average house prices in London fell by 2.3% year-on-year in March 2026, a smaller drop than the 3.1% decrease in February.
- Average house prices in the UK were unchanged on an annual basis in March, following an increase of 1.6% in the year to February.

Source: Land Registry and ONS

Latest release: May 2026, Next release: June 2026

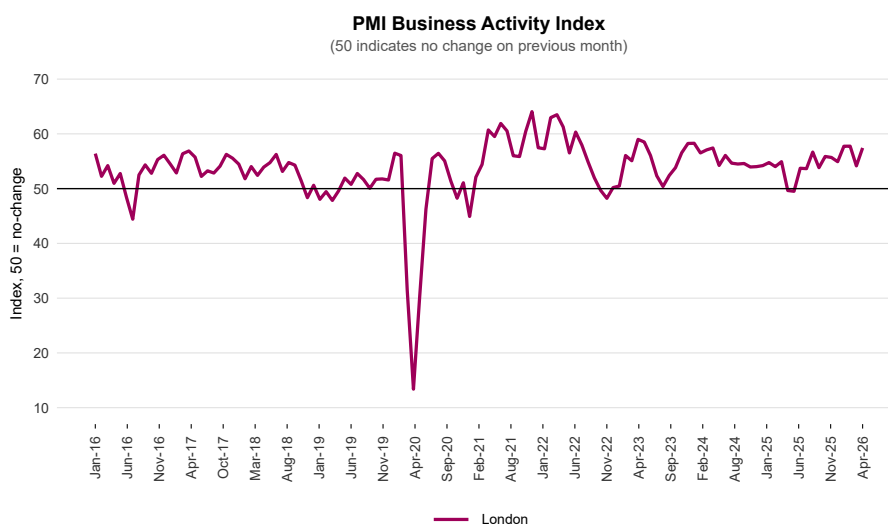


In April 2026, the sentiment of London's PMI business activity index increased

- The business activity PMI index for London private firms increased from 54.2 in March to 57.4 in April.
- 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: May 2026, Next release: June 2026

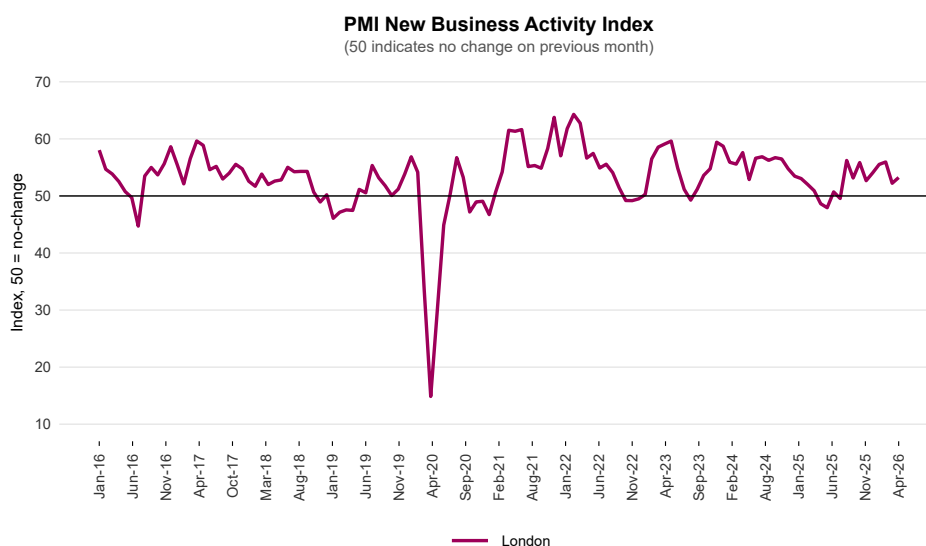


In April 2026, the sentiment of London's PMI new business activity increased

- The PMI new business index in London rose from 52.2 in March to 53.2 in April.
- 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: May 2026, Next release: June 2026

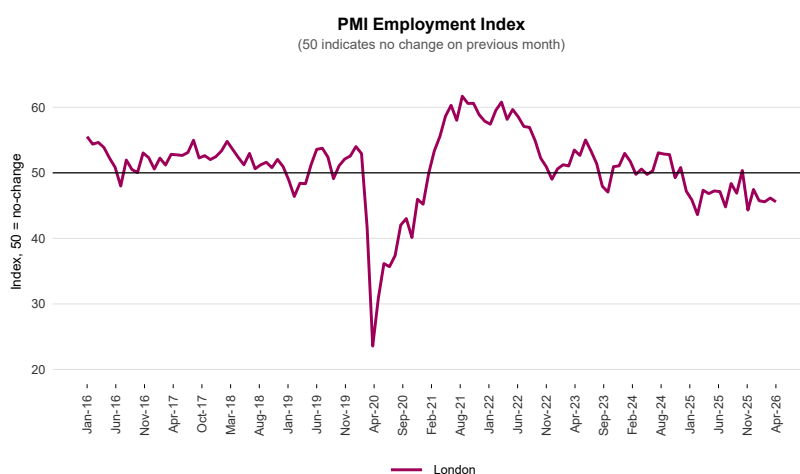


In April 2026, the sentiment of the PMI employment index in London further moderated

- The Employment Index for London decreased from 46.2 in March to 45.6 in April.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggest 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: May 2026, Next release: June 2026

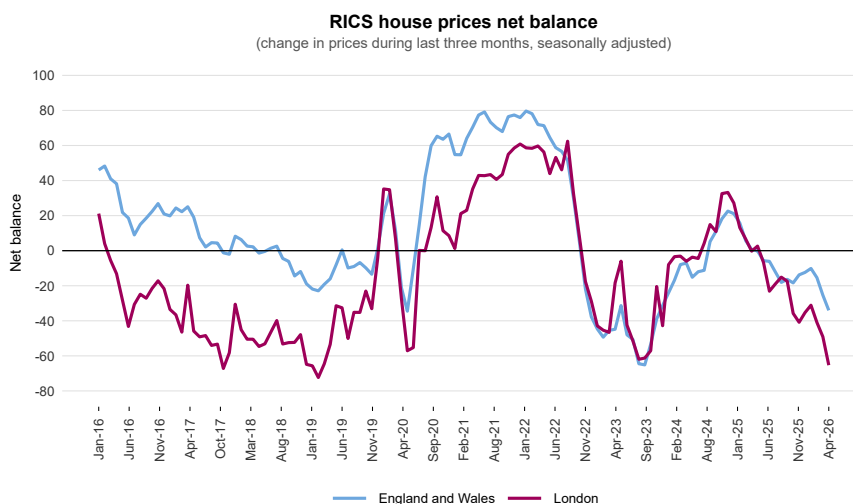


More than half of all property surveyors in London reported house price decreases in April 2026

- In April, more property surveyors in London reported falling prices than rising prices. The net balance index was -65, and it was -49 in March.
- For England and Wales, the RICS house prices net balance index dropped from -25 in March to -34 in April.
- 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: May 2026, Next release: June 2026

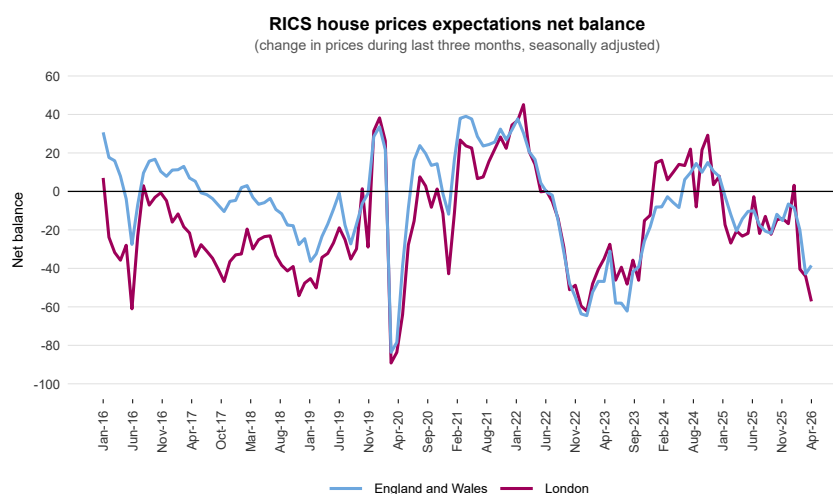


In April 2026, over half of all property surveyors expressed negative expectations for house prices in London over the next three months

- The net balance of house prices expectations in London was -57 in April, worsening sharply from -44 in March.
- The index for England and Wales was -38 in April, and was -43 in March.
- 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: May 2026, Next release: June 2026

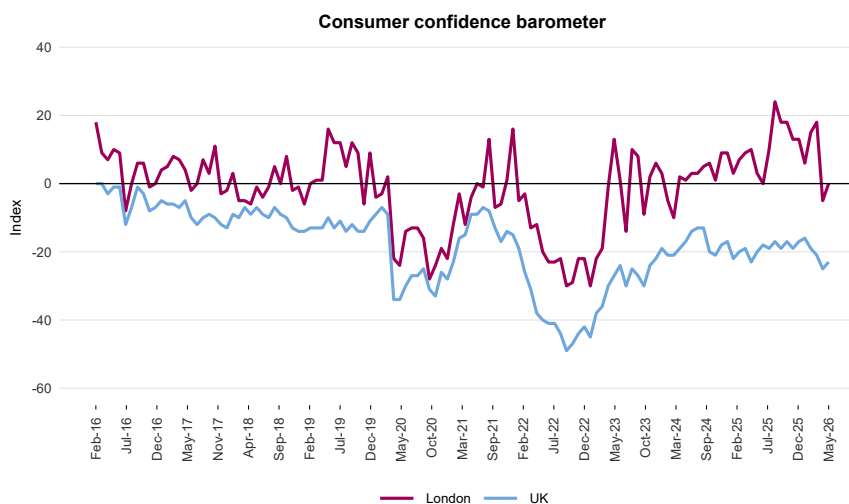


Consumer confidence in London improved in May 2026

- The consumer confidence index in London was 0 in May, and it was -5 in April.
- The sentiment for the UK improved slightly from -25 to -23 over the two months. 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: May 2026, Next release: June 2026



Is London's cost of living pulling away from the UK average?

By **Sixia Zhang**, Economist



Londoners have long suspected that life in the capital costs more, but the gap depends very much on what is being bought.

As explored below, two pints of milk cost about the same in London as the UK average. A pint in the pub, by contrast, costs around a quarter more. Childcare costs more still. This contrast reveals something important about how inflation works in a high-productivity city like the capital: goods sold through large national chains often differ little in price across the country - but services shaped by local wages, rents and operating costs increasingly reflect the economics of London itself.

Economists have long observed this pattern internationally: richer, more productive economies tend to experience faster inflation in local services because wages rise faster than productivity in sectors such as hospitality, childcare and personal services. London increasingly appears to be experiencing this dynamic.¹ To explore this divergence, we construct a shelf-front inflation measure in two ways: for the UK as a whole and for London.² The data captures the prices that official collectors gather in person from shops around the country, covering roughly half of the inflation basket: food, household items, clothing, eating out and services such as childcare. It leaves out centrally priced items, above all rent and domestic energy, giving a cleaner read on the everyday cost of living before housing.

Comparing the two reveals a clear pattern. Prices in London have not always grown faster than the rest of the country. For years, the capital broadly tracked the UK average. The divergence only began to emerge around the mid-2010s, widening steadily through the late 2010s and sharper still during the 2022–23 cost-of-living shock.

¹ The wage-spillover part of this story is sometimes formalised as the Balassa–Samuelson effect, first proposed by Béla Balassa and Paul Samuelson in 1964 (building on earlier work by Roy Harrod, 1933). The effect describes how, in high-productivity economies, wages rise faster than productivity in non-tradable sectors, pushing up local-services prices. But London's premium also reflects higher commercial rents, stronger consumer demand and the structure of the labour market, which work alongside and reinforce the wage channel.

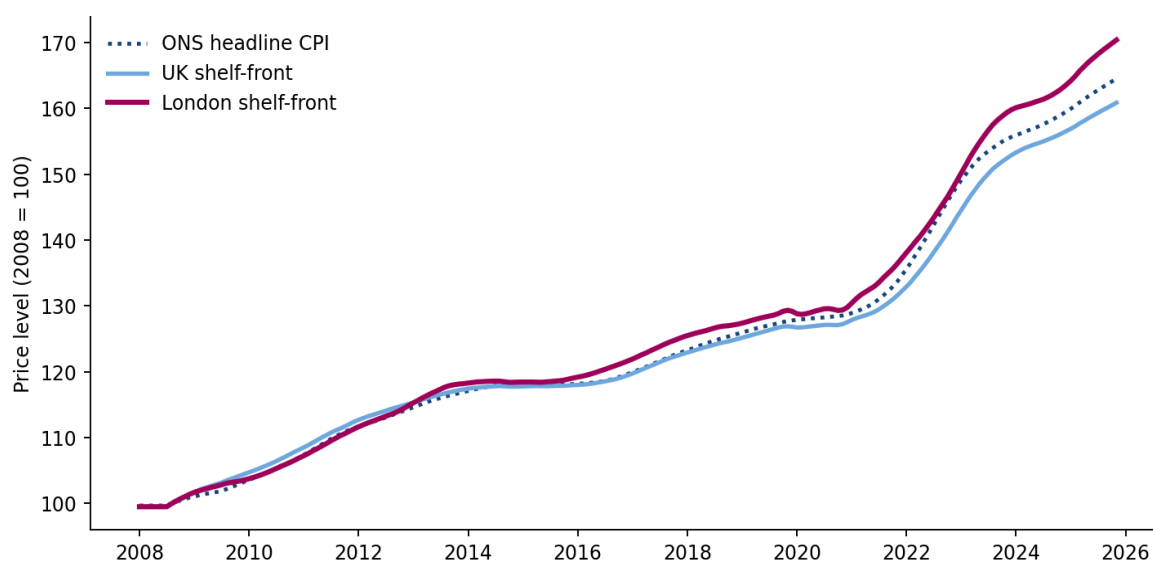
² This shelf-front measure draws on the [Long-Run Price Database](#) assembled by the economist Richard Davies from the in-store price quotes ONS collects for the CPI. It is a trimmed mean of year-on-year price growth across those quotes (about half the basket), re-weighted to London using ONS Family Spending (FYE2024), and excludes centrally-priced items, notably rent and energy. "UK" means the whole United Kingdom, including London, so the London–UK gaps shown here are, if anything, slightly understated.

Has London's price growth always been faster than the UK's?

Not on this evidence. Since 2008, price growth in London and the UK moved almost in lockstep for years (see Figure A1). The lines only begin to part meaningfully around 2015. Since then, London's shelf-front prices have consistently risen faster than the UK average.

By early 2026, shelf-front prices have risen by around 70% in London since 2008, against roughly 61% across the UK. London's cumulative shelf-front growth now exceeds the official headline CPI's, while the UK's falls below it. This ordering reflects two things. Headline CPI is itself a mixed basket: roughly half is the in-shop prices we track here (food, household goods, eating out, childcare), and half is items priced centrally rather than on a shelf, above all rent and domestic energy. Nationally, those centrally priced items rose faster than shop-shelf prices over this period, which lifts headline CPI (+64%) above UK shelf-front (+61%). London's shop prices, however, climbed faster still: at +70%, they have outpaced even that lifted headline figure.

Figure A1: Cumulative shelf-front prices since 2008



*Note: London, the UK and the official CPI; 2008 = 100; 12-month moving average. Latest data point: November 2025.
Source: Long-Run Price Database (R. Davies); ONS Consumer Price Inflation. GLA Economics calculations.*

Different inflation gaps opened at different times

Over time, multiple economic shocks have opened different kinds of inflation gaps that led to a divergence between London and UK trends.

Figure A2 separates these effects into two panels. Panel A compares London shelf-front inflation with the official headline CPI. This gap helps show how London's locally collected prices behaved relative to national inflation during major economic events. Panel B compares London shelf-front inflation with UK shelf-front inflation, showing the persistent gap between the capital and the country that survives those swings.

For much of the late 2010s, London's shelf-front inflation ran slightly above CPI, reflecting steadily rising local service costs in the capital. The gap widened after the 2016 Brexit referendum, when sterling depreciation pushed up import prices nationally - while London's already high-cost service economy continued to face upward pressure from wages and rents.

The divergence briefly narrowed during the 2020 lockdowns, when London's hospitality, travel and other consumer-facing services stalled. As the economy reopened in 2021, London shelf-front inflation

accelerated sharply. Labour shortages, strong pent-up demand and rising operating costs hit the capital's service economy particularly hard, reopening the gap against CPI and UK average shelf-front inflation.

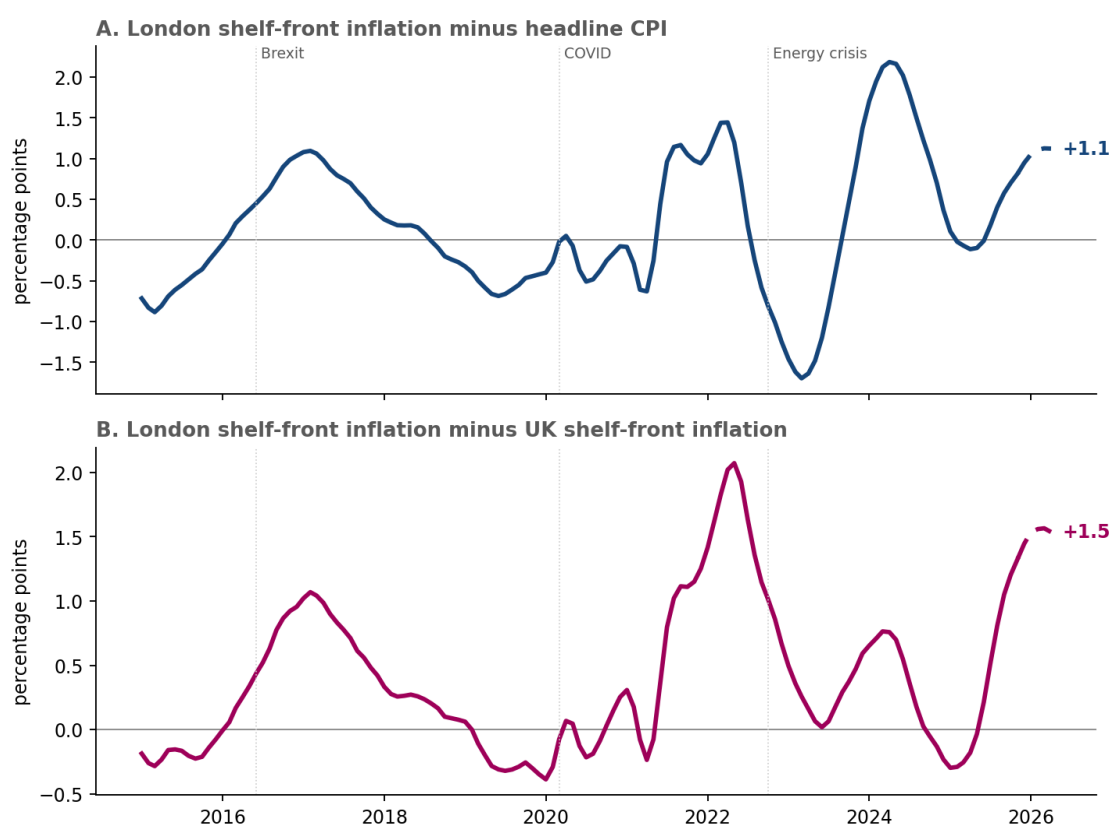
The relationship shifted again during the 2022 energy crisis. Headline CPI surged as domestic gas and electricity prices spiked nationally, pushing the national measure above London shelf-front inflation. This reversal proved temporary. As energy effects faded from the annual comparison, London shelf-front inflation once again moved back above CPI, increasingly driven by locally priced services rather than imported energy costs.

Panel B shows that, despite these swings, the London-versus-UK shelf-front gap has remained persistently positive through most of the period and is now close to its widest level in the observed data. Small annual differences, repeated through successive economic shocks, have accumulated into a lasting premium.

Unlike the temporary swings seen against CPI, the London-versus-UK gap did not fully reverse after the major shocks passed. By the mid-2020s, London shelf-front prices were consistently running ahead of the national average.

The two panels together point to a broader structural shift. National inflation is heavily influenced by energy prices, imported goods and nationwide shocks. London shelf-front inflation increasingly reflects the dynamics of a high-cost urban service economy, where local wages, rents and operating costs feed more directly into prices.

Figure A2: Two gaps: London versus headline CPI, and London versus the UK



Note: 12-month moving average of percentage-point gaps. Panel A: London shelf-front inflation minus headline CPI. Panel B: London shelf-front inflation minus UK shelf-front inflation. Positive values indicate London running above the comparison measure. The UK measure includes London itself, meaning the underlying London-versus-rest-of-UK divergence is likely slightly larger than shown.

Source: Long-Run Price Database (R. Davies); ONS Consumer Price Inflation. GLA Economics calculations.

The ups and downs, and a lag behind CPI

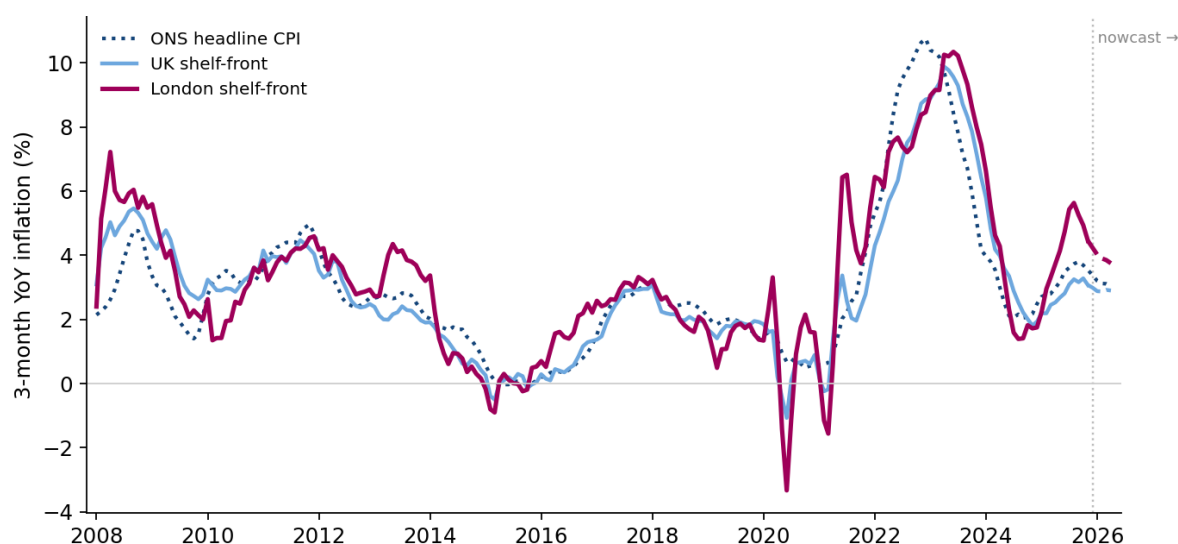
Figure A3 shows the rhythm of inflation itself: the long climb to the 2022–23 peak above 10%, and the descent since to around 3%.

Observed shelf-front data run only to November 2025, so the most recent months are *nowcast*³ for both London and the UK. One feature is worth flagging. Shelf-front inflation broadly follows the headline CPI but tends to turn a little later, especially around large shocks.

Headline CPI peaked in late 2022. Shelf-front inflation did not peak until the spring of 2023, about four months later for the UK and six months later for London, as higher energy and import costs filtered gradually through to supermarket shelves and local services.

The delay matters because consumers often feel inflation in stages. Energy prices may jump first, but supermarket shelves and local services tend to adjust more gradually. New global energy or geopolitical shocks can therefore continue filtering through to everyday prices even after headline inflation itself has begun to ease.

Figure A3: Shelf-front inflation, London and the UK, with headline CPI



Note: Three-month year-on-year inflation rate. Dashed sections are nowcast estimates; the grey marker shows where observed data end; the CPI line is dotted throughout.

Source: Long-Run Price Database (R. Davies); ONS Consumer Price Inflation. GLA Economics calculations.

Same item, different price tag

So far, we have discussed how fast prices are rising. A different question, and the one people usually mean when they say London is expensive, is how much things cost relative to the rest of the UK.

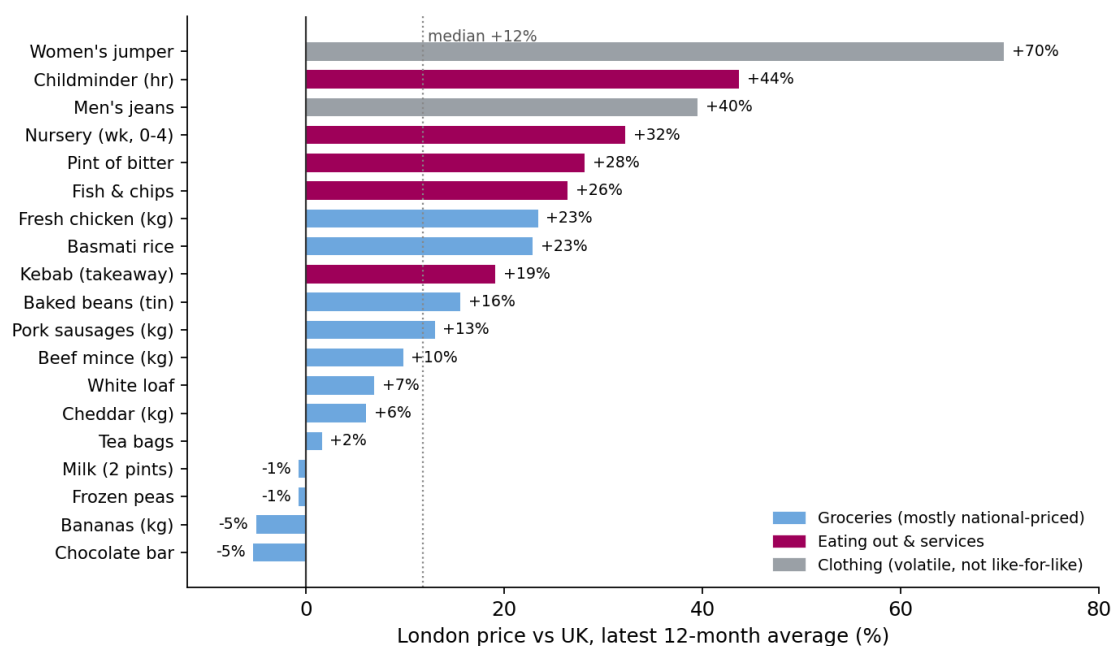
Because the data record real shelf prices at the product-level, we can directly compare costs for the same item in London and the UK. We focus on 68 standardised items, a subset of the much wider basket chosen because product definitions allow for like-for-like comparison. For each item, how much more (or less) it costs in London than across the UK. Of these 68 products, London prices were higher than UK prices in 81% of cases (55 of the 68). The typical product cost about 12% more in London than in the UK. That is the median London-versus-UK price difference: for half the items the London premium was bigger than this, and for half it was smaller.

³ Nowcast: the latest months, where firm data are not yet collected, are estimated with a simple statistical model (an AR(1) on the gap to CPI) for both London and the UK. Treat them as indicative rather than observed.

The packaged groceries sold by the big national chains barely differ at all: two pints of milk, frozen peas, a chocolate bar and a bag of bananas are at parity or even slightly cheaper in London, because the largest supermarket chains tend to follow broadly national pricing strategies (see Figure A4).

The premium emerges instead in things shaped by local rents and wages. A pint of beer costs over a quarter more in London, fish and chips around a quarter more, a childminder roughly 44% more and a nursery place around a third more. Clothing shows the largest gaps of all, but those should be treated as indicative, because clothing prices swing sharply with sales and seasons, and a “women’s jumper” in London is not necessarily the same garment as one elsewhere.

Figure A4: London price relative to the UK for the same item



Note: Bars show how much more, or less, a given product costs in London. Latest 12-month average.

Source: Long-Run Price Database (R. Davies); ONS Consumer Price Inflation. GLA Economics calculations.

It is not down to one or two things

To see clearly how the cost of living has evolved in London since the pandemic, we measure cumulative price growth from 2019, the last full year before COVID. On that basis, the London premium is not driven by a single runaway category: London has outpaced the UK across nearly every well-covered part of the shelf-front basket (see Figure A5).

Food prices are up roughly 33% in London against 27% nationally. The running costs of motoring, including fuel, are up around 40% against 34%. Restaurants and eating out have risen roughly 41% against 39%.

The forces behind these category figures are as revealing as the numbers themselves.

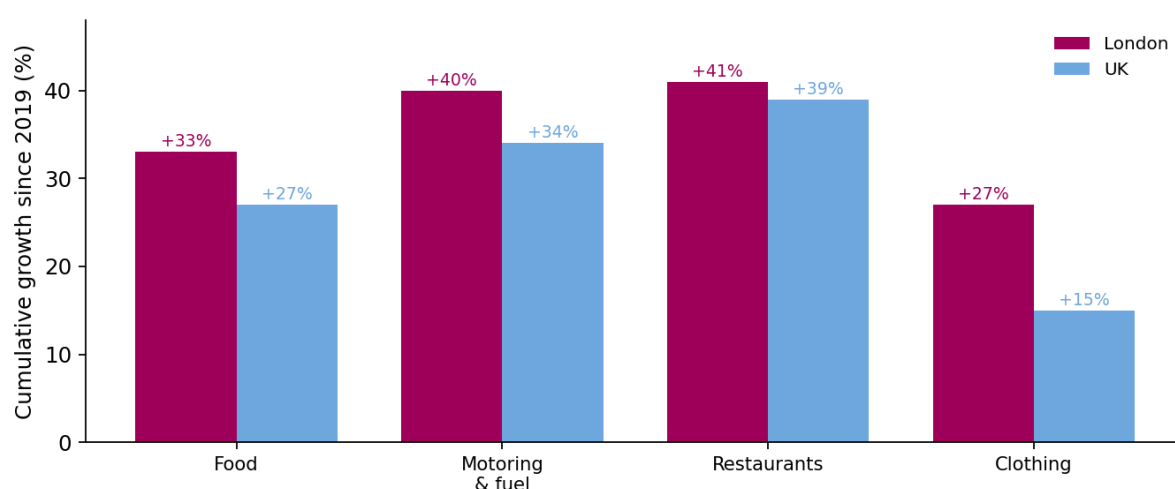
Eating out has risen fastest, largely because it is one of the most labour-intensive parts of the basket. Hospitality faced acute staff shortages after the pandemic, the end of free movement tightened labour supply, and successive rises in labour costs. Restaurants also absorbed higher food, energy and rental costs at the same time. In London, where wages and rents are already higher, those pressures fed more directly into menu prices.

Motoring tells a more global story. Its near 40% rise was driven mainly by fuel prices, which tracked the 2022 energy shock, alongside supply-chain disruption in vehicles and parts.

Food sits somewhere in between. Its supply chain is unusually energy-intensive, and the war in Ukraine, higher commodity prices and a weaker pound all pushed food costs sharply higher after 2021. Yet because the largest supermarket chains broadly maintain national pricing, London's supermarket premium remained relatively modest even as food inflation surged nationally.

A pattern emerges from this. Goods such as food and fuel were driven mainly by global energy and supply-chain shocks that hit the whole country at once. Services, above all eating out, were driven mainly by domestic labour and rent, which are precisely the costs on which London differs most from the rest of the country. The divergence is therefore broad-based, but it is widest where local wages and rents do most of the work. That is why locally provided services are where London steadily pulls away.

Figure A5: Cumulative price growth by category since 2019, London versus the UK



Note: Shelf-front measure; cumulative price growth from Jan 2019 to the latest available month.

Source: Long-Run Price Database (R. Davies); ONS Consumer Price Inflation. GLA Economics calculations.

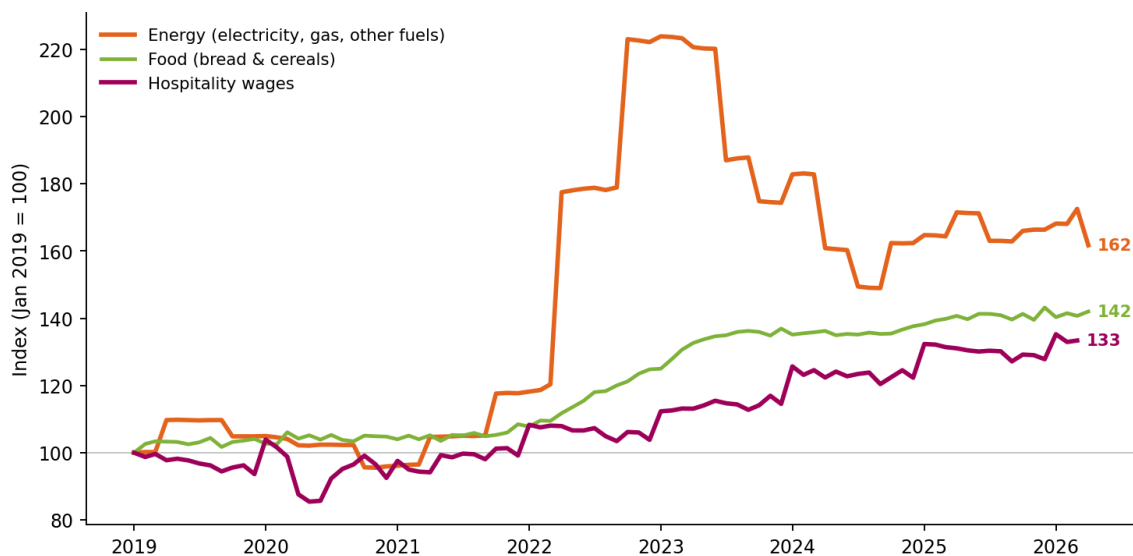
Figure A6 charts these forces directly. Each driver arrived in its own sequence and left its own legacy. Global supply-chain pressures surged in 2021 before largely fading back to baseline. Energy prices followed with the 2022 gas shock after Russia's invasion of Ukraine, feeding rapidly into transport, heating and food production costs before easing again as wholesale prices stabilised.

Food prices behaved differently again. Higher fertiliser costs, transport and processing costs pushed food prices sharply higher after 2021, but unlike energy, food prices largely rose in a step that did not reverse.

The most persistent force was wages, particularly in hospitality and other labour-intensive local services. Local shortages, changing migration patterns and stronger competition for workers pushed pay growth higher after the pandemic. Unlike energy or supply-chain shocks, wage pressures did not unwind once global conditions stabilised.

That distinction matters for London because labour-intensive local services make up a larger share of the city's everyday cost structure. Energy and supply-chain pressures eventually faded. Wage pressures in local services did not.

Figure A6: Key drivers of UK inflation since 2019



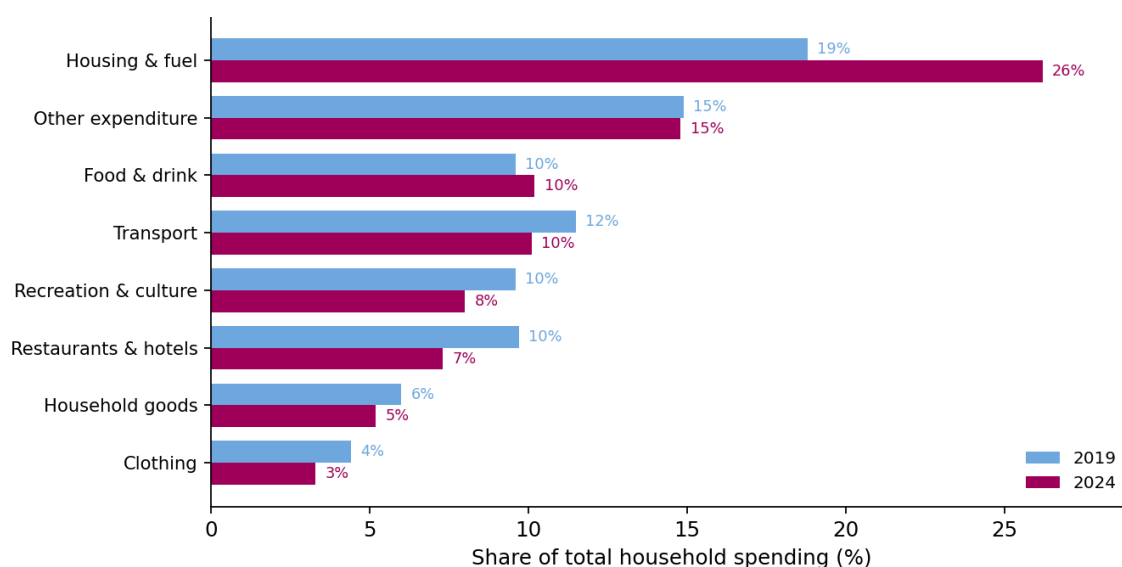
Note: Indices rebased to Jan 2019 = 100. The hospitality wage index is reconstructed from year-on-year growth rates.
 Source: [ONS Consumer Prices: Electricity, gas & other fuels](#); [ONS CPIH Bread & cereals](#); [ONS AWE Accommodation & food services, regular pay](#). GLA Economics calculations.

Why London is different

Some of the divergence is structural: Londoners spend their money differently, and the city earns and operates differently too.

Comparing ONS Family Spending data for 2024 with 2019, housing's share of the typical London budget has jumped from about 19% to 26% (see Figure A7), squeezing everything around it. Eating out, recreation and clothing have all fallen as a share of the London household budget. Londoners also spend relatively less than the UK on running a car (about 10% of the budget against 14% nationally) and more on housing (26% against 18%). The same national price shock therefore lands differently on a London household, where so much is already committed to keeping a roof overhead.

Figure A7: London household budget shares, 2019 versus 2024



Source: ONS [Family Spending Workbook 3](#); GLA Economics calculations.

Wages matter also. London concentrates more of the country's high-productivity industries (finance, technology, professional services) and pays them accordingly. Median full-time earnings in the capital sit around a fifth above the national average, with the gap considerably wider in finance and professional services. Those wages spill across the local economy, lifting what a barista, a hairdresser, a nursery worker or a delivery rider must be paid to live in the city. Because productivity in those local services is hard to raise, the higher wage bill flows almost directly into prices. London's labour market was also unusually exposed to recent shocks. The capital relied more heavily than most of the country on EU workers, particularly in hospitality, warehousing and construction. The end of free movement therefore tightened labour supply more sharply in London than elsewhere. At the same time, successive rises in the National Living Wage applied nationally but interacted with a much higher cost base in the capital. The result was stronger wage pressure in many labour-intensive local services.

Operating costs add another layer. It is not only households that pay London rents; every café, restaurant, gym, nursery and corner shop does too. Commercial rents in central London are multiples of those in many regional towns, and the lease on the premises has to be earned back through what is sold inside. The same is true of business rates, deliveries and many local services. A pint of beer or a portion of fish and chips that costs around a quarter more in London is not the same item made more expensive; it is the same item supplied through a more expensive set of fixed costs.

Rent itself sits outside the shelf-front measure, but it remains central to the London story. Private rents in London surged sharply through 2022–24 as demand rebounded after the pandemic and supply remained constrained⁴. More recently, rental inflation has eased from its 2024 peak but remains well above its long-run average.

Two pints of milk cost much the same across the country. A pint in the pub increasingly does not. Those differences, repeated across the local services Londoners depend on every day, are among the things a single national inflation figure increasingly struggles to capture.

⁴ Source: [ONS, Private rent and house prices, UK: May 2026](#). Latest available regional private rental inflation data.

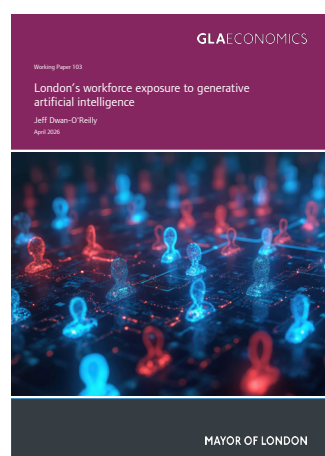
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This report examines London's exposure to generative AI (GenAI) across its different occupations, industries and communities. While it does not offer a definitive view on where jobs are going to be lost or gained, it does provide a rigorous, evidence-based picture of where change is most likely to be felt first.

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Workforce jobs in London are projected to grow from 6.4 million in 2024 to 7.3 million in 2050, an increase of 869,000 jobs (13.6%). This represents a higher level of projected employment than in previous projection rounds, largely reflecting a higher post-pandemic starting point rather than faster long-run growth

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London's Economic Outlook: Autumn 2025

London's real Gross Value Added (GVA) is forecast to grow by 1.9% in 2025, 1.7% in 2026, and 2.1% in 2027.

London's Workforce jobs (WFJ) are projected to increase by 0.9% in 2025, 1.1% in 2026, and 1.2% in 2027.

Household spending is expected to rise by 0.6% in 2025, 2.0% in 2026, then 1.9% in 2027.

Household income is expected to grow by 2.1% in 2025, 1.5% in 2026, and 1.3% in 2027.

[Download](#) the full publication.

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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.