GLAECONOMICS

# London's Economy Today

Issue 287 | July 2026

## UK inflation drops to a recent low in June

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

The latest Consumer Price Index (CPI) inflation data from the Office for National Statistics (ONS) showed that CPI inflation fell to 2.6% in the 12 months to June 2026, down from 2.8% in both April and May and from 3.3% in March (Figure 1). This was the lowest rate since December 2024, apart from March 2025 when inflation was also 2.6%. CPIH inflation, a broader measure that includes owner occupiers' housing costs, also fell, from 3.0% in May to 2.8% in June.

Transport, and food and non-alcoholic beverages made the largest downward contributions to the change in annual inflation. Transport inflation slowed from 6.8% in May to 5.7% in June, largely because of lower motor fuel prices, particularly diesel. Food inflation also eased, from 2.2% to 1.7%, its lowest rate since August 2024, with prices falling across a range of food categories. Core CPI remained unchanged at 2.6%. Services inflation edged down from 3.7% to 3.6%, while goods inflation fell from 2.0% to 1.7%.

Although the June data provide clearer evidence that inflationary pressures are easing, and the government's recently announced cost-of-living measures (discussed below) should offer some support to households and businesses, more recent developments present renewed upside risks. UK pump prices have risen sharply since mid-July, particularly for diesel, following increases in global oil prices after renewed conflict in the Middle East. If sustained, this could place upward pressure on transport inflation in the coming months. Services inflation also remains elevated, while restaurants and hotels inflation rose from 4.2% to 4.4%.

### Also in this issue



### Datastore

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

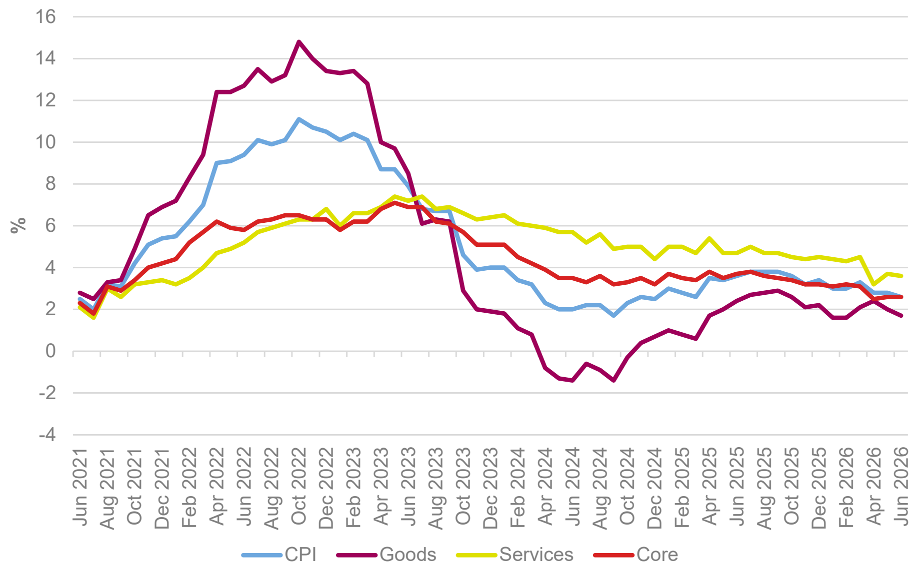



**Figure 1: CPI, goods, services and core annual inflation rates, UK, June 2021 to June 2026**

*Source: ONS, GLA Economics*

## Government announces cost-of-living packages

The government has announced a package of measures aimed at easing household living costs and supporting consumer-facing businesses over the month.

- VAT on domestic electricity in Great Britain will be cut from 5% to zero for six months (October 2026 to March 2027), at a cost of around £850 million, funded by cancelling the digital ID programme. HM Treasury expects it to "take around £45 off the yearly Ofgem price cap in October" and lower CPI inflation by 0.1 percentage points.
- Business rates will also be cut by 20% for around 32,000 pubs, clubs and smaller live music venues from April 2027, saving a typical pub an estimated £1,100 in that financial year – and impacting roughly 3,600 pubs and bars in London. This comes on top of existing support for pubs and live music venues and the permanently lower business rates multipliers introduced for retail, hospitality and leisure properties.
- A £2 cap on single bus fares in England (excluding London) will also run through 2027, costing £400 million and reinstating a cap that last applied in 2024. Fares are capped locally in London; the Mayor's July fares decision holds the adult single bus and tram fare at £1.75 until 1 November, when it rises to £1.85.
- The temporary Great British Summer Savings scheme reduces VAT from 20% to 5% between 25 June and 1 September 2026 on eligible children's meals, family entertainment tickets and admission to attractions.

For London, then, the package offers a modest and time-limited cut in electricity costs, no benefit from the bus fare cap, and nothing that touches water bills.

Analysis recently published by the Consumer Council for Water found that in 2024/25, the Thames Water region, which serves most of London, had the highest rate of water poverty of any of all English and Welsh regions: 10.5% of households spent more than 5% of their income after housing costs on water, against 6.8% nationally. The Consumer Council also found that just 48% of the company's customers considered their charges affordable in 2025 - the lowest share of any water and sewerage company. Although water bills are rising far slower than last year (Thames Water's "typical" annual bill rose 3.4% on the year), this follows a 31% jump in April 2025, when Ofwat front-loaded much of Thames Water's 2025-30 settlement. As a result, the average Thames Water bill is around a third higher compared to two years ago.

## UK GDP continues to increase

The ONS also published data on UK GDP this month. This showed that the UK economy grew in May. Output increased by 0.7% in the three months to May 2026 after growing by an upwardly revised 0.8% in the three months to April (Figure 2). This was the sixth month in a row which has seen the UK economy expand.

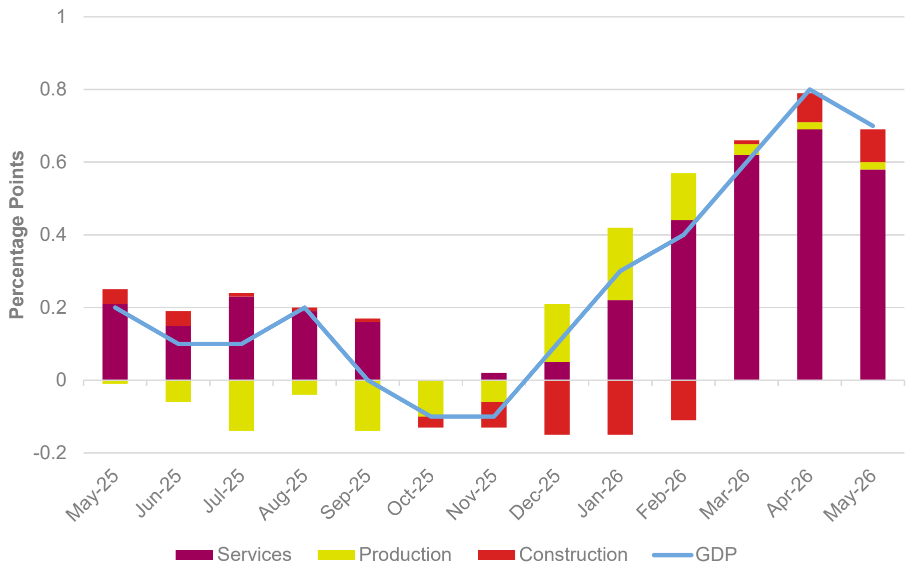



**Figure 2: UK real three-month GDP growth, May 2025 to May 2026**

*Source: ONS*

On a monthly basis GDP also grew by 0.1% after falling by 0.1% in April. This growth was the average of expectations of polled economists. Looking at the three-monthly data in more detail the ONS observes that the services sector, an important sector for London, grew by 0.7% in the three months to May after growing by 0.9% in the three months to April. The production and construction sectors also saw growth over the three months by 0.1% and 1.6% respectively. Compared to the three months to May 2025, GDP is estimated to be 1.1% higher in the three months to May 2026.

## IMF raises its UK growth forecast, although the energy shock is expected to slow the recovery

The IMF's July 2026 World Economic Outlook Update forecasts UK GDP growth of 1.0% in 2026, followed by 1.3% in 2027. The forecast for 2026 has been revised up from 0.8% in the IMF's April outlook, reflecting stronger-than-expected economic activity before the latest escalation of the conflict in the Middle East.

The IMF's subsequent 2026 Article IV assessment provides further detail on the UK outlook. It reports that the economy had been gaining momentum before the war, with growth picking up to 1.4% in 2025 as private consumption and investment recovered. Inflationary pressures were also easing, with core inflation falling and wage growth moderating, allowing the Bank of England to reduce the Bank Rate gradually to 3.75% by February 2026.

However, the recent energy shock is expected to interrupt this improvement. Higher energy prices are likely to reduce households' real incomes and raise production costs, while tighter financial conditions and elevated uncertainty weigh on consumption and investment. Growth is therefore expected to slow to 1.0% in 2026 before recovering to 1.3% in 2027 as the effects of the shock gradually dissipate.

The IMF forecasts headline inflation to rise above 3.5% towards the end of 2026, before returning to the Bank of England's 2% target by the end of 2027. The pass-through to core inflation is expected to be more limited, reflecting weaker labour market conditions, slower wage growth and a negative output gap. The unemployment rate is forecast to rise from 4.9% in 2025 to 5.6% in 2026, before gradually falling to 5.3% in 2027 and 4.8% in 2028.

Monetary policy is also expected to ease gradually as inflationary pressures subside. The annual average Bank Rate is projected to fall from 4.3% in 2025 to 3.8% in 2026, 3.2% in 2027 and 3.0% from 2028 onwards. However, the IMF argues that policy should remain sufficiently restrictive in the near term to prevent higher energy prices from feeding into wages and underlying inflation.

## New Prime Minister launches devolution drive, but the fiscal detail awaits the autumn Budget

The new Prime Minister has made the devolution of power away from Whitehall a flagship policy, saying in his first speech that "the days of Whitehall resisting devolution are over, for good". On 24 July he formally opened "No 10 North" in Manchester, a second Prime Minister's office, described as "the nerve centre of a rewired Britain". The new office sits within an Office for the Prime Minister and the Cabinet, which holds responsibility for devolution strategy moving out of the Ministry of Housing, Communities and Local Government, and for local economic growth strategy out of HM Treasury. A revived National Economic Council, on which regional mayors will be invited to sit, will be chaired from the Manchester office and met for the inaugural sitting on 23 and 24 July.

The decisions most consequential for London are still being scoped. A Treasury "fiscal devolution roadmap", due alongside the autumn Budget, will set out which tax revenues could be devolved to regional mayors, and press reports suggest this could include giving mayoral authorities a share of income tax revenue. Analysis published in July by Centre for Cities notes that only 32% of the GLA's revenue funding comes from taxes, the smallest share of any G7 primary city, so movement here could be significant for the capital's spending powers. Business rates are already partly devolved, but the GLA retains only 37% of those collected in London, and only temporarily, between periodic resets. The Mayor has previously called for London to keep all growth in business rates revenue, the arrangement Greater Manchester and the West Midlands secured for ten years in their 2023 trailblazer deals, and one the the London Assembly has backed.

## Improving growth in London's economy forecast for the coming years

Twice a year, GLA Economics produces medium-term forecasts of key macroeconomic variables:

- London's output (real Gross Value Added)
- Employment levels (total Workforce Jobs)
- Household income (real Household Disposable Income)
- Household expenditure (real Household Expenditure)

These forecasts are used in various internal business planning processes and are presented as central, upside, and downside scenarios and a new forecast has been published this month. Key findings from it include:

- Annual **output growth** is forecast to continue at a moderate pace over the medium term, rising from 1.4% in 2025, 1.7% in 2026, 2.0% in 2027 and 2.1% in 2028. This reflects modest growth which is held back by elevated global uncertainty, with the inflationary impact of the Iran conflict and the closure of the Strait of Hormuz feeding into the later quarters of 2026, before a mild recovery towards growth rates more normal for the capital. London's projected growth remains of a larger magnitude than that forecast for the UK as a whole, consistent with the capital's more service-oriented, export-facing economy.
- **Workforce jobs** is forecast to return to growth at a moderate pace over the medium term, rising by 0.5% in 2026, 0.8% in 2027 and 1.0% in 2028. However, this is more cautious than many external forecasts, with independent forecasters averaging 0.6% in 2026, 1.0% in 2027 and 1.3% in 2028.
- **Household income** is forecast to be moderate over the medium term, growing by 1.2% in 2026, 1.3% in 2027 and 1.5% in 2028. Inflation, driven by the commodity-price shock from the Iran conflict, is expected to squeeze Londoners' real disposable incomes over the near term, with the pressure falling most heavily on lower-income households.
- **Household spending** is forecast to continue gradual growth, at 1.0% in 2026, 1.2% in 2027 and 1.4% in 2028.

Our central scenario assumes no structural shocks, but three risks warrant monitoring. International risks from the disruption caused by the ongoing war in the Middle East as well as collapsing trade growth and tariff escalation could hit London's globally exposed sectors. Fiscal uncertainty may weigh on business confidence and investment. And while AI adoption offers productivity gains for London's tech-heavy economy, displacement in exposed roles has already begun while some commentators have warned about how stretched AI-linked equity valuations may be.

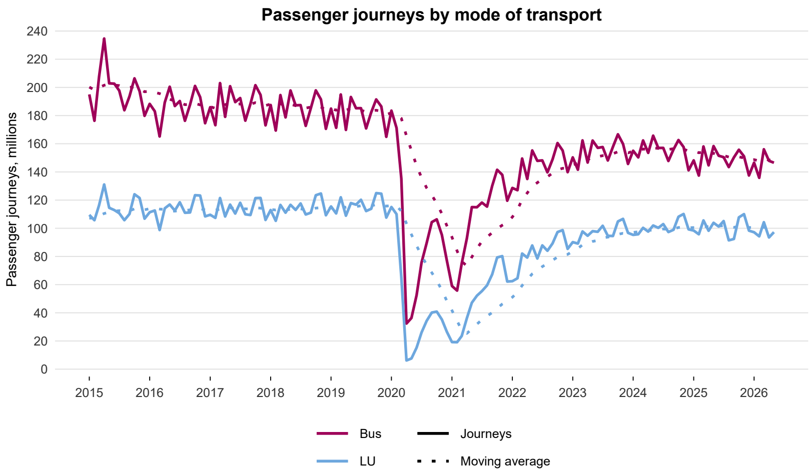
GLA Economics will continue to monitor these (and other) aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

# Economic indicators

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

- In May 2026, 243.8 million passenger journeys were registered, 2.4 million more than in April.
- In the latest period, 97.3 million of all journeys were underground journeys and 146.5 million were bus journeys.
- The 13-period moving average in the total number of passenger journeys rose marginally from 248.2 million in the previous period to 248.3 million in the latest period.

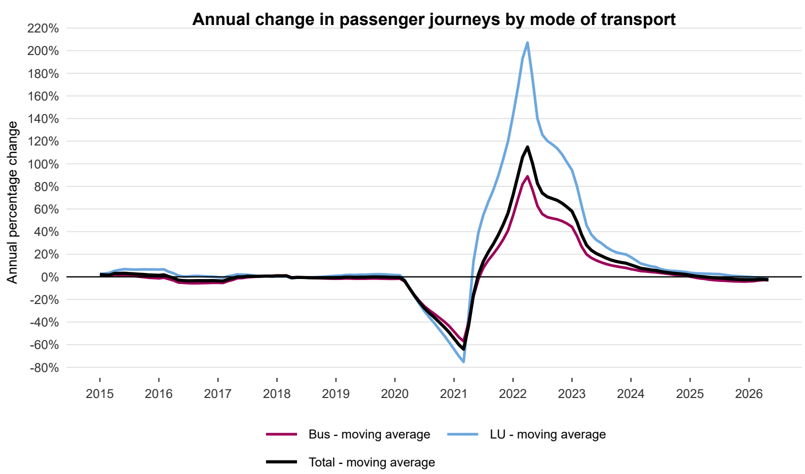
*Source: Transport for London*
*Latest release: June 2026, Next release: August 2026*




## Annual growth in passenger journeys weakened

- In 2026, the 13-period moving average annual growth rate in the total number of passenger journeys weakened further, from a decline of 2.2% in April to a decline of 2.5% in May.
- The moving average annual growth rate of bus journeys weakened from a decline of 2.8% in April to a decline of 3% in May.
- The moving annual average growth rate of underground passenger journeys weakened from a decline of 1.3% in April to a decline of 1.9% in May.

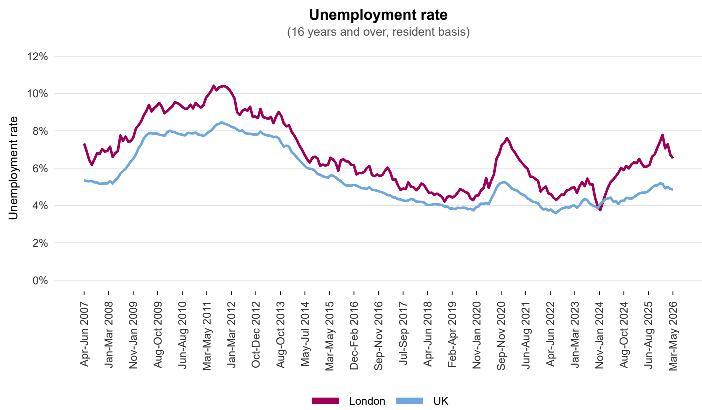
*Source: Transport for London*
*Latest release: June 2026, Next release: August 2026*



## London's unemployment rate decreased over the last quarter

- Around 339,000 residents aged 16 and over were unemployed in London in the period from March to May 2026.
- The unemployment rate in London for that period was 6.5%, a decrease from 7.1% in the previous quarter December 2025 - February 2026.
- The UK's unemployment rate remained unchanged at 4.9% in March - May 2026.
- 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.

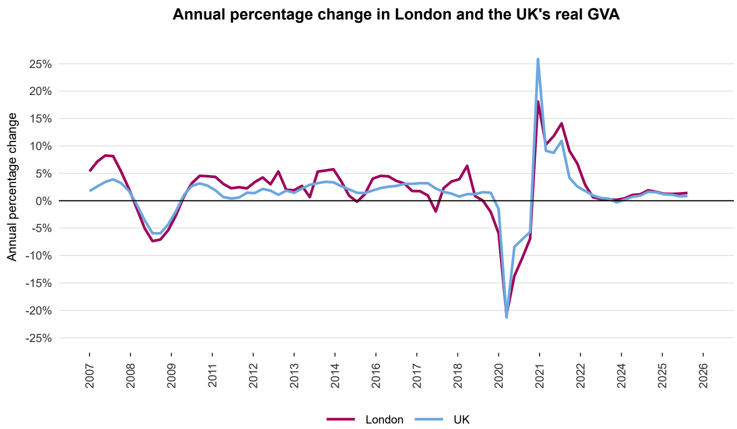
*Source: ONS Labour Force Survey*
*Latest release: July 2026, Next release: August 2026*




## London's economy continues to expand through Q1 2026

- The ONS has not yet published new annual regional GVA data in 2026. In the meantime, GLA Economics has used the latest available historical data to produce quarterly nowcasts for London's real GVA from Q1 2024 to Q1 2026.
- According to the latest ONS regional data published in 2025, London's real GVA grew by 0.3% in 2023. GLA Economics nowcasts that London's real GVA grew by 1.1% in 2024 and 1.4% in 2025.
- In the meantime, the UK's growth was 0.9% in 2025 and 1.2% in 2026. London's growth is faster than the UK.
- London's economy continued to outperform the UK in 2025, when UK output grew by 0.9%, compared with growth of 1.4% in London. In Q1 2026, London's output was 1.4% higher than a year earlier, compared with UK growth of 1.2%.
- On a quarter-on-quarter basis, London's economy expanded by 0.4% in Q1 2026. By Q1 2026, London's real GVA stood 6.9% above its pre-pandemic level in Q4 2019, continuing to outperform the UK as a whole, where output was 5.7% above its pre-pandemic level.

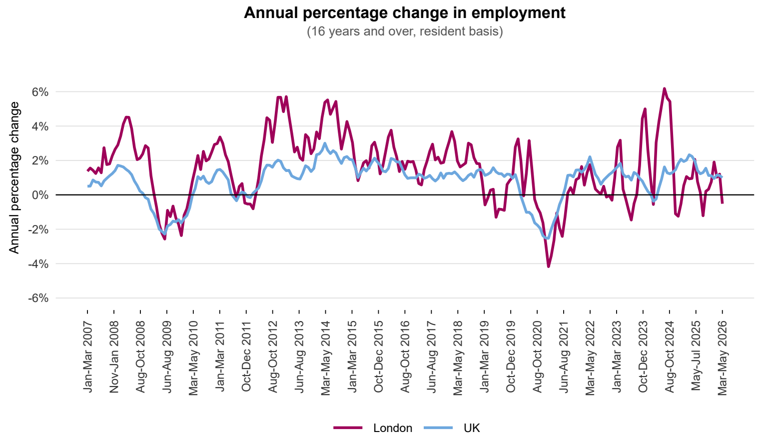
*Source: ONS and GLA Economics calculations*
*Latest release: July 2026, Next release: December 2026*



## London's year-on-year employment growth rate turned negative in the quarter to May 2026

- Around 4.9 million London residents aged 16 and over were in employment during the three-month period from March to May 2026.
- London's annual change in employment fell by 0.5% in the year to this quarter, compared with a 1.9% growth in the quarter leading up to February 2026.
- Employment in the UK as a whole grew by 1.0% in the year to this quarter, an increase from the 0.9% 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.

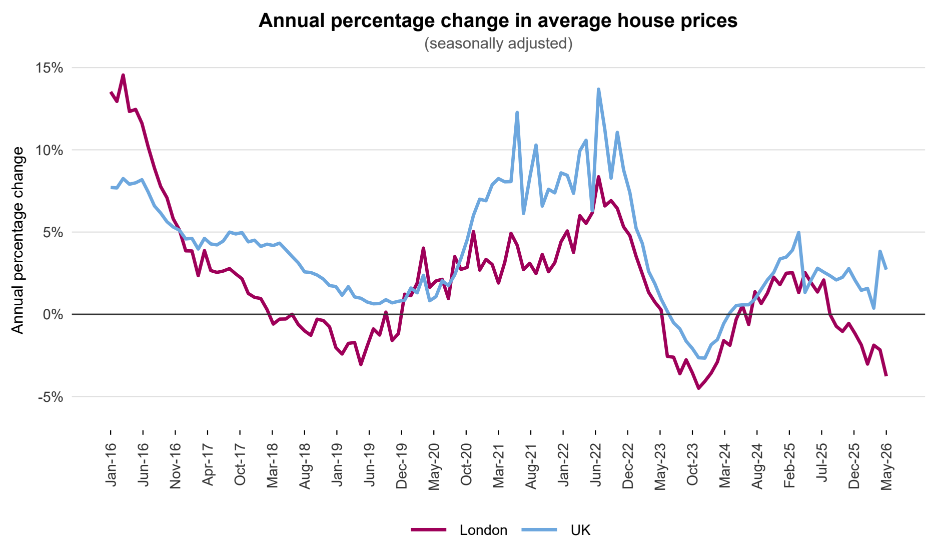
*Source: ONS Labour Force Survey*
*Latest release: July 2026, Next release: August 2026*




## On an annual basis house prices fell in London in May 2026

- In May 2026, the average house price in London was £551,000 while in the UK it was £272,000.
- Average house prices in London fell by 3.8% year-on-year in May, a larger drop than the 2.2% decrease in April.
- Average house prices in the UK rose by 2.7% on an annual basis in May, a smaller change than the increase of 3.8% in the year to April.

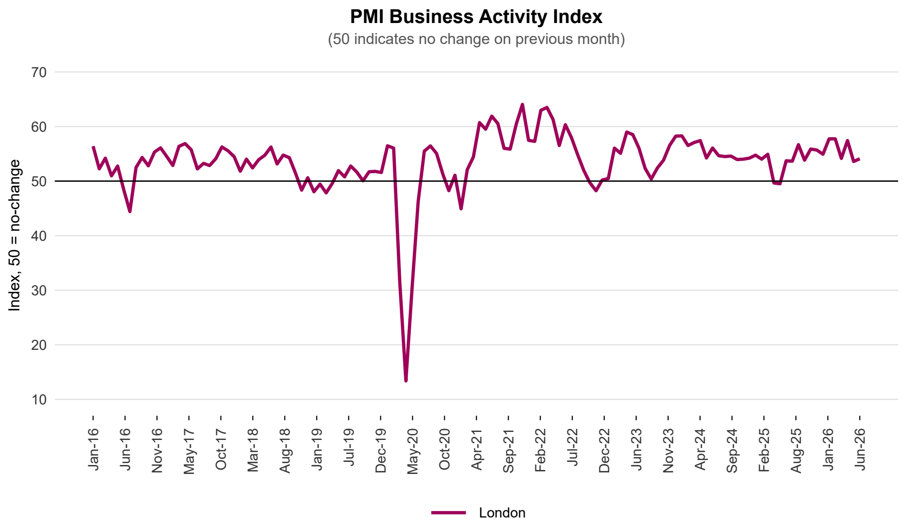
*Source: Land Registry and ONS*
*Latest release: July 2026, Next release: August 2026*



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

- The business activity PMI index for London private firms increased from 53.6 in May to 54.1 in June.
- 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.

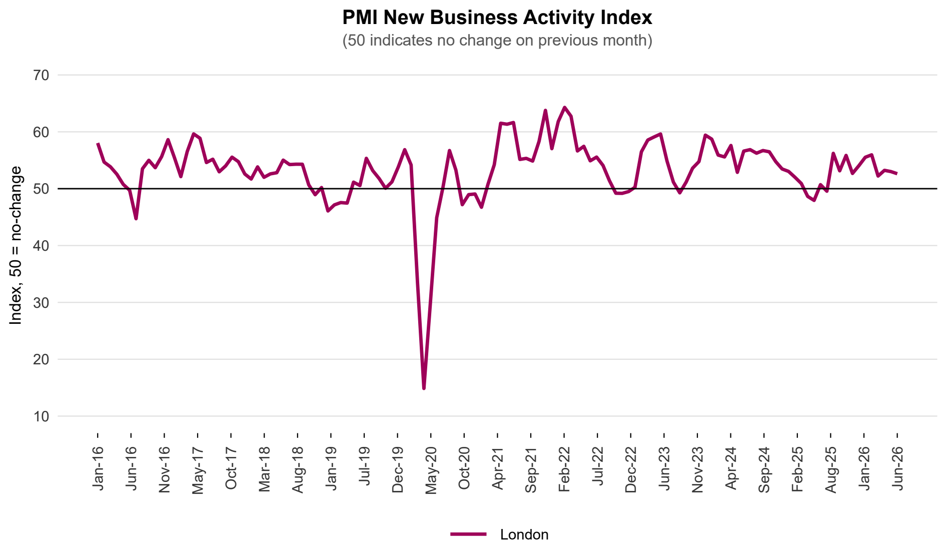
*Source: IHS Markit for NatWest*
*Latest release: July 2026, Next release: August 2026*




## In June 2026, the sentiment of London's PMI new business activity moderated slightly

- The PMI new business index in London decreased slightly from 53.0 in May to 52.6 in June.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

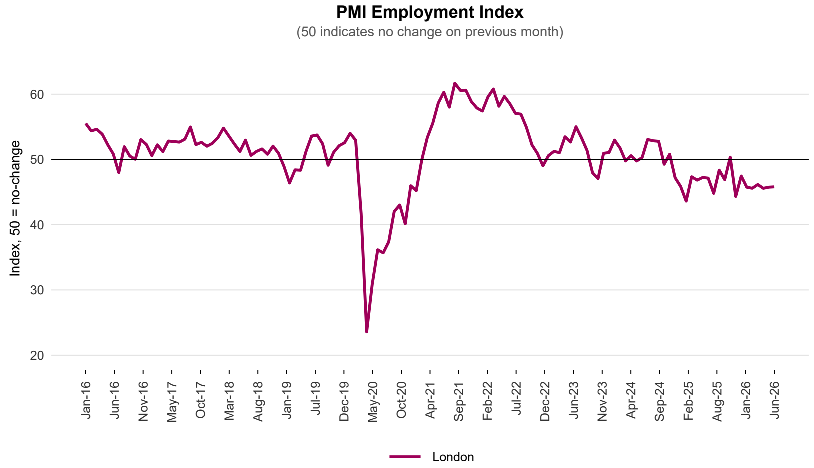
*Source: IHS Markit for NatWest*
*Latest release: July 2026, Next release: August 2026*



## In June, the sentiment of the PMI employment index in London improved marginally

- The Employment Index for London increased marginally from 45.7 in May to 45.8 in June.
- 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.

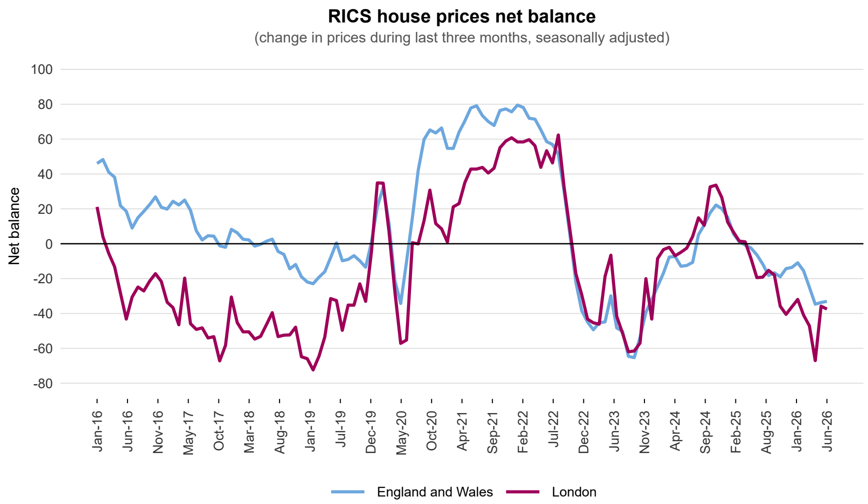
*Source: IHS Markit for NatWest*
*Latest release: July 2026, Next release: August 2026*




## More than half of all property surveyors in London reported house price decreases in June

- In June, more property surveyors in London reported falling prices than rising prices. The net balance index was -37, and it was -36 in May.
- For England and Wales, the RICS house prices net balance index was -33 in June, and it was -34 in May.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

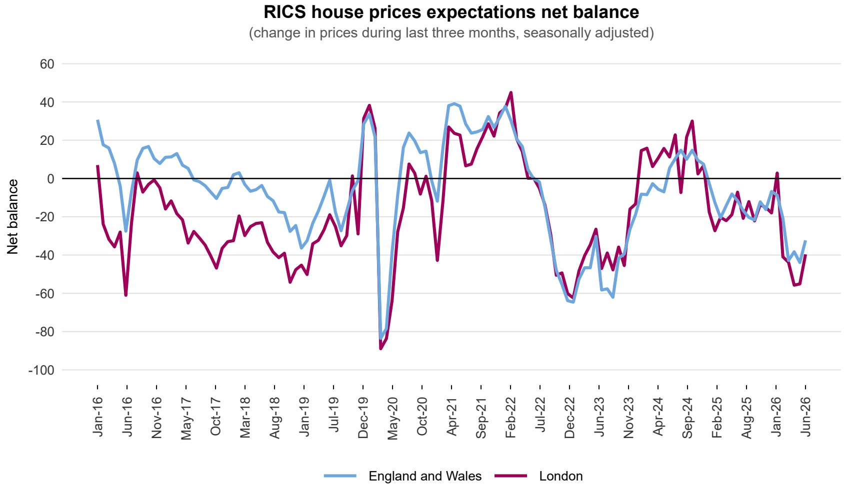
*Source: Royal Institution of Chartered Surveyors*
*Latest release: July 2026, Next release: August 2026*



## In June, 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 -40 in June, improving from -55 in May.
- The index for England and Wales was -32 in June, and was -44 in May.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

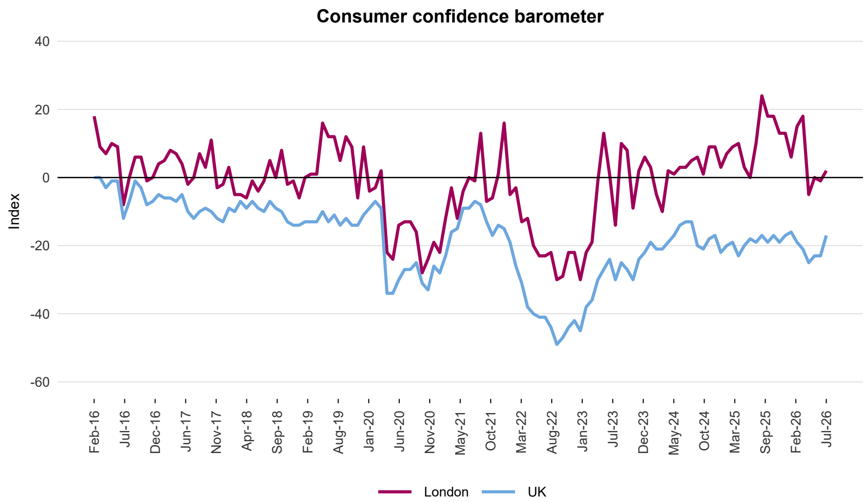
*Source: Royal Institution of Chartered Surveyors*
*Latest release: July 2026, Next release: August 2026*




## Consumer confidence in London turned positive in July

- The consumer confidence index in London was 2 in July, and it was -1 in June.
- The sentiment for the UK improved from -23 to -17 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: July 2026, Next release: August 2026*



# Payrolled employments by nationality

by **Pauline Bucher**, Economist

**Ten years on from the Brexit referendum and five years into the UK's points-based immigration system, the composition of London's non-UK workforce has shifted.** This supplement summarises a recent GLA Economics publication providing detailed data and analysis of these trends. It uses data on payrolled employments by nationality, from Pay As You Earn (PAYE) data from HM Revenue and Customs, and on National Insurance number (NINo) registration data from the Department for Work and Pensions.

Employments held by EU nationals continued to fall in 2025, while growth in employments held by Rest of World (RoW) nationals remained positive but slowed markedly from the rapid pace seen in previous years (see Figure A1). The shift sits against a weakening labour market in London with slightly decreasing payrolled employment among London residents.

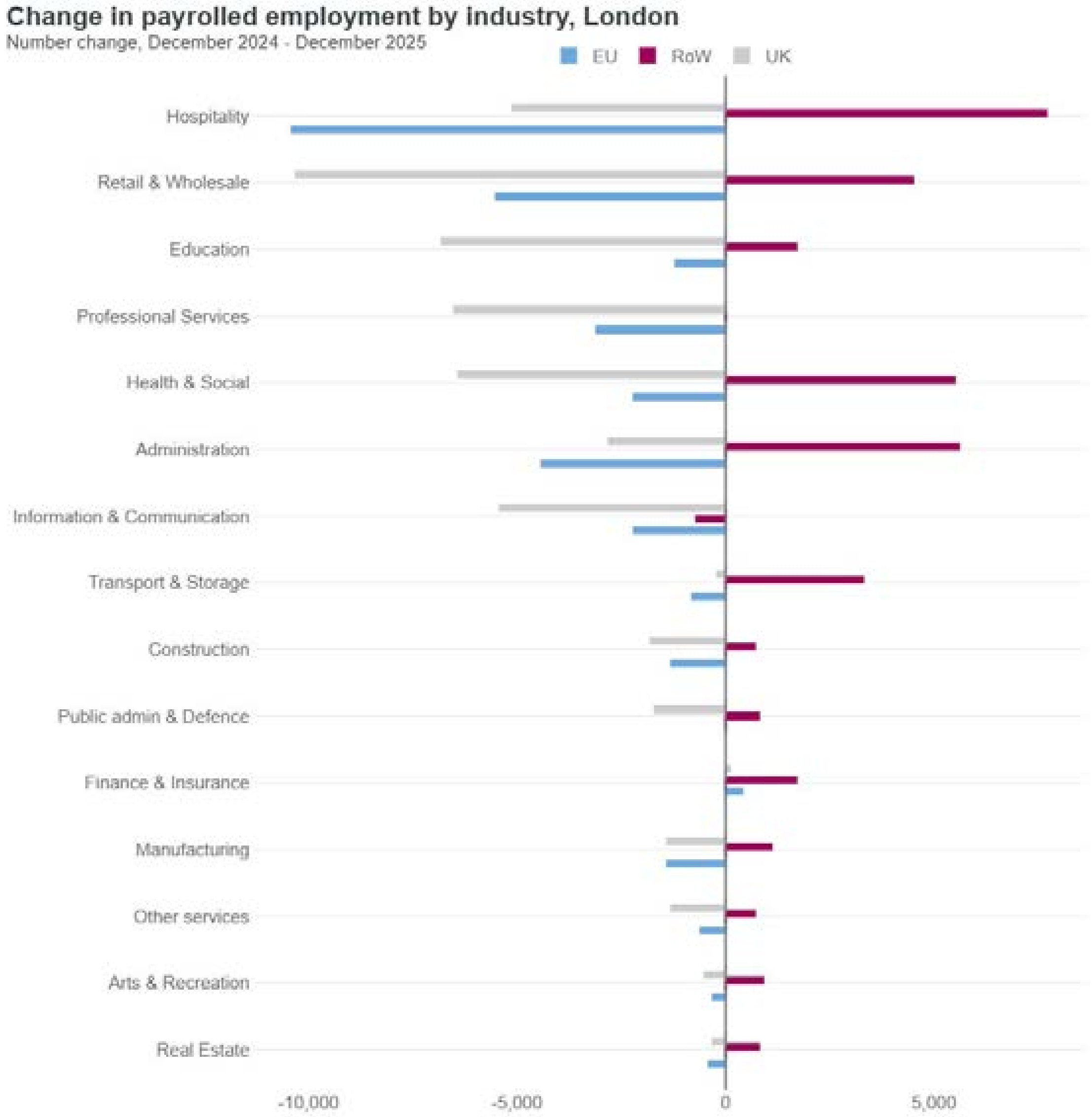
**Figure A1: RoW employment growth remains positive but has slowed markedly since its post-pandemic peak**


*Source: HM Revenue and Customs – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan. Note: Estimates are based on where employees live. Vertical lines indicate key events: the Brexit vote (June 2016), start of lockdowns (March 2020), end of free movement (January 2021), the immigration system reforms (January 2024) and the Immigration White Paper publication (May 2025).*

There were around 4.7 million payrolled employments among London residents in December 2025, 0.8% fewer than a year earlier. Employments held by UK nationals accounted for around 57% of the total (2.7 million) but declined over the year. Employments held by EU nationals, approximately 14% of the total, continued their post-Brexit decline, falling to 677,000. However, employments held by RoW nationals grew to reach around 1.3 million (28% of the total).[1]

That left non-UK nationals accounting for 43% of payrolled employments held by London residents in December 2025. This was more than double the UK average (20%), highlighting the capital's continued concentration of international labour.

**Figure A2: Employment growth in many sectors continued to depend on increases in RoW employment**

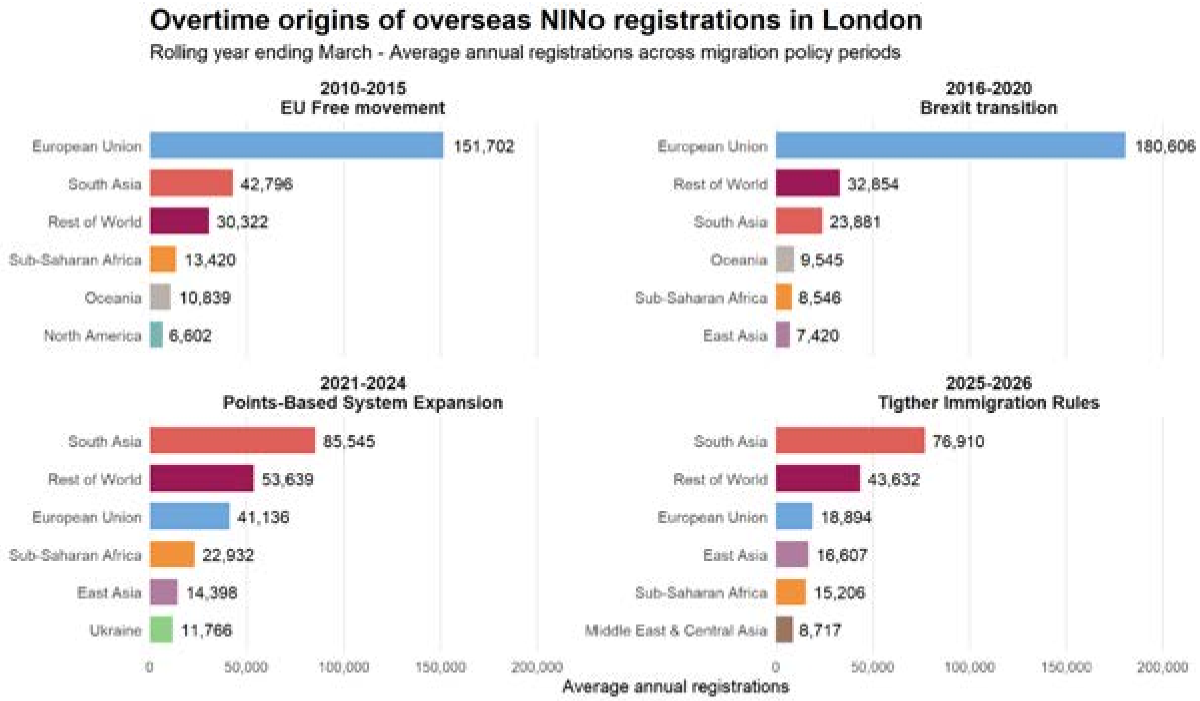



*Source: HM Revenue and Customs – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan. Note: Estimates are based on where employees live.*

There are also important differences across industries in how payrolled employment changed between December 2024 and December 2025. Figure A2 shows that employments held by RoW nationals continued to increase across most sectors of London's economy. Growth was particularly strong in Hospitality, Administration, and Health and Social Work, sectors that have reported labour shortages in recent years. By contrast, Finance and Insurance was the only major sector to record an increase in employments held by EU nationals during 2025.

1 Percentages do not add to exactly 100% due to rounding.

**Figure A3: South Asia has replaced the EU as the largest source of new overseas workers in London**




*Source: Department for Work and Pension via Stat-Xplore – NINo registrations to adult overseas nationals entering the UK.*
*Note: RoW here is calculated as total NINo registrations minus the other five largest origin regions in each time period. Estimates are based on the recorded location of NINo registration.*

The PAYE data are complemented by National Insurance number (NINo) registrations, which are an indicator of migration inflows – mostly for work – rather than the stock of employments. The NINo data shows how the origins of people arriving in London have changed over time.

Our supplementary analysis shows that between 2010 and 2020, National Insurance number (NINo) registrations were dominated by EU nationals. By 2025–2026, however, average annual registrations from EU nationals had fallen by around 88% compared with 2010–2015, while registrations from South Asia had increased by around 80%, making it the largest source region for new registrations (Figure A3). This mirrors the longer-term changes observed in the PAYE data, with employment growth increasingly driven by workers from outside the EU.

## Implications

London's labour market has weakened since early 2024, with slowing job creation and rising unemployment. While employments held by Rest of World nationals continued to increase in 2025, growth has slowed markedly since 2021. Growth in overall payrolled employment in London turned slightly negative between 2024 and 2025, due to declines among UK and EU nationals.

Since the end of free movement in 2021, migration inflows to London have shifted away from the EU towards other regions, particularly South Asia, as shown by NINo registrations.

Immigration reforms introduced in 2024 and 2025 (including higher salary and skills thresholds) may further reduce overseas labour supply. The effects, however, are likely to vary across sectors. Industries with a high reliance on non-UK workers, including Hospitality, Health and Social Work, and Administration, may face greater recruitment challenges, while knowledge-intensive sectors such as Finance & Insurance, Professional Services, and Information & Communication may prove more resilient given their continued ability to attract skilled RoW workers.

Click here for the full report.

# 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.

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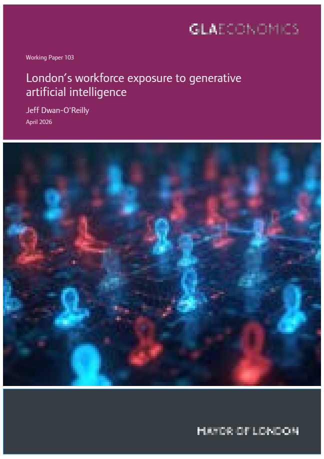


**London's workforce exposure to generative artificial intelligence**
This report examines London's exposure to generative AI (GenAI) across its different occupations, industries and communities. While it does not offer a definitive view on where jobs are going to be lost or gained, it does provide a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

Download the full publication.


**London labour market projections - 2024-based update**
Our latest look at how London's labour market is expected to evolve from 2025 all the way to 2050. This update forms part of the evidence base for the forthcoming London Plan.

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

Download the full publication.


**London's Economic Outlook: Summer 2026**
London's real Gross Value Added (GVA) is forecast to grow by 1.7% in 2026, 2.0% in 2027, and 2.1% in 2028.
London's workforce jobs (WFJ) are projected to grow by 0.5% in 2026, 0.8% in 2027, and 1.0% in 2028.
Household spending is expected to grow by 1.0% in 2026, 1.2% in 2027, and 1.4% in 2028.
Household income is expected to grow by 1.2% in 2026, 1.3% in 2027, and 1.5% in 2028.

Download the full publication.

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