

London's Economy Today

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Chancellor's first Budget offers energy bill support and begins fiscal devolution to mayors



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Shaped by the energy price shock from the Middle East conflict and ever-higher government borrowing costs, the first [Budget](#) from John Healey, the new Chancellor of the Exchequer, offers support for household energy bills, maintains fiscal headroom, and raises £6.6 billion a year by 2030-31 through targeted tax measures.

In its accompanying [Economic and Fiscal Outlook](#), the Office for Budget Responsibility (OBR) forecasts GDP growth of 1.2% in 2026, 1.0% in 2027 and 1.6% in 2028 – compared with 1.1%, 1.6% and 1.6% respectively in its [March forecast](#). The Chancellor is still forecast to meet the fiscal rules with £14.5 billion of [headroom](#), £7 billion less than forecast at last year's Budget – with much of this squeeze a result of rising debt interest from higher gilt yields. The OBR forecasts the tax burden passing its previous historical high in 2027-28 and peaking at 38.6% of GDP, with borrowing falling from 4.2% of GDP this year to 1.8% by 2030-31.

For London, arguably the most significant development is the [Fiscal Devolution Roadmap](#), which the government describes as “the biggest fiscal devolution in a generation”. Mayors will receive a share of business rates from April 2027 and of basic-rate income tax from 2028-29. With London contributing [25.9% of UK income tax](#) from only roughly 13% of the population, how baselines and equalisation are set will decide how far the capital shares in its own growth. The Budget

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Datastore

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

also gives the GLA new ways to fund transport, including business rates retention zones at Euston and Stratford and a successor to the Elizabeth line Business Rates Supplement. Key details for London such as its income tax baseline, business rates arrangement and share of the new Good Growth Funds are still to be settled, due at the 2027 Spending Review.

GLA Economics will examine the London-specific impacts in more detail in next month's edition of London's Economy Today.

UK economic growth picked up in August driven by services

The Budget was delivered against a backdrop of continued economic growth with [the latest data from the Office for National Statistics \(ONS\)](#) showing that the UK economy grew by 0.7% in the three months to August 2026. This was faster than the upwardly revised 0.5% growth seen in the three months to July and marked the eighth consecutive three-month period in which the economy expanded (Figure 1).

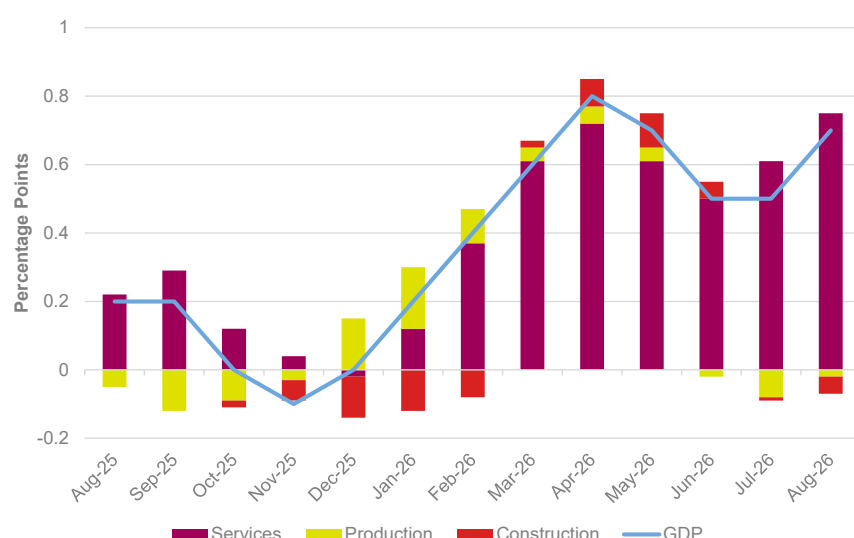


Figure 1:
Contributions to UK
three-month GDP
growth, August 2025
to August 2026

Source: ONS

In the three months to August output in the services sector, an important sector of London's economy, grew by 0.9% and drove overall GDP growth. By contrast output in the construction and production sectors fell by 1.0% and 0.2% respectively. These sectors thus subtracted 0.05 percentage points (pp) and 0.02pp respectively from overall growth while services added 0.75pp. Within services, the strongest growth came from professional, scientific and technical activities (2.8%), information and communication (2.8%), and administrative and support services (3.0%). Compared with the same period a year earlier, real GDP was 1.8% higher.

On a monthly basis, GDP increased by 0.1% in August, following growth of 0.4% in both June and July. This growth rate was higher than the 0.1% contraction expected by polled analysts. Only production saw growth in August growing by 0.8% while services saw no growth and construction saw a contraction of 0.2%.

UK inflation continues to rise in September

Despite the stronger than expected growth in output the [latest Consumer Price Index \(CPI\)](#) inflation data from the ONS showed that CPI inflation rose to 3.5% in the 12 months to September 2026, up from 3.1% in August (Figure 2). This is the highest inflation has been since October last year. CPIH inflation, which includes owner occupiers' housing costs, also increased, from 3.3% to 3.6%. On a monthly basis, both CPI and CPIH rose by 0.4% in September 2026, compared with 0.0% for CPI and 0.1% for CPIH in September 2025.

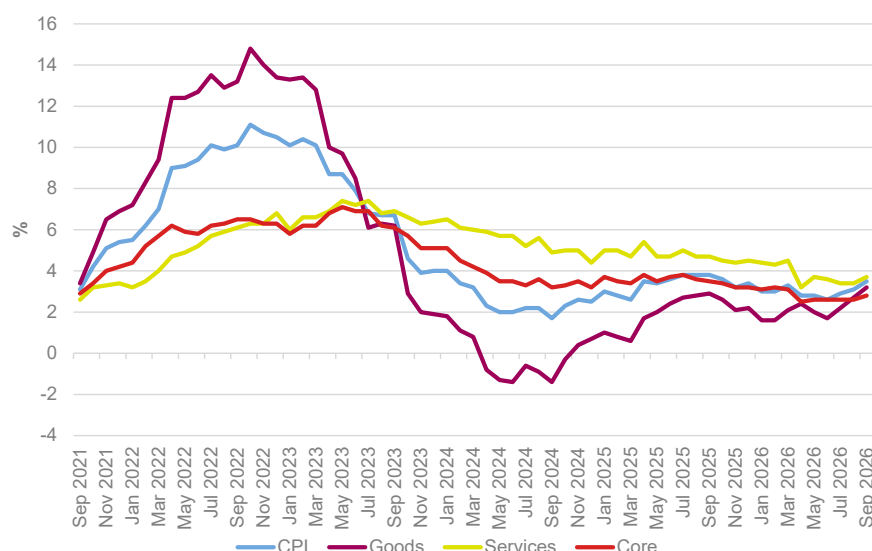


Figure 2: CPI, goods, services and core annual inflation rates, UK, September 2021 to September 2026

Source: ONS, GLA Economics

The ONS reports that “transport, particularly motor fuels, made the largest upward contribution to the monthly change in both CPIH and CPI annual rates; restaurants and hotels made the largest, partially offsetting, downward contribution”. While, compared to other major European economies the UK’s CPI rate “was higher than the inflation rates of France (3.4%) and Germany (3.3%) in September 2026”.

Core CPI increased from 2.6% in August to 2.8% in September. Services inflation also increased from 2.4% in August to 3.7% in September and remained above goods inflation, which rose from 2.7% to 3.2%, highlighting persistent domestic price pressures.

IMF upgrades UK growth forecast amid a fragile global outlook

Looking forward the International Monetary Fund (IMF) has raised its forecast for UK economic growth in 2026, following the stronger than expected economic performance in the first half of the year. However, higher energy prices and borrowing costs continue to weigh on the outlook.

In its [October World Economic Outlook](#), the IMF revised its UK growth forecast for 2026 to 1.3%, up from 1.0% in July and 0.8% in April. UK GDP grew by 0.6% in the first quarter and 0.5% in the second. However, growth is expected to slow to 1.2% in 2027, as the effects of higher energy prices and borrowing costs increasingly weigh on household spending and business investment.

Inflation remains a concern. UK consumer price inflation is forecast to average 3.3% in 2026 and 2.8% in 2027, remaining above the Bank of England’s 2% target.

Globally, the IMF expects economic growth to slow to 3.1% in 2026, before recovering to 3.4% in 2027. The outlook remains uneven, with countries benefiting from AI-related investment and trade performing relatively well, while energy-importing economies outside the technology supply chain face greater challenges.

The IMF warned that further geopolitical tensions, renewed trade disputes, a reassessment of AI investment expectations and fiscal vulnerabilities could undermine global growth. It emphasised the need for governments to rebuild fiscal buffers while supporting long-term productivity.

Global bond yields ease from multi-decade highs, but UK borrowing costs remain the highest among major economies

Government bond prices fell across the major economies in September and early October, pushing yields, which move inversely to prices, to multi-decade highs. Higher yields raise the cost of new borrowing for governments, and feed through to the rates households and businesses pay on mortgages and loans. [Bank of England data](#) showed that the yield on ten-year UK government bonds (gilts) peaked at 5.4% in early October, its highest level since 2007, before easing slightly to 5.3% by late October. [US](#), [Japanese](#), and [German](#) ten-year yields also hit multi-decade highs and have also eased slightly.

The Bank of England's [Financial Policy Committee](#) linked the rise to higher oil and gas prices following the re-escalation of the Middle East conflict, saying it reflected "both higher interest rate expectations and an increase in term premia", the extra return investors demand for holding longer-dated debt.

Higher yields mean more expensive borrowing for households and public bodies. Fixed mortgage rates move closely with gilt yields, and Bank of England data showed that the average quoted rate on a five-year fixed mortgage for borrowers with a 25% deposit rose to 5% in September, [the highest rate since October 2023](#). Rates at the [Public Works Loan Board](#), which lends to councils and other public bodies, are also set at a margin over gilt yields. London boroughs owe almost [£20 billion](#) to the board, and new borrowing now costs well above the 3.6% average rate on [TfL's £14 billion of debt](#).

Operating costs rising at London firms

The London Chamber of Commerce and Industry (LCCI) published their [Q3 Quarterly Economic Survey 2026](#) this month. This found that "high operating costs remained widespread in Q3, with only limited easing. More than half of London businesses reported increases in fuel costs (55%) and energy costs (51%)". However, "a quarter (25%) expected their prices to rise over the following three months, down from 34% in Q2, reducing the balance by 9 points to +17". Still "most London businesses maintained their workforce in Q3, but reductions were more common than expansion. Employment remained unchanged for 83%, while 12% reported a decrease and only 5% an increase". However recruitment activity remained limited with "only 10% of London businesses attempt[ing] to recruit, unchanged from Q2. Activity was heavily concentrated among larger businesses: 60% tried to recruit, up from 48% in Q2".

Elsewhere the [latest labour market data from the ONS](#) suggests that labour market conditions in London remain subdued. The data showed in the three months to August London's unemployment rate increased although economic inactivity decreased. The unemployment rate was estimated at 6.6%, an increase on the quarter and an increase of 0.5pp from a year earlier. The UK average was 4.7%. And London's inactivity rate (the measure of those not looking and/or not available to work) was estimated at 20.1%. This was a decrease of 0.2pp on the previous year, and a decrease on the quarter. It is lower than the UK-wide estimate of 20.9%.

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](#).

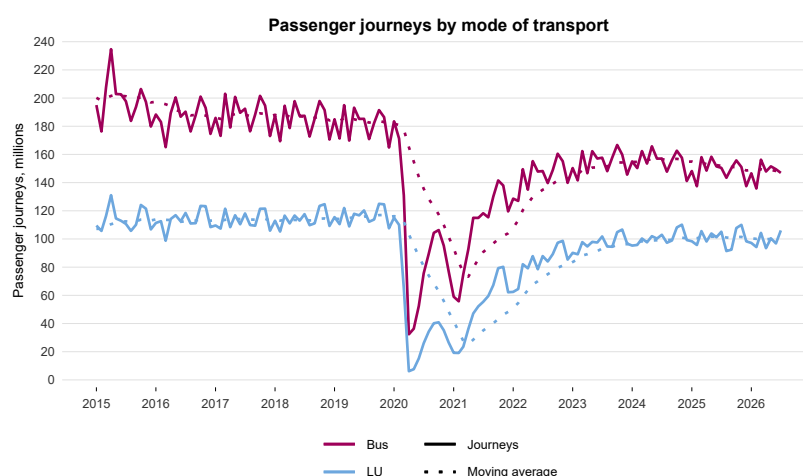
Economic indicators

The underlying trend in passenger journeys on London public transport was unchanged in July

- In July 2026, 253.0 million passenger journeys were registered, 6.7 million more than in June.
- In the latest period, 106.1 million of all journeys were underground journeys and 146.9 million were bus journeys.
- The 13-period moving average in the total number of passenger journeys was unchanged at 247.7 million in July.

Source: Transport for London and GLA Economics calculations

Latest release: September 2026, Next release: November 2026

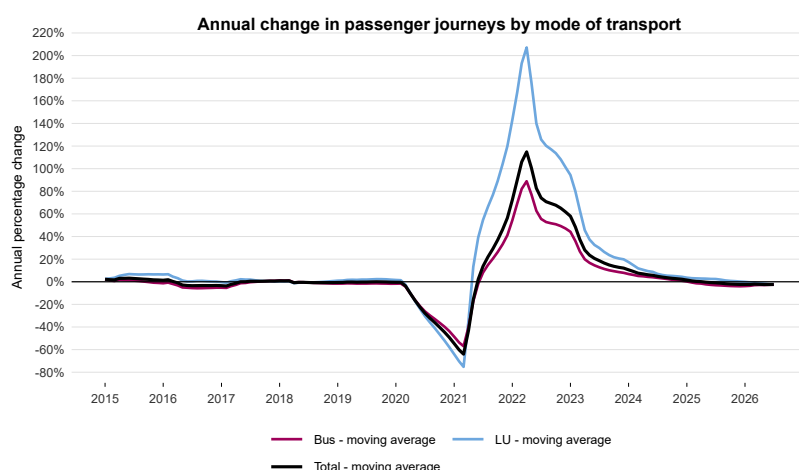


Annual growth in passenger journeys was unchanged

- In July, the 13-period moving average annual growth rate in the total number of passenger journeys was unchanged at a decline of 2.4%.
- The moving average annual growth rate of bus journeys moderated slightly from a decline of 2.7% in June to a decline of 2.6% in July.
- The moving annual average growth rate of underground passenger journeys was unchanged at a decline of 2.1%.

Source: Transport for London and GLA Economics calculations

Latest release: September 2026, Next release: November 2026

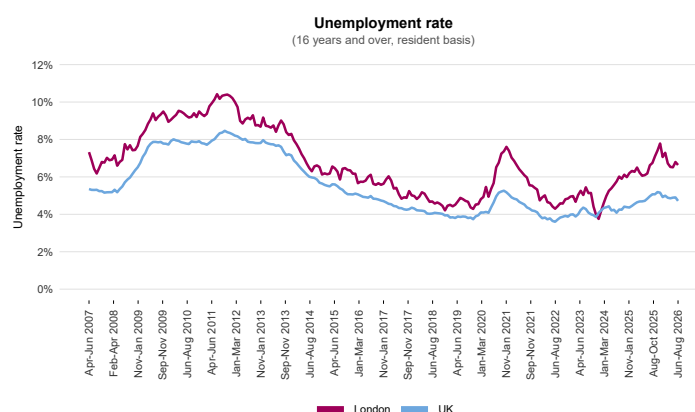


London's unemployment rate increased marginally over the last quarter

- Around 349,000 residents aged 16 and over were unemployed in London in the period from June to August.
- The unemployment rate in London for that period was 6.6%, a marginal increase from 6.5% in the previous quarter March - May.
- The UK's unemployment rate decreased to 4.7% in June - August, from 4.9% in March - May.
- 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: October 2026, Next release: November 2026

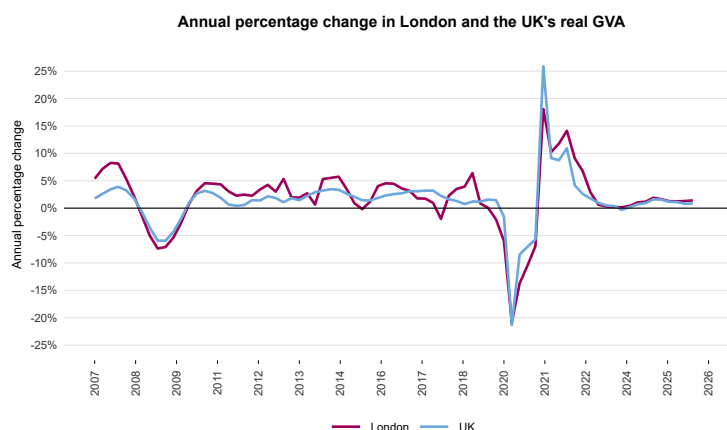


London's economy continues to expand through Q1 2026

- In July 2026, the [ONS](#) published new indicative quarterly regional GDP estimates for England and Wales, covering Q1 2012 to Q3 2025. These are at current prices and are not adjusted for inflation, whereas this indicator tracks real growth.
- Pending the reinstatement of quarterly regional estimates in chained volume measures, GLA Economics has used the latest available official real GVA data to nowcast 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.
- London outperformed the UK in 2025, when UK output grew by 1.3%. In Q1 2026, London's output was 1.4% higher than a year earlier, compared with 0.9% for the UK.
- 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 Q4 2019 level, compared with 6.2% for the UK as a whole.

Source: ONS and GLA Economics calculations

Latest release: September 2026, Next release: December 2026

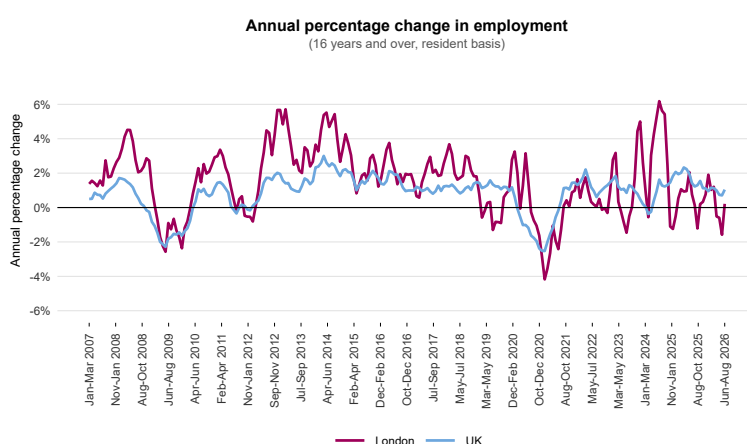


Employment in London rose on an annual basis in the quarter to August

- Around 4.9 million London residents aged 16 and over were in employment during the three-month period from June to August.
- Employment in London rose by 0.2% in the year to June - August, compared with a fall of 0.5% in the year to March - May.
- Employment in the UK as a whole grew by 1% in the year to June - August, the same as 1% in the year to March - May.
- 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: October 2026, Next release: November 2026

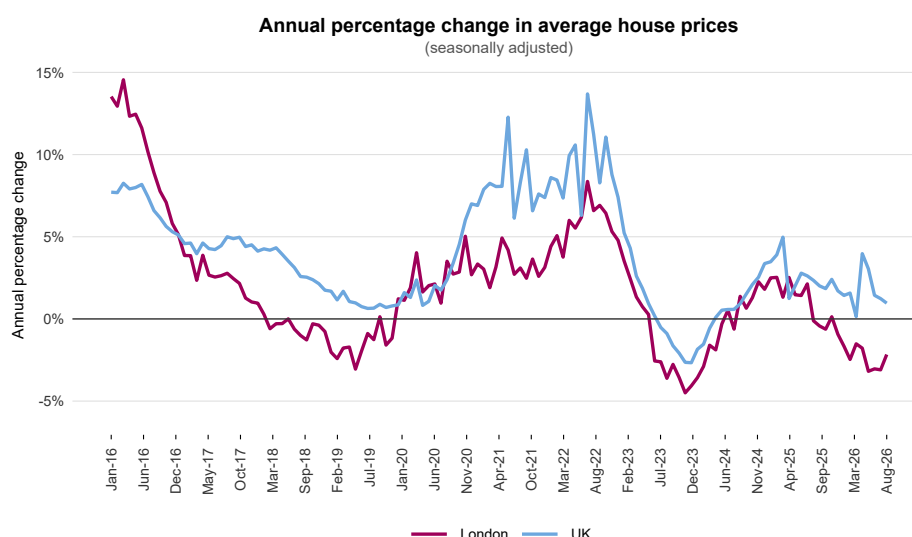


On an annual basis house prices fell in London in August 2026

- In August 2026, the average house price in London was £548,000 while in the UK it was £269,000.
- Average house prices in London fell by 2.2% year-on-year in August 2026, a smaller drop than the 3.1% decrease in July.
- Average house prices in the UK rose by 1% on an annual basis in August, a smaller change than the increase of 1.2% in the year to July.

Source: Land Registry and ONS

Latest release: October 2026, Next release: November 2026

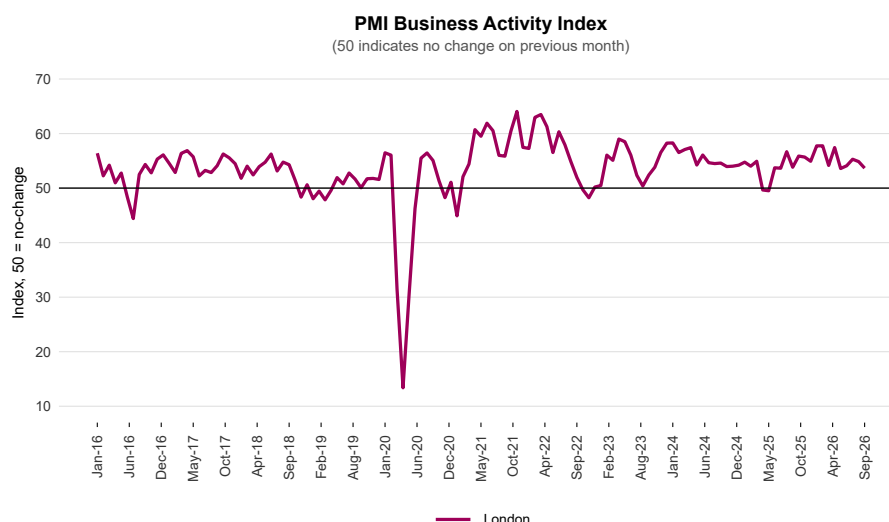


In September, London's PMI business activity index moderated

- The business activity PMI index for London private firms decreased from 54.9 in August to 53.7 in September.
- 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: October 2026, Next release: November 2026

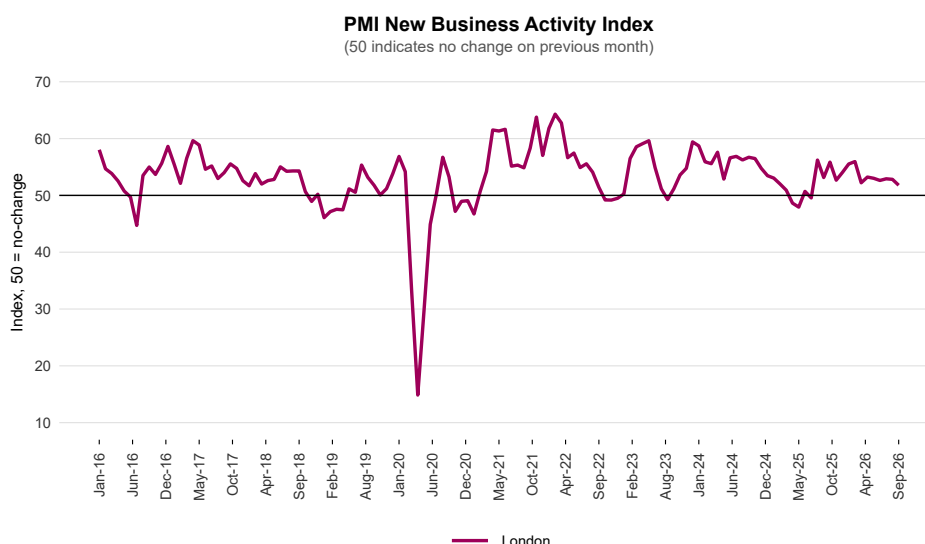


In September, London's PMI new business index slowed

- The PMI new business index in London decreased from 52.8 in August to 51.8 in 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: October 2026, Next release: November 2026

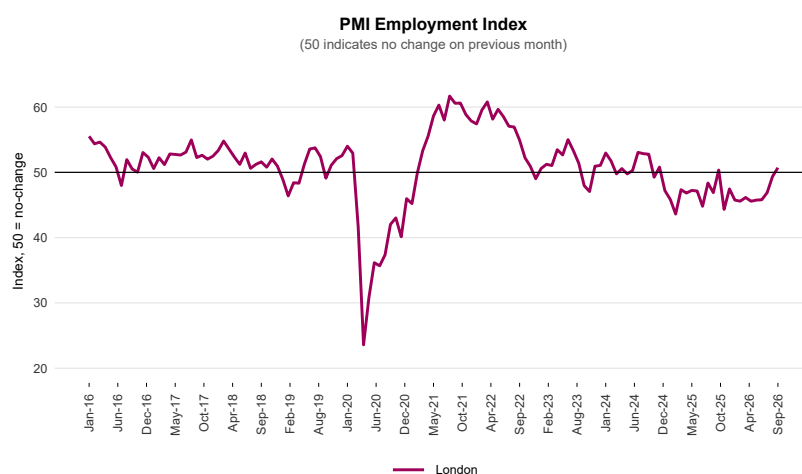


In September, London's PMI employment index increased and moved above 50

- The Employment Index for London increased from 49.4 in August to 50.7 in September.
- The PMI Employment Index measures the month-on-month change in staffing levels at private sector firms. A reading above 50.0 indicates an increase in employment from the previous month, whereas a reading below 50.0 indicates a decrease.

Source: IHS Markit for NatWest

Latest release: October 2026, Next release: November 2026

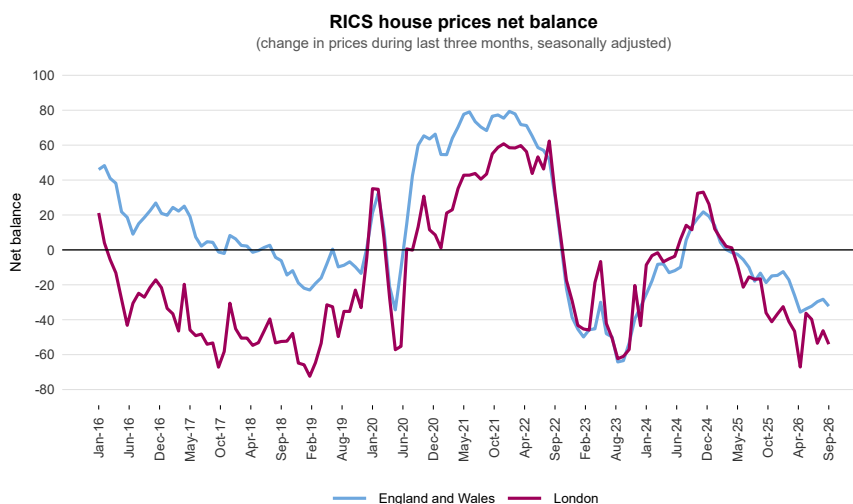


More property surveyors in London reported falling house prices than rising house prices in September

- In September, more property surveyors in London reported falling prices than rising prices. The net balance index was -54, a decrease from -46 in August.
- For England and Wales, the RICS house prices net balance index dropped from -28 in August to -32 in September.
- 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: October 2026, Next release: November 2026

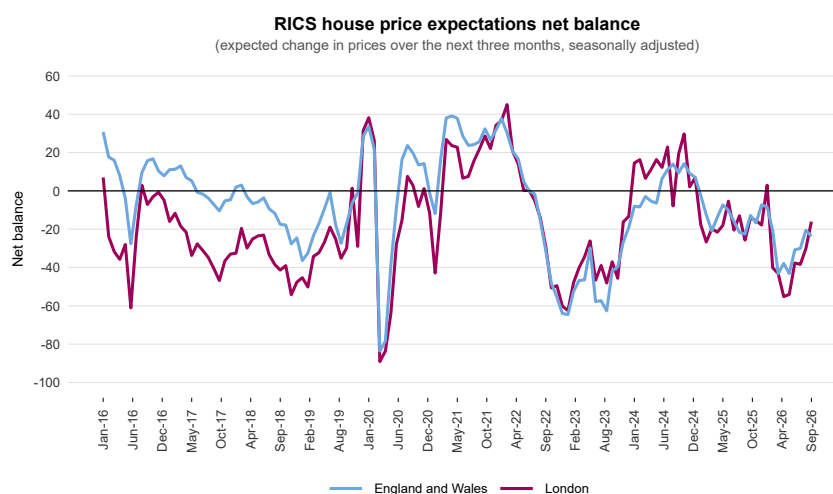


In September, property surveyors in London continued to expect house prices to fall over the next three months

- The net balance of house price expectations in London was -16 in September, improving sharply from -30 in August.
- The index for England and Wales was -24 in September, and was -21 in August.
- The net balance index measures the proportion of property surveyors expecting a rise in prices minus those expecting a decline.

Source: Royal Institution of Chartered Surveyors

Latest release: October 2026, Next release: November 2026

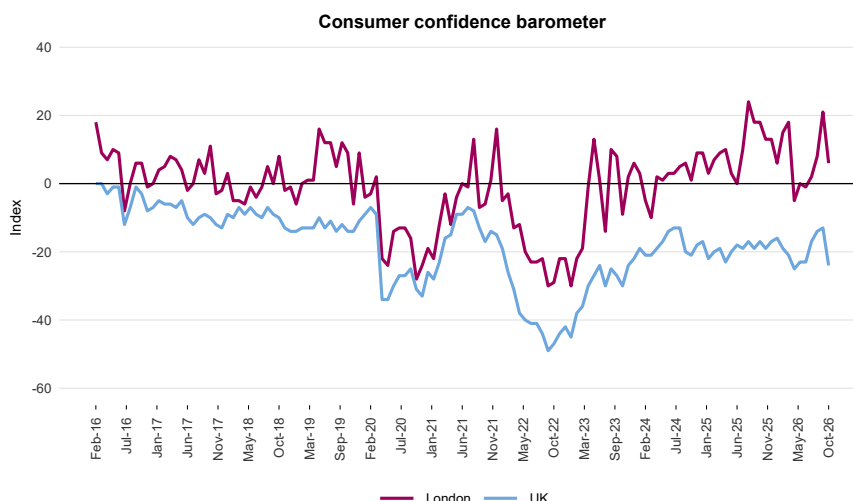


Consumer confidence in London dropped in October 2026

- The consumer confidence index in London was 6 in October 2026, and it was 21 in September.
- The sentiment for the UK deteriorated from -13 in September to -24 in October. 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: October 2026, Next release: November 2026



New methods for estimating employment and business in small or bespoke areas

By **Yiqiao Chen**, Economist



Planners and policymakers often need job and business counts for areas such as the Central Activities Zone (CAZ), the Northern Isle of Dogs (NIOD), Opportunity Areas, town centres and high streets. Official statistics¹ for employment (from the Business Register and Employment Survey) are available down to the Lower Layer Super Output Area (LSOA) level and business statistics (from ONS Business Counts) to the Middle Layer Super Output Area (MSOA) level, and bespoke boundaries rarely align with either.

GLA Economics has previously apportioned counts by land share: the share of an LSOA's or MSOA's land area falling inside the target area. This assumes activity is distributed evenly across all types of land. Thus, it over-allocates to areas with large residential or open space and under-allocates to dense office clusters. This supplement summarises [a recent GLA Economics methodology paper](#) on refining the employment and business estimation in small or bespoke geographies.

Allocation using land-use data

This paper addresses these limitations by replacing the total physical land layer with commercial land layers that contain building information. We use Ordnance Survey (OS) National Geographic Database (NGD) building data which for each building contains its footprint area, its use class (i.e. commercial or residential) and the height (number of floors). A building counts as commercial if it has at least one commercial address, which includes mixed-use buildings.

Depending on whether we are counting the number of businesses in an area, or the amount of employment, we use either the footprint area or the floorspace area, as follows:

- **Businesses: Commercial Land Share.** The MSOA's business count is allocated by the share of the MSOA's commercial land that falls in the target area.
- **Employment: Commercial Floorspace Share.** The LSOA's employment estimate is allocated by the share of the LSOA's commercial floorspace (footprint × number of floors) in the target area. Floorspace is used because jobs scale with floor area, whereas a business counts as one unit regardless of size. For mixed commercial/residential buildings we assume only one commercial floor.

¹ Outside the ONS Secure Research Service

How well does it work?

We tested each method by apportioning known totals down to areas where observed counts exist, measuring the share of activity placed in the wrong area (lower is better).

Allocating London totals to boroughs, the old method misplaces 47% of employment and 34% of businesses, pushing activity outwards: Outer London boroughs received 132% more employees and 68% more businesses than observed. For employees, commercial floorspace further improves on the commercial land method, reducing the misallocation from 28% to 13%. For businesses, the two refined methods perform similarly, at 18% and 16% respectively.

Within MSOAs, the employee misallocation falls from 29% to 19% when switching from land share to commercial land share. Although the floorspace method does not substantially improve performance, floorspace remains the preferred benchmark because it can be updated when new development comes forward and it is a well-established measure in planning.

The old method undercounted dense Inner London areas. Using the new methods, the CAZ has 3% more jobs and 4% more businesses, and NIOD has 8% more jobs and businesses.

Advantages and limitations

The main advantage is increasing accuracy without (much) added complexity. The new methods keep the simple, transparent mechanics of land share apportionment and use the same official counts as inputs (BRES and Business Counts), but better reflect where activity occurs, reducing misallocation.

Residual error remains. Even the best methods misallocate around 13% of employees and 16% of businesses at borough level, and around 19% of employees across LSOAs within an MSOA. Estimates for very small areas should be treated with caution.

The new methods still rely on distributional assumptions: businesses are spread uniformly across commercial land and jobs uniformly across commercial floorspace, whereas real densities vary by sector and building type. Home-based work and work in non-commercial land is not captured, although this affects only around 0.1% of London's employees (i.e. excluding the self-employed). Finally, the commercial map is a May 2026 snapshot that does not reflect temporal changes, and floorspace measures capacity rather than occupancy, so vacancies are not accounted for.

A summary of old and new methods is in Table A1.

Table A1: Methods summary

Method	Land share (old)	Commercial land share	Commercial floorspace share
Spatial data	Total land area	Commercial land area	Commercial land area + Building floor counts
Spatial accuracy	Low-medium	Medium-high	High
Sensitivity to density	Low	Medium	High
Key assumptions	Equal distribution across all land	Equal distribution across all commercial land	Equal utilisation of all commercial floorspace
Caveats	Allocation includes residential, open space, and other non-commercial land.	Commercial land data is a single-year snapshot – temporal changes in building stock are not reflected. Activity outside commercial maps not captured.	Vacant floorspace not accounted for. Commercial land data is a single-year snapshot. Activity outside commercial maps not captured.
Recommended for	-	Business estimates	Employment estimates

Recommendation

We recommend adopting the new methods as our baseline: commercial land share for businesses and commercial floorspace share for employment. Next steps include sector- and building-type-specific densities, historical and forward-looking commercial maps, and a treatment of vacancies.

Read the [full methodology paper](#) for data sources, methodology and validation details.

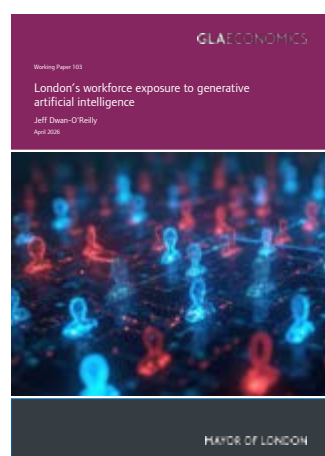
Our latest publications

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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London's Economy Today is published towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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About GLA Economics

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.