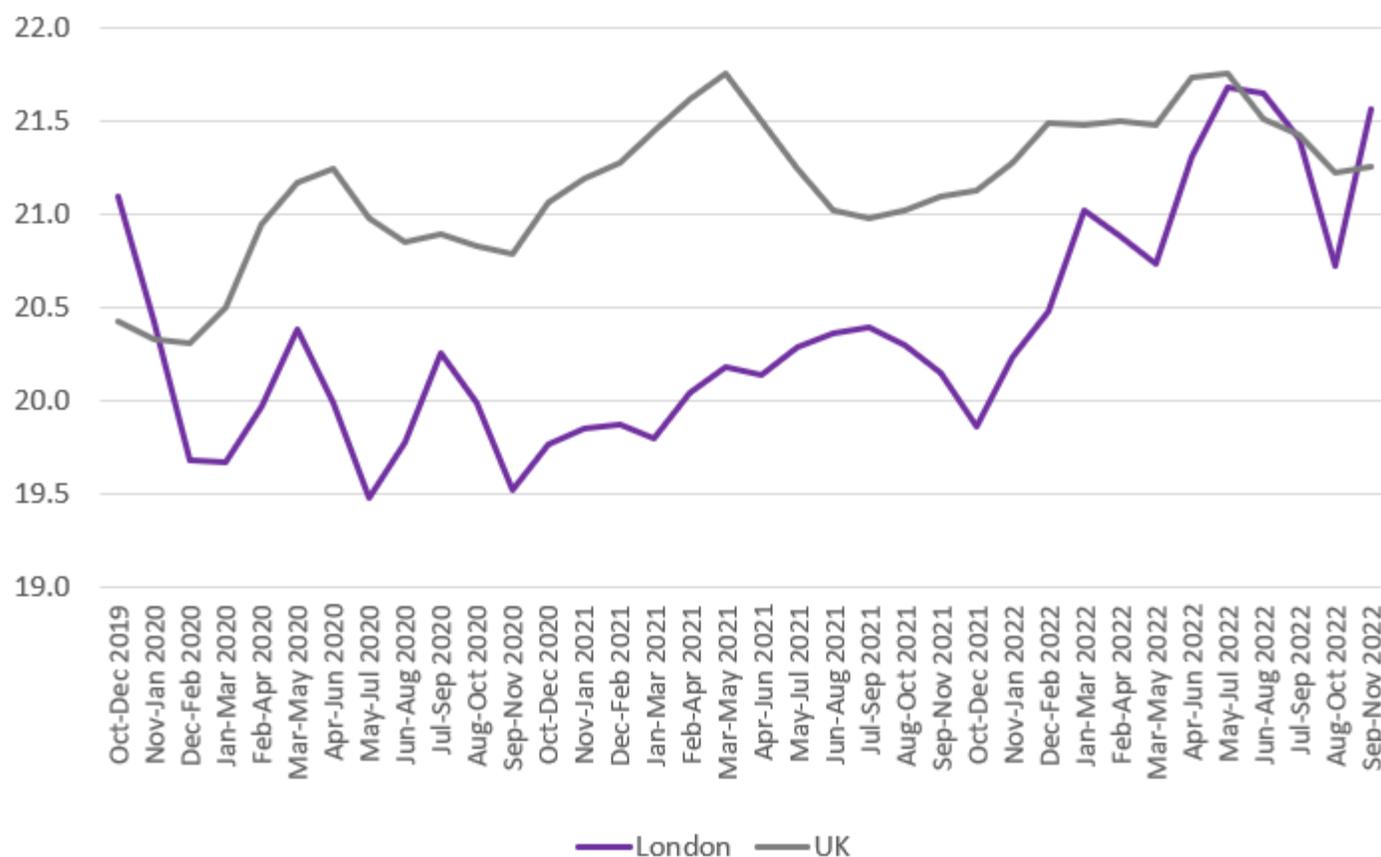


Central London RECOVERY TRACKER

January 2023

Economic inactivity continues to increase

Figure 1: Economic inactivity in London 2019 to 2022



Source: [ONS](#)

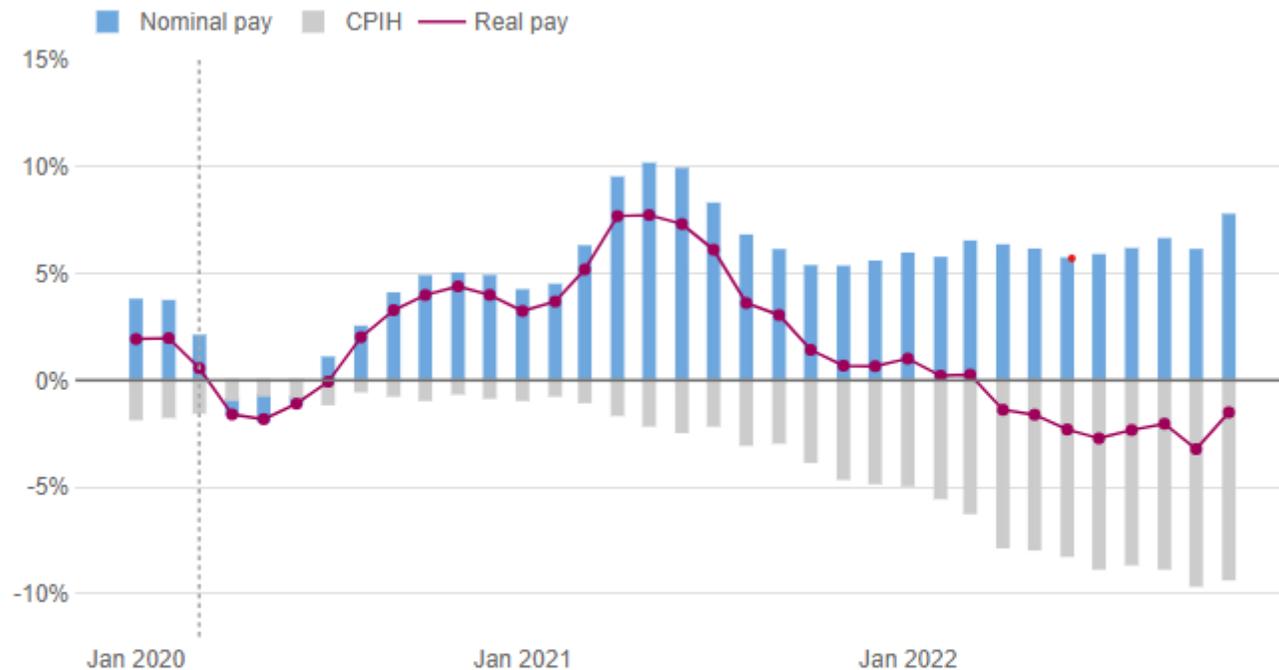
Whilst unemployment has fallen following the pandemic, economic inactivity has increased.

Over one in five (21.6%) working age Londoners are inactive, up 2.1 percentage points – or **135,000** – over the last two years.

Reducing inactivity was a major focus of the Chancellor's speech on growth last week, and the Secretary of State for Work and Pensions will soon be unveiling findings from his review into the barriers holding back participation in the labour market.

Nominal pay rising but still below inflation

Figure 2: Wage growth vs inflation January 2020-2022



Source: HM Revenue and Customs – Pay As You Earn Real Time Information, ONS.

Note: March 2020 indicated by dotted line. Inflation measure does not account for region-specific price changes. Sign of inflation rates has been reversed (higher inflation rates are associated with lower real pay growth).

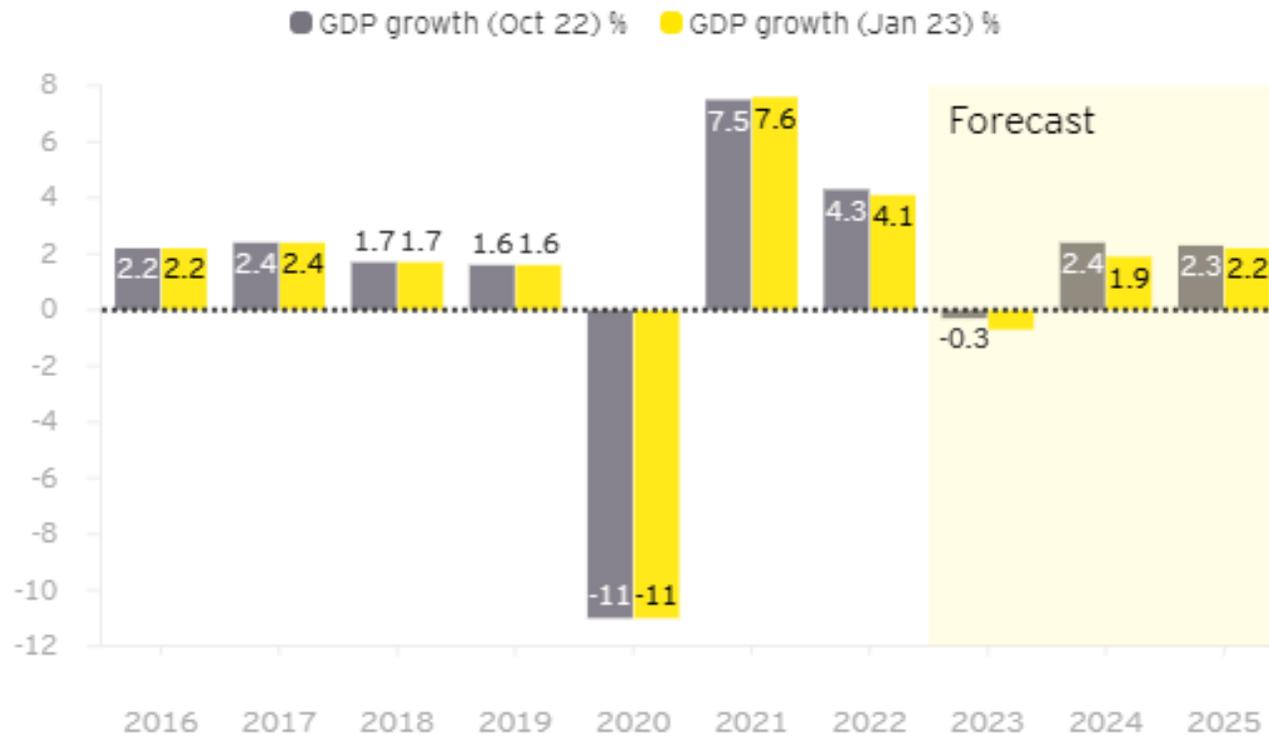
Median monthly pay in London increased by 7.7% in the 12 months to Dec 2022. However, this figure was still 1.5% below inflation, meaning workers experienced a real terms pay cut.

While inflation may have peaked, average incomes after housing costs are forecast to fall by 4% in 2023-24, the largest fall since 1975.

Real wages are not expected to return to the levels seen at the start of last year until the end of 2027.

Growth higher than expected, but confidence declining

Figure 3: UK GDP Growth forecast 2023



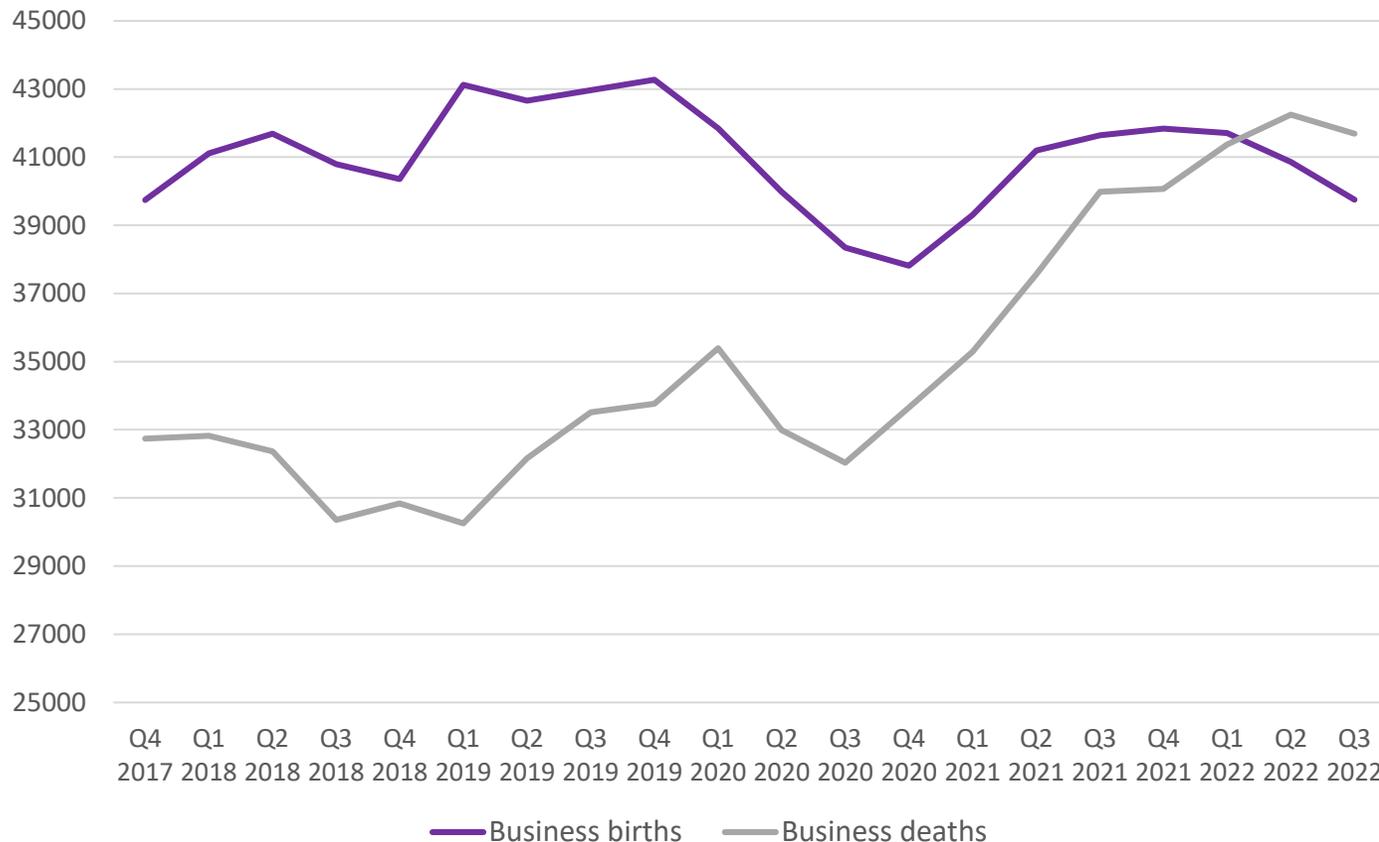
The UK economy grew by 0.1% in Nov 2022, higher than most forecasts.

However, the UK is still likely to enter recession this year, with the latest [forecasts](#) suggesting a contraction of 0.7%, before returning to growth from mid-2023.

Unemployment is [predicted](#) to peak at 5% this year, slightly higher than the [OBR forecast](#). If this figure was replicated across the capital this would mean an additional **43,000** unemployed Londoners.

Business closures forecast to increase due to continued impact of rising costs

Figure 4: Business births and deaths in central London over time

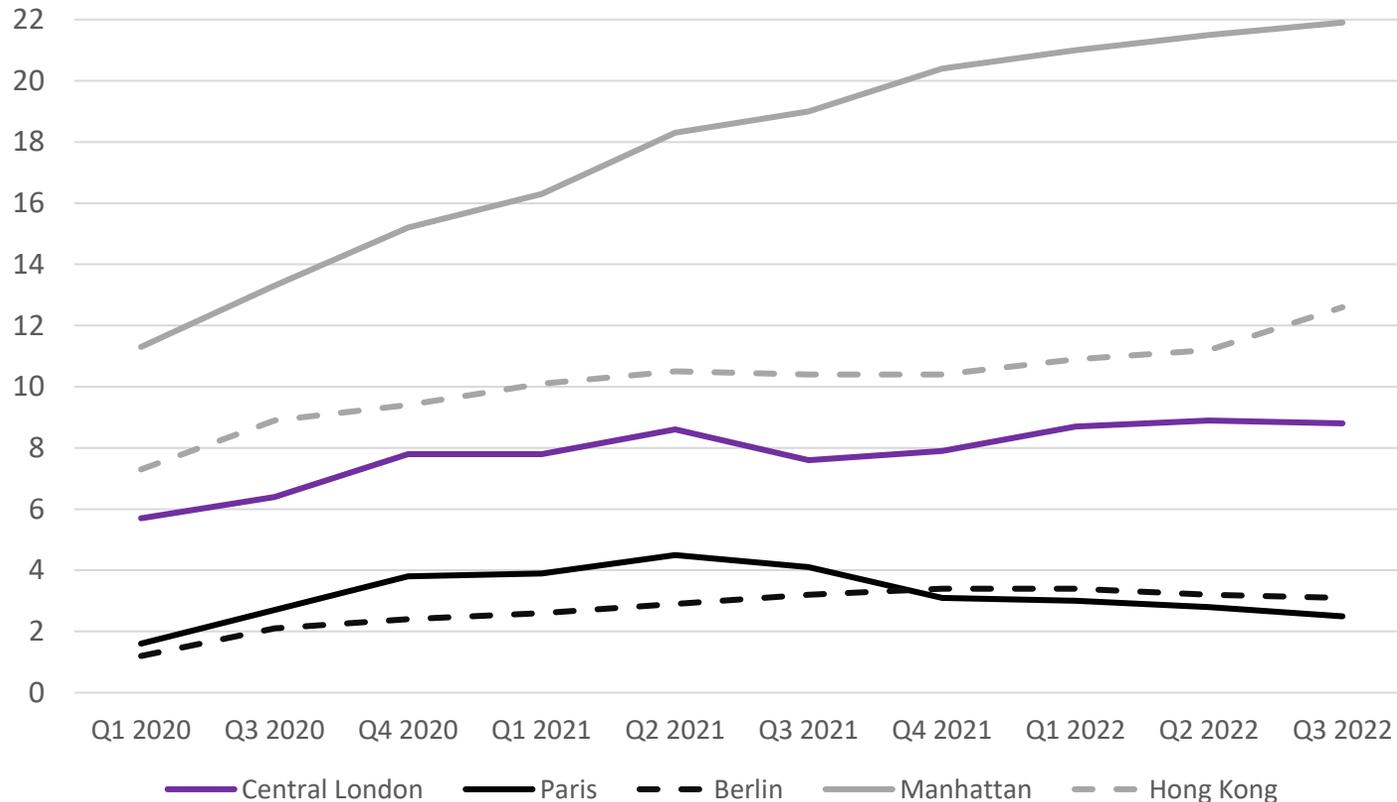


The number of business deaths has increased significantly. The rate of business deaths over the last year is 30% higher than the same period three years ago, and more businesses are now dying than being created.

There are [concerns](#) business closures could increase further in 2023, driven by the growing costs for business, reduced demand due to the cost of living crisis, and businesses having to pay back COVID loans. The number of companies in critical financial distress in the UK rose by 36% in the last three months of 2022.

Demand for office space in central London remains robust

Figure 5: Office vacancy rates in central London compared to Paris, Berlin, Manhattan and Hong Kong



Source: [London Property Alliance](#)

The pandemic and the emergence of hybrid working has impacted the office market, with vacancy rates in Central London increasing from 5.7% pre-pandemic to 8.8%.

However, vacancy rates appear to have plateaued, and they remain significantly lower than Manhattan (21.9%)

Vacancy rates for Grade A space remains far lower at 3.5%. Recent CLF [research](#) highlighted the ‘flight to quality’ in the sector, with occupiers increasingly demanding high quality space.