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Remote working artificially boosts London's economy by £8 billion, at the expense of the East and South East

Amongst the plentiful economic impacts of the Covid-19 pandemic, arguably the most significant has been the acceleration in the adoption of remote working. In addition to changing the structure of the labour market, this has had implications for the regional distribution of economic activity. This has been of particular detriment to London, shifting output away from the capital in favour of the UK's other regions.

In a direct sense, people spending more time at home means that activity is now less concentrated in urban centres, instead being partially redistributed towards more residential areas. **The consequences of this shift are evident when looking at certain leading indicators**. House prices are a key example. Since the pandemic, London house price growth has been the weakest in the country, with the shift in housing and location preferences supporting growth elsewhere. Commercial property prices have also been down.

One area that has not yet caught up with the mass adoption of remote working, however, is the official measurement of economic activity. Regional gross value added (GVA), a measure describing the value of goods and services produced within a given geographical area, is the key culprit.

The official GVA data series are workplace-based, meaning that the value of activity is allocated to geographical areas based on the registered location of a workplace. This contrasts with a residence-based approach, where activity produced by a worker would be allocated to where the individual lives, which may not necessarily be the same place as where they work.

Given the wider adoption of remote working since the pandemic, the workplace-based approach is arguably now outdated, providing an inaccurate assessment of the regional distribution of economic activity. This is because a significant portion of workers are now registered as working in one location but now conduct some, or indeed all, of their work remotely.

London is a particular beneficiary of this measurement system. The capital systematically records higher employment levels on workplace-based measures than on residence-based, though this divergence has narrowed sharply since the pandemic. **In practice, this means that there are more filled jobs than employed residents, with the difference made up by those working a London job but residing elsewhere.**

Historically, this group was predominantly made up of full-time commuters. However, the disruption to travel patterns caused by the pandemic means that this group is now much smaller than previously. **Instead, the bulk of this is now accounted for by hybrid workers, who reside elsewhere but travel into London for a portion of the week, and remote workers who never travel into the capital at all.** Within

the capital itself, data from the Opinions and Lifestyle Survey suggest that 59.0% of workers now conduct at least some of their activity remotely.

Under the principles of economic accounting, the profits earned on the labour of those employed in London but conducting all or a portion of their work elsewhere should legitimately contribute to the capital's economic activity. However, their employment incomes, which make up a significant portion of GVA, should not. **As such, there is a case for adjusting regional GVA figures to account for this.**

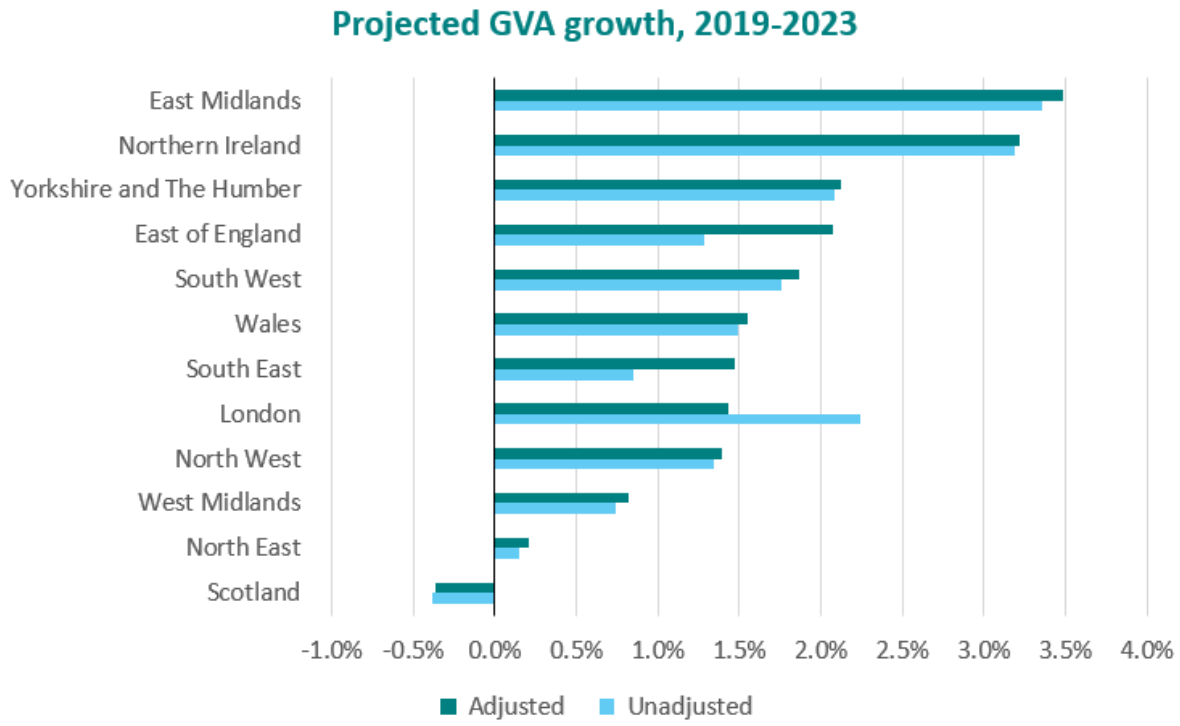
Doing so has clear implications for the distribution of economic activity across the country. When considering expected growth for 2023, London becomes one of the slowest-growing regions under the adjusted series. **Indeed, when accounting for remote working, London's expected GVA growth in 2023 is undercut only by the North East and Wales, two of the areas most affected by the cost-of-living crisis due to their typically lower earnings levels, and the Midlands, an area impacted heavily by continued supply chain disruption given its reliance on the manufacturing sector.**

Meanwhile, when looking at cumulative growth between 2019 and 2023, London also falls back. Under the unadjusted series, London was expected to have recorded growth of 2.2% over this period, ranking amongst the fastest-growing regions. **However, this falls to just 1.4% when adjusting for remote working.**

In monetary terms, adjusting for remote working suggests that London's economy was around £8 billion, or 1.4%, smaller in 2023 than implied by forecasts based on the workplace-based GVA definition. London's relative contribution to the economy is also reduced, falling from an estimated 24.0% to 23.7%, albeit remaining the single largest regional contributor.

The reduction in activity in London caused by the remote working adjustment is redistributed across the country. **Particular boosts are provided to the East of England and the South East, which remain key commuter hubs and two of the regions with the largest cluster of people 'working' London jobs but residing and conducting the activity elsewhere.** In both of these cases, the boost to activity is sufficient for these regions to overtake London when considering near-term growth and cumulative growth since the pandemic. **In monetary terms, the economy of the East of England would be around £3.0 billion, or 1.5%, larger if remote working was appropriately accounted for, while the equivalent figures for the South East are £4.0 billion and 1.1%.**

Given the lag in data publication, it may take some time for these trends to be reflected in official regional GVA measures, if indeed they are accounted for at all. In the meantime, consideration of changing working patterns will remain an important step in assessing the differing growth prospects of regional economies.



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