

# London's Economy Today

Issue 86 | October 2009

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## UK economy now in its longest recession since quarterly records began in 1955

By **Gordon Douglass**, Economist, and **Simon Kyte**, Economist

**The Office for National Statistics (ONS) released data on 23 October showing that the UK economy continued to contract in the third quarter of 2009, its sixth consecutive quarterly contraction (see Figure 1). Many economists had expected a small positive growth figure or zero growth. The decline in output was strongest in the production industries in which output declined by 0.7 per cent although services also contracted by 0.2 per cent. Distribution, hotels and restaurants was the largest contributor to negative growth in Q3 2009.**

It is important to realise that this ONS 'preliminary estimate' is driven by the availability of data for industrial production. The August figure for industrial production indicated a fall of 1.9 per cent compared with the previous month with the index of manufacturing falling to its lowest level in 17 years.

## Latest news...

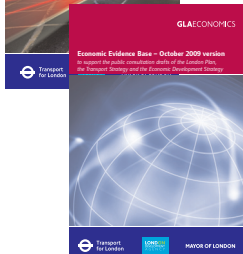
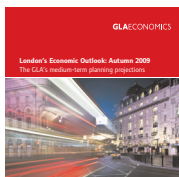
### ● **London's Economic Outlook: Autumn 2009**

GLA Economics' fifteenth London forecast suggests that London's Gross Value Added (GVA) growth rate should fall to -3.5 per cent in 2009. London is likely to see contractions in employment in 2009, 2010 and 2011.

### ● **Economic Evidence Base – October 2009 version**

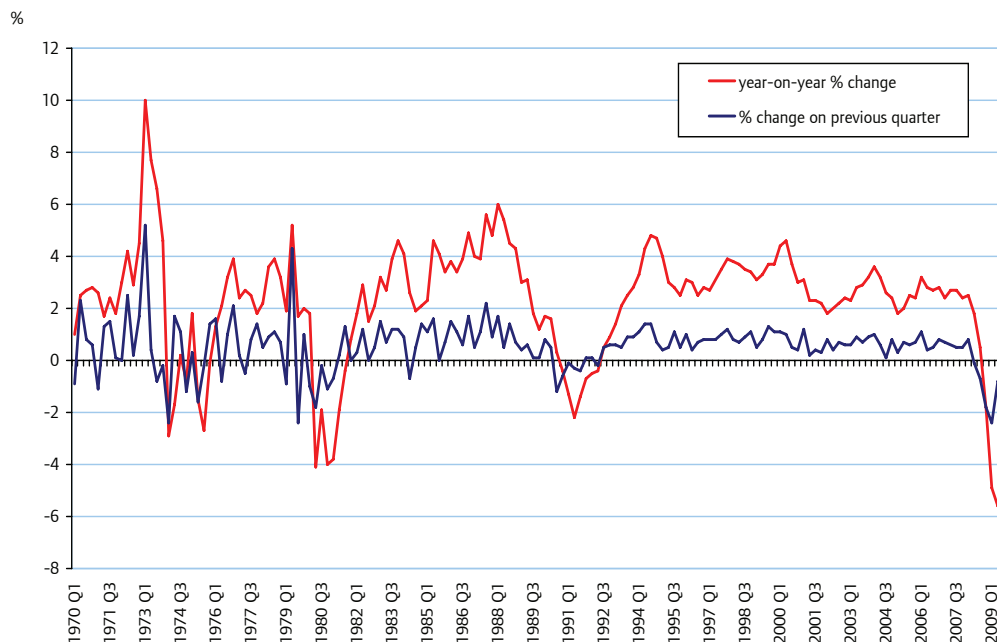
The latest Economic Evidence Base document supports the public consultation drafts of the three Mayoral strategies currently being revised: the London Plan, the Economic Development Strategy and the Transport Strategy.

Visit [www.london.gov.uk/mayor/economic\\_unit](http://www.london.gov.uk/mayor/economic_unit) to download these publications.



**Figure 1: UK GDP Growth**

Source: Office for National Statistics



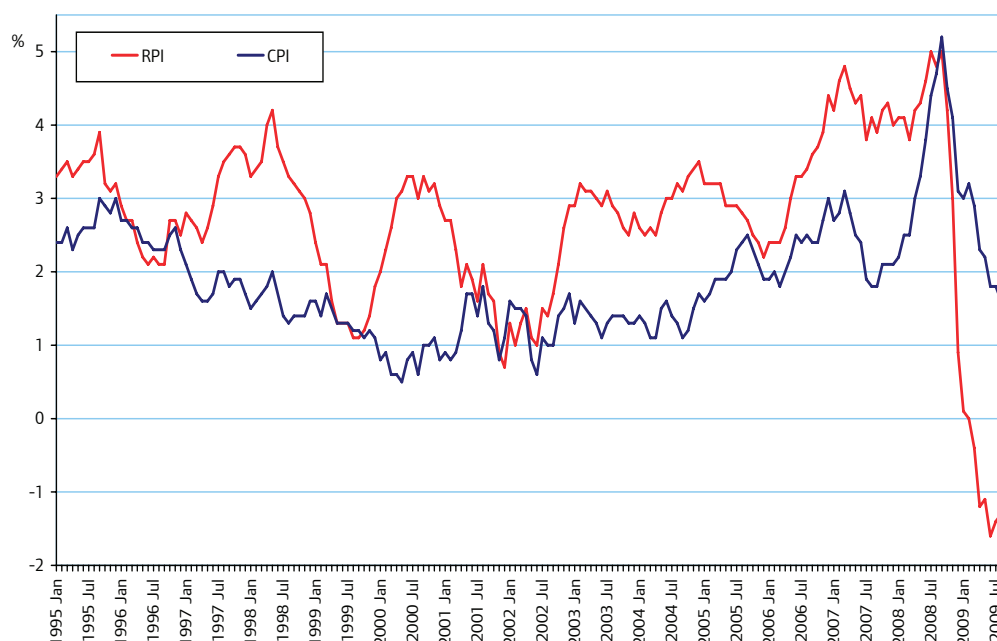
## UK CPI inflation falls to its lowest for five years but is likely to rise soon

UK Consumer Price Index (CPI) annual inflation fell to 1.1 per cent in September 2009, down from 1.6 per cent in August. This is the lowest CPI inflation has been since September 2004. Some commentators have drawn attention to the increased likelihood of the Bank of England's Monetary Policy Committee extending its policy of Quantitative Easing at its November meeting as a result. However, it should be noted that one of the big downward drivers of inflation continued to be energy prices which were lower than in September 2008 but actually rose between August and September 2009. This downward pressure on CPI inflation is expected to cease soon as the energy utility price hikes of 2008 drop out of the baseline.

**Figure 2: UK annual inflation rates**

Last data point is September 2009

Source: Office for National Statistics



## **The UK takes top spot in the World Economic Forum's Financial Development Report**

On 8 October the World Economic Forum published its Financial Development Report, which showed that the UK "buoyed by the relative strength of its banking and non-banking financial activities, claimed the Index's top spot from the United States, which slipped to third position behind Australia largely due to poorer financial stability scores and a weakened banking sector". The report ranks 55 of the world's leading financial systems and capital markets and analyses the drivers of financial system development and economic growth. The index is based on over 120 variables including institutional and business environments; financial stability; and the size and depth of capital markets. The report noted the negative effect of the financial crisis on the UK's financial stability, observing that "the breadth of factors covered in the report means that countries with high financial instability scores like the United Kingdom and US could still achieve a high relative ranking in the Index due to other strengths".

International Financial Services London has released a report showing that London's share of world hedge fund assets fell by 2 per cent in 2008, with New York growing by the same amount. This is a reversal of the trend seen between 2002 and 2007 during which London's share of assets managed by hedge funds more than doubled to 20 per cent. The report notes that the fall in London's management of assets was primarily due to larger client redemptions compared to the US. Hedge fund managers have warned of higher taxes and tougher regulation. A survey of the European fund management industry by the think tank Open Europe found that nearly half of UK fund managers were "more likely than not" to move abroad if the EU's draft alternative investment manager directive was implemented.

## **London remains the top European city for business**

The Cushman and Wakefield European Cities Monitor 2009 report published in October has again shown that London remains the top European city for business with it extending its lead slightly over Paris. The survey found that the top four factors in determining where to locate were: customers or clients; availability of quality staff; quality of telecommunications; and transport links with other cities and internationally. The survey notes that "London remains the top rated city in half of the 12 major rankings, including easy access to markets, transport links with other cities and internationally, ease of travelling within the city, availability of qualified staff, quality of telecommunications and languages spoken". London also retains its position amongst the best-known European cities, alongside Paris and Barcelona.

## **The UK is still mired in recession and will face a difficult recovery**

The Ernst & Young ITEM Club has suggested that there may be some growth in the second half of 2009 but that in 2010 the UK economy will struggle to grow by 1 per cent. One key condition for any sustained, medium term recovery will be an improvement in world trade. Some of the expected growth in the UK at the end of 2009 is likely to be driven by purchases taking place before the increase in VAT back to 17.5 per cent on 1 January 2010. However, this creates additional potential risks of weak consumption in the first quarter of 2010, especially as unemployment continues to rise.

With this UK background, recovery in the London economy is also likely to be slow and fragile (see GLA Economics' recently published forecast, London's Economic Outlook: Autumn 2009). Credit conditions remain tight for individuals and small businesses in particular. There are no signs of a rapid rebound in investment, which has suffered severely in this recession. Government fiscal retrenchment will be needed to put the UK's finances back in a sustainable position in the medium term. At least London's place as one of the very few truly 'global cities' means that it has the potential to benefit from the current improving economies in emerging market countries, such as India. However, overall, London businesses still face extremely tough economic conditions over the next couple of years.

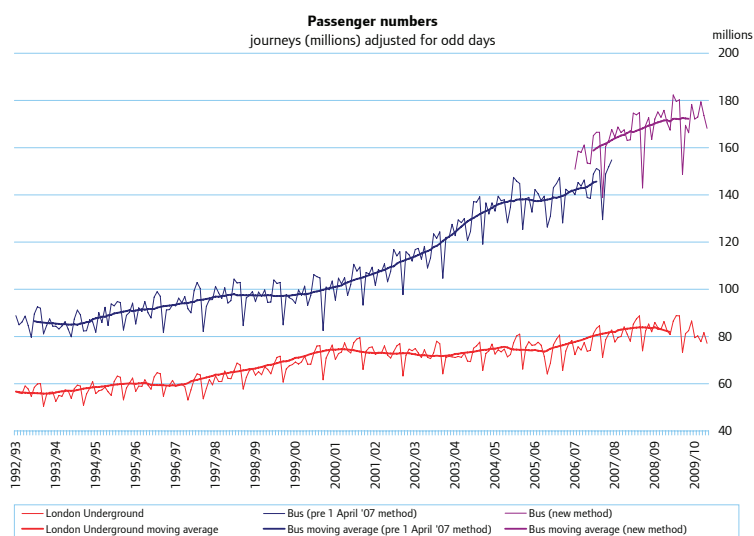
# Economic indicators

## Decrease in moving average of passenger numbers

- The most recent 28-day period is from 26 July 2009 to 22 August 2009. London's Underground and buses had 245.3 million passenger journeys; 168.2 million by bus and 77.1 million by Underground.
- The moving average of passengers every period decreased to 254.1 million from 254.7 million in the previous period. The moving average for buses was 172.2 million. The moving average for the Underground was 81.9 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET issue 58 (June 2007).

Latest release: October 2009

Next release: November 2009



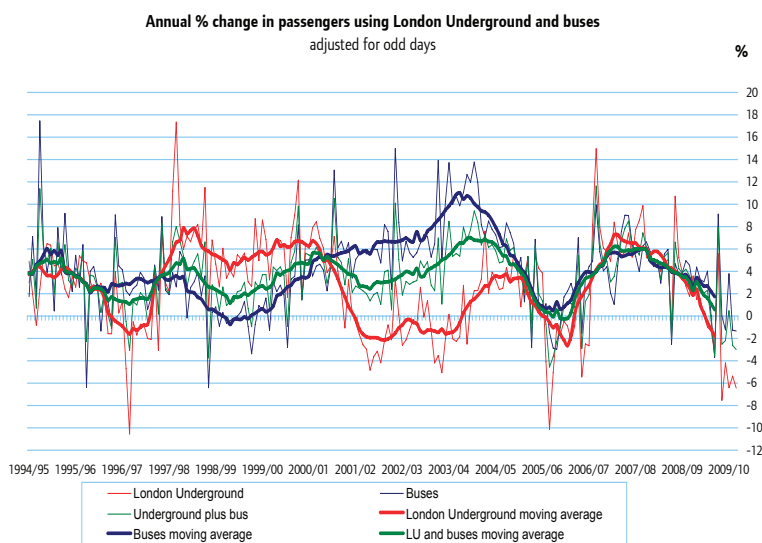
Source: Transport for London

## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 0.6% from 1.1% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.7% from 2.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -1.8% from -1.2% in the previous period.

Latest release: October 2009

Next release: November 2009



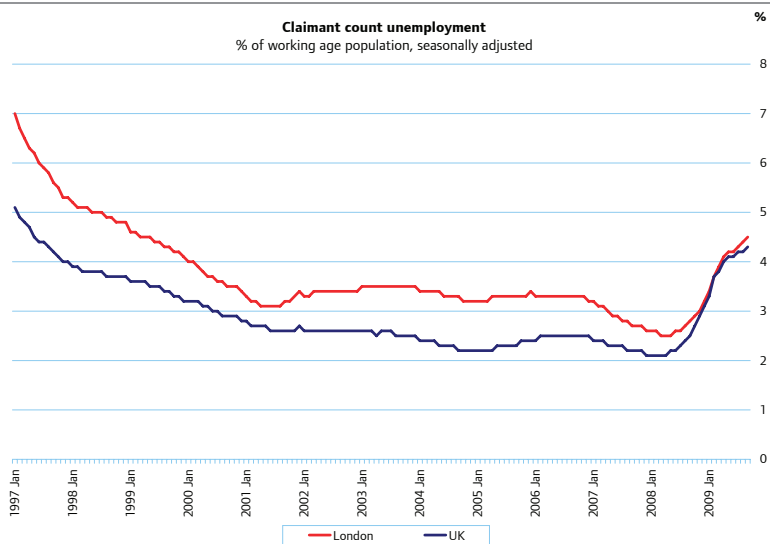
Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.5% in September 2009.
- There were 227,300 seasonally adjusted unemployment claimants in London in September compared with 223,500 in August.
- There were 1,626,800 seasonally adjusted unemployment claimants in the UK in September 2009 compared with 1,607,400 in August.

Latest release: October 2009

Next release: November 2009



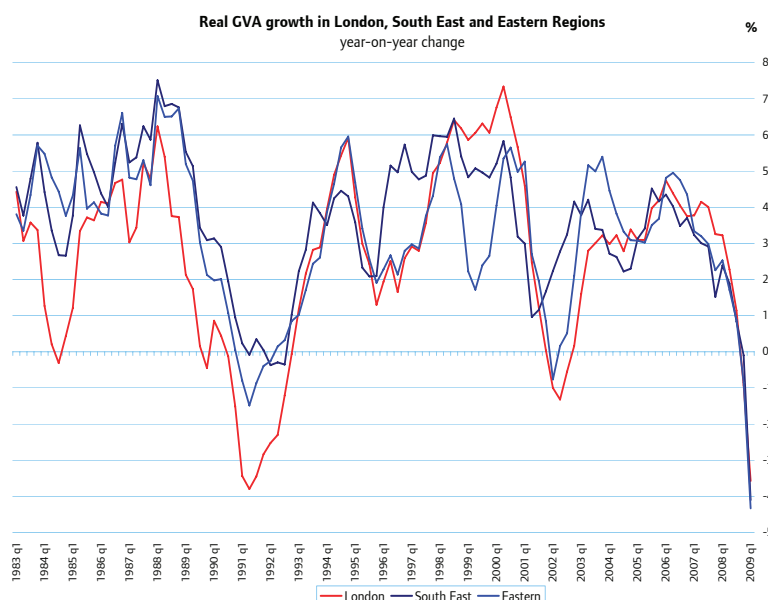
Source: Claimant Count, Nomis

## Annual output growth negative in London, the South East and the Eastern region

- London's annual growth in output decreased to -3.6% in Q1 2009 from -0.9% in Q4 2008.
- Annual output growth in the South East decreased to -4.1% in Q1 2009 from -0.1% in Q4 2008.
- Annual output growth in the Eastern region decreased to -4.3% in Q1 2009 from -0.9% in Q4 2008.

Latest release: August 2009

Next release: November 2009



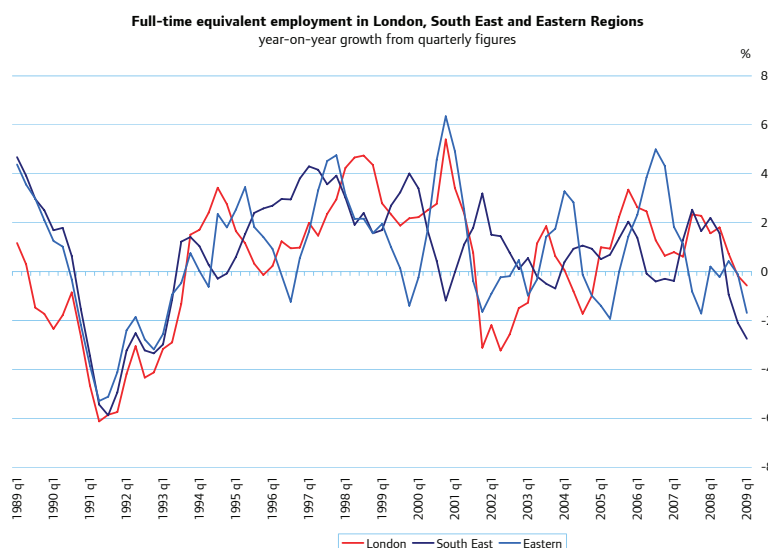
Source: Experian Business Strategies

## Annual employment growth negative in London, the South East and the Eastern region

- London's annual employment growth decreased to -0.6% in Q1 2009 from -0.2% in Q4 2008.
- Annual employment growth in the South East decreased to -2.7% in Q1 2009 from -2.1% in Q4 2008.
- Annual employment growth in the Eastern region decreased to -1.7% in Q1 2009 from -0.1% in Q4 2008.

Latest release: August 2009

Next release: November 2009



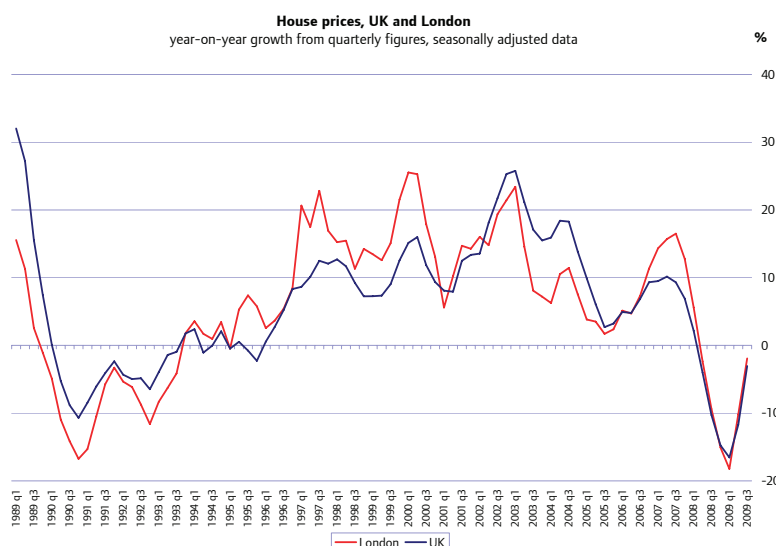
Source: Experian Business Strategies

## Annual house price deflation slows sharply

- House prices, as measured by the Nationwide, were slightly lower in Q3 2009 than in Q3 2008 in both London and the UK.
- Annual house price inflation in London was -1.9% in Q3 2009, up from -10.2% in Q2 2009.
- Annual house price inflation in the UK was -3.0% in Q3 2009, up from -11.7% in Q2 2009.

Latest release: October 2009

Next release: January 2010



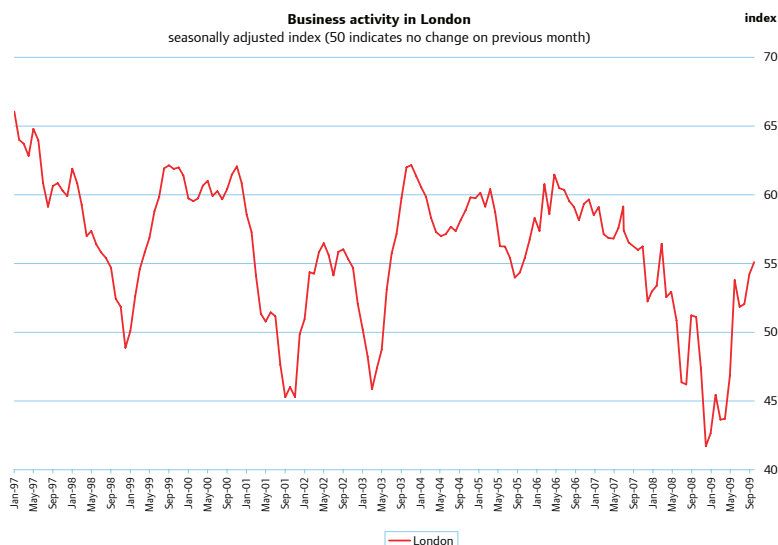
Source: Nationwide

## London's business activity continues to increase

- London firms increased their output of goods and services in September 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 55.1 in September compared to 54.2 in August.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: October 2009

Next release: November 2009



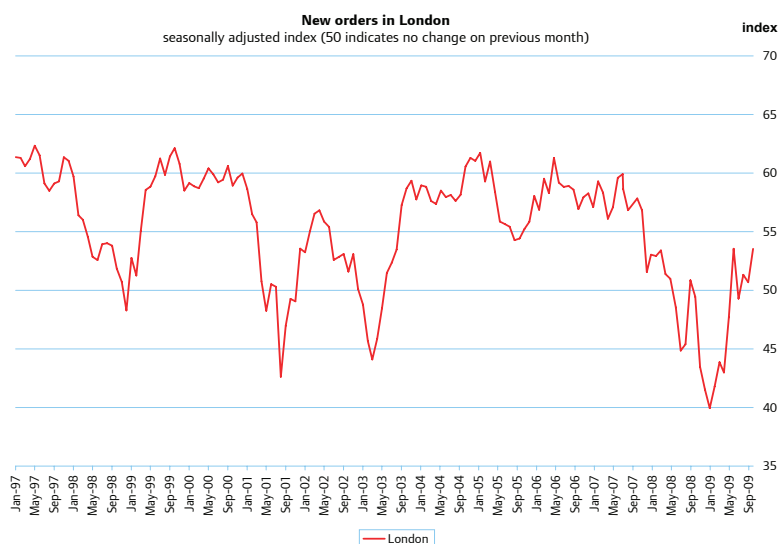
Source: Markit Economics

## New orders in London rising

- September 2009 saw a rise in new orders for London firms.
- The PMI for new orders recorded 53.5 in September compared to 50.7 in August.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: October 2009

Next release: November 2009



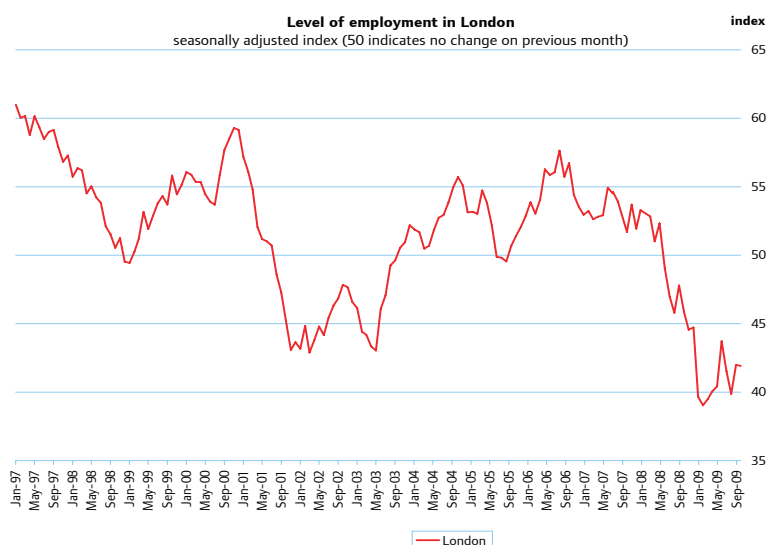
Source: Markit Economics

## London employment still falling

- The PMI shows that the level of employment in London firms decreased in September 2009.
- The PMI for the level of employment was 41.9 in September compared to 42.0 in August.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: October 2009

Next release: November 2009



Source: Markit Economics

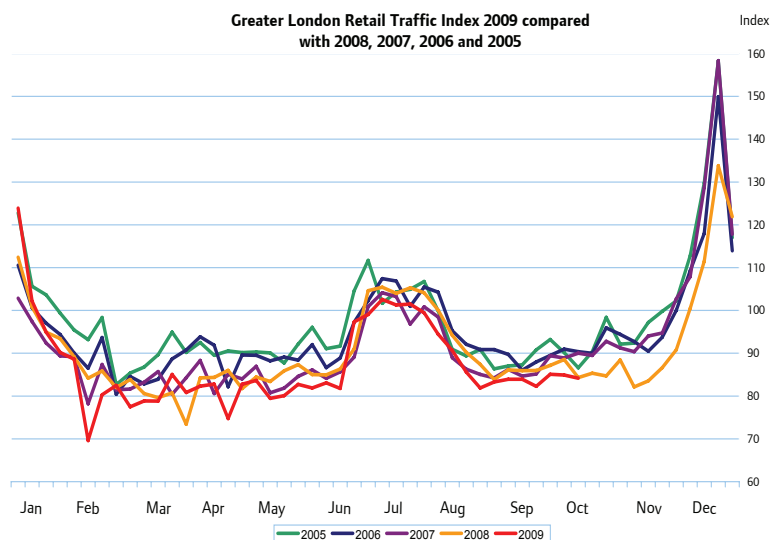


## Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 84.2 in the first full week of October compared to 84.9 in the previous week.
- The index has been below 2008 levels for the majority of 2009.
- Synovate's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-October 2009

Next release: Weekly

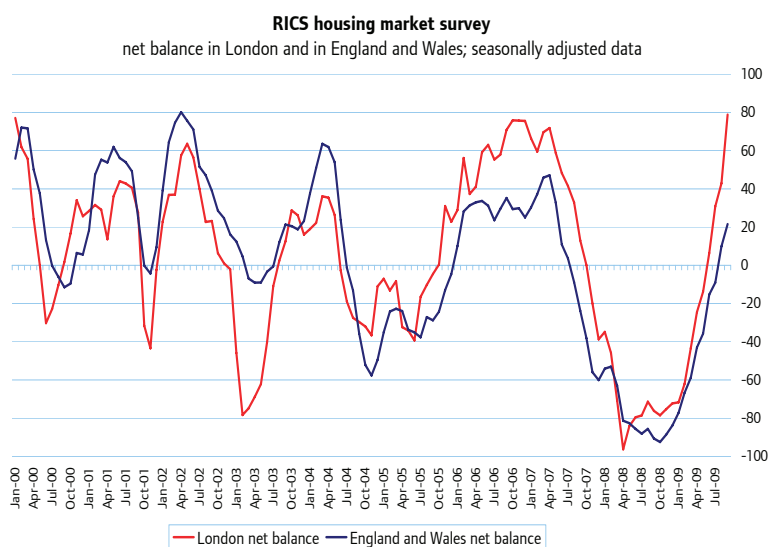


## Surveyors report that house prices are rising in London and in England and Wales

- The RICS survey shows a positive net balance of 79 for London house prices over the past three months to September 2009. This net balance is up from 43 in August 2009.
- Surveyors reported a positive net house price balance for England and Wales of 22 in the past three months to September 2009, up from 10 in August 2009.
- London's net house price balance is above that of England and Wales.

Latest release: October 2009

Next release: November 2009

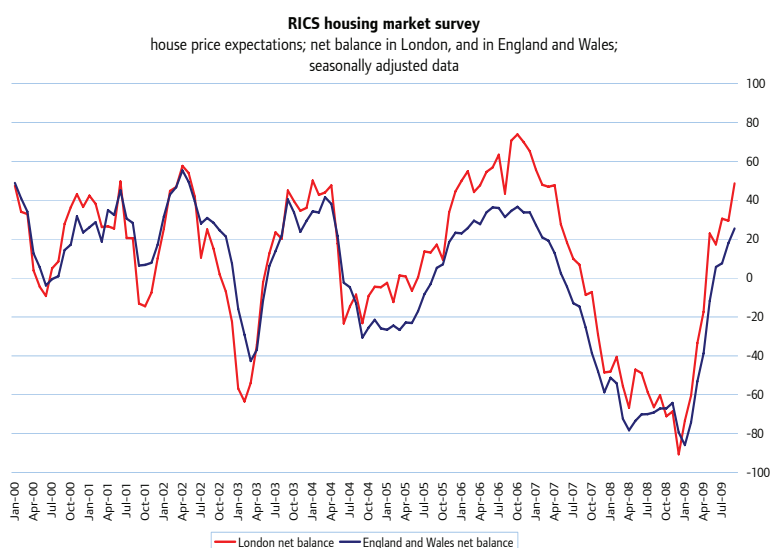


## Surveyors expect house prices to increase

- The RICS survey shows that surveyors expect house prices to increase over the next three months in London and in England and Wales.
- The net house price expectations balance in London was 49 in September 2009, up from 29 in August 2009.
- For England and Wales, the net house price expectations balance was 25 in September 2009, up from 18 in August 2009.

Latest release: October 2009

Next release: November 2009





## Data sources

### Tube and bus ridership

Transport for London on 020 7222 5600  
or email: [enquire@tfl.gov.uk](mailto:enquire@tfl.gov.uk)

### GVA growth

Experian Business Strategies on 020 7630 5959

### Tourism – overseas visitors

[www.statistics.gov.uk](http://www.statistics.gov.uk)

### Tourism – domestic visitors

[www.visitlondon.com](http://www.visitlondon.com)

### London airports

[www.caa.co.uk](http://www.caa.co.uk)

### Unemployment rates

[www.statistics.gov.uk](http://www.statistics.gov.uk)

## Glossary

### Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

### Claimant count unemployment

Unemployment based on the number of people claiming unemployment benefits.

### Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

### Gross domestic product (GDP)

A measure of the total economic activity in the economy.

### Gross value added (GVA)

Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

### Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2009/10 there are eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April.

### Bus ridership

Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2009/10 there are eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April.

## Acronyms

<b>ABI</b>	Annual Business Inquiry
<b>BAA</b>	British Airports Authority
<b>BCC</b>	British Chamber of Commerce
<b>BITOA</b>	British Incoming Tour Operators Association
<b>CAA</b>	Civil Aviation Authority
<b>CBI</b>	Confederation of British Industry
<b>DCLG</b>	Department for Communities and Local Government
<b>EBS</b>	Experian Business Strategies
<b>GDP</b>	Gross domestic product

<b>GVA</b>	Gross value added
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>LCCI</b>	London Chamber of Commerce and Industry
<b>LET</b>	London's Economy Today
<b>MPC</b>	Monetary Policy Committee
<b>ONS</b>	Office for National Statistics
<b>PMI</b>	Purchasing Managers' Index
<b>PWC</b>	PricewaterhouseCoopers
<b>RICS</b>	Royal Institution of Chartered Surveyors

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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.

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