

London's Economy Today

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<http://data.london.gov.uk/londons-economy-today>

Chancellor's Autumn Statement announces measures to boost growth though austerity will last longer

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Simon Kyte**, Economist

On 5 December the Chancellor of the Exchequer, George Osborne, delivered his Autumn Statement. To help boost growth prospects he announced a shift from current to capital spending; a further future 1 per cent point cut in corporation tax in April 2014; a tenfold temporary increase in plant and machinery capital allowances; and for London, £1 billion of loans and guarantees for the Northern Line Extension and for the Battersea site.

Government departmental budgets are to be cut a further 1 per cent in 2013/14 but local authorities will be protected in 2013/14 from this additional cut as they will be contributing to the fiscal targets through the council tax freeze. With respect to the struggling construction industry the Government, subject to consultation, plans to exempt all newly built commercial property completed between 1 October 2013 and 30 September 2016 from empty property rates for the first 18 months, up to the state aids limit (around £55,000 per annum). A Spending Review has been announced for the first half of 2013.

Latest news...

December updates on the London Dashboard - <http://data.london.gov.uk/london-dashboard>

The London Dashboard's purpose is to further open up London's data, and use it to increase transparency, which will drive accountability and improvement in public services, ultimately so that the public has greater confidence in the organisations that deliver them.

View key trends and download any of the datasets for:

Jobs and Economy, Housing, Transport, Policing & Crime, Fire & Rescue, Health, Environment, Tourism, and Communities.

The Autumn Statement extended fiscal consolidation for one further year, into 2017/18. The ratio of public spending to GDP is set to fall to around 40 per cent in 2017/18, from almost 48 per cent in 2009/10. The Office for Budget Responsibility (OBR) has reduced its 2012 UK growth forecast to -0.1 per cent from 0.8 per cent. The 2013 forecast has been cut to 1.2 per cent from 2.0 per cent and the 2014 forecast has been cut to 2.0 per cent from 2.7 per cent. The OBR expects the public sector deficit to fall to 6.9 per cent of GDP in this financial year (2012/13) and to fall to 1.6 per cent by 2017/18. Net government debt is now forecast to peak at 79.9 per cent of GDP in 2015/16 before falling (to 77.3 per cent by 2017/18). The OBR estimates that between the start of 2011 and the start of 2018 total market sector employment will increase by around 2.4 million, while general government employment will be reduced by 1.1 million.

Most working age benefits will now be uprated by 1 per cent for three years from April 2013. Disability benefits though will go up in line with inflation. More people will be taken out of paying income tax altogether as the personal income tax-free allowance will now rise to £9,440 in April 2013 instead of the scheduled rise to £9,205. However, the tax free allowance for pension contributions will see a further cut in 2014/15, from £50,000 per annum to £40,000 (having already been cut from £225,000), with the lifetime pension contribution allowance cut to £1.25 million from £1.5 million.

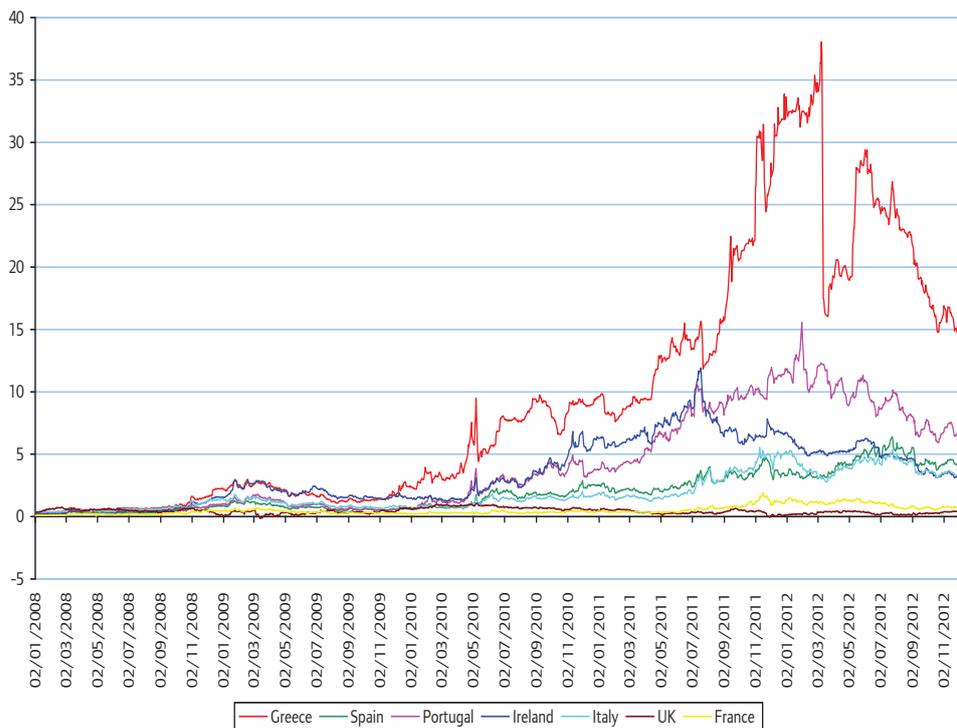
Economic prospects for the Eurozone look bleak in 2013

The prospects for economic growth in the Eurozone in 2013 look bleak with the European Central Bank (ECB) revising down its growth forecast to between -0.9 per cent and 0.4 per cent. Its forecast for 2014 is now of growth between 0.2 per cent and 2.2 per cent. Meanwhile the OECD expects the Eurozone to contract in 2012 and 2013 by -0.4 per cent and -0.1 per cent respectively before growing by 1.3 per cent in 2014. For comparison the OECD forecasts that the UK economy will contract by -0.1 per cent in 2012 and then grow by 0.9 per cent in 2013 and by 1.6 per cent in 2014. Spreads over German Government Bund yields for other Eurozone countries remain elevated (see Figure 1) and Moody's has downgraded the credit rating of the European Stability Mechanism (ESM) to Aa1 from AAA. Meanwhile the likelihood of a banking union in the Eurozone has increased after agreement by Eurozone finance ministers on 13 December to cede powers to a common bank supervisor. The aim is that the ECB will begin supervising around 200 banks with assets over €30 billion (or smaller Eurozone banks if they have assets representing more than a fifth of their home countries national output) by early 2014.

Figure 1: Ten-year government bond spreads over German government bonds, percentage points

Last data point: 17/12/12

Source: EcoWin



Recovery to remain bumpy and at risk from the US 'fiscal cliff'

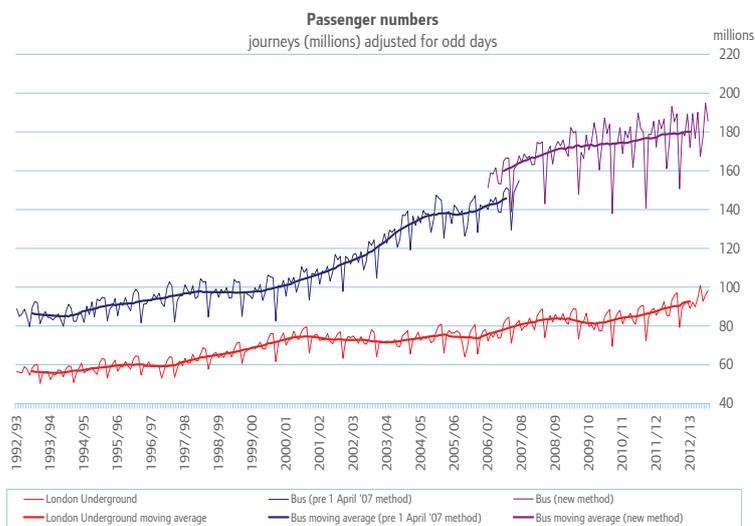
Recently published forecasts for the UK economy remain dismal reading. The latest forecast from the CBI in December predicted 0 per cent UK growth for 2012, 1.4 per cent growth in 2013 and 2 per cent growth in 2014. Meanwhile the latest forecast from the British Chamber of Commerce expects the UK economy to contract by -0.1 per cent in 2012 before growing by 1 per cent in 2013 and by 1.8 per cent in 2014. Fitch has cast doubt on the UK's AAA sovereign credit rating and Standard & Poor's has put the UK's AAA rating on a negative outlook due to the weak recovery and the state of public finances. With this background of a struggling UK economy and a seemingly never ending Eurozone sovereign debt crisis it is unsurprising that London's economy is facing the prospect of relatively slow growth next year. The ICAEW/Grant Thornton UK Business Confidence Monitor Report for Q4 2012 which surveyed firms between 23 July to 25 October 2012 found that business confidence in London remained "at a low level, with companies on average expecting little improvement in business conditions over the next 12 months". The main bright spot in the world economy is China where it seems that growth is no longer slowing. The US Federal Reserve has extended its ultra loose monetary policy which is supporting the labour market. However, there is yet to be a political resolution to the 'fiscal cliff' that the US is facing at the beginning of 2013. If there is complete deadlock over this issue the risk that the US will plunge back into recession is high with the large negative impact that this will have on the global, UK and London economies.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28 day period is from 14 October to 10 November 2012. Adjusted for odd days, London's Underground and buses had 283.8 million passenger journeys; 185.6 million by bus and 98.2 million by Underground.
- The moving average of passengers every period increased to 272.7 million from a downwardly-revised 272.5 million in the previous period. The moving average for buses was 180.1 million. The moving average for the Underground was 92.6 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: December 2012
Next release: January 2013

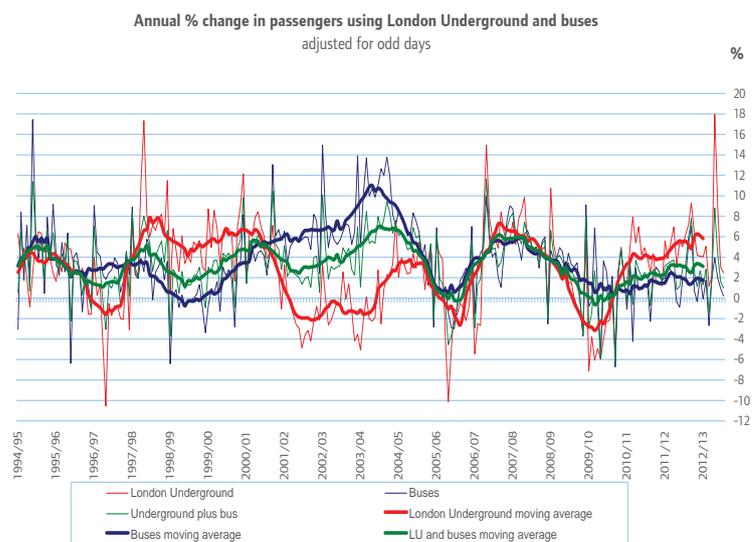


Source: Transport for London

Average annual growth rate of passengers decreases

- The moving average annual rate of growth in passenger journeys decreased to 3.1% from a downwardly-revised 3.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.7% from a downwardly-revised 1.9% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 5.8% from 6.1% in the previous period.

Latest release: December 2012
Next release: January 2013

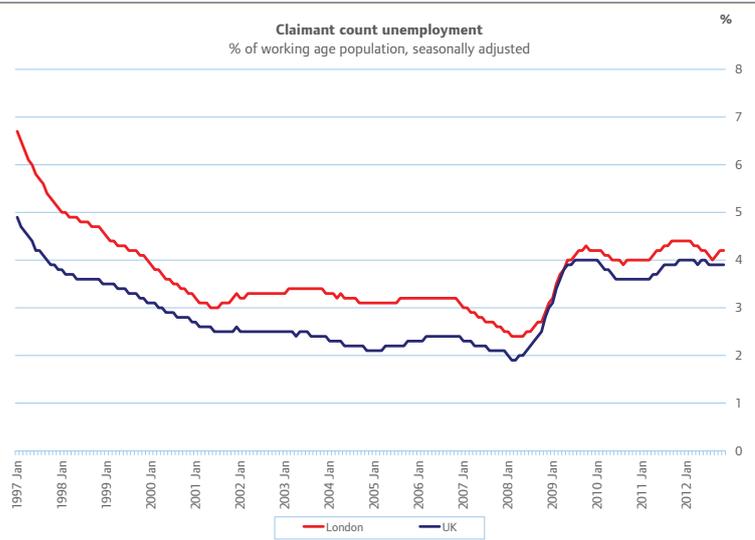


Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in November 2012.
- There were 225,400 seasonally adjusted unemployment claimants in London in November 2012 compared to a downwardly revised 224,200 in October 2012.
- There were 1,575,100 seasonally adjusted unemployment claimants in the UK in November 2012 compared to a downwardly revised 1,578,100 in October 2012.

Latest release: December 2012
Next release: January 2013



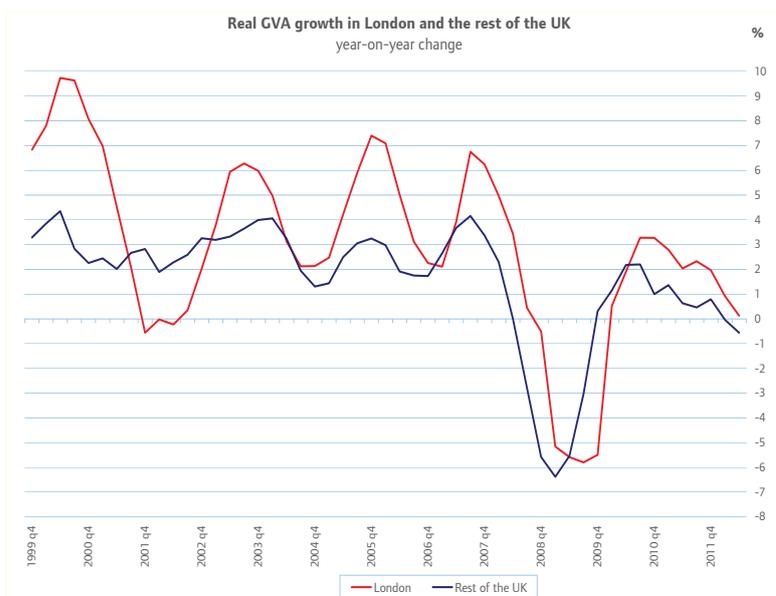
Source: Claimant Count, Nomis

Annual output growth slowed in Q2 2012

- London's annual growth in output decreased to 0.1% in Q2 2012 from an upwardly-revised 0.9% in Q1 2012.
- Annual output growth in the rest of the UK decreased to -0.6% in Q2 2012 from an upwardly-revised 0.0% in Q1 2012.
- In Q2 2012 London's annual growth rate was faster than in the rest of the UK.

Latest release: November 2012

Next release: February 2013



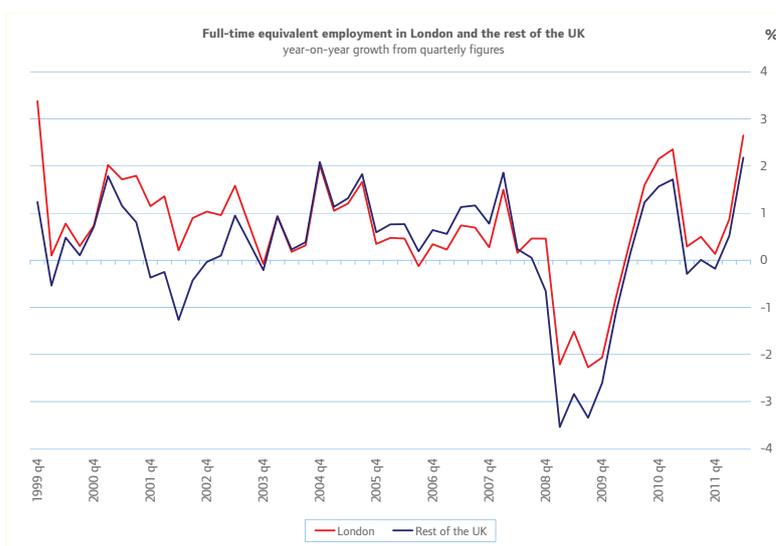
Source: Experian Economics

Stronger annual employment growth in London than in the rest of the UK in Q2 2012

- London's annual employment growth increased to 2.6% in Q2 2012 from an upwardly-revised 0.9% in Q1 2012.
- Annual employment growth in the rest of the UK increased to 2.2% in Q2 2012 from an upwardly-revised 0.5% in Q1 2012.
- In Q2 2012 London's annual employment growth was stronger than in the rest of the UK.

Latest release: November 2012

Next release: February 2013



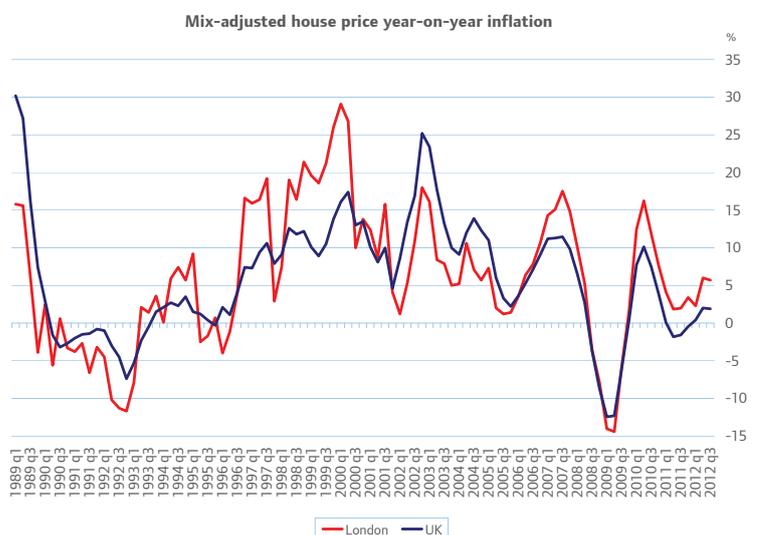
Source: Experian Economics

Annual house price inflation higher in London than in the UK

- The Office for National Statistics (ONS) house price index is an official measure of house prices. It is available up to Q3 2012.
- Annual house price inflation in London was 5.7% in Q3 2012, down from a downwardly-revised 6.0% in Q2 2012.
- Annual house price inflation in the UK was 1.9% in Q3 2012, down from 2.0% in Q2 2012.

Latest release: November 2012

Next release: February 2013



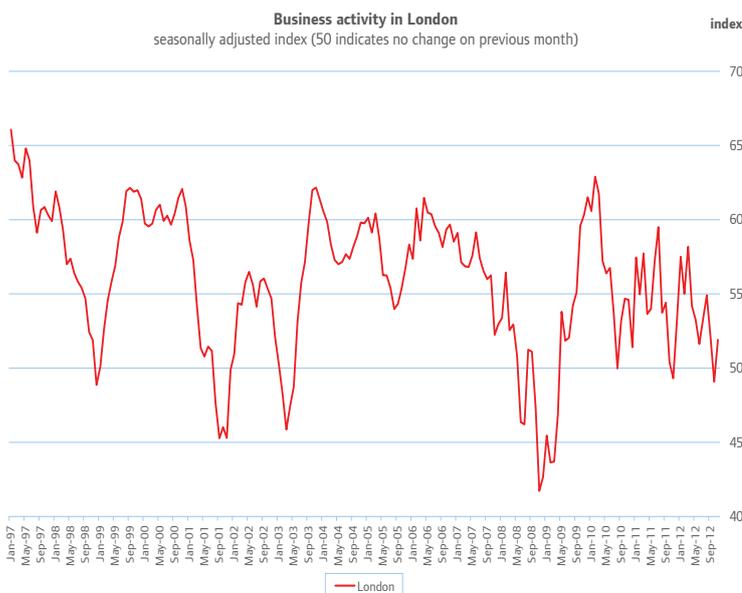
Source: Office for National Statistics

London's business activity increasing

- London firms increased their output of goods and services in November 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 51.9 in November 2012 compared to 49.1 in October 2012.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: December 2012

Next release: January 2013



Source: Markit Economics

New orders in London rising

- November 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 52.9 in November 2012 compared to 52.6 in October 2012.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: December 2012

Next release: January 2013



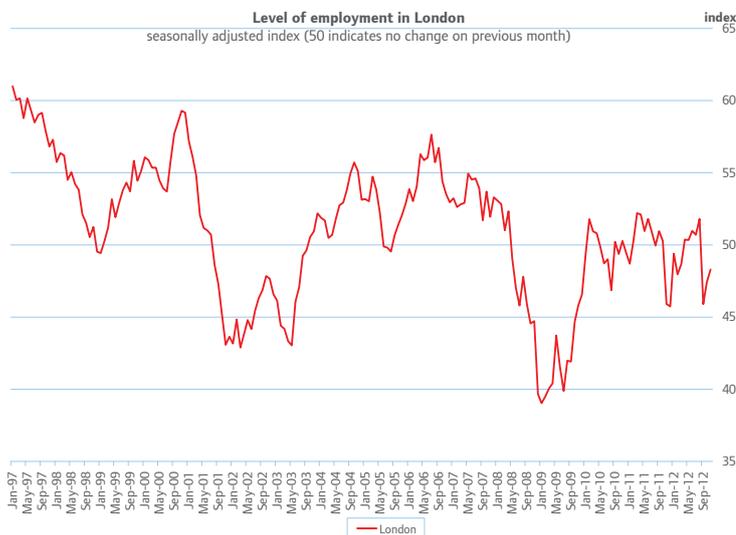
Source: Markit Economics

Businesses report lower employment in November

- The PMI shows that the level of employment in London firms decreased in November 2012.
- The PMI for the level of employment was 48.3 in November 2012 compared to 47.4 in October 2012.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: December 2012

Next release: January 2013



Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 40 for London house prices over the three months to November 2012.
- Surveyors reported a negative net house price balance for England and Wales of -9 over the three months to November 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: December 2012

Next release: January 2013

RICS housing market survey
net balance in London and in England and Wales; seasonally adjusted data



Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices to rise over the next three months in London but to fall in England and Wales.
- The net house price expectations balance in London was 23 in November 2012.
- For England and Wales, the net house price expectations balance was -6 in November 2012.

Latest release: December 2012

Next release: January 2013

RICS housing market survey
house price expectations; net balance in London, and in England and Wales;
seasonally adjusted data



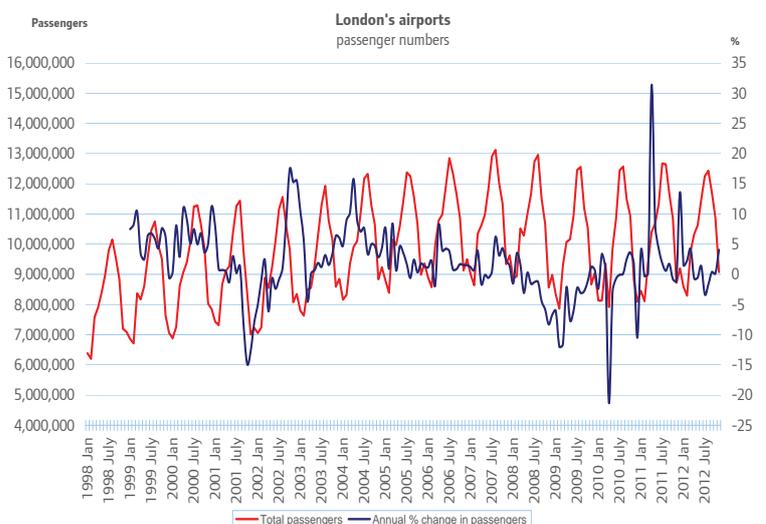
Source: Royal Institution of Chartered Surveyors

Increase in year-on-year airport passenger numbers

- 9.1 million passengers travelled through London's airports in November 2012.
- The number of passengers using London's airports increased by 4.1% from November 2011 to November 2012.
- Airport passenger numbers fell during the 2008/09 recession and are still below pre-2008/09 recession levels.

Latest release: December 2012

Next release: January 2013



Source: Civil Aviation Authority

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
Unemployment rates	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 2012/13 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2012.

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 2012/13 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2012.

Acronyms

ABI	Annual Business Inquiry	IMF	International Monetary Fund
BAA	British Airports Authority	LCCI	London Chamber of Commerce and Industry
BCC	British Chamber of Commerce	LET	London's Economy Today
CAA	Civil Aviation Authority	MPC	Monetary Policy Committee
CBI	Confederation of British Industry	ONS	Office for National Statistics
CLG	Communities and Local Government	PMI	Purchasing Managers' Index
GDP	Gross domestic product	PWC	PricewaterhouseCoopers
GVA	Gross value added	RICS	Royal Institution of Chartered Surveyors
ILO	International Labour Organisation		

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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.