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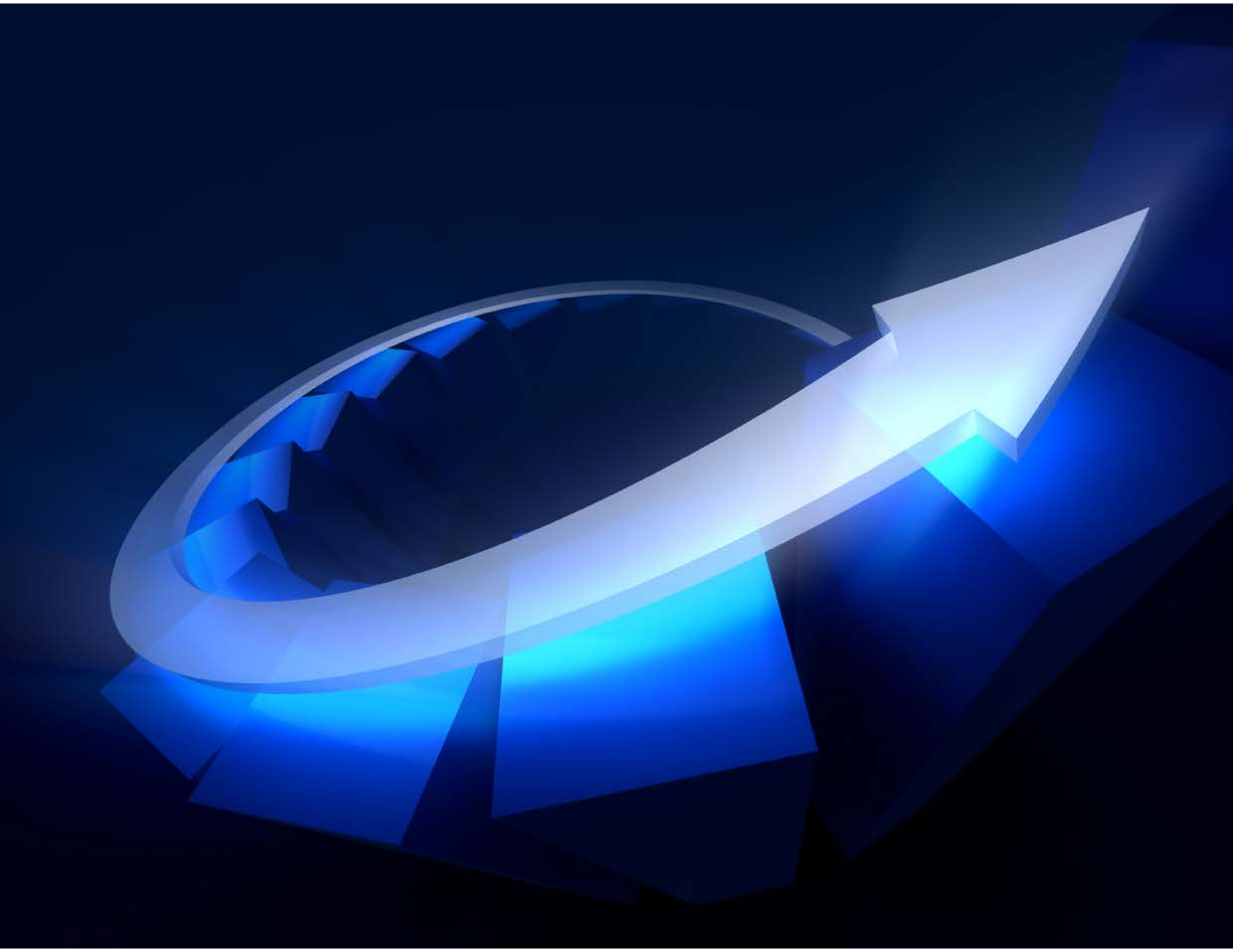
London's Economic Outlook: Spring 2013
The GLA's medium-term planning projections

July 2013



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1. Executive summary

GLA Economics' twenty second London forecast[1] suggests that:

London's Gross Value Added (GVA) growth rate should be 1.9 per cent in 2013. Growth should increase to 2.4 per cent in 2014 and 2.5 per cent in 2015.

London is likely to see a moderate rise in employment in 2013, 2014 and 2015.

London household income and spending will both probably increase slowly over the forecast period.

Table 1.1 summarises this report's forecasts and provides an average of independent forecasts.

Table 1.1: Summary of forecasts

Annual growth rates (per cent)	**2012**	**2013**	**2014**	**2015**
London GVA (constant 2009 £ billion)	1.4	1.9	2.4	2.5
Consensus (average of independent forecasts)		1.1	2.0	2.4
London civilian workforce jobs	2.9	0.6	0.7	0.7
Consensus (average of independent forecasts)		0.9	0.9	0.9
London household spending (constant 2009 £ billion)	1.7	1.5	2.4	2.7
Consensus (average of independent forecasts)		1.6	2.1	2.6
London household income (constant 2009 £ billion)	2.8	1.6	2.4	2.7
Memo: Projected UK RPI[2] (Inflation rate)	3.2	3.3	3.0	3.2
Projected UK CPI[3] (Inflation rate)	2.8	2.8	2.4	2.3

Sources: GLA Economics' Spring 2013 forecast and consensus calculated by GLA Economics

1 The forecast is based on an in-house model built by Volterra Consulting Limited.
2 RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2013 of the UK RPI inflation rate are reported.
3 CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2013 of the UK CPI inflation rate are reported. Since December 2003 the Bank of England's symmetrical inflation target has been annual CPI inflation at two per cent.

A summary of recent economic data indicates that London's economy continues to outperform the UK as a whole but still remains in a weakened position. Most economic indicators show a modest improvement in the London economy, with them having generally improved slightly in the early months of 2013. However, the continuing uncertainty caused by the Eurozone crisis may impact on business investment decisions and consumer spending. Consumer confidence remains weak and average earnings are currently growing at record low levels[4] and are likely to remain subdued for some time yet. However, inflation is expected to remain relatively contained for the next few years which should help to check any further erosion of real wages. Employment growth is expected to be moderate over the next few years so although increases in private sector employment is likely to outweigh public sector job losses, unemployment could well be quite sticky. The on-going fiscal retrenchment by the Government, highlighted by further details in the recent spending round for 2015/16[5], is likely to dampen economic growth in the short run but should provide some support to market confidence in the country's finances. Fiscal tightening should keep downward pressure on market interest rates, which should encourage private sector investment.

As has been the case for a number of years now the largest downside risk to the economy still remains the size of public finance deficits in a number of developed economies and the possibility of a worsening of the sovereign debt crisis in the Eurozone. The worst case scenario would see disorderly sovereign debt defaults or a disorderly exit from the Eurozone of member states which would greatly stress the financial system in ways that are hard to predict; with the best case scenario seeing a recession or stagnant growth in the Eurozone for the next few years, which will act as a drag on UK trade. The US economic recovery continues, although at a pace that is subdued compared to earlier recoveries and with the worst effects of the 'fiscal cliff' so far having been avoided. Inflation is also moderate but is expected to remain slightly above the Bank of England's 2 per cent target for the next couple of years. However, if commodity price shocks result from the current instability in the Middle East these could lead to further inflationary pressures. In response to this and the continuing weakness in the UK economy, interest rates are expected to be kept low by the Bank of England over the next few years and the recent rounds of quantitative easing are unlikely to be wound back soon. Sterling remains weaker than its pre 2008/09 recession levels and has recently depreciated against both the Euro and Dollar; this should provide support to the economy from import substitution and improved export competitiveness. A competitive exchange rate benefits London's tourism sector and encourages inward foreign investment. However, any benefits from a competitive exchange rate will be dampened if the global economy remains in the doldrums. As noted previously any improvement in the economy in the medium term is most likely to be led by net trade and private sector investment rather than by public sector and household consumption. Overall the short-term prospects for the economy remain relatively subdued, with households remaining under pressure due to low real wage growth.

[4] ONS, 'Record low growth in average weekly earnings excluding bonuses', 15 May 2013.
[5] HM Treasury, 'Spending Round 2013', June 2013.

2. Introduction

The spring 2013 edition of *London's Economic Outlook* (LEO) is GLA Economics' twenty second London forecast. The forecasts are issued every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economies with analysis of important events, trends and risks to short and medium-term growth (Section 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Section 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Section 5).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. GLA Economics' forecast is based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)[6]
- Experian Economics (EE)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely but these are not shown here. The low and high forecasts combine the lowest and highest forecasts respectively taken from each year separately and which, may therefore, come from different forecasters. High and low estimates therefore may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is most *likely* to happen, not what will *definitely* happen.

[6] CEBR does not provide a forecast for employment in the sectors of the London economy or for household expenditure in London.

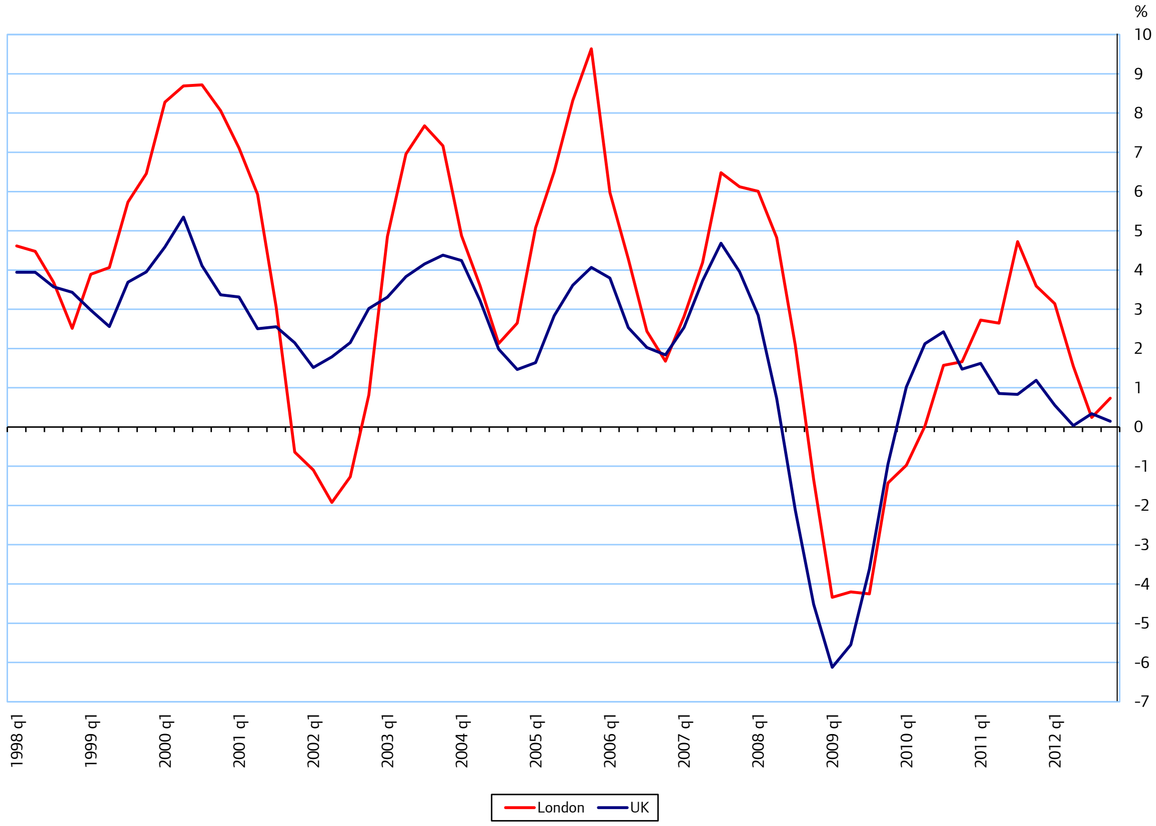
3. Economic background: Eurozone problems continue as emerging economies slow

This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's annual growth in output stood at 0.7 per cent in the final quarter of 2012 compared to 0.1 per cent in the UK (see Figure 3.1). London's economic recovery continues with indicators suggesting that the London economy has performed slightly better than the UK economy so far in 2013.

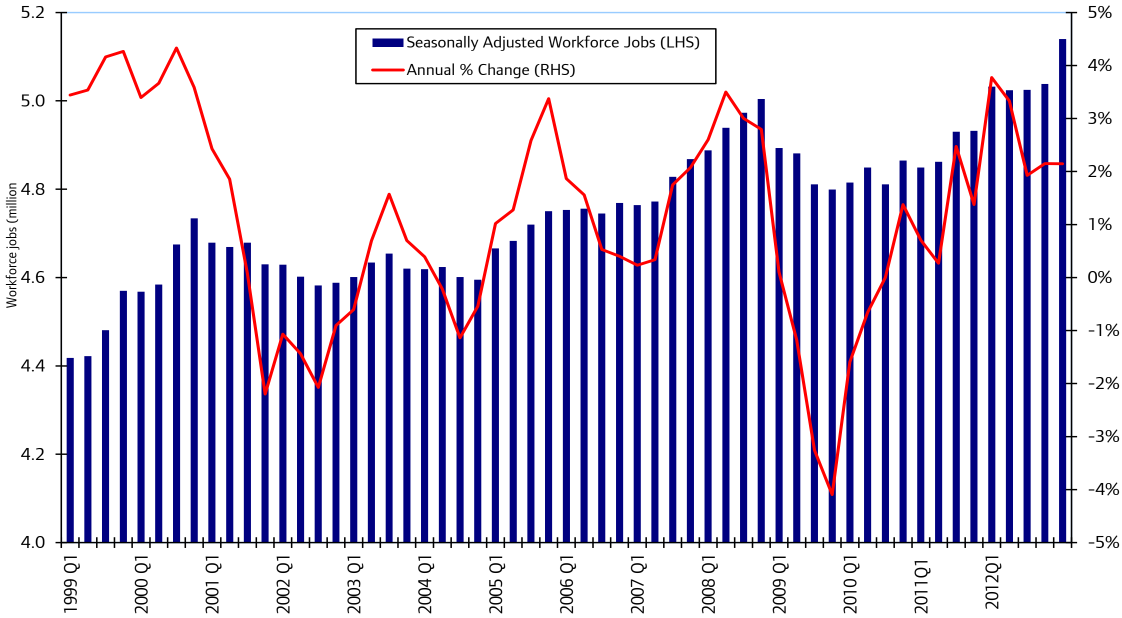
Figure 3.1: Output growth – London and UK
Real GVA, annual % change, last data point is Q4 2012



Source: Experian Economics

Annual employment growth in London remained strong in Q1 2013 at 2.1 per cent. The total number of workforce jobs in London was just over 5.1 million in Q1 2013 (see Figure 3.2).

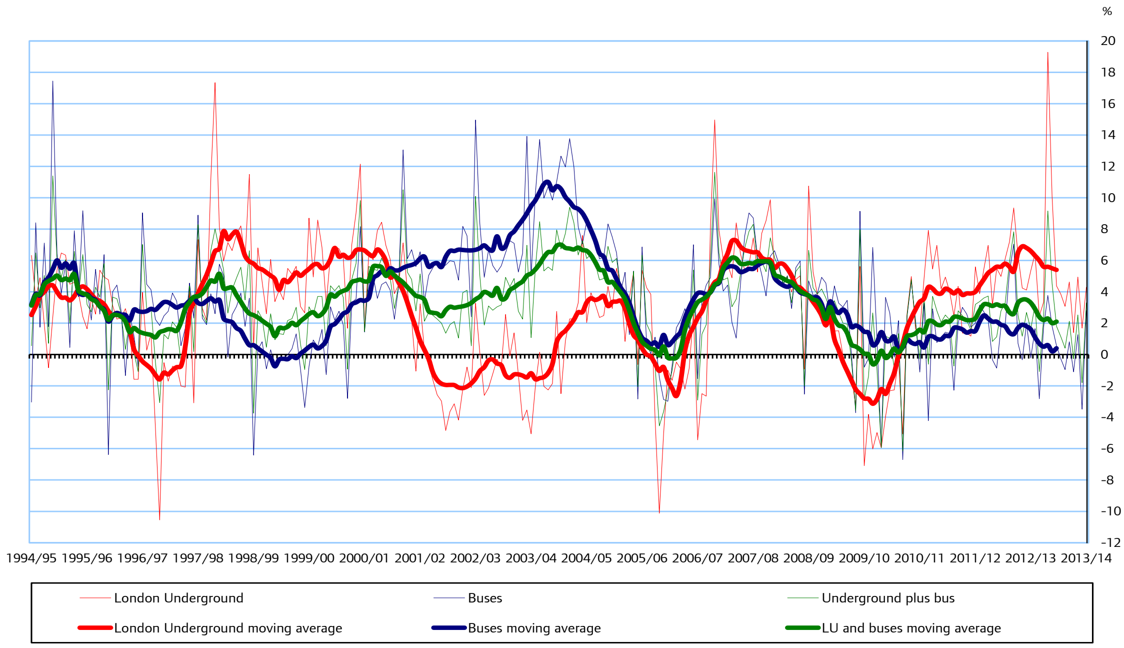
Figure 3.2: London civilian workforce jobs
Level and annual % change, last data point is Q1 2013



Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows that there is positive annual growth in both the moving average of bus travel and underground usage. Annual growth in underground usage is currently stronger than that for bus travel.

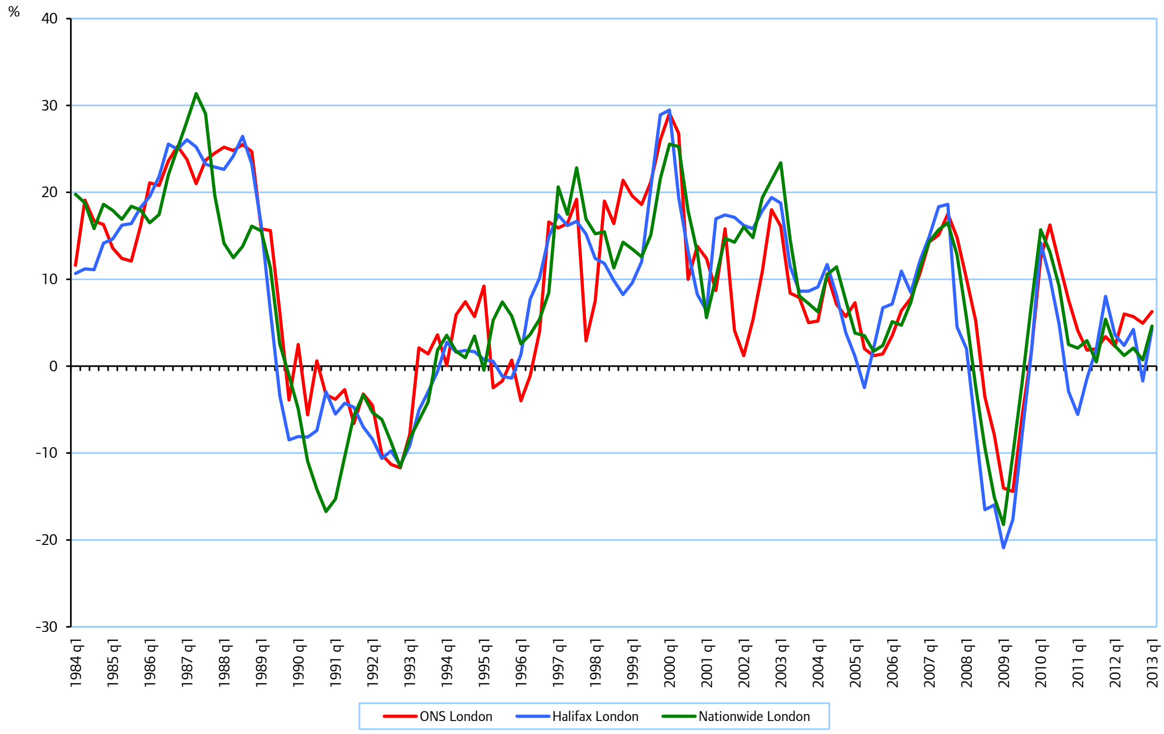
Figure 3.3: London public transport usage
Annual % change in passengers using London Underground and buses (adjusted for odd days). Last data point is the 27-day period ending 27/4/13



Source: Transport for London

Annual house price inflation weakened in the second half of 2007 and turned negative in 2008. Since then the London housing market has generally strengthened partly on the back of demand from overseas buyers[7]. Annual house price inflation in London as measured by the Halifax, Nationwide, and the ONS was positive in Q1 2013 (see Figure 3.4).

Figure 3.4 House price inflation in London
Annual % change, last data point is Q1 2013



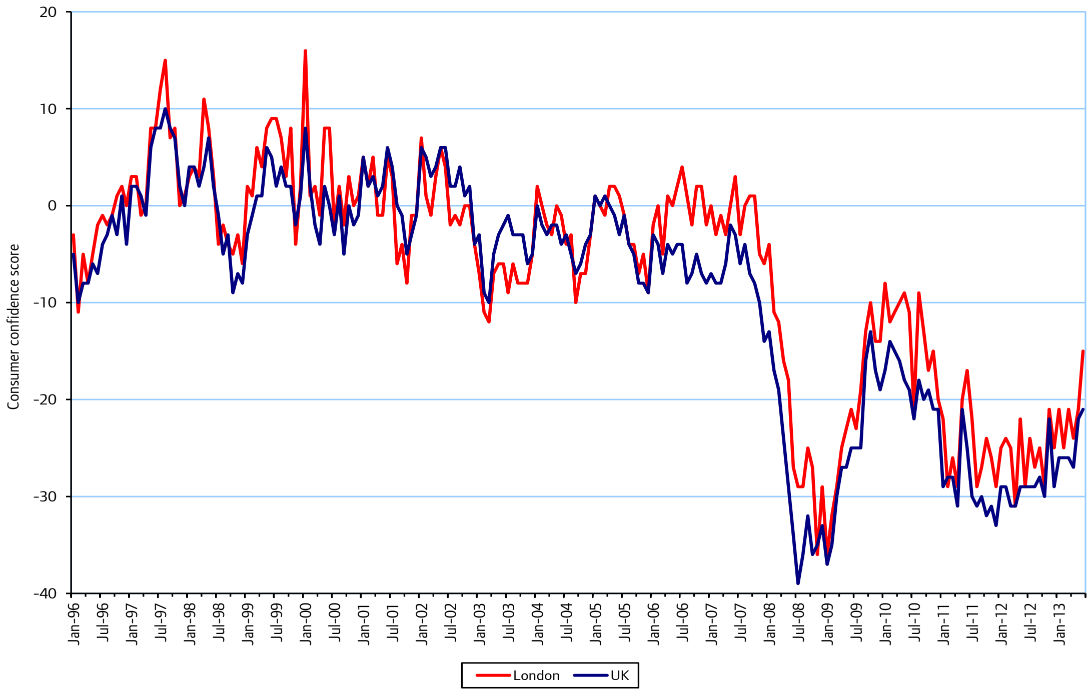
Sources: ONS, Halifax house price index, Nationwide

Knight Frank's 'Central London Quarterly' for commercial property showed that "take-up totalled 2.6 m sq ft, although this was heavily influenced by Google's purchase of its 800,000 sq ft headquarters building which boosted the results in an otherwise slow quarter. However, sentiment remains positive" whilst "availability rose by 8% to 17.9 m sq ft, which remains 9% below the long-term average." Meanwhile "investment turnover fell to £2.6 bn, although interest in Central London assets from both domestic and overseas investors remained strong"; and "prime yields were stable in both City and West End markets"[8].

GfK NOP's regional consumer confidence index (Figure 3.5) shows that consumer confidence has deteriorated in London since summer 2010 despite picking up in June but stands higher than in the UK as a whole. Consumer confidence is above the level at the depth of the 2008/09 recession. The index reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months.

[7] The Financial Times, 'London housing widens wealth gap', 1 February 2013.
[8] Knight Frank, Central London Quarterly - Offices, Q1 2013.

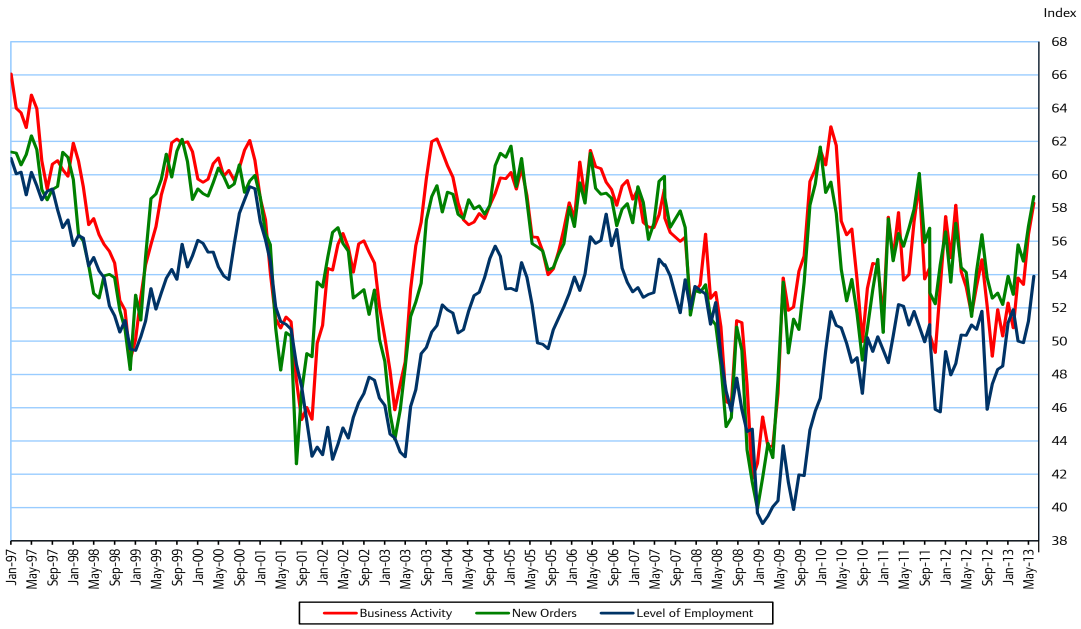
Figure 3.5: GfK NOP's regional consumer confidence index
Consumer confidence score, last data point is June 2013



Sources: GfK NOP on behalf of the European Commission

The PMI business survey indicates that business activity has been expanding since May 2009 (apart from the months of August 2010, November 2011 and October 2012) and new orders continue to rise. Employment in London firms rose in the first two months of 2013 but then stagnated in March 2013 and fell in April 2013 before rising once more in May and June 2013 (see Figure 3.6).

Figure 3.6: Recent survey evidence on London's economic climate
Purchasing Manager's Index (PMI) survey, last data point June 2013
Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Markit Economics

3.2 The UK economy

The Office for National Statistics (ONS) estimates that the UK economy avoided re-entering recession in Q1 2013, with output having declined in the previous quarter. Output declined by 0.2 per cent in Q4 2012 and rose by 0.3 per cent in Q1 2013. UK output was 0.3 per cent higher in Q1 2013 than in Q1 2012. Data revisions to historical ONS GDP data also mean that the UK no longer entered a double dip technical recession in Q1 2012, with output having remained flat in Q1 2012 after falling in Q4 2011 and Q2 2012. However, the output fall in the 2008/09 recession was revised up to 7.2 per cent from a previous estimate of 6.3 per cent, meaning UK GDP is now estimated to be just under 4 per cent below its pre 2008/09 recession peak[9]. The IMF forecasts that the UK economy will grow by 0.9 per cent in 2013 and by just 1.5 per cent in 2014[10], whilst the OECD forecasts growth of 0.8 per cent in 2013 and 1.5 per cent in 2014[11]. However, since the publication of the Autumn 2012 LEO British government debt has been downgraded one notch from AAA status by both Moody's[12] and Fitch[13] but not by Standard & Poor's which reaffirmed its AAA rating in April[14].

Table 3.1: HM Treasury and consensus forecasts for the UK economy
Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Budget March 2013	
	2013	2014	2013	2014
GDP growth (per cent)	0.9	1.6	0.6	1.8
Claimant unemployment (mn)	1.58	1.54	1.58	1.63
Current account (£bn)	-48.0	-43.7	-	-
PSNB (2013-14, 2014-15: £bn)	109.0	99.5	120[15]	108

Note: mn = million, bn = billion
Sources: HM Treasury Comparison of Independent Forecasts, June 2013.
Office for Budget Responsibility, Economic and fiscal outlook, March 2013.

As can be seen in Table 3.2 annual growth was positive in Q1 2013 in electricity gas and water supply; distribution, hotels and catering, transport; storage and communication; business services and finance; and government and other services. However, it is probable that the overall strength of the economy in 2013 is likely to remain modest.

[9] Office for National Statistics, 'Quarterly National Accounts, Q1 2013', 27 June 2013.
[10] The IMF, 'World Economic Outlook Update: Growing Pains', 9 July 2013.
[11] BBC, 'OECD cuts Eurozone growth forecasts', 29 May 2013.
[12] The Financial Times, 'UK loses triple A credit rating', 22 February 2013.
[13] BBC, 'Fitch downgrades UK credit rating to AA+', 19 April 2013.
[14] BBC, 'S&P reaffirms UK triple-A rating', 5 April 2013.
[15] The PSNB forecast from the OBR excludes "Royal Mail and APF transfers".

Table 3.2: Recent growth in broad industrial sectors of the UK economy
Annual % change

	2011	2012				2013
Industrial sectors	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Agriculture, forestry, and fishing	10.2%	-1.7%	-3.6%	-3.9%	-4.0%	-8.6%
Mining & quarrying inc oil & gas extraction	-14.1%	-11.2%	-7.7%	-4.9%	-14.4%	-9.3%
Manufacturing	-0.3%	-0.7%	-2.3%	-1.3%	-2.6%	-2.6%
Electricity gas and water supply	-10.8%	-5.4%	2.7%	-3.3%	4.9%	6.5%
Construction	1.0%	-4.6%	-9.9%	-10.6%	-8.5%	-6.4%
Distribution hotels and catering	0.9%	0.5%	0.0%	1.6%	1.5%	2.6%
Transport, storage and communication	1.1%	2.5%	0.3%	-1.7%	-0.5%	0.1%
Business services and finance	3.7%	2.9%	2.1%	1.1%	1.0%	0.9%
Government and other services	0.7%	0.8%	1.1%	2.7%	1.9%	1.8%

Source: Office for National Statistics (as of 11 July 2013)

Table 3.3 shows that household annual spending growth was positive in 2012 and into Q1 2013. Investment fell heavily during the 2008/09 recession, and has fluctuated since with it falling in Q1 2013. Looking forward investment is expected to pick up.

Table 3.3: UK domestic expenditure growth
Annual % change

	2011	2012				2013
Expenditure	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Households	-0.8%	0.7%	1.1%	1.5%	1.5%	1.5%
Non-profit institutions	1.3%	-3.2%	-0.6%	-0.8%	-4.2%	6.7%
General Government	0.1%	2.9%	1.8%	3.1%	3.4%	0.8%
Gross fixed capital formation	-0.9%	8.3%	-0.4%	-0.9%	-4.7%	-8.3%

Source: Office for National Statistics (as of 11 July 2013)

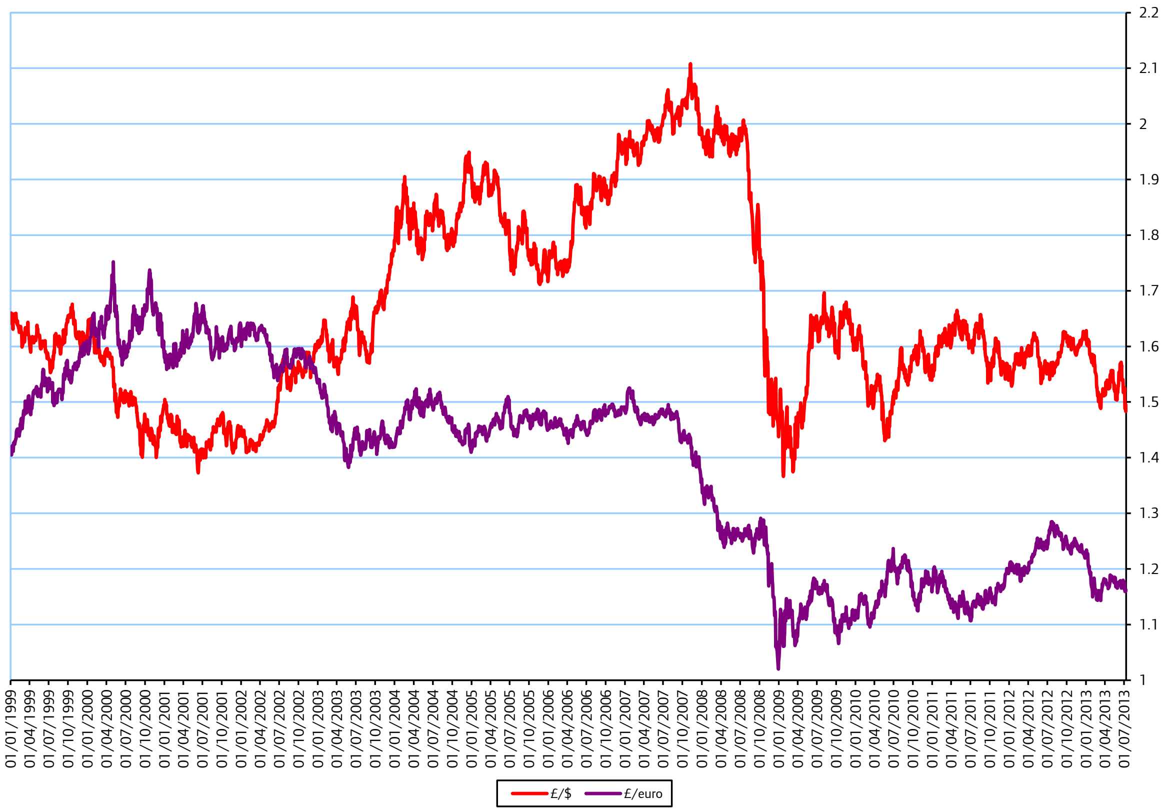
Inflation has stayed generally subdued over recent months but continues to remain above the Bank of England's central symmetrical target of 2 per cent, with annual Consumer Price Index (CPI) inflation standing at 2.7 per cent in May[16]. The Bank of England now believes the prospects for CPI inflation are slightly more elevated with it observing that "inflation is likely to edge higher in coming months and is more likely than not to remain above 2% for much of the next two years. This further sustained period of above-target inflation largely reflects the impact of the depreciation of sterling earlier this year and the judgement that the unusually large contribution from administered and regulated prices will persist. Despite that, inflation is likely to fall back to around the 2% target by the latter part of the forecast period as external price pressures fade"[17]. Interest rates are, however, expected to remain extremely accommodating for some time to come and the Bank is unlikely to yet role back its policy of quantitative easing (QE). The Funding for Lending Scheme which provides incentives to banks to lend to small firms has been extended to the start of 2015[18]. Some concerns have, however, arisen over the long

[16] The Financial Times, 'Soaring air fares push UK inflation to 2.7%', 18 June 2013.
[17] The Bank of England, 'Inflation Report', May 2013.
[18] The Financial Times, 'Bank of England extends lending scheme', 24 April 2013.

run effect of the 'extraordinary' monetary expansion that has occurred in the UK and other industrialised countries (see Box 3.1). Meanwhile annual Retail Price Index (RPI) inflation stood at 3.1 per cent in May[19].

Sterling continues to remain relatively weak against the dollar compared to the heights it reached in 2007 (see Figure 3.7). A similar situation holds with respect to the Euro where sterling has weakened recently which should support exporters, tourism and import substitution.

Figure 3.7: £ to $ and £ to euro exchange rates
Last data point is 10/7/13



Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)[20] (see Figure 3.8). There was a fall of approximately 30 per cent from its peak in early 2007 up to January 2009. Since then sterling has fluctuated slightly but remains weak and at a similar level to that seen after sterling came out of the Exchange Rate Mechanism (ERM) in 1992. The weakness of sterling compared to its pre-2008 levels should continue to provide support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports. UK exporters may however be hampered by any further slowing of the global economy.

[19] Office for National Statistics, 'Consumer Price Inflation, May 2013', 18 June 2013.
[20] The Sterling Effective Exchange Rate Index measures the overall change in the trade-weighted exchange value of sterling. It is designed to measure changes in the price competitiveness of traded goods and services and so the weights reflect trade flows in goods and services.

Figure 3.8: Sterling EERI rate
Last data point is 10/7/13

Source: Bank of England

Box 3.1: Possible 'side effects' from a long run period of 'extraordinary' monetary accommodation

In its April 2013 Global Financial Stability Report the IMF noted that "the use of unconventional monetary policies in advanced economies continues to provide essential support to aggregate demand. These policies are generating a substantial rebalancing of private investor portfolios toward riskier assets, as intended. However, a prolonged period of extraordinary monetary accommodation could push portfolio rebalancing and risk appetite to the point of creating significant adverse side effects. While the net benefits of unconventional policies remain highly favourable today, these side effects must be closely monitored and controlled. Of particular concern is the possible mispricing of credit risk, riskier positioning by weaker pension funds and insurance companies, and a rise in liquidity risk, particularly in countries where recoveries are more advanced"[21]. Hence, although the current extremely accommodating monetary policy across a number of countries is seen as providing support to whatever recovery is occurring in their economies by providing an incentive to invest in more riskier assets there exists risks that these policies could lead to distortions in these economies especially as any recovery gains momentum. Thus the IMF warns that "a prolonged period of continued monetary accommodation will increase vulnerabilities and sensitivity to a rise in rates"[22]. This concern was also aired by Andrew Haldane in testimony to the Treasury select committee in which he observed that "if I were to single out what for me would be the biggest risk to global financial

[21] The IMF, 'Global Financial Stability Report: Old Risks, New Challenges', April 2013.
[22] Ibid.

stability right now it would be a disorderly reversion in the yields of government bonds globally"[23]. The Bank of England's Systemic Risk Survey for the first half of 2013 found that of surveyed market participants "risks surrounding the low interest rate environment" was one of the top seven risks mentioned with it being "the fastest growing risk"[24]. The survey also noted that "responses in the low interest rate category focused on the risk that artificially low interest rates are creating distortions in asset allocation, potentially leading to overinflated risky asset prices"[25]. Thus although as noted by the IMF "unconventional monetary policies may continue to be warranted if economic conditions do not improve or even worsen", when an economy begins to recover "the net benefits of pursuing unconventional monetary policies are more ambiguous, and weighing benefits against potential costs will be more challenging"[26].

3.3 The world economy

In July the IMF downgraded their forecast for the world economy this year with it now forecast to expand by 3.1 per cent in 2013[27], with growth of 3.8 per cent forecast for 2014. The forecasts for developed economies remains mixed with a number forecast to contract in 2013 and experience subdued growth in 2014. The US economy is forecast to grow by 1.7 per cent in 2013 and then by 2.7 per cent in 2014[28]. The Eurozone is forecast to contract by -0.6 per cent in 2013 but grow by 0.9 per cent in 2014[29]. Growth in emerging and developing economies is expected to be 5.0 per cent in 2013 and 5.4 per cent in 2014[30].

In their latest World Economic Outlook the IMF note that "global economic prospects have improved again but the road to recovery in the advanced economies will remain bumpy"[31]. They also observe that "over the past six months, advanced economy policymakers have successfully defused two of the biggest short-term threats to the global recovery, the threat of a euro area breakup and a sharp fiscal contraction in the United States caused by a plunge off the 'fiscal cliff'. In response, financial markets have rallied on a broad front"[32], which they claim has helped to support growth prospects. However "in the euro area, better conditions for periphery sovereigns are not yet passing through to companies and households, because banks are still hobbled by poor profitability and low capital, constraining the supply of credit. Also, in many economies activity will be held back by continued fiscal adjustment, competitiveness problems, and balance sheet weaknesses. Furthermore, new political and financial risks that could put a damper on the recovery have come to the fore"[33]. They further note that "there was a noticeable slowdown in the emerging market and developing economies during 2012, a reflection of the sharp deceleration in demand from key advanced economies, domestic policy tightening, and the end of investment booms in some of the major emerging market economies. But with consumer demand resilient, macroeconomic policy on hold, and exports reviving, most economies in Asia and sub-Saharan Africa and many economies in Latin America and the Commonwealth of Independent States are now seeing higher growth. The recovery should again gain speed in emerging Europe as demand from advanced Europe slowly picks up. However,

[23] The Guardian, 'Bond bubble threatens financial system, Bank of England director warns', 12 June 2013.
[24] The Bank of England, 'Systemic Risk Survey: Survey Results 2013 H1', 17 June 2013.
[25] Ibid.
[26] The IMF, 'IMF Survey Magazine: IMF Assesses New Era of Monetary Policy', 16 May 2013.
[27] The IMF, 'World Economic Outlook Update: Growing Pains', 9 July 2013.
[28] Ibid.
[29] Ibid.
[30] Ibid.
[31] The IMF, 'World Economic Outlook: Hopes, Realities, Risks', April 2013.
[32] Ibid.
[33] Ibid.

economies in the Middle East and North Africa continue to struggle with difficult internal transitions. And a couple of economies in South America are facing high inflation and increasing exchange market pressure"[34].

In its Global Financial Stability Report the IMF observes that "global financial and market conditions have improved appreciably in the past six months, providing additional support to the economy and prompting a sharp rally in risk assets. These favourable conditions reflect a combination of deeper policy commitments, renewed monetary stimulus, and continued liquidity support. Together, these actions have reduced tail risks, enhanced confidence, and bolstered the economic outlook. However, as global economic conditions remain subdued, the improvement in financial conditions can only be sustained through further policy actions that address underlying stability risks and promote continued economic recovery. Continued improvement will require further balance sheet repair in the financial sector and a smooth unwinding of public and private debt overhangs. If progress in addressing these medium-term challenges falters, risks could reappear. The global financial crisis could morph into a more chronic phase, marked by a deterioration of financial conditions and recurring bouts of financial instability"[35]. In relation to the Eurozone it notes "acute near-term stability risks have been reduced significantly. Funding conditions in the markets for sovereign, bank, and corporate debt have improved. Despite this notable progress, many banks in the euro area periphery remain challenged by elevated funding costs, deteriorating asset quality, and weak profits. Credit transmission remains weak in several economies, as bank balance sheet repair is uneven, while fragmentation between the core and periphery of the euro area persists. Corporations in the periphery are directly affected by bank balance sheet weakness, cyclical headwinds, and, in many cases, their own debt overhangs"[36].

The **US** economy continues to experience a generally weak recovery[37], but outperforms the Eurozone[38], with it growing by an annualized rate of 2.4 per cent in Q1 2013 with the underlying numbers implying a decent basis to the recovery[39]. The performance of the stock market would also indicate an underlying confidence in the US economy[40] and the worst but not all impacts of the 'fiscal cliff' have been avoided. Interest rates continue to stand at a target rate of between 0 to 0.25 per cent and are likely to remain low for some time yet. US consumer confidence picked up again in June[41] and the US is adding new jobs with employment rising by 195,000 in June, slightly more than expected, whilst unemployment stands at 7.6 per cent[42]. Worries however remain over the situation concerning the US budget which has yet to see any consensus on final actions agreed[43]. Nevertheless the US recovery is continuing as shown by the June 2013 Beige Book from the Federal Reserve stating that "economic activity increased at a modest to moderate pace since the previous report across all Federal Reserve Districts except

[34] Ibid.
[35] The IMF, 'Global Financial Stability Report: Old Risks, New Challenges', April 2013.
[36] Ibid.
[37] The Economist, 'America's economy: Austerity bites?' 5 April 2013.
[38] The IMF, 'World Economic Outlook: Hopes, Realities, Risks', April 2013.
[39] Wall Street Journal, 'Government Potholes on Road to Recovery', 30 May 2013.
[40] BBC, 'Dow Jones and S&P climb to new highs', 2 April 2013.
[41] The Conference Board, 'Consumer Confidence Survey: The Conference Board Consumer Confidence Index Increases Again', 25 June 2013.
[42] BBC, 'Positive US jobs numbers add to rate rise speculation', 5 July 2013.
[43] BBC, 'Barack Obama unveils $3.77tn budget plan', 10 April 2013.

the Dallas District, which reported strong economic growth"[44]. The Federal Reserve has however continued its bond buying in an effort to boost the economy by lowering borrowing costs.

Eurostat data suggest that the **Eurozone** economy remained in recession in the first quarter of 2013, with output falling by -0.2 per cent in Q1 2013 after contracting by -0.6 per cent in Q4 2012. The Eurozone economy has now contracted for six consecutive quarters[45]. A number of economic forecasts predict poor growth in the Eurozone for 2013 with only subdued growth into 2014 with for example the European Commission forecasting growth of -0.3 per cent in 2013 and 1.4 per cent in 2014[46], whilst most economic indicators imply a continuing decline in economic output in the Eurozone. A number but not all Eurozone countries were in a technical recession in Q1 2013. Thus France's GDP contracted by -0.2 per cent in Q1 2013 after falling by the same amount in Q4 2012. Spain's economy contracted by -0.5 per cent in Q1 2013 having been contracting since Q4 2011, Italy's economy contracted by -0.5 per cent in Q1 2013 (the seventh quarter of contraction) and Portugal's economy contracted by -0.3 per cent in Q1 2013 having been contracting since Q4 2010. The Cypriot economy also remained in recession with its GDP declining by -1.3 per cent, it has now been in recession since Q3 2011. However, Germany avoided recession with its economy growing by 0.1 per cent in Q1 2013 after falling by -0.7 per cent in Q4 2012[47]. The European Central Bank (ECB) cut interest rates on 2 May by 25 basis points to 0.5 per cent in response to the problems in the Eurozone (which have yet to abate however (see Box 3.2)) and low inflation[48]. Eurozone unemployment remains at a record high[49] with it standing at 12.2 per cent in May, whilst in Spain it hit 26.9 per cent[50] (and 26.9 per cent in Greece in April[51]). Unemployment in the under 25 age group is also a major problem with it standing at 23.9 per cent in the Eurozone and 56.5 per cent in Spain in April[52] (and 57.5 per cent in Greece in April)[53]. There also still remains the possibility that, the sovereign debt position and the public finances of a number of members of the Eurozone could trigger a global crisis.

Japan's economy expanded strongly in the first quarter of 2013 with it growing by 1 per cent[54], the second consecutive quarter of growth and faster than the 0.3 per cent growth seen in Q4 2012[55]. Results from the Bank of Japan's Tankan survey of manufacturing sentiment showed that business sentiment turned positive in the three months to June[56]. The Bank of Japan has announced a program to double the monetary base over the next two years in order to attain an inflation rate of 2 per cent to escape the deflationary trap the economy has been stuck in[57], as shown by consumer prices falling by an annualised rate of 0.4 per cent in April[58]. The yen has

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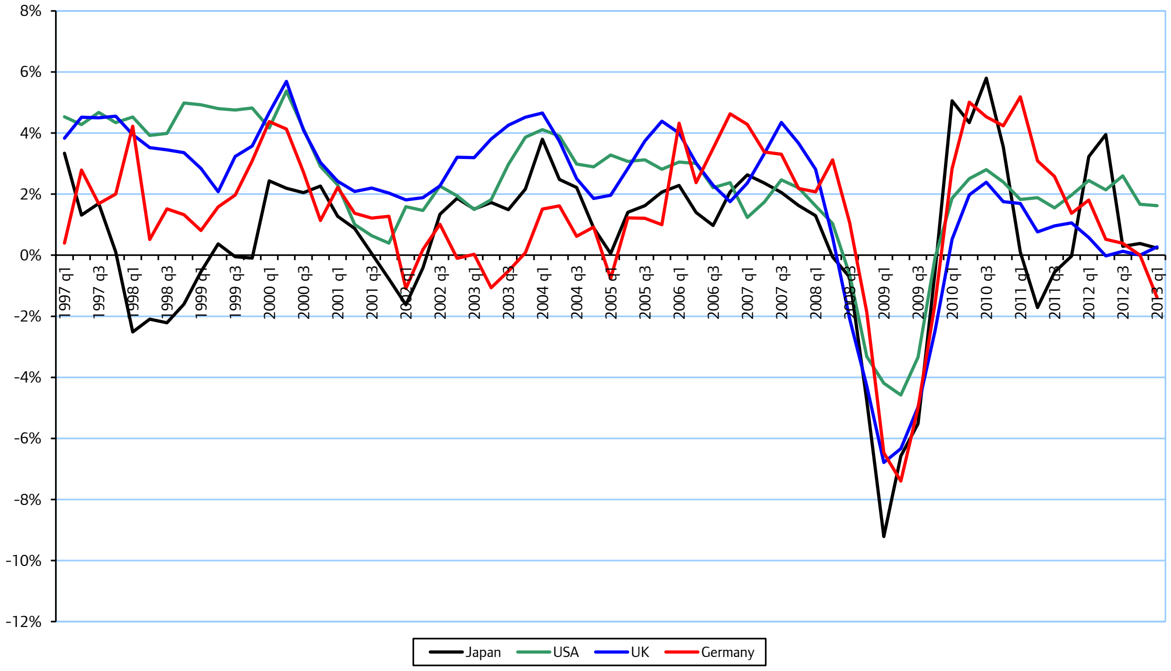
[44] The Federal Reserve Board, 'The Beige Book', 5 June 2013.
[45] The Financial Times, 'Eurozone sets bleak record of longest term in recession', 15 May 2013.
[46] European Commission, 'European Economic Forecast: Winter 2013', February 2013.
[47] Eurostat, 'Newsrelease euroindicators: Flash estimate for the first quarter of 2013', 15 May 2013.
[48] The Financial Times, 'Weak data prompt ECB rate cut', 2 May 2013.
[49] The Guardian, 'Eurozone unemployment hits fresh high', 1 July 2013.
[50] Eurostat, 'Newsrelease euroindicators May 2013: Euro area unemployment rate at 12.2%', 2 July 2013.
[51] Reuters, 'Greek unemployment rate scales new high in April', 11 July 2013.
[52] Eurostat, 'Newsrelease euroindicators May 2013: Euro area unemployment rate at 12.2%', 2 July 2013.
[53] Reuters, 'Greek unemployment rate scales new high in April', 11 July 2013.
[54] BBC, 'Japan growth data revision adds to recover hopes', 10 June 2013.
[55] The Financial Times, 'Japanese first-quarter growth surges on Abe impact', 16 May 2013.
[56] BBC, 'Tankan: Japanese business sentiment turns positive', 1 July 2013.
[57] The Financial Times, 'Bank of Japan unveils aggressive easing', 4 April 2013.
[58] BBC, 'Japan consumer prices fall 0.4% in April', 31 May 2013.

depreciated due to this announcement[59]. In July the IMF forecast that Japan's economy would grow by 2.0 per cent in 2013 and by 1.2 per cent in 2014[60].

Figure 3.9: GDP growth in selected industrialised countries
Real GDP, annual % change, last data point is Q1 2013



Source: Ecowin

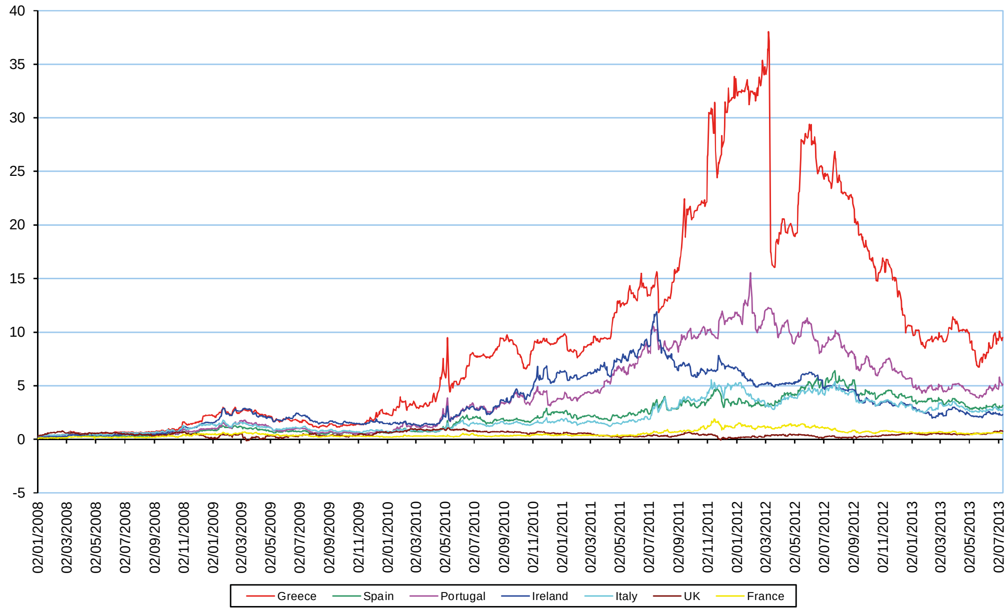
Box 3.2: The Eurozone sovereign debt crisis enters a new era with the Cyprus bailout

Since the publication of the Autumn 2012 LEO, Eurozone sovereign debt problems initially showed some signs of improvement. This was reflected in ten-year government bond yields over German bond yields as shown in Figure 3.10. However, yields for some countries still remained elevated at the end of 2012 and into 2013.

[59] The Financial Times, 'Japanese investors switch to foreign bonds', 10 May 2013.
[60] The IMF, 'World Economic Outlook Update: Growing Pains', 9 July 2013.

Figure 3.10: Ten-year government bond spreads over German government bonds, percentage points

Last data point: 10/7/2013



Source: Ecowin

However, there were other indicators of Eurozone economic weakness at the end of 2012, most notably the downgrading of French government debt by Moody's in November[61] followed by its downgrading of the European Stability Mechanism (ESM) itself from AAA to Aa1[62]. Still in December, Eurozone finance ministers agreed to cede powers to a common banking supervisor as part of an on-going process to establish banking union within the Eurozone. Under the arrangement the ECB will begin supervising around 200 banks with assets of over €30 bn by early 2014[63].

The crisis came back in to sharp focus on 25 March when Eurozone finance ministers approved a bailout package for Cyprus worth around €10 billion[64]. Cyprus' problems essentially emanated from Greece to which Cypriot banks were very heavily exposed. When Greek debt was written down in 2011, the Popular Bank lost €2.5 billion and the Bank of Cyprus €1 billion; resulting in the nationalisation of the Popular Bank. Interest rates on long-term Cypriot debt spiked to 7 per cent, creating difficulties for borrowing and forcing the Cypriot Government to go to the European Commission/ECB/IMF (commonly known as the 'Troika') for help.

The bailout package is aimed at preventing the Cypriot banking system from collapsing and keeping Cyprus within the Eurozone. As part of the agreement, Cyprus' second largest bank, the Cyprus Popular Bank (Laiki) is being wound down, with deposits of up to €100,000 guaranteed and 'folded into' the Bank of Cyprus. Those with savings over €100,000 at the Popular Bank – alongside its shareholders and bondholders - will make a 'full contribution' to the restructuring. Uninsured deposits at the Bank of Cyprus (i.e. those over €100,000) will also suffer a severe

[61] BBC, 'Moody's downgrades French credit rating', 19 November 2012.
[62] BBC, 'Moody's cuts AAA rating of ESM rescue fund', 30 November 2012.
[63] The Financial Times, 'Eurozone agrees common bank supervisor', 13 December 2012.
[64] BBC, 'Cost of Cyprus bailout rises to 23bn euros', 11 April 2013.

haircut. There will be no differentiation between domestic and foreign customers. Deposits of more than €100,000 are believed to make up around half of the total Cypriot deposit base and are often made by non-residents. The losses on debt holders and uninsured depositors at these two banks have been put at €10.6 billion[65].

However, the bailout of the Cypriot financial sector continued to rumble on with the cost of rescuing its banks being put at €23 billion compared to a previous estimate of €17.5 billion with Cyprus having to find an extra €6 billion to fund the bailout. Meanwhile on 12 April agreement was reached to extend by seven years the maturity date on bailout loans made to Ireland and Portugal.

The likelihood that the crisis has finished remains low as shown by the European Commission warning Spain and Slovenia that they must tackle macroeconomic imbalances in their economies after examining the economies of 13 member states including the UK. Thus the Commission observed that in "Spain and Slovenia, imbalances can be considered excessive. In Spain, the very high domestic and external debt levels continue to pose serious risks for growth and financial stability. In Slovenia, the risks for financial sector stability stemming from corporate indebtedness and deleveraging are substantial, including through inter-linkages with public finances"[66]. However, Slovenia insisted on 9 April that it will avoid an international bailout as the OECD warned that it had to more rapidly tackle a "severe banking crisis". Slovenia plans a 'bad bank' to remove problem assets from struggling banks. However, spreads on Slovenian government bonds have recently risen and the OECD expects the economy to contract by 2.1 per cent in 2013 which would be a second consecutive year of contraction[67].

However, evidence that the EU is becoming more adaptive to the plight of highly indebted Eurozone member states has emerged. Thus at the end of May 2013 a number of indebted Eurozone countries were given more time to meet their budget targets, signalling a shift in the balance of priorities between austerity and tackling unemployment. Five Eurozone countries were included and non-Eurozone Poland was also given an extension. The Netherlands and Portugal have been granted one extra year to bring their deficits beneath 3 per cent of GDP. France, Spain, Poland and Slovenia have been given two years. The idea is that national governments should utilise the time to push through labour market reforms in order to reduce unemployment and foster economic growth[68]. Belgium also escaped a fine for failing to sufficiently reduce its budget deficit in 2012. The European Commissioner for Economic and Monetary Affairs, Olli Rehn, said that imposing a fine on Belgium would be contrary to "the principle of non-retroactivity"[69].

The European Commission made specific recommendations for all countries[70]. For France there was a focus on reducing unit labour costs in order to address floundering competitiveness. In spite of the considerable consolidation efforts bringing the headline deficit down from 7.5 per cent of GDP in 2009 to 4.8 per cent in 2012, France is not expected to correct its excessive deficit in 2013 as recommended in late 2009. France's ratio of debt to GDP reached 90.2 per cent in 2012 and is projected by the EC to increase further to 96.2 per cent by 2014 according

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[65] The Financial Times, 'Cyprus to dive into its gold reserves', 10 April 2013.
[66] European Commission, 'Commission concludes in-depth reviews of macroeconomic imbalances in 13 Member States', 10 April 2013.
[67] The Financial Times,' Slovenia rules out bailout', 9 April 2013.
[68] BBC, 'European countries to be allowed to ease austerity', 29 May 2013.
[69] The Wall Street Journal, 'The EU Guide to Broken Belgium', 29 May 2013.
[70] http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

to their Spring Forecast[71]. However, the French Government believes that the debt ratio will peak at 94.3 per cent in 2014, falling back to 88.2 per cent in 2017[72]. The most recent projections by the Conseil d'orientation des retraites indicate the continuation of persistent deficits in the French state pensions system even by 2018, contrary to the 2010 reform objectives[73]. Furthermore, the partial rollback of some of the 2010 reforms goes against Council recommendations.

The move by the European Commission at the end of May came as the OECD also made major downward revisions to its forecasts for growth in Europe[74]. In November 2012 the organisation suggested that in 2013 the Eurozone would contract by 0.1 per cent. That has now been revised to a -0.6 per cent contraction with Spain and Italy continuing to experience major contractions of -1.7 per cent and -1.8 per cent respectively. This follows a trend of downwardly revised forecasts for the Eurozone over recent months. Thus in June the ECB revised down its forecast for 2013 to growth of -0.6 per cent, although its forecast for 2014 was slightly revised up to 1.1 per cent[75]. Economic forecasts for individual member states have also been revised down. For example, in April the Spanish Government downgraded its forecast for 2013 to growth of -1.3 per cent compared to the -0.5 per cent forecast one year earlier[76], whilst the Bundesbank forecast growth for the German economy of 0.3 per cent in 2013 compared to a previous forecast of 0.4 per cent[77].

Still, there remains some more optimistic news for the Eurozone with, for example, the first bond issue by Portugal since its bailout two years ago being heavily oversubscribed in May, which was seen as a crucial test of the country's bid to regain access to international debt markets[78]. Also the credit rating of the government debt of Greece has been upgraded by both Standard & Poor's and Fitch[79], whilst the IMF in May praised Greece on the progress it has made on improving its finances[80].

3.4 Emerging market economies

China's economy slowed in 2012 to a growth rate of 7.8 per cent compared to 9.3 per cent in 2011[81]. This continued into 2013 when it grew at an annualised rate of 7.7 per cent in Q1 2013, slower than what had been expected[82], and there is evidence that this slowdown is persisting[83]. Chinese inflation remains generally subdued standing at 2.7 per cent in June[84], so policy makers have some room for manoeuvre to react to the economy's slowdown. In July the IMF forecast that the Chinese economy will grow by 7.8 per cent in 2013[85], whilst the Asian Development

[71] European Commission, 'Recommendation for a COUNCIL RECOMMENDATION on France's 2013 national reform programme and delivering a Council opinion on France's stability programme for 2012-2017', 29 May 2013.
[72] https://economic-research.credit-agricole.com/site/french-stability-programme-public-deficit-forecast-at-2-9-in-2014-1895.html
[73] IPE, 'France in 'urgent need' of new pension reform, Brussels says', 30 May 2013.
[74] BBC, 'OECD cuts Eurozone growth forecasts', 29 May 2013.
[75] BBC, 'European Central Bank cuts growth forecasts', 6 June 2013.
[76] BBC,'Spain revises down its economic forecast', 26 April 2013.
[77] BBC, 'German central bank cuts growth forecasts for 2013 and 2014', 7 June 2013.
[78] The Financial Times, 'Lisbon enjoys strong investor demand for bond issue', 7 May 2013.
[79] BBC, 'Fitch upgrades Greece credit rating on financial progress', 14 May 2013.
[80] BBC, 'Greece: IMF hails economic 'progress' but warns on tax evasion', 6 May 2013.
[81] Asian Development Bank, 'Asian Development Outlook 2013: Asia's Energy Challenge', April 2013.
[82] The Financial Times, 'Chinese growth slows to 7.7%', 15 April 2013.
[83] BBC, 'Global markets hit after Chinese data and Fed comments', 23 May 2013.
[84] The Financial Times, 'Chinese inflation rebounds to four-month high in June', 9 July 2013.
[85] The IMF, 'World Economic Outlook Update: Growing Pains', 9 July 2013.

Bank (ADB) forecasts Chinese growth of 8.2 per cent in 2013 and 8.0 per cent in 2014[86]. **India's** economy grew at its lowest rate in a decade at a 5 per cent annualised rate in the quarter that ended in March 2013[87] and The Reserve Bank of India has been lowering interest rates' to boost the economy, however the central bank remains concerned about high inflation[88] which may limit its ability to act further. The IMF forecasts Indian growth will be 5.6 per cent in 2013 and 6.3 per cent in 2014[89], whilst the ADB forecasts growth of 6.0 per cent in 2013 and 6.5 per cent in 2014[90]. **Russia's** economy grew slowly in the first three months of 2013 at an annualised rate of 1.1 per cent[91]. Nevertheless it is forecast by the IMF to grow by 2.5 per cent in 2013 and by 3.3 per cent in 2014[92], but the World Bank notes that "improving growth prospects will be difficult with further increases in oil prices unlikely, capacity utilization similar to pre-crisis peaks, unemployment at a record low, an ageing and shrinking workforce and declining oil production in the absence of large investments and new discoveries"[93].

3.5 Risks to the world economy

Downside risks to the world economic outlook remain elevated but the receding of budget concerns in the US has moderated the global downside risks slightly since the publication of the Autumn 2012 LEO. The major source of concern in the world economy remains the ongoing sovereign debt problems in 'peripheral' Eurozone nations, although what seems to be a slowdown in major emerging economies is also a concern[94]. As has been highlighted in a number of LEO's a disorderly exit of countries from the Eurozone and the shock this would bring to the global financial system and the damage to business confidence remains, and is likely to remain for some time yet, the most significant risk to the world economy. If the Eurozone problems worsened it is possible that global stock markets could experience extreme volatility. Even the best case scenario of stagnation in the Eurozone for a number of years will continue to act as a break on global economic confidence and growth. Many emerging market economies have slowed whilst most developed economies continue to be weak. There is mounting evidence that global economic growth will be subdued in 2013[95]. Consumer, business and investor confidence remains weak and is being affected negatively by the Eurozone crisis; whilst credit to businesses continues to be constrained. Still, the monetary policies of most central banks in the developed world remain extremely accommodating and should remain so for some time to come which will support the global economy.

A major ongoing risk to the world economy is the weak fiscal position of many governments in the developed world, although some countries are implementing policies to improve their situation. UK workers' incomes remain squeezed, compared to prior to the 2008/09 financial crisis[96]. Global inflationary pressures have eased but could re-emerge if commodity prices shot up which would further dampen real household expenditure growth. There remains a danger that as the world economy continues to be hindered by sovereign debt problems in the Eurozone that it will become more unbalanced as the developed economies stagnate whilst

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[86] Asian Development Bank, 'Asian Development Outlook 2013: Asia's Energy Challenge', April 2013.
[87] BBC, 'India's economic growth at slowest rate in a decade', 31 May 2013.
[88] BBC, 'India cuts interest rates for third time this year', 3 May 2013.
[89] The IMF, 'World Economic Outlook Update: Growing Pains', 9 July 2013.
[90] Asian Development Bank, 'Asian Development Outlook 2013: Asia's Energy Challenge', April 2013.
[91] BBC, 'Russian economic growth slows sharply', 17 April 2013.
[92] The IMF, 'World Economic Outlook Update: Growing Pains', 9 July 2013.
[93] The World Bank, 'Russian Economic Report 29: Recovery and Beyond', 26 February 2013.
[94] BBC, 'Russian economic growth slows sharply', 17 April 2013.
[95] The Economist, 'The world economy: Shaken, not stirred', 11 May 2013.
[96] BBC, 'UK workers earning the same as they were ten years ago', 13 February 2013.

developing economies continue to grow, albeit at a subdued rate. The global financial system still remains vulnerable to banking sector fragility, although banks continue to restructure. After a number of years since the start of the Eurozone crisis the poor economic condition in a number of Eurozone countries still remains the biggest risk to the London economy whilst the potential for adverse feedback loops between sovereign debt problems, fragile banking systems and weakening economies continues to be worrying.

3.6 Conclusion

London's economy is expected to grow at a subdued rate over 2013-15 with employment rising but at a generally modest rate. The pace of economic growth is likely to pick up somewhat by the end of the forecast horizon. However downside risks to the London economy remain high due to the continuing Eurozone sovereign debt crisis and a global economic slowdown. Inflation has moderated but low wage growth and public sector spending cuts means that consumers will remain under financial pressure. The only probable sources of medium-term growth are private sector investment and net exports. If growth occurs because of this it will help rebalance the economy and put it on a sounder footing in the long term. However, the process will continue to be a difficult one and consumer and business credit is likely to remain tight.

4. Review of independent forecasts

What the forecasts provide

In Chapter 5, GLA Economics' forecast of four economic indicators is provided: workforce employment, real output, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 11 July 2013 on the first three of these indicators is summarised[97], drawing on forecasts from outside (independent) organisations[98]. Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for all historic data in the following tables and charts is EE.

Additionally, both the consensus[99] and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transportation and storage
- distribution[100], accommodation and food service activities
- finance[101] and business services[102]
- other (public & private) services[103].

It should be noted, that since our Spring 2012 forecast GLA Economics has been using the new Standard Industrial Classification (SIC 2007), which is explained in more detail in Appendix A.

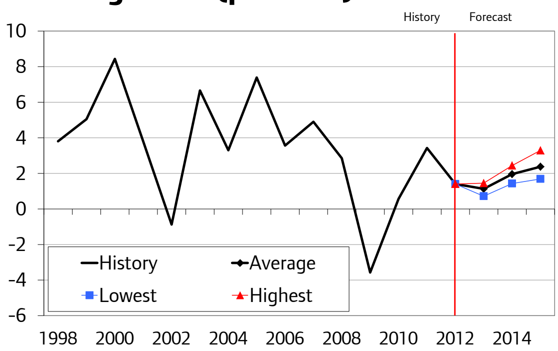
[97] The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE, whilst the consensus forecast for household expenditure is based on the latest available forecast from CE, EE and OE only.
[98] Most forecasters do not yet provide forecasts of household income.
[99] The consensus GVA forecast for the six broad sectors is based on the latest available forecast from CE, CEBR, EE and OE for GVA but the consensus employment forecast for the six broad sectors is based on the latest available forecast from CE, EE and OE only.
[100] Distribution is made from the summation of Wholesale and Retail (see Appendix A).
[101] This is defined as Financial and insurance activities in Appendix A.
[102] Business services is made from the summation of Information and Communication, Professional, scientific and technical services and real estate, and Administrative and support service activities (see Appendix A).
[103] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services (see Appendix A).

Output

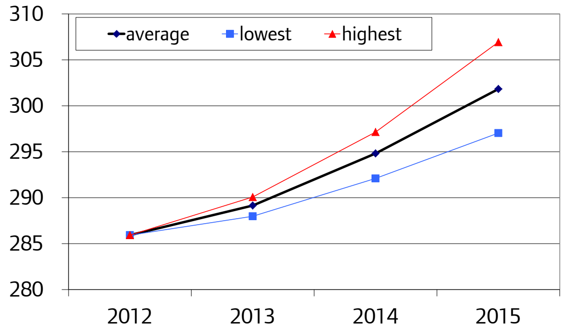
(London GVA, constant prices (base year 2009), £ billion)

The consensus (mean average view) is for real output growth to remain positive in 2013 and to reach 2.4 per cent in 2015.

Annual growth (per cent)



Level (constant year 2009, £ billion)



Annual growth (per cent)					Level (constant year 2009, £ billion)			
	2013	2014	2015			2013	2014	2015
Average	1.1	2.0	2.4		Average	289	295	302
Lowest	0.7	1.4	1.7		Lowest	288	292	297
Highest	1.5	2.4	3.3		Highest	290	297	307

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
3.8	5.1	8.4	3.8	-0.9	6.7	3.3	7.4	3.6	4.9	2.9	-3.6	0.6	3.4	1.4

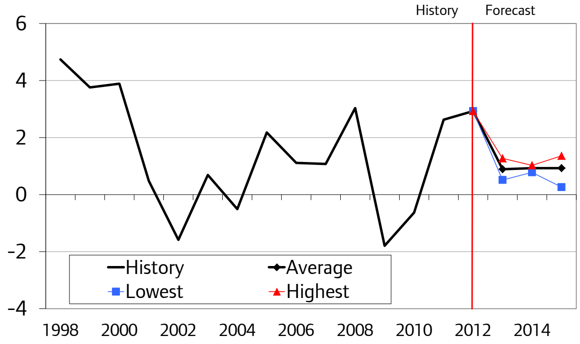
History: Level (constant year 2009, £ billion)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
174.8	181.4	190.6	206.7	214.5	212.6	226.8	234.3	251.6	260.6	273.3	281.1	271.1	272.6	282.0	285.9

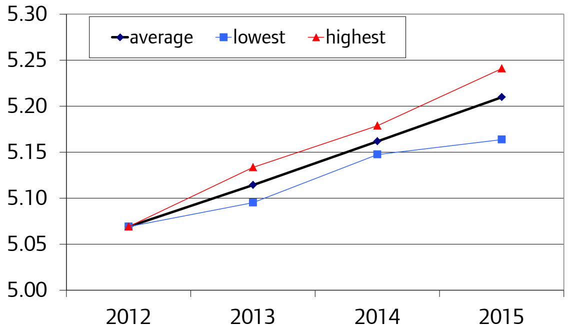
Employment
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 0.9 per cent in 2013, 2014 and 2015.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)					Level (millions)			
	2013	2014	2015			2013	2014	2015
Average	0.9	0.9	0.9		Average	5.11	5.16	5.21
Lowest	0.5	0.8	0.3		Lowest	5.10	5.15	5.16
Highest	1.3	1.0	1.4		Highest	5.13	5.18	5.24

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.7	3.8	3.9	0.5	-1.6	0.7	-0.5	2.2	1.1	1.1	3.0	-1.8	-0.6	2.6	2.9

History: Level (millions)

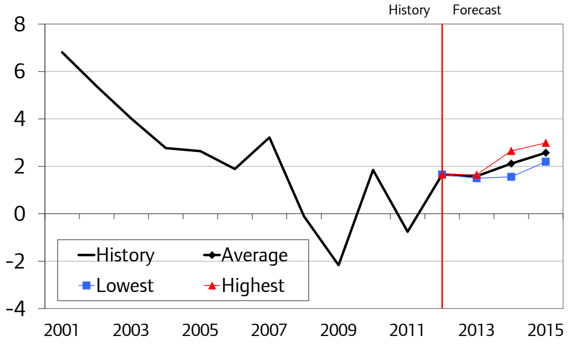
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.09	4.28	4.44	4.61	4.64	4.56	4.59	4.57	4.67	4.72	4.77	4.92	4.83	4.80	4.92	5.07

Household expenditure

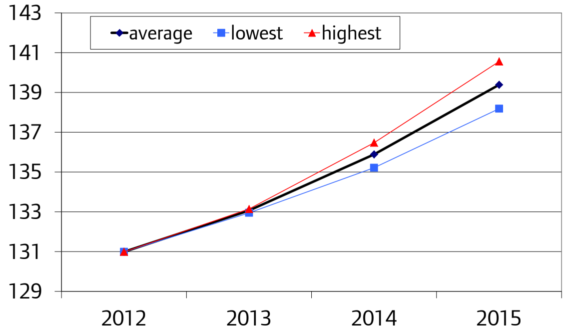
(London household spending, constant year 2009, £ billion)

The consensus view is for positive household expenditure growth of 1.6 per cent in 2013, 2.1 per cent in 2014 and 2.6 per cent in 2015.

Annual growth (per cent)



Level (constant year 2009 £ billion)



Annual growth (per cent)					Level (constant year 2009, £ billion)			
	2013	2014	2015			2013	2014	2015
Average	1.6	2.1	2.6		Average	133	136	139
Lowest	1.5	1.6	2.2		Lowest	133	135	138
Highest	1.6	2.7	3.0		Highest	133	136	141

History: Annual growth (per cent)

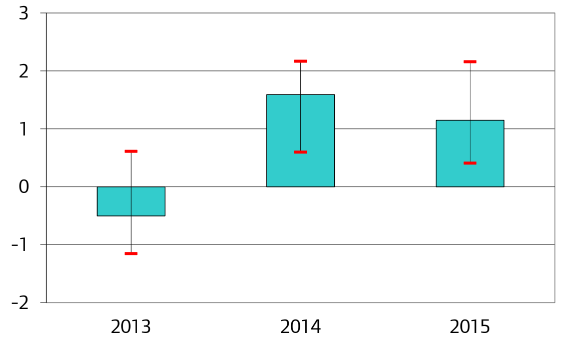
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
6.8	5.4	4.0	2.8	2.6	1.9	3.2	-0.1	-2.2	1.9	-0.8	1.7

History: Level (constant year 2009, £ billion)

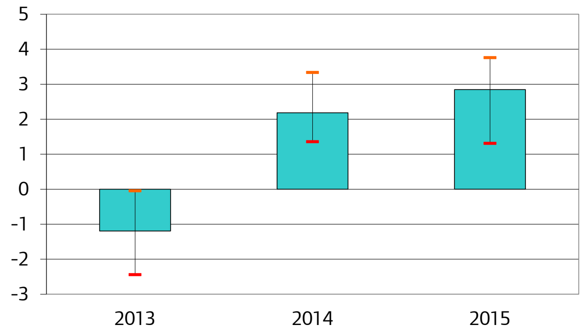
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
100.4	107.3	113.0	117.6	120.8	124.0	126.4	130.4	130.3	127.5	129.8	128.8	131.0

Output growth by sector (per cent annual change)
As the recovery continues it is expected that there will be positive output growth in all sectors, except for manufacturing and construction, which will see output decline in 2013.

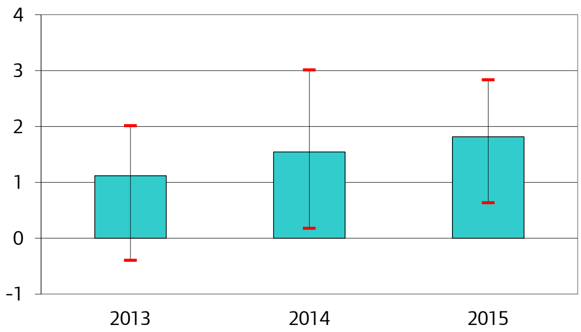
Manufacturing



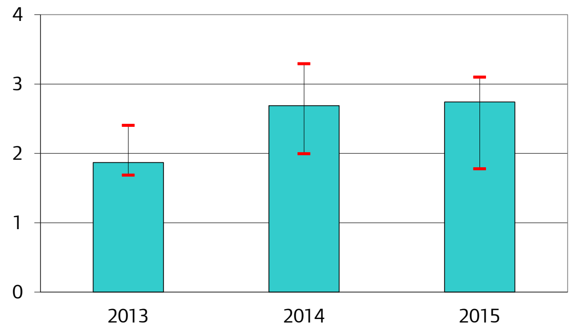
Construction



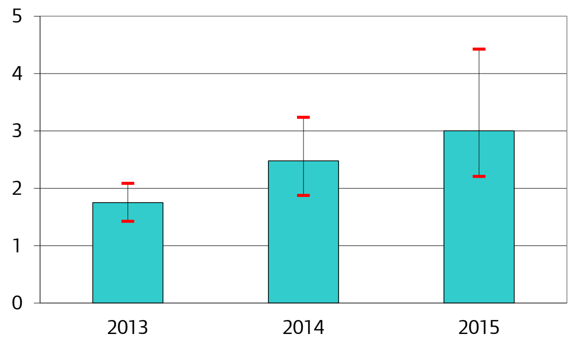
Distribution, accommodation and food service activities



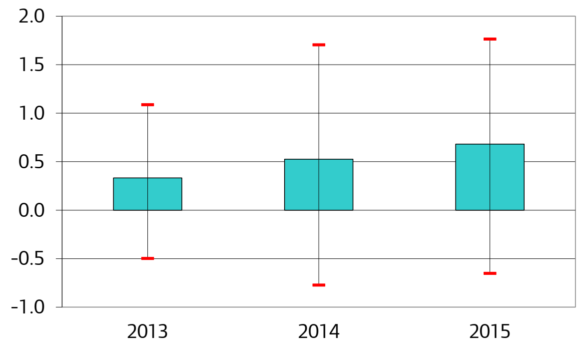
Transportation and storage



Finance and business



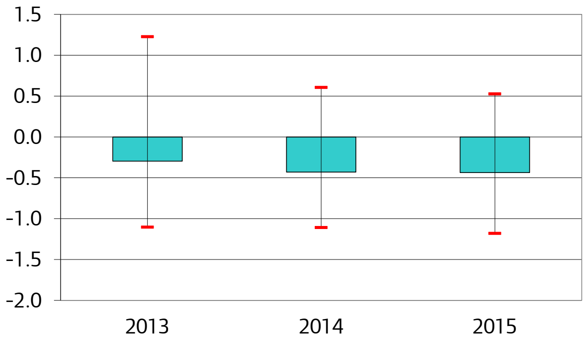
Other (public & private) services



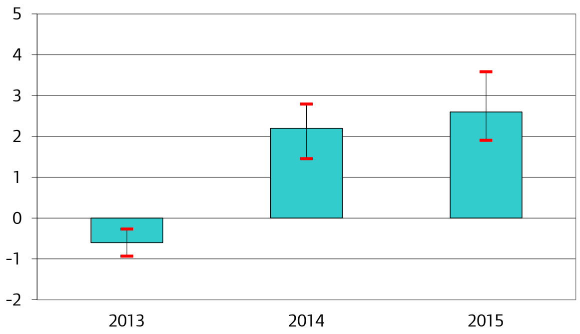
		2013	2014	2015			2013	2014	2015
Manufacturing	*Average*	-0.5	1.6	1.1	**Construction**	*Average*	-1.2	2.2	2.8
	Lowest	-1.2	0.6	0.4		*Lowest*	-2.4	1.4	1.3
	Highest	0.6	2.2	2.2		*Highest*	0.0	3.3	3.8
Distribution, accommodation and food service activities	*Average*	1.1	1.5	1.8	**Transportation and storage**	*Average*	1.9	2.7	2.7
	Lowest	-0.4	0.2	0.6		*Lowest*	1.7	2.0	1.8
	Highest	2.0	3.0	2.8		*Highest*	2.4	3.3	3.1
Finance and business	*Average*	1.8	2.5	3.0	**Other (public & private) services**	*Average*	0.3	0.5	0.7
	Lowest	1.4	1.9	2.2		*Lowest*	-0.5	-0.8	-0.7
	Highest	2.1	3.2	4.4		*Highest*	1.1	1.7	1.8

Employment growth by sector (per cent annual change)
Forecasted employment growth is positive for most sectors between 2013 and 2015 apart from manufacturing and for other (public & private) services which are forecast to decline over the entire period and construction which will see employment fall in 2013.

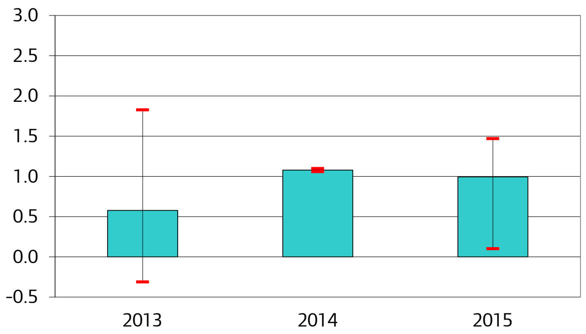
Manufacturing



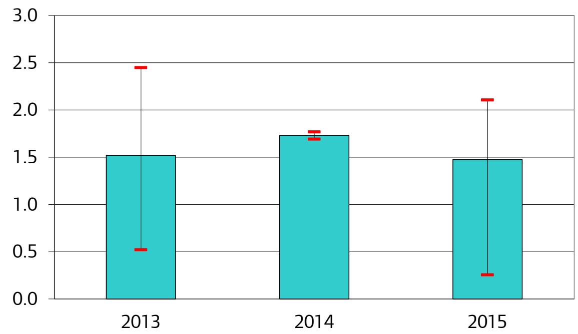
Construction



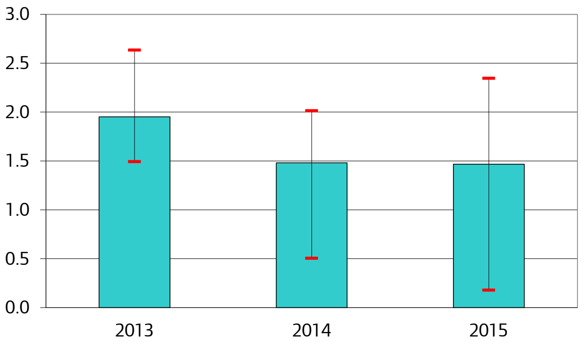
Distribution, accommodation and food service activities



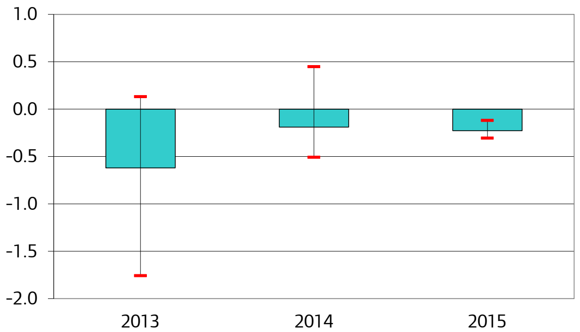
Transportation and storage



Finance and business



Other (public & private) services



		2013	2014	2015			2013	2014	2015
Manufacturing	*Average*	-0.3	-0.4	-0.4	**Construction**	*Average*	-0.6	2.2	2.6
	Lowest	-1.1	-1.1	-1.2		*Lowest*	-0.9	1.5	1.9
	Highest	1.2	0.6	0.5		*Highest*	-0.3	2.8	3.6
Distribution, accommodation and food service activities	*Average*	0.6	1.1	1.0	**Transportation and storage**	*Average*	1.5	1.7	1.5
	Lowest	-0.3	1.1	0.1		*Lowest*	0.5	1.7	0.3
	Highest	1.8	1.1	1.5		*Highest*	2.4	1.8	2.1
Finance and business	*Average*	2.0	1.5	1.5	**Other (public & private) services**	*Average*	-0.6	-0.2	-0.2
	Lowest	1.5	0.5	0.2		*Lowest*	-1.8	-0.5	-0.3
	Highest	2.6	2.0	2.3		*Highest*	0.1	0.4	-0.1

5. The GLA Economics forecast

It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points. For business planning (for example the likely course of revenue) estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections provide these estimates. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for all historic data in the following tables and charts is EE.

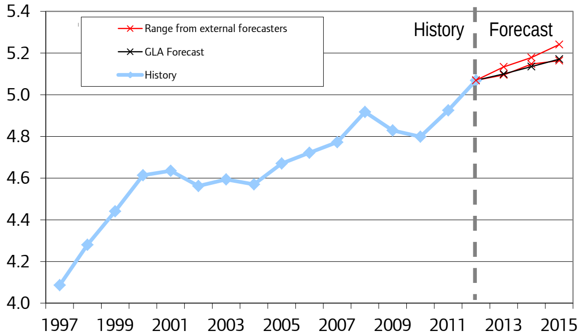
5.1 Results

Following the resumption of positive growth in 2010 output is expected to continue to rise between 2013 and 2015. Employment growth is forecast to moderate but be positive between 2013 and 2015.

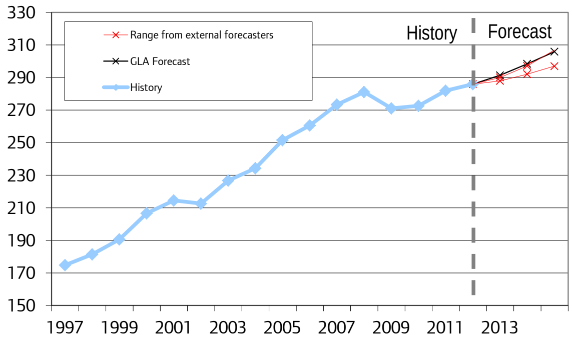
Household spending is expected to continue to grow between 2013 and 2015. Household income growth is also expected to be positive over the forecast period.

Figure 5.1: Trend and forecast employment and output

Employment (millions of workforce jobs)



Output (constant year 2009, £ billion)



Source: EE for historic data and GLA Economics' calculations for forecast

Table 5.1: Forecast and historical growth rates

(Annual % change)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GVA	4.9	2.9	-3.6	0.6	3.4	1.4	1.9	2.4	2.5
Workforce jobs	1.1	3.0	-1.8	-0.6	2.6	2.9	0.6	0.7	0.7
Household spending	3.2	-0.1	-2.2	1.9	-0.8	1.7	1.5	2.4	2.7
Household income	2.7	0.8	2.1	1.5	0.2	2.8	1.6	2.4	2.7

Table 5.2: Forecast and historical levels

(constant year 2009, £ billion except jobs)

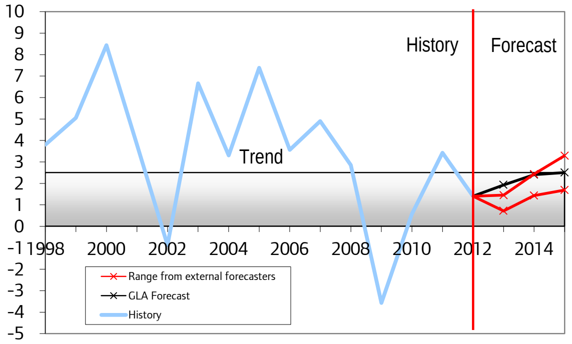
	2007	2008	2009	2010	2011	2012	2013	2014	2015
GVA	273.3	281.1	271.1	272.6	282.0	285.9	291.4	298.4	305.9
Workforce jobs (millions)	4.77	4.92	4.83	4.80	4.92	5.07	5.10	5.14	5.17
Household spending	130.4	130.3	127.5	129.8	128.8	131.0	133.0	136.1	139.8
Household income	146.3	147.6	150.6	152.9	153.2	157.6	160.1	164.0	168.4

Output
(London GVA, constant year 2009, £ billion)

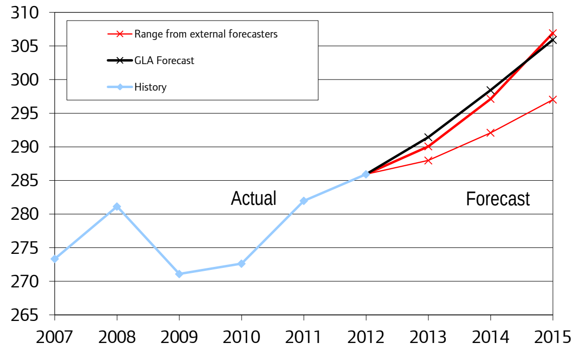
London's real GVA is forecast to grow at a modest rate between 2013 and 2015. Forecast growth rates are 1.9 per cent in 2013, 2.4 per cent in 2014, and 2.5 per cent in 2015.

The GLA Economics' forecast is slightly higher than the consensus average forecast throughout 2013-15.

Annual growth (per cent)



Level (constant year 2009, £ billion)



Growth (annual per cent)						Level (constant year 2009, £ billion)				
	2012	2013	2014	2015			2012	2013	2014	2015
GLA	1.4	1.9	2.4	2.5		GLA	286	291	298	306
Consensus		1.1	2.0	2.4		Consensus		289	295	302

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
3.8	5.1	8.4	3.8	-0.9	6.7	3.3	7.4	3.6	4.9	2.9	-3.6	0.6	3.4	1.4

History: Level (constant year 2009, £ billion)

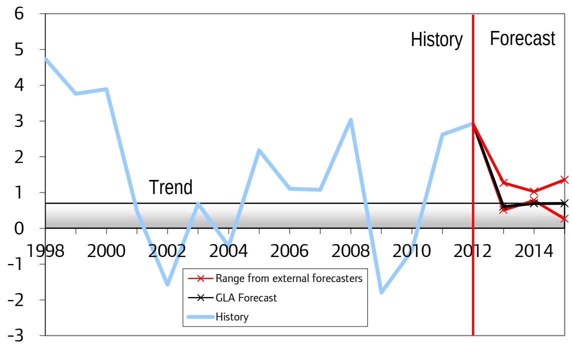
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
174.8	181.4	190.6	206.7	214.5	212.6	226.8	234.3	251.6	260.6	273.3	281.1	271.1	272.6	282.0	285.9

Employment
(London workforce jobs)

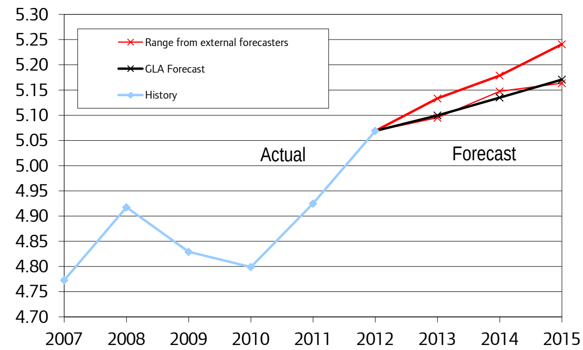
London's employment is forecast to rise moderately between 2013 and 2015.

GLA Economics' forecast for employment growth is more pessimistic than the consensus average forecast throughout 2013-2015.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)						Level (millions of workforce jobs)				
	2012	2013	2014	2015			2012	2013	2014	2015
GLA	2.9	0.6	0.7	0.7		GLA	5.07	5.10	5.14	5.17
Consensus		0.9	0.9	0.9		Consensus		5.11	5.16	5.21

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.7	3.8	3.9	0.5	-1.6	0.7	-0.5	2.2	1.1	1.1	3.0	-1.8	-0.6	2.6	2.9

History: Level (millions)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.09	4.28	4.44	4.61	4.64	4.56	4.59	4.57	4.67	4.72	4.77	4.92	4.83	4.80	4.92	5.07

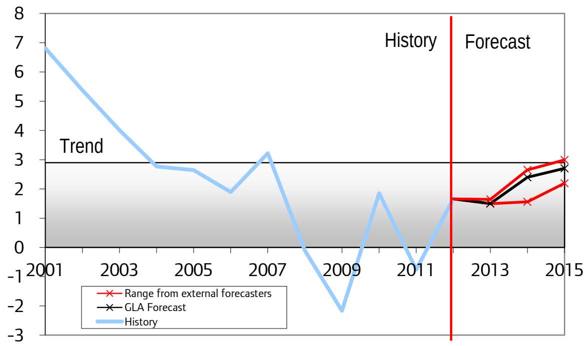
Household expenditure

(London household spending, constant year 2009, £ billion)

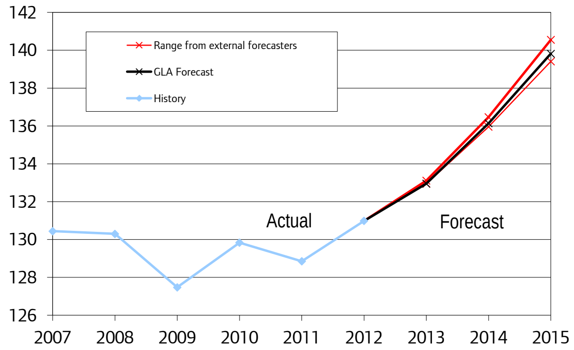
Growth in London's household spending is forecast to be positive and rising over the forecast period.

GLA Economics' household spending growth forecast is similar to the consensus average over the forecast period.

Annual growth (per cent)



Level (constant year 2009, £ billion)



Growth (annual per cent)						Level (constant year 2009, £ billion)				
	2012	2013	2014	2015			2012	2013	2014	2015
GLA	1.7	1.5	2.4	2.7		GLA	131	133	136	140
Consensus		1.6	2.1	2.6		Consensus		133	136	140

History: Annual growth (per cent)

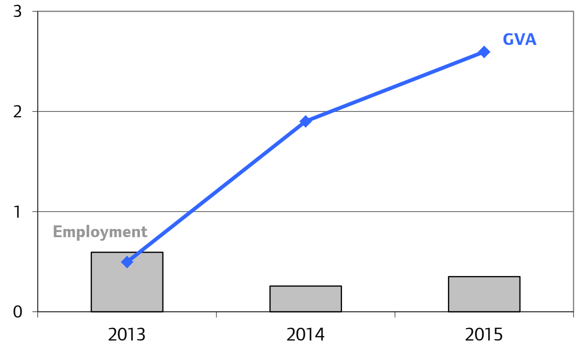
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
6.8	5.4	4.0	2.8	2.6	1.9	3.2	-0.1	-2.2	1.9	-0.8	1.7

History: Level (constant year 2009, £ billion)

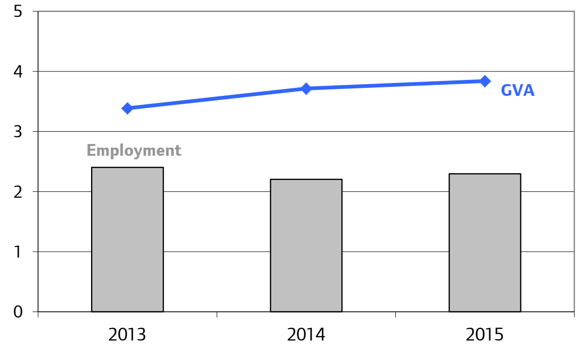
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
100.4	107.3	113.0	117.6	120.8	124.0	126.4	130.4	130.3	127.5	129.8	128.8	131.0

Output and employment growth by sector (per cent annual change)

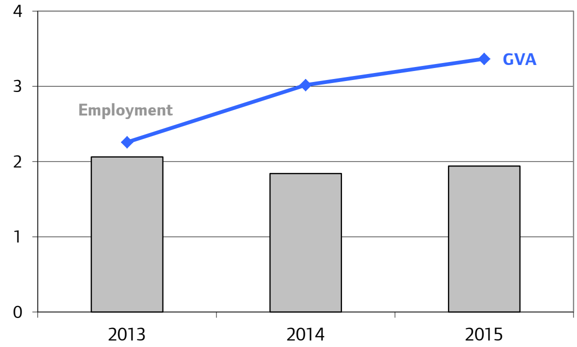
Financial services



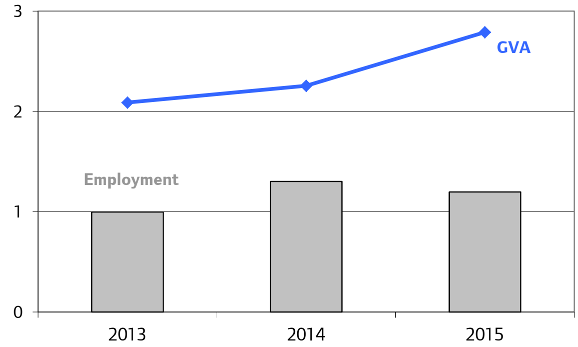
Business services



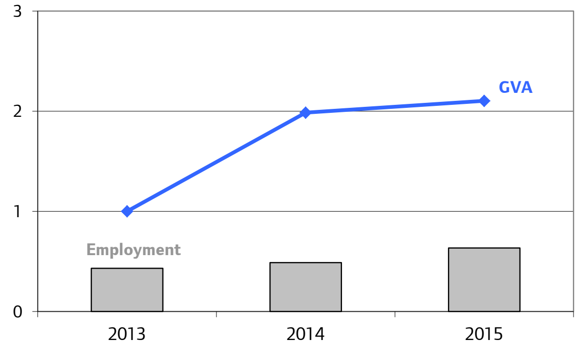
Finance and business (combined)



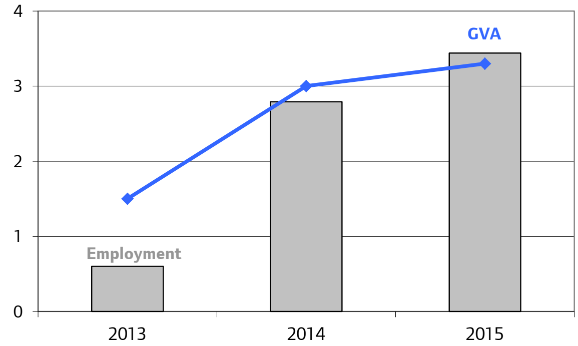
Distribution, accommodation and food service activities



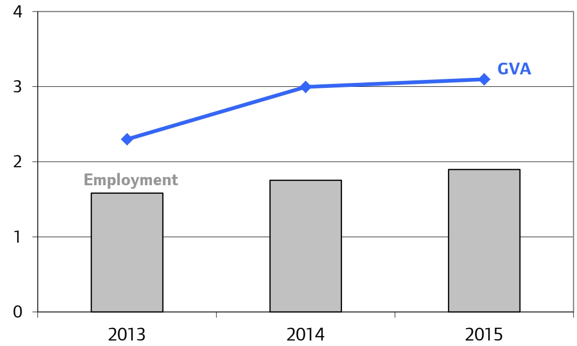
Manufacturing



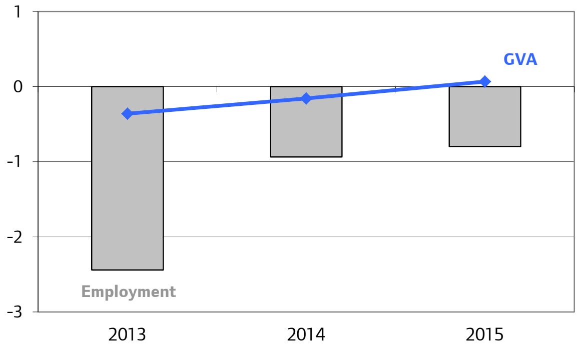
Construction



Transportation and storage



Other (public & private) services



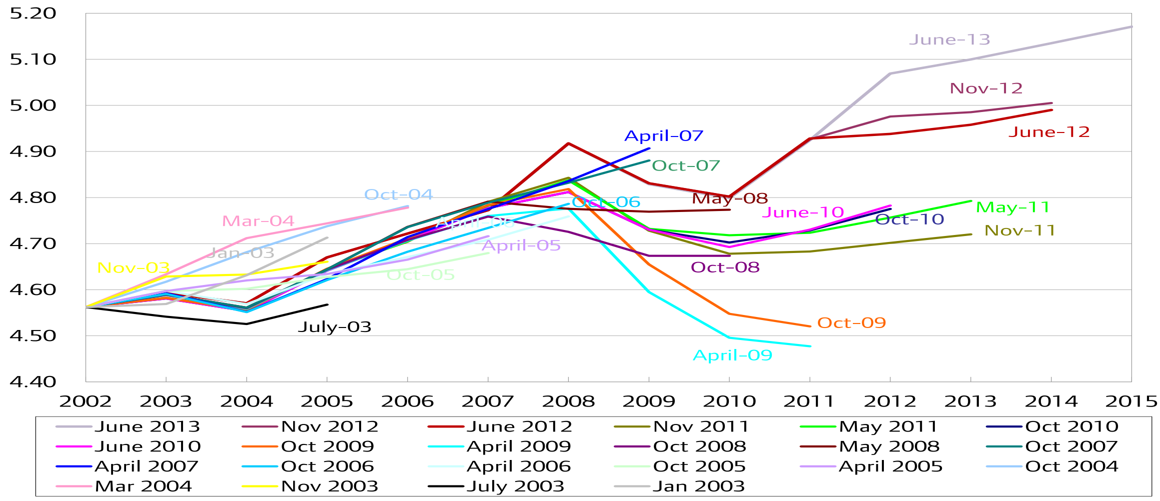
Output and employment growth by sector (per cent annual change)

	2013	2014	2015
Financial services			
Output	0.5	1.9	2.6
Employment	0.6	0.3	0.4
Business services			
Output	3.4	3.7	3.8
Employment	2.4	2.2	2.3
Financial and business services combined			
Output	2.3	3.0	3.4
Employment	2.1	1.8	1.9
Distribution, accommodation and food service activities			
Output	2.1	2.3	2.8
Employment	1.0	1.3	1.2
Transportation and storage			
Output	2.3	3.0	3.1
Employment	1.6	1.8	1.9
Other (public & private) services			
Output	-0.4	-0.2	0.1
Employment	-2.4	-0.9	-0.8
Manufacturing			
Output	1.0	2.0	2.1
Employment	0.4	0.5	0.6
Construction			
Output	1.5	3.0	3.3
Employment	0.6	2.8	3.4
(Memo: non-manufacturing)			
Output	2.0	2.4	2.5
Employment	0.6	0.7	0.7

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparison in Figures 5.2 and 5.3. The most recent forecast for London's workforce jobs growth is slightly higher than the November 2012 forecast whilst for output growth it is similar.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(millions of workforce jobs)

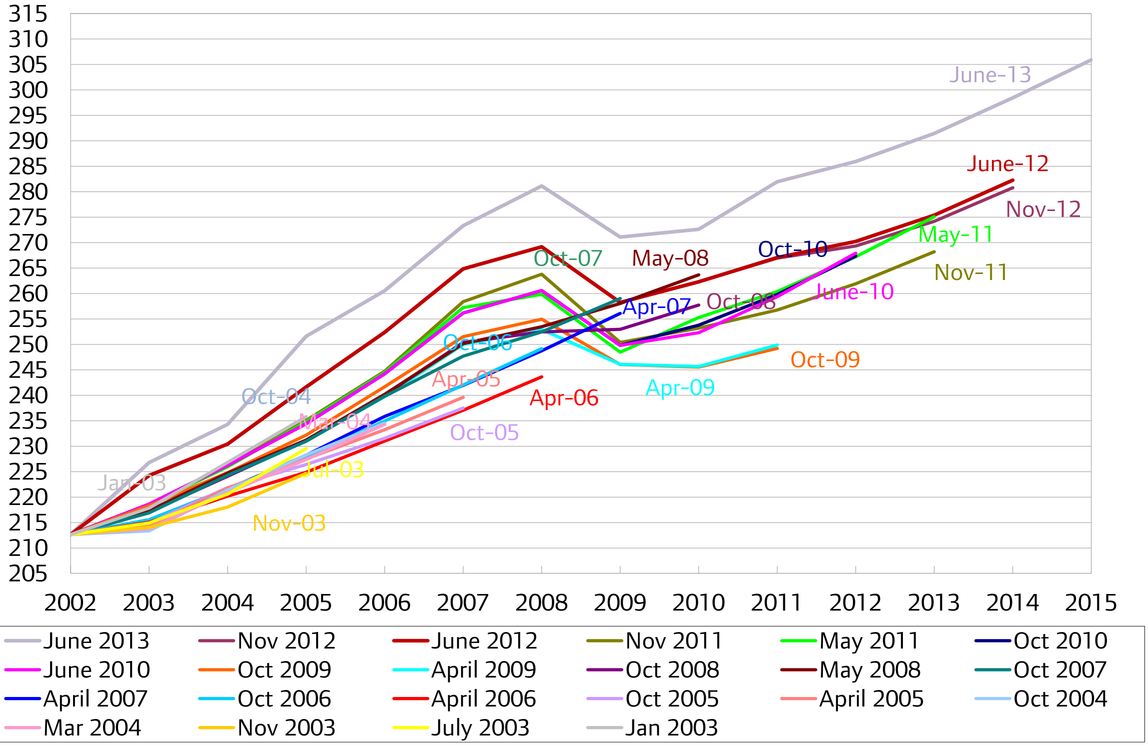


Source: Various London's Economic Outlooks

Table 5.3: Comparisons with previous published forecasts
(London workforce jobs, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
June 2013	0.7%	-0.5%	2.2%	1.1%	1.1%	3.0%	-1.8%	-0.6%	2.6%	2.9%	0.6%	0.7%	0.7%
Nov 2012										1.0%	0.2%	0.4%	
June 2012										0.2%	0.4%	0.6%	
Nov 2011									0.1%	0.4%	0.4%		
May 2011									0.1%	0.7%	0.8%		
Oct 2010								-0.6%	0.6%	1.0%			
June 2010								-0.8%	0.8%	1.1%			
Oct 2009							-3.4%	-2.3%	-0.6%				
April 2009							-3.8%	-2.2%	-0.4%				
Oct 2008						-0.7%	-1.1%	0.0%					
May 2008						-0.3%	-0.1%	0.1%					
Oct 2007					1.2%	0.9%	1.0%						
April 2007					1.2%	1.4%	1.5%						
Oct 2006				1.3%	1.1%	1.1%							
April 2006				0.8%	0.8%	1.1%							
Oct 2005			0.6%	0.4%	0.8%								
April 2005			0.3%	0.7%	1.1%								
Oct 2004		1.4%	1.2%	0.9%									
Mar 2004		1.7%	0.7%	0.7%									
Nov 2003	1.5%	0.1%	0.6%										
July 2003	-0.5%	-0.4%	0.9%										
Jan 2003	0.2%	1.4%	1.8%										

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 2009, £ billion)



Source: Various London's Economic Outlooks

Table 5.4: Comparisons with previous published forecasts
(London GVA, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
June 2013	6.7%	3.3%	7.4%	3.6%	4.9%	2.9%	-3.6%	0.6%	3.4%	1.4%	1.9%	2.4%	2.5%
Nov 2012										0.9%	1.8%	2.4%	
June 2012										1.2%	1.9%	2.5%	
Nov 2011									1.4%	2.0%	2.4%		
May 2011									2.0%	2.6%	2.9%		
Oct 2010								1.6%	2.4%	2.9%			
June 2010								1.0%	2.8%	3.3%			
Oct 2009							-3.5%	-0.2%	1.5%				
April 2009							-2.7%	-0.2%	1.7%				
Oct 2008						0.8%	0.2%	1.9%					
May 2008						1.3%	1.8%	2.2%					
Oct 2007					3.3%	2.0%	2.6%						
April 2007					2.6%	2.8%	3.0%						
Oct 2006				3.1%	3.0%	3.0%							
April 2006				2.7%	2.6%	2.8%							
Oct 2005			2.0%	2.3%	2.6%								
April 2005			2.6%	2.5%	2.7%								
Oct 2004		3.8%	3.1%	2.7%									
Mar 2004		3.3%	2.9%	3.0%									
Nov 2003	0.7%	1.9%	3.0%										
July 2003	1.1%	2.6%	4.1%										
Jan 2003	2.4%	4.1%	4.0%										

Appendix A: From SIC 2003 to SIC 2007[104]

Before the Spring 2012 LEO GLA Economics used a 12-sector breakdown of the economy in our long-run employment projections – see Table A1. However, the switch over to SIC 2007 allows us both to use sector categories which are more relevant to London and to use a 'higher resolution' of sectors: we now use 16 sectors in our long-run employment projections. The main innovations in SIC 2007 were the new section J, "Information and Communication" and the breakdown of "Business Services" into three categories that are highly relevant to London.

Table A1 shows the broad level mapping of the SIC 2003 categories used in Working Paper 38: 'Employment projections for London by sector and trend-based projections by borough' (November 2009), into the SIC 2007 categories we use now.

Table A1: GLA SIC categories

SIC 2007 GLA Sectors	SIC 2003 GLA Sectors
Primary & utilities	Primary & utilities
Manufacturing	Manufacturing
Construction	Construction
Wholesale	Wholesale
Retail	Retail
Transportation and Storage	Transport & communications
Accommodation and food service activities	Hotels & restaurants
Financial and insurance activities	Financial services
Information and Communication	Business services
Professional, scientific and technical services and real estate	
Administrative and support service activities	
Public Admin and defence	Public Admin
Education	Health & education
Health	
Arts, entertainment and recreation	
Other services	Other services

Most of the new categories introduced by SIC 2007 relate to service activities. This is significant for London as many of its jobs are service sector based. For example Real Estate and Professional and Administrative Service activities have almost three times as many divisions under SIC 2007. Business activities (Section K under SIC 2003), which make up a large proportion of London's employee jobs, has moved to several areas in SIC 2007 including Sections L (Real Estate Activities), M (Professional, Scientific and Technical Activities) and N (Administrative and Support Services Activities). Section M includes legal and accounting activities, head office activities, management consultancy, architectural and engineering activities, scientific research and development, advertising and market research, other professional, scientific and technical activities and veterinary activities.

[104] GLA Economics, 'Employment projections for London by sector and trend-based projections by borough', Working Paper 51, December 2011.

Some of the business activities from Section K of SIC 2003 have also moved to Sections S (Other service activities) and J (Information and communication) in SIC 2007. Section J in SIC 2007 also includes publishing, film, broadcasting and news agencies in addition to telecoms and computer related activities. The sale of fuel is now considered a retail activity (in SIC 2003 it was part of motor trade), and recycling has moved from manufacturing to water supply and sewerage and waste management.

Appendix B: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report, as far as is compatible with the individual definitions applied by the forecasters, 'employment' refers to 'workforce employment' as defined in, *Labour Market Trends. London's Economic Outlook: December 2003* and *The GLA's Workforce Employment Series* provides a more detailed explanation of this term.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). Some forecasters still estimate GDP, which differs slightly from GVA. Imputed rental income from the ownership of property is included in some cases but not in others. GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

Estimates of nominal regional GVA are available up to 2011 from the ONS. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price deflators, although the ONS has produced regional price indexes for the year 2010[105]. Most regional forecasters supply their own estimates of London's real GVA. The real London GVA figures used in this GLA Economics' forecast are supplied by EE.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases the expenditure of non-profit organisations is included and in other cases it is not.

[105] Office for National Statistics, 'UK Relative Regional Consumer Price Levels for Goods and Services for 2010', 12 July 2011.

Appendix C: Glossary of acronyms

ADB	Asian Development Bank
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CIPS	The Chartered Institute of Purchasing and Supply
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EFSF	European Financial Stability Facility
EU	European Union
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
GDP	Gross Domestic Product
HM Treasury	Her Majesty's Treasury
IFS	The Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
mn	Million
MPC	Monetary Policy Committee
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RPIX	Retail Price Index (excluding mortgage interest payments)
RPI	Retail Price Index
TfL	Transport for London

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