

London's Economy Today

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UK economy returns to growth in Q3 2019



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The Office for National Statistics (ONS) published their first estimate of Q3 2019 UK GDP in November. This showed that over the three months to September 2019 UK GDP increased by 0.3%, compared to a decline of 0.2% in the three months to June (Figure 1).

The return to quarter on quarter growth in Q3 2019 for the UK meant that a technical recession was avoided but output growth remains weak. This can be seen when comparing GDP with the same quarter a year ago which showed an increase of 1%, the slowest rate of quarter-on-year growth since Q1 2010. In reference to this the ONS observed that “the underlying momentum in the UK economy shows some signs of slowing”. Among the major sectors of the UK economy, the Production sector was flat on a quarter on quarter basis in Q3 2019 while the Services sector increased by 0.4% and the Construction sector by 0.6%. ONS data on UK productivity also shows a weak economic picture with output per hour worked in Q3 2019 unchanged compared with the same quarter a year ago, although it was up 0.3% compared to the previous quarter.

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Datastore

The main economic indicators for London are available to download from the [London Datastore](#).

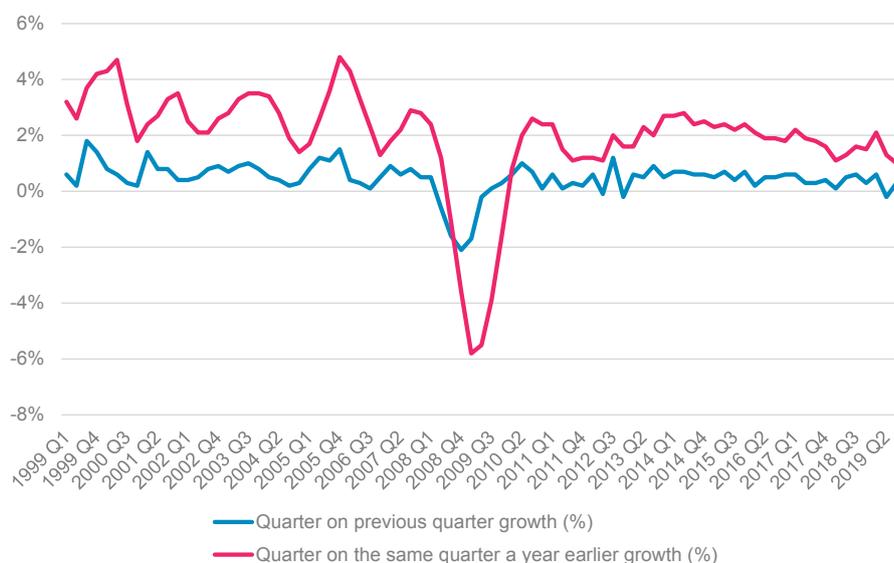


Figure 1: UK quarter on quarter and quarter on same quarter a year earlier GDP growth Q1 1999 to Q3 2019

Source: ONS

Bank of England keeps interest rates on hold



Also in November, the Bank of England published their latest economic forecasts in their first Monetary Policy Report, which replaces their previous Inflation Reports. In this they forecast relatively slow growth for the UK economy over the next couple of years, with UK GDP forecast to grow by 1.25% both this year and next, before increasing slightly to 1.75% in 2021 and 2% in 2022. In commenting on their forecasts for GDP the Bank observed that a number of factors were expected to act as a drag on the economy including slower global growth due to trade tensions. Other factors include low productivity growth which the Bank notes reflects “a continuation of the post-crisis trend, weak business investment and reduced openness as the UK transitions to its new trading relationship with the EU”. They add that “these judgements are subject to risks in both directions. While the empirical relationships between openness, trade and productivity are well founded..., the size of the effects are naturally uncertain. In addition, until the details of the [Free Trade Agreement] FTA are finalised, there will be uncertainty about the barriers to trade that will arise and when exactly they will take effect”. They also add that the Monetary Policy Committee sees these risks as being skewed to the downside in 2020 and 2021, reflecting the uncertainty around the exact nature of the future trading relationship with the EU and the transition to it.

Looking specifically at inflation ONS data showed that Consumer Price Index (CPI) inflation fell to 1.5% in October, a three-year low (Figure 2). The ONS observed that the largest downward contributions to inflation came from electricity, gas and other fuels “as a result of changes to the energy price cap”.



Figure 2: Annual rates of inflation for the UK (January 2007 - October 2019)

Source: ONS

Looking forward the Bank forecasts inflation to drop to around 1.25% by the spring of 2020, due “to the temporary effect of falls in regulated energy and water prices”. They further observe that “unit labour costs have been growing at rates above those consistent with meeting the inflation target and core services CPI inflation has begun to increase somewhat”. Against that they note that “employment growth has slowed and pay growth is likely to fall back in the near term” which should in turn reduce inflationary pressures in the first half of the forecast period. However, in the second half of their forecast period, they expect inflationary pressures to build-up as a significant margin of excess demand emerges. Thus “conditioned on current market yields, CPI inflation is projected to rise to slightly above 2% towards the end of the forecast period”.

Taking account of this the MPC voted to keep interest rates on hold in November at 0.75%, although two out of the nine members of the Committee voted to reduce rates. The Bank observed that “monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target”. Thus “if global growth fails to stabilise or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in UK GDP growth and inflation”. However, if “these risks do not materialise” then “some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target”.

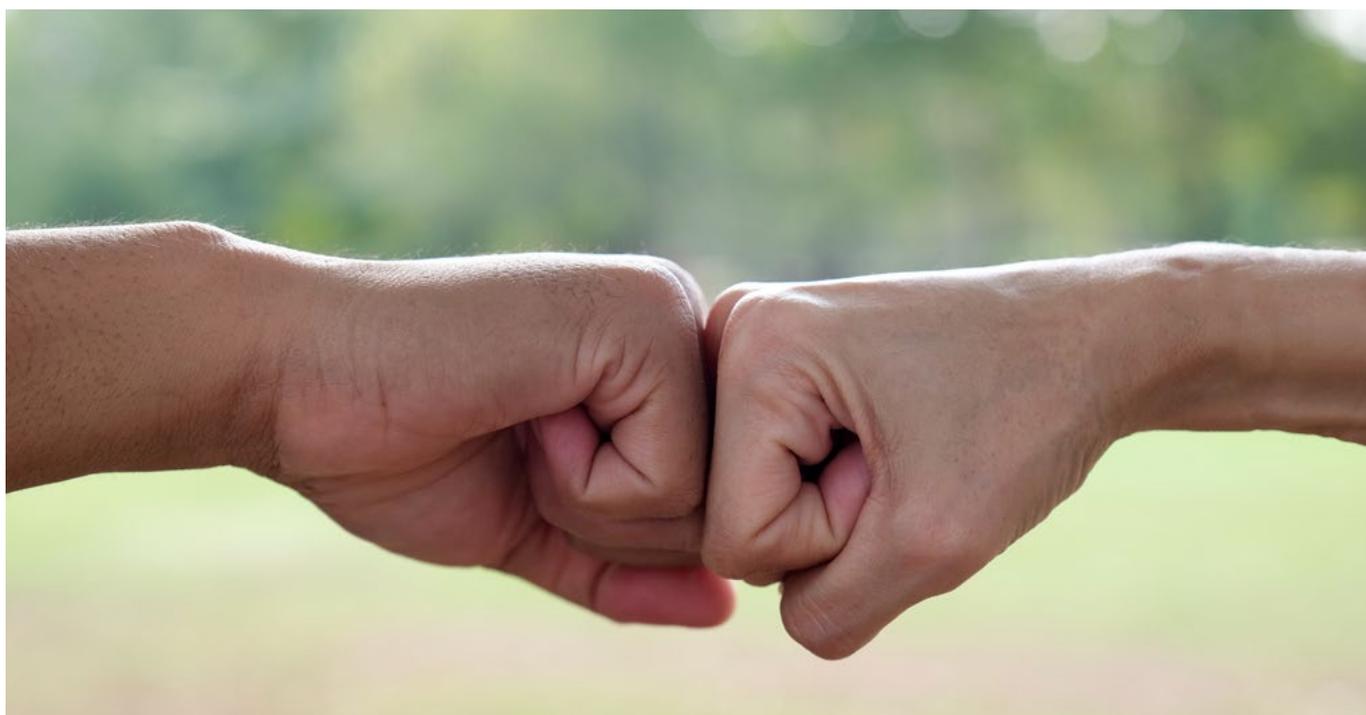
Germany avoids a recession in Q3 2019



Internationally the economic picture remains weak with Q3 GDP data for Germany showing the country just avoided entering a technical recession when its economy grew 0.1% after contracting by 0.2% in Q2 2019. This was better than expected and driven by higher consumer and government spending which offset a downturn in manufacturing which has been hit by poor exports. US economic growth has also slowed with it standing at an annualised rate of 1.9% in Q3 2019, which was the slowest rate of growth of the year so far. Responding to slowing US and global growth and the ongoing trade war with China the US Federal Reserve cut interest rates on 30 October by 0.25% to a range of 1.5% to 1.75%.

Looking more widely the OECD published their latest economic outlook forecast in which they expect world GDP to grow by just 2.9% this year, the slowest rate since the financial crisis, with it remaining at “2.9%-3.0% in 2020 and 2021”. The OECD noted that growth prospects had weakened due to “persistent policy uncertainty and weak trade and investment flows”. They further observed that “risks of even weaker growth remain high, including from an escalation of trade conflicts, geopolitical tensions, the possibility of a sharper-than-expected slowdown in China and climate change”. Looking at individual economies in detail the US is forecast to grow by 2.3% this year and then 2.0% in both 2020 and 2021, while the Eurozone is forecast to see growth of 1.2% in 2019, 1.1% in 2020 and 1.2% in 2021. For the UK the forecasts are of growth of 1.2% in 2019, 1.0% in 2020 and 1.2% in 2021.

London's labour market continues to show strength



The latest labour market figures from the ONS show that London's labour market remained reasonably stable in the three months to September. Thus London's 16-64 employment rate was 74.6%, unchanged on the quarter but down by 0.6 percentage points on the year, while the capital's unemployment rate (the number of unemployed people as a percentage of the labour force) was 4.5%, unchanged on the year.

In October the ONS released new data from its Annual Survey of Hours and Earnings – the main measure of regional employee earnings. According to this data median gross weekly earnings for full-time employees working in London rose to £736 in April 2019, up 3.3% from 2018. This was above the growth rate for the UK as a whole – up 2.9% to reach £585 per week in 2019 – and the highest rate of annual growth in London since 2008. Despite this upturn, total pay growth for full-time workers in London has still been relatively slow over the last decade. After inflation, gross weekly earnings for full-time employees in London were still 4.5% below 2008 levels in 2019, compared to 2.9% lower for the UK as a whole.

Still, global surveys remain optimistic about London's economy. This was shown by the publication of the 2019 Global Power City Index (GPCI) from the Mori Memorial Foundation's Institute for Urban Strategy in November. The index examines more than 40 global cities by six functions (economy, R&D, cultural interaction, liveability, environment, and accessibility) to rank their “magnetism” and rated London first of the cities examined ahead of New York, Tokyo, Paris and Singapore. The report did note however that “London saw its comprehensive score fall after eight years of holding onto the top position in the GPCI”. Thus, although the capital is likely to see a testing start to 2020 the evidence shows that it retains many strengths within itself to face these challenges.

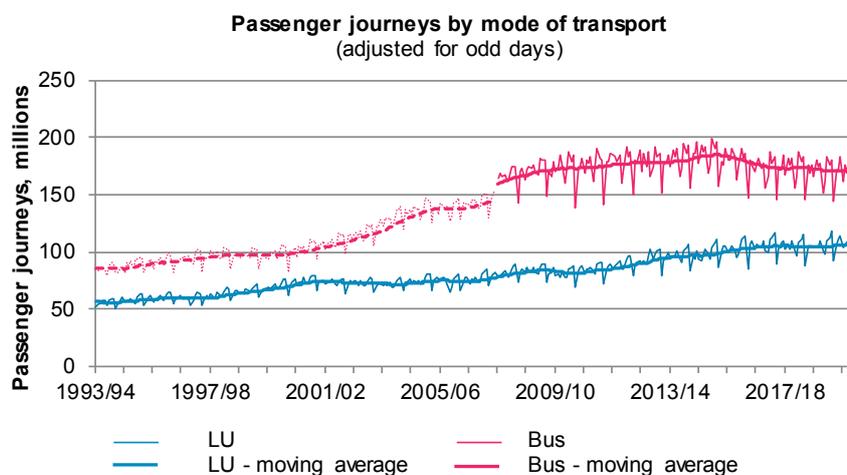
Economic indicators

TfL passenger journeys increased by 32.4 million in the latest period

- A total of 292.0 million passenger journeys were registered between 15 September and 12 October, 32.4 million more than the previous period. This increase is the result of a rise by 12.8 million in Underground journeys and of 19.5 million in bus journeys. 112.2 million of the total journeys were Underground journeys and 179.8 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys fell slightly from 277.1 million to 277.0 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

Source: Transport for London

Latest release: November 2019, Next release: December 2019

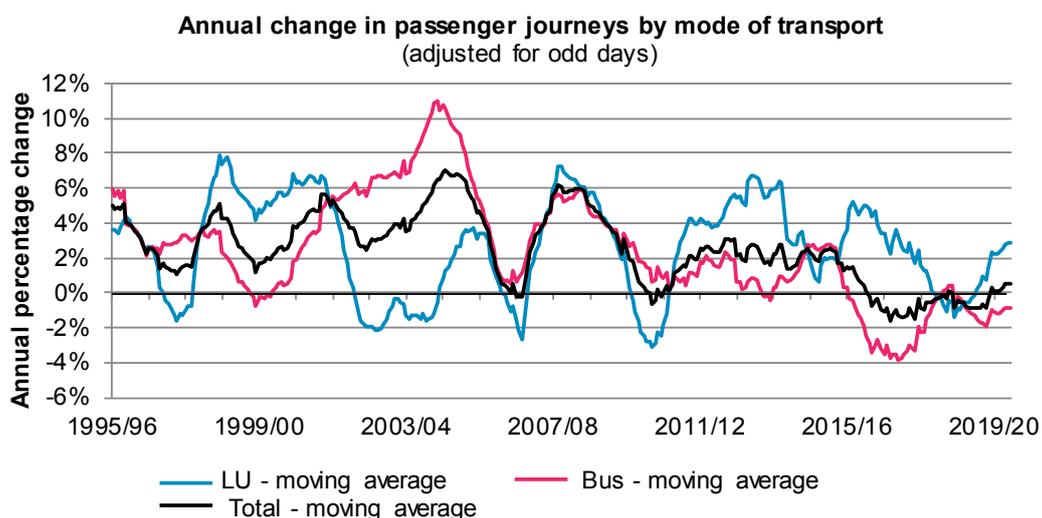


The annual change in passenger journeys remains at 0.6%

- The moving average annual growth rate in the total number of passenger journeys remained unchanged at 0.6%.
- The moving average annual growth rate of bus journeys fell to -0.9% from -0.8% in the previous period.
- In contrast, the moving average of Underground passenger journeys went up from 2.8% to 2.9%.

Source: Transport for London

Latest release: November 2019, Next release: December 2019

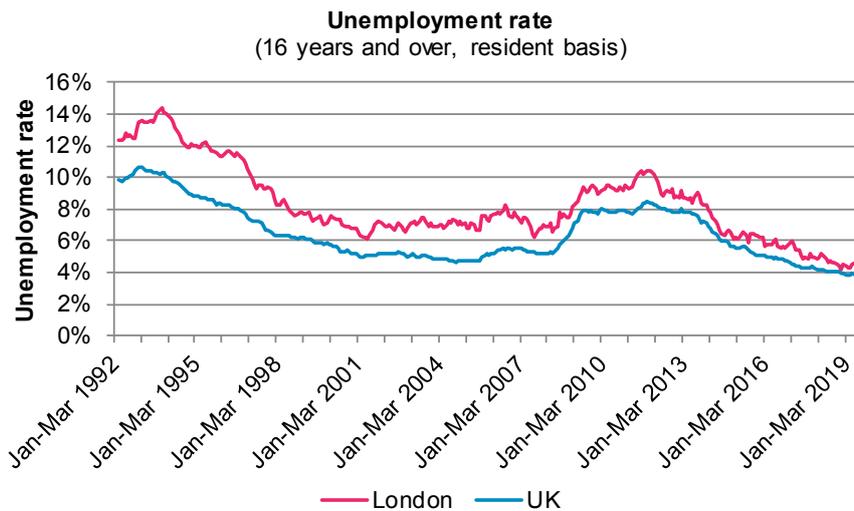


London and UK unemployment rates remained at low levels in Q3 2019

- 222,500 residents 16 years and over were unemployed in London for the three-month period July-September 2019.
- The unemployment rate in London was 4.5% in that period, the same rate as in the second quarter of the year.
- The UK's unemployment rate lowered from 3.9% in Q2 2019 to 3.8% in the three months to September, reaching a new joint historic record low for this rate.

Source: ONS Labour Force Survey

Latest release: November 2019, Next release: December 2019

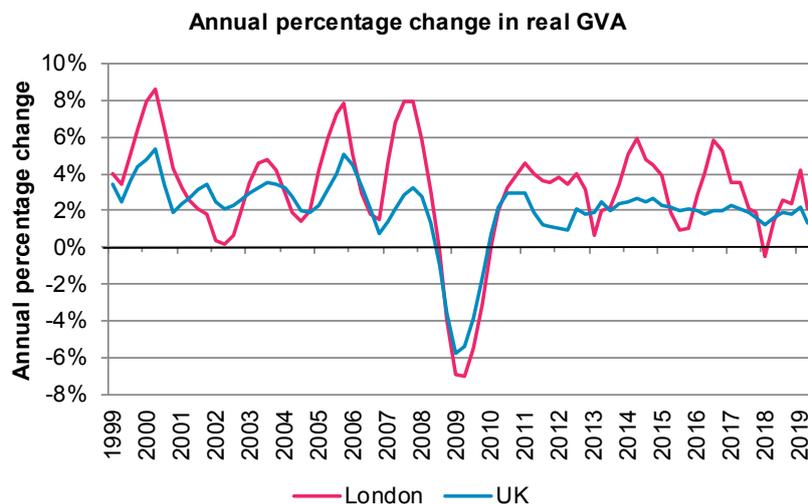


London's economy grew by 2.1% in the year to the second quarter of 2019

- London's annual real GVA growth fell from 4.2% in Q1 2019 to 2.1% in the second quarter of the year based on GLA Economics forecasts. This was the lowest rate in one year but still compares strongly with the growth rate registered for the whole of 2018 for the UK of 1.5%.
- In the UK, output growth for the year to Q2 2019 was 1.4%, 0.8 percentage points down from the previous quarter.
- The GVA estimate for the most recent quarter for London has been produced by GLA Economics. Other estimates are from the ONS.

Source: ONS and GLA Economics calculations

Latest release: October 2019, Next release: January 2020

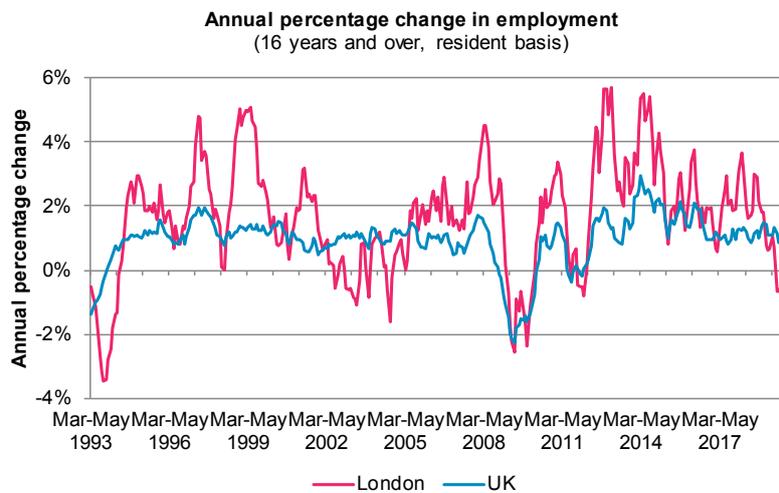


Year-on-year employment fell in London in Q3 2019

- Around 4.67 million residents over 16 years old were employed in London during the three-month period July-September 2019.
- The rate of annual employment growth for the capital decreased by 1.3 percentage points from 0.7% in April-June 2019 to -0.6% in July-September 2019 and registered the first negative quarterly growth rate since Q1 2012.
- In Q3 2019, the UK employment rate grew annually at a rate of 1.0%, 0.3 percentage points less than the previous quarter.

Source: ONS Labour Force Survey

Latest release: November 2019, Next release: December 2019

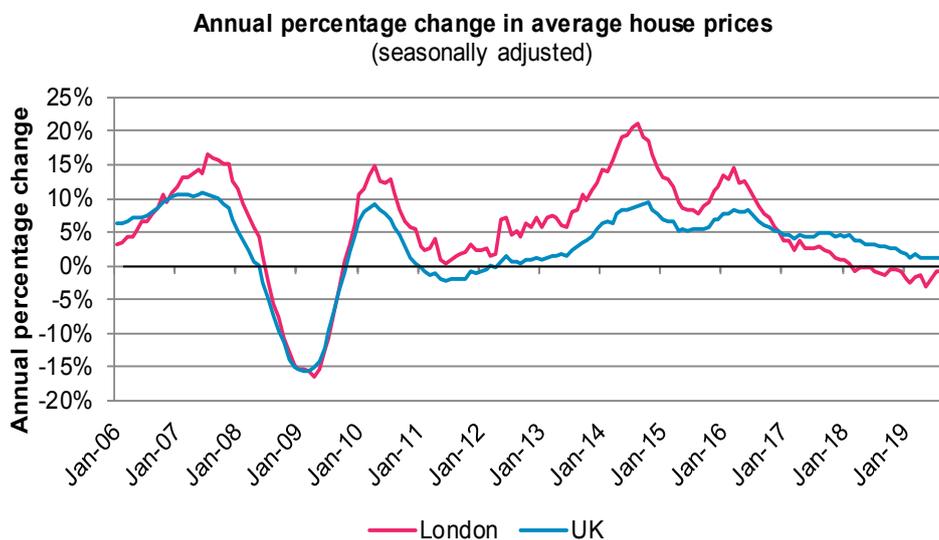


Year-on-year house prices continue to fall in London

- In September 2019, the average house price in London was £471,479, while for the UK the average was £230,590.
- The annual growth rate in average house prices in London was -0.4% in the year to September, compared with -0.9% in the year to August. London prices have been falling in year-on-year terms for 19 consecutive months, registering a cumulative fall of 1.8% over this period.
- By contrast, average house prices in the UK grew by 1.2% on an annual basis in the year to September 2019, the same rate as in August.

Source: Land Registry and ONS

Latest release: November 2019, Next release: December 2019

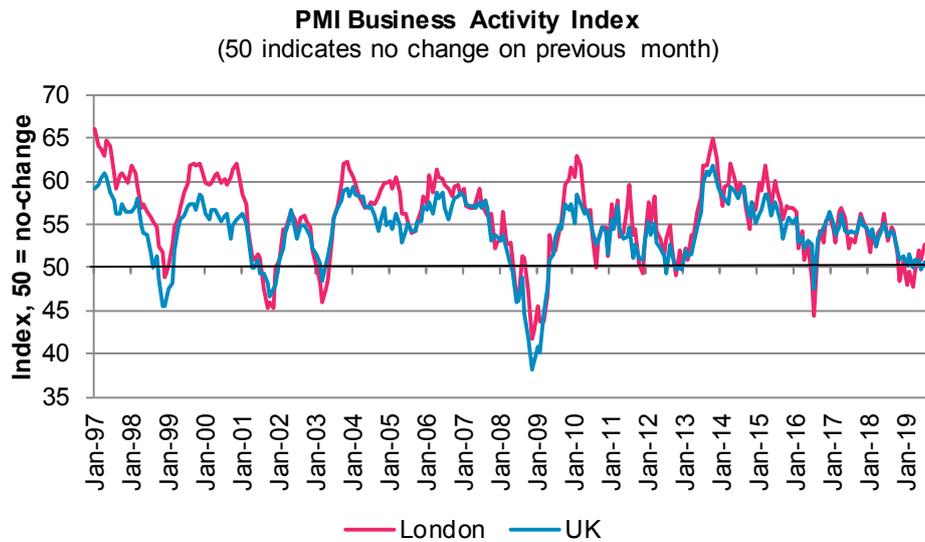


London business activity improved slightly in October

- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in activity on average across firms, while readings below indicate a decrease.
- Business activity growth at London private firms was 51.7 in October, up from 50.1 in September.
- The UK index also increased from 49.3 in September to 50.0 in October.

Source: IHS Markit

Latest release: November 2019, Next release: December 2019

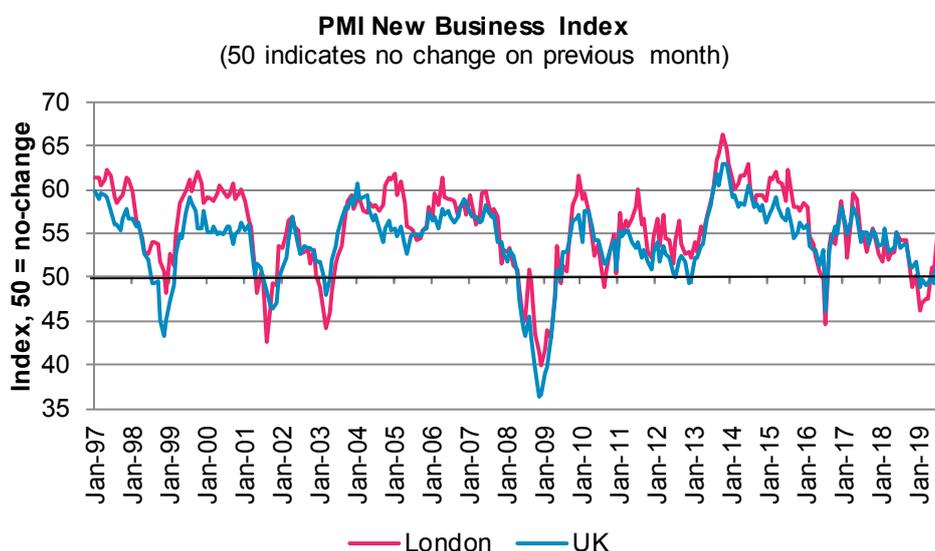


Continued but very weak growth in new business activity in London

- The PMI New Business Index was 50.1 in London in October, down from 51.8 in September.
- For the UK it stood at 48.8 in October as it was in September.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Source: IHS Markit

Latest release: November 2019, Next release: December 2019

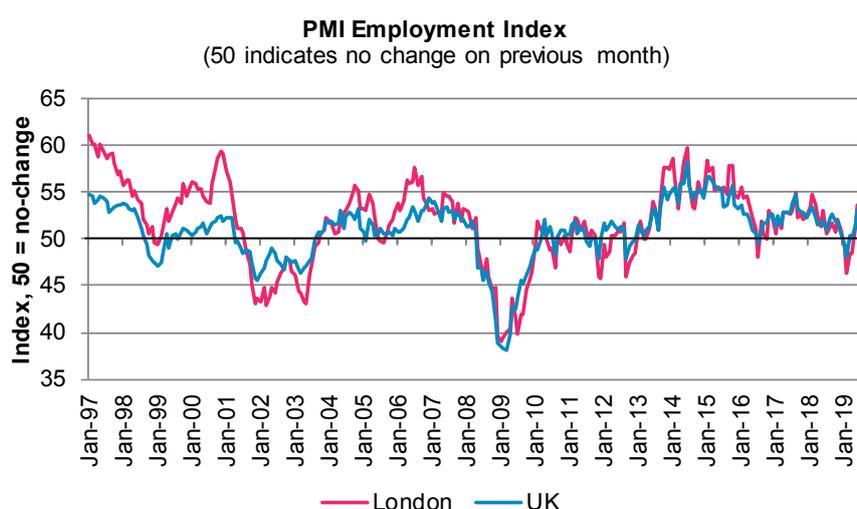


Employment increased across the majority of London private sector firms in October

- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment. Readings above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.
- The Employment Index for London was 51.1 in October, up from 49.1 in September.
- The index also improved for the UK in October - at 48.5 from 47.8 in the previous month – although this still represents a net decrease in hiring firms.

Source: IHS Markit

Latest release: November 2019, Next release: December 2019

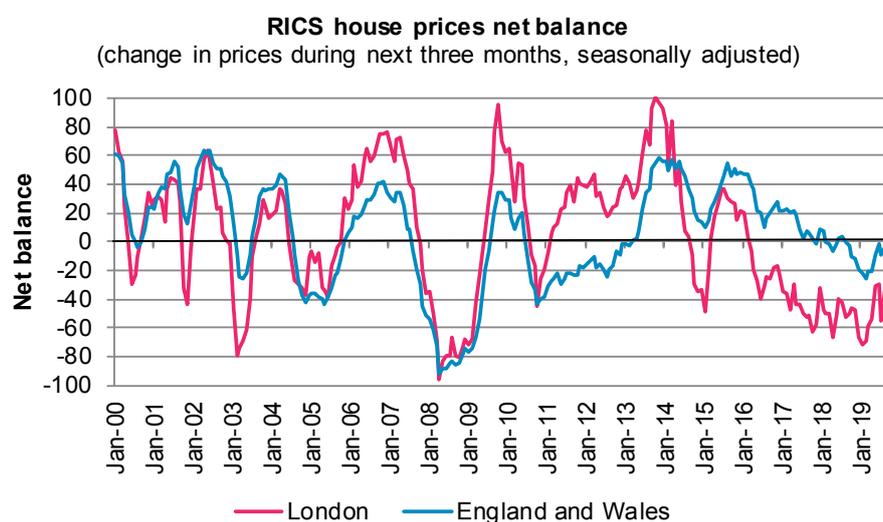


Continuing fall in London house prices according to property surveyors

- In the three months to October 2019, the net balance of property surveyors reporting house price increases rose from -34 in September to -22. The index has now been negative since the three-month period to February 2016.
- For England and Wales, the RICS house prices net balance index reduced from -3 in September to -5 for the three months to October 2019.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

Source: Royal Institution of Chartered Surveyors

Latest release: November 2019, Next release: December 2019

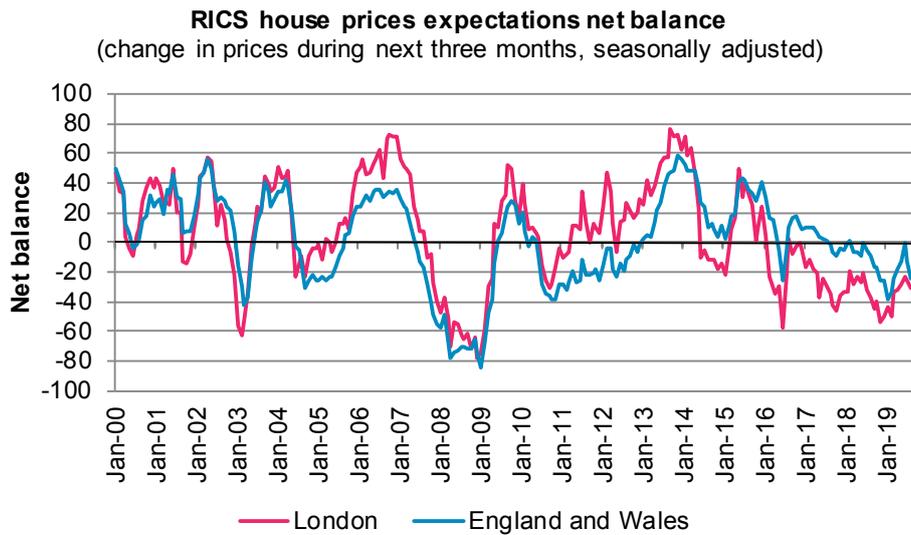


House price expectations continue to be negative

- In October, many surveyors changed their expectations for the next three months for house prices in London. The RICS index was -2 for this month, up from -30 in September.
- London no longer has the most negative expectations for house prices of any region.
- Sentiment in England and Wales was also negative in October (-7) up from -16 in September.

Source: Royal Institution of Chartered Surveyors

Latest release: November 2019, Next release: December 2019

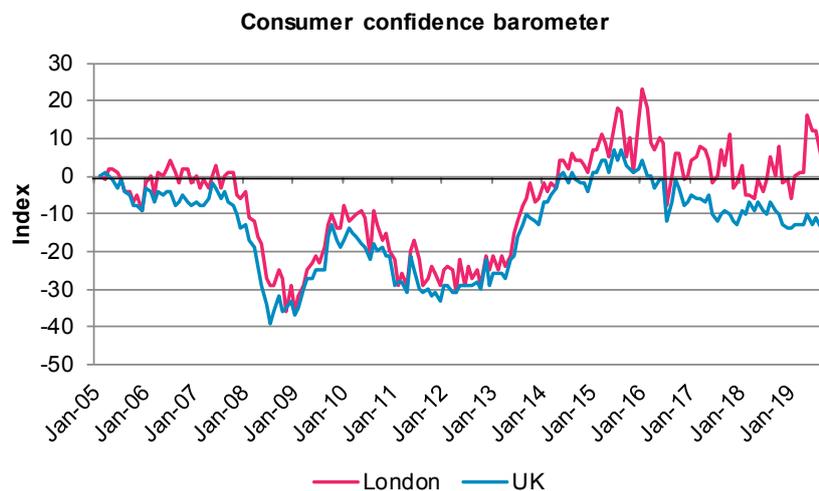


Consumer confidence in London remained positive in October

- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- The consumer confidence index in London was 9 in October, down from 12 in September. This index has remained positive since March 2019.
- Sentiment was negative for the UK in October (-14), a slight decline from September (-12). The UK has not shown a positive index score since January 2016.

Source: GfK NOP on behalf of the European Commission

Latest release: October 2019, Next release: November 2019



Indices of Deprivation 2019

By **Rachel Leeser**, Senior Research & Statistical Analyst

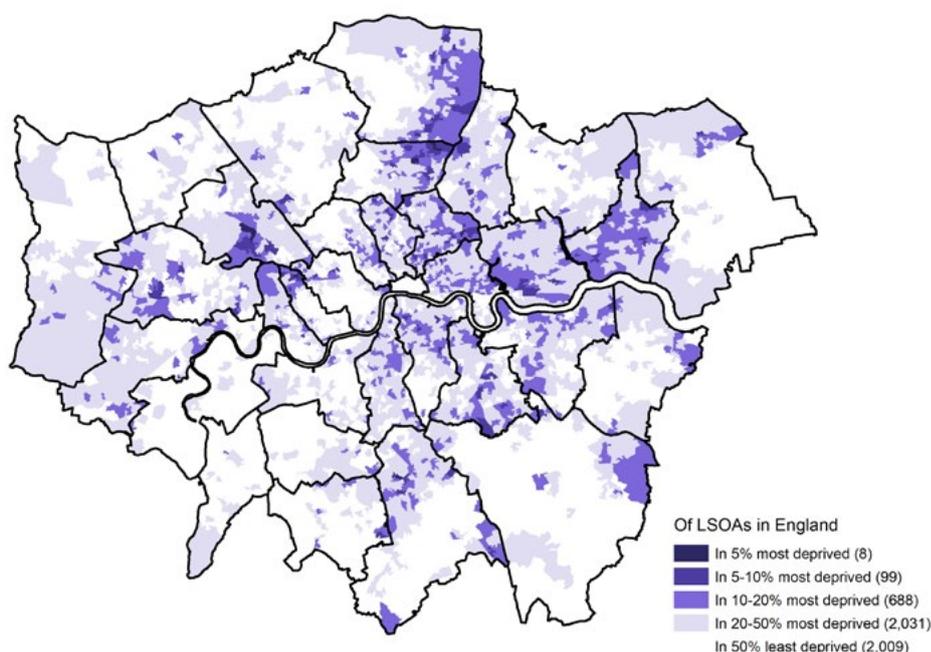


This article is drawn in part from an initial analysis of the English Indices of Deprivation 2019 published on the [London Datastore](#). That article includes some analysis at local authority level not included here, but this article looks back in a little more detail to make comparisons with the Indices of Deprivation 2015.

The Indices of Deprivation 2019 (ID2019) are the Government's primary measure of deprivation for small areas (known as LSOAs) in England. They replace and update the Indices of Deprivation 2015. The main index is the Index of Multiple Deprivation (IMD), which combines measures across seven distinct aspects of deprivation. It is important to note that the ID 2019, though published in 2019 are based largely on administrative data from 2015 and 2016, while the ID2015 use data mainly from 2012.

Overall, London is less deprived, compared to other parts of the country according to IMD2019 than was the case in IMD2015.

The number of neighbourhoods (LSOAs) in London among the most deprived 5% in England is just eight out of a total of 4,835 LSOAs in London, or 0.2% of London's LSOAs, and just two per cent more (a further 99 LSOAs) are in England's most deprived 10%.



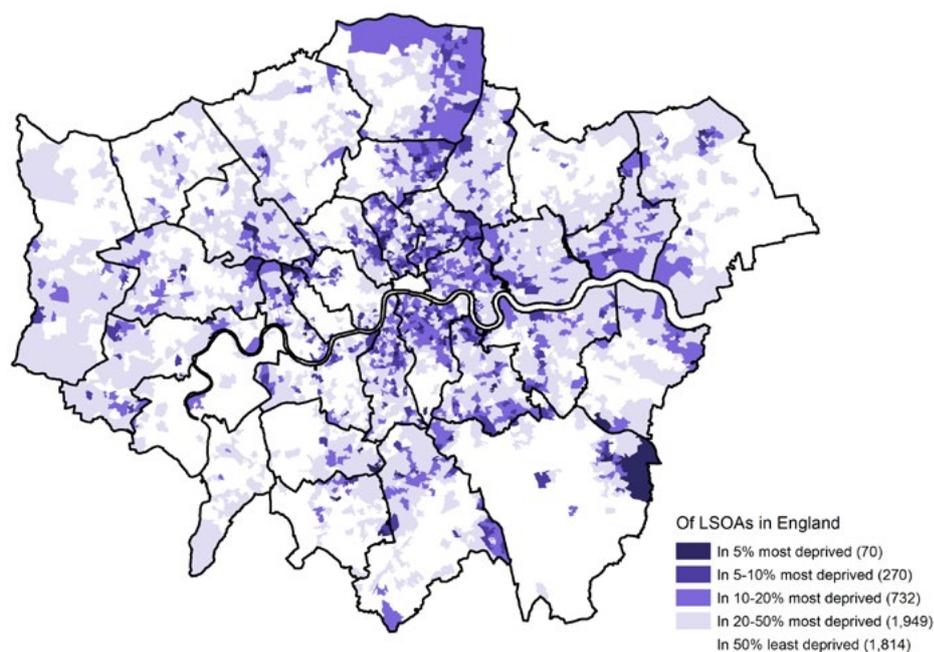
Map A1: Index of Multiple Deprivation 2019, LSOAs in London

Source: Indices of Deprivation 2019, MHCLG

Map A1 illustrates the areas with higher levels of deprivation overall across London showing the familiar pattern of a crescent from the eastern side of Enfield down through Haringey and Hackney and across into Newham and Barking and Dagenham. There are additional patches of higher relative deprivation around Brent/Kensington/Westminster and further pockets, most notably in Ealing, across the inner south London boroughs and into Croydon.

However, the latest IMD reveals considerably fewer areas of higher relative deprivation in many parts of London, than were apparent in the previous IMD (2015). For example, in Tower Hamlets just two LSOAs ranked in England's top (most deprived) 10% and a further 44 ranked in the next 10% in IMD2019, compared with 34 and 50 respectively in IMD2015. Across London as a whole, the number of LSOAs among the most deprived 5% in England is just eight in IMD2019, compared with 52 in IMD2015, and a total of 107 London LSOAs in the top 10% in IMD2019, compared with 274 in IMD2015.

The two supplementary Indices of Deprivation, the Income Deprivation Affecting Children Index (IDACI) and the Income Deprivation Affecting Older People Index (IDAOPI) illustrated below show broadly similar patterns to the overall IMD for 2019. The IDACI clearly has more deprived areas than the overall IMD and more in the most deprived category (70). However, there is considerable improvement apparent over the IDACI2015, when there were 234 London LSOAs among the most deprived 5% in England. The three LSOAs with the highest proportions of children affected by income deprivation in 2015 (over 60%) have all seen a significant fall in that proportion, while the total number of children living in these areas is estimated to have increased substantially¹.



Map A2: Income Deprivation Affecting Children Index 2019, LSOAs in London

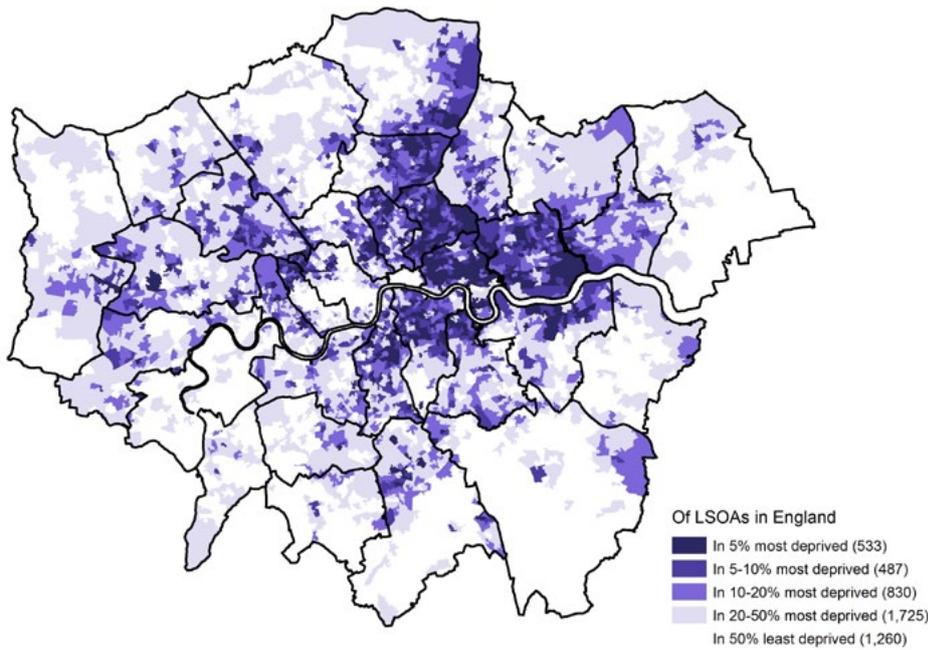
Source: Indices of Deprivation 2019, MHCLG

The IDAOPI shows much higher levels of income deprivation among London's pension-age population, with 11% of London LSOAs among the most deprived 5% in England on this index. The difference is most clearly visible in LSOAs across Hackney, Tower Hamlets and Newham. Seven of the ten local authority districts with the highest levels of income deprivation among older people are in London. This is unchanged from the ID2015.

¹ The population estimates used for this calculation are the ONS 2015 mid-year population estimates less prison population. GLA analysis suggests that there is some over estimation of net international inflow of children, particularly affecting some inner London Boroughs. This has the effect of reducing the IDACI score in the affected areas..

Map A3: Income Deprivation Affecting Older People Index 2019, LSOAs in London

Source: Indices of Deprivation 2019, MHCLG

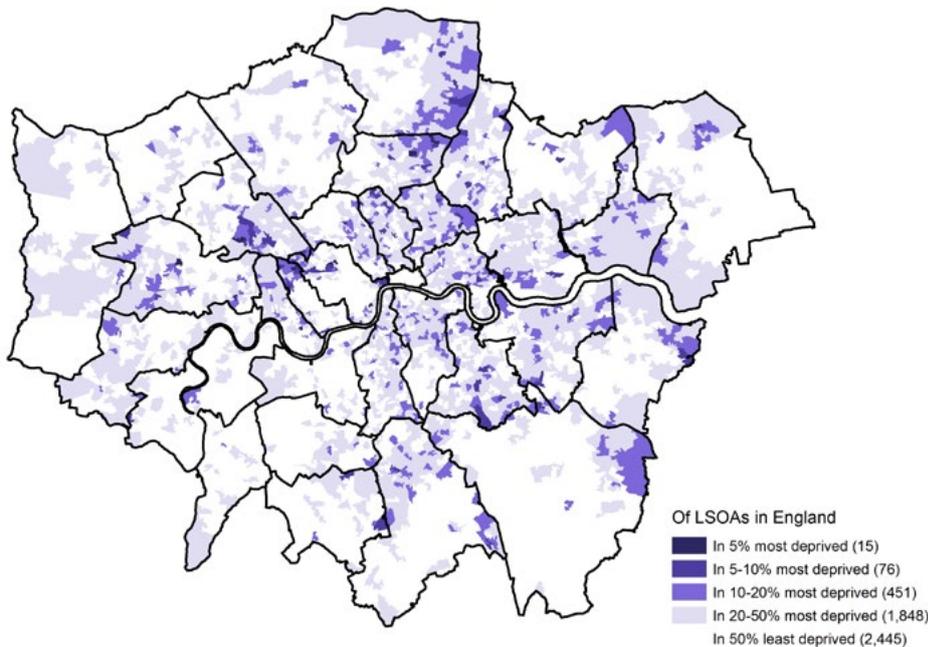


The seven domains that make up the IMD2019 are the same as those used for the previous index, though there have been some changes in the underlying indicators, such as incorporating data for Universal Credit claimants and their families².

The domains show very different patterns of deprivation across London. While the overall pattern of the income deprivation domain is similar to the overall IMD, the levels are higher, with nearly 300 London LSOAs in the top 10%. The employment deprivation domain, illustrated in Map A4, reflects the low levels of unemployment and work-limiting disability in London and shows a further improvement in this domain since 2015. These two domains together make up 45% of the overall IMD.

Map A4: Employment Deprivation Domain 2019, LSOAs in London

Source: Indices of Deprivation 2019, MHCLG



² Universal Credit started to be rolled out in 2013, so was not incorporated into the ID2015. Roll out has covered population groups in different parts of the country at different times. The initial roll-out, completed by April 2016 mainly covered claimants without dependants. Most of the figures incorporated into the IMD2019 therefore include children and partners under the old benefit system..

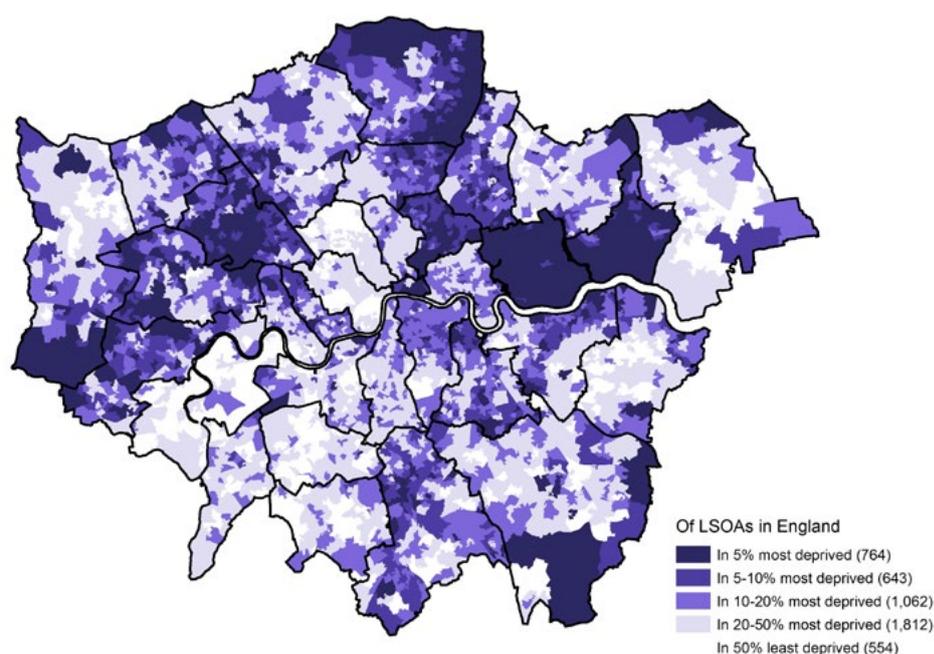
In IMD 2015, the Education Skills and Training Deprivation domain showed how London is doing well in this respect. Further improvement means that there are no LSOAs at all in London falling in the most deprived 5% in England, while there are just 12 in the most deprived 10%. More than two thirds of London LSOAs have below average deprivation in this domain. The proportions of London LSOAs in the Health Deprivation and Disability domain falling into each band are similar to those for the Education, Skills and Training Deprivation domain, though the pattern of distribution is different, with inner London areas more likely to show deprivation in health and disability while outer London areas more likely to show deprivation in terms of education, skills and training. These two domains each make up 13.5% of the overall IMD.

The last three domains carry the lowest weights in the overall IMD, between them making up 28% of the total. They are also the domains which show the highest proportion of London LSOAs in the most deprived categories.

The Crime domain from IMD2019 shows a different pattern to the previous domains, with much more widespread deprivation, though again improved from IMD2015. The IMD2019 records fewer London LSOAs with the highest levels of crime, but also fewer areas in London with below average levels. Similarly, London has fewer areas in IMD2019 than in 2015 with the highest levels of deprivation on the Living Environment domain, incorporating measures of air quality and road traffic accidents along with housing conditions alongside fewer areas with below average levels of deprivation. However, the pattern was again very different, with deprivation on this domain heavily concentrated in inner, particularly central, London areas.

The Barriers to Housing and Services Domain is the only one of the seven domains making up the IMD2019 that shows relatively more deprivation in London LSOAs compared with IMD2015, and even then, it revealed more deprivation in this respect than any other domain. Two boroughs that appear to have bucked this trend are Westminster and Tower Hamlets, with neither area containing LSOAs in IMD2019 among the most deprived 10% in England, whereas almost all of Newham falls into the most deprived 5% (see Map A5).

The Barriers to Housing and Services Domain incorporates indicators of distance to various essential services, homelessness, housing affordability and overcrowding.



Map A5: Barriers to Housing and Services Domain 2019, LSOAs in London

Source: Indices of Deprivation 2019, MHCLG

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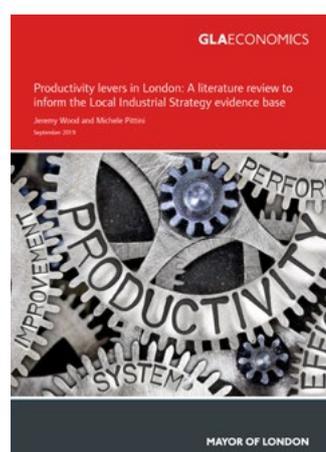
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