GLAECONOMICS

London's Economic Outlook: Spring 2010

The GLA's medium-term planning projections

Transport for London

LONDON DEVELOPMENT AGENCY

MAYOR OF LONDON

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Greater London Authority
June 2010

Published by
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA
www.london.gov.uk
enquiries **020 7983 4000**
minicom **020 7983 4458**

ISBN: **978-1-84781-372-5**

Cover photograph

For more information about this publication, please contact:
GLA Economics
telephone 020 7983 4922
email glaeconomics@london.gov.uk

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the Greater London Authority, Transport for London and the London Development Agency.

Contents

1. Executive summary

GLA Economics' sixteenth London forecast[i] suggests that:

- London's Gross Value Added (GVA) growth rate is forecast to rise to 1.0 per cent in 2010. Growth should increase to 2.8 per cent in 2011 and 3.3 per cent in 2012.
- London is likely to see a fall in employment in 2010, before rising in 2011 and 2012.
- London household income and spending will probably both increase 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)	**2009**	**2010**	**2011**	**2012**
London GVA (constant 2005 £ billion)	-4.1	1.0	2.8	3.3
Consensus (average of independent forecasts)		1.5	2.7	2.9
London civilian workforce jobs	-1.7	-0.8	0.8	1.1
Consensus (average of independent forecasts)		-0.4	0.8	1.0
London household spending (constant 2005 £ billion)	-2.6	0.9	2.6	2.9
Consensus (average of independent forecasts)		1.2	2.7	2.9
London household income (constant 2005 £ billion)	2.5	1.3	3.1	3.4
Memo: Projected UK RPI[ii] (Inflation rate)	-0.7	3.6	2.9	3.0
Projected UK CPI[iii] (Inflation rate)	2.1	2.5	1.7	1.9

Sources: GLA Economics' Spring 2010 forecast and consensus calculated by GLA Economics.

2. Introduction

The spring 2010 edition of *London's Economic Outlook* (LEO) is GLA Economics' sixteenth 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 four 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)
- 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.

3. Economic background: UK and advanced economies begin a weak recovery

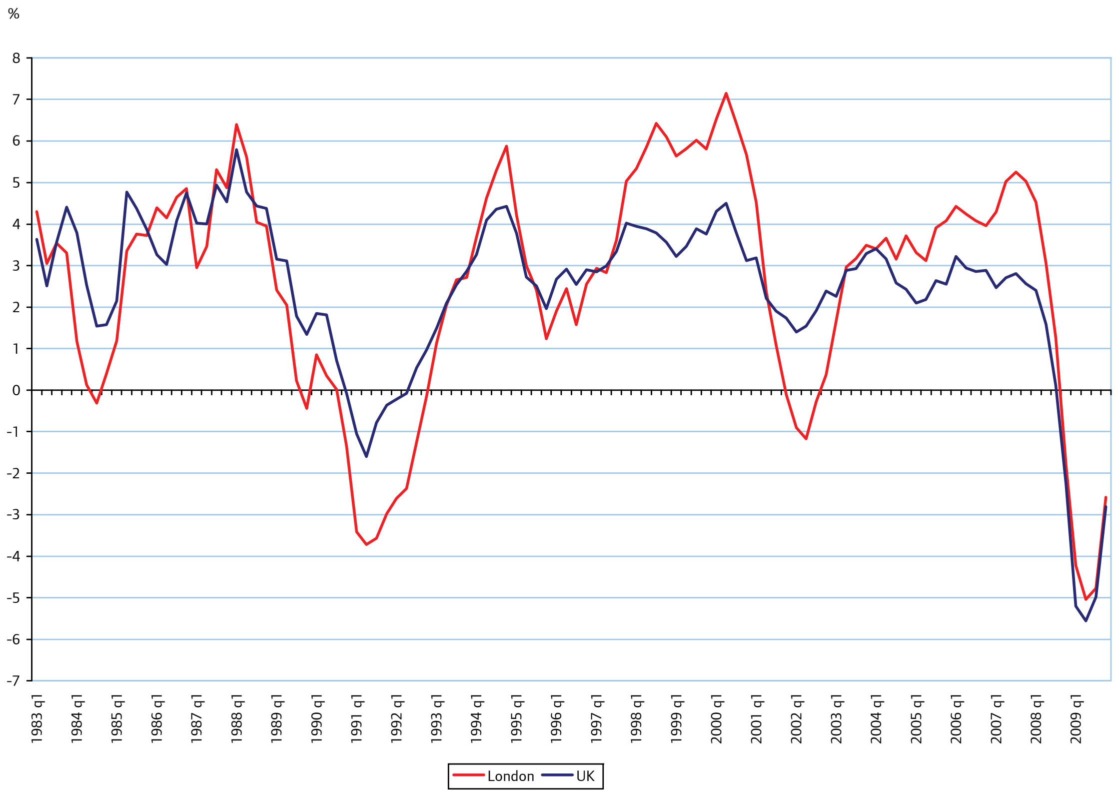
This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's economic output contracted at an annualised rate of -2.6 per cent in quarter four of 2009 compared to -2.8 per cent in the UK. Quarterly growth for both the UK and London turned positive in the final quarter of 2009. Annual economic growth in London has been stronger than the UK as a whole since the second quarter of 2004.

Figure 3.1: Output growth – London and UK

Real GVA, annual % change, last data point is Q4 2009

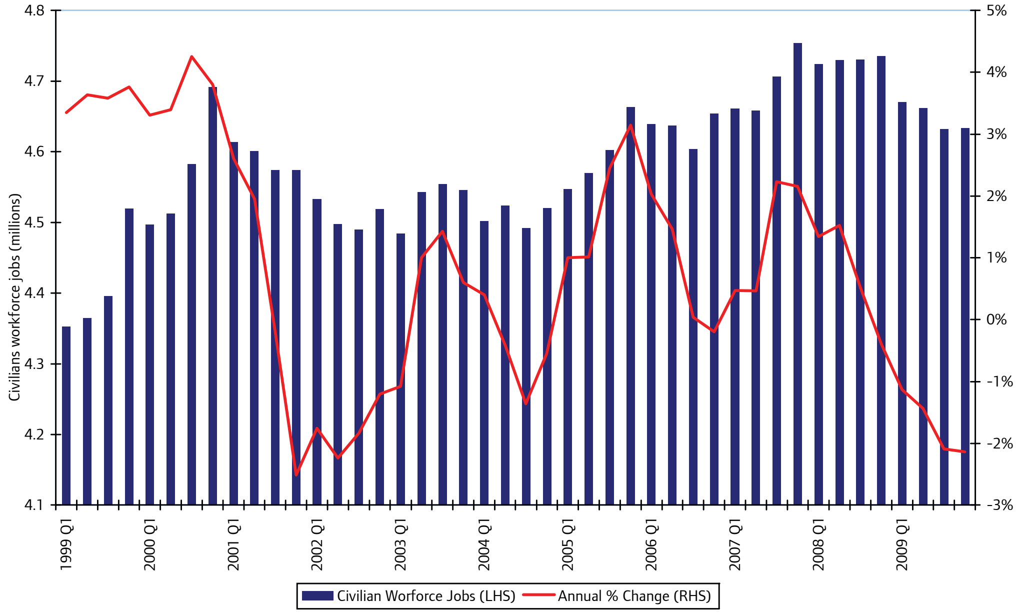


Source: Experian Economics

Annual employment growth in London remained negative in the fourth quarter of 2009 at -2.1 per cent unchanged from the previous quarter. The total number of workforce jobs in London was just over 4.6 million in quarter four 2009 (see Figure 3.2).

Figure 3.2: London civilian workforce jobs

Level and annual % change, last data point is Q4 2009

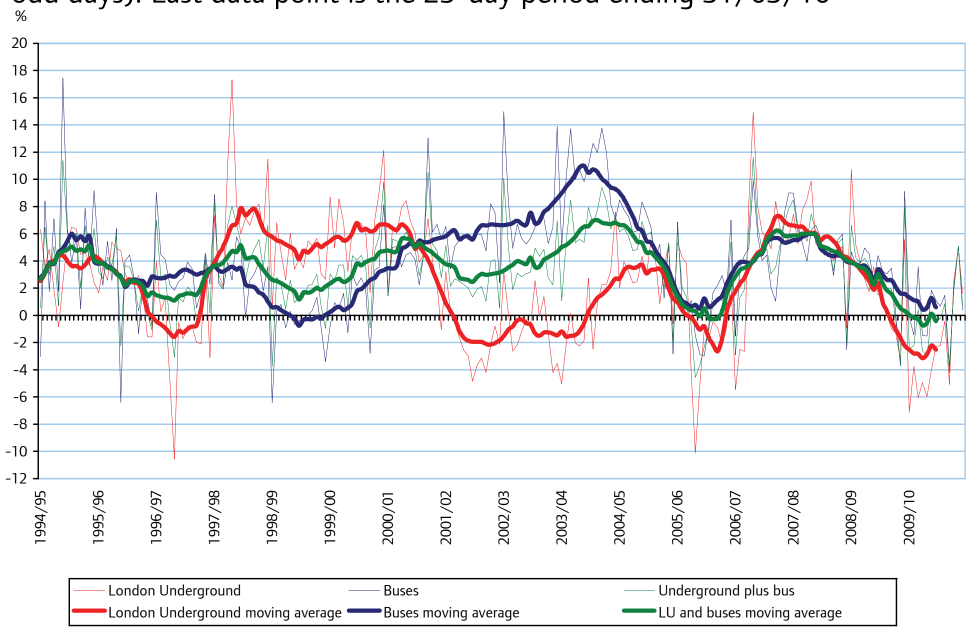


Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows that there was a continued slow down in the annual growth in the moving average of both bus and underground usage in 2009. However there have been recent signs that the worse maybe over. Annual growth in the moving average for underground usage remains negative but shows signs of improvement while the moving average for bus usage remains positive.

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 25-day period ending 31/03/10

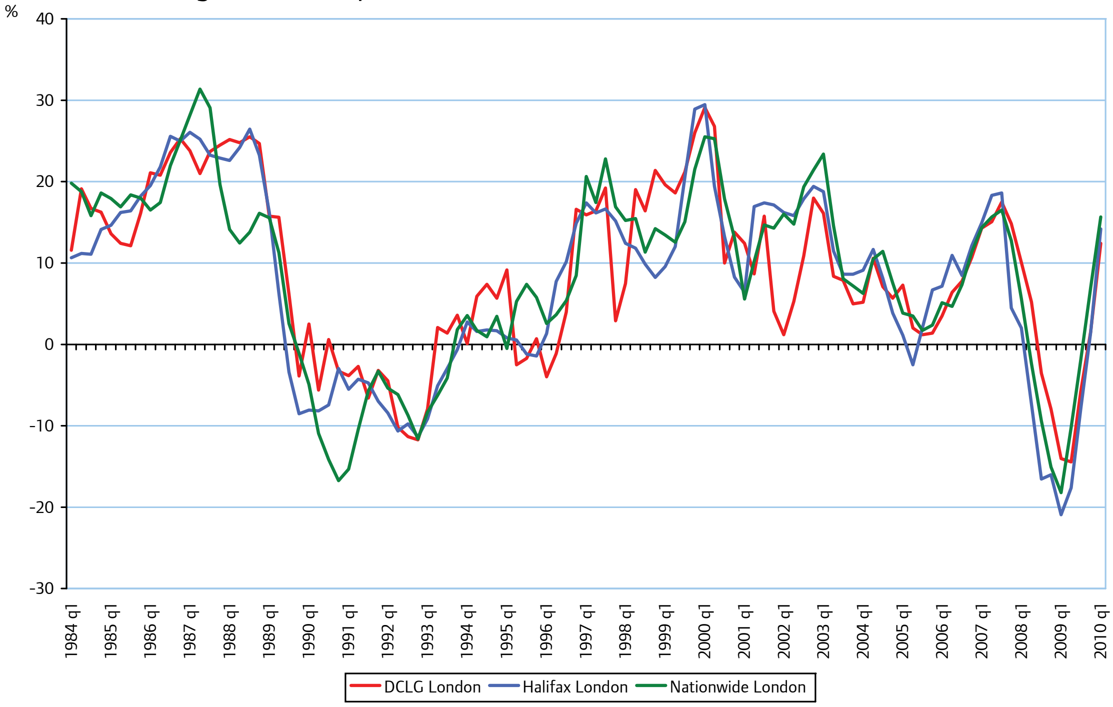


Source: Transport for London

Annual house price inflation slowed in the second half of 2007 and turned negative in 2008. However, in London the housing market made a recovery in the second half of 2009. Annual house price inflation in London as measured by DCLG, the Halifax house price index and Nationwide was very negative in the first half of 2009, but has since bounced back into positive territory (see Figure 3.4).

Figure 3.4 House price inflation in London

Annual % change, last data point is Q1 2010



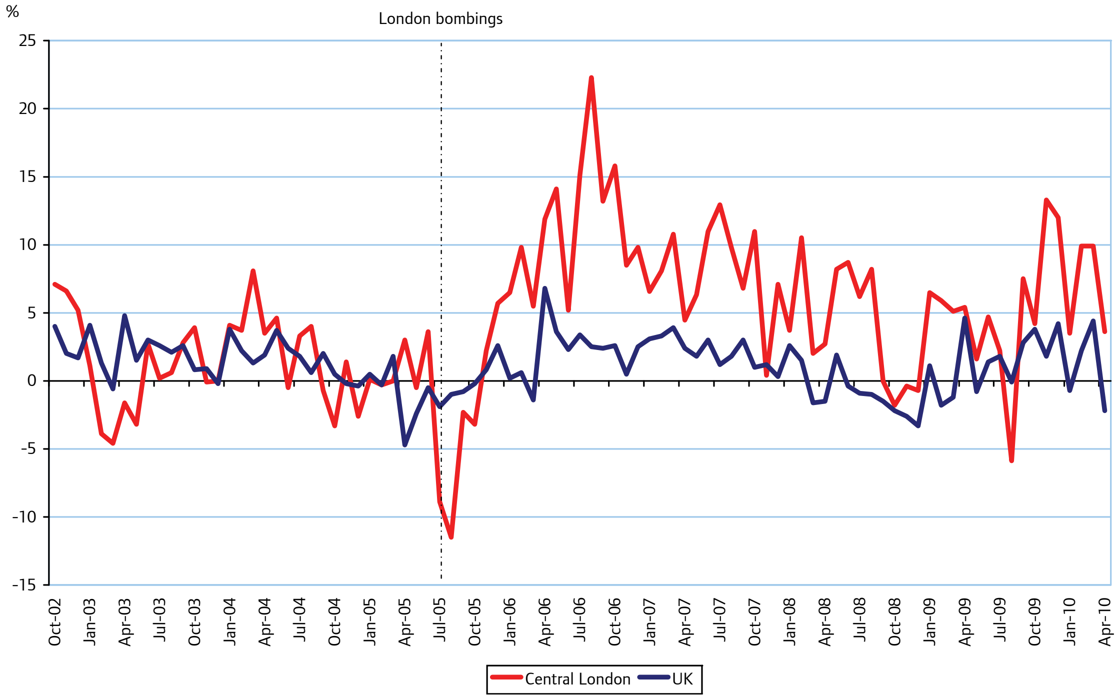
Sources: DCLG, Halifax house price index, Nationwide

Central London's commercial property market continued to pick up in the first quarter of 2010. From Knight Frank's 'Central London Quarterly', take-up levels in Central London have "increased to 4.2 m sq ft, the highest quarterly level since 2007" whilst "growing occupier confidence and strengthening office market fundamentals suggest the Central London market is firmly in the upswing stage of the next cycle". Further, supply in Central London "fell for the fifth consecutive quarter as a result of continued strong take-up, limited new development schemes and the marked slowdown in the release of space to the market by tenants". The Central London vacancy rate stood at 9 per cent at the end of Q1 2010, whilst funding problems continued "to place pressure on the speculative development pipeline". Demand has also picked up in the West End with it seeing "12 months of increased quarterly take-up", with demand "three times that of this time last year and 9% above the long-term average." Meanwhile supply "fell for the second consecutive quarter and now stands at 7.9 m sq ft" with further declines "as market conditions continue to improve" expected[iv].

The retail sector in Central London was generally robust at the end of 2009 and the beginning of 2010. Retail sales rose by 3.6 per cent in April 2010 compared with a year earlier as monitored by the London Retail Consortium (Figure 3.5). Meanwhile UK retail sales fell by 2.2 per cent in April 2010 compared to April 2009. Since November 2005, annual retail sales growth in the UK has remained below that of Central London apart from in November 2007 and August 2009.

Figure 3.5: Retail sales growth – Central London and the UK

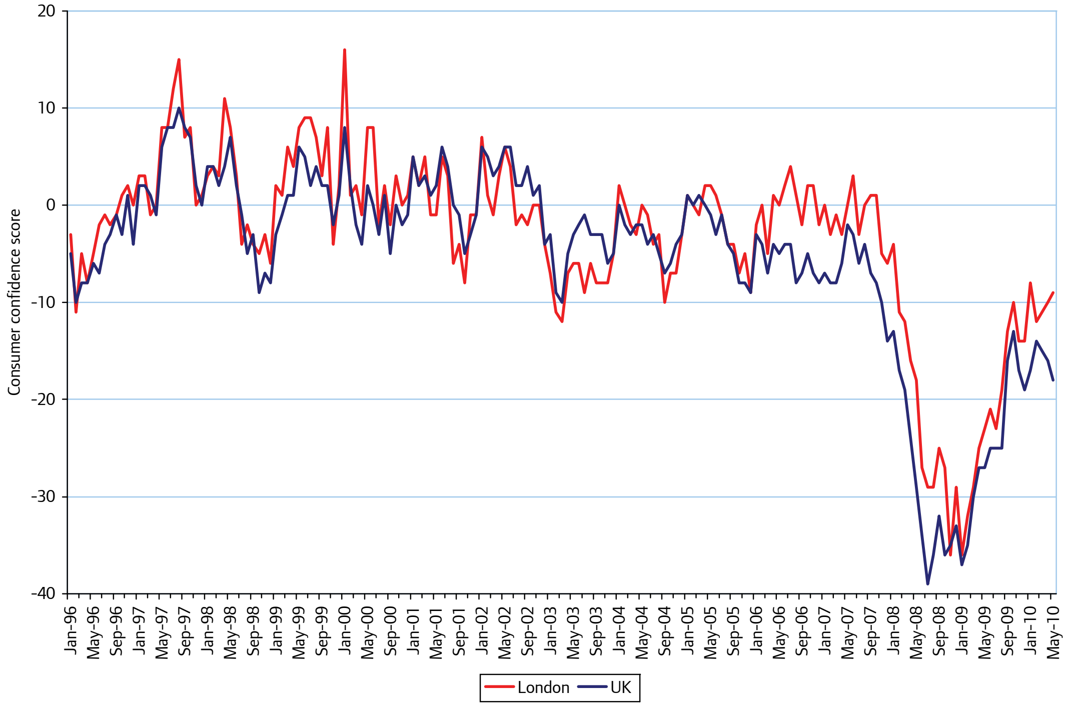
Annual % change, last data point is April 2010



Sources: UK Retail Sales Monitor – BRC/KPMG, Central London Retail Sales Monitor – London Retail Consortium

GfK NOP's regional consumer confidence index (Figure 3.6) shows that consumer confidence remains negative in London but is less negative than in the UK as a whole. Consumer confidence became less negative during 2009 until October. Since then the improvement in the index has stalled. 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.

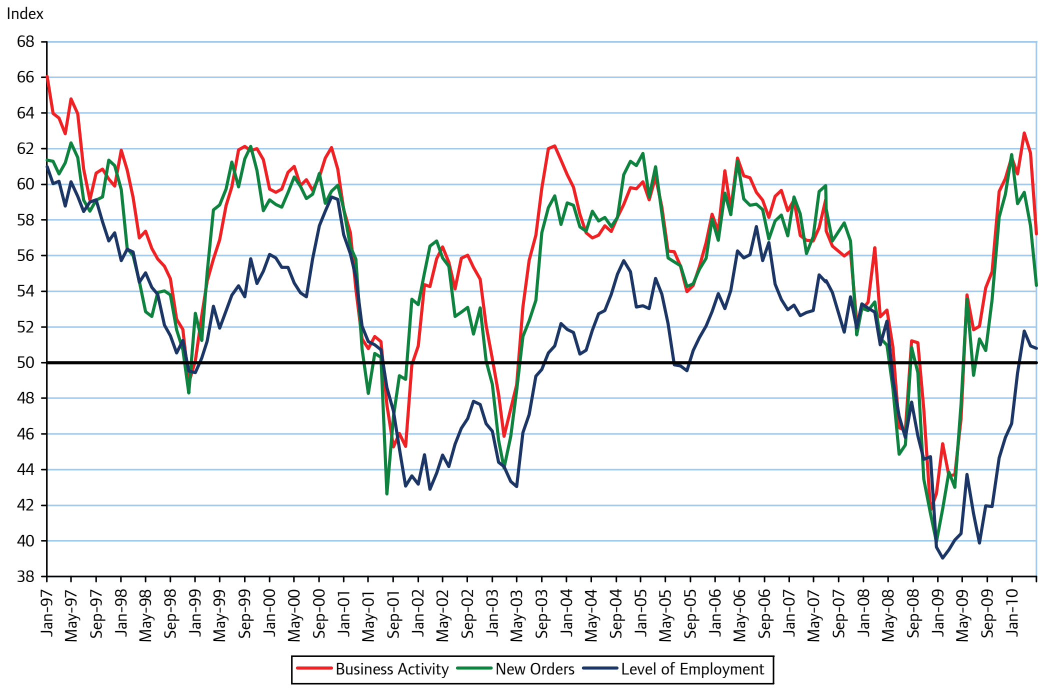
Figure 3.6: GfK NOP's regional consumer confidence index
Consumer confidence score, last data point is May 2010



Sources: GfK NOP on behalf of the European Commission

Business survey results indicate that business activity, new orders and employment in London firms have all begun to expand again after seeing contractions during the recession (see Figure 3.7).

Figure 3.7: Recent survey evidence on London's economic climate
Purchasing Manager's Index (PMI) survey, last data point April 2010
Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Markit Economics

3.2 The UK economy

The UK economy has now exited from in its first recession (defined as two or more consecutive quarters of declining output) since the early 1990s. UK Gross Domestic Product (GDP) rose by an estimated 0.3 per cent in the first quarter of 2010. This followed an expansion of 0.4 per cent in the fourth quarter of 2009, and means that in Q1 2010 GDP was still 5.5 per cent below its pre recession peak.

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

	Average of Independent Forecasters		Budget March 2010	
	2010	**2011**	**2010**	**2011**
GDP growth (per cent)	1.2	2.2	1-1½	3-3½
Claimant unemployment (Q4: mn)	1.72	1.69	-	-
Current account (£bn)	-19.7	-18.6	-35	-36
PSNB (2010-11, 2011-12: £bn)	163.8	139.4	163	131

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, May 2010.

HM Treasury Financial Statement and Budget report Chapter B: The Economy and Chapter C: The Public Finances.

As can be seen in Table 3.2 annual growth in every UK sector was negative in the first three quarters of 2009, but by Q1 2010 a number of sectors were again experiencing positive annual growth. Distribution, hotels and catering saw annual growth in both Q4 2009 and Q1 2010. The recovery is expected to bed down with faster positive growth in a number of sectors in the second half of 2010.

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

	2009				2010
Industrial sectors	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Agriculture, forestry, and fishing	-0.7%	-4.8%	-6.1%	-5.9%	-7.1%
Mining & quarrying inc oil & gas extraction	-8.3%	-8.9%	-13.3%	-10.7%	-6.3%
Manufacturing	-13.6%	-12.3%	-10.6%	-4.8%	1.5%
Electricity gas and water supply	-6.8%	-9.1%	-7.2%	-8.5%	-3.5%
Construction	-13.8%	-13.2%	-9.8%	-6.1%	0.4%
Distribution, hotels and catering	-7.6%	-7.2%	-3.6%	1.1%	2.0%
Transport, storage and communication	-4.6%	-6.9%	-5.6%	-3.4%	-0.4%
Business services and finance	-3.7%	-5.0%	-5.7%	-4.6%	-1.1%
Government and other services	-0.5%	-0.4%	-0.4%	-0.7%	0.0%

Source: Office for National Statistics (as of end-May 2010)

Table 3.3 shows that household annual spending declined throughout 2009 and into the first quarter of 2010. Investment fell heavily during the recession. Meanwhile

Government expenditure remained strong. However government expenditure cuts are expected in the latter part of 2010 moving into 2011 and beyond.

Table 3.3: UK domestic expenditure growth

Annual % change

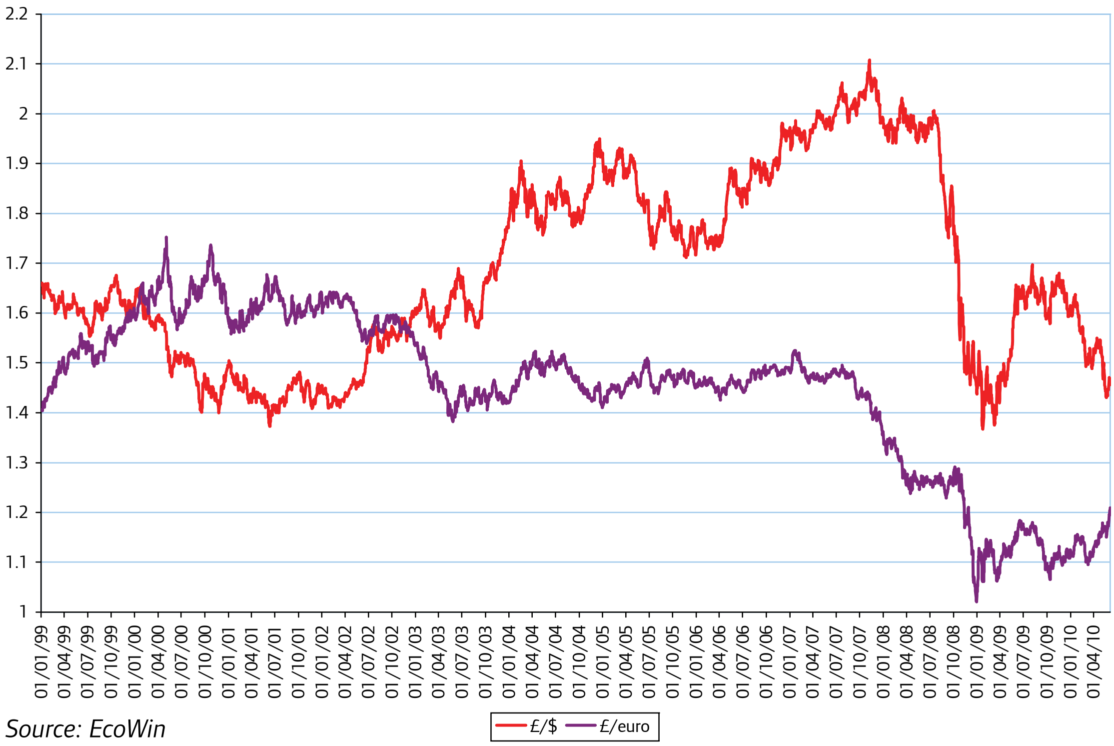
	2009				2010
Expenditure	**Q1**	**Q2**	**Q2**	**Q4**	**Q1**
Households	-3.3%	-3.8%	-3.6%	-2.1%	-0.5%
Non-profit institutions	-1.8%	-4.1%	-4.8%	-5.0%	-6.4%
General Government	2.1%	2.2%	2.2%	2.2%	3.1%
Gross fixed capital formation	-12.7%	-19.1%	-13.7%	-14.0%	-5.7%

Source: Office for National Statistics (as of end-May 2010)

Annual consumer price index (CPI) inflation fell to 1.1 per cent in September 2009 but has since picked up and stood at 3.7 per cent in April 2010, whilst retail price index (RPI) annual inflation stood at 5.3 per cent up from a recent low of -1.6 per cent in June 2009. RPI inflation in April 2010 was at its highest level since July 1991. The pick up in inflation is partially due to the reversal of the temporary reduction in VAT at the beginning of 2010 although it has also been attributed to the depreciation of sterling and higher fuel costs. Still downside risks to inflation prevail due to an increase in unutilised national and global production capacity. The main upside risks to UK inflation are the continued low value of sterling compared to the value seen in 2007 (see Figure 3.8), the possibility of a stronger than expected economic rebound and that the authorities may be slow in reeling back their economic support in the light of any strong upturn.

Figure 3.8: £ to $ and £ to euro exchange rates

Last data point is 04/06/10

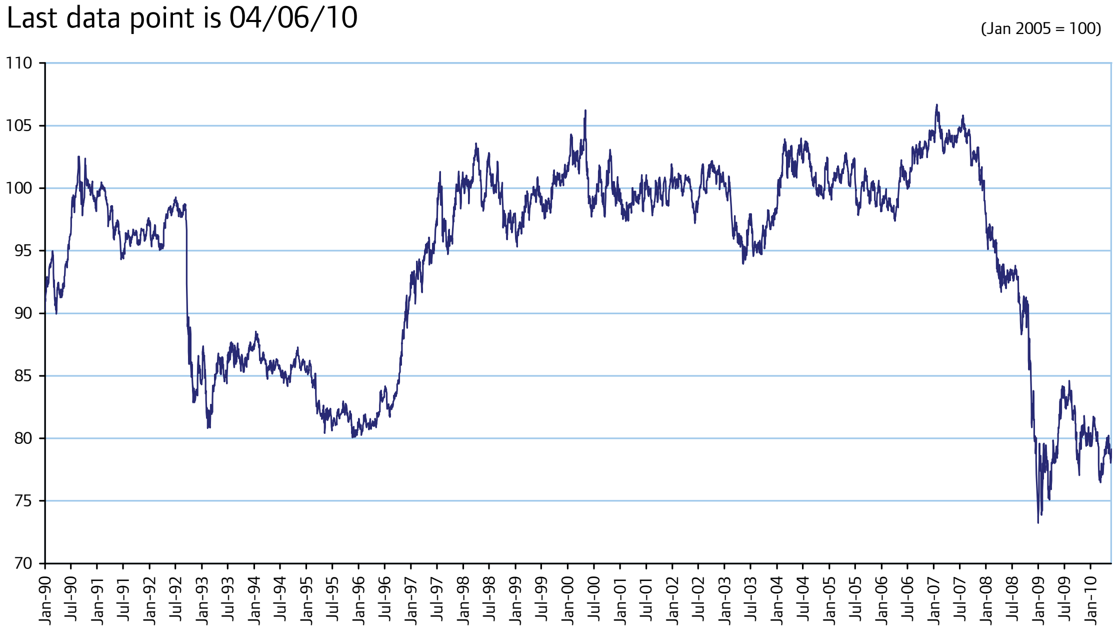


Source: EcoWin

The weakness of sterling is further illustrated by sterling's effective exchange rate index (EERI)[v] (see Figure 3.9). There was a fall of roughly 30 per cent since its recent peak in early 2007 up to March 2009. Since then sterling has fluctuated. The large depreciation of sterling in 2008 should continue to provide some support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports. There is some evidence that this is occurring[vi]. There is also evidence that a weaker pound has encouraged more UK tourists to take their holidays at home (including obviously to London) as well as increasing the number of foreign tourists visiting the UK and this trend should be strengthened as the global economy continues to recover.

Figure 3.9: Sterling EERI rate

Last data point is 04/06/10



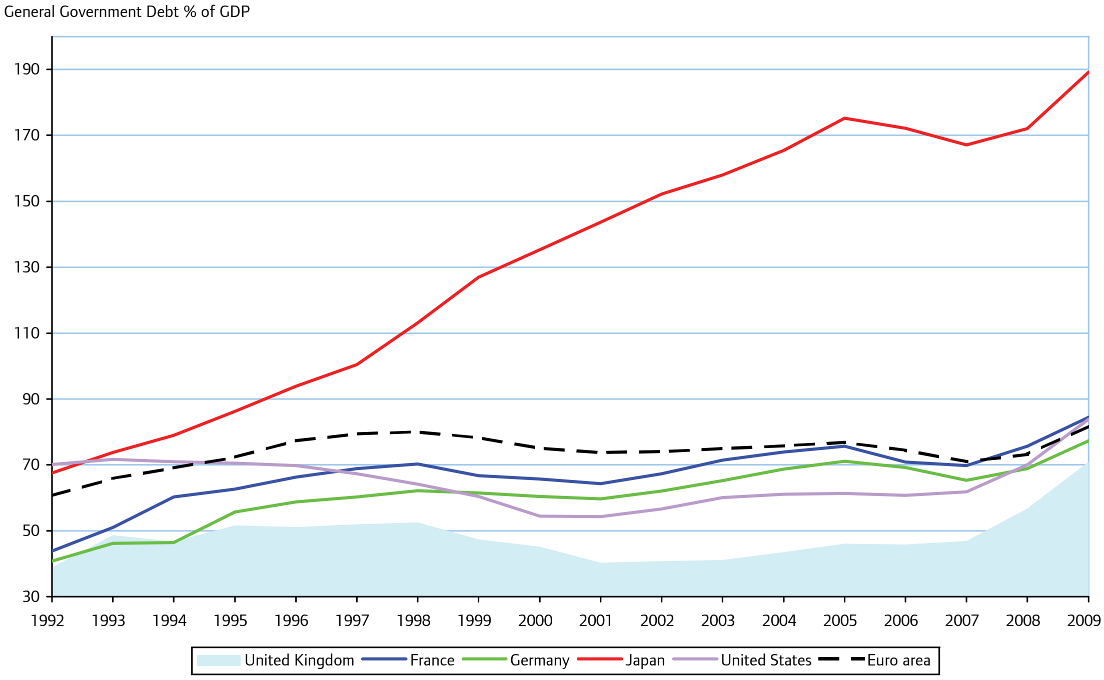
Source: Bank of England

Box 3.1: The UK public finances

As the UK emerges from the worst recession since World War Two, attention has turned to the state of its public finances. When the UK entered recession in the second quarter of 2008 it had debts totalling £753.6 billion or 51.8 per cent of GDP[vii]. As of April 2010 the UK had debts of £893.4 billion or 62.1 per cent of GDP[viii]. As a result of the financial crises HM Treasury expects UK debt as a proportion of GDP to continue to rise until 2014, peaking at 74.9 per cent of GDP[ix]. This rise is partly due to higher spending and lower tax revenues caused by the recession, but is also due to a structural deficit that needs to be dealt with.

There are two components of the public sector finances that need to be considered. The total debt, the government's outstanding financial liability, and the deficit, the amount the government has to borrow in a certain year. Figure 3.10 shows the Organisation for Economic Co-operation and Development (OECD)[x] estimates of Government debt for a selection of developed economies and the Eurozones average debt. OECD estimates indicate that even after the unprecedented financial intervention during the recession total UK Government debt as a proportion of GDP is smaller than in many other European economies and currently lower than the Eurozone average.

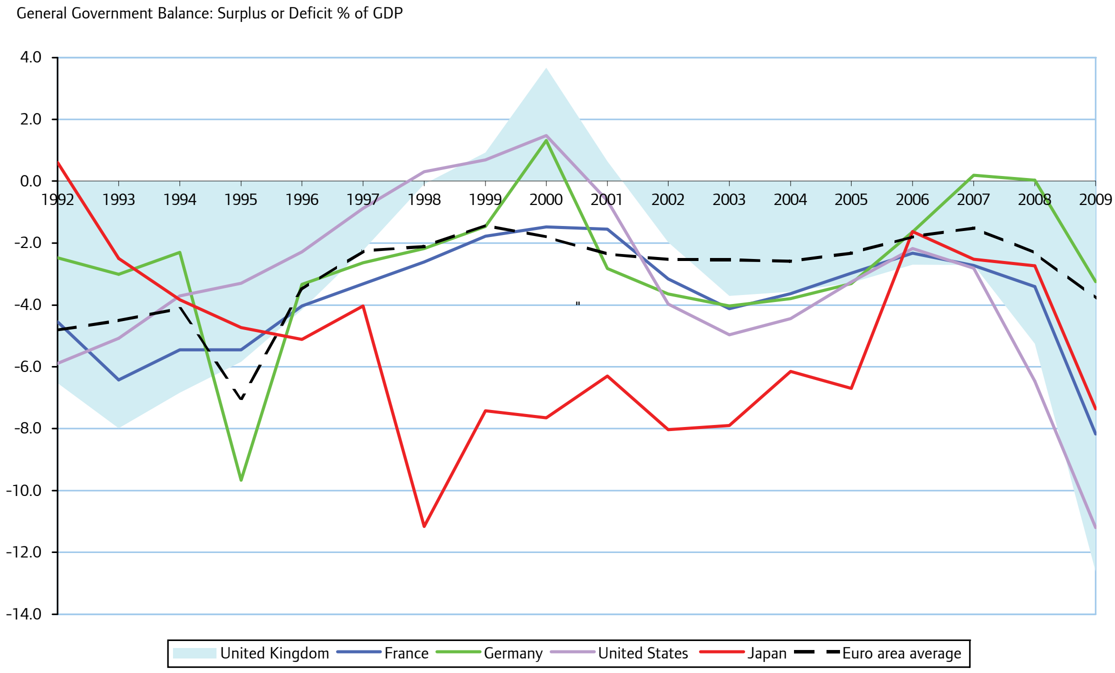
Figure 3.10: General Government Debt (% of GDP)



Source: OECD[xi]

Although total UK Government debt as a proportion of the economy remains lower than some other developed nations the UK government is currently running a significant deficit (shown in Figure 3.11). This deficit is higher than in many other countries. Eurostat[xii] estimates for 2009 show that the UK's deficit is one of the highest in the EU, totalling around 11.5 per cent of GDP. This is lower than Ireland, running a deficit of 14.3 per cent, and Greece, running a deficit of 13.6 per cent. The Treasury forecasts that the UK deficit will begin to fall after 2009-10 and will reach 5.2 per cent of GDP by 2013-14[xiii].

Figure 3.11: General Government Balance (Surplus or Deficit) [% of GDP]



Source: OECD[xiv]

According to Institute for Fiscal Studies (IFS) estimates, the financial crisis imposed a permanent, or structural, increase in Government borrowing of around £73 billion[xv] a year or 5.2 per cent of national income. £49 billion of this is a direct result of lower tax revenues and higher spending. The remaining £24 billion reflects the effects of changes in price levels. Decreases in assets prices have lead to lower revenues from sources including: stamp duty, capital gains tax and inheritance tax. The low inflation environment experienced during much of the recession has led to a spending rise, in inflation adjusted terms, with it rising twice as fast as predicted in the 2007 Comprehensive Spending Review[xvi].

As well as a permanent structural cost, the financial crisis has inflicted additional cyclical costs to the public sector finances estimated to be £51 billion or 3.6 per cent of national income. The Treasury expects some level of additional cyclical borrowing to continue until 2014-15. Over time this borrowing will considerably increase UK debt and UK debt interest payments as a proportion of GDP.

If the deficit remains high and UK debt continues to rise there could be serious negative consequences for the UK economy. A sustained UK deficit devoid of a credible long-term reduction strategy could lead to a loss of confidence in the capital markets about the UK's ability to meet its financial obligations, resulting in higher borrowing costs for the UK. Higher borrowing costs would have further detrimental affects on debt (through higher debt interest payments) and could cause a further loss of confidence and yet even higher borrowing costs; known as a "debt spiral".

An example of what can happen is Greece. A loss of market confidence in Greece's ability to cover its fiscal situation has resulted in them paying a large premium over German Government bonds to borrow money on a 10-year basis (the German Government is considered the "safest" Eurozone government to borrow and is often used as a benchmark for comparison). This increase in the cost of borrowing has caused a further deterioration in Greece's fiscal situation. This situation reached such a point that by the end of April Greece found it necessary to request help from a joint European Union/International Monetary Fund aid package. However, the UK debt to GDP ratio is significantly lower than Greece's (and the UK debt profile is more long term) and with clear action taken on the budget deficit a Greek situation in the UK should be avoided.

3.3 The world economy

In April the IMF forecast that the world economy would expand by 4.2 per cent in 2010[xvii], with growth of 4.3 per cent forecast for 2011. Developed economies are forecast to recover with the US economy projected to grow by 3.1 per cent in 2010 and then grow by 2.6 per cent in 2011[xviii]. The Eurozone economy is forecast to grow by 1.0 per cent in 2010 and by 1.5 per cent in 2011[xix]. Growth in emerging and developing economies is expected to rebound from 2.4 per cent in 2009 to 6.3 per cent in 2010 and 6.5 per cent in 2011[xx]. The IMF observes that "the global recovery has evolved better than expected, with activity recovering at varying speeds - tepidly in many advanced economies but solidly in most emerging and developing economies" [xxi]. It further notes that, "the recoveries in real and financial activity are mutually supportive, but access to credit remains difficult for some sectors. Money markets have stabilized. Corporate bond and equity markets have rebounded. In advanced economies, the tightening of bank lending standards is ending, and the credit crisis appears to be bottoming out. In many emerging and developing economies, credit growth is reaccelerating. Nevertheless, financial conditions remain more difficult than before the crisis"[xxii].

In relation to the financial market and its stability the IMF notes that "risks to global financial stability have eased as the economic recovery has gained steam, but concerns about advanced country sovereign risks could undermine stability gains and prolong the collapse of credit"[xxiii]. It further notes that policies are needed to "(1) reduce sovereign vulnerabilities, including through communicating credible medium-term fiscal consolidation plans; (2) ensure that the ongoing deleveraging process unfolds smoothly; and (3) decisively move forward to complete the regulatory agenda so as to move to a safer, more resilient, and dynamic global financial system"[xxiv].

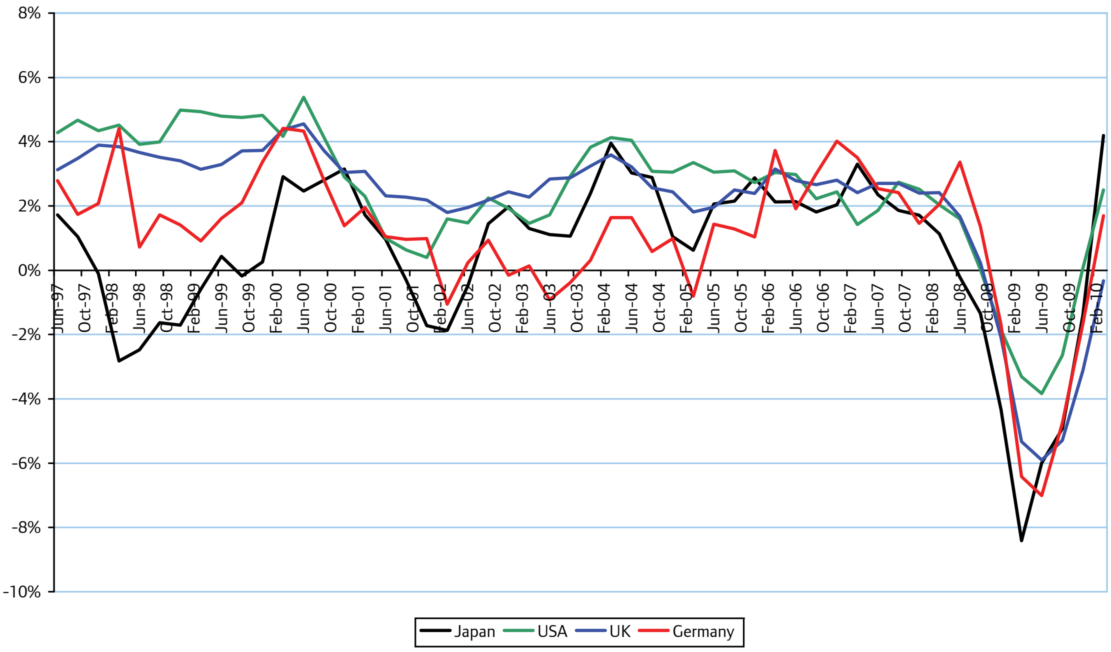
The **US** economy began to expand again in the third quarter of 2009. The April 2010 Beige Book from the Federal Reserve reported "overall economic activity increased somewhat since the last report across all Federal Reserve Districts except St. Louis", with "increases in retail sales and vehicle sales "[xxv] also being generally reported. However, unemployment is close to 10 per cent[xxvi]. Interest rates continue to remain low at a target rate of between 0 and 0.25 per cent, although markets have begun to anticipate a monetary tightening at some point. Government debt has ballooned with the budget deficit standing at 11 per cent of GDP for the fiscal year 2009[xxvii].

The **Eurozone** economy stabilised in the second half of 2009 and into 2010[xxviii], with output increasing by 0.2 per cent in the first quarter of 2010. The European Commission forecasts that the Eurozone economy will grow by 0.9 per cent in 2010 and 1.5 per cent in 2011[xxix]. Concern has however arisen about the stability of the public finances of a number of members of the Eurozone led by Greece, with Portugal and Spain also being viewed as especially vulnerable. This has led to concerted action being undertaken by EU members in order to forestall a further sovereign debt crises. Thus on the night of 9 May finance ministers from EU countries agreed a package of emergency measures worth €500 billion, in order to deal with the financial crisis in Greece and its aftermath (i.e. it has caused the cost of a number of countries' debt to soar.) The €500 billion funding will come from both Eurozone members who will contribute €440 billion and the European Commission, which will contribute €60 billion. The IMF has also agreed to contribute up to a further €250 billion[xxx]. At the same time the European Central Bank (ECB) announced that it would buy Eurozone government and private debt "to ensure depth and liquidity in those market segments which are dysfunctional"[xxxi].

As part of a co-ordinated global effort to alleviate the strain on banks and inter-bank lending caused by the financial crisis in Greece, the Federal Reserve Bank also re-established its reciprocal currency arrangement, or "swap lines" on 9 May, a mere 71 days after suspending the operations. These facilities are designed to help improve liquidity and make it easier for banks under pressure to access funding in dollars. Still there are concerns that if the instability in the Eurozone persists it could tip some Eurozone economies back into recession. To deal with the 2007-09 financial crisis many banking sector liabilities were transferred onto government balance sheets. This has transferred many difficulties rather than solving them and has raised sovereign debt problems. The aim of the rescue package put together by the EU is to prevent contagion from Greece. It is not a solution in itself. However, it does give countries more time for fiscal consolidation, but this must take place or the sovereign debt crisis will spread.

Japan's economy grew by 1.2 per cent in the first quarter of 2010[xxxii], whilst the Bank of Japan's Tankan index has found that business confidence has improved for the past four quarters[xxxiii]. The IMF forecasts that Japanese output will rise by 1.9 per cent in 2010 and then by 2.0 per cent in 2010[xxxiv].

Figure 3.12: GDP growth in selected industrialised countries
Real GDP, annual % change, last data point is Q1 2010.



Source: Ecowin

3.4 Emerging market economies

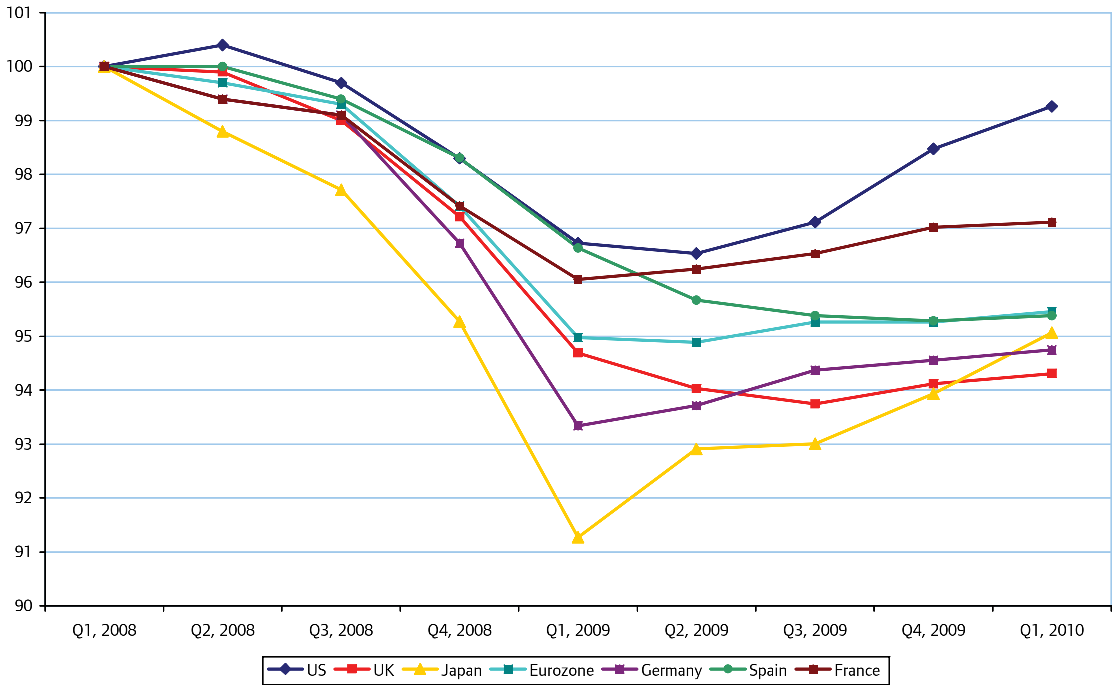
After growing by 8.7 per cent in 2009[xxxv] **China's** economy continued to expand in the first quarter of 2010 with output increasing by 11.9 per cent compared with the same period a year earlier. This is the fastest annual growth rate since 2007[xxxvi]. The IMF forecasts that the economy will grow by 10.0 per cent in 2010 and by 9.9 per cent in 2011[xxxvii]. **India's** economy grew by an annualised 6.0 per cent in the last three months of 2009[xxxviii]. The IMF forecasts growth will be 8.8 per cent in 2010 and 8.4 per cent in 2011[xxxix]. After declining by 7.9 per cent in 2009[xl] **Russia's** economy grew by a rate of 0.6 per cent in the first three months of 2010[xli], with the IMF forecasting that the Russian economy will grow by 4.0 per cent in 2010 and by 3.3 per cent in 2011[xlii].

Box 3.2: The global economic recovery

The UK experienced its worst recession in the post-War period in 2008/09 with six consecutive quarters of negative growth and output declining from its Q1 2008 peak through to Q3 2009 by 6.3 per cent[xliii]. However, the downturn was a global phenomenon with even rapidly growing economies such as China slowing. The recession was particularly severe in a number of other advanced industrialised economies. Output in the US declined by 3.9 per cent between Q2 2008 and Q2 2009, with the Eurozone suffering as well with Germany's output declining by 6.7 per cent between Q1 2008 and Q1 2009. Still, many analysts had not expected the news in the second quarter of 2009 that Germany, France and Japan had come out of recession.

Figure 3.13 shows that Germany and Japan, which are both heavily reliant on manufacturing exports, experienced the most precipitous drop in output. It also shows that some countries, most obviously the US, have already been able to make up a significant proportion of the output lost in what is now often termed the 'Great Recession'.

Figure 3.13: Output in selected economies indexed to Q1 2008 (100 = Q1 2008)



Source: Eurostat

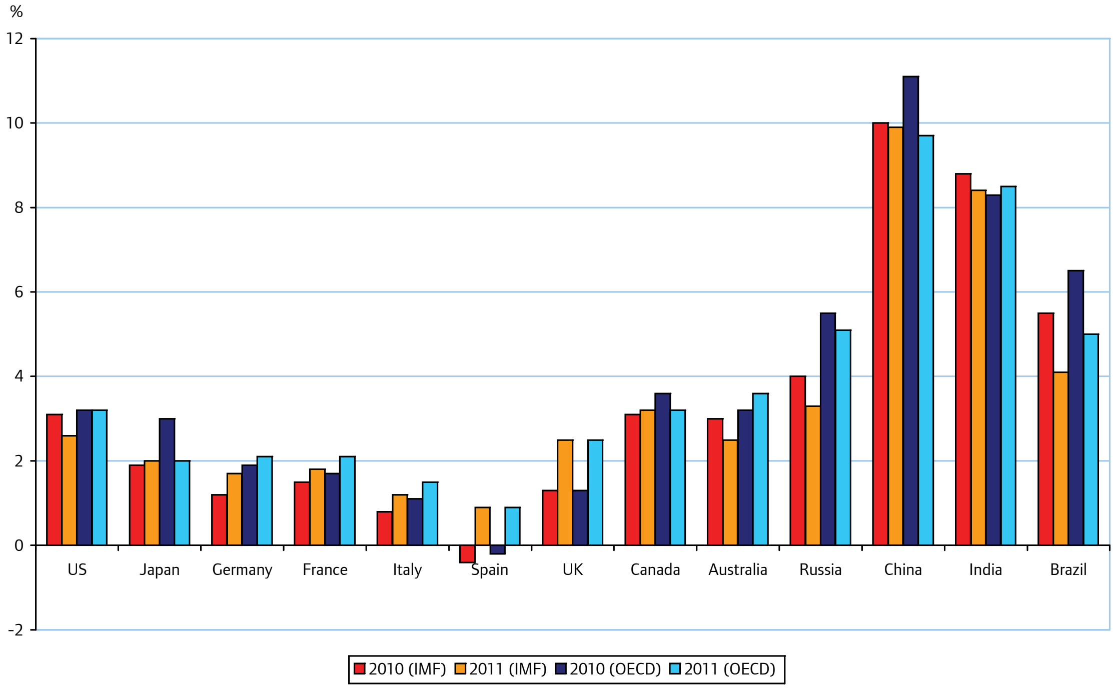
The International Monetary Fund (IMF)'s latest forecast[xliv] indicates that the global economy might now be recovering faster than previously expected with global growth bouncing out of negative territory in 2009 to a forecasted growth rate of 4.2 per cent in 2010 and 4.3 per cent in 2011. However, in its World Economic Outlook the IMF warns that the global recovery remains likely to be led by the emerging markets rather than by the advanced industrial countries which will continue to rely on fiscal stimulus interventions and grow by only 2.3 per cent in aggregate in 2010 and 2.4 per cent in 2011. Despite these positive predictions Dominique Strauss-Kahn, Managing Director of the IMF, warns that "until private demand (is) strong enough and sustainable to provide growth it will be difficult to say the crisis is over"[xlv].

In 2009 the advanced economies saw GDP decline by 3.2 per cent compared to the emerging economies that saw an increase in GDP of 2.4 per cent. This contrast helps explain why Australia did not suffer negative growth in 2009 because unlike most developed countries its major export market is China. China's GDP increased by 8.7 per cent in 2009. Emerging economies had less exposure to the world financial system so the collapse had less of an effect on them. Since the East Asian crisis of 1997-98 many emerging economies have worked hard to insulate themselves from the world financial markets by amassing foreign exchange reserves, which they were able to deploy when the crisis hit to stimulate domestic demand and prevent capital outflow by reassuring investors that their money was safe. It is likely that a larger proportion of world GDP growth is going to be attributable to China for the foreseeable future but the absolute size of its economy is still a lot smaller than that of the US or Eurozone.

Within the advanced economies, the Eurozone is expected to fare particularly badly during the recovery, managing only 1.0 per cent growth in 2010 and 1.5 per cent in 2011. However, this statistic masks a wide range of differing prospects for the Eurozone's constituent countries from a reasonable recovery in Germany and France to continued annual negative growth in Spain in 2010 and a limited recovery thereafter. The anticipated poor performance of the Eurozone economy is also emphasised by the Organisation for Economic Co-operation and Development (OECD)[xlvi] which draws attention to the likelihood of unemployment in the 16-country Eurozone continuing to rise until 2011. The UK is expected to grow by 1.3 per cent in 2010 and then experience a marked recovery in 2011, growing by 2.5 per cent – significantly faster than other, major European economies.

The IMF and the OECD forecast a good couple of years for China and India. Both suggest that China will see growth of 10 per cent or above during 2010. India is expected to continue to grow at annual rates of over 8 per cent. Brazil, having stagnated in 2009, is expected, by the IMF, to grow by 5.5 per cent in 2010 and by 4 per cent in 2011. Russia is also expected to see almost that order of economic growth although its turnaround will be even more marked since in 2009 it experienced one of the worst economic slumps globally, contracting by almost 8 per cent.

Figure 3.14: IMF and OECD forecasted growth rates for 2010 and 2011



Source: IMF and OECD

A key question is whether the global economy has suffered any permanent loss of output. Many economists believe that some of the damage from a financial recession such as the one we have just experienced, may be permanent. The IMF examined 88 crises in the banking sector between 1970 and 2002 and found that, on average, countries do not earn back all the lost output. On average, it discovered that seven years after a crisis, output had fallen by 10 per cent compared with the pre-crisis path and that the persistent output loss was statistically significant. Such financial crises also seem to have other impacts such as persistent damage to employment rates and to levels of capital stock as some plant and equipment are scrapped prematurely. However, results in the IMF study were far from uniform and other economists have argued that the crisis that has been experienced recently is very different to previous financial sector crises[xlvii]. Hence, though there has probably been a permanent loss in global output this is not a certainty.

3.5 Risks to the world economy

Downside risks to the world economic outlook have eased somewhat since the Autumn 2009 edition of LEO as most economies around the world have now exited recession and more upside risks have become evident. Since the Autumn 2007 edition of LEO the global credit crunch has been highlighted by GLA Economics as a downside risk and risks associated with the continued restructuring and regulatory reform of the international banking sector remain. However, world trade is recovering from the collapse it experienced at the end of 2008 and beginning of 2009[xlviii]. Further, the monetary policies of most central banks remain very relaxed providing continued support to the global economy, although at some point these will need to be tightened. A major risk that has increased since the Autumn 2009 LEO is the spectre of sovereign debt default by countries pushing up borrowing costs and damaging any global recovery, especially in Europe. The fiscal position of many governments in the developed world, including the UK, is extremely weak. The size of the coming fiscal retrenchment that will effect many countries over the coming years is necessary but will be large and may dampen any economic recovery. Still if fiscal retrenchment is delayed a bigger downside risk is the possibility of a further financial crisis caused by the perilous state of public finances and sovereign debt problems. Global inflationary pressures from high fuel and commodity prices have also begun to pick up as emerging market economies, especially China, recover strongly.

3.6 Summary

The London economy's annual rate of growth turned negative in the third quarter of 2008 and was still negative in the fourth quarter of 2009. However it seems that London outperformed the rest of the UK in 2008 and 2009 unlike in previous recessions. More recent economic indicators continue to show a modest recovery in the London economy. The UK economy entered recession in the second quarter of 2008 and exited in the last quarter of 2009 making it the most prolonged recession since the Second World War. However, unemployment in the UK and London has not risen by as much as had originally been feared.

Consumption and especially investment are expected to remain subdued for some time to come with unemployment expected to remain high over the next few years. The government's budget deficit and public sector debt has increased sharply in response to both the fiscal stimulus and falling tax revenues as well as the large underlying structural budget deficit. Significant and ongoing cuts in government spending and tax rises are needed to restore the public finances to health over the coming years. The March 2010 Budget laid out some changes in tax policy and spending cuts to reduce the size of the budget deficit, which stood at £156.1 billion for the financial year 2009-10. However, further fiscal tightening is required due to the inadequacies of the March 2010 Budget and this will take place in the emergency Budget of 22 June. A net Government spending cut of £5.7 billion in 2010/11 has already been announced on 24 May.

One of the main downside risks remains the fragile nature of many developed countries public finances and the possibility of financial crises triggered by a lack of investor confidence in sovereign debt. London's exposure to the financial services sector poses risks as this sector continues to restructure and its regulation evolves in light of the recent turmoil. At least the depreciation of sterling since 2007 should continue to provide the UK economy with a boost from import substitution and improved export competitiveness. Over time this should help to rebalance the UK economy, whilst in the meantime it should continue to benefit London's tourism sector and encourage inward foreign investment. Even if the pace of the economic recovery picks up output levels will not reach their pre recession levels for a couple of years and unemployment is likely to stay high. Household incomes will remain under pressure so the recovery is unlikely to be felt strongly by consumers in 2010.

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 on the first three of these indicators is summarised, drawing on forecasts from outside (independent) organisations[xlix]. 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.

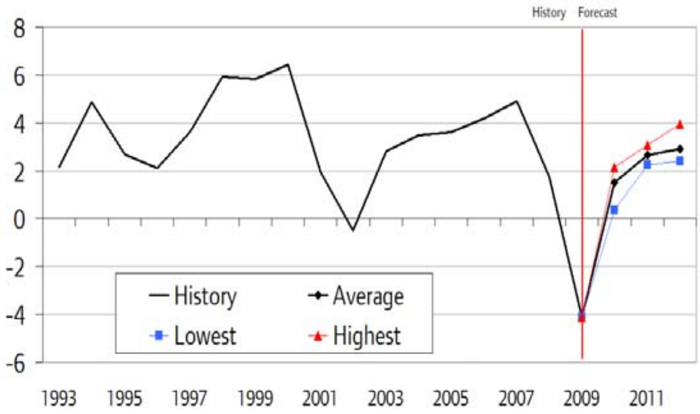
Additionally, both the consensus and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transport and communications
- distribution, hotels and catering
- finance and business services
- other (mainly public) services.

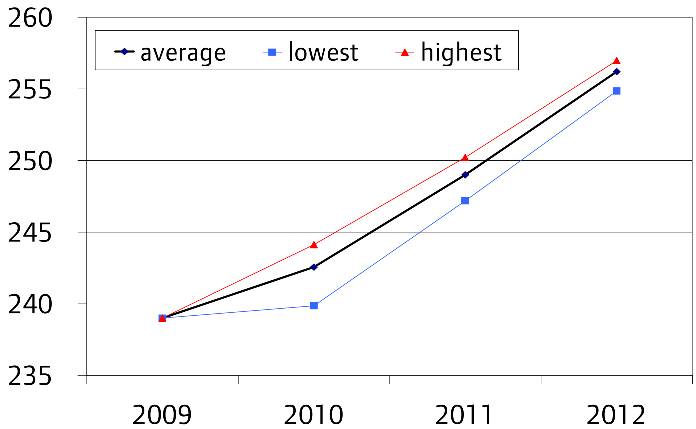
Output
(London GVA, constant prices (base year 2005), £ billion)

The consensus (mean average view) is for real output growth to become positive in 2010 and reaching 2.9 per cent in 2012.

Annual growth (per cent)



Level (constant year 2005, £ billion)



Annual growth (per cent)			
	2010	2011	2012
Average	1.5	2.7	2.9
Lowest	0.4	2.2	2.4
Highest	2.1	3.1	4.0

Level (constant year 2005, £ billion)			
	2010	2011	2012
Average	243	249	256
Lowest	240	247	255
Highest	244	250	257

History: Annual growth (per cent)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2.1	4.9	2.7	2.1	3.6	5.9	5.8	6.4	1.9	-0.5	2.8	3.5	3.6	4.2	4.9	1.7	-4.1

History: Level (constant year 2005, £ billion)

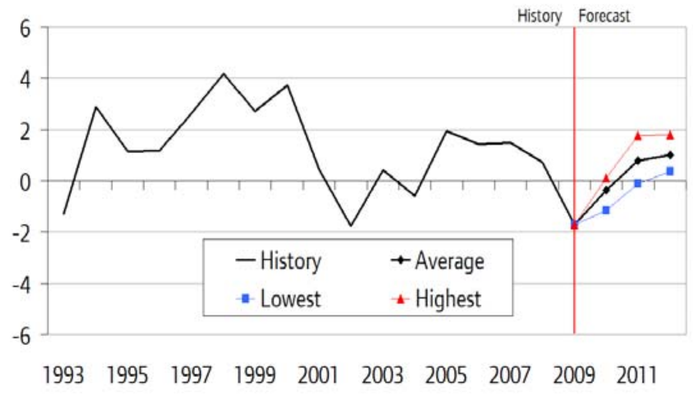
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
147.5	154.7	158.9	162.2	168.1	178.0	188.4	200.5	204.4	203.4	209.2	216.5	224.3	233.6	245.1	249.3	239.0

Employment

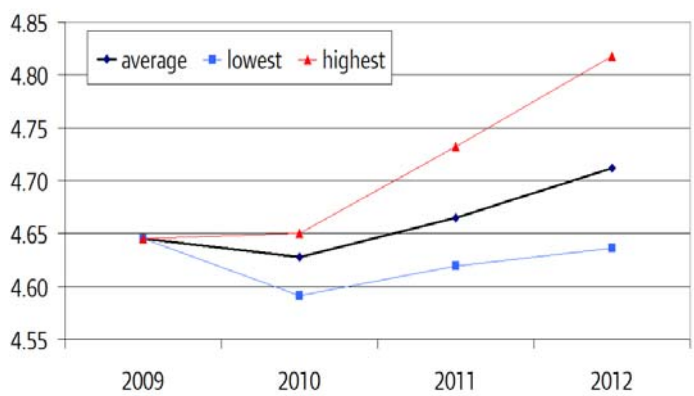
(London workforce jobs)

The consensus view is for the number of workplace jobs to decline by 0.4 per cent in 2010, before increasing by 0.8 per cent in 2011 and 1.0 per cent in 2012.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)			
	2010	2011	2012
Average	-0.4	0.8	1.0
Lowest	-1.2	-0.1	0.4
Highest	0.1	1.8	1.8

Level (millions)			
	2010	2011	2012
Average	4.63	4.66	4.71
Lowest	4.59	4.62	4.64
Highest	4.65	4.73	4.82

History: Annual growth (per cent)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
-1.3	2.9	1.1	1.2	2.6	4.2	2.7	3.7	0.4	-1.8	0.4	-0.6	1.9	1.4	1.5	0.7	-1.7

History: Level (millions)

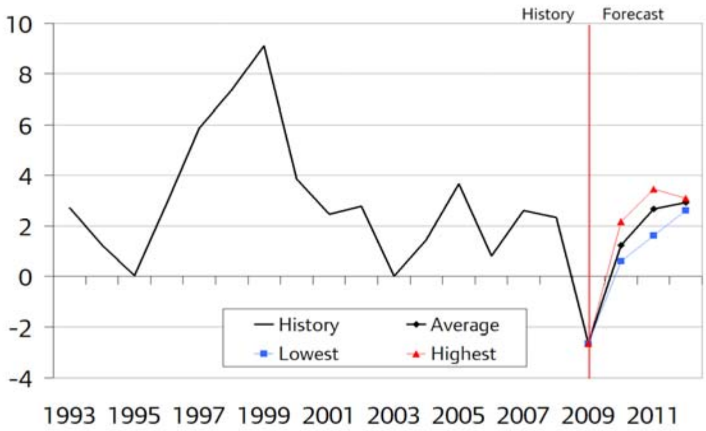
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
3.79	3.89	3.94	3.99	4.09	4.26	4.38	4.54	4.56	4.48	4.50	4.47	4.56	4.62	4.69	4.73	4.65

Household expenditure

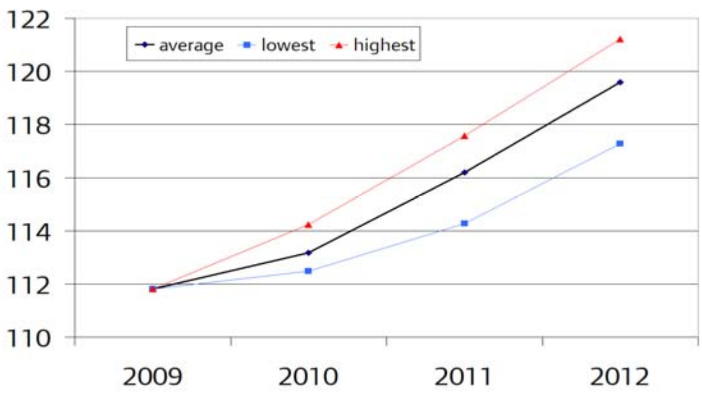
(London household spending, constant year 2005, £ billion)

The consensus view is for household expenditure growth to become positive in 2010 at 1.2 per cent, increasing to 2.9 per cent by 2012.

Annual growth (per cent)



Level (constant year 2005 £ billion)



Annual growth (per cent)			
	2010	2011	2012
Average	1.2	2.7	2.9
Lowest	0.6	1.6	2.6
Highest	2.2	3.5	3.1

Level (constant year 2005, £ billion)			
	2010	2011	2012
Average	113	116	120
Lowest	112	114	117
Highest	114	118	121

History: Annual growth (per cent)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2.7	1.3	0.0	2.9	5.9	7.4	9.1	3.9	2.5	2.8	0.0	1.4	3.7	0.8	2.6	2.3	-2.6

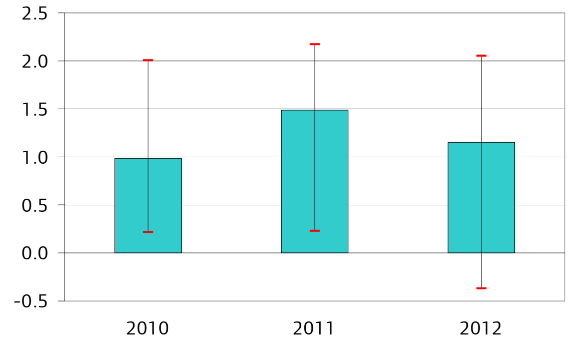
History: Level (constant year 2005, £ billion)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
72.9	73.9	73.9	76.0	80.5	86.4	94.3	98.0	100.4	103.1	103.1	104.6	108.5	109.4	112.2	114.8	111.8

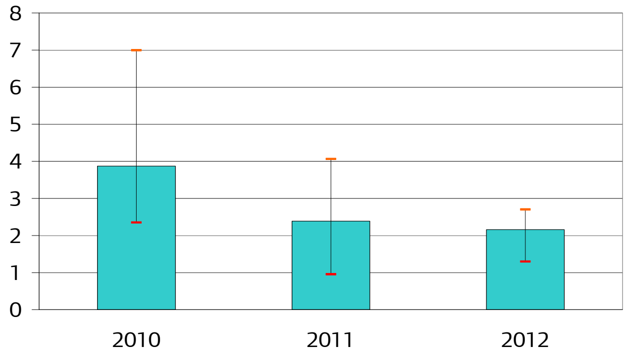
Output growth by sector (per cent annual change)

It is expected that there will be positive growth as the recovery gets underway in almost all sectors. The other (mainly public) services sector is the exception in 2011 where measures to cut the budget deficit are expected to impact on public sector output.

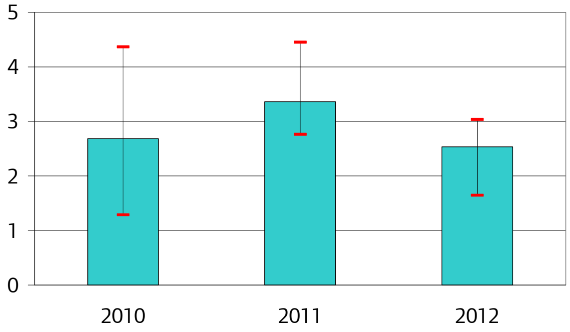
Manufacturing



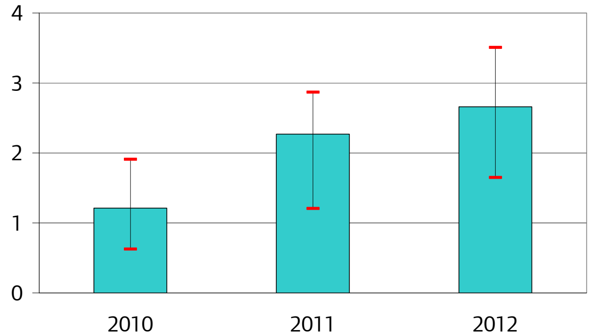
Construction



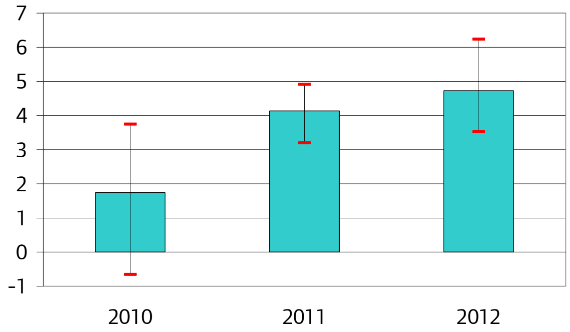
Distribution, hotels and catering



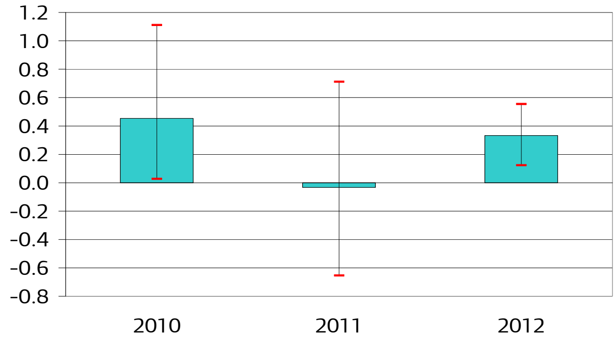
Transport and communications



Finance and business



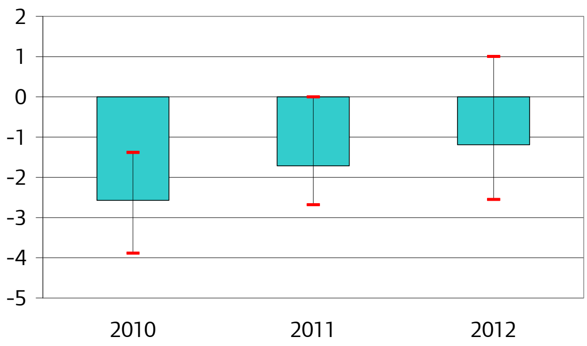
Other (mainly public) services



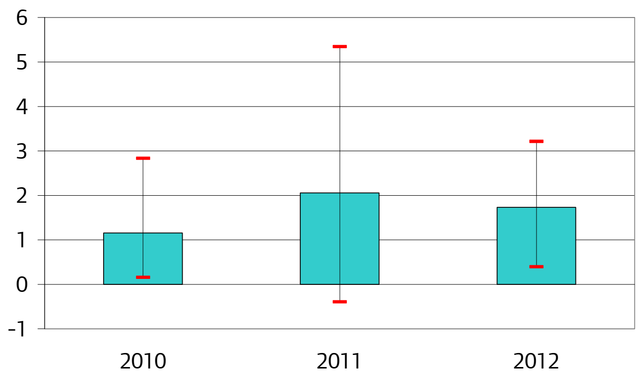
		2010	2011	2012			2010	2011	2012
Manufacturing	*Average*	1.0	1.5	1.2	**Construction**	*Average*	3.9	2.4	2.2
	Lowest	0.2	0.2	-0.4		*Lowest*	2.4	1.0	1.3
	Highest	2.0	2.2	2.1		*Highest*	7.0	4.1	2.7
Distribution, hotels and catering	*Average*	2.7	3.4	2.5	**Transport and communications**	*Average*	1.2	2.3	2.7
	Lowest	1.3	2.8	1.6		*Lowest*	0.6	1.2	1.7
	Highest	4.4	4.5	3.0		*Highest*	1.9	2.9	3.5
Finance and business	*Average*	1.7	4.1	4.7	**Other (mainly public) services**	*Average*	0.5	0.0	0.3
	Lowest	-0.7	3.2	3.5		*Lowest*	0.0	-0.7	0.1
	Highest	3.7	4.9	6.2		*Highest*	1.1	0.7	0.6

Employment growth by sector (per cent annual change)
Forecasted employment growth is mixed with 2010 expected to be the worse year for most sectors. However other (mainly public) services employment is expected to fall in 2011 and 2012.

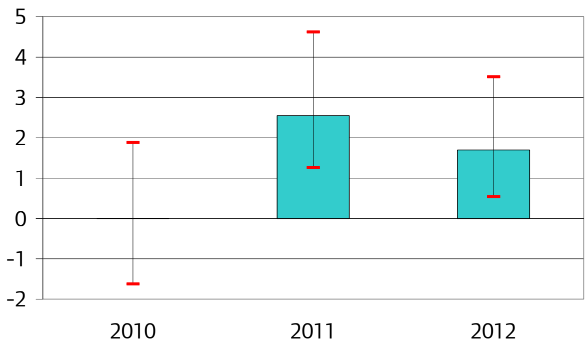
Manufacturing



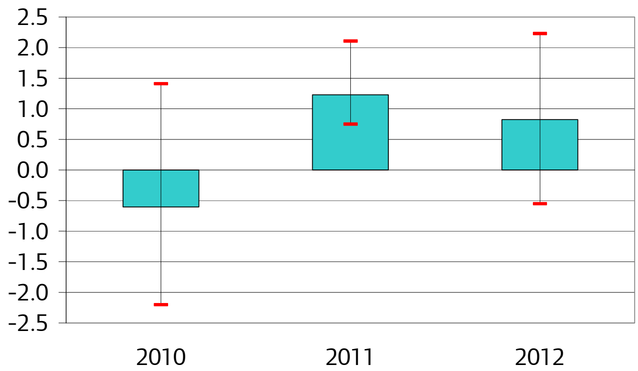
Construction



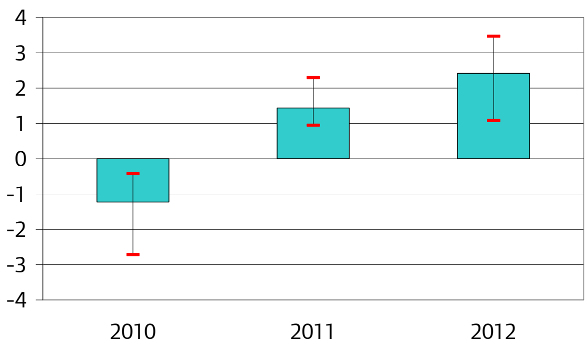
Distribution, hotels and catering



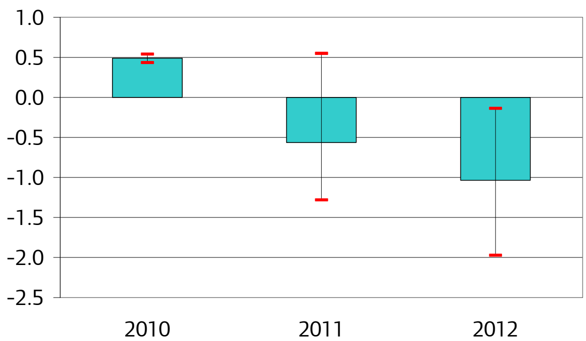
Transport and communications



Finance and business



Other (mainly public) services



		2010	2011	2012			2010	2011	2012
Manufacturing	*Average*	-2.6	-1.7	-1.2	**Construction**	*Average*	1.2	2.1	1.7
	Lowest	-3.9	-2.7	-2.5		*Lowest*	0.2	-0.4	0.4
	Highest	-1.4	0.0	1.0		*Highest*	2.8	5.3	3.2
Distribution, hotels and catering	*Average*	0.0	2.5	1.7	**Transport and communications**	*Average*	-0.6	1.2	0.8
	Lowest	-1.6	1.3	0.5		*Lowest*	-2.2	0.7	-0.6
	Highest	1.9	4.6	3.5		*Highest*	1.4	2.1	2.2
Finance and business	*Average*	-1.2	1.4	2.4	**Other (mainly public) services**	*Average*	0.5	-0.6	-1.0
	Lowest	-2.7	1.0	1.1		*Lowest*	0.4	-1.3	-2.0
	Highest	-0.4	2.3	3.5		*Highest*	0.5	0.5	-0.1

5. The GLA Economics forecast

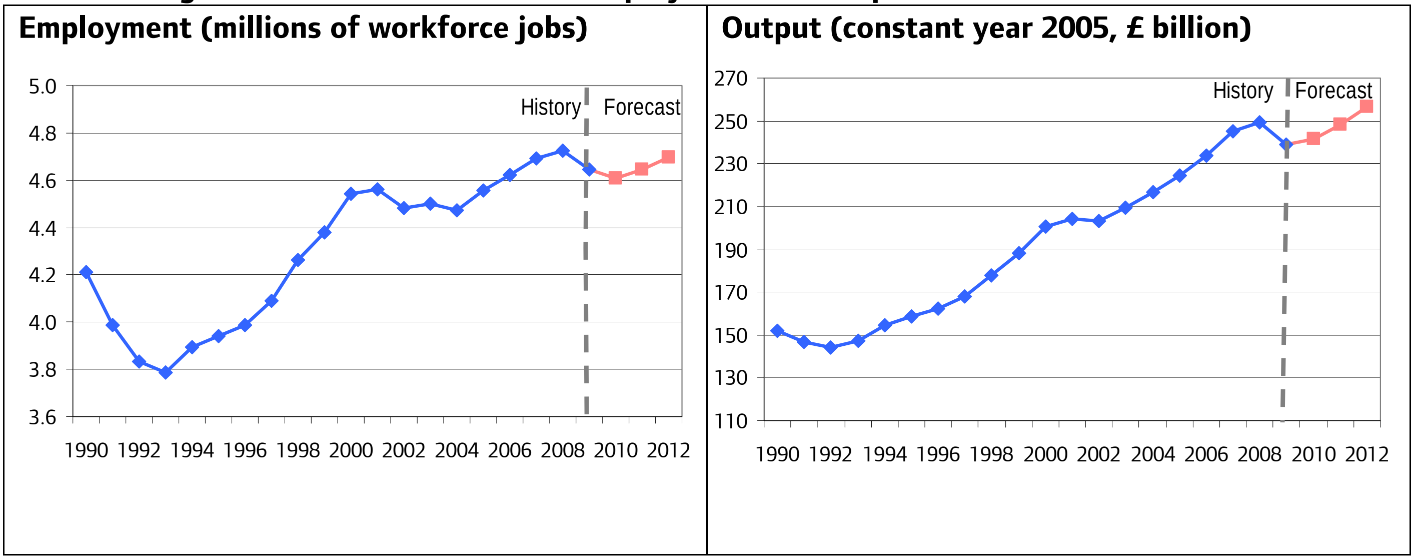
It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around 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 negative growth in 2009 output is expected to rise in 2010 to 2012. Employment is forecast to fall in 2010, before rising in 2011 and 2012.

Household spending is expected to grow between 2010 and 2012 after falling in 2009. Household income growth is also expected to be positive over the forecast period.

Figure 5.1: Trend and forecast employment and output



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

Table 5.1: Forecast and historical growth rates

Annual % change

	2004	2005	2006	2007	2008	2009	2010	2011	2012
GVA	3.5	3.6	4.2	4.9	1.7	-4.1	1.0	2.8	3.3
Workforce jobs	-0.6	1.9	1.4	1.5	0.7	-1.7	-0.8	0.8	1.1
Household spending	1.4	3.7	0.8	2.6	2.3	-2.6	0.9	2.6	2.9
Household income	1.5	3.1	1.7	1.6	2.3	2.5	1.3	3.1	3.4

Table 5.2: Forecast and historical levels

(constant year 2005, £ billion except jobs)

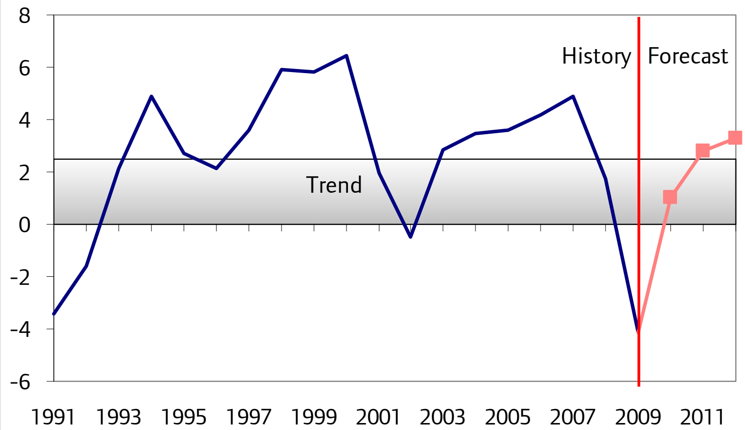
	2004	2005	2006	2007	2008	2009	2010	2011	2012
GVA	216.5	224.3	233.6	245.1	249.3	239.0	241.4	248.1	256.3
Workforce jobs (millions)	4.47	4.56	4.62	4.69	4.73	4.65	4.61	4.65	4.70
Household spending	104.6	108.5	109.4	112.2	114.8	111.8	112.8	115.7	119.1
Household income	122.4	126.2	128.3	130.3	133.3	136.7	138.5	142.8	147.6

Output
(London GVA, constant year 2005, £ billion)

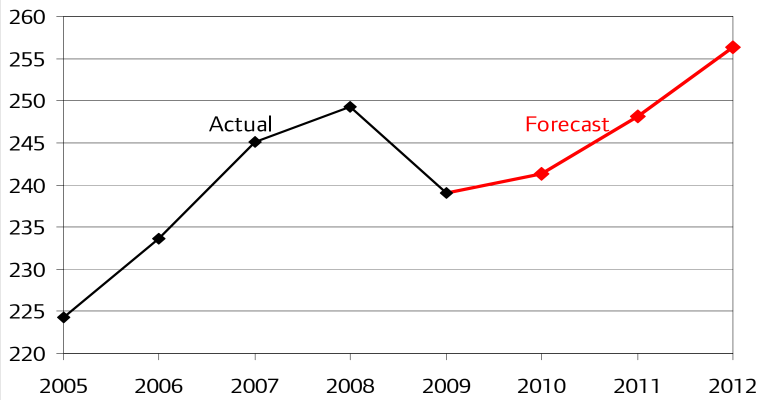
London's real GVA is forecast to grow between 2010 and 2012. Forecast growth rates are 1.0 per cent in 2010, 2.8 per cent in 2011, and 3.3 per cent in 2012.

The GLA Economics' forecast is similar to the consensus average forecast throughout 2010-12.

Annual growth (per cent)



Level (constant year 2005, £ billion)



Growth (annual per cent)	2009	2010	2011	2012
GLA	-4.1	1.0	2.8	3.3
Consensus		1.5	2.7	2.9

Level (constant year 2005, £ billion)	2009	2010	2011	2012
GLA	239	241	248	256
Consensus		243	249	256

History: Annual growth (per cent)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2.1	4.9	2.7	2.1	3.6	5.9	5.8	6.4	2.0	-0.5	2.8	3.5	3.6	4.2	4.9	1.7	-4.1

History: Level (constant year 2005, £ billion)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
147.4	154.7	158.9	162.2	168.1	178.0	188.4	200.5	204.4	203.4	209.2	216.5	224.3	233.6	245.1	249.3	239.0

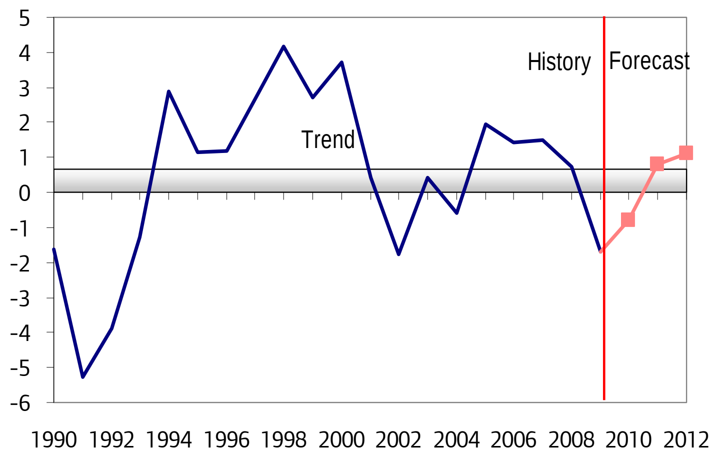
Employment

(London workforce jobs)

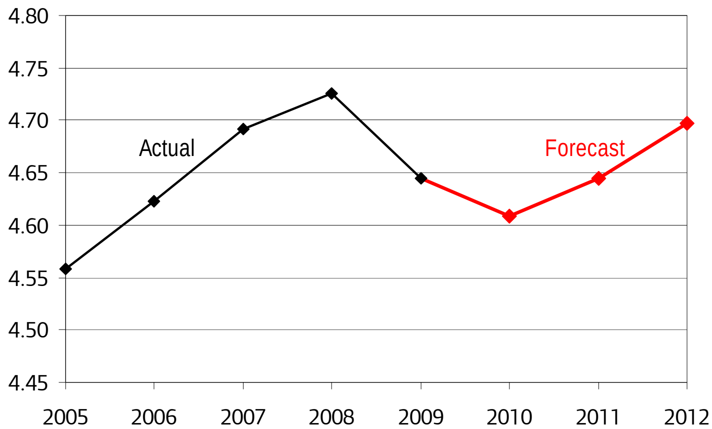
London's employment is forecast to fall in 2010, but then rise in 2011 and 2012.

GLA Economics' forecast for employment growth is similar to the consensus average in 2010-2012.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)				
	2009	2010	2011	2012
GLA	-1.7	-0.8	0.8	1.1
Consensus		-0.4	0.8	1.0

Level (millions of workforce jobs)				
	2009	2010	2011	2012
GLA	4.65	4.61	4.65	4.70
Consensus		4.63	4.66	4.71

History: Annual growth (per cent)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
-1.3	2.9	1.1	1.2	2.6	4.2	2.7	3.7	0.4	-1.8	0.4	-0.6	1.9	1.4	1.5	0.7	-1.7

History: Level (millions)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
3.79	3.89	3.94	3.99	4.09	4.26	4.38	4.54	4.56	4.48	4.50	4.47	4.56	4.62	4.69	4.73	4.65

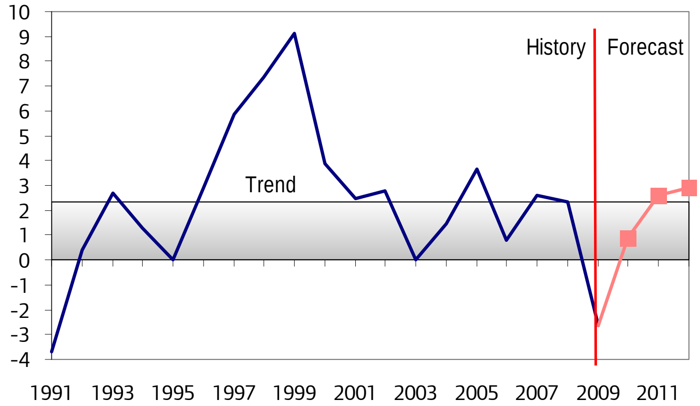
Household expenditure

(London household spending, constant year 2005, £ billion)

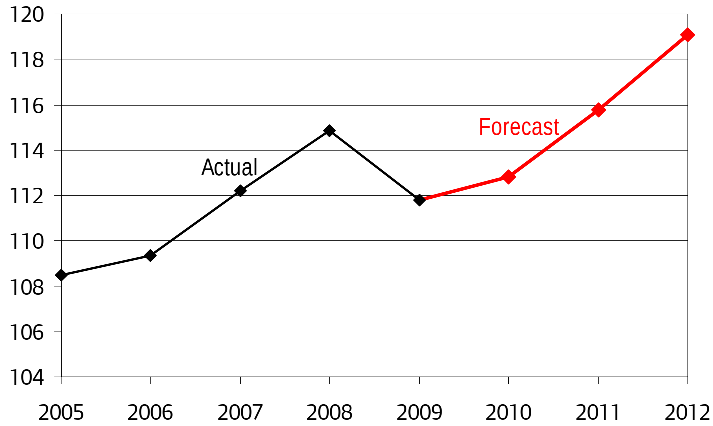
Growth in London's household spending is forecast to improve over the forecast period.

This places GLA Economics' household spending growth forecast generally inline with the consensus average.

Annual growth (per cent)



Level (constant year 2005, £ billion)



Growth (annual per cent)				
	2009	**2010**	**2011**	**2012**
GLA	-2.6	0.9	2.6	2.9
Consensus		1.2	2.7	2.9

Level (constant year 2005, £ billion)				
	2009	**2010**	**2011**	**2012**
GLA	112	113	116	119
Consensus		113	116	120

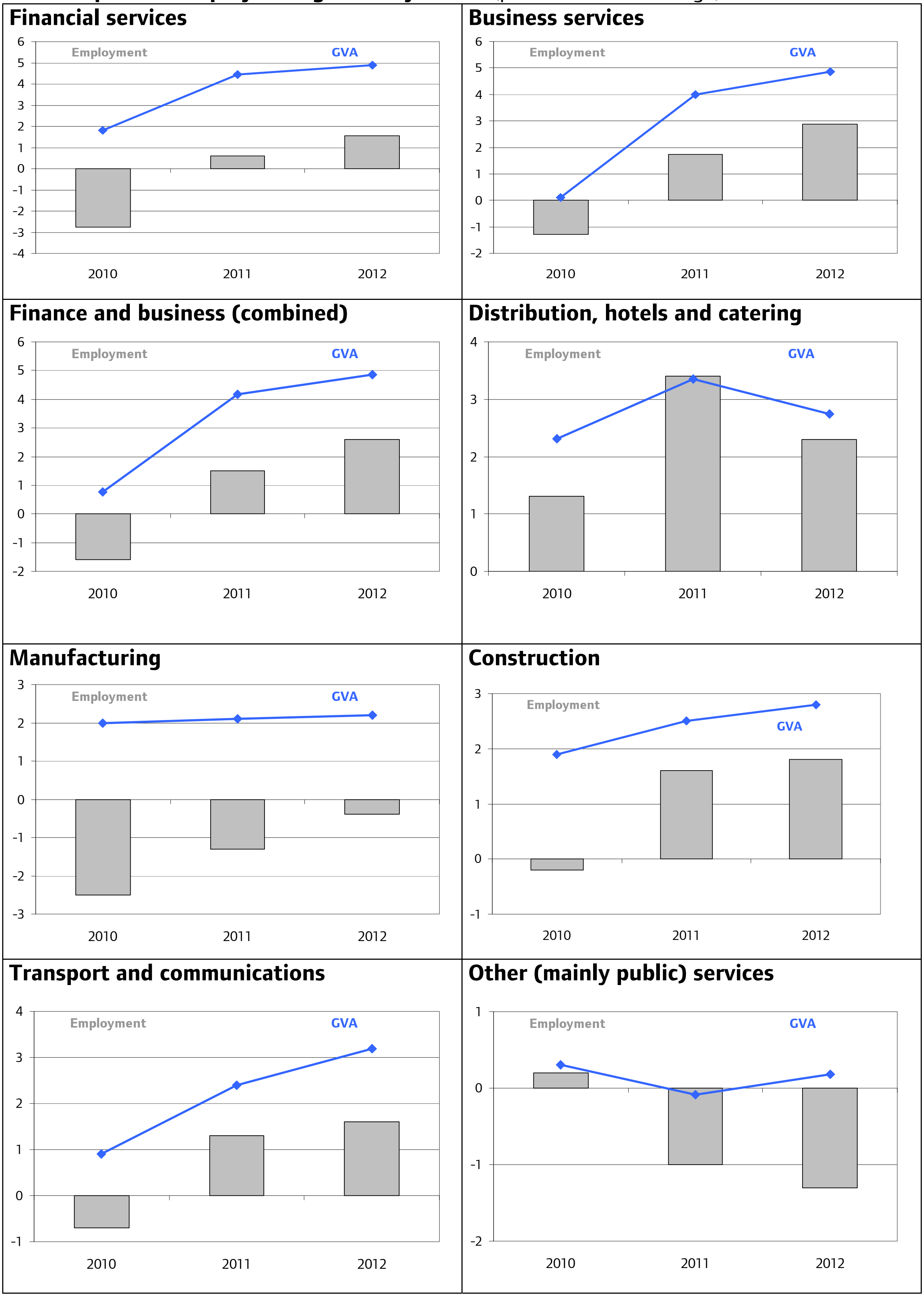
History: Annual growth (per cent)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2.7	1.3	0.0	2.9	5.9	7.4	9.1	3.9	2.5	2.8	0.0	1.4	3.7	0.8	2.6	2.3	-2.6

History: Level (constant year 2005, £ billion)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
72.9	73.9	73.9	76.0	80.5	86.4	94.3	98.0	100.4	103.1	103.1	104.6	108.5	109.4	112.2	114.8	111.8

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



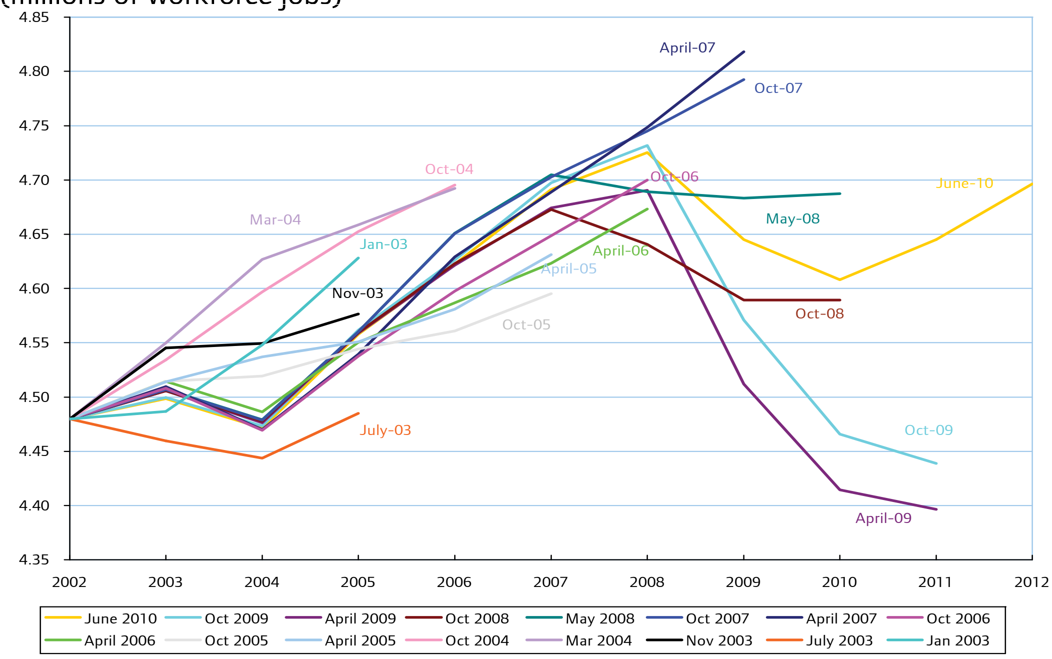
Output and employment growth by sector (per cent annual change)

	2010	2011	2012
Financial services			
Output	1.8	4.4	4.9
Employment	-2.8	0.6	1.6
Business services			
Output	0.1	4.0	4.9
Employment	-1.3	1.7	2.9
Financial and business services combined			
Output	0.8	4.2	4.9
Employment	-1.6	1.5	2.6
Distribution, hotels and catering			
Output	2.3	3.4	2.7
Employment	1.3	3.4	2.3
Transport and communications			
Output	0.9	2.4	3.2
Employment	-0.7	1.3	1.6
Other (mainly public) services			
Output	0.3	-0.1	0.2
Employment	0.2	-1.0	-1.3
Manufacturing			
Output	2.0	2.1	2.2
Employment	-2.5	-1.3	-0.4
Construction			
Output	1.9	2.5	2.8
Employment	-0.2	1.6	1.8
(Memo: non-manufacturing)			
Output	1.0	2.8	3.3
Employment	-0.7	0.9	1.2

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 and output growth is higher than in the forecasts made in 2009.

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

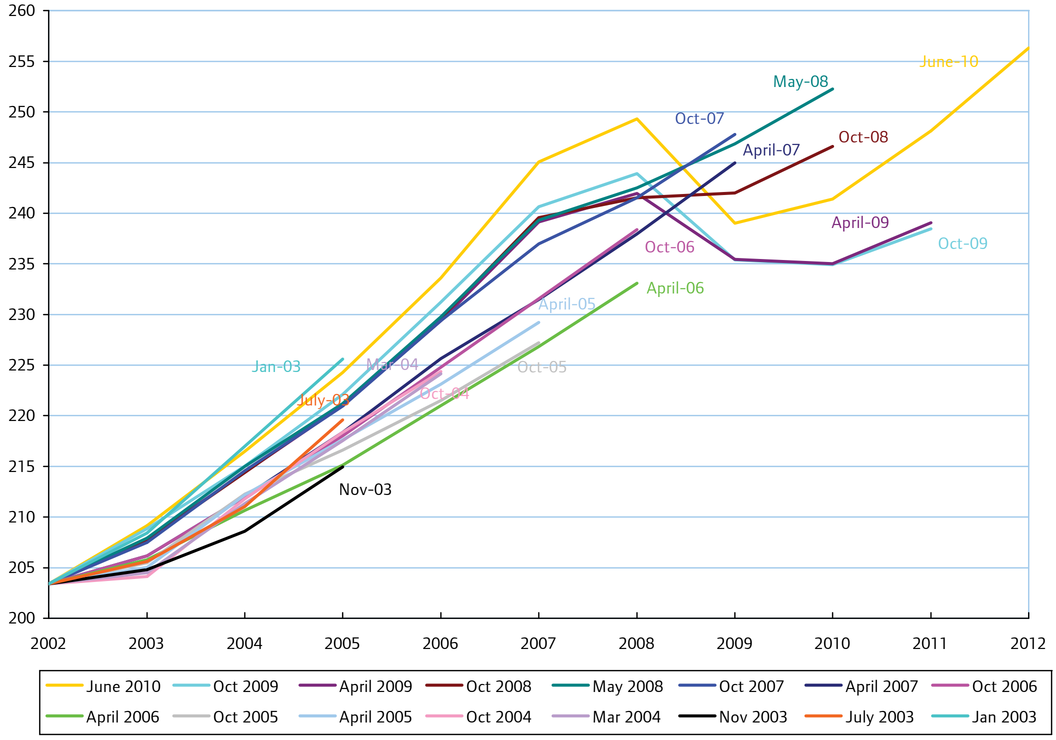


Source: Various London's Economic Outlooks

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
June 2010	**0.4%**	**-0.6%**	**1.9%**	**1.4%**	**1.5%**	**0.7%**	**-1.7%**	-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 2005, £ 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
June 2010	**2.8%**	**3.5%**	**3.6%**	**4.2%**	**4.9%**	**1.7%**	**-4.1%**	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: 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 2008 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 2004[i]. 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.

Appendix B: Glossary of acronyms

ABI	Annual Business Inquiry
bn	Billion
BRC	British Retail Consortium
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
EU	European Union
FSA	Financial Services Authority
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
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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Footnotes

[i] The forecast is based on an in-house model built by Volterra Consulting Limited.
[ii] RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2010 of the RPI UK inflation rate are reported.
[iii] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2010 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.
[iv] Knight Frank, Central London Quarterly, Quarter 1 2010.
[v] 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.
[vi] The Financial Times, 'February trade deficit falls as exports surge', 13 April 2010.
[vii] Office for National Statistics, 'Government Deficit and Debt', March 2010.
[viii] Office for National Statistics, 'Public Sector Finances', April 2010.
[ix] HM Treasury, Budget 2010, March 2010.
[x] The OECD employs a different measure of public sector net debt than either the ONS or HM Treasury. More information can be found at:
http://www.oecd.org/document/25/0,3343,en_2649_34109_33702745_1_1_1_1,00.html
[xi] OECD, 'World Economic Outlook No. 86', November 2009.
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[xix] Ibid.
[xx] Ibid.
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[xxxi] BBC, 'EU ministers offer 750bn-euro plan to support currency', 10 May 2010.
[xxxii] Reuters, 'Japan Q1 GDP grows steadily on exports', 20 May 2010.
[xxxiii] BBC, 'Japan: Toyota sales rise as business confidence climbs', 1 April 2010.
[xxxiv] The IMF, 'World Economic Outlook: Rebalancing Growth', April 2010.
[xxxv] Ibid.
[xxxvi] The Guardian, 'China plays down huge jump in GDP', 15 April 2010.
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[xxxix] The IMF, 'World Economic Outlook: Rebalancing Growth', April 2010.
[xl] Ibid.
[xli] BBC, 'Russian quarterly economic growth 'slows to 0.6%'', 21 April 2010.
[xlii] The IMF, 'World Economic Outlook: Rebalancing Growth', April 2010.
[xliii] The Office for National Statistics.
[xliv] The IMF, 'World Economic Outlook: Rebalancing Growth', April 2010.
[xlv] Bloomberg, 'IMF's Strauss-Kahn Warns Against Removing Stimulus Too Soon', 4 April 2010.
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[xlvii] Cecchetti, S., Kohler, M., & Upper, C., 'Financial crises are different! Refining the Reinhart-Rogoff estimates', 28 October 2009.
[xlviii] OECD, 'What is the economic outlook for OECD countries? An interim assessment', April 2010.
[xlix] Most forecasters do not yet provide forecasts of household income.

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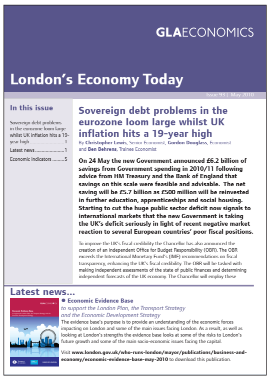
[i] Fenwick D and Wingfield D, 2005, Relative Regional Consumer Price Levels in 2004, Economic Trends No. 615, ONS, February 2005.

other publications

GLA Economics also produces **London's Economy Today** – a monthly e-newsletter that features the most up to date information on the state of London's economy. This includes a macroeconomic overview alongside recent data releases.


GLAECONOMICS

London's Economy Today

Issue 93 | May 2010

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Latest news 1
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Sovereign debt problems in the eurozone loom large whilst UK inflation hits a 19-year high

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Ben Behrens**, Trainee Economist

On 24 May the new Government announced £6.2 billion of savings from Government spending in 2010/11 following advice from HM Treasury and the Bank of England that savings on this scale were feasible and advisable. The net saving will be £5.7 billion as £500 million will be reinvested in further education, apprenticeships and social housing. Starting to cut the huge public sector deficit now signals to international markets that the new Government is taking the UK's deficit seriously in light of recent negative market reaction to several European countries' poor fiscal positions.

To improve the UK's fiscal credibility the Chancellor has also announced the creation of an independent Office for Budget Responsibility (OBR). The OBR exceeds the International Monetary Fund's (IMF) recommendations on fiscal transparency, enhancing the UK's fiscal credibility. The OBR will be tasked with making independent assessments of the state of public finances and determining independent forecasts of the UK economy. The Chancellor will employ these

Latest news...

- **Economic Evidence Base**
to support the London Plan, the Transport Strategy and the Economic Development Strategy
The evidence base's purpose is to provide an understanding of the economic forces impacting on London and some of the main issues facing London. As a result, as well as looking at London's strengths the evidence base looks at some of the risks to London's future growth and some of the main socio-economic issues facing the capital.

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Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন্ নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاھتے ھیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.