GLAECONOMICS

London's Economic Outlook: Autumn 2010

The GLA's medium-term planning projections

Transport for London

LONDON DEVELOPMENT AGENCY

MAYOR OF LONDON

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics 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.

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1. Executive summary

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

- London's Gross Value Added (GVA) growth rate is forecast to rise to 1.6 per cent in 2010. Growth should increase to 2.4 per cent in 2011 and 2.9 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	1.6	2.4	2.9
Consensus (average of independent forecasts)		1.5	2.7	2.7
London civilian workforce jobs	-1.7	-0.6	0.6	1.0
Consensus (average of independent forecasts)		-0.2	0.7	1.0
London household spending (constant 2005 £ billion)	-2.6	1.5	2.4	2.8
Consensus (average of independent forecasts)		1.3	2.8	2.9
London household income (constant 2005 £ billion)	2.5	1.7	2.6	3.0
Memo: Projected UK RPI[ii] (Inflation rate)	-0.7	4.2	3.4	2.7
Projected UK CPI[iii] (Inflation rate)	2.1	2.9	2.4	1.8

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

2. Introduction

The autumn 2010 edition of *London's Economic Outlook* (LEO) is GLA Economics' seventeenth 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: Recovery continues but is likely to be bumpy

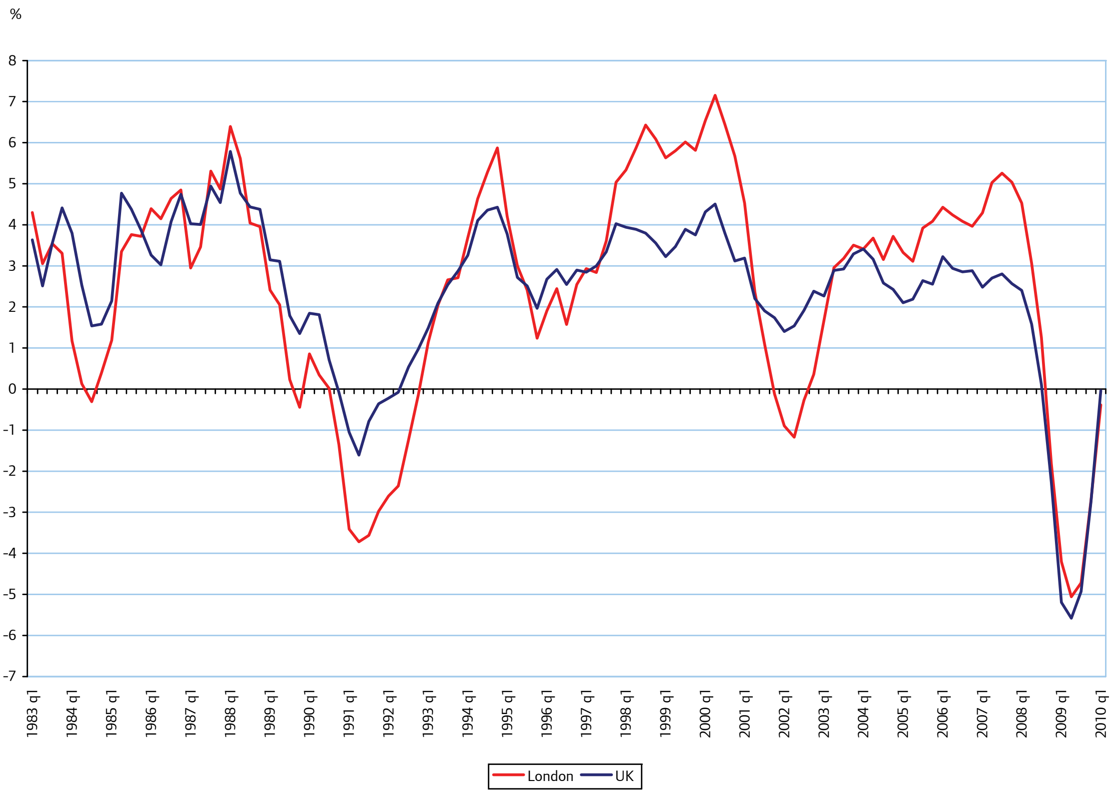
This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's economic output contracted at an annualised rate of -0.4 per cent in quarter one of 2010 compared to 0.0 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 had been stronger than the UK as a whole since the second quarter of 2004 until Q1 2010.

Figure 3.1: Output growth – London and UK

Real GVA, annual % change, last data point is Q1 2010

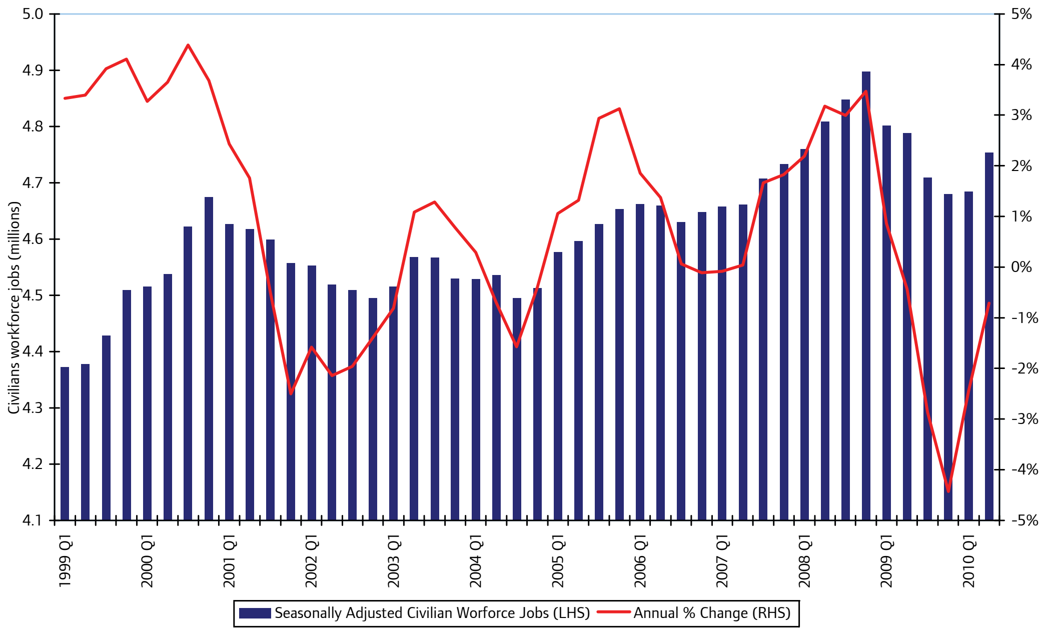


Source: Experian Economics

Annual employment growth in London remained negative in the second quarter of 2010 at -0.7 per cent, an improvement from the previous quarter. The total number of workforce jobs in London was over 4.7 million in quarter two 2010 (see Figure 3.2).

Figure 3.2: London civilian workforce jobs

Level and annual % change, last data point is Q2 2010

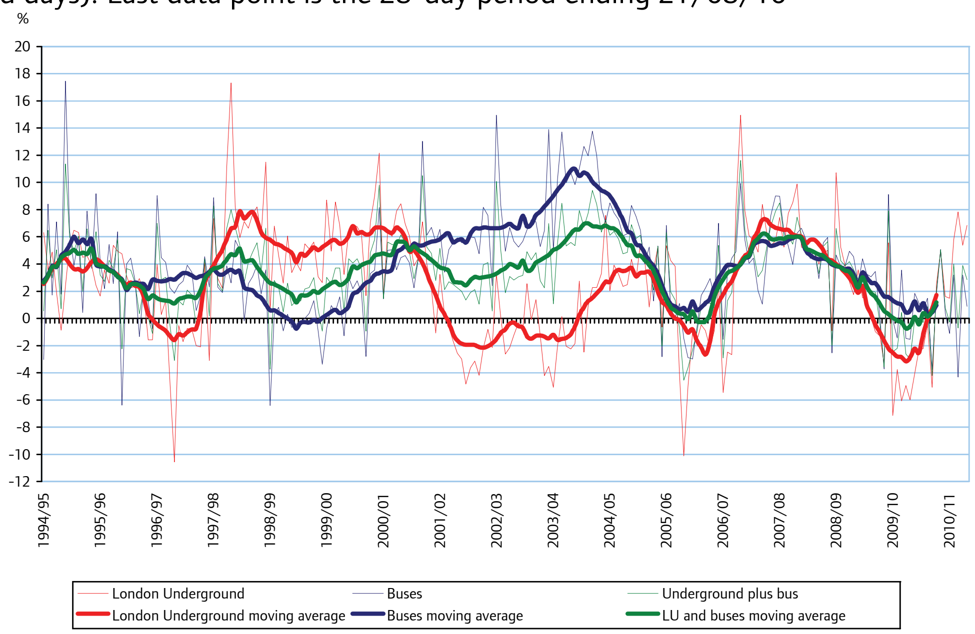


Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows that the annual growth in the moving average of bus travel has stabilised, whilst underground usage has improved markedly. The annual growth in the moving average for underground usage is now positive, whilst the moving average for bus usage is also positive having remained so throughout the recession.

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 28-day period ending 21/08/10

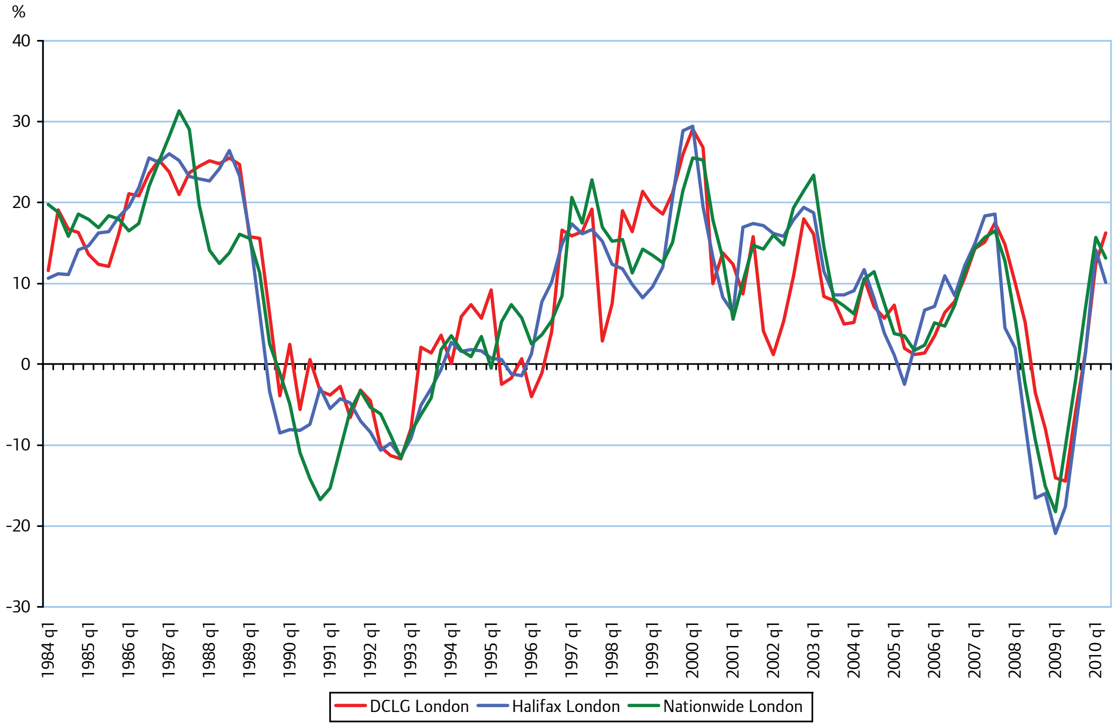


Source: Transport for London

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, which continued into the first half of 2010. There are now some signs of a slowdown in the housing market in London and of the possibility of resumed house price declines in the UK as a whole[iv]. 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 was over 10 per cent in Q2 2010 (see Figure 3.4).

Figure 3.4: House price inflation in London

Annual % change, last data point is Q2 2010



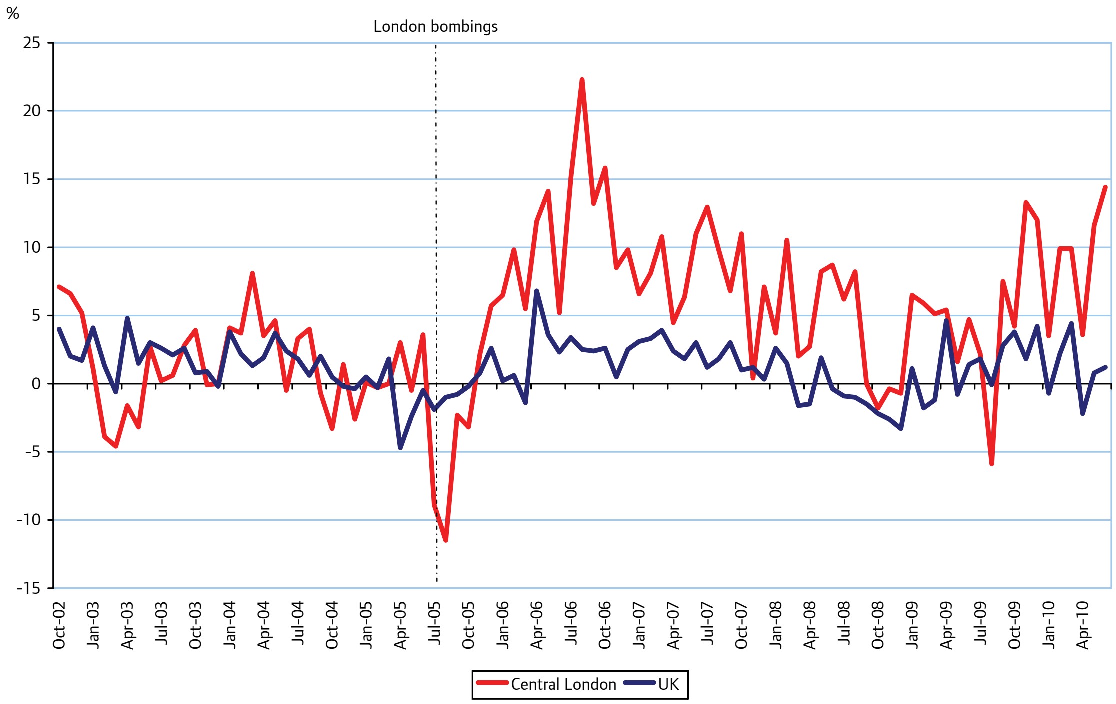
Sources: DCLG, Halifax house price index, Nationwide

Central London's commercial property market continued to recover in the second quarter of 2010, although the recovery has moderated compared to the previous two quarters. From Knight Frank's 'Central London Quarterly' take-up levels in Central London "fell back to 2.7 m sq ft in Q2 2010 as the market 'paused for breath'. Demand for quality stock and large units remains strong and we anticipate another 'wave' of take-up towards the end of the year". Central London offices remain "attractive to investors as evidenced by the healthy levels of turnover. Overseas investors dominated the purchaser profile and the ongoing weakness of Sterling continues to make London relatively good value"[v].

The retail sector in Central London performed robustly during the first half of 2010. Retail sales rose by 14.4 per cent in June 2010 compared with a year earlier as monitored by the London Retail Consortium (Figure 3.5). Meanwhile UK retail sales rose by 1.2 per cent in June 2010 compared to June 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 June 2010

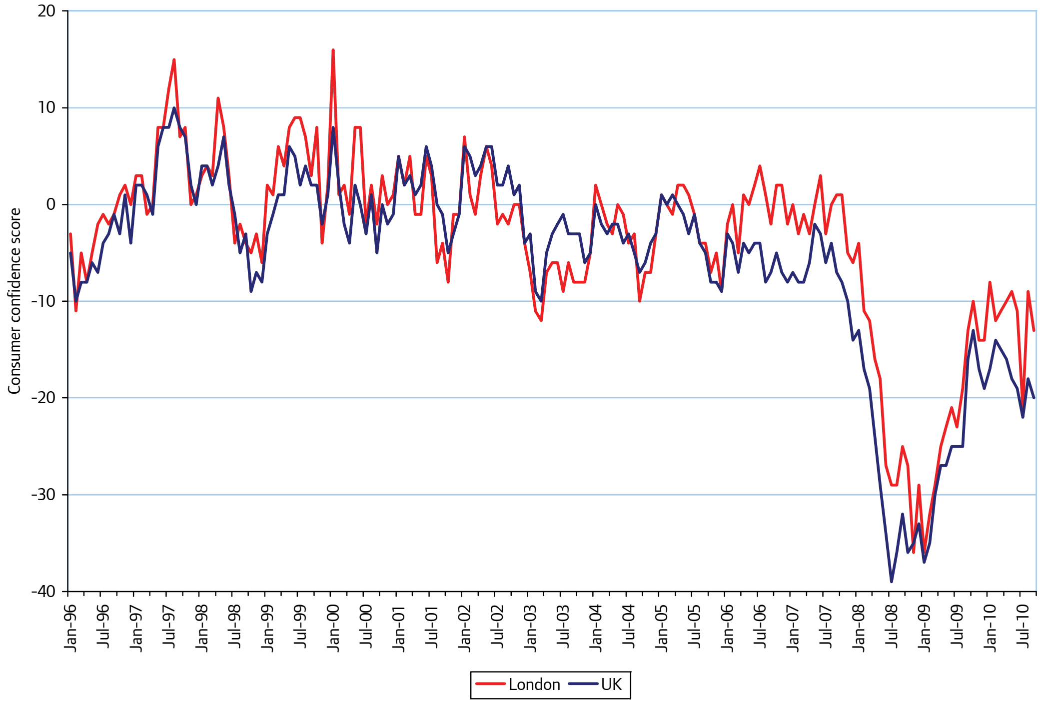


Sources: UK Retail Sales Monitor – BRC/KPMG, Central London Retail Sales Monitor – London Retail Consortium

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. In 2010 consumer confidence remained steady but subdued in London until July 2010 when it fell sharply. However consumer confidence in London was less negative than it was in July by September when it had reached a level similar to the rest of 2010. 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 September 2010

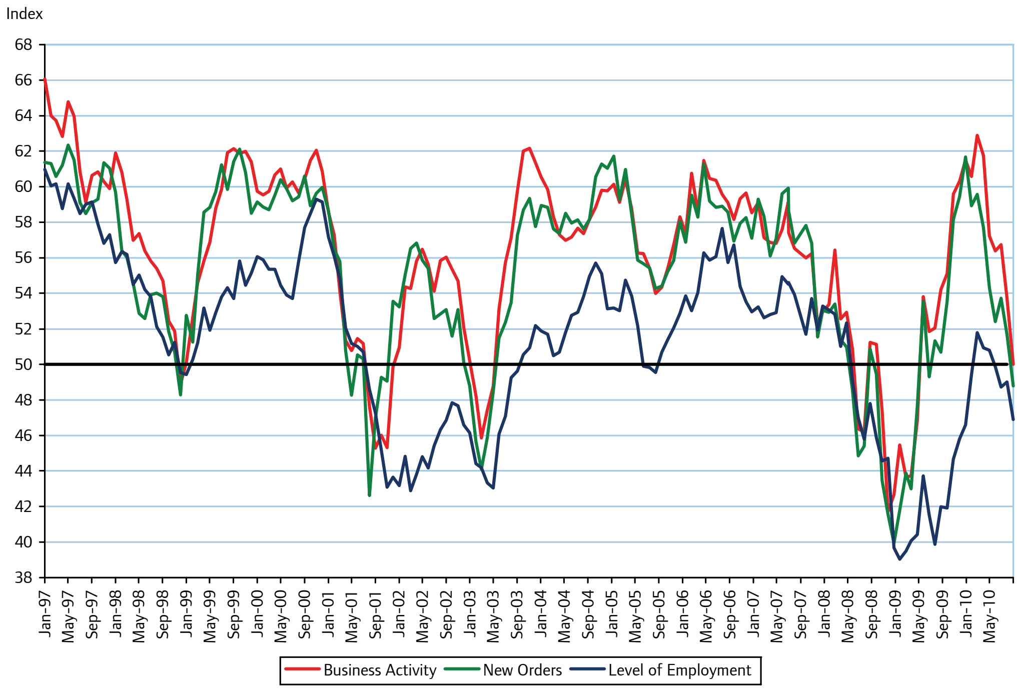


Source: GfK NOP on behalf of the European Commission

Business survey results indicate that business activity after expanding since May 2009 was stable in August 2010. Employment in London firms weakened over the summer after expanding at the beginning of 2010 (see Figure 3.7).

Figure 3.7: Recent survey evidence on London's economic climate

Purchasing Manager's Index (PMI) survey, last data point August 2010
Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Source: Markit Economics

Box 3.1: Private sector recovery in London during fiscal retrenchment

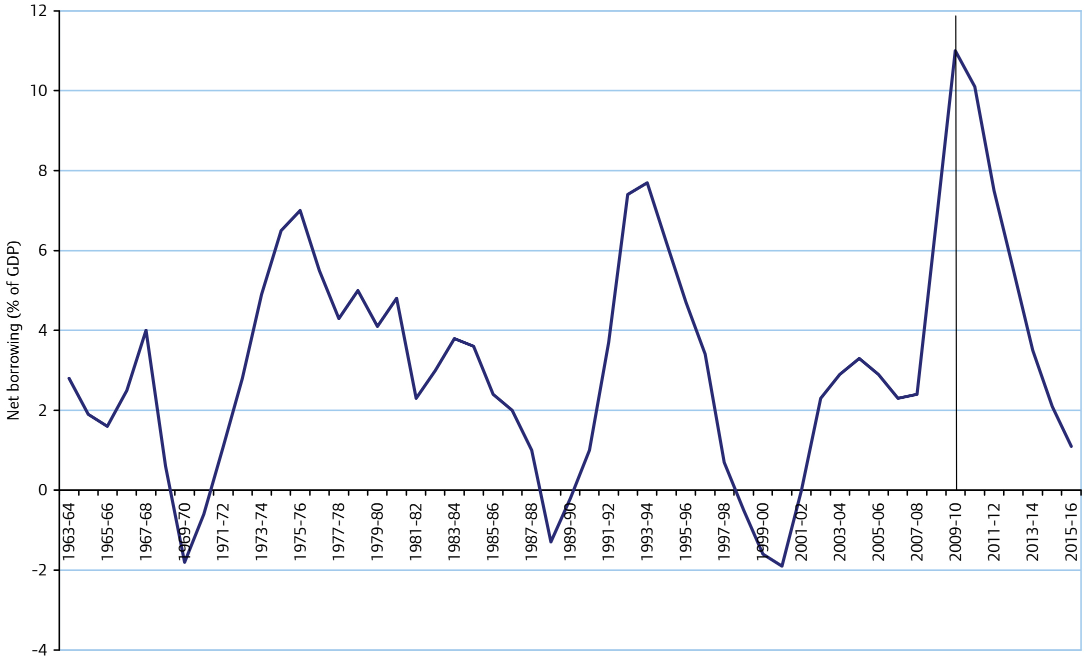
On the 15 September 2010 in a speech to the TUC, Mervyn King, the Governor of the Bank of England, observed that "this country has the largest peacetime budget deficit in its history – over 11% of GDP in the fiscal year to 2010. Although a large budget deficit is inevitable for a period after a crisis, it is also clearly unsustainable – our national debt, even relative to GDP, is rising sharply and will continue to do so for several years. It is vital for any government to set out and commit to a clear and credible plan for reducing the deficit. I would be shirking my responsibilities if I did not explain to you the risks of failing to do so.

Vague promises would not have been enough. Market reaction to rising sovereign debt can turn quickly from benign to malign, as we saw in the euro area earlier this year. It is not sensible to risk a damaging rise in long-term interest rates that would make investment and the cost of mortgages more expensive. The current plan is to reduce the deficit steadily over five years – a more gradual fiscal tightening than in some other countries. As a result of a failure to put such a plan in place sooner, some euro-area countries have found – to their cost – a much more rapid adjustment being forced upon them."[vi]

The size of the budget deficit is unsustainable and without tough plans to tackle it would have led to pressure for the UK's sovereign debt to be downgraded, as has occurred to other countries running sizable budget deficits such as Greece and Ireland. Such an outcome would be highly undesirable to the government as it would push up its borrowing costs, which would have knock on effects on private sector borrowing costs and a negative impact on business investment. A sovereign debt downgrade would also hit consumer and business confidence, which would reduce investment intentions. In the case of other nations such as Portugal the OECD has warned that the country's high sovereign debt spreads could put their recovery at risk[vii].

In response to the possibility of a sovereign debt downgrade the Chancellor of the Exchequer, in the emergency budget on 22 June 2010, announced a variety of measures to improve the weak state of the nation's public finances. These included: an increase in VAT to 20 per cent on 4 January 2011; a two-year pay freeze from 2011/12 for public sector workers earning over £21,000; a levy on banks' balance sheets from 1 January 2011; a rise in the capital gains tax rate for higher rate taxpayers to 28 per cent from 18 per cent; the generally lower consumer price index (CPI) inflation rather than retail price index (RPI) inflation being used for the indexation of benefits and tax credits from April 2011; capping the maximum allowance payable for housing benefit; and freezing child benefit for the next three years. The aim of these measures was to begin to reduce the budget deficit from the estimated 11 per cent of GDP in 2009/10 to 1.1 per cent in 2015/16 (see Figure 3.8). The government aims to rebalance the UK economy away from its reliance on state spending and to encourage a private sector led recovery. Government spending is projected to fall from 48 per cent of GDP (a figure seen by many economists to be unsustainable) to 40 per cent by 2015/16 with receipts forecast to rise from 37 to 39 per cent[viii]. The majority of the fiscal consolidation will come from lower Government spending (77 per cent) rather than from higher taxes (23 per cent). With spending on the NHS and international development aid protected, other Government departments face reductions of around 25 per cent or more by 2015/16. The Comprehensive Spending Review, which will set all departmental expenditure limits, will be published on 20 October and will give details of the departmental spending cuts.

Figure 3.8: Public sector net borrowing as a percentage of GDP (including forecasts for 2010/11 onwards)



Source: HM Treasury

Ratings agencies responded positively to the emergency budget and planned austerity measures, with Moody's stating that the UK's AAA ranked credit rating was safe. Kenneth Orchard, an analyst at Moody's commented that "Moody's stable outlook... is largely driven by the government's commitment to stabilise and eventually reverse the deterioration in its financial strength"[ix].

National income is made up of consumption, investment, government spending and net exports so that a simple reading would state that, holding everything else constant, a reduction in government spending would reduce national income. This would hold at the regional level for London's economy as well. However, such an analysis would be far too simplistic, as reducing government spending will have positive secondary effects on other sectors of the economy. These impacts will boost the economy in that a reduction in government spending and government borrowing will place downward pressure on interest rates enabling businesses to invest at a lower cost and thus giving upward support to national income. Lower long-run interest rates will also support private consumption and put downward pressure on sterling boosting net exports. In addition as noted in the 2010 Q3 Quarterly Bulletin from the Bank of England "plans for fiscal consolidation removed a key source of uncertainty affecting sterling asset prices"[x], with the announced deficit reduction plan helping to improve financial market sentiment in June and July. Lower uncertainty supports asset prices, which give businesses more collateral and increases business investment.

A further argument can be made that this fiscal retrenchment is necessary in order to encourage strong growth in the private sector, which otherwise would be 'crowded out' by excessive government spending and borrowing. Excess government spending competes with private sector demand for limited available finance, so if government spending is reduced the 'crowding out' argument suggests it would free up finance for use by the private sector.

Still overall Government cuts are likely to slightly dampen economic growth in the UK over the next couple of years as indicated by the Office for Budget Responsibility's (OBR) forecasts for UK economic growth prior to and after the June 2010 Budget. In its pre-budget forecast it forecast growth of 1.3 per cent in 2010 and 2.6 per cent in 2011[xi]. Its forecast for the June 2010 Budget taking account of the Budget's measures expects growth of 1.2 per cent in 2010 and 2.3 per cent in 2011[xii]. However, growth is expected to be stronger from 2013 "as the economy adjusts back towards potential output"[xiii]. It should be noted that the OBRs forecasts envisage a rebalancing of the economy, with business investment becoming increasingly important during the forecast period and with net exports also providing a boost to the economy.

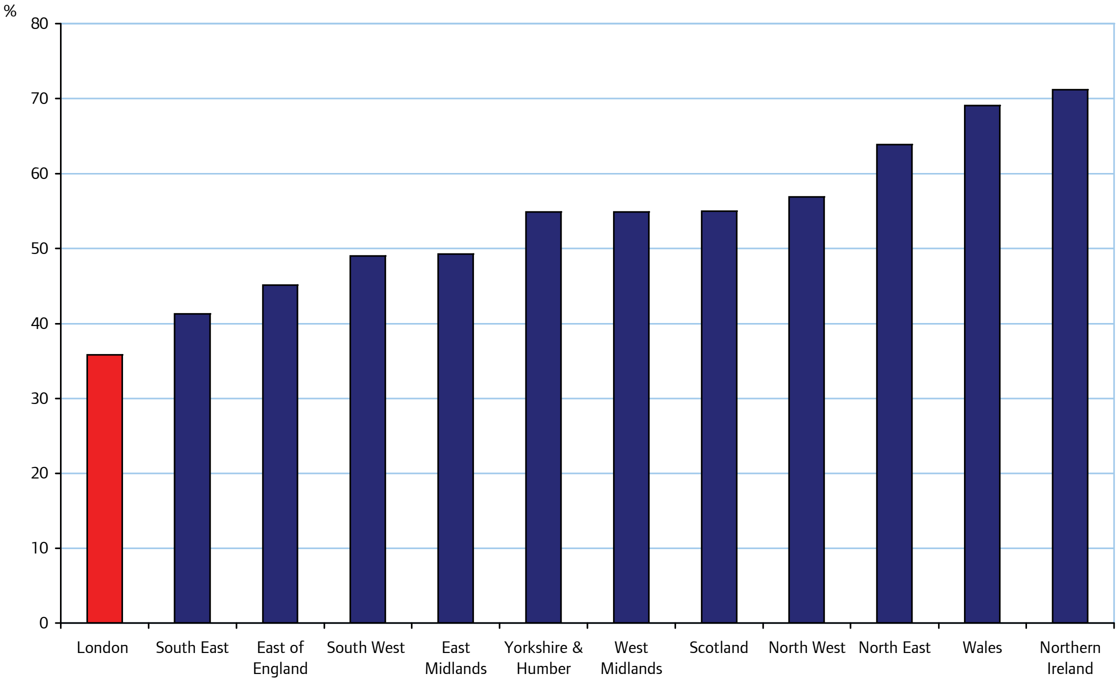
Another consideration, given the size of the budget deficit and the need for it to be reduced, is how the balance between tax rises and spending cuts will impact on London's economy. Given the size of public sector employment as a percentage of London's workforce as shown in Table 3.1 and the relatively small share public sector expenditure makes up of London's economy (see Figure 3.9), it is likely that tax rises would impact disproportionately harshly on London's economy. Given the drag that Government spending cuts will have on the national economy, the Bank of England is likely to respond by keeping interest rates lower for longer than would have been the case without spending cuts, providing an additional boost to London's economy. It should also be noted that recent work[xiv] that looked at how resilient the English regions are to economic shocks indicates that London may be more resilient to the shock of Government spending cuts than other areas of England. For this reason and the likelihood that the Bank of England will attempt to offset (at least partially) the dampening impact of a reduction in Government expenditure, it is possible that Government spending cuts will have a significantly lower negative impact in London than in other areas of the country.

Table 3.1: Public sector employment as a percentage of total employed workforce (2008)

Government Office Region	Per cent
North East	32.2
North West	28.2
Yorkshire and The Humber	28.5
East Midlands	26.6
West Midlands	26.9
East	25.2
London	22.2
South East	25.4
South West	28.5
Wales	32.9
Scotland	30.0
Total	**26.9**

Source: ONS, Annual Business Inquiry

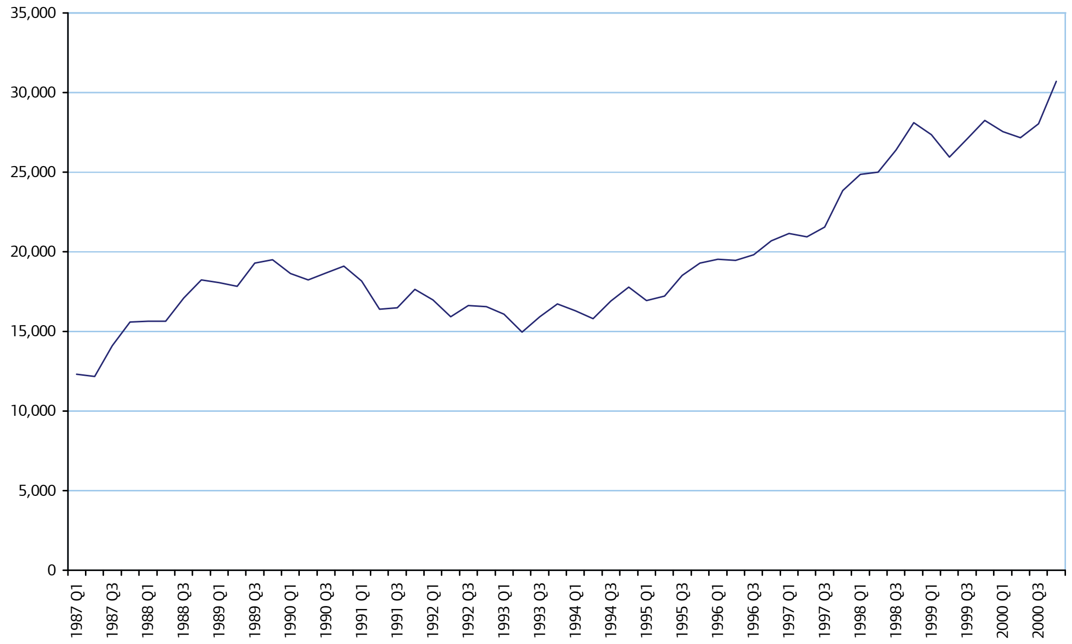
Figure 3.9: Public Sector expenditure per region as a share of GDP (estimate 2010/11)



Source: CEBR[xv]

Although the scale of public spending cuts is likely to be of a size that is unprecedented since those cuts seen following the Second World War, some indication of how the economy might recover can be gleaned from examining the recovery post the 1990s recession and during the fiscal consolidation of the mid 1990s. In that recession the UK economy recorded five successive quarters of negative GDP growth from Q3 1990 until it came out of recession in Q4 1991. Initially, business investment continued to decline slightly reaching a low point in Q2 1993. Business investment then bounced back rapidly during a period of Government fiscal tightening, rising more than two thirds between 1993 and 1998 (see Figure 3.10). During the mid 1990s business investment provided essential support for the UK economy during a period of fiscal consolidation. This support will also potentially be available for the economy following the recent recession and during the period of fiscal consolidation that the economy now faces. This gives grounds for some optimism that the economic effect of the looming spending cuts can be offset to some degree at least by higher business investment.

Figure 3.10: Total business investment (chain measure (2006 basis), £ million) (1987 Q1-2000 Q4)



Source: ONS

Another indication of the business aided nature of the 1990s recovery is shown in Figure 3.11, which shows business start-ups as measured by VAT registrations in both London and the UK in the recovery period following the early 1990s recession. As can be observed these picked up quite markedly in both London and the UK providing additional evidence for a business led recovery.

Figure 3.11: Business start-ups (by VAT registrations for the UK and London (1994-2001)), index 1994 = 100

Source: BIS[xvi]

Examining the current recovery we can see that business confidence as measured by the Institute of Chartered Accountants in England and Wales (ICAEW)[xvii] was strongly positive in the period 29 April to 22 July 2010 for both London and the UK. The London Business Leaders Panel[xviii] found that of London businesses surveyed "over two-thirds (69 per cent) of firms are operating below full capacity". So the recovery still has a long way to go. Still, statistics from the ONS indicate that although annual growth in government spending provided some support to the economy at the beginning of 2010 (see Table 3.4) business investment also picked up in the first two quarters of 2010 from its low in Q4 2009. Other sectors of the economy that are heavily private sector based have also begun to recover such as business services and finance, manufacturing, and distribution, hotels and catering. Thus it should be remembered that although government spending cuts are likely to dampen the speed of the economic recovery for a couple of years other sectors exist that will drive the recovery. In the longer term a rebalancing of the economy towards the private sector and business investment should provide a more sustainable growth and productive path for the economy.

In conclusion, the International Monetary Fund (IMF) completed its 2010 UK Article IV consultation mission in September and believes that the benefits from the Government's fiscal consolidation plans outweigh any adverse effects on near-term growth[xix]. The IMF stated that "market reaction to the adjustment plan has been positive" and that "the government's strong and credible multi-year fiscal deficit reduction plan is essential to ensure debt sustainability. The plan greatly reduces the risk of a costly loss of confidence in public finances and supports a balanced recovery. Fiscal tightening will dampen short-term growth but not stop it as other sectors of the economy emerge as drivers of recovery, supported by continued monetary stimulus". The IMF expects the economy to recover at a moderate pace with companies beginning to increase investment as the demand outlook strengthens.

3.2 The UK economy

The UK economy has exited 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 1.2 per cent in the second quarter of 2010. This followed an expansion of 0.4 per cent in both the fourth quarter of 2009 and the first quarter of 2010. However in the second quarter of 2010 GDP was still 4.7 per cent below its pre recession peak. The IMF now projects that the UK economy will grow by 1.7 per cent in 2010 and 2 per cent in 2011[xx], whilst the OECD projects growth of 1.3 per cent and 2.5 per cent respectively[xxi].

Table 3.2: HM Treasury and consensus forecasts for the UK economy
Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Budget June 2010	
	2010	**2011**	**2010**	**2011**
GDP growth (per cent)	1.5	1.9	1.2	2.3
Claimant unemployment (Q4: mn)	1.51	1.58	1.5	1.5
Current account (£bn)	-27.9	-21.2	-25	-28
PSNB (2010-11, 2011-12: £bn)	146.1	119.5	149	116

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, September 2010.
HM Treasury Budget 2010 Annex B: Financing and Annex C: Budget Forecast.

As can be seen in Table 3.3 annual growth in most UK sectors was negative in all quarters of 2009, but by Q2 2010 a number of sectors were again experiencing positive annual growth, with construction seeing significant annual growth in Q2 2010. The recovery is expected to continue to bed down in the second half of 2010.

Table 3.3: Recent growth in broad industrial sectors of UK economy
Annual % change

	2009				2010	
Industrial sectors	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Agriculture, forestry, and fishing	-2.5%	-5.5%	-6.0%	-5.9%	-6.5%	-2.2%
Mining & quarrying inc oil & gas extraction	-9.0%	-8.0%	-11.9%	-8.6%	-4.9%	-5.3%
Manufacturing	-13.7%	-12.3%	-11.0%	-5.5%	1.6%	3.6%
Electricity gas and water supply	-6.3%	-8.5%	-4.1%	-5.6%	-1.2%	-1.3%
Construction	-12.2%	-13.8%	-9.4%	-6.4%	-2.2%	9.8%
Distribution, hotels and catering	-7.1%	-6.7%	-3.3%	1.6%	2.5%	3.5%
Transport, storage and communication	-6.4%	-8.5%	-6.7%	-3.6%	-0.7%	-0.4%
Business services and finance	-3.5%	-5.3%	-5.8%	-4.2%	-1.2%	1.2%
Government and other services	-0.9%	0.1%	0.1%	0.8%	0.2%	0.7%

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

Table 3.4 shows that household annual spending declined throughout 2009 before beginning to expand again in Q2 2010. Investment fell heavily during the recession, but annual growth resumed in the second quarter of 2010. Meanwhile Government expenditure remained strong but cuts are now planned up to 2015/16.

Table 3.4: UK domestic expenditure growth
Annual % change

	2009				2010	
Expenditure	**Q1**	**Q2**	**Q2**	**Q4**	**Q1**	**Q2**
Households	-4.2%	-4.1%	-3.7%	-1.4%	0.0%	1.4%
Non-profit institutions	-3.0%	-2.8%	-1.6%	0.4%	-2.7%	-1.0%
General Government	2.7%	1.1%	0.4%	-0.3%	1.0%	1.9%
Gross fixed capital formation	-13.8%	-18.7%	-13.9%	-14.0%	-3.4%	3.7%

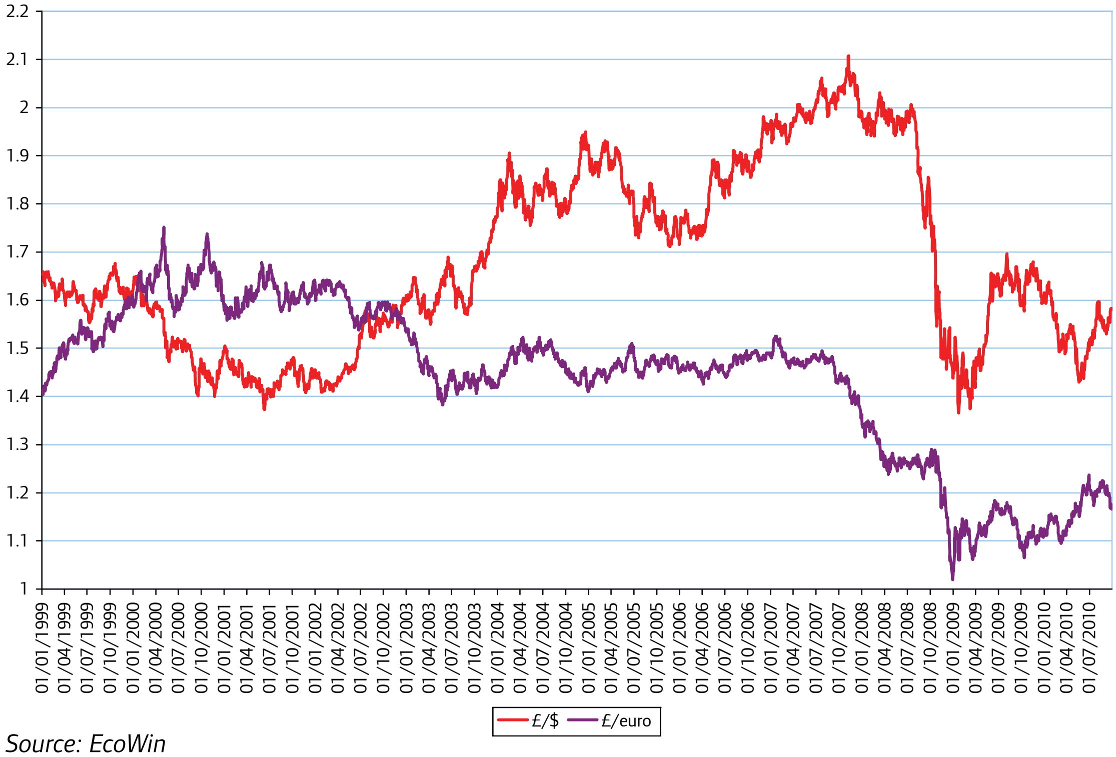
Source: Office for National Statistics (as of end-September 2010)

Annual consumer price index (CPI) inflation stood at 3.1 per cent in August 2010, unchanged on July 2010, after hitting a recent peak of 3.7 per cent in April 2010, whilst retail price index (RPI) annual inflation stood at 4.7 per cent down from a recent high of 5.3 per cent also in April 2010. The relatively high level of 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 commodity costs. A short term upside risk to inflation is the announced increase in VAT to 20 per cent in January 2011, which is likely to give an inflationary boost throughout 2011. Other upside risks to UK inflation are the possibility of a stronger than expected economic rebound, a jump in inflation expectations, the recent rise in food inflation partially driven by a rise in wheat prices[xxii] and that the Bank of England may be slow in responding to inflationary pressures in order to support the recovery.

Sterling continues to remain weak against the dollar compared to the heights it saw in 2007 (see Figure 3.12). In 2010 sterling has picked up slightly against the Euro on the back of sovereign debt problems in some members of the Eurozone (see Box 3.2).

Figure 3.12: £ to $ and £ to euro exchange rates

Last data point is 29/09/10

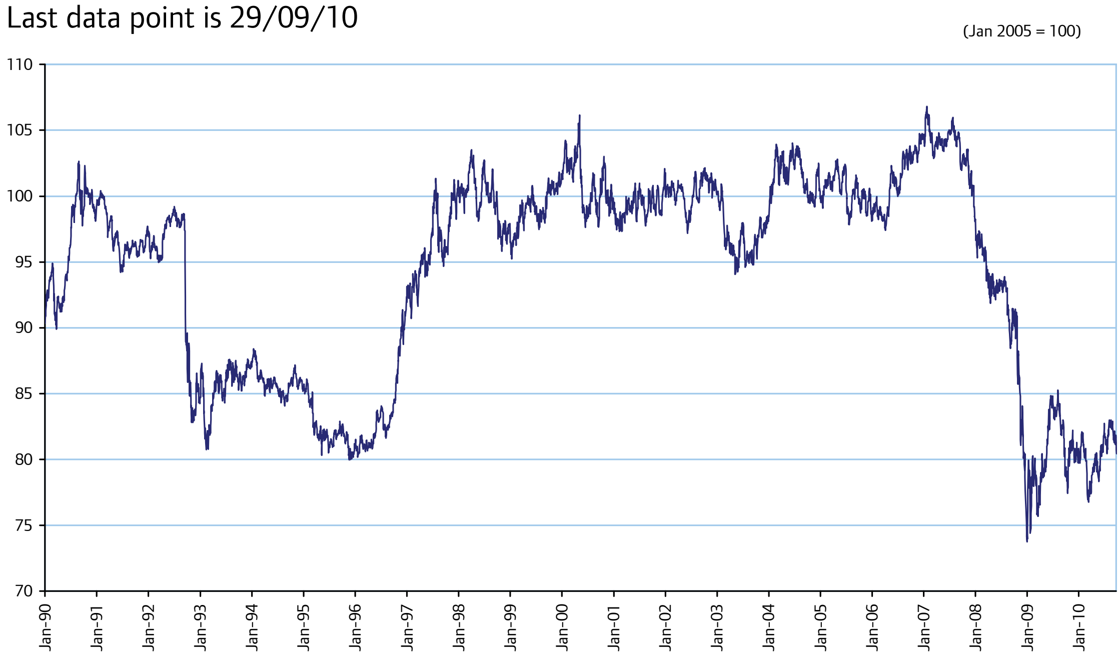


Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)[xxiii] (see Figure 3.13). There was a fall of roughly 30 per cent from its peak in early 2007 up to January 2009. Since then sterling has fluctuated but has slightly appreciated. The large depreciation of sterling in 2008 should provide some support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports, which should also be strengthened as the global economy continues to recover. However, the July 2010 deficit in the UK's trade in goods hit a record high indicating that so far the depreciation may not be providing as much support as originally anticipated[xxiv]. There is evidence though that a weaker pound has encouraged more UK tourists to take their holidays at home (including to London).

Figure 3.13: Sterling EERI rate

Last data point is 29/09/10



Source: Bank of England

3.3 The world economy

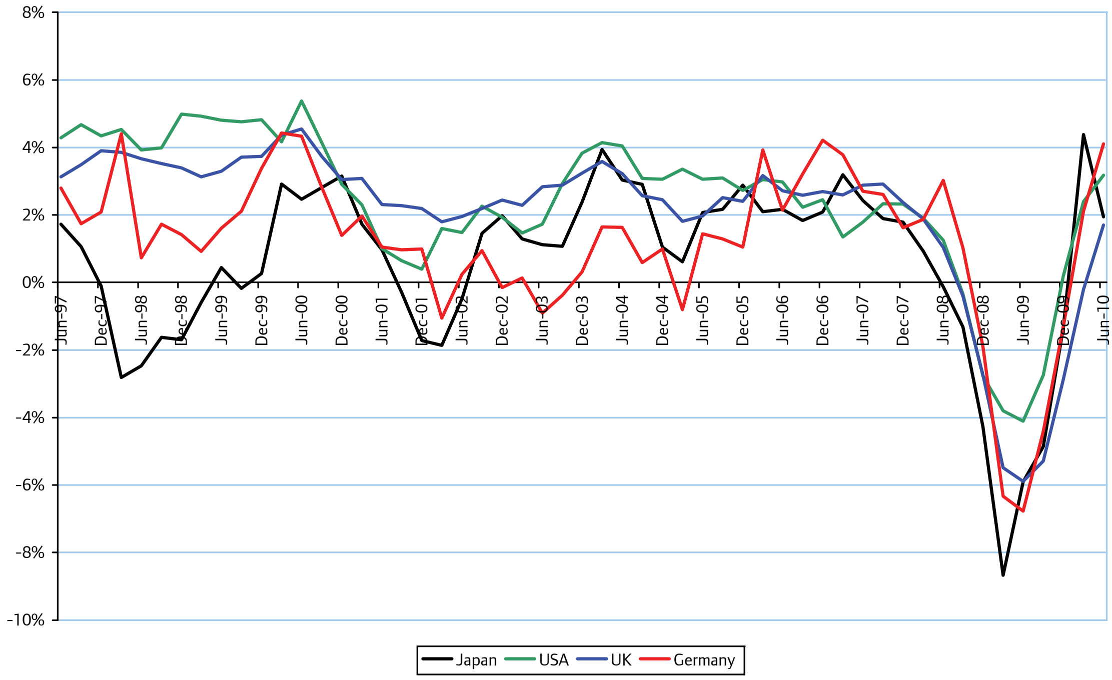
In October the IMF forecast that the world economy would expand by 4.8 per cent in 2010[xxv], with growth of 4.2 per cent forecast for 2011. Developed economies are forecast to recover with the US economy projected to grow by 2.6 per cent in 2010 and then grow by 2.3 per cent in 2011[xxvi], both downward revisions on their July forecast[xxvii]. The Eurozone economy is forecast to grow by 1.7 per cent in 2010 and by 1.5 per cent in 2011[xxviii]. Growth in emerging and developing economies is expected to be 7.1 per cent in 2010 and 6.4 per cent in 2011[xxix].

The **US** economy continued to recover in the second quarter of 2010 after suffering its longest downturn since the Second World War[xxx], however concerns remain about unemployment[xxxi] with it standing at 9.6 per cent in August. Still the OECD forecasts that its GDP will grow by 2.6 per cent in both 2010 and 2011[xxxii]. The September 2010 Beige Book from the Federal Reserve observed "continued growth in national economic activity during the reporting period of mid-July through the end of August, but with widespread signs of a deceleration compared with preceding periods", whilst "consumer spending appeared to increase on balance despite continued consumer caution that limited non-essential purchases "[xxxiii]. Interest rates continue to remain low at a target rate of between 0 and 0.25 per cent.

The **Eurozone** economy grew strongly in the second quarter of 2010[xxxiv], with output increasing by 1.0 per cent after increasing by 0.3 per cent in the first quarter of 2010. The European Commission is forecasting growth of 1.7 per cent in 2010[xxxv], whilst the OECD forecasts growth of 1.2 per cent in 2010 and 1.8 per cent in 2011[xxxvi]. Growth remains varied throughout the member states of the Eurozone with Germany experiencing rapid quarterly growth of 2.2 per cent in Q2 2010 after growing by 0.5 per cent in Q1 2010 while France experienced growth of 0.6 per cent and 0.2 per cent respectively. Meanwhile Greece contracted by -1.5 per cent and -0.8 per cent in Q2 and Q1 2010. Concerns remain about the stability of the public finances of a number of members of the Eurozone especially Greece, Ireland, Portugal and Spain (see Box 3.2).

Japan's economy grew by 0.4 per cent in the second quarter of 2010[xxxvii], but the Bank of Japan's Tankan index found that business confidence was rising at its lowest rate since early 2009 in September[xxxviii]. The IMF forecasts that Japanese output will rise by 2.8 per cent in 2010 and then by 1.5 per cent in 2011[xxxix], whilst the OECD projects 3 per cent and 2 per cent growth respectively[xl].

Figure 3.14: GDP growth in selected industrialised countries
Real GDP, annual % change, last data point is Q2 2010.



Source: Ecowin

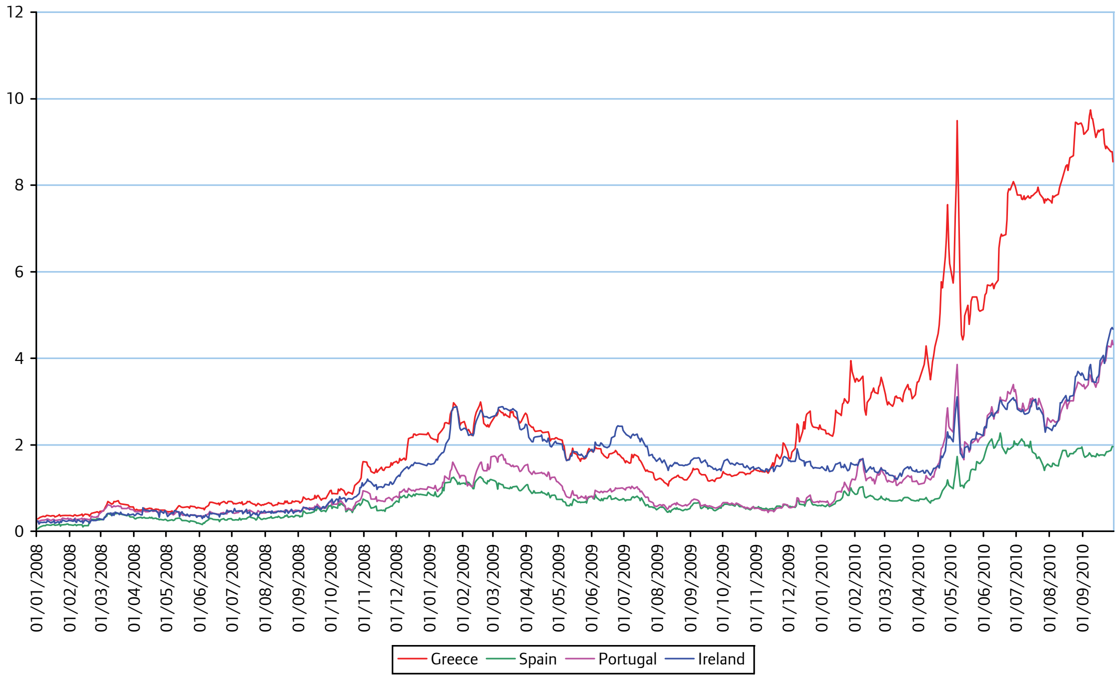
Box 3.2: Sovereign debt problems in some Eurozone countries

In response to the 2007-09 financial crisis many banking sector liabilities were transferred onto government balance sheets. This transferred many difficulties rather than solving them and along with huge budget deficits raised sovereign debt problems. Concern over sovereign debt problems were raised in relation to Greece after it disclosed at the end of 2009 that its public accounts had significantly under estimated the size of its budget deficit. Problems continued to mount in April 2010 with the spread on Greek 10-year government bonds over German bonds, which indicates the perceived level of risk in Greek bonds in relation to

German bonds, rising to levels unseen since the foundation of the Euro (see Figure 3.15). The German Government is considered the "safest" Eurozone government to borrow and is often used as a benchmark for comparison. Greek debt has also been downgraded by ratings agencies[xli].

Figure 3.15: Ten-year government bond spreads over German bonds, percentage points

Last data point: 29/9/2010



Source: EcoWin

Other members of the Eurozone including Ireland, Portugal and Spain that have high government budget deficits have also seen the cost of their debt rise over the course of 2010 with a number of countries seeing their debt downgraded[xlii]. In April and early May the possible threat of financial contagion with a crisis precipitated by one nation defaulting on its debt spreading to other Eurozone nations rose significantly. Such a crisis could occur due to both the direct impact on banks holding defaulting government debt[xliii] and indirect effects due to the impact on investor perceptions[xliv], both of which could lead to an "adverse feedback loop"[xlv] for the whole Eurozone economy and beyond. In response to the crisis on the night of 9 May, finance ministers from EU countries agreed a package of emergency measures, with the IMF also agreeing to contribute, in order to try and deal with the financial crisis in Greece and to prevent contagion[xlvi]. A €440bn European Financial Stability Facility has been set up by Eurozone members to lend to Eurozone countries that get into major financial difficulties. In their continued response to the crisis, Eurozone countries have also agreed more in-depth economic governance for the Eurozone, including stronger mutual surveillance of national budgets, closer attention to debt levels and developing a scoreboard to measure competitiveness.

There are also concerns with the ability of the EU banking sector to deal with further financial shocks. The results of the EU's bank stress tests in July showed that only seven of the 91 banks failed to meet the capital requirements (five Spanish banks failed alongside one Greek lender and Germany's Hypo Real Estate) under three economic shock scenarios. The UK's Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland all passed the test comfortably. However, many consider that the tests were not severe enough as a sovereign default by any EU country (most likely to be Greece) was not in any scenario. In late September Moody's cut its rating on Anglo Irish Banks' debt[xlvii]. The steadily mounting scale of the cost of the banks bailout and nationalisation has put Ireland among the forefront of investor concerns about the sustainability of sovereign debt. On 6 October, Fitch cut Ireland's credit rating to A+ and put its rating on a negative outlook. UK banks have an exposure to Ireland's economy of over €200bn[xlviii]. Concerns remain about the ability of the global banking system to deal with a sovereign debt default by a Eurozone nation, with such a situation obviously offering significant downside risks to London, the UK and world economies.

3.4 Emerging market economies

After growing by 9.1 per cent in 2009[xlix] **China's** economy continued to expand in the second quarter of 2010 with output increasing by 10.3 per cent compared with the same period a year earlier, down slightly on the 11.9 per cent growth seen in the first quarter[l]. The Chinese economy is now the second largest in the world measured on a nominal dollar basis[li]. The IMF is forecasting that the Chinese economy will grow by 10.5 per cent in 2010 and by 9.6 per cent in 2011[lii]. **India's** economy grew by an annualised 8.8 per cent in the three months to June 2010, the fastest rate of growth for more than two years[liii]. The IMF forecasts growth will be 9.7 per cent in 2010 and 8.4 per cent in 2011[liv]. After declining by 7.9 per cent in 2009[lv] **Russia's** economy grew by an annualised rate of 5.2 per cent in the second quarter of 2010[lvi], with the IMF forecasting that the Russian economy will grow by 4.0 per cent in 2010 and by 4.3 per cent in 2011[lvii].

3.5 Risks to the world economy

Downside risks to the world economic outlook have eased compared to those seen at the end of 2008 and the beginning of 2009 when world trade collapsed. Most economies around the world have now exited recession and many emerging market economies are growing rapidly. Since the Autumn 2007 LEO, the global credit crunch has been highlighted by GLA Economics as a downside risk, and risks associated with the fallout from the credit crunch and financial crisis such as sovereign debt problems remain. In addition there is a risk to the US and therefore world economy from the possibility of a further deterioration in the US housing market[lviii]. Further, as the global recovery takes hold there is evidence of global imbalances re-emerging and generally employment growth remains lagging[lix]. Still, the monetary policies of most central banks in the developed world remain ultra loose providing continued support to the global economy. However, as has been noted in previous editions of LEO, at some point monetary policy will need to be tightened by the likes of the ECB, Bank of England and Federal Reserve.

A major risk is that the fiscal position of many governments in the developed world, including the UK, is extremely weak. The size of the looming fiscal retrenchment that will affect many countries over the coming years is necessary but is likely to dampen economic growth in the short run. Still it is likely that for the majority of countries that can avoid a sovereign debt crisis (like the one faced by Greece) the retrenchment can be managed over a time period that allows private sector growth forces in the economy to pick up at least some of the slack in demand. Global inflationary pressures from high fuel and commodity prices, partially in response to adverse weather conditions[lx] have also begun to rise, which will dampen real household expenditure growth. The global financial system still remains vulnerable from fragile banks and fiscal problems in developed economies. Weakening economic conditions would amplify this vulnerability and the potential for adverse feedback loops between weak economies, fragile banking systems and fiscal problems remain. Japan has intervened in the currency market to lower the value of the Yen, and a possible round of international competitive currency devaluations could lead to a tit-for-tat trade war and higher trade protection across the globe. This would have serious implications for world growth.

3.6 Summary

The London economy has exited recession and is now starting to grow. Even during the recent recession it seems that London outperformed the rest of the UK in 2008 and 2009, which was unlike previous recessions. Recent economic indicators continue to show a modest recovery in the London economy, with public transport usage picking up. However, the housing market is certainly expected to be weak over the next year. 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 so far not risen by as much as had originally been feared. Consumption is only expected to recover slowly, especially if consumer confidence weakens. Cuts in government spending and tax rises over the next few years to restore the public finances to health are likely to dampen economic growth. However, fiscal consolidation will put downward pressure on market interest rates, which should encourage private sector investment.

One of the main downside risks to recovery remains the fragile nature of many developed countries' public finances and the continued possibility of financial crises triggered by a lack of investor confidence in sovereign debt. A sovereign default would put great pressure on the still strained balance sheets of many banks. With inflation likely to remain above the Bank of England's 2 per cent central target until 2012 due in part to the rise in VAT in January 2011 there is also a risk of an entrenchment of higher inflation expectations. However, so far above target inflation has not led to high wage demands. The depreciation of sterling since 2007 should provide the economy with a boost from import substitution and improved export competitiveness. This will continue to benefit London's tourism sector and encourage inward foreign investment. Output is unlikely to reach its pre-recession level for a couple of years and unemployment is likely to stay high. Overall, the recovery is likely to be bumpy and will not be felt strongly by consumers in 2011.

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.[lxi] 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:

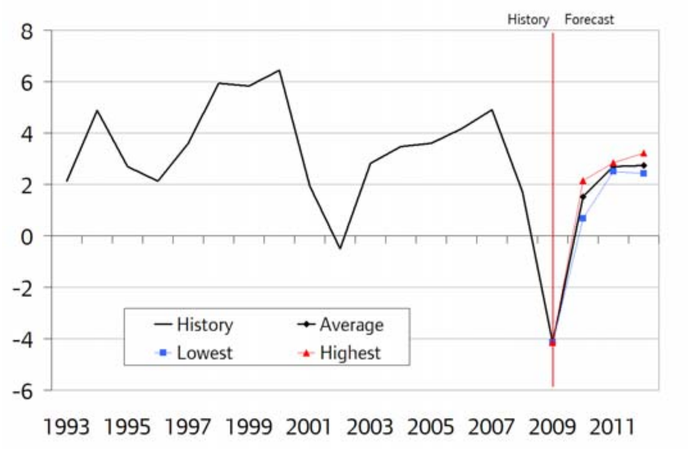
- manufacturing
- construction
- transport and communications
- distribution, hotels and catering
- finance and business services
- other (mainly public) services.

Output

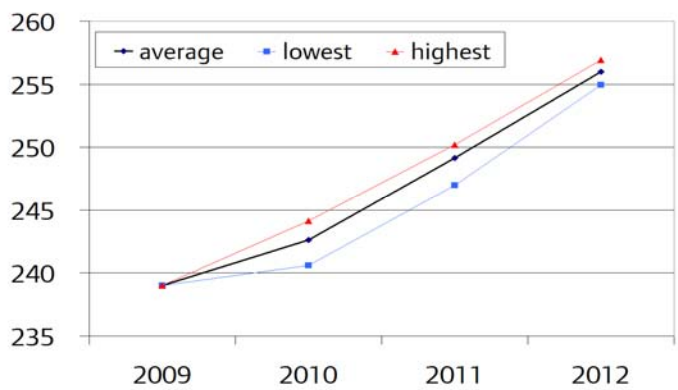
(London GVA, constant prices (base year 2005), £ billion)

The consensus (mean average view) is for real output growth to be positive in 2010 and to reach 2.7 per cent in 2011 and 2012.

Annual growth (per cent)



Level (constant year 2005, £ billion)



Annual growth (per cent)			
	2010	2011	2012
Average	1.5	2.7	2.7
Lowest	0.7	2.5	2.4
Highest	2.1	2.8	3.2

Level (constant year 2005, £ billion)			
	2010	2011	2012
Average	243	249	256
Lowest	241	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

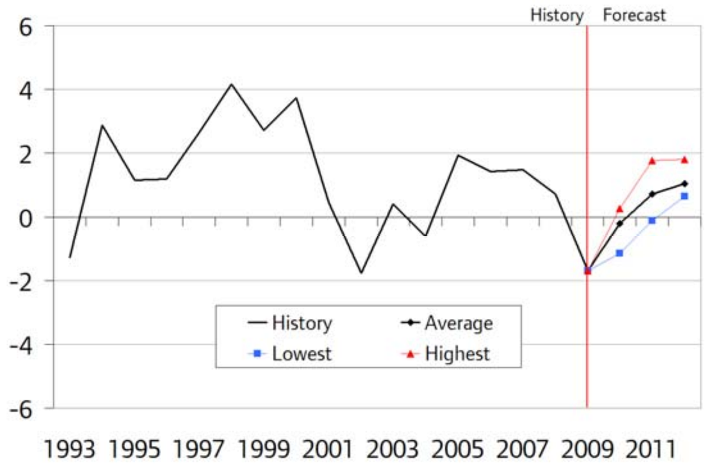
History: Level (constant year 2005, £ billion)

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

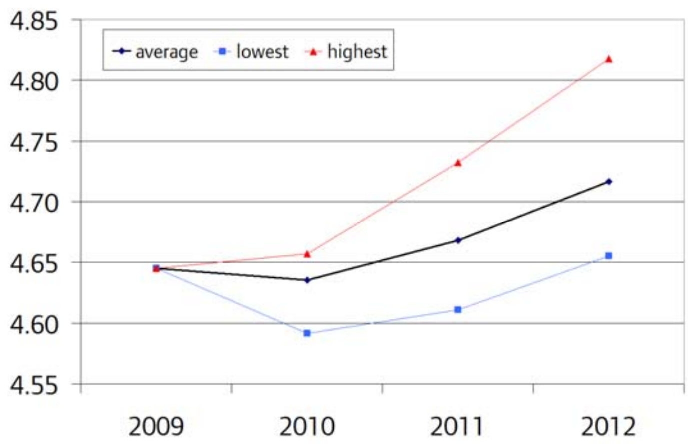
Employment
(London workforce jobs)

The consensus view is for the number of workplace jobs to decline by 0.2 per cent in 2010, before increasing by 0.7 per cent in 2011 and 1.0 per cent in 2012.

Annual growth (per cent)



Level (millions of workforce jobs)



Annual growth (per cent)			
	2010	2011	2012
Average	-0.2	0.7	1.0
Lowest	-1.1	-0.1	0.6
Highest	0.3	1.8	1.8

Level (millions of workforce jobs)			
	2010	2011	2012
Average	4.64	4.67	4.72
Lowest	4.59	4.61	4.66
Highest	4.66	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

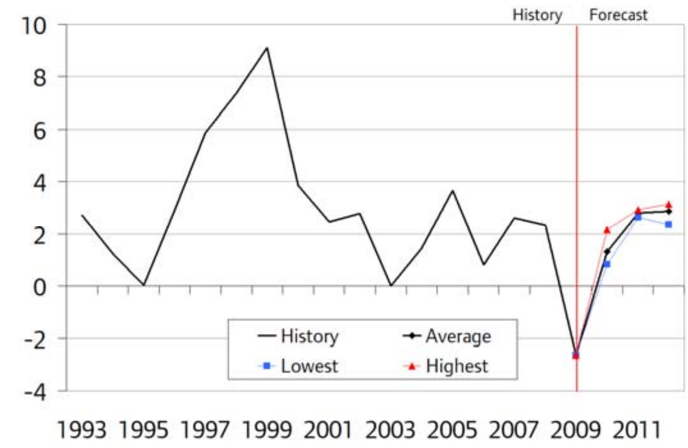
History: Level (millions)

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

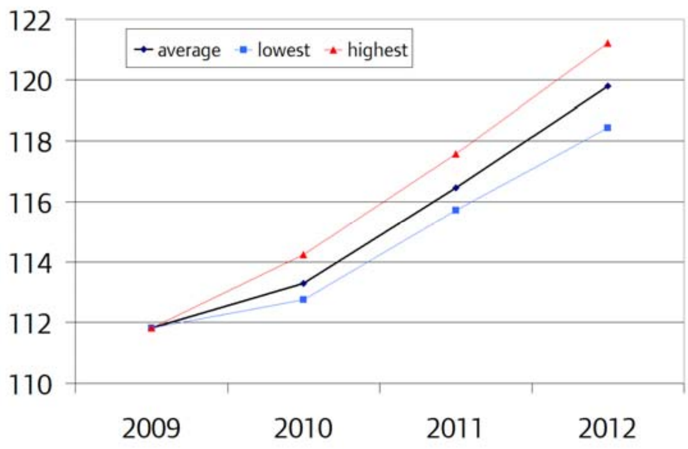
Household expenditure
(London household spending, constant year 2005, £ billion)

The consensus view is for positive household expenditure growth to resume in 2010 at 1.3 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	1.3	2.8	2.9
Lowest	0.8	2.6	2.4
Highest	2.2	2.9	3.1

Level (constant year 2005, £ billion)			
	2010	2011	2012
Average	113	116	120
Lowest	113	116	118
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

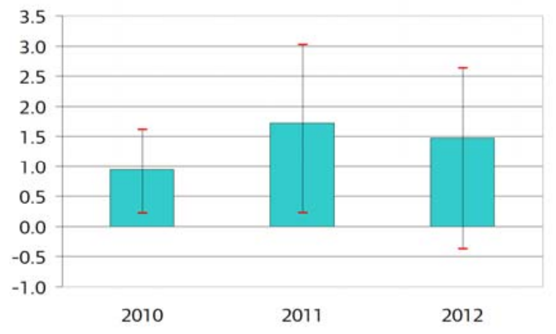
History: Level (constant year 2005, £ billion)

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

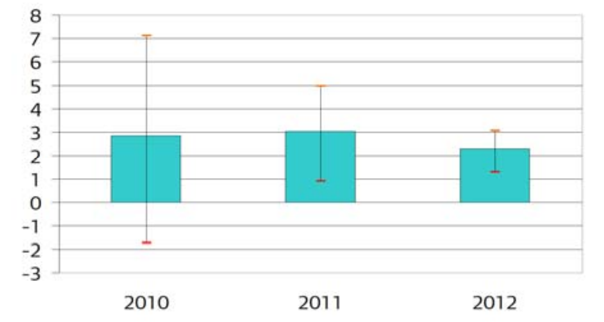
Output growth by sector (per cent annual change)

It is expected that there will be positive growth as the recovery gets underway in all sectors. The other (mainly public) services sector shows a great level of uncertainty on whether growth will be positive or negative due to cuts to reduce the deficit impacting on public sector output.

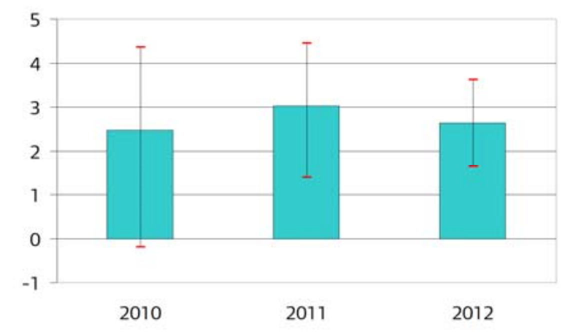
Manufacturing



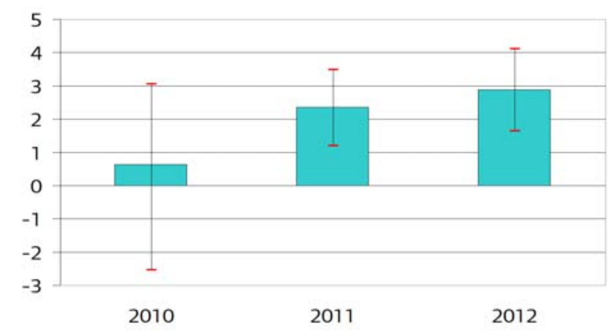
Construction



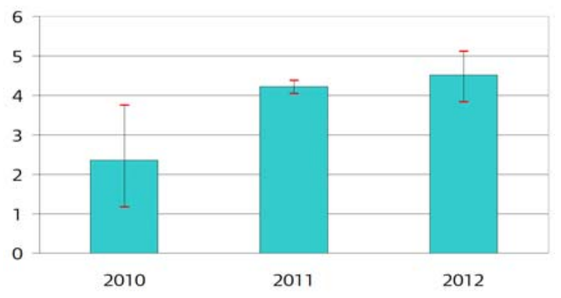
Distribution, hotels and catering



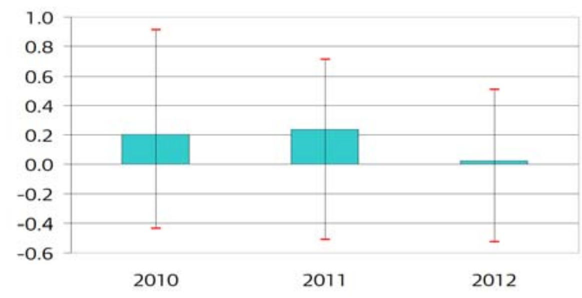
Transport and communications



Finance and business



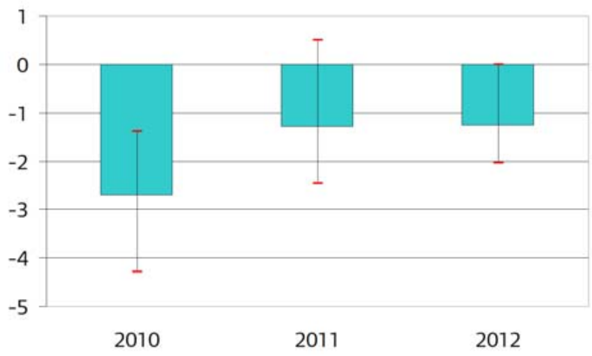
Other (mainly public) services



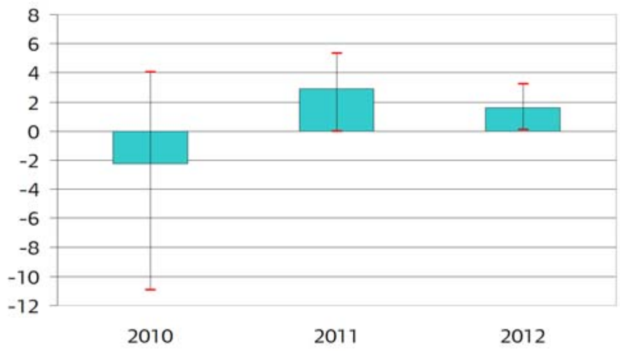
		2010	2011	2012			2010	2011	2012
Manufacturing	*Average*	0.9	1.7	1.5	**Construction**	*Average*	2.9	3.0	2.3
	Lowest	0.2	0.2	-0.4		*Lowest*	-1.7	0.9	1.3
	Highest	1.6	3.0	2.6		*Highest*	7.1	5.0	3.1
Distribution, hotels and catering	*Average*	2.5	3.0	2.6	**Transport and communications**	*Average*	0.6	2.4	2.9
	Lowest	-0.2	1.4	1.6		*Lowest*	-2.5	1.2	1.7
	Highest	4.4	4.5	3.6		*Highest*	3.1	3.5	4.1
Finance and business	*Average*	2.4	4.2	4.5	**Other (mainly public) services**	*Average*	0.2	0.2	0.0
	Lowest	1.2	4.0	3.8		*Lowest*	-0.4	-0.5	-0.5
	Highest	3.7	4.4	5.1		*Highest*	0.9	0.7	0.5

Employment growth by sector (per cent annual change)
Forecasted employment growth generally picks up with 2010 expected to be the worst year for most sectors. However other (mainly public) services employment is expected to fall in 2011 and 2012 due to government budget cuts.

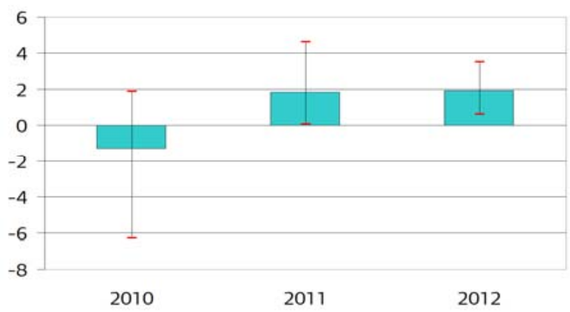
Manufacturing



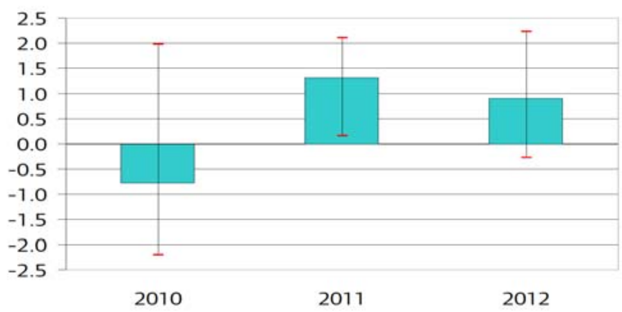
Construction



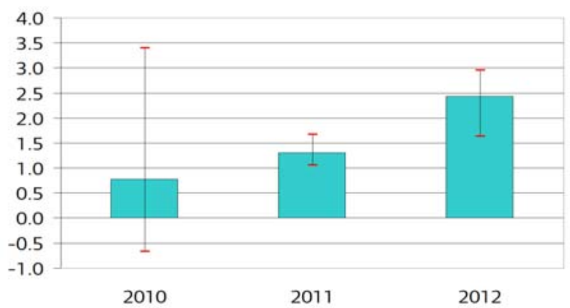
Distribution, hotels and catering



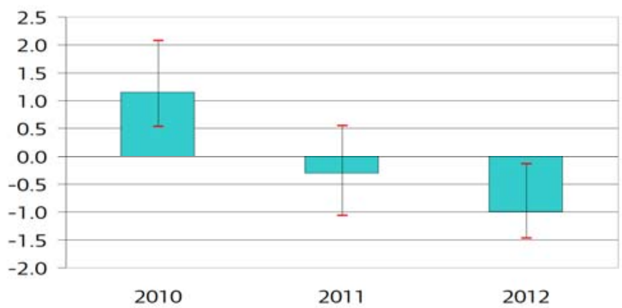
Transport and communications



Finance and business



Other (mainly public) services



		2010	2011	2012			2010	2011	2012
Manufacturing	*Average*	-2.7	-1.3	-1.3	**Construction**	*Average*	-2.2	2.9	1.6
	Lowest	-4.3	-2.5	-2.0		*Lowest*	-10.9	0.0	0.1
	Highest	-1.4	0.5	0.0		*Highest*	4.0	5.3	3.2
Distribution, hotels and catering	*Average*	-1.3	1.8	1.9	**Transport and communications**	*Average*	-0.8	1.3	0.9
	Lowest	-6.3	0.1	0.6		*Lowest*	-2.2	0.2	-0.3
	Highest	1.9	4.6	3.5		*Highest*	2.0	2.1	2.2
Finance and business	*Average*	0.8	1.3	2.4	**Other (mainly public) services**	*Average*	1.2	-0.3	-1.0
	Lowest	-0.7	1.1	1.6		*Lowest*	0.5	-1.1	-1.5
	Highest	3.4	1.7	3.0		*Highest*	2.1	0.5	-0.1

5. The GLA Economics forecast

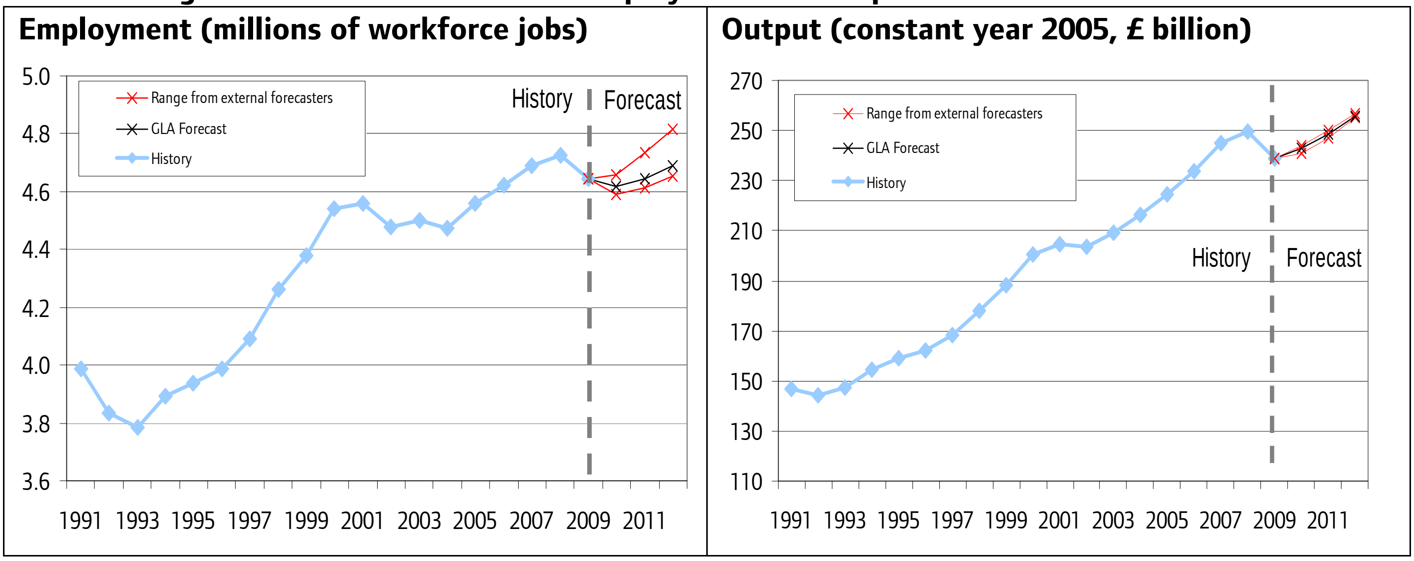
It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around 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	1.6	2.4	2.9
Workforce jobs	-0.6	1.9	1.4	1.5	0.7	-1.7	-0.6	0.6	1.0
Household spending	1.4	3.7	0.8	2.6	2.3	-2.6	1.5	2.4	2.8
Household income	1.5	3.1	1.7	1.6	2.3	2.5	1.7	2.6	3.0

Table 5.2: Forecast and historical levels

(constant year 2005, £ billion except jobs)

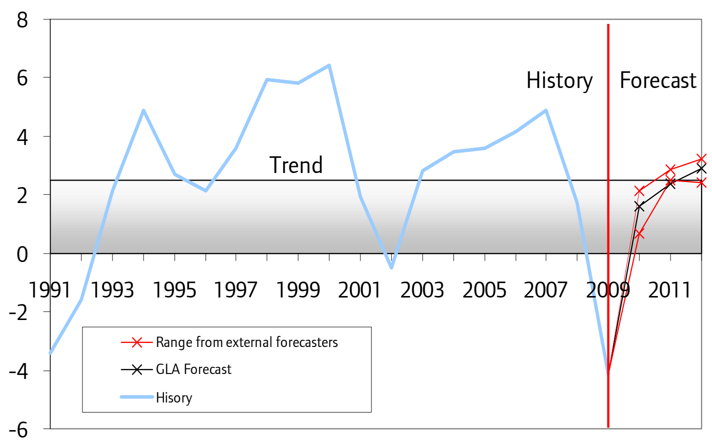
	2004	2005	2006	2007	2008	2009	2010	2011	2012
GVA	216.5	224.3	233.6	245.1	249.3	239.0	242.8	248.5	255.8
Workforce jobs (millions)	4.47	4.56	4.62	4.69	4.73	4.65	4.62	4.64	4.69
Household spending	104.6	108.5	109.4	112.2	114.8	111.8	113.5	116.2	119.5
Household income	122.4	126.2	128.3	130.3	133.3	136.7	139.0	142.6	146.9

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

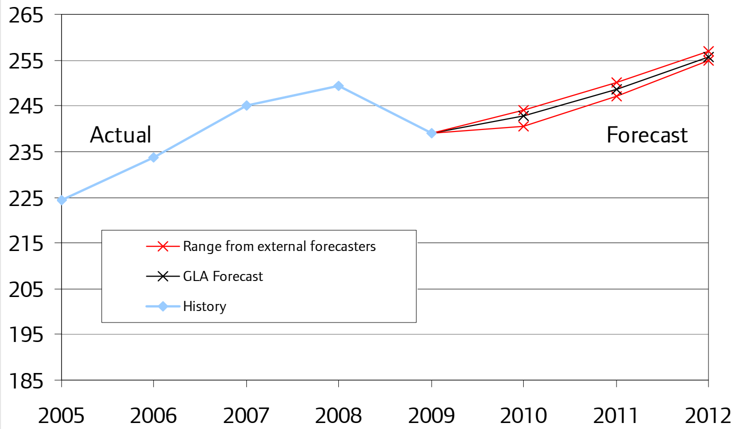
London's real GVA is forecast to grow at a moderate rate between 2010 and 2012. Forecast growth rates are 1.6 per cent in 2010, 2.4 per cent in 2011, and 2.9 per cent in 2012.

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	1.6	2.4	2.9
Consensus		1.5	2.7	2.7

Level (constant year 2005, £ billion)				
	2009	**2010**	**2011**	**2012**
GLA	239	243	249	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	1.9	-0.5	2.8	3.5	3.6	4.2	4.9	1.7	-4.1

History: Level (constant year 2005, £ billion)

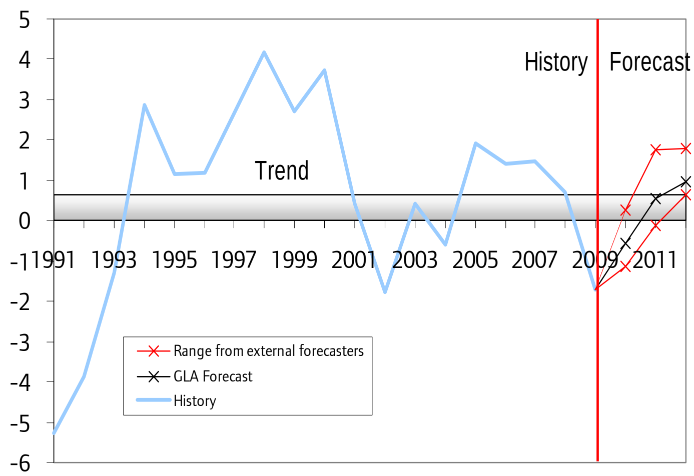
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
147.5	154.7	158.9	162.2	168.1	178.0	188.4	200.5	204.4	203.4	209.2	216.5	224.3	233.6	245.1	249.3	239.0

Employment
(London workforce jobs)

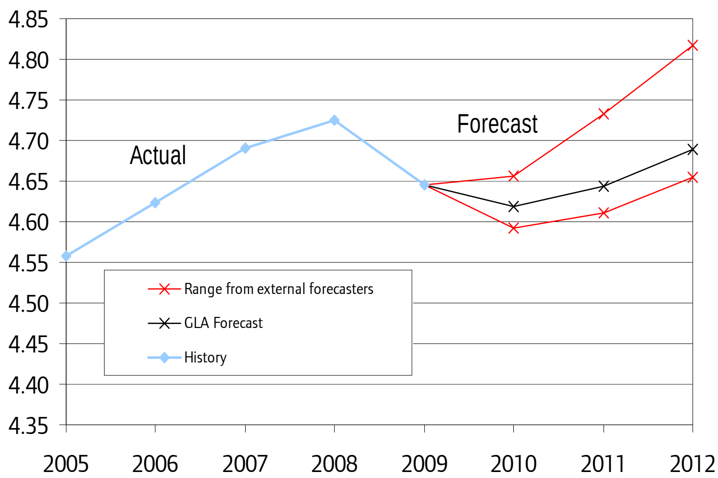
London's employment is forecast to fall in 2010, but then rise in 2011 and 2012.

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	-0.6	0.6	1.0
Consensus		-0.2	0.7	1.0

Level (millions of workforce jobs)				
	2009	**2010**	**2011**	**2012**
GLA	4.65	4.62	4.64	4.69
Consensus		4.64	4.67	4.72

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

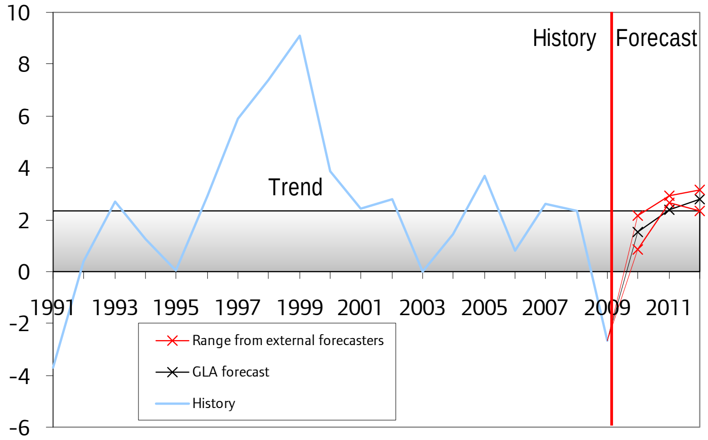
Household expenditure

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

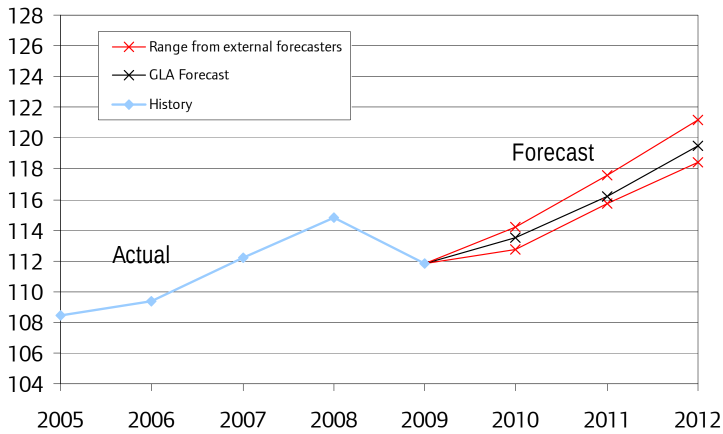
Growth in London's household spending is forecast to improve over the forecast period.

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	1.5	2.4	2.8
Consensus		1.3	2.8	2.9

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

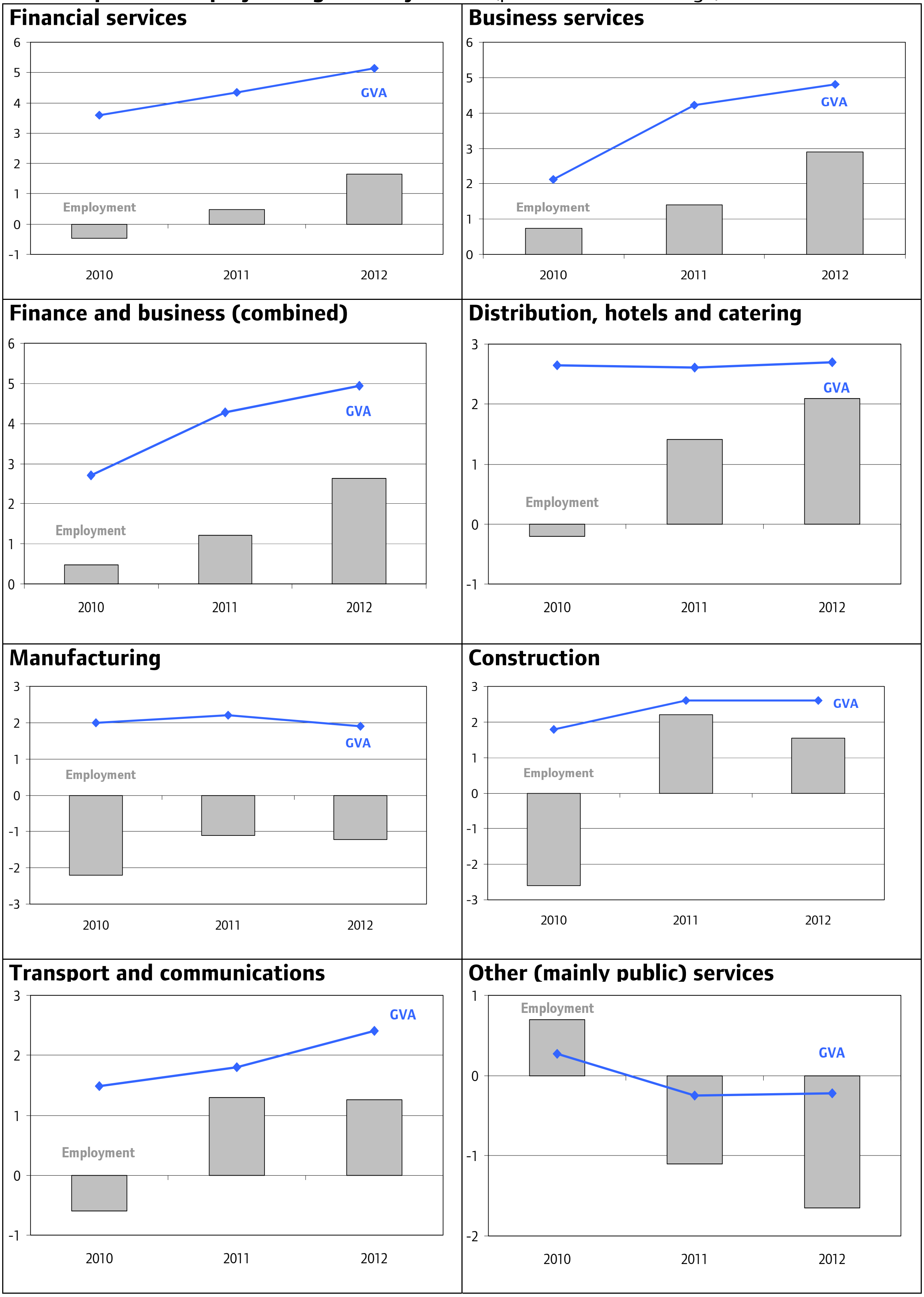
History: Annual growth (per cent)

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)

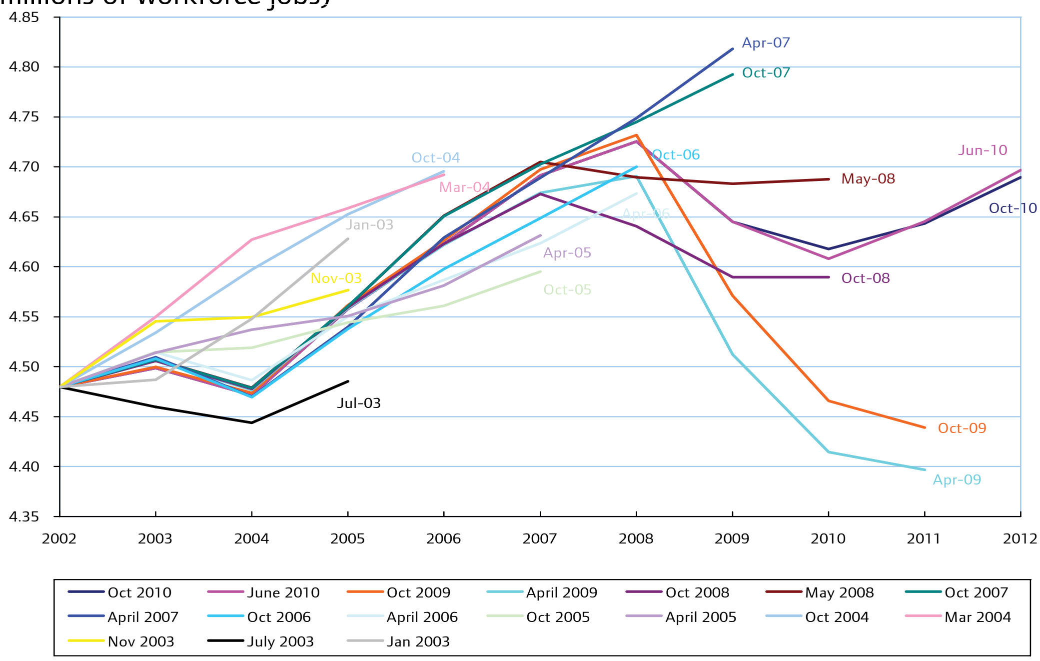
	2010	2011	2012
Financial services			
Output	3.6	4.3	5.1
Employment	-0.5	0.5	1.7
Business services			
Output	2.1	4.2	4.8
Employment	0.7	1.4	2.9
Financial and business services combined			
Output	2.7	4.3	4.9
Employment	0.5	1.2	2.6
Distribution, hotels and catering			
Output	2.6	2.6	2.7
Employment	-0.2	1.4	2.1
Transport and communications			
Output	1.5	1.8	2.4
Employment	-0.6	1.3	1.3
Other (mainly public) services			
Output	0.3	-0.3	-0.2
Employment	0.7	-1.1	-1.6
Manufacturing			
Output	2.0	2.2	1.9
Employment	-2.2	-1.1	-1.2
Construction			
Output	1.8	2.6	2.6
Employment	-2.6	2.2	1.6
(Memo: non-manufacturing)			
Output	1.6	2.4	2.9
Employment	-0.5	0.6	1.1

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 and similar to the Spring 2010 forecast.

Figure 5.2: Employment – latest forecast compared with previous forecasts

(millions of workforce jobs)



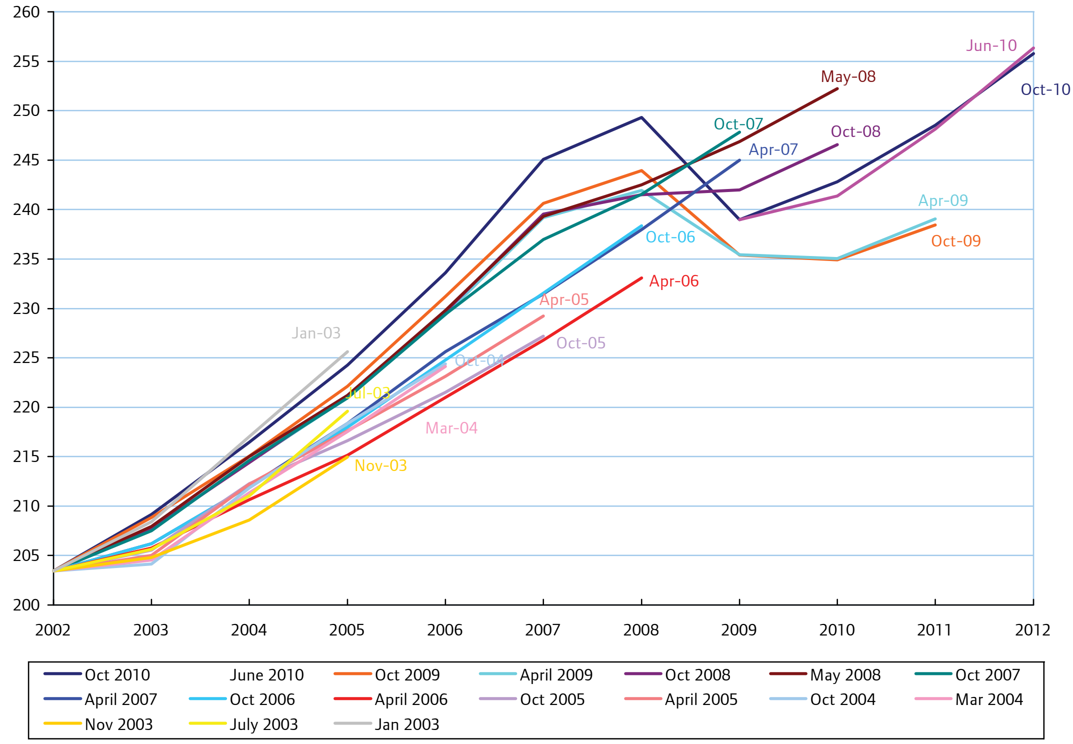
Source: Various London's Economic Outlooks

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
Oct 2010	**0.4%**	**-0.6%**	**1.9%**	**1.4%**	**1.5%**	**0.7%**	**-1.7%**	-0.6%	0.6%	1.0%
June 2010								-0.8%	0.8%	1.1%
Oct 2009							-3.4%	-2.3%	-0.6%	
April 2009							-3.8%	-2.2%	-0.4%	
Oct 2008						-0.7%	-1.1%	0.0%		
May 2008						-0.3%	-0.1%	0.1%		
Oct 2007					1.2%	0.9%	1.0%			
April 2007					1.2%	1.4%	1.5%			
Oct 2006				1.3%	1.1%	1.1%				
April 2006				0.8%	0.8%	1.1%				
Oct 2005			0.6%	0.4%	0.8%					
April 2005			0.3%	0.7%	1.1%					
Oct 2004		1.4%	1.2%	0.9%						
Mar 2004		1.7%	0.7%	0.7%						
Nov 2003	1.5%	0.1%	0.6%							
July 2003	-0.5%	-0.4%	0.9%							
Jan 2003	0.2%	1.4%	1.8%							

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 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
Oct 2010	**2.8%**	**3.5%**	**3.6%**	**4.2%**	**4.9%**	**1.7%**	**-4.1%**	1.6%	2.4%	2.9%
June 2010								1.0%	2.8%	3.3%
Oct 2009							-3.5%	-0.2%	1.5%	
April 2009							-2.7%	-0.2%	1.7%	
Oct 2008						0.8%	0.2%	1.9%		
May 2008						1.3%	1.8%	2.2%		
Oct 2007					3.3%	2.0%	2.6%			
April 2007					2.6%	2.8%	3.0%			
Oct 2006				3.1%	3.0%	3.0%				
April 2006				2.7%	2.6%	2.8%				
Oct 2005			2.0%	2.3%	2.6%					
April 2005			2.6%	2.5%	2.7%					
Oct 2004		3.8%	3.1%	2.7%						
Mar 2004		3.3%	2.9%	3.0%						
Nov 2003	0.7%	1.9%	3.0%							
July 2003	1.1%	2.6%	4.1%							
Jan 2003	2.4%	4.1%	4.0%							

Appendix A: 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[lxii]. 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, August 2010 of the UK RPI 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, August 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.
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other publications

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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 چاهتے هیں، تو براه کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطه 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.