GLAECONOMICS

London’s Economy Today

Issue 151 | March 2015

In this issue

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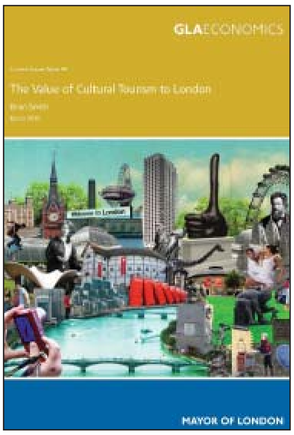
Chancellor delivers final Budget Statement before General Election

By **Brian Smith**, Economist, and **Francesco Mellino**, Economist Intern

On 18 March, the Chancellor of the Exchequer, George Osborne, delivered his final Budget Statement before the General Election on 7 May. The Budget included the economic and fiscal outlook for the UK produced by the Office for Budget Responsibility (OBR), with the OBR forecasting that the UK economy grew by 2.6 per cent in 2014. In addition, the OBR downwardly-revised growth forecasts for the global economy and the Eurozone for 2015, while upwardly revising the UK growth forecast to 2.5 per cent (and making revisions to 2016 and 2017 – see Table 1). Table 1 provides an overview of the OBR’s main forecasts for the UK economy and compares to those previously announced in the Autumn Statement.

Latest news...



● The value of cultural tourism to London

In 2013, London received **16.8 million international visitors**, **12.3 million overnight visits from GB residents** and **261.7 million tourism day visits**.

Culture is a key reason for visitors to come to London and this paper derives an estimate of the economic impact attributable to cultural tourism; using a definition consistent with the Mayor’s Cultural Tourism Vision for London 2015 – 2017.

The analysis estimates that cultural tourism contributed **£3.2 billion of Gross Value Added to London in 2013** and supported **80,000 jobs** in the capital.

Download the full report.

Table 1: OBR forecasts for the UK economy, March 2015

Source: Economic and fiscal outlook, OBR

Measure	2014	2015	2016	2017	2018	2019
GDP growth (%)	2.6	2.5	2.3	2.3	2.3	2.4
Change since December forecast	*-0.5*	*0.1*	*0.2*	*-0.1*	*0.0*	*0.0*
Consumer Price Index (%)	1.5	0.2	1.2	1.7	1.9	2.0
Change since December forecast	*-0.1*	*-0.9*	*-0.5*	*-0.3*	*-0.1*	*0.0*
Average earnings growth (%)	2.2	2.3	3.1	3.7	4.0	4.4
Change since December forecast	*0.4*	*0.3*	*0.0*	*-0.2*	*0.0*	*0.5*

Measure	2015/16	2016/17	2017/18	2018/19	2019/20
Total public spending (£ billion)	742.6	740.3	743.9	759.2	797.3
Change since December forecast	*-3.6*	*-6.4*	*-7.3*	*-6.1*	*17.4*
Real public spending growth (%)	-1.3%	-5.4%	-5.1%	-2.5%	4.2%

The future path of public spending outlined

One notable feature of this year's Budget related to the profile of public spending outlined through the course of the next Parliament (see Table 1). The Budget shows that there are to be greater reductions in public spending through to 2018/19; but in 2019/20, the Chancellor announced that "public spending will grow in line with the growth of the economy". In his briefing of the Economic and fiscal outlook (EFO) report delivered on 18 March, the Chairman of the OBR, Robert Chote, described the path of public spending as follows; "the real cut in public services spending planned for the coming year is slightly smaller than the likely average for the current Parliament. But the squeeze then becomes much more severe than anything we have seen to date in 2016/17 and 2017/18", continuing "the squeeze then slackens in 2018/19 before going into reverse in 2019/20. The implied increase in that year would be the largest for a decade." The conclusion of the Chairman was "that leaves something of a rollercoaster profile through the next Parliament". Similarly, the Director of the Institute for Fiscal Studies (IFS), Paul Johnson, highlighted that "the cuts of more than 5 per cent in each of 2016/17 and 2017/18 are twice the size of any year's cuts over this Parliament".

The Budget announces measures with a specific focus on London

Within the Budget, a number of policy decisions have been made which specifically relate to London. The government is to devolve powers to the Mayor over the Apprenticeship Grant for Employers budget and provide a role in the re-commissioning of the Further Education and skills provision in the capital. In addition, the government is to provide £97 million of funding and ring fencing of a 50 per cent share of business rate growth to support the regeneration of Brent Cross; as well as £7 million of revenue funding to support the delivery of the Croydon Growth Zone, and continued support for developments at Barking Riverside.

A series of other policy announcements were made within the speech which could have implications for the capital. The government announced that the Bank Levy would increase from 0.156 per cent to 0.210 per cent from April 2015, a measure which is estimated to raise £685 million of revenue in 2015/16; and then £925 million in 2016/17 and 2017/18. This is a measure that would disproportionately impact on London due to the size of the financial sector. Also, a series of tax reliefs for creative industries were announced, a sector in which London has a significant specialisation. The government announced plans to develop a new competitive corporate and tax structure for allowing Insurance Linked Securities to be domiciled in the UK; another measure likely to benefit London.

Prospects for global growth revised down by OBR

The Economic and fiscal outlook from the OBR outlined that whilst the forecast for UK GDP growth has been upwardly-revised for 2015 (to 2.5 per cent), they also mentioned that the forecast for global growth in 2015 had been revised downwards from 3.8 per cent to 3.5 per cent, and the forecast for the Eurozone remains at 1.2 per cent for 2015, but downwardly-revised for both 2016 and 2017. The European Central Bank (ECB) however are more bullish in their assessment of the Eurozone economy. During the press conference following the meeting of the Governing Council of the ECB on 5 March, the President of the ECB, Mario Draghi, confirmed no changes in interest rates and upward revisions in the forecasts for GDP growth of 1.5 per cent in 2015 and 1.9 per cent in 2016, "reflecting the favourable impact of lower oil prices, the weaker effective exchange rate of the euro and the impact of the ECB's recent monetary policy measures"; he continued by stating that "the risks surrounding the economic outlook for the euro area remain on the downside but have diminished following recent monetary policy decisions and the fall in oil prices".

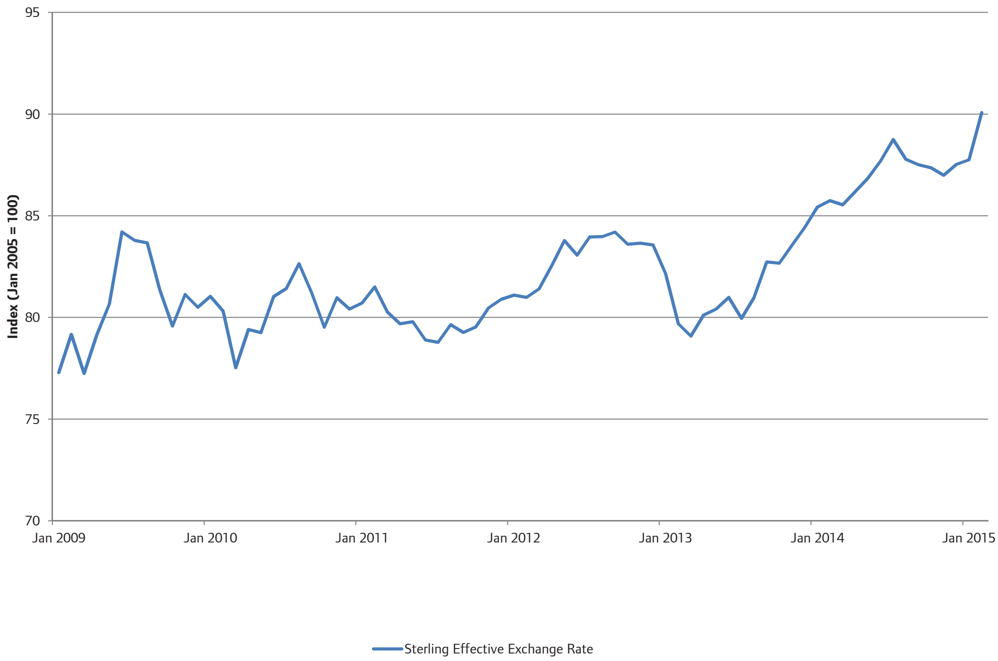
While there were no changes in monetary policy in the Eurozone, much attention was focussed on the potential for interest rate rises in the United States, following the Federal Open Market Committee meeting on 17 – 18 March. At the press conference following the meeting, when referring to the potential timing of changes in interest rates, the Chair Janet Yellen provided clarification stating that the "modification of our guidance should not be interpreted to mean that we have decided on the timing of that increase [ie, increase in interest rate]". The Federal Reserve are to base upcoming monetary policy decisions on economic data, with the Chair confirming that "we anticipate that it will be appropriate to raise [the rate] when the Committee has seen further improvement in the labour market and is reasonably confident that inflation will move back to its 2 per cent objective over the medium term".

Exchange rate appreciation makes potential for prolonged lower inflation more likely

One feature of the recent economic picture has been the appreciation of Sterling. The minutes of the Bank of England Monetary Policy Committee meeting of 4 – 5 March, stated the "sterling effective exchange rate (ERI) had appreciated by around 2.5 per cent during the month to reach its strongest level in over six years"; and noted that it "had primarily reflected an appreciation of sterling against the euro…but sterling had also appreciated slightly against the US dollar".

Figure 1: Sterling Effective Exchange Rate (monthly average)

Source: Bank of England



The minutes of the MPC meeting recognised that "there was a risk that divergent monetary policy trends, as well as stronger prospects for growth in the United Kingdom than in the euro area, might continue to put upward pressure on the sterling exchange rate". The appreciation of Sterling is, in the Bank's opinion, creating "the potential to prolong the period for which CPI inflation would remain below the target and exacerbate the risk that lower expectations of inflation might become more persistent." Inflation for the Eurozone in February 2015 was -0.3 per cent and data released by the Office for National Statistics on 24 March showed the continued downward trend in the CPI, with it standing at 0.0 per cent in February; however this does not appear to change the current direction of monetary policy, with all members of the Monetary Policy Committee agreeing "that it was more likely than not that Bank Rate would increase over the next three years"; and the Governor of the Bank of England, Mark Carney, stating in a speech given on 12 March, that in order to return inflation to target within the next two years "a gently rising path for Bank Rate is likely to be required over the next few years".

Confidence in London's economy remains positive

The outlook for the UK economy as a whole appears positive. For London in particular, the Federation of Small Business' London Small Business Index for Q1 2015 found that confidence in prospects for the next three months compared with the previous three months has grown strongly in the last quarter, recording an index score of +35 (compared to +20 in Q4 2014). This index score is higher than the UK average of +28.7 (although the East of England and the South East recorded higher levels of confidence). The ICAEW Grant Thornton UK Business Confidence Monitor for Q1 2015 shows a less robust picture, with business confidence in London, whilst still positive at an index score of +15.1, being in decline since Q2 2014 and falling below the UK average for the first time since Q4 2013.

Consumer confidence in London remained positive in February at an index score of +7, compared to a UK score of +1. In particular 40 per cent of those surveyed expected the general economic conditions for the country to improve over the next 12 months compared to just 25 per cent who expected it to worsen.

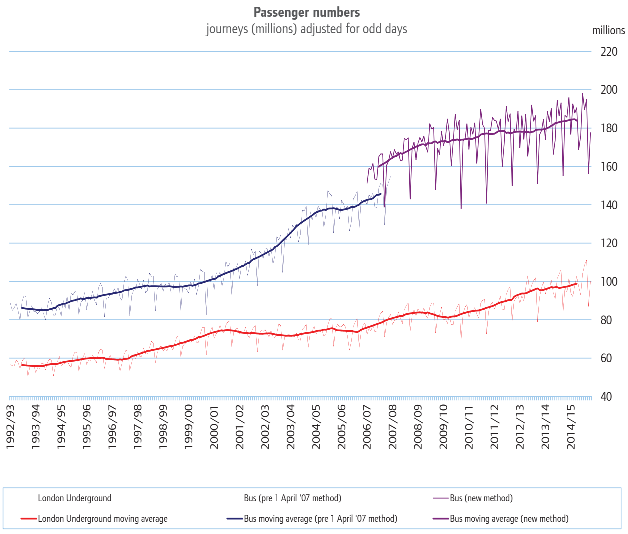
An overall review of data would show that the UK economy, and in particular the labour market, has performed strongly in the last year (especially when compared to other advanced economies), although downside risks, particularly from the Eurozone, remain.

Economic indicators

Decrease in average of passenger journey numbers

- The most recent 28-day period covered 4 January 2015 – 31 January 2015. London's Underground and buses had 277.8 million passenger journeys; 177.6 million by bus and 100.2 million by Underground.
- The 12-month moving average of passengers decreased to 282.7 million from an upwardly-revised 283.2 million in the previous period. The moving average for buses was 183.9 million. The moving average for the Underground was 98.8 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET issue 58 (June 2007).

Latest release: March 2015
Next release: April 2015

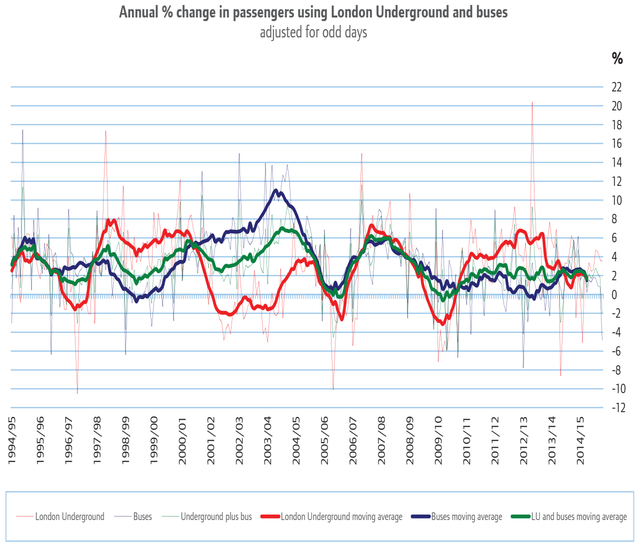


Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.6% from 2.2% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.5% from 2.3% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 1.8% from 2.0% in the previous period.

Latest release: March 2015
Next release: April 2015

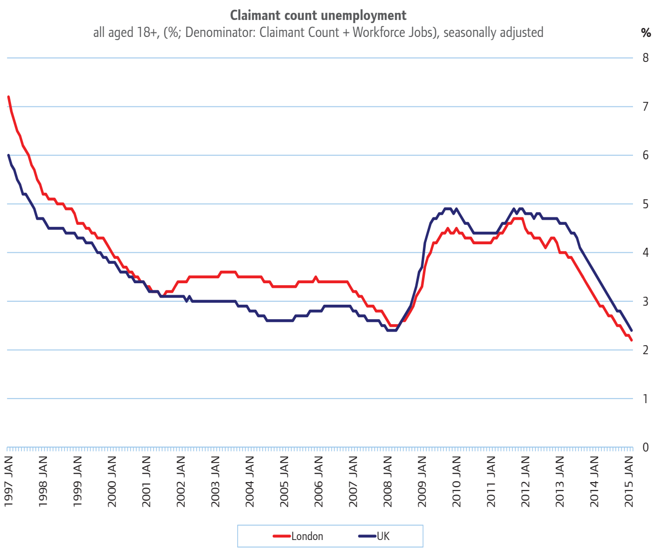


Source: Transport for London

Claimant count unemployment

- The claimant count unemployment rate in London stood at 2.2% in February 2015, down from 2.3% in January 2015.
- There were 119,300 seasonally adjusted unemployment claimants in London in February 2015, compared to a downwardly-revised 123,200 in January 2015. There were 791,200 seasonally adjusted unemployment claimants in the UK in February 2015, compared to a downwardly-revised 822,200 in January 2015.
- The methodology used to calculate the claimant count rates was changed for the August 2014 LET onwards. For a detailed explanation please see LET issue 144 (August 2014).

Latest release: March 2015
Next release: April 2015

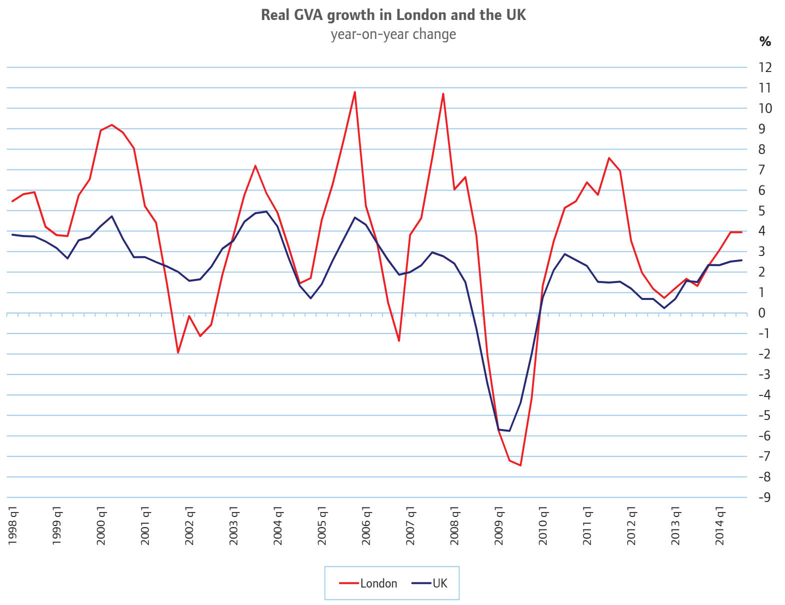


Source: Claimant Count, Jobcentre Plus

Annual output growth remains unchanged in London in Q3 2014

- London's annual growth in output was 3.9% in Q3 2014, unchanged from an upwardly-revised estimate in Q2 2014.
- Annual output growth in the UK increased to 2.6% in Q3 2014 from a downwardly-revised 2.5% in Q2 2014.
- In Q3 2014, London's annual output growth was higher than in the UK as a whole.

Latest release: March 2015
Next release: June 2015

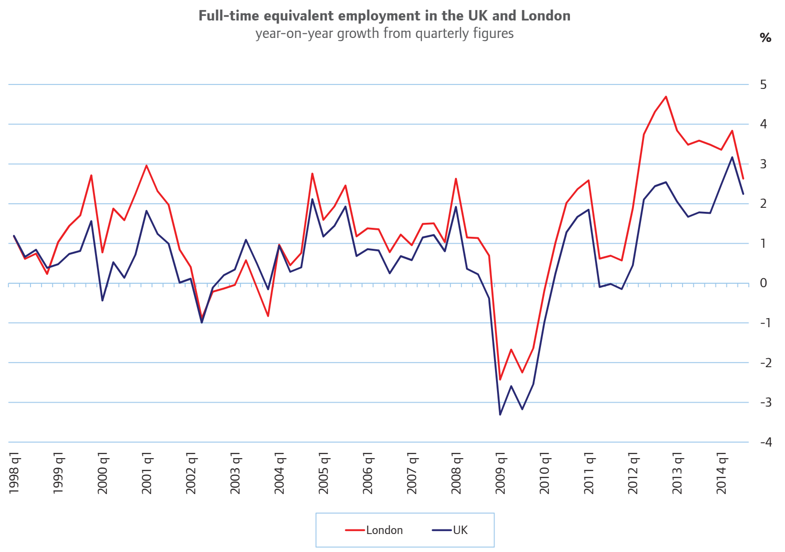


Source: Experian Economics

Annual employment growth slows in Q3 2014

- London's annual employment growth decreased to 2.6% in Q3 2014 from an upwardly-revised 3.8% in Q2 2014.
- Annual employment growth in the UK decreased to 2.2% in Q3 2014 from a downwardly-revised 3.2% in Q2 2014.
- Annual employment growth in London was higher than in the UK as a whole.

Latest release: March 2015
Next release: June 2015

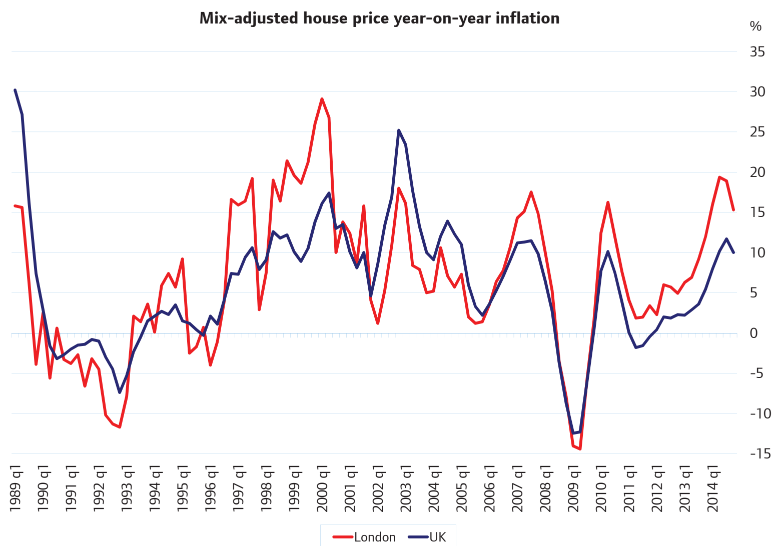


Source: Experian Economics

Annual house price inflation higher in London than in the UK

- House prices, as measured by the Office for National Statistics, were higher in Q4 2014 than in Q4 2013 for London and the UK.
- Annual house price inflation in London was 15.3% in Q4 2014, down from 18.9% in Q3 2014.
- Annual house price inflation in the UK was 10.0% in Q4 2014, down from 11.7% in Q3 2014.

Latest release: February 2015
Next release: May 2015

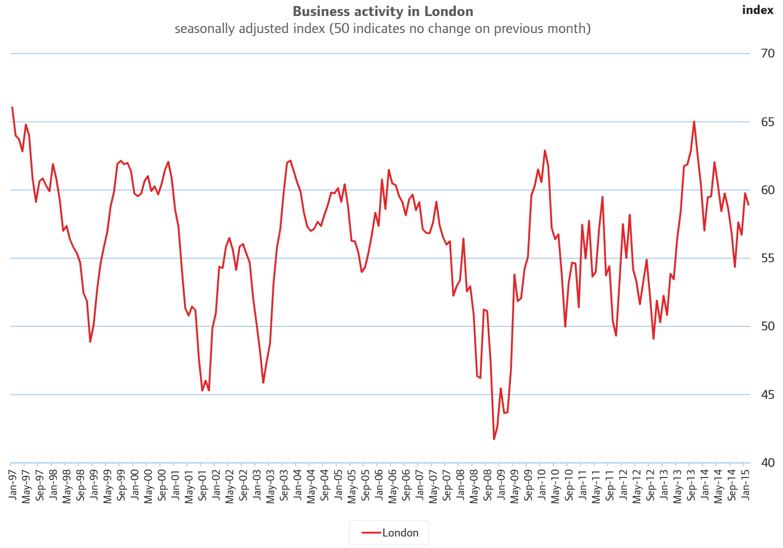


Source: Office for National Statistics

London's business activity continues to increase

- Firms in London increased their output of goods and services in February 2015.
- The Purchasing Managers' Index (PMI) of business activity recorded 58.9 in February 2015, down from 59.8 in January 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: March 2015
Next release: April 2015

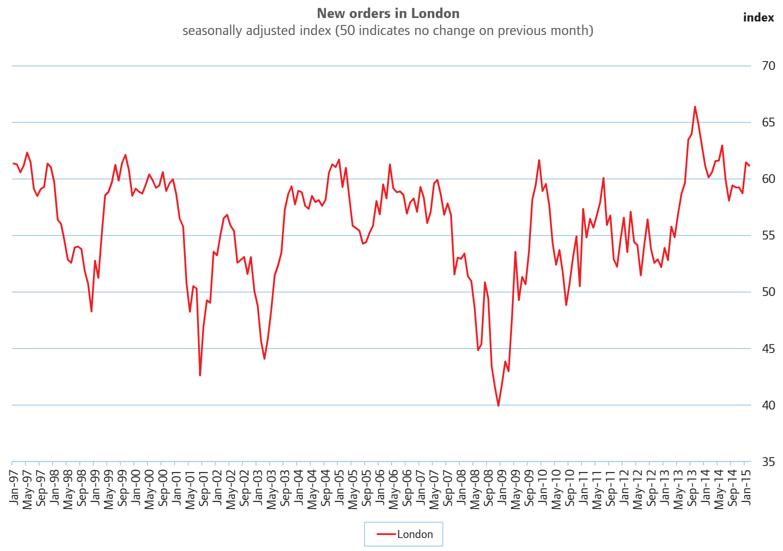


Source: Markit Economics

New orders in London rising

- February 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 61.2 in February 2015 compared to 61.5 in January 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: March 2015
Next release: April 2015



Source: Markit Economics

Businesses report higher employment in February

- The PMI shows that the level of employment in London firms increased in February 2015.
- The PMI for the level of employment was 57.1 in February 2015 compared to 58.3 in January 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

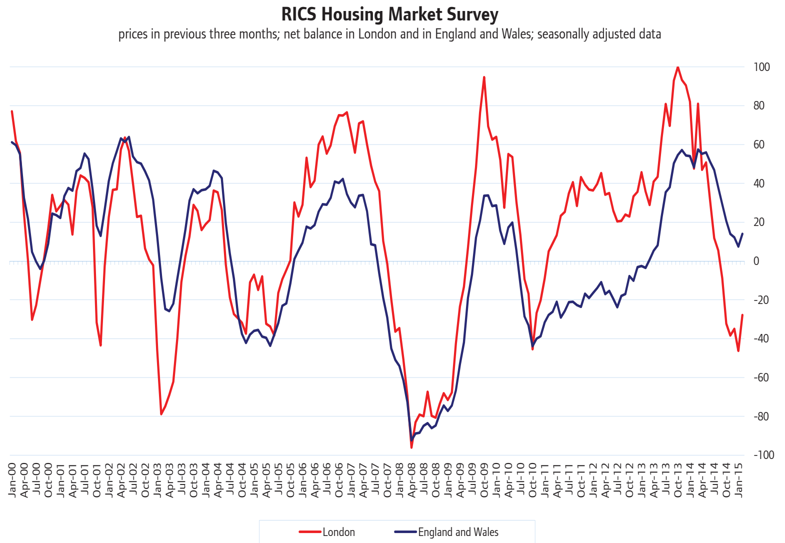
Latest release: March 2015
Next release: April 2015

Source: Markit Economics

Surveyors report that house prices are decreasing in London but rising in England and Wales

- The RICS Residential Market Survey shows a negative net balance of -28 for London house prices over the three months to February 2015.
- Surveyors reported a positive net house price balance of 14 for England and Wales over the three months to February 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: March 2015
Next release: April 2015

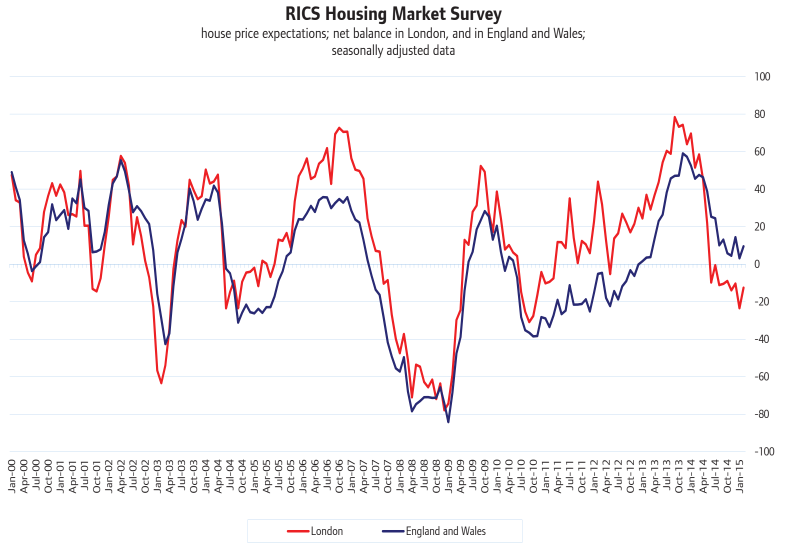


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to fall in London but to rise in England and Wales

- The RICS Residential Market Survey shows that surveyors expect house prices to fall over the next three months in London but to rise in England and Wales.
- The net house price expectations balance in London was -13 in February 2015.
- For England and Wales, the net house price expectations balance was 10 in February 2015.

Latest release: March 2015
Next release: April 2015

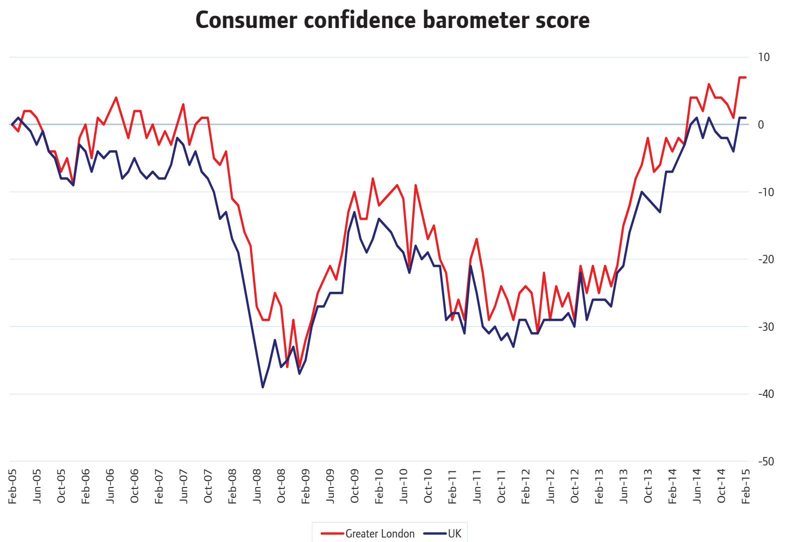


Source: Royal Institution of Chartered Surveyors

Consumer confidence remains positive in London and in the UK

- The GfK index of consumer confidence 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 (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London the consumer confidence score stood at 7 in February 2015, unchanged from January 2015.
- For the UK the consumer confidence score stood at 1 in February 2015, unchanged from January 2015.

Latest release: February 2015
Next release: March 2015



Source: GfK NOP on behalf of the European Commission

The science and technology category in London

By **Gordon Douglass,**
Supervisory Economist

Industries with high scientific and/or technological content are very important for London's economy, as progress in Science and Technology leads to capital deepening which raises the productivity of labour. However, until recently there has been no agreed statistical definition of what Sections, Divisions, Groups, Classes or Sub-classes in the UK Standard Industrial Classification can be categorised as having a significant "Science and Technology" content. Using a recently derived definition produced by Office for National Statistics (ONS) regional statisticians working with the GLA[1], a recent working paper by GLA Economics[2] has therefore set out to examine the nature of the Science and Technology category in London and the Greater South East[3].

Based on the ONS analysis that split the Science and Technology category into five sub-categories: Digital technologies; Life sciences and healthcare; Publishing and broadcasting; Other scientific/technological manufacture; and Other scientific/technological services, GLA Economics found that:

- The fastest proportional growth in employee job numbers in the Science and Technology category in London in the ten years 2003-2013 was in the Digital technology sub-category, where employee jobs increased by 29 per cent (see Figure A1). This was closely followed by the Life sciences and healthcare sub-category, with a 27 per cent increase. Publishing & broadcasting and Other scientific/technological services show a lower increase in employee jobs. There was a big fall in the number of employee jobs in the Other scientific/technological manufacture sub-category.
- The biggest sub-category in London in terms of employee jobs is Publishing and broadcasting, accounting for 30 per cent of jobs in the Science and Technology category. Life sciences and healthcare (which has grown faster in terms of employees) is close behind.

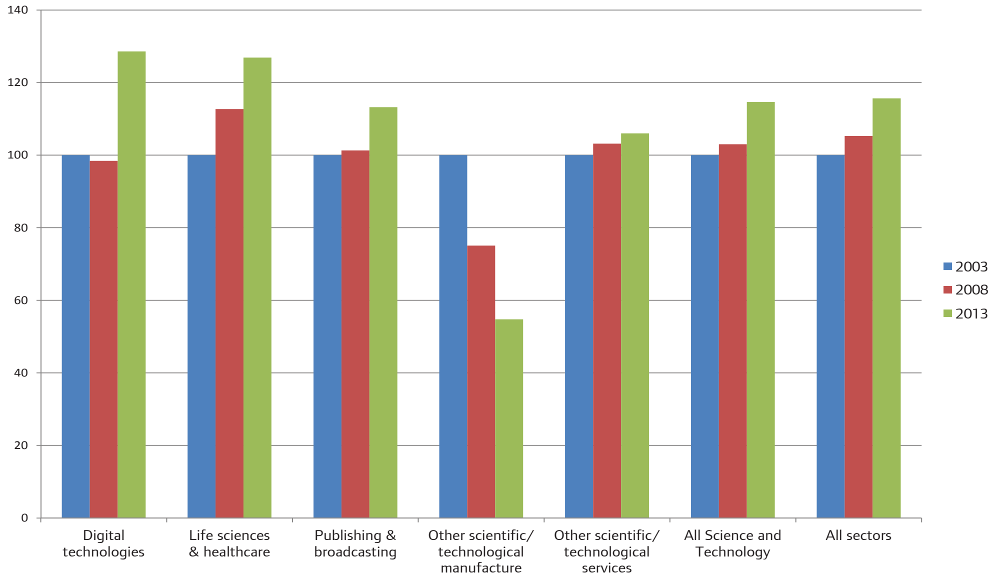
1 Harris, J. P., February 2015, 'Identifying Science and Technology Businesses in Official Statistics', Office for National Statistics.

2 Working Paper 64: The science and technology category in London

3 This comprises the three regions (formerly Government Office Regions) of the South East, the East of England, and London.

Figure A1: London: Employee jobs in Science and Technology sub-categories (indexed to 2003=100)

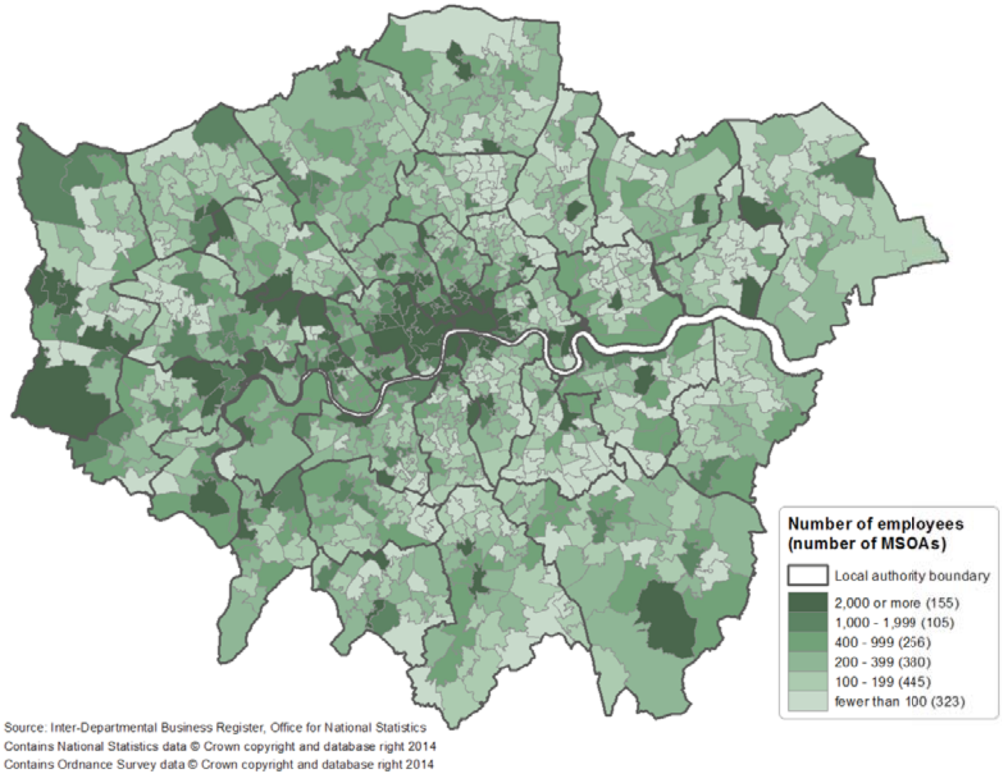
Source: ONS - IDBR and GLA Economics calculations



- In the London Boroughs, the rates of growth of jobs in the Science and Technology category have varied widely. Camden saw the strongest growth in employees in absolute terms and also has the highest proportion of Science and Technology category employees in total (at 32.9 per cent).
- As shown in Map A1, geographically there is a concentration of Science and Technology employee jobs in central and western London.

Map A1: Employee jobs in the Science and Technology category in London, 2013

Source: IDBR, ONS



- In the ten years to 2013, there was a rise of 6.4 per cent in the number of employee jobs in the Science and Technology category in the Greater South East. The growth in the Greater South East is largely as a result of growth in London, with the percentage increase in the number of these jobs in London standing at 14.6 per cent, which is more than twice as great as the percentage increase in the Greater South East as a whole and accounted for nearly (90 per cent) of the total rise of 129,800 in the Greater South East.

- There has also been a rise of over 26 per cent in the number of workplaces in the Science and Technology category in the ten years to 2013 in the Greater South East, a much bigger rise than the noted above increase for the number of employees (up 6.4 per cent), implying a fall in the average number of employees per workplace (which indeed fell from 12.1 to 10.2). As with employees, the rise in workplaces in London (up 37.0 per cent) was stronger than the rise in either the Eastern region or the South East. At least part of the explanation for the fall in the employees to workplace ratio in the Greater South East was the growth in the Digital sub-category, which has a relatively low employee to workplace ratio, and decline in the Other scientific/technological manufacture sub-category, which has a relatively high employee to workplace ratio. For London, the ratios in 2013 were 4.5 for the Digital sub-category and 9.3 for the Other scientific/technological manufacture sub-category.

Further analysis of the current and changing state of the Science and Technology category in London and the Greater South East region can be found in the main report. This includes highlighting declining and growing sectors of the Science and Technological category, mapping to understand the spatial distribution of Science and Technology employee jobs in London and the Greater South East and also to find any agglomeration affects within the category (along with two sub-categories[4]).

4 Digital technology, and Life sciences and healthcare sub-category. Maps of the other sub-categories are not available due to the low numbers of businesses in these sub-categories.

Additional information

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs
Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count unemployment
Unemployment based on the number of people claiming unemployment benefits.

Employee jobs
Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

Gross domestic product (GDP)
A measure of the total economic activity in the economy.

Gross value added (GVA)
Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

Tube ridership
Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2014/15 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2014.

Bus ridership
Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2014/15 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2014.

Acronyms

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

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ISSN 1740-9136 (print) ISSN 1740-9195 (online) ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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About GLA Economics
GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

MAYOR OF LONDON