GLAECONOMICS

London’s Economy Today

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In this issue

London’s Economy Today (LET) data to Datastore

The LET presence on Datastore aims to create more interaction and a greater personal focus while also incorporating the feedback and views of our readers.

http://data.london.gov.uk/gla-economics/let/

UK inflation falls in April but likely to rise in coming months

By **Gordon Douglass**, Supervisory Economist & **Emma Christie**, Economist

UK Consumer Price Index Inflation (CPI) dropped slightly to 0.3 per cent in the year to April compared to the rate of 0.5 per cent seen in March. This is the first fall in inflation since September 2015. The Office for National Statistics (ONS) observed that “falls in air fares and prices for clothing, vehicles and social housing rent were the main contributors to the decrease in the rate. They however noted that the timing of Easter “contributed to a large increase in [air transport] fares between February and March 2016, with a subsequent fall in April 2016”.

Despite the slight drop back seen last month inflation has risen marginally in recent months; however it still continues to sit significantly below the Bank of England’s central symmetrical target of 2 per cent (+/- 1 per cent). In its May Inflation Report the Bank of England revised their estimates for UK inflation downwards in 2016, from 0.7 per cent to 0.4 per cent; however it is expected to hit 2.1 per cent in two years time. In relation to GDP the Bank revised down its forecast for growth this year to 2 per cent (from 2.2 per cent in the February Inflation Report) and 2.2 per cent in 2017. Given these low forecasts for inflation and growth the first tightening of UK monetary policy may occur even later than was expected at the beginning of the year.

Latest news...

London’s Economic Outlook - Spring 2016

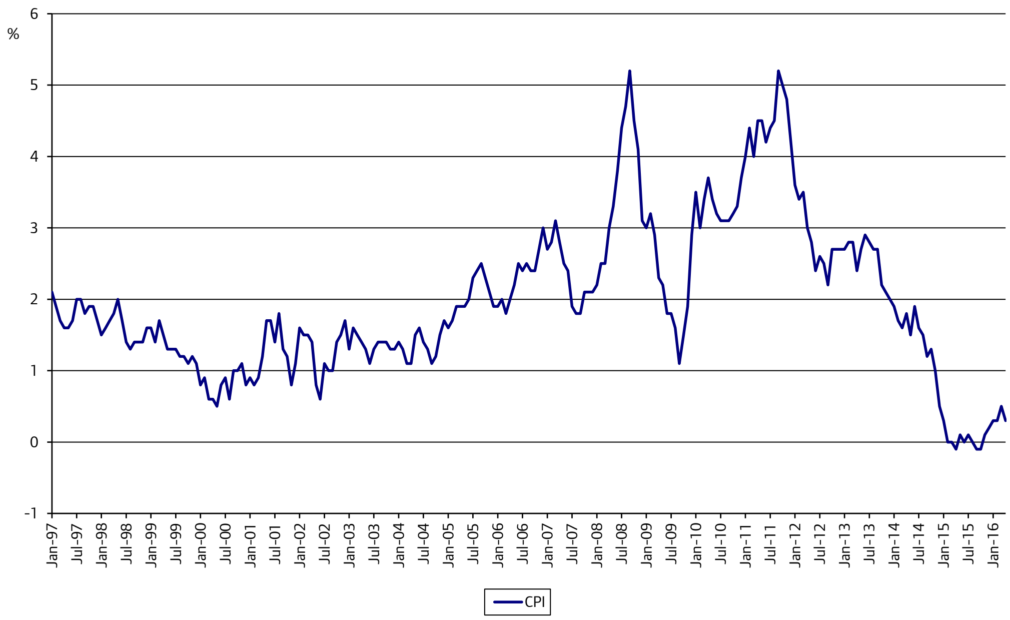
GLA Economics’ twenty-eighth London forecast suggests that:

- London’s Gross Value Added (GVA) growth rate is forecast to be 2.9 per cent in 2016 with growth increasing to 3.4 per cent in 2017 and 3.3 per cent in 2018.
- London is forecast to see rises in employment in 2016, 2017 and 2018.
- London household income and spending are both forecast to increase over the next three years.

Download the full publication.

Figure 1: UK annual CPI inflation rate
Last data point is April 2016

Source: ONS



In relation to risks to their forecast the Bank's Monetary Policy Committee (MPC) observed that the "most significant risks to the MPC's forecast concern the referendum. A vote to leave the EU could materially alter the outlook for output and inflation, and therefore the appropriate setting of monetary policy. Households could defer consumption and firms delay investment, lowering labour demand and causing unemployment to rise. At the same time, supply growth is likely to be lower over the forecast period, reflecting slower capital accumulation and the need to reallocate resources. Sterling is also likely to depreciate further, perhaps sharply. This combination of influences on demand, supply and the exchange rate could lead to a materially lower path for growth and a notably higher path for inflation than in the central projections set out in the May Inflation Report".

UK industry falls into recession

Data published in May provided further evidence of a slowdown in the UK economy with ONS data showing that industrial production fell into recession in the first quarter of 2016 with output falling by 0.4 per cent in both Q1 2016 and Q4 2015. More recent manufacturing Purchasing Managers Index (PMI) data from Markit/CIPS also published in May indicates that this contraction may be continuing, with it falling to 49.2 in April from 50.7 in March (a number below 50 on this index shows a contraction) this is the first fall in manufacturing output on Markit's measure since March 2013. Service sector PMI's were also disappointing with them standing at 52.3 in April, down from 53.7 in March and the lowest level seen in over three years.

Eurozone economic growth speeds up

Despite slightly slowing growth in the UK, in Europe the growth picture was a bit more optimistic than many expected. Data published in May showed that the Eurozone economy grew by 0.5 per cent in the first quarter of 2016, higher than the 0.3 per cent growth seen in final quarter of 2015. These growth figures mean that the Eurozone economy is now bigger than it was before the start of the 2008/09 financial crisis. The prospects for growth in the Eurozone also remain relatively optimistic with the European Commission (EC) in its spring 2016 forecast published in May, forecasting accelerating growth of 1.6 per cent in 2016 and 1.8 per cent in 2017, although these were slight downgrades of 0.1 per cent each year on the growth rates forecast in its winter forecast.

Unemployment, although still high, also fell in the Eurozone in March to 10.2 per cent, the lowest rate for four and a half years.

However, inflation in the Eurozone still remains very low with it falling to -0.2 per cent in April compared to 0 per cent in March. This very low (or negative) inflation remains a concern with the EC observing in its new forecast that "sluggish core inflation reflects the slack still present in the economy". With it further stating that "oil prices fell again at the start of 2016, dragging inflation below zero. It is expected to remain negative in the near term as a result of base effects [the fact it takes time for price rises or falls to work their way out of the inflation index]. External price pressure is also weak due to the slight appreciation of the euro and overcapacities in several emerging market economies that are holding back global producer prices. At the same time, core inflation has so far failed to show an upward trend, as moderate economic growth and subdued wage developments have kept a lid on domestic price dynamics. Inflation in the euro area is therefore set to remain very low for longer than previously forecast". Accordingly it has downgraded its forecast for inflation in the Eurozone in 2016 to 0.2 per cent, with inflation in 2017 expected to reach 1.4 per cent.

Separately a letter from the International Monetary Fund (IMF) to Eurozone finance ministers, which was leaked to the press in May, had cast further doubt on the IMF's long-run involvement in the Greek bailout with the IMF arguing that "for us to support Greece with a new IMF arrangement, it is essential that the financing and debt relief from Greece's European partners are based on fiscal targets that are realistic". However, early on 25 May the IMF and Eurozone finance ministers agreed a number of concessions to restructure Greek debt after 2018 when its current bailout ends, although as of yet no figures have been put on these measures which will be decided later by Eurozone countries.

Elsewhere, Japan avoided re-entering recession in Q1 2016 when its economy grew by an annualised rate of 1.7 per cent, faster than had been expected. The US economy also continues to grow but at a slower rate than recently seen with the preliminary estimate of US GDP growth for Q1 2016 showing that its economy grew by an annualised rate of 0.5 per cent, a significant fall from the 1.4 per cent annualised growth rate seen in the last quarter of 2015. The slowdown was bigger than expected and has been attributed to a fall in domestic demand and the strong dollar. Still the US continues to add jobs with 160,000 added in April; however this figure was also lower than expected and lower than the 208,000 added in March. Minutes from the Federal Reserve's Open Market Committee's April meeting, which were published in May, indicated that US interest rates may rise in June although they thought that investors had not fully accepted that possibility as of yet.

Signs of weakening in the UK economy

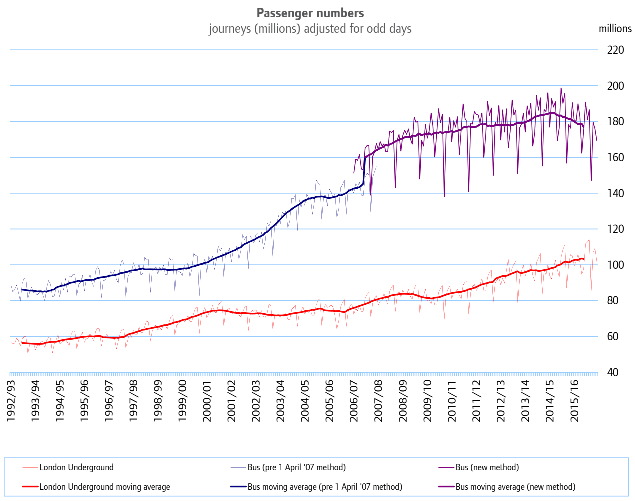
Domestically, as well as the evidence noted above, there are continuing signs of a slight slowdown in the UK economy with for instance the latest ICAEW UK Business Confidence Monitor for Q2 2016 finding that "confidence remains on the downward trend of the last two years, with the index barely positive this quarter". They further observed that "confidence in the Service and Construction sectors has fallen sharply this quarter; into line with the Production sector". This slowdown is reflected in relatively slow growth forecasts for the UK economy with the EC forecasting growth of 1.8 per cent for 2016 and 1.9 per cent for 2017. The CBI in their latest forecast downgraded their expected economic growth to 2 per cent in both 2016 and 2017, downgrades of 0.3 and 0.1 per cent respectively on their February forecast. This downgrade was made to reflect uncertainty in the UK economy and the continuing global economic weakness. Still, the UK is not expected to enter recession with the IMF in its latest survey of the UK economy observing that "in the event of a vote to remain in the EU, growth is expected to rebound during the second half of the year. As anticipated, the slower first half, and some lingering referendum-related effects, mean that growth is likely to fall below 2 per cent for the full-year 2016, before returning to an average of around 2¼ per cent over the medium term, roughly in line with potential. Inflation, which is currently only ½ per cent, is expected to revert to target gradually, as effects from commodity price falls dissipate and low unemployment helps push up wages".

Elsewhere data from the Royal Institution of Chartered Surveyors (RICS) showed that the number of new house buying enquires fell to its lowest level in nearly eight years in April 2016. Commenting on cooling demand RICS observed that "while reduced demand from buy-to-let and second home buyers appears to have been the main cause of this fall, it may also reflect some uncertainty (highlighted in the comments) beginning to enter the market in the run up to the UK's referendum on its EU membership". The Bank of England's May 2016 update to their Agent's summary of Business Conditions observed that "the pattern of housing market activity had been affected by the bringing forward of buy-to-let transactions ahead of the introduction of the rise in stamp duty on additional properties in April. Commercial real estate investment transactions had slowed markedly on a year ago in London". Although London's economy is likely to be impacted by the slowdown in the UK economy, it is still expected to grow more quickly than the UK as a whole. This is shown by GLA Economics' latest economic forecast which was published this month and which expects London's output to grow by 2.9 per cent in 2016, 3.4 per cent in 2017 and 3.3 per cent in 2018.

Decrease in the average number of passenger journeys

- The most recent 26-day period covered 6 March 2016 – 31 March 2016. Adjusted for odd days, London's Underground and buses had 270.9 million passenger journeys; 169.2 million by bus and 101.7 million by Underground.
- The 12-month moving average of passengers decreased to 280.2 million, from a downwardly revised 282.1 million in the previous period. The moving average for buses was 177.0 million. The moving average for the Underground was 103.3 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: May 2016
Next release: June 2016

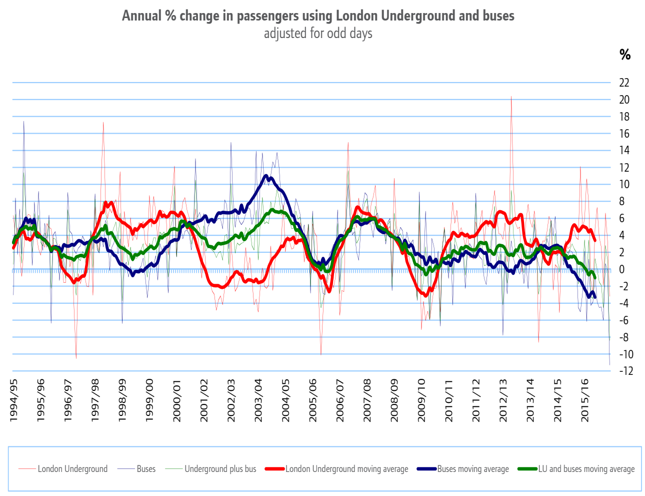


Source: Transport for London

Decrease in the average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to -1.0 per cent from -0.4 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -3.3 per cent from -2.7 per cent in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 3.4 per cent from 4.0 per cent in the previous period.

Latest release: May 2016
Next release: June 2016

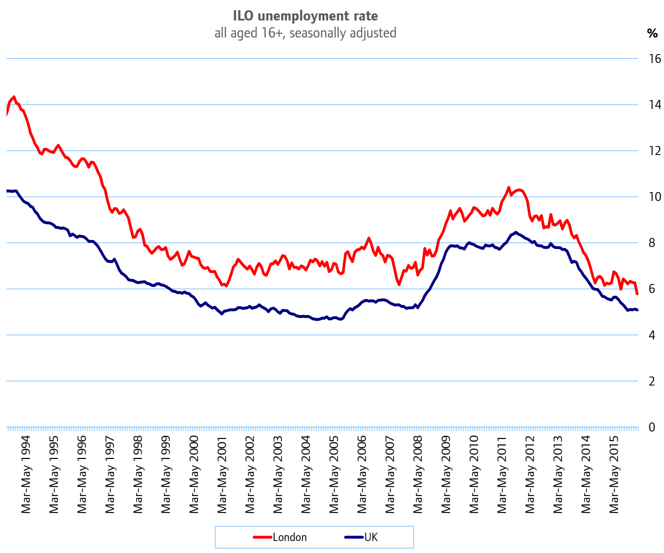


Source: Transport for London

ILO unemployment decreases in London

- The ILO unemployment rate in London fell to 5.8 per cent in the quarter to March 2016, compared to 6.3 per cent in the quarter to December. In the UK, the unemployment rate was 5.1 per cent in the quarter to March 2016, showing no change on the previous quarter.
- There were 274,000 seasonally adjusted unemployed in London in the quarter to March 2016, a decrease of 20,000 from the quarter to December 2015. There were 1,692,000 seasonally adjusted unemployed in the UK in the quarter to March 2016, a decrease of 2,000 from the quarter to December 2015.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: May 2016
Next release: June 2016

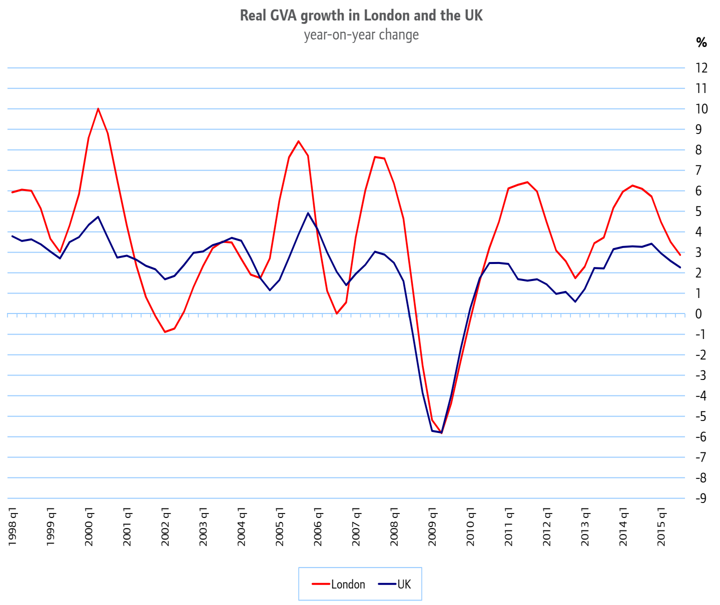


Source: Labour Force Survey - Office for National Statistics

Annual output growth decreases in London in Q4 2015

- London's annual growth in output decreased to 2.7 per cent in Q4 2015 from 2.9 per cent in Q3 2015.
- Annual output growth in the UK decreased to 2.1 per cent in Q4 2015 from 2.3 per cent in Q3 2015. In Q4 2015, London's annual output growth was higher than the UK as a whole.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: May 2016
Next release: July 2016

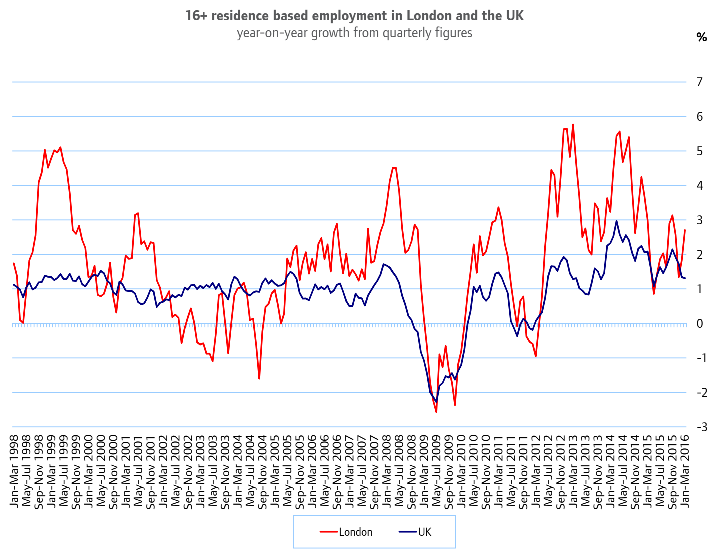


Source: GLA Economics and ONS

Annual employment growth increases in London

- The annual growth rate of London's residents in employment increased to 2.7 per cent in the quarter to March 2016, compared to 2.6 per cent in the quarter to December 2015. In the UK the annual growth in employment was 1.3 per cent in the quarter to March 2016, compared to 1.9 per cent in the quarter to December 2015.
- There were 4.46 million residents in employment in London in the quarter to March 2016, an increase of 37,000 on the previous quarter. There were 31.58 million people in employment in the UK in the quarter to March 2016, an increase of 44,000 on the previous quarter.
- From LET Issue 165 (May 2016), GLA Economics now reports ONS labour market data.

Latest release: May 2016
Next release: June 2016

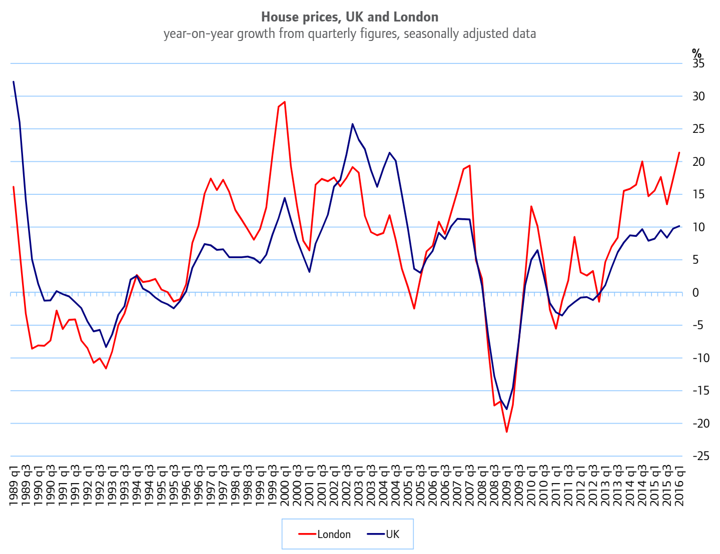


Source: ONS

Annual house price inflation in London increases in Q1 2016

- House prices, as measured by Halifax, were higher in Q1 2016 than in Q4 2015 for London, as well as the rest of the UK.
- Annual house price inflation in London was 21.4 per cent in Q1 2016, up from an upwardly revised 17.4 per cent in Q4 2015.
- Annual house price inflation in the UK was 10.1 per cent in Q1 2016, up from an upwardly revised 9.8 per cent in Q4 2015.

Latest release: April 2016
Next release: July 2016

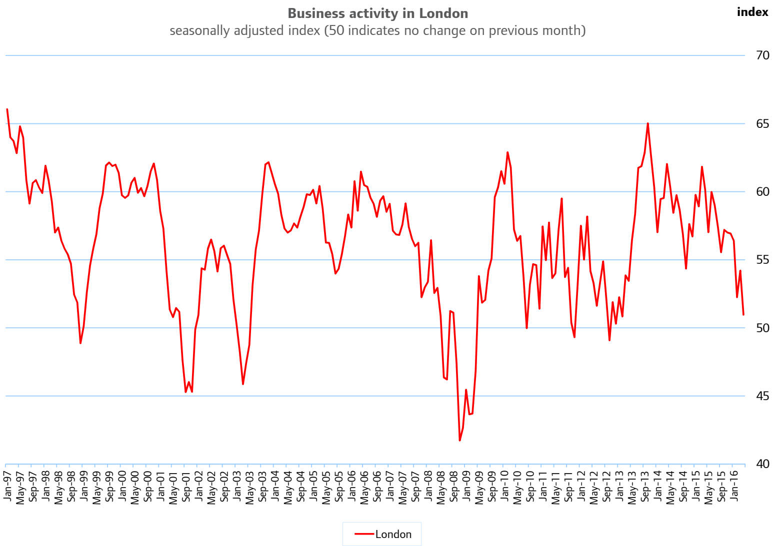


Source: Halifax house price index

London's business activity continues to increase

- Firms in London increased their output of goods and services in April 2016.
- The Purchasing Managers' Index (PMI) of business activity recorded 51.0 in April 2016, down from 54.2 in March 2016.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: May 2016
Next release: June 2016

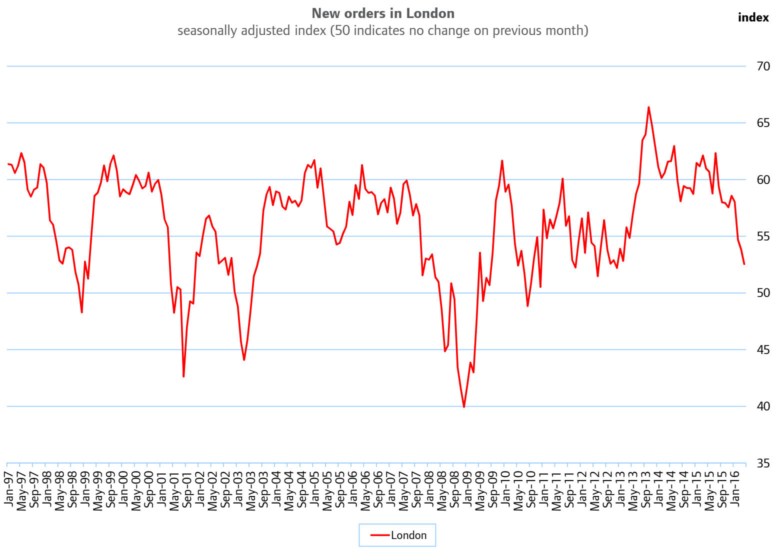


Source: Markit Economics

New orders in London rising

- April 2016 saw an increase in new orders for London firms.
- The PMI for new orders recorded 52.5 in April 2016 compared to 53.8 in March 2016.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: May 2016
Next release: June 2016

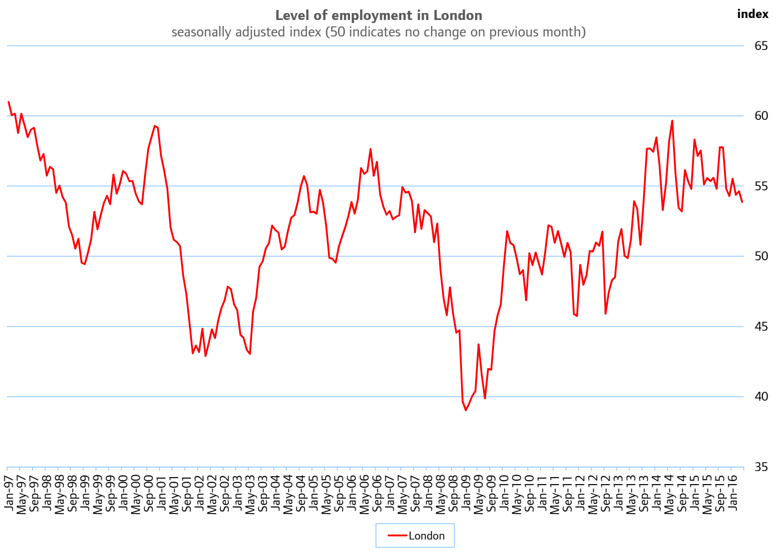


Source: Markit Economics

Businesses report higher employment in April

- The PMI shows that the level of employment in London firms increased in April 2016.
- The PMI for the level of employment was 53.9 in April 2016, down from 54.6 in March 2016.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: May 2016
Next release: June 2016

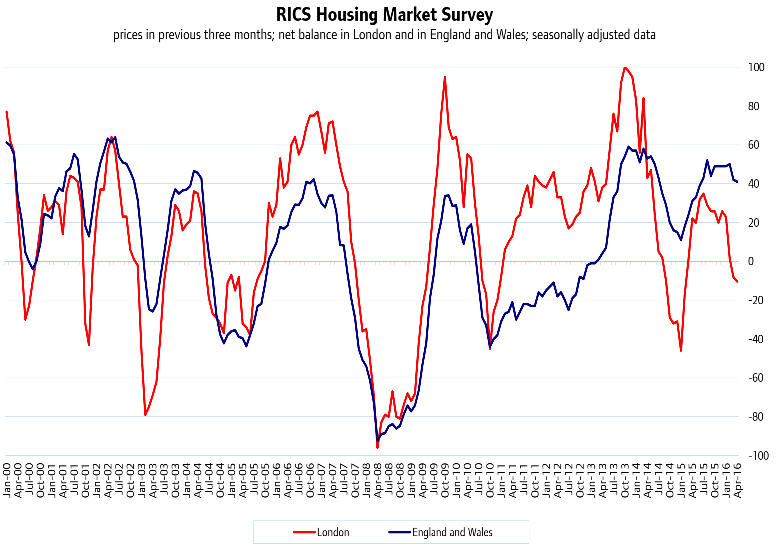


Source: Markit Economics

Surveyors report that house prices are decreasing in London

- The RICS Residential Market Survey showed a net balance of -10 for London house prices over the three months to April 2016.
- Surveyors reported a positive net house price balance of 41 for England and Wales over the three months to April 2016.
- London's net house price balance is lower than that of England and Wales.

Latest release: May 2016
Next release: June 2016

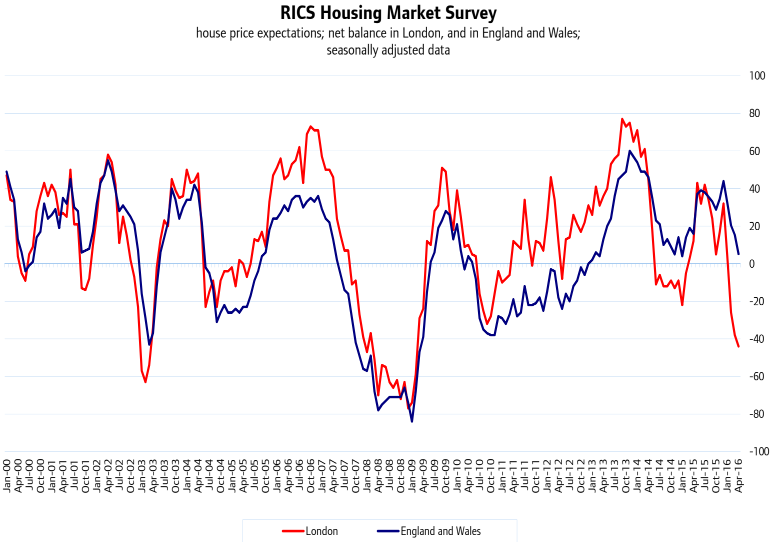


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to fall in London and 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; and to rise in England and Wales.
- The net house price expectations balance in London was -44 in April 2016.
- For England and Wales, the net house price expectations balance was 5 in April 2016.

Latest release: May 2016
Next release: June 2016

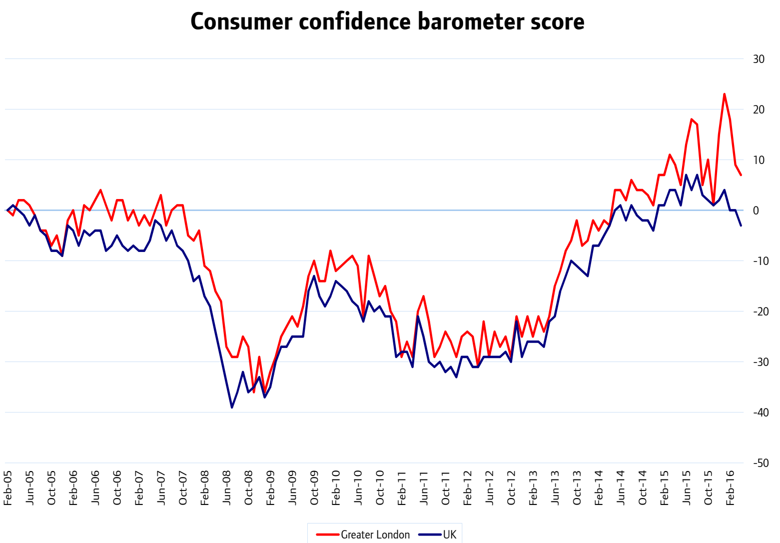


Source: Royal Institution of Chartered Surveyors

Consumer confidence positive in London but negative 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, as well as 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 April 2016, down from 9 in March 2016.
- For the UK, the consumer confidence score fell to -3 in April 2016, down from 0 in March 2016.

Latest release: April 2016
Next release: May 2016



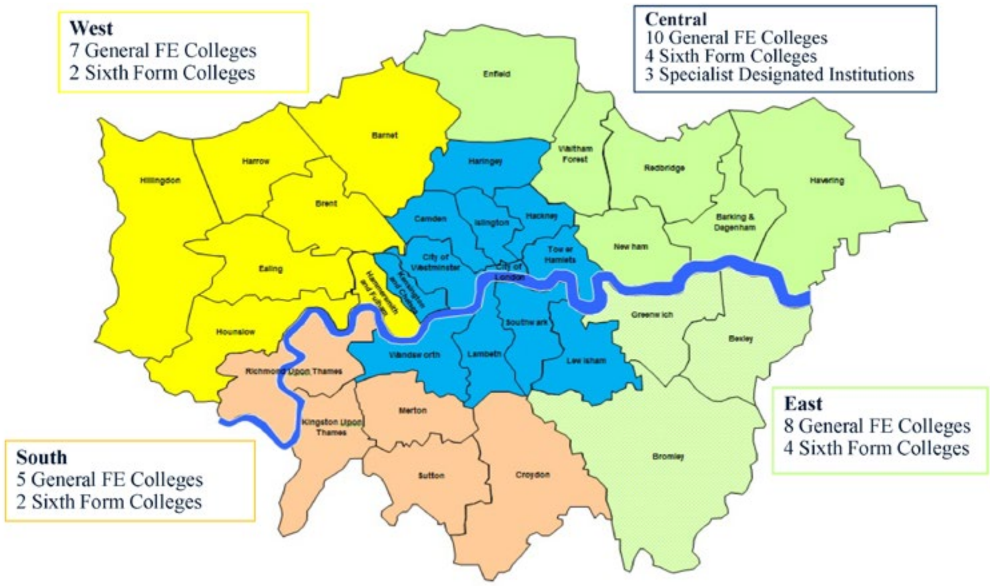
Source: GfK NOP on behalf of the European Commission

By **Joel Marsden,**
Economist

In order to support the Government's area reviews of post-16 education and training[1] in London, GLA Economics has published a series of papers looking at the demand for jobs and skills across London. Our analysis sets out what drives London's economy, and what this will mean for future skills needs. We cover four sub-regions of London in working papers 76-79. Each of these areas, shown in Figure 1A, has a different mix of industries and jobs.

Figure 1A: Review area groupings of London Boroughs

Source: London Further Education Review Steering Group

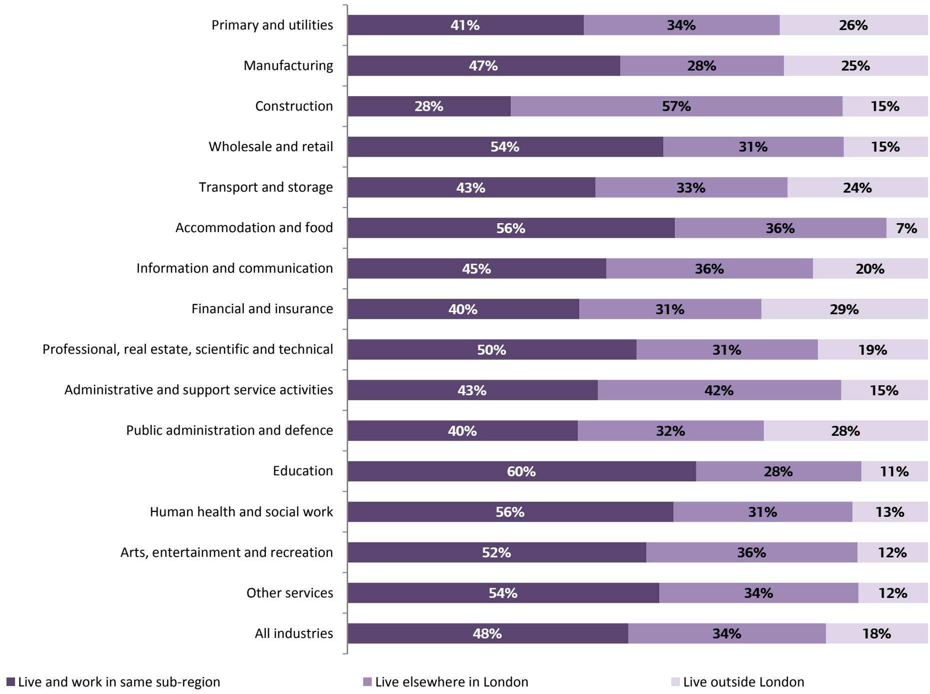


As London has such excellent transport links, people have a greater range of job opportunities open to them than the mix of jobs in their area. Based on the 2011 Census, only 48 per cent of people working in London live in the same area as their place of work. The implications of this are the focus of our London-wide working paper 75. Figure 2A shows that this is especially true for construction workers who tend not to work at a fixed site, as well as for workers in finance and insurance and public administration that more often commute from further afield.

1 https://www.gov.uk/government/collections/post-16-education-and-training-area-reviews

Figure 2A: Place of usual residence of London workers by industry, 2011

Source: ONS 2011 Census. Notes: Data includes those working at no fixed place as working elsewhere in London, while those reporting to mainly work from home are included in those living and working in the same sub-region.



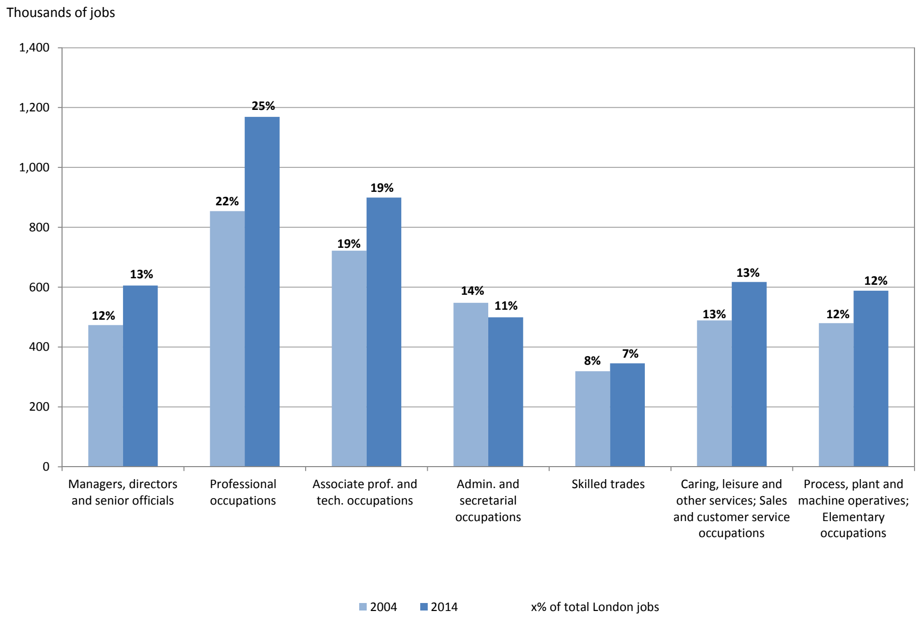
Over the past three decades, London has become increasingly connected to the global economy. As a result, it now specialises in high value business services: finance and insurance, professional, technical and scientific services, and information and communication. Many of these industries have grouped together in specific areas of London, particularly in the central area which covers 57 per cent of London's total jobs. West London is also the location of a further specialism in transport and storage, home to 43 per cent of London jobs in the sector.

The concentration of specialised activities – and the inflows of people and workers it attracts – also generates demand for further economic activities in other parts of London and the rest of the UK. In addition, London's growing population generates demand for local services like schools, healthcare, and retail.

What this means is that there is a higher demand for a highly specialised, skilled workforce in London. Over the past decade, there has been an increasing shift towards professionals (across all sectors), which accounted for around 1.2 million jobs in London by 2014, equivalent to 1 in 4 jobs. Over the same period, there have also been increasing numbers of jobs as managers and directors as well as for associate professionals typically providing skilled, technical support such as human resource and IT officers.

Figure 3A: Number and proportion of jobs in London by broad occupational group, 2004 and 2014

Source: ONS Annual population survey, workplace based.



Looking ahead, GLA Economics published short-term forecast (London's Economic Outlook) and long-term Labour Market Projections suggest that the trends towards increasing specialisation, and increased demand for local services, are likely to continue. As a result there is likely to be a changing composition of jobs associated with demand for higher level skills and qualifications.

A high level of training, across a range of skill levels, is also likely to be needed to replace the estimated half a million plus workers who leave their jobs in London each year. Training may also be needed to help workers adapt to changes in technologies and the nature of work.

These papers provide an initial baseline for exploring the subsequent aspects of the area based reviews, including the exploration of local intelligence at Borough levels, and supply side analysis of the education sector. Download the papers from our website. The accompanying data is available on the London Datastore.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

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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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