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UK growth forecasts cut as Chancellor announces business rates devolution to London

By **Gordon Douglass**, Supervisory Economist, **Emma Christie**, Economist and **Victor Frebault**, Economist Intern

On 16 March the Chancellor of the Exchequer, George Osborne, delivered the 2016 Budget against a continuing significant budget deficit, with the Office for Budget Responsibility (OBR) forecasting that public borrowing will stand at £72.2 billion in 2015/16 or 3.8 per cent of GDP, down from 5.0 per cent in 2014/15 and a peak of 10.3 per cent in 2009/10 (see Figure 1).

However, data published by the Office for National Statistics (ONS) on 22 March showed that public borrowing hit £70.7 billion in the first 11 months of 2015/16 providing little wiggle room to meet the OBR's projection. Public borrowing is forecast to turn positive in 2019/20 before hitting a surplus of £11.0 billion in 2020/21. However, the size of the reduction in public borrowing has been significantly reduced over the years 2016/17 to 2018/19 when compared to that which was forecast in the 2015 Autumn Statement.

The OBR has revised down a number of their forecasts noting that since the Autumn Statement "global stock markets and commodity prices have fallen, while GDP

Latest news...

- **Socio-economic baseline - Old Oak & Park Royal- Working Paper 74**
The objective of this paper is to provide a baseline of socio-economic and demographic indicators against which to measure the impacts of the Old Oak and Park Royal regeneration project over time.

It analyses a number of different socio-economic indicators of the immediate area in and around the Old Oak Park Royal Development Zone, the wider region that surrounds the Development Zone, and compares with indicators for Greater London. This baseline will be used as a reference point in future years to measure changes in these indicators to assess the impact that the regeneration project is having on the Old Oak and Park Royal area..

[Download](#) the full paper.

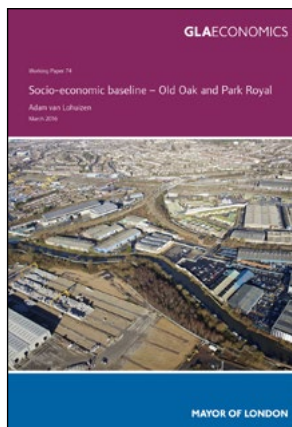
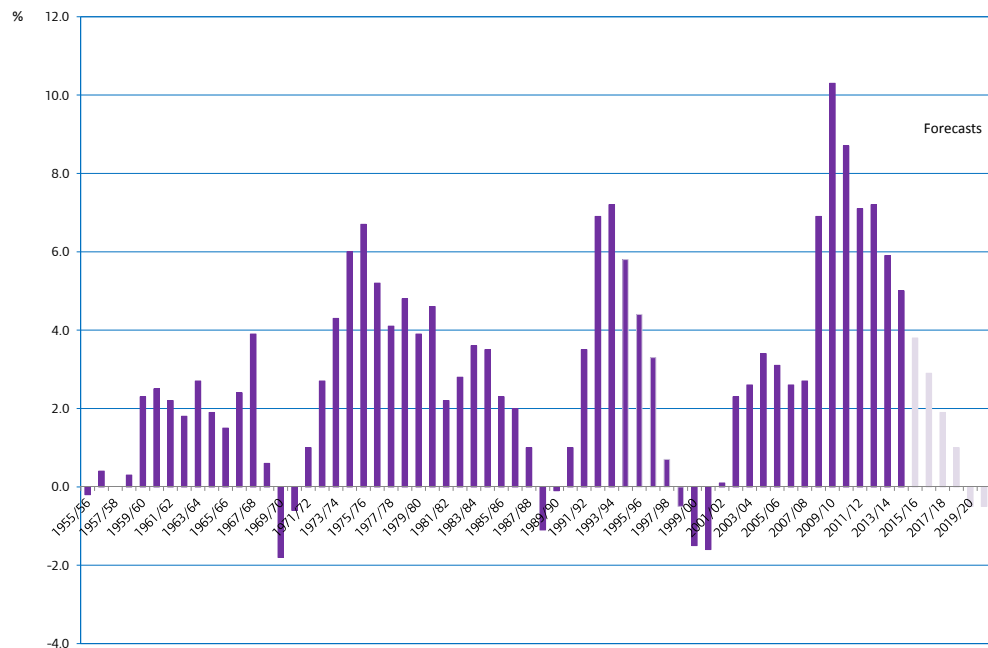


Figure 1: Public sector net borrowing excluding public sector banks as a % of GDP

Source: OBR



growth has slowed – especially in value terms”. Their most significant change was to revise down forecasts of future productivity growth, observing that “the data available in November showed a pick-up in productivity growth in mid-2015, consistent with our assumption that the receding financial crisis would exert less of a drag and that trend productivity growth would return to its pre-crisis average rate by the end of the forecast. But more recent data suggest that this was another false dawn”.

Given this, the OBR’s forecast for GDP was downgraded for this year and for each year of the forecast period. Thus, 2016 saw a downward revision by 0.4 to 2.0 per cent, with growth forecast in 2017 of 2.2 per cent and then 2.1 per cent per annum for 2018 to 2020. Partially in light of this, public sector net debt is now forecast to rise as a per cent of GDP this financial year but then fall in every subsequent year of the forecast. Debt is forecast to stand at £1,591 billion in 2015/16 or 83.7 per cent of GDP (compared to 83.3 per cent of GDP in 2014/15) before dropping to 74.7 per cent of GDP in 2020/21.

In the Budget itself some of the more headline catching announcements included:

- The rate of corporation tax will be cut to 17 per cent by 2020. Currently set at 20 per cent, this cut is additional to the cuts previously announced that would have reduced corporation tax to 18 per cent in 2020. This should reduce UK corporate tax rates to the lowest of all G20 nations by 2020.
- Restrictions on losses that can be carried forward to offset future profits by business have been capped at 50 per cent of profit where profits are in excess of £5 million. Banks will only be able to offset 25 per cent of profits from pre-2015 losses from 1 April 2016, down from 50 per cent currently.
- The Chancellor used the Budget to set out a ‘business tax road map’ including significant changes to business rates. As a result of the business rates review, the tax burden on rate payers in England is to be cut by £6.7 billion over the next five years.

- ◇ The Government has pledged to help small business by permanently doubling business rate relief. From April 2017, businesses with a property with a rateable value of £12,000 and below will receive 100 per cent relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. It is estimated 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all across the UK.
- ◇ From April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI. This will likely represent a business rates cut every year from 2020, with it estimated to be worth £370 million to businesses in 2020/21.
- The Budget also announced that elected city-wide mayors will have the power to levy a business rates premium for local infrastructure projects – with the support of local businesses.
- The Government will introduce a new soft drinks industry levy to be paid by producers and importers of soft drinks that contain added sugar. The levy will be charged on volumes according to total sugar content, with a main rate charge for drink above 5 grams of sugar per 100 millilitres and a higher rate for drinks with more than 8 grams of sugar per 100 millilitres. There will be an exclusion for small operators. The Government will consult on the details over the summer, for legislation in the Finance Bill 2017 and implementation from April 2018 onwards.

Some of the announcements of particular relevance to London were:

- The Government has pledged to increase London's share of business rates retained by the Greater London Authority (GLA) as well as transferring responsibility for funding Transport for London's (TFL) capital projects. This is part of a wider move towards 100 per cent business rates retention promised to all local authorities by 2020. In his speech, the Chancellor announced that the GLA would be moving towards this as of April 2017 – three years ahead of schedule. Such a move is expected to give the Mayor of London control over almost £1 billion more of locally raised taxes and bring Mayoral control over business rates up from 20 per cent to over a third.
- Over the next few years the numbers of civil servants working in central London are expected to diminish as part of a shift from using expensive Whitehall accommodation, to utilising cheaper space in the suburbs. The Ministry of Justice will be the first department to make the move.
- In the Greater South East, Lord Heseltine is to head up the Thames Estuary Growth Commission as part of a plan to develop the region towards 2050. The Commission will develop a delivery plan for North Kent, South Essex and East London up to 2050. This will focus on supporting the development of high productivity clusters in specific locations. It will examine how the area can develop, attract and retain skilled workers. It will also look at how to make the most of opportunities from planned infrastructure such as the Lower Thames Crossing. It will report back at Autumn Statement 2017.

- Crossrail 2 has been officially endorsed by the Government in response to the National Infrastructure Commission's report 'Transport for a World City'. The Government will provide £80 million to develop plans for the project, with the Government asking TfL to match that contribution.

ECB extends quantitative easing

Internationally the economic situation remains mixed as shown by the European Central Bank's (ECB) decision to cut its benchmark interest rate to 0 per cent from 0.05 per cent on 10 March. It further announced that it would expand its quantitative easing (QE) programme from €60 billion to €80 billion a month and will now include the purchase of corporate bonds. The president of the ECB Mario Draghi observed that "the risks to the euro-area growth outlook remain tilted to the downside", while the governing council of the ECB expects interest rates "to remain at present or lower levels for an extended period of time". The risks to the Eurozone economy were highlighted by it again experiencing deflation with inflation standing at -0.2 per cent in February compared to 0.3 per cent in January. Still unemployment continues to fall in the Eurozone, albeit still at high levels, with unemployment hitting 10.3 per cent in January, down from 10.4 per cent in December 2015 and a high of 12.1 per cent in the first half of 2013.

Elsewhere, a number of countries produced poor economic data or reduced growth targets in March. China cut its growth target to between 6.5 to 7 per cent for 2016, while data from Brazil showed that its economy shrank by 3.8 per cent in 2015. In more positive news the US continues to add jobs with 242,000 jobs added in February, better than the increase expected by analysts of 190,000. However, the economic environment both domestically and globally remains more downbeat than at the end of 2015. The Bank of England's Financial Policy Committee noted that in terms of financial sector stability the outlook "has deteriorated since [they] last met in November 2015. Some pre-existing risks have crystallised, drawing on the resilience of the system. Other risks stemming from the global environment have increased". However, they go on to add that "weighed against these developments, the resilience of the core banking system has improved further since November 2015, though investor expectations of future profitability have weakened, with possible implications for banks' ability to build resilience in the future. In some financial markets, underlying liquidity conditions have continued to deteriorate".

London ranked highly in European university rankings but also as a costly global city

In March a couple of surveys highlighted both London's global standing but also some of the issues it faces. Thus the Times Higher Education published their ranking of the top 200 universities in Europe which saw four London universities ranked in the top 10, Imperial College London, UCL, LSE, and King's College London. The Economist Intelligence Unit published their latest survey of the world's most expensive cities which placed London as the sixth most expensive, with it being less pricey than Singapore, Zurich, Hong Kong, Geneva and Paris but more costly than New York, Copenhagen, Seoul and Los Angeles.

In terms of the economy, performance indicators remain mixed. Consumer confidence and PMI surveys generally show a continuing buoyant economy in the capital; however the London Small Business Index from the FSB found that

“small business confidence has fallen to its lowest level since Q1 2013, amid a great degree of uncertainty over the strength of the UK and, more broadly, the global economy”. London’s ILO unemployment rate has remained relatively steady recently with it standing at 6.3 per cent in the three months to January, down 0.1 per cent on the previous quarter but up 0.1 per cent on the previous year. This compares to the rate for the UK as a whole which stood at 5.1 per cent, down 0.1 per cent on the quarter and 0.6 per cent on the year. The announced merger between the London Stock Exchange Group and Deutsche Boerse in March could be taken to indicate continued confidence in the capital. So, although growth forecasts for London could weaken in coming months, like those for the UK already have, with interest rates now entering their seventh year at a record low of 0.5 per cent, it remains the case that growth is expected to continue in the capital in the near term.

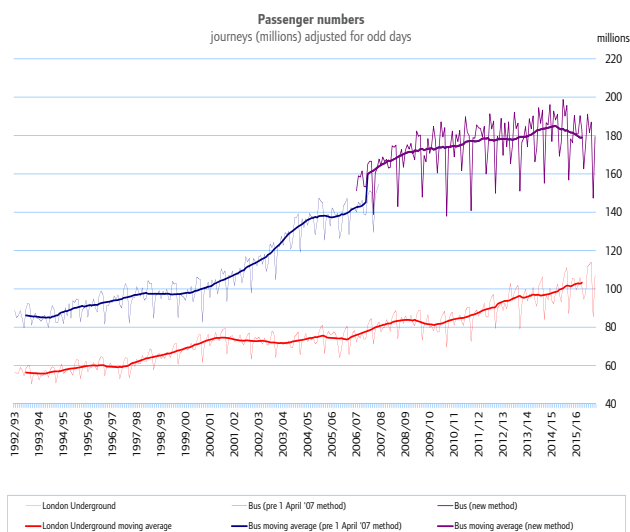
Economic indicators

Increase in average number of passenger journey

- The most recent 28-day period covered 10 January 2016 – 6 February 2016. Adjusted for odd days, London's Underground and buses had 286.2 million passenger journeys; 179.4 million by bus and 106.8 million by Underground.
- The 12-month moving average of passengers increased to 282.2 million, from 281.6 million in the previous period. The moving average for buses was 178.9 million. The moving average for the Underground was 103.2 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 2016

Next release: April 2016



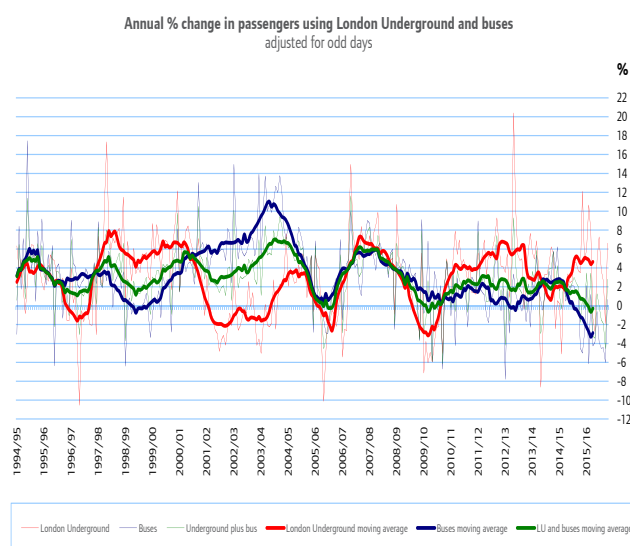
Source: Transport for London

Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to -0.3 per cent from -0.7 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to -2.9% from -3.3% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys increased to 4.6% from 4.4% in the previous period.

Latest release: March 2016

Next release: April 2016



Source: Transport for London

ILO unemployment steady in London

- The ILO unemployment rate in London stood at 6.3% in the quarter to Jan 2016, compared to 6.3% in the quarter to Oct 2015. In the UK, the unemployment rate was 5.1% in the quarter to Jan 2016, compared to 5.2% for the quarter to Oct 2015.
- There were 290,000 seasonally adjusted unemployed in London in the quarter to Jan 2016, a decrease of 4,000 from the quarter to Oct 2015. There were 1,685,000 seasonally adjusted unemployed in the UK in the quarter to Jan 2016, a decrease of 28,000 from the quarter to Oct 2015.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: March 2016

Next release: April 2016



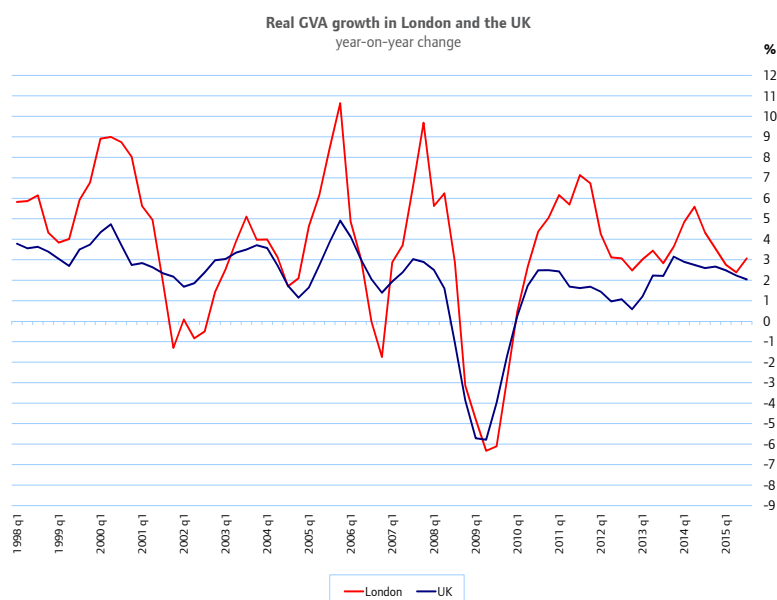
Source: Labour Force Survey - Office for National Statistics

Annual output growth increases in London in Q3 2015

- London's annual growth in output increased to 3.1% in Q3 2015 from a downwardly revised 2.4% in Q2 2015.
- Annual output growth in the UK decreased to 2.0% in Q3 2015 from a downwardly revised 2.2% in Q2 2015.
- In Q3 2015, London's annual output growth was higher than in the UK as a whole.

Latest release: March 2016

Next release: June 2016



Source: Experian Economics

Annual employment growth slows in London in Q3 2015

- London's annual employment growth decreased to 1.6% in Q3 2015 from 1.8% in Q2 2015.
- Annual employment growth in the UK decreased to 0.7% in Q3 2015 from 1.7% in Q2 2015.
- In Q3 2015, London's annual employment growth was higher than in the UK as a whole.

Latest release: March 2016

Next release: June 2016



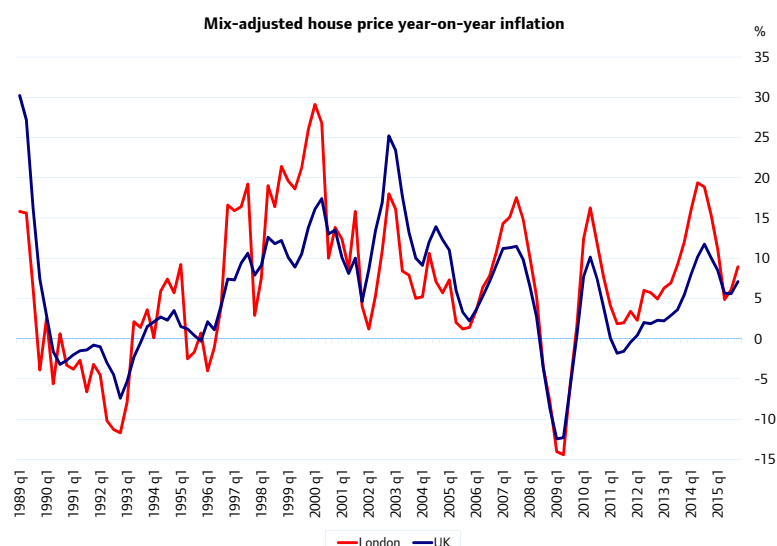
Source: Experian Economics

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 2015 than in Q4 2014 for London and the UK.
- Annual house price inflation in London was 8.9% in Q4 2015, up from 6.1% in Q3 2015.
- Annual house price inflation in the UK was 7.1% in Q4 2015, up from 5.6% in Q3 2015.

Latest release: March 2016

Next release: June 2016



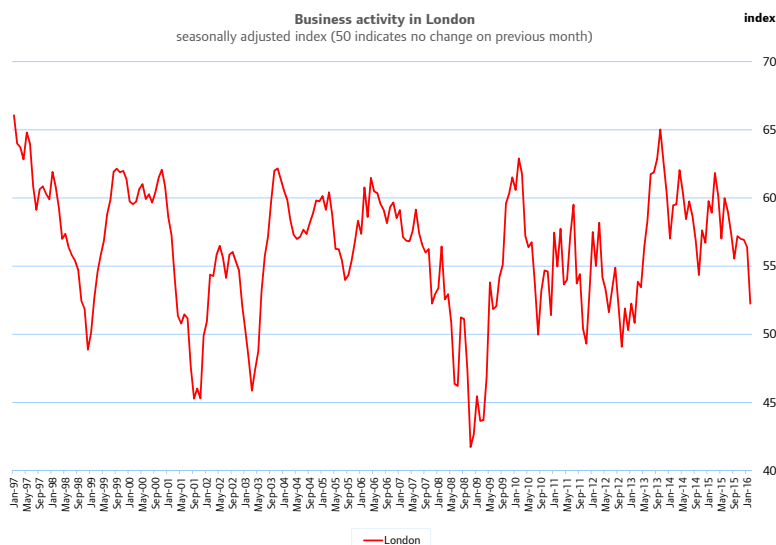
Source: Office for National Statistics

London's business activity continues to increase

- Firms in London increased their output of goods and services in February 2016.
- The Purchasing Managers' Index (PMI) of business activity recorded 52.2 in January 2016, down from 56.4 in January 2016.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: March 2016

Next release: April 2016



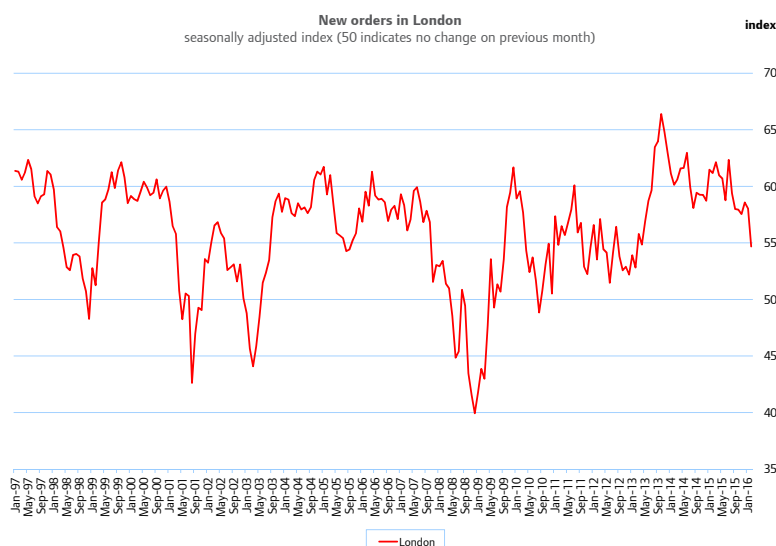
Source: Markit Economics

New orders in London rising

- February 2016 saw an increase in new orders for London firms.
- The PMI for new orders recorded 54.7 in February 2016 compared to 58.0 in January 2016.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: March 2016

Next release: April 2016



Source: Markit Economics

Businesses report higher employment in January

- The PMI shows that the level of employment in London firms increased in February 2016.
- The PMI for the level of employment was 54.4 in February 2016, down from 55.5 in January 2016.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: March 2016

Next release: April 2016



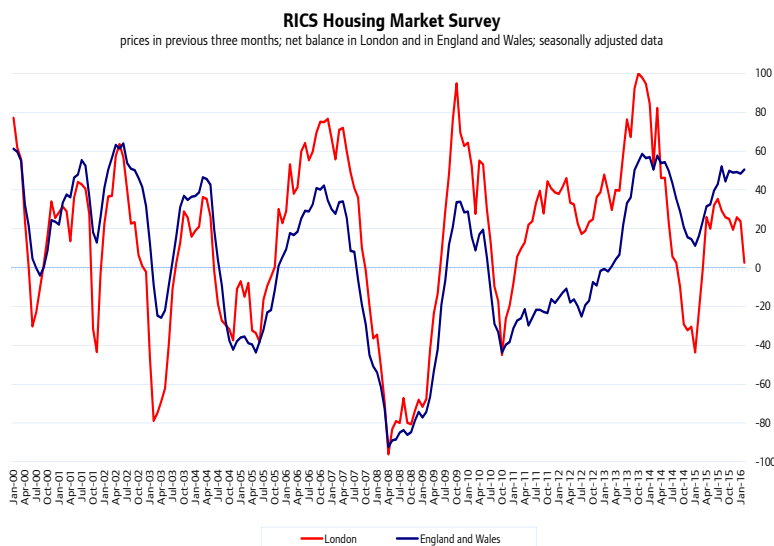
Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey showed a positive net balance of 3 for London house prices over the three months to February 2016.
- Surveyors reported a positive net house price balance of 50 for England and Wales over the three months to February 2016.
- London's net house price balance is lower than that of England and Wales.

Latest release: March 2016

Next release: April 2016



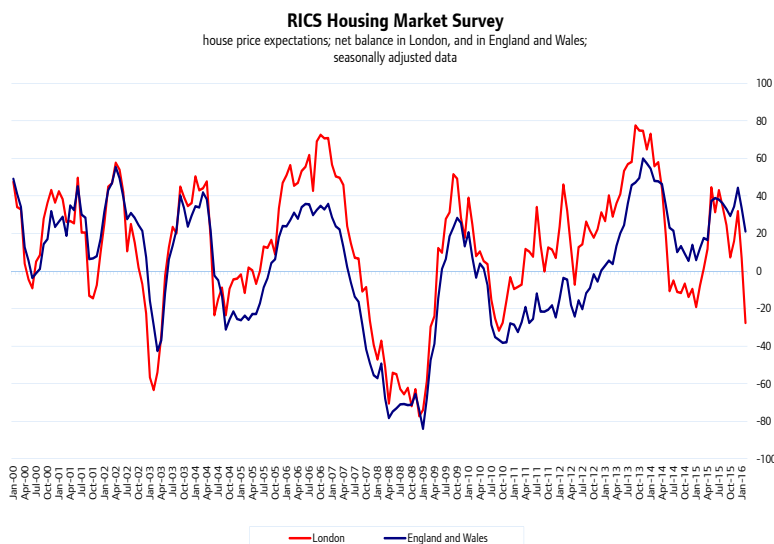
Source: Royal Institution of Chartered Surveyors

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 -28 in February 2016.
- For England and Wales, the net house price expectations balance was 21 in February 2016.

Latest release: March 2016

Next release: April 2016



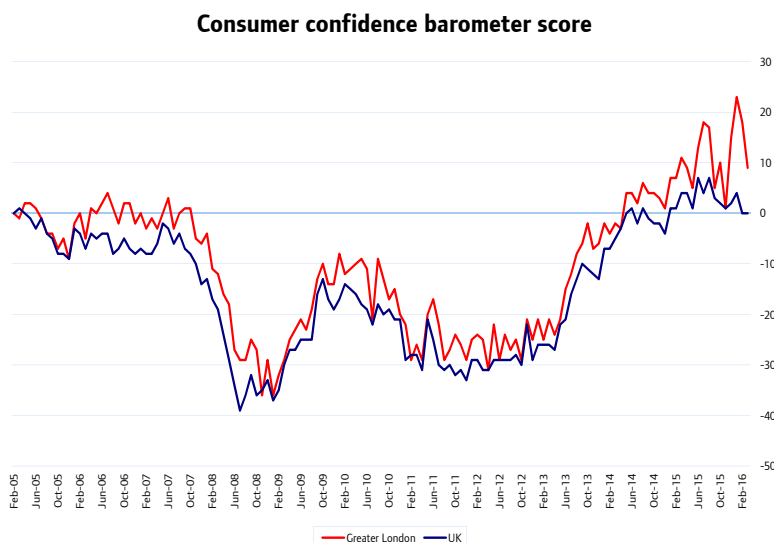
Source: Royal Institution of Chartered Surveyors

Consumer confidence positive in London and neutral 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 9 in March 2016, down from 18 in February 2016.
- For the UK, the consumer confidence score remained at 0 in March 2016, holding constant from 0 in February 2016.

Latest release: March 2016

Next release: April 2016



Source: GfK NOP on behalf of the European Commission

Regional, sub-regional and local GVA estimates for London, 1997-2014

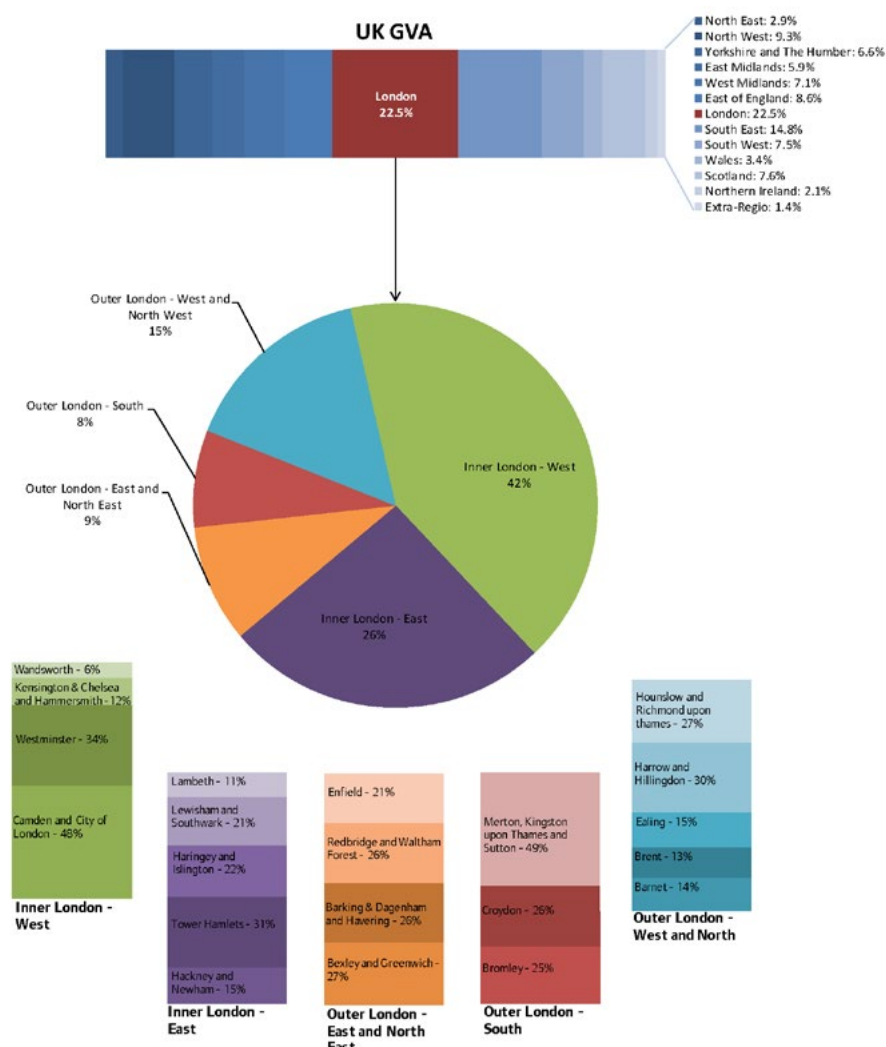
By **Gordon Douglass**,
Supervisory Economist and
Victor Frebault,
Economist Intern

In December 2015, the Office for National Statistics (ONS) released provisional estimates of regional, sub-regional and local gross value added (GVA) for 2014¹.

GLA Economics published analysis of these data in March 2016². The latest data show that in 2014, London's total GVA was over £364 billion, up 6.8 per cent on 2013. London now accounts for 22.5 per cent³ of the UK's total GVA (up from 18.9 per cent in 1997). The growth in London's nominal (i.e. without taking account of inflation) GVA accounted for over 32 per cent of the UK's total GVA increase between 2013 and 2014. Over two-thirds of London's GVA was produced in Inner London in 2014 and 42 per cent of London's total GVA was produced in Inner London - West alone (see Figure A1).

Figure A1: Geographic breakdown of Headline⁴ UK GVA (I) in 2014

Source: Regional Accounts, ONS



1 Office for National Statistics, December 2015, 'Regional Gross Value Added (Income Approach)'.

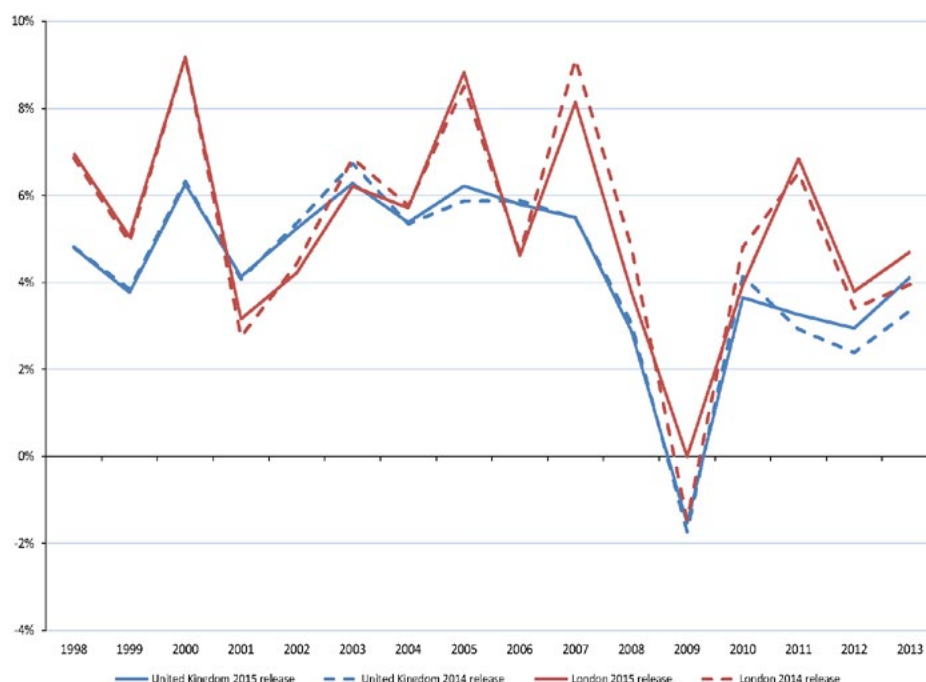
2 Douglass, G., March 2016, 'Current Issues Note 46: Regional, sub-regional and local GVA estimates for London, 1997-2014'. GLA Economics.

3 The share reported here is calculated as London's GVA divided by UK GVA without taking into account a statistical discrepancy of £6,136 million. If the statistical discrepancy is subtracted from UK's GVA, London's share of UK GVA is 22.6 per cent as reported by the ONS.

4 UK includes Extra-Region (which comprises compensation of employees and gross operating surplus which cannot be assigned to regions)

Figure A2: Comparison of the nominal growth rates in GVA (I) in London and the UK 1998 to 2013 from the 2014 and 2015 regional accounts releases

Source: Regional Accounts, ONS



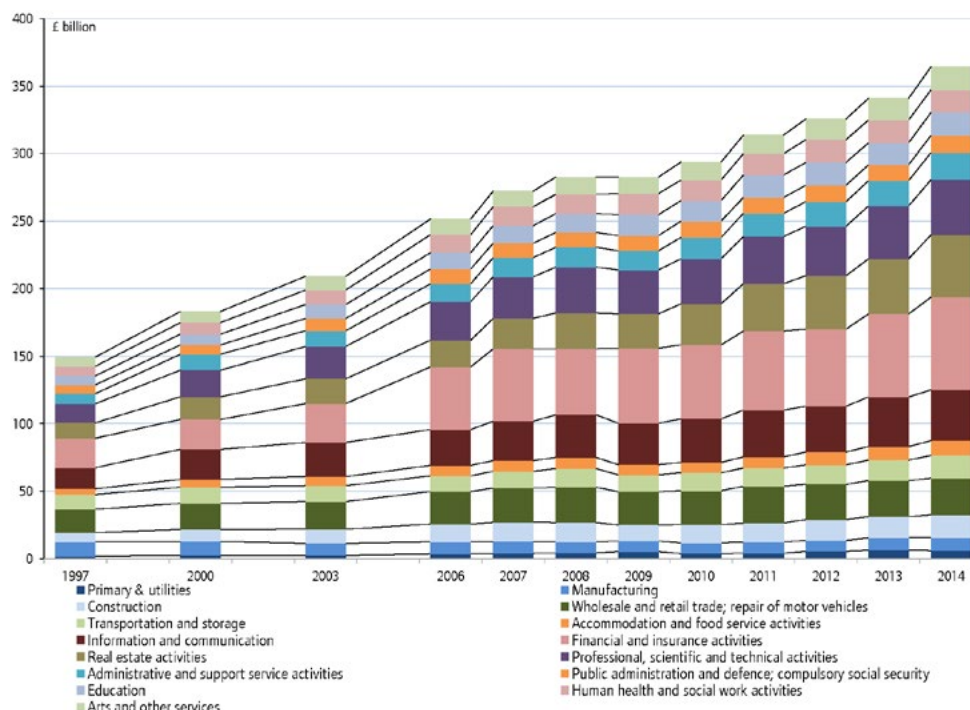
The release published in December 2015 saw substantial revisions to the data compared to that published in December 2014 (see Figure A2). A major revision occurred during the year to 2013, where GVA is £21,610 million higher in the UK in the 2015 estimates when compared to the estimates published in 2014 (an increase of 1.4 per cent); and £2,531 million higher in London in the 2015 estimates when compared to 2014 estimates (an increase of 0.7 per cent). In 2008, an upward revision of 1.5 per cent has been made to the nominal growth rate of London's GVA in the 2015 publication, changing it from -1.5 per cent to 0.0 per cent. While in the year to 2003, a downward revision of 0.5 per cent has been made to the nominal growth rate of UK GVA. Similarly, in 2003, there has been a downward revision of -0.6 per cent in the nominal growth rate of London's GVA. Since 2008, London's GVA has increased by 28.9 per cent in nominal terms, compared to 18.2 per cent for the UK.

London's GVA performance remains impressive even after adjusting for the number of workers in London (and the impact of commuters). GVA per worker in 2014 in London was £66,638, significantly higher than a figure of £48,703 for the UK as a whole. In 2014, GVA per worker increased by 3.7 per cent in London, compared to a growth rate of 1.4 per cent for the UK.

Industry analysis show that in 2014 just under a fifth of London's GVA was generated by the Financial and insurance industry, totalling £68.7 billion (see Figure A3). The value of this industry has grown from 14.7 per cent of London's total GVA in 1997 to 18.9 per cent in 2014. Real estate activities also significantly increased its share of the London economy, increasing from 7.6 per cent of total GVA in 1997 to 12.6 per cent in 2014. In 2014, just over half of the UK's GVA in the Financial and insurance industry was generated in London (up from 43 per cent in 1997) (see Figure A3). Indeed, London's Financial and insurance industry made up 4.3 per cent of the UK's total GVA in 2014. Professional, scientific and technical activities; and Information and communication industries also play an important role in London's economy. In 2014, these two industries combined accounted for 21.5 per cent of London's GVA (up slightly from 19.8 per cent in 1997).

Figure A3: Headline GVA (I) in London by industry, 1997-2014, current prices

Source: Regional Accounts, ONS



Over the period between 1997 and 2014, output in manufacturing has declined (the only industry to do so); in 2014, output was around £9.6 billion in nominal terms compared to £10.5 billion in 1997.

GVA data by industry also show that there are differences in industry spread between Inner and Outer London. For three industries Outer London hosted over half of London's GVA in those industries in 2014: Manufacturing (68.9 per cent), Transportation and storage (60.4 per cent); and Construction (54.9 per cent). However in 2014, Outer London produced only a 5.5 per cent share of London's total Financial and insurance industry GVA (down from 12.5 per cent in 1997). Meanwhile, Inner London produced over three-quarters of London's GVA in Financial and insurance activities; and Professional, scientific and technical activities; and around three quarters of Information and communication.

The ONS produces GVA estimates for some but not all local authorities in London. The data provided in the ONS release being based upon the NUTS level geography put in place after 1 January 2015, which at the NUTS3 level encompasses individual boroughs or combinations of local authorities. GLA Economics analysis published in Box 2 of Current Issues Note 46 uses data from the ONS release as well as data from the Business Register and Employment Survey (BRES), to calculate estimates for local authority level GVA for 2014 for those authorities that the ONS did not provide estimates for.

If this supplement has whet your appetite then further detailed analysis of recent trends in regional, sub-regional and local GVA estimates for London can be found in [Current Issues Note 46](#).

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

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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 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.