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In this issue

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UK economy continues to grow at the end of last year

by **Gordon Douglass**, Supervisory Economist and **Brian Smith**, Economist

New data published by the Office for National Statistics (ONS) in January showed that economic growth continued in the final quarter of 2016. Thus the preliminary estimates of GDP showed that economic growth stood at 0.6 per cent for the quarter, unchanged from the 0.6 per cent growth also seen in the third quarter of 2016 (see Figure 1). GDP was 2.2 per cent higher in the fourth quarter of 2016 compared to the same period a year earlier. Over 2016 as a whole GDP increased by 2.0 per cent, slightly lower than the 2.2 per cent increase seen in 2015 which itself was down from the 3.1 per cent growth seen over 2014.

The growth in GDP in Q4 2016 was driven by output increasing in Services by 0.8 per cent, down from 1.0 per cent growth in the third quarter of 2016 (within Services, Business services and finance – a particularly important industry for London – grew by 0.9 per cent in Q4 2016 after growing by 0.8 per cent in the previous quarter). The ONS observed that "the quarterly services growth almost entirely drove the overall movement in GDP growth, as production and construction both made negligible contributions". Still, of the main industrial groups most saw

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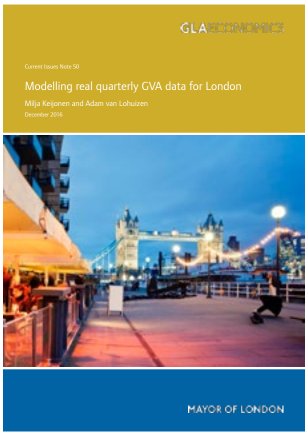


Modelling real quarterly GVA data for London

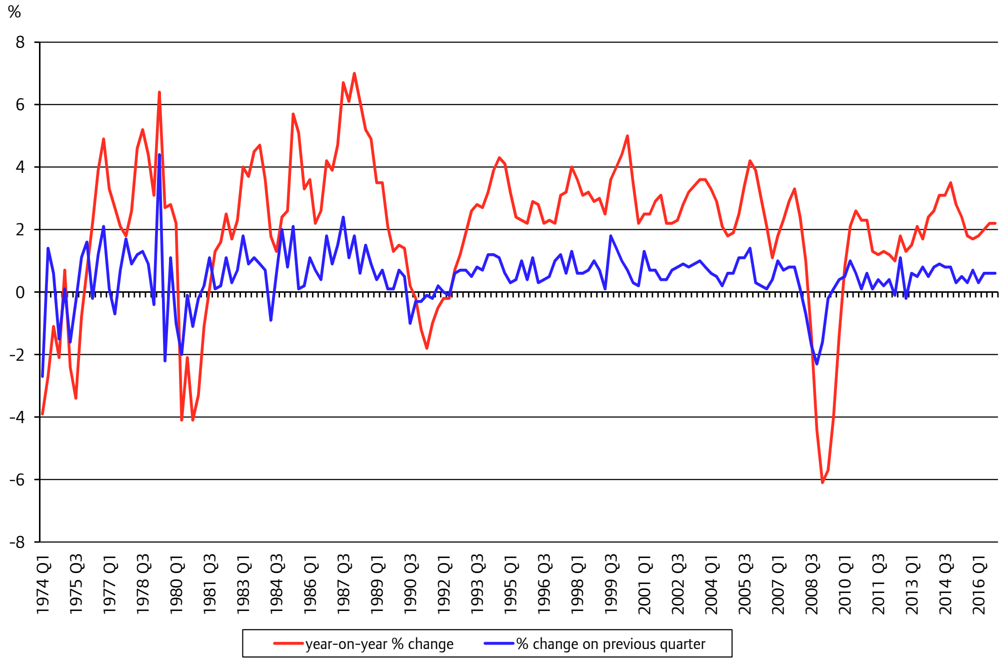
As of yet no official measure of quarterly growth in London's economy on either a nominal or real measure exists. At the annual level nominal GVA data is available (with a lag), but real GVA data remains experimental in nature and is not classified as a national statistic.

GLA Economics has therefore undertaken analysis to calculate this data at the London level. Current issues note 50 sets out the methodology that has been used for this analysis and first estimates of quarterly real GVA for London. Download the publication now.

growth in Q4 2016 although output in Production remained unchanged at 0.0 per cent (but within that Manufacturing increased by 0.7 per cent). Output in Construction increased by 0.1 per cent and output in Agriculture increased by 0.4 per cent.

Figure 1: UK GDP growth
Last data point Q4 2016

Source: ONS



The continued growth in GDP set out in these figures are supported by other statistics released over the past month which also point towards a generally buoyant UK economy in the second half of 2016. For instance data published by the ONS in January showed robust general profitability in the manufacturing and service sectors in Q3 2016. In particular "for services companies, the estimated net rate of return [(economic gain or profit)] was 18.7% in Quarter 3 2016 – up 0.7 percentage points from Quarter 2 2016 (18.0%)" one of the highest rates seen since before the 2008 financial crisis. Unemployment also remains low in the UK with it standing at 4.8 per cent in the three months to November 2016, down 0.6 percentage points both on the previous quarter and year.

That is not to say that all economic news has been unambiguously positive. For instance, much of the economic growth over the past few quarters has been driven by consumer spending. However, most recent ONS data showed that retail sales fell by 1.9 per cent in December compared to the previous month, the biggest monthly fall for four and a half years (although compared to December 2015 retail sales were up by 4.3 per cent). In addition, the Office for Budget Responsibility (OBR) warned in their Fiscal sustainability report that "public finances are likely to come under significant pressure over the longer term" due to an aging population and pressures on health spending. They further added that "in the absence of offsetting tax rises or spending cuts this would widen budget deficits over time and put public sector net debt on an unsustainable upward trajectory".

UK inflation remains low but is rising

Meanwhile, UK inflation continued to tick up at the end of 2016 with annual Consumer Price Index (CPI) inflation hitting 1.6 per cent in December 2016, higher than most commentators had been expecting, and up from 1.2 per cent in November (see Figure 2). This level, although the highest rate since July 2014 when CPI also stood at 1.6 per cent, is still below the Bank of England's central symmetrical target for CPI inflation of 2 per cent. In commentating on these results the ONS observed that "the main contributors to the increase in the rate were rises in air fares and the price of food, along with prices for motor fuels, which fell by less than they did a year ago". The ONS also observed that "increased producer prices have started to feed into higher prices for consumers in some areas". It is felt that some of these producer price rises reflect the impact of the recent depreciation of sterling against a number of currencies (see Figure 3) on import costs. Looking at the coming year it is expected that the depreciation of sterling will lead to a further uptick in inflation from its current modest levels as it continues to feed through into higher prices for imports. Rising inflation is expected to impact on consumers spending power over the coming year. However, as of yet evidence from the ONS indicates that for the UK real (ie, removing the impact of inflation) average weekly earnings are rising with them being 1.8 per cent higher in the three months to November 2016 compared with the same period a year earlier.

Figure 2: UK CPI Inflation Rate
Last data point December 2016

Source: ONS

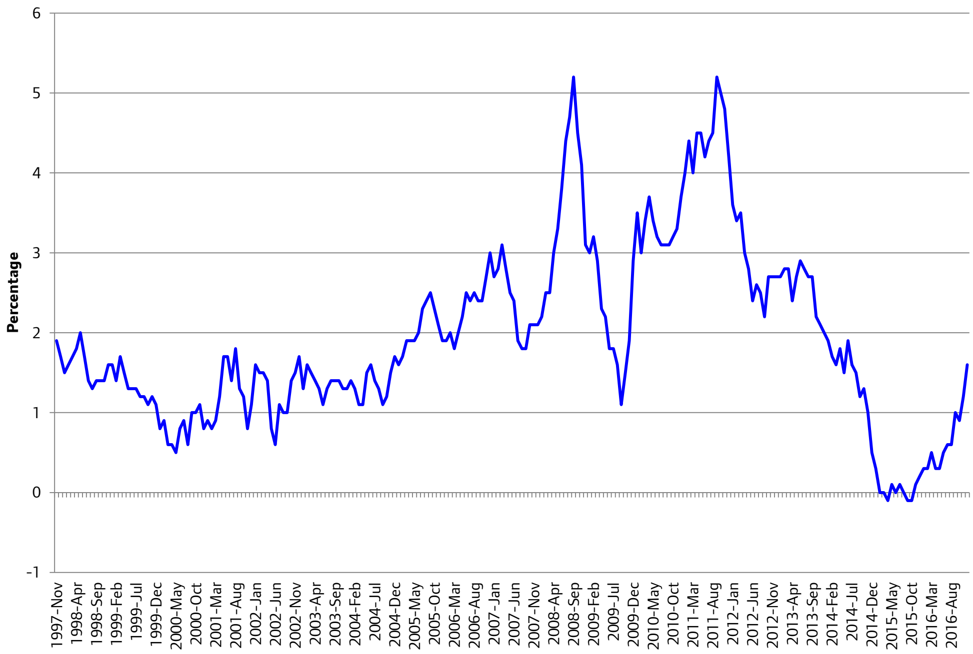
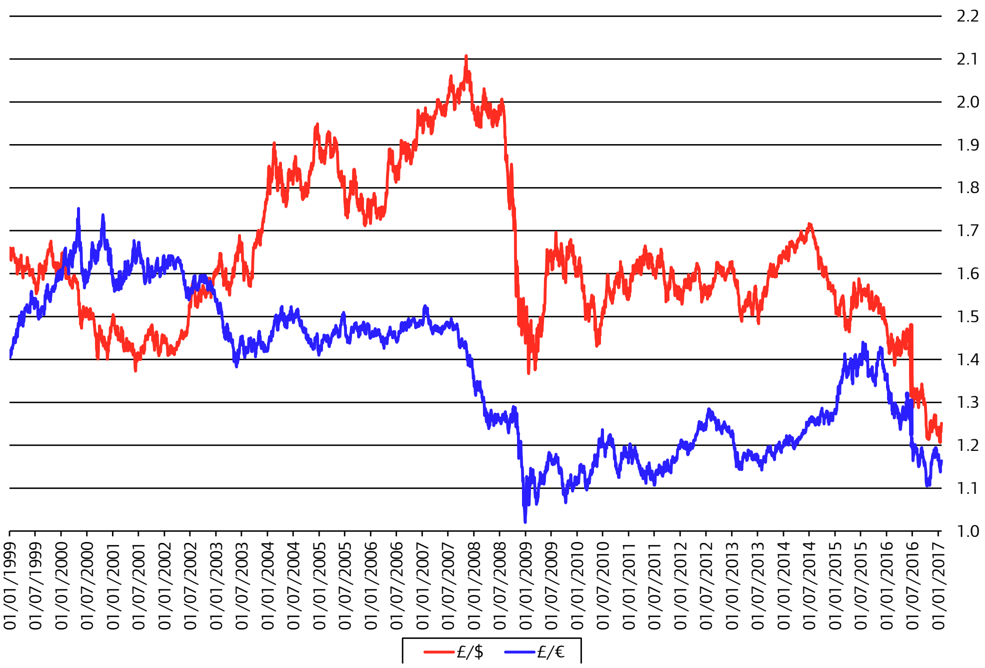


Figure 3: £ to $ and £ to € exchange rates
Last data point is 24/1/2017

Source: Bank of England



Sterling's movements in 2017 so far have been volatile with the currency moving in reaction to news surrounding the Government's 'Brexit' negotiating strategy as well as other news such as the likely economic policies of the new US administration. However, on 17 January the Prime Minister outlined the clearest message so far on the likely path of the Government's Article 50 negotiation strategy which would include leaving the single market whilst looking to ensure a "new, strong, constructive partnership with the European Union", where by the end of the two-year Article 50 process "an agreement about our future partnership" would be reached. Mrs May further promised that Parliament will have a vote on the final 'Brexit' deal, and following the Supreme Court judgement against the Government's position that Article 50 could be triggered without Parliament's approval, the Government confirmed that they will publish a White Paper on their negotiating strategy.

In general, financial markets started 2017 in a positive mood with the FTSE 100 hitting a number of all-time highs in January (although by the end of January it had come off such highs). This rise at the start of the month was partially attributed to the falling pound having increased the sterling level of the constituent companies' foreign earnings, although other factors were also responsible as the FTSE 250 which has a number of more domestically focused firms in it also started the year well. In commenting on the coming risks to the UK economy the Governor of the Bank of England, Mark Carney told the House of Commons treasury committee that the Bank no longer considers 'Brexit' the largest risk to UK financial stability with him highlighting risks from rising consumer credit, the current account deficit, the fall in sterling and a weakened commercial real estate market. While looking further forward the Government announced a Green Paper outlining consultation on a new industrial strategy on 23 January. In this paper the Government set out ten strategic pillars including investing in science and R&D, developing skills, upgrading infastructure, and supporting businesses to start and grow, which the Government believes "are important to drive forward our industrial strategy across the entire economy".

Global growth forecasts pick up

Internationally forecasts for the world economy have picked up slightly for 2017 compared with 2016 but remain generally subdued. Thus the World Bank in their January 2017 Global Economic Prospects report observe that "stalling global trade, weak investment, and heightened policy uncertainty have depressed world economic activity. Global growth is estimated to have fallen to 2.3 percent in 2016 - the weakest performance since the global financial crisis". However, they forecast world economic growth to pick up a bit in 2017 to 2.7 per cent before reaching 2.9 per cent in both 2018 and 2019. The International Monetary Fund (IMF) also published new forecasts for global growth in their World Economic Outlook (Update) in January. In this they forecast that world economic growth will pick up to 3.4 per cent in 2017 and 3.6 per cent in 2018 both rates unchanged on their October forecast; while for the UK the IMF forecasts growth of 1.5 per cent this year (a 0.4 percentage point upgrade on their October forecast) and 1.4 per cent in 2018 (a 0.3 percentage point downgrade). The IMF also forecasts continued growth in the US with growth of 2.3 per cent in 2017 and 2.5 per cent in 2018 (upgrades of 0.1 and 0.4 percentage points respectively) and the Eurozone with growth of 1.6 per cent in both 2017 and 2018 (an upgrade of 0.1 percentage points for 2017 and unchanged on their previous forecast for 2018).

At the UK level PwC in their 20th CEO Survey found that although "UK CEOs' [had] declining confidence about the prospects for global economic growth", this was not replicated in their views for their own company. When "asked to rate their own company's growth prospects, 89% of UK CEOs say they're confident for the coming year – that's up from 85% last time, and above this year's figures of 85% globally, 88% in the US and just 77% in Germany".

Nevertheless, in general the international economic picture is relatively more upbeat at the start of 2017 compared to the start of last year. So for instance in the Eurozone the spectre of deflation has receded somewhat what with inflation hitting 1.1 per cent in December 2016, up from 0.6 per cent in November. This was the highest rate since September 2013 and was driven by higher prices for fuels for transport; vegetables; and heating oil. China's economy also continued to grow strongly at the end of last year with its GDP increasing by an annualised rate of 6.7 per cent in Q4 2016. This rate was in line with the Chinese government's target of growth between 6.5 and 7 per cent. While, in the US employment continues to rise with it adding 156,000 jobs in December. Although in signs of the new administration's "America first" policies President Trump signed an executive order on 23 January to withdraw from the Trans-Pacific Partnership (TPP). This move however was largely symbolic as TPP had yet to be ratified by the US Congress.

Despite some mixed business surveys most economic indicators show continued growth in London

As has been the case for a few months business surveys show mixed results for the performance of London's economy with for instance the Federation of Small Businesses in their Q4 2016 Quarterly Small Business Index, which they published in January, observing that "the London Small Business Index …, which measures confidence amongst businesses, has a reading of -3 which is a marked decrease in the level from this time last year when it stood at +25". Further, "63% of businesses have seen an overall increase in the cost of running their business operations in the past quarter compared to 5% who have seen a decrease". Whereas the London Chamber of Commerce and Industry in their Q4 2016 Capital 500 economic survey, also published in January, found that "following five consecutive quarters of declining balance figures, there has been an uptick in expectations for the UK as well as the London economy, although both remain in negative territory".

Most official statistics show a relatively robust economy. For instance, London's employment rate in the three months to November 2016 increased by 0.4 percentage points on the previous quarter to 73.8 per cent (up 0.9 percentage points on a year earlier). This is the highest rate of employment recorded in London since this measure began in 1992. And London's ILO unemployment rate in the three months to November 2016 was 5.6 per cent. This is down 0.6 percentage points on the previous quarter and down 0.6 percentage points on the previous year.

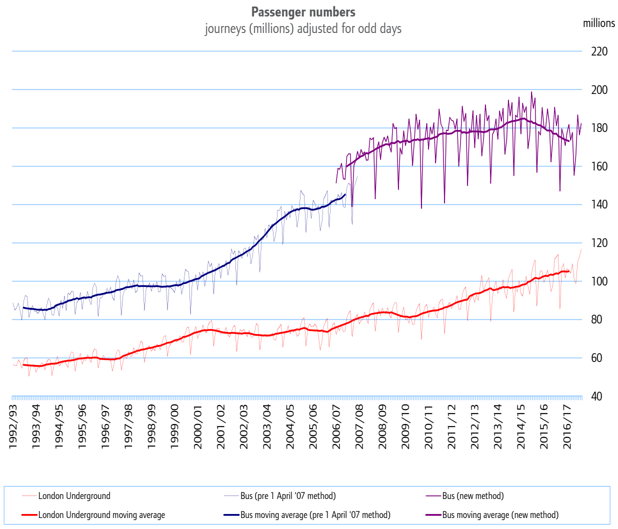
There were also a number of announcements in January concerning businesses presence in London with for instance both Stuart Gulliver, chief executive of HSBC and Axel Weber, the chairman of UBS saying that up to 1,000 jobs at their banks in London could be affected by 'Brexit'. However, the chief executive of Barclays, Jes Staley, stated that "I don't believe that the financial centre of Europe will leave the city of London". In addition, and more positively, other firms such as Finnish mobile games maker Rovio (most famous for Angry Birds) and Snapchat announced they would be setting up offices in London. So although much speculation continues to surround the process of 'Brexit' and the impact this will have on the economy, so far outside of the exchange rate and its impact on producer prices, the evidence of direct impacts appears to be relatively muted to date. Thus in general the economic news shows that London and the UK enter what is likely to be an economically eventful 2017 with some momentum in growth.

Economic indicators

Average number of passenger journeys falls

- The most recent 28-day period covered 13 November – 10 December 2016. Adjusted for odd days, London's Underground and buses had 299.0 million passenger journeys; 182.3 million by bus and 116.7 million by Underground.
- The 12-month moving average of passengers decreased to 278.4 million from 278.5 million in the previous period. The moving average for buses was 173.1 million. The moving average for the Underground was 105.2 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: January 2017
Next release: February 2017

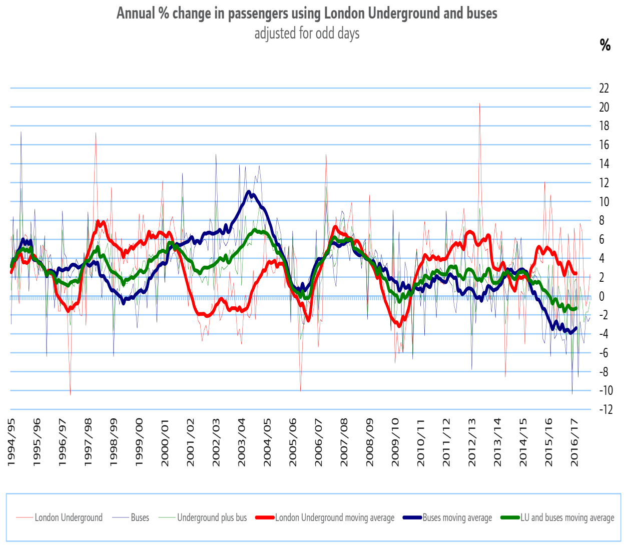


Source: Transport for London

Average annual growth of passengers remains negative

- The moving average annual rate of growth in passenger journeys increased to -1.3 per cent, from -1.4 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to -3.4 per cent from -3.6 per cent in the previous period.
- The moving average annual rate of growth in Underground passenger journeys remained unchanged from the previous period at 2.4 per cent.

Latest release: January 2017
Next release: February 2017



Source: Transport for London

ILO unemployment decreases in London

- The ILO unemployment rate in London decreased to 5.6 per cent in the quarter to November 2016, compared to 6.1 per cent in the quarter to August.
- For the UK as a whole, the unemployment rate decreased to 4.8 per cent in the quarter to November 2016, compared to 4.9 per cent in the previous quarter.
- There were 266,000 seasonally adjusted unemployed in London in the quarter to November 2016, a decrease of 26,000 on the previous quarter. There were 1,604,000 seasonally adjusted unemployed in the UK in the quarter to November 2016, a decrease of 52,000 on the previous quarter.

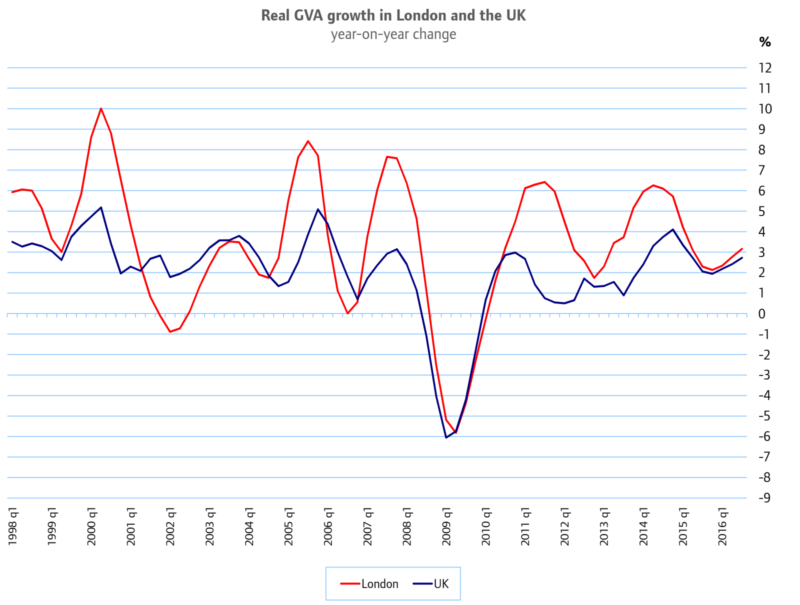
Latest release: January 2017
Next release: February 2017

Source: Labour Force Survey - ONS

Annual output growth increases in London in Q3 2016

- London's annual growth in output increased to 3.2 per cent in Q3 2016 from a downwardly revised 2.8 per cent in Q2 2016.
- Annual output growth in the UK increased to 2.7 per cent in Q3 2016 from 2.4 per cent in Q2 2016. In Q3 2016, 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.

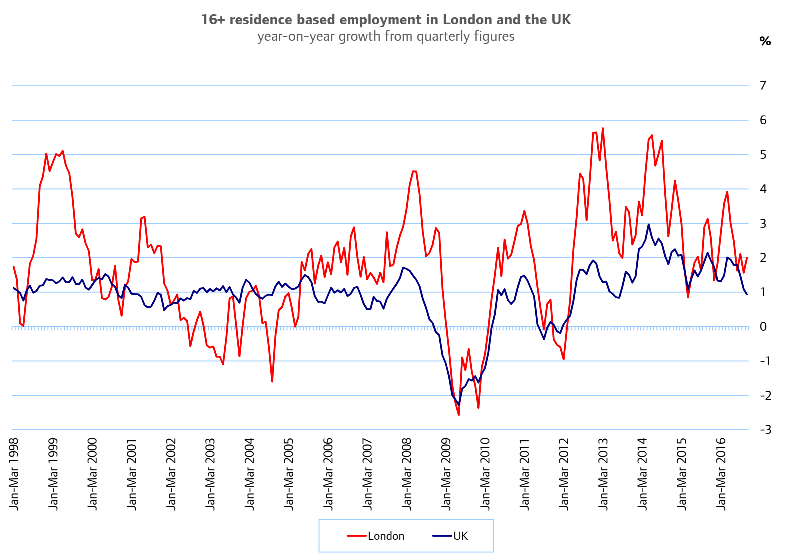
Latest release: January 2017
Next release: April 2017



Source: GLA Economics and ONS

Annual employment growth increases in London

- The annual growth rate of London's residents in employment increased to 2.0 per cent in the quarter to November 2016, compared to 1.6 per cent in the quarter to August.
- For the UK, the annual growth in employment slowed to 0.9 per cent in the quarter to November 2016, compared to 1.8 per cent in the previous quarter.
- There were 4.51 million residents in employment in London in the quarter to November 2016, an increase of 39,000 on the previous quarter. There were 31.80 million people in employment in the UK, a decrease of 9,000.



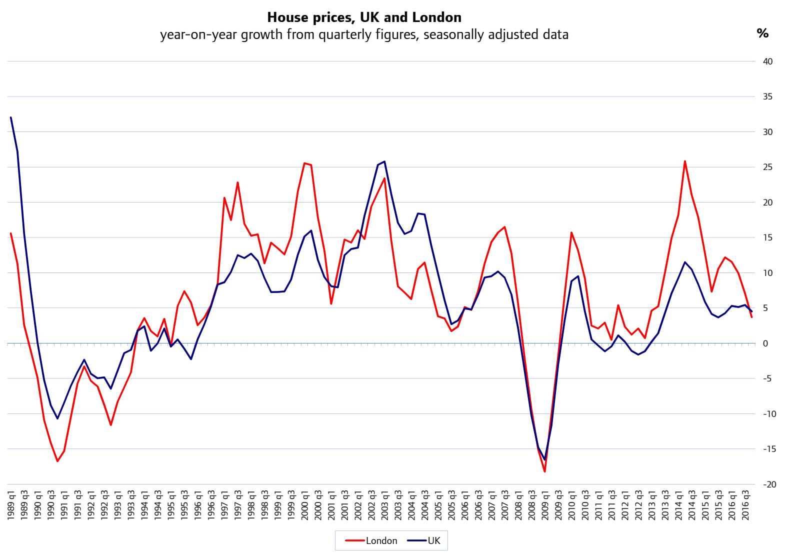
Source: Labour Force Survey – ONS

Latest release: January 2017
Next release: February 2017

Annual house price inflation in London slows

- House price inflation, as measured by Nationwide, was lower in Q4 2016 than in Q3 2016 in both London and the UK as a whole.
- Annual house price inflation in London was 3.7 per cent in Q4 2016, down from 7.1 per cent in Q3 2016.
- Annual house price inflation in the UK was 4.5 per cent in Q4 2016, down from 5.4 per cent in Q3 2016.

Latest release: January 2017
Next release: April 2017

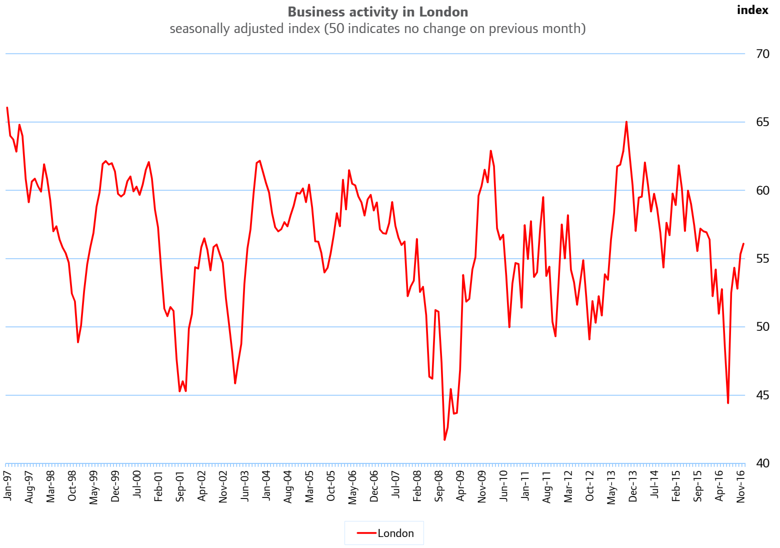


Source: Nationwide

London's business activity increases

- Firms in London increased their output of goods and services in December 2016.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.1 in December 2016, up from 55.3 in November 2016.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: January 2017
Next release: February 2017

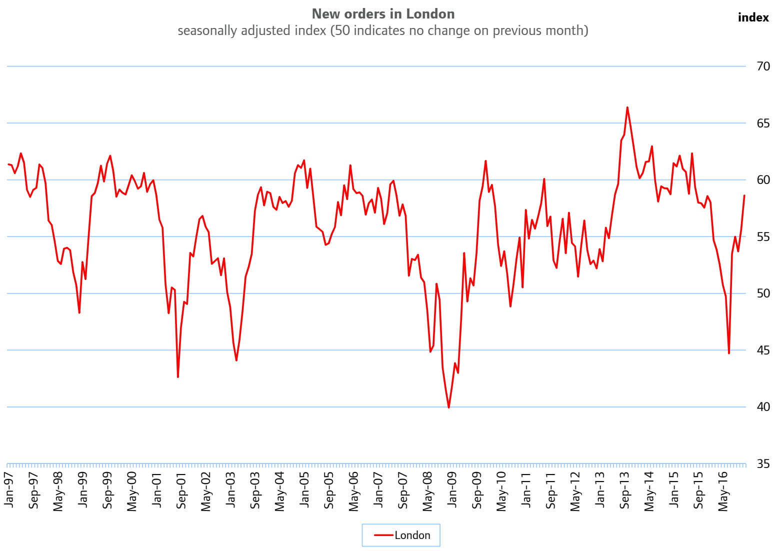


Source: Markit Economics

New orders in London rising

- December 2016 saw an increase in new orders for London firms.
- The PMI for new orders recorded 58.6 in December 2016 compared to 55.6 in November 2016.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: January 2017
Next release: February 2017

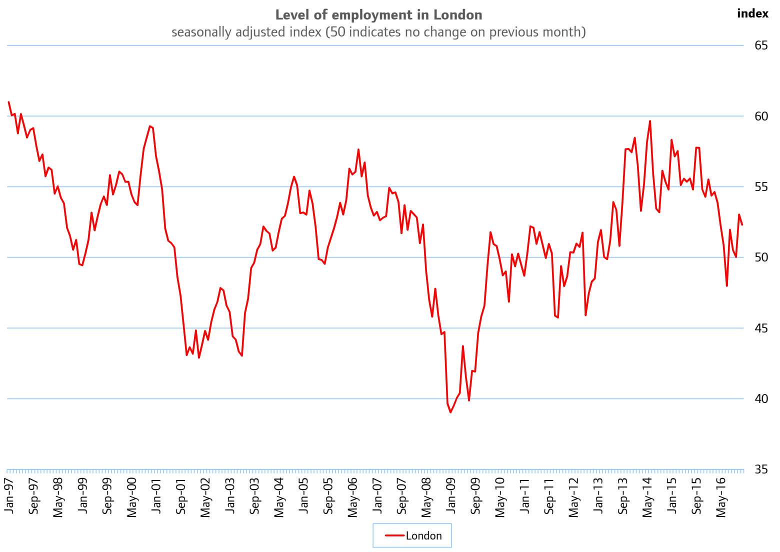


Source: Markit Economics

Businesses report an increase in employment in December

- The PMI shows that the level of employment in London firms increased in December 2016.
- The PMI for the level of employment was 52.3 in December 2016, down from 53.0 in November 2016.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: January 2017
Next release: February 2017

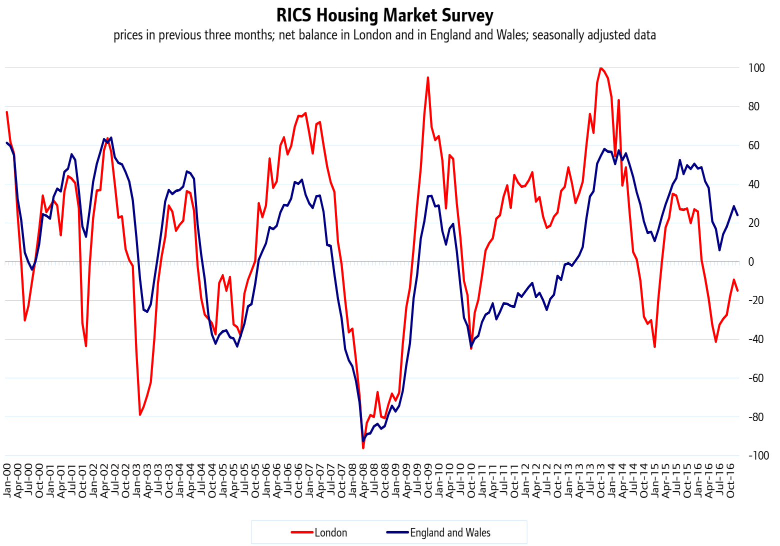


Source: Markit Economics

Surveyors report that house prices are decreasing in London

- The RICS Residential Market Survey showed a net balance of -15 for London house prices over the three months to December 2016.
- Surveyors reported a positive net house price balance of 24 for England and Wales over the three months to December 2016.
- London's net house price balance is lower than that of England and Wales.

Latest release: January 2017
Next release: February 2017

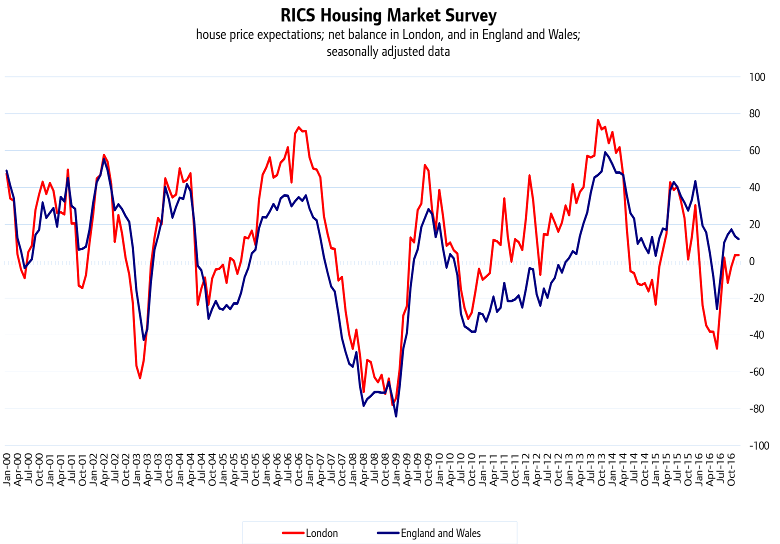


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London, as well as in England and Wales

- The RICS Residential Market Survey shows that surveyors expect house prices to rise over the next three months in London, as well as in England and Wales.
- The net house price expectations balance in London was 3 in December 2016.
- For England and Wales, the net house price expectations balance was 12 in December 2016.

Latest release: January 2017
Next release: February 2017

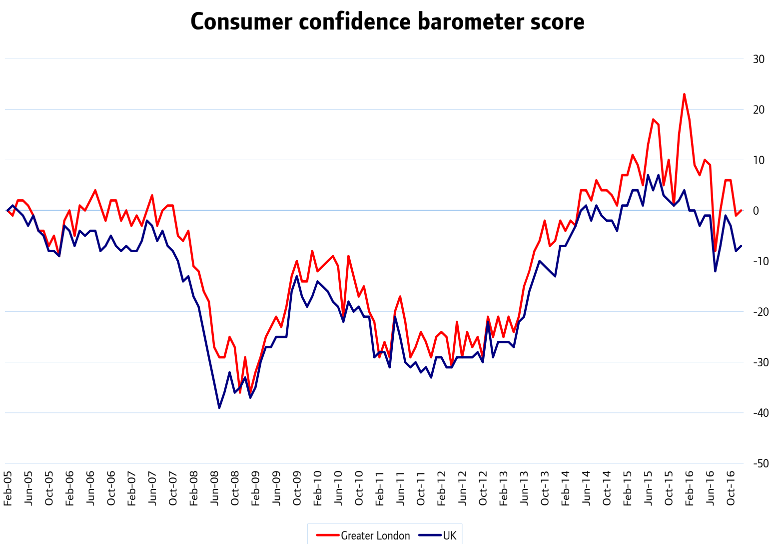


Source: Royal Institution of Chartered Surveyors

Consumer confidence marginally improves in London and the UK as a whole

- 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 increased to 0 in December 2016, from -1 in November 2016.
- For the UK, the consumer confidence score increased to -7 in December 2016, from -8 in November 2016.

Latest release: January 2017
Next release: February 2017



Source: GfK NOP on behalf of the European Commission

Regional, sub-regional and local gross value added estimates for London, 1997-2015

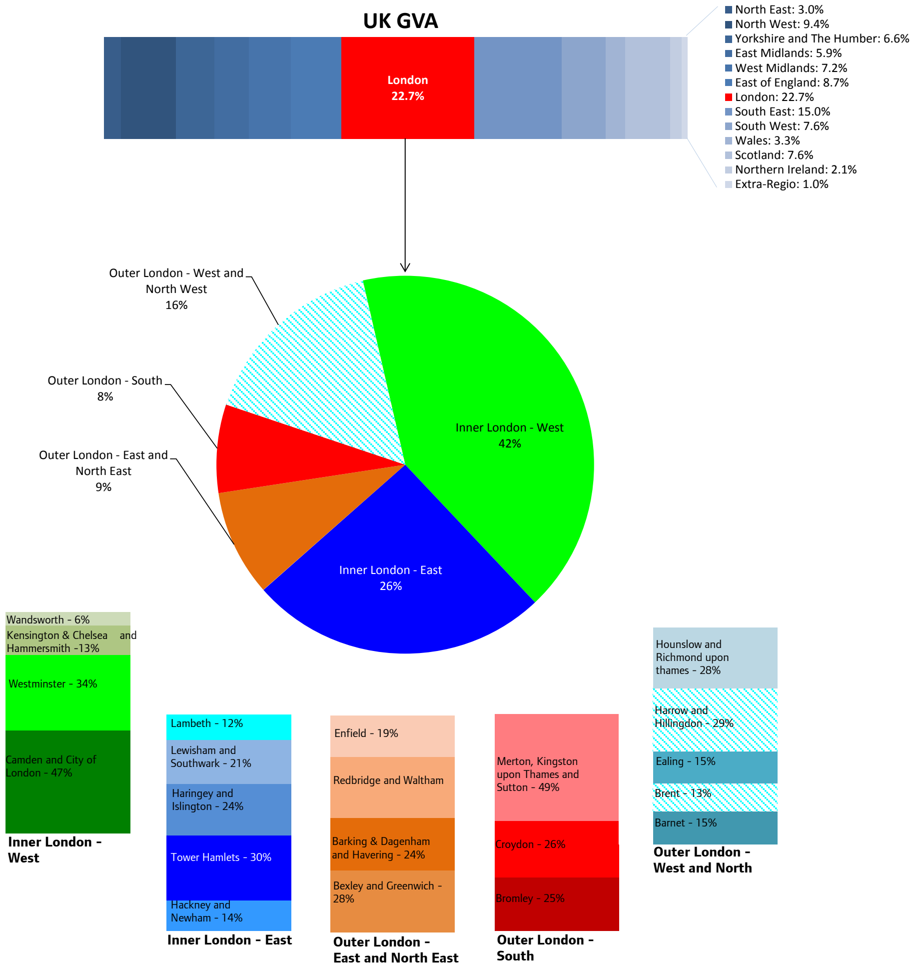
By **Emma Christie,** Economist and **Gordon Douglass,** Supervisory Economist

In December 2016, the Office for National Statistics (ONS) released provisional estimates of regional, sub-regional and local gross value added (GVA) for the years 1997 to 2015[1]. GLA Economics will publish detailed analysis of these data in due course; however this supplement provides an abridged summary of this forthcoming analysis.

The latest data show that in 2015, London's total GVA was over £378 billion, up 3.2 per cent on 2014 in nominal terms (ie, without taking account of inflation). London now accounts for 22.7 per cent of the UK's total GVA (up from 18.7 per cent in 1997). This growth in London's nominal GVA accounted for over 28 per cent of the UK's total GVA increase between 2014 and 2015. In 2015, over two-thirds of London's GVA was produced in Inner London, with around 42 per cent of London's total GVA produced in Inner London - West alone (see Figure A1).

Figure A1: Geographic breakdown of Headline[2] UK GVA (I) in 2015

Source: Regional Accounts, ONS

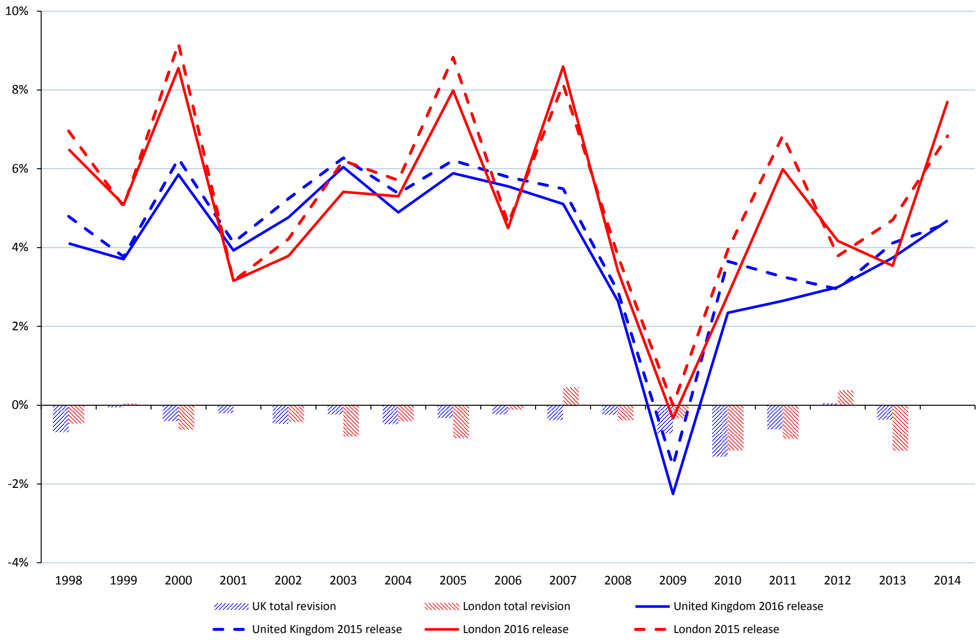


1 Office for National Statistics, December 2016, '[Regional Gross Value Added (Income Approach), UK: 1997 to 2015](#)'.
2 UK includes Extra-Regio (which comprises compensation of employees and gross operating surplus which cannot be assigned to regions)

The release published in December 2016 saw substantial revisions to the data levels compared to that published in December 2015 and also a number of revisions to the annual growth rates (see Figure A2). Data revisions were reported for all years with revisions of over 1 per cent of estimated GVA occurring for each year during the period 1997 – 2010. In these years GVA is between £16,891 million and £55,367 million higher in the UK in the 2016 estimates when compared to the estimates published in 2015. In London GVA was between £4,036 million and £10,100 million higher for the years 1997-2010 in the 2016 estimates when compared to 2015 estimates. These revisions were largely the result of changes to the calculation of imputed rent of owner-occupiers, made by the ONS last year.

Figure A2: Comparison of the nominal growth rates in GVA(I) in London and the UK 1998 to 2014 from the 2015 and 2016 regional accounts releases

Source: Regional Accounts, ONS

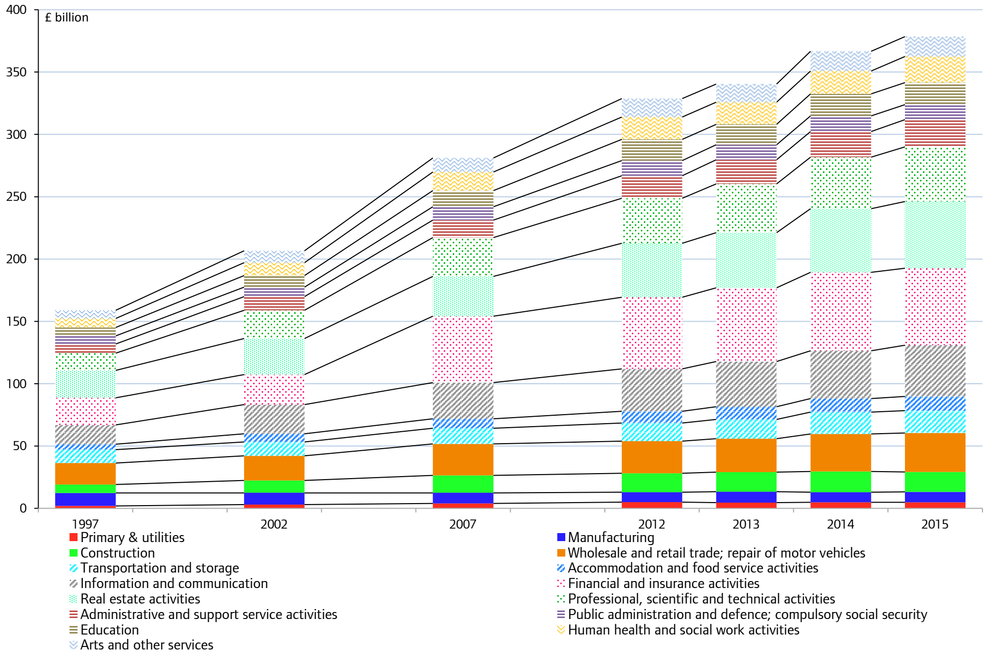


London's GVA performance remains impressive in 2015, even after adjusting for the number of workers in London (and the impact of commuters). In 2015, GVA per worker in London was £67,455, significantly higher than the figure of £49,067 for the UK as a whole. In 2015, GVA per worker increased by 1.3 per cent in London, compared to a growth rate of 1.0 per cent for the UK.

Industry analysis shows that in 2015, just over 16 per cent of London's GVA was generated by the Financial and insurance industry, totalling £61.7 billion, up from just under 14 per cent in 1997 (see Figure A3). Professional, scientific and technical activities also significantly increased its share of the London economy, increasing from 8.7 per cent of total GVA in 1997 to 11.6 per cent in 2015. Real estate, and Information and communication industries also play an important role in London's economy. In 2015, these two industries combined accounted for 25.0 per cent of London's GVA (up slightly from 23.6 per cent in 1997). In 2015, just over half of the UK's GVA in the Financial and insurance industry was generated in London (up from 42.5 per cent in 1997) (see Figure 12). Indeed, London's Financial and insurance industry made up 3.7 per cent of the UK's total GVA in 2015.

Figure A2: Headline GVA (I) in London by industry, 1997-2015, current prices

Source: Regional Accounts, ONS



GVA data by industry also show that there are differences in industry spread between Inner and Outer London. Industries with GVA concentrated in Outer London include Manufacturing (69.0 per cent); Transportation and storage (63.0 per cent); and Construction (55.0 per cent), whilst only 5.6 per cent of London's total Financial and insurance industry GVA was located there (down from 12.5 per cent in 1997). Meanwhile, Inner London produced 94.4 per cent of London's GVA in Financial and insurance activities; 80.0 per cent of Professional, scientific and technical activities; and 75.7 per cent of Information and communication.

If this supplement has whet your appetite, then further detailed analysis of recent trends in regional, sub-regional and local GVA estimates for London will be found in our upcoming publication which will be found on our publications page.

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.

ILO unemployment
The International Labour Organization (ILO) measure of unemployment assesses the number of jobless people who want to work, are available to work and are actively seeking employment.

Residence-based employment
Employment measures the number of people in work rather than the total number of jobs (as people may have more than one job). It consists of employees, self-employed as well as unpaid family workers and those on government supported training and employment programmes. The measure included here is residence-based.

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 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

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 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

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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MAYOR OF LONDON