GLAECONOMICS

London's Economic Outlook: Autumn 2012

The GLA's medium-term planning projections

MAYOR OF LONDON

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group.

Contents

1. Executive summary

GLA Economics' twenty first London forecast[i] suggests that:

- London's Gross Value Added (GVA) growth rate should be 0.9 per cent in 2012. Growth should increase to 1.8 per cent in 2013 and 2.4 per cent in 2014.

- London is likely to see a rise in employment in 2012, 2013 and 2014.

- London household income and spending will both probably increase slowly over the forecast period.

Table 1.1 summarises this report's forecasts and provides an average of independent forecasts.

Table 1.1: Summary of forecasts

Annual growth rates (per cent)	**2011**	**2012**	**2013**	**2014**
London GVA (constant 2008 £ billion)	1.8	0.9	1.8	2.4
Consensus (average of independent forecasts)		0.6	1.8	2.5
London civilian workforce jobs	2.6	1.0	0.2	0.4
Consensus (average of independent forecasts)		2.0	0.6	1.0
London household spending (constant 2008 £ billion)	-0.2	1.1	1.3	2.3
Consensus (average of independent forecasts)		1.9	1.1	2.8
London household income (constant 2008 £ billion)	-0.2	0.6	1.1	2.4
Memo: Projected UK RPI[ii] (Inflation rate)	5.2	3.4	2.6	2.9
Projected UK CPI[iii] (Inflation rate)	4.5	2.8	2.0	2.0

Sources: GLA Economics' Autumn 2012 forecast and consensus calculated by GLA Economics.

The most recent available data indicates that London's economy continues to perform better than the UK as a whole. Most economic indicators show a modest improvement in the London economy, although during winter 2012/13 London is expected to experience only slow and patchy economic growth. Household deleveraging is likely to continue for some time to come whilst credit to businesses may remain constrained given the uncertainty caused by the Eurozone crisis. Consumer confidence remains weak and wage growth is likely to be subdued although inflation has recently fallen increasing real disposable income. Employment growth is forecast over the next few years with increases in private sector employment likely to outweigh public sector job losses, but unemployment will probably be quite sticky. The fiscal retrenchment currently being undertaken by the Government is expected to dampen economic growth in the short run but should continue to provide support to market confidence in the country's finances. Fiscal tightening should keep downward pressure on market interest rates, which encourages private sector investment.

The largest downside risks to the economy remain the huge deficits of a number of Eurozone countries public finances, the economic imbalances within the Eurozone and the possibility of a worsening of the sovereign debt crisis in the Eurozone. The worst case scenario would see disorderly sovereign debt defaults or a disorderly exit from the Eurozone of member states which would greatly stress the financial system in ways that are hard to predict. The best case scenario is likely to be one of only stagnation in the Eurozone for the next few years. There are also concerns over the size of the US budget deficit and national debt, where long-term solutions have yet to be implemented. Of particular concern is the looming 'fiscal cliff' at the beginning of 2013 which will see the US experience the end of a number of temporary tax cuts, other tax rises and spending cuts unless a political agreement is enacted to avoid this situation. If this were to occur then the negative impact on the US and therefore world economy would be severe.

UK inflation has eased since the beginning of 2012 and could reach the Bank of England's 2 per cent target shortly given the slack that persists in the UK economy. In response to this and due to the continuing weakness in the UK economy, interest rates will probably be kept low by the Bank of England over the next few years and a further round of quantitative easing is possible. Sterling remains weaker than pre 2008/09 recession levels and this should provide support to the economy from import substitution and improved export competitiveness. A competitive exchange rate benefits London's tourism sector and encourages inward foreign investment. However, benefits from a competitive exchange rate will be heavily dampened if the global economy slows sharply. Over the medium term improvement in the economy is likely to be led by net trade and private sector investment. Going forward household consumption should also pick up slightly. Overall the short-term prospects for the economy remain relatively weak as the global economic environment contains many risks that are harming business confidence.

2. Introduction

The autumn 2012 edition of *London's Economic Outlook* (LEO) is GLA Economics' twenty first London forecast. The forecasts are issued every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economies with analysis of important events, trends and risks to short and medium-term growth (Section 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Section 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Section 5).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. GLA Economics' forecast is based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)
- Experian Economics (EE)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely but these are not shown here. The low and high forecasts combine the lowest and highest forecasts respectively taken from each year separately and which, may therefore, come from different forecasters. High and low estimates therefore may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is most *likely* to happen, not what will *definitely* happen.

3. Economic background: World economy slows as the Eurozone continues to generate uncertainty

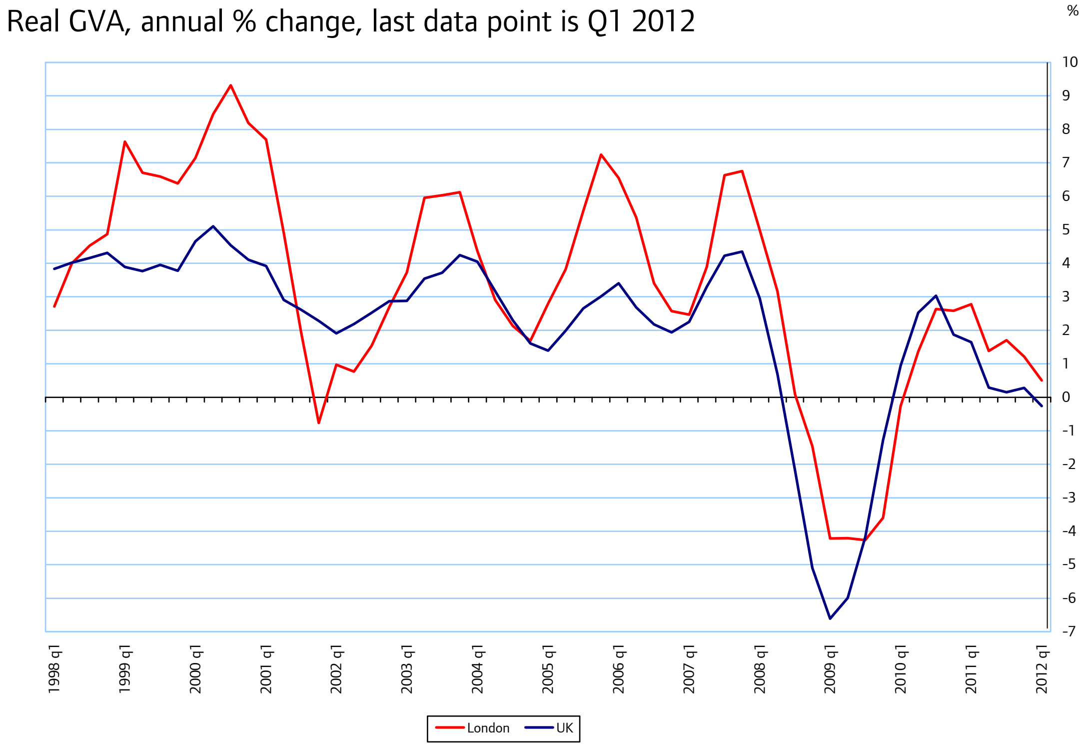
This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's annual growth in output stood at 0.5 per cent in the first quarter of 2012 compared to -0.3 per cent in the UK (see Figure 3.1). Economic indicators suggest that the London economy has performed better than the UK economy during 2012 so far.

Figure 3.1: Output growth – London and UK

Real GVA, annual % change, last data point is Q1 2012

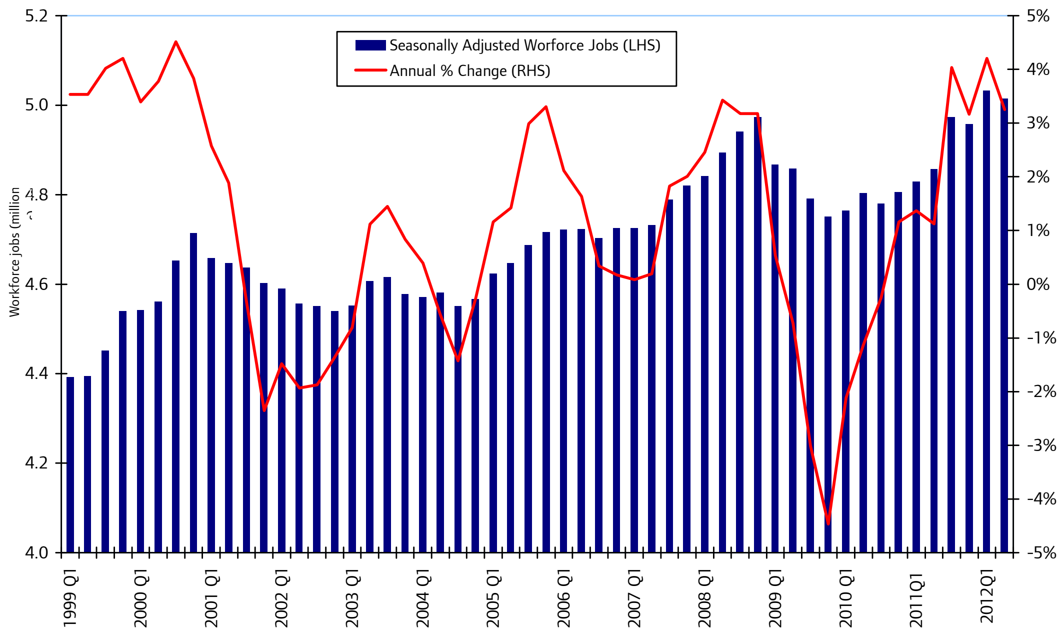


Source: Experian Economics

Annual employment growth in London remained strong in Q2 2012 at 3.3 per cent. The total number of workforce jobs in London was just over five million in Q2 2012 (see Figure 3.2).

Figure 3.2: London civilian workforce jobs

Level and annual % change, last data point is Q2 2012

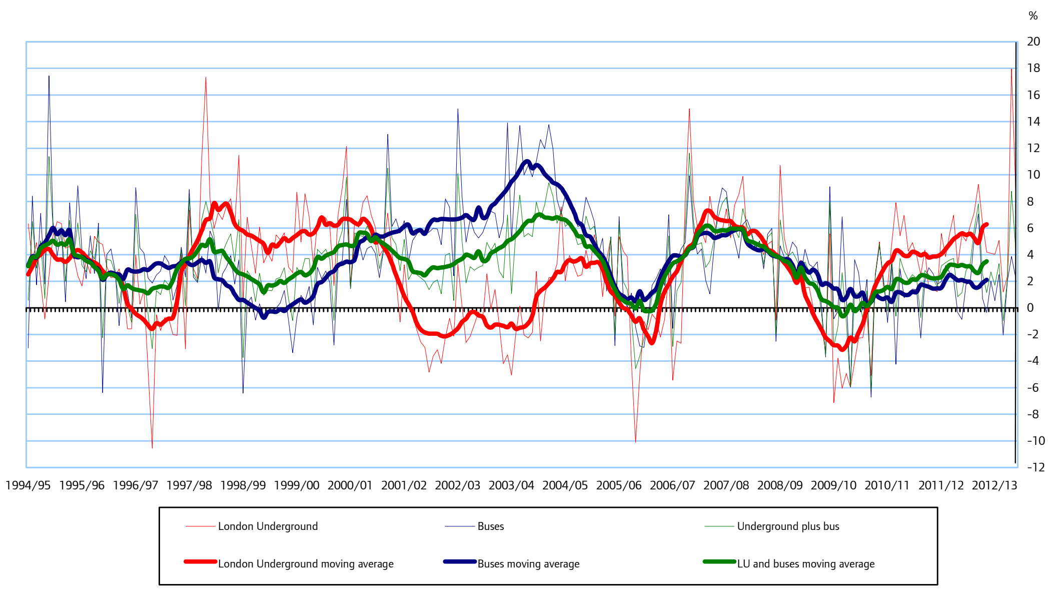


Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows that there is positive annual growth in both the moving average of bus travel and underground usage. Annual growth in underground usage is currently robust and stronger than that for bus travel.

Figure 3.3: London public transport usage

Annual % change in passengers using London Underground and buses (adjusted for odd days). Last data point is the 28-day period ending 15/09/12

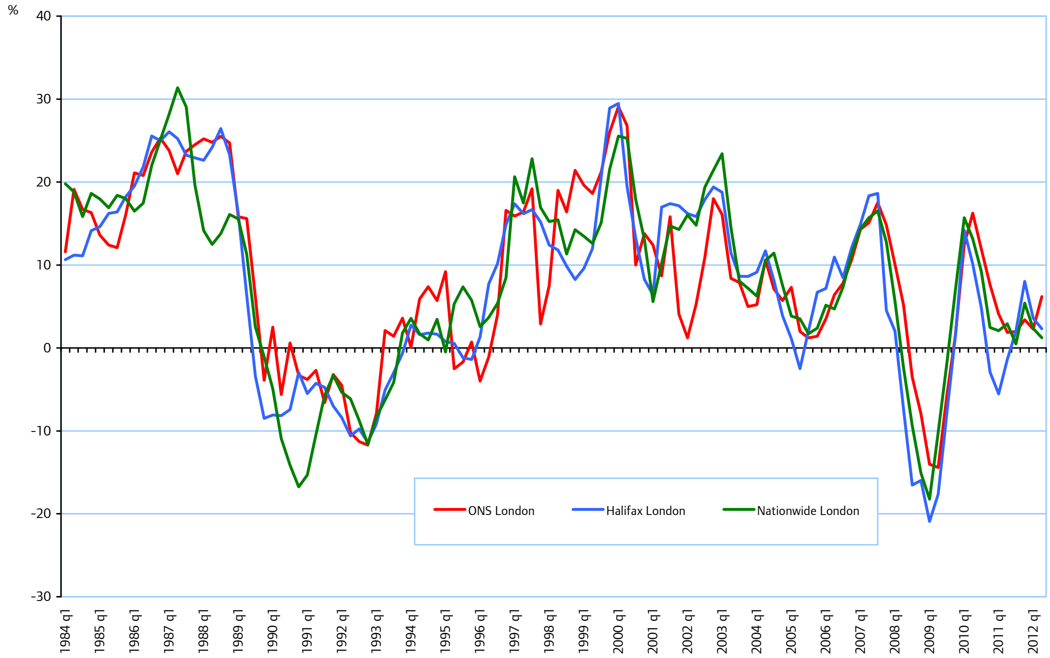


Source: Transport for London

Annual house price inflation weakened in the second half of 2007 and turned negative in 2008. Since then the London housing market has strengthened partly on the back of strong demand for prime properties[iv]. Annual house price inflation in London as measured by the Halifax, Nationwide, and the ONS was positive in Q2 2012 (see Figure 3.4) and is generally higher than in the UK as a whole.

Figure 3.4 House price inflation in London

Annual % change, last data point is Q2 2012



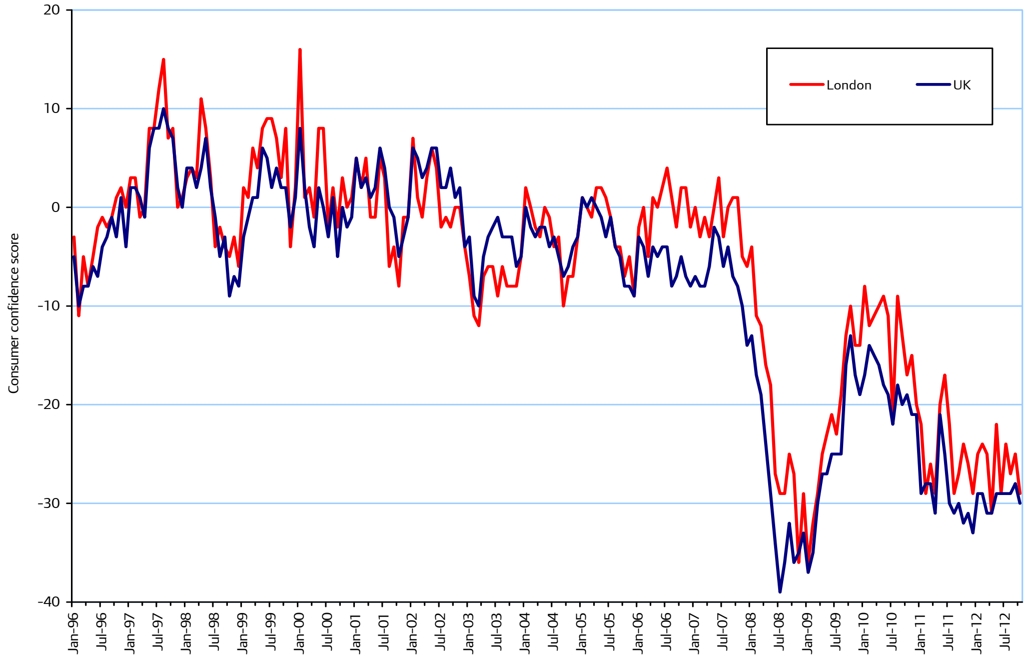
Sources: ONS, Halifax house price index, Nationwide

Knight Frank's 'Central London Quarterly' (Quarter 2 2012) for commercial property showed that "take-up across Central London rose by 10 per cent to 2.4 m sq ft, although levels remained below the long-term average" with the "technology, media and telecoms sector (being) particularly active, accounting for one-third of all transactions." Meanwhile "availability fell to 17.0 m sq ft, reflecting a vacancy rate of 7.4 per cent. Levels are now 16 per cent below the long-term average. Second-hand supply continued to fall, and the availability of newly built or refurbished accommodation is now 30 per cent lower than the long-term average". "Investment turnover rose to £3.9bn, the highest level since 2007. Overseas purchasers accounted for almost 90 per cent of turnover with the majority of activity focused on lot sizes greater than £100m." [v]

GfK NOP's regional consumer confidence index (Figure 3.5) shows that consumer confidence has deteriorated in London since summer 2010 but stands higher than in the UK as a whole. Consumer confidence is above the level at the depth of the 2008/09 recession. The index reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months.

Figure 3.5: GfK NOP's regional consumer confidence index

Consumer confidence score, last data point is October 2012



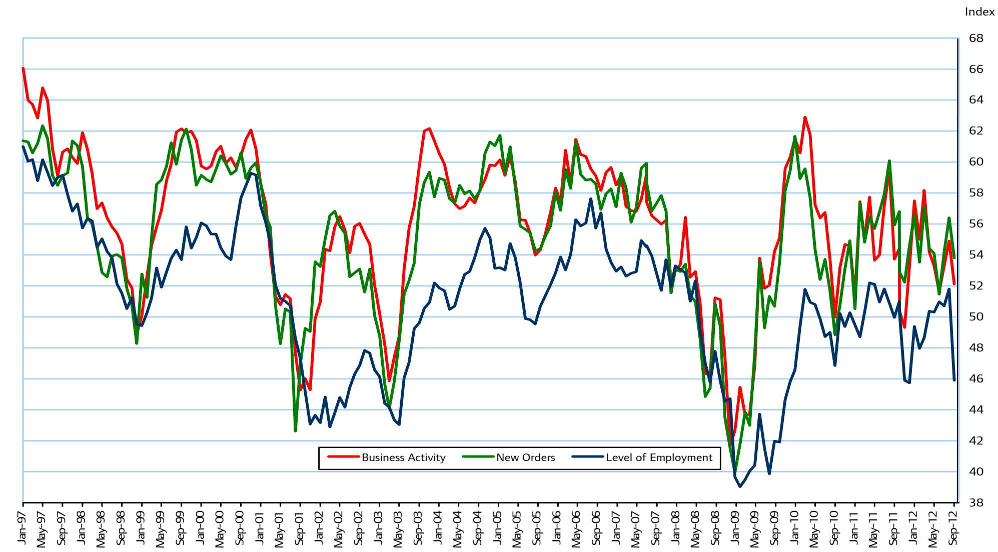
Sources: GfK NOP on behalf of the European Commission

The PMI business survey indicates that business activity has been expanding since May 2009 (apart from August 2010 and November 2011) and that new orders have also been performing well. Employment in London firms having increased since April 2012 fell sharply in September 2012 (see Figure 3.6).

Figure 3.6: Recent survey evidence on London's economic climate

Purchasing Manager's Index (PMI) survey, last data point September 2012

Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Markit Economics

3.2 The UK economy

The Office for National Statistics (ONS) in its preliminary release for Q3 2012 GDP estimates that the UK economy grew by 1.0 per cent (compared to a contraction of -0.4 per cent in Q2 2012). Hence the UK economy has exited recession, with output having previously declined for three quarters. It should be noted, however, that the UK economy bounced back strongly in Q3 2012 partly as a result of the Diamond Jubilee bank holiday which depressed output in Q2 2012. UK growth was also boosted by ticket sales for the Olympic and Paralympic Games which were recognised by the ONS at the time of the Games (i.e. in Q3 2012). Taking Q2 2012 and Q3 2012 together suggests that there was modest underlying UK growth over these two quarters combined. UK output was flat in Q3 2012 compared to Q3 2011[vi], and is still just over 3 per cent below its pre 2008/09 recession peak. The IMF forecasts that the UK economy will contract by 0.4 per cent in 2012 and grow by just 1.1 per cent in 2013[vii].

Table 3.1: HM Treasury and consensus forecasts for the UK economy
Annual % change, unless otherwise indicated

	Average of Independent Forecasters		**Budget March 2012**	
	2012	**2013**	**2012**	**2013**
GDP growth (per cent)	-0.3	1.1	0.8	2.0
Claimant unemployment (mn)	1.61	1.66	1.65	1.64
Current account (£bn)	-46.0	-33.4	-27	-21
PSNB (2012-13, 2013-14: £bn)	104.7	114	92[viii]	98

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, October 2012.
Office for Budget Responsibility, Economic and fiscal outlook, March 2012.

As can be seen in Table 3.2 annual growth was positive in Q3 2012 in distribution, hotels and restaurants, business services and finance, and government and other services.

Table 3.2: Recent growth in broad industrial sectors of UK economy
Annual % change

	2011				2012		
Industrial sectors	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Agriculture, forestry, and fishing	-5.1%	-4.2%	-2.9%	3.8%	-6.3%	-7.8%	-5.1%
Mining & quarrying inc oil & gas extraction	-10.3%	-16.9%	-15.9%	-13.9%	-13.1%	-9.6%	-6.6%
Manufacturing	4.7%	3.0%	1.0%	-0.5%	-1.2%	-2.2%	-0.8%
Electricity gas steam and air	-3.1%	-5.5%	-0.1%	-9.5%	-4.0%	4.2%	0.0%
Construction	7.5%	2.6%	-0.7%	1.4%	-4.7%	-9.0%	-10.8%
Distribution, hotels and restaurants	0.5%	0.8%	0.5%	0.6%	0.0%	-0.3%	1.1%
Transport, storage and communication	0.9%	0.9%	0.9%	0.0%	1.6%	-0.2%	-0.4%
Business services and finance	1.3%	1.2%	2.0%	2.2%	1.6%	1.3%	1.0%
Government and other services	0.7%	1.1%	1.3%	2.2%	1.2%	1.3%	2.5%

Source: Office for National Statistics (as of 26 October 2012)

Table 3.3 shows that household annual spending growth has been negative for over a year. Investment fell heavily during the 2008/09 recession, and after picking up in 2010 has been weak since. Looking forward investment is expected to pick-up but less strongly than previously hoped for.

Table 3.3: UK domestic expenditure growth
Annual % change

	2011				2012	
Expenditure	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Households	0.1%	-1.3%	-1.8%	-1.6%	-0.9%	-0.8%
Non-profit institutions	5.4%	4.3%	1.9%	1.3%	1.8%	1.7%
General Government	-0.6%	-0.3%	0.3%	1.2%	3.0%	2.6%
Gross fixed capital formation	-2.5%	0.0%	-2.0%	-0.9%	1.9%	-1.2%

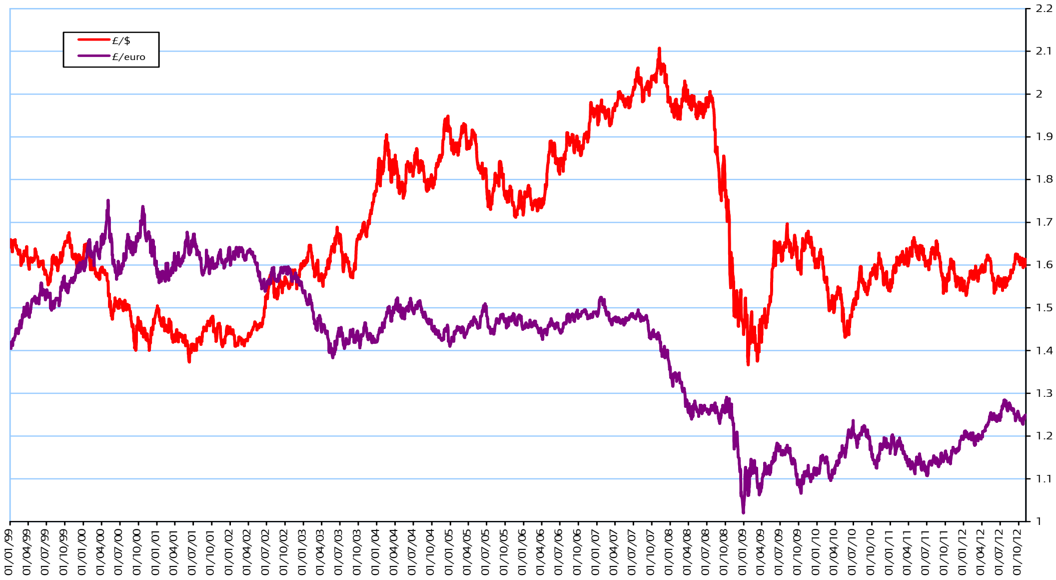
Source: Office for National Statistics (as of 26 October 2012)

Inflation has moderated during 2012 but continues to remain above the Bank of England's central symmetrical target of 2 per cent, with annual Consumer Price Index (CPI) inflation standing at 2.2 per cent in September. The Bank of England believes the prospects for CPI inflation have eased with it being "a little more likely to be below than above the 2% target for much of the second half of the forecast period, as the impact of external price pressures wanes and domestic cost pressures ease"[ix]. Interest rates are expected to remain extremely low for a few more years and there may be a further round of quantitative easing (QE). Annual Retail Price Index (RPI) inflation stood at 2.6 per cent in September.

Sterling continues to remain relatively weak against the dollar compared to the heights it reached in 2007 (see Figure 3.7). Against the Euro sterling has risen slightly during 2012 but remains below its pre 2008/09 recession levels which should support exporters, tourism and import substitution.

Figure 3.7: £ to $ and £ to euro exchange rates

Last data point is 5/11/12



Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)[x] (see Figure 3.8). There was a fall of approximately 30 per cent from its peak in early 2007 up to January 2009. Since then sterling has fluctuated a bit but remains weak and at a similar level to that seen after sterling came out of the Exchange Rate Mechanism (ERM) in 1992. The large depreciation of sterling in 2008 should continue to provide support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports. UK exporters will however be hampered by any further slowing of the global economy.

Figure 3.8: Sterling EERI rate

Last data point is 5/11/12

Source: Bank of England

3.3 The world economy

In October the IMF downgraded their forecast for the world economy. The IMF now forecasts that the world economy will expand by 3.3 per cent in 2012[xi] and by 3.6 per cent in 2013. Generally the forecasts for developed economies have weakened with a number now forecast to contract in 2012 and experience only subdued growth in 2013. The Eurozone is forecast to contract by -0.4 per cent in 2012 and grow by just 0.2 per cent in 2013[xii]. The US economy is forecast to grow by 2.2 per cent in 2012 and then by 2.1 per cent in 2013[xiii]. Growth in emerging and developing economies is expected to be 5.3 per cent in 2012 and 5.6 per cent in 2013[xiv].

In October's World Economic Outlook the IMF note that "the recovery continues, but it has weakened. In advanced economies, growth is now too low to make a substantial dent in unemployment. And in major emerging market economies, growth that had been strong earlier has also decreased"[xv]. They also observe that the "forces pulling growth down in advanced economies are fiscal consolidation and a still-weak financial system. In most countries, fiscal consolidation is proceeding according to plan. While this consolidation is needed, there is no question that it is weighing on demand, and the evidence increasingly suggests that, in the current environment, the fiscal multipliers are large. The financial system is still not functioning efficiently. In many countries, banks are still weak, and their positions are made worse by low growth. As a result, many borrowers still face tight borrowing conditions"[xvi]. Meanwhile "the main force pulling growth up is accommodative monetary policy. Central banks continue not only to maintain very low policy rates, but also to experiment with programs aimed at decreasing rates in particular markets, at helping particular categories of borrowers, or at helping financial intermediation in general"[xvii]. The IMF further notes that "low growth and uncertainty in advanced economies are affecting emerging market and developing economies, through both trade and financial channels, adding to homegrown weaknesses. As was the case in 2009, trade channels are surprisingly strong, with, for example, lower exports accounting for most of the decrease in growth in China. Alternative risk-off and risk-on episodes, triggered by progress and regress on policy action, especially in the euro area, are triggering volatile capital flows"[xviii].

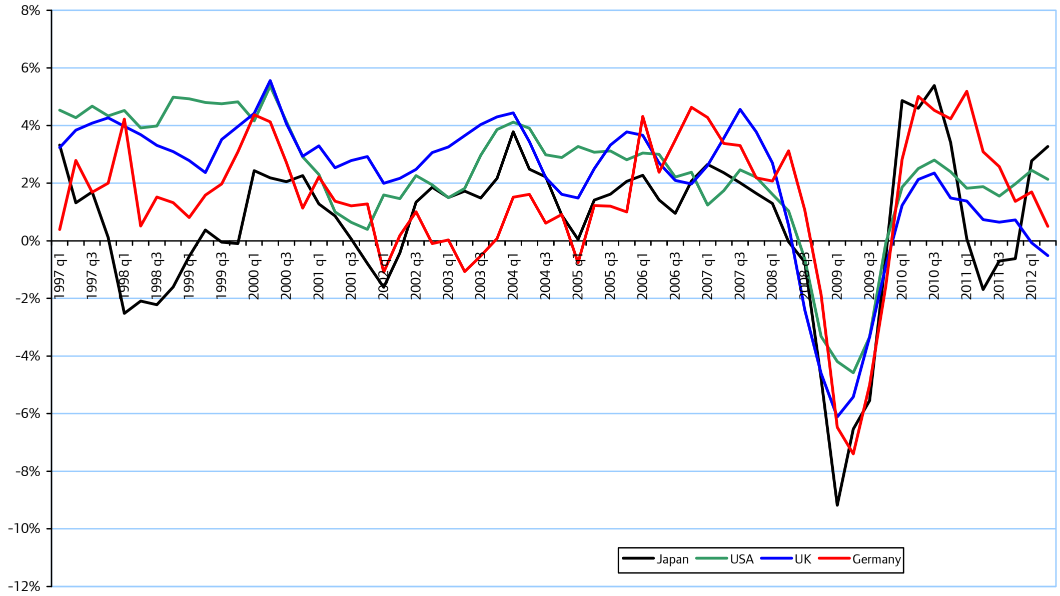
In its October 2012 Global Financial Stability Report the IMF observed that "despite recent favorable developments in financial markets, risks to financial stability have increased since April 2012 … as confidence in the global financial system has become very fragile. Although significant new efforts by European policymakers have allayed investors' biggest fears, the euro area crisis remains the principal source of concern. Tail-risk perceptions surrounding currency redenomination have fuelled a retrenchment of private financial exposures to the euro area periphery. The resulting capital flight and market fragmentation undermine the very foundations of the union: integrated markets and an effective common monetary policy"[xix]. To overcome the problems in the Eurozone it notes "key elements at the national level include implementation of well-timed and growth-friendly fiscal consolidation, structural reforms to reduce external imbalances and promote growth, and completion of the banking sector cleanup, including further steps to recapitalize or restructure viable banks where necessary and to resolve nonviable banks. These national efforts need to be supported at the euro area level by sufficient funding to banks through the ECB's liquidity framework. More fundamentally, concrete progress toward establishing a banking union in the euro area will help to break the pernicious link between sovereigns and domestic banks and help improve supervision"[xx]. The IMF also remarks that "the unfolding euro area crisis has generated safe-haven flows to other jurisdictions, notably the United States and Japan. Although these flows have pushed government funding costs to historical lows, both countries continue to face significant fiscal challenges"[xxi].

The **US** economy continues to experience a modest but subdued recovery[xxii] and grew by an annualised rate of 2.0 per cent in Q3 2012[xxiii]. However the situation remains finely balanced and has seen the Federal Reserve begin a third round of quantitative easing (this time open-ended) with it announcing in September that it will buy "additional agency mortgage-backed securities at a pace of $40bn per month"[xxiv]. Interest rates, which are currently standing at a target rate of between 0 to 0.25 per cent, are likely to remain low until 2015[xxv]. US consumer confidence improved again in October[xxvi] and the US is adding new jobs with the unemployment rate standing at 7.9 per cent in October[xxvii]. A particular concern for the US economy is the looming 'fiscal cliff' that it faces at the beginning of 2013 when taxes will rise and Government spending will be cut automatically unless there is a political agreement to forestall this situation. The US economic recovery remains weak but is continuing although events in the Eurozone could still unhinge it as could the 'fiscal cliff'[xxviii]. The October 2012 Beige Book from the Federal Reserve reported "economic activity generally expanded modestly since the last report"[xxix], with it also noting that "residential real estate conditions improved since the last report". The US is also slightly less wary about the situation in the Eurozone than earlier in the year with the minutes from the September Federal Open Market Committee of the Federal Reserve stating that their new forecast reflects "a slight improvement in the outlook for the European situation"[xxx].

Eurostat data suggest that the **Eurozone** economy contracted in Q2 2012, with output falling by -0.2 per cent after remaining flat in Q1 2012 and decreasing by -0.3 per cent in Q4 2011. A number of economic forecasts predict poor or negative growth in the Eurozone for the remainder of 2012 and into 2013. Growth slowed in a number of Eurozone countries in the second quarter of 2012. German GDP grew by 0.3 per cent in Q2 2012 after growing by 0.5 per cent in Q1 2012, whilst France's GDP remained unchanged at 0.0 per cent in Q2 2012, after also not growing in either Q1 2012 or in Q4 2011. Spain's economy contracted by -0.4 per cent in Q2 2012 after contracting in both Q1 2012 and Q4 2011. Italy's economy contracted by -0.8 per cent in Q2 2012 (its fourth consecutive quarter of contraction) and Portugal's economy contracted by -1.2 per cent in Q2 2012 having been contracting since Q4 2010. The European Central Bank (ECB) has continued to keep interest rates low at 0.75 per cent (but surprisingly they have not been lowered closer to 0 per cent) in response to the problems in the Eurozone, whilst also signalling its willingness to take more action in response to the crisis (see Box 3.1). Eurozone unemployment remains at a record high with it standing at 11.6 per cent in September, whilst in Spain it hit 25.8 per cent. Unemployment in the under 25 age group is a huge problem with it reaching 23.3 per cent in the Eurozone[xxxi] and over 50 per cent in Spain in September[xxxii]. There also still remains the possibility that the sovereign debt position and the public finances of a number of members of the Eurozone could trigger a major global financial and economic crisis.

Japan's economy grew by 0.2 per cent in Q2 2012, this was however slower than the 1.3 per cent growth seen in Q1 2012. Results from the Bank of Japan's Tankan survey of manufacturing sentiment showed that business sentiment declined in the three months to September[xxxiii], whilst the Bank of Japan has undertaken another round of QE which will see its total asset purchase programme increase by ¥10 trillion to ¥80 trillion[xxxiv]. In October the IMF forecast that Japan's economy would grow by 2.2 per cent in 2012 and by 1.2 per cent in 2013[xxxv].

Figure 3.9: GDP growth in selected industrialised countries
Real GDP, annual % change, last data point is Q2 2012



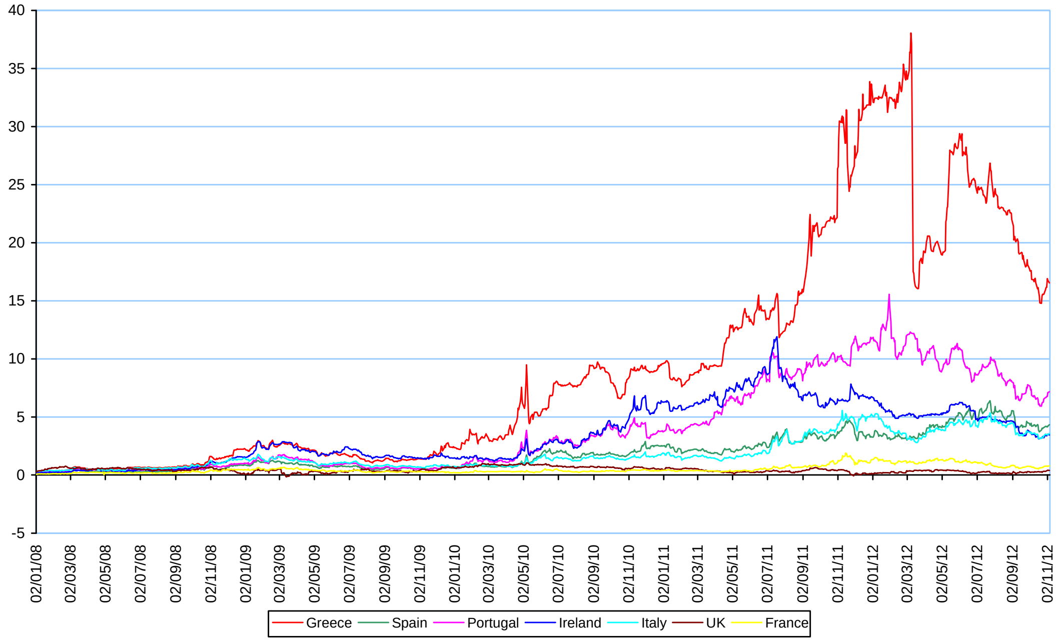
Source: Ecowin

Box 3.1: The Eurozone sovereign debt crisis shows no sign of ending

Since the publication of Spring 2012 LEO the sovereign debt problems in the Eurozone have continued with little sign of a permanent resolution of the crisis emerging. However, some limited progress has been made on shoring up the currency. On 6 September the European Central Bank (ECB) unveiled a government bond buying scheme to ease tensions in the Eurozone. The scheme which has been called outright monetary transactions (OMT) will see the ECB buy Eurozone countries short-term bonds in the secondary bond market. Mario Draghi, the president of the ECB, said the scheme would provide a "fully effective backstop"[xxxvi]. However, the OMTs will only be carried out in tandem with the European Financial Stability Facility or European Stability Mechanism programmes meaning that any country wishing to take advantage of OMT would first have to request a financial bailout. The OMTs would also be conditional on the government implementing financial and economic reforms that had been agreed with the Eurozone financial authorities and that were monitored by the IMF. OMT was welcomed by financial markets and stock markets rose after the announcement. Long-term government bond yield spreads between Eurozone countries have also eased recently but remain elevated (see Figure 3.10).

Figure 3.10: Ten-year government bond spreads over German government bonds, percentage points

Last data point: 5/11/2012



Source: Ecowin

Signs of the economic stress in the Eurozone continue to abound particularly in Greece, Cyprus, Portugal and Spain. A number of Spanish regions have requested bailouts from the Spanish Government and Spanish banks continue to face problems with bank loans in arrears hitting record levels in 2012[xxxvii]. The Spanish Government has announced further austerity measures for 2013. Expectations that Spain will request a sovereign bailout remain high[xxxviii] and its government sovereign debt credit rating continues to be downgraded by ratings agencies[xxxix]. Spain has also formally requested an international financial bailout for its banks. They officially requested this on 25 June. Cyprus also requested a bailout on 25 June to help shore up its banks, which are heavily exposed to the Greek economy. Other moves have been made to shore up the Eurozone's banks with an agreement announced on 28 June for a joint bank supervisory body for the Eurozone and that loans will be made directly to troubled banks from the European Stability Mechanism[xl]. It is hoped that this will help break the destabilising link between banking system problems adding to governments' sovereign debt problems.

Elsewhere the Greek Government has agreed to further spending cuts for 2013-14[xli] and Portugal has released details of its budget for 2013 which will see further tax rises and spending cuts[xlii]. Meanwhile, Moody's has lowered the ratings outlook for the EU to 'negative'[xliii] due to the negative ratings outlook for a number of key budget contributing countries.

The problems in the Eurozone's southern periphery have continued to affect Eurozone countries whose governments' debts are seen as sustainable such as Germany. Germany has experienced Moody's downgrading its sovereign debt to a 'negative outlook' due to the increased chance of a Greek exit from the Eurozone which Moody's said "would set off a chain of financial sector shocks"[xliv]. Still there are at least indications that some proposals are slowly being considered and acted upon into solving the underlying problems of the Eurozone as highlighted by the proposals for unified banking supervision put forward recently by the European Commission[xlv]. In October the Eurozone also formally set up the European Stability Mechanism[xlvi]. However, until some radical solution to the underlying problems of the competitiveness imbalances within the Eurozone is agreed on, with talk of even further integration being on the cards[xlvii], then it is likely that the Eurozone crisis will continue to rumble on, sapping consumer and especially business confidence across the globe.

3.4 Emerging market economies

China's economy grew at an annualised rate of 7.4 per cent in Q3 2012, the seventh consecutive quarter of slowing annual growth[xlviii]. With the manufacturing sector slowing there is mounting evidence of a general slowdown in China's economy[xlix]. Chinese inflation has fallen since the beginning of 2012 and stood at 1.9 per cent in September 2012 providing policy makers with room for manoeuvre to react to the economy's slowdown although so far the Governments' policy response has been considered muted by many. The IMF is forecasting that the Chinese economy will grow by 7.8 per cent in 2012 and by 8.2 per cent in 2013[l], whilst the Asian Development Bank (ADB) downgraded its forecast for Chinese growth to 7.7 per cent in 2012 and 8.1 per cent in 2013[li]. **India's** economy grew by a modest annual rate of 5.5 per cent in the quarter that ended in June[lii], whilst The Reserve Bank of India has come under pressure to cut interest rates further but has not lowered them since April[liii]. However, inflation remains high which may limit the ability of the central bank to react to any global slowdown[liv]. The IMF forecasts Indian growth will be 4.9 per cent in 2012 and 6.0 per cent in 2013[lv], whilst the ADB downgraded its forecast for growth to 5.6 per cent in 2012 and 6.7 per cent in 2013[lvi]. **Russia's** economy is forecast by the IMF to grow by 3.7 per cent in 2012 and by 3.8 per cent in 2013[lvii], but the World Bank notes that "the economy is slowing down in the second half of 2012 due to rising inflation, weakening domestic demand, and sluggish external demand"[lviii].

3.5 Risks to the world economy

Downside risks to the world economic outlook remain highly elevated but have not significantly increased since the publication of Spring 2012 LEO. The major source of concern in the world economy is the ongoing sovereign debt problems in 'peripheral' Eurozone nations, although the signs of a general global slowdown are also a worry[lix]. A disorderly exit of countries from the Eurozone and the shock this would bring to the global financial system and the damage to business confidence remains the most significant risk to the world economy. Global bond and stock markets could experience extreme volatility if the Eurozone problems worsen. Even the best case scenario, which is likely to be one of only economic stagnation in the Eurozone for a number of years, will act as a break on business confidence, private investment and global economic growth. Elsewhere the possibility that the US economy will fall off a 'fiscal cliff' in 2013 due to political intransigence is a major cause for concern. Many emerging market economies show evidence of a slowdown, whilst most developed economies continue to be weak. Global commodity prices, especially food prices, have the possibility to rise quickly[lx] and destabilise the global economy, whilst instability in the Middle East is a worry[lxi]. Consumer, business and investor confidence is fragile and is being negatively affected by the Eurozone crisis; whilst credit to businesses remains highly constrained. Still, the monetary policies of most central banks in the developed world remain extremely accommodating and should remain so for the next few years which will support the global economy.

There remains a strong danger that as the world economy continues to be hindered by sovereign debt problems in the Eurozone that it will become more unbalanced as the developed economies stagnate whilst developing economies continue to grow, albeit at a slower rate than previously. Greater exchange rate flexibility would help ease global economic imbalances but progress remains slow. The whole global financial system remains vulnerable to banking sector fragility, despite banks having had substantial time to build up their capital and liquidity reserves. The potential for adverse feedback loops between sovereign debt problems, fragile banking systems and weakening economies especially in the Eurozone remains highly worrying.

3.6 Conclusion

London's economy is expected to grow at a subdued rate over 2012-14 with employment rising relatively strongly in 2012 but only at a modest rate in 2013 and 2014. The pace of economic growth is likely to pick up during the end of 2013 and into 2014. However downside risks to the London economy remain high due to the Eurozone sovereign debt crisis and the general global economic slowdown. Inflation has moderated but higher taxes, low wage growth and public sector spending cuts means that consumers will remain under financial pressure though this should gradually ease. If growth is to pick up faster than expected it is likely to be due to private sector investment and net exports. Less emphasis on public sector spending and consumer debt will help rebalance the economy and put it on a sounder footing in the long term. The process of financial sector (especially banking sector) and household deleveraging will continue to be a difficult one. Consumer and business credit is likely to remain tight despite the positive impact that the Governments'/Bank of England's Funding for Lending Scheme (FLS) should have.

4. Review of independent forecasts

What the forecasts provide

In Chapter 5, GLA Economics' forecast of four economic indicators is provided: workforce employment, real output, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 26 October 2012 on the first three of these indicators is summarised[lxii], drawing on forecasts from outside (independent) organisations.[lxiii] Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for all historic data in the following tables and charts is EE.

Additionally, both the consensus[lxiv] and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transportation and storage
- distribution[lxv], accommodation and food service activities
- finance[lxvi] and business services[lxvii]
- other (public & private) services[lxviii].

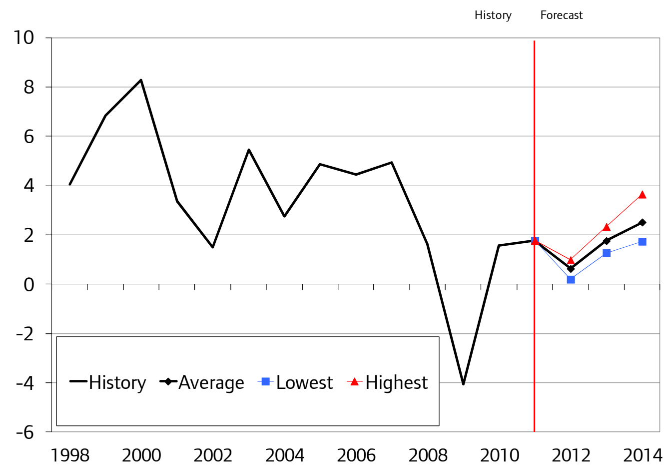
It should be noted, that our previous forecast (Spring 2012) and this Autumn 2012 forecast use the new Standard Industrial Classification (SIC 2007), which is explained in more detail in Appendix A.

Output

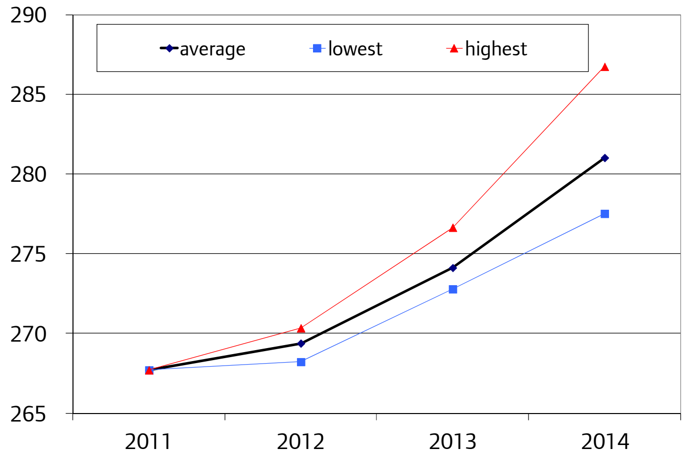
(London GVA, constant prices (base year 2008), £ billion)

The consensus (mean average view) is for real output growth to remain positive in 2012 and to reach 2.5 per cent in 2014.

Annual growth (per cent)



Level (constant year 2008, £ billion)



Annual growth (per cent)			
	2012	2013	2014
Average	0.6	1.8	2.5
Lowest	0.2	1.3	1.7
Highest	1.0	2.3	3.6

Level (constant year 2008, £ billion)			
	2012	2013	2014
Average	269	274	281
Lowest	268	273	278
Highest	270	277	287

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.0	6.8	8.3	3.4	1.5	5.5	2.8	4.9	4.4	4.9	1.6	-4.1	1.6	1.8

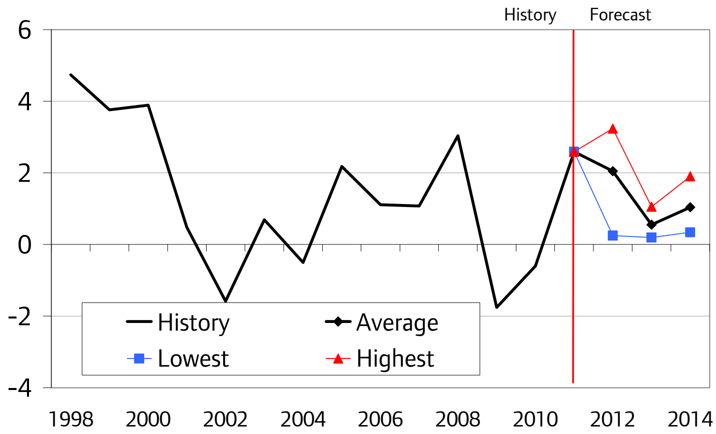
History: Level (constant year 2008, £ billion)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
168.9	175.7	187.7	203.3	210.1	213.2	224.9	231.1	242.3	253.1	265.6	270.0	259.0	263.1	267.7

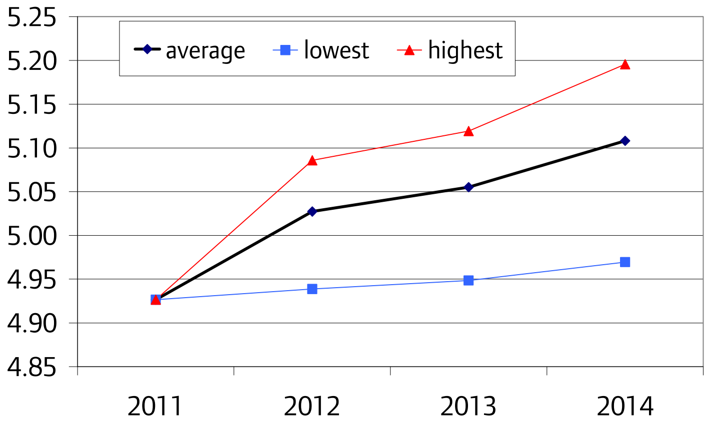
Employment
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 2.0 per cent in 2012, by 0.6 per cent in 2013 and by 1.0 per cent in 2014.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)			
	2012	2013	2014
Average	2.0	0.6	1.0
Lowest	0.2	0.2	0.3
Highest	3.2	1.1	1.9

Level (millions)			
	2012	2013	2014
Average	5.03	5.06	5.11
Lowest	4.94	4.95	4.97
Highest	5.09	5.12	5.20

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.7	3.8	3.9	0.5	-1.6	0.7	-0.5	2.2	1.1	1.1	3.0	-1.8	-0.6	2.6

History: Level (millions)

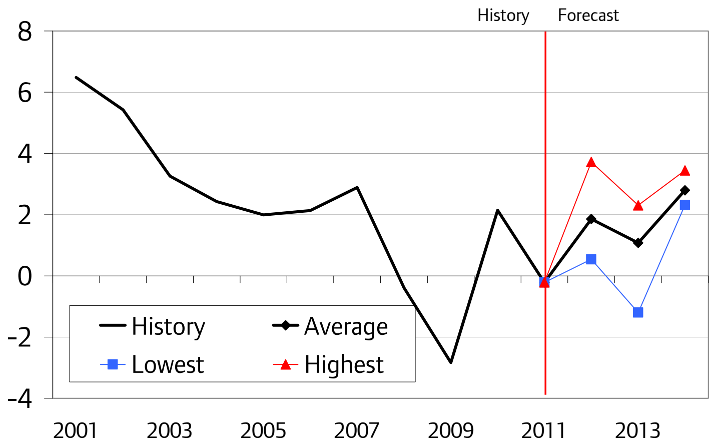
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.09	4.28	4.44	4.61	4.64	4.56	4.59	4.57	4.67	4.72	4.77	4.92	4.83	4.80	4.93

Household expenditure

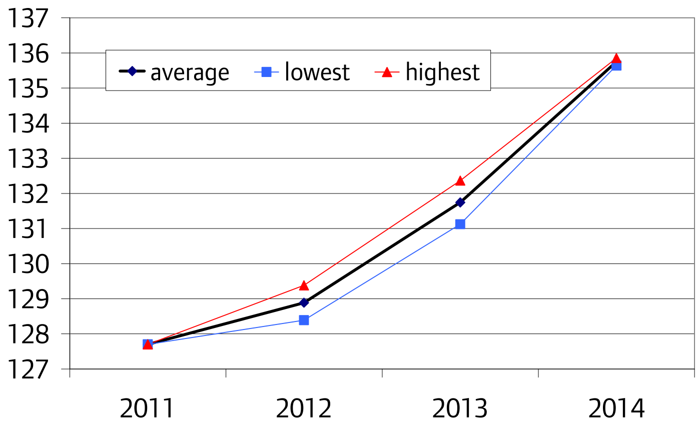
(London household spending, constant year 2008, £ billion)

The consensus view is for household expenditure growth of 1.9 per cent in 2012, 1.1 per cent in 2013 and 2.8 per cent in 2014.

Annual growth (per cent)



Level (constant year 2008 £ billion)



Annual growth (per cent)			
	2012	2013	2014
Average	1.9	1.1	2.8
Lowest	0.5	-1.2	2.3
Highest	3.7	2.3	3.4

Level (constant year 2008, £ billion)			
	2012	2013	2014
Average	129	132	136
Lowest	128	131	136
Highest	129	132	136

History: Annual growth (per cent)

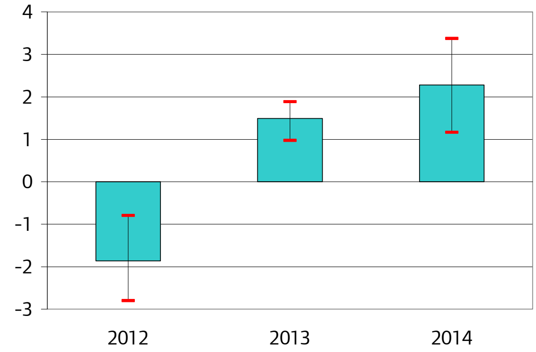
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
6.5	5.4	3.3	2.4	2.0	2.1	2.9	-0.4	-2.8	2.1	-0.2

History: Level (constant year 2008, £ billion)

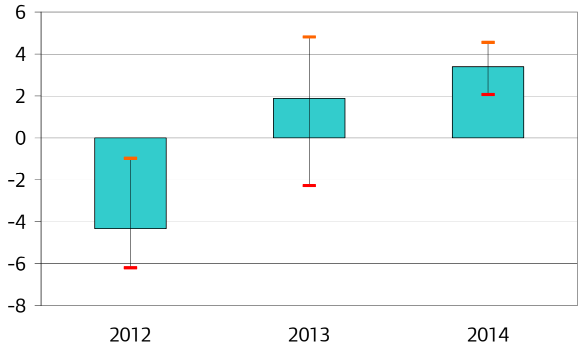
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
101.7	108.3	114.2	117.9	120.8	123.2	125.8	129.4	128.9	125.3	128.0	127.7

Output growth by sector (per cent annual change)
As the recovery continues it is expected that there will be positive output growth in all sectors, except for manufacturing and construction, which will see output decline in 2012 and other (public & private) services which will see a decline in 2013.

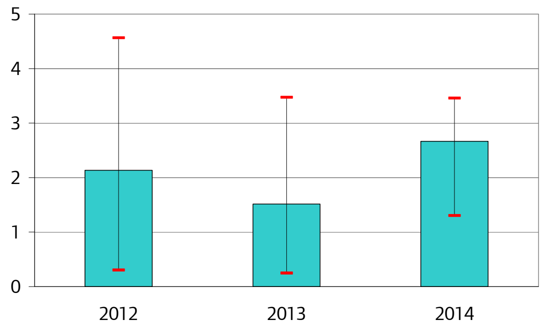
Manufacturing



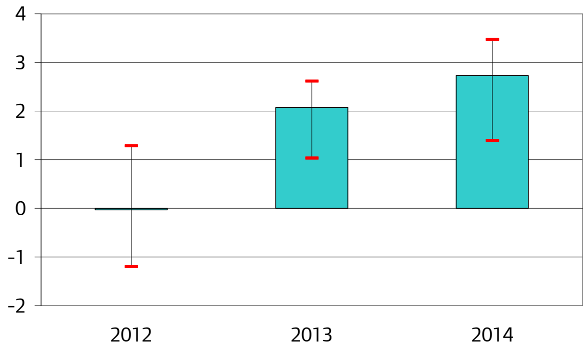
Construction



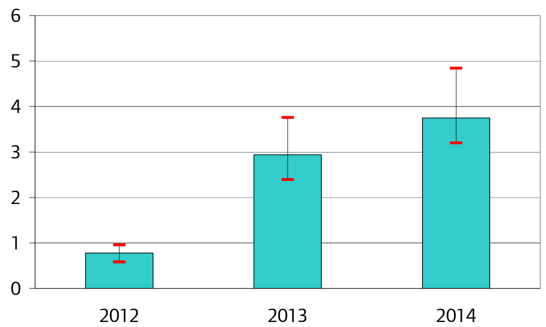
Distribution, accommodation and food service activities



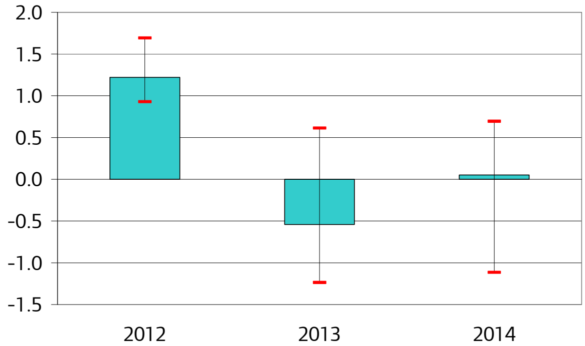
Transportation and storage



Finance and business



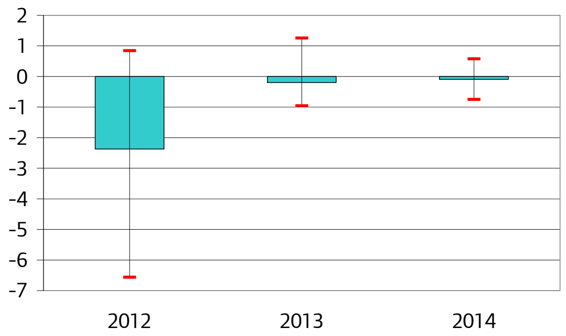
Other (public & private) services



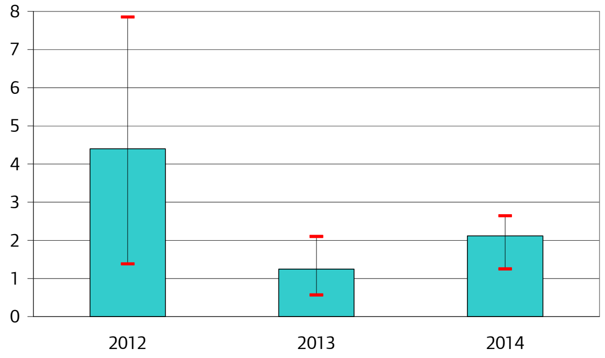
		2012	2013	2014			2012	2013	2014
Manufacturing	*Average*	-1.9	1.5	2.3	**Construction**	*Average*	-4.3	1.9	3.4
	Lowest	-2.8	1.0	1.2		*Lowest*	-6.2	-2.3	2.1
	Highest	-0.8	1.9	3.4		*Highest*	-1.0	4.8	4.6
Distribution, accommodation and food service activities	*Average*	2.1	1.5	2.7	**Transportation and storage**	*Average*	0.0	2.1	2.7
	Lowest	0.3	0.2	1.3		*Lowest*	-1.2	1.0	1.4
	Highest	4.6	3.5	3.5		*Highest*	1.3	2.6	3.5
Finance and business	*Average*	0.8	2.9	3.7	**Other (public & private) services**	*Average*	1.2	-0.5	0.1
	Lowest	0.6	2.4	3.2		*Lowest*	0.9	-1.2	-1.1
	Highest	1.0	3.8	4.8		*Highest*	1.7	0.6	0.7

Employment growth by sector (per cent annual change)
Forecasted employment growth is positive for most sectors between 2012 and 2014 apart from manufacturing and for other (public & private) services in 2013 and 2014.

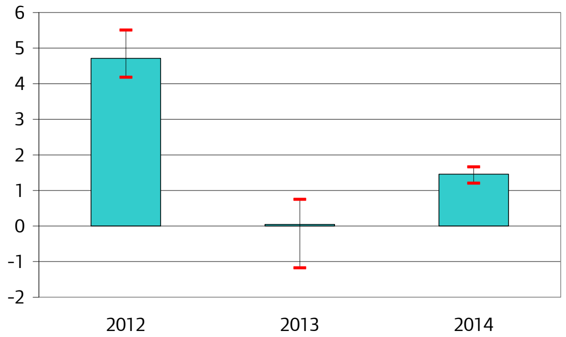
Manufacturing



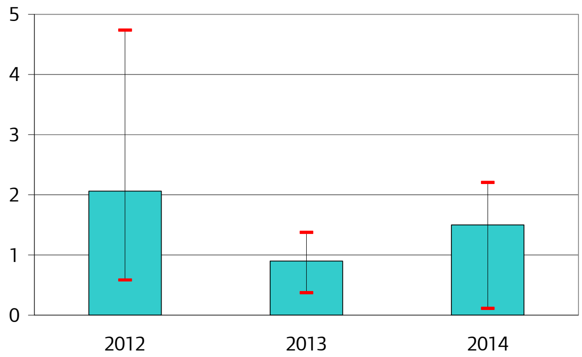
Construction



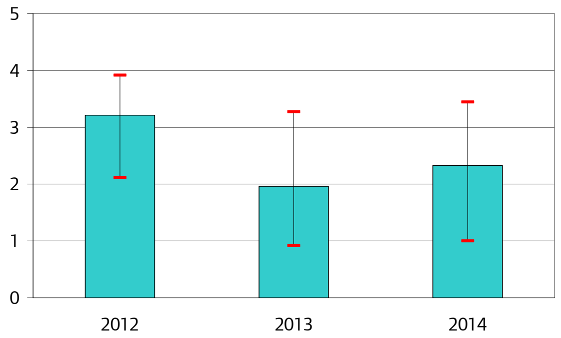
Distribution, accommodation and food service activities



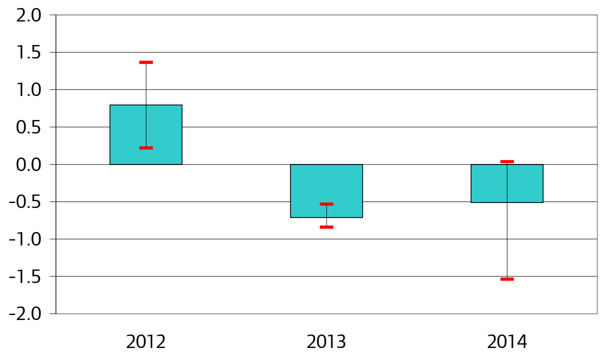
Transportation and storage



Finance and business



Other (public & private) services



		2012	2013	2014			2012	2013	2014
Manufacturing	*Average*	-2.4	-0.2	-0.1	**Construction**	*Average*	4.4	1.2	2.1
	Lowest	-6.6	-1.0	-0.7		*Lowest*	1.4	0.6	1.2
	Highest	0.8	1.3	0.6		*Highest*	7.9	2.1	2.6
Distribution, accommodation and food service activities	*Average*	4.7	0.0	1.5	**Transportation and storage**	*Average*	2.1	0.9	1.5
	Lowest	4.2	-1.2	1.2		*Lowest*	0.6	0.4	0.1
	Highest	5.5	0.7	1.7		*Highest*	4.7	1.4	2.2
Finance and business	*Average*	3.2	2.0	2.3	**Other (public & private) services**	*Average*	0.8	-0.7	-0.5
	Lowest	2.1	0.9	1.0		*Lowest*	0.2	-0.8	-1.5
	Highest	3.9	3.3	3.4		*Highest*	1.4	-0.5	0.0

5. The GLA Economics forecast

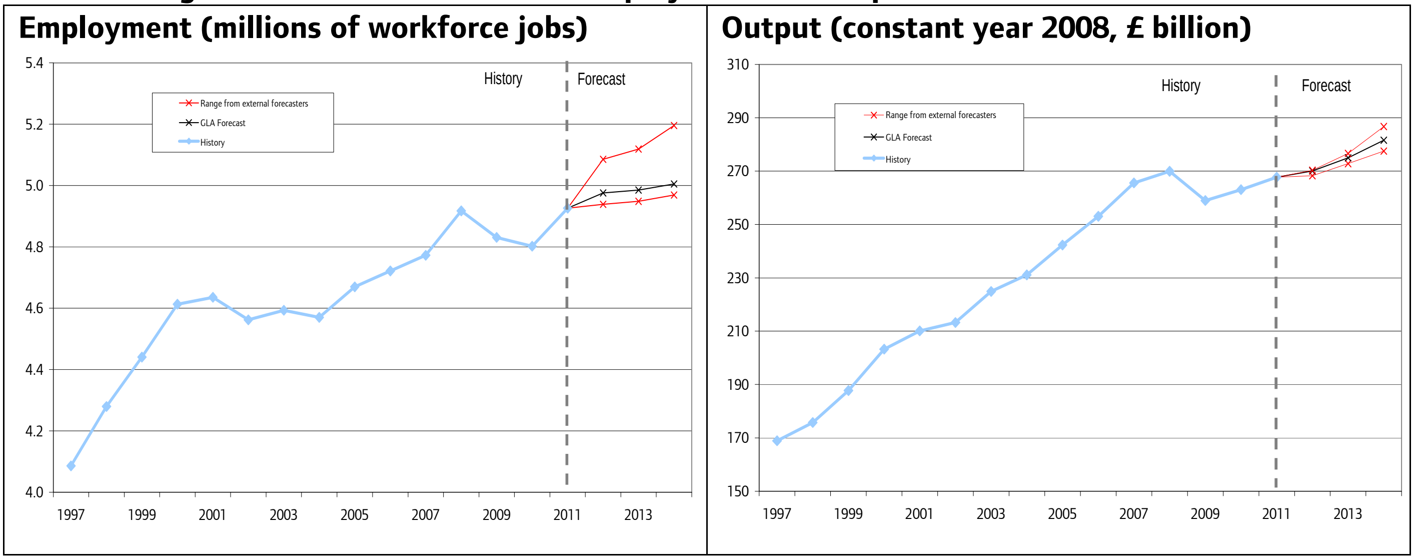
It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points. For business planning (for example the likely course of revenue) estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections provide these estimates. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for all historic data in the following tables and charts is EE.

5.1 Results

Following the resumption of positive growth in 2010 output is expected to continue to rise between 2012 and 2014. Employment growth is forecast to be relatively strong in 2012 but to be modest in 2013 and 2014.

Household spending is expected to continue to grow between 2012 and 2014. Household income growth is also expected to be positive over the forecast period.

Figure 5.1: Trend and forecast employment and output



Source: EE for historic data and GLA Economics' calculations for forecast

Table 5.1: Forecast and historical growth rates

Annual % change

	2006	2007	2008	2009	2010	2011	2012	2013	2014
GVA	4.4	4.9	1.6	-4.1	1.6	1.8	0.9	1.8	2.4
Workforce jobs	1.1	1.1	3.0	-1.8	-0.6	2.6	1.0	0.2	0.4
Household spending	2.1	2.9	-0.4	-2.8	2.1	-0.2	1.1	1.3	2.3
Household income	3.0	3.2	0.8	1.8	-0.2	-0.2	0.6	1.1	2.4

Table 5.2: Forecast and historical levels

(constant year 2008, £ billion except jobs)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
GVA	253.1	265.6	270.0	259.0	263.1	267.7	270.1	275.0	281.6
Workforce jobs (millions)	4.72	4.77	4.92	4.83	4.80	4.93	4.98	4.99	5.01
Household spending	125.8	129.4	128.9	125.3	128.0	127.7	129.1	130.8	133.8
Household income	141.6	146.1	147.3	150.0	149.7	149.3	150.2	151.9	155.5

Output

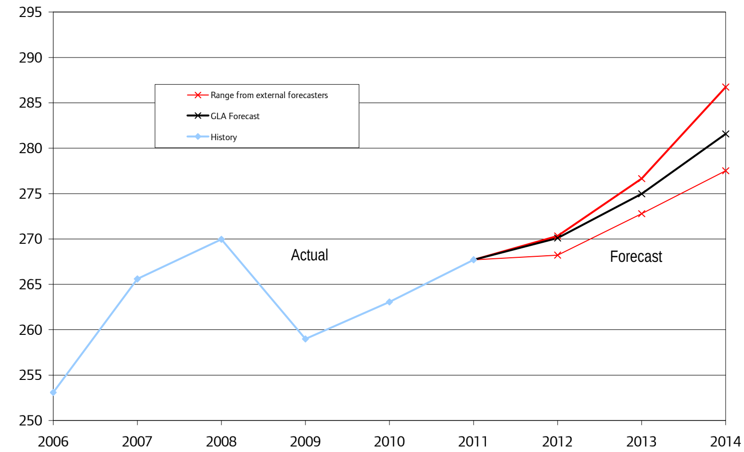
(London GVA, constant year 2008, £ billion)

London's real GVA is forecast to grow at a modest rate between 2012 and 2014. Forecast growth rates are 0.9 per cent in 2012, 1.8 per cent in 2013, and 2.4 per cent in 2014.

The GLA Economics' forecast for output growth is similar to the consensus average forecast throughout 2012-14.

Annual growth (per cent)

Level (constant year 2008, £ billion)



Growth (annual per cent)				
	2011	**2012**	**2013**	**2014**
GLA	1.8	0.9	1.8	2.4
Consensus		0.6	1.8	2.5

Level (constant year 2008, £ billion)				
	2011	**2012**	**2013**	**2014**
GLA	268	270	275	282
Consensus		269	274	281

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.0	6.8	8.3	3.4	1.5	5.5	2.8	4.9	4.4	4.9	1.6	-4.1	1.6	1.8

History: Level (constant year 2008, £ billion)

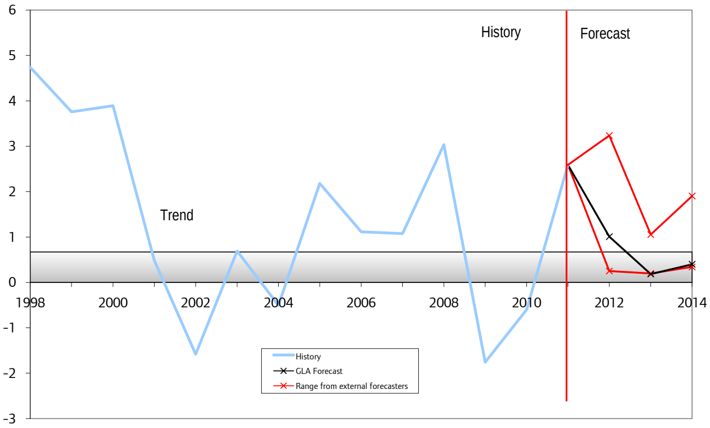
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
168.9	175.7	187.7	203.3	210.1	213.2	224.9	231.1	242.3	253.1	265.6	270.0	259.0	263.1	267.7

Employment
(London workforce jobs)

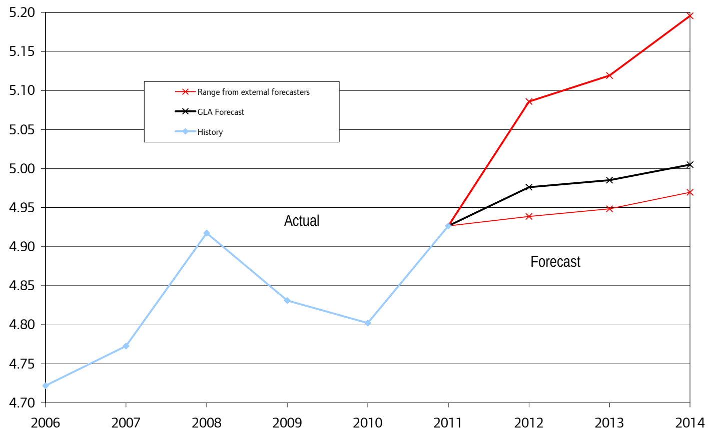
London's employment is forecast to rise relatively strongly in 2012, but then grow modestly in 2013 and 2014.

GLA Economics' forecast for employment growth is more pessimistic than the consensus average forecast throughout 2012-2014.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)				
	2011	2012	2013	2014
GLA	2.6	1.0	0.2	0.4
Consensus		2.0	0.6	1.0

Level (millions of workforce jobs)				
	2011	2012	2013	2014
GLA	4.93	4.98	4.99	5.01
Consensus		5.03	5.06	5.11

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.7	3.8	3.9	0.5	-1.6	0.7	-0.5	2.2	1.1	1.1	3.0	-1.8	-0.6	2.6

History: Level (millions)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.09	4.28	4.44	4.61	4.64	4.56	4.59	4.57	4.67	4.72	4.77	4.92	4.83	4.80	4.93

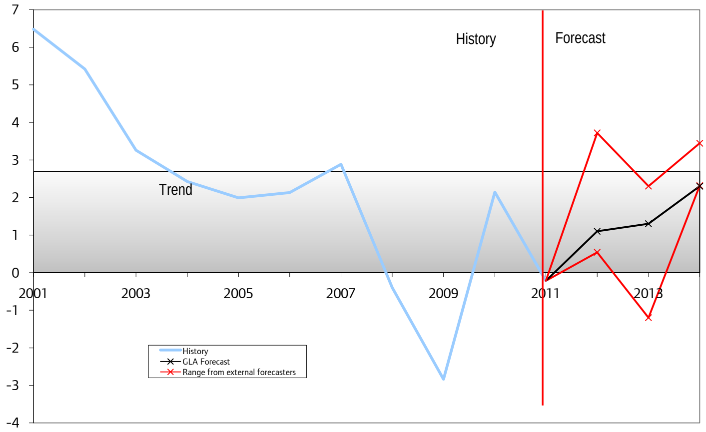
Household expenditure

(London household spending, constant year 2008, £ billion)

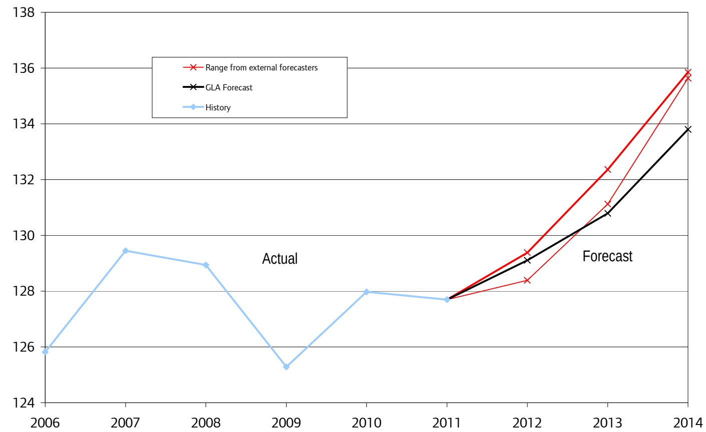
Growth in London's household spending is forecast to be positive over the forecast period.

GLA Economics' household spending growth forecast is lower than the consensus average in 2012 and 2014 but slightly higher in 2013.

Annual growth (per cent)



Level (constant year 2008, £ billion)



Growth (annual per cent)				
	2011	2012	2013	2014
GLA	-0.2	1.1	1.3	2.3
Consensus		1.9	1.1	2.8

Level (constant year 2008, £ billion)				
	2011	2012	2013	2014
GLA	128	129	131	134
Consensus		129	132	136

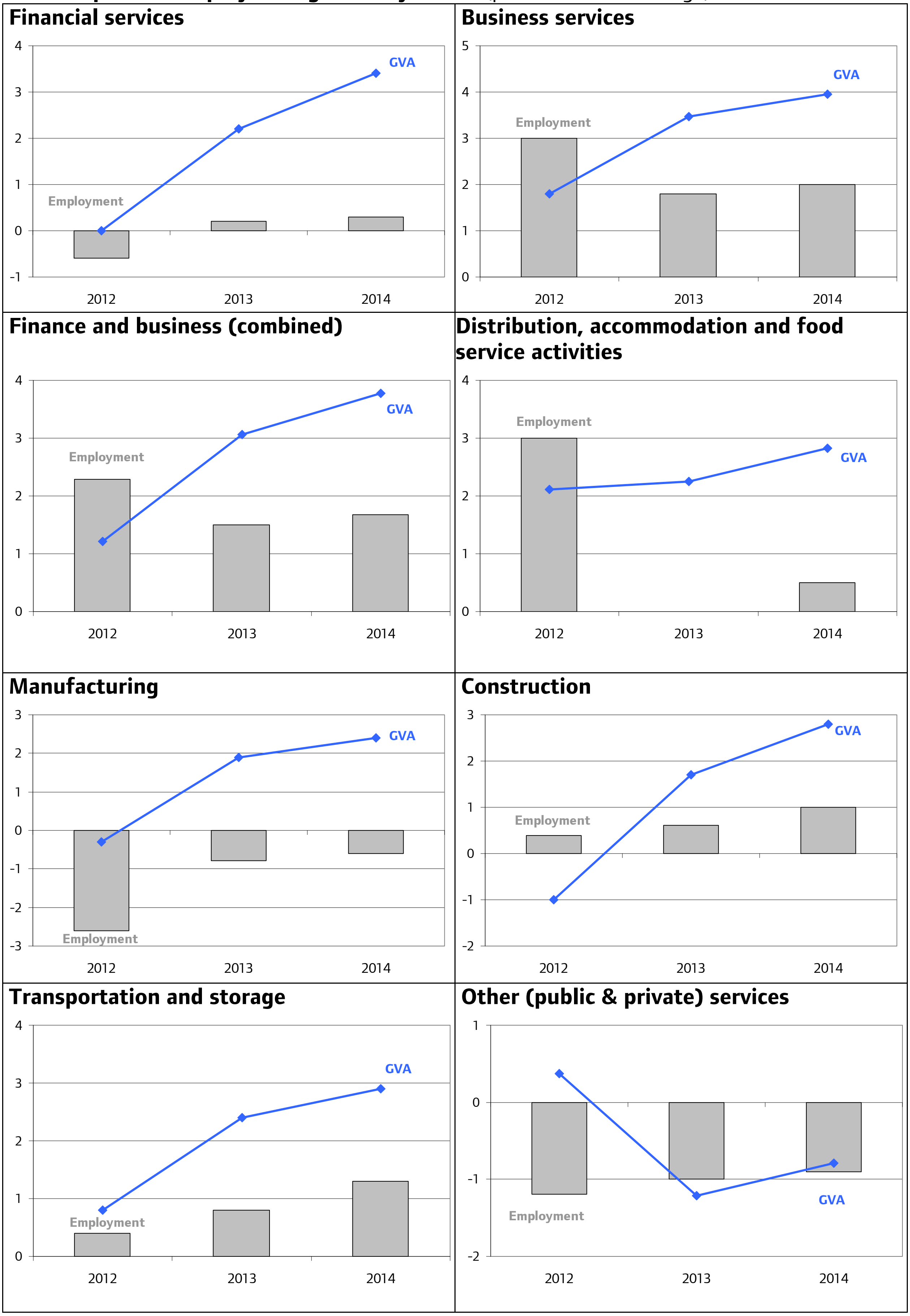
History: Annual growth (per cent)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
6.5	5.4	3.3	2.4	2.0	2.1	2.9	-0.4	-2.8	2.1	-0.2

History: Level (constant year 2008, £ billion)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
101.7	108.3	114.2	117.9	120.8	123.2	125.8	129.4	128.9	125.3	128.0	127.7

Output and employment growth by sector (per cent annual change)



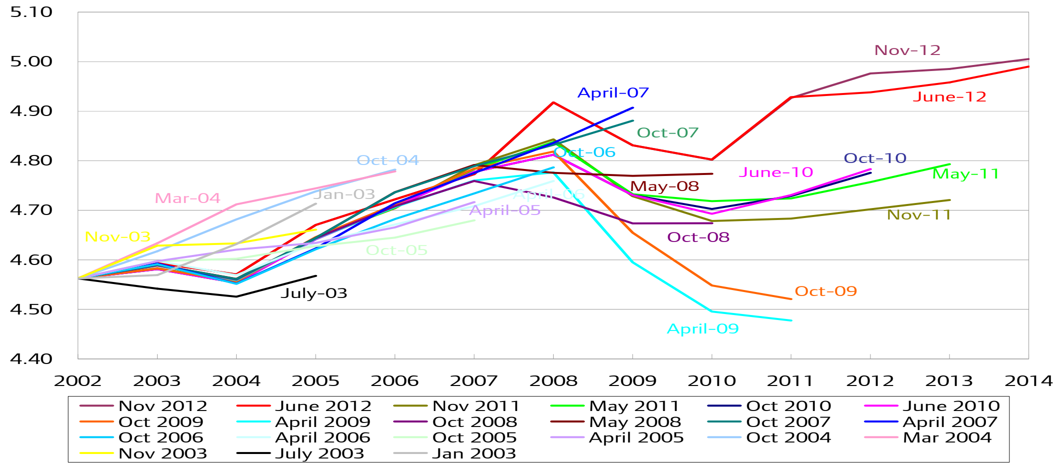
Output and employment growth by sector (per cent annual change)

	2012	2013	2014
Financial services			
Output	0.0	2.2	3.4
Employment	-0.6	0.2	0.3
Business services			
Output	1.8	3.5	4.0
Employment	3.0	1.8	2.0
Financial and business services combined			
Output	1.2	3.1	3.8
Employment	2.3	1.5	1.7
Distribution, accommodation and food service activities			
Output	2.1	2.2	2.8
Employment	3.0	0.0	0.5
Transportation and storage			
Output	0.8	2.4	2.9
Employment	0.4	0.8	1.3
Other (public & private) services			
Output	0.4	-1.2	-0.8
Employment	-1.2	-1.0	-0.9
Manufacturing			
Output	-0.3	1.9	2.4
Employment	-2.6	-0.8	-0.6
Construction			
Output	-1.0	1.7	2.8
Employment	0.4	0.6	1.0
(Memo: non-manufacturing)			
Output	0.9	1.8	2.4
Employment	1.1	0.2	0.4

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparison in Figures 5.2 and 5.3. The most recent forecast for London's workforce jobs growth and output growth is generally similar to the June 2012 forecast. However, forecasted workforce jobs growth in 2012 is significantly higher in this latest forecast.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(millions of workforce jobs)

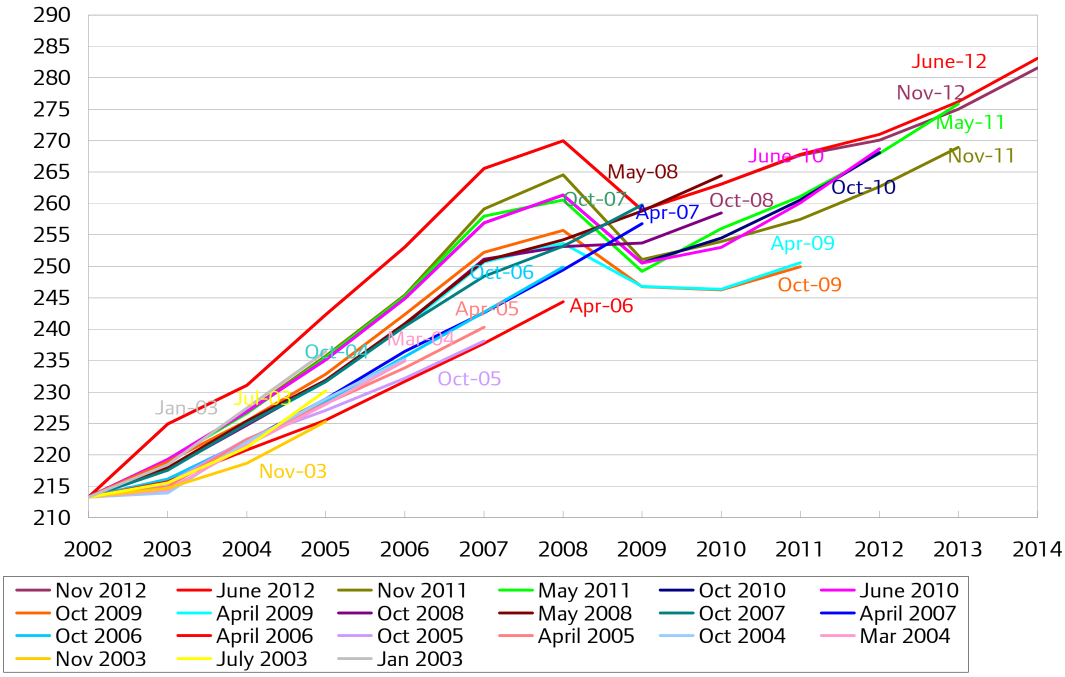


Source: Various London's Economic Outlooks

Table 5.3: Comparisons with previous published forecasts
(London workforce jobs, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Nov 2012	**0.7%**	**-0.5%**	**2.2%**	**1.1%**	**1.1%**	**3.0%**	**-1.8%**	**-0.6%**	**2.6%**	1.0%	0.2%	0.4%
June 2012										0.2%	0.4%	0.6%
Nov 2011									0.1%	0.4%	0.4%	
May 2011									0.1%	0.7%	0.8%	
Oct 2010								-0.6%	0.6%	1.0%		
June 2010								-0.8%	0.8%	1.1%		
Oct 2009							-3.4%	-2.3%	-0.6%			
April 2009							-3.8%	-2.2%	-0.4%			
Oct 2008						-0.7%	-1.1%	0.0%				
May 2008						-0.3%	-0.1%	0.1%				
Oct 2007					1.2%	0.9%	1.0%					
April 2007					1.2%	1.4%	1.5%					
Oct 2006				1.3%	1.1%	1.1%						
April 2006				0.8%	0.8%	1.1%						
Oct 2005			0.6%	0.4%	0.8%							
April 2005			0.3%	0.7%	1.1%							
Oct 2004		1.4%	1.2%	0.9%								
Mar 2004		1.7%	0.7%	0.7%								
Nov 2003	1.5%	0.1%	0.6%									
July 2003	-0.5%	-0.4%	0.9%									
Jan 2003	0.2%	1.4%	1.8%									

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 2008, £ billion)



Source: Various London's Economic Outlooks

Table 5.4: Comparisons with previous published forecasts
(London GVA, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Nov 2012	**5.5%**	**2.8%**	**4.9%**	**4.4%**	**4.9%**	**1.6%**	**-4.1%**	**1.6%**	**1.8%**	0.9%	1.8%	2.4%
June 2012										1.2%	1.9%	2.5%
Nov 2011									1.4%	2.0%	2.4%	
May 2011									2.0%	2.6%	2.9%	
Oct 2010								1.6%	2.4%	2.9%		
June 2010								1.0%	2.8%	3.3%		
Oct 2009							-3.5%	-0.2%	1.5%			
April 2009							-2.7%	-0.2%	1.7%			
Oct 2008						0.8%	0.2%	1.9%				
May 2008						1.3%	1.8%	2.2%				
Oct 2007					3.3%	2.0%	2.6%					
April 2007					2.6%	2.8%	3.0%					
Oct 2006				3.1%	3.0%	3.0%						
April 2006				2.7%	2.6%	2.8%						
Oct 2005			2.0%	2.3%	2.6%							
April 2005			2.6%	2.5%	2.7%							
Oct 2004		3.8%	3.1%	2.7%								
Mar 2004		3.3%	2.9%	3.0%								
Nov 2003	0.7%	1.9%	3.0%									
July 2003	1.1%	2.6%	4.1%									
Jan 2003	2.4%	4.1%	4.0%									

Appendix A: From SIC 2003 to SIC 2007[lxix]

In Autumn 2011 LEO and previous LEOs to that, GLA Economics used a 12 sector breakdown of the economy – see Table A1. However, the switch over to SIC 2007 allows us both to use sector categories which are more relevant to London and to use a 'higher resolution' of sectors: we now use 16 sectors in our long run employment projections. The main innovations in SIC 2007 were the new section J, "Information and Communication" and the breakdown of "Business Services" into three categories that are highly relevant to London.

Table A1 shows the broad level mapping of the SIC 2003 categories used in Working Paper 38: 'Employment projections for London by sector and trend-based projections by borough' (November 2009), into the SIC 2007 categories we use now.

Table A1: GLA SIC categories

<table>
<tr><th>SIC 2007 GLA Sectors</th><th>SIC 2003 GLA Sectors</th></tr>
<tr><td>Primary & utilities</td><td>Primary & utilities</td></tr>
<tr><td>Manufacturing</td><td>Manufacturing</td></tr>
<tr><td>Construction</td><td>Construction</td></tr>
<tr><td>Wholesale</td><td>Wholesale</td></tr>
<tr><td>Retail</td><td>Retail</td></tr>
<tr><td>Transportation and Storage</td><td>Transport & communications</td></tr>
<tr><td>Accommodation and food service activities</td><td>Hotels & restaurants</td></tr>
<tr><td>Financial and insurance activities</td><td>Financial services</td></tr>
<tr><td>Information and Communication</td><td rowspan="3">Business services</td></tr>
<tr><td>Professional, scientific and technical services and real estate</td></tr>
<tr><td>Administrative and support service activities</td></tr>
<tr><td>Public Admin and defence</td><td>Public Admin</td></tr>
<tr><td>Education</td><td rowspan="2">Health & education</td></tr>
<tr><td>Health</td></tr>
<tr><td>Arts, entertainment and recreation</td><td></td></tr>
<tr><td>Other services</td><td>Other services</td></tr>
</table>

Most of the new categories introduced by SIC 2007 relate to service activities. This is significant for London as many of its jobs are service sector based. For example Real Estate and Professional and Administrative Service activities have almost three times as many divisions under SIC 2007. Business activities (Section K under SIC 2003), which make up a large proportion of London's employee jobs, has moved to several areas in SIC 2007 including Sections L (Real Estate Activities), M (Professional, Scientific and Technical Activities) and N (Administrative and Support Services Activities). Section M includes legal and accounting activities, head office activities, management consultancy, architectural and engineering activities, scientific research and development, advertising and market research, other professional, scientific and technical activities and veterinary activities.

Some of the business activities from Section K of SIC 2003 have also moved to Sections S (Other service activities) and J (Information and communication) in SIC 2007. Section J in SIC 2007 also includes publishing, film, broadcasting and news agencies in addition to telecoms and computer related activities. The sale of fuel is now considered a retail activity (in SIC 2003 it was part of motor trade), and recycling has moved from manufacturing to water supply and sewerage and waste management.

Appendix B: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report, as far as is compatible with the individual definitions applied by the forecasters, 'employment' refers to 'workforce employment' as defined in, *Labour Market Trends. London's Economic Outlook: December 2003* and *The GLA's Workforce Employment Series* provides a more detailed explanation of this term.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). Some forecasters still estimate GDP, which differs slightly from GVA. Imputed rental income from the ownership of property is included in some cases but not in others. GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

Estimates of nominal regional GVA are available up to 2010 from the ONS. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price deflators, although the ONS has produced regional price indexes for the year 2010[lxx]. Most regional forecasters supply their own estimates of London's real GVA. The real London GVA figures used in this GLA Economics' forecast are supplied by EE.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases the expenditure of non-profit organisations is included and in other cases it is not.

Appendix C: Glossary of acronyms

ADB	Asian Development Bank
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CIPS	The Chartered Institute of Purchasing and Supply
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EFSF	European Financial Stability Facility
EU	European Union
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
GDP	Gross Domestic Product
HM Treasury	Her Majesty's Treasury
IFS	The Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
mn	Million
MPC	Monetary Policy Committee
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RPIX	Retail Price Index (excluding mortgage interest payments)
RPI	Retail Price Index
TfL	Transport for London

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Footnotes

[i] The forecast is based on an in-house model built by Volterra Consulting Limited.
[ii] RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, August 2012 of the UK RPI inflation rate are reported.
[iii] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, August 2012 of the UK CPI inflation rate are reported. Since December 2003 the Bank of England's symmetrical inflation target has been annual CPI inflation at two per cent.
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[vi] Office for National Statistics, 'Gross Domestic Product Preliminary Estimate, Q3 2012', 25 October 2012.
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[viii] The PSNB forecast from the OBR takes account of the transfer of the Royal Mail pension scheme to the public sector in 2012/13 and "leads to a one-off reduction in PSNB in 2012/13 of £28 billion" (Office for Budget Responsibility, Economic and fiscal outlook, March 2012).
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[x] The Sterling Effective Exchange Rate Index measures the overall change in the trade-weighted exchange value of sterling. It is designed to measure changes in the price competitiveness of traded goods and services and so the weights reflect trade flows in goods and services.
[xi] The IMF, 'World Economic Outlook: Coping with High Debt and Sluggish Growth', October 2012.
[xii] Ibid.
[xiii] Ibid.
[xiv] Ibid.
[xv] Ibid.
[xvi] Ibid.
[xvii] Ibid.
[xviii] Ibid.
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[xxxiii] BBC, 'Japan's Tankan survey shows business mood worsening', 30 September 2012.
[xxxiv] The Financial Times, 'Bold BoJ move surprises finance minister', 19 September 2012.
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[lviii] The World Bank, 'Russian Economic Report 28: Reinvigorating the Economy', 8 October 2012.
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[lxi] Bloomberg, 'Oil Rises to $100 for First Time Since May after Stimulus', 14 September 2012.
[lxii] The consensus forecast for GVA and employment is based on the latest available forecast as of 26 October 2012 from CE, CEBR, EE and OE, whilst the consensus forecast for household expenditure is based on the latest available forecast as of 26 October 2012 from CE, EE and OE only.
[lxiii] Most forecasters do not yet provide forecasts of household income.
[lxiv] The consensus forecast for the six broad sectors is based on the latest available forecast as of 26 October 2012 from CE, EE and OE only.
[lxv] Distribution is made from the summation of Wholesale and Retail (see Appendix A).
[lxvi] This is defined as Financial and insurance activities in Appendix A.
[lxvii] Business services is made from the summation of Information and Communication, Professional, scientific and technical services and real estate, and Administrative and support service activities (see Appendix A).
[lxviii] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services (see Appendix A).
[lxix] GLA Economics, 'Employment projections for London by sector and trend-based projections by borough', Working Paper 51, December 2011.
[lxx] Office for National Statistics, 'UK Relative Regional Consumer Price Levels for Goods and Services for 2010', 12 July 2011.

other publications

GLA Economics also produces **London's Economy Today** – a monthly e-newsletter that features the most up to date information on the state of London's economy. This includes a macroeconomic overview alongside recent data releases.


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यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

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আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন্ নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

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اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاھتے ھیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

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إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

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જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.