GLAECONOMICS

London's Economic Outlook: Autumn 2011

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' nineteenth London forecast[i] suggests that:

- London's Gross Value Added (GVA) growth rate should be 1.4 per cent in 2011. Growth should increase to 2.0 per cent in 2012 and 2.4 per cent in 2013.
- London is likely to see a modest rise in employment in 2011, 2012 and 2013.
- 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)	**2010**	**2011**	**2012**	**2013**
London GVA (constant 2006 £ billion)	1.1	1.4	2.0	2.4
Consensus (average of independent forecasts)		1.5	2.5	2.9
London civilian workforce jobs	-1.1	0.1	0.4	0.4
Consensus (average of independent forecasts)		0.3	0.6	0.9
London household spending (constant 2006 £ billion)	2.3	0.4	1.2	2.0
Consensus (average of independent forecasts)		0.7	1.8	2.5
London household income (constant 2006 £ billion)	-0.2	0.1	1.1	2.1
Memo: Projected UK RPI[ii] (Inflation rate)	4.6	5.2	3.5	3.3
Projected UK CPI[iii] (Inflation rate)	3.3	4.4	2.5	2.0

Sources: GLA Economics' Autumn 2011 forecast and consensus calculated by GLA Economics.

The most recent available evidence indicates that London's economy continues its post recession expansion but that the recovery will be a bumpy one. During the recession it appears that London performed similarly to the rest of the UK. Current economic indicators continue to show a recovery in the London economy, however they are generally less positive than at the beginning of the year. Moreover, consumer confidence remains extremely weak with real wages being squeezed by inflation and this is hitting consumption. Some employment growth is expected over the next few years with increases in private sector employment likely to outweigh public sector job losses. Unemployment however will probably be quite sticky. The Government's fiscal retrenchment is likely to dampen economic growth in the short run but should rebuild market confidence in the country's finances and will help to provide a more balanced economy in the long run. Fiscal tightening also puts downward pressure on market interest rates, which should encourage private sector investment.

A large downside risk to the recovery remains the precarious nature of a number of developed countries public finances and a worsening of the serious sovereign debt and financial crisis in the Eurozone. Disorderly sovereign debt defaults would put great pressure on the still strained balance sheets of many banks. Concerns also remain about the size of the US budget deficit and national debt. Inflation is likely to remain above the Bank of England's 2 per cent target until 2013 due to the rise in VAT in January 2011, sterling's past depreciation and high commodity prices (although these have begun to moderate slightly). However, inflation is likely to be on a downward path in 2012 from its current highs in light of the spare capacity in the economy. In response to this, interest rates will probably be kept lower for longer than previously expected and the Bank of England has recently begun another round of quantitative easing in order to stimulate the economy. Sterling remains weak and this should provide support to the economy from import substitution and improved export competitiveness. This will continue to benefit London's tourism sector and encourage inward foreign investment. The recovery will be led by private sector investment and trade rather than by public sector and household consumption. However the short-term prospects for the recovery are weaker than at the beginning of the year. Household budgets will remain tight over the next year or so with low wage growth, above target inflation and fiscal consolidation by the Government. The required rebalancing of the economy will not be painless and households face tough times ahead. However, it will lay the foundations for longer-term growth and the potential for a more dynamic economy.

2. Introduction

The autumn 2011 edition of *London's Economic Outlook* (LEO) is GLA Economics' nineteenth 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 four 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.

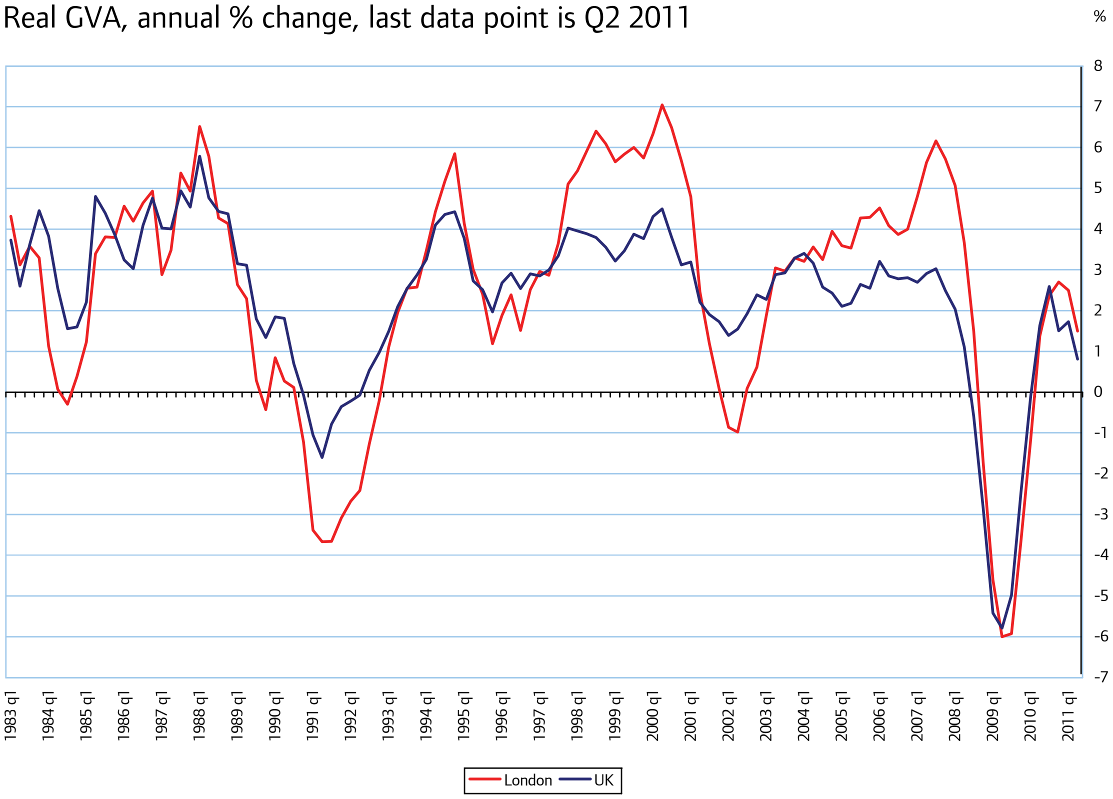
3. Economic background: International woes threaten the recovery

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 1.5 per cent in the second quarter of 2011 compared to 0.8 per cent in the UK. London's economic recovery continues but indicators suggest it will not be smooth.

Figure 3.1: Output growth – London and UK
Real GVA, annual % change, last data point is Q2 2011

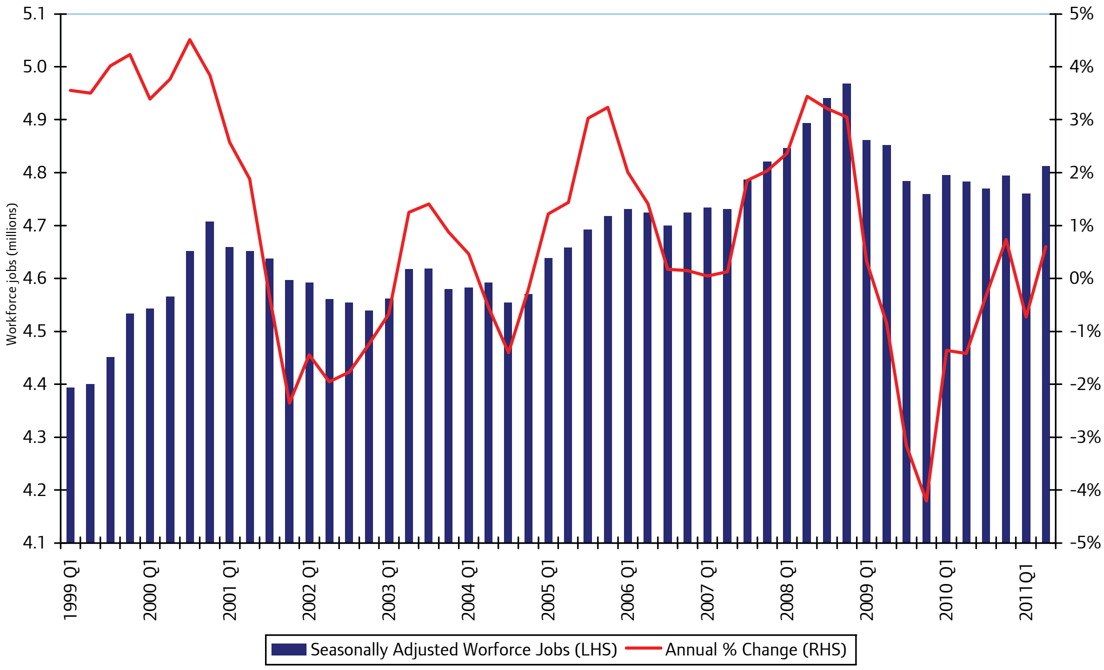


Source: Experian Economics

Annual employment growth in London turned positive in the second quarter of 2011 at 0.6 per cent. The total number of workforce jobs in London was just over 4.8 million in Q2 2011 (see Figure 3.2).

Figure 3.2: London civilian workforce jobs

Level and annual % change, last data point is Q2 2011

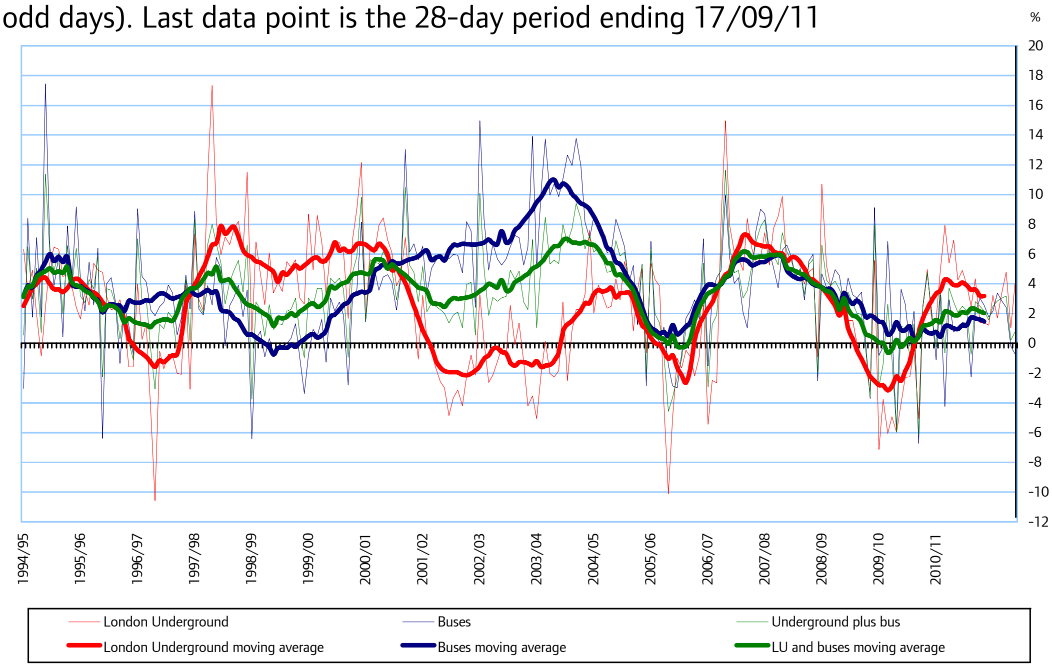


Source: Office for National Statistics

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 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 17/09/11

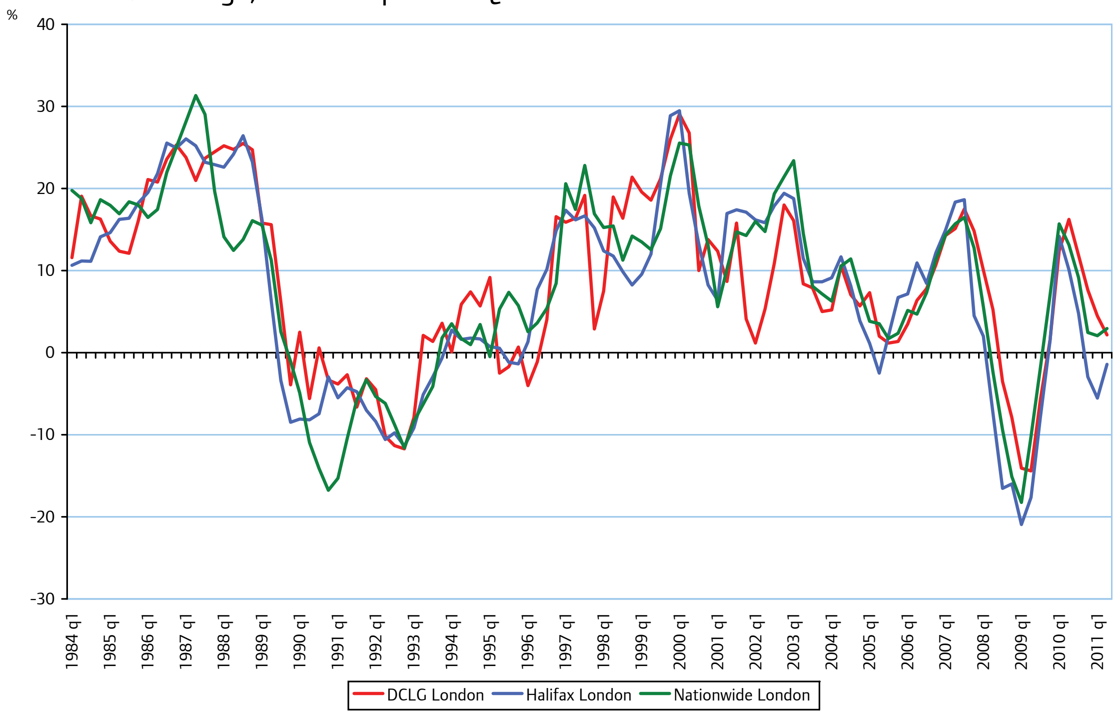


Source: Transport for London

Annual house price inflation weakened in the second half of 2007 and turned negative in 2008. However, in London the housing market made a recovery in the second half of 2009, but then slowed again over the last year. The London housing market has so far remained more robust than the overall UK housing market[iv], where mortgage lending remains subdued[v]. Annual house price inflation in London as measured by the Nationwide and the DCLG was still positive in Q2 2011, however as measured by the Halifax house price index it was just negative (see Figure 3.4).

Figure 3.4: House price inflation in London

Annual % change, last data point is Q2 2011



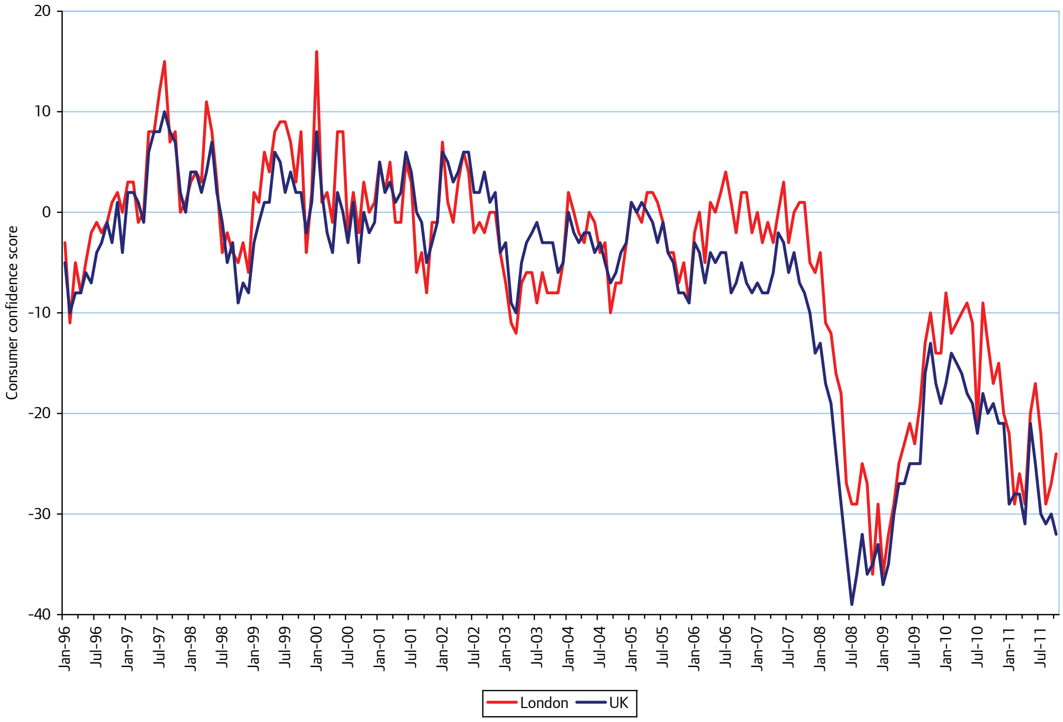
Sources: DCLG, Halifax house price index, Nationwide

Generally central London's commercial property market continues to recover. Knight Frank's 'Central London Quarterly' showed that in Q2 2011 take-up levels in Central London "totalled 2.3 m sq ft, with activity in the West End at average levels while a lack of large unit transactions restricted totals in the City". Further "availability fell for the seventh consecutive quarter and now totals 16.0 m sq ft", whilst "speculative development activity rose to 5.4 m sq ft"[vi].

GfK NOP's regional consumer confidence index (Figure 3.5) shows that consumer confidence has deteriorated in London since summer 2010 and despite being higher than in the UK as a whole is only just above the level at the depth of the last 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 2011



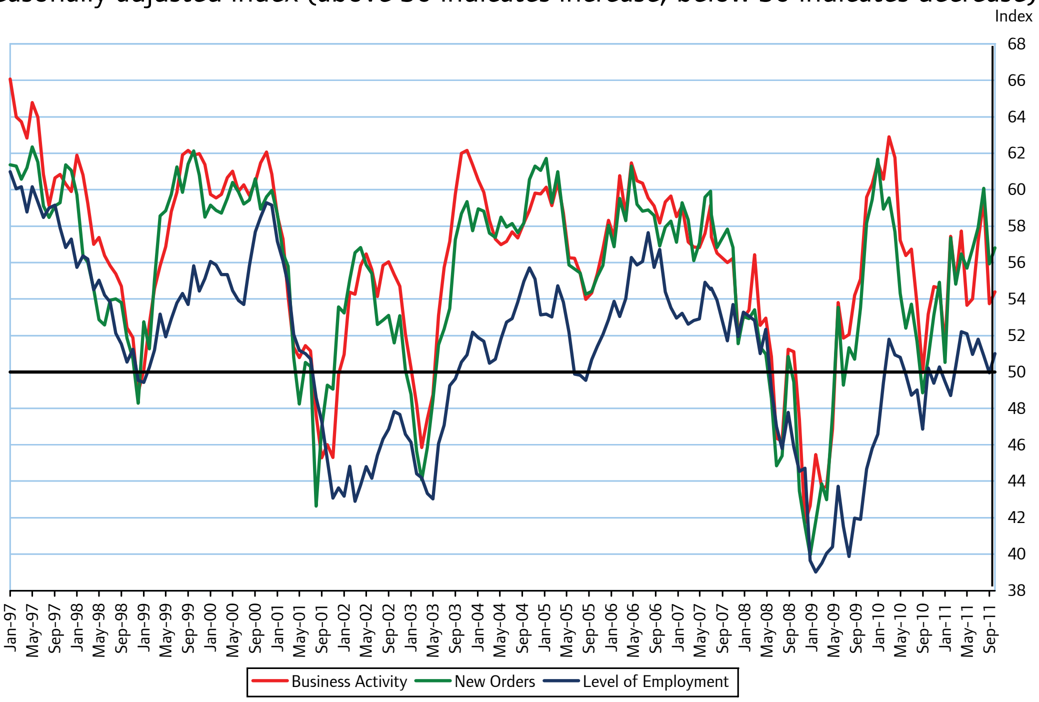
Sources: GfK NOP on behalf of the European Commission

Business survey results indicate that business activity has been expanding since May 2009 (apart from August 2010 when it was stable). Employment in London firms has generally showed very slow growth during 2011 so far, whilst new orders are rising (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 2011

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) now estimates that the UK economy exited its first recession (defined as two or more consecutive quarters of declining output) since the early 1990s in Q3 2009, after output declined from its peak by around 7 per cent. Output declined in Q4 2010 but then grew in the first three quarters of 2011. In the third quarter of 2011 GDP was still around 3.9 per cent below its pre-recession peak. The IMF forecasts that the UK economy will grow by 1.1 per cent in 2011 and by 1.6 per cent in 2012[vii].

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

	Average of Independent Forecasters		Budget March 2011	
	2011	2012	2011	2012
GDP growth (per cent)	1.0	1.5	1.7	2.5
Claimant unemployment (mn)	1.61	1.65	1.54	1.53
Current account (£bn)	-32.4	-25.6	-41	-34
PSNB (2011-12, 2012-13: £bn)	128.1	110.7	122	101

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, October 2011.
Office for Budget Responsibility, Economic and fiscal outlook, March 2011.

As can be seen in Table 3.2, annual growth in manufacturing and all service sub-sectors was positive in Q3 2011. However, government and other services growth is likely to turn negative at some point on the back of fiscal retrenchment. The overall strength of the recovery at the end of 2011 and beginning of 2012 is likely to be modest at best.

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

	2010				2011		
Industrial sectors	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Agriculture, forestry, and fishing	2.1%	1.8%	1.4%	-10.9%	-0.6%	-1.3%	-0.5%
Mining & quarrying inc oil & gas extraction	-6.4%	-6.1%	-2.1%	-5.6%	-10.8%	-16.9%	-14.5%
Manufacturing	1.2%	3.3%	5.6%	5.0%	4.8%	3.2%	2.0%
Electricity, gas, steam and air conditioning supply	4.8%	4.4%	-1.0%	6.1%	-4.2%	-4.9%	0.6%
Construction	-0.7%	10.2%	13.0%	10.6%	6.7%	-0.3%	-3.9%
Distribution, hotels and catering	1.4%	2.4%	3.1%	-0.1%	1.3%	1.0%	0.8%
Transport, storage and communication	3.5%	6.6%	7.3%	5.5%	3.8%	2.2%	1.9%
Business services and finance	-0.7%	-0.7%	-0.5%	-0.9%	-0.6%	0.1%	0.9%
Government and other services	1.6%	1.9%	0.9%	0.0%	2.0%	1.3%	1.4%

Source: Office for National Statistics (as of 1 November 2011)

Table 3.3 shows that household annual spending growth turned negative in Q1 2011 and remained so in Q2 2011. Investment fell heavily during the recession, and after picking up in 2010 annual growth again turned negative in Q1 2011. Looking forward investment growth is expected to resume.

Table 3.3: UK domestic expenditure growth
Annual % change

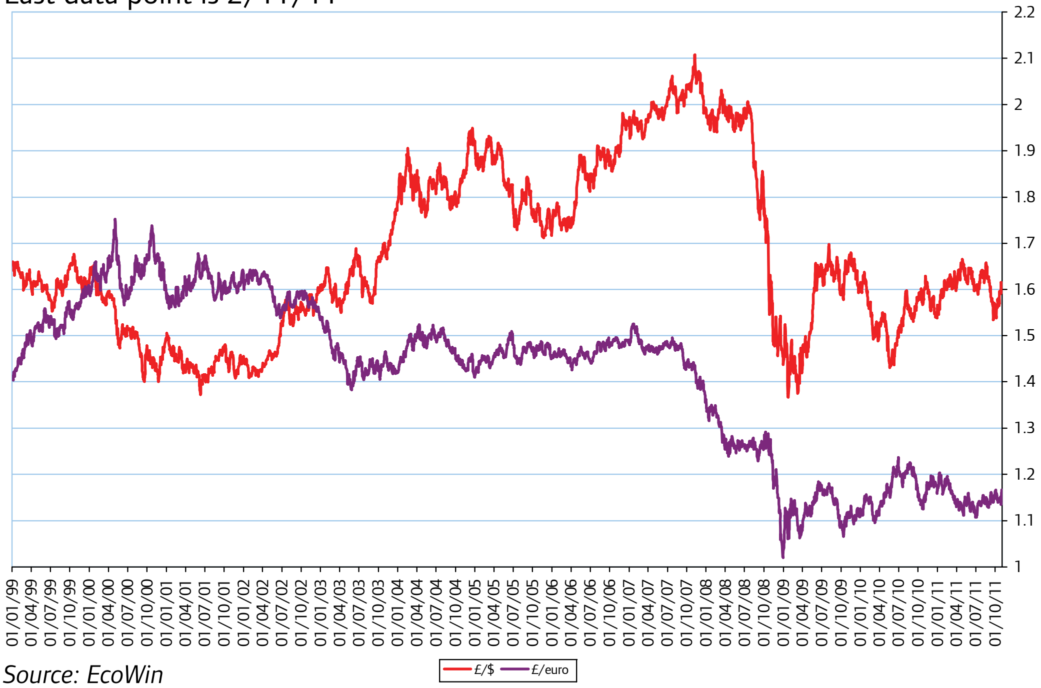
	2010				2011	
Expenditure	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Households	0.6%	1.8%	1.3%	0.2%	-0.4%	-1.7%
Non-profit institutions	0.0%	4.0%	5.5%	5.8%	5.7%	4.7%
General Government	1.4%	2.3%	1.5%	0.9%	1.1%	1.9%
Gross fixed capital formation	0.7%	3.6%	3.5%	2.7%	-4.3%	-0.6%

Source: Office for National Statistics (as of 1 November 2011)

Inflation remains above the Bank of England's central symmetrical target of 2 per cent, with annual Consumer Price Index (CPI) inflation standing at 5.2 per cent in September. Meanwhile annual Retail Price Index (RPI) inflation reached 5.6 per cent in September, the highest level for more than 20 years. Current high inflationary pressures have been caused by a number of temporary factors and the Bank believes that the deterioration in the economic outlook "has made it more likely that inflation will undershoot the 2% target in the medium term."[viii] The Bank has therefore kept interest rates at 0.5 per cent and began another round of quantitative easing (QE) in October. QE will be increased by a further £75 billion on top of the previous £200 billion.

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 also remains weak which should support exporters, tourism and import substitution.

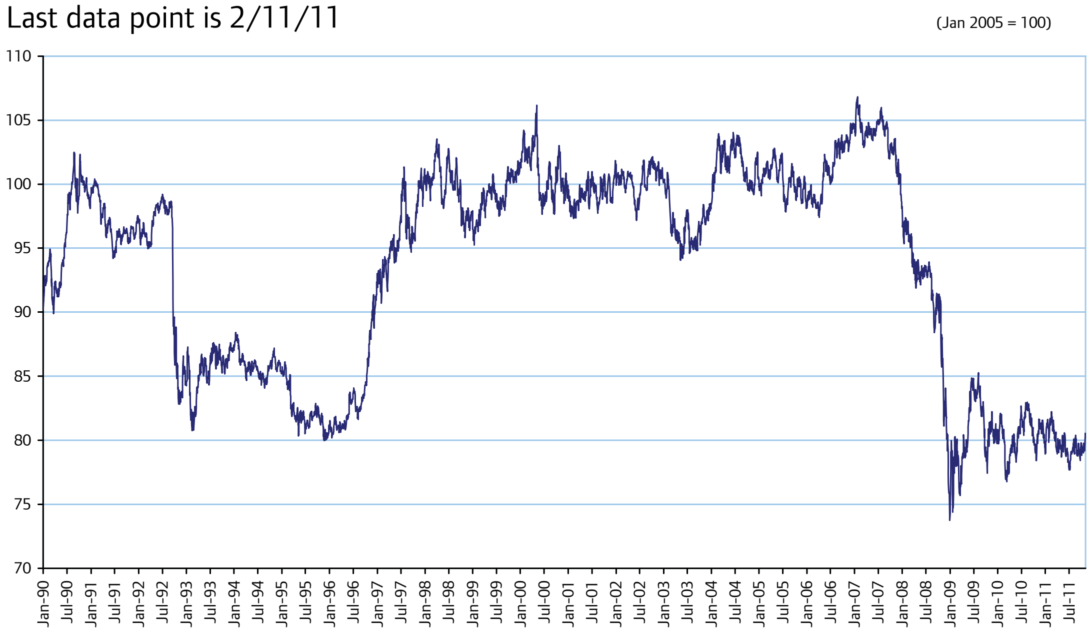
Figure 3.7: £ to $ and £ to euro exchange rates
Last data point is 2/11/11



Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)[ix] (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 below the level 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 should also be helped by strong growth in emerging market economies, such as China and India.

Figure 3.8: Sterling EERI rate
Last data point is 2/11/11



Source: Bank of England

3.3 The world economy

In September the IMF forecast that the world economy would expand by 4.0 per cent in 2011[x], with growth of 4.0 per cent also forecast for 2012. Developed economies are forecast to continue their recovery, but at a generally more subdued rate than forecast at the beginning of the year. Thus the US economy is projected to grow at 1.5 per cent in 2011 and then by 1.8 per cent in 2012[xi]. The Eurozone economy is forecast to grow by 1.6 per cent in 2011 and by 1.1 per cent in 2012[xii]. Growth in emerging and developing economies is expected to be 6.4 per cent in 2011 and 6.1 per cent in 2012[xiii].

The IMF observes that "activity has weakened significantly", and also notes that "the global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing" [xiv]. Particular risks concern the turmoil in the Eurozone and softening of US economic activity. The IMF further observed in its Global Financial Stability Report that "for the first time since the October 2008 Global Financial Stability Report, risks to global financial stability have increased, signalling a partial reversal in progress made over the past three years"[xv]. The IMF also noted that "overall macroeconomic risks have increased, reflecting a significant rise in sovereign vulnerabilities in advanced economies"[xvi]. Further, "market and liquidity risks have risen, partly as a result of increased macroeconomic and sovereign risks. Higher volatility and rising yields on government bonds issued by countries on the periphery of the euro area are threatening a loss of investor confidence, weakening the investor base, and further driving up funding costs. As a result, public debt has become more difficult to finance, while higher sovereign risk premiums are disrupting bank funding markets. These concerns are eroding confidence in broader markets"[xvii]. The IMF also pointed out that credit risks have risen "as sovereign strains have spilled over to the banking system in the euro area"[xviii].

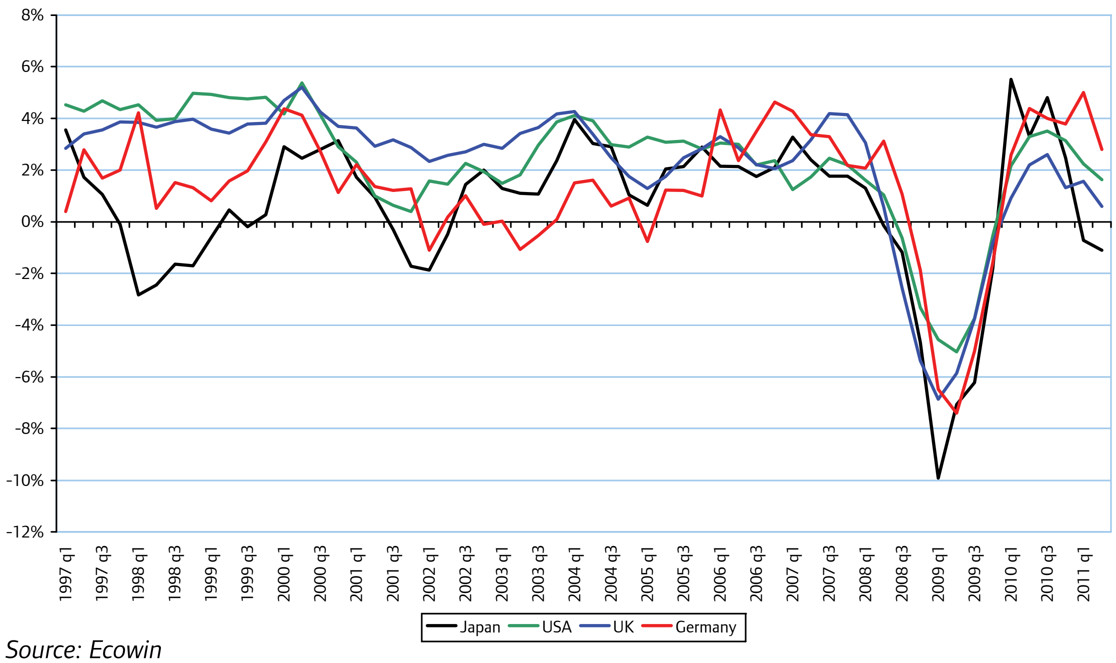
The **US** economy has continued its recovery during 2011 but growth remains relatively slow[xix]. US consumer confidence was weak during the summer[xx] whilst US unemployment remains high and was 9.1 per cent in September[xxi]. Concerns remain about the recovery in the jobs market with long-term unemployment rising to levels unprecedented in the post war period[xxii]. The October 2011 Beige Book from the Federal Reserve reported that "overall economic activity continued to expand in September, although many Districts described the pace of growth as "modest" or "slight" and contacts generally noted weaker or less certain outlooks for business conditions "[xxiii]. Interest rates continue to remain extremely low at a target rate of between 0 and 0.25 per cent, with the Federal Reserve announcing that it does not expect to raise interest rates until 2013[xxiv]. Some analysts think a further round of quantitative easing may be needed[xxv]. The Fed has also undertaken market operations to keep long-term interest rates low to aid mortgage lending and business loans[xxvi]. Concerns remain about the sustainability of the US national debt and budget deficit with Standard & Poor's having downgraded its sovereign debt from AAA to AA+[xxvii].

The **Eurozone** economy grew modestly in the second quarter of 2011, with output increasing by 0.2 per cent after increasing by 0.8 per cent in the first quarter of 2011.

The European Commission forecasts that growth will be 1.6 per cent in 2011[xxviii]. Growth slowed in a number of Eurozone countries in the second quarter of 2011 with Germany growing by 0.1 per cent, Spain by 0.2 per cent and France flat lining[xxix]. Eurozone inflation hit 3.0 per cent in September 2011, up from 2.5 per cent in August[xxx]. However the continuing crisis in the Eurozone led the European Central Bank (ECB) to cut interest rates from 1.5 per cent to 1.25 per cent on 3 November. Unemployment also remains elevated with it standing at 10 per cent in August in the Eurozone. The sovereign debt position and the public finances of a number of members of the Eurozone especially Greece, Ireland, Portugal, Spain and Italy (see Box 3.1) has the potential to lead to a world financial crisis centred in the Eurozone and Europe's banking system. This has seen concerns expressed about a number of Eurozone[xxxi] banks and saw Italian and Spanish debt downgraded[xxxii], with central banks also intervening to provide liquidity support to banks[xxxiii].

Japan's economy shrank by 0.5 per cent in the second quarter of 2011[xxxiv], the third consecutive quarter of contraction as the aftermath of the earthquake and tsunami of 11 March continued to be felt. Results from the Bank of Japan's Tankan survey of manufacturing sentiment however show that big manufacturers expect conditions to improve in the final quarter of 2011[xxxv]. In September the IMF forecast that Japanese output will fall by 0.5 per cent in 2011 and then rise by 2.3 per cent in 2012[xxxvi].

Figure 3.9: GDP growth in selected industrialised countries
Real GDP, annual % change, last data point is Q2 2011.



Source: Ecowin

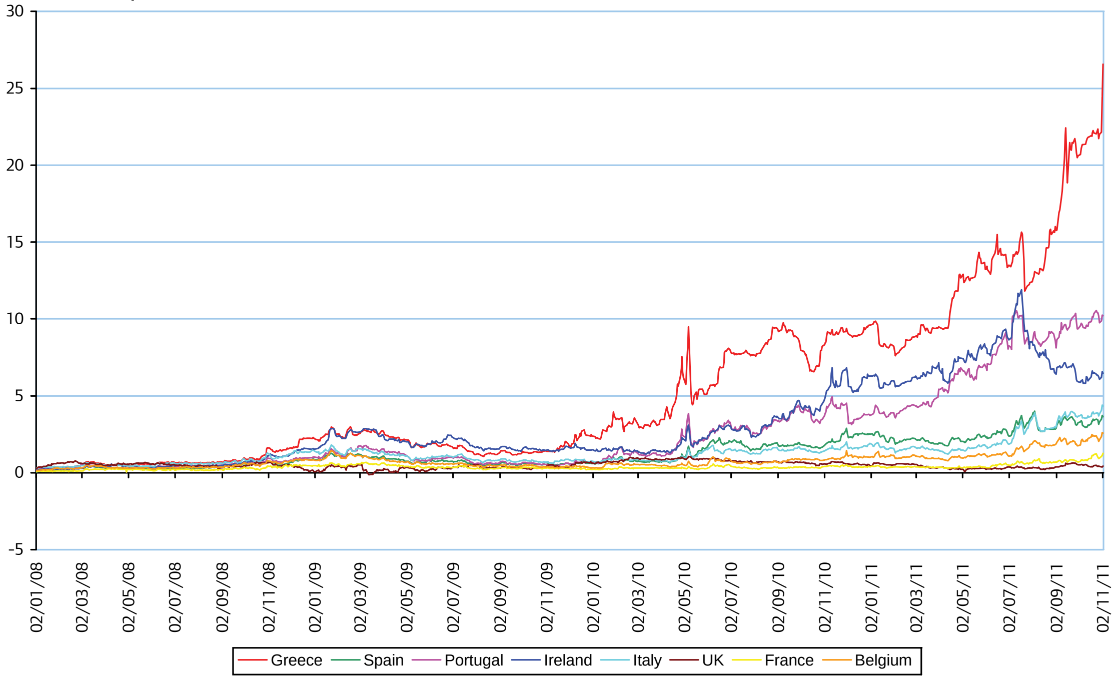
Box 3.1: Eurozone sovereign debt crisis rumbles on and US sovereign debt is downgraded

The Eurozone crisis

Eurozone sovereign debt problems have now hit Greece, Ireland, Portugal, Spain and Italy[xxxvii] (as has been highlighted in previous LEO's and London's Economy Today's) and show few signs of easing. These problems are highlighted in Figure 3.10 by the high interest rate spreads of these countries government debt against German government debt (which is generally seen as the safest government debt in the Eurozone).

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

Last data point: 2/11/2011



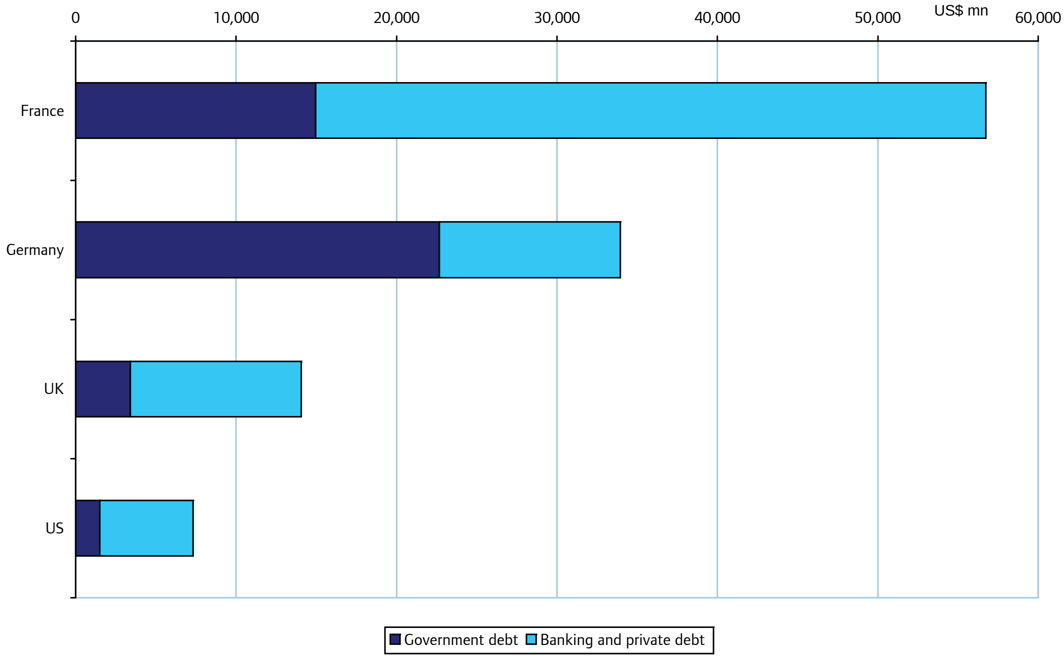
Source: EcoWin

In August, the European Central Bank (ECB) reopened a strategy of buying the bonds of Eurozone countries as sovereign debt difficulties deepened leading to worries on financial markets[xxxviii]. Having already purchased Greek, Irish and Portuguese bonds, the ECB began to purchase those of Spain and Italy too, the bloc's fourth and third biggest economies respectively. Analysts reckoned purchases of at least €50 billion a week would be necessary to make a sufficient impact on the ability of these countries to service their debt[xxxix]. Initially, as a result of the programme, the extra yield investors demanded to hold Spanish and Italian bonds instead of German bonds narrowed, decreasing the spread of their bond prices. However, this did not last long.

Concerns over Eurozone sovereign debt and lack of the implementation of a comprehensive package to solve the problem has resulted in Moody's downgrading two of France's top banks, Credit Agricole and Societe Generale[xl], due to their exposure to Greek government debt. If Greece were to default in a disorderly manner, banks across the world would face losses that could cause some banks to fail and some systemically important ones to be bailed out. French and German banks would be especially hard hit. Greece's domestic financial system would be crippled and there would be a ripple effect through the global financial system. Direct UK exposure to Greek debt, both public and private, is relatively limited and was US$14 billion in December 2010 (see Figure 3.11) so can be coped with. However, the escalation of stresses in money markets caused by a disorderly Greek default would lead to a tightening of bank lending conditions across the globe including in the UK, impacting negatively upon London businesses and households. The impact on consumer and business confidence would also be severe.

Figure 3.11: Exposure to Greek debt – France, Germany, UK and US

As at December 2010



Source: Bank for International Settlements

Adding to the Eurozone worries, Moody's downgraded Italy's government-bond rating by three notches to A2 due to its high sovereign debt, whilst Spanish debt has also been downgraded and France has been warned about its long-term situation[xli]. Elsewhere problems in the Eurozone banking system continue to surface as seen by the recent bailout by France, Belgium and Luxemburg of Dexia[xlii]. US brokerage MF Global has been forced to enter Chapter 11 bankruptcy protection after unveiling over $6bn of exposure to eurozone debt. Market tensions are being further increased by investors' nervousness about a world economic slowdown.

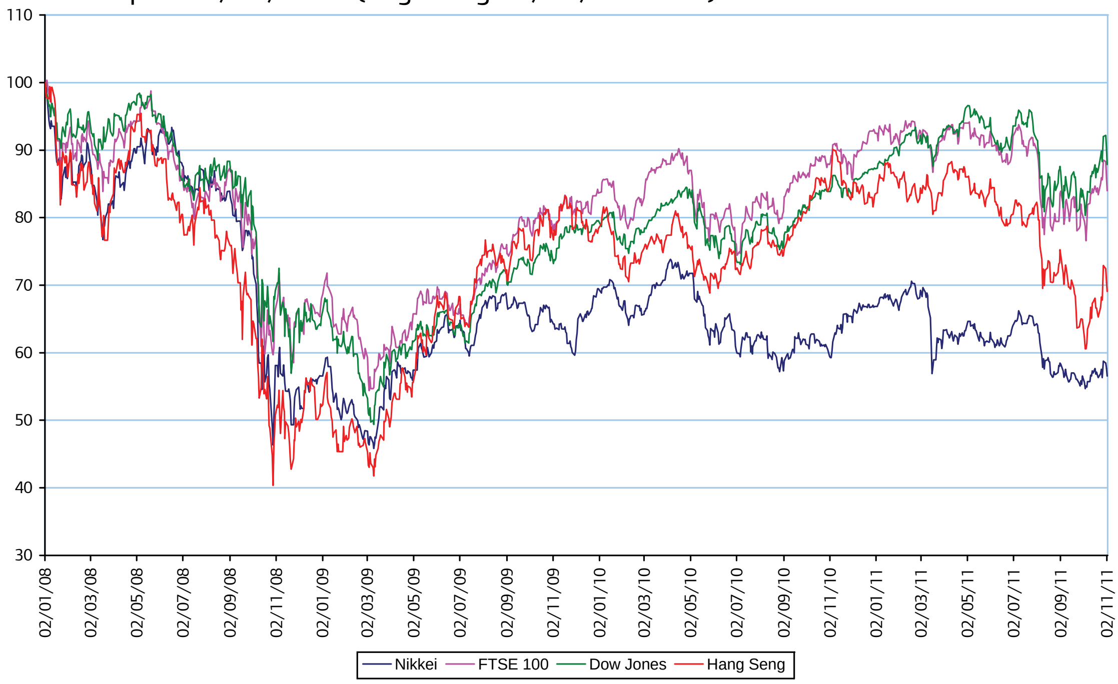
In the early hours of 27 October the Eurozone leaders agreed the outline to a three-pronged solution to the Eurozone sovereign debt crisis. The exact details have yet to be worked out but the plan would likely involve something like the following: recapitalising Eurozone banks by just over 100bn euros by June 2012; private sector creditors (mainly banks) agreeing to write off 50 per cent of Greek debt; and leveraging up the resources of the bailout fund (the European Financial Stability Facility) to probably in the region of 1 trillion euros. The markets initially reacted positively to this news, however the devil will be in the exact technical details which have yet to be agreed upon let alone enacted. The possibility of at least some of the above agreement unravelling or taking a long time to implement is a very real one. On 1 November the Greek PM announced that Greece should hold a referendum on the rescue package so the whole deal was put in jeopardy. Markets fell dramatically on this unexpected news as the likelihood of a disorderly Greek default and Greece withdrawing from the Euro increased greatly. Uncertainty in the Greek Government remained extremely high on 3 November with Greece facing an ongoing political crisis. The sovereign debt crisis in the Eurozone is therefore set to rumble on and could well worsen.

Fears over US national debt increases

On the 14 July due to what seems like unsustainable rises in US government debt and bickering over raising the US government debt ceiling, Standard & Poor's (S&P) placed the United States' credit rating on "Credit Watch with negative implications". This helped to spur on strained negotiations to increase the US government's debt ceiling, which was finally raised at the beginning of August. This last minute settlement and the inability of Congress to agree on a long-term plan to tame the fiscal imbalance however prompted S&P to cut US' sovereign debt rating from AAA to AA+ on the 6th August[xliii]. A dimming outlook for growth and employment means the US government will have difficulty in closing the fiscal shortfall in coming years. Escalating debt problems, high unemployment and fears of slow growth have made financial markets very nervous (see Figure 3.12).

Figure 3.12: Stock market Performance

Last data point 2/11/2011 (beginning 02/01/08 = 100)



Source: EcoWin

Impact on UK and London

In order to steady money markets, the Bank of England along with other central banks announced that from October they will provide three month dollar liquidity loans over year-end to banks to prevent money markets freezing in the wake of the Eurozone crisis[xliv]. The Bank of England has also restarted its QE programme as UK growth prospects have diminished due to the worsening international economic environment. If Greece were to default it would have a limited direct impact on the UK (as shown by Figure 3.11). However, a disorderly default would likely cause a ripple effect through the financial system causing banks to fail or forcing governments to bail systemically important ones out. The resulting stress in financial markets would cause a tightening of UK bank lending and a fall in confidence. This would have detrimental effects on businesses and households throughout London and the UK. Further, if the UK's predominant trading partner (the Eurozone) experienced a weakening in economic activity, this would have a negative effect on our exports and make the rebalancing of our economy that much more difficult. A decisive and comprehensive package to try and solve the Eurozone sovereign debt crisis has yet to be implemented and a lot now seems to depend on a swift resolution to the political crisis in Greece. With this being the international economic background the current downside risks to UK and London economic growth are high.

3.4 Emerging market economies

China's economy grew by 9.1 per cent year-on-year in the third quarter of 2011, the slowest rate of growth in more than two years[xlv]. Meanwhile inflation continues to be a concern and has necessitated monetary tightening. However, inflation did fall back slightly in September to 6.1 per cent from 6.2 per cent in August and from 6.5 per cent in July (which was a three year high)[xlvi]. The IMF is forecasting that the Chinese economy will grow by 9.5 per cent in 2011 and by 9.0 per cent in 2012[xlvii], whilst the Asian Development Bank (ADB) forecasts Chinese growth of 9.3 per cent in 2011 and 9.1 per cent in 2012[xlviii]. **India's** economy grew by 7.7 per cent in the year to June 2011[xlix]. Inflation remains a worry, with the wholesale price index rising at an annual rate of 9.72 per cent in September[l]. In response to high inflation the Indian central bank raised interest rates to 8.5 per cent in October, the thirteenth rise since March 2010. The IMF forecasts Indian growth will be 7.8 per cent in 2011 and 7.5 per cent in 2012[li], whilst the ADB forecasts growth of 7.9 per cent in 2011 and 8.3 per cent in 2012[lii]. **Russia's** economy is forecast by the IMF to grow by 4.3 per cent in 2011 and by 4.1 per cent in 2012[liii].

3.5 Risks to the world economy

Downside risks to the world economic outlook have increased since the Spring 2011 LEO but remain below those experienced in 2008/09. Escalating sovereign debt problems (especially in 'peripheral' Eurozone nations and in the longer term even the US) are of particular concern. Most economies around the world experienced growth in the first half of 2011 and many emerging market economies grew strongly although fears of a slowdown have emerged even for India and China[liv]. Political wrangling in the US has led to concerns about the long-term state of its finances and its economic recovery continues only at a modest pace. This will act as a dampener on the global recovery. These concerns alongside the Eurozone sovereign debt crisis has seen global stock markets face volatile trading conditions over recent months and have had a negative impact on consumer, business and investor confidence. The monetary policies of most central banks in the developed world remain extremely accommodating providing support to the global economy. At some point monetary policy will need to be tightened to more normal levels by the likes of the Bank of England and the US Federal Reserve but the timing of this has been put back.

A major risk to the world economy is the continued weak fiscal position of many governments in the developed world, although the UK is implementing policies to improve its own situation. Global inflationary pressures partially from previous strong growth in emerging market economies have dampened real household expenditure growth, although commodity prices have lately slightly abated from their recent highs as concerns mount about the state of the global economy. There remains a real danger that the global recovery will become even more unbalanced with emerging market economies doing relatively well, especially China and India, whilst the developed economies recover sluggishly and are hindered by sovereign debt problems such as in the Eurozone. Further exchange rate flexibility would help ease these imbalances but are unlikely in the near term. Meanwhile the global financial system still remains vulnerable from fragile banks some of which require recapitalisation. Weakening economic conditions would amplify this vulnerability and the potential for adverse feedback loops between sovereign debt problems, fragile banking systems and feeble economic recoveries has increased.

3.6 Conclusion

London's economy is expected to continue its recovery over 2011-13 at a subdued rate with employment rising moderately. The pace of economic growth is likely to pick up somewhat by 2013. However downside risks to the London economy are higher than they were at the beginning of 2011. With above target inflation, tax rises and low wage growth consumers will continue to be under financial pressure over the next year or so. Private sector investment and net exports will likely be the main sources of growth. This will help rebalance the economy and put it on a sounder footing in the long term but the process of debt deleveraging will be a tough one for households.

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 21 October 2011 on the first three of these indicators is summarised, drawing on forecasts from outside (independent) organisations.[lv] 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 and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

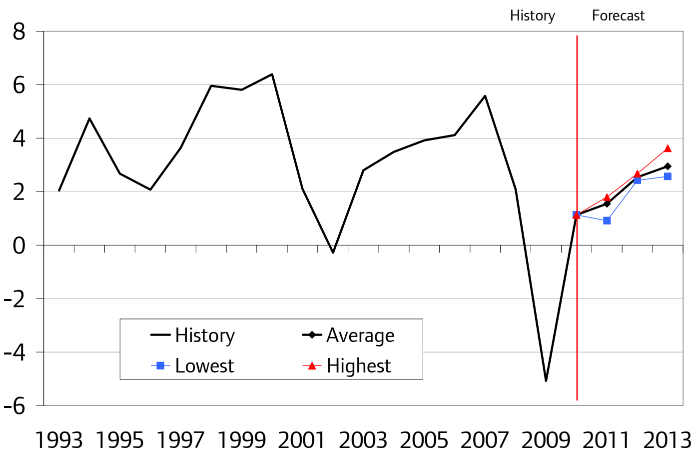
- manufacturing
- construction
- transport and communications
- distribution, hotels and catering
- finance and business services
- other (mainly public) services.

Output

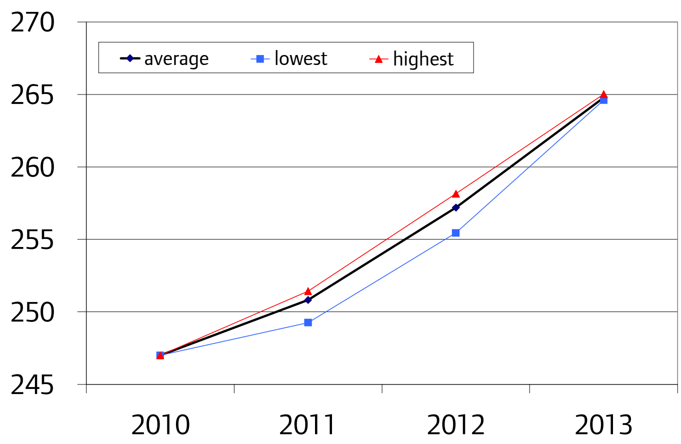
(London GVA, constant prices (base year 2006), £ billion)

The consensus (mean average view) is for real output growth to remain positive in 2011 and to reach 2.9 per cent in 2013.

Annual growth (per cent)



Level (constant year 2006, £ billion)



Annual growth (per cent)			
	2011	2012	2013
Average	1.5	2.5	2.9
Lowest	0.9	2.4	2.6
Highest	1.8	2.7	3.6

Level (constant year 2006, £ billion)			
	2011	2012	2013
Average	251	257	265
Lowest	249	255	265
Highest	251	258	265

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
4.7	2.7	2.1	3.6	6.0	5.8	6.4	2.1	-0.3	2.8	3.5	3.9	4.1	5.6	2.1	-5.1	1.1

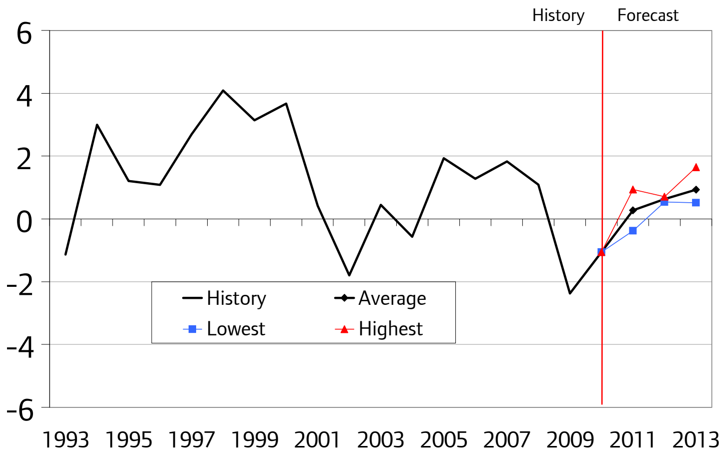
History: Level (constant year 2006, £ billion)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
157.3	161.5	164.8	170.8	181.0	191.5	203.7	208.0	207.4	213.2	220.7	229.3	238.7	252.1	257.3	244.3	247.0

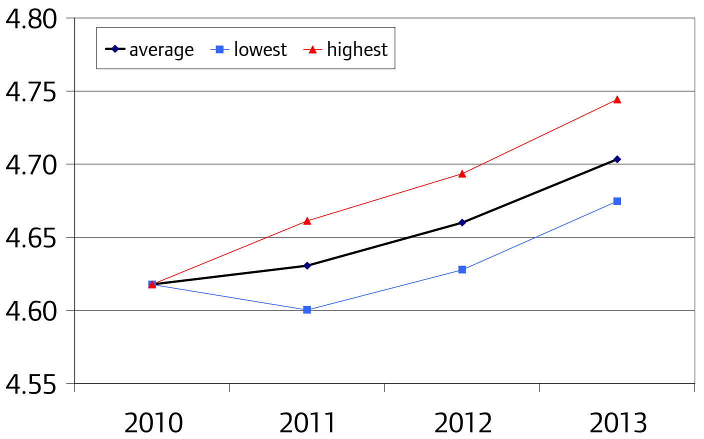
Employment
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 0.3 per cent in 2011, and then grow by 0.6 per cent in 2012 and 0.9 per cent in 2013.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)			
	2011	2012	2013
Average	0.3	0.6	0.9
Lowest	-0.4	0.5	0.5
Highest	0.9	0.7	1.7

Level (millions)			
	2011	2012	2013
Average	4.63	4.66	4.70
Lowest	4.60	4.63	4.67
Highest	4.66	4.69	4.74

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.0	1.2	1.1	2.7	4.1	3.1	3.7	0.4	-1.8	0.5	-0.6	1.9	1.3	1.8	1.1	-2.4	-1.1

History: Level (millions)

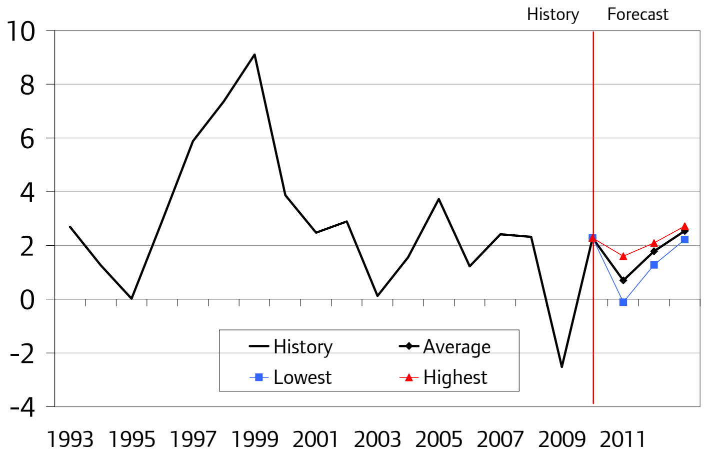
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.90	3.95	4.00	4.10	4.27	4.40	4.57	4.59	4.50	4.52	4.50	4.58	4.64	4.73	4.78	4.67	4.62

Household expenditure

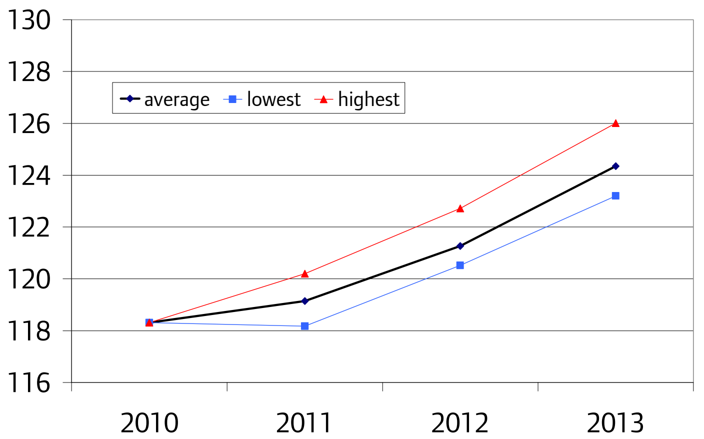
(London household spending, constant year 2006, £ billion)

The consensus view is for positive household expenditure growth to continue in 2011 at 0.7 per cent, increasing to 2.5 per cent by 2013.

Annual growth (per cent)



Level (constant year 2006 £ billion)



Annual growth (per cent)			
	2011	2012	2013
Average	0.7	1.8	2.5
Lowest	-0.1	1.3	2.2
Highest	1.6	2.1	2.7

Level (constant year 2006, £ billion)			
	2011	2012	2013
Average	119	121	124
Lowest	118	121	123
Highest	120	123	126

History: Annual growth (per cent)

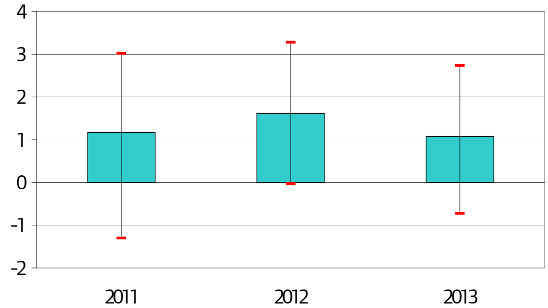
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.3	0.0	2.9	5.9	7.4	9.1	3.9	2.5	2.9	0.1	1.6	3.7	1.2	2.4	2.3	-2.5	2.3

History: Level (constant year 2006, £ billion)

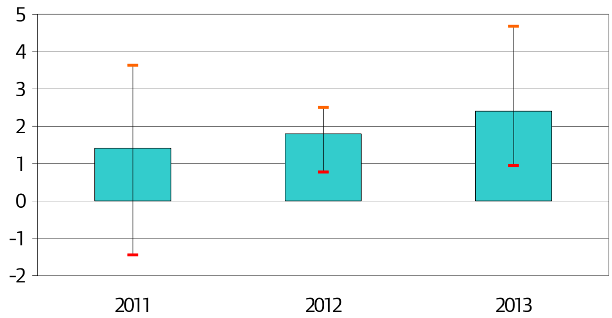
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
75.8	75.9	78.1	82.7	88.7	96.8	100.6	103.1	106.1	106.2	107.8	111.9	113.2	116.0	118.7	115.7	118.3

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 the other (mainly public) services sector, which will see no growth in 2012 and 2013.

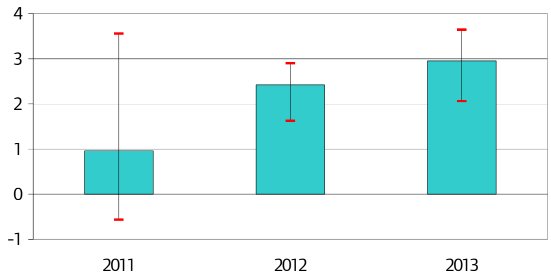
Manufacturing



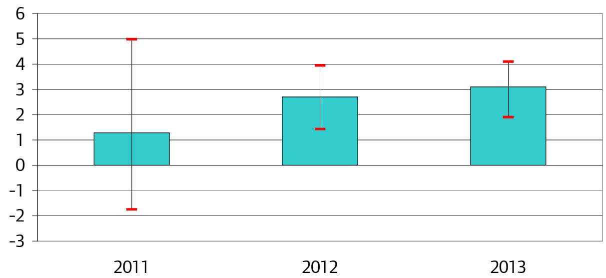
Construction



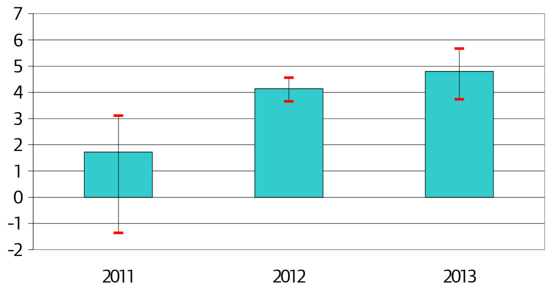
Distribution, hotels and catering



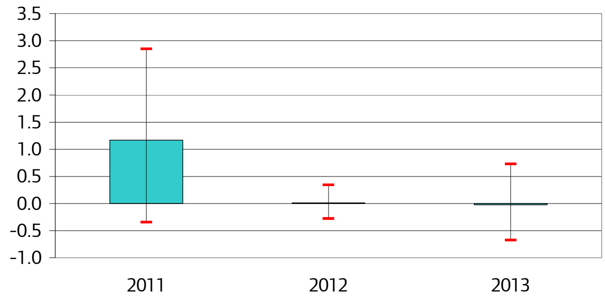
Transport and communications



Finance and business



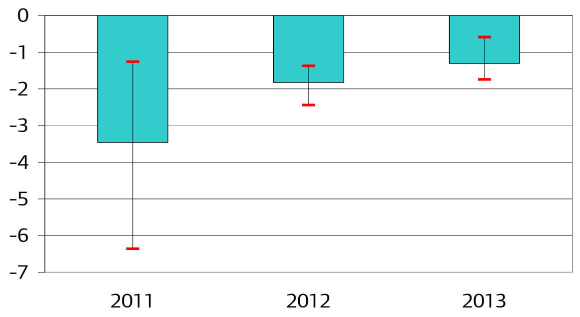
Other (mainly public) services



		2011	2012	2013			2011	2012	2013
Manufacturing	*Average*	1.2	1.6	1.1	**Construction**	*Average*	1.4	1.8	2.4
	Lowest	-1.3	0.0	-0.7		*Lowest*	-1.4	0.8	0.9
	Highest	3.0	3.3	2.7		*Highest*	3.6	2.5	4.7
Distribution, hotels and catering	*Average*	1.0	2.4	3.0	**Transport and communications**	*Average*	1.3	2.7	3.1
	Lowest	-0.6	1.6	2.1		*Lowest*	-1.7	1.4	1.9
	Highest	3.6	2.9	3.6		*Highest*	5.0	3.9	4.1
Finance and business	*Average*	1.7	4.1	4.8	**Other (mainly public) services**	*Average*	1.2	0.0	0.0
	Lowest	-1.4	3.7	3.7		*Lowest*	-0.3	-0.3	-0.7
	Highest	3.1	4.6	5.7		*Highest*	2.9	0.3	0.7

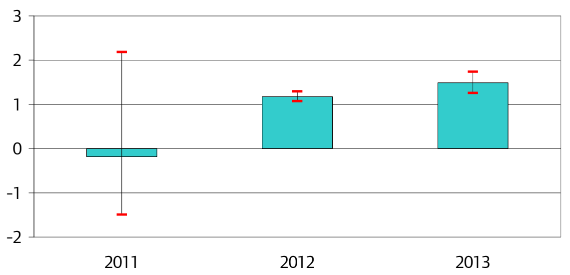
Employment growth by sector (per cent annual change)
Forecasted employment growth generally improves slowly between 2011 and 2013. However a majority of sectors are expected to have falls in employment in 2011. Other (mainly public) services and manufacturing employment are expected to fall during 2011-13.

Manufacturing



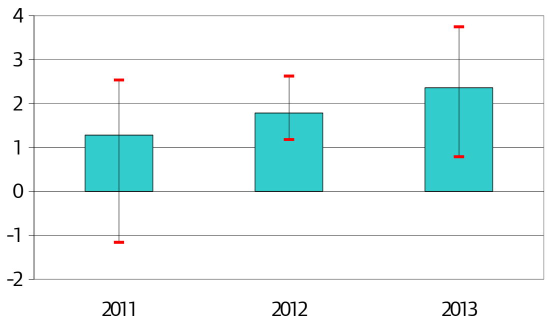
Construction

Distribution, hotels and catering

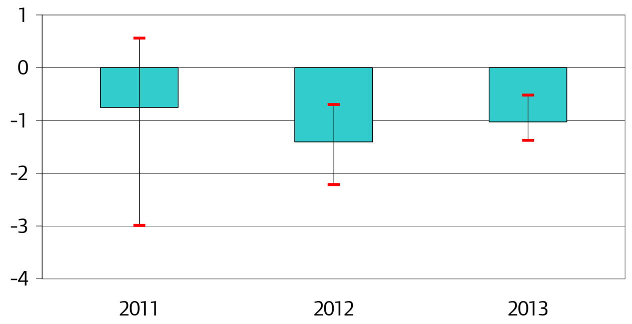


Transport and communications

Finance and business



Other (mainly public) services



		2011	2012	2013			2011	2012	2013
Manufacturing	*Average*	-3.5	-1.8	-1.3	**Construction**	*Average*	-0.3	2.1	1.7
	Lowest	-6.4	-2.4	-1.7		*Lowest*	-4.8	1.8	0.1
	Highest	-1.3	-1.4	-0.6		*Highest*	4.6	2.5	3.0
Distribution, hotels and catering	*Average*	-0.2	1.2	1.5	**Transport and communications**	*Average*	-0.9	0.9	1.3
	Lowest	-1.5	1.1	1.3		*Lowest*	-3.2	0.6	1.1
	Highest	2.2	1.3	1.7		*Highest*	1.9	1.2	1.5
Finance and business	*Average*	1.3	1.8	2.4	**Other (mainly public) services**	*Average*	-0.8	-1.4	-1.0
	Lowest	-1.2	1.2	0.8		*Lowest*	-3.0	-2.2	-1.4
	Highest	2.5	2.6	3.7		*Highest*	0.6	-0.7	-0.5

5. The GLA Economics forecast

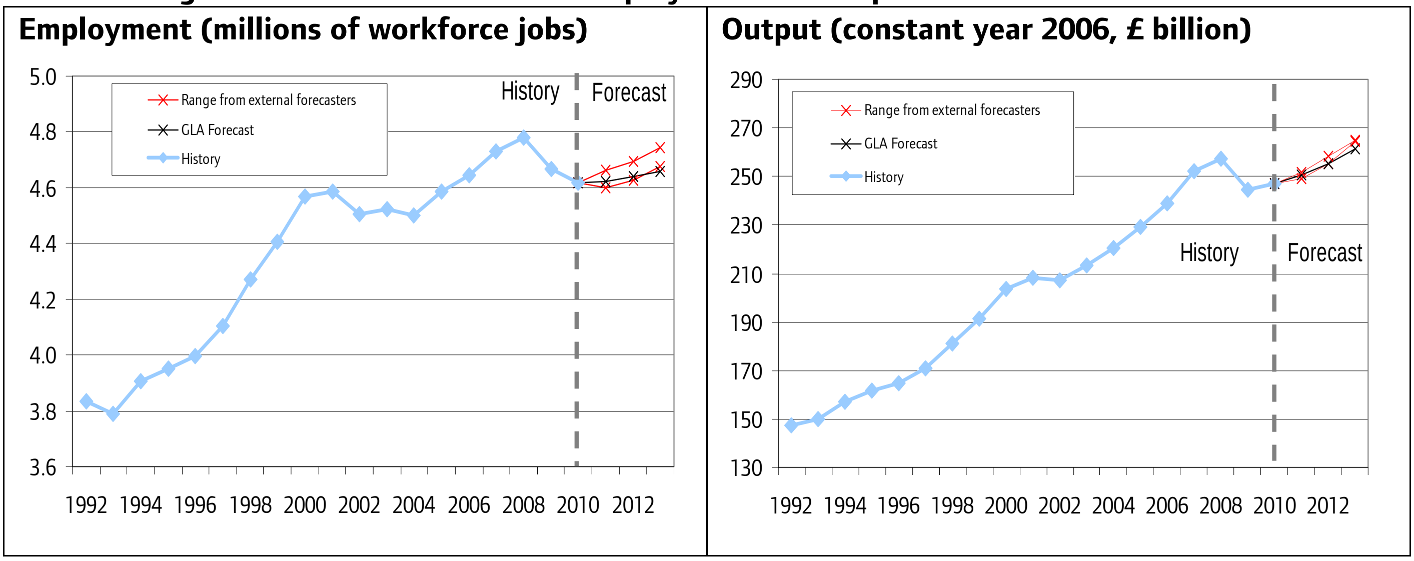
It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around 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 2011 and 2013. Employment growth is forecast to be modest but positive between 2011 and 2013.

Household spending is expected to continue to grow between 2011 and 2013. 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

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GVA	3.9	4.1	5.6	2.1	-5.1	1.1	1.4	2.0	2.4
Workforce jobs	1.9	1.3	1.8	1.1	-2.4	-1.1	0.1	0.4	0.4
Household spending	3.7	1.2	2.4	2.3	-2.5	2.3	0.4	1.2	2.0
Household income	3.3	3.2	2.1	2.0	0.9	-0.2	0.1	1.1	2.1

Table 5.2: Forecast and historical levels

(constant year 2006, £ billion except jobs)

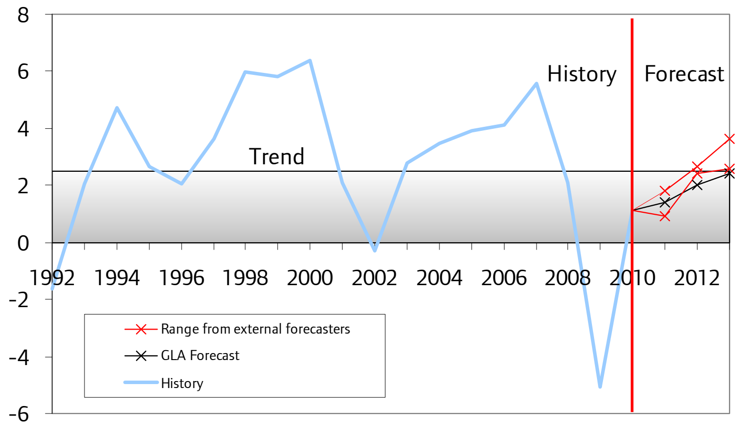
	2005	2006	2007	2008	2009	2010	2011	2012	2013
GVA	229.3	238.7	252.1	257.3	244.3	247.0	250.5	255.5	261.6
Workforce jobs (millions)	4.58	4.64	4.73	4.78	4.67	4.62	4.62	4.64	4.66
Household spending	111.9	113.2	116.0	118.7	115.7	118.3	118.8	120.2	122.6
Household income	129.5	133.6	136.4	139.1	140.4	140.0	140.2	141.7	144.7

Output
(London GVA, constant year 2006, £ billion)

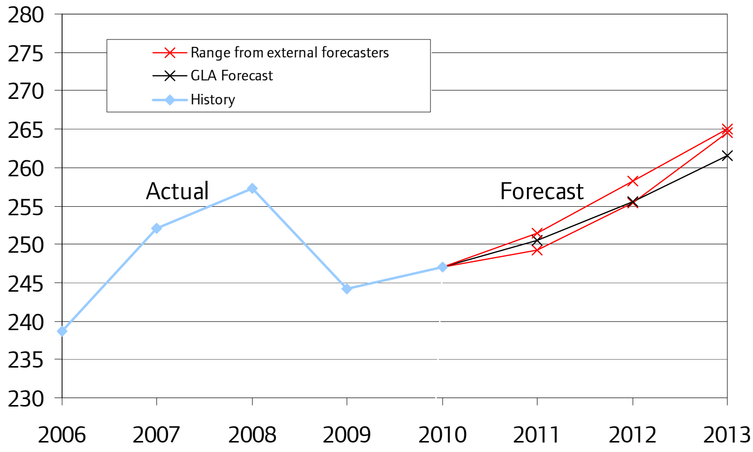
London's real GVA is forecast to grow at a moderate rate between 2011 and 2013. Forecast growth rates are 1.4 per cent in 2011, 2.0 per cent in 2012, and 2.4 per cent in 2013.

The GLA Economics' forecast is slightly more pessimistic compared with the consensus average forecast throughout 2011-13.

Annual growth (per cent)



Level (constant year 2006, £ billion)



Growth (annual per cent)				
	2010	**2011**	**2012**	**2013**
GLA	1.1	1.4	2.0	2.4
Consensus		1.5	2.5	2.9

Level (constant year 2006, £ billion)				
	2010	**2011**	**2012**	**2013**
GLA	247	250	255	262
Consensus		251	257	265

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
4.7	2.7	2.1	3.6	6.0	5.8	6.4	2.1	-0.3	2.8	3.5	3.9	4.1	5.6	2.1	-5.1	1.1

History: Level (constant year 2006, £ billion)

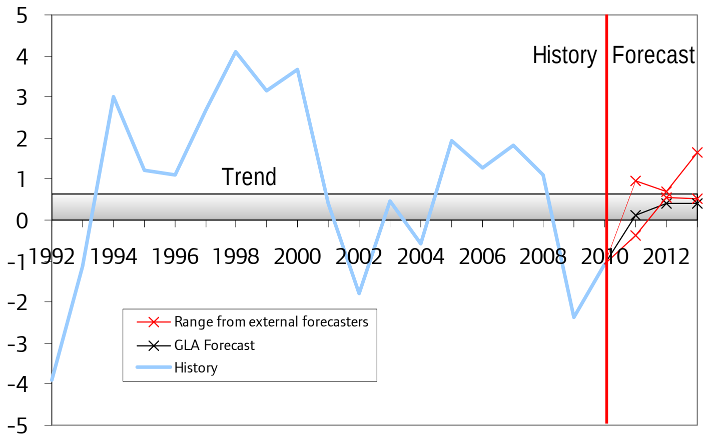
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
157.3	161.5	164.8	170.8	181.0	191.5	203.7	208.0	207.4	213.2	220.7	229.3	238.7	252.1	257.3	244.3	247.0

Employment
(London workforce jobs)

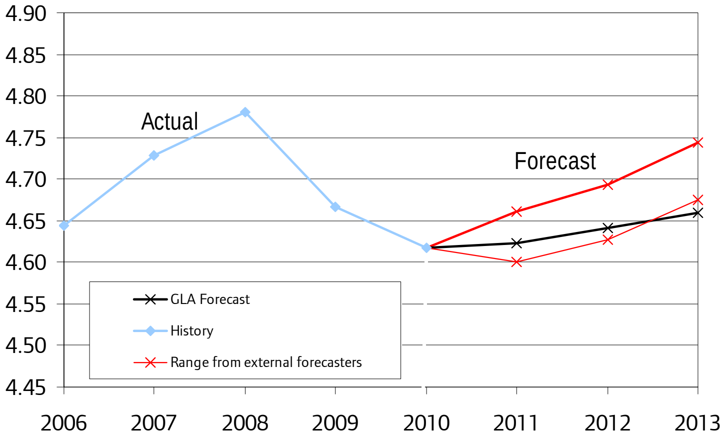
London's employment is forecast to rise throughout the forecast period.

GLA Economics' forecast for employment growth is more pessimistic than the consensus average forecast throughout 2011-2013.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)				
	2010	**2011**	**2012**	**2013**
GLA	-1.1	0.1	0.4	0.4
Consensus		0.3	0.6	0.9

Level (millions of workforce jobs)				
	2010	**2011**	**2012**	**2013**
GLA	4.62	4.62	4.64	4.66
Consensus		4.63	4.66	4.70

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.0	1.2	1.1	2.7	4.1	3.1	3.7	0.4	-1.8	0.5	-0.6	1.9	1.3	1.8	1.1	-2.4	-1.1

History: Level (millions)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.90	3.95	4.00	4.10	4.27	4.40	4.57	4.59	4.50	4.52	4.50	4.58	4.64	4.73	4.78	4.67	4.62

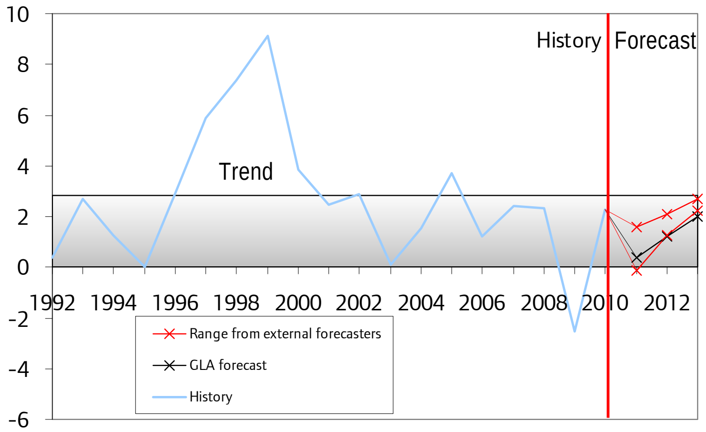
Household expenditure

(London household spending, constant year 2006, £ billion)

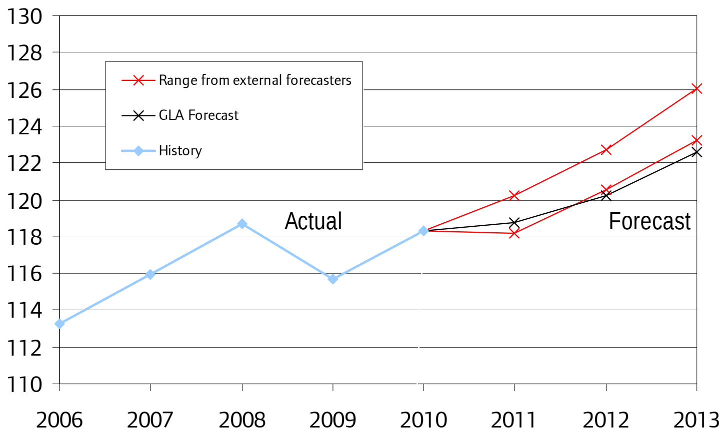
Growth in London's household spending is forecast to remain positive over the forecast period.

GLA Economics' household spending growth forecast is lower than the consensus average throughout 2011-2013.

Annual growth (per cent)



Level (constant year 2006, £ billion)



Growth (annual per cent)				
	2010	**2011**	**2012**	**2013**
GLA	2.3	0.4	1.2	2.0
Consensus		0.7	1.8	2.5

Level (constant year 2006, £ billion)				
	2010	**2011**	**2012**	**2013**
GLA	118	119	120	123
Consensus		119	121	124

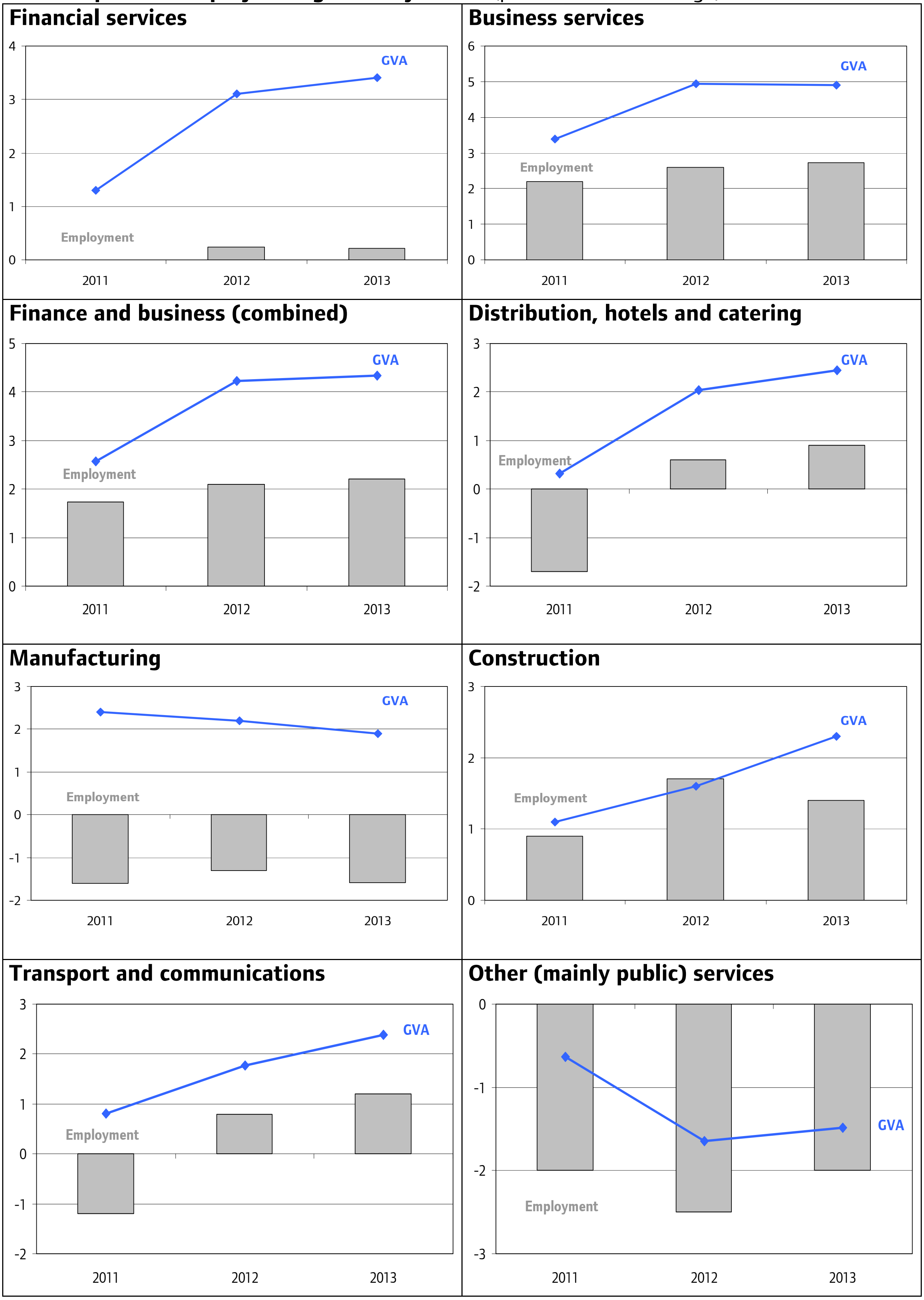
History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.3	0.0	2.9	5.9	7.4	9.1	3.9	2.5	2.9	0.1	1.6	3.7	1.2	2.4	2.3	-2.5	2.3

History: Level (constant year 2006, £ billion)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
75.8	75.9	78.1	82.7	88.7	96.8	100.6	103.1	106.1	106.2	107.8	111.9	113.2	116.0	118.7	115.7	118.3

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



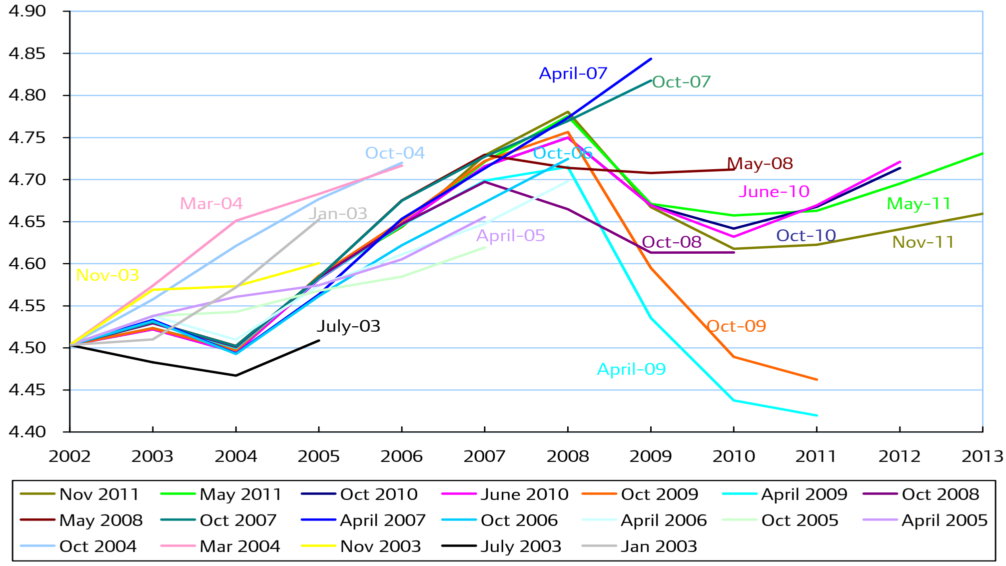
Output and employment growth by sector (per cent annual change)

	2011	2012	2013
Financial services			
Output	1.3	3.1	3.4
Employment	0.0	0.2	0.2
Business services			
Output	3.4	4.9	4.9
Employment	2.2	2.6	2.7
Financial and business services combined			
Output	2.6	4.2	4.3
Employment	1.7	2.1	2.2
Distribution, hotels and catering			
Output	0.3	2.0	2.4
Employment	-1.7	0.6	0.9
Transport and communications			
Output	0.8	1.8	2.4
Employment	-1.2	0.8	1.2
Other (mainly public) services			
Output	-0.6	-1.6	-1.5
Employment	-2.0	-2.5	-2.0
Manufacturing			
Output	2.4	2.2	1.9
Employment	-1.6	-1.3	-1.6
Construction			
Output	1.1	1.6	2.3
Employment	0.9	1.7	1.4
(Memo: non-manufacturing)			
Output	1.4	2.0	2.4
Employment	0.2	0.5	0.5

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 lower than the May 2011 forecast.

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

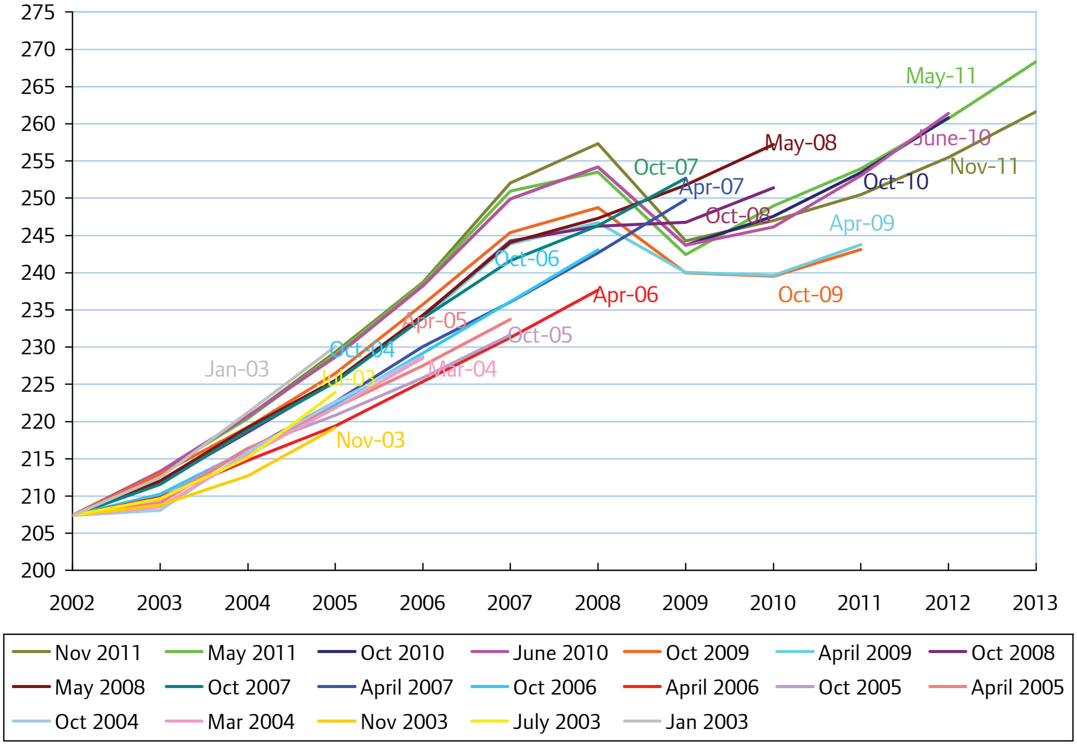


Source: Various London's Economic Outlooks

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
Nov 2011	**0.5%**	**-0.6%**	**1.9%**	**1.3%**	**1.8%**	**1.1%**	**-2.4%**	**-1.1%**	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 2006, £ 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
Nov 2011	**2.8%**	**3.5%**	**3.9%**	**4.1%**	**5.6%**	**2.1%**	**-5.1%**	**1.1%**	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: 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 2009 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[lvi]. 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 B: Glossary of acronyms

ABI	Annual Business Inquiry
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
FSA	Financial Services Authority
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
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

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[ii] RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, August 2011 of the UK RPI inflation rate are reported.
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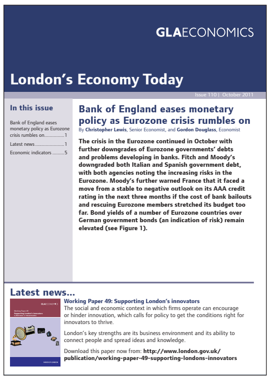
other publications

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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London's Economy Today

Issue 110 | October 2011

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Bank of England eases monetary policy as Eurozone crisis rumbles on

By **Christopher Lewis**, Senior Economist, and **Gordon Douglass**, Economist

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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 સાઘો.