

London's Economic Outlook: Autumn 2013

The GLA's medium-term planning projections

November 2013



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Contents

1. Executive summary	2
2. Introduction	4
3. Economic background: Recovery gaining pace but global growth still slow.....	5
4. Review of independent forecasts.....	22
5. The GLA Economics forecast	28
Appendix A: From SIC 2003 to SIC 2007	38
Appendix B: Explanation of terms and some sources.....	40
Appendix C: Glossary of acronyms	41
Appendix D: Bibliography	42

1. Executive summary

GLA Economics' twenty third London forecast¹ suggests that:

London's Gross Value Added (GVA) growth rate should be 2.2 per cent in 2013. Growth should increase to 2.5 per cent in both 2014 and 2015.

London is likely to see a reasonable rise in employment in 2013, 2014 and 2015.

London household income and spending will both probably increase 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)	2012	2013	2014	2015
London GVA (constant 2010 £ billion)	1.5	2.2	2.5	2.5
<i>Consensus (average of independent forecasts)</i>		1.8	2.7	2.8
London civilian workforce jobs	2.8	1.3	0.8	0.7
<i>Consensus (average of independent forecasts)</i>		1.9	1.0	1.1
London household spending (constant 2010 £ billion)	1.7	2.1	2.5	2.7
<i>Consensus (average of independent forecasts)</i>		1.9	2.2	2.4
London household income (constant 2010 £ billion)	2.5	1.8	2.4	2.7
<i>Memo: Projected UK RPI² (Inflation rate)</i>	3.2	3.1	3.1	3.1
<i>Projected UK CPI³ (Inflation rate)</i>	2.8	2.6	2.5	2.2

Sources: GLA Economics' Autumn 2013 forecast and consensus calculated by GLA Economics

Most recent economic data indicates that London's economy continues to outperform the UK as a whole as both economies continue to recover from the recession. The majority of economic indicators show a continuing improvement in the London economy, especially when compared to the beginning of 2013. However, uncertainty in a number of key trading areas, for example the on-going Eurozone problems and concerns about political wrangling over the Federal budget in the US, may still dampen the economic recovery.

Consumer confidence has improved but remains vulnerable to shocks and household incomes remain under pressure but are likely to gradually improve over the next few years although at a subdued rate. Inflation is expected to stay relatively low for the coming few years which should also help to ease the pressure on family finances. Employment growth in London has been unexpectedly strong over the past couple of years, although it is expected to moderate over the next few years meaning that unemployment could take some time to decline significantly. The

¹ The forecast is based on an in-house model built by Volterra Consulting Limited.

² RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, November 2013 of the UK RPI inflation rate are reported.

³ CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, November 2013 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 2 per cent.

on-going fiscal retrenchment by the Government will continue to act as a break on economic growth in the short run. However, it has provided support to market confidence in the country's finances and kept downward pressure on market interest rates, which should encourage private sector investment.

The largest downside risk to the economy is still the size of public finance deficits in a number of developed economies and the possibility of another flare up of the sovereign debt crisis in the Eurozone. As highlighted in a number of past London's Economic Outlooks (LEO's) 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; with the best case scenario seeing stagnant growth in the Eurozone for the next few years, which will act as a drag on UK trade. Concerns have also been raised about the number of "zombie firms" in the Eurozone that may act as a further drag on Eurozone growth similar to that experienced in Japan in the 1990s⁴.

The US economy continues to grow, however unemployment, although falling, remains a concern and political squabbles over the Federal budget could still destabilise the US economy and the global recovery. Thus although a temporary solution to the debt ceiling was reached in October, this has just pushed back a much needed longer-term solution until early in the new year. If any solution led to a major fiscal tightening in the US this could well act as a drag on the US economy with negative implications for the world, UK and London economies. Far worse would be a failure to solve the problem of the debt ceiling in 2014, potentially causing a US default, which would have a catastrophic impact on the global economy.

Inflation has slowed but is expected to remain slightly above the Bank of England's 2 per cent target for the next couple of years. In response to the incipient economic recovery in the UK and speculation at when the current very accommodating monetary policy would be tightened, the Bank of England has undertaken a policy of 'forward guidance' which stated that monetary policy would be reviewed when ILO unemployment in the UK reached 7 per cent assuming other conditions had not been breached. There are however risks that this policy may be misunderstood by the markets⁵.

Sterling remains weaker than its pre 2008/09 recession levels but has recently appreciated against both the Euro and Dollar. However, sterling still remains competitive compared to its pre-recession levels. A competitive exchange rate benefits London's tourism sector and encourages inward foreign investment. Any sustained recovery in the economy in the longer run is most likely to be led by net trade and private sector investment rather than by public sector and household consumption. Overall the short-term to medium-term prospects for the economy have improved, however households and businesses remain under pressure.

⁴ The Economist, 'The euro zone: Europe's other debt crisis', 26 October 2013.

⁵ Reuters, 'The markets and Bernanke's "taper tantrums"', 19 September 2013.

2. Introduction

The autumn 2013 edition of *London's Economic Outlook* (LEO) is GLA Economics' twenty third 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)⁶
- 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.

⁶ CEBR does not provide a forecast for employment in the sectors of the London economy or for household expenditure in London.

3. Economic background: Recovery gaining pace but global growth still slow

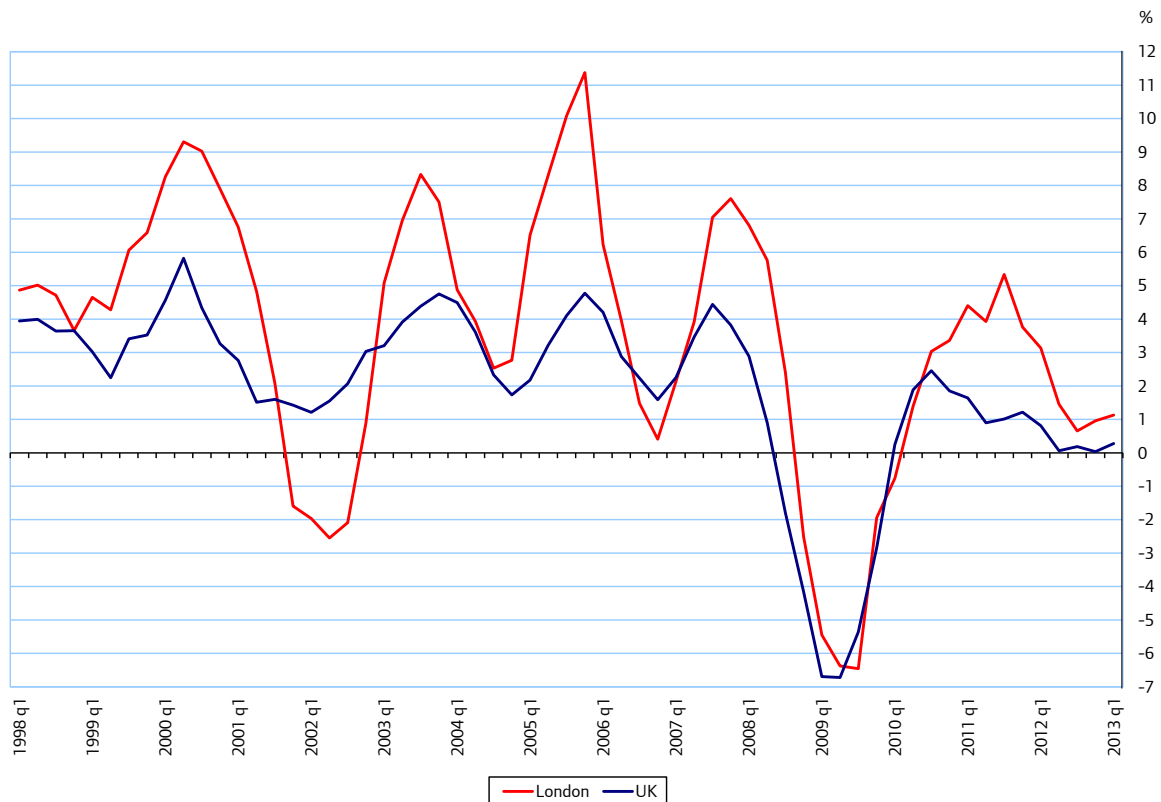
This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's annual growth in output stood at 1.1 per cent in the first quarter of 2013 compared to 0.3 per cent in the UK (see Figure 3.1). London's economic recovery is picking up pace with indicators suggesting that the London economy has performed slightly better than the UK economy into the second half of 2013.

Figure 3.1: Output growth – London and UK

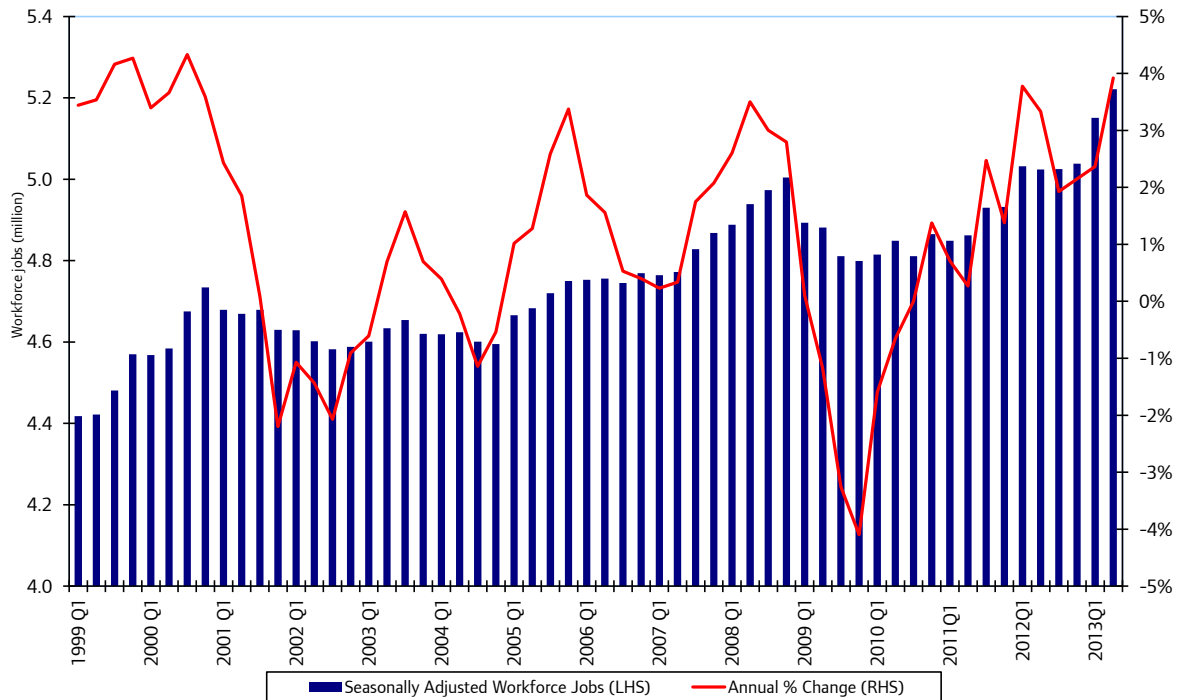
Real GVA, annual % change, last data point is Q1 2013



Source: Experian Economics

Annual employment growth in London was very strong in Q2 2013 at 3.9 per cent. The total number of workforce jobs in London was just over 5.2 million in Q2 2013 (see Figure 3.2).

Figure 3.2: London civilian workforce jobs
Level and annual % change, last data point is Q2 2013

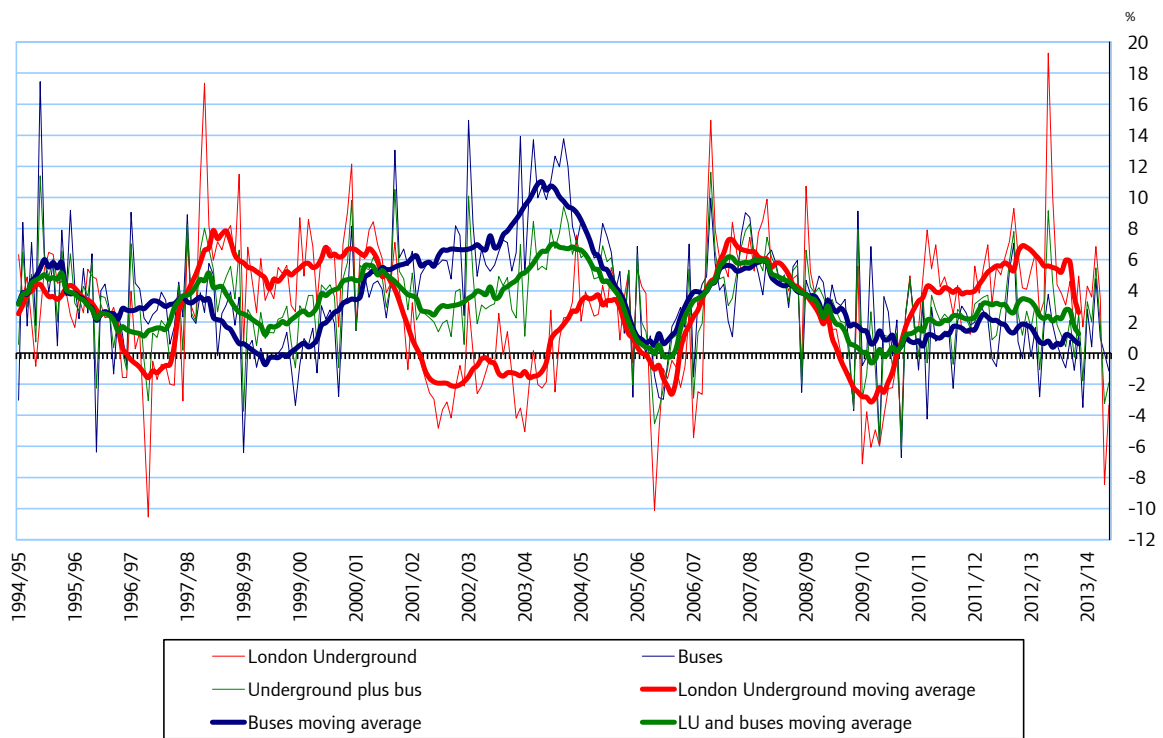


Source: Office for National Statistics

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, although has fallen back as the impact of the boost in passenger numbers caused by the Olympics drops out of the data.

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 14/9/13



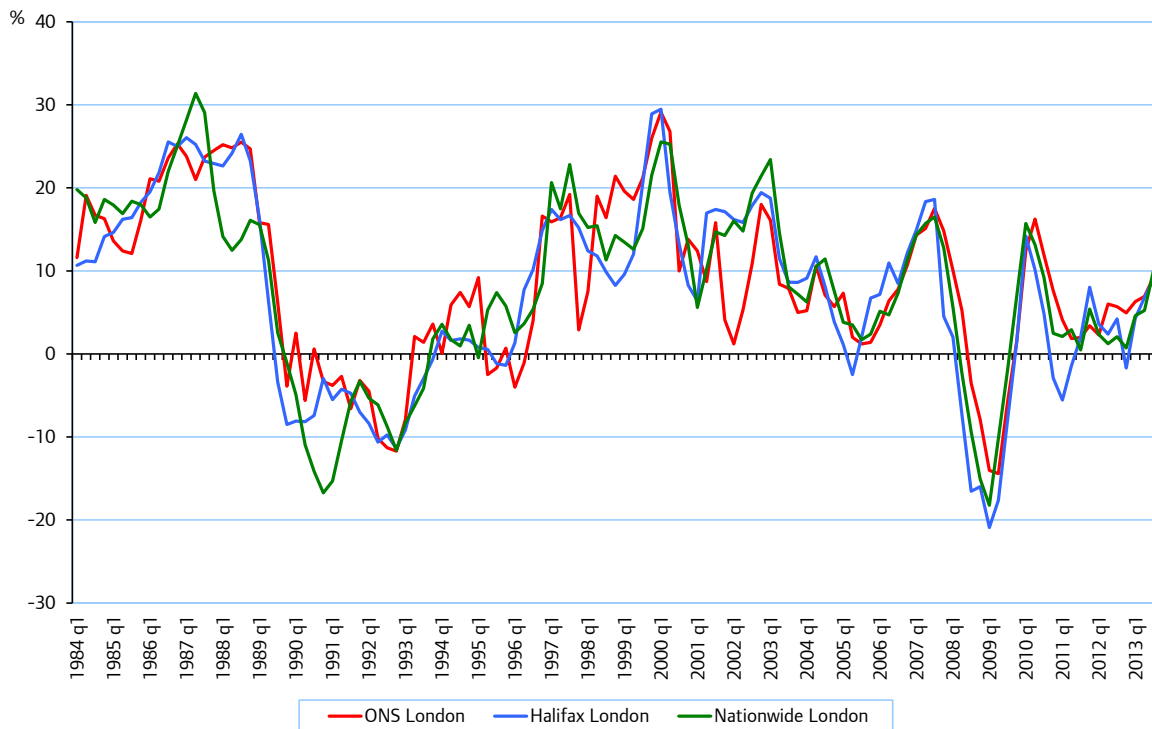
Source: Transport for London

Annual house price inflation weakened in the second half of 2007 and turned negative in 2008. Since then the London housing market has strengthened with it growing strongly over the last year⁷. Annual house price inflation in London as measured by the Halifax, Nationwide, and the ONS was positive and rising in Q3 2013 (see Figure 3.4).

⁷ The Financial Times, 'London fuels record growth in UK house prices', 17 September 2013.

Figure 3.4: House price inflation in London

Annual % change, last data point is Q3 2013



Sources: ONS, Halifax house price index, Nationwide

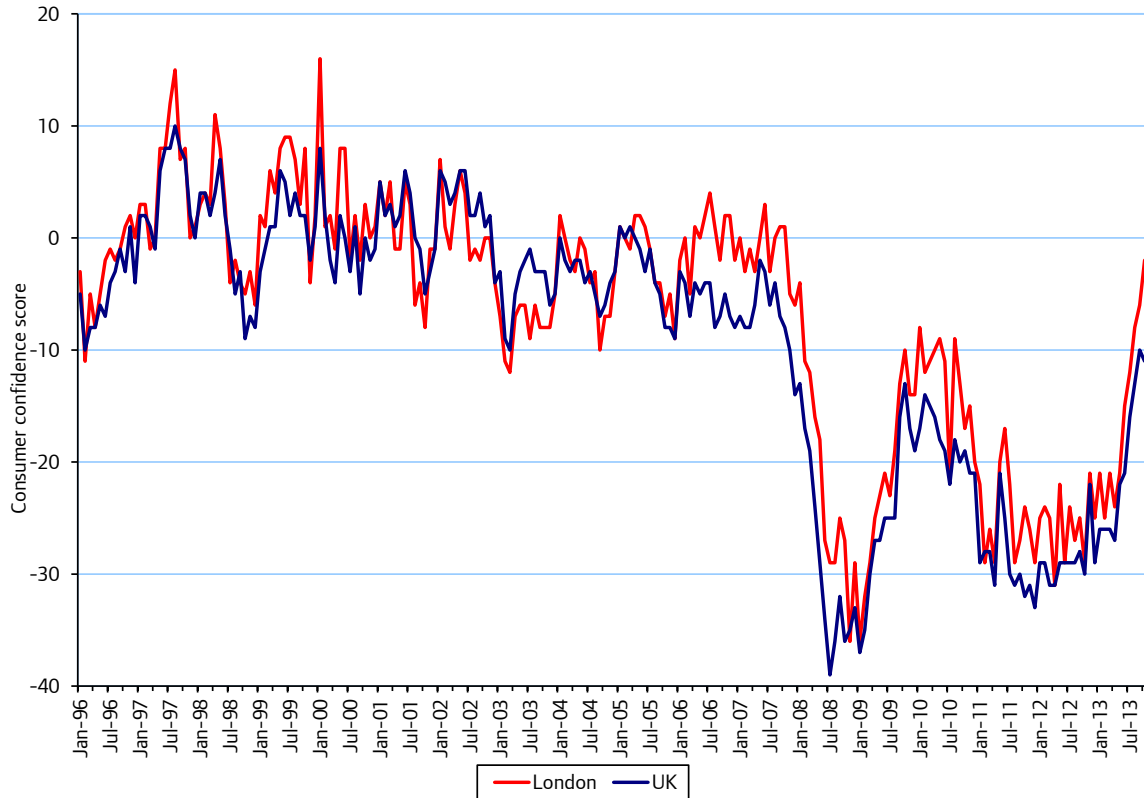
Knight Frank's Q3 'Central London Quarterly' for commercial property showed that "take-up increased to 3.8 m sq ft, 77% higher than the same quarter last year. Activity was driven by acquisitions by technology, media and telecoms tenants, who accounted for 30% of all deals" whilst "supply fell to 16.4 m sq ft reflecting a vacancy rate of 7.2%. This is 15% below the long-term average. Central London supply will likely fluctuate over the next few quarters as a number of speculative development schemes enter the figures to counter balance space lost through take-up". Meanwhile "investment turnover reached £5.0 bn, driven by continued strong overseas demand for Central London assets and the return of UK institutions to the market. Turnover is now at its highest level since mid-2007 and there is renewed downward pressure on prime yields in the City"⁸.

GfK NOP's regional consumer confidence index (Figure 3.5) shows that consumer confidence in London has improved significantly in 2013 and is now around the levels seen before the 2008/09 recession. Consumer confidence is stronger in London than in the UK as a whole. 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.

⁸ Knight Frank, Central London Quarterly - Offices, Q3 2013.

Figure 3.5: GfK NOP's regional consumer confidence index

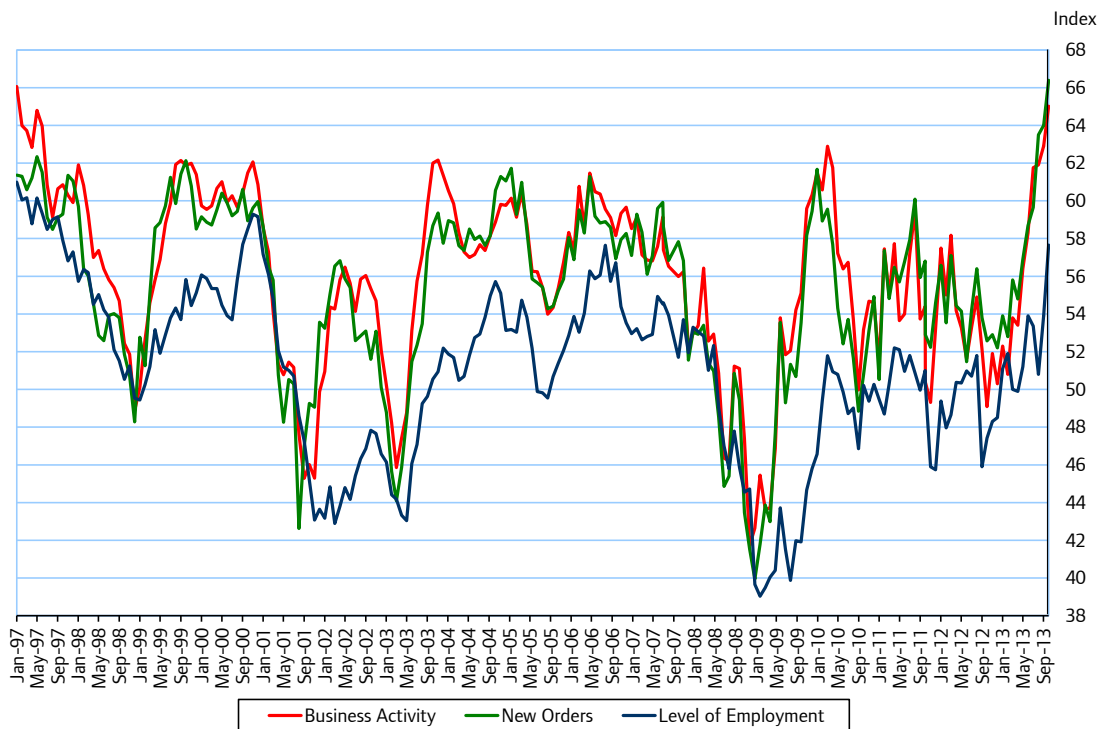
Consumer confidence score, last data point is October 2013



Sources: GfK NOP on behalf of the European Commission

The Purchasing Manager's Index (PMI) business survey indicates that business activity has been expanding since May 2009 (apart from the months of August 2010, November 2011 and October 2012) and new orders are increasing strongly. Employment in London firms rose in the first two months of 2013 but then stagnated in March 2013 and fell in April 2013 before rising consistently since then (see Figure 3.6).

Figure 3.6: Recent survey evidence on London's economic climate
Purchasing Manager's Index (PMI) survey, last data point October 2013
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) estimates that the UK economy continued its recovery in the third quarter of 2013. Having declined by 0.1 per cent in Q4 2012, output rose by 0.4 per cent in Q1 2013, 0.7 per cent in Q2 2013 and 0.8 per cent in Q3 2013. UK output was 1.5 per cent higher in Q3 2013 than in Q3 2012. UK GDP is now estimated to be just over 2.5 per cent below its pre 2008/09 recession peak⁹. The IMF has forecast that the UK economy will grow by 1.4 per cent in 2013 and by 1.9 per cent in 2014¹⁰.

⁹ Office for National Statistics, 'Gross Domestic Product Preliminary Estimate, Q3 2013', 25 October 2013.

¹⁰ The IMF, 'World Economic Outlook: Transitions and Tensions', 7 October 2013.

Table 3.1: Office for Budget Responsibility and HM Treasury consensus forecasts for the UK economy

Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Budget March 2013	
	2013	2014	2013	2014
GDP growth (per cent)	1.4	2.3	0.6	1.8
Claimant unemployment (mn)	1.4	1.3	1.58	1.63
Current account (£bn)	-54.7	-43.2	-	-
PSNB (2013-14, 2014-15: £bn)	101.9	90.3	120 ¹¹	108

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, November 2013.

Office for Budget Responsibility, Economic and fiscal outlook, March 2013.

As can be seen in Table 3.2 annual growth was positive in Q3 2013 in all sectors except agriculture, forestry and fishing, mining & quarrying inc. oil & gas extraction, and electricity gas and water supply. Construction and distribution hotels and catering experienced strong annual growth. It is probable that the overall strength of the economy in the final quarter of 2013 and into 2014 will continue to improve.

Table 3.2: Recent growth in broad industrial sectors of the UK economy

Annual % change

Industrial sectors	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry, and fishing	-2.0%	-3.9%	-4.0%	-4.0%	-7.2%	-3.2%	-1.6%
Mining & quarrying inc oil & gas extraction	-11.7%	-7.4%	-5.9%	-14.3%	-8.2%	-4.1%	-4.1%
Manufacturing	-0.5%	-2.3%	-1.5%	-2.7%	-2.7%	-0.4%	0.1%
Electricity gas and water supply	-5.7%	2.8%	-2.9%	5.0%	6.8%	-0.7%	-4.4%
Construction	-4.6%	-9.2%	-10.0%	-7.8%	-5.1%	0.4%	5.0%
Distribution hotels and catering	0.6%	0.0%	1.4%	1.3%	2.3%	4.2%	3.8%
Transport, storage and communication	2.4%	0.2%	-1.7%	-0.6%	0.3%	1.9%	2.5%
Business services and finance	2.8%	2.2%	1.3%	1.3%	1.4%	1.9%	2.1%
Government and other services	0.7%	0.8%	2.0%	1.1%	1.2%	1.1%	0.1%

Source: Office for National Statistics (as of 31 October 2013)

Table 3.3 shows that household annual spending growth was positive in 2012 and into the first half of 2013. Investment fell heavily during the 2008/09 recession and remains weak. Looking forward, investment is expected to pick up.

¹¹ The PSNB forecast from the OBR excludes "Royal Mail and APF transfers".

Table 3.3: UK domestic expenditure growth

Annual % change

Expenditure	2012				2013	
	Q1	Q2	Q3	Q4	Q1	Q2
Households	0.7%	1.1%	1.4%	1.5%	1.7%	1.8%
Non-profit institutions	0.3%	1.8%	2.2%	-1.3%	-0.2%	-5.1%
General Government	2.6%	1.0%	1.7%	1.5%	-1.1%	0.8%
Gross fixed capital formation	7.8%	0.5%	-0.9%	-3.5%	-6.8%	-5.3%

Source: Office for National Statistics (as of 31 October 2013)

Inflation has fallen since the Spring 2013 LEO 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 October down from 2.7 per cent in September¹². Meanwhile annual Retail Price Index (RPI) inflation fell to 2.6 per cent in October from 3.2 per cent in September. In its November Inflation Report the Bank of England noted that "the near-term outlook for inflation is lower than expected three months ago, reflecting unexpectedly low outturns and the recent appreciation of sterling. Inflation is set to fall back to around the 2% target over the next year or so as the impetus from past increases in import prices fades and a gradual revival in productivity growth, together with a persistent margin of spare capacity, curbs domestic price pressures"¹³. The Bank of England has also introduced a policy of forward guidance in relation to its monetary policy (see Box 3.1) to provide further clarity about its future direction.

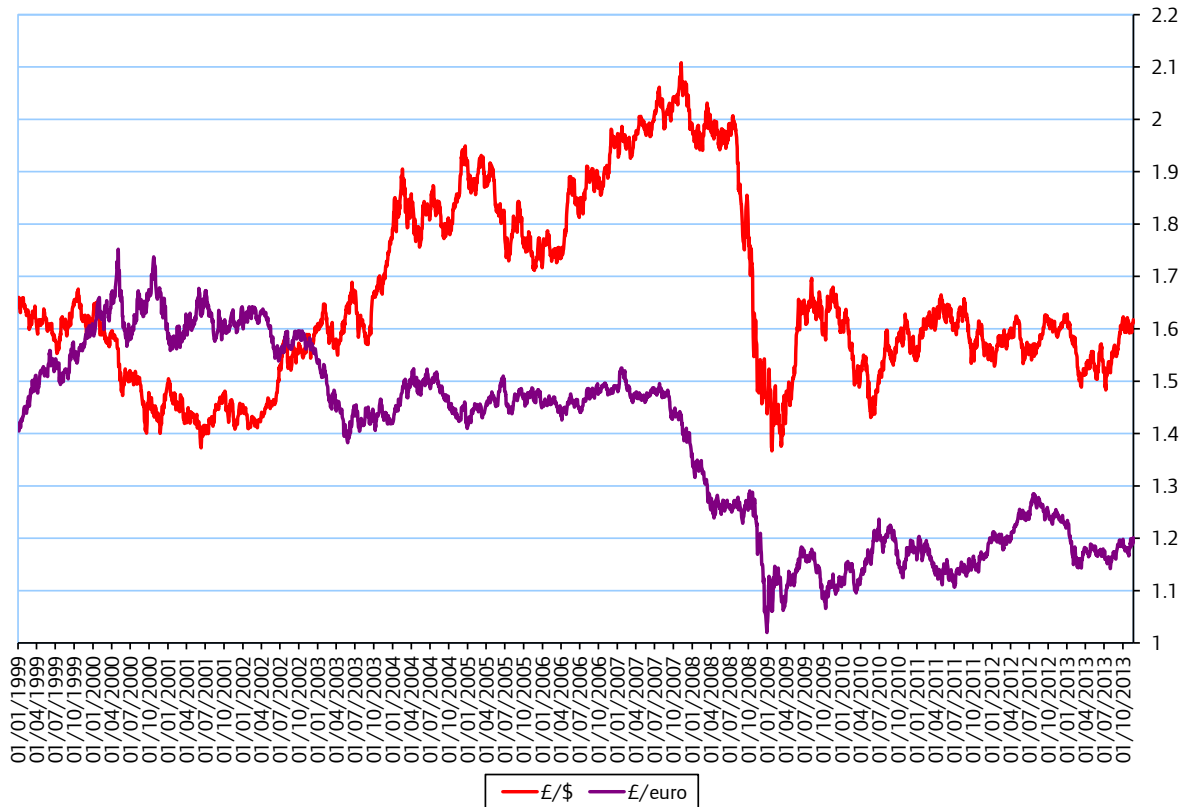
Sterling continues to remain relatively weak against the dollar compared to the heights it reached in 2007, however it has recently appreciated compared to the levels seen at the start of 2013 (see Figure 3.7). With respect to the Euro, sterling has been more stable and still remains at a more competitive level than its pre-recession highs which should support exporters, tourism and import substitution.

¹² BBC, 'UK inflation falls to 2.2% in October', 12 November 2013.

¹³ Bank of England, 'Inflation Report: November 2013', 13 November 2013.

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

Last data point is 20/11/13



Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)¹⁴ (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 but remains well below its pre-recession levels although above the levels seen at the beginning of 2013. This relative weakness should continue to provide support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports.

¹⁴ 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.

Figure 3.8: Sterling EERI rate

Last data point is 20/11/13



Source: Bank of England

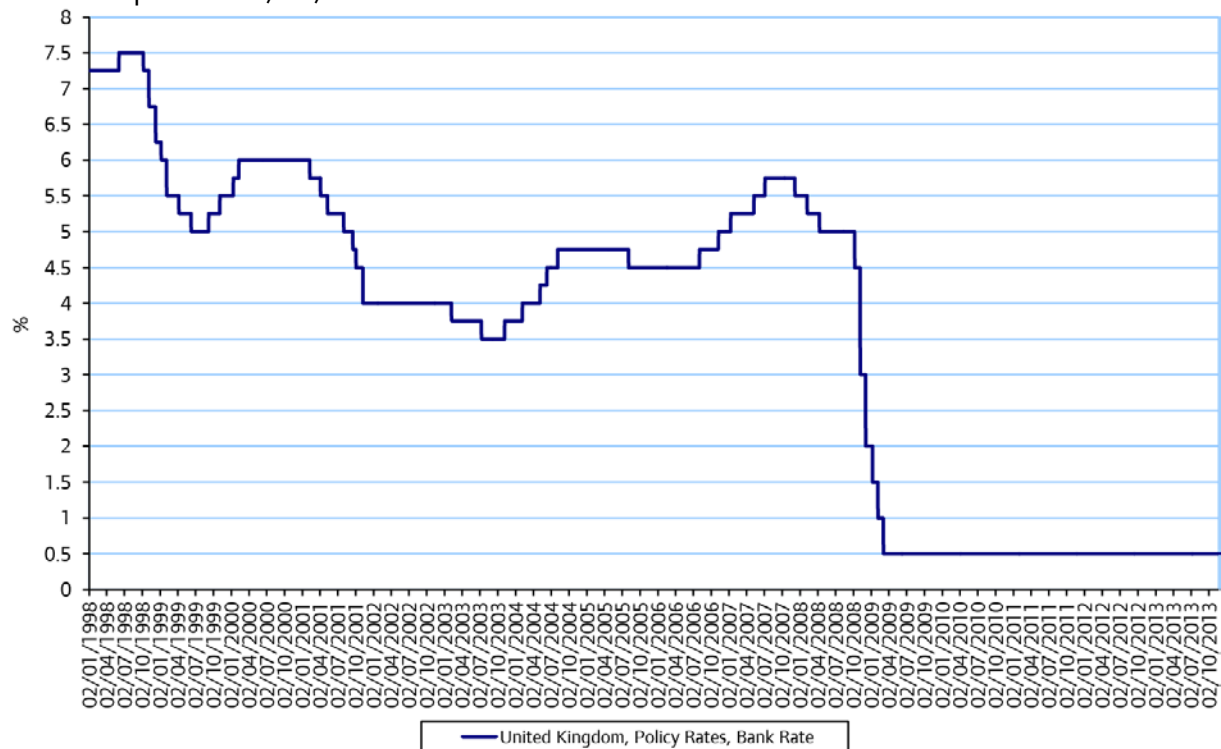
Box 3.1: The Bank of England introduces a policy of 'Forward Guidance'

Interest rates in the UK have been kept at the very low rate of 0.5 per cent since March 2009 (see Figure 3.9), whilst the stock of monetary easing known as Quantitative Easing (QE) stands at £375 billion. However, in recent months as the evidence for the UK economy's recovery grew, speculation has mounted about when this extraordinarily loose monetary policy would end. In partial response to this speculation and to also provide more clarity to the market the new Governor of the Bank of England, Mark Carney, unveiled in August explicit policy guidance on the Bank interest rate, also known as 'Forward Guidance'. In this announcement he stated that the benchmark interest rate would not be raised from 0.5 per cent by the Monetary Policy Committee (MPC) at least until the ILO measure of unemployment has fallen to 7 per cent subject to 'knockout' conditions not being met. These conditions include: if, in the MPC's view, it is more likely than not, that CPI inflation 18 to 24 months ahead will be 0.5 percentage points or more above the 2 per cent target; if inflation expectations got out of control; or if financial stability was threatened by the policy¹⁵.

¹⁵ Bank of England, 'Inflation Report: August 2013', 7 August 2013.

Figure 3.9: Bank of England base rate

Last data point is 20/11/2013



Source: EcoWin

The Bank suggests that “explicit policy guidance can enhance the effectiveness of monetary stimulus in three ways. It provides greater clarity regarding the MPC’s view of the appropriate trade-off between the speed with which inflation is returned to the target and the support given to the recovery. It reduces uncertainty about the future path of monetary policy as the economy recovers. And it delivers a robust framework within which the MPC can explore the scope for economic expansion without putting price stability and financial stability at risk”¹⁶.

Commenting on the policy, the Governor emphasised that the 7 per cent unemployment rate should be seen as a ‘way-station’ where a review of policy would take place and not a trigger for rate rises. The UK unemployment rate currently stands at 7.6 per cent¹⁷ and is unlikely to reach 7 per cent according to the Bank’s November 2013 forecast until the beginning of 2015, however this is an improvement of 18 months on its August 2013 forecast of mid-2016¹⁸. Overall, in the November Inflation Report the Bank observed that “in the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise”¹⁹.

The Federal Reserve and European Central Bank have also provided forward guidance on their monetary policies. In respect to the Federal Reserve this guidance led many commentators to

¹⁶ Ibid.

¹⁷ As measured by the ILO measure for July-September 2013.

¹⁸ The Financial times, ‘Bank of England revises forecast on jobless threshold’, 13 November 2013.

¹⁹ Bank of England, ‘Inflation Report: November 2013’, 13 November 2013.

expect that it would begin in September to taper – or cut back – its policy of \$85 billion a month bond purchases²⁰. This did not occur with the Fed stating that it would “await more evidence that progress will be sustained before adjusting the pace of its purchases”²¹. However, minutes from the October meeting of the Federal Reserve Open Market Committee indicate that they expect to start trimming their stimulus efforts in “the coming months”²². The IMF has also observed that there can be problems with tapering, with it noting that “it is time for monetary policy to make plans for an exit from both quantitative easing and zero policy rates. While there are no major conceptual or technical issues involved, the communication problems facing the Federal Reserve are new and delicate. It is reasonable to expect some volatility in long rates as Fed policy shifts”²³.

3.3 The world economy

In October the IMF further downgraded their forecast for the world economy this year with it now forecast to expand by 2.9 per cent in 2013²⁴, with growth of 3.6 per cent forecast for 2014. The forecasts for developed economies remains mixed with a number of Eurozone economies forecast to contract in 2013 and experience subdued growth in 2014. The US economy is forecast to grow by 1.6 per cent in 2013 and then by 2.6 per cent in 2014²⁵. The Eurozone is forecast to contract by -0.4 per cent in 2013 but grow by 1.0 per cent in 2014²⁶. Growth in emerging and developing economies has been downgraded and is expected to be 4.5 per cent in 2013 and 5.1 per cent in 2014²⁷.

In their latest World Economic Outlook the IMF note that “the world economy has entered yet another transition. Advanced economies are gradually strengthening. At the same time, growth in emerging market economies has slowed. This confluence is leading to tensions, with emerging market economies facing the dual challenges of slowing growth and tighter global financial conditions”²⁸. They thus observe that “the core economies of Europe show some signs of recovery. This is the result not of recent major policy changes but of a change in mood, which nonetheless could be largely self-fulfilling if consumers and firms decide to increase spending. Southern periphery countries are still struggling, however. Progress on improving competitiveness and increasing exports is not yet strong enough to offset depressed internal demand. In both the core and the periphery, there is lingering uncertainty about bank balance sheets, which should be reduced by the promised review of banks’ asset quality”²⁹. However, they note that “the major news at this time comes from emerging market economies, where growth has declined—often by more than we previously forecast”³⁰. With “the obvious question (being) whether this slowdown reflects cyclical factors or a decrease in potential output growth. Based on what we know today, the answer is that it reflects both, albeit to different degrees in various countries—more cyclical in Russia and South Africa, more decreased potential in China and India. Unusually favorable world conditions, including high commodity prices and rapid financial market development, increased potential growth in these economies during the 2000s,

²⁰ The Economist, ‘Monetary Policy in America: Taper tiger’, 18 September 2013.

²¹ BBC, ‘Shares at record high as Federal Reserve refrains from tapering’, 18 September 2013.

²² BBC, ‘US Federal Reserve to trim stimulus in coming months’, 20 November 2013.

²³ The IMF, ‘World Economic Outlook: Transitions and Tensions’, October 2013.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

³⁰ Ibid.

and in a number of them, there was a cyclical component on top. As commodity prices stabilize and financial conditions tighten, potential growth is lower, leading in some cases to a sharp cyclical adjustment³¹. Therefore they observe that “confronted with these changing conditions, governments in emerging market economies face two challenges. The first is to adjust to lower potential growth. While some decrease in growth relative to the 2000s is inevitable, structural reforms can help ease the adjustment and are becoming more urgent. The list is a familiar one, from rebalancing toward consumption in China to removing barriers to investment in Brazil and India. The second challenge is to deal with the cyclical adjustment, and here the standard advice also applies. Countries with large fiscal deficits must consolidate. Countries with inflation running persistently above target must tighten and—often more important—put in place a more credible monetary policy framework³².”

In its Global Financial Stability Report the IMF observed that “the global financial system is undergoing a series of transitions along the path toward greater financial stability. The United States may soon move to less accommodative monetary policies and higher long-term interest rates as its recovery gains ground. After a prolonged period of strong portfolio inflows, emerging markets are facing a transition to more volatile external conditions and higher risk premiums. Some need to address financial and macroeconomic vulnerabilities and bolster resilience, as they shift to a regime in which financial sector growth is more balanced and sustainable³³. It further observed that “the primary challenge resulting from these changes relates to managing the side effects and eventual withdrawal of accommodative monetary policy in the United States. Such a transition, including the benefits of a strong U.S. economy, should help limit financial stability risks associated with an extended period of low interest rates. Yet managing a smooth transition could prove challenging, as investors adjust portfolios for a new regime with higher interest rates and greater volatility³⁴. In relation to the Eurozone it notes “reforms implemented at the national level and important steps taken toward improving the architecture of the monetary union have helped reduce funding pressures on banks and sovereigns. However, in the stressed economies of Italy, Portugal, and Spain, heavy corporate sector debt loads and financial fragmentation remain challenging. Even if financial fragmentation is reversed over the medium term, this report estimates that a persistent debt overhang would remain, amounting to almost one-fifth of the combined corporate debt of Italy, Portugal, and Spain³⁵.”

The underlying conditions of the **US** economy continue to improve³⁶, with it growing by an annualized rate of 2.8 per cent in Q3 2013, however the economic consequences of prolonged political discord are worrying³⁷. Thus the IMF notes that “private demand continues to be strong, although growth has been hobbled this year by excessive fiscal consolidation. Politics is creating uncertainty about both the nature and the strength of the fiscal adjustment. The sequester is a bad way to consolidate, and conflicts around increasing the debt ceiling could lead to another bout of destabilizing uncertainty and lower growth³⁸. US consumer confidence

³¹ Ibid.

³² Ibid.

³³ The IMF, ‘Global Financial Stability Report: Transition Challenges to Stability’, October 2013.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Wall Street Journal, ‘GDP’s 2.8% Growth Masks Shaky Details’, 7 November 2013.

³⁷ Wall Street Journal, ‘White House Economist: Debt-Ceiling Standoff Might Be Bigger Threat to Economy Than Past Showdowns’, 3 October 2013.

³⁸ The IMF, ‘World Economic Outlook: Transitions and Tensions’, October 2013.

decreased sharply in October on the back of the government shutdown³⁹, however the impact on job creation was better than expected with the US economy adding 204,000 jobs in October leaving unemployment at 7.3 per cent⁴⁰. The stock market is performing strongly⁴¹ which suggests some confidence in the US economy. Interest rates remain at a target rate of between 0 to 0.25 per cent and a tapering of the Federal Reserve's bond buying scheme has yet to occur⁴². The US recovery is continuing as shown by the October 2013 Beige Book from the Federal Reserve stating that "reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest to moderate pace during the reporting period of September through early October"⁴³.

The **Eurozone** economy has now exited recession with output in the third quarter of 2013 growing by 0.1 per cent⁴⁴, after growing by 0.3 per cent in Q2 2013 which ended the contraction of the preceding 18 months⁴⁵. Still, a number of member states remained in recession or experienced contractions in Q3 2013, with Italy's economy contracting by -0.1 per cent (Italy has now entered its third year of recession), Cyprus declined by -0.8 per cent and the French economy declined by -0.1 per cent after growing by 0.5 per cent in Q2 2013⁴⁶. However, other economies in the Eurozone grew. In Q3 2013 output in Germany increased by 0.3 per cent, in Spain by 0.1 per cent (ending its recession) and in Portugal by 0.2 per cent. Economic forecasts remain downbeat for the Eurozone with, for example, the European Commission forecasting growth of -0.4 per cent in 2013, 1.1 per cent in 2014 and 1.7 per cent in 2015⁴⁷. Most indicators imply a slow improvement in the economic situation in the Eurozone. The sovereign debt crisis in the Eurozone has abated somewhat since the start of 2013, but has not been solved as indicated by Standard & Poor's downgrading of French government debt in November⁴⁸. Thus risks remain that the sovereign debt position and the public finances of a number of members of the Eurozone could still trigger a global crisis. Concerns have also been expressed about the number of firms who cannot cover their interest payments out of pre-tax profits and may act as another drag on the Eurozone economy similar to that seen in Japan in the 1990s⁴⁹. Since the Spring 2013 LEO, the European Central Bank (ECB) has again cut interest rates, to 0.25 per cent, in response to the problems in the Eurozone, low inflation⁵⁰ and an appreciating currency which has led to concerns that inflation may seriously undershoot its target⁵¹. Eurozone unemployment remains very high with it standing at 12.2 per cent in September, whilst in Spain it hit 26.6 per cent⁵² (and 27.6 per cent in Greece in July). Unemployment in the under 25 age group also remains a major problem with it standing at 24.1 per cent in the Eurozone and 56.5 per cent in Spain in September (and 57.3 per cent in Greece in July).

³⁹ The Conference Board, 'Consumer Confidence Survey: Consumer Confidence Decreases Sharply in October', 29 October 2013.

⁴⁰ BBC, 'US job creation stronger in October', 8 November 2013.

⁴¹ The Financial Times, 'S&P 500 rides wave of easy money to record', 25 October 2013.

⁴² The Economist, 'Monetary Policy in America: Taper tiger', 18 September 2013.

⁴³ The Federal Reserve Board, 'The Beige Book', 16 October 2013.

⁴⁴ The Financial Times, 'Hopes for faster global growth dashed', 14 November 2013.

⁴⁵ BBC, 'Eurozone comes out of recession', 14 August 2013.

⁴⁶ Eurostat, 'Newsrelease euroindicators Flash estimate for third quarter of 2013: Euro area GDP up by 0.1% and EU28 up by 0.2%', 14 November 2013.

⁴⁷ European Commission, 'European Economic Forecast: Autumn 2013', November 2013.

⁴⁸ The Financial Times, 'France rating downgrade heaps pressure on François Hollande', 8 November 2013.

⁴⁹ The Economist, 'The euro zone: Europe's other debt crisis', 26 October 2013.

⁵⁰ BBC, 'ECB cuts interest rates to record low', 7 November 2013.

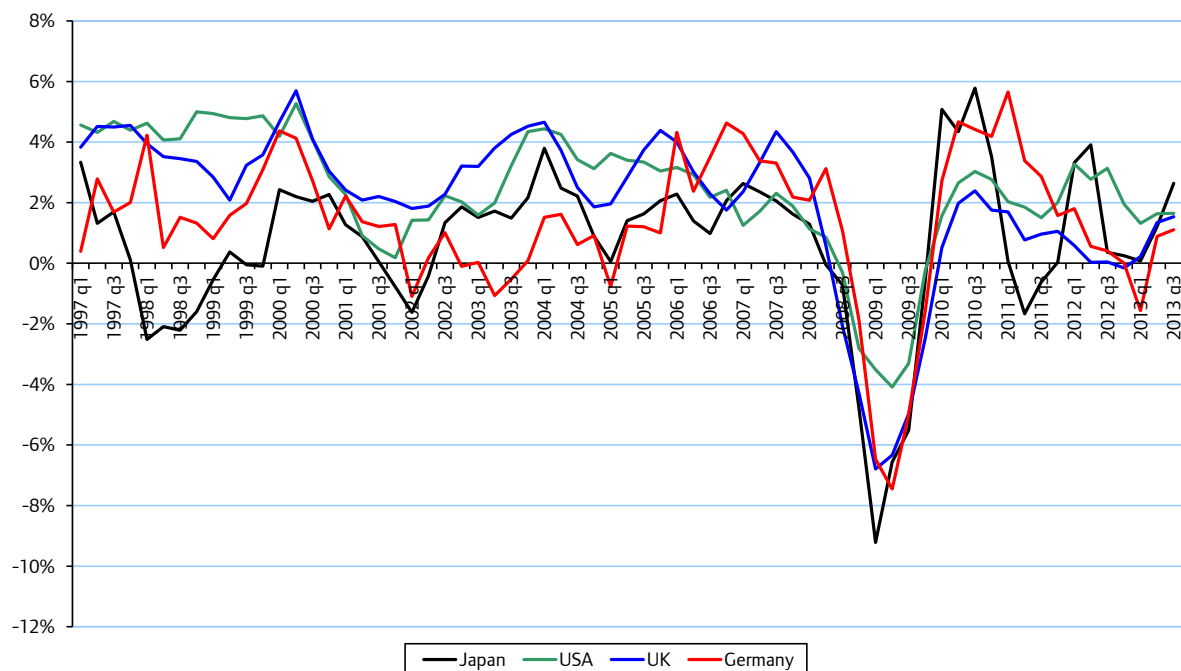
⁵¹ The Financial Times, 'Curse of euro lands ECB in tricky dilemma', 29 October 2013.

⁵² Eurostat, 'Newsrelease euroindicators September 2013: Euro area unemployment rate at 12.2%', 31 October 2013.

Japan's economy expanded moderately in the third quarter of 2013 with it growing by 0.5 per cent⁵³. However, results from the Bank of Japan's Tankan survey of business sentiment showed that sentiment amongst manufacturers had returned to pre-financial crisis levels⁵⁴. Whilst in signs that the economy may be escaping its deflationary trap, inflation has also begun to rise with core inflation being 0.7 per cent in September⁵⁵. In October the IMF forecast that Japan's economy would grow by 2.0 per cent in 2013 and by 1.2 per cent in 2014⁵⁶.

Figure 3.10: GDP growth in selected industrialised countries

Real GDP, annual % change, last data point is Q3 2013



Source: Ecwin

3.4 Emerging market economies

China's economy slowed in the first half of 2013 but it improved in Q3 2013 when it grew at an annualised rate of 7.8 per cent⁵⁷. There is some evidence that the slowdown seen at the beginning of the year may be slightly moderating⁵⁸. Chinese inflation remains relatively low, standing at 3.1 per cent in September⁵⁹, although this is higher than expected and may reduce the chances of policy changes to stimulate growth. In October the IMF forecast that the Chinese economy will grow by 7.6 per cent in 2013 and 7.3 per cent in 2014⁶⁰, whilst the Asian Development Bank (ADB) forecasts Chinese growth of 7.6 per cent in 2013 and 7.4 per cent in 2014⁶¹. Both forecasts were downgrades on the previous forecasts. **India's** economy continued

⁵³ BBC, 'Japan's economic growth slows down', 14 November 2013.

⁵⁴ The Wall Street Journal, 'BOJ Beat: Five Takeaways from Tankan Survey', 1 October 2013.

⁵⁵ The Financial Times, 'Shinzo Abe scores small inflation victory in Japan', 25 October 2013.

⁵⁶ The IMF, 'World Economic Outlook: Transitions and Tensions', October 2013.

⁵⁷ The Financial Times, 'China reverses first-half slowdown', 18 October 2013.

⁵⁸ The Financial Times, 'China may be in much better shape than it looks', 16 October 2013.

⁵⁹ BBC, 'China inflation rate rises on higher food prices', 14 October 2013.

⁶⁰ The IMF, 'World Economic Outlook: Transitions and Tensions', October 2013.

⁶¹ Asian Development Bank, 'Asian Development Outlook 2013 Update: Governance and Public Service Delivery', October 2013.

to slow in the quarter to June 2013⁶². Meanwhile rising consumer prices (the wholesale price index hit 6.46 per cent in September) have limited policymakers' ability to react to the slowing economy⁶³. Interest rates were increased to 7.75 per cent on 29 October, the second rise in as many months⁶⁴. The IMF forecasts Indian growth will be 3.8 per cent in 2013 and 5.1 per cent in 2014⁶⁵, whilst the ADB forecasts growth of 4.7 per cent in 2013 and 5.7 per cent in 2014⁶⁶.

Russia's economy slowed in the first half of 2013 due to "a combination of external and domestic factors, some of which are cyclical and others structural"⁶⁷, with it growing at an annualised rate of 1.2 per cent in Q2 2013⁶⁸. This is likely to continue into the second half of 2013, with the IMF now forecasting that it will grow by 1.5 per cent in 2013 and by 3.0 per cent in 2014⁶⁹. The World Bank forecasts growth for Russia of 1.8 per cent in 2013 and 3.1 per cent in 2014⁷⁰.

3.5 Risks to the world economy

Downside risks to the world economic outlook remain above normal levels with the re-emergence of budget concerns in the US. However overall, these risks are slightly more subdued than those highlighted in many of the recently published LEO's. The preeminent concern in the world economy continues to be the yet to be fully resolved sovereign debt problems in 'peripheral' Eurozone nations. A slowdown in some but not all emerging market economies could also dampen the world economy⁷¹. 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, and is likely to remain for some time yet, the most significant risk to the world economy. If the Eurozone problems worsened it is possible that global stock markets could experience extreme volatility. Even the best case scenario of stagnant or low growth in the Eurozone for a number of years will act as a drag on global economic confidence and growth. Further, political uncertainty regarding the debt ceiling in the US adds an on-going risk to the global economy; if the US government did default on its debt the economic impact would be catastrophic due to the financial chaos it would cause. Meanwhile, many emerging market economies have slowed⁷². Confidence in the global economy remains weak but appears to be recovering compared to the situation seen at the end of 2012; whilst credit to businesses though easing is still tight. That said, the monetary policies of most central banks in the developed world remain extremely accommodating. Even if some monetary tightening did occur monetary policy is likely to take a long time to return to historically normal levels and thus will continue to support the global economy for some time to come.

Global inflationary pressures remain modest but could re-emerge if commodity prices shot up, due for instance to turmoil in the Middle East. This would further dampen real UK household expenditure growth. The global financial system still remains vulnerable to shocks, although much banking restructuring has occurred. Structural problems in the Eurozone and the poor economic condition of a number of Eurozone countries still remains the foremost risk to

⁶² BBC, 'India's GDP shows continuing slowdown', 30 August 2013.

⁶³ BBC, 'India's inflation rate hits seven-month high', 14 October 2013.

⁶⁴ BBC, 'India raises interest rates for the second month running', 29 October 2013.

⁶⁵ The IMF, 'World Economic Outlook: Transitions and Tensions', October 2013.

⁶⁶ Asian Development Bank, 'Asian Development Outlook 2013 Update: Governance and Public Service Delivery', October 2013.

⁶⁷ The World Bank, 'Russia Economic Update – September 2013', 1 October 2013.

⁶⁸ Interfax, 'Russian Q2 GDP growth confirmed at 1.2%', 6 September 2013.

⁶⁹ The IMF, 'World Economic Outlook: Transitions and Tensions', October 2013.

⁷⁰ The World Bank, 'Russia Economic Update – September 2013', 1 October 2013.

⁷¹ BBC, 'India's GDP shows continuing slowdown', 30 August 2013.

⁷² The Economist, 'The global economy: The emerging-market squeeze', 20 August 2013.

London's economy. Political uncertainty regarding the debt ceiling in the US and a slowdown in some developing economies are also cause for concern.

3.6 Conclusion

London's economy is expected to grow over 2013-15 with growth hitting trend levels in 2014 and 2015. Employment is also expected to rise at a reasonable rate. Downside risks to the London economy remain relatively high due to continuing structural problems in the Eurozone, political uncertainty regarding the debt ceiling in the US and slow global growth. Inflation remains comparatively modest but low wage growth and necessary public finance consolidation means that household finances remain under pressure. The most probable sources of more long-term growth are private sector investment and net exports; if this occurs it will help rebalance the economy and put it on a sounder footing. The process of economic recovery is unlikely to be a smooth one though prospects for the London economy over the next couple of years have picked up since the beginning of 2013.

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 07 November 2013 on the first three of these indicators is summarised⁷³, drawing on forecasts from outside (independent) organisations⁷⁴. 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 consensus⁷⁵ and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transportation and storage
- distribution⁷⁶, accommodation and food service activities
- finance⁷⁷ and business services⁷⁸
- other (public & private) services⁷⁹.

It should be noted, that since our Spring 2012 forecast GLA Economics has been using the new Standard Industrial Classification (SIC 2007), which is explained in more detail in Appendix A.

⁷³ The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE, whilst the consensus forecast for household expenditure is based on the latest available forecast from CE, EE and OE only.

⁷⁴ Most forecasters do not yet provide forecasts of household income.

⁷⁵ The consensus GVA forecast for the six broad sectors is based on the latest available forecast from CE, CEBR, EE and OE for GVA but the consensus employment forecast for the six broad sectors is based on the latest available forecast from CE, EE and OE only.

⁷⁶ Distribution is made from the summation of Wholesale and Retail (see Appendix A).

⁷⁷ This is defined as Financial and insurance activities in Appendix A.

⁷⁸ 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).

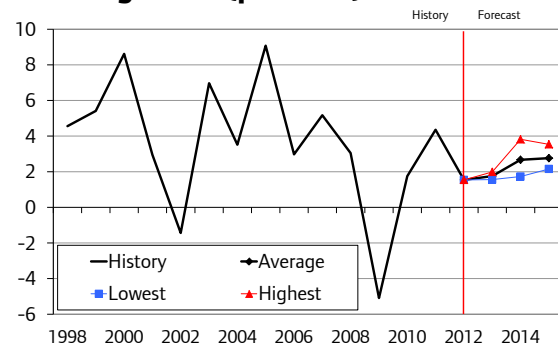
⁷⁹ This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services (see Appendix A).

Output

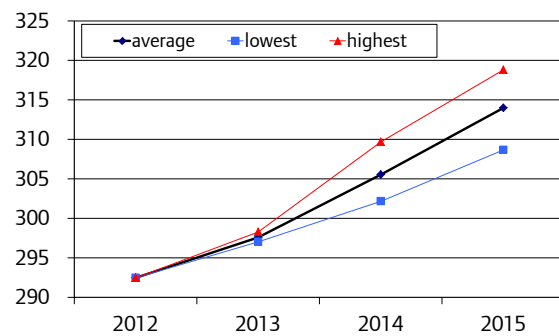
(London GVA, constant prices (base year 2010), £ billion)

The consensus (mean average view) is for real output growth to remain positive in 2013 and to reach 2.8 per cent in 2015.

Annual growth (per cent)



Level (constant year 2010, £ billion)



Annual growth (per cent)				Level (constant year 2010, £ billion)			
	2013	2014	2015		2013	2014	2015
Average	1.8	2.7	2.8	Average	298	306	314
Lowest	1.6	1.7	2.2	Lowest	297	302	309
Highest	2.0	3.8	3.5	Highest	298	310	319

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.6	5.4	8.6	2.9	-1.4	7.0	3.5	9.1	3.0	5.2	3.0	-5.1	1.7	4.4	1.5

History: Level (constant year 2010, £ billion)

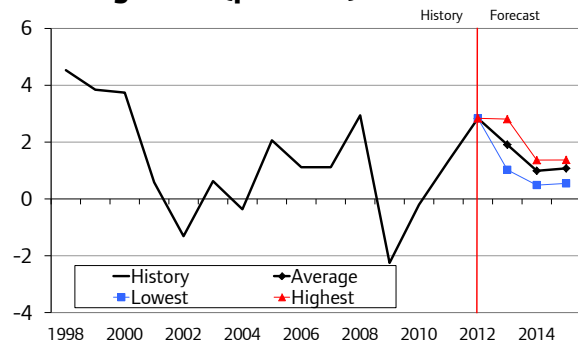
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
174.6	182.5	192.4	209.0	215.1	212.0	226.8	234.8	256.1	263.7	277.4	285.8	271.3	276.0	288.0	292.5

Employment

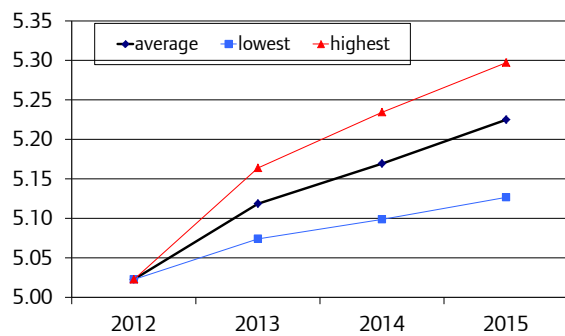
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 1.9 per cent in 2013, by 1.0 per cent in 2014 and by 1.1 per cent in 2015.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)				Level (millions)			
	2013	2014	2015		2013	2014	2015
Average	1.9	1.0	1.1	Average	5.12	5.17	5.22
Lowest	1.0	0.5	0.5	Lowest	5.07	5.10	5.13
Highest	2.8	1.4	1.4	Highest	5.16	5.23	5.30

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.5	3.8	3.7	0.6	-1.3	0.6	-0.4	2.1	1.1	1.1	2.9	-2.3	-0.2	1.3	2.8

History: Level (millions)

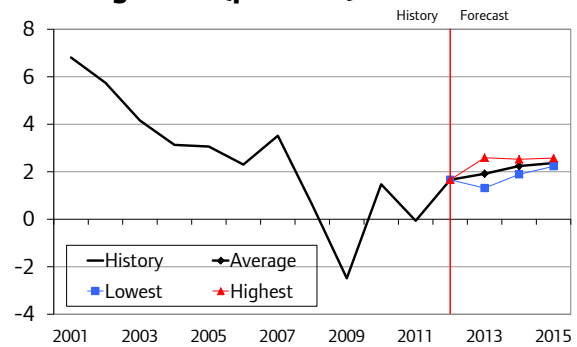
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.10	4.29	4.45	4.62	4.65	4.59	4.62	4.60	4.69	4.75	4.80	4.94	4.83	4.82	4.88	5.02

Household expenditure

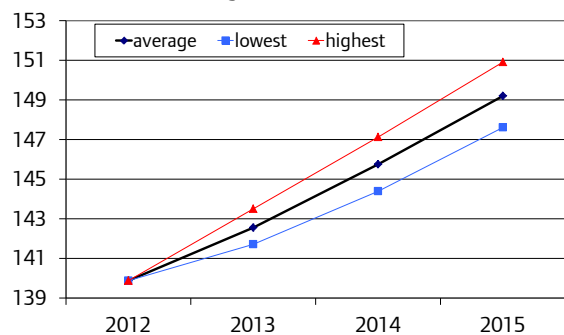
(London household spending, constant year 2010, £ billion)

The consensus view is for positive household expenditure growth of 1.9 per cent in 2013, 2.2 per cent in 2014 and 2.4 per cent in 2015.

Annual growth (per cent)



Level (constant year 2010 £ billion)



Annual growth (per cent)				Level (constant year 2010, £ billion)			
	2013	2014	2015		2013	2014	2015
Average	1.9	2.2	2.4	Average	143	146	149
Lowest	1.3	1.9	2.2	Lowest	142	144	148
Highest	2.6	2.5	2.6	Highest	144	147	151

History: Annual growth (per cent)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
6.8	5.7	4.2	3.1	3.1	2.3	3.5	0.6	-2.5	1.5	-0.1	1.7

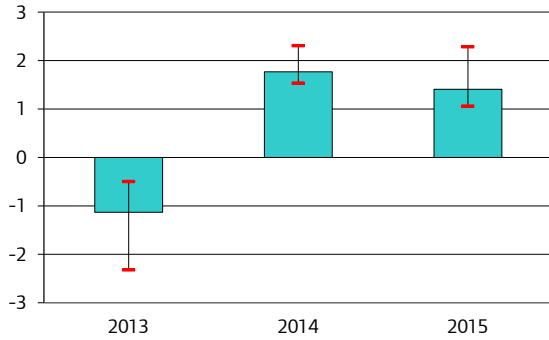
History: Level (constant year 2010, £ billion)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
104.5	111.6	118.0	122.9	126.7	130.6	133.6	138.3	139.2	135.7	137.7	137.6	139.9

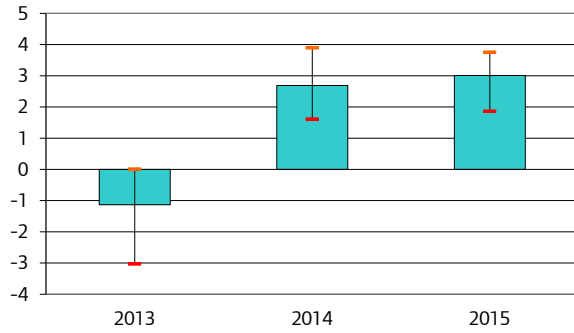
Output growth by sector (per cent annual change)

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 2013.

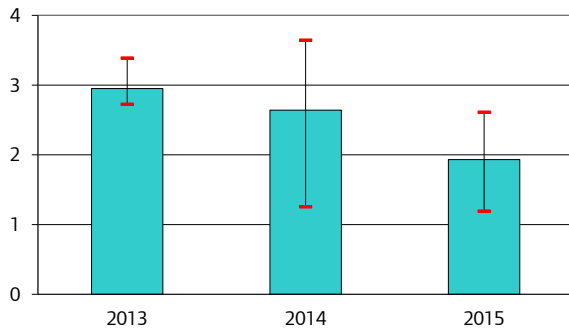
Manufacturing



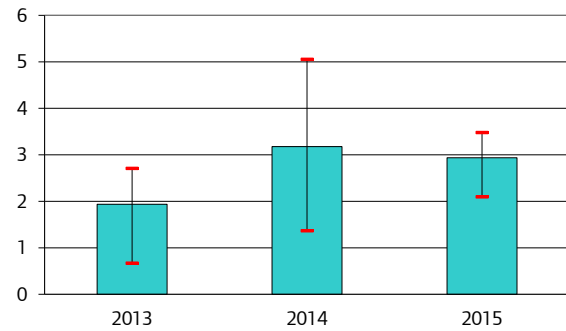
Construction



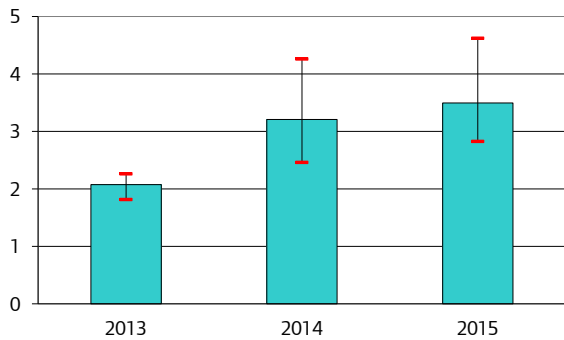
Distribution, accommodation and food service activities



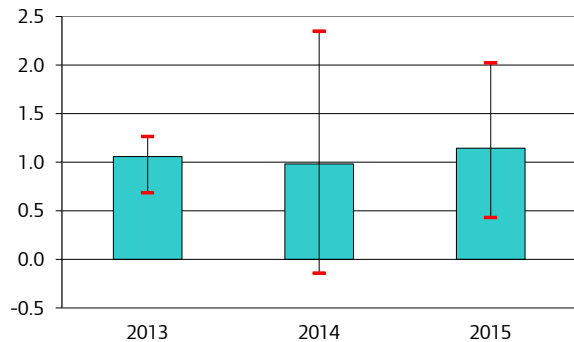
Transportation and storage



Finance and business



Other (public & private) services

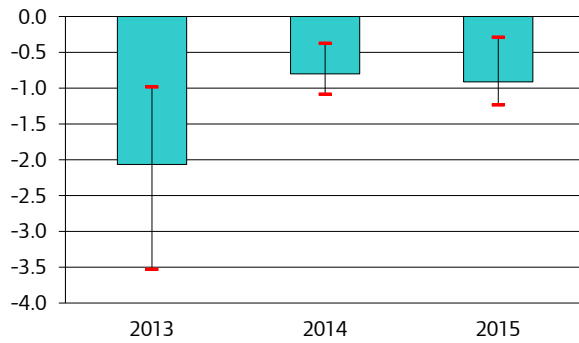


		2013	2014	2015			2013	2014	2015
Manufacturing	Average	-1.1	1.8	1.4	Construction	Average	-1.1	2.7	3.0
	Lowest	-2.3	1.5	1.1		Lowest	-3.0	1.6	1.9
	Highest	-0.5	2.3	2.3		Highest	0.0	3.9	3.8
Distribution, accommodation and food service activities	Average	3.0	2.6	1.9	Transportation and storage	Average	1.9	3.2	2.9
	Lowest	2.7	1.3	1.2		Lowest	0.7	1.4	2.1
	Highest	3.4	3.6	2.6		Highest	2.7	5.1	3.5
Finance and business	Average	2.1	3.2	3.5	Other (public & private) services	Average	1.1	1.0	1.1
	Lowest	1.8	2.5	2.8		Lowest	0.7	-0.1	0.4
	Highest	2.3	4.3	4.6		Highest	1.3	2.4	2.0

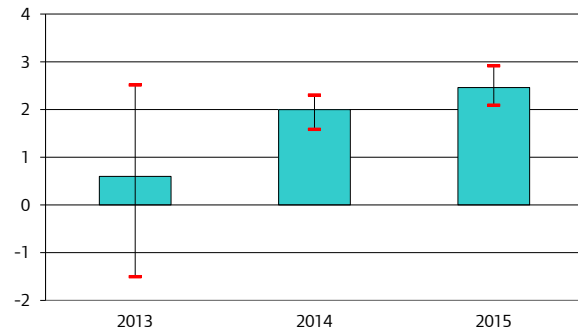
Employment growth by sector (per cent annual change)

Forecasted employment growth is positive for the finance and business services and construction sectors in 2013, 2014 and 2015, with all other sectors forecasted to experience at least one year of negative employment growth between 2013 and 2015.

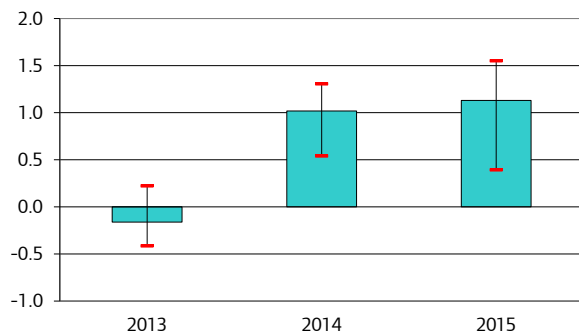
Manufacturing



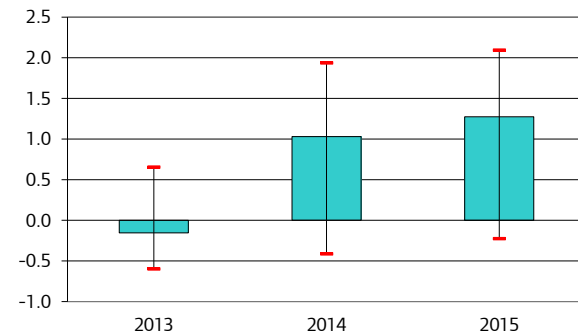
Construction



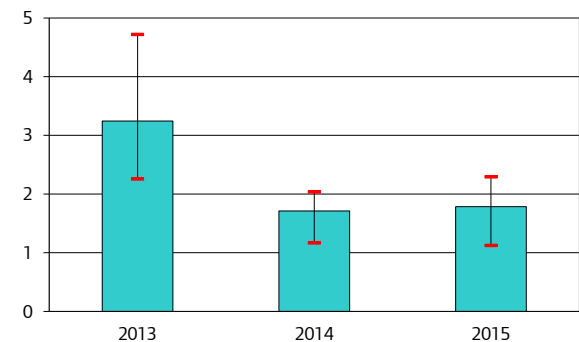
Distribution, accommodation and food service activities



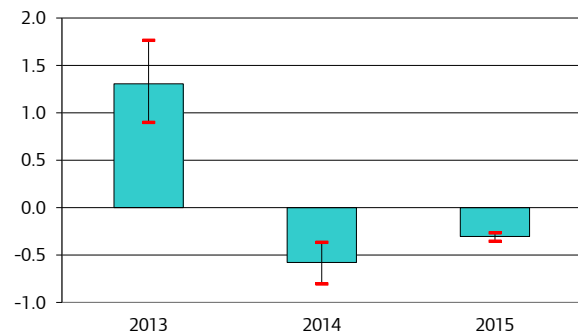
Transportation and storage



Finance and business



Other (public & private) services



		2013	2014	2015			2013	2014	2015
Manufacturing	Average	-2.1	-0.8	-0.9	Construction	Average	0.6	2.0	2.5
	Lowest	-3.5	-1.1	-1.2		Lowest	-1.5	1.6	2.1
	Highest	-1.0	-0.4	-0.3		Highest	2.5	2.3	2.9
Distribution, accommodation and food service activities	Average	-0.2	1.0	1.1	Transportation and storage	Average	-0.2	1.0	1.3
	Lowest	-0.4	0.5	0.4		Lowest	-0.6	-0.4	-0.2
	Highest	0.2	1.3	1.6		Highest	0.7	1.9	2.1
Finance and business	Average	3.2	1.7	1.8	Other (public & private) services	Average	1.3	-0.6	-0.3
	Lowest	2.3	1.2	1.1		Lowest	0.9	-0.8	-0.4
	Highest	4.7	2.0	2.3		Highest	1.8	-0.4	-0.3

5. The GLA Economics forecast

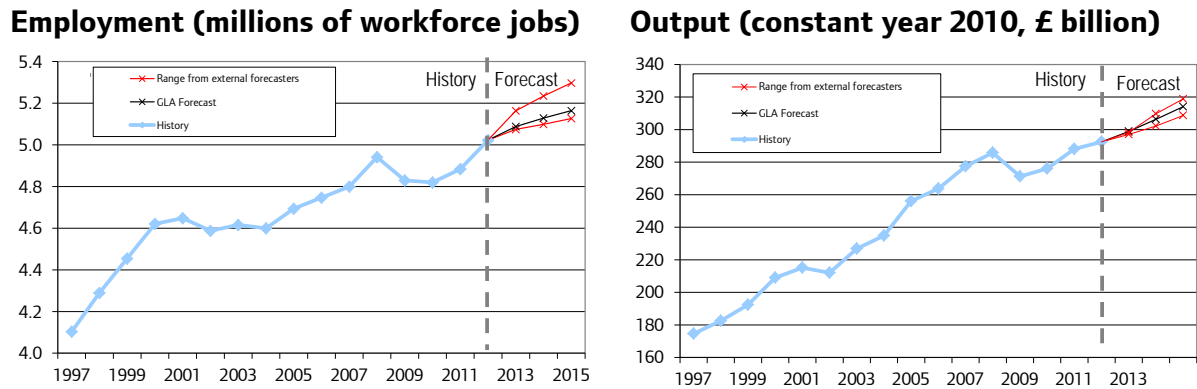
It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around 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 2013 and 2015. Employment growth is forecast to moderate after 2013.

Household spending is expected to continue to grow between 2013 and 2015. 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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GVA	5.2	3.0	-5.1	1.7	4.4	1.5	2.2	2.5	2.5
Workforce jobs	1.1	2.9	-2.3	-0.2	1.3	2.8	1.3	0.8	0.7
Household spending	3.5	0.6	-2.5	1.5	-0.1	1.7	2.1	2.5	2.7
Household income	2.7	1.1	2.4	0.8	-1.2	2.5	1.8	2.4	2.7

Table 5.2: Forecast and historical levels

(constant year 2010, £ billion except jobs)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GVA	277.4	285.8	271.3	276.0	288.0	292.5	298.9	306.4	314.0
Workforce jobs (millions)	4.80	4.94	4.83	4.82	4.88	5.02	5.09	5.13	5.16
Household spending	138.3	139.2	135.7	137.7	137.6	139.9	142.8	146.4	150.3
Household income	156.3	158.1	161.8	163.0	161.1	165.2	168.2	172.2	176.9

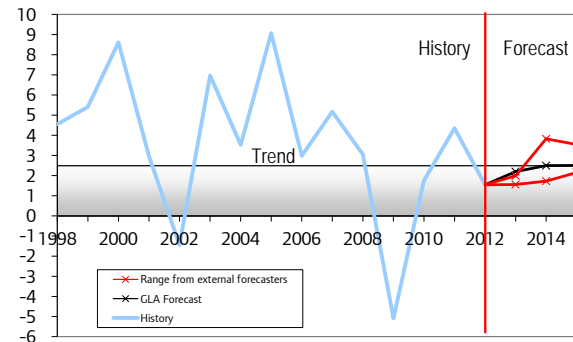
Output

(London GVA, constant year 2010, £ billion)

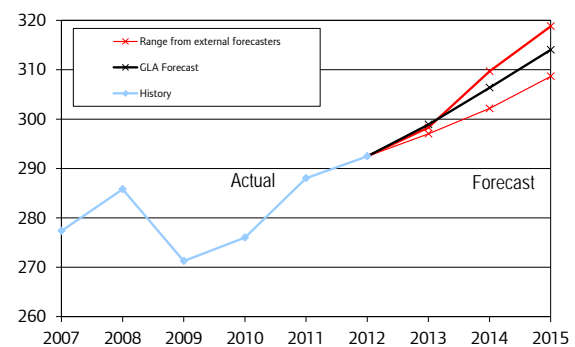
London's real GVA is forecast to grow between 2013 and 2015. Forecast growth rates are 2.2 per cent in 2013 and 2.5 per cent in both 2014 and 2015.

The GLA Economics' forecast is similar to the consensus average forecast throughout 2013-15.

Annual growth (per cent)



Level (constant year 2010, £ billion)



Growth (annual per cent)					Level (constant year 2009, £ billion)				
	2012	2013	2014	2015		2012	2013	2014	2015
GLA	1.5	2.2	2.5	2.5	GLA	292	299	306	314
Consensus		1.8	2.7	2.8	Consensus		298	306	314

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.6	5.4	8.6	2.9	-1.4	7.0	3.5	9.1	3.0	5.2	3.0	-5.1	1.7	4.4	1.5

History: Level (constant year 2010, £ billion)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
174.6	182.5	192.4	209.0	215.1	212.0	226.8	234.8	256.1	263.7	277.4	285.8	271.3	276.0	288.0	292.5

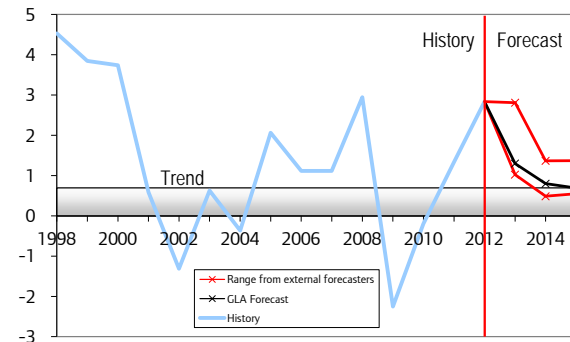
Employment

(London workforce jobs)

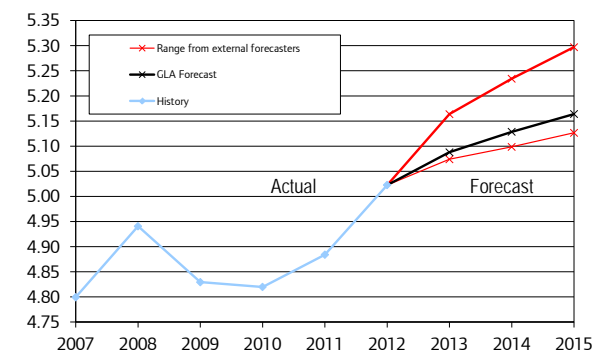
London's employment is forecast to rise between 2013 and 2015.

GLA Economics' forecast for employment growth is slightly more pessimistic than the consensus average forecast throughout 2013-2015.

Annual growth (per cent)



Level (millions of workforce jobs)



	Growth (annual per cent)					Level (millions of workforce jobs)			
	2012	2013	2014	2015		2012	2013	2014	2015
GLA	2.8	1.3	0.8	0.7	GLA	5.02	5.09	5.13	5.16
Consensus		1.9	1.0	1.1	Consensus		5.12	5.17	5.22

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.5	3.8	3.7	0.6	-1.3	0.6	-0.4	2.1	1.1	1.1	2.9	-2.3	-0.2	1.3	2.8

History: Level (millions)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.10	4.29	4.45	4.62	4.65	4.59	4.62	4.60	4.69	4.75	4.80	4.94	4.83	4.82	4.88	5.02

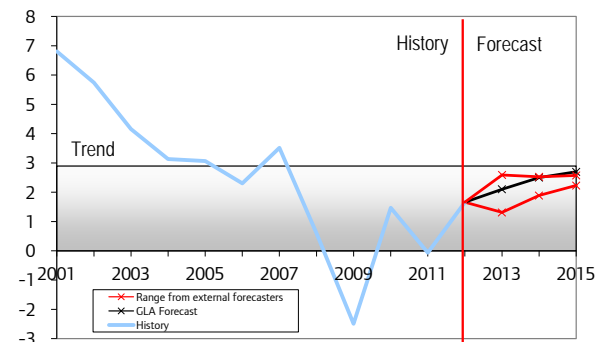
Household expenditure

(London household spending, constant year 2010, £ billion)

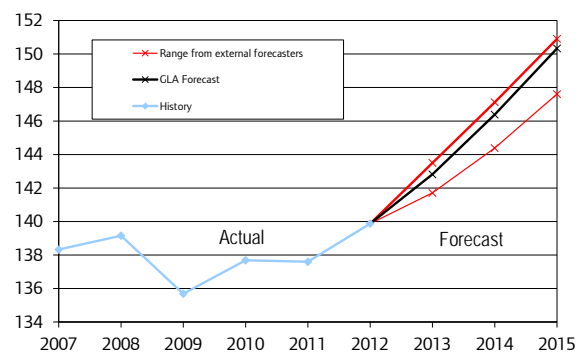
Growth in London's household spending is forecast to be positive and rising over the forecast period.

GLA Economics' household spending growth forecast is slightly higher than the consensus average over the forecast period.

Annual growth (per cent)



Level (constant year 2010, £ billion)



Growth (annual per cent)					Level (constant year 2009, £ billion)				
	2012	2013	2014	2015		2012	2013	2014	2015
GLA	1.7	2.1	2.5	2.7	GLA	140	143	146	150
Consensus		1.9	2.2	2.4	Consensus		143	146	149

History: Annual growth (per cent)

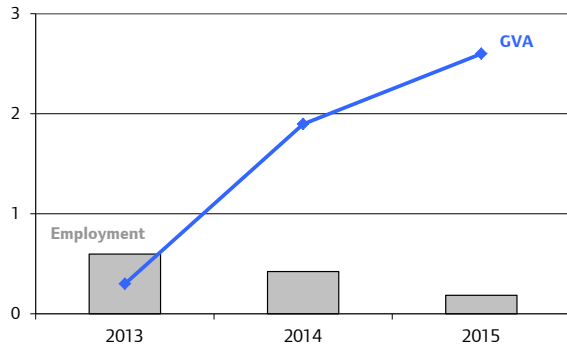
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
6.8	5.7	4.2	3.1	3.1	2.3	3.5	0.6	-2.5	1.5	-0.1	1.7

History: Level (constant year 2010, £ billion)

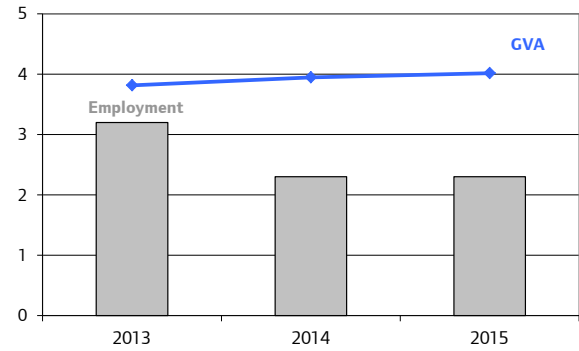
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
104.5	111.6	118.0	122.9	126.7	130.6	133.6	138.3	139.2	135.7	137.7	137.6	139.9

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

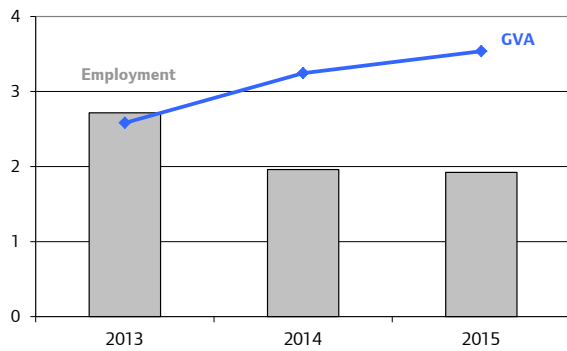
Financial services



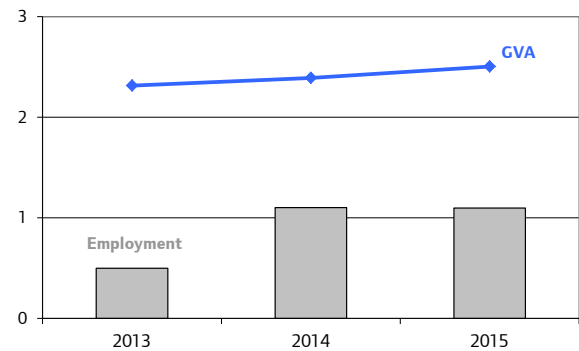
Business services



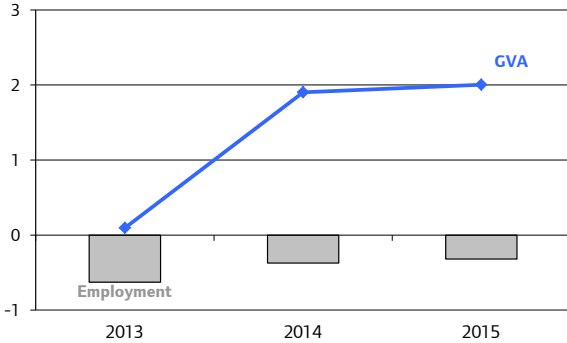
Finance and business (combined)



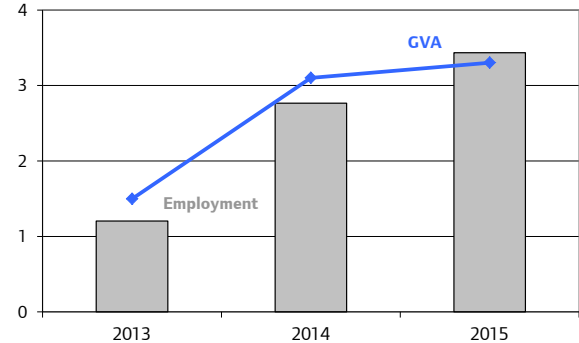
Distribution, accommodation and food service activities



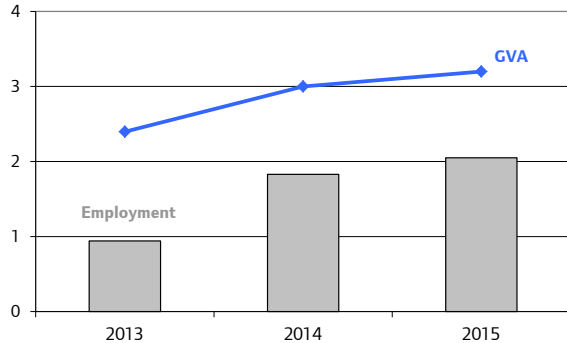
Manufacturing



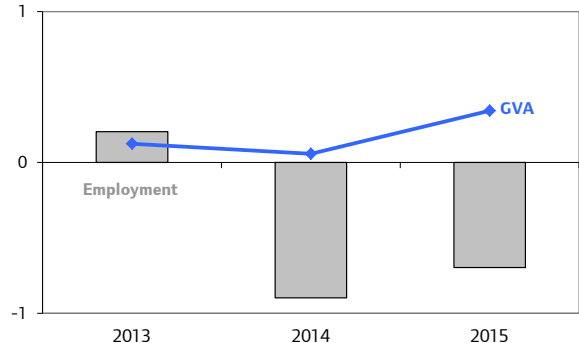
Construction



Transportation and storage



Other (public & private) services



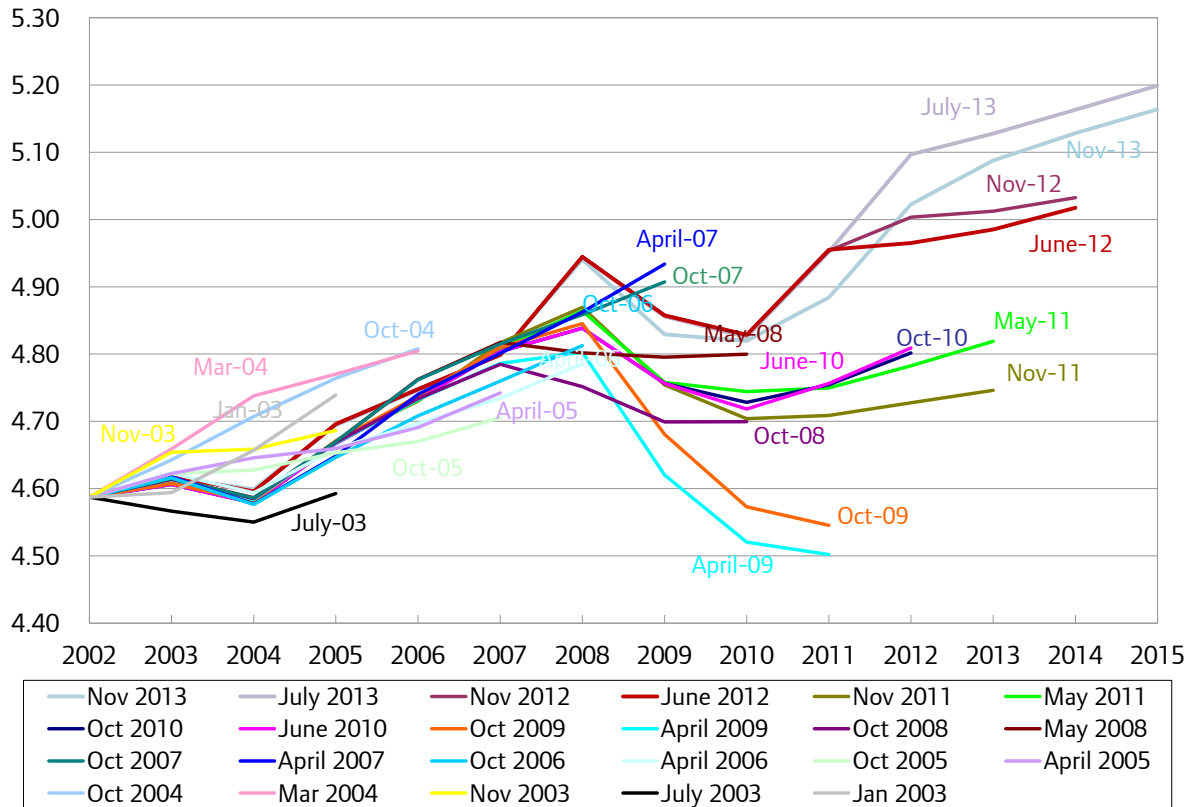
Output and employment growth by sector (per cent annual change)

	2013	2014	2015
Financial services			
Output	0.3	1.9	2.6
Employment	0.6	0.4	0.2
Business services			
Output	3.8	3.9	4.0
Employment	3.2	2.3	2.3
Financial and business services combined			
Output	2.6	3.2	3.5
Employment	2.7	2.0	1.9
Distribution, accommodation and food service activities			
Output	2.3	2.4	2.5
Employment	0.5	1.1	1.1
Transportation and storage			
Output	2.4	3.0	3.2
Employment	0.9	1.8	2.0
Other (public & private) services			
Output	0.1	0.1	0.3
Employment	0.2	-0.9	-0.7
Manufacturing			
Output	0.1	1.9	2.0
Employment	-0.6	-0.4	-0.3
Construction			
Output	1.5	3.1	3.3
Employment	1.2	2.8	3.4
<i>(Memo: non-manufacturing)</i>			
Output	2.2	2.5	2.5
Employment	1.3	0.8	0.7

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 slightly higher than in the July 2013 forecast.

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

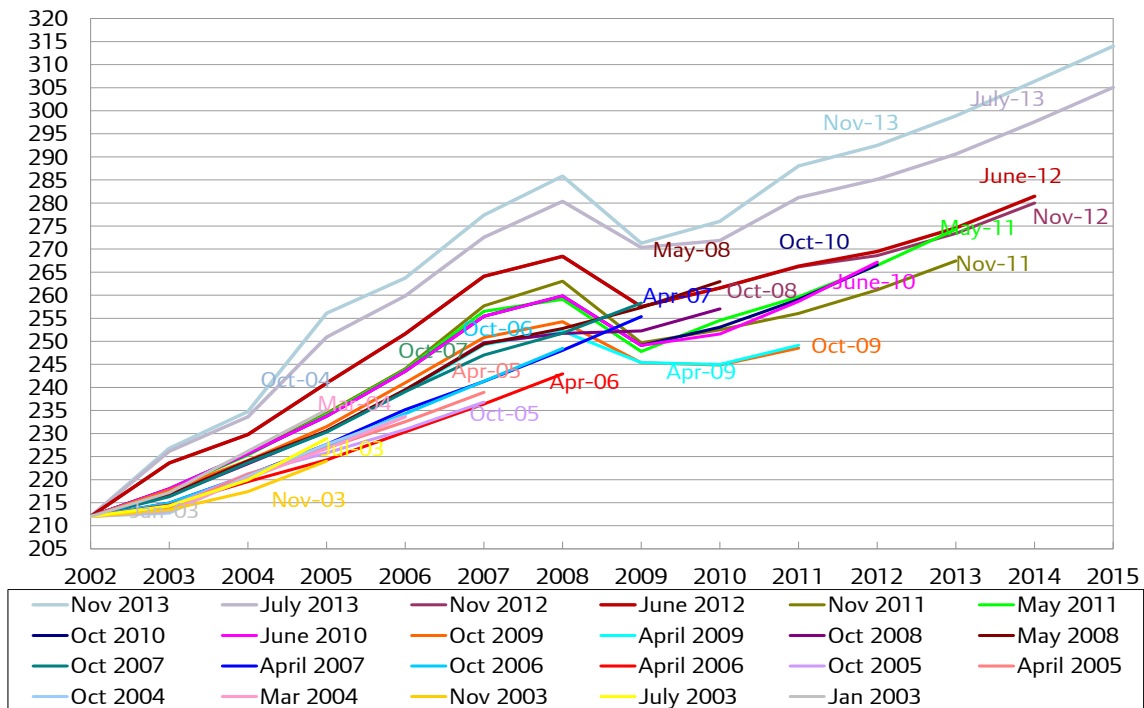


Source: Various London's Economic Outlooks

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	2015
Nov 2013	0.6%	-0.4%	2.1%	1.1%	1.1%	2.9%	-2.3%	-0.2%	1.3%	2.8%	1.3%	0.8%	0.7%
July 2013											0.6%	0.7%	0.7%
Nov 2012										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 2010, £ 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	2015
Nov 2013	7.0%	3.5%	9.1%	3.0%	5.2%	3.0%	-5.1%	1.7%	4.4%	1.5%	2.2%	2.5%	2.5%
July 2013											1.9%	2.4%	2.5%
Nov 2012										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 2007⁸⁰

Before the Spring 2012 LEO GLA Economics used a 12-sector breakdown of the economy in our long-run employment projections – 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

SIC 2007 GLA Sectors	SIC 2003 GLA Sectors
Primary & utilities	Primary & utilities
Manufacturing	Manufacturing
Construction	Construction
Wholesale	Wholesale
Retail	Retail
Transportation and Storage	Transport & communications
Accommodation and food service activities	Hotels & restaurants
Financial and insurance activities	Financial services
Information and Communication	Business services
Professional, scientific and technical services and real estate	
Administrative and support service activities	
Public Admin and defence	Public Admin
Education	Health & education
Health	
Arts, entertainment and recreation	
Other services	Other services

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.

⁸⁰ GLA Economics, 'Employment projections for London by sector and trend-based projections by borough', Working Paper 51, December 2011.

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, the ONS publication *Labour Market Trends*. *London's Economic Outlook: December 2003* and *The GLA's Workforce Employment Series* provide 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 2011 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 2010⁸¹. 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.

⁸¹ Office for National Statistics, 'UK Relative Regional Consumer Price Levels for Goods and Services for 2010', 12 July 2011.

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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