

London's Economy Today

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<http://data.london.gov.uk/let/>

UK GDP growth slows in the first quarter of 2015

By **Gordon Douglass**, Supervisory Economist, and **Francesco Mellino**, Economist

UK GDP continued to grow in Q1 2015 but at its slowest quarterly rate since Q4 2012. UK GDP grew by 0.3 per cent in Q1 2015, after increasing by 0.6 per cent in Q4 2014 (see Figure 1). Output in Q1 2015 was 2.4 per cent higher than in Q1 2014 and GDP now stands 4 per cent higher than its pre-recession peak in Q1 2008. The growth was driven by the service sector alone, with the Office for National Statistics (ONS) noting that, "the other 3 main industrial groupings within the economy decreased" (these being construction, production and agriculture).

Output in the construction sector fell 1.6 per cent in Q1 2015, following a decrease of 2.2 per cent in Q4 2014. Output in the production industries fell by 0.1 per cent in Q1 2015, following an increase of 0.2 per cent in Q4 2014. Total output in the services sector increased by 0.5 per cent in Q1 2015, after growth of 0.9 per cent in Q4 2014. Output in business services and finance (a sector of importance to London) increased by 0.1 per cent in Q1 2015 after increasing by 1.3 per cent in Q4 2014. Between Q1 2014 and Q1 2015 construction output fell by 0.8 per cent, production industries output increased by 0.5 per cent whilst services sector output grew by 3.1 per cent (and within this, business services and finance grew by 3.4 per cent).

Latest news...



London's sectors: More detailed jobs data

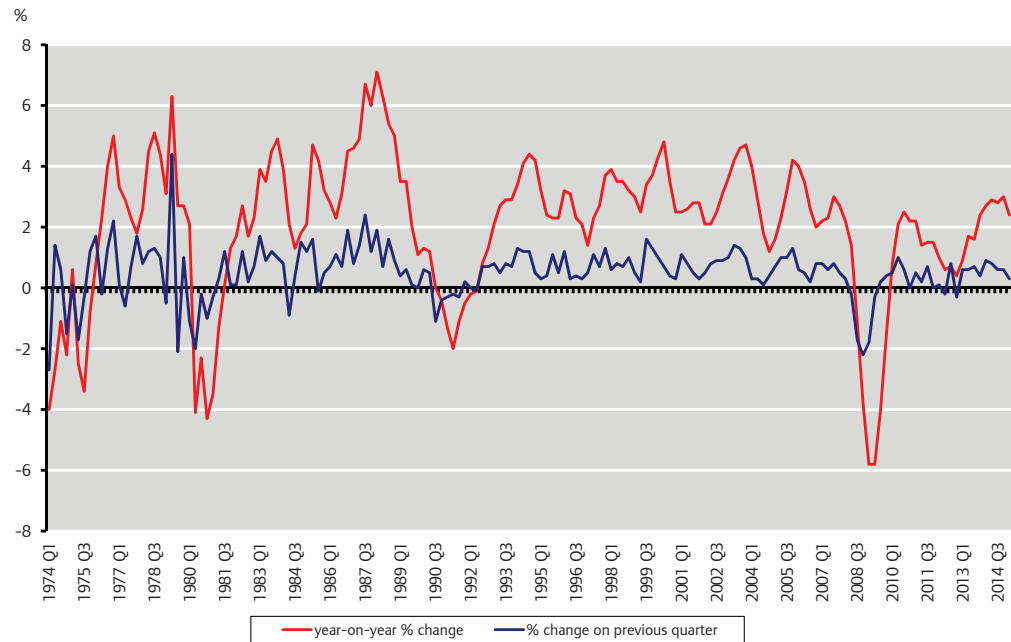
This paper sets out a time series of jobs by sector (and sub-sectors) in London over time and assesses the extent of London's specialisation in these sectors.

Download the full working paper and methodology from:

www.london.gov.uk/priorities/business-economy/publications/gla-economics/londons-sectors-more-detailed-jobs-data

Figure 1: UK GDP Growth

Source: ONS



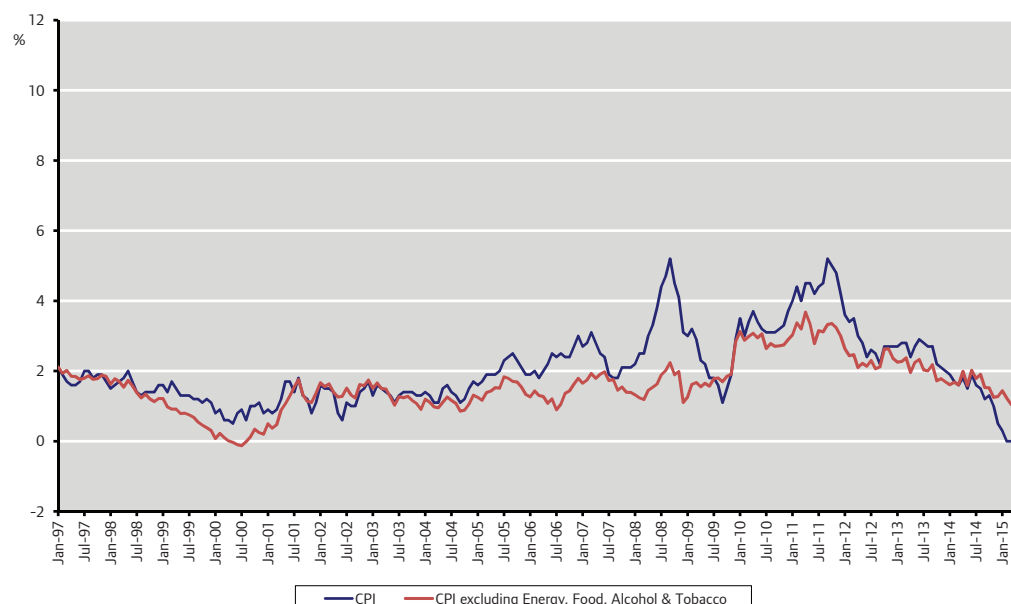
UK inflation remains at historically low levels

Inflation remains subdued. In March, UK consumer price index (CPI) inflation remained at a historic low level of 0 per cent, unchanged from February 2015 (see Figure 2 - if CPI inflation was calculated to 2 decimal places then UK inflation stood at -0.01 per cent in March, the lowest level since estimates of CPI inflation began in the late 1980s). The ONS noted that “falls in clothing and gas prices produced the largest downward contributions to change in the inflation rate”, however “these were offset by a rise in the price of motor fuels and smaller upward contributions from a variety of other products such as food”. CPI inflation remains well below the Bank of England’s central symmetrical target of 2 per cent. However when the downward pressure on prices due to the recent sharp fall in the oil price begins to ease out of the index in the second part of the year it is likely that inflation will begin to pick up again. Thus, as also shown by Figure 2, the CPI measure excluding the impact of changes in the price of energy, food, alcohol and tobacco currently stands at 1 per cent and indicates the impact on headline inflation of the recent sharp reduction in energy and food prices.

Figure 2: UK annual CPI and CPI excluding Energy, Food, Alcohol & Tobacco inflation rate

Last data point is March 2015

Source: ONS



IMF holds world growth forecasts

Internationally the picture remains subdued as shown by the International Monetary Fund's (IMF) latest World Economic Outlook which was published in April. In this they forecast that the world economy will grow by a modest 3.5 per cent in 2015 and 3.8 per cent in 2016. This forecast was unchanged from their previous forecast but this hid changes in the forecast as between different countries. Thus growth in the Eurozone is now forecast to be 1.5 per cent in 2015 and 1.6 per cent in 2016, upgrades of 0.3 and 0.2 percentage points respectively, while US growth is forecast at 3.1 per cent in both 2015 and 2016, a downgrade of 0.5 percentage points this year and 0.2 percentage points next year. Growth forecasts for emerging market and developing economies are also mixed with China forecast to grow by 6.8 per cent in 2015 and 6.3 per cent in 2016, with India forecast to grow by 7.5 per cent in both those years. However, output in Brazil is forecast to decline by 1 per cent this year and grow by only 1 per cent in 2016, while output in Russia is forecast to decline by 3.8 per cent in 2015 and 1.1 per cent in 2016. The forecast for the UK remained relatively unchanged with output forecast to grow by 2.7 per cent in 2015 and 2.3 per cent in 2016. In relation to the UK economy the IMF noted that "monetary policy normalization in the United Kingdom is projected not to begin before mid-2016", while "lower oil prices and improved financial market conditions are expected to support continued steady growth", while noting that "measures to increase housing supply are a priority". However, in less optimistic news for longer-term global output growth the IMF also concluded that although potential output growth in advanced economies should pick up further as time passes from the recent financial crisis, long-term factors associated with an aging population may dampen future output growth, while emerging economies may be dampened by lower productivity growth.

Also in April the IMF published their latest Global Financial Stability Report in which they noted developments since the last report have increased the risks to financial stability. In particular they highlight "continued financial risk taking and search for yield keep stretching some asset valuations", "oil and commodity exporting countries and firms have been severely affected by falling asset valuations and rising credit risks", "rapidly depreciating exchange rates have increased pressures on firms that borrowed heavily in foreign currencies and have sparked significant capital outflows for several emerging markets", and "volatility in major exchange rates has increased by more than during any similar period since the global financial crisis". A number of these risks relate to the possible impact of future US interest rate rises, although concerns were also raised about the impact of low interest rates on the EU life insurance sector.

Concerns remain about Greek debt

Despite the IMF upgrading their forecast for Eurozone GDP growth, a significant cloud continues to hang over the zone in relation to the ongoing negotiations between Greece and its creditors, which has led to the holding back of bailout money to Greece. There are concerns that Greece may default on payments to the IMF which are due to fall in May and June. The yield on Greek debt has risen and Standard & Poor's has further downgraded Greece's credit rating to CCC+/C from B-/B with a negative outlook. Speaking in relation to the possibility of contagion from problems in Greece, Mario Draghi, the President of the European Central Bank (ECB), commented that "we have enough instruments at this point in time... which although they have been

designed for other purposes would certainly be used at a crisis time if needed". However, he noted "we are certainly entering into uncharted waters if the crisis were to precipitate, and it is very premature to make any speculation about it". Elsewhere and in relation to the Eurozone the IMF has argued that "to maximize the impact of quantitative easing in the euro area, central bank actions must be complemented with measures to restore balance sheet health in the private sector, unclog credit channels, enhance the soundness of nonbank institutions, and promote structural reforms".

Most surveys continue to be optimistic on London's economic outlook

Nevertheless the economic climate in London remains relatively positive when compared to the international picture as evidenced by a number of surveys published in April which showed a cautiously optimistic picture. For example, the PMI survey showed continuing expansion in business activity, new orders and employment while consumer confidence in London stood at a post-recession high in March and remained high in April. However, the Q1 2015 Capital 500, London Quarterly Economic Survey for the London Chamber of Commerce and Industry (LCCI) found a slight reduction in a number of indicators although the overall picture remained positive. Headline findings from the survey included 54 per cent of businesses looking for new staff struggled to recruit in Q1 2015, 26 per cent of firms see growing pressure to increase wages and 10 per cent of firms reduced training budgets, with only 8 per cent increasing them. Commenting on the findings Peter Bishop, Deputy Chief Executive of LCCI said "for the second successive quarter, businesses have told us that they are facing significant issues recruiting staff with the right skills. This means that increasingly, businesses need to look outside of the domestic labour market for the staff they need". Elsewhere in April, the EY Item Club forecast relatively strong growth for the UK economy of 2.8 per cent in 2015, due to low inflation and stronger Eurozone growth, while growth is forecast to hit 3 per cent in 2016.

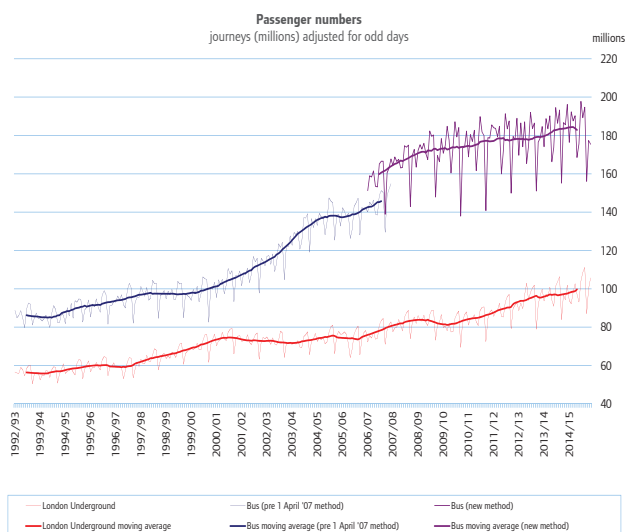
In general most risks to London's economy are external to the UK with the ongoing troubles in the Eurozone remaining (as they have for a number of years now and despite some evidence of a pickup in growth prospects) as the most serious cause of concern. This along with relatively weak emerging market economies, as shown by the Brazilian economy growing by just 0.1 per cent in 2014, could act as a constraint to London's growth. However, as has been the case for the past couple of years on the whole the prospects for London's economy remain positive.

Increase in average of passenger journey numbers

- The most recent 28-day period covered 1 February 2015 – 28 February 2015. London's Underground and buses had 281.1 million passenger journeys; 175.4 million by bus and 105.7 million by Underground.
- The 12-month moving average of passengers increased to 282.6 million from a downwardly revised 282.5 million in the previous period. The moving average for buses was 182.9 million. The moving average for the Underground was 99.7 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET issue 58 (June 2007).

Latest release: March 2015

Next release: April 2015



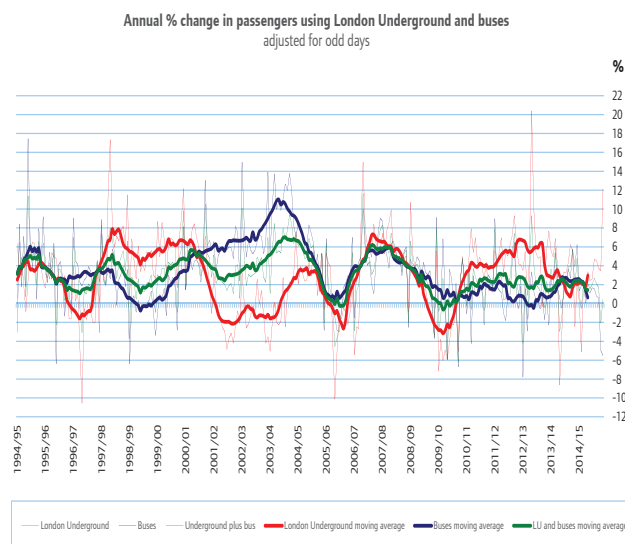
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.4% from 1.5% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.6% from 1.4% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys increased to 3.0% from 1.8% in the previous period.

Latest release: March 2015

Next release: April 2015



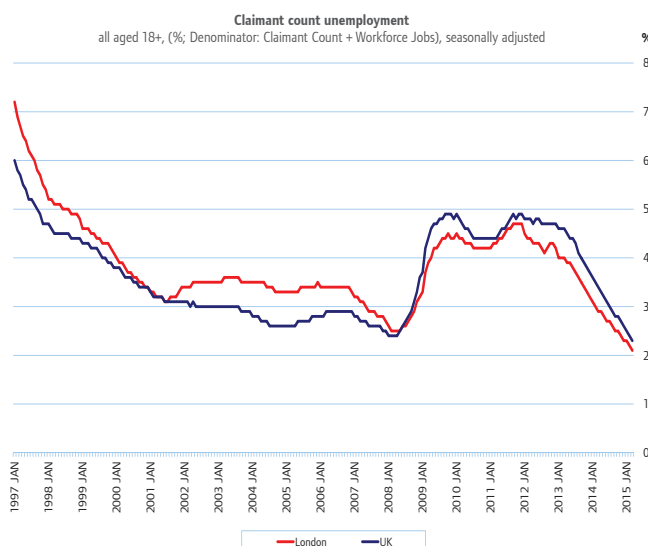
Source: Transport for London

Claimant count unemployment

- The claimant count unemployment rate in London stood at 2.1% in March 2015, down from 2.2% in February 2015.
- There were 116,100 seasonally adjusted unemployment claimants in London in March 2015, compared to an upwardly revised 119,500 in February 2015. There were 772,400 seasonally adjusted unemployment claimants in the UK in March 2015, compared to an upwardly revised 793,100 in February 2015.
- The methodology used to calculate the claimant count rates was changed for the August 2014 LET onwards. For a detailed explanation please see LET issue 144 (August 2014).

Latest release: April 2015

Next release: May 2015



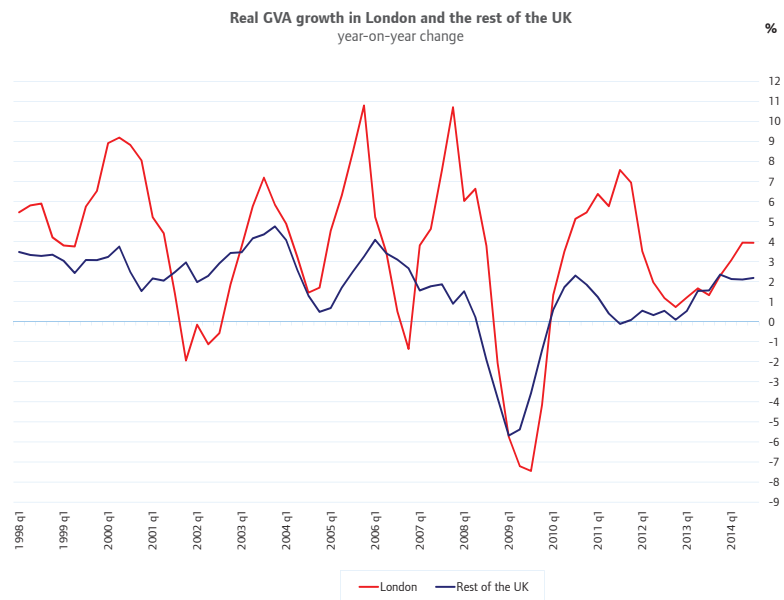
Source: Claimant Count, Jobcentre Plus

Annual output growth unchanged in London in Q3 2014

- London's annual growth in output was 3.9% in Q3 2014 unchanged from an upwardly revised estimate in Q2 2014.
- Annual output growth in the rest of the UK increased to 2.2% in Q3 2014 from a downwardly revised 2.1% in Q2 2014.
- In Q3 2014, London's annual output growth was higher than in the rest of the UK.

Latest release: March 2015

Next release: June 2015



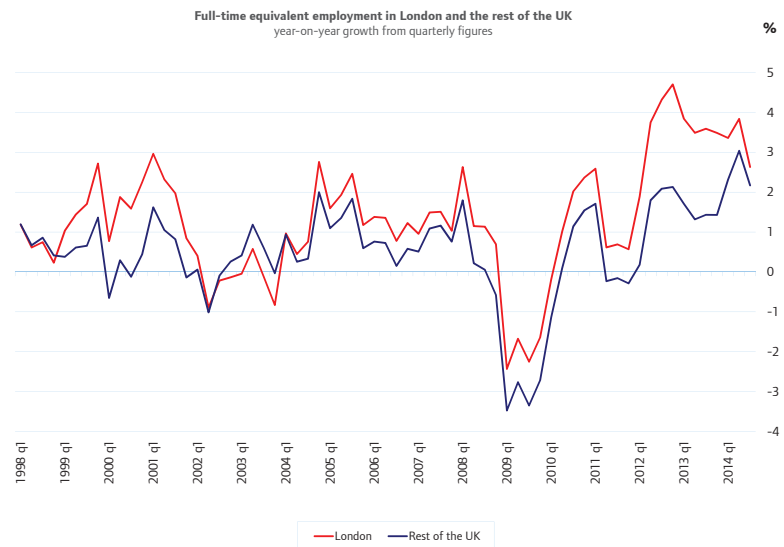
Source: Experian Economics

Annual employment growth slows in Q3 2014

- London's annual employment growth decreased to 2.6% in Q3 2014 from an upwardly revised 3.8% in Q2 2014.
- Annual employment growth in the rest of the UK decreased to 2.2% in Q3 2014 from a downwardly revised 3.0% in Q2 2014.
- Annual employment growth in London was higher than in the rest of the UK.

Latest release: March 2015

Next release: June 2015



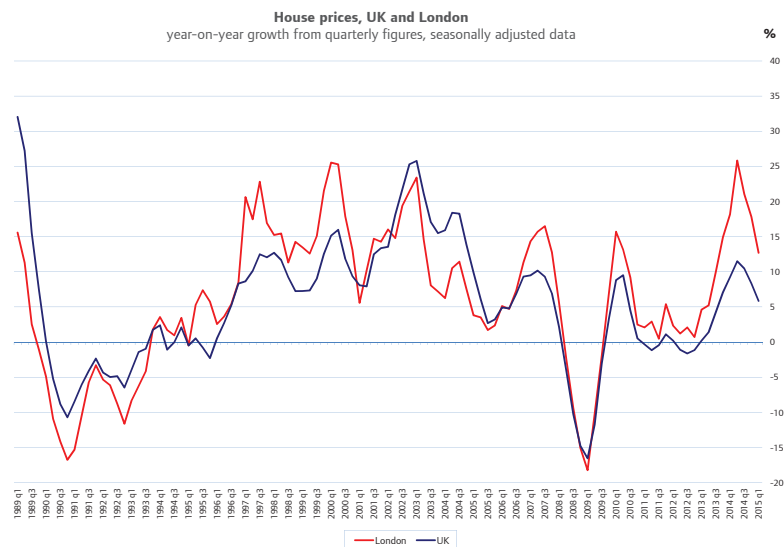
Source: Experian Economics

Annual house price inflation higher in London than in the UK

- House prices, as measured by Nationwide, were higher in Q1 2015 than in Q1 2014 for London and the UK.
- Annual house price inflation in London was 12.7% in Q1 2015, down from 17.8% in Q4 2014.
- Annual house price inflation in the UK was 5.9% in Q1 2015, down from 8.3% in Q4 2014.

Latest release: April 2015

Next release: July 2015



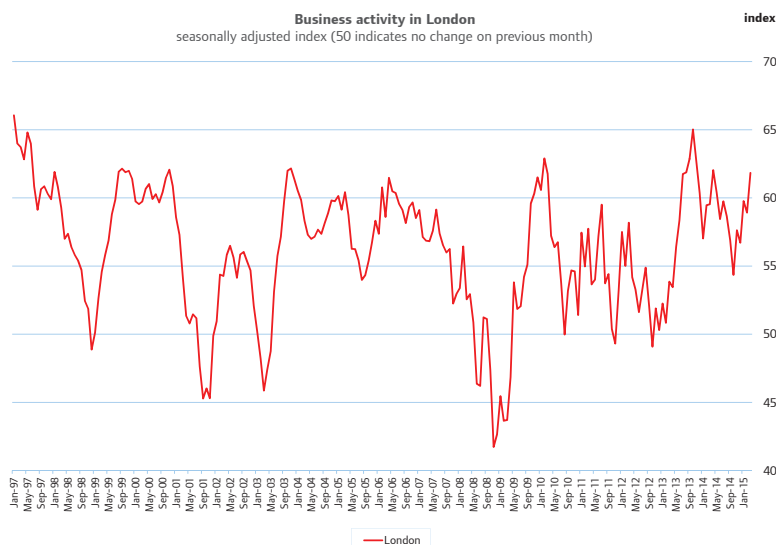
Source: Nationwide house price index

London's business activity continues to increase

- Firms in London increased their output of goods and services in March 2015.
- The Purchasing Managers' Index (PMI) of business activity recorded 61.8 in March 2015, up from 58.9 in February 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: April 2015

Next release: May 2015



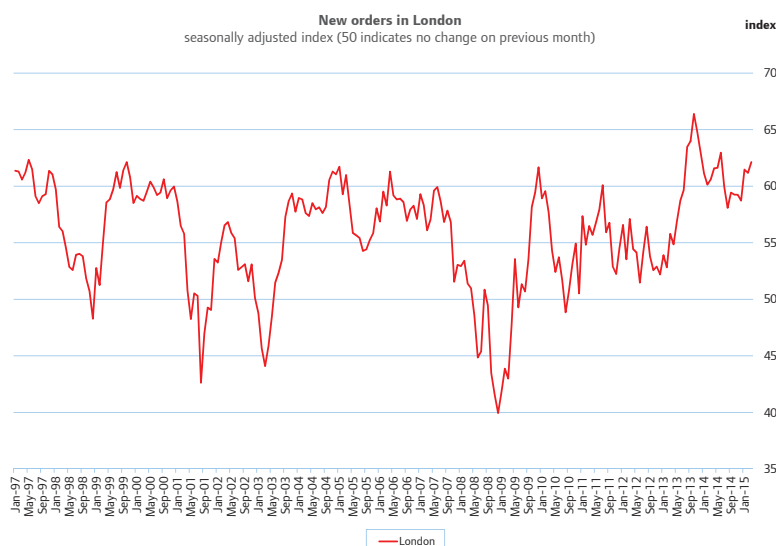
Source: Markit Economics

New orders in London rising

- March 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 62.1 in March 2015 compared to 61.2 in February 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: April 2015

Next release: May 2015



Source: Markit Economics

Businesses report higher employment in March

- The PMI shows that the level of employment in London firms increased in March 2015.
- The PMI for the level of employment was 57.5 in March 2015 compared to 57.1 in February 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: April 2015

Next release: May 2015



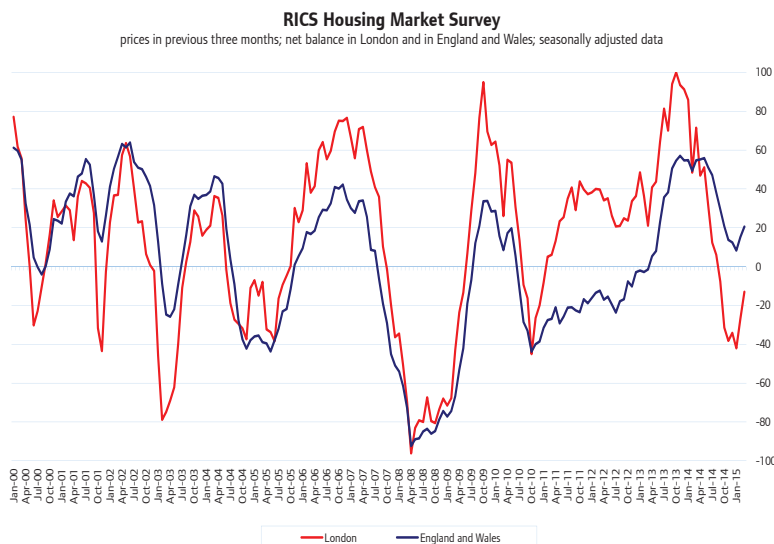
Source: Markit Economics

Surveyors report that house prices are decreasing in London but rising in England and Wales

- The RICS Residential Market Survey shows a negative net balance of -13 for London house prices over the three months to March 2015.
- Surveyors reported a positive net house price balance of 21 for England and Wales over the three months to March 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: April 2015

Next release: May 2015



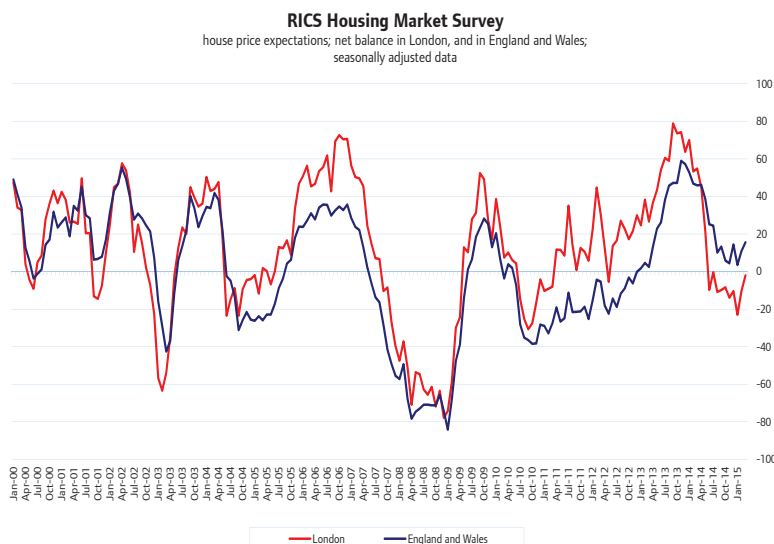
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to fall in London but to rise in England and Wales

- The RICS Residential Market Survey shows that surveyors expect house prices to fall over the next three months in London but to rise in England and Wales.
- The net house price expectations balance in London was -2 in March 2015.
- For England and Wales, the net house price expectations balance was 16 in March 2015.

Latest release: April 2015

Next release: May 2015



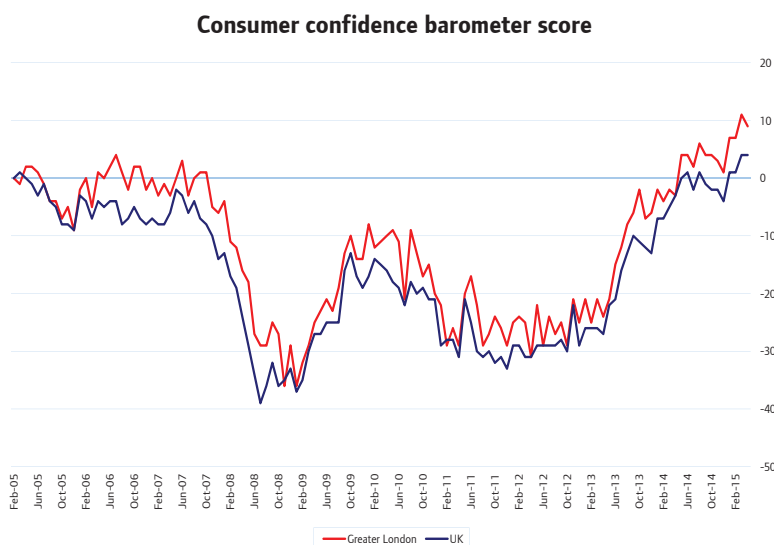
Source: Royal Institution of Chartered Surveyors

Consumer confidence remains positive in London and the UK

- The GfK index of consumer confidence reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London the consumer confidence score stood at 9 in April 2015, down from 11 in March 2015.
- For the UK the consumer confidence score stood at 4 in April 2015, unchanged from March 2015.

Latest release: April 2015

Next release: May 2015



Source: GfK NOP on behalf of the European Commission

Regional, sub-regional & local gross value added estimates for London, 1997-2013

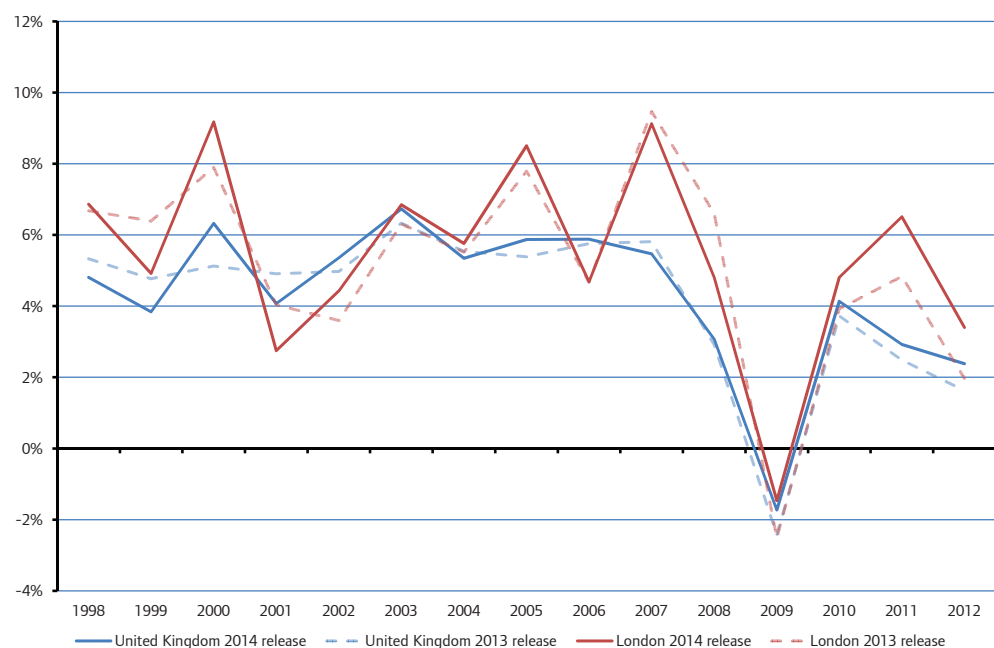
By Milja Keijonen,
Economist

In December 2014, the Office for National Statistics (ONS) released provisional estimates of regional, sub-regional and local gross value added (GVA) for 2013. GLA Economics published analysis of these data in March 2015¹. The latest data show that in 2013, London's total GVA was over £338 billion, up 4.0 per cent on 2012. London now accounts for 22.2 per cent of the UK's total GVA (up from 18.9 per cent in 1997). The growth in London's nominal GVA accounted for over 26 per cent of the UK's total GVA increase between 2012 and 2013. Over two-thirds of London's GVA was produced in Inner London in 2013 and almost half (45 per cent) of London's total GVA was produced in Inner London-West alone.

The release published in December was the first regional GVA publication since the ONS implemented changes to National Accounts to bring the methodology in line with the European System of National and Regional Accounts (ESA 2010). As a result of these changes, the historic data for London's GVA saw significant revisions from the 2013 release. For example, nominal GVA in 2011 in London now stands at £315 billion, compared to a previously estimated figure of £303 billion. Furthermore, the historic nominal GVA growth rate between 2010 and 2011 now stands at 6.5 per cent compared to a previously estimated 4.8 per cent (see Figure 1). Since 2008, London's GVA has increased by 18.2 per cent, compared to 11.4 per cent for the UK.

Figure A1: Comparison of the nominal growth rates in GVA in London and the UK 1998 to 2012 from 2013 and 2014 regional accounts releases

Source: Regional Accounts, ONS



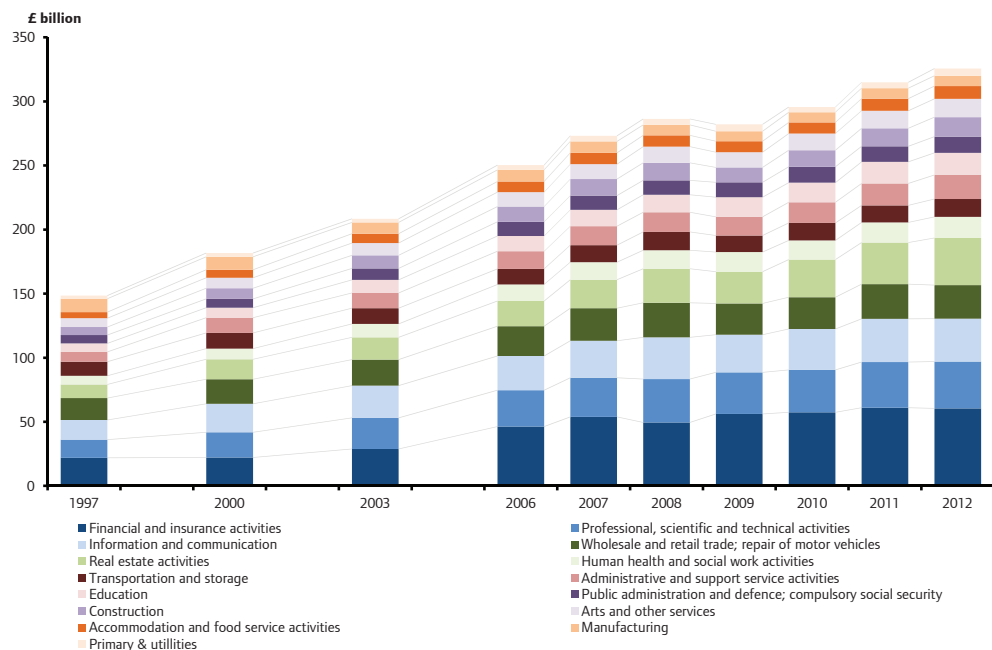
¹ Keijonen, M., March 2015. Current Issues Note 43: Regional, sub-regional and local gross value added estimates for London, 1997-2013, GLA Economics.

London's GVA performance remains impressive even after adjusting for the number of jobs in London (and the impact of commuters). GVA per job in 2013 in London was £63,692, significantly higher than a figure of £47,283 for the UK as a whole. However, in 2013, GVA per job declined by 0.5 per cent in London, compared to a growth rate of 1.9 per cent for the UK.

Industry analysis shows that in 2012² just under a fifth of London's GVA was generated by the financial and insurance industry, accounting for half of the UK's total GVA in the industry (up from 43 per cent in 1997) and 4.1 per cent of the UK's total GVA. GVA in the sector has grown by 175 per cent since 1997. Professional, scientific and technical activities; and information and communication industries also account for a substantial part of London's GVA. In 2012, these two industries combined accounted for around 22 per cent of London's GVA (up slightly from 20 per cent in 1997).

Figure F2: Headline GVA in London by industry, 1997-2012, current prices

Source: Regional Accounts, ONS



From 2008 to 2012, three industries in London saw a fall in GVA – in nominal terms. In 2012, manufacturing output was 2 per cent lower than in 2008; whilst both wholesale and retail trade, and transportation and storage were 3 per cent below their 2008 levels. Over the longer term, between 1997 and 2012, manufacturing has declined (the only industry to do so); in 2012, output was around 24 per cent lower in nominal terms.

GVA data by industry also show that there are differences in industry spread between Inner and Outer London. For three industries Outer London hosted over half of London's GVA in those industries in 2012: manufacturing (69 per cent), transportation and storage (63 per cent); and construction (57 per cent). However in 2012, Outer London produced only a 5 per cent share of London's total financial and insurance industry GVA (down from 13 per cent in 1997). Meanwhile, Inner London produced over three-quarters of London's GVA in financial and insurance activities; professional, scientific and technical activities; information and communication; and real estate industries.

² The latest data on economic activity by sector refer to 2012.

Currently, no official GVA estimates are available by local authority in London. The data provided in the ONS release are based upon NUTS level geography put in place before 1 January 2015. GLA Economics analysis published in Box 2 of Current Issues Note 43 outlines the changes to NUTS level geographies and using data from the ONS release as well as data from the Business Register and Employment Survey (BRES), show calculated estimates for borough level GVA for 2012. From December 2015, the ONS will provide estimates of GVA using the revised NUTS level geographies, therefore providing estimates of GVA for some, but not all the London boroughs.

If this supplement has whet your appetite then further detailed analysis of recent trends in regional, sub-regional and local GVA estimates for London can be found in Current Issues Note 43.

Data sources

Tube and bus ridership

Transport for London on 020 7222 5600
or email: enquire@tfl.gov.uk

GVA growth

Experian Economics on 020 7746 8260

Unemployment rates

www.statistics.gov.uk

Glossary

Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count unemployment

Unemployment based on the number of people claiming unemployment benefits.

Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2014/15 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2014.

Bus ridership

Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2014/15 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2014.

Acronyms

BCC	British Chamber of Commerce
BRES	Business Register and Employment Survey
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CLG	Communities and Local Government
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation

IMF	International Monetary Fund
LCCI	London Chamber of Commerce and Industry
LET	London's Economy Today
MPC	Monetary Policy Committee
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers
RICS	Royal Institution of Chartered Surveyors

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.