GLAECONOMICS

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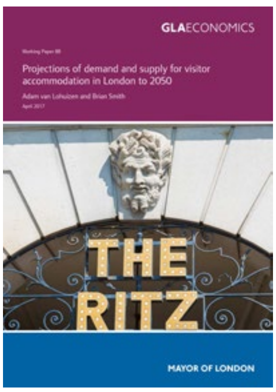
UK GDP slows in the first quarter of 2017

By **Gordon Douglass**, Supervisory Economist and **Mark Wingham**, Economist

UK GDP growth slowed markedly in the first quarter of 2017. The second estimate of output growth from the Office for National Statistics (ONS) recorded quarter on quarter growth of 0.2 per cent in Q1 2017, down from 0.7 per cent growth in Q4 2016 (see Figure 1). Compared to Q1 2016, GDP was 2.0 per cent higher, with GDP per head being 1.2 per cent higher.

In their commentary on the output numbers the ONS observed that UK GDP slowed "in Quarter 1 2017 as consumer facing industries such as retail and accommodation fell and household spending slowed. This was partly due to rising prices". They further noted that "construction and manufacturing also showed little growth, while business services & finance continued to grow strongly". In detail Business services and finance (an important sector of London's economy) grew more quickly than the previous quarter with output in this sector increasing by 0.6 per cent in Q1 2017 on the previous quarter compared to growth of 0.5 per cent in Q4 2016. Looking at pointers for future growth paints a slightly more optimistic picture. For instance the Markit/CIPS Purchasing Managers Index (PMI) for UK services showed its highest level in four months in April, while ONS data for UK retail sales "showed a slight increase in April 2017 following a short period of contraction, increasing by 0.3%".

Latest news...



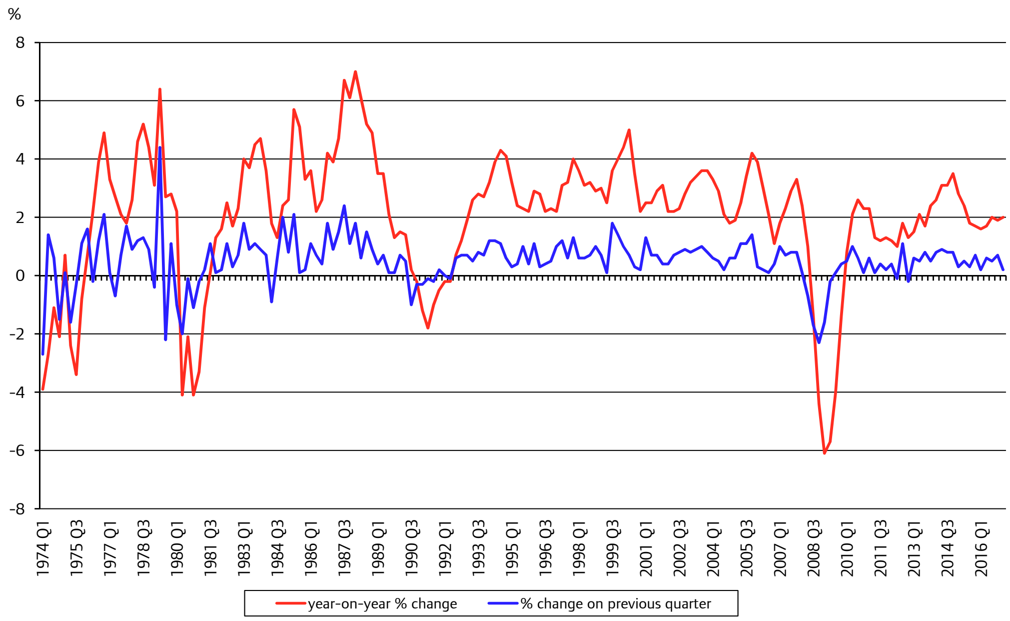
Projections of demand and supply for visitor accommodation in London to 2050

London is the second most visited city in the world. Given the importance of tourism to London's economy, London needs to ensure that it is able to meet the accommodation demands of tourists that want to visit the capital.

Download this publication which sets out projections for the supply and demand of serviced visitor accommodation.

Figure 1: UK GDP Growth
Last data point is Q1 2017

Source: ONS



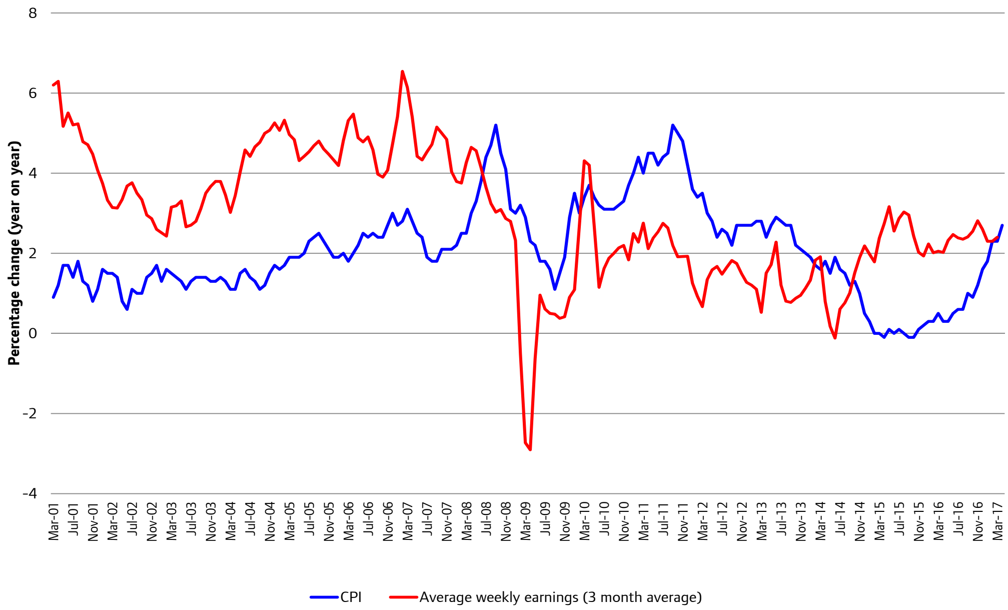
Bank of England forecasts inflation could rise a bit further in 2017

In its May 2017 Inflation Report the Bank of England revised its forecast for GDP growth this year. It slightly downgraded its median forecast to 1.9 per cent growth in 2017 from 2.0 per cent in their February forecast. However, perhaps more interesting is the Bank's forecast for inflation in the year ahead. In their latest forecast they observe that "CPI inflation is projected to rise to only a little below 3% this year" and for it to remain above the Bank's central symmetrical target for their forecast period. Commentating on the economic environment in light of these forecasts Mark Carney, the Bank's Governor, observed "that businesses are hesitating to bring in higher wage costs at a time of some uncertainty about market access and other costs that could be associated with the Brexit process, resulting in more modest wage settlements".

The continuing rise in Consumer Price Index (CPI) inflation was shown by inflation data published by the ONS in May. This showed that CPI inflation hit 2.7 per cent in April 2017, up from 2.3 per cent in March and the highest rate since September 2013 (see Figure 2). Commentating on the inflation figures the ONS observed that "air fares were the main contributors to the increase in the rate in April 2017, although this balanced out a downward effect of similar magnitude in March 2017 and is due to Easter falling later than last year".

Figure 2: CPI and wage inflation in the UK (2001 onwards)
Last data points: CPI - April 2017; Average Weekly Earnings - March 2017

Source: ONS



This uptick in inflation may impact workers' real wages as indicated by the Bank's Governor and the Inflation Report. Other survey data also supports the view that pay may come under pressure with a survey of 1,000 firms this month by the Chartered Institute of Personnel and Development (CIPD) and the Adecco Group suggesting that they believe average pay rises this year will be 1 per cent. This is the lowest survey figure for three years and below the 1.5 per cent suggested by the survey three months ago. While in relation to unemployment the EY Item Club's latest forecast sees a rise in UK unemployment over the coming few years with it rising from 4.7 per cent in 2017, to 5.4 per cent in 2018 and 5.8 per cent in 2019. Although it remains more optimistic on average earnings with them forecast to rise (in nominal terms) by 2.7 per cent this year and 2.8 per cent per year for the rest of the forecast period.

Growth in other economies variable in Q1 2017

Internationally the economic picture was mixed but generally more positive than recently at the end of the first quarter of 2017. Thus although the US economy slowed markedly in the first quarter of the year with annualised output increasing by 0.7 per cent in the three months to March 2017 compared to 2.1 per cent in the three months to December 2016, US jobs growth picked up in April with 211,000 jobs added during the month. The Federal Reserve has said that it views the "slowing in growth during the first quarter as likely to be transitory". Although the minutes from the May meeting of its Federal Open Market Committee also observed that "it would be prudent to await additional evidence indicating that the recent slowing in the pace of economic activity had been transitory" before further moving on monetary policy. While in relation to its trading relationships the Trump administration stated in a letter to Congressional leaders on 18 May that it will start talks with Canada and Mexico about Nafta "as soon as practicable".

In the Eurozone GDP growth was a bit more solid at the beginning of 2017 with output increasing by 0.5 per cent on the previous quarter, a rate of growth it also achieved in Q4 2016. However, there remained significant differences between the individual member's growth rates. Spain grew by 0.8 per cent and Germany by 0.6 per cent in Q1 2017; whereas Greece re-entered recession with its economy contracting by 0.1 per cent in Q1 2017 after falling by 1.2 per cent in Q4 2016. The Greek parliament also approved another round of austerity measures in May in order to achieve a €7.5 billion loan plus debt relief that is currently being negotiated by Greece's creditors in light of a debt payments deadline in July. However, on 22 May the European Commission stated that the Portuguese budget deficit had fallen to 2 per cent of GDP last year allowing it to exit the Commission's excessive debt procedure.

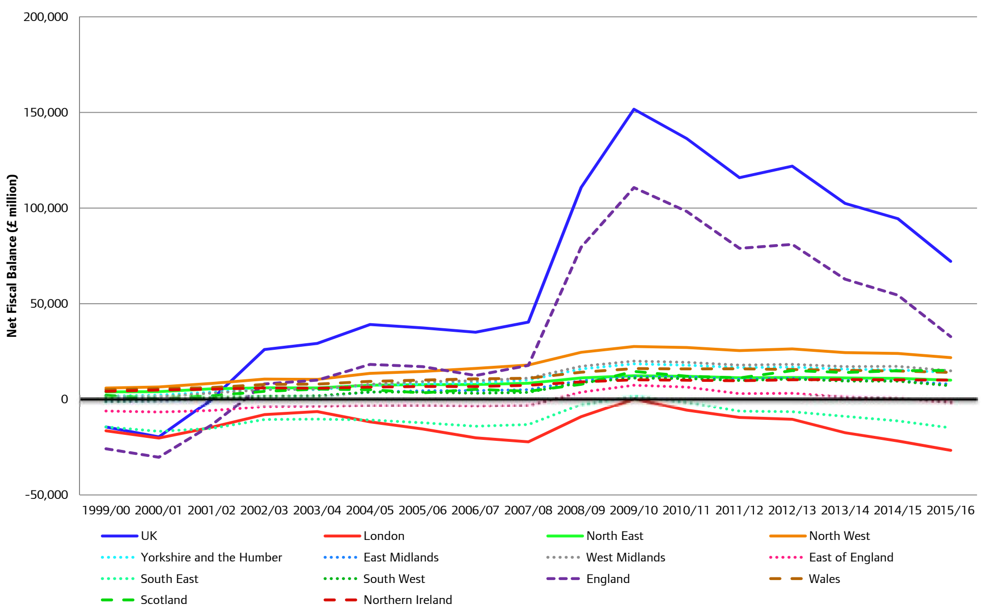
Elsewhere other countries also continued to grow at the beginning of the year with Japan reporting that its economy grew by an annualised rate of 2.2 per cent in Q1 2017. Japan has now enjoyed its longest period of economic expansion for a decade. Global stock markets have performed well during May with a number of markets hitting record highs. This has been taken to indicate market confidence in the prospects for the global economy; although some commentators have expressed concern about the strength and sustainability of these rises.

Londoners generate the largest fiscal surplus per person in 2016

In more historic looking news in May and for the first time the ONS published experimental statistics looking at public sector finances by country and English region. In this they found that only three regions London, the South East and East of England ran "net fiscal surpluses in the financial year ending (FYE) 2016 with all other countries and regions of the UK having net fiscal deficits". They further observed that "London had the highest net fiscal surplus per person at £3,070 and Northern Ireland the highest net fiscal deficit per person at £5,440, in FYE 2016". London raised the most revenue per person (£15,750) compared to Wales which raised the lowest (£7,980). In terms of the net fiscal balance ("the gap between revenue raised (current receipts) and total spending (current expenditure plus net capital expenditure)") over time, the ONS has produced two estimates based on different ways of distributing the tax revenue from North Sea Oil (either geographically where the oil is found or by the population of the country or region). As can be seen from Figure 3, and using the geographic measure of raised revenue, London (along with the South East) was the only UK region or country to have higher receipts than expenditure for all years except in 2009/10 at the height of the recession and had a fiscal surplus of over £26.6 billion in 2015/16.

Figure 3: Net Fiscal Balance (incl. North Sea Oil & Gas revenues by geographic area) by UK country and region - 1999/00 to 2015/16 (£ million)

Source: ONS
Note: A positive net fiscal balance indicates a deficit, while a negative net fiscal balance indicates a surplus



A mixed picture in London's property market while unemployment increases in the capital

The April 2017 Royal Institution of Chartered Surveyors (RICS) UK Residential Market Survey showed that house prices in London were falling in the three months to April. RICS observed that "the reading for central London prices has now lingered in negative territory for 13 months in succession (albeit the latest reading was less negative than previously)". Data from the Land Registry showed that house prices in London rose by just 1.5 per cent in the year to March. However in terms of the central London office market Knight Frank in their central London Quarterly report state that "the healthy levels of leasing activity seen in Central London at the end of 2016 continued into the first quarter". They further added that "investment turnover rose to £4.7bn, its highest level quarterly for more than 12 months".

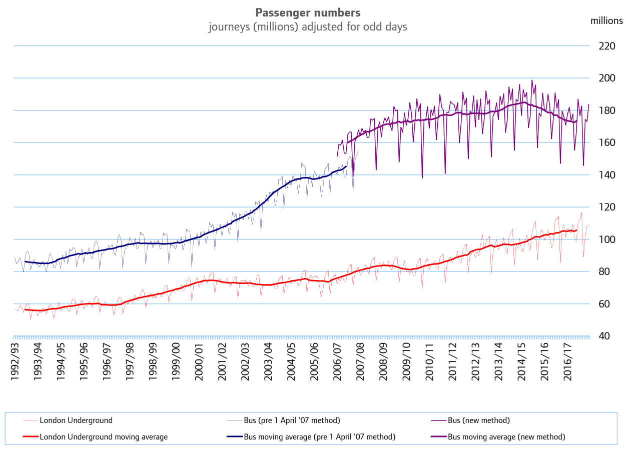
ILO unemployment numbers in London however have ticked up in the three months to March standing at 6.1 per cent up 0.6 percentage points on the quarter and 0.4 percentage points on the year. This compares to the UK as a whole which saw unemployment fall to 4.6 per cent down 0.2 percentage points on the quarter and 0.5 percentage points on a year earlier.

The predominance of evidence points towards a continuation in the expansion of London's economy, although at perhaps a slower rate than has been the case in the past couple of years.

Uptick in the number of London Underground and bus passengers

- Between 5 March and 31 March and after adjusting for odd days, the total number of passenger journeys in London was 292.5 million. This consisted of 108.8 million London Underground and 183.7 million bus passengers.
- At 279.1 million, the 12-month moving average of passenger journeys was at its highest in seven periods. Over the past year, there were 105.6 million London Underground and 173.5 million bus passengers on average per period.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

Latest release: May 2017
Next release: June 2017

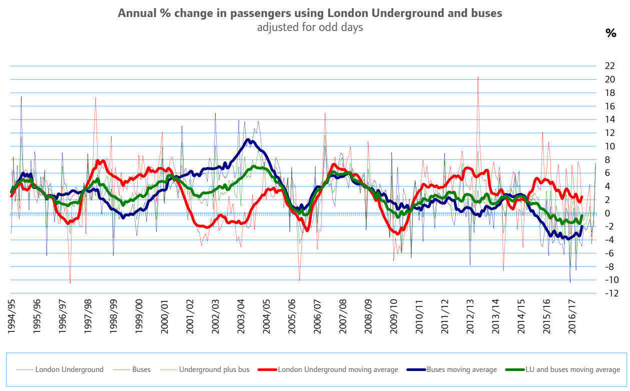


Source: Transport for London

Least negative average rate of change in total passenger journeys in 14 periods

- On average, the annual rate of growth in the number of London Underground passengers was 2.4 per cent, compared with 1.7 per cent in the previous period.
- In contrast, the moving average annual rate of change in bus passenger journey numbers remained negative. However, at -2.0 per cent (from -3.4 per cent), it was the least negative in 19 periods.
- Overall, while remaining negative (-0.4 per cent), the moving annual rate of change in total passenger journeys was the lowest (ie, least negative) in 14 periods.

Latest release: May 2017
Next release: June 2017



Source: Transport for London

London's unemployment rate highest since Q4 2015

- Using the ILO unemployment definition, the number of people who were out of work in London was 297,000 in Q1 2017. That was up from 268,000 on Q4 2016 and was the highest number since Q4 2015.
- Similarly, London's unemployment rate ticked up from 5.5 per cent in the three months to December 2016 to 6.1 per cent in the three months to March 2017. However, it remained low in terms of the historic series.
- London had a higher unemployment rate than the UK as a whole. Overall, there were 1.541 million people unemployed across the UK during the three months to March 2017, giving an unemployment rate of 4.6 per cent.

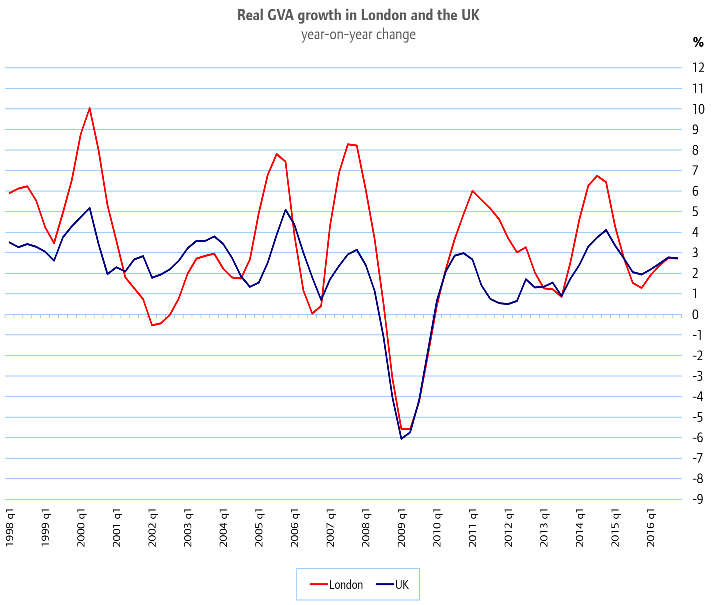
Latest release: May 2017
Next release: June 2017

Source: Labour Force Survey - ONS

Annual output growth holds steady in London in Q4 2016

- London's annual growth in output remained at 2.7 per cent in Q4 2016.
- Annual output growth in the UK decreased to 2.7 per cent in Q4 2016 from 2.8 per cent in Q3 2016. In Q4 2016, London's annual output growth was equal to the UK as a whole.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: April 2017
Next release: July 2017

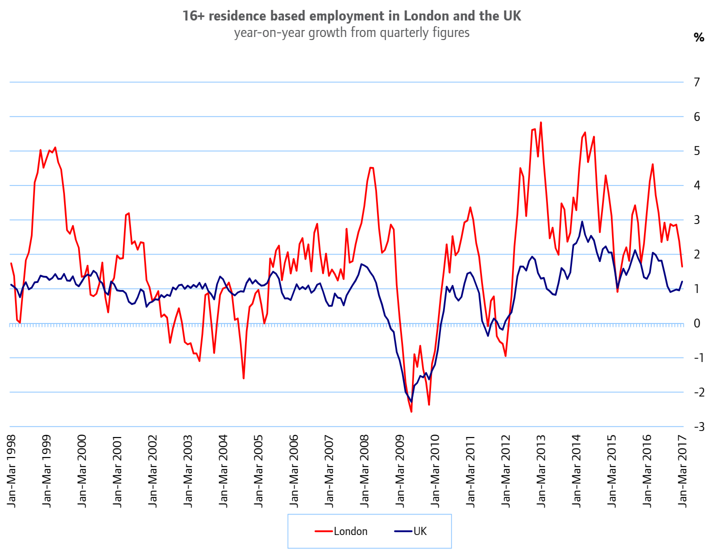


Source: GLA Economics and ONS

Slowest rate of employment growth since Q2 2015

- The number of London residents aged 16 years and over in employment was 4.568 million during the three months to March 2017. That was 3,000 more people than in the three months to December 2016.
- While the annual rate of growth (1.6 per cent) was the slowest since the three months to June 2015, it remained faster than the UK as a whole (1.2 per cent).
- Across the UK, there were 31.947 million people in work in Q1 2017, up from 31.826 million in Q4 2016.

Latest release: May 2017
Next release: June 2017

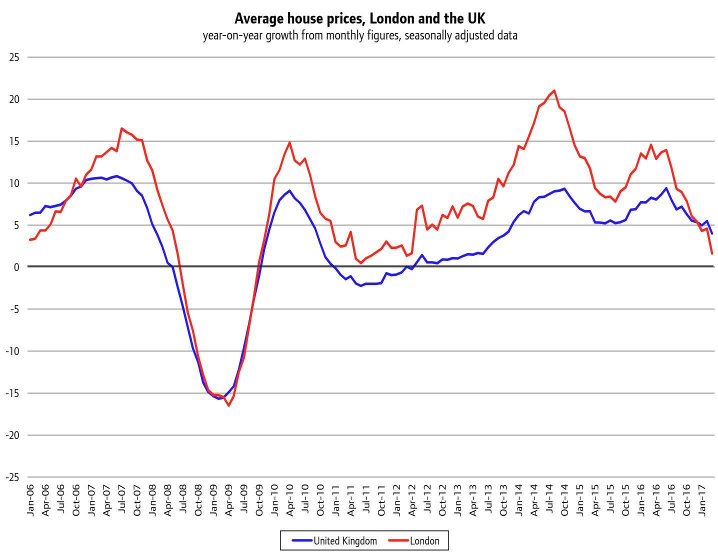


Source: Labour Force Survey - ONS

Annual house price inflation in London at near five-year low

- The average house price in London was £476,434 in March 2017, according to data collected by the Land Registry. That was slightly down from £481,393 in February.
- While house prices in London continued to rise year-on-year, the annual rate of growth (1.6 per cent) was the slowest since April 2012.
- Annual house price inflation similarly slowed across the UK as a whole in March. At 4 per cent, it was the weakest rates of increase since October 2013.

Latest release: May 2017
Next release: June 2017



Source: Land Registry and ONS

Business activity increases at strongest rate since December 2015

- The Purchasing Managers’ Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in that variable, while readings below indicate a decrease.
- London private sector firms reported an increase in business activity in April. In addition, with the PMI Output Index rising from 56.4 to 56.9, the rate of growth was the fastest since December 2015.
- London businesses reported a stronger rise in activity than the UK average. Nonetheless, the index reading (56.2) for the UK was at a four-month high.

Latest release: May 2017
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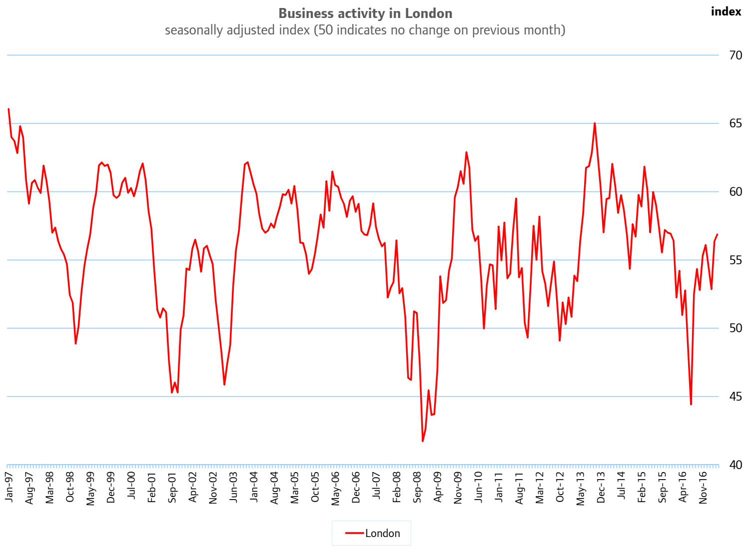
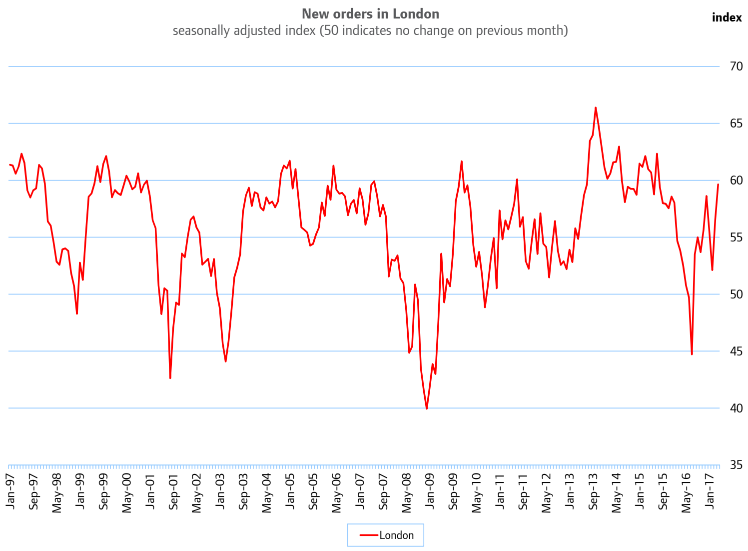


Source: IHS Markit

London firms report a strong rise in new business

- New business at London private sector companies increased for the ninth consecutive month in May. In addition, at 59.6, the PMI New Business Index signalled the fastest rate of growth since July 2015.
- New orders across the UK also grew strongly in March, with an index reading of 58.0.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Latest release: May 2017
Next release: June 2017

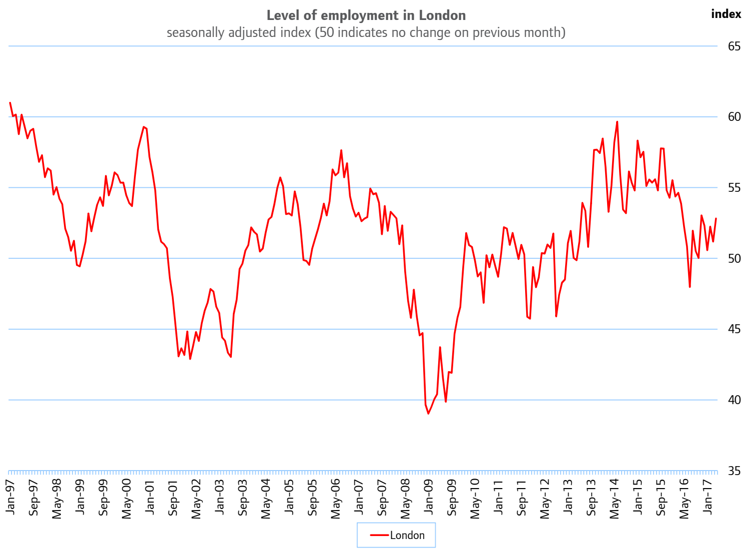


Source: IHS Markit

Job creation at private sector firms gathers pace

- The PMI Employment Index shows the monthly change in employment at private sector firms. A reading above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.
- At 52.8, up from 51.2, the PMI Employment Index signalled London’s private sector firms hired more staff in May. Moreover, the rate of job creation was the fastest in five months.
- The rate of employment growth in London was broadly on par with that for the UK as a whole (52.7).

Latest release: May 2017
Next release: June 2017

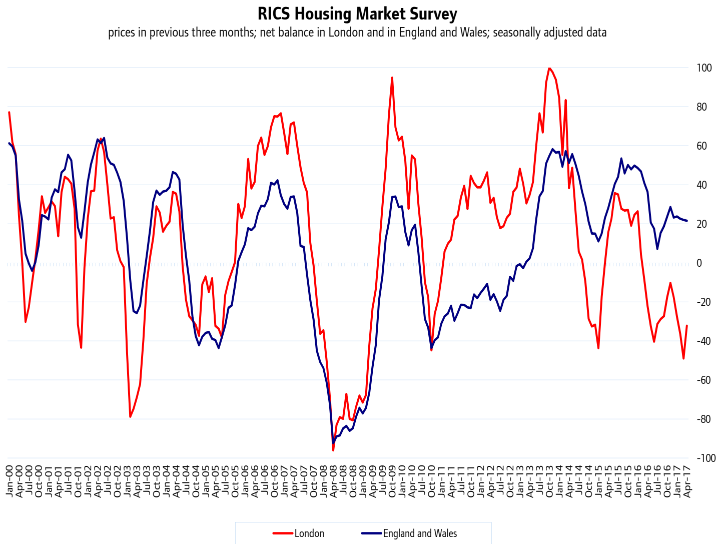


Source: IHS Markit

London's house prices continue to fall

- Property surveyors reported a further fall in house prices in London during the three months to April 2017. However, the net balance rebounded from -49 – the lowest reading since early 2009 – to a three-month high of -32.
- In contrast, the RICS Residential Market Survey suggested that house prices rose across England and Wales as a whole, with a positive net balance of +22.
- House prices also fell in the North (-2) and East Anglia (-4), but the decline was more pronounced in London.

Latest release: May 2017
Next release: June 2017

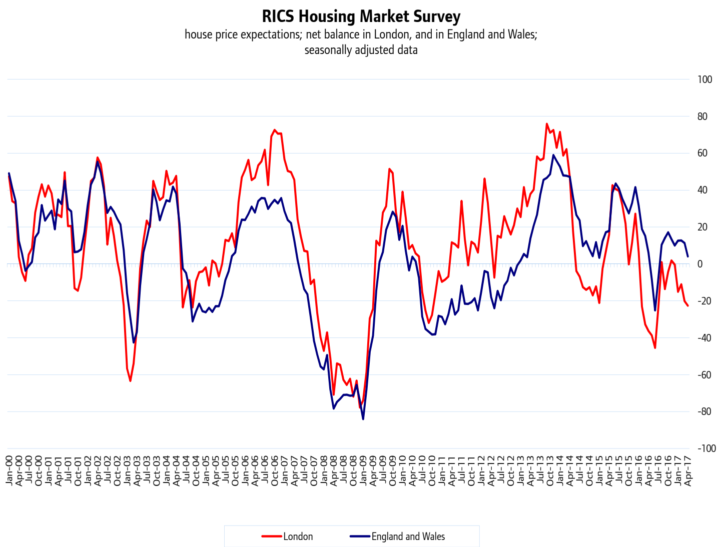


Source: Royal Institution of Chartered Surveyors

Property surveyors expect a further reduction in London's house prices

- Respondents to the RICS Residential Market Survey had negative sentiment towards London's house prices over the next three months. At -23, the net balance remained in negative territory and was the lowest in nine months.
- London had the second most pessimistic net balance in May, with the North having the lowest reading overall (-27).
- Overall, surveyors expect house prices across England and Wales as a whole to increase over the next three months (+4).

Latest release: May 2017
Next release: June 2017

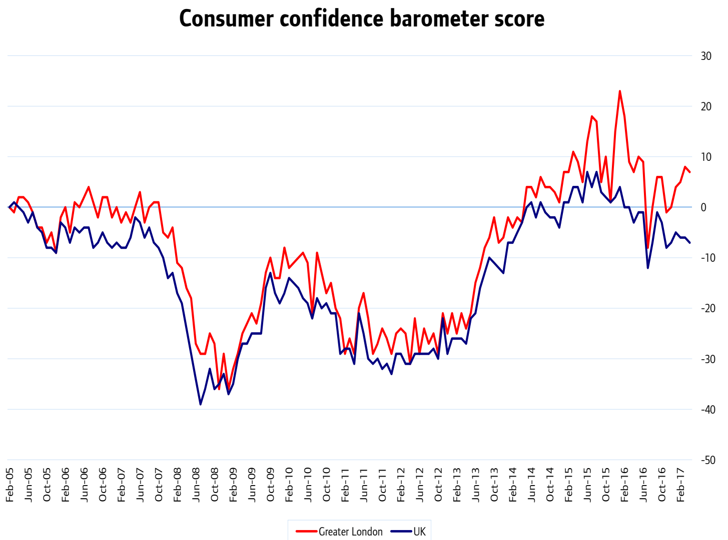


Source: Royal Institution of Chartered Surveyors

London was the only UK region to report positive consumer confidence in April

- The GfK index of consumer confidence reflects people's views on their financial position and the generational economic over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- At +7, consumer confidence in Greater London was positive for the fourth consecutive month in April 2017.
- In contrast, confidence across the UK as a whole was negative (-7) as has been the case for the past 13 months. London was the only UK region to report positive consumer sentiment in April.

Latest release: April 2017
Next release: May 2017



Source: GfK NOP on behalf of the European Commission

Closing time: London's Public Houses

By **Melisa Wickham,**
Supervisory Economist and
Nye Cominetti,
Economist

Pubs are an important part of British culture. They have long been places to meet, drink and, increasingly, eat. For some local communities they can be important social hubs, especially in places without abundant other socialising options. But pubs appear to be under threat - from developers, from pub companies, and from changing patterns of leisure. This has become an issue for policy makers, with the Mayor recently committing to safeguard and protect London pubs[1].

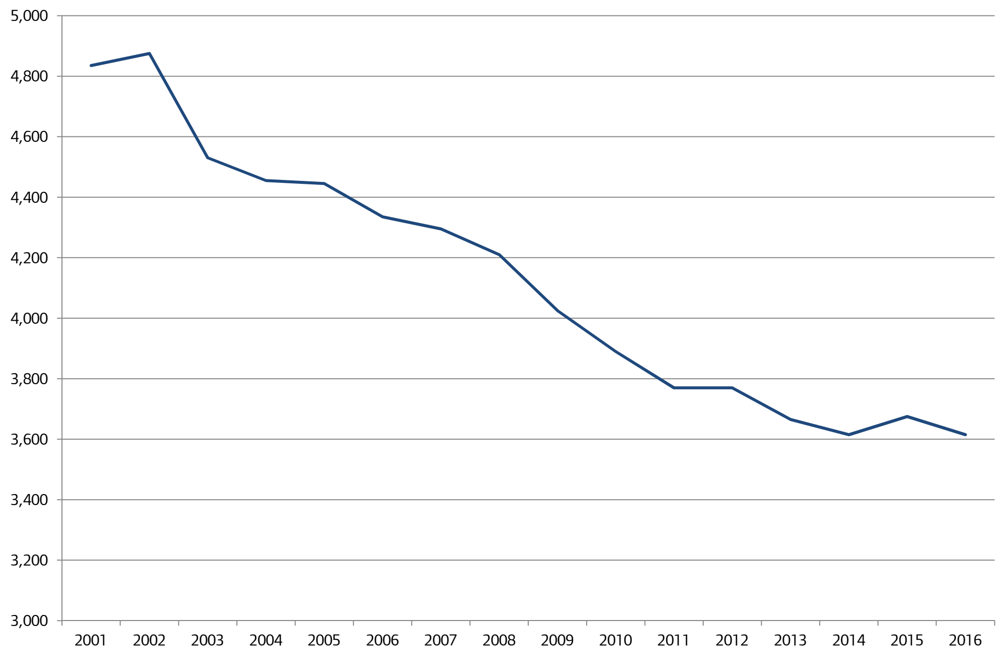
GLA Economics has recently undertaken an assessment of the state of pubs in London, which can be read in a recently published Current Issues Note[2]. Data was compiled from official data sources, and also from a campaigning organisation (the Campaign for Real Ale – 'CAMRA') to look at current pub numbers, employment in London pubs, and how these have changed over time. Our headline finding was that the number of pubs in London has fallen by 25 per cent since 2001.

Pubs in London

The main data source used in this analysis was the Inter-Departmental Business Register (IDBR), which is the most comprehensive official source of data on UK businesses. According to this dataset there were 3,615 pubs in London in 2016, down from 4,835 in 2001. This is a decline of 25 per cent over the period, equating to 81 fewer pubs per year (see Figure A1).

Figure A1: Number of public houses and bars, workplaces, in London, 2001 to 2016

Source: IDBR



1 GLA, (April 2017) 'Shocking data reveals number of pubs in London fell by 25% since 2001'.
2 Wickham, M. & Cominetti, N. (2017) 'Closing Time: London's Public Houses'. Current Issues Note 53. GLA Economics.

All London boroughs apart from Hackney saw a decline in pub numbers over this period, and in Hackney there was only a very small increase of five pubs (an increase of 3 per cent). The largest percentage falls were in Barking and Dagenham (-56 per cent) and Newham (-52 per cent). Other boroughs with significant declines were Croydon (-45 per cent), Waltham Forest (-44 per cent), Hounslow (-42 per cent) and Lewisham (-41 per cent). Pub numbers have fallen by a greater extent in outer than inner London, with a fall of 21 per cent between 2001 and 2016 in inner London, compared to 31 per cent in outer London[3]. Furthermore, pub numbers in inner London have been fairly stable since 2011, with only a 2 per cent fall between 2011 and 2016, compared to a 9 per cent fall in outer London.

The borough with the largest number of pubs is Westminster, which with 440 pubs has 12 per cent of London's total. Some way behind Westminster are Camden (225 pubs), Islington (210 pubs), and Southwark (185 pubs).

Employment

The IDBR also provides data on employment in London pubs. Perhaps surprisingly given the fall in the number of pubs, employment in pubs has increased. Between 2001 and 2016 employment in pubs in London grew by 3,700 (an average increase of 247 per year) to reach 46,300 in 2016. That is a 9 per cent increase in employment over the period – contrasting with the 25 per cent fall in the number of pubs.

Employment growth has not been consistent over the 15 year period, which can be divided into two parts. Employment in pubs actually fell between 2001 and 2010 (from 42,600 to 38,500 – a 10 per cent fall) but then rose sharply after 2010 (from 38,500 in 2010 to 46,300 in 2016 – a 20 per cent increase).

We can again draw a distinction between inner and outer London boroughs. In outer London boroughs employment in pubs fell by 18 per cent between 2001 and 2016, whereas in inner London boroughs pubs employment grew by 31 per cent over the same period. In the 2001 to 2010 period, inner London saw a 1 per cent growth in pubs employment, and outer London a 22 per cent fall in pubs employment. Between 2010 and 2016, inner London saw a 30 per cent growth in pubs employment, compared to 5 per cent growth in outer London.

Narrowing still further, a large part of the change pre and post-2010 can be accounted for by a handful of boroughs. Hackney, Islington, Southwark and Westminster jointly account for pubs employment growth of 4,000 between 2010 and 2016, 51 per cent of overall employment growth in London pubs in that period. Similarly, the fall in employment between 2001 and 2010 can be largely attributed to four outer London boroughs. Croydon, Hounslow, Ealing and Barnet jointly account for 54 per cent of the fall in employment over the 2001 to 2010 period, with 2,200 fewer jobs in those boroughs.

3 Inner London defined as: City of London, Camden, Greenwich, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Lewisham, Newham, Southwark, Tower Hamlets, Wandsworth, Westminster. Outer London is all other boroughs.

More detailed geographic information

To expand the analysis we used data from CAMRA, who compile a database of pubs for their 'What Pub' guide[4]. Usefully, CAMRA's database also includes pubs which have closed. This meant it was possible to look at the number of pub closures, which since the early 2000s have fairly consistently hovered between 120 and 160 per year across London.

CAMRA's data allows analysis of geographies below the borough level. At the ward level, total pub closures between 2000 and 2017 were concentrated in inner London. However, CAMRA's data does not capture when pubs opened, which prohibits producing a net change measure. Therefore the geography of closures largely reflects the areas with the largest number of pubs, and does not imply a greater threat to pubs in those areas. Indeed the above analysis of employment showed that inner London pubs have generated strong employment growth in recent years.

This research, along with other GLA Economics publications, can be accessed from the GLA Economics' publication page.

4 CAMRA use their own definition of a pub, and because of this and also differences in data collection methodology, CAMRA's data does not match up exactly with the IDBR data. However, the estimates produced are similar – CAMRA's database lists 4,047 open pubs in London as of March 2017 (when the data was provided). This compares to 3,615 pubs according to IDBR for 2016.

Additional information

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
Unemployment rates	www.statistics.gov.uk

Glossary

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

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

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

Gross domestic product (GDP)
A measure of the total economic activity in the economy.

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

Tube ridership
Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

Bus ridership
Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

Acronyms

BCC	British Chamber of Commerce
BRES	Business Register and Employment Survey
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CLG	Communities and Local Government
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
IMF	International Monetary Fund
LCCI	London Chamber of Commerce and Industry
LET	London's Economy Today
MPC	Monetary Policy Committee
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers
RICS	Royal Institution of Chartered Surveyors

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About GLA Economics
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.

MAYOR OF LONDON