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In this issue

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Global stock markets experience sharp falls in the first half of February

By **Adam van Lohuizen**, Economist, **Gordon Douglass,** Supervisory Economist and **Victor Frebault**, Economist Intern

Stock markets in Europe, Japan and the UK fell by between 9 and 16 per cent in the first half of February (see Figure 1). These strong declines were in part driven by continuing weakness in commodity prices, with the crude oil price dropping to $26.14 USD a barrel on 11 February, a 17 per cent decline from the start of the month. This was the lowest oil price since May 2003, and reflects a 75 per cent fall from its June 2014 peak of almost $108.

Banking stocks also fell significantly, amid concerns of their ability to cope with low or below zero interest rates, and a weakening economic outlook. In both the UK and the Eurozone bank stocks fell by around 14 per cent in the first half of the month. Bank stocks in the UK are now trading 39 per cent below their 2015 peak, with Eurozone banks having fallen by 45 per cent from their peak (see Figure 2).

Latest news...

The changing spatial nature of business & employment in London

Working Paper 73 finds that, overall, London has been a net contributor of firms and employment to the rest of the UK economy through outward migration (that is, over the time period considered, more businesses have migrated out of London than have migrated into London from the rest of the UK).

The Information & Communication; Finance & Insurance activities; and Professional, Scientific and Technical activities sectors are particular industrial specialisations for London. However, the extent of the specialisation appears to have diminished a little between 2004 and 2013.

Download the paper.

Figure 1: Stock market indices, February 2016 (Index: 1 February 2016 = 100)

Source: Macrobond

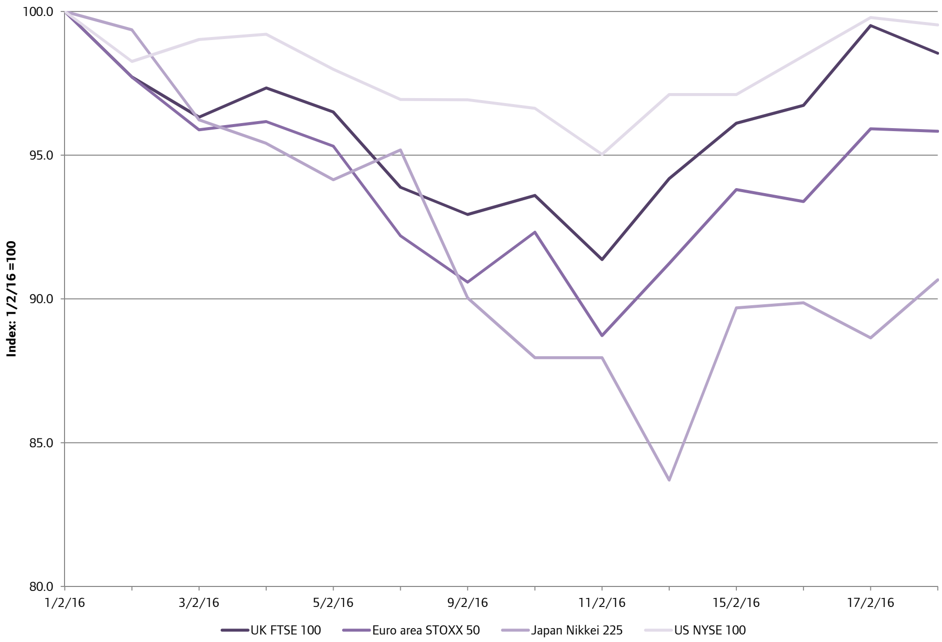
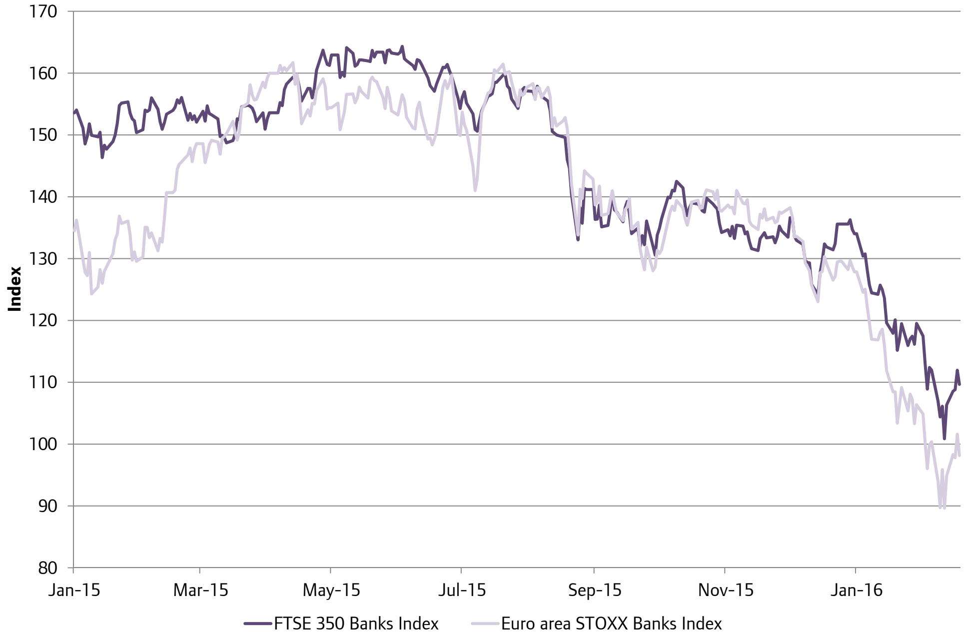


Figure 2: Index of banking stocks in the UK and Europe, 2015 - 2016

Source: Macrobond



The decline in February in the FTSE 100 index took it as low as 22 per cent below its peak in April 2015, a greater fall than the 20 per cent which is considered to indicate a bear market. However gains made since the market bottom have reduced the fall from the market peak back below 20 per cent, taking it out of bear market territory.

Low inflation persists

Commodity price falls have led to inflation expectations being low in a number of countries. Thus in February the Bank of England published their latest Inflation Report in which the Bank notes that "the scale of recent commodity price falls means that [Consumer Price Index] CPI inflation is likely to remain below 1 per cent until the end of the year". Although, they also observe that "as the drags from energy and other imported goods unwind, however, domestic cost pressures are projected to build up sufficiently such that … CPI inflation is likely to exceed the 2 per cent target slightly at the two-year point and then rise further above it". While "all members [of the Bank's Monetary Policy Committee] agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles".

Similar forecasts were released by the European Commission. In its winter 2016 forecast the Commission stated that "with energy prices sliding further in January, it looks as though inflation will remain at very low levels for longer than previously anticipated". For 2016 it stated that "the profile for inflation will again be dominated by base effects related to recent movements in oil prices. With the assumed path of commodity prices, inflation is expected to remain very low in the first half of the year, especially in the second quarter, but then to step up higher in the second half of the year when positive base effects will be dominant". Accordingly it has more than halved its forecast for inflation in the European Union in 2016 from 1.1 per cent in the autumn to 0.5 per cent, now with the inflation forecast in 2017 remaining steady at 1.6 per cent.

Meanwhile, minutes from the European Central Bank (ECB) Governing Council meeting in January indicate that it is prepared to introduce additional monetary easing measures to support the weakening growth and inflation outlook in the Eurozone. The minutes stated that "the President ascertained that the Governing Council was unanimous in concluding that the monetary policy stance needed to be reviewed and possibly reconsidered at the Governing Council's next monetary policy meeting in early March 2016, when the new ECB staff macroeconomic projections would be available, in order to secure a return of inflation rates towards levels below, but close to, 2%. In addition, it was reaffirmed that policy rates would remain at current or lower levels for an extended period of time. In the meantime, while the asset purchases were proceeding smoothly, work needed to be carried out to ensure that all the technical conditions were in place to make the full range of policy options available for implementation, if needed". With the ECB interest rates currently set at 0.05 per cent, this stance indicates that the ECB may be prepared to adopt negative interest rates in order to combat persistently low inflation.

In the United States the low inflation environment poses less of a challenge than in Europe, however the markets indicate a probability of around one-third for a rate rise before the end of 2016, despite previous expectations for a number of rate rises during the year. Thus Federal Reserve Chair Janet Yellen testified to the United States Congress that "the [Federal Open Market Committee] FOMC anticipates that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate". However, she also said that the Fed was looking into whether negative interest rates were an option open to it if the economic conditions required it, and that this was something it would continue to investigate.

Economic outlook weaker around the world

A number of forecasters revised down their forecasts for economic growth during February, including the OECD, the European Commission, and the Bank of England.

The OECD released its Interim Economic Outlook in February, where it revised down its forecasts for global growth by 0.3 percentage points for the next two years to 3.0 per cent in 2016, and 3.3 per cent in 2017. For 2016 it revised its outlook for the UK down by 0.3 percentage points to 2.1 per cent, the Eurozone was revised down by 0.4 percentage points to 1.4 per cent growth, whilst the United States forecast was revised down by 0.5 percentage points to 2.0 per cent. Supporting their more pessimistic outlook the OECD noted that "growth is slowing in many emerging economies with a very modest recovery in advanced economies and low prices depressing commodity exporters. Trade and investment remain weak. Sluggish demand is leading to low inflation and inadequate wage and employment growth".

The European Commission also revised down its growth forecast for the European Union in 2016 by 0.1 percentage points to 1.7 per cent. In its winter 2016 forecast the Commission noted that "the economic recovery in the euro area remains moderate despite substantial support from several factors including low oil prices, the relatively weak exchange rate of the euro and the very accommodative stance of monetary policy. This support is now expected to be somewhat stronger and longer lasting than previously thought. However, the overall impact on economic activity will likely be rather limited due to increased headwinds from the external environment and in some cases, because of lingering legacies from the crisis".

Closer to home, the Bank of England also cut its central forecast for economic growth in 2016 to 2.2 per cent compared to a forecast of 2.5 per cent in the last Inflation Report published in November 2015, while the economy is now forecast to grow by 2.3 per cent in 2017 compared to a previous forecast of 2.6 per cent.

Some evidence of the economy softening at the UK level

The weaker outlook for the UK is consistent with a softening in other economic indicators. Thus the Bank of England's latest Agents' Summary of Business Conditions observed a slight easing in business conditions noting that "growth had eased a little in recent months, although remained solid overall", while "consumer spending growth had been resilient".

The latest ICAEW/Grant Thornton Business Confidence Monitor for the UK, which is for Q1 2016, also found evidence of a weakening but still growing business environment. The report thus found that business confidence has fallen "to its lowest level in three years, though it stays positive", while "turnover, sales and profit growth continue to soften, as do expectations for growth ahead". It further reported that "capital investment growth continues to fall, while R&D growth remains subdued", adding that "the number of firms operating below capacity rises again, particularly in the Manufacturing and IT & Communication sectors". While the consultancy BDO observed in February that their Business Optimism Index "which predicts growth six months ahead – has declined to 100.0, the tipping point below which firms expect their output growth to drop under the long term trend rate". And the CBI noted that its survey of manufacturing, retail and services firms showed that "growth dropped to its slowest rate since May 2013" in the three months to January 2016.

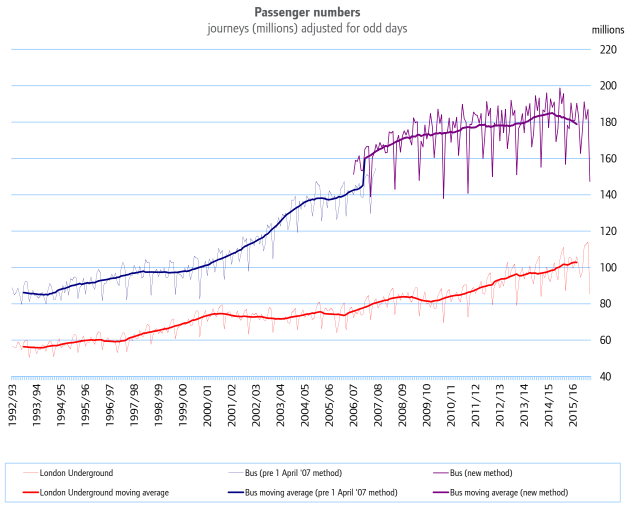
Still most economic indicators seem to show that confidence remains in London's economy as shown by consumer confidence hitting a post-recession high in London in January. Data from the ONS also showed that house prices in London increased faster than the UK as a whole in the year to December 2015, by 9 per cent compared to 6.7 per cent respectively. Amid speculation that HSBC would re-locate its headquarters to Hong Kong, the bank's board this month voted unanimously to maintain its presence in London. On the decision to remain in the UK, the bank stated that "the UK is an important and globally connected economy. It has an internationally respected regulatory framework and legal system, and immense experience in handling complex international affairs. London is one of the world's leading international financial centres and home to a large pool of highly skilled, international talent. It remains therefore ideally positioned to be the home base for a global financial institution such as HSBC". Thus, although global financial market turbulence highlights worries about the state of the global economy the evidence for this producing anything more than a slowdown in the UK and London's economies currently remains lacking.

Economic indicators

Decrease in average number of passenger journey

- The most recent 28-day period covered 13 December 2015 – 9 January 2016. Adjusted for odd days, London's Underground and buses had 232.7 million passenger journeys; 147.3 million by bus and 85.4 million by Underground.
- The 12-month moving average of passengers decreased to 281.6 million, from a downwardly revised 282.4 million in the previous period. The moving average for buses was 178.8 million. The moving average for the Underground was 102.7 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: February 2016
Next release: March 2016

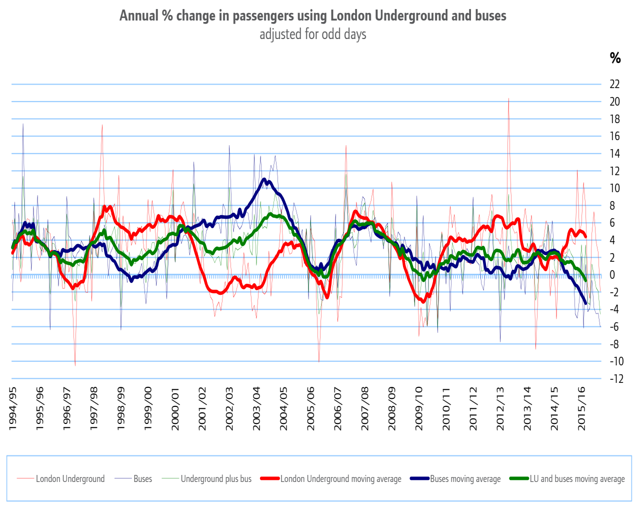


Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to -0.7 per cent from a downwardly revised -0.2 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -3.3% from a downwardly revised -2.8% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 4.4% from 4.8% in the previous period.

Latest release: February 2016
Next release: March 2016



Source: Transport for London

ILO unemployment decreases in London and the UK

- The ILO unemployment rate in London stood at 6.3% in the quarter to December 2015, compared to 6.4% in the quarter to September 2015. In the UK, the unemployment rate was 5.1% in the quarter to December 2015, compared to 5.3% for the quarter to September 2015.
- There were 294,000 seasonally adjusted unemployed in London in the quarter to December 2015, a decrease of 3,000 from the quarter to September 2015. There were 1,690,000 seasonally adjusted unemployed in the UK in the quarter to December 2015, a decrease of 60,000 from the quarter to September 2015.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

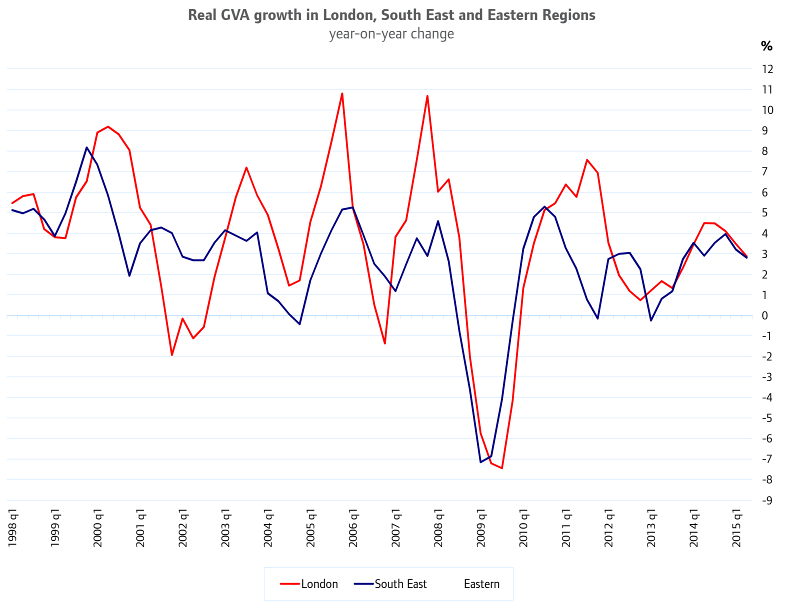
Latest release: February 2016 Next release: March 2016

Source: Labour Force Survey - Office for National Statistics

Annual output growth slows in London in Q2 2015

- London's annual growth in output decreased to 2.9% in Q2 2015 from 3.5% in Q1 2015.
- Annual output growth in the South East decreased to 2.8% in Q2 2015 from 3.2% in Q1 2015.
- Annual output growth in the Eastern Region decreased to 2.8% in Q2 2015 from 3.3% in Q1 2015

Latest release: December 2015
Next release: March 2016

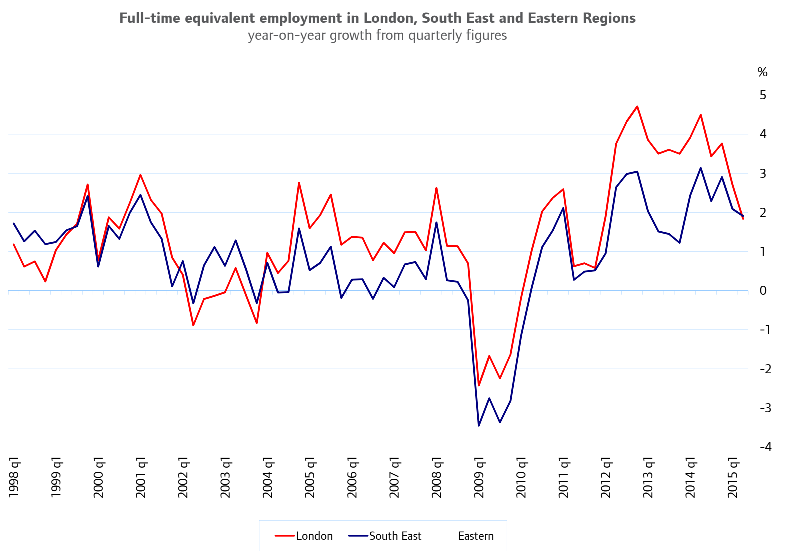


Source: Experian Economics

Annual employment growth slows in London in Q2 2015

- London's annual employment growth decreased to 1.8% in Q2 2015 from 2.7% in Q1 2015.
- Annual employment growth in the South East decreased to 1.9% in Q2 2015 from 2.1% in Q1 2015
- Annual employment growth in the Eastern Region decreased to 1.6% in Q2 2015 from 1.9% in Q1 2015.

Latest release: December 2015
Next release: March 2016

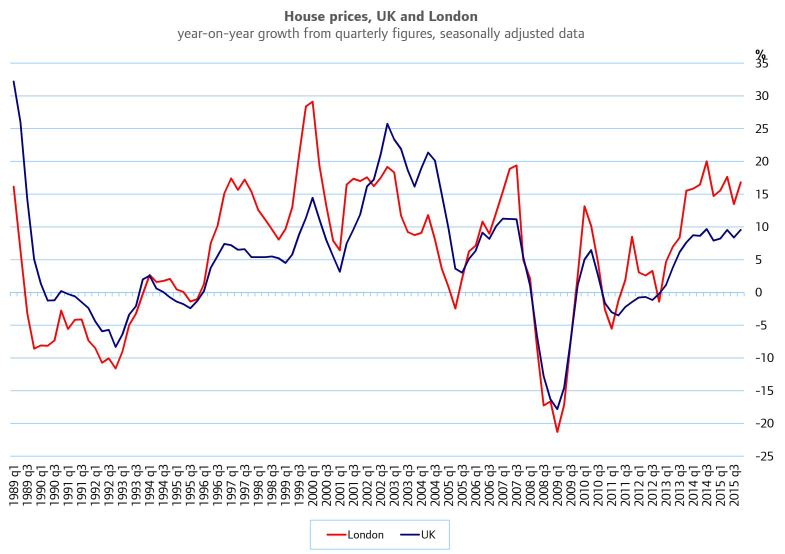


Source: Experian Economics

Annual house price inflation higher in London than in the UK

- House prices, as measured by Halifax, were higher in Q4 2015 than in Q4 2014 for London and the UK.
- Annual house price inflation in London was 16.8% in Q4 2015, up from an upwardly revised 13.5% in Q3 2015.
- Annual house price inflation in the UK was 9.6% in Q4 2015, up from a downwardly revised 8.4% in Q3 2015.

Latest release: January 2016
Next release: April 2016

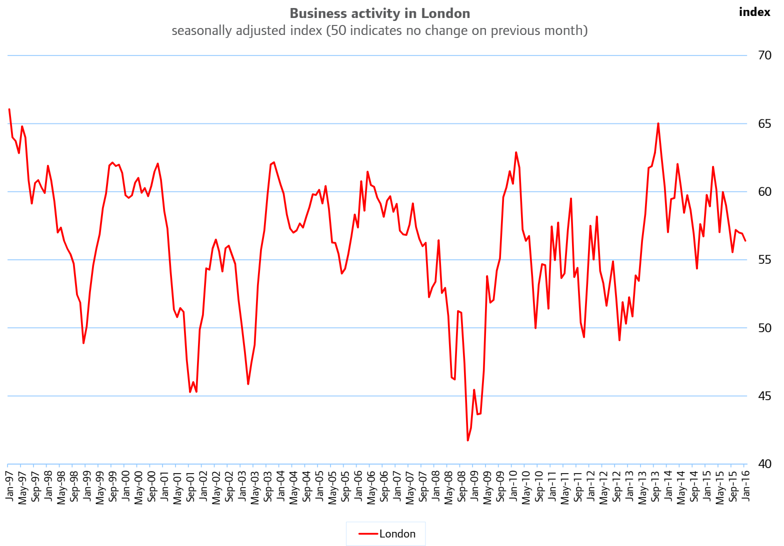


Source: Halifax House Price Index

London's business activity continues to increase

- Firms in London increased their output of goods and services in January 2016.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.4 in January 2016, down from 56.9 in December 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: February 2016
Next release: March 2016

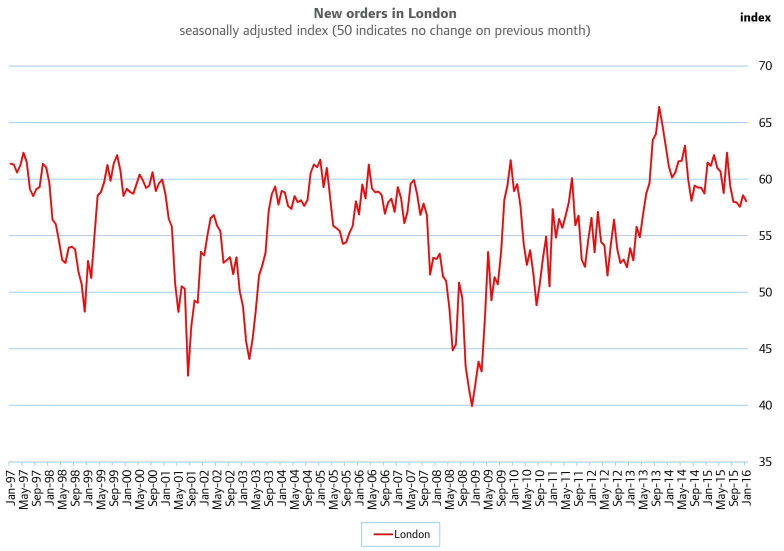


Source: Markit Economics

New orders in London rising

- January 2016 saw an increase in new orders for London firms.
- The PMI for new orders recorded 58.0 in January 2016 compared to 58.6 in December 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: February 2016
Next release: March 2016

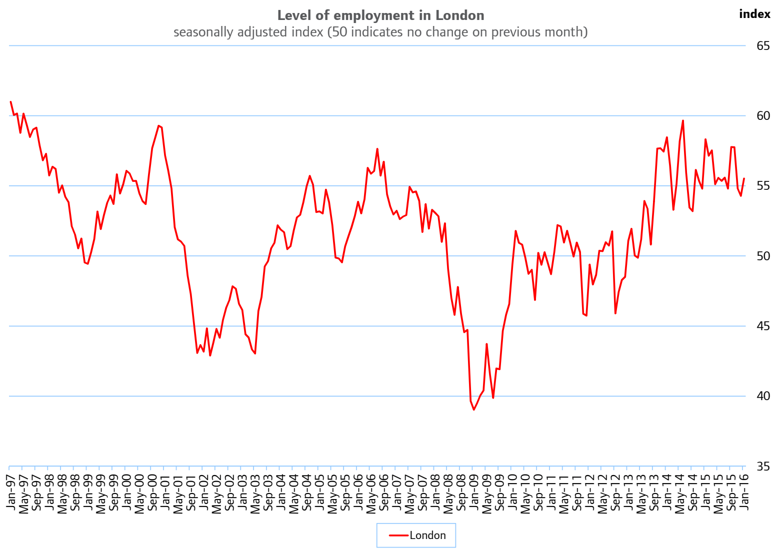


Source: Markit Economics

Businesses report higher employment in January

- The PMI shows that the level of employment in London firms increased in January 2016.
- The PMI for the level of employment was 55.5 in January 2016, up from 54.3 in December 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: February 2016
Next release: March 2016

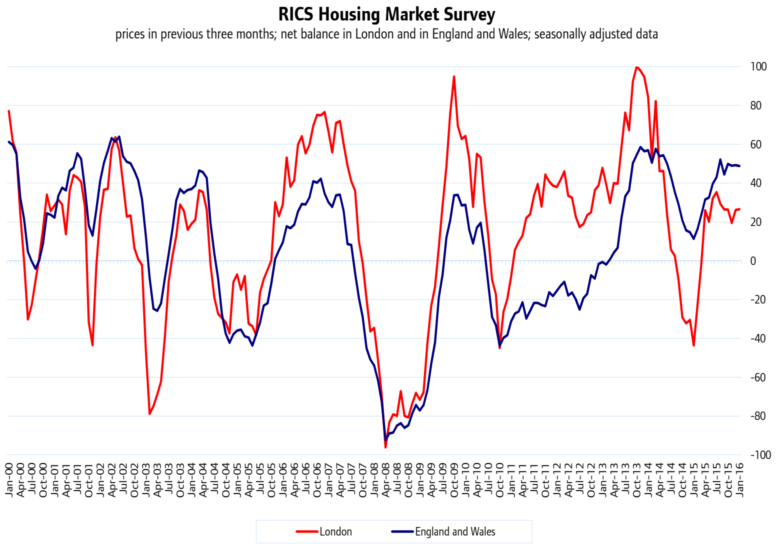


Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey showed a positive net balance of 27 for London house prices over the three months to January 2016.
- Surveyors reported a positive net house price balance of 49 for England and Wales over the three months to January 2016.
- London's net house price balance is lower than that of England and Wales.

Latest release: February 2016
Next release: March 2016

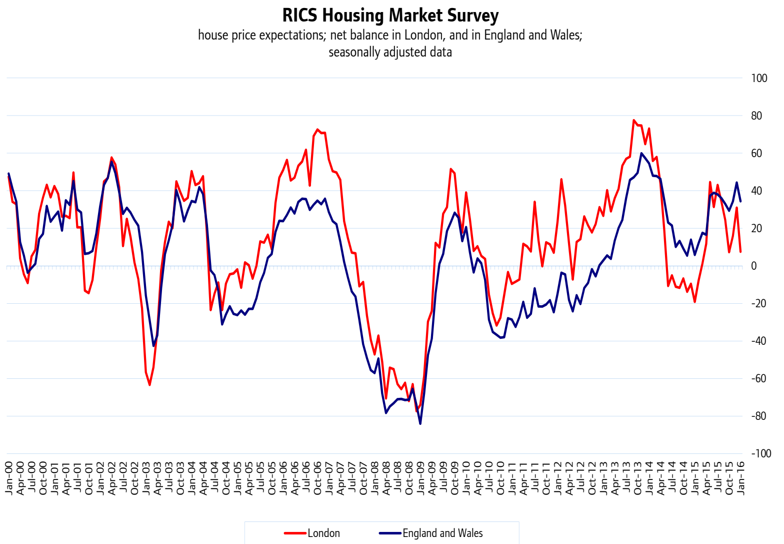


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise

- The RICS Residential Market Survey shows that surveyors expect house prices to rise over the next three months in London; and in England and Wales.
- The net house price expectations balance in London was 8 in January 2016.
- For England and Wales, the net house price expectations balance was 34 in January 2016.

Latest release: February 2016
Next release: March 2016

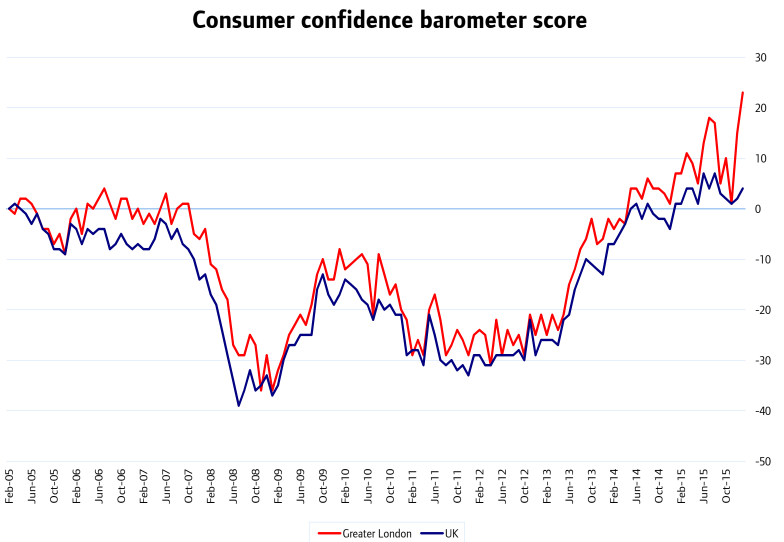


Source: Royal Institution of Chartered Surveyors

Consumer confidence 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 23 in January 2016, up from 15 in December 2015.
- For the UK the consumer confidence score stood at 4 in January 2016, up from 2 in December 2015.

Latest release: January 2016
Next release: February 2016



Source: GfK NOP on behalf of the European Commission

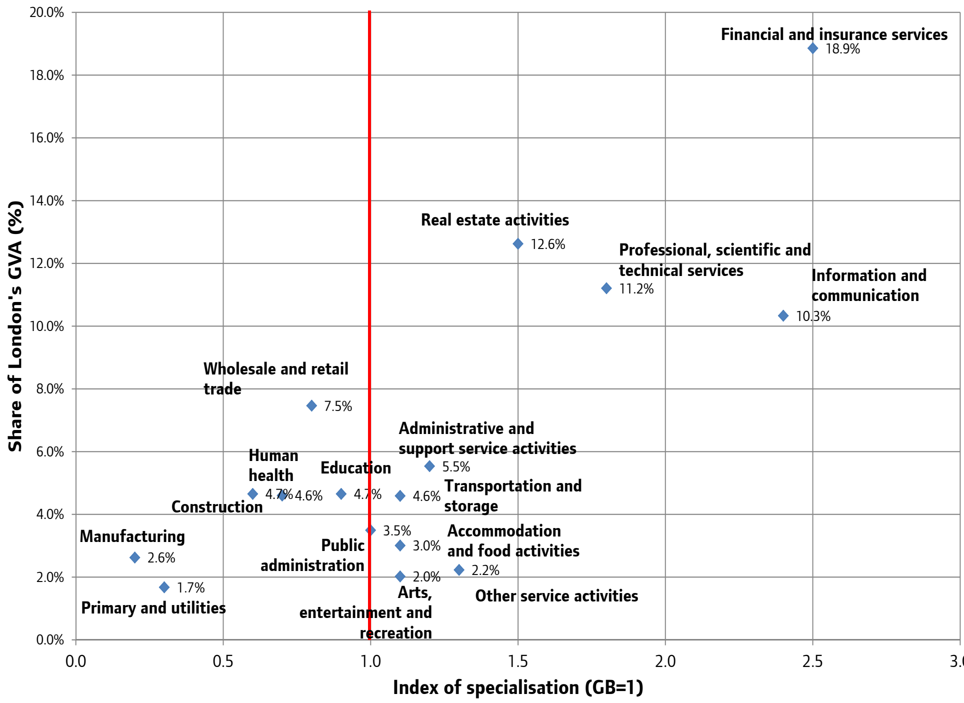
By **Brian Smith,**
Supervisory Economist

The economic evidence base underpins the London Plan as well as other Mayoral strategies such as the Transport Strategy and Economic Development Strategy. Following the recommendation for a full review of the London Plan[1], GLA Economics have recently published the 'Draft Economic Evidence Base'[2], a document which provides our current view of London's economy, how it has developed over time, the forces acting upon it, and a review of the key issues facing London now and into the future.

This supplement provides a summary of the content of the evidence base. As it is a draft, the evidence base will be updated prior to strategies being finalised, therefore any comments on this version should be directed to GLAEconomics@london.gov.uk.

London's economy has been shaped by globalisation – the increasingly connected and integrated nature of the international economy, in large part arising through increases in trade over time. As a result, the structure of the economy has changed, and London has developed specialisms in areas where it has comparative advantages – particularly high-value service sector activities (see Figure 1A)[3]. Chapter 1 provides detail on how globalisation has impacted on London's economy.

Figure 1A: London's industrial specialisations
Source: Business Register and Employment Survey (BRES); Regional Gross Value Added (Income Approach). Both data sources are from the Office for National Statistics



1 Planning Inspector's report into the Further Alterations of the London Plan: https://www.london.gov.uk/file/20679/download?token=DPerSdTu
2 GLA Economics, February 2016, 'Draft Economic Evidence Base 2016'.
3 Index of specialisation is calculated as follows: (sector employee jobs in London / all employee jobs in London) / (sector employee jobs in Rest of GB / all employee jobs in Rest of GB). An index of specialisation of greater than one indicates that London has a greater proportion of employee jobs in that sector compared to the rest of Great Britain and as such a relative specialisation when compared to the rest of the country.

Chapter 2 looks at the spatial nature of London's economy. Cities benefit from agglomeration economies, the external benefits which arise when economic activity takes place in a concentrated space. The development of transport has enabled this growth by reducing the cost of accessibility to jobs for a significant proportion of the region's population. The agglomeration benefits mean there is a lot of competition for land between businesses, as well as with land for residential or other uses.

The evidence base then moves on to look at London as an attractive location for business and people. The capital features prominently across a range of city ranking indices, firms want to locate in the capital, and over half of all workers in London are educated to at least degree level. The economic opportunities that business locating to London offer also encourages people to live and work in the capital; 37 per cent of London's population was born overseas (similar rates to other major global cities like New York, Hong Kong and Singapore). It is not only the economic opportunities which attract people, London's culture and heritage is a major driver, as well as its higher education offering. Chapter 3 looks at London's competitiveness in more detail for both businesses and people.

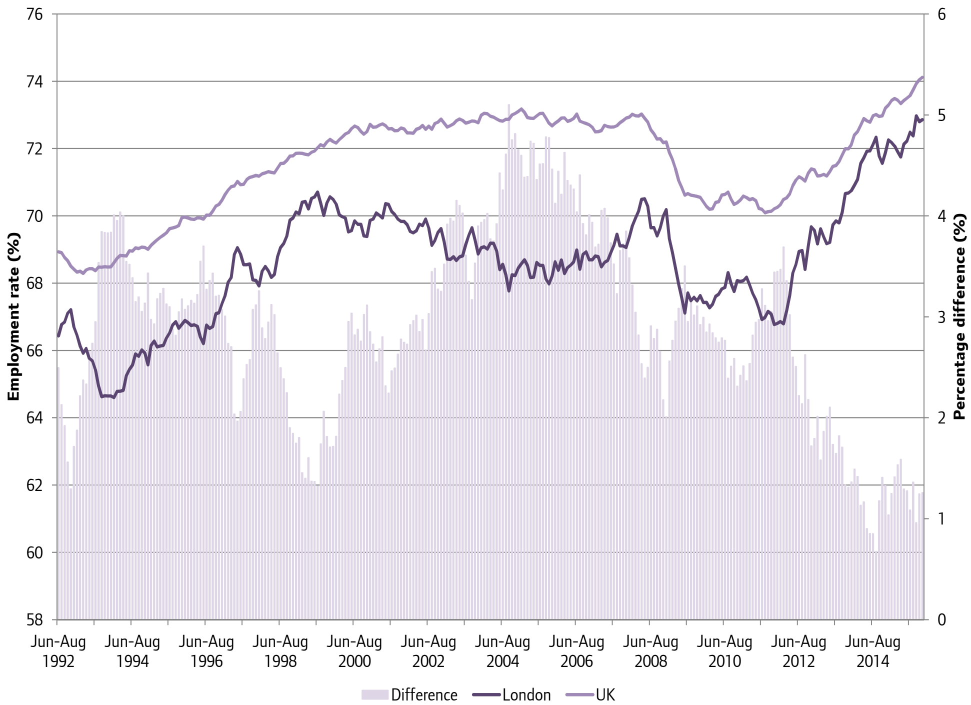
Even though London has become a major global city benefitting from agglomeration and specialisation, there are risks to London's future growth; these are explored in further detail within Chapter 4. In the near term, risks could come from a variety of areas including geopolitical events, the ongoing Eurozone crisis, continued reductions in government spending or the outcome of the forthcoming referendum on the UK's membership of the EU. Longer term though, London's continued growth could be tempered by congestion costs, the consequence of London's business and people competing over scarce resources. These risks include the cost of living, and pressure on the transport network and on other parts of the infrastructure network.

Chapter 5 looks at the importance of the environment for London's economy. Maintaining high environmental standards and developing infrastructure that both meets the needs of London's economy and is resilient to current and future environmental challenges is essential to ensure London's continued competitiveness. With population and economic activity projected to grow in the next 30 years, the pressures on resources and natural capital will continue to grow.

Chapter 6 focuses on London's population and its labour market. London's resident population is at record levels, at approximately 8.7 million, and is projected to grow to 10 million by 2036. There is a growing proportion of older Londoners and by 2036 15 per cent of London's population is expected to be over the age of 65. London's school-age population is also growing and projected to number nearly 1.4 million by 2036.

London has seen improving labour market conditions, with the proportion of the population in employment at record levels; currently around six percentage points higher than the lows recorded in 2011 and 2012. However despite this, the employment rate remains below that for the UK (although the gap has narrowed in recent years, see Figure 2A). There are also marked differences in labour market outcomes for different groups in society, and these issues are all explored within Chapter 6.

Figure 2A: Working-age employment rates, London and the UK
Source: Labour Force Survey, ONS



Despite London's economic success in a number of areas, it also faces socio-economic issues and these are explored in Chapter 7. For example, the cost of living can be very high, and in particular the costs of housing. In London, median properties sold for more than ten times median gross household income in 2014. The cost of housing directly impacts household income. Before housing costs, median household weekly income is around £80 higher in London than the rest of the UK, however, after housing costs, the difference falls to just £8. Poverty levels are also much higher in London than the UK as a whole. After housing costs, around 300,000 children in Inner London are living in poverty, with a further 400,000 in Outer London. Chapter 7 looks in more detail at a range of socio-economic issues, such as affordability, poverty, health, crime and education.

More information can be found in the report: 'Draft Economic Evidence Base 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.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

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

GLA Economics
City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922
Fax 020 7983 4674
Email glaeconomics@london.gov.uk
Internet www.london.gov.uk

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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