

**London's Economic Outlook: Spring 2009**  
The GLA's medium-term planning projections



**Transport  
for London**

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**Greater London Authority  
April 2009**

**Published by**

Greater London Authority  
City Hall  
The Queen's Walk  
London SE1 2AA

**[www.london.gov.uk](http://www.london.gov.uk)**

enquiries **020 7983 4000**

minicom **020 7983 4458**

ISBN: **978-1-84781-239-1**

**Cover photograph**

© shutterstock.com

This publication is printed on recycled paper

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the Greater London Authority, Transport for London and the London Development Agency.

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## Contents

1. Executive summary.....	ii
2. Introduction .....	3
3. Economic background: UK and advanced economies enter recession as emerging market economies falter .....	4
4. Review of independent forecasts .....	17
5. The GLA Economics forecast.....	23
Appendix A: Explanation of terms and some sources .....	32
Appendix B: Glossary of acronyms .....	33
Appendix C: Bibliography .....	34

## 1. Executive summary

GLA Economics' fourteenth London forecast<sup>i</sup> suggests that:

- London's Gross Value Added (GVA) growth rate should fall to -2.7 per cent in 2009. Growth should remain negative in 2010 before rising to 1.7 per cent in 2011.
- London is likely to see contractions in employment in 2009, 2010 and 2011.
- London household spending will probably fall in 2009 and 2010 before growing slowly in 2011. London household income will probably fall in 2009 before growing slowly in 2010 and 2011.

Table 1.1 summarises this report's forecasts and provides an average of independent forecasts.

**Table 1.1: Summary of forecasts**

<b>Annual growth rates (per cent)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
London GVA (constant 2003 £ billion)	1.2	-2.7	-0.2	1.7
<i>Consensus (average of independent forecasts)</i>		-2.8	-0.2	2.1
London civilian workforce jobs	0.3	-3.8	-2.2	-0.4
<i>Consensus (average of independent forecasts)</i>		-2.4	0.0	0.9
London household spending (constant 2003 £ billion)	2.6	-2.5	-2.2	0.4
<i>Consensus (average of independent forecasts)</i>		-1.0	0.2	2.1
London household income (constant 2003 £ billion)	-1.2	-2.1	1.0	2.0
<i>Memo: Projected UK RPI<sup>ii</sup> (Inflation rate)</i>		-1.3	1.9	3.0
<i>Projected UK CPI<sup>iii</sup> (Inflation rate)</i>		1.0	1.7	1.8

Sources: GLA Economics' Spring 2009 forecast and consensus calculated by GLA Economics.

## 2. Introduction

The spring 2009 edition of *London's Economic Outlook* (LEO) is GLA Economics' fourteenth London forecast. The forecasts are issued every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economies with analysis of important events, trends and risks to short and medium-term growth (Section 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Section 4). In this document, 'consensus forecast' refers to the average of the four independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Section 5).

### 2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. GLA Economics' forecast is based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)
- Experian Business Strategies (EBS)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely but these are not shown here. The low and high forecasts combine the lowest and highest forecasts respectively taken from each year separately and which, may therefore, come from different forecasters. High and low estimates therefore may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is most *likely* to happen, not what will *definitely* happen.

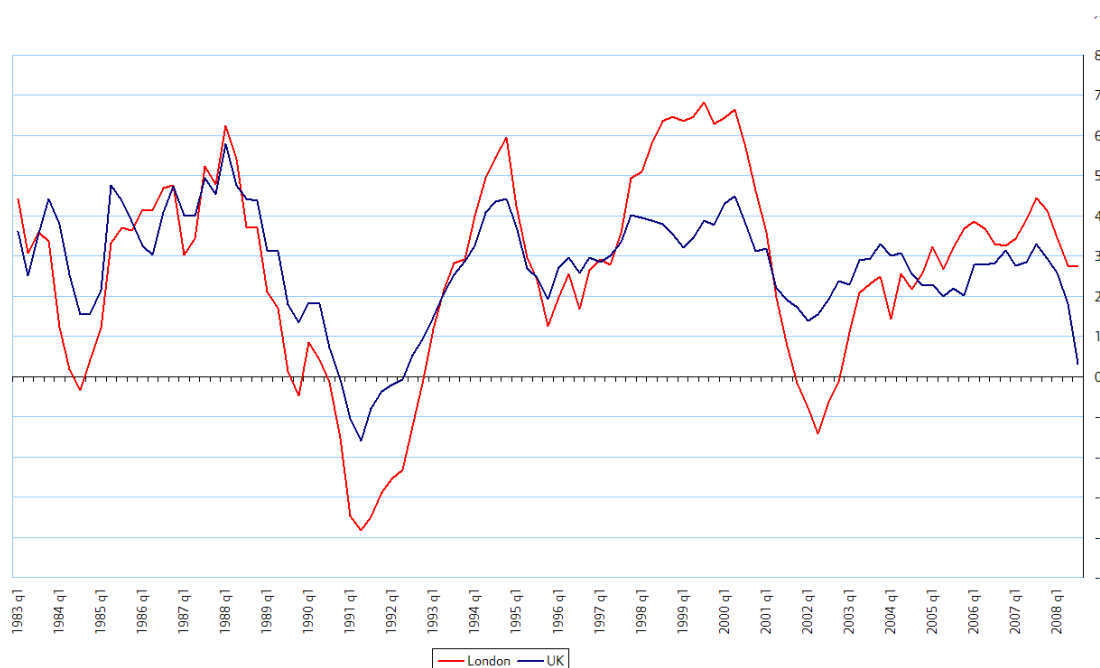
### 3. Economic background: UK and advanced economies enter recession as emerging market economies falter

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

#### 3.1 The London economy

London's economic output grew at an annualised rate of 2.7 per cent in quarter three of 2008 compared to 0.3% in the UK. Annual economic growth has been positive in London since 2002 and stronger than the UK as a whole since the fourth quarter of 2004.

**Figure 3.1: Output growth – London and UK**  
Real GVA, annual % change, last data point is Q3 2008



Source: Experian Business Strategies

Annual employment growth in London turned negative in the fourth quarter of 2008 to -0.4 per cent from 0.5 per cent in the third quarter. The total number of workforce jobs in London was around 4.7 million in quarter four 2008 (see Figure 3.2).

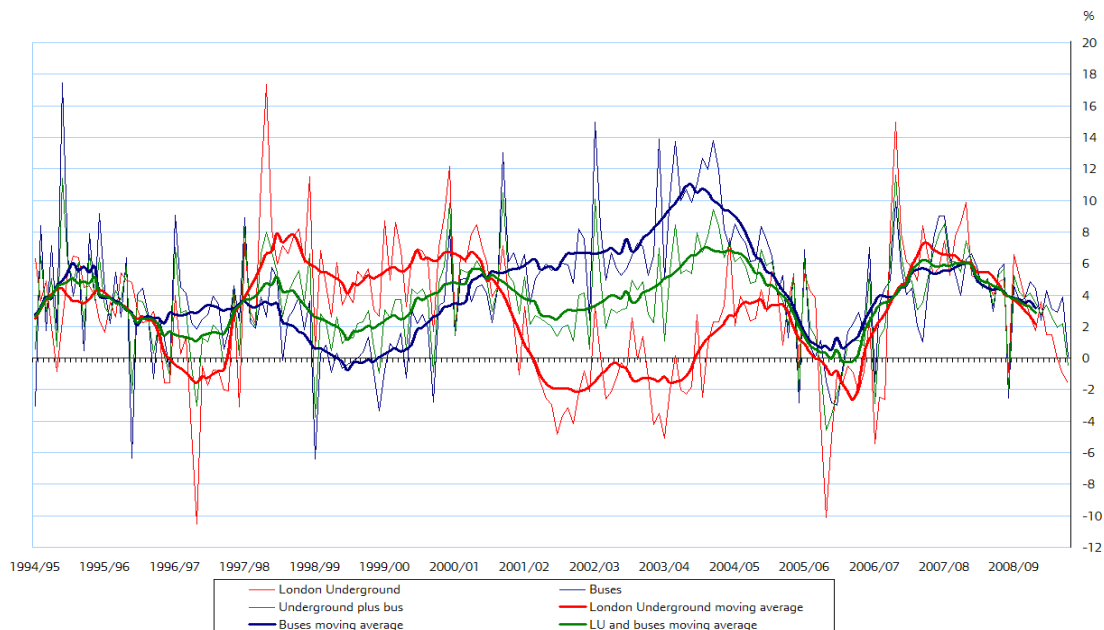
**Figure 3.2: London civilian workforce jobs**  
Level and annual % change, last data point is Q4 2008



Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows there has been continued annual growth in the moving average of both bus and underground usage in the second half of 2008 and into 2009, although this has slowed compared to early 2008.

**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 31/01/09.

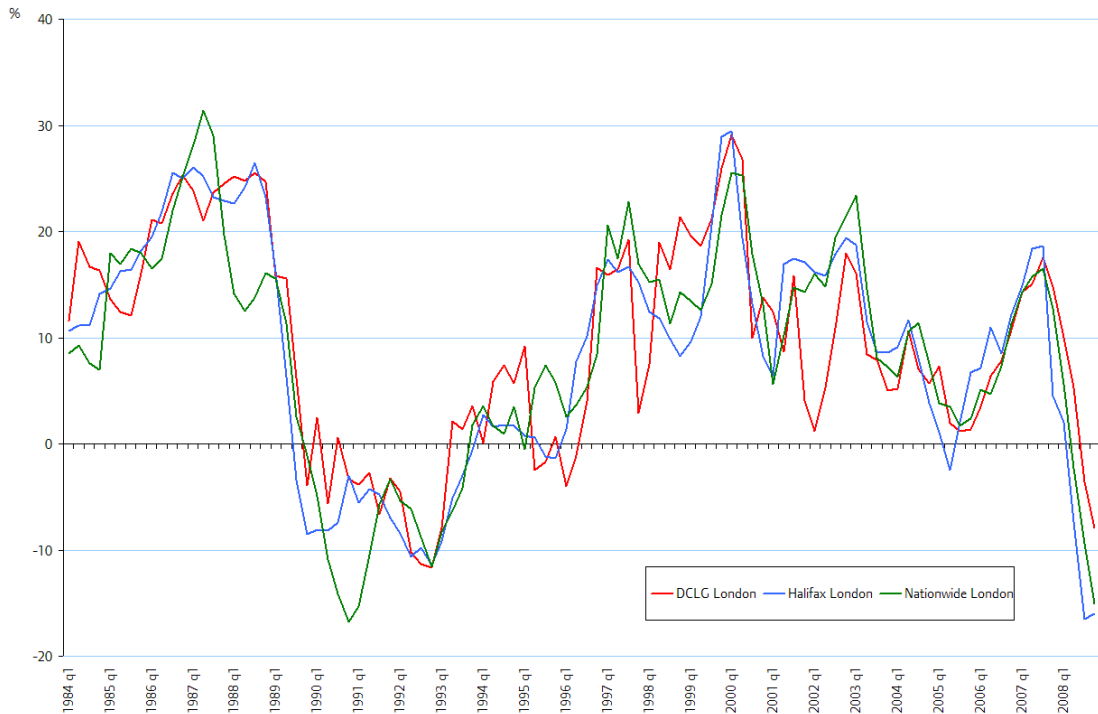


Source: Transport for London

Annual house price inflation slowed in the second half of 2007 and turned negative in 2008, with tightened lending criteria, the economic downturn and the belief that prices are likely to fall further having all weakened the market. Mortgage arrears have also risen with Financial Services Authority (FSA) data showing that the number of accounts in arrears in the UK was up 31 per cent in 2008<sup>iv</sup>. Annual house price inflation in London as measured by the Halifax house price index and Nationwide was very negative in the fourth quarter of 2008 and was close to the picture seen in the rest of the UK (see figure 3.4).

**Figure 3.4 House price inflation in London**

Annual % change, last data point is Q4 2008



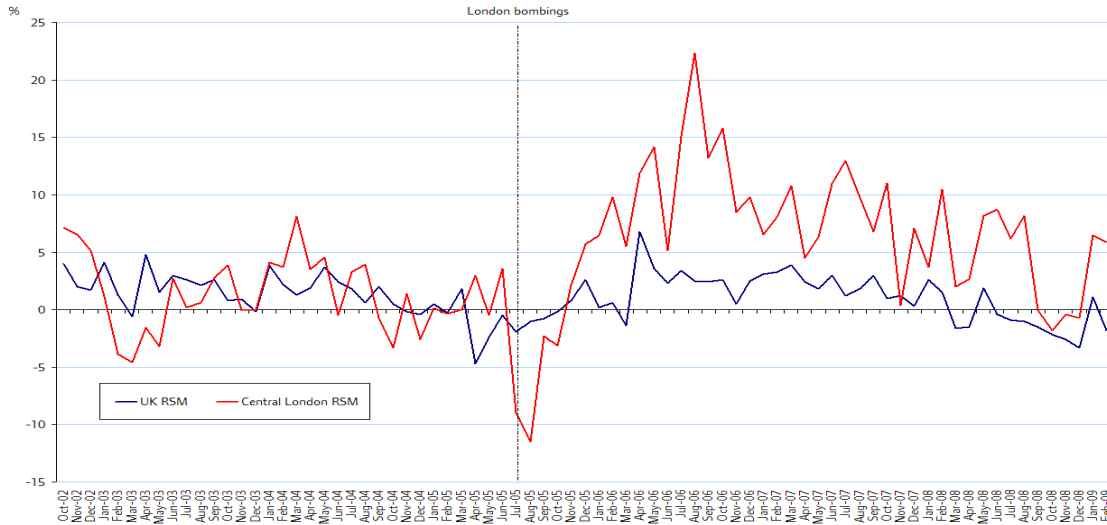
Sources: DCLG, Halifax house price index, Nationwide

London's commercial property market also remained subdued in the fourth quarter of 2008. Vacancies in Central London continued to rise "for the fifth consecutive quarter and is now at 8.3% compared to 6.2% twelve months ago". Further "speculative construction activity fell by 27% to 7.0 m sq ft", whilst "investment turnover totalled £2.1 billion in Q4 2008 bringing the total for the year to £6.8 billion, 60% lower than 'in' 2007."

The retail sector in Central London was weak in the final quarter of 2008 but rebounded at the beginning of 2009. Retail sales increased by 5.9 per cent in February 2009 compared with a year earlier as monitored by the London Retail Consortium (Figure 3.5). Meanwhile UK retail sales fell by 1.8 per cent in February 2009 compared to February 2008 after also falling for most of 2008. Since November 2005, annual retail sales growth in the UK has remained below that of Central London apart from in November 2007.



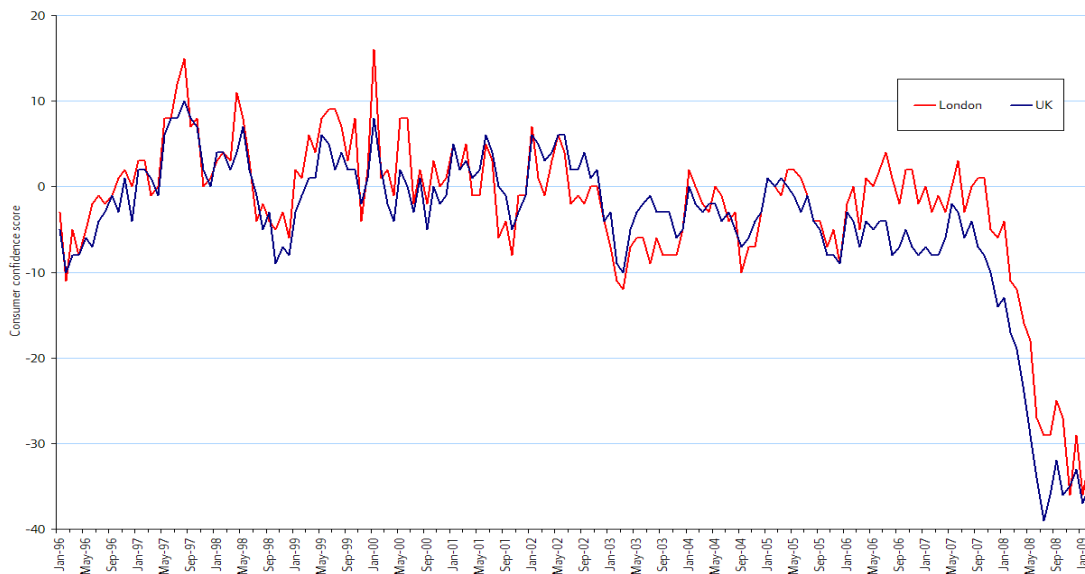
**Figure 3.5: Retail sales growth – Central London and the UK**  
Annual % change, last data point is February 2009



Sources: UK Retail Sales Monitor – BRC/KPMG, Central London Retail Sales Monitor – London Retail Consortium

GfK NOP's regional consumer confidence index (Figure 3.6) shows that consumer confidence is now very similar in London and the UK as a whole. There has been a significant downturn in confidence in both London and the UK since the latter part of 2007 that coincided with the credit crunch. Confidence in March 2009 showed a slight improvement on previous months but is still indicating that the current economic slowdown is negatively impacting upon consumers' expectations. The index reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months.

**Figure 3.6: GfK NOP's regional consumer confidence index**  
Consumer confidence score, last data point is March 2009

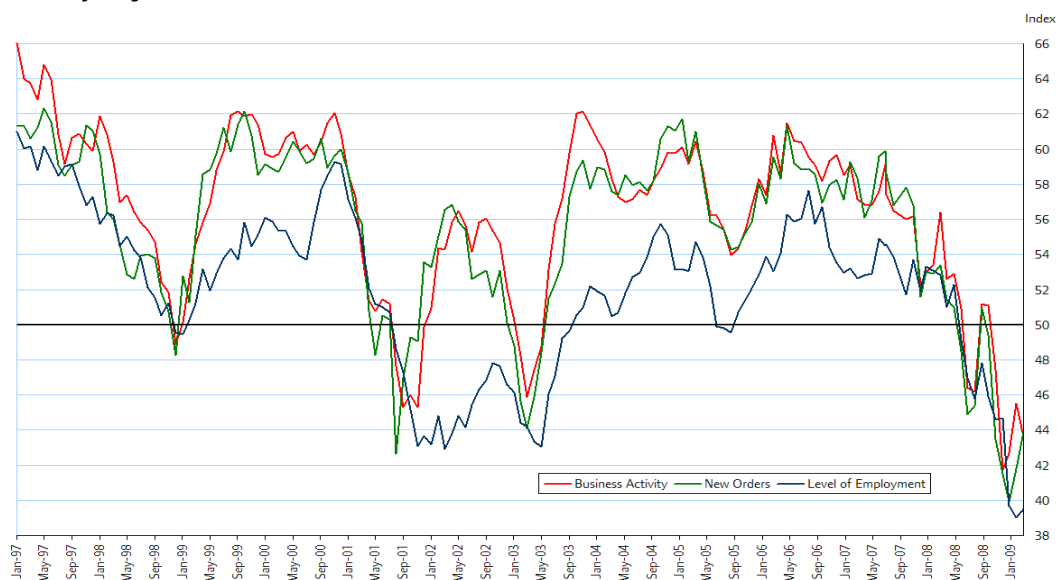


Sources: GfK NOP on behalf of the European Commission

Business survey results indicate that the expansion of London firm's stalled in early summer 2008 and has declined since the second half of 2008 (see Figure 3.8).

**Figure 3.7: Recent survey evidence on London's economic climate**

Purchasing Manager's Index (PMI) survey, last data point February 2009  
 Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: RBS/Markit Economics

**3.2 The UK economy**

UK Gross Domestic Product (GDP) fell by an estimated 1.6 per cent in the fourth quarter of 2008. This followed a fall of -0.7 per cent in the third quarter of 2008. The UK economy is now in its first recession (defined as two consecutive quarters of declining GDP) since the early 1990s (see Box 3.1).

**Table 3.1: HM Treasury and consensus forecasts for the UK economy**

Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Pre-Budget Report November 2008	
	2009	2010	2009	2010
GDP growth (per cent)	-3.1	0.4	-1¼ to -¾	1½ – 2
Claimant unemployment (Q4: mn)	1.93	2.27	-	-
Current account (£bn)	-32.3	-29.0	-45¾	-48½
PSNB (2009-10, 2010-11: £bn)	135.3	138.6	118	105

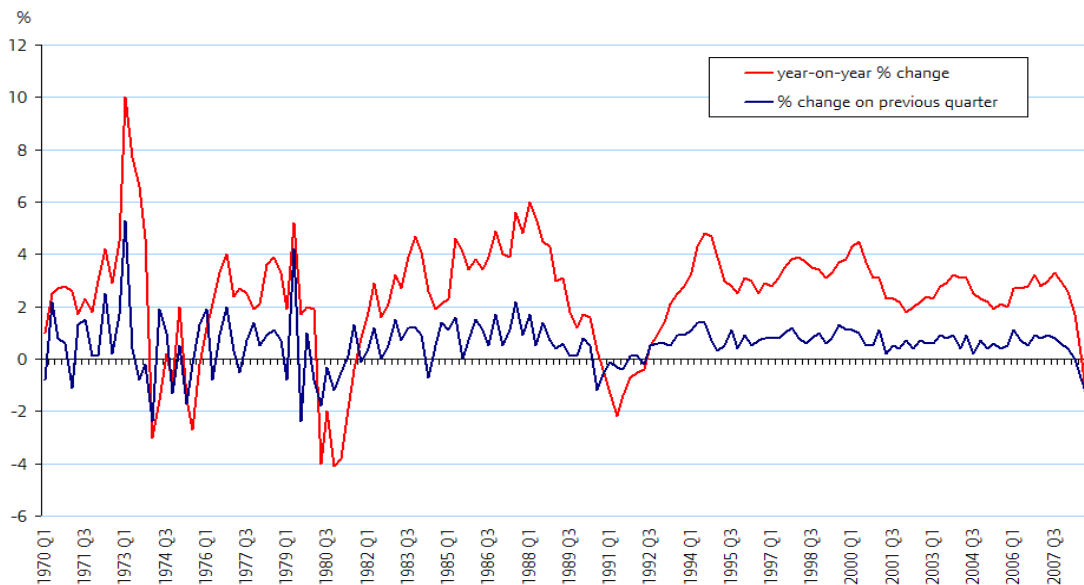
Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, March 2009.

HM Treasury Pre-Budget Report 2008: Facing global challenges: supporting people through difficult times Annex A: The Economy.

**Box 3.1: The current UK recession**

UK economic output declined in both Q3 and Q4 of 2008, by 0.7 and 1.6 per cent respectively, putting the economy into its first recession since the early 1990s (see Figure 3.8). Output declined in virtually every sector in the fourth quarter, with an extremely steep fall in the production industries and construction. The service sector actually performed relatively well with a milder decline. With the IMF predicting that the UK economy will shrink by 2.8 per cent in 2009 and grow by only 0.2 per cent in 2010<sup>vi</sup> it is likely that this recession has a number of quarters left yet to run.

**Figure 3.8: UK GDP Growth**

Source: Office for National Statistics

The economic downturn was precipitated by the sub prime mortgage problems in the US, underlying problems in global banking, property bubbles in a number of countries, high commodity prices and global macroeconomic imbalances. This in turn has led to a massive contraction in bank lending in the UK and elsewhere that has seriously damaged consumer and business access to credit, spending and confidence. The lack of credit has heavily impacted on consumers and on business cash flow and led to substantial problems for a number of firms. The Bank of England's 2009 Q1 Credit Conditions Survey showed that both unsecured and secured lending to households had declined and that default rates have risen<sup>vii</sup>.

So far the recession has been particularly harsh in construction and manufacturing such as in the car industry. General business and consumer confidence has been hit, which has impacted on the level of spending and aggregate demand in the UK economy. Unemployment has been rising with the ILO measure of unemployment hitting 6.5 per cent in the three months to January 2009 in the UK, up from 5.2 per cent a year earlier, whilst in London it stood at 7.5 per cent compared to 6.9 per cent a year earlier.

The Government has responded to the UK downturn by introducing a raft of measures to both

support the banking sector and to provide finance to businesses that have been adversely affected by the decline in bank lending. These have included injecting capital into the banking system, setting up an asset protection scheme that will allow banks to buy government insurance against additional losses, allowing the Bank of England to buy high quality corporate assets to ease the financial constraints of large companies and providing an aid package to the UK car industry<sup>viii</sup>. The Government has also introduced measures to stimulate the economy such as the temporary reduction in VAT to 15 per cent that will run until the end of 2009. The Government brought forward £2.9 billion worth of expenditure for the fiscal years 2008/09 and 2009/10 from 2010/11. The cost of these Government measures is likely to have a substantial impact on the size of Government debt with the Institute for Fiscal Studies (IFS) forecasting that it may take until 2031 before net debt once again falls below 40 per cent of UK national income<sup>ix</sup>. The poor state of the Governments' public finances looks set to act as a burden on the UK economy for the foreseeable future.

The timing of the end of the UK recession is still open to debate with forecasters producing a variety of predictions. Most currently expect some recovery in 2010. The OECD forecast that UK output will decline by 3.7 per cent in 2009 with "a moderate recovery during 2010"<sup>x</sup>. The average of independent forecasters published by HM Treasury<sup>xi</sup> forecast a decline of GDP of 3.1 per cent in 2009 with a range from a high forecast of -1.3 per cent to a 'low' forecast of -4.1 per cent. Meanwhile UK unemployment is set to rise significantly over the next couple of years.

As can be seen in Table 3.2 annual growth in business services and finance was positive in 2008 although it slowed in comparison to 2007. Manufacturing, construction and distribution, hotels and catering all suffered in 2008. The slowdown in these sectors is expected to continue throughout 2009 due to the ongoing credit crunch and global economic downturn.

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

Annual % change

Industrial sectors	2008				2007	2008
	Q1	Q2	Q3	Q4		
Agriculture, forestry, and fishing	-0.9%	0.5%	1.2%	-0.3%	-4.4%	0.1%
Mining & quarrying inc oil & gas extraction	-5.1%	-6.2%	-6.3%	-8.8%	-1.4%	-6.6%
Manufacturing	0.9%	-1.1%	-2.4%	-7.9%	0.2%	-2.6%
Electricity gas and water supply	2.4%	1.9%	-0.6%	-4.4%	1.1%	-0.2%
Construction	3.6%	2.5%	0.8%	-5.6%	2.6%	0.3%
Distribution, hotels and catering	2.4%	1.5%	-1.7%	-4.2%	2.9%	-0.4%
Transport, storage and communication	1.5%	1.8%	2.5%	0.3%	3.2%	1.5%
Business services and finance	4.6%	3.7%	1.4%	-0.1%	5.5%	2.4%
Government and other services	1.4%	1.6%	2.1%	1.0%	1.2%	1.5%

Source: Office for National Statistics (as of end-March 2009)

Table 3.3 shows that household spending weakened during 2008, whilst investment fell heavily. Meanwhile Government expenditure picked up. These trends seem set to continue in 2009.

**Table 3.3: UK domestic expenditure growth**

Annual % change

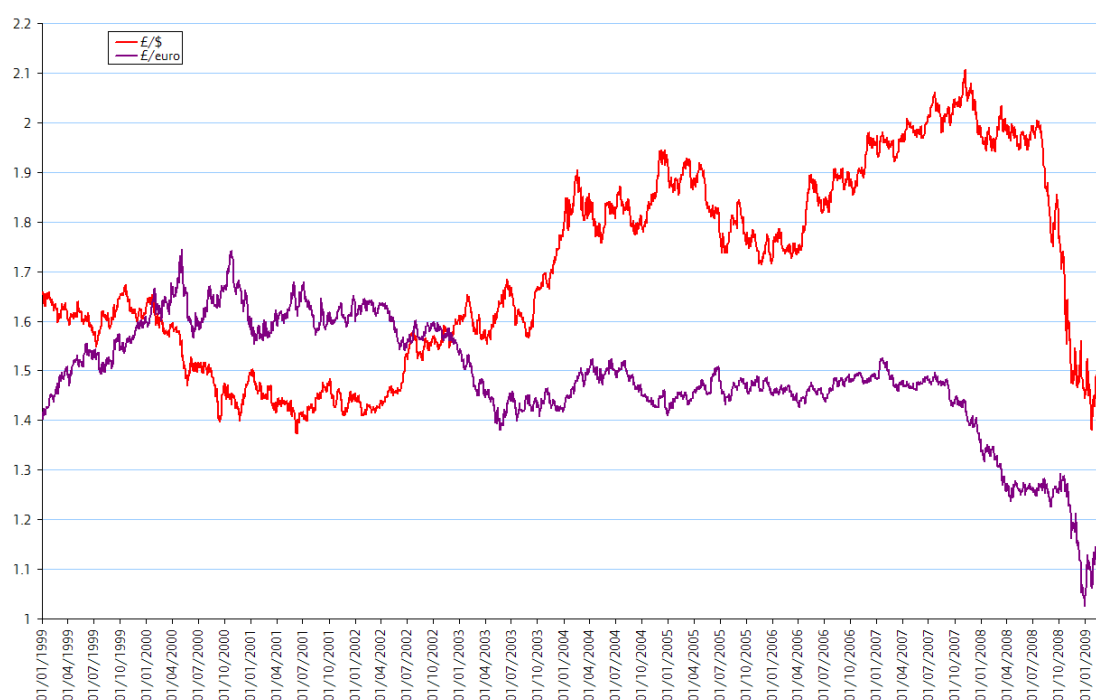
Expenditure	2007		2008			
	Q3	Q4	Q1	Q2	Q3	Q4
Households	3.6%	3.7%	3.6%	2.1%	0.7%	-0.8%
Non-profit institutions	3.8%	4.1%	1.5%	1.2%	0.9%	0.7%
General Government	1.7%	1.5%	2.6%	3.4%	3.3%	4.4%
Gross fixed capital formation	4.6%	4.4%	-0.2%	-0.4%	-3.5%	-8.0%

Source: Office for National Statistics (as of end-March 2009)

Annual consumer price index (CPI) inflation has fallen to 3.2 per cent in February 2009 from a high of 5.2 per cent in September 2008. Downside risks to inflation have risen due to an increase in unutilised national and global production capacity. The main upside risk to UK inflation is the recent large depreciation of sterling since 2007 (see Figure 3.9).

**Figure 3.9: £ to \$ and £ to euro exchange rates**

Last data point is 08/04/09



Source: EcoWin

The weakness of sterling is further illustrated by sterling's effective exchange rate index (EERI)<sup>xii</sup> (see Figure 3.10). There has been a fall of roughly 30 per cent since its recent peak in early 2007. The depreciation of sterling should provide some support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports. For example a weaker pound should encourage more UK tourists to take their holidays at home (including obviously to London) as well as increasing the number of foreign tourists visiting the UK.

**Figure 3.10: Sterling EERI rate**

Last data point is 08/04/09



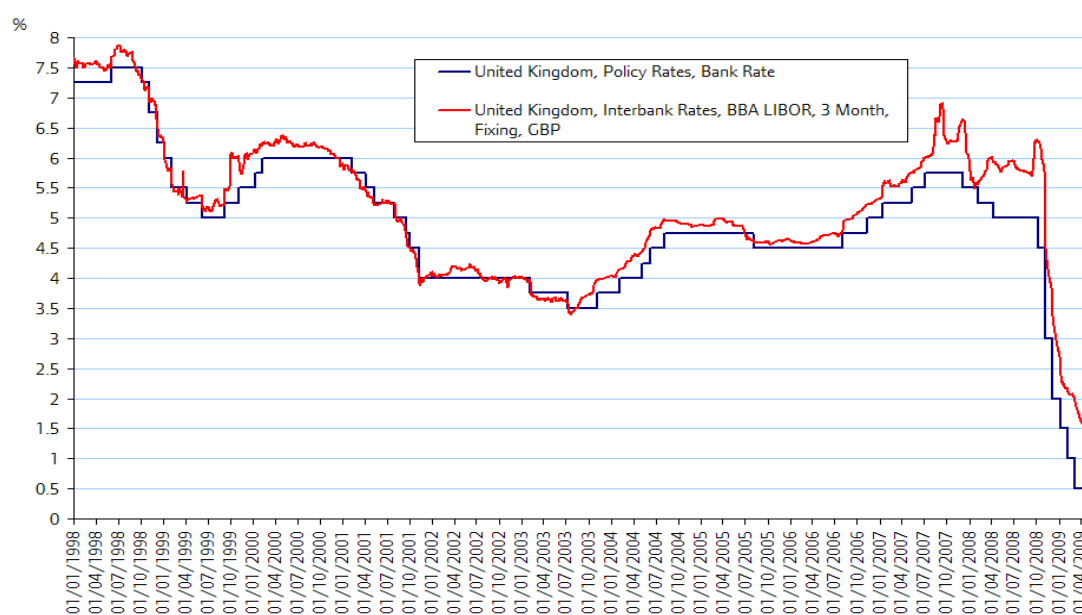
Source: Bank of England

**Box 3.2: The Bank of England has slashed interest rates and started 'quantitative easing'**

Since 5 December 2007 when interest rates stood at 5.75 per cent the Bank of England has cut interest rates nine times until they currently (April 2009) stand at 0.5 per cent, the lowest level ever set in the UK (see Figure 3.11).

**Figure 3.11: Bank of England's Repo rate and the 3 month London Inter-Bank Offered Rate (LIBOR)**

Last data point is 08/04/09



Source: EcoWin

Interest rates have been cut by the Bank of England aggressively due to the rapid slowdown of the UK economy, which has now entered recession (see box 3.1), and are likely to remain low for the rest of 2009 at least. Inflationary concerns during the first half of 2008 have receded with RPI inflation falling to 0 per cent in February 2009. CPI inflation stood at 3.2 per cent in February but is expected to fall sharply over the next few months. The UK interest rate cuts followed a similar pattern to that seen in the US. US interest rates now stand in a range between 0-0.25 per cent. The Eurozone has also seen rates fall, although at a less aggressive speed. The European Central Bank (ECB) cut interest rates again in April to 1.25 per cent, the lowest rate since the creation of the Euro.

UK interest rate cuts have been undertaken in an attempt to boost the economy by reducing the cost of borrowing, encouraging consumption and discouraging saving<sup>xiii</sup>. However, three month LIBOR remains elevated compared to the Bank of England's base rate. The spread indicates a significant degree of risk aversion in the financial markets. There has been a large decline in the amount of lending being undertaken by financial institutions.

With UK interest rates now at, or close to, their lower nominal band much of the Bank of England policy focus is shifting to trying to stimulate the economy through various types of "quantitative easing" – crudely speaking increasing the money supply. The Bank of England has created a £75 billion asset purchase package of mainly government gilts, which will be financed by the creation of central bank reserves. The Bank announced that "in order to meet the committee's objective of total purchases of £75bn, the Bank would also buy medium- and long-maturity conventional gilts in the secondary markets"<sup>xiv</sup>. This is the Bank of England's first foray into quantitative easing, and it is possible that the final programme may involve a sum as large as £150 billion or more. With the exception of the experience of Japan over the period 2001 to 2006, a policy of quantitative easing is relatively untested. Judging the size of intervention required, as well as the point at which the economy is running sufficiently robustly to begin reducing liquidity and not letting the increased money supply just result in high and volatile medium term inflation will be extremely challenging.

### 3.3 The world economy

The IMF projected in March that the world economy would contract by between 0.5 to 1 per cent in 2009, "the first such fall in 60 years"<sup>xv</sup>, with growth forecast of between 1.5 to 2 per cent in 2010. Meanwhile the OECD forecasts a fall in output of 3.4 per cent between the fourth quarter of 2008 and the fourth quarter of 2009 for OECD countries, with growth of just 1.1 per cent between the fourth quarter of 2009 and the fourth quarter of 2010<sup>xvi</sup>.

Developed economies are forecast to weaken markedly with the US economy projected to decline by 2.6 per cent in 2009 and grow by only 0.2 per cent in 2010<sup>xvii</sup> (compared with 1.1 per cent growth in 2008). The Eurozone economy is projected to decline by 3.2 per cent in 2009 and grow by only 0.1 per cent in 2010<sup>xviii</sup> (compared with 0.9 per cent growth in 2008). Growth in emerging market economies and developing economies is expected to slow from 6.3 per cent in 2008 to between 1.5 to 2.5 per cent in 2009 and

between 3.5 to 4.5 per cent in 2010<sup>xix</sup>. The IMF observes that “emerging market countries are also feeling the effects of the advanced economies' financial and economic difficulties, and there is the potential that the abrupt pullback from emerging market assets by investors and heightened financing costs will erase some of the economic gains these countries have made in recent years.”<sup>xx</sup>

The IMF further notes that financial markets remain unstable and that a “pernicious feedback loop between the real and financial sectors is taking its toll”<sup>xxi</sup>, with the fall in asset values diminishing household wealth and leading to downward pressure on consumption. It notes that downside risks dominate with risks from deflation and adverse market reaction to the issuance of government debt also being of concern. The World Trade Organisation has forecast that global trade could fall by nearly 9 per cent in 2009, the biggest such fall since World War 2<sup>xxii</sup>.

The **US** economy shrank in the final two quarters of 2008. Unemployment has risen to 8.5 per cent in March 2009 with December 2008 seeing the biggest single monthly job loss since October 1949<sup>xxiii</sup>. The March 2009 Beige Book from the Federal Reserve reported that “national economic conditions deteriorated further during the reporting period of January through late February”<sup>xxiv</sup>. To bolster the faltering economy the Federal Reserve has cut interest rates to a target range of between 0 and 0.25 per cent and the US government has announced a \$787billion economic stimulus package<sup>xxv</sup>.

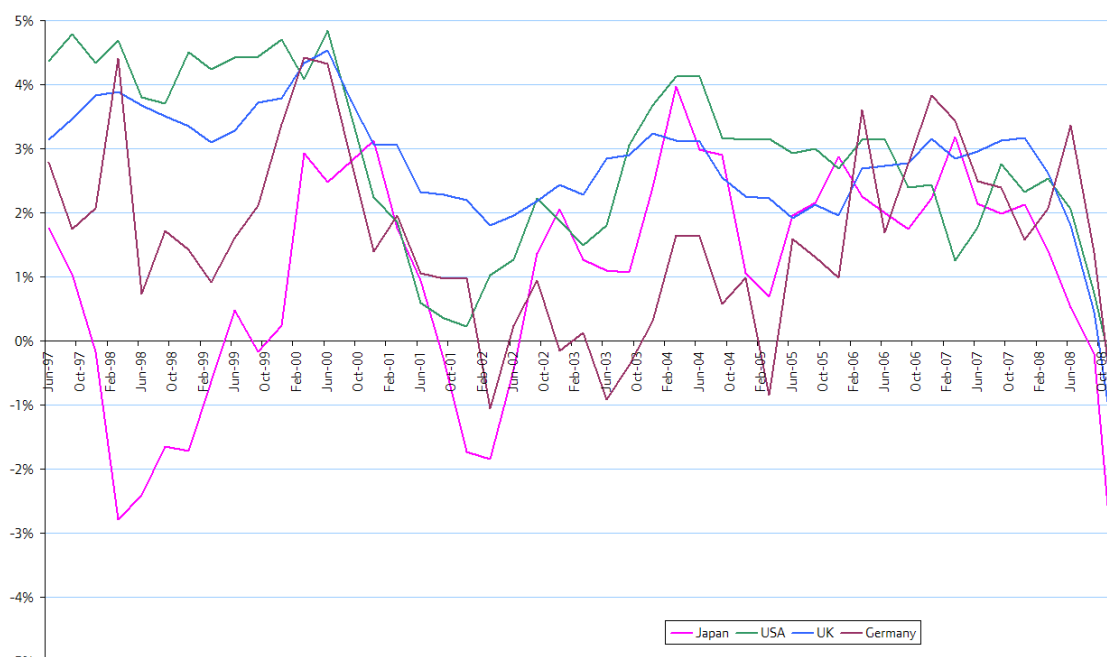
The **Eurozone** economy contracted by 1.5 per cent in the final quarter of 2008<sup>xxvi</sup>, with the European Commission forecasting that the economy will shrink by 1.9 per cent in 2009 and grow by only 0.4 per cent in 2010<sup>xxvii</sup>. German economic output fell by 2.1 per cent in the fourth quarter of 2008 whilst the French economy contracted by 1.2 per cent and the Italian by 1.8 per cent<sup>xxviii</sup>. There are concerns about the state of a number of Eastern European economies and the effect that economic turmoil within them would have on members of the Eurozone<sup>xxix</sup>.

**Japan's** economy shrank 3.2 per cent in the fourth quarter of 2008, whilst exports nearly halved year on year in February<sup>xxx</sup>. The OECD forecasts that Japanese output will fall by 6.6 per cent in 2009 and by 0.5 per cent in 2010<sup>xxxi</sup>.



**Figure 3.14: GDP growth in selected industrialised countries**

Real GDP, annual % change, last data point is Q4 2008.



Source: Ecwin

### 3.4 Emerging market economies

**China's** economic expansion slowed in the second half of 2008 with output increasing by 6.8 per cent in the fourth quarter of 2008 compared with the same period a year earlier. In 2008 the economy grew by 9 per cent compared with 13 per cent in 2007<sup>xxxii</sup>, with the World Bank forecasting growth of 6.5 per cent in 2009<sup>xxxiii</sup>. **India's** economy grew by 7.3 per cent in 2008 compared to 9 per cent in 2007<sup>xxxiv</sup>. The IMF forecasts growth will be 5.1 per cent in 2009<sup>xxxv</sup>. **Russia's** economy slowed in 2008 with Russia's Ministry of Economic Development stating that growth fell to 5.6 per cent compared with 8.1 per cent in 2007<sup>xxxvi</sup>. The IMF forecasts that the Russian economy will contract by 0.7 per cent in 2009<sup>xxxvii</sup>. The Russian economy has been heavily affected by the fall in the price of oil since summer 2008.

### 3.5 Risks to the world economy

Downside risks still dominate the world economic outlook. Since the Autumn 2007 LEO the global credit crunch has been highlighted by GLA Economics as a downside risk and the uncertainty associated with financial institutions 'toxic assets' continues to plague the global financial system. If the collapse in world trade that occurred at the end of 2008 is prolonged then the global economy faces great risks over the next few years. Global inflationary pressures from high fuel and commodity prices have eased somewhat since summer 2008 as world demand has fallen so the risk is now of deflation in the short run. At least action by central banks across the world in loosening monetary policy has generally been rapid and decisive. However, the fiscal position of many

governments in the developed world is extremely weak and global macroeconomic imbalances remain.

### **3.6 Summary**

The London economy continued to perform relatively strongly in the third quarter of 2008 and was certainly outperforming the rest of the UK. Since then economic indicators suggest a sharp slowdown for the London economy but one not as bad as for the UK as a whole. The UK economy entered recession in the second half of 2008 and 2009 will be a tough year. Consumption and especially investment are expected to remain subdued. House prices look set to fall further as unemployment and repossessions rise. Government spending has increased in response to the recession but the likelihood of real cuts in government expenditure being necessary is high once the current downturn has passed<sup>xxxviii</sup>. The world economy weakened dramatically at the end of 2008 and beginning of 2009 as global trade faltered.

One of the main downside risks remains the ongoing global credit crunch and its' effects on financial markets. London's exposure to the financial services sector possesses risks for the London economy should the downturn in this sector prove prolonged which appears possible. Liquidity in the financial markets remains tight with the situation having yet to return to normal. The banking sector has also yet to be completely stabilised. At least the depreciation of sterling since 2007 could provide the UK economy with a boost from import substitution and improve export competitiveness. Over time it should help to rebalance the UK economy. In the meantime it should benefit London's tourism sector. Still, there remains large downside risks for the UK and London economies during 2009 and 2010 with unemployment rising rapidly.

## 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 on the first three of these indicators is summarised, drawing on forecasts from outside (independent) organisations.<sup>xxxix</sup> 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 EBS.

Additionally, both the consensus and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

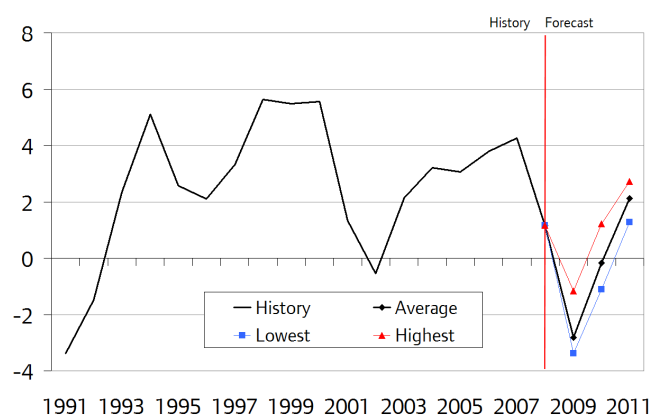
- manufacturing
- construction
- transport and communications
- distribution, hotels and catering
- finance and business services
- other (mainly public) services.

## Output

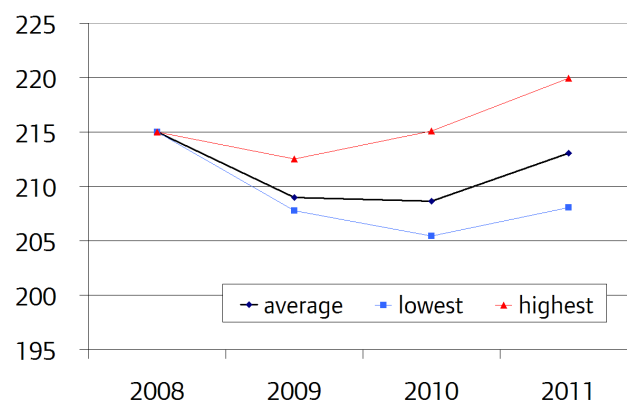
(London GVA, constant prices (2003 base year), £ billion)

The consensus (mean average view) is for real output growth to become negative in 2009 and 2010, before rebounding to 2.1 per cent in 2011.

### Annual growth (per cent)



### Level (constant year 2003, £ billion)



Annual growth (per cent)			
	2009	2010	2011
Average	-2.8	-0.2	2.1
Lowest	-3.4	-1.1	1.3
Highest	-1.2	1.2	2.7

Level (constant year 2003, £ billion)			
	2009	2010	2011
Average	209	209	213
Lowest	208	205	208
Highest	213	215	220

### History: Annual growth (per cent)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-1.5	2.3	5.1	2.6	2.1	3.3	5.6	5.5	5.6	1.3	-0.5	2.1	3.2	3.1	3.8	4.3	1.2

### History: Level (constant year 2003, £ billion)

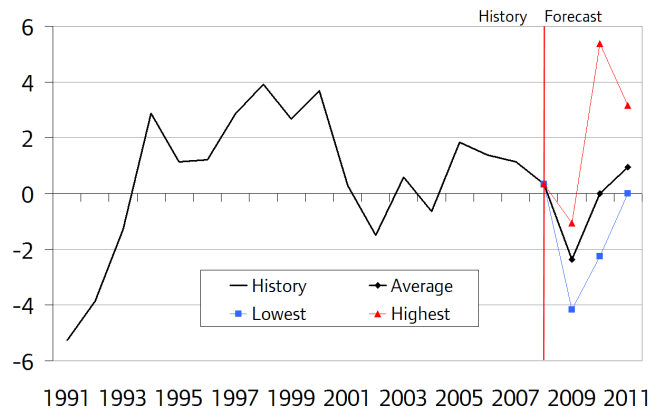
1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
131.0	134.1	140.9	144.5	147.6	152.5	161.1	169.9	179.4	181.7	180.8	184.6	190.6	196.4	203.8	212.5	215.0

## Employment

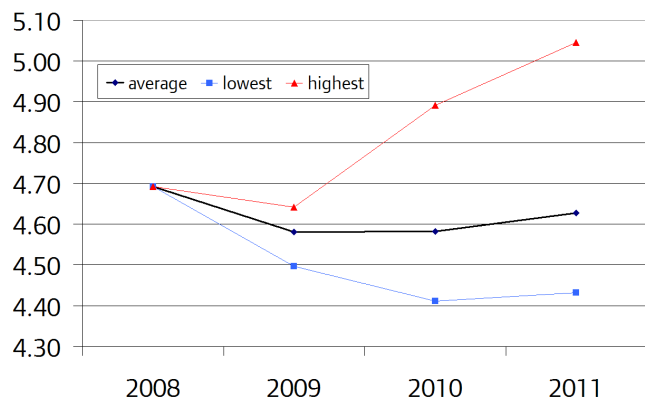
(London workforce jobs)

The consensus view is for the number of workplace jobs to decline by 2.4 per cent in 2009, be stable in 2010 before increasing by 0.9 per cent in 2011.

### Annual growth (per cent)



### Level (millions)



Annual growth (per cent)			
	2009	2010	2011
Average	-2.4	0.0	0.9
Lowest	-4.2	-2.2	0.0
Highest	-1.1	5.4	3.2

Level (millions)			
	2009	2010	2011
Average	4.58	4.58	4.63
Lowest	4.50	4.41	4.43
Highest	4.64	4.89	5.05

### History: Annual growth (per cent)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-3.9	-1.3	2.9	1.1	1.2	2.9	3.9	2.7	3.7	0.3	-1.5	0.6	-0.7	1.8	1.4	1.1	0.3

### History: Level (millions)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
3.83	3.78	3.89	3.94	3.99	4.10	4.26	4.37	4.54	4.55	4.48	4.51	4.48	4.56	4.62	4.68	4.69

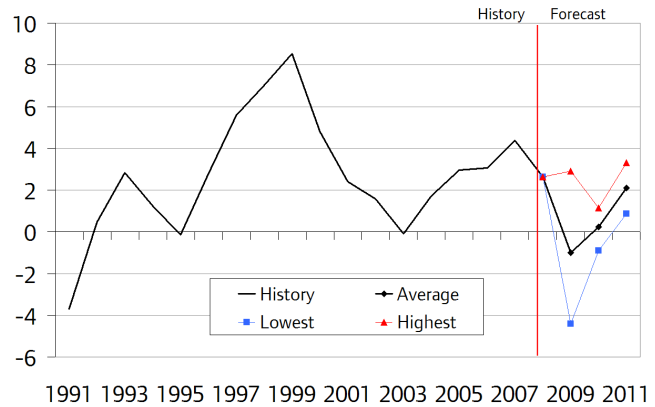
## Household expenditure

(London household spending, constant year 2003, £ billion)

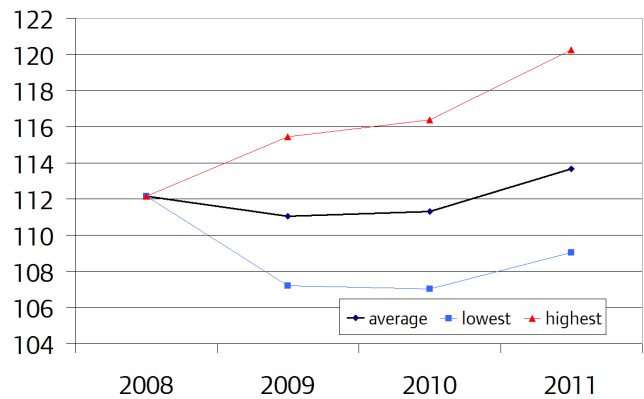
The growth rate in household expenditure in 2008 was lower than in 2007.

The consensus view is for household expenditure growth to become negative at -1.0 per cent in 2009 before picking up in 2010 and 2011 with growth rates of 0.2 per cent and 2.1 per cent respectively.

### Annual growth (per cent)



### Level (constant year 2003 £ billion)



Annual growth (per cent)			
	2009	2010	2011
Average	-1.0	0.2	2.1
Lowest	-4.4	-0.9	0.9
Highest	2.9	1.1	3.3

Level (constant year 2003, £ billion)			
	2009	2010	2011
Average	111	111	114
Lowest	107	107	109
Highest	115	116	120

### History: Annual growth (per cent)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
0.5	2.8	1.2	-0.1	2.8	5.6	7.0	8.5	4.8	2.4	1.6	-0.1	1.7	3.0	3.1	4.4	2.6

### History: Level (constant year 2003, £ billion)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
68.0	69.9	70.8	70.7	72.6	76.7	82.1	89.1	93.4	95.6	97.1	97.0	98.7	101.6	104.7	109.3	112.2

**Output growth by sector** (per cent annual change)

Almost all sectors are expected to have negative growth during 2009 before recovering somewhat in 2010 and 2011. The largest falls in growth in 2009 are expected in the construction and manufacturing sector.



**Employment growth by sector** (per cent annual change)

Forecasted employment growth is negative for all sectors until 2011. The manufacturing sector is expected to fair particularly badly.





## 5. The GLA Economics forecast

### 5.1 Assumptions and methods

This forecast combines the GLA's long-term trend projections for employment and population with medium-term assumptions about the growth of the UK economy. Note that the GLA forecast is based on assumptions up to 2026, though the forecast itself only goes up to 2011. The model is constrained for the year 2026 to London-based employment projections derived from the long-term growth rate of London's workforce.

### 5.2 Projections and forecasts

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 and constitute estimates of jobs and output at comparable points in the cycle. 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, in deciding the timing of investments and 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.

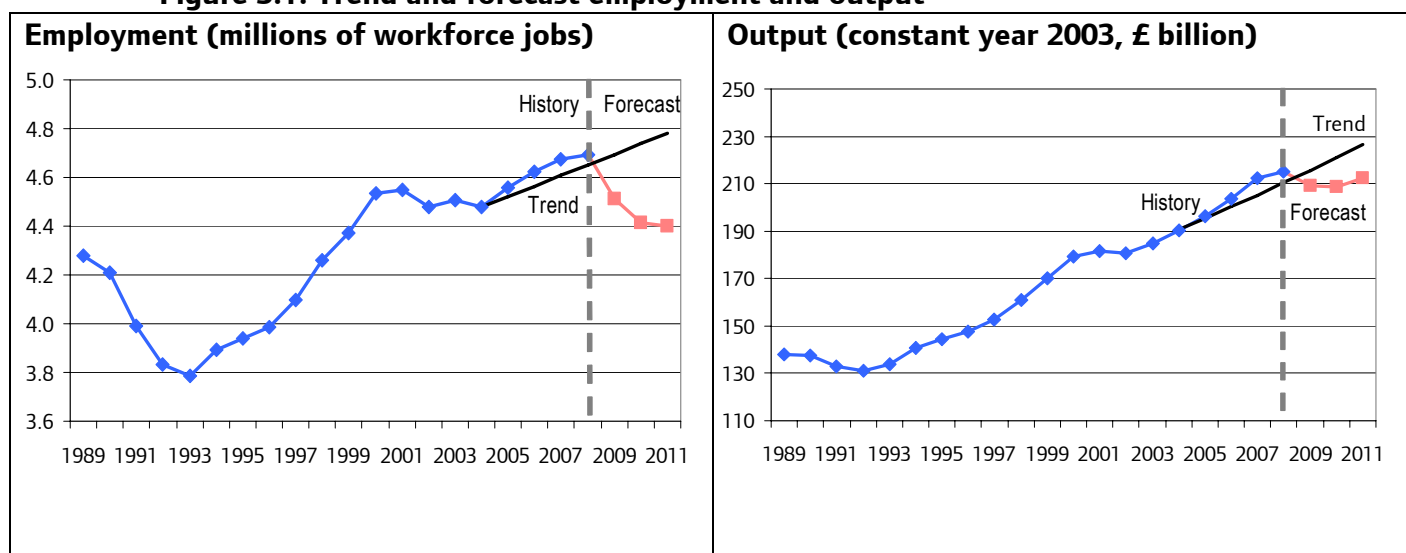
As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. While the forecast is calibrated to the GLA's employment projections for 2026, it provides early warnings of significant deviations from these projections because it accounts for the most recent data. The source for all historic data in the following tables and charts is EBS.

### 5.3 Results

Following below trend growth in 2008 output is expected to fall in 2009 and 2010. Employment is forecast to fall in 2009, 2010 and 2011.

Household spending growth is expected to become negative in 2009 and 2010 before a slight recovery in 2011. Household income is expected to be negative in 2009 before recovering in 2010 and 2011.

**Figure 5.1: Trend and forecast employment and output**



Source: EBS for historic data and GLA Economics' calculations for forecast

**Table 5.1: Forecast and historical growth rates**

Annual % change

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>GVA</b>	2.1	3.2	3.1	3.8	4.3	1.2	-2.7	-0.2	1.7
<b>Workforce jobs</b>	0.6	-0.7	1.8	1.4	1.1	0.3	-3.8	-2.2	-0.4
<b>Household spending</b>	-0.1	1.7	3.0	3.1	4.4	2.6	-2.5	-2.2	0.4
<b>Household income</b>	3.1	1.2	3.6	1.5	1.2	-1.2	-2.1	1.0	2.0

**Table 5.2: Forecast and historical levels**

(constant year 2003, £ billion except jobs)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>GVA</b>	184.6	190.6	196.4	203.8	212.5	215.0	209.2	208.8	212.4
<b>Workforce jobs (millions)</b>	4.51	4.48	4.56	4.62	4.68	4.69	4.51	4.42	4.40
<b>Household spending</b>	97.0	98.7	101.6	104.7	109.3	112.2	109.4	107.0	107.4
<b>Household income</b>	111.9	113.3	117.4	119.2	120.6	119.1	116.6	117.7	120.1

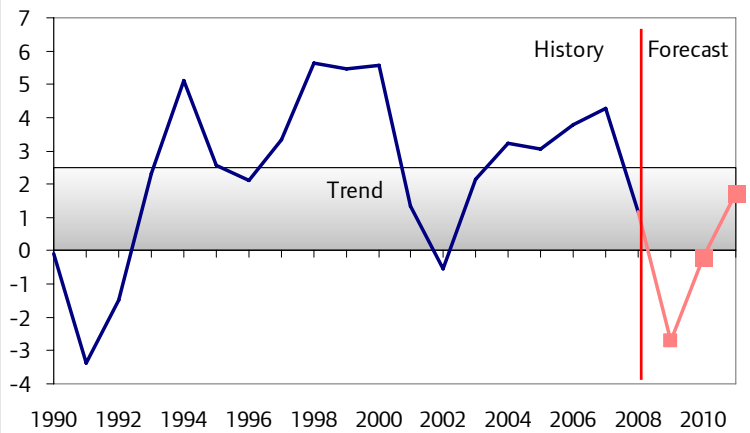
**Output**

(London GVA, constant year 2003, £ billion)

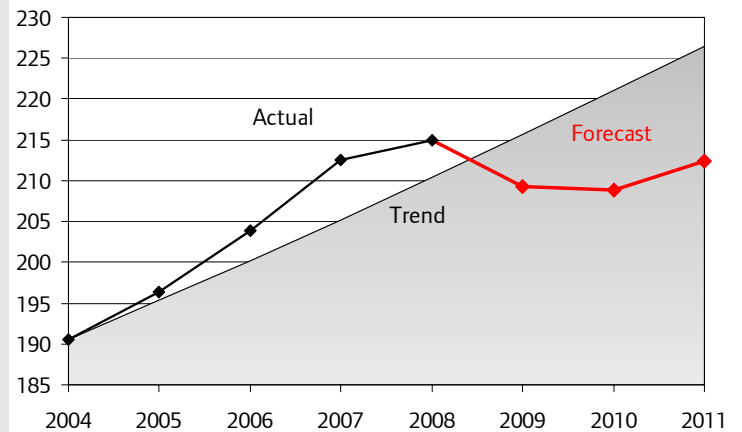
London's real GVA growth is forecast to be negative in 2009 and 2010. Forecast growth rates are -2.7 per cent in 2009, -0.2 per cent in 2010, and 1.7 per cent in 2011.

The GLA Economics' forecast is similar to the consensus average forecast throughout 2009-11.

**Annual growth (per cent)**



**Level (constant year 2003, £ billion)**



Growth (annual per cent)				
	2008	2009	2010	2011
GLA	1.2	-2.7	-0.2	1.7
Consensus		-2.8	-0.2	2.1

Level (constant year 2003, £ billion)				
	2008	2009	2010	2011
GLA	215	209	209	212
Consensus		209	209	213

**History: Annual growth (per cent)**

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-1.5	2.3	5.1	2.6	2.1	3.3	5.6	5.5	5.6	1.3	-0.5	2.1	3.2	3.1	3.8	4.3	1.2

**History: Level (constant year 2003, £ billion)**

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
131.0	134.1	140.9	144.5	147.6	152.5	161.1	169.9	179.4	181.7	180.8	184.6	190.6	196.4	203.8	212.5	215.0

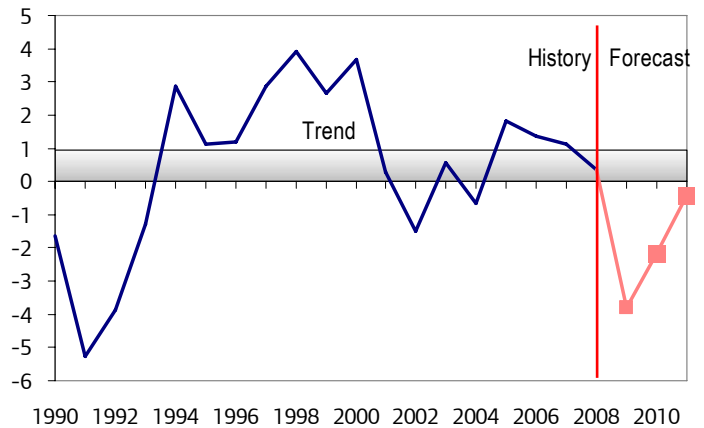
## Employment

(London workforce jobs)

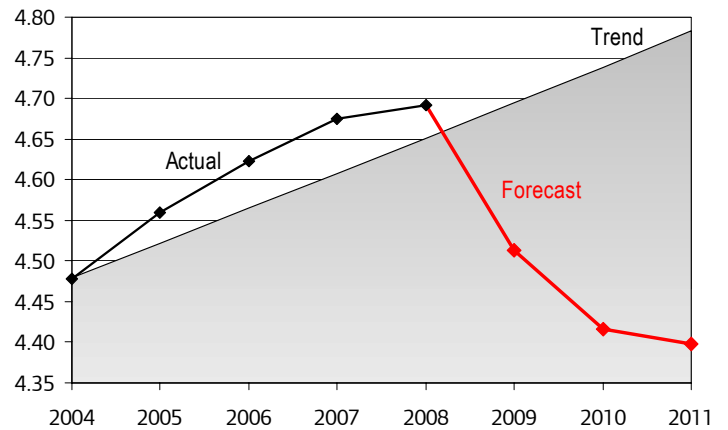
London's employment is forecast to fall in 2009, 2010 and 2011.

GLA Economics' forecast for employment growth is lower than the consensus average in 2009-2011.

**Annual growth (per cent)**



**Level (millions of workforce jobs)**



Growth (annual per cent)				
	2008	2009	2010	2011
GLA	0.3	-3.8	-2.2	-0.4
Consensus		-2.4	0.0	0.9

Level (millions of workforce jobs)				
	2008	2009	2010	2011
GLA	4.69	4.51	4.42	4.40
Consensus		4.58	4.58	4.63

### History: Annual growth (per cent)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-3.9	-1.3	2.9	1.1	1.2	2.9	3.9	2.7	3.7	0.3	-1.5	0.6	-0.7	1.8	1.4	1.1	0.3

### History: Level (millions)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
3.83	3.78	3.89	3.94	3.99	4.10	4.26	4.37	4.54	4.55	4.48	4.51	4.48	4.56	4.62	4.68	4.69

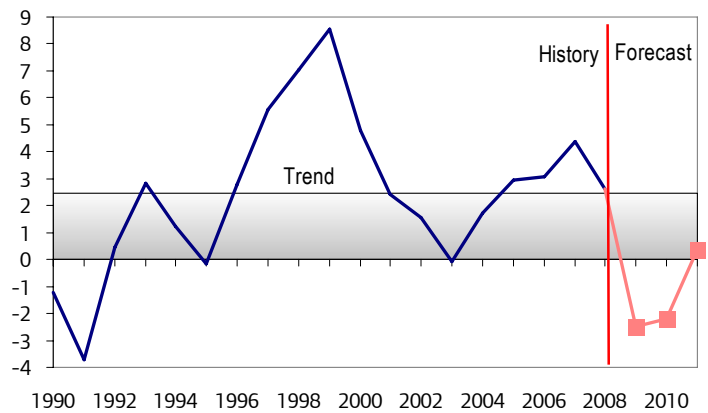
## Household expenditure

(London household spending, constant year 2003, £ billion)

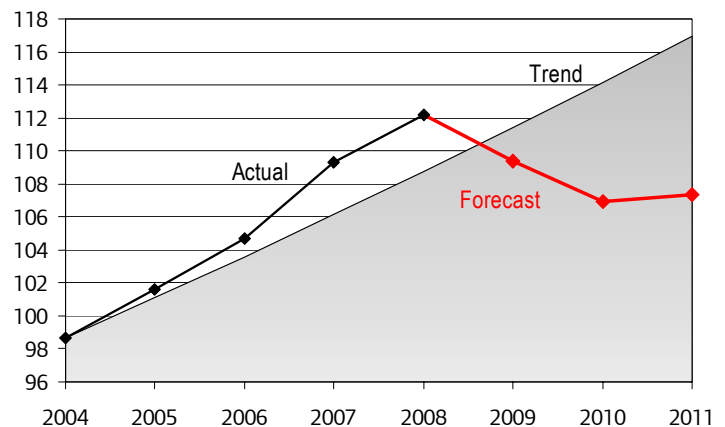
Growth in London's household spending is forecast to be negative in 2009 and 2010, before having a modest recovery in 2011.

This places GLA Economics' household spending growth forecast below the consensus average.

### Annual growth (per cent)



### Level (constant year 2003, £ billion)



Growth (annual per cent)				
	2008	2009	2010	2011
GLA	2.6	-2.5	-2.2	0.4
Consensus		-1.0	0.2	2.1

Level (constant year 2003, £ billion)				
	2008	2009	2010	2011
GLA	112	109	107	107
Consensus		111	111	114

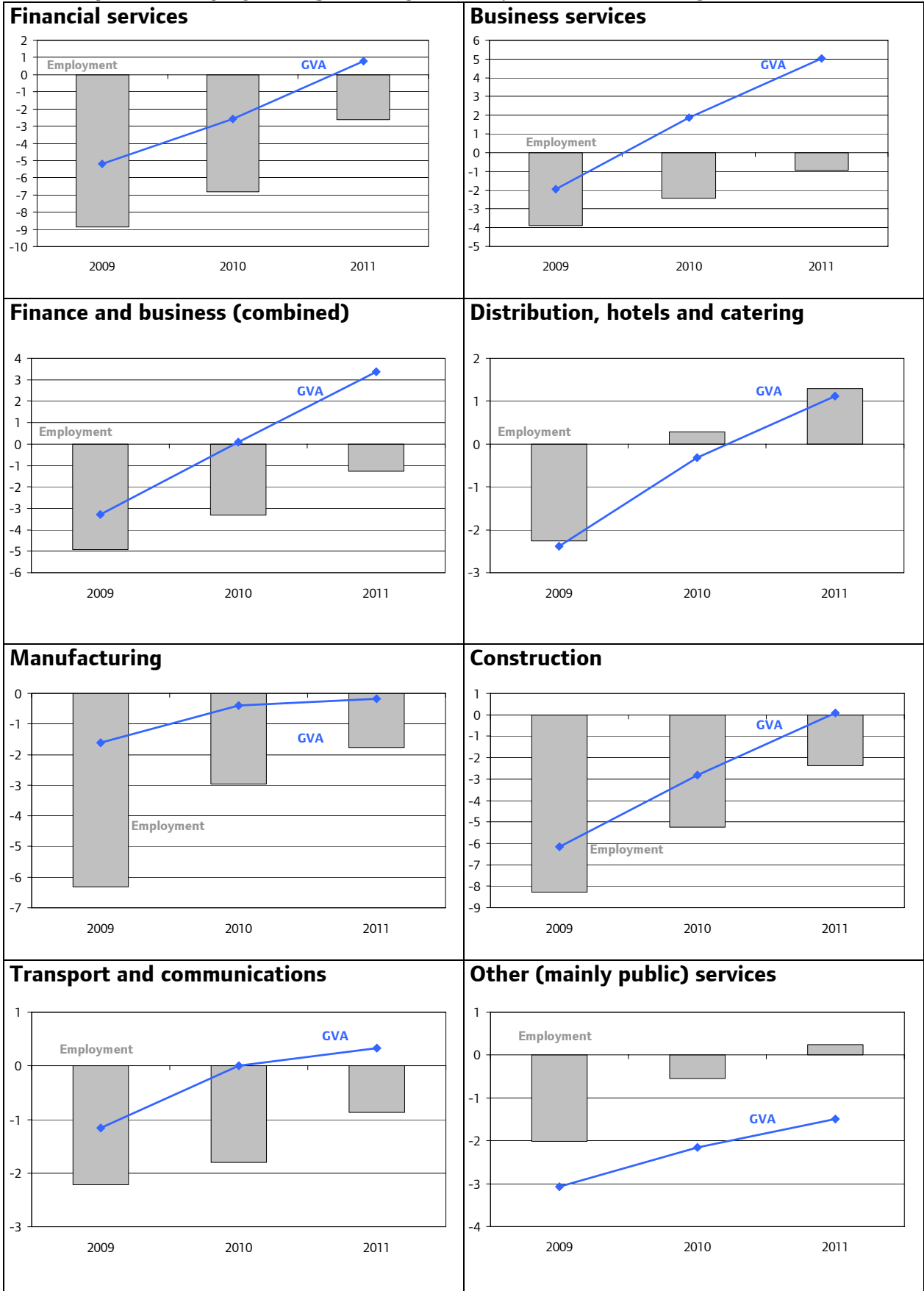
### History: Annual growth (per cent)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
0.5	2.8	1.2	-0.1	2.8	5.6	7.0	8.5	4.8	2.4	1.6	-0.1	1.7	3.0	3.1	4.4	2.6

### History: Level (constant year 2003, £ billion)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
68.0	69.9	70.8	70.7	72.6	76.7	82.1	89.1	93.4	95.6	97.1	97.0	98.7	101.6	104.7	109.3	112.2

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



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

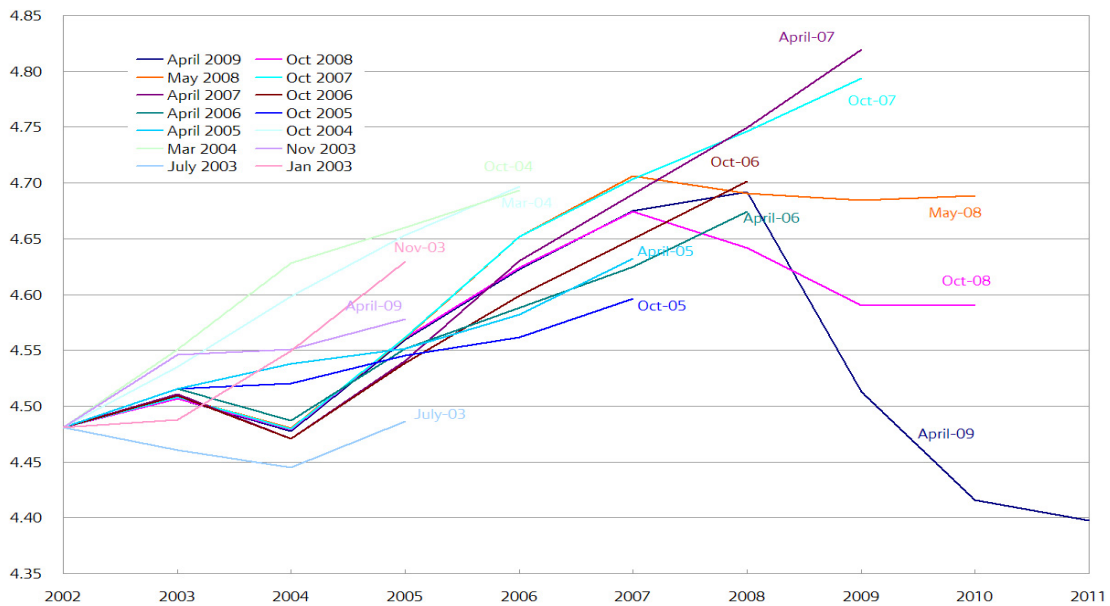
	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Financial services</b>			
Output	-5.2	-2.6	0.8
Employment	-8.9	-6.8	-2.6
<b>Business services</b>			
Output	-2.0	1.9	5.0
Employment	-3.9	-2.4	-0.9
<b>Financial and business services combined</b>			
Output	-3.3	0.1	3.4
Employment	-4.9	-3.3	-1.3
<b>Distribution, hotels and catering</b>			
Output	-2.4	-0.3	1.1
Employment	-2.3	0.3	1.3
<b>Transport and communications</b>			
Output	-1.2	0.0	0.3
Employment	-2.2	-1.8	-0.9
<b>Other (mainly public) services</b>			
Output	-3.1	-2.2	-1.5
Employment	-2.0	-0.6	0.2
<b>Manufacturing</b>			
Output	-1.6	-0.4	-0.2
Employment	-6.3	-2.9	-1.8
<b>Construction</b>			
Output	-6.2	-2.8	0.1
Employment	-8.3	-5.2	-2.4
<b><i>(Memo: non-manufacturing)</i></b>			
Output	-2.8	-0.2	1.8
Employment	-3.7	-2.1	-0.3

### 5.4 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 far lower than in previous forecasts.

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



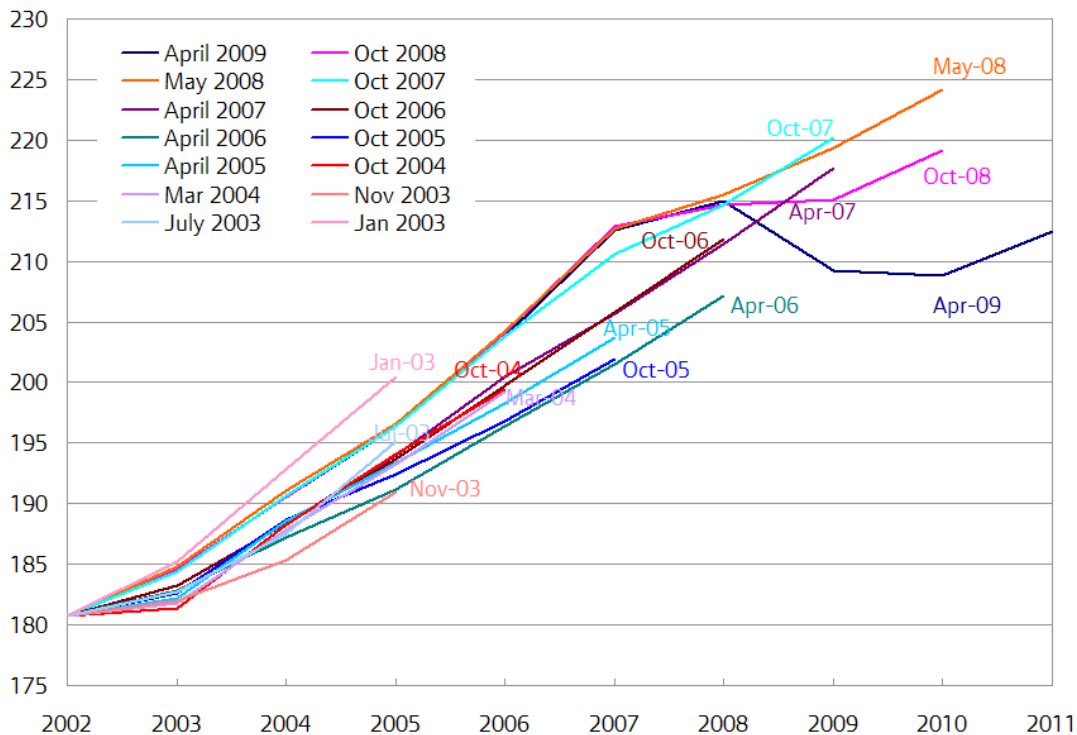
Source: Various London's Economic Outlooks

**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
April 2008	0.6%	-0.7%	1.8%	1.4%	1.1%	0.3%	-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 2003, £ 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
<b>April 2008</b>	2.1%	3.2%	3.1%	3.8%	4.3%	1.2%	-2.7%	-0.2%	1.7%
<b>Oct 2008</b>						0.8%	0.2%	1.9%	
<b>May 2008</b>						1.3%	1.8%	2.2%	
<b>Oct 2007</b>					3.3%	2.0%	2.6%		
<b>April 2007</b>					2.6%	2.8%	3.0%		
<b>Oct 2006</b>				3.1%	3.0%	3.0%			
<b>April 2006</b>				2.7%	2.6%	2.8%			
<b>Oct 2005</b>			2.0%	2.3%	2.6%				
<b>April 2005</b>			2.6%	2.5%	2.7%				
<b>Oct 2004</b>		3.8%	3.1%	2.7%					
<b>Mar 2004</b>		3.3%	2.9%	3.0%					
<b>Nov 2003</b>	0.7%	1.9%	3.0%						
<b>July 2003</b>	1.1%	2.6%	4.1%						
<b>Jan 2003</b>	2.4%	4.1%	4.0%						

## Appendix A: Explanation of terms and some sources

### Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report, as far as is compatible with the individual definitions applied by the forecasters, 'employment' refers to 'workforce employment' as defined in, *Labour Market Trends. London's Economic Outlook: December 2003* and The GLA's *Workforce Employment Series* provides a more detailed explanation of this term.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). Some forecasters still estimate GDP, which can differ 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 2007 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 2004<sup>xl</sup>. 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 EBS.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases the expenditure of non-profit organisations is included and in other cases it is not.

## Appendix B: Glossary of acronyms

<b>ABI</b>	Annual Business Inquiry
<b>bn</b>	Billion
<b>BRC</b>	British Retail Consortium
<b>CE</b>	Cambridge Econometrics
<b>CEBR</b>	The Centre for Economic and Business Research
<b>CIPS</b>	The Chartered Institute of Purchasing and Supply
<b>CPI</b>	Consumer Price Index
<b>DCLG</b>	Department for Communities and Local Government
<b>EBS</b>	Experian Business Strategies
<b>ECB</b>	European Central Bank
<b>EERI</b>	Effective Exchange Rate Index
<b>EU</b>	European Union
<b>FSA</b>	Financial Services Authority
<b>FT</b>	Financial Times
<b>GDP</b>	Gross Domestic Product
<b>GLA</b>	Greater London Authority
<b>GVA</b>	Gross Value Added
<b>HM Treasury</b>	Her Majesty's Treasury
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>LEO</b>	London's Economic Outlook
<b>LFS</b>	Labour Force Survey
<b>LHS</b>	Left Hand Scale
<b>mn</b>	Million
<b>MPC</b>	Monetary Policy Committee
<b>OE</b>	Oxford Economics
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONS</b>	Office for National Statistics
<b>OPEC</b>	Organisation of Petroleum Exporting Countries
<b>PMI</b>	Purchasing Managers' Index
<b>Q2</b>	Second Quarter
<b>RHS</b>	Right Hand Scale
<b>RPIX</b>	Retail Price Index (excluding mortgage interest payments)
<b>RPI</b>	Retail Price Index
<b>TfL</b>	Transport for London

## Appendix C: Bibliography

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## Footnotes

- <sup>i</sup> The forecast is based on an in-house model built by Volterra Consulting Limited.
- <sup>ii</sup> RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, February 2009 of the RPI UK inflation rate are reported.
- <sup>iii</sup> CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, February 2009 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 two per cent.
- <sup>iv</sup> BBC, 'Mortgage arrears up 31% in 2008', 17 March 2009.
- <sup>v</sup> Knight Frank, Central London Quarterly, Quarter 4 2008.
- <sup>vi</sup> The IMF, 'World Economic Outlook Update: Global Economic Slump Challenges Policies', 28 January 2009.
- <sup>vii</sup> Bank of England, 'Credit Conditions Survey 2009 Q1', April 2009.
- <sup>viii</sup> BBC, 'Car firms get £2.3bn loan package', 27 January 2009.
- <sup>ix</sup> The Institute for Fiscal Studies, 'The IFS Green Budget 2009', January 2009.
- <sup>x</sup> OECD, 'Economic Outlook: Interim Report', March 2009.
- <sup>xi</sup> HM Treasury, 'Forecasts for the economy: A summary of independent forecasts', March 2009.
- <sup>xii</sup> 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.
- <sup>xiii</sup> [http://www.ifs.org.uk/budgets/gb2009/1gb09\\_outlook.pdf](http://www.ifs.org.uk/budgets/gb2009/1gb09_outlook.pdf)
- <sup>xiv</sup> <http://www.bankofengland.co.uk/publications/news/2009/019.htm>
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- <sup>xvi</sup> OECD, 'Economic Outlook: Interim Report', March 2009.
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- <sup>xx</sup> The IMF, 'Global Financial Stability Report: GFSR Market Update', January 2009.
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- <sup>xxii</sup> [http://www.wto.org/english/news\\_e/pres09\\_e/pr554\\_e.htm](http://www.wto.org/english/news_e/pres09_e/pr554_e.htm)
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- <sup>xxiv</sup> The Federal Reserve Board, 'The Beige Book', 4 March 2009.
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- <sup>xxxiii</sup> The Financial Times, 'World Bank cuts China growth forecast', 18 March 2009.
- <sup>xxxiv</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>
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- <sup>xxxvii</sup> The IMF, 'World Economic Outlook Update: Global Economic Slump Challenges Policies', January 2009.
- <sup>xxxviii</sup> The Institute of Fiscal Studies, 'The IFS Green Budget', January 2009.
- <sup>xxxix</sup> Most forecasters do not yet provide forecasts of household income.
- <sup>xl</sup> Fenwick D and Wingfield D, 2005, Relative Regional Consumer Price Levels in 2004, Economic Trends No. 615, ONS, February 2005.

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## Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

## Bengali

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## Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

## Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

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