GLAECONOMICS

London’s Economy Today

Issue 167 | July 2016

In this issue

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The LET presence on Datastore aims to create more interaction and a greater personal focus for London’s Economy Today while also allowing for the incorporation of feedback and views from the readership. http://data.london.gov.uk/gla-economics/let/

Markets stabilise following the UK’s vote to leave the European Union

by **Brian Smith**, Economist, and **Emma Christie**, Economist

The UK electorate’s decision to leave the European Union following the referendum on 23 June was the trigger for a period of political upheaval that has subsequently seen the resignation of Prime Minister David Cameron, and the selection of Theresa May to form the new Government with Philip Hammond taking over as Chancellor of the Exchequer. This earlier than expected transition to a new leadership has reduced some of the uncertainty that existed in the days immediately following the result of the EU vote. However, there remains uncertainty as to what the exact future relationship between the UK and the EU will look like and the timetable for negotiating that relationship.

The initial reaction of the markets following the referendum result was negative; the FTSE 100 share index fell over 350 points (or 5.6 per cent) between the close of trade on 23 June and the close on Monday 27 June. However movements in the FTSE 250, the largest companies listed outside of those within the FTSE 100, are arguably more important to monitor since they are smaller, more domestically

Latest news...

London labour market projections

This report sets out the latest GLA Economics employment projections.

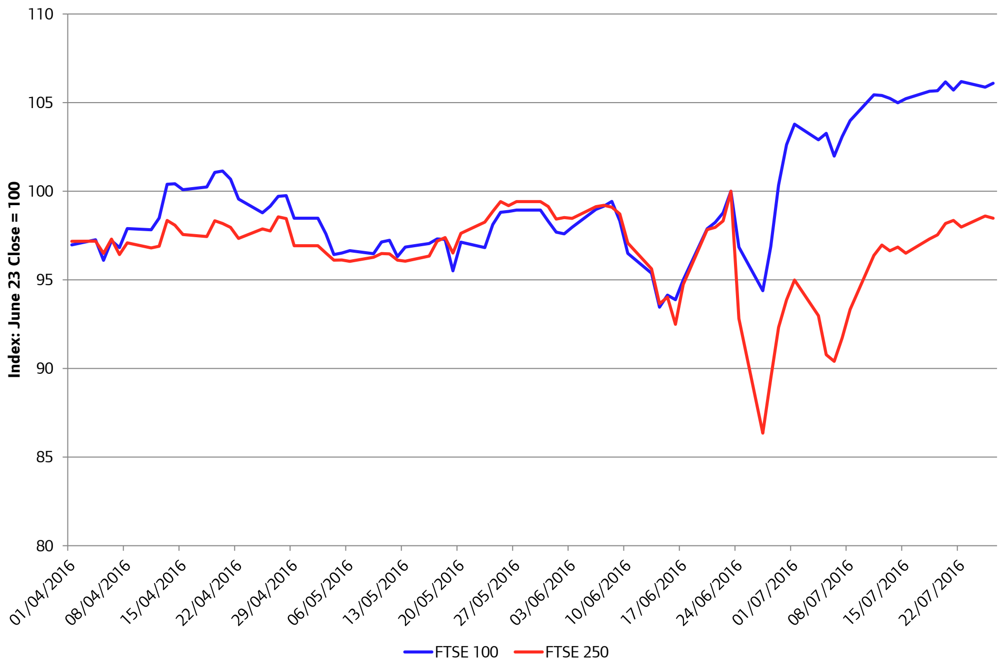
Jobs in London are projected to grow by more than 1.2 million by 2041. The fastest growing sectors are in business services, education and health. Business services tend to locate in central London areas and benefit from agglomeration economies. Borough-level projections reflect the expectation that there will be continued pressure on employment space in these areas.

Download the report.

focused and potentially more exposed to impacts of a downturn in the economy compared to those within the FTSE 100. The falls in the FTSE 250 were greater, falling by 13.6 per cent between 23 and 27 June. The FTSE 250 has recovered much of the ground lost following the referendum result, but is yet to pass beyond the 23 June close value. As of 26 July, it is only 1.5 per cent below that value, whereas the FTSE 100 is more than 6 per cent above the referendum day close (see Figure 1).

Figure 1: Movement in FTSE 100 and 250 indices, 1 April 2016 – 26 July 2016

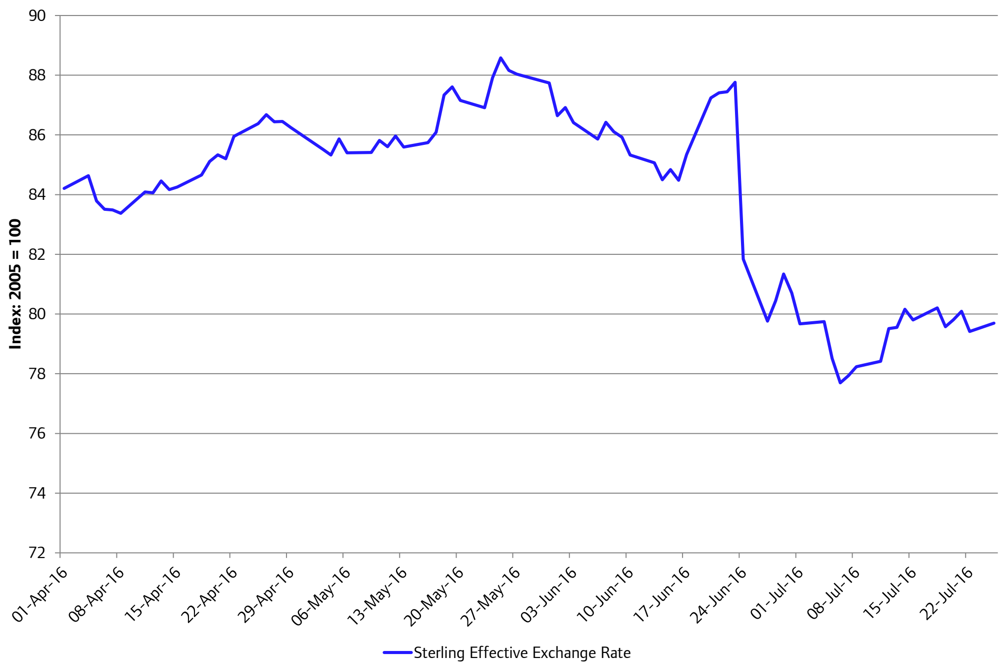
Source: Macrobond; GLA Economics calculations



However a rebound in currency markets has not been seen to the same extent, despite there being some evidence of stabilisation during July, possibly in part due to reduced political uncertainty. Sterling fell sharply against both the Dollar and the Euro following the announcement of the result, with the Sterling Effective Exchange Rate falling by 9.1 per cent by the close of 27 June. The effective exchange rate continued to fall in the early part of July, although rebounded slightly in the second half of the month, stabilising at near the levels immediately following the referendum result (see Figure 2).

Figure 2: Sterling effective exchange rate: 1 April 2016 – 25 July 2016

Source: Bank of England



The impact of the depreciation of Sterling will be manifold; on the one hand, a depreciation should enable exporters to become more competitive and may positively impact on international tourism (and international investment) to the UK; however, there could be negative impacts through imports of products becoming more expensive, which over time, could feed through into rising prices for consumers and businesses. It is too early to forecast the exact impact from such changes.

The Monetary Policy Committee votes to hold interest rates at 0.5 per cent

During a speech given on 30 June, the Governor of the Bank of England, Mark Carney, stated, in reference to the risks relating to the referendum, "the MPC has already described how a vote to leave the EU could materially alter the outlook for growth and inflation"…continuing…" As a result of increased uncertainty and tighter financial conditions, UK households could defer consumption and firms delay investment, lowering labour demand and causing unemployment to rise. Through financial market and confidence channels, there are also risks of adverse spillovers to the global economy". In this context, the Governor summarised that "the economic outlook has deteriorated and some monetary policy easing will likely be required over the summer".

These comments created speculation that the MPC may choose to reduce the Bank Rate, which has been held at a historic low of 0.5 per cent since March 2009, as early as the MPC meeting ending on 13 July. In the event, the MPC voted 8-1 in favour of maintaining interest rates at 0.5 per cent, with only one member voting for a 25 basis point reduction. In the minutes of the meeting, it was stated that "Committee members made initial assessments of the impact of the vote to leave the European Union on demand, supply and the exchange rate. In the absence of a further worsening in the trade-off between supporting growth and returning inflation to target on a sustainable basis, most members of the Committee expect monetary policy to be loosened in August". However the minutes continue that "the precise size and nature of any stimulatory measures will be determined during the August forecast and Inflation Report round".

Later in the month on 20 July, the summary of business conditions from the Bank of England's Agents were published and included a summary of intelligence gathered after the referendum. The summary found that "as yet, there was no clear evidence of a sharp general slowing in activity" and that "many contacts planned to undertake strategic reviews of their operations in the coming months in light of the vote", continuing that "few had contingency plans so for the time being were in a mode of seeking to maintain 'business as usual'".

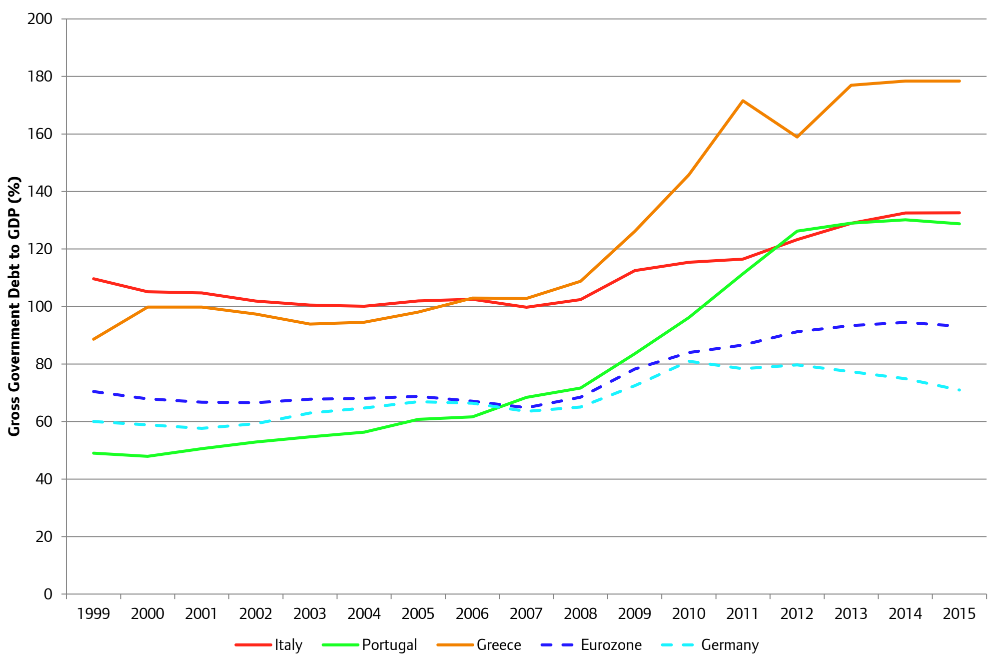
Forecasts for UK and Eurozone growth in 2017 downgraded

For the near term, there are currently limited official and survey data to indicate the potential path of the UK economy. However, forecasts have started to be published by international and UK organisations for the UK economy. On 19 July, the IMF provided an update to its World Economic Outlook, which saw downgrades to forecasts, especially for 2017. For the UK, the forecast for 2016 was downwardly revised from 1.9 per cent to 1.7 per cent, and more dramatically, from 2.2 per cent to 1.3 per cent for 2017. The Eurozone had its forecast for 2016 upwardly revised by 0.1 percentage points to 1.6 per cent, but downwardly revised by 0.2 percentage points in 2017 to 1.4 per cent. The country most impacted in the Eurozone was Germany, where the growth forecast for 2017 was downwardly revised by 0.4 percentage points to 1.2 per cent.

Within the Eurozone much attention is currently focussed on the weakness of the Italian economy, where the unemployment rate stood at 11.6 per cent in the first quarter of 2016, and debt to GDP ratios only exceeded by Greece (Figure 3). That, alongside the weakness of Italy's financial and banking institutions, led the IMF to state on 12 July, that "on current projections, the economy is not expected to return to its pre-crisis (2007) output peak until the mid-2020s, implying nearly two lost decades". Returning to the IMF's World Economic Outlook update, this found that outside of the UK's vote to leave the European Union, "other risks have become more salient", highlighting that, "the Brexit shock occurs amid unresolved legacy issues in the European banking system, in particular in Italian and Portuguese banks".

Figure 3: Gross government debt as a proportion of GDP

Source: World Economic Outlook Database, IMF. Note: 2015 data for Greece and Portugal are estimates



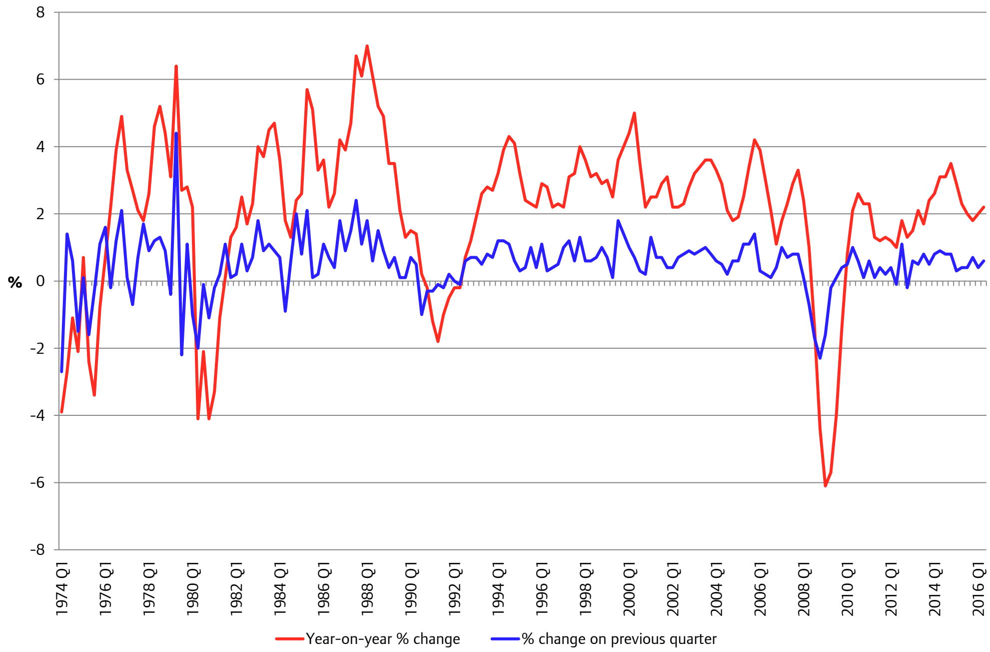
The outlook for London's economy is uncertain in the near term

Much attention this month has focused on the potential impacts of the UK's decision to leave the European Union, however it is too early to tell what the exact short, medium and longer term impact for both the London and UK economies will be.

The preliminary estimate of GDP growth in Q2 2016, published by the Office for National Statistics on 27 July showed that the UK economy grew by 0.6 per cent in that quarter, following a 0.4 per cent increase in the first quarter of the year. Compared to a year ago, GDP growth increased to 2.2 per cent (see Figure 4). Growth in services however slowed slightly from 0.6 per cent in Q1 2016, to 0.5 per cent in Q2 2016. Slower growth in services however was offset somewhat by higher growth in the production industries, which increased by 2.1 per cent (and in particular – manufacturing, which grew by 1.8 per cent compared to the previous quarter). However it is important to state that the preliminary estimate is based upon less than half of the data required to develop the final estimate, therefore may be subject to revisions in the upcoming months.

Figure 4: UK GDP growth
Last data point Q2 2016

Source: ONS



More timely data provide some early indications as to the potential future path of the economy, particularly attitudes of both consumers and businesses. Research commissioned by GfK looking at consumer confidence post the referendum result found that the headline index for the UK as a whole dropped by 8 points to -9, the sharpest fall in the index since December 1994. No data for London are available from this one-off post-referendum survey, however it should be noted that consumer confidence in London has been positive for 26 consecutive months going back to May 2014.

A fall in business activity has also been seen in the Purchasing Manager's Index survey results, where the headline activity index recorded 48.4 – a figure under 50 indicates a reduction in activity, a figure above 50 represents an increase. This was the first month since October 2012 that saw the index score fall below 50, and was the lowest score since April 2009. Again, this is not solely a measure of activity following the result of the referendum since this was a measure for the month of June as a whole.

Indications of uncertainty in property investments have also been seen following the referendum, with evidence that fund managers are moving to prevent investors from leaving UK property funds. As regards residential property, data from the Royal Institution of Chartered Surveyors find continued negative expectations for both house prices and sales in London over the next three months.

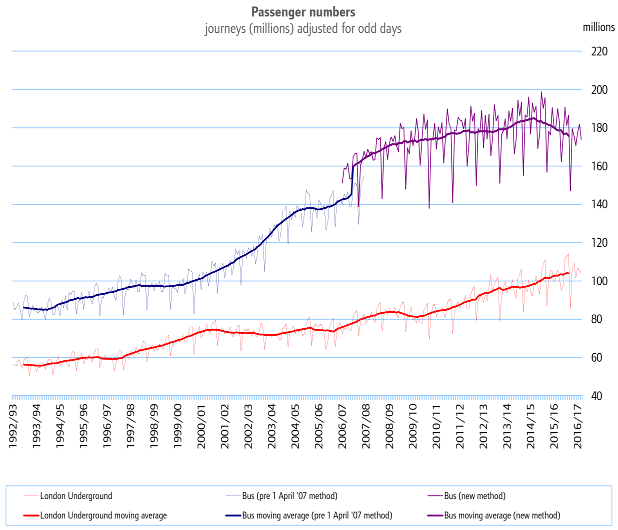
In summary, while the balance of commentary following the referendum indicates that we might reasonably expect a slowdown in activity in the short term, it is far too early to conclude what exact path the London and the UK economy will take in the medium to longer term. Much is dependent on the decisions made by Government, bodies such as the Bank of England, and by businesses and consumers. Longer term however, the results of negotiations taken during the process of leaving the European Union and subsequently with other countries outside will likely dictate the future path of the economy.

Economic indicators

Decrease in average number of passenger journeys

- The most recent 28-day period covered 29 May 2016 – 25 June 2016. Adjusted for odd days, London's Underground and buses had 278.2 million passenger journeys; 174.0 million by bus and 104.2 million by Underground.
- The 12-month moving average of passengers fell to 279.7 million, from 281.1 million in the previous period. The moving average for buses was 175.8 million. The moving average for the Underground was 104.0 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: July 2016
Next release: August 2016

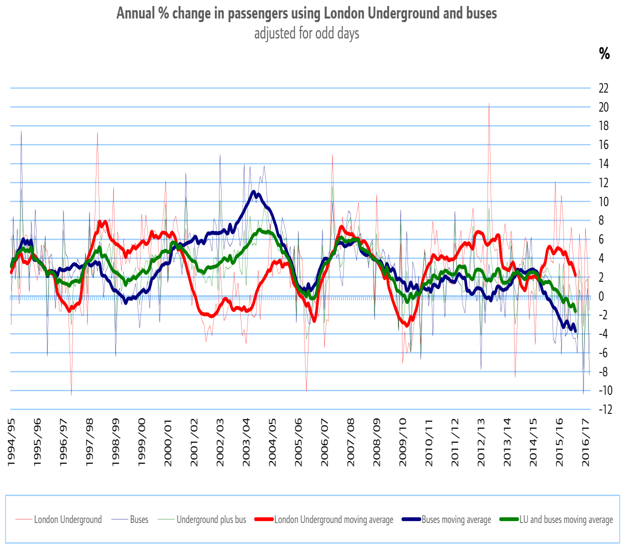


Source: Transport for London

Average annual growth of passengers remains negative

- The moving average annual rate of growth in passenger journeys decreased to -1.6 per cent from -0.9 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -3.7 per cent from -3.0 per cent in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 2.2 per cent from 2.9 per cent in the previous period.

Latest release: July 2016
Next release: August 2016

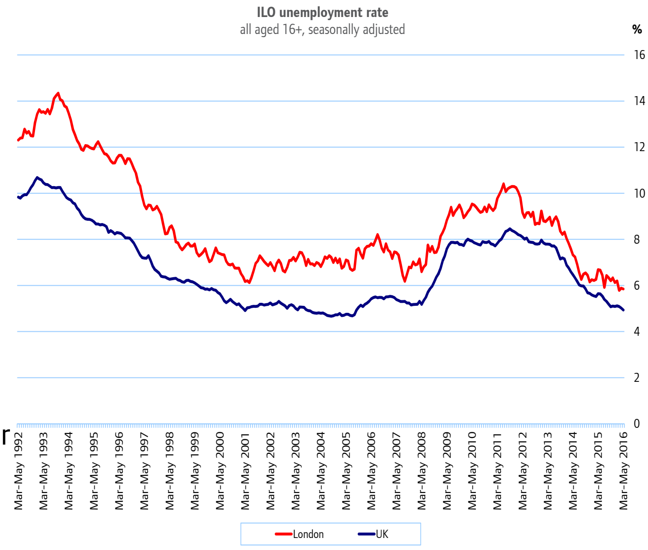


Source: Transport for London

ILO unemployment decreases in London

- The ILO unemployment rate in London decreased to 5.8 per cent in the quarter to May 2016, compared to 6.2 per cent in the quarter to February. In the UK, the unemployment rate was 4.9 per cent in the quarter to May 2016, down from 5.1 per cent in the previous quarter.
- There were 279,000 seasonally adjusted unemployed in London in the quarter to May 2016, a decrease of 14,000 on the previous quarter. There were 1,646,000 seasonally adjusted unemployed in the UK in the quarter to May 2016, a decrease of 54,000 on the previous quarter.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: July 2016
Next release: August 2016

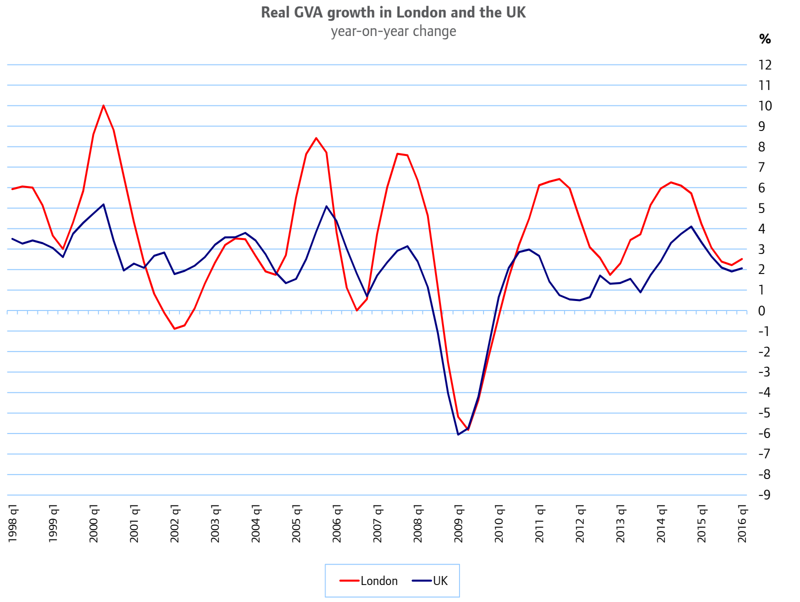


Source: Labour Force Survey - ONS

Annual output growth increases in London in Q1 2016

- London's annual growth in output increased to 2.5 per cent in Q1 2016 from a downwardly revised 2.2 per cent in Q4 2015.
- Annual output growth in the UK increased to 2.1 per cent in Q1 2016 from 1.9 per cent in Q4 2015. In Q1 2016, London's annual output growth was higher than 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: July 2016
Next release: August 2016

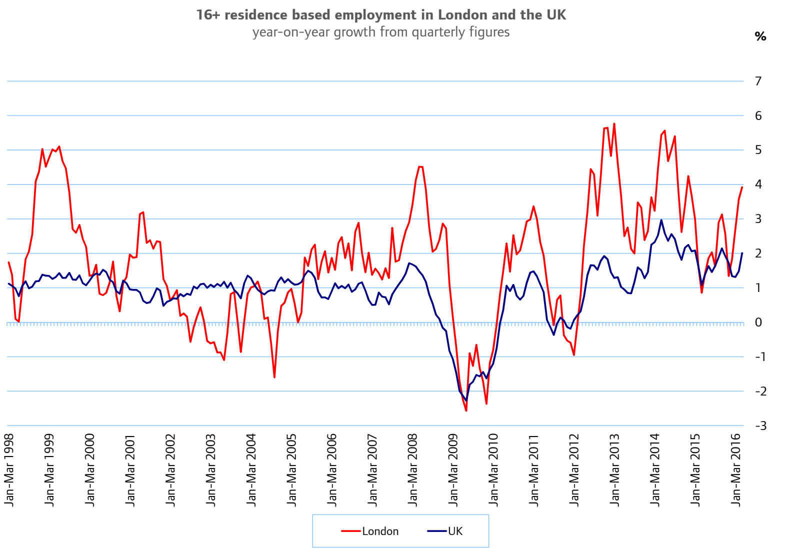


Source: GLA Economics and ONS

Annual employment growth increases in London

- The annual growth rate of London's residents in employment increased to 3.9 per cent in the quarter to May 2016, compared to 1.8 per cent in the quarter to February 2016. For the UK as a whole, the annual growth in employment was 2.0 per cent in the quarter to May 2016, compared to 1.3 per cent in the previous quarter.
- There were 4.49 million residents in employment in London in the quarter to May 2016, an increase of 56,000 on the previous quarter. There were 31.70 million people in employment in the UK in the quarter to May 2016, an increase of 176,000 on the previous quarter.
- From LET Issue 165 (May 2016), GLA Economics now reports ONS labour market data.

Latest release: July 2016
Next release: August 2016

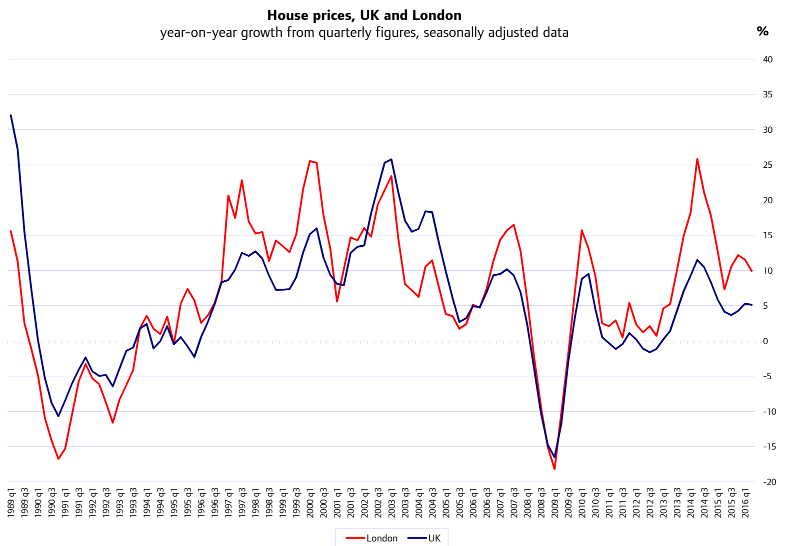


Source: Labour Force Survey – ONS

Annual house price inflation in London slows in Q2 2016

- House prices, as measured by Nationwide, were higher in Q2 2016 than in Q1 2016 for London as well as the UK as a whole.
- Annual house price inflation in London was 9.9 per cent in Q2 2016, down from 11.5 per cent in Q1 2016.
- Annual house price inflation in the UK was 5.1 per cent in Q2 2016, down from 5.3 per cent in Q1 2016.

Latest release: July 2016
Next release: August 2016

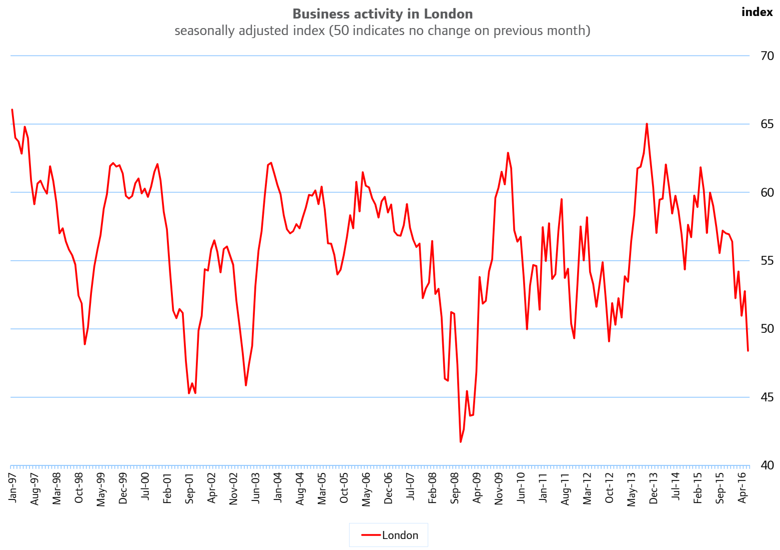


Source: Nationwide

London’s business activity decreases

- Firms in London decreased their output of goods and services in June 2016.
- The Purchasing Managers’ Index (PMI) of business activity recorded 48.4 in June 2016, down from 52.8 in May 2016.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: July 2016
Next release: August 2016

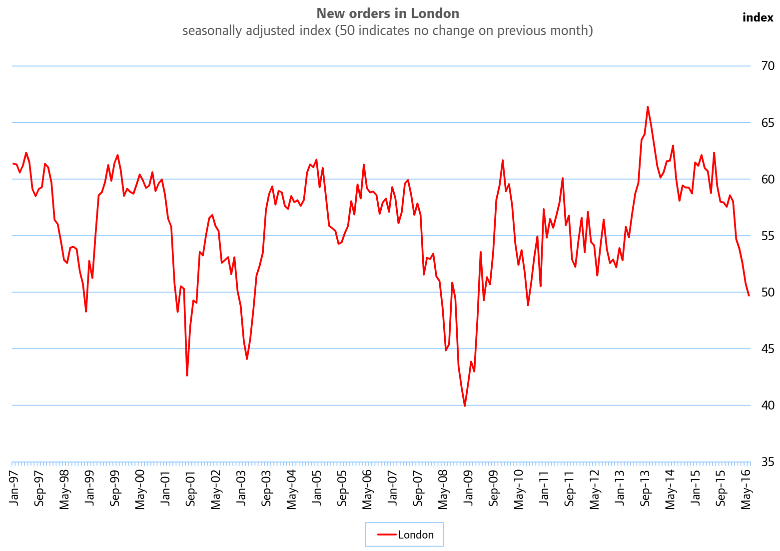


Source: Markit Economics

New orders in London falling

- June 2016 saw a decrease in new orders for London firms.
- The PMI for new orders recorded 49.7 in June 2016 compared to 50.8 in May 2016.
- An index above 50 indicates an increase in new orders from the previous month

Latest release: July 2016
Next release: August 2016

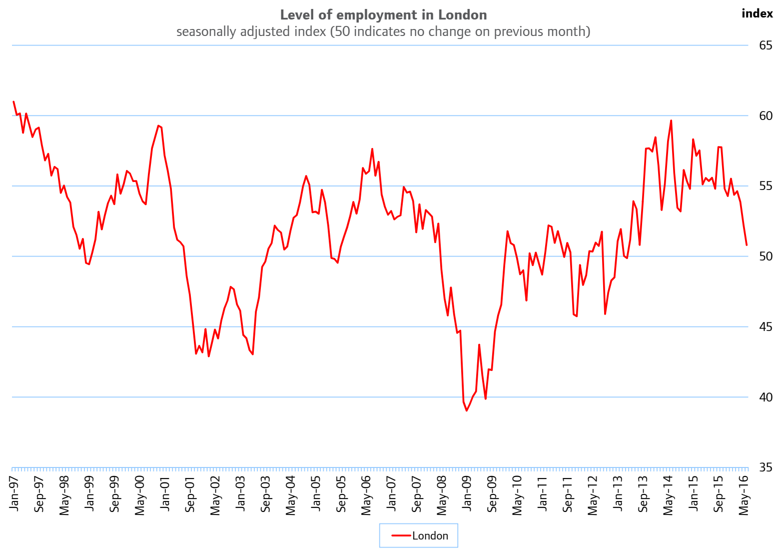


Source: Markit Economics

Businesses report higher employment in June

- The PMI shows that the level of employment in London firms increased in June 2016.
- The PMI for the level of employment was 50.8 in June 2016, down from 52.3 in May 2016.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: July 2016
Next release: August 2016

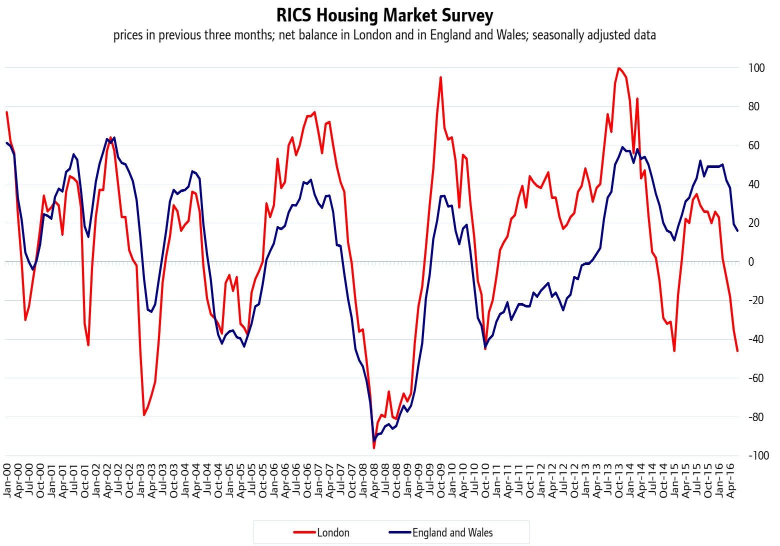


Source: Markit Economics

Surveyors report that house prices are decreasing in London

- The RICS Residential Market Survey showed a net balance of -46 for London house prices over the three months to June 2016.
- Surveyors reported a positive net house price balance of 16 for England and Wales over the three months to June 2016.
- London's net house price balance is lower than that of England and Wales.

Latest release: July 2016
Next release: August 2016

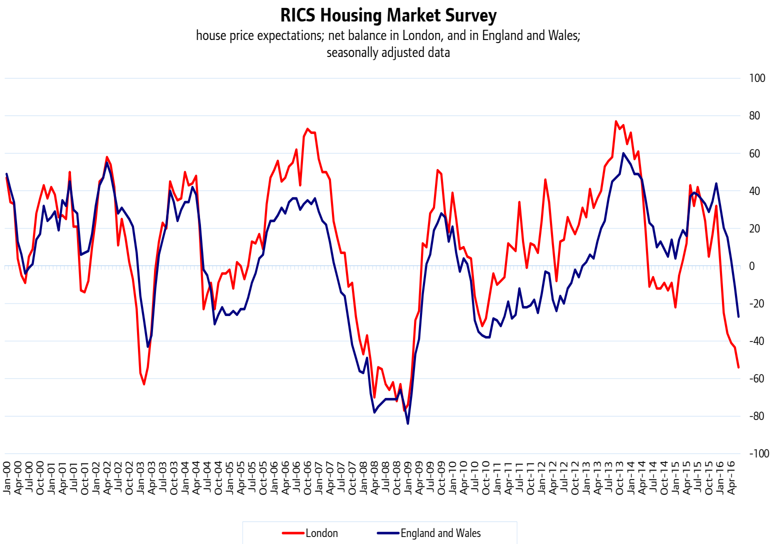


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to fall in London, as well as England and Wales

- The RICS Residential Market Survey shows that surveyors expect house prices to fall over the next three months in London, as well as in England and Wales (but to a lesser extent).
- The net house price expectations balance in London was -54 in June 2016.
- For England and Wales, the net house price expectations balance was -27 in June 2016.

Latest release: July 2016
Next release: August 2016

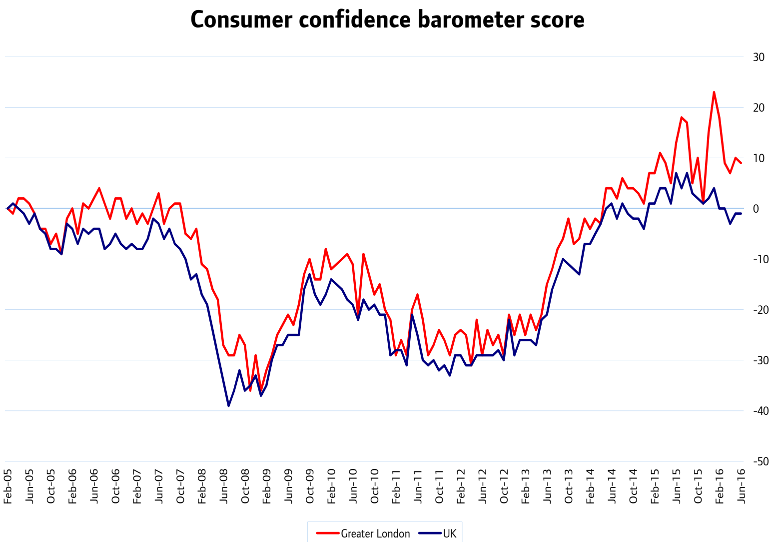


Source: Royal Institution of Chartered Surveyors

Consumer confidence positive in London but negative in 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, as well as their expectations for the next 12 months (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London, the consumer confidence score stood at 9 in June 2016, down from 10 in May 2016.
- For the UK, the consumer confidence score stood at -1 in June 2016, unchanged from May 2016.

Latest release: June 2016 (Nb, prior to 8 July post-referendum survey)
Next release: July 2016



Source: GfK NOP on behalf of the European Commission

Local authority level GVA estimates for London, 1997-2014

By **Gordon Douglass,**
Supervisory Economist

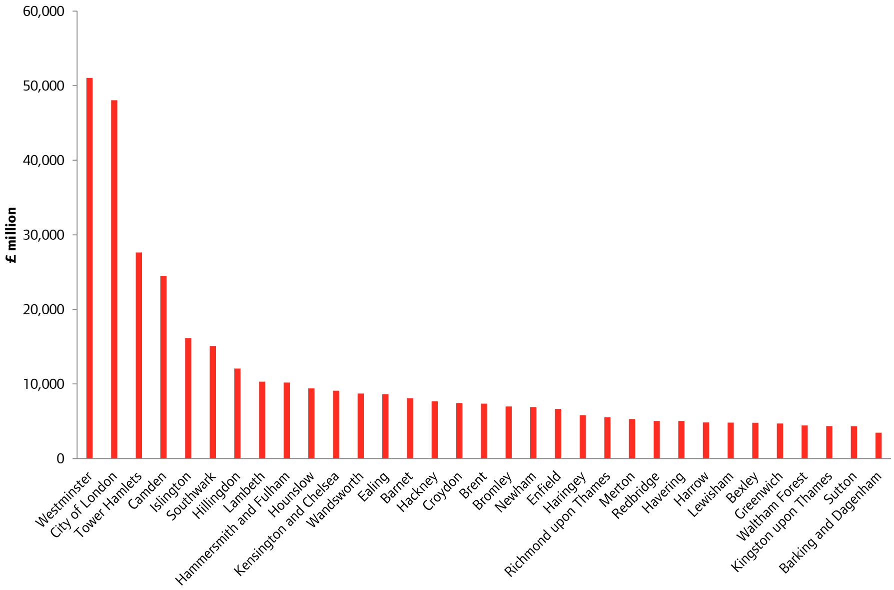
In December 2015, the Office for National Statistics (ONS) released provisional estimates of regional, sub-regional and local gross value added (GVA) for 2014[1]. These data showed that in 2014, London's total GVA was over £364 billion, up 6.8 per cent on 2013. London now accounts for 22.5 per cent[2] of the UK's total GVA (up from 18.9 per cent in 1997). GLA Economics published analysis of these data in March 2016[3]. In this analysis estimates of local authority (LA) level GVA for London for 2014 were calculated for those LAs in London that do not form a unitary NUTS3 geography.

Since the publication of this work however the ONS has published estimates of LA level GVA for England only[4] for the years 1997 to 2014. It should however be noted that these data do not have national statistics standing. Still, in order to inform and undertake future analysis on this new data GLA Economics has undertaken a scoping analysis of these data which is given in a recently published current issues note from GLA Economics[5] and which is summarised in this article.

Examining output at the LA level, using the May 2016 estimates from the ONS, Figure A1 shows that Westminster had the highest level of GVA of any London LA in 2014 with it producing output worth £51.0 billion, followed by the City of London at £48.1 billion, while Barking and Dagenham had the lowest GVA of any London LA in 2014 at £3.5 billion.

Figure A1: GVA (I) in London by local authority in 2014

Source: ONS



1 Office for National Statistics, December 2015, 'Regional Gross Value Added (Income Approach)'.
2 The share reported here is calculated as London's GVA divided by UK GVA without taking into account a statistical discrepancy of £6,136 million. If the statistical discrepancy is subtracted from UK's GVA, London's share of UK GVA is 22.6 per cent as reported by the ONS.
3 Douglass, G., March 2016, 'Current Issues Note 46: Regional, sub-regional and local GVA estimates for London, 1997-2014'. GLA Economics.
4 ONS, May 2016, 'Regional GVA(I) by Local Authority in England 1997 to 2014'.
5 Douglass G., July 2016, 'Current Issues Note 47: Regional gross value added estimates for London by different geographies, 1997-2014'. GLA Economics.

In terms of the importance of different LAs to the total level of London's output, the data shows differences between Inner and Outer London over the years 1997 to 2014. For instance the data showed the growing importance of the City of London with it accounting for 9 per cent of London's output in 1997, rising to 13 per cent in 2014, while Westminster remained important with it accounting for 14 per cent of all London's output in 2014. In fact a number (but not all) LAs in Inner London, saw their share of London's total GVA rise or remain constant over this period, while Outer London LAs, despite seeing rises in their nominal GVA over this time period, generally saw a static or declining share of London's total GVA.

In order to examine the productivity of the different LAs of London, GVA per employee job has been calculated. As can be seen from Figure A2 there exists a great variance between output per employee job between London's LAs, with the City of London producing GVA per employee job of £119,755 in 2014, while Hillingdon produced a GVA per employee job of £59,748. However both LAs still produced a higher level of GVA per employee job than the average for Great Britain, 115.2 per cent higher for the City of London and 7.4 per cent higher for Hillingdon. In terms of growth of GVA per employee job between 1997 and 2014, the fastest growth was seen in Kingston upon Thames with a 26.1 per cent increase, while Islington saw the lowest growth with a 1.5 per cent increase. Interestingly it appears that GVA per employee job grew on average quicker in Outer London compared to Inner London over the period 2009 to 2014, while growth in nominal GVA over this period has varied between Inner and Outer London. A likely explanation is that employee jobs generally grew more quickly in Inner London than Outer London over this time period.

The ONS also published data on output per LA by broad industrial sector. This showed that between 1997 and 2014, no London LA saw an increase in Production[6] as a share of its total GVA, while all LAs saw an increase in Real estate as a share of their total GVA. Looking at the data in more detail, Merton saw Business services[7] increase its share of the borough's GVA from 13 per cent in 1997 to 22 per cent in 2014, while Financial and insurance activities increased in importance in the City of London with it rising from being 60 per cent of total GVA in 1997 to 67 per cent in 2014.

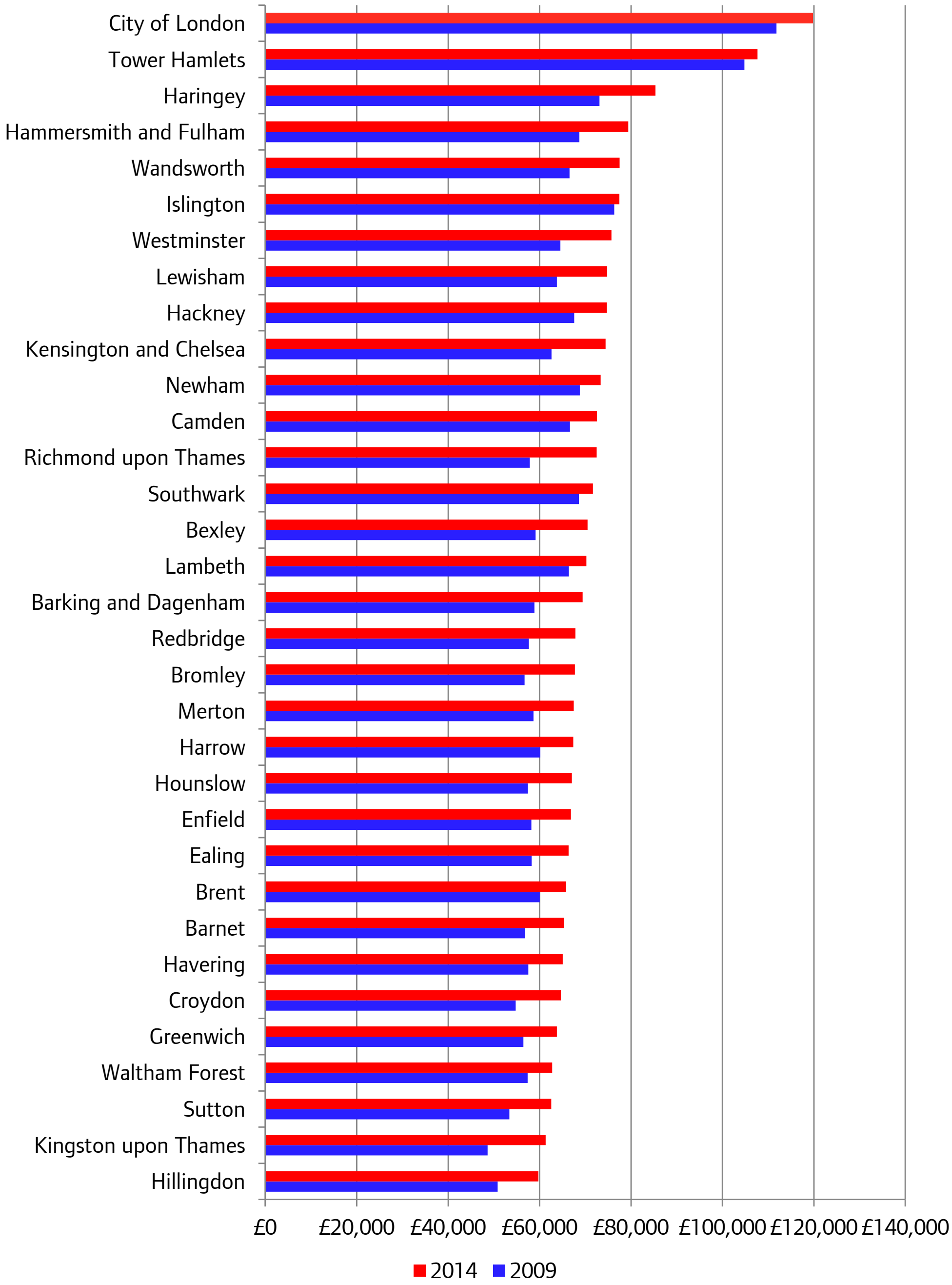
In terms of total London output by broad sector, the City of London dominates in Financial and insurance activities accounting for 47 per cent of all London's output in that sector in 2014, with Tower Hamlets accounting for a further 21 per cent and Westminster 12 per cent. While in terms of Business services, Westminster accounted for 16 per cent of London's total output in that sector followed by the City of London at 13 per cent, Camden at 10 per cent and Southwark at 7 per cent. For Information and communication, Westminster again led with 19 per cent of London's total output in this sector, followed by Camden (10 per cent), the City of London (9 per cent), Tower Hamlets (7 per cent) and Hounslow (7 per cent). Finally, in 2014 Westminster also had the highest share of London's output in Other services and household activities[8] (20 per cent of London's total), Real estate activities (13 per cent of London's total), Distribution; transport; accommodation and food[9] (14 per cent of

6 'Production' refers to Standard Industrial Classification 2007 (SIC07) codes B, C, D and E.
7 Business services relate to SIC07 codes M and N.
8 Other services and household activities relate to SIC07 codes R, S and T.
9 Distribution; transport; accommodation and food relate to SIC07 codes G, H and I.

London's total) and Public administration; education; health[10] (13 per cent of London's total).

Figure A2: Headline GVA (I)[11] per employee job[12] at London local authority level, 2009-2014, current prices

Source: ONS and GLA Economics calculations



If this supplement has whet your appetite then further detailed analysis on local authority GVA in London can be found in Current Issues Note Number 47.

10 Public administration; education; health relate to SIC07 codes O, P and Q.
11 Estimates are for workplace based GVA allocating incomes to the region in which the economic activity takes place.
12 Calculated by dividing headline GVA by annual employee jobs data from BRES.

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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