

London's Economy Today

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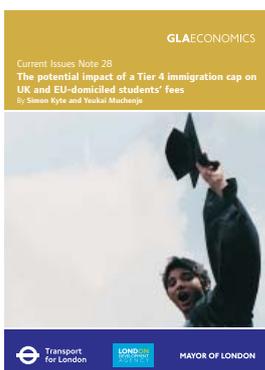
Inflationary pressures rise as the oil price breaks through \$100 per barrel

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Simon Kyte**, Economist

Concerns about political instability in the Middle East and North Africa have contributed to pushing the price of a barrel of oil through the \$100 mark (see Figure 1). Other factors such as the continuing global economic recovery and strong demand in emerging market economies have also contributed to the rapid rise in the oil price over recent months. Commodity prices in general have been increasing sharply putting upward pressure on inflation.

Consumer Price Index (CPI) annual inflation continued to rise in January with it hitting 4 per cent up from 3.7 per cent in December (see Figure 2). This inflation rate is double the Bank of England's 2 per cent symmetrical target and the highest level since November 2008. Retail Price Index (RPI) inflation also rose in January to 5.1 per cent, up from 4.8 per cent in December. A large proportion of the above target rate of inflation can be attributed to the rise in VAT and increases in commodity prices such as oil.

Latest news...



● **Current Issues Note 28: The potential impact of a Tier 4 immigration cap on UK and EU-domiciled students' fees**

This report highlights the potential financial impact of a restriction on non-EU students on London's Higher Education Institutions. Depending on the extent of the restriction on non-EU students, the report finds that tuition fees for UK students could rise by between £300 and £900 per annum.

Visit <http://www.london.gov.uk/publication/potential-impact-tier-4-immigration-cap-uk-and-eu-domiciled-student-fees> to download this publication.

Figure 1: Brent crude oil price (US \$ per barrel)

Last data point is
22/02/11

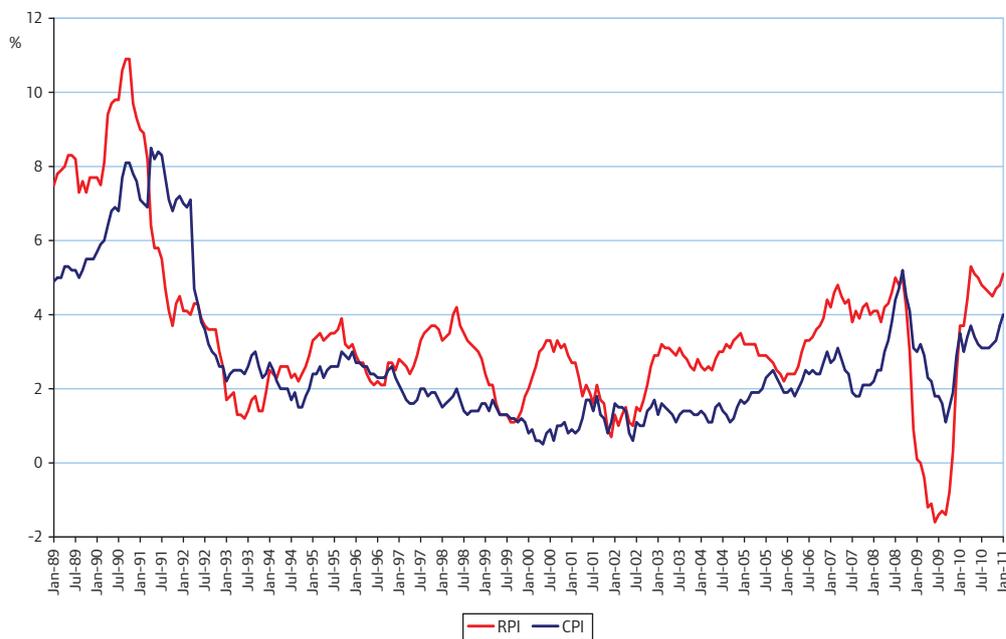
Source: FT



Figure 2: UK annual inflation rates

Last data point is
January 2011

Source: Office for National
Statistics



In his February explanatory letter to the Chancellor regarding why inflation is more than 1 per cent above target the Governor of the Bank of England, Mervyn King, stated that “inflation is likely to continue to pick up to somewhere between 4 per cent and 5 per cent over the next few months, appreciably higher than when I last wrote to you”. However, the Governor did note that “under the assumption that (the) bank rate increases in line with market expectations” and as temporary effects wane “inflation will fall back so that it is about as likely to be above the target as below it two to three years ahead”. Market expectations are for an interest rate rise by the Bank of England by early summer and for the Bank rate to hit 1 per cent by the end of 2011. The Bank rate is currently at a historic low of 0.5 per cent. Higher inflation and expectations of interest rate rises have contributed to a fall in consumer confidence at the beginning of this year.

UK consumer confidence is weak

Consumer confidence in the UK weakened in January, as measured by the GfK NOP survey on behalf of the European Commission. GfK's managing director, Nick Moon, noted that "the VAT increase is the first of the government's austerity measures that has had a widespread impact on consumers, and it seems to have hit people's economic confidence hard, especially as the biggest drop was in consumers' appetite for major purchases". In London however, the fall in consumer confidence was markedly smaller than for the UK as a whole.

London's economy has many specialisations

The City of London Corporation has recently published, 'London's Competitive Place in the UK and Global Economies', undertaken by Oxford Economics. The report highlights the capital's economic specialisations, not only in the financial services, but also in business and management consultancy, media-related industries, telecommunications, tourism and software consultancy. The report also draws attention to the existence of pockets of deprivation alongside the highly mobile and skilled professional labour markets. According to the property consultancy Knight Frank, financial sector take-up of office space in Central London has been increasing. This rebound in demand since the recession combined with the constrained development pipeline has led to an increase in rents.

Reasonable growth expected in 2011 although the recovery will not be smooth

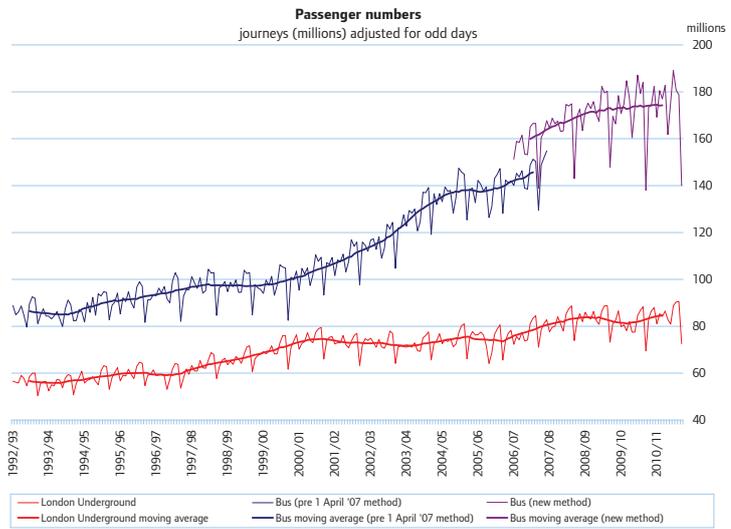
In examining the UK's recovery the Bank of England's February 2011 Inflation Report noted that "expansionary monetary policy, combined with further growth in global demand and the past depreciation of sterling, should ensure that the recovery in the United Kingdom is maintained. But the continuing fiscal consolidation and squeeze on households' purchasing power are likely to act as a brake. After some near-term weakness, GDP growth is judged to be about as likely to be above as below its historical average rate." This view is supported by the most recent IMF forecast for the UK, which expects the economy to expand by 2.0 per cent in 2011 and by 2.3 per cent in 2012.

Although in 2011 the UK is likely to continue to experience an economic recovery, households will face a tough time as the economy rebalances away from private and public sector consumption towards business investment and exports. This rebalancing of the economy is necessary but will not be painless for consumers. With private sector dynamism strong within London the capital's economy is expected to benefit from an expanding world economy led by rapid growth in emerging market countries such as China and India. London's tourism industry should especially gain from the large depreciation of sterling that has occurred over the last few years.

Economic indicators

Increase in moving average of passenger numbers

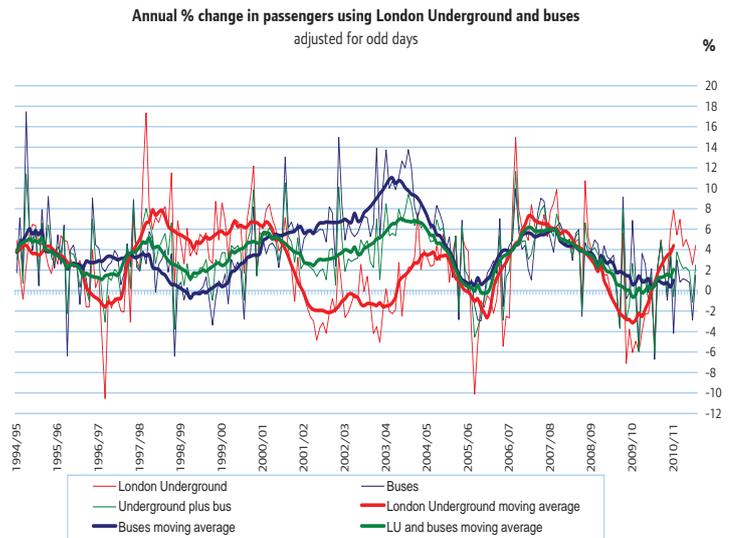
- The most recent 28-day period is from 12 December 2010 to 8 January 2011. Adjusted for odd days, London's Underground and buses had 212.6 million passenger journeys; 140.1 million by bus and 72.6 million by Underground.
- The moving average of passengers every period increased to 258.9 million from 258.5 million in the previous period. The moving average for buses was 174.3 million. The moving average for the Underground was 84.7 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 2011
Next release: March 2011

Increase in average annual growth rate of passengers

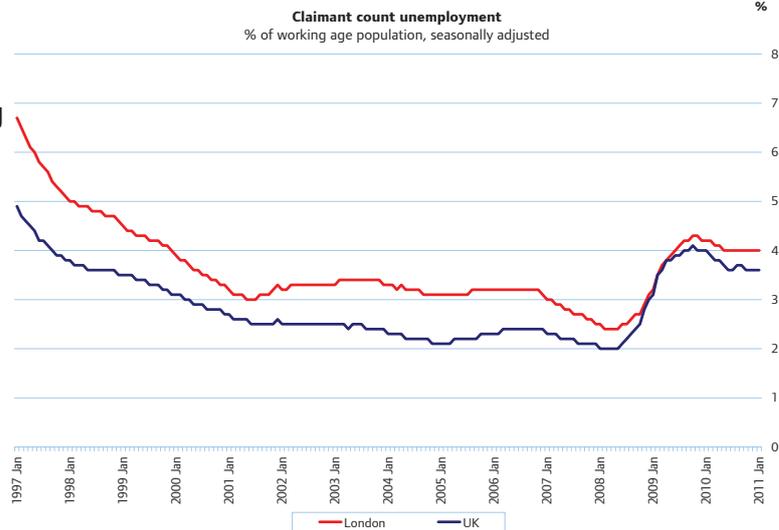
- The moving average annual rate of growth in passenger journeys increased to 2.1% from 1.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 1.0% from 0.4% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 4.4% from 3.7% in the previous period.



Latest release: February 2011
Next release: March 2011

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.0% in January 2011.
- There were 215,200 seasonally adjusted unemployment claimants in London in January 2011 compared with an upwardly revised 214,700 in December 2010.
- There were 1,459,700 seasonally adjusted unemployment claimants in the UK in January 2011 compared with an upwardly revised 1,457,300 in December 2010.



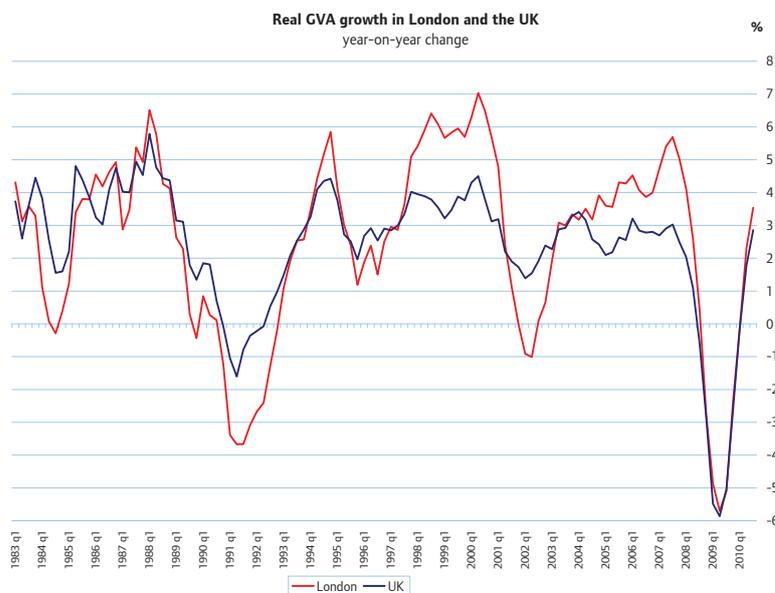
Latest release: February 2011
Next release: March 2011

Annual output growth increasing in London and the UK

- London's annual growth in output increased to 3.5% in Q3 2010 from a downwardly revised 2.3% in Q2 2010.
- Annual output growth in the UK increased to 2.9% in Q3 2010 from 1.8% in Q2 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2011

Next release: May 2011

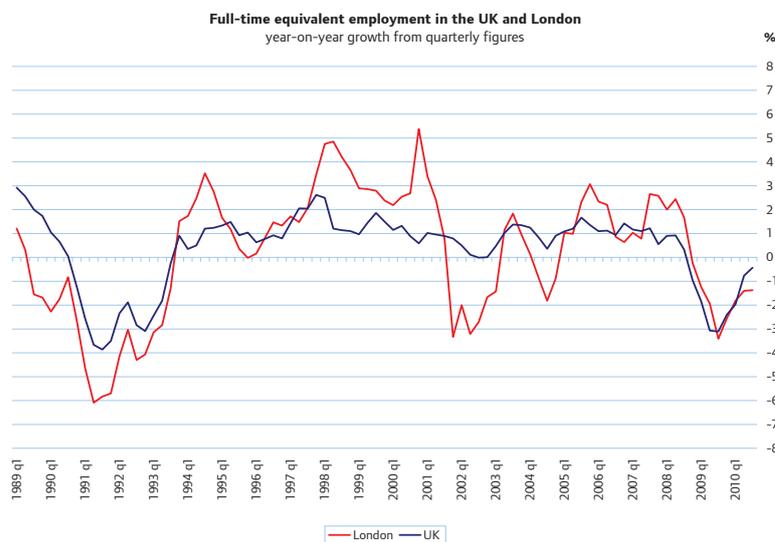


Negative annual employment growth

- London's annual employment growth was -1.4% in Q3 2010 unchanged from a downwardly revised -1.4% in Q2 2010.
- Annual employment growth in the UK increased to -0.4% in Q3 2010 from a downwardly revised -0.8% in Q2 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2011

Next release: May 2011

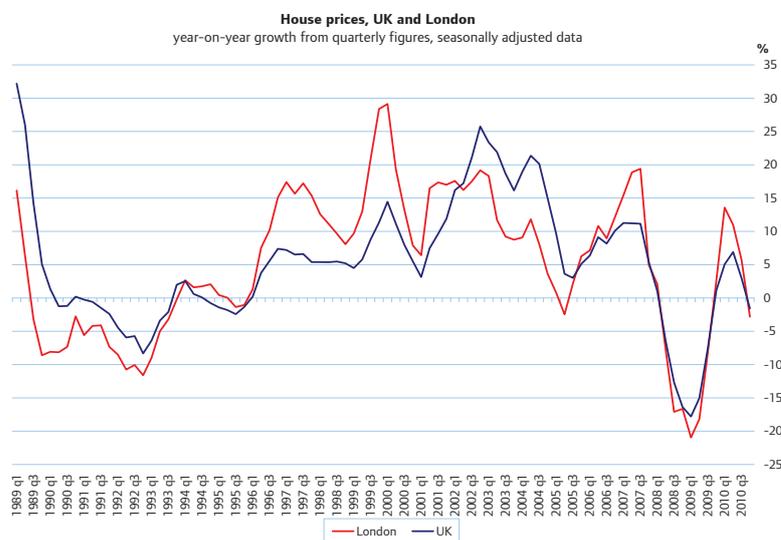


Annual house prices falling

- House prices, as measured by the Halifax, were lower in Q4 2010 than in Q4 2009 in both London and the UK.
- Annual house price inflation in London was -2.8% in Q4 2010, down from 5.7% in Q3 2010.
- Annual house price inflation in the UK was -1.6% in Q4 2010, down from 2.9% in Q3 2010.

Latest release: January 2011

Next release: April 2011

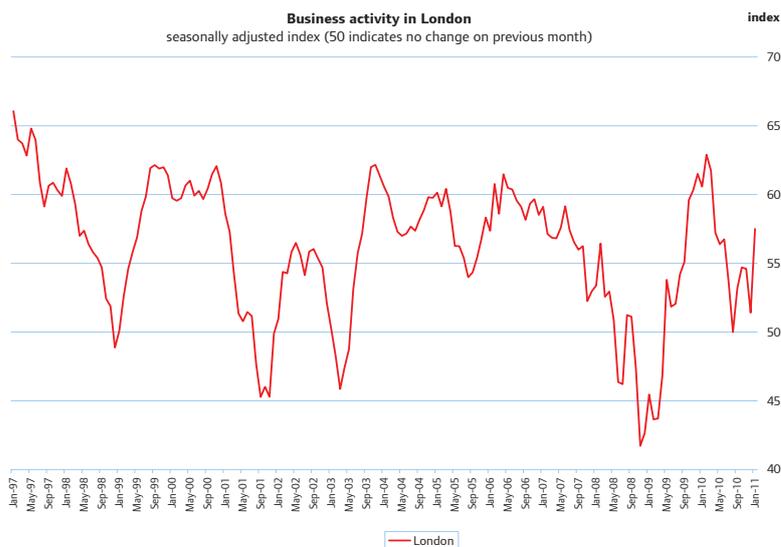


London's business activity increasing

- London firms increased their output of goods and services in January 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.5 in January 2011 compared to 51.4 in December 2010.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: February 2011

Next release: March 2011



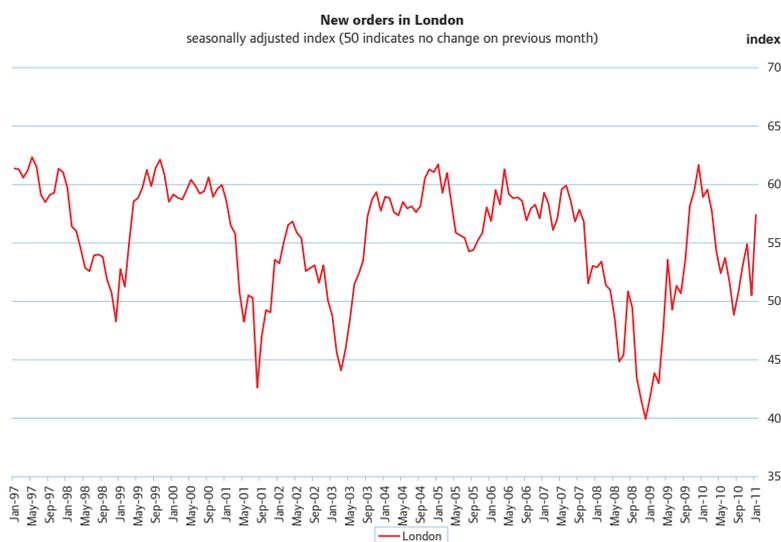
Source: Markit Economics

New orders in London rising

- January 2011 saw a rise in new orders for London firms.
- The PMI for new orders recorded 57.4 in January 2011 compared to 50.5 in December 2010.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: February 2011

Next release: March 2011



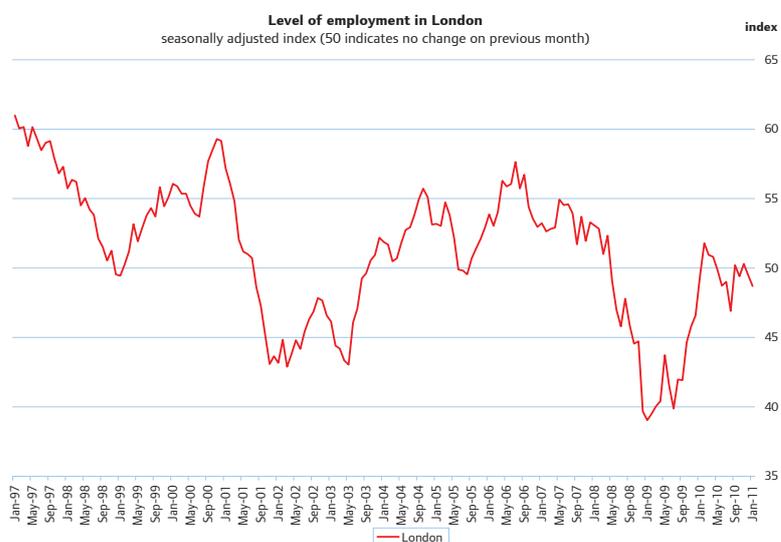
Source: Markit Economics

Businesses report lower employment in January

- The PMI shows that the level of employment in London firms decreased in January 2011.
- The PMI for the level of employment was 48.7 in January 2011 compared to 49.5 in December 2010.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: February 2011

Next release: March 2011



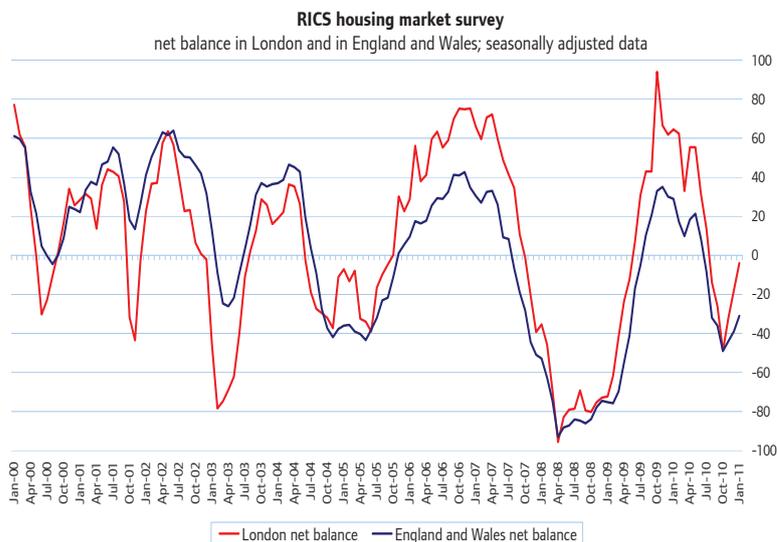
Source: Markit Economics

Surveyors report that house prices are falling

- The RICS survey shows a negative net balance of -4 for London house prices over the past three months to January 2011.
- Surveyors reported a negative net house price balance for England and Wales of -31 over the three months to January 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: February 2011

Next release: March 2011



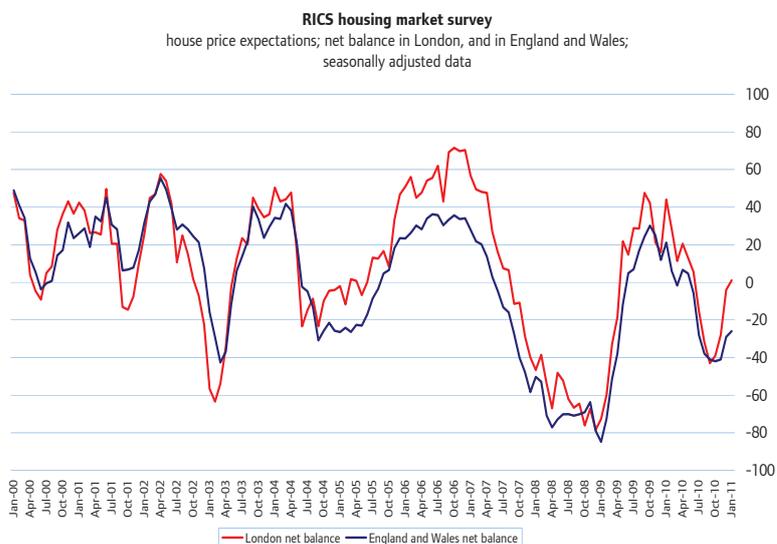
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices to rise in London over the next three months but to fall in England and Wales.
- The net house price expectations balance in London was 1 in January 2011.
- For England and Wales, the net house price expectations balance was -26 in January 2011.

Latest release: February 2011

Next release: March 2011



Source: Royal Institution of Chartered Surveyors

Consumer confidence remains negative

- 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 decreased to -22 in January 2011 from -20 in December 2010.
- For the UK the consumer confidence score decreased to -29 in January 2011 from -21 in December 2010.

Latest release: January 2011

Next release: February 2011



Source: GfK NOP on behalf of the European Commission

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 2010/11 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2010.

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 2010/11 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2010.

Acronyms

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

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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.

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