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In this issue

UK economy grows moderately in Q1 2011

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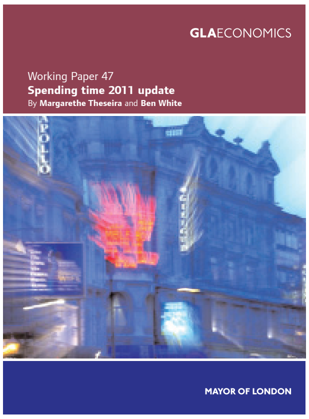
According to the preliminary estimate from the Office for National Statistics (ONS) the first quarter of 2011 saw UK GDP rise by 0.5 per cent after falling by 0.5 per cent in the fourth quarter of 2010 (see Figure 1). The ONS estimates that the impact of the severe weather in December 2010 subtracted 0.5 per cent from growth in Q4 2010.

GDP has now returned to the level in Q3 2010 and has recovered a third of the output lost during the recent recession. Output in Q1 2011 was boosted by business services and finance, a sector in which London specialises, and transport, storage and communication.

Latest news...



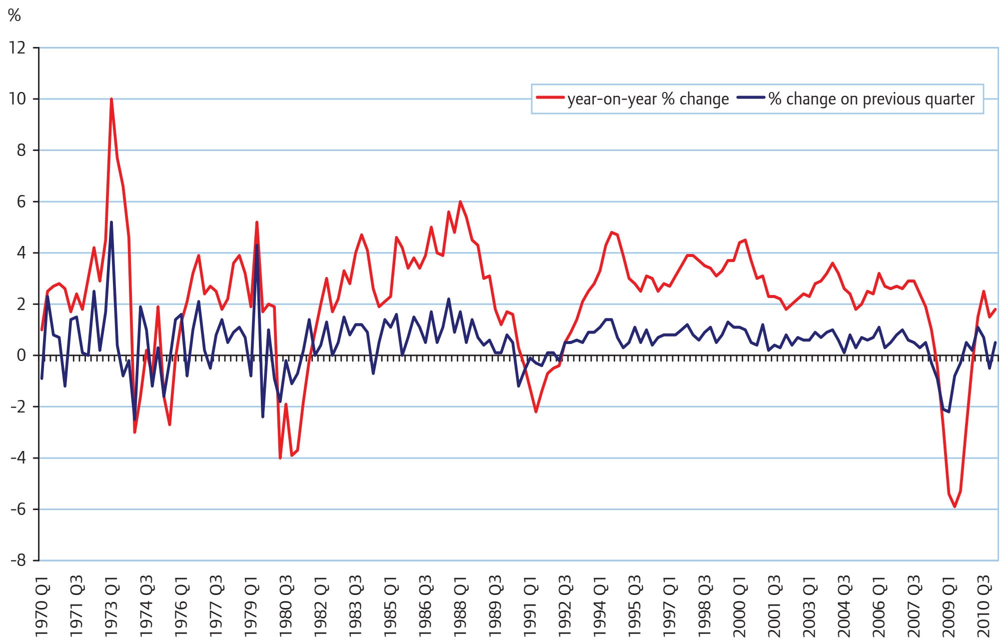
- **GLA Economics Working Paper 47: Spending time 2011 update**

What we do with our spare time is an important aspect of our quality of life and of the offer that London makes to its residents, visitors and businesses. This Spending Time: 2011 update looks at how people spend their money on leisure activities and the consequences this has in terms of employment within London's leisure sector.

Download this paper now from: http://www.london.gov.uk/publication/working-paper-47-spending-time-2011-update

Figure 1: UK GDP Growth

Source: Office for National Statistics



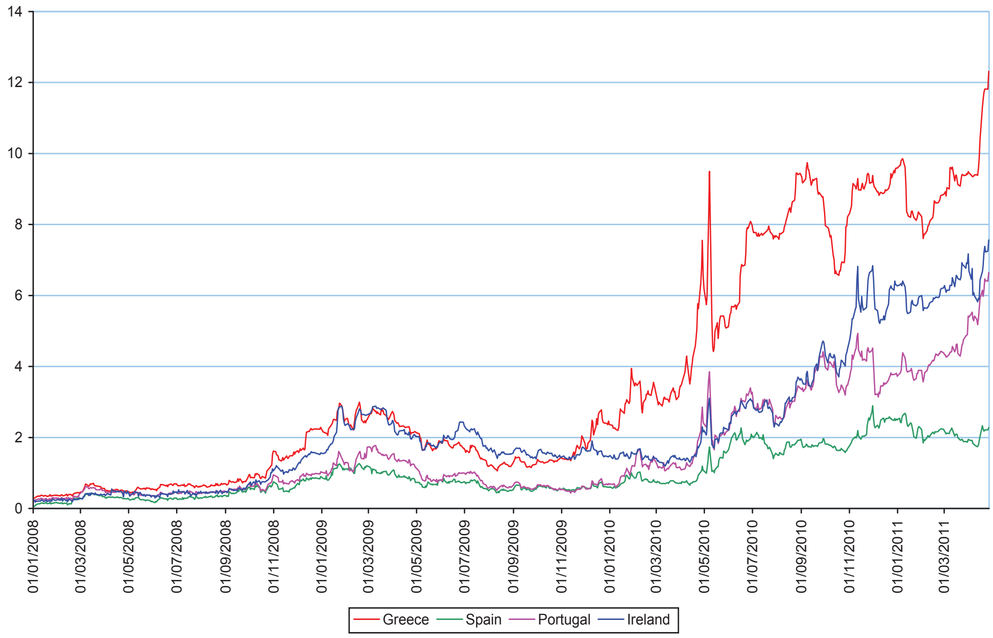
The sectoral breakdown of the Q1 GDP figure shows that overall growth was dampened by a severe contraction in the construction sector, where output declined by 4.7 per cent after falling by 2.3 per cent in Q4 2010. Meanwhile output in the production industries continued to grow, increasing by 0.4 per cent in Q1 2011, with manufacturing seeing growth of 1.1 per cent. Total output in the service sector grew by 0.9 per cent, after falling by 0.6 per cent in the previous quarter. Large output rises were experienced in transport, storage and communication (2.7 per cent growth) and business services and finance (1.0 per cent growth). GDP was 1.8 per cent higher in Q1 2011 compared with Q1 2010. Construction increased 3.5 per cent between Q1 2010 and Q1 2011, whereas the production industries increased by 2.6 per cent and the service sector by 1.4 per cent (and within this, business services and finance by 1.5 per cent) between Q1 2010 and Q1 2011.

Portugal asks for financial assistance and the chances of a Greek debt default rise

On 6 April Portugal's interim Prime Minister Jose Socrates announced that the country would seek financial assistance from the EU and the IMF. The size of the aid package has yet to be agreed but it is expected that it will be around €80 billion. The request for assistance came after the borrowing costs for Portugal compared with those for Germany (which is seen as the safest Eurozone member) soared (see Figure 2). The previous Portuguese government resigned when a package of austerity measures were defeated in parliament in March causing the downgrading of its sovereign debt by a number of rating agencies. Any agreement on a bailout is likely to see Portugal having to introduce stringent budget cuts. Portugal's problems follow on from those experienced by Greece and Ireland in 2010. Any further contagion to Spain would have a far larger impact on the Eurozone banking sector and would put pressure on the euro itself. Meanwhile the chances of a sovereign debt default or restructure by Greece has risen considerably.

Figure 2: Ten-year government bond spreads over German bonds, percentage points
Last data point: 26/4/2011

Source: EcoWin



The economic prospects for the 'peripheral' Eurozone economies have been hit by the decision by the European Central Bank (ECB) to raise interest rates by 25 basis points to 1.25 per cent on 7 April. The rate rise was in response to rising inflation and the strong growth in core Eurozone countries such as Germany and France. The two-speed Eurozone is a major problem for the single currency and policy makers. Elsewhere concerns have again been expressed about the size of the US government's debt and deficit. Standard & Poor's cut its outlook on US government debt on the 18 April from stable to negative. A negative outlook implies a one third chance of a downgrade in the next two years.

Independent Commission on Banking releases its interim report

The UK's Independent Commission on Banking published its interim report on 11 April which suggested a number of changes to the UK banking system. These changes include UK retail banking operations being ring fenced from any investment banking operations that a bank may have. Other major recommendations included that banks should have higher capital reserves, the Lloyds banking group should be forced to sell even more branches to increase competition (given its current large share of the UK banking market) and that it should be easier for customers to move bank accounts. The report argues that the overall impact of the proposed reforms 'should have a broadly neutral effect on City competitiveness', with the exposure to increased regulation and costs having a negative impact on the affected firms but positive impacts coming from the increased perception of stability in the UK financial system. The final report will be published in September, although the Government is not obliged to follow its recommendations.

Economic recovery to continue but households are financially strained

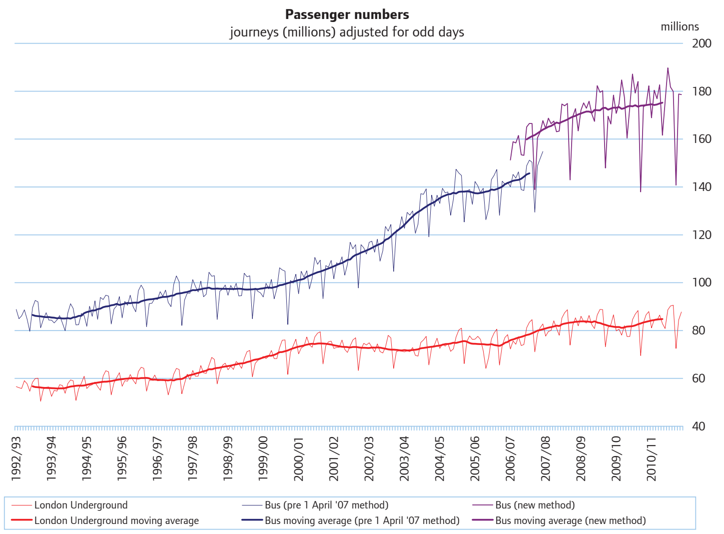
The IMF published its latest economic forecasts in April in which it predicted growth for the UK of 1.7 per cent in 2011 and 2.3 per cent in 2012, whilst the US is forecast to grow at 2.8 per cent and then 2.9 per cent respectively. The Eurozone is forecast to grow by 1.6 per cent in 2011 and 1.8 per cent in 2012. The latest Ernst and Young Item Club forecast predicts growth of 1.8 per cent this year for the UK, 2.3 per cent in 2012 and 2.7 per cent in 2013. In spite of the UK economy having begun to grow again in the first quarter of 2011 and inflation falling back slightly in March, the economic outlook for London and UK households throughout this year remains tough. Households face low wage rises while inflation remains way above the Governments′ 2 per cent target. This squeeze on real household incomes has had a negative impact on consumer confidence. The continued recovery will be led by business investment and exporting to rapidly growing emerging market countries such as China and core Eurozone nations (i.e. Germany) rather than by a debt fuelled consumption binge. This balanced recovery is required to put the economy on a firmer footing but will not be an easy experience for consumers.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 6 February 2011 to 5 March 2011. Adjusted for odd days, London's Underground and buses had 266.4 million passenger journeys; 178.6 million by bus and 87.8 million by Underground.
- The moving average of passengers every period increased to 260.0 million from a downwardly revised 259.6 million in the previous period. The moving average for buses was 175.2 million. The moving average for the Underground was 84.8 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: April 2011
Next release: May 2011

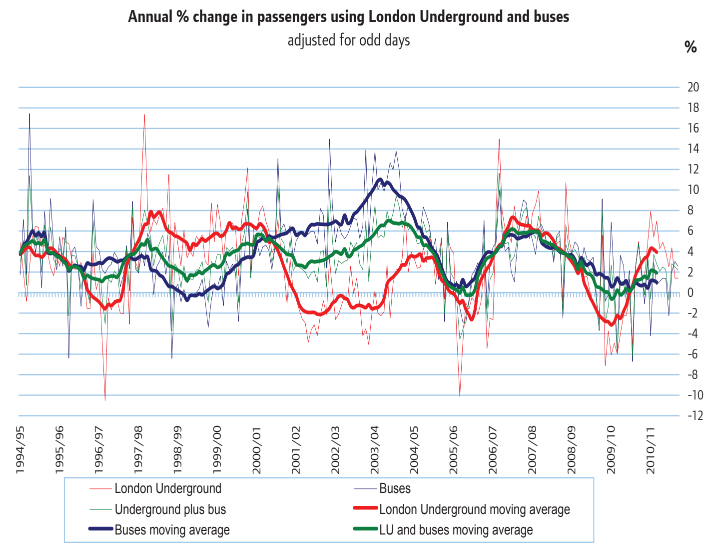


Source: Transport for London

Decline in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.9% from a downwardly revised 2.1% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.0% from 1.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 3.9% from a downwardly revised 4.2% in the previous period.

Latest release: April 2011
Next release: May 2011

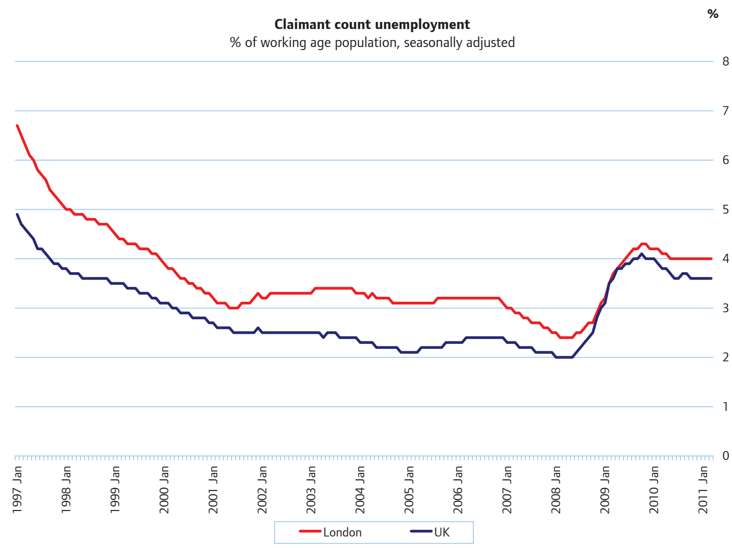


Source: Transport for London

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 March 2011.
- There were 214,600 seasonally adjusted unemployment claimants in London in March 2011 compared with an upwardly revised 214,500 in February 2011.
- There were 1,450,500 seasonally adjusted unemployment claimants in the UK in March 2011 compared with an upwardly revised 1,449,800 in February 2011.

Latest release: April 2011
Next release: May 2011

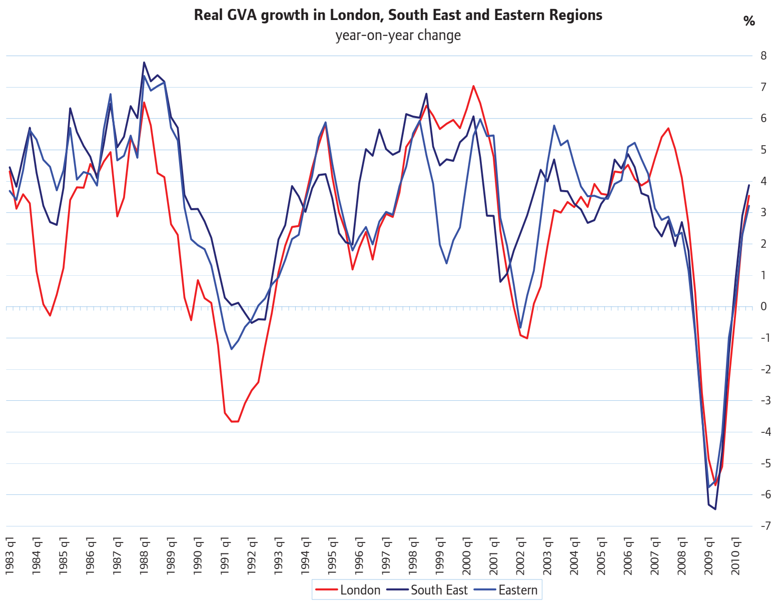


Source: Claimant Count, Nomis

Annual output growth increased in Q3 2010

- 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 South East increased to 3.9% in Q3 2010 from an upwardly revised 2.9% in Q2 2010.
- Annual output growth in the Eastern region increased to 3.2% in Q3 2010 from an upwardly revised 2.3% in Q2 2010.

Latest release: February 2011
Next release: May 2011

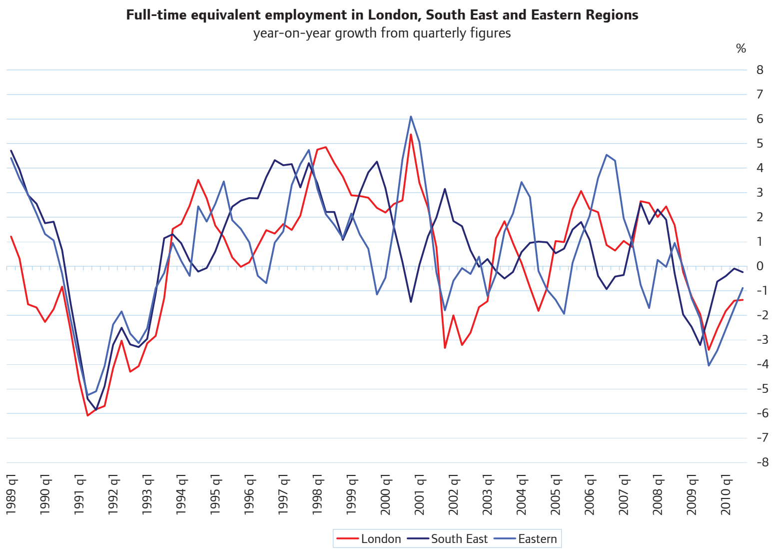


Source: Experian Economics

Negative annual employment growth in Q3 2010

- 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 South East decreased to -0.2% in Q3 2010 from an upwardly revised -0.1% in Q2 2010.
- Annual employment growth in the Eastern region increased to -0.9% in Q3 2010 from a downwardly revised -1.7% in Q2 2010.

Latest release: February 2011
Next release: May 2011

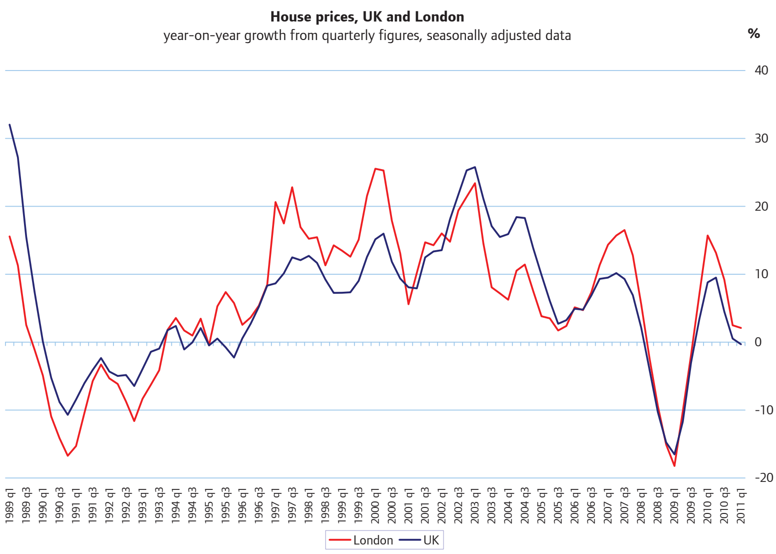


Source: Experian Economics

Annual house price inflation continues to fall

- House prices, as measured by Nationwide were higher in Q1 2011 than in Q1 2010 in London but not in the UK.
- Annual house price inflation in London was 2.1% in Q1 2011, down from a downwardly revised 2.5% in Q4 2010.
- Annual house price inflation in the UK was -0.3% in Q1 2011, down from a downwardly revised 0.5% in Q4 2010.

Latest release: April 2011
Next release: July 2011

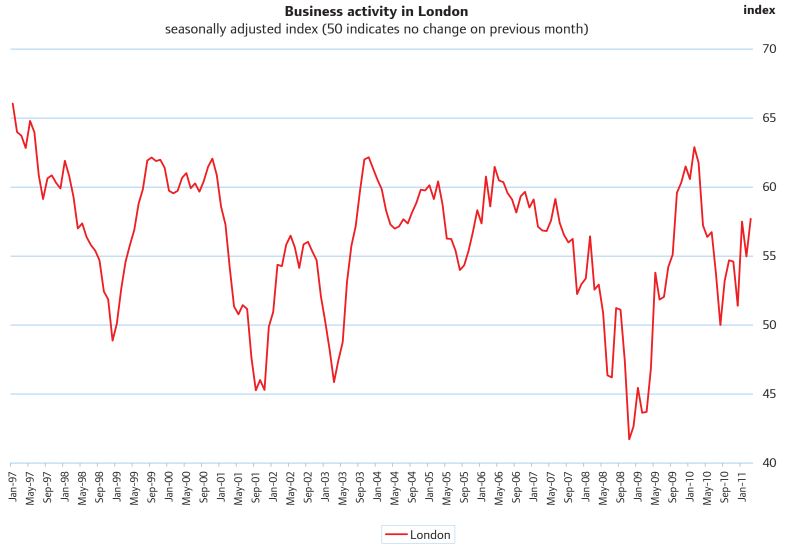


Source: Nationwide

London's business activity increasing

- London firms increased their output of goods and services in March 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.7 in March 2011 compared to 55.0 in February 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: April 2011
Next release: May 2011

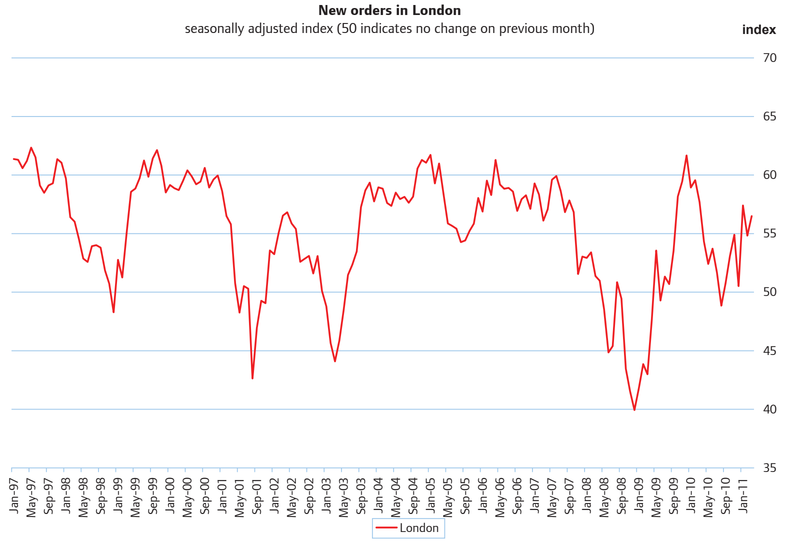


Source: Markit Economics

New orders in London rising

- March 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 56.5 in March 2011 compared to 54.8 in February 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: April 2011
Next release: May 2011

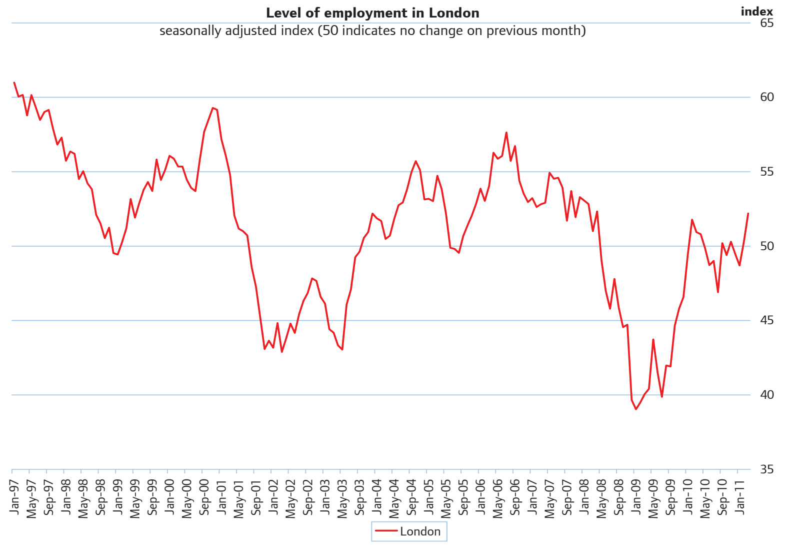


Source: Markit Economics

Businesses report higher employment in March

- The PMI shows that the level of employment in London firms increased in March 2011.
- The PMI for the level of employment was 52.2 in March 2011 compared to 50.3 in February 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: April 2011
Next release: May 2011

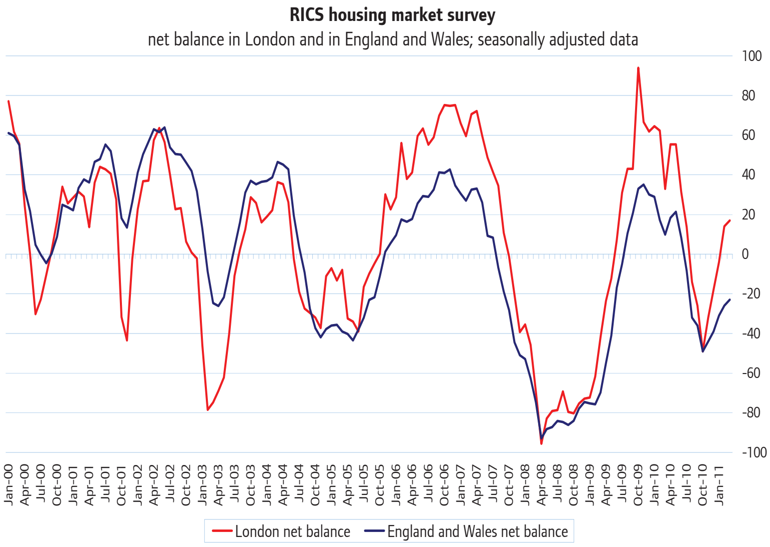


Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS survey shows a positive net balance of 17 for London house prices over the past three months to March 2011.
- Surveyors reported a negative net house price balance for England and Wales of -23 over the past three months to March 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: April 2011
Next release: May 2011

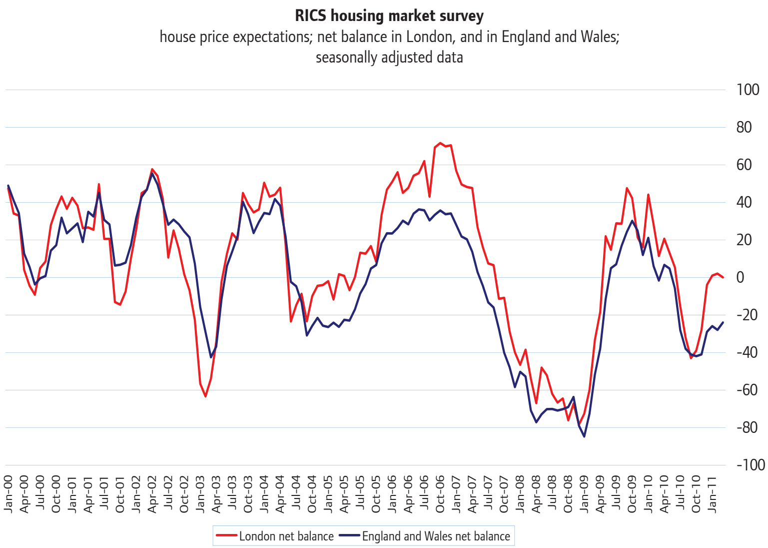


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to fall in England and Wales

- The RICS survey shows that surveyors expect house prices to fall over the next three months in England and Wales.
- The net house price expectations balance in London was 0 in March 2011.
- For England and Wales, the net house price expectations balance was -24 in March 2011.

Latest release: April 2011
Next release: May 2011

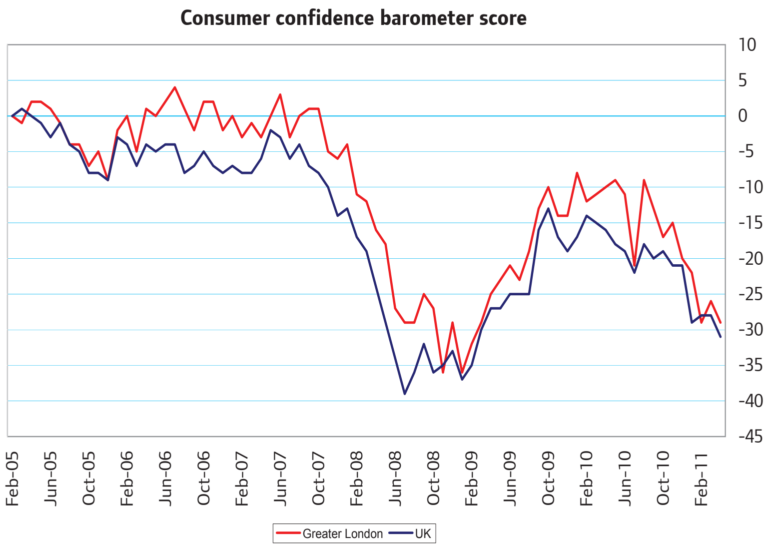


Source: Royal Institution of Chartered Surveyors

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 -29 in April 2011 from -26 in March 2011.
- For the UK the consumer confidence score decreased to -31 in April 2011 from -28 in March 2011.

Latest release: April 2011
Next release: May 2011



Source: GfK NOP on behalf of the European Commission

Additional information

Data sources

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

Glossary

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

Claimant count unemployment
Unemployment based on the number of people claiming unemployment benefits.

Employee jobs
Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

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

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

Tube ridership
Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2010/11 there were 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 were 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
BAA	British Airports Authority
BCC	British Chamber of Commerce
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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