GLAECONOMICS

London's Economy Today

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In this issue

Sovereign debt crisis in the Eurozone worsens

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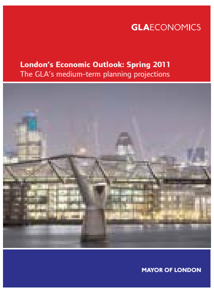
Attempts to deal with the sovereign debt crisis in the Eurozone have gathered pace with finance ministers agreeing a €78 billion bail-out for Portugal on 16 May. The cost of the bail-out will be split between the European Financial Stability Mechanism (EFSM), the European Financial Facility, and the International Monetary Fund (IMF). The UK's contribution via the EFSM and IMF is likely to be around £4.2 billion. In return Portugal has agreed to reform its healthcare system and undertake an ambitious privatisation programme.

Concerns have also risen sharply regarding Greek debt repayments with many analysts now believing that the country will need further aid to fill a financing gap that could be €80 billion over the next two years. The possibility that Greece's debt will need to be restructured, possibly in the form of extending maturity dates, has even been mentioned by a number of high-ranking European Commission officials. Greece is under huge pressure from the European Union to speed up its privatisation efforts to raise money. Meanwhile as the possibility of a sovereign debt default rises, the spread in the interest rate of Greek Government bonds over German Government bonds has spiked higher (see Figure 1).

Latest news...



● **London's Economic Outlook: Spring 2011**

The GLA's medium-term planning projections

GLA Economics' eighteenth London forecast suggests that London's Gross Value Added (GVA) growth rate should be 2.0 per cent in 2011. Growth should increase to 2.6 per cent in 2012 and 2.9 per cent in 2013. Visit **http://www.london.gov.uk/publication/london-economic-outlook-spring-2011** to download this report.

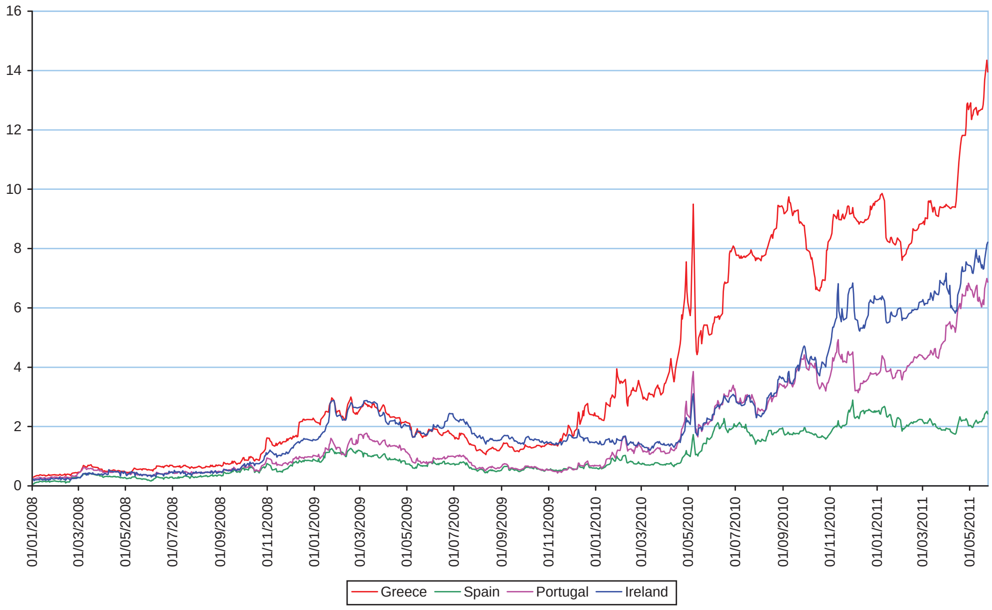
● **London's labour market in the recent recession** (updated May 2011)

Compared to recent recessions (1980s and 1990s), London and the UK's labour market continue to show resilience to the latest economic downturn Visit **http://www.london.gov.uk/publication/working-paper-44-londons-labour-market-recent-recession** to download the updated slides.

Figure 1: Ten-year government bond spreads over German bonds, percentage points

Last data point is 24/05/2011

Source: EcoWin



With the situation deteriorating, the major aim of international organisations such as the European Commission, European Central Bank (ECB) and IMF is to avoid the current sovereign debt crisis spreading from 'small peripheral' nations to the likes of Spain and Italy. An IMF report on the 12 May stated that "unrelenting reform efforts at the national level of the crisis-afflicted countries need to be the first line of defence," and that "contagion to the core euro area, and then onward to emerging Europe, remains a tangible downside risk." Restoring confidence in the Eurozone's banking system is seen as vital with the IMF noting "the upcoming round of stress tests provides an opportunity to address remaining vulnerabilities and will need to be followed by credible steps to increase capital buffers of viable banks".

The two-speed nature of the Eurozone economies shows no signs of ending with the excessive divergence leading to major problems for the ECB. As a whole the Eurozone grew by 0.8 per cent in Q1 2011 (compared with 0.4 per cent in Q4 2010). However, there was a sharp divide across the Eurozone with Germany growing by 1.5 per cent, France by 1.0 per cent and the Netherlands by 0.9 per cent whilst Portugal contracted for a second consecutive quarter and Italy grew by only 0.1 per cent. Concerns that the ECB may raise Eurozone interest rates further over the summer have increased with Eurozone inflation rising to 2.8 per cent in April 2011, up from 2.7 per cent in March. Higher Eurozone interest rates are likely to dampen growth in 'peripheral' Eurozone members at a time when their economies are already struggling.

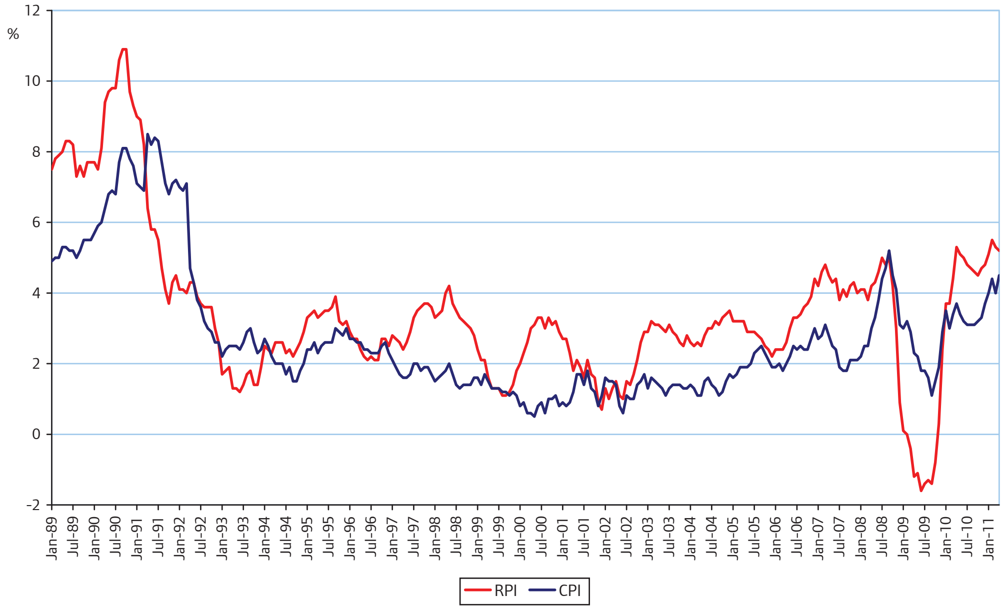
Bank of England forecasts even higher inflation

In its May Inflation Report the Bank of England indicated that it expects Consumer Price Index (CPI) annual inflation to hit 5 per cent later in 2011. This winter retail gas prices could well rise by 15 per cent with retail electricity prices rising by 10 per cent. However, the Bank of England does believe that inflation will fall back in 2012 and 2013. Annual CPI inflation rose more than expected in April to 4.5 per cent (its highest level since October 2008), up from 4 per cent in March (see Figure 2). So far wage growth remains muted despite above target inflation and inflation expectations have not jumped dramatically higher. If this changes then the Bank of England would likely raise interest rates more sharply and quicker than the gradual increase over the next couple of years that is currently expected.

Figure 2: UK annual inflation rates

Last data point is April 2011

Source: Office for National Statistics



Retail sector received a boost in April which is not expected to last

Retail sales were strong in April but this boost to the retail sector could well be short lived. The extra bank holiday due to the royal wedding and the good weather during April supported the retail sector but these are one off factors rather than signs of improved fundamentals for household consumption. Stephen Robertson, Director General, British Retail Consortium, has stated "considered together, the results for March and April largely cancel each other out and the overall trend is flat. The underlying pressures on the retail sector of climbing costs and depressed consumer spending will be problems for many months to come".

Ernst and Young's Item Club have forecast a sluggish recovery in consumer spending until 2020 with it expected to increase at an average rate of only 2 per cent a year. Consumer spending is under pressure from debt repayments, high inflation and tight lending criteria with interest rates also expected to rise over the next couple of years. The UK as a whole is forecast by the Item Club to be severely affected with consumer spending rising by only 0.6 per cent this year and by 1.3 per cent in 2012 (whilst London is expected to experience consumer spending growth of 1.5 per cent in 2011).

A continuing economic recovery for London but household finances remain tight

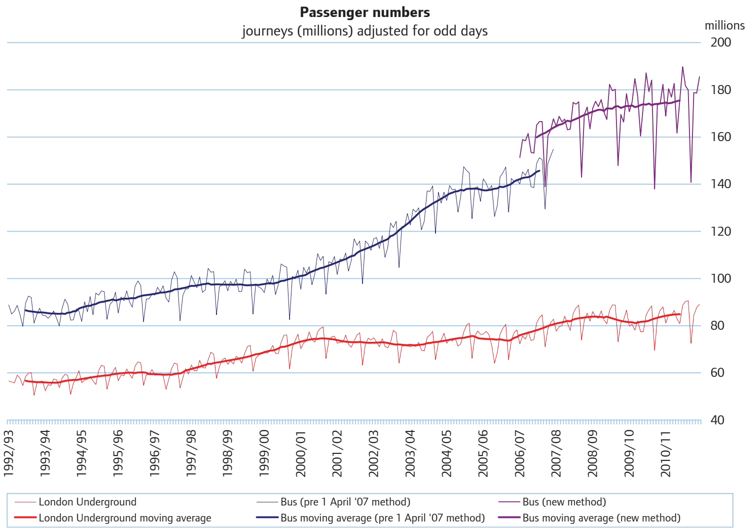
London's economic recovery from recession is expected to continue over the next few years. GLA Economics' London's Economic Outlook: Spring 2011 forecasts output growth of 2.0 per cent in 2011 followed by a slightly stronger pick-up. Employment in London has risen over the last year while unemployment has remained relatively static. The claimant count edged up higher in April though changes in benefit rules need to be taken into account as these are leading to people moving onto Jobseeker's Allowance from other benefits. Private sector investment and trade will be at the forefront of the recovery whilst there is a rebalancing away from public sector expenditure and household consumption. The recovery is unlikely to be a smooth one with one downside risk being from a sovereign debt default in the Eurozone (most likely to be by Greece). Fiscal consolidation in the UK has set the path for a stronger, more balanced economy but the transition involves a tough time for the finances of many households.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 26 day period is from 6 March 2011 to 31 March 2011. Adjusted for odd days, London's Underground and buses had 274.5 million passenger journeys; 185.5 million by bus and 89.0 million by Underground.
- The moving average of passengers every period increased to 260.3 million from 260.0 million in the previous period. The moving average for buses was 175.5 million. The moving average for the Underground was 84.9 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: May 2011
Next release: June 2011

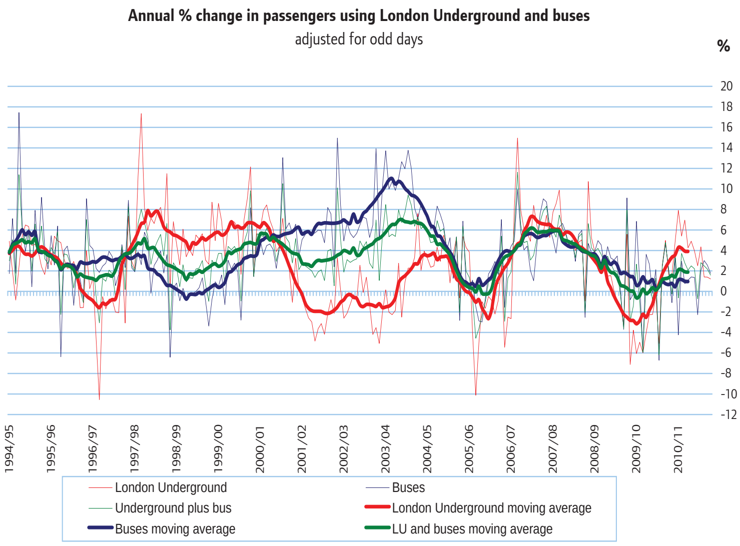


Source: Transport for London

Average annual growth rate of passengers remains unchanged

- The moving average annual rate of growth in passenger journeys remains unchanged at 1.9% from the previous period.
- The moving average annual rate of growth in bus passenger journey numbers remains unchanged at 1.0% from the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers remains unchanged at 3.9% from the previous period.

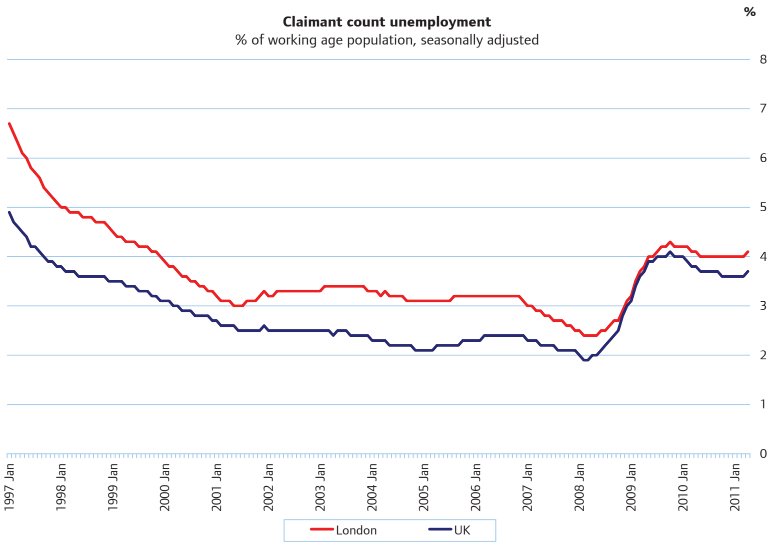
Latest release: May 2011
Next release: June 2011



Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseeker's Allowance (seasonally adjusted) in London was 4.1% in April 2011.
- There were 222,400 seasonally adjusted unemployment claimants in London in April 2011 compared with an upwardly revised 217,100 in March 2011.
- There were 1,468,600 seasonally adjusted unemployment claimants in the UK in April 2011 compared with an upwardly revised 1,456,200 in March 2011.



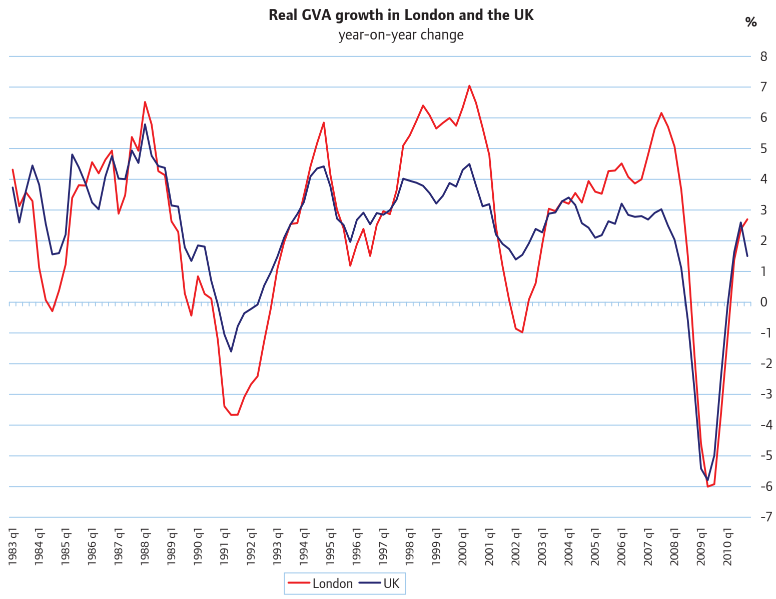
Latest release: May 2011
Next release: June 2011

Source: Claimant Count, Nomis

Annual output growth in London increased in Q4 2010

- London's annual growth in output increased to 2.7% in Q4 2010 from a downwardly revised 2.4% in Q3 2010.
- Annual output growth in the UK decreased to 1.5% in Q4 2010 from a downwardly revised 2.6% in Q3 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2011
Next release: August 2011

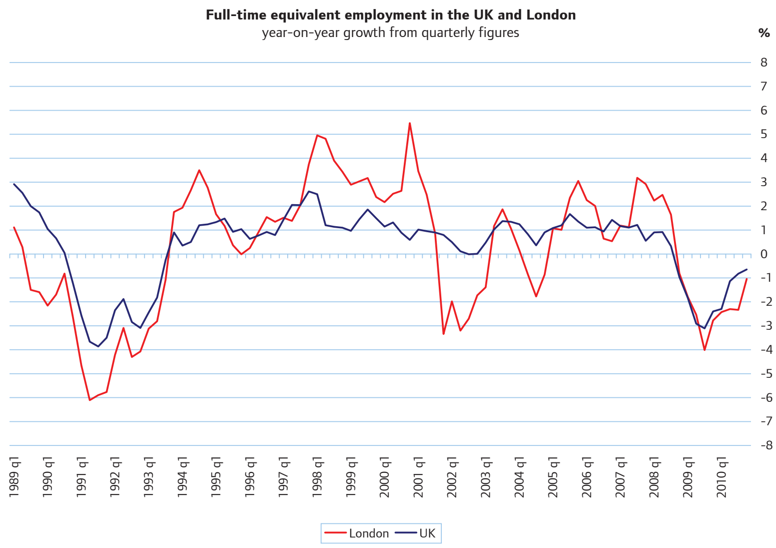


Source: Experian Economics

Negative annual employment growth in Q4 2010

- London's annual employment growth increased to -1.0% in Q4 2010 from a downwardly revised -2.3% in Q3 2010.
- Annual employment growth in the UK increased to -0.6% in Q4 2010 from a downwardly revised -0.8% in Q3 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2011
Next release: August 2011

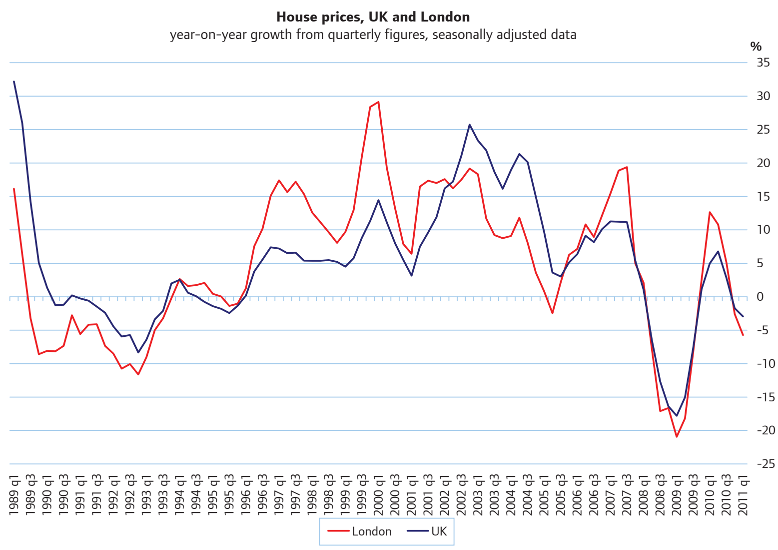


Source: Experian Economics

Annual house prices falling

- House prices, as measured by the Halifax, were lower in Q1 2011 than in Q1 2010 in both London and the UK.
- Annual house price inflation in London was -5.7% in Q1 2011, down from -2.6% in Q4 2010.
- Annual house price inflation in the UK was -2.9% in Q1 2011, down from -1.7% in Q4 2010.

Latest release: April 2011
Next release: July 2011

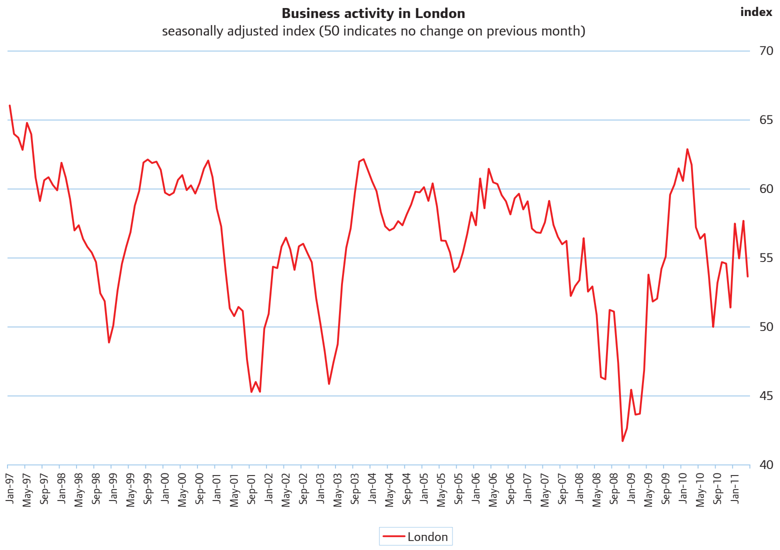


Source: Halifax house price index

London's business activity increasing

- London firms increased their output of goods and services in April 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.7 in April 2011 compared to 57.7 in March 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: May 2011
Next release: June 2011

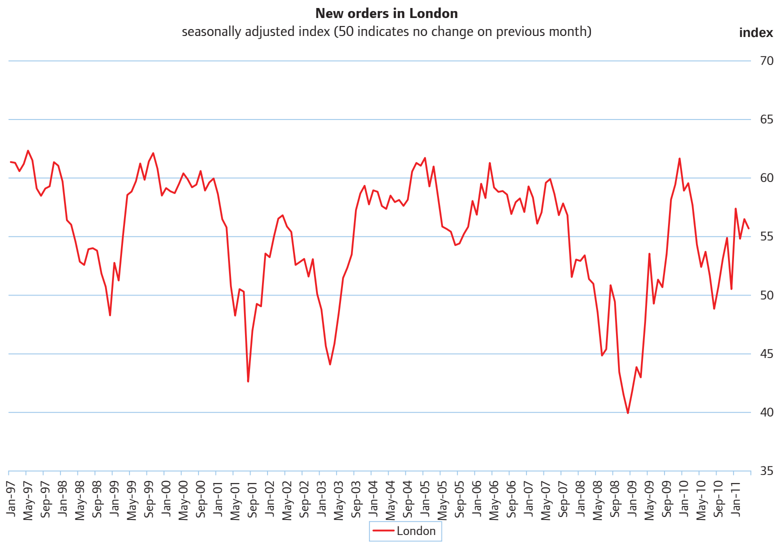


Source: Markit Economics

New orders in London rising

- April 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 55.7 in April 2011 compared to 56.5 in March 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: May 2011
Next release: June 2011

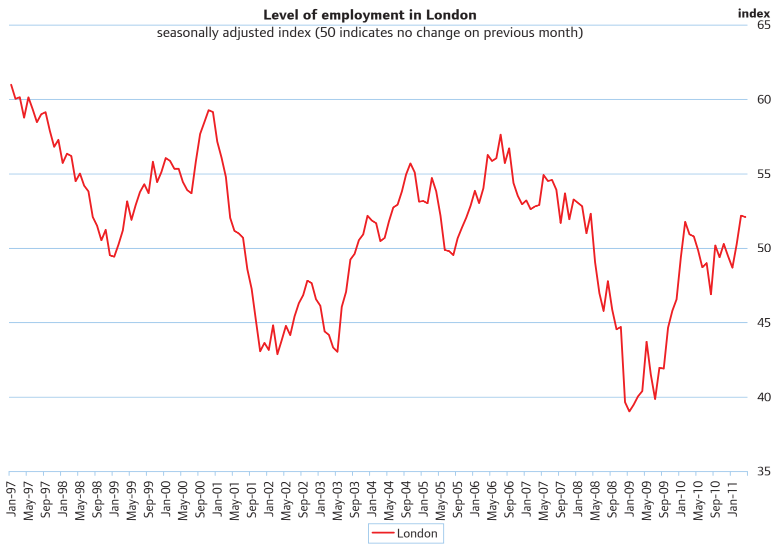


Source: Markit Economics

Businesses report higher employment in April

- The PMI shows that the level of employment in London firms increased in April 2011.
- The PMI for the level of employment was 52.1 in April 2011 compared to 52.2 in March 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: May 2011
Next release: June 2011

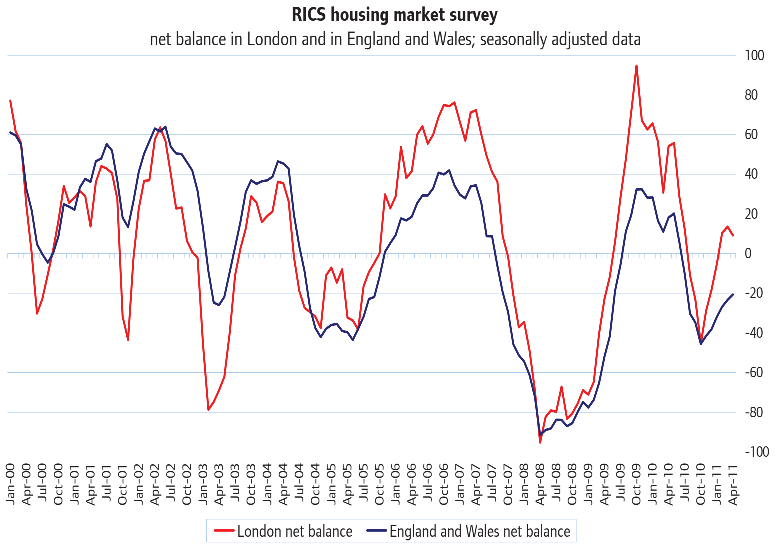


Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS survey shows a positive net balance of 9 for London house prices over the past three months to April 2011.
- Surveyors reported a negative net house price balance for England and Wales of -21 over the past three months to April 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: May 2011
Next release: June 2011

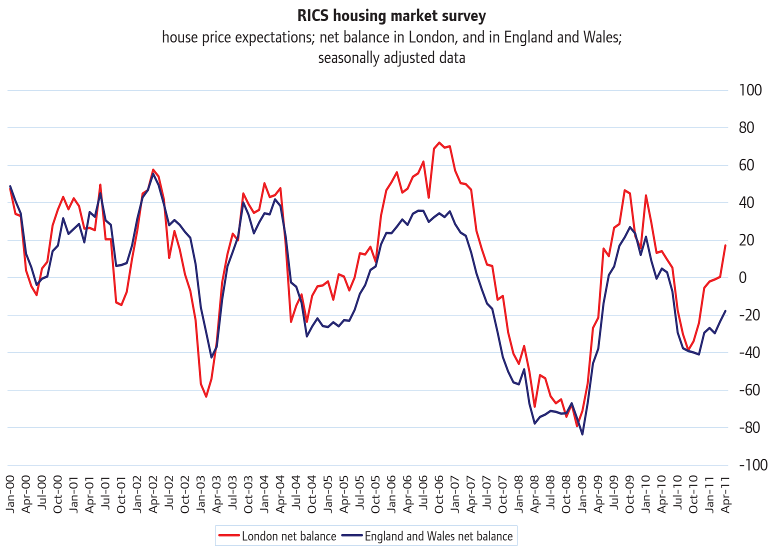


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices in London to rise over the next three months but to continue to fall in England and Wales.
- The net house price expectations balance in London was 17 in April 2011.
- For England and Wales, the net house price expectations balance was -18 in April 2011.

Latest release: May 2011
Next release: June 2011

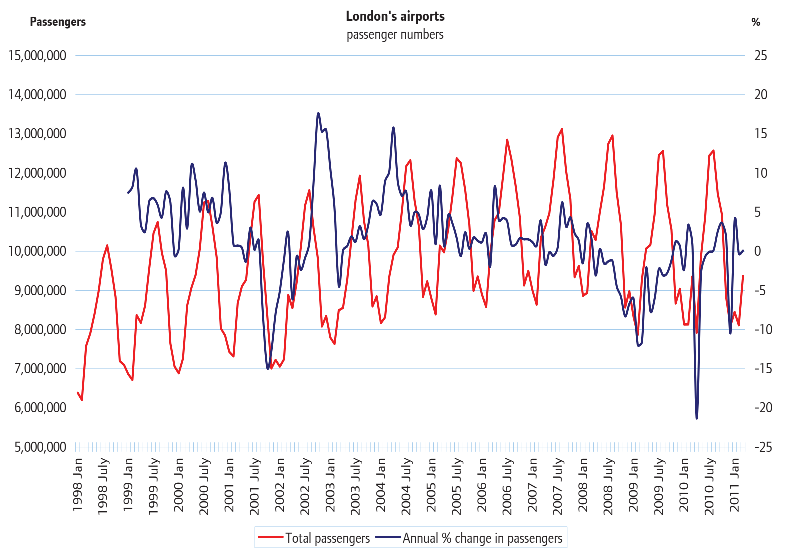


Source: Royal Institution of Chartered Surveyors

Small increase in year-on-year airport passenger numbers

- 9.4 million passengers travelled through London's airports in March 2011.
- The number of passengers using London's airports increased by 0.1% from March 2010 to March 2011.
- Airport passenger numbers fell during the recession and are still below pre-recession levels.

Latest release: May 2011
Next release: June 2011



Source: Civil Aviation Authority

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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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