

London's Economy Today

Issue 109 | September 2011

In this issue

Crisis deepens in the Eurozone and world growth forecasts downgraded	1
Latest news	1
Economic indicators	5

Crisis deepens in the Eurozone and world growth forecasts downgraded

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Shevane Poyser**, Trainee Intelligence Officer

The crisis in the Eurozone showed little sign of weakening during September with the spreads on a number of European government bonds against German government bonds remaining high (see Figure 1). Stock markets slid on concerns about slowing world growth, debt in peripheral Eurozone countries (especially Greece) and political inaction in the Eurozone.

Confidence of consumers, businesses and markets has been damaged by what seems like a lack of political will in the Eurozone, which could lead to a disorderly debt default by Greece. Disagreements between Republicans and Democrats regarding reducing the US budget deficit are also not helping matters. A comprehensive package to solve the crisis in the Eurozone has yet to be put into action with a number of commentators arguing that Greece's position is becoming increasingly untenable. Meanwhile worries about the sovereign debt of other Eurozone members remains high which has seen Standard & Poor's downgrade Italian sovereign debt to A with a negative outlook. Concerns about the stability of some banks (especially French) in 'core' Eurozone countries due to their exposure to Greek debt have also emerged with Moody's downgrading Credit Agricole and Societe Generale.

Latest news...

● Labour market flows in London

These flows show the underlying movements which sit behind published headline labour market rates. To download this publication go to <http://www.london.gov.uk/publication/labour-market-flows-london>

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

Compared to the recovery in recent recessions (1980s and 1990s), London and the UK's labour market continue to show resilience following the 2008 economic downturn. Visit <http://www.london.gov.uk/publication/working-paper-44-londons-labour-market-recent-recession> to download the updated slides.

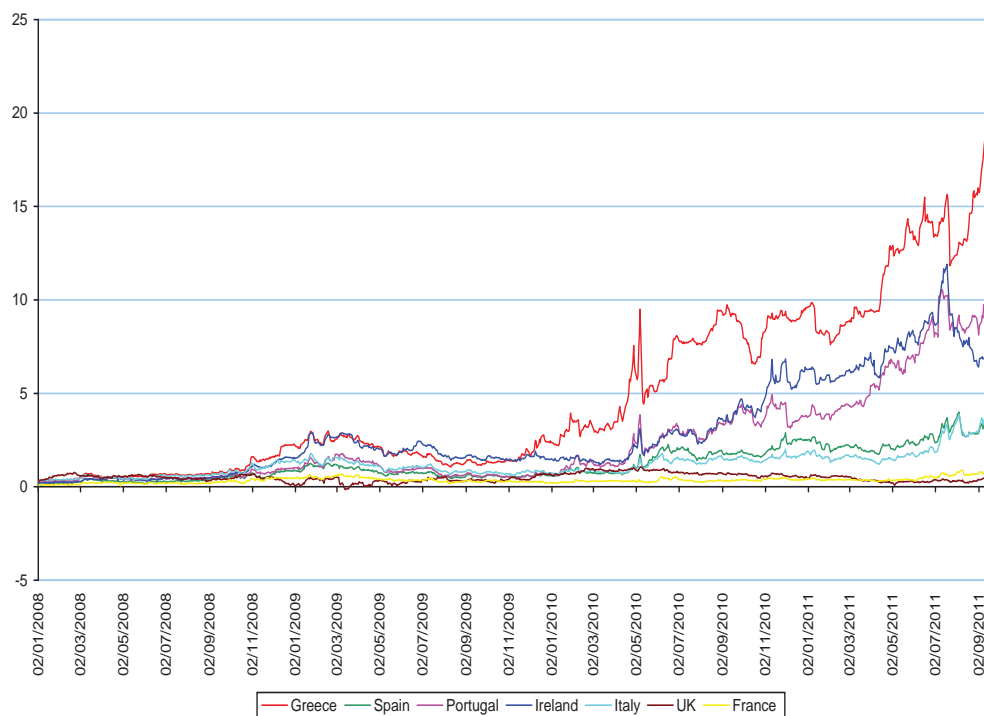
● Worklessness in London 2011

This Update shows that almost one in five households in London are workless and one in five children in London live in workless households. Download this report here <http://www.london.gov.uk/who-runs-london/mayor/publications/society/facts-and-figures/labour-market>

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

Last data point is 23/9/2011

Source: EcoWin



Central banks have already taken some action to steady markets and may well take further action in the future as overnight money markets that fund banks have been tightening. The Bank of England, Federal Reserve, Swiss National Bank, European Central Bank and Bank of Japan have announced that from October they will provide three-month dollar liquidity loans over year-end to banks. This is an attempt to stave off a dollar funding crisis as lending to important Eurozone banks (including major French ones) has fallen on worries that a large bank could fail due to its exposure to peripheral Eurozone debt. The Federal Reserve has also launched a scheme dubbed Operation Twist to stimulate the US economy. This will see them selling \$400 billion of bonds maturing within three years and use the proceeds of the sale to buy longer-term debt. The aim of the plan is to keep long-term interest rates low, which will aid mortgage lending and business loans.

The Vickers report proposes 'ring-fencing' bank reform

The major proposal of Sir John Vickers' Independent Commission on Banking (ICB) report, was that UK banks should separate their domestic retail banking from wholesale/investment banking activities. The report recommends ring-fencing as a means to protect the deposits and overdrafts of retail consumers and small businesses. Under this system, banks would have to separate their retail activity into a separate legal subsidiary that will have to hold capital of at least 10 per cent. The Chancellor George Osborne has backed the proposal of the ICB calling for "Britain and the City of London to be the pre-eminent global centre for banking and finance". The British Bankers' Association (BAA) has been cautious in its response to the proposed reforms, suggesting that considerations must be made regarding the potential effects on the UK's wider recovery. The proposals of the ICB will not be implemented in the short term (the proposals are not expected to take effect until 2019) so banks will have plenty of time to plan for their implications.

IMF downgrades global growth forecasts

On 20 September the IMF released their latest global economic forecast in their World Economic Outlook which warned that “the global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing”. Particular risks associated with the turmoil in the Eurozone and softening of US economic activity were highlighted in the report. The IMF downgraded their forecasts for economic growth in a number of countries. They are now forecasting growth in the UK of 1.1 per cent in 2011 down from a forecast in June of growth of 1.5 per cent. Growth of 1.6 per cent is forecast in 2012 down from the previous forecast of 2.3 per cent. The US is now forecast to grow by 1.5 per cent in 2011 and 1.8 per cent in 2012, whilst the Eurozone is expected to grow by 1.6 per cent in 2011 and 1.1 per cent in 2012 (all of these forecasts were downwardly revised). World economic output is expected to grow by 4 per cent in 2011 and 2012, compared to previously forecast growth rates of 4.3 per cent and 4.5 per cent. The slowing global economy and downgrades in world growth have led to falls in commodity prices such as oil (see Figure 2). At least this will help temper inflationary pressures (i.e. in the UK inflation is expected to rise to around 5 per cent over the next few months but is then expected to fall next year.)

Figure 2: Brent crude oil price (US \$ per barrel)
Last data point is 23/9/2011

Source: FT



UK business confidence weakens

The latest Institute of Chartered Accountants in England and Wales/Grant Thornton UK Business Confidence Monitor was published in September. This found in those businesses surveyed between 3 May-29 July 2011, that “business confidence has fallen to its lowest level since Q3 2009”, whilst “the positive trend in turnover and profits growth which began in the middle of 2010 has faltered this quarter”. In London the Monitor found that “confidence in the region has seen a general decline from the post-recession high in Q1 2010, although it does remain stronger than in many other English regions”.

Weakening global economic outlook will impact London

The British Chambers of Commerce has reduced their forecast for UK economic growth in 2011 to 1.1 per cent from 1.3 per cent in June and reduced their forecast for 2012 to 2.1 per cent from 2.2 per cent. Meanwhile the Chancellor of the Exchequer, George Osborne, has warned about the short-term prospects for the economy saying that “we have all had to revise down our short-term expectations over recent weeks”. The September minutes of the Bank of England’s Monetary Policy Committee highlighted the current fragile nature of the UK recovery with most members who voted to keep monetary policy unchanged thinking that it was increasingly likely that another round of quantitative easing would become warranted at some point.

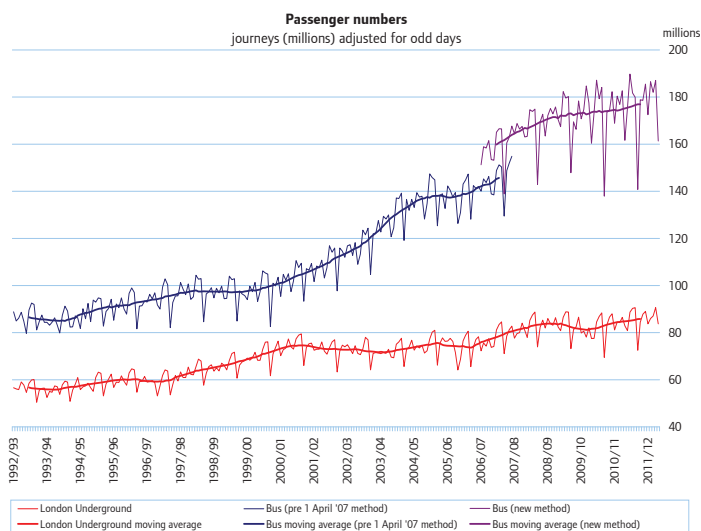
In the US the economic situation is precarious with consumer confidence hitting its lowest level since April 2009 in August. The Federal Reserve’s Beige Book published in September observed that the economy remained sluggish and that “economic activity continued to expand at a modest pace, though some districts noted mixed or weakening activity”. On 21 September the Federal Reserve warned about “serious downside risks” to the US economy, which led to heavy falls in global stock markets. These falls caused the G20 to announce that it would “take all necessary actions to preserve the stability of banking systems and financial markets as required”. The IMF’s Global Financial Stability report (September) noted that “for the first time since the October 2008 Global Financial Stability Report, risks to global financial stability have increased, signalling a partial reversal in progress made over the past three years”. With the global economic environment worsening in September, and political inaction in the Eurozone becoming an increasing concern to markets, it has become more likely that the growth that London will experience into 2012 will be weaker than that which was expected at the beginning of this year.

Economic indicators

5

Moving average of passenger numbers remains unchanged

- The most recent 28 day period is from 24 July 2011 to 20 August 2011. Adjusted for odd days, London's Underground and buses had 245.1 million passenger journeys; 161.3 million by bus and 83.7 million by Underground.
- The moving average of passengers every period stayed at 262.7 million. The moving average for buses was 176.9 million. The moving average for the Underground was 85.8 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).



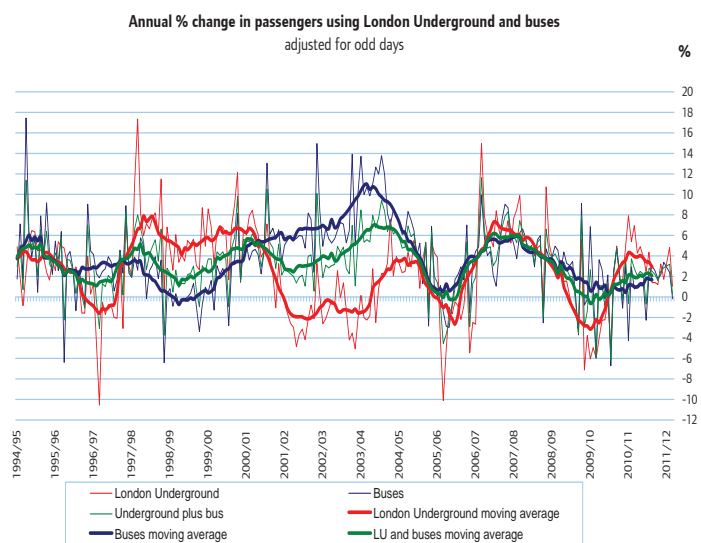
Source: Transport for London

Latest release: September 2011

Next release: October 2011

Average annual growth rate of passengers falls

- The moving average annual rate of growth in passenger journeys fell to 2.1% from 2.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers remained constant at 1.7% from the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers fell to 2.9% from 3.4% in the previous period.



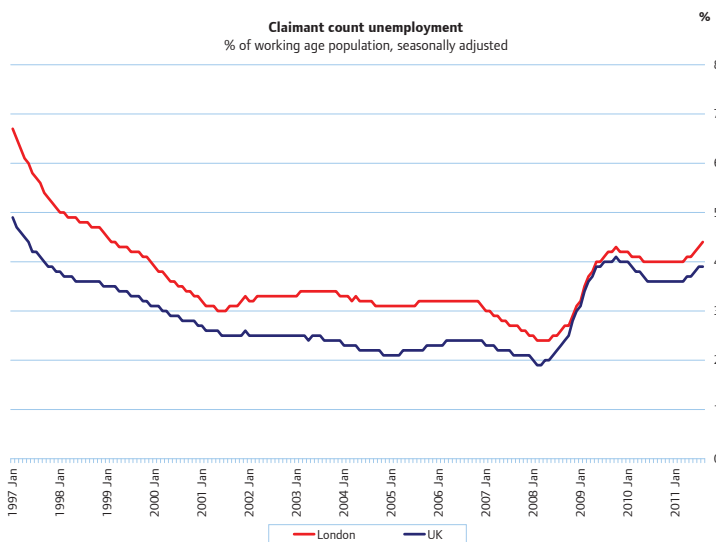
Source: Transport for London

Latest release: September 2011

Next release: October 2011

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.4% in August 2011.
- There were 234,600 seasonally adjusted unemployment claimants in London in August 2011 compared with 231,200 in July 2011.
- There were 1,580,900 seasonally adjusted unemployment claimants in the UK in August 2011 compared with a downwardly revised 1,560,600 in July 2011.



Source: Claimant Count, Nomis

Latest release: September 2011

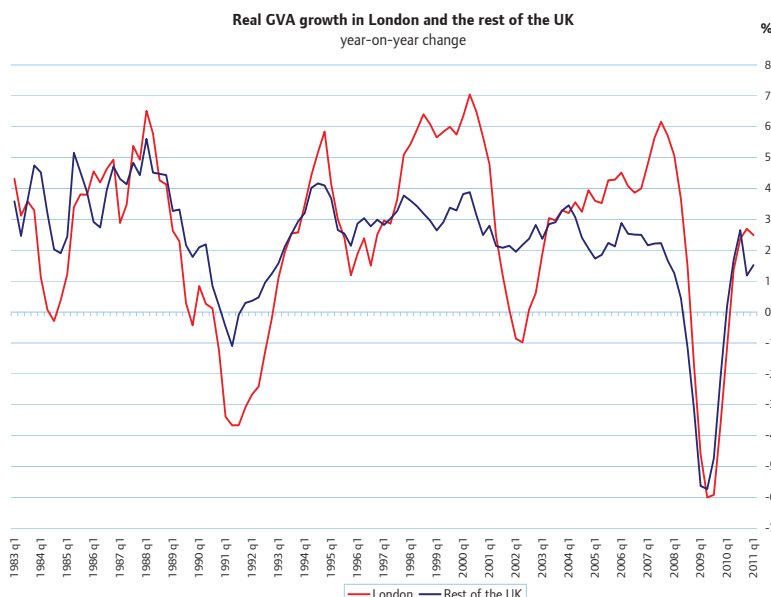
Next release: October 2011

Faster annual output growth in London than in the rest of the UK in Q1 2011

- London's annual growth in output decreased to 2.5% in Q1 2011 from 2.7% in Q4 2010.
- Annual output growth in the rest of the UK increased to 1.5% in Q1 2011 from 1.2% in Q4 2010.
- In Q1 2011 London's annual growth rate was faster than in the rest of the UK.

Latest release: August 2011

Next release: November 2011



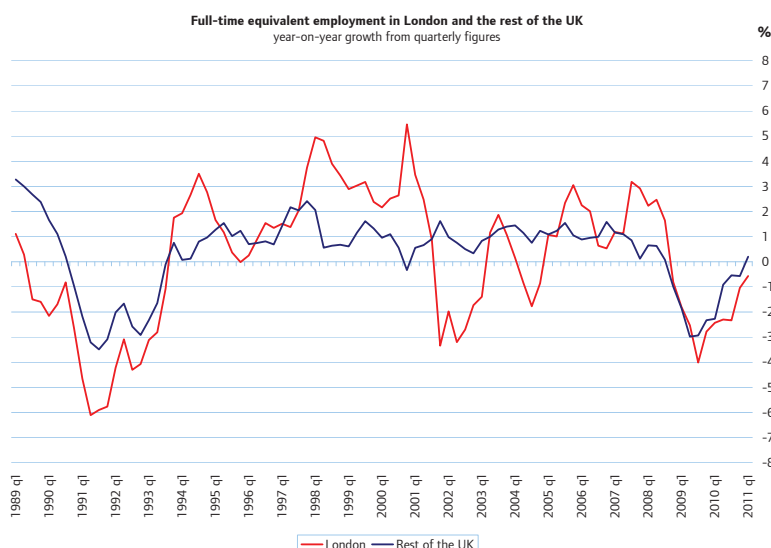
Source: Experian Economics

Negative annual employment growth in London in Q1 2011

- London's annual employment growth increased to -0.6% in Q1 2011 from -1.0% in Q4 2010.
- Annual employment growth in the rest of the UK increased to 0.2% in Q1 2011 from -0.6% in Q4 2010.
- In Q1 2011 London's annual employment growth remained negative and below the rate for the rest of the UK.

Latest release: August 2011

Next release: November 2011



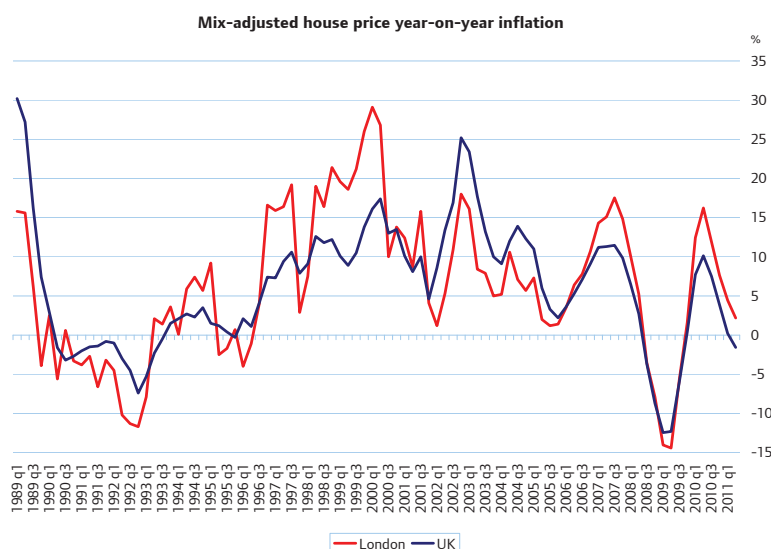
Source: Experian Economics

Annual house price inflation falling, as measured by the DCLG

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q2 2011.
- The DCLG reported a fall in annual house price inflation in both London and the UK in Q2 2011.
- Annual house price inflation in London decreased to 2.2% in Q2 2011 from 4.4% in Q1 2011. Annual house price inflation in the UK decreased to -1.6% in Q2 2011 from 0.2% in Q1 2011.

Latest release: August 2011

Next release: November 2011



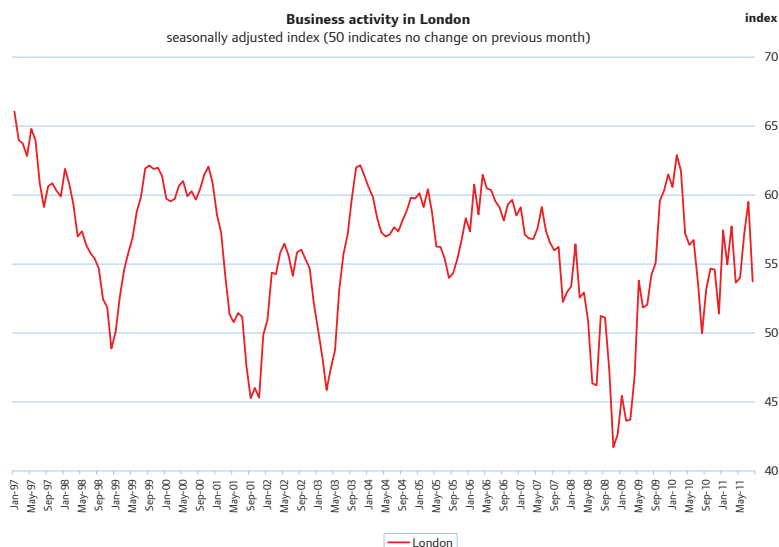
Source: Department for Communities and Local Government

London's business activity increasing

- London firms increased their output of goods and services in August 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.7 in August 2011 compared to 59.5 in July 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: September 2011

Next release: October 2011



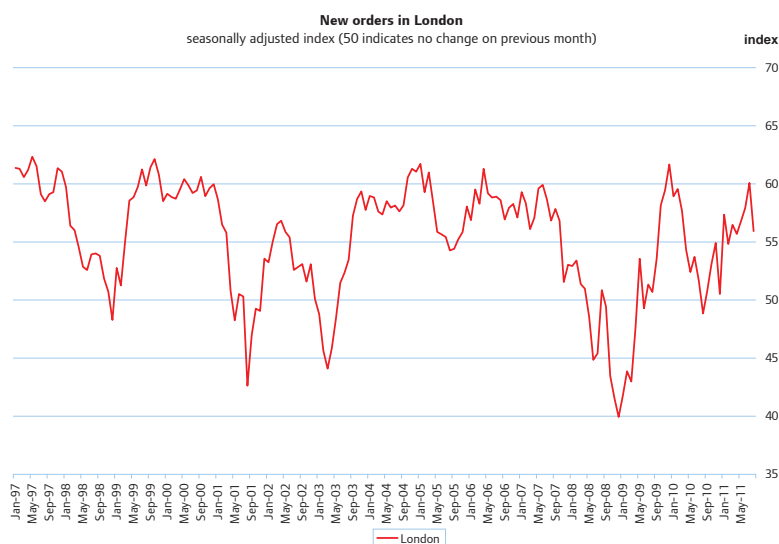
Source: Markit Economics

New orders in London rising

- August 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 55.9 in August 2011 compared to 60.1 in July 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: September 2011

Next release: October 2011



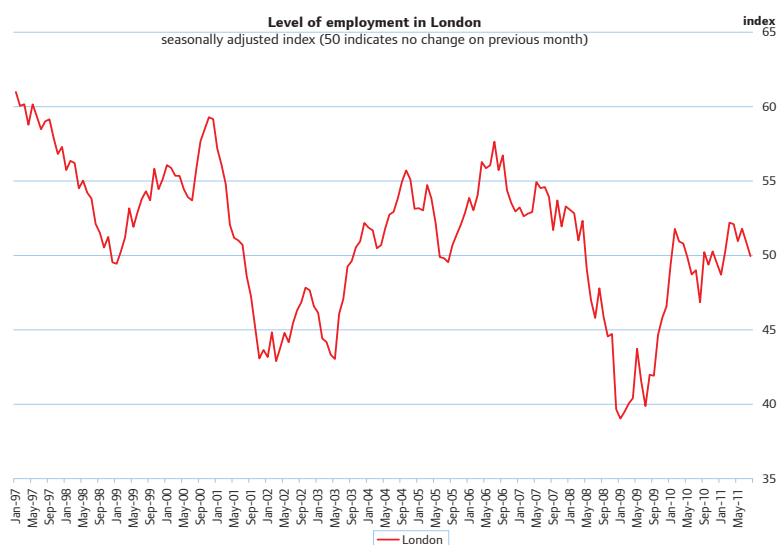
Source: Markit Economics

Businesses report stable employment in August

- The PMI shows that the level of employment in London firms was stable in August 2011.
- The PMI for the level of employment was 50.0 in August 2011 compared to 50.9 in July 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: September 2011

Next release: October 2011



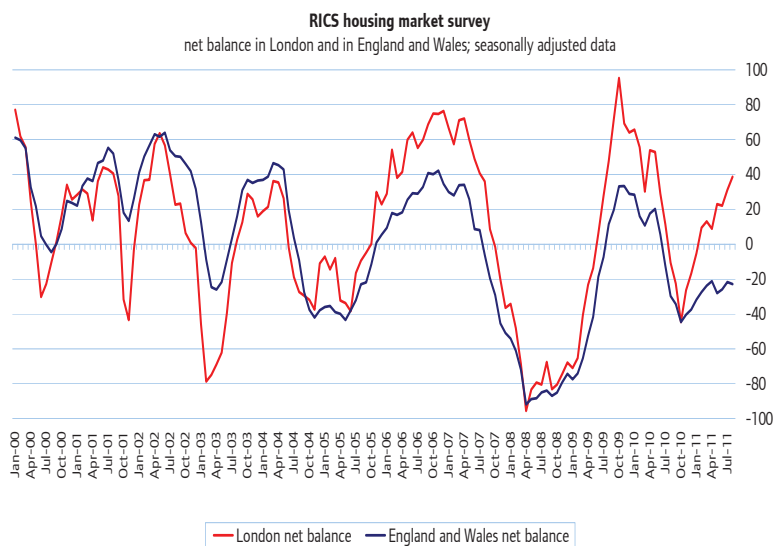
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 39 for London house prices over the past three months to August 2011.
- Surveyors reported a negative net house price balance for England and Wales of -23 over the past three months to August 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: September 2011

Next release: October 2011



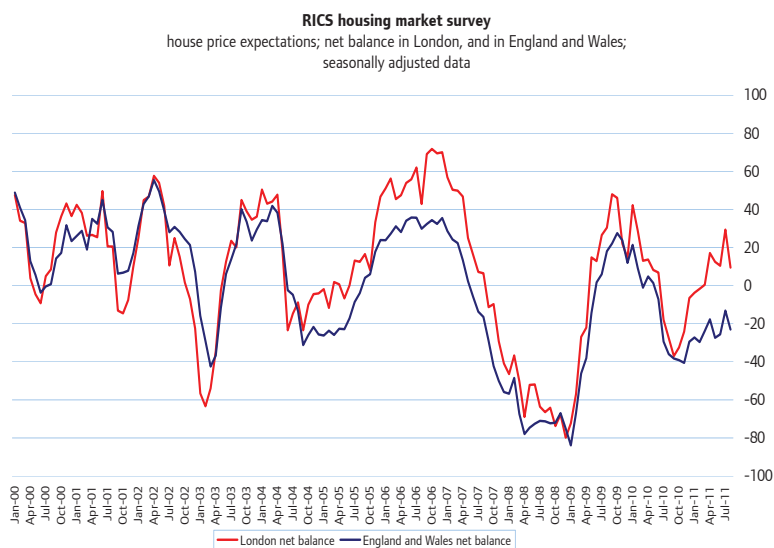
Source: Royal Institution of Chartered Surveyors

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 10 in August 2011.
- For England and Wales, the net house price expectations balance was -23 in August 2011.

Latest release: September 2011

Next release: October 2011



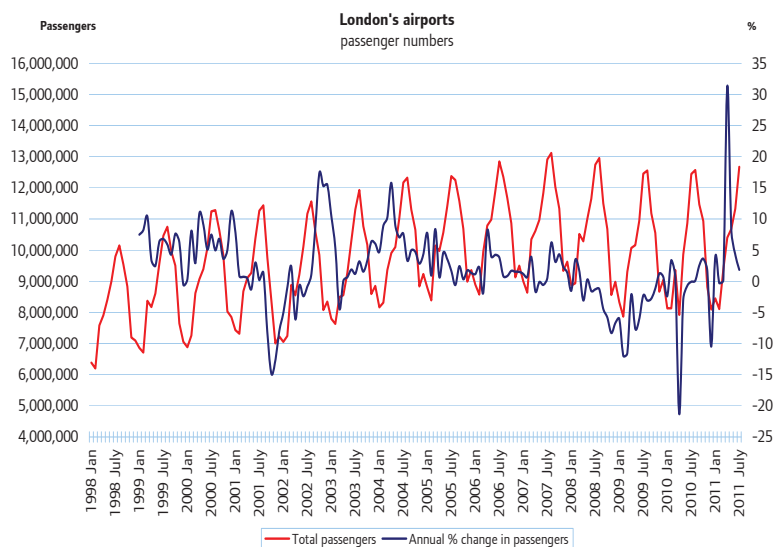
Source: Royal Institution of Chartered Surveyors

Increase in year-on-year airport passenger numbers

- 12.7 million passengers travelled through London's airports in July 2011.
- The number of passengers using London's airports increased by 1.8% from July 2010 to July 2011.
- Airport passenger numbers fell during the recession and are still below pre-recession levels.

Latest release: September 2011

Next release: October 2011



Source: Civil Aviation Authority

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 2011/12 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

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 2011/12 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

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

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4137

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

© Greater London Authority
September 2011

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

Subscribe

Subscribe online at http://www.london.gov.uk/mayor/economic_unit

Disclaimer

GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London, the London Development Agency and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

Other formats

For a summary of this document in your language, or a large print, Braille, disc, sign language video or audio tape version, please contact us at the address below:

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

Tel **020 7983 4100**
Minicom **020 7983 4458**
www.london.gov.uk

Please provide your name, postal address and state the publication and format you require.

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.