

London's Economy Today

Issue 110 | October 2011

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Bank of England eases monetary policy as Eurozone crisis rumbles on

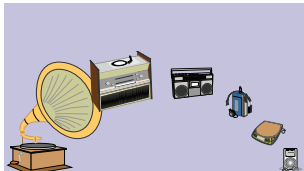
By **Christopher Lewis**, Senior Economist, and **Gordon Douglass**, Economist

The crisis in the Eurozone continued in October with further downgrades of Eurozone governments' debts and problems developing in banks. Fitch and Moody's downgraded both Italian and Spanish government debt, with both agencies noting the increasing risks in the Eurozone. Moody's further warned France that it faced a move from a stable to negative outlook on its AAA credit rating in the next three months if the cost of bank bailouts and rescuing Eurozone members stretched its budget too far. Bond yields of a number of Eurozone countries over German government bonds (an indication of risk) remain elevated (see Figure 1).

Latest news...

GLAECONOMICS

Working Paper 49
Supporting London's innovators
By Nick Ennis and Slawek Kozdras



MAYOR OF LONDON

Working Paper 49: Supporting London's innovators

The social and economic context in which firms operate can encourage or hinder innovation, which calls for policy to get the conditions right for innovators to thrive.

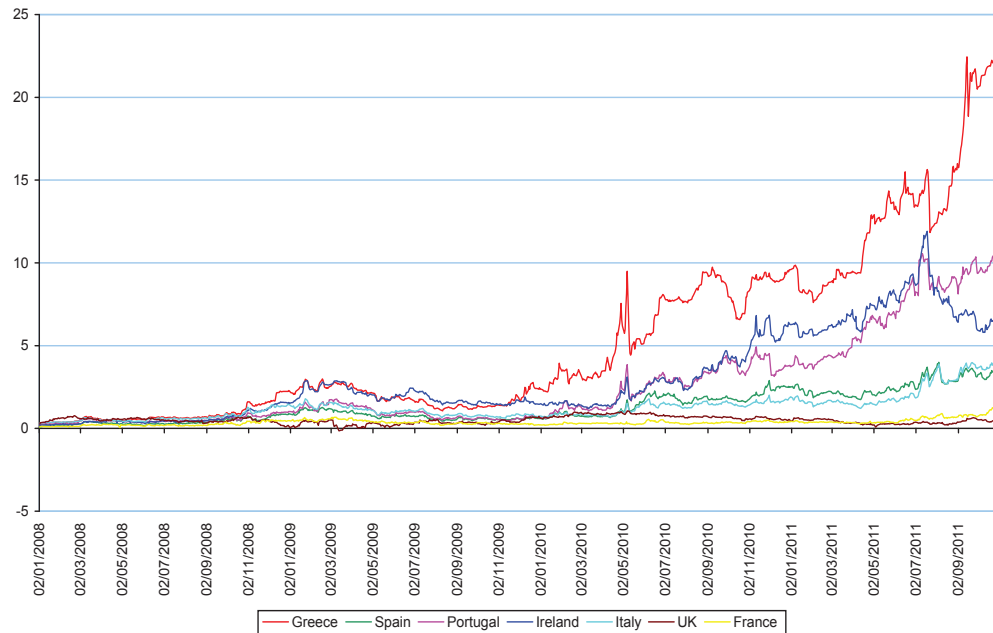
London's key strengths are its business environment and its ability to connect people and spread ideas and knowledge.

Download this paper now from: <http://www.london.gov.uk/publication/working-paper-49-supporting-londons-innovators>

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

Last data point:
25/10/2011

Source: EcoWin



Concerns about the future solvency of some banks in the Eurozone have intensified. Problems at the Franco-Belgian bank Dexia regarding its exposure to Greek debt have led to France, Belgium, and Luxemburg announcing a bailout of the bank. Many other European banks are also likely to need recapitalising in the near future. The IMF warned on 5 October that European banks need a swift recapitalisation with Antonio Borges, the IMF's Europe director stating "the situation today is quite difficult" and added "we have to restore confidence quickly. The best way to do that is to have a capital increase rather quickly".

In the early hours of 27 October the Eurozone leaders agreed the outline to a three-pronged solution to the Eurozone sovereign debt crisis. The exact details have yet to be worked out but the plan would likely involve something like the following: recapitalising Eurozone banks by just over 100bn euros by June 2012; private sector creditors (mainly banks) agreeing to write off 50 per cent of Greek debt; and leveraging up the resources of the bailout fund (the European Financial Stability Facility) to probably in the region of 1 trillion euros. The markets reacted positively to this news on the morning of 27 October, however the devil will be in the exact technical details which have yet to be agreed upon let alone enacted. The possibility of at least some of the above agreement unravelling or taking a long time to implement is a very real one. The sovereign debt crisis in the Eurozone is therefore set to rumble on.

Moody's has downgraded 12 UK financial firms' credit ratings. These firms include Lloyds TSB, RBS, Nationwide and Santander UK. The reason for the downgrades was Moody's belief that the UK Government is less likely to support these firms in future if they were to get in to difficulty. The ratings agency however noted that the downgrade to UK banks does not "reflect a deterioration in the financial strength of the banking system", instead it was a reflection of the removal of systemic support from the financial system.

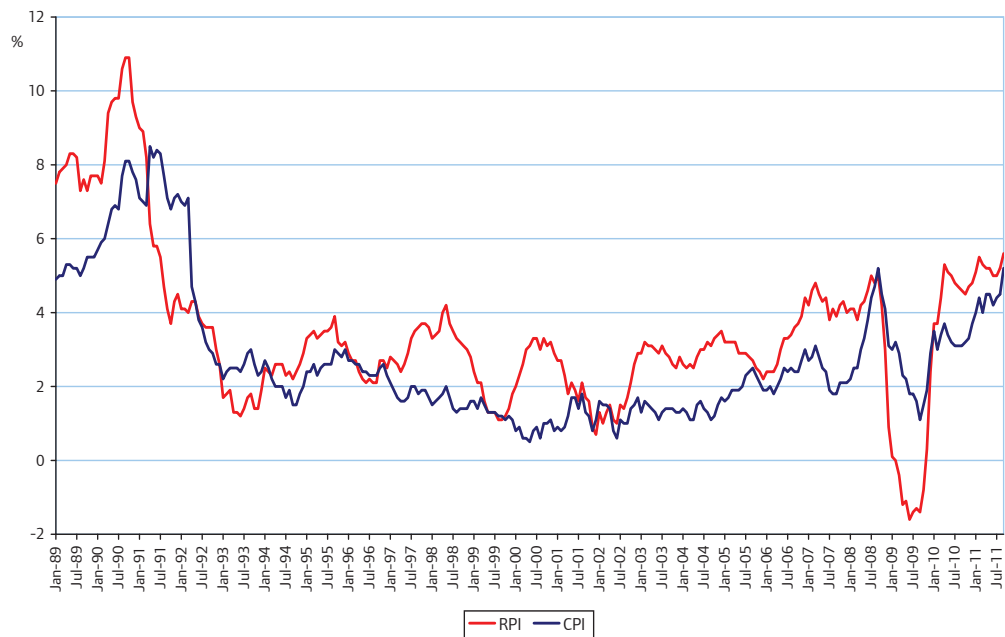
Inflation jumps higher but the weakening economic outlook leads the Bank of England to renew QE

Annual Consumer Price Index (CPI) inflation in September rose to 5.2 per cent (see Figure 2) and annual Retail Price Index (RPI) inflation hit a 20-year high by reaching 5.6 per cent. Higher electricity, gas, transport, and food prices caused the increase in inflation. However, inflation is expected to head downwards in 2012 as this year's increase in VAT falls out of the index. Spare capacity in the economy should also weaken future price rises. High annual CPI inflation in September is likely to be bad news for the government's finances as that month's figure is usually used to set the level of increase to state benefits in the next financial year.

Figure 2: UK annual inflation rates

Last data point is September 2011

Source: Office for National Statistics



The Bank of England has become more concerned about the state of the UK economy, with it noting that the weak economic outlook “has made it more likely that inflation will undershoot the 2% target in the medium term”. The minutes from the last Monetary Policy Committee (MPC) meeting showed that the Bank expects growth to be “close to zero in the fourth quarter”. The weak international economic environment especially in the Eurozone has led to the Bank launching another round of quantitative easing (QE). QE will be increased by a further £75 billion on top of the previous £200 billion. This was agreed unanimously by the MPC.

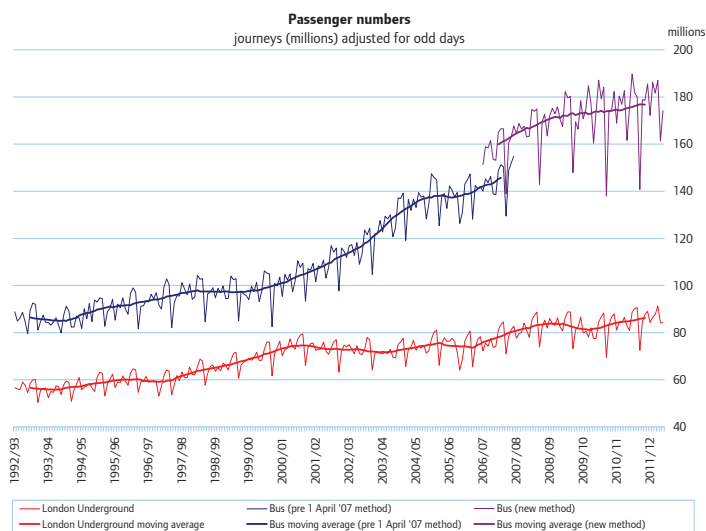
Stuttering recovery for developed world economies

Survey evidence indicates that London's economy continues to expand, however the economic situation is considerably more precarious than at the beginning of the year. Mervyn King has warned that the current financial crisis "is the most serious financial crisis we've seen at least since the 1930s, if not ever". Lending to private non-financial companies fell for a second month in a row in August according to Bank of England data and optimism amongst finance directors of Britain's largest companies has fallen to its lowest level since early 2009 according to a survey by Deloitte. Public sector job losses could be 50 per cent higher than forecast by the Office for Budget Responsibility according to research undertaken by the Chartered Institute of Personnel and Development. Internationally, a number of US lenders have reported new signs that homeowners and credit card borrowers are falling behind on their payments. Within the Eurozone, a comprehensive solution to the sovereign debt crisis has yet to be implemented. With the international economic environment in developed economies in a poor state, London's recovery is likely to continue to be relatively slow with blustery headwinds ahead.

Economic indicators

Increase in moving average of passenger numbers

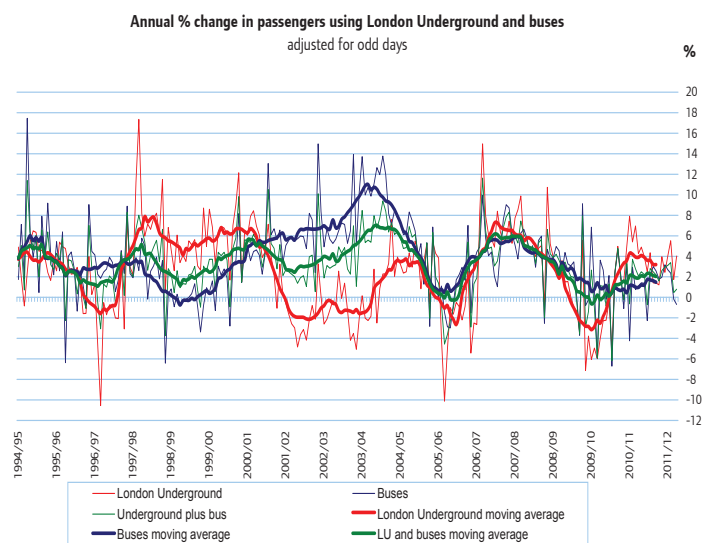
- The most recent 28 day period is from 21 August 2011 to 17 September 2011. Adjusted for odd days, London's Underground and buses had 258.3 million passenger journeys; 174.2 million by bus and 84.1 million by Underground.
- The moving average of passengers every period increased to 263.0 million from 262.9 million in the previous period. The moving average for buses was 176.7 million. The moving average for the Underground was 86.3 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: October 2011
Next release: November 2011

Decline in the average annual growth rate of passengers

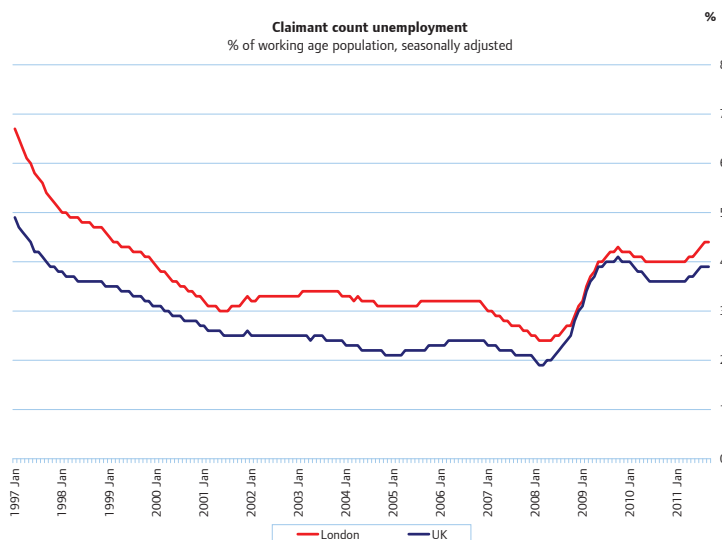
- The moving average annual rate of growth in passenger journeys fell to 2.0% from 2.1% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.5% from 1.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers has remained constant at 3.2% from the previous period.



Latest release: October 2011
Next release: November 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 September 2011.
- There were 235,400 seasonally adjusted unemployment claimants in London in September 2011 compared with a downwardly revised 233,800 in August 2011.
- There were 1,597,200 seasonally adjusted unemployment claimants in the UK in September 2011 compared with a downwardly revised 1,579,700 in August 2011.



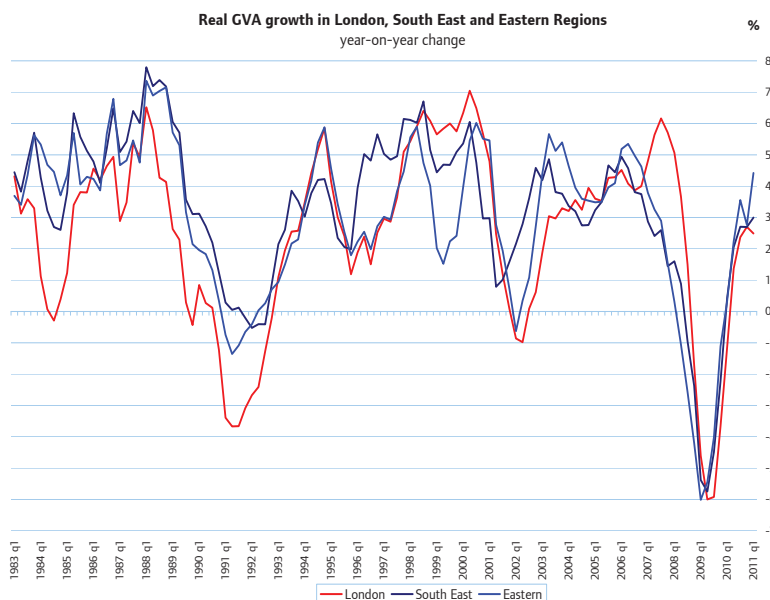
Latest release: October 2011
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Annual output growth in London slowed in Q1 2011

- London's annual growth in output decreased to 2.5% in Q1 2011 from 2.7% in Q4 2010.
- Annual output growth in the South East increased to 3.0% in Q1 2011 from 2.7% in Q4 2010.
- Annual output growth in the Eastern region increased to 4.4% in Q1 2011 from 2.8% in Q4 2010.

Latest release: August 2011

Next release: November 2011

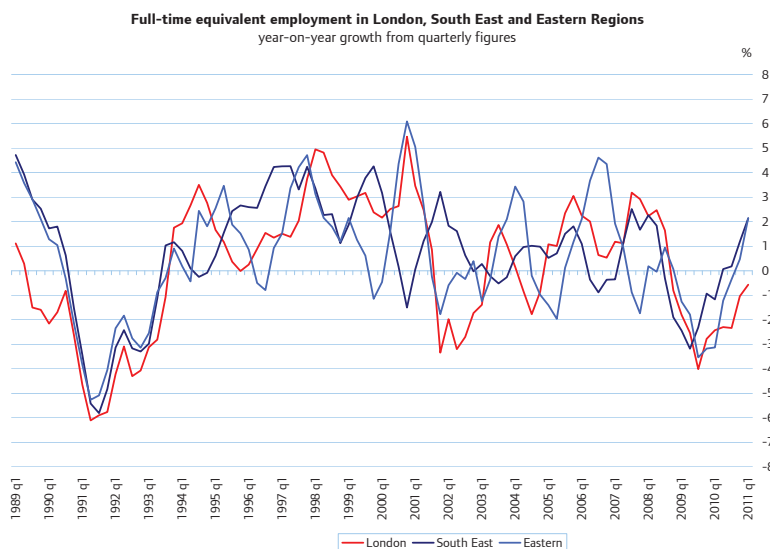


Negative annual employment growth in London in Q1 2011

- London's annual employment growth increased to -0.6% in Q1 2011 from -1.0% in Q4 2010.
- Annual employment growth in the South East increased to 2.1% in Q1 2011 from 1.2% in Q4 2010.
- Annual employment growth in the Eastern region increased to 2.1% in Q1 2011 from 0.5% in Q4 2010.

Latest release: August 2011

Next release: November 2011

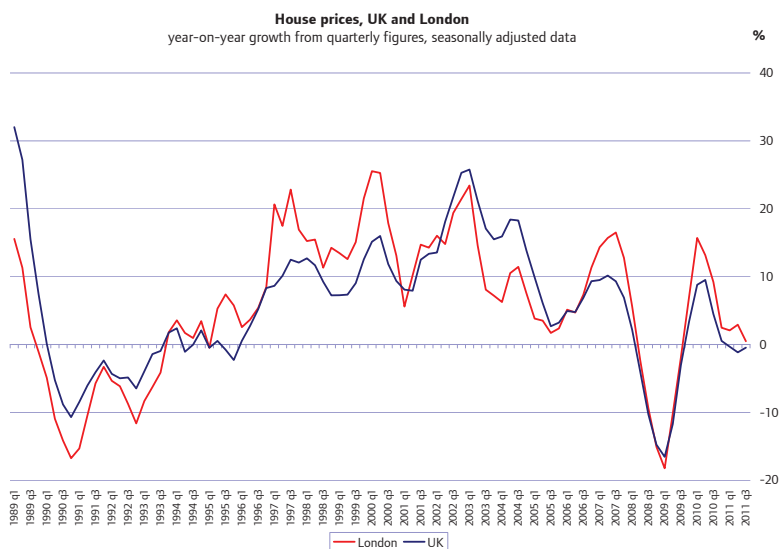


Annual house price inflation falling in London

- House prices, as measured by Nationwide, were higher in Q3 2011 than in Q3 2010 in London but not in the UK.
- Annual house price inflation in London was 0.5% in Q3 2011, down from 2.9% in Q2 2011.
- Annual house price inflation in the UK was -0.5% in Q3 2011, up from -1.2% in Q2 2011.

Latest release: October 2011

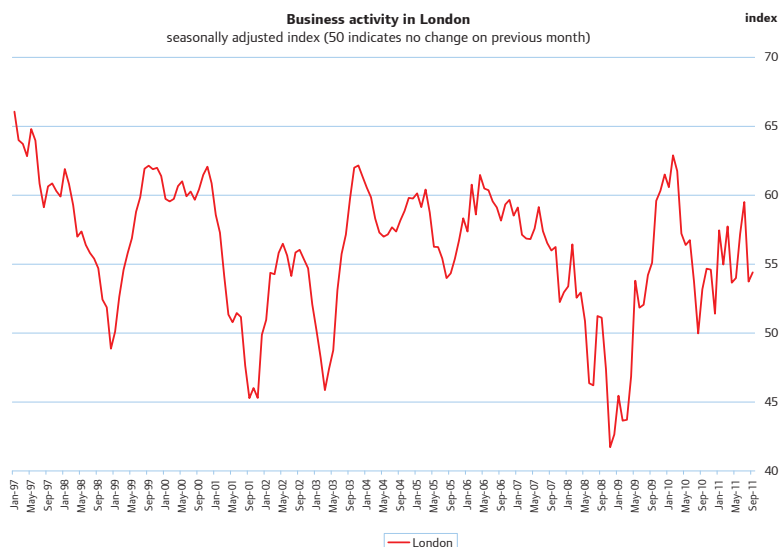
Next release: January 2012



London's business activity increasing

- London firms increased their output of goods and services in September 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.4 in September 2011 compared to 53.7 in August 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: October 2011
Next release: November 2011

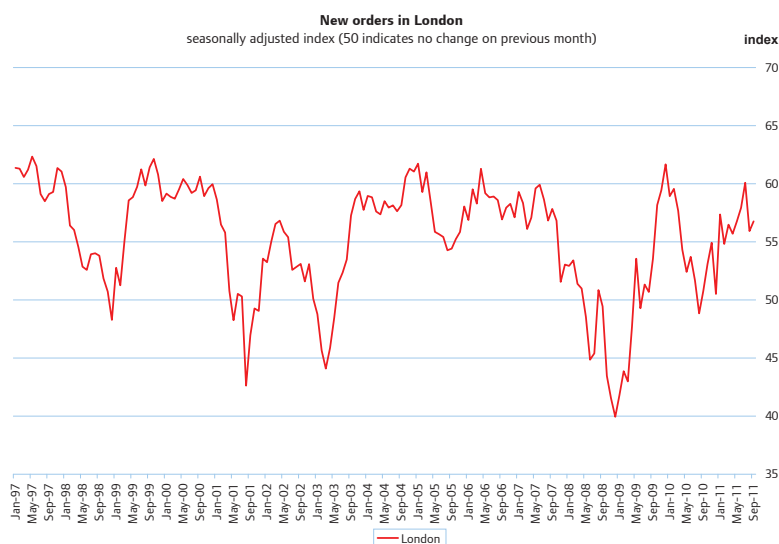


Source: Markit Economics

New orders in London rising

- September 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 56.8 in September 2011 compared to 55.9 in August 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: October 2011
Next release: November 2011

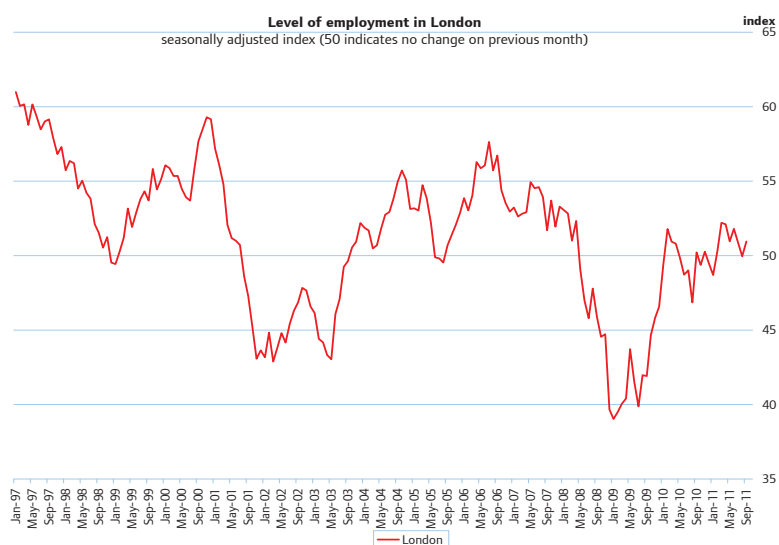


Source: Markit Economics

Businesses report slightly higher employment in September

- The PMI shows that the level of employment in London firms increased in September 2011.
- The PMI for the level of employment was 51.0 in September 2011 compared to 50.0 in August 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: October 2011
Next release: November 2011



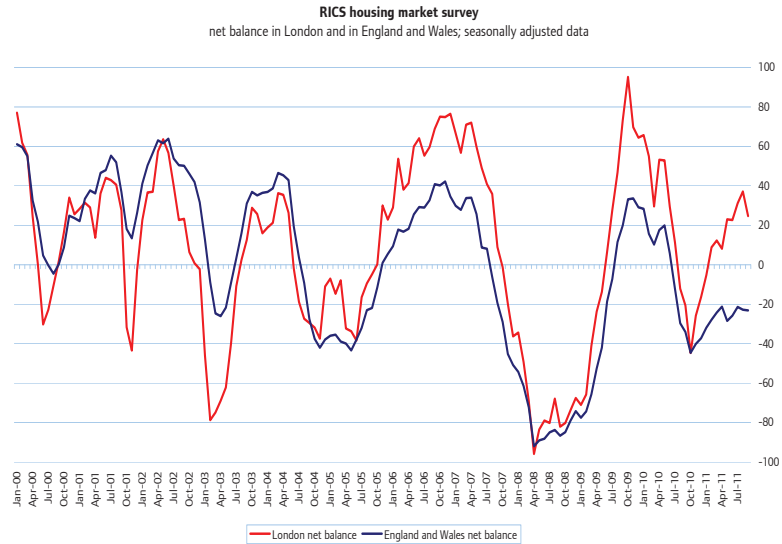
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 25 for London house prices over the three months to September 2011.
- Surveyors reported a negative net house price balance for England and Wales of -23 over the three months to September 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: October 2011

Next release: November 2011



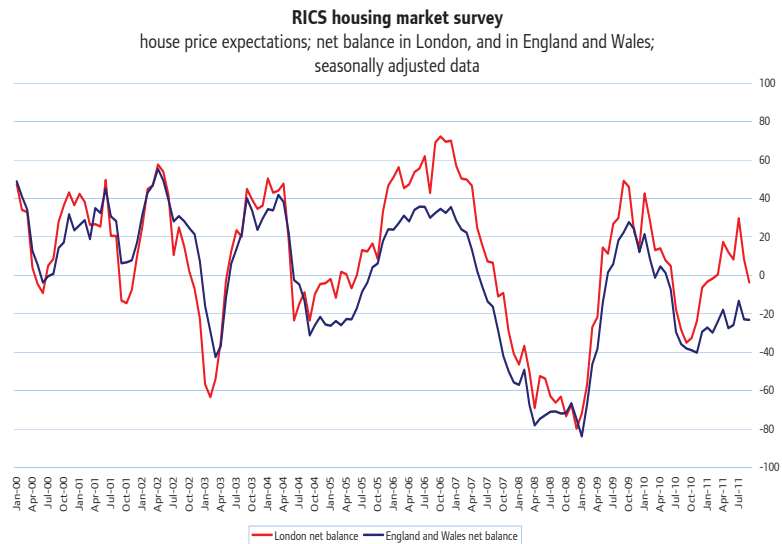
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to fall

- The RICS survey shows that surveyors expect house prices to fall over the next three months in London and in England and Wales.
- The net house price expectations balance in London was -4 in September 2011.
- For England and Wales, the net house price expectations balance was -23 in September 2011.

Latest release: October 2011

Next release: November 2011



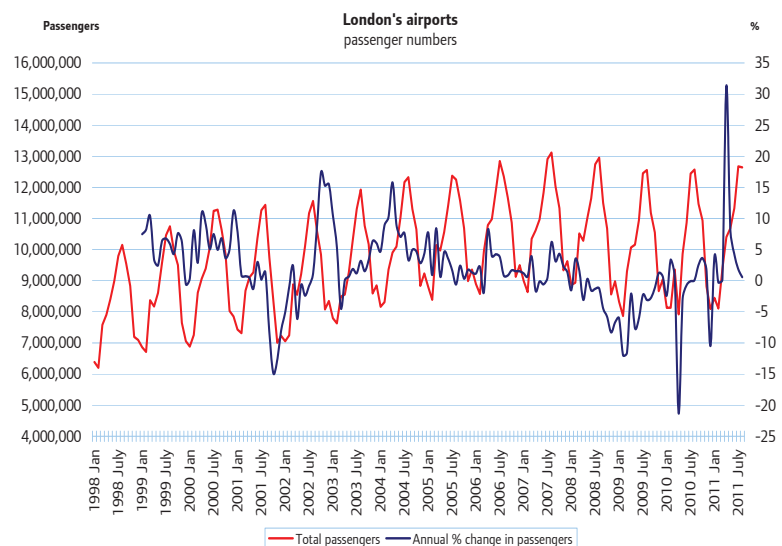
Source: Royal Institution of Chartered Surveyors

Small increase in year-on-year airport passenger numbers

- 12.6 million passengers travelled through London's airports in August 2011.
- The number of passengers using London's airports increased by 0.6% from August 2010 to August 2011.
- Airport passenger numbers fell during the recession and are still below pre-recession levels.

Latest release: October 2011

Next release: November 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

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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.