

# London's Economy Today

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## In this issue

UK economy grew in Q3 2011 but Eurozone problems cloud the horizon..... 1

Latest news ..... 1

Economic indicators ..... 5

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## UK economy grew in Q3 2011 but Eurozone problems cloud the horizon

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

**According to the second estimate of GDP from the Office for National Statistics (ONS), the third quarter of 2011 saw UK GDP rise by 0.5 per cent (see Figure 1). This compares to an expansion of 0.1 per cent in Q2 2011. GDP is now still about 4 per cent below its pre recession peak.**

In their preliminary estimate the ONS noted that "the interpretation of the estimate for Q3 is complicated by the special events in Q2 (for example, the additional bank holiday in April for the royal wedding), which are likely to have depressed activity in that quarter". They observe that if Q2 and Q3 2011 are looked at together then GDP has grown by 0.6 per cent in the last two quarters combined. They further note that "there is no evidence that the riots in August had any significant impact on GDP for Q3".

## Latest news...

### ● Employment and Population in London – New History, New Futures seminar

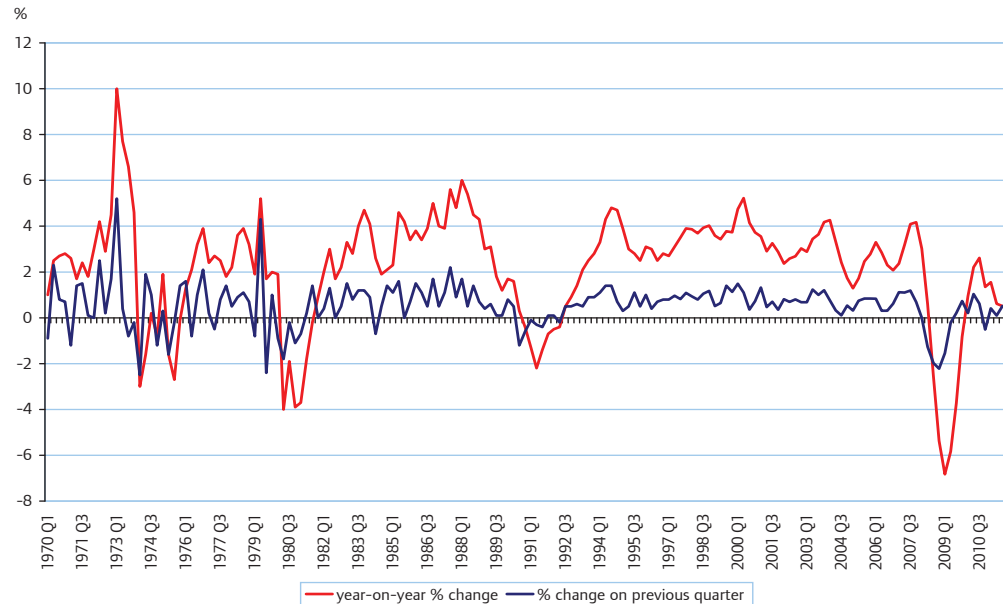
**Thursday 15 December 2011, 9.00am-12.30pm at City Hall, London SE1 2A**

The past changes almost as much as the future as new statistics emerge and new categories are developed. Recently, employment statistics have taken on board a new Industrial Classification, reflecting industries which did not even exist a few decades ago. This seminar brings to you new historical estimates of how London looked on the basis of these new sectors. Alongside this we also look at what this means for the future, for the balance between employment and population and how it is reflected in productivity estimates. **Bridget Rosewell**, Chief Economic Advisor to the GLA, will be chairing the event.

To book your place, please register at <http://15decemberemploymentandpopulationinlondon.eventbrite.co.uk/> or email [intelligence@london.gov.uk](mailto:intelligence@london.gov.uk) The event will be free of charge and places are strictly limited.

**Figure 1: UK GDP Growth**

Source: Office for National Statistics



The sectoral breakdown of the Q3 GDP figure shows that overall growth was dampened by a contraction in output in the construction sector which fell by 0.2 per cent in Q3 2011, after increasing by 1.1 per cent in Q2 2011. Output in the production industries grew by 0.4 per cent in Q3 2011, after falling by 1.2 per cent in Q2 2011. Total output in the services sector grew by 0.6 per cent in Q3 2011, after growing by 0.2 per cent in the previous quarter. Output in business services and finance (a sector of importance to London) increased by 1.0 per cent in Q3 2011 compared to 0.3 per cent in Q2 2011. GDP was 0.5 per cent higher in Q3 2011 compared with Q3 2010. Between Q3 2010 and Q3 2011 construction output fell 3.6 per cent, production industries output fell by 0.8 per cent whilst services sector output grew by 1.2 per cent (and within this, business services and finance grew by 1.2 per cent).

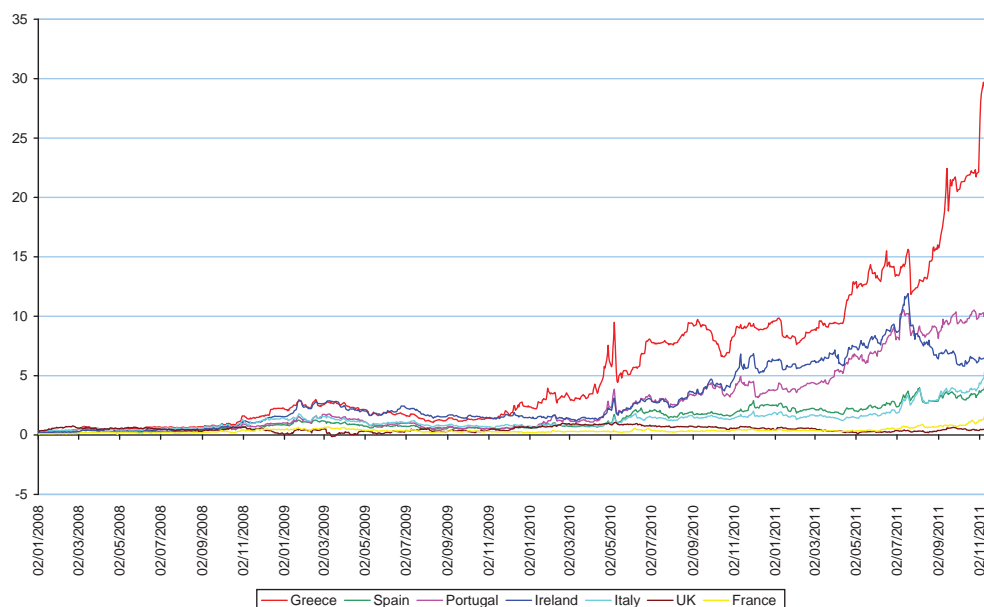
## Turmoil in the Eurozone

On 27 October the Eurozone leaders agreed the outline to a three-pronged solution to the Eurozone sovereign debt crisis. The exact details are still being negotiated but the plan would likely involve something like the following: recapitalising Eurozone banks by just over €100bn by June 2012; private sector creditors (mainly banks) agreeing to write off 50 per cent of Greek sovereign debt; and leveraging up the resources of the bailout fund (the European Financial Stability Facility) to probably in the region of €1 trillion. Markets initially reacted positively to this news but political events in Greece and Italy quickly unsettled matters causing many Eurozone countries sovereign debt bond spreads over German bonds to rise (see Figure 2). Meanwhile the interest rate on UK government bonds has been falling to levels matching German government bonds.

**Figure 2: Ten-year government bond spreads over German government bonds, percentage points**

Last data point: 23/11/2011

Source: EcoWin



On 1 November the Greek PM announced that Greece would hold a referendum on the rescue package which put the whole deal in jeopardy. However that policy was later reversed and a coalition government was formed before national elections are held, probably in February 2012. Problems were not confined to Greece with mounting concerns about the size of Italian government debt pushing its borrowing costs up to levels seen for Irish and Portuguese bonds just before they were bailed out. The situation was calmed slightly by the resignation of the Italian prime minister after the passing of a new austerity package and the forming of a new government over the weekend of 12-13 November. Nervousness about Spanish sovereign debt has also risen. Spain experienced zero output growth in Q3 2011 and has seen the cost of its borrowing reach unsustainable levels if it does not fall back. Meanwhile France has had to announce plans for further budget savings in 2012 and 2013 in an attempt to reassure markets and maintain its AAA sovereign debt rating. The ongoing sovereign debt crisis has led the European Union to downgrade its growth forecast in 2012 for the Eurozone to 0.5 per cent. In Q3 2011 output in the Eurozone only grew by 0.2 per cent (slower than in the UK). In response to this deteriorating growth outlook the European Central Bank cut interest rates in November to 1.25 per cent from 1.5 per cent and further cuts seem likely.

### **Growth expected to be slow in most developed countries**

The Bank of England stated in its November Inflation Report that “the prospects for the UK economy have worsened ... concerns about the solvency of several euro-area governments intensified, increasing strains in banking and some sovereign funding markets. Household and business confidence fell, both at home and abroad. These factors, along with the fiscal consolidation and squeeze on households’ real incomes, are likely to weigh heavily on UK growth in the near term”. Elsewhere the CBI has downgraded its UK growth forecast to 0.9 per cent in 2011 and 1.2 per cent in 2012. Internationally the OECD has reduced its growth forecasts with them now forecasting US growth of 1.7 per cent in 2011, 1.8 per cent in 2012 and 2.5 per cent in 2013. Eurozone growth is forecast at 1.6 per cent in 2011, 0.3 per cent in 2012 and 1.5 per cent in 2013. With regard to a crisis in the Eurozone that spread to other countries the OECD stated that “a deterioration of financial conditions of the magnitude observed during the global crisis (between the latter half of 2007 and the first quarter of 2009) could lead to a drop in the level of GDP in some of the major OECD economies of up to 5% by the first half of 2013”.

## Near term outlook for London's economy now weaker than earlier this year

The New West End Company reported that year-on-year sales in the West End in October were down 4.1 per cent partially in response to the warm weather hindering the sale of winter stock. However it noted that "the Eurozone crisis and global slow-down in consumer confidence is also evident in softer retail sales, with shoppers keeping a tighter hold on their wallets". Looking at the global prospects for jobs growth the International Labour Organisation (ILO) in its *World of Work Report 2011* observed that for the world economy "the latest indicators suggest that the employment slowdown has already started to materialize". Meanwhile the OECD has said that every economy that it monitors slowed in September.

With the crisis in the Eurozone failing to be laid to rest it is the single biggest risk to the UK and London's economic recoveries. The outlook for growth in the UK and London are subdued. Overall the Eurozone crisis is impacting negatively on business confidence in London. It is also increasing turbulence in inter-bank lending markets which is raising the likelihood of another serious credit crunch. The supply of lending to London households and businesses in these circumstances would be restricted sharply, severely dampening economic prospects. In addition if the Eurozone heads into a recession this will adversely impact on London's trade. Fortunately the capital is a global city so can take advantage of robust growth in emerging markets such as China. However it is not possible to completely shield itself from cold economic winds blowing across the Eurozone.

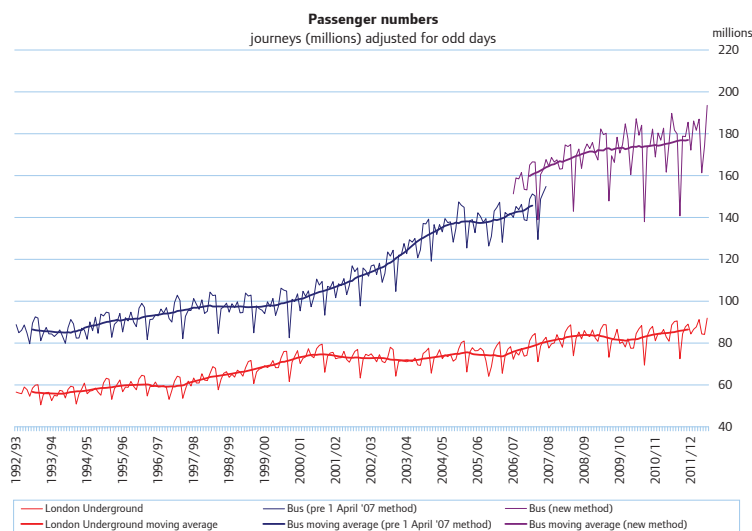
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28 day period is from 18 September 2011 to 15 October 2011. Adjusted for odd days, London's Underground and buses had 285.4 million passenger journeys; 193.6 million by bus and 91.9 million by Underground.
- The moving average of passengers every period increased to 263.6 million from 263.0 million in the previous period. The moving average for buses was 177.0 million. The moving average for the Underground was 86.5 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: November 2011

Next release: December 2011



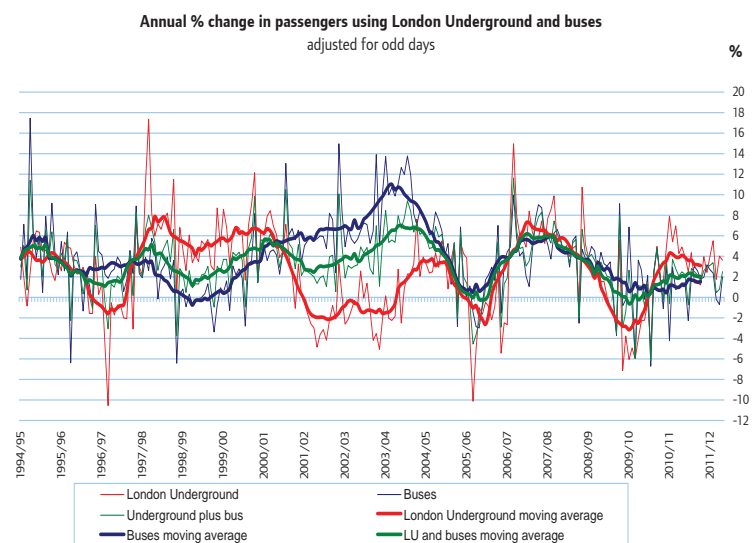
Source: Transport for London

## Average annual growth rate of passengers remains unchanged

- The moving average annual rate of growth in passenger journeys has remained constant at 2.0% from the previous period.
- The moving average annual rate of growth in bus passenger journey numbers has remained constant at 1.5% from the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers fell to 3.1% from 3.2% in the previous period.

Latest release: November 2011

Next release: December 2011



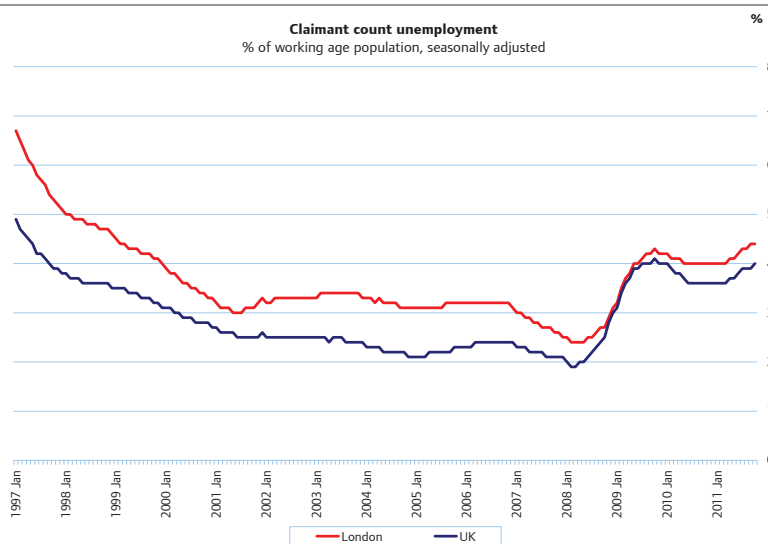
Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.4% in October 2011.
- There were 236,700 seasonally adjusted unemployment claimants in London in October 2011 compared with a downwardly revised 235,100 in September 2011.
- There were 1,598,400 seasonally adjusted unemployment claimants in the UK in October 2011 compared with a downwardly revised 1,593,100 in September 2011.

Latest release: November 2011

Next release: December 2011



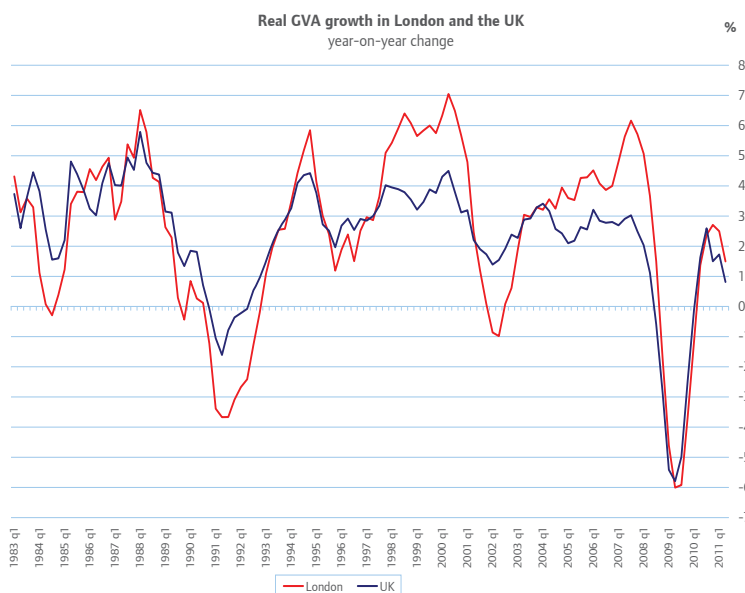
Source: Claimant Count, Nomis

## Faster annual output growth in London than in the UK in Q2 2011

- London's annual growth in output decreased to 1.5% in Q2 2011 from 2.5% in Q1 2011.
- Annual output growth in the UK decreased to 0.8% in Q2 2011 from 1.7% in Q1 2011.
- In Q2 2011 London's annual growth rate was faster than in the UK as a whole.

Latest release: November 2011

Next release: February 2012



Source: Experian Economics

## Positive annual employment growth in London in Q2 2011

- London's annual employment growth increased to 1.0% in Q2 2011 from -0.6% in Q1 2011.
- Annual employment growth in the UK decreased to -0.4% in Q2 2011 from 0.1% in Q1 2011.
- In Q2 2011 London's annual employment growth was positive whilst that of the UK as a whole was negative.

Latest release: November 2011

Next release: February 2012



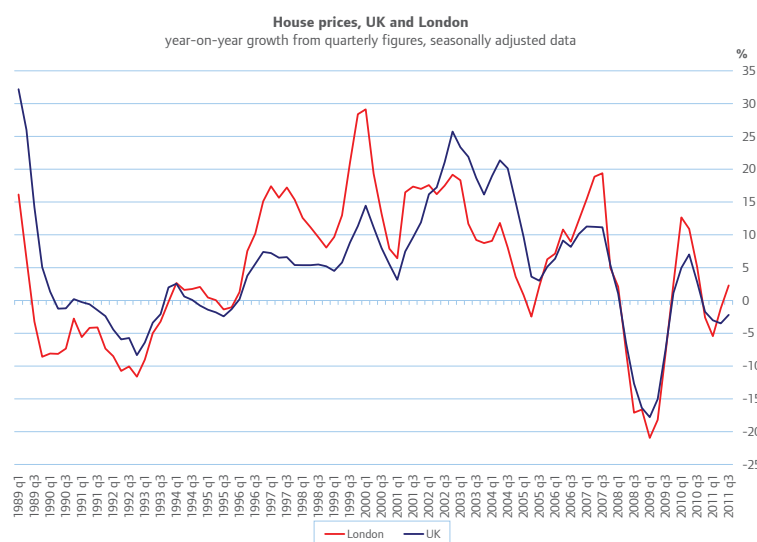
Source: Experian Economics

## Annual house price inflation rising in London as measured by the Halifax

- House prices, as measured by the Halifax, were higher in Q3 2011 than in Q3 2010 in London but not in the UK.
- Annual house price inflation in London was 2.3% in Q3 2011, up from -1.2% in Q2 2011.
- Annual house price inflation in the UK was -2.2% in Q3 2011, up from -3.5% in Q2 2011.

Latest release: October 2011

Next release: January 2012



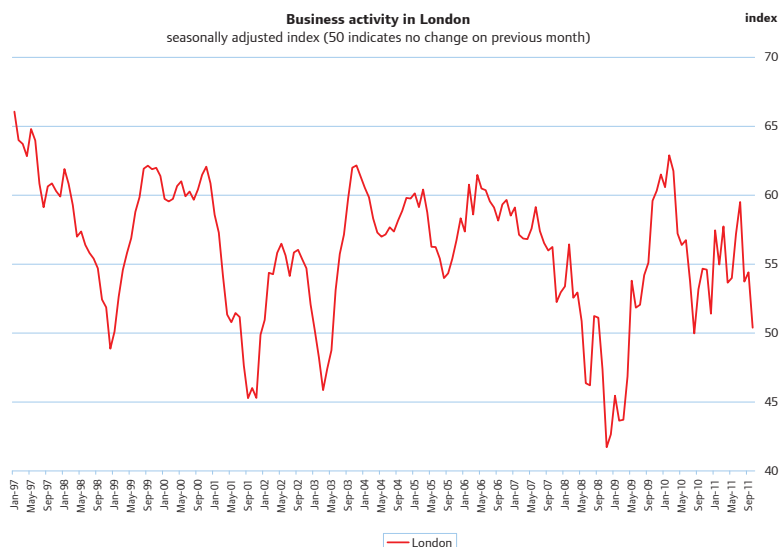
Source: Halifax house price index

## London's business activity just increasing

- London firms increased their output of goods and services in October 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 50.4 in October 2011 compared to 54.4 in September 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: November 2011

Next release: December 2011

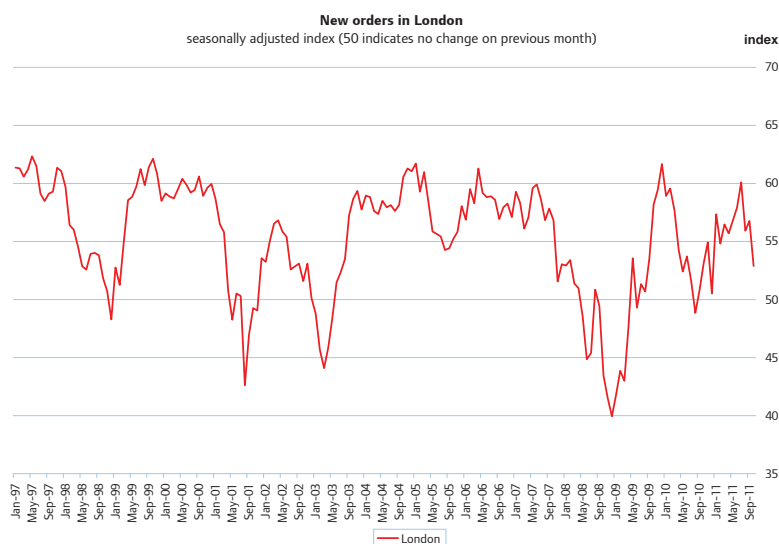


## New orders in London rising

- October 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 52.9 in October 2011 compared to 56.8 in September 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: November 2011

Next release: December 2011

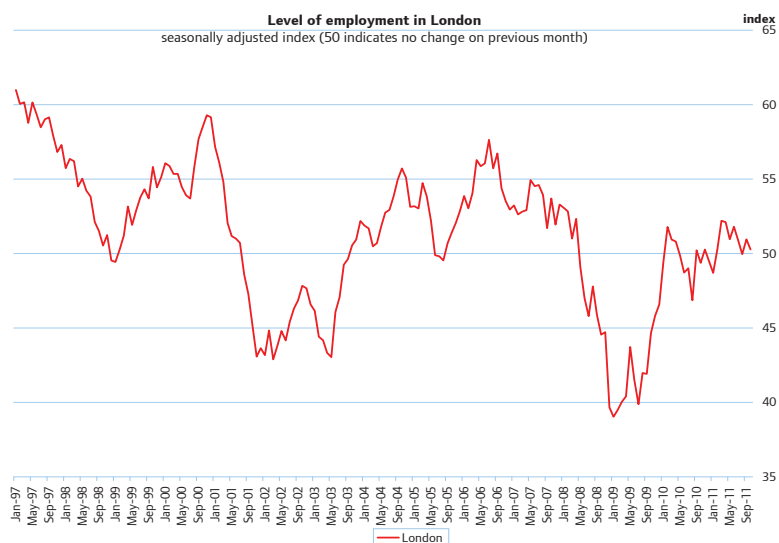


## Businesses report slightly higher employment in October

- The PMI shows that the level of employment in London firms increased slightly in October 2011.
- The PMI for the level of employment was 50.3 in October compared to 51.0 in September 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: November 2011

Next release: December 2011



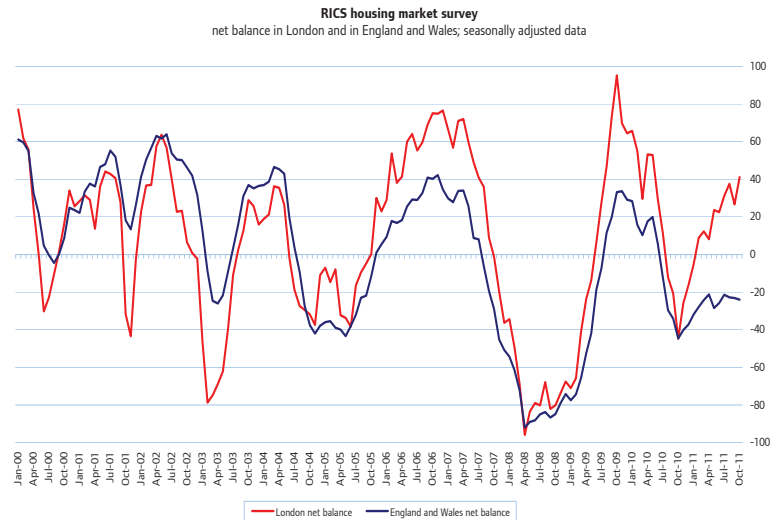


## Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 41 for London house prices over the three months to October 2011.
- Surveyors reported a negative net house price balance for England and Wales of -24 over the three months to October 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: November 2011

Next release: December 2011



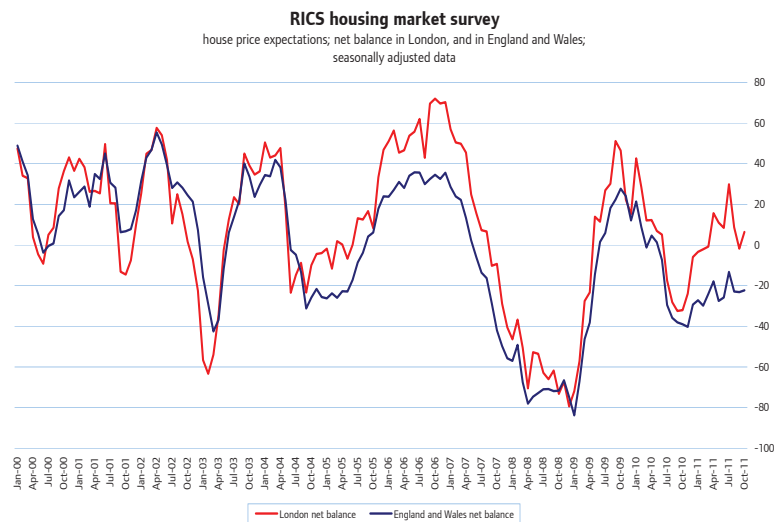
Source: Royal Institution of Chartered Surveyors

## 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 6 in October 2011.
- For England and Wales, the net house price expectations balance was -22 in October 2011.

Latest release: November 2011

Next release: December 2011



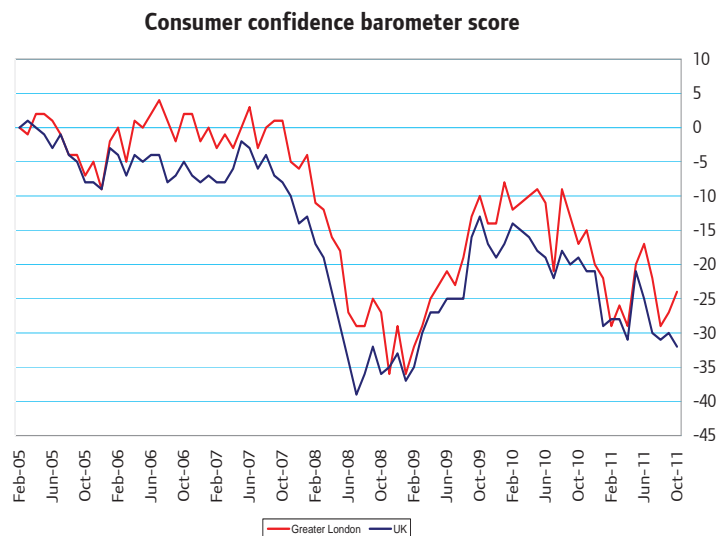
Source: Royal Institution of Chartered Surveyors

## 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 increased to -24 in October 2011 from -27 in September 2011.
- For the UK the consumer confidence score decreased to -32 in October 2011 from -30 in September 2011.

Latest release: October 2011

Next release: November 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](mailto:enquire@tfl.gov.uk)

### GVA growth

Experian Economics on 020 7746 8260

### Unemployment rates

[www.statistics.gov.uk](http://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

<b>ABI</b>	Annual Business Inquiry
<b>BAA</b>	British Airports Authority
<b>BCC</b>	British Chamber of Commerce
<b>CAA</b>	Civil Aviation Authority
<b>CBI</b>	Confederation of British Industry
<b>CLG</b>	Communities and Local Government
<b>GDP</b>	Gross domestic product
<b>GVA</b>	Gross value added
<b>ILO</b>	International Labour Organisation

<b>IMF</b>	International Monetary Fund
<b>LCCI</b>	London Chamber of Commerce and Industry
<b>LET</b>	London's Economy Today
<b>MPC</b>	Monetary Policy Committee
<b>ONS</b>	Office for National Statistics
<b>PMI</b>	Purchasing Managers' Index
<b>PWC</b>	PricewaterhouseCoopers
<b>RICS</b>	Royal Institution of Chartered Surveyors

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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.