

# London's Economy Today

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<http://data.london.gov.uk/londons-economy-today>

## OBR forecasts modest growth in 2012 as the Budget announces few surprises

By **Gordon Douglass**, Economist and **Simon Kyte**, Economist

On 21 March the Office for Budget Responsibility (OBR) published their new economic forecasts in conjunction with the delivery by the Chancellor of the Exchequer of his latest Budget. These forecasts were similar to those published by the OBR in November 2011 with a forecast that UK GDP will grow by 0.8 per cent in 2012 (an upward revision of 0.1 per cent), by 2.0 per cent in 2013 (a downward revision of 0.1 per cent), by 2.7 per cent in 2014 and by 3.0 per cent in 2015 and 2016. Public Sector Net Borrowing is forecast to decline from "8.3 per cent of GDP this year" to "1.1 per cent of GDP in 2016-17", with net debt forecast to peak at 76.3 per cent of GDP in 2014-15 before falling thereafter.

The OBR further noted that the impact of the announcements in the budget "on borrowing is broadly neutral across the forecast period, with net 'giveaways' and 'takeaways' no larger than £2 billion in any year".

## Latest news...

### ● London Assembly Constituency Profiles 2012

In the run up to the London elections in May, there is growing interest in the socio-demographic make up of the 14 London constituencies. This report provides a summary of demographic and related data for each Greater London Assembly constituency. To download this publication go to <http://data.london.gov.uk/datastore/package/london-assembly-constituency-profiles-2012>

### ● Measures of Child Poverty

Child poverty is an ongoing issue. However, it is not simple to quantify. A number of measures of child poverty exist, and this Update gives more information about the various measures, along with their strengths and weaknesses - what they are, the detail available, the level of geographic disaggregation, how often they are produced etc. Visit <http://www.london.gov.uk/publication/measures-child-poverty> to download this Update.

In terms of specific measures the top rate of tax is to be reduced from 50 per cent to 45 per cent in a year's time while the tax free personal allowance will be increased by £1100 to £9205 in April 2013 (though on taxable incomes over £100,000 the allowance reduces by £1 for every £2 of income above £100,000). However, Age-Related Allowances will be frozen at their 2012-13 levels until the gap between them and the personal allowance closes.

Corporation tax was also reduced by an additional 1 per cent from April 2012 to 24 per cent (and down to 22 per cent by April 2014). Stamp duty on properties worth more than £2 million has risen to 7 per cent, with a 15 per cent rate being applied to properties bought by certain corporate bodies. The withdrawal of child benefit for higher income earners from 2013 that was announced in the Autumn Statement is also to be modified by tapering for incomes between £50,000 and £60,000, to prevent the 'cliff edge' effect of the previously announced total withdrawal for any household that had an income earner paying the 40 per cent income tax rate.

The Government also launched the National Loan Guarantee scheme which allows banks to raise up to £20 billion of funding guaranteed by the Government (for a fee) to lend directly to smaller businesses. This is on condition that the banks demonstrate that they can pass the benefits of the guarantee through to cheaper loans. The Government will also introduce a new cash basis for calculating tax for small unincorporated businesses. Further from April 2013 corporation tax relief will be introduced for the video games, animation and high end TV industries.

In measures that will affect London it was announced that the GLA will receive £70 million from the Growing Places Fund for economic development in London. It was also confirmed that London is to be one of the 10 new "super-connected" cities, receiving up to £25 million to help deliver ultra-fast broadband. 774,000 residents and 121,000 businesses will be on the new internet superhighway, while up to 318,000 residents will have high-speed wireless access, covering an area from central London to the Olympics boroughs and the Royal Dock. The Government also announced that TfL is to receive £15 million to improve cycling safety, whilst the Mayor will have more control over London's finances with TfL being given extra powers to receive business rates revenues.

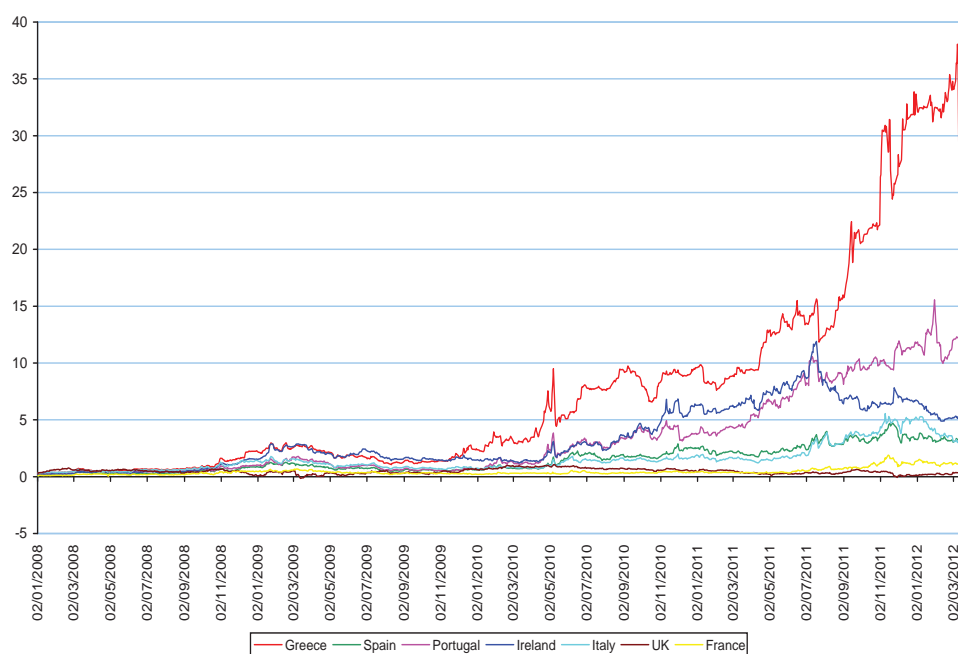
## **ECB injects funding to aid banks hit by the Eurozone crisis**

On 29 February, the European Central Bank (ECB) injected around €530 billion of liquidity into the European banking system – the second (the first was in December 2011) of two long-term refinancing operations at low rates of interest. The ECB claimed that as a response overnight deposits soared to a record level, with financial institutions parking the greatest amount of funds since the Euro was established: €776.9 billion – up from €475.2 billion one day earlier. However, the head of the Bundesbank, Jens Weidemann, has expressed some concerns that the dramatic loosening of lending policy will create inflationary pressures and continue to fuel imbalances in the Eurozone. The move was aimed to boost liquidity in the financial system which had fallen on the back of concerns about the stability of the European banking system – more precisely, on concerns relating to some banks' exposure to government debt and strained balance sheets.

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

Last data point is 23/03/2012

Source: EcoWin



## Some optimistic signs emerging but the situation in the UK economy still remains finely balanced

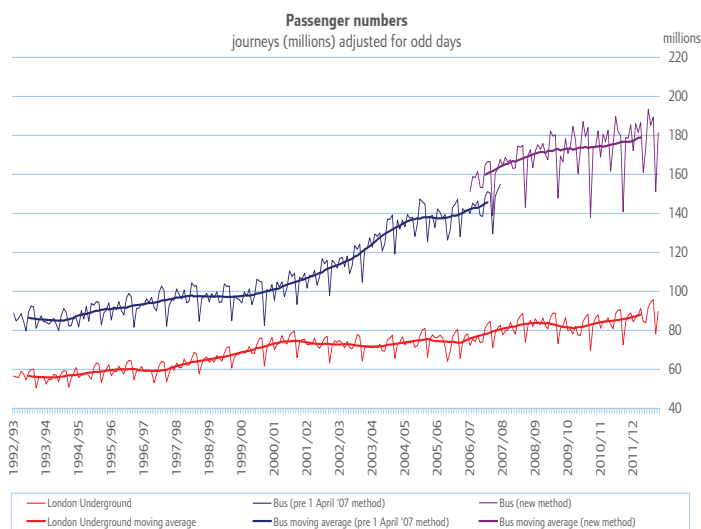
Since New Year there have been some unexpectedly promising data releases. UK manufacturing output rose by 1 per cent during January 2012 – around five times faster than the consensus. This was largely consistent with the marked improvement in UK PMI data for the manufacturing sector in January which found a sharp increase in output, a rise in new orders and a fall in the costs faced by manufacturers. However, in February the manufacturing PMI slipped back but still showed an increase. In January the PMI data for the service sector performed even more strongly with the main business activity index rising to 56. Combined with the manufacturing data, this makes the prospect for the UK economy brighter than at the start of the year.

However, in less positive news the Institute of Chartered Accountants of England and Wales (ICAEW)/Grant Thornton UK Business Confidence Index remained “firmly in negative territory” in Q1 2012 with “turnover and profit growth expectations remain(ing) below levels seen before the financial crisis” and “employment growth expectations remain weak”. For London the ICAEW/Grant Thornton found that business confidence was negative and that “confidence in the region has declined for four consecutive quarters ... to its lowest level in almost three years”. The index was based on interviews conducted between 1 November 2011 and 26 January 2012. It would thus seem that although the economic situation for the UK and London’s economies has improved since the turn of the year the overall situation remains finely balanced with the US recovery providing some strength to the world economy but with growth in emerging markets moderating somewhat.

# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28 day period is from 8 January to 4 February 2012. Adjusted for odd days, London's Underground and buses had 271.1 million passenger journeys; 181.3 million by bus and 89.8 million by Underground.
- The moving average of passengers every period increased to 267.0 million from 265.1 million in the previous period. The moving average for buses was 178.9 million. The moving average for the Underground was 88.1 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).



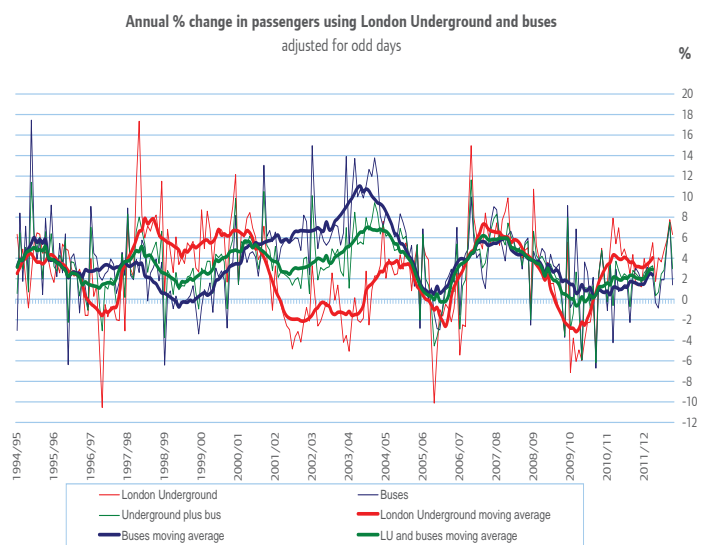
Source: Transport for London

Latest release: March 2012

Next release: April 2012

## Average annual growth rate of passengers remains unchanged

- The moving average annual rate of growth in passenger journeys stayed constant at 2.9% from the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 2.4% from 2.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 4.0% from 3.7% in the previous period.



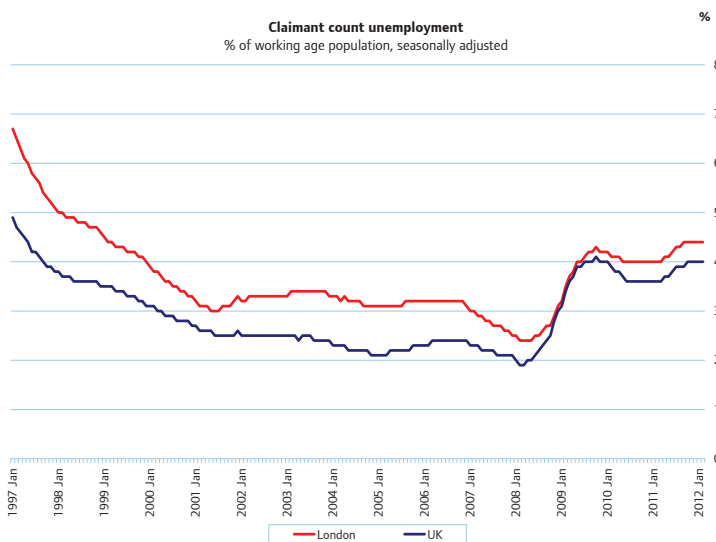
Source: Transport for London

Latest release: March 2012

Next release: April 2012

## 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 February 2012.
- There were 236,500 seasonally adjusted unemployment claimants in London in February 2012 compared to an upwardly revised 236,300 in January 2012.
- There were 1,611,900 seasonally adjusted unemployment claimants in the UK in February 2012 compared to an upwardly revised 1,604,700 in January 2012.



Source: Claimant Count, Nomis

Latest release: March 2012

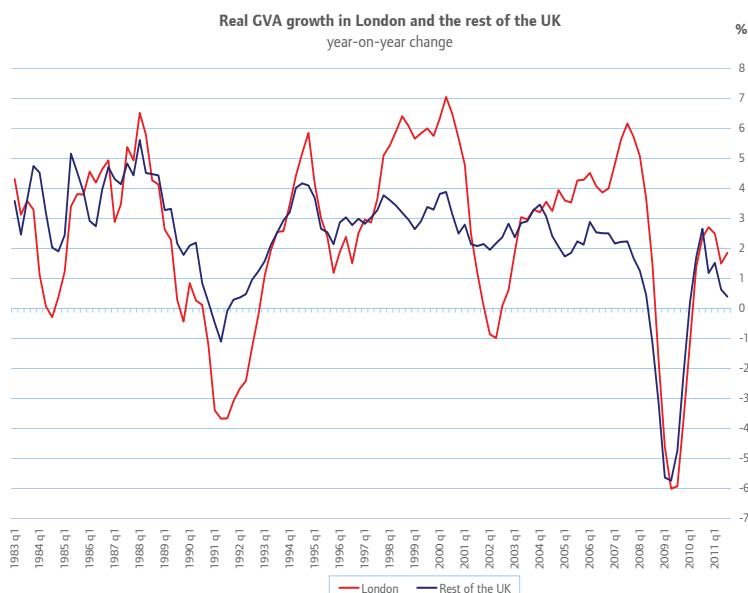
Next release: April 2012

## Faster annual output growth in London than in the rest of the UK in Q3 2011

- London's annual growth in output increased to 1.9% in Q3 2011 from 1.5% in Q2 2011.
- Annual output growth in the rest of the UK decreased to 0.4% in Q3 2011 from 0.6% in Q2 2011.
- In Q3 2011 London's annual growth rate was faster than in the rest of the UK.

Latest release: February 2012

Next release: May 2012



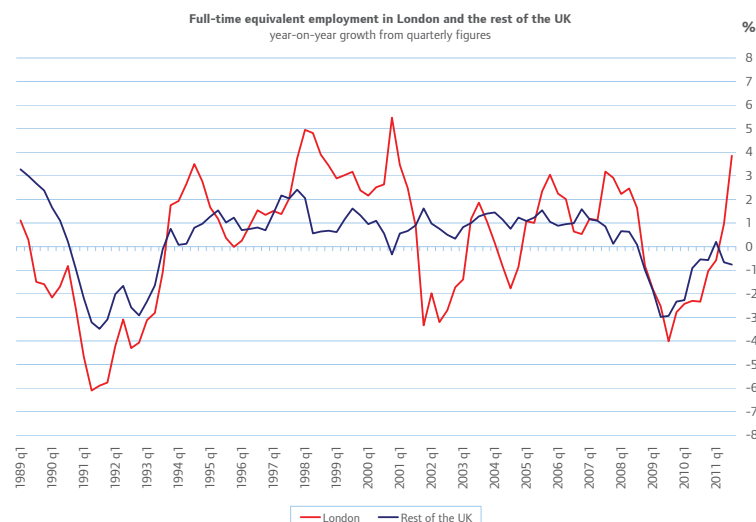
Source: Experian Economics

## Positive annual employment growth in London in Q3 2011

- London's annual employment growth increased to 3.9% in Q3 2011 from 1.0% in Q2 2011.
- Annual employment growth in the rest of the UK decreased to -0.8% in Q3 2011 from -0.7% in Q2 2011.
- In Q3 2011 London's annual employment growth was positive whilst that of the rest of the UK was negative.

Latest release: February 2012

Next release: May 2012



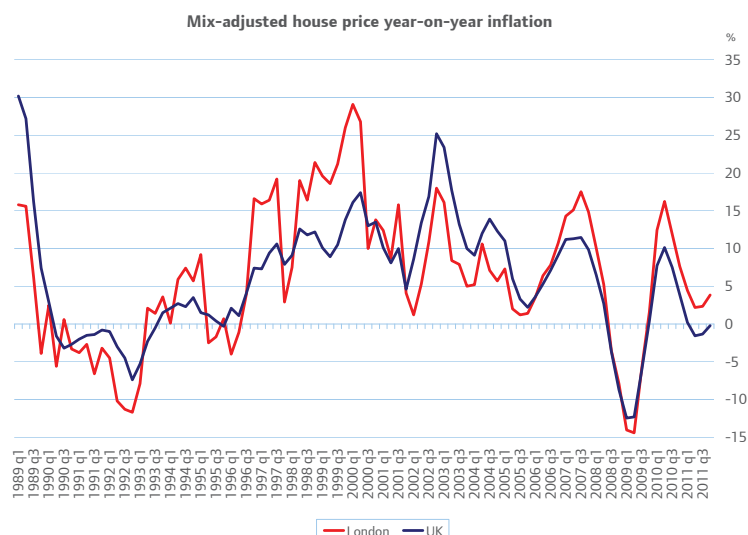
Source: Experian Economics

## Annual house price inflation rising in London

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q4 2011.
- Annual house price inflation in London increased to 3.8% in Q4 2011 from 2.3% in Q3 2011.
- Annual house price inflation in the UK increased to -0.2% in Q4 2011 from -1.3% in Q3 2011.

Latest release: February 2012

Next release: May 2012



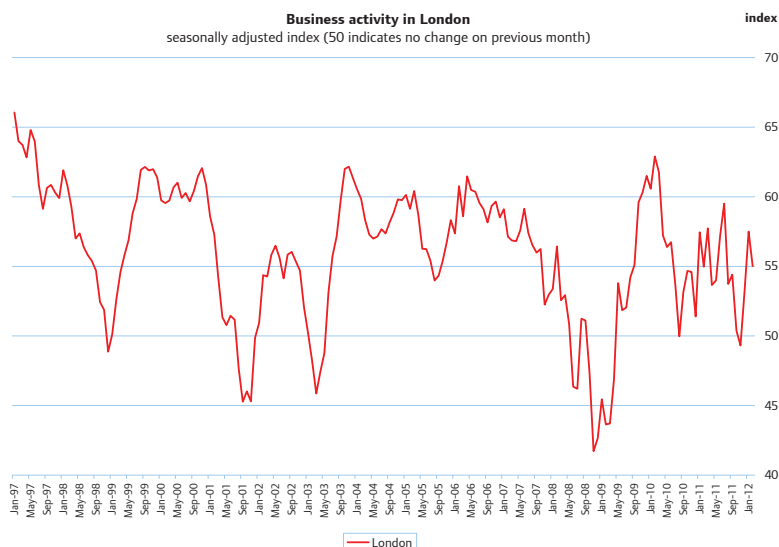
Source: Department for Communities and Local Government

## London's business activity increasing

- London firms increased their output of goods and services in February 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 55.0 in February 2012 compared to 57.5 in January 2012.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: March 2012

Next release: April 2012

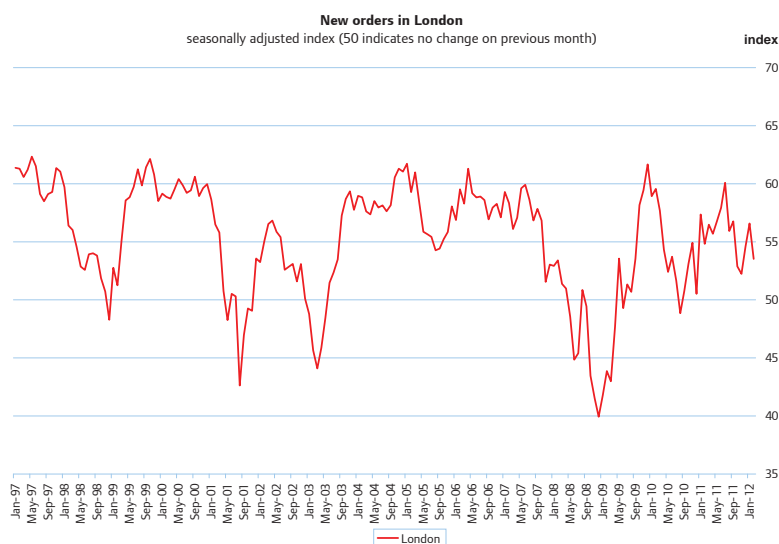


## New orders in London rising

- February 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 53.5 in February 2012 compared to 56.6 in January 2012.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: March 2012

Next release: April 2012

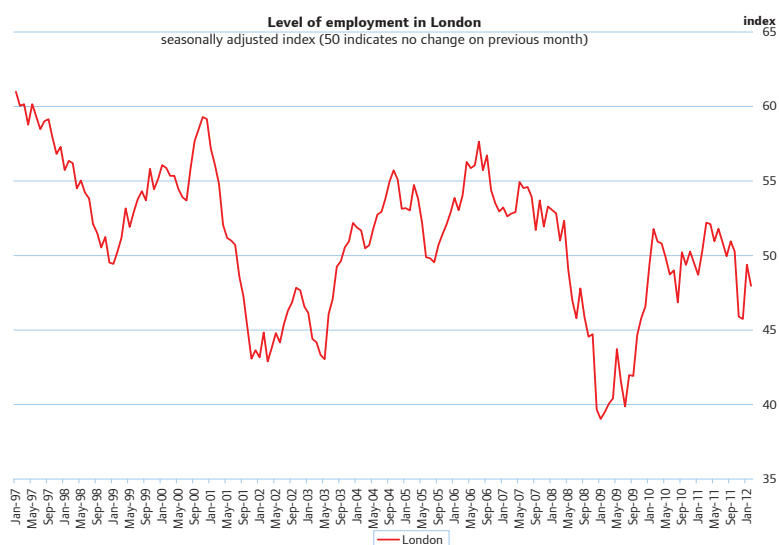


## Businesses report lower employment in February

- The PMI shows that the level of employment in London firms decreased in February 2012.
- The PMI for the level of employment was 48.0 in February 2012 compared to 49.4 in January 2012.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: March 2012

Next release: April 2012

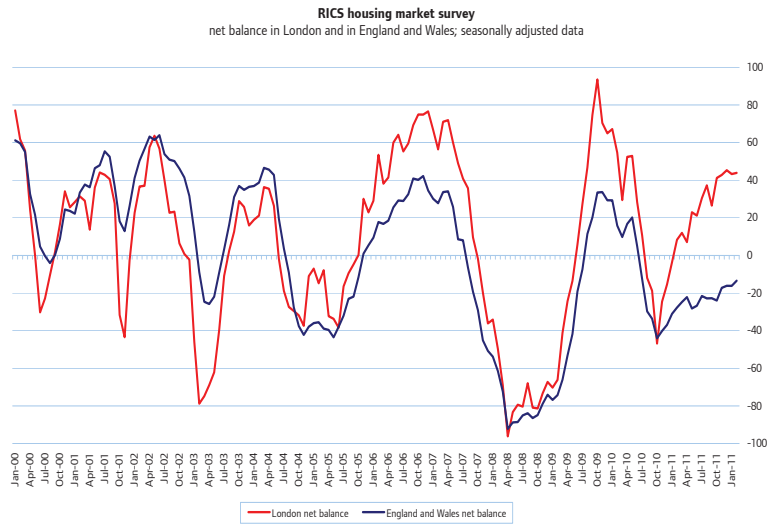


## Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 44 for London house prices over the three months to February 2012.
- Surveyors reported a negative net house price balance for England and Wales of -13 over the three months to February 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: March 2012

Next release: April 2012



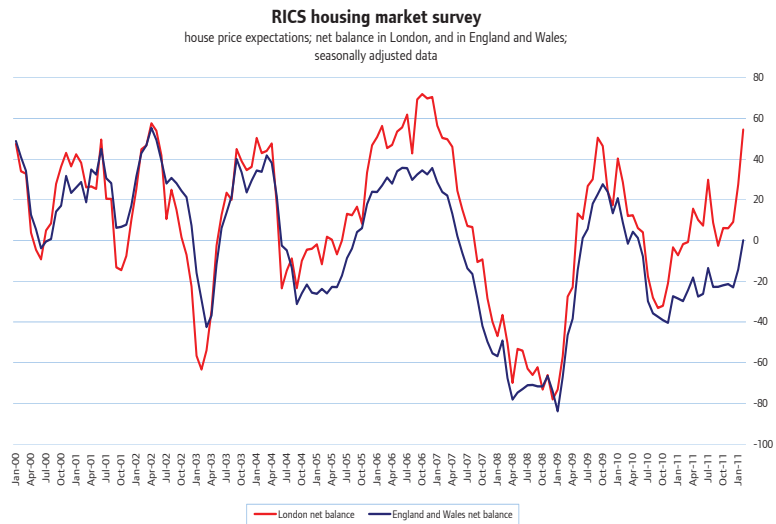
Source: Royal Institution of Chartered Surveyors

## 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 stay constant in England and Wales.
- The net house price expectations balance in London was 55 in February 2012.
- For England and Wales, the net house price expectations balance was 0 in February 2012.

Latest release: March 2012

Next release: April 2012



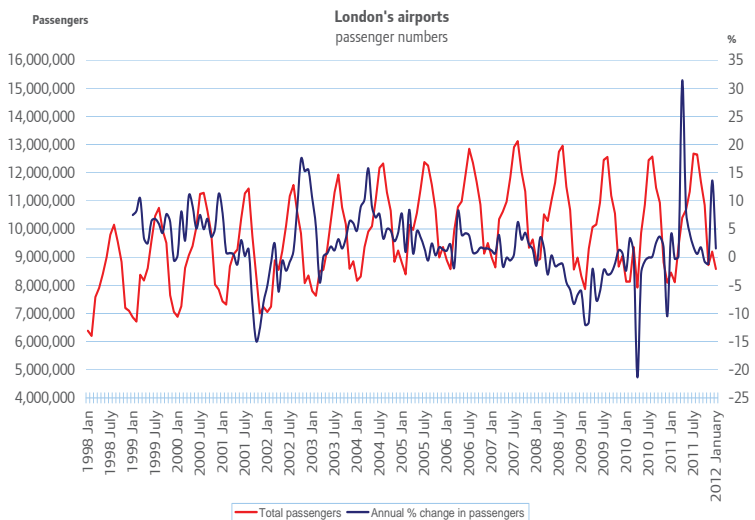
Source: Royal Institution of Chartered Surveyors

## Increase in year-on-year airport passenger numbers

- 8.6 million passengers travelled through London's airports in January 2012.
- The number of passengers using London's airports increased by 1.5% from January 2011 to January 2012.
- Airport passenger numbers fell during the recession and are still below pre-recession levels.

Latest release: March 2012

Next release: April 2012



Source: Civil Aviation Authority

## 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.