

London's Economy Today

Issue 118 | June 2012

In this issue

Eurozone crisis damaging global growth	1
Latest news	1
Economic indicators	4

London's Economy Today (LET) data to Datastore

The LET presence on Datastore aims to create more interaction and a greater personal focus for London's Economy Today while also allowing for the incorporation of feedback and views from the readership.

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

Eurozone crisis damaging global growth

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

The continuing Eurozone sovereign debt crisis is spreading to larger economies such as Italy and Spain, with concerns that this will further inhibit global growth.

Spain has become the fourth Eurozone country to formally request an international financial bailout, with up to a €100 billion package required to recapitalise the nation's banks. They officially requested this on 25 June. Ratings agency Moody's has downgraded Spain's credit rating from A3 to Baa3. Spain's borrowing cost has risen to its highest level since the inception of the Euro, with the benchmark 10-year bond yield having increased to over 7 per cent. This is a level which many analysts believe is unsustainable in the long-run. Cyprus also intends to apply for an international financial bailout to help shore up its banks, which are heavily exposed to the Greek economy. The head of the IMF Christine Lagarde has stated "the IMF believes that a determined and forceful move towards complete European monetary union should be reaffirmed in order to restore faith in the system because we see at the moment, the viability of the European monetary system is questioned". The credit ratings of 15 major banks were downgraded by Moody's on 22 June including HSBC, RBS and Barclays, whilst Lloyds Banking Group was downgraded in a separate announcement.

Latest news...

● **London's Economic Outlook: Spring 2012 - The GLA's medium-term planning projections**
GLA Economics' twentieth London forecast suggests that:

London's Gross Value Added (GVA) growth rate should be 1.2 per cent in 2012. Growth should increase to 1.9 per cent in 2013 and 2.5 per cent in 2014.

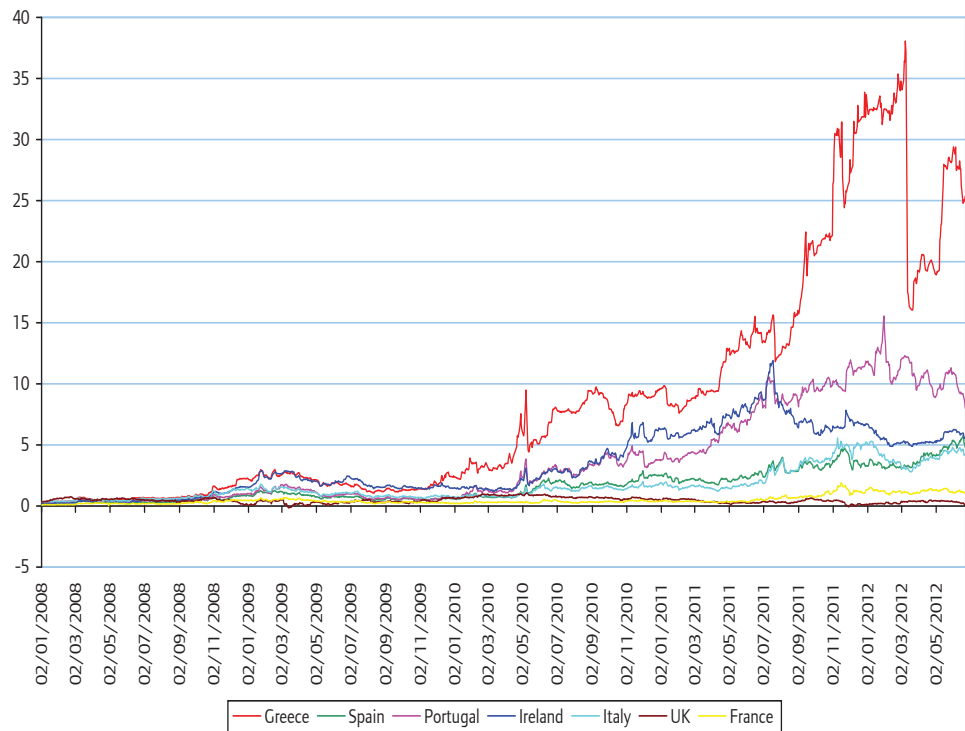
London is likely to see a modest rise in employment in 2012, 2013 and 2014.

London household income and spending will both probably increase slowly over the forecast period.

To download this forecast go to <http://www.london.gov.uk/publication/londons-economic-outlook-spring-2012>

Figure 1: Ten-year government bond spreads over German government bonds, percentage points
Last data point: 22/06/12

Source: EcoWin



CBI/KPMG London Business Survey finds some improvement in business confidence

Results of the latest CBI/KPMG 'London Business Survey' published in June found that there has been a rise in business confidence, with 41 per cent of respondents reporting that they feel more optimistic about the prospects for the economy, compared to only 13 per cent in December. This sentiment is replicated in individual business prospects with almost half of London businesses (47 per cent) stating that they felt positive about their own business prospects over the next six months. Nevertheless, the Eurozone crisis is a major concern for London businesses, with firms approaching recruitment and investments cautiously. The number of companies rating London as a good place to do business has risen to 86 per cent, up from 83 per cent six months ago. London's strengths as identified by respondents are its access to global markets, its skills and talent pool and its proximity to consumers and clients. Overall operating costs, transport and the tax environment are identified as the main weaknesses for the capital. London's transport network is seen as key to future economic growth and competitiveness in the city. Businesses reported relative improvements across London's transport network, with the exception of the road network. In other signs of resilient London business confidence, the Q2 2012 UK Business Confidence Monitor Report (conducted over the period 1 February to 26 April 2012) from the ICAEW/Grant Thornton found that "key performance indicators improved more strongly in London this quarter compared to recent quarters" with "confidence in the region now stand(ing) at its highest level since Q2 2011".

Bank of England and HM Treasury aim to support banks to boost lending to the real economy

On 14 June the Bank of England announced plans for two new economic stimulus packages. The Bank will provide short-term money to banks via the Extended Collateral Term Repo Facility (ECTR) to deal with “exceptional market stresses”. The liquidity will be provided in the terms of six-month loans auctioned every month, with a minimum of £5 billion offered by the Bank at each auction. The security given by participating banks on the loans will be much broader than usual. In conjunction with the Government, the Bank of England will also attempt to stimulate lending in the economy via a newly created ‘Funding for Lending’ Scheme. This will provide loans at low interest rates of up to four years in order to lend to small businesses. The Bank of England also seems likely to increase its programme of Quantitative Easing (QE) shortly. This comes on the back of easing inflation with Consumer Price Index (CPI) annual inflation falling to 2.8 per cent in May.

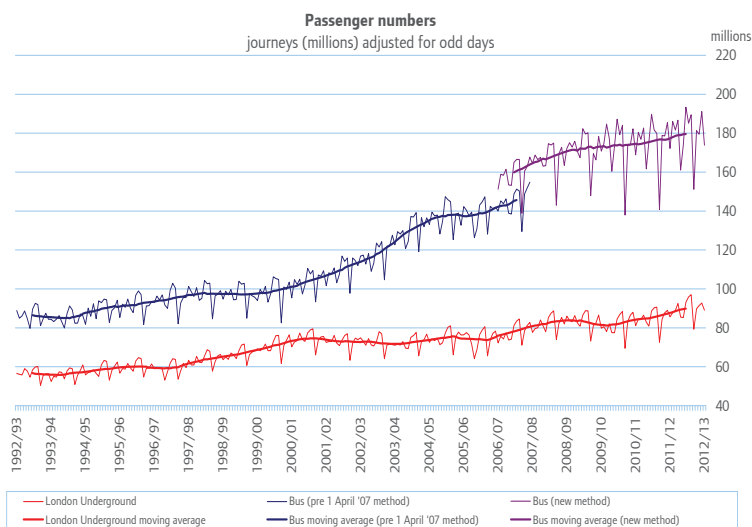
International clouds weaken domestic economic prospects

In June the British Chamber of Commerce reduced its forecast for UK economic growth to 0.1 per cent in 2012 (from 0.6 per cent previously). Its forecast for 2013 is growth of 1.9 per cent. Internationally the economic picture continues to be worrying with signs of a slowdown in the Chinese and especially Indian economies. Meanwhile the US economy’s recovery is only modest as shown by a 0.2 per cent decline in retail sales in May. The Federal Reserve has reduced its growth forecast for 2012 from 2.9 per cent to 2.4 per cent. It has also extended Operation Twist, its policy of swapping short-term bonds for long-term ones to lower long-term interest rates. The deteriorating international economic situation is making the possibility of any rapid bounce back for the UK and London’s economies over the next couple of years less likely. Domestically credit conditions remain tight and household budgets are under strain. At least inflation has started to fall back which will give a much needed boost to real wage growth supporting consumption.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28 day period is from 1 April to 28 April 2012. Adjusted for odd days, London's Underground and buses had 263.0 million passenger journeys; 173.9 million by bus and 89.1 million by Underground.
- The moving average of passengers every period increased to 269.5 million from 269.1 million in the previous period. The moving average for buses was 179.6 million. The moving average for the Underground was 89.9 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).



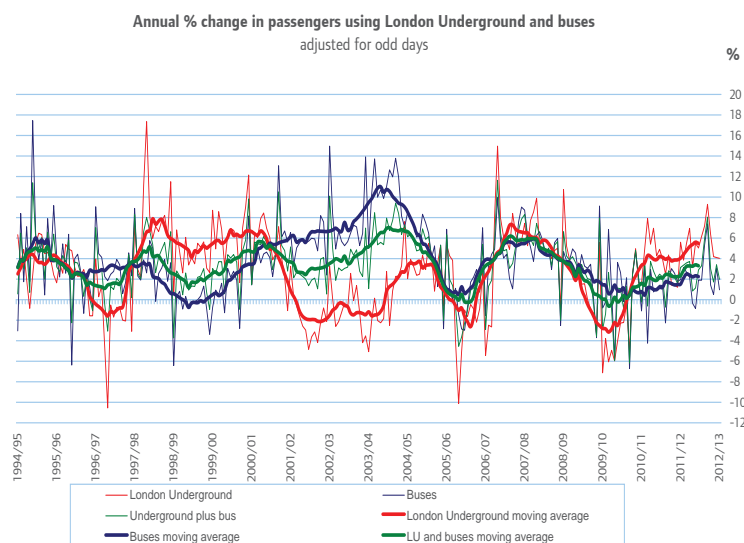
Source: Transport for London

Latest release: May 2012

Next release: June 2012

Average annual growth rate of passengers decreases

- The moving average annual rate of growth in passenger journeys decreased to 3.3% from 3.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers stayed constant at 2.3% from the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 5.5% from 5.6% in the previous period.



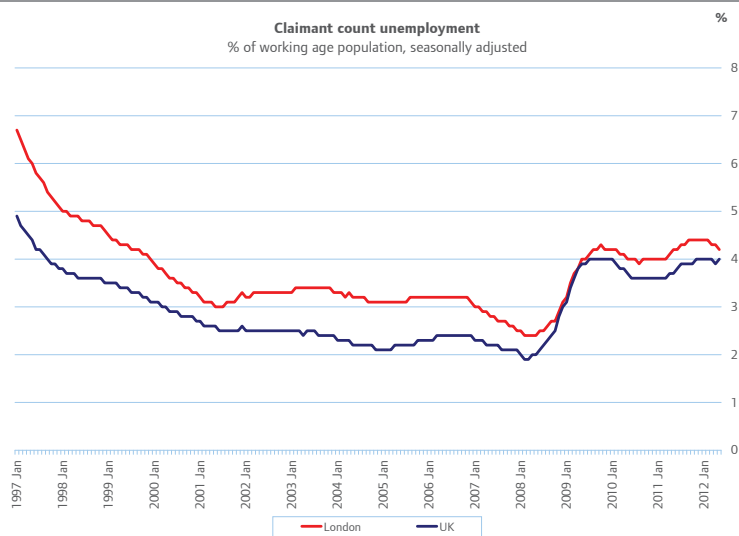
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in May 2012.
- There were 227,400 seasonally adjusted unemployment claimants in London in May 2012 compared to an upwardly revised 229,900 in April 2012.
- There were 1,599,300 seasonally adjusted unemployment claimants in the UK in May 2012 compared to an upwardly revised 1,591,200 in April 2012.

Latest release: June 2012

Next release: July 2012



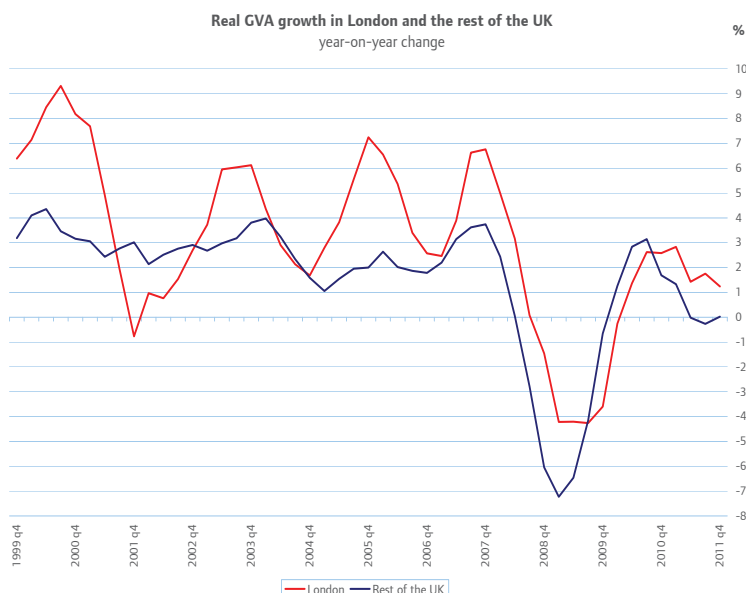
Source: Claimant Count, Nomis

Faster annual output growth in London than in the rest of the UK in Q4 2011

- London's annual growth in output decreased to 1.2% in Q4 2011 from 1.8% in Q3 2011.
- Annual output growth in the rest of the UK increased to 0.0% in Q4 2011 from -0.3% in Q3 2011.
- In Q4 2011 London's annual growth rate was faster than in the rest of the UK.

Latest release: May 2012

Next release: August 2012



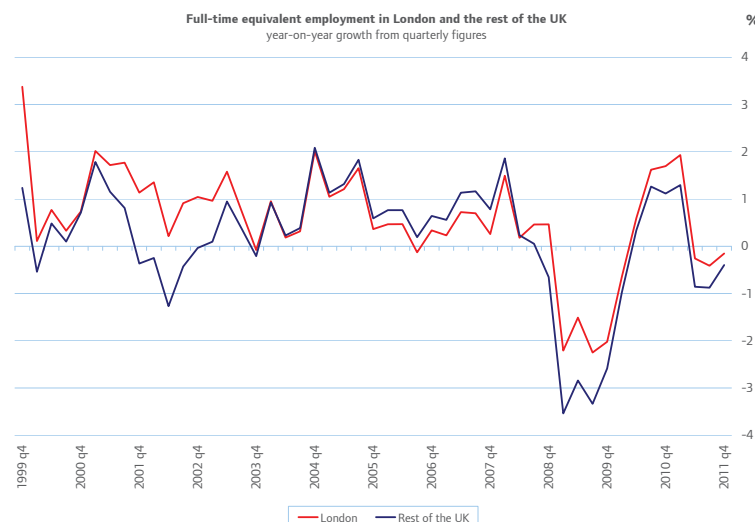
Source: Experian Economics

Negative annual employment growth in Q4 2011

- London's annual employment growth increased to -0.2% in Q4 2011 from -0.4% in Q3 2011.
- Annual employment growth in the rest of the UK increased to -0.4% in Q4 2011 from -0.9% in Q3 2011.
- In Q4 2011 London's annual employment growth was less negative than in the rest of the UK.

Latest release: May 2012

Next release: August 2012



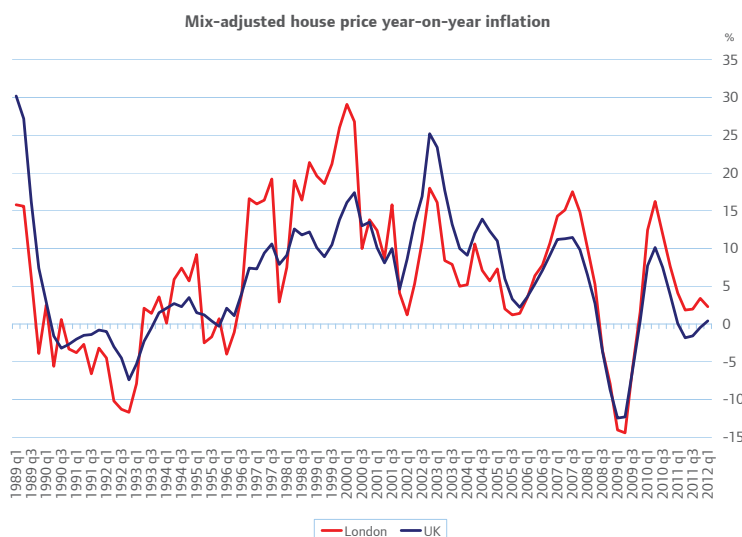
Source: Experian Economics

Annual house price inflation falling in London

- The Office for National Statistics (ONS) house price index is an official measure of house prices. It is available up to Q1 2012.
- Annual house price inflation in London was 2.3% in Q1 2012, down from 3.4% in Q4 2011.
- Annual house price inflation in the UK was 0.4% in Q1 2012, up from -0.5% in Q4 2011.

Latest release: May 2012

Next release: August 2012



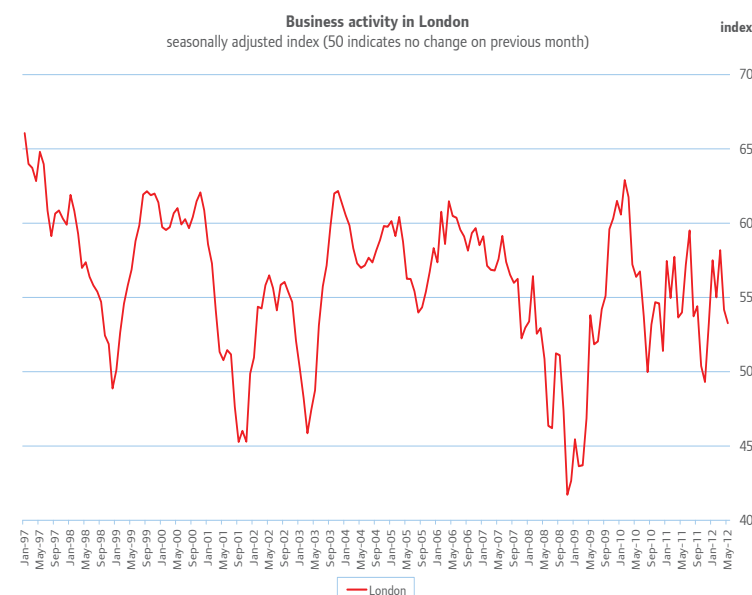
Source: Office for National Statistics

London's business activity increasing

- London firms increased their output of goods and services in May 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.3 in May 2012 compared to 54.2 in April 2012.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: June 2012

Next release: July 2012



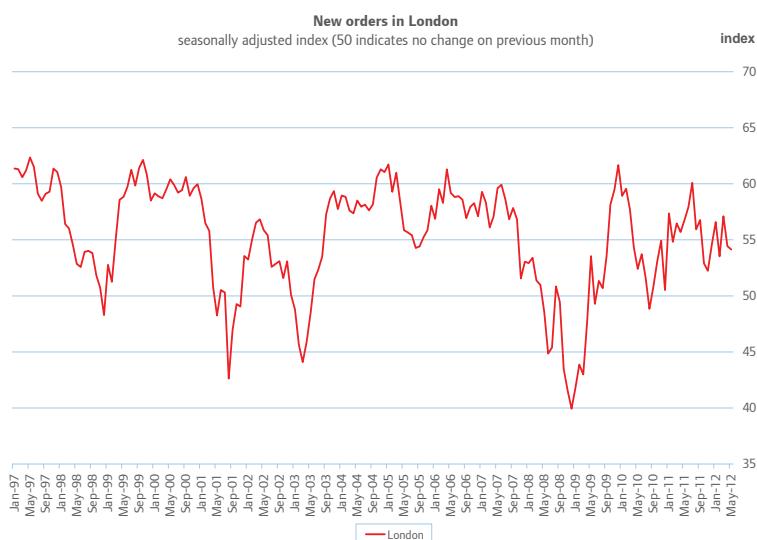
Source: Markit Economics

New orders in London rising

- May 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 54.1 in May 2012 compared to 54.4 in April 2012.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: June 2012

Next release: July 2012



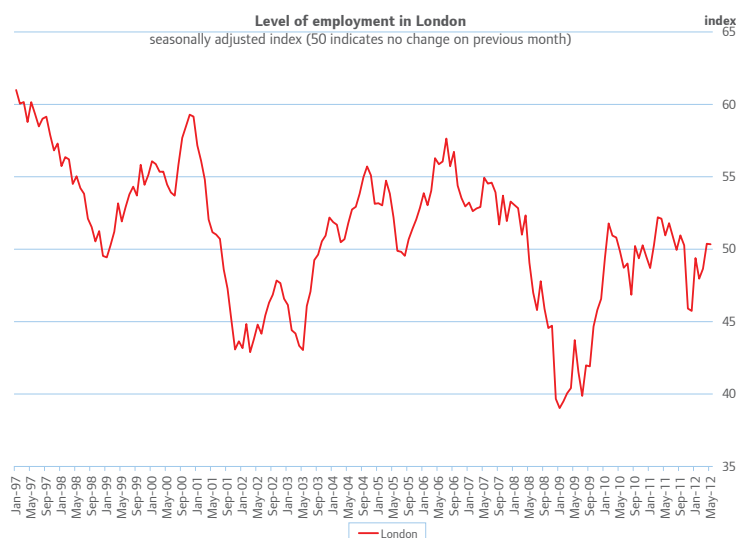
Source: Markit Economics

Businesses report higher employment in May

- The PMI shows that the level of employment in London firms increased in May 2012.
- The PMI for the level of employment was 50.3 in May 2012 compared to 50.4 in April 2012.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: June 2012

Next release: July 2012



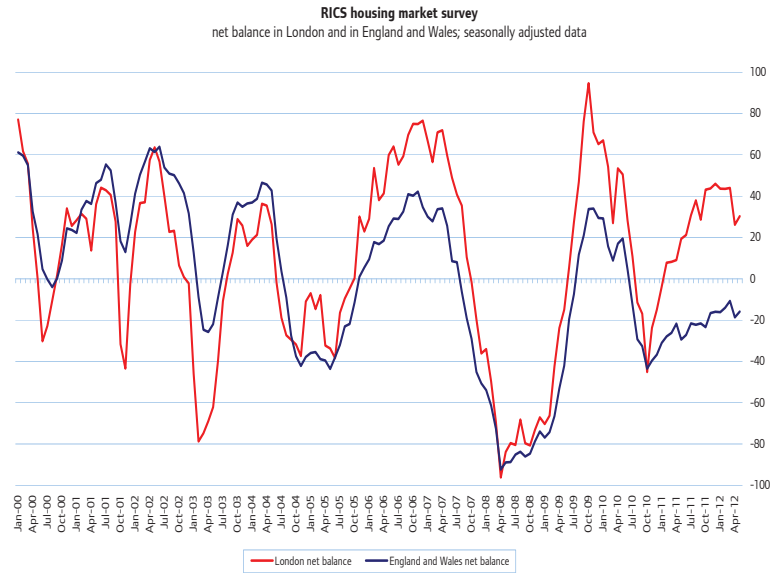
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 30 for London house prices over the three months to May 2012.
- Surveyors reported a negative net house price balance for England and Wales of -16 over the three months to May 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: June 2012

Next release: July 2012



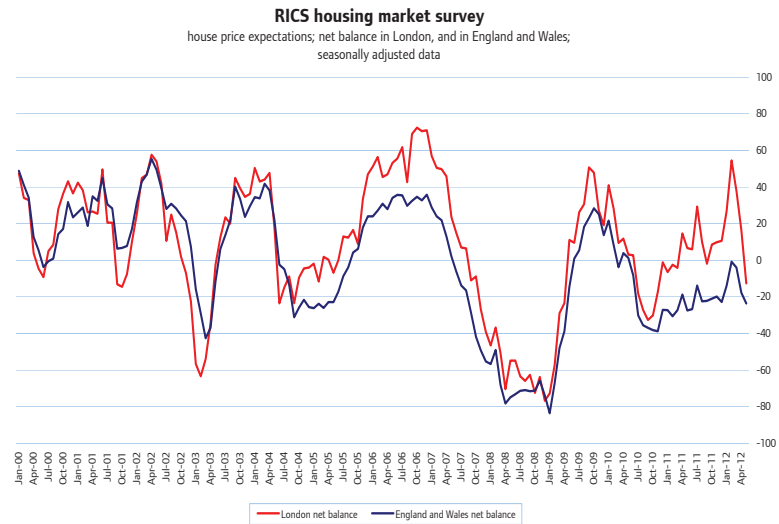
Source: Royal Institution of Chartered Surveyors

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 -13 in May 2012.
- For England and Wales, the net house price expectations balance was -24 in May 2012.

Latest release: June 2012

Next release: July 2012



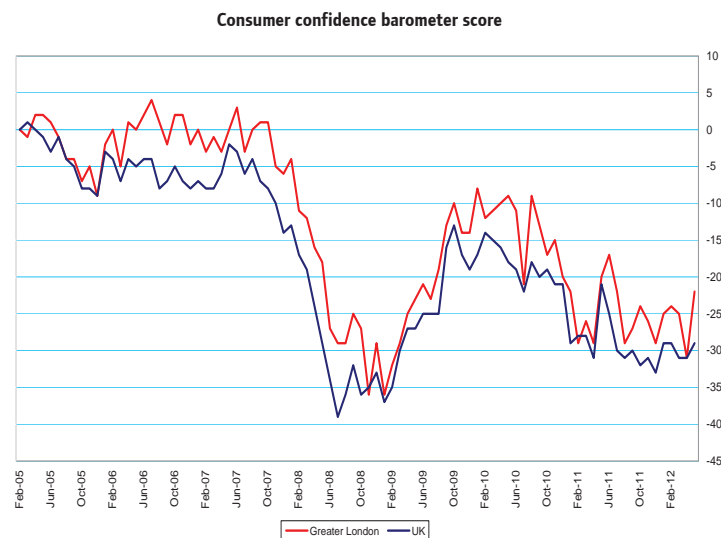
Source: Royal Institution of Chartered Surveyors

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 -22 in May 2012 from -31 in April 2012.
- For the UK the consumer confidence score increased to -29 in May 2012 from -31 in April 2012.

Latest release: May 2012

Next release: June 2012



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

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 2012/13 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2012.

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 2012/13 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2012.

Acronyms

ABI	Annual Business Inquiry	IMF	International Monetary Fund
BAA	British Airports Authority	LCCI	London Chamber of Commerce and Industry
BCC	British Chamber of Commerce	LET	London's Economy Today
CAA	Civil Aviation Authority	MPC	Monetary Policy Committee
CBI	Confederation of British Industry	ONS	Office for National Statistics
CLG	Communities and Local Government	PMI	Purchasing Managers' Index
GDP	Gross domestic product	PWC	PricewaterhouseCoopers
GVA	Gross value added	RICS	Royal Institution of Chartered Surveyors
ILO	International Labour Organisation		

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4674

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

© Greater London Authority
June 2012

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/webform/gla-intelligence-news-email>

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.