

# London's Economy Today

Issue 123 | November 2012

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

## Eurozone re-enters recession

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

**The Eurozone re-entered recession in Q3 2012 with output contracting by 0.1 per cent after falling by 0.2 per cent in Q2 2012. The Eurozone was last in recession in 2009. This economic contraction is on the back of the ongoing sovereign debt crisis and which has recently seen French government debt downgraded by Moody's from AAA to AA1. Moody's is keeping French sovereign debt on a negative outlook meaning that further downgrades are more than possible. Cyprus looks likely to soon agree a rescue deal that is expected to include €17.5 billion of loans as its banks have been badly hit by the problems in Greece. The Eurozone sovereign debt crisis shows little sign of ending and the spreads on 10-year government bonds against German government bonds remain elevated (see Figure 1).**

## Latest news...

GLAECONOMICS

London's Economic Outlook: Autumn 2012  
The GLA's medium-term planning projections

### London's Economic Outlook: Autumn 2012

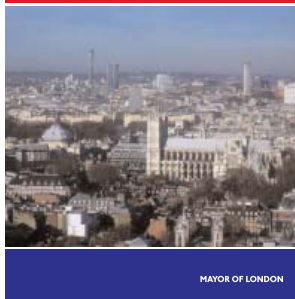
#### The GLA's medium-term planning projections

GLA Economics' twenty-first London forecast suggests that:

London's Gross Value Added (GVA) growth rate should be 0.9 per cent in 2012. Growth should increase to 1.8 per cent in 2013 and 2.4 per cent in 2014.

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

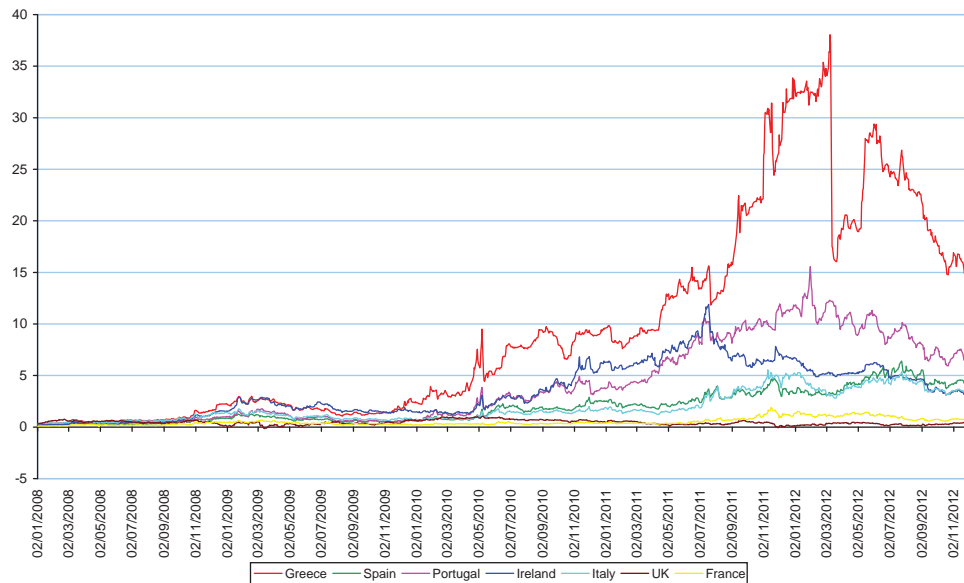
To download this report go to <http://www.london.gov.uk/publication/london%E2%80%99s-economic-outlook-autumn-2012>.



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

Last data point: 26/11/2012

Source: EcoWin



There were wide variations in quarterly GDP within the Eurozone in Q3 2012 with Germany growing by 0.2 per cent compared to 0.3 per cent in Q2 2012. France grew by 0.2 per cent in Q3 2012 after contracting by -0.1 per cent in Q2 2012. However, output in Cyprus, Greece, Italy, Portugal and Spain all declined in Q3 2012 leaving all these countries in recession; whilst the GDP of the Netherlands fell by -1.1 per cent after growing by 0.1 per cent in Q2 2012. Unemployment in the Eurozone reached a new high in September at 11.6 per cent, whilst unemployment in Spain hit 25.8 per cent. Over half of the population under 25 years of age are unemployed in both Greece and Spain.

### US economy continues to grow but still faces a 'fiscal cliff'

The US economy grew by 0.5 per cent in Q3 2012, higher than expected and faster than the 0.3 per cent in Q2 2012. In October the US added 171,000 new jobs with unemployment standing at 7.9 per cent. US consumer confidence as measured by the Conference Board's Consumer Confidence Index hit its highest level in November since February 2008. However, the US still faces a challenging start to 2013 with the prospect that it will fall off a 'fiscal cliff' if a political solution is not found to the looming \$600 billion worth of automatic spending cuts and tax rises that will hit the US economy at the beginning of next year. This has led Ben Bernanke the chairman of the Federal Reserve to warn that "uncertainty about how the fiscal cliff, the raising of the debt limit, and the longer-term budget situation will be addressed appears already to be affecting private spending and investment decisions". It is also likely that the after effects of hurricane Sandy will have some short-term negative impacts. The US economy therefore faces significant challenges. The minutes from the last Federal Reserve meeting indicate that to boost the economy it may need to start a further bond buying scheme to replace Operation Twist (a scheme where the Fed sells short-term bonds and uses the proceeds to buy longer-term bonds to reduce long-term interest rates) which ends in December.

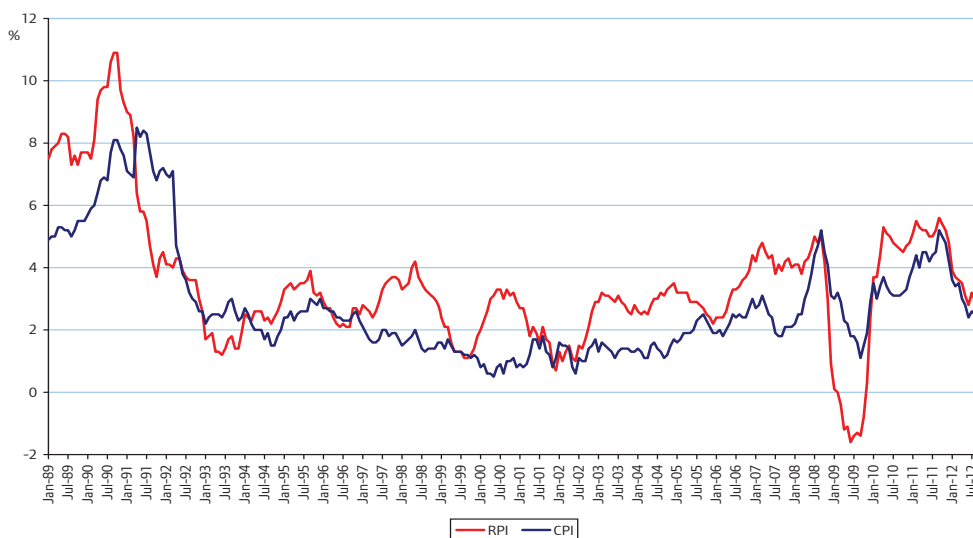
## UK inflation rises and the Bank of England forecasts a bumpy recovery

UK Consumer Price Index (CPI) annual inflation rose in October to 2.7 per cent from 2.2 per cent in September (see Figure 2). Commenting on this rise the Office for National Statistics (ONS) noted that the main upward pressure on inflation “came from the education sector (university tuition fees) with smaller upward contributions from food & non-alcoholic beverages and transport”. Retail Price Index (RPI) annual inflation also rose in October to 3.2 per cent up from 2.6 per cent in September. In their November Inflation Report the Bank of England increased its central forecast for CPI inflation in the near term. CPI inflation is now not expected to decline towards the 2 per cent symmetrical target until mid 2013. The Bank also downgraded its central forecast for economic growth over the next couple of years and only expects a bumpy recovery. Commenting on the near term prospects for growth Mervyn King, the Governor of the Bank of England said “continuing the recent zig-zag pattern, output growth is likely to fall back sharply in Q4 as the boost from the Olympics in the summer is reversed. Indeed, output may shrink a little this quarter”.

**Figure 2: UK annual inflation rates**

*Last data point is October 2012*

*Source: Office for National Statistics*



## London expected to grow relatively slowly due to global headwinds

The global economic situation continues to be turbulent. The Eurozone sovereign debt crisis drags on and the Japanese economy contracted by 0.9 per cent in Q3 2012. The Bank of Japan has now extended its asset purchase programme by ¥11 trillion in an attempt to stimulate its economy. Data from India showed a surprise drop in industrial production in September indicating that its economy is slowing. The Chinese economy is growing less rapidly this year but at least recent economic data has provided a more uplifting picture with Chinese industrial production, retail sales, and investment all increasing by a faster than expected rate in October compared to a year earlier. In the UK the labour market has performed surprisingly well given the weak economic background but retail sales fell in October and retail town centre vacancy rates are high. Overall the global economic situation remains generally poor with significant downside risks coming from the Eurozone. With the world economy facing serious headwinds GLA Economics' latest forecast for the London economy, which was published in November, expects only relatively slow, moderate growth in the capital over the next year or so.

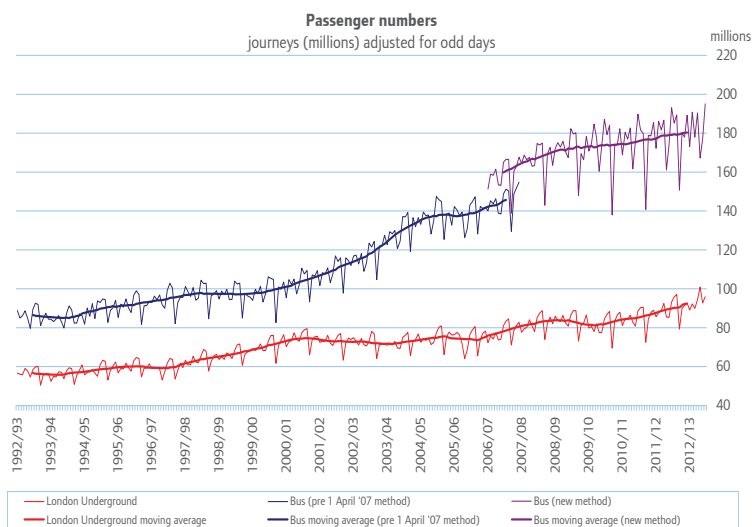
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28 day period is from 16 September to 13 October 2012. Adjusted for odd days, London's Underground and buses had 291.0 million passenger journeys; 195.1 million by bus and 96.0 million by Underground.
- The moving average of passengers every period increased to 272.8 million from a downwardly-revised 272.4 million in the previous period. The moving average for buses was 180.3 million. The moving average for the Underground was 92.4 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 2012

Next release: December 2012



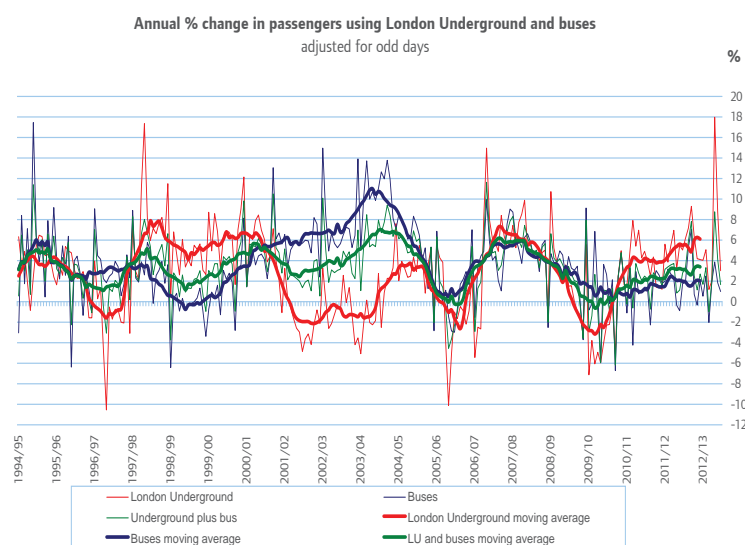
Source: Transport for London

## Average annual growth rate of passengers decreases

- The moving average annual rate of growth in passenger journeys decreased to 3.4% from 3.5% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 2.0% from 2.1% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 6.1% from 6.3% in the previous period.

Latest release: November 2012

Next release: December 2012



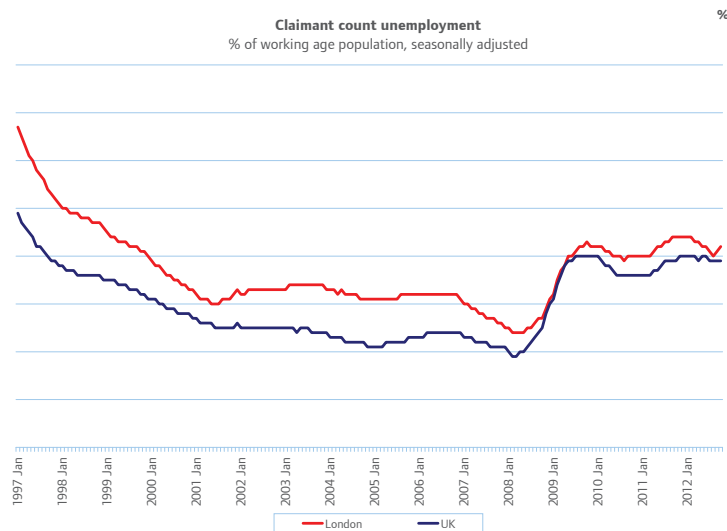
Source: Transport for London

## 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 October 2012.
- There were 224,500 seasonally adjusted unemployment claimants in London in October 2012 compared to an upwardly revised 221,600 in September 2012.
- There were 1,582,200 seasonally adjusted unemployment claimants in the UK in October 2012 compared to an upwardly revised 1,572,100 in September 2012.

Latest release: November 2012

Next release: December 2012



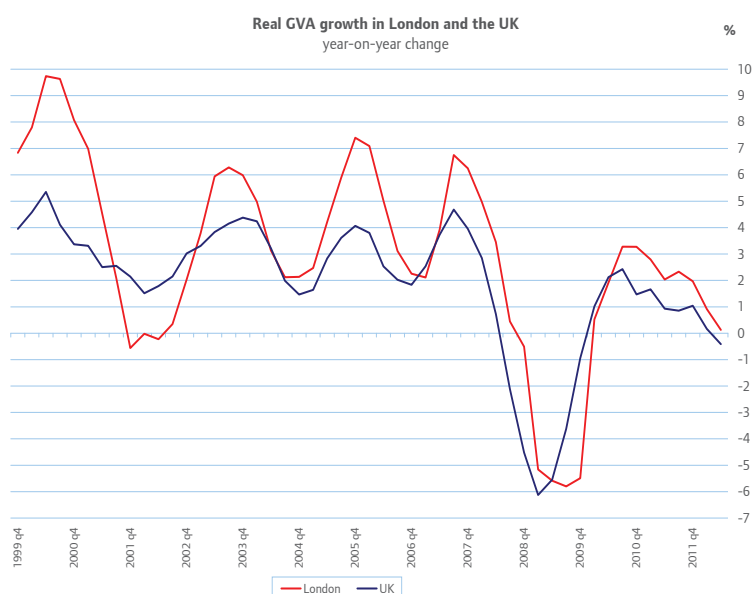
Source: Claimant Count, Nomis

## Annual output growth slowed in Q2 2012

- London's annual growth in output decreased to 0.1% in Q2 2012 from an upwardly-revised 0.9% in Q1 2012.
- Annual output growth in the UK decreased to -0.4% in Q2 2012 from an upwardly-revised 0.2% in Q1 2012.
- In Q2 2012 London's annual growth rate was faster than in the UK as a whole.

Latest release: November 2012

Next release: February 2013



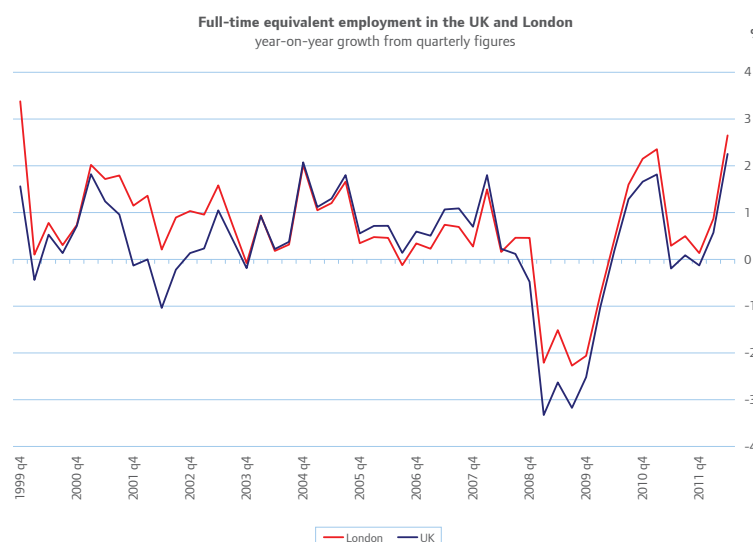
Source: Experian Economics

## Stronger annual employment growth in London than in the UK in Q2 2012

- London's annual employment growth increased to 2.6% in Q2 2012 from an upwardly revised 0.9% in Q1 2012.
- Annual employment growth in the UK increased to 2.3% in Q2 2012 from an upwardly-revised 0.6% in Q1 2012.
- In Q2 2012 London's annual employment growth was stronger than in the UK as a whole.

Latest release: November 2012

Next release: February 2013



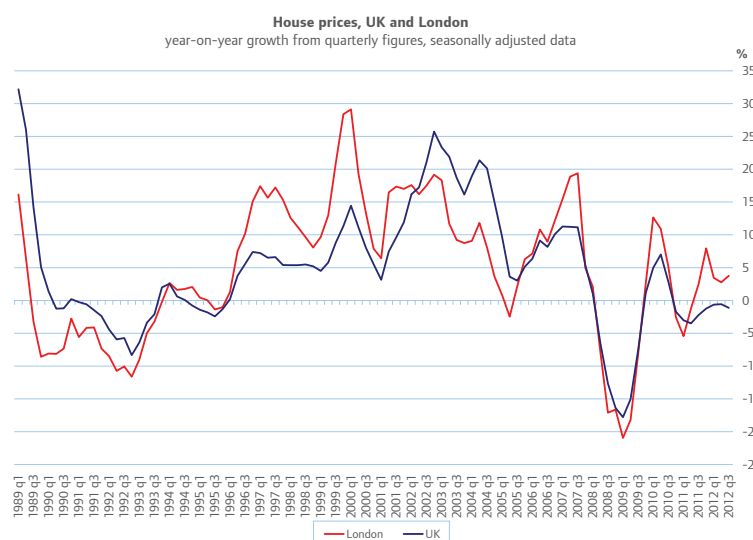
Source: Experian Economics

## Annual house price inflation rising in London

- House prices, as measured by Halifax, were higher in Q3 2012 than in Q3 2011 in London but not in the UK.
- Annual house price inflation in London was 3.8% in Q3 2012, up from an upwardly-revised 2.8% in Q2 2012.
- Annual house price inflation in the UK was -1.1% in Q3 2012, down from a downwardly-revised -0.6% in Q2 2012.

Latest release: October 2012

Next release: January 2013



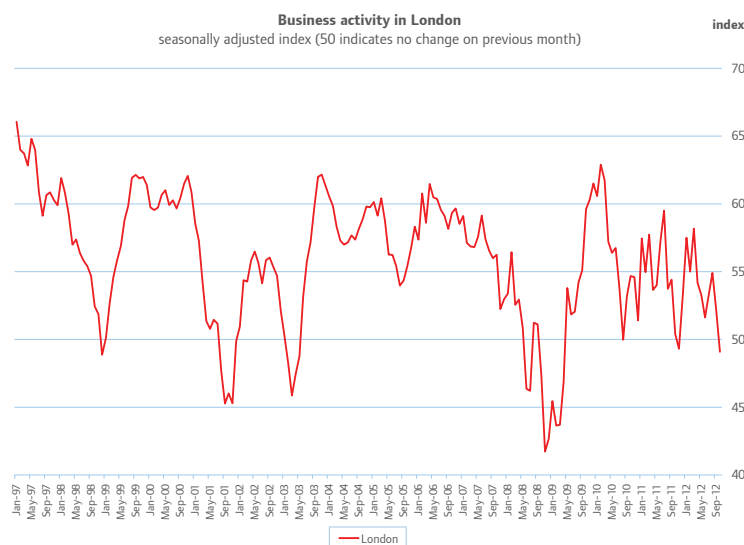
Source: Halifax house price index

## London's business activity decreasing

- London firms decreased their output of goods and services in October 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 49.1 in October 2012 compared to 52.1 in September 2012.
- A rate of below 50 on the index indicates a decrease in business activity from the previous month.

Latest release: November 2012

Next release: December 2012



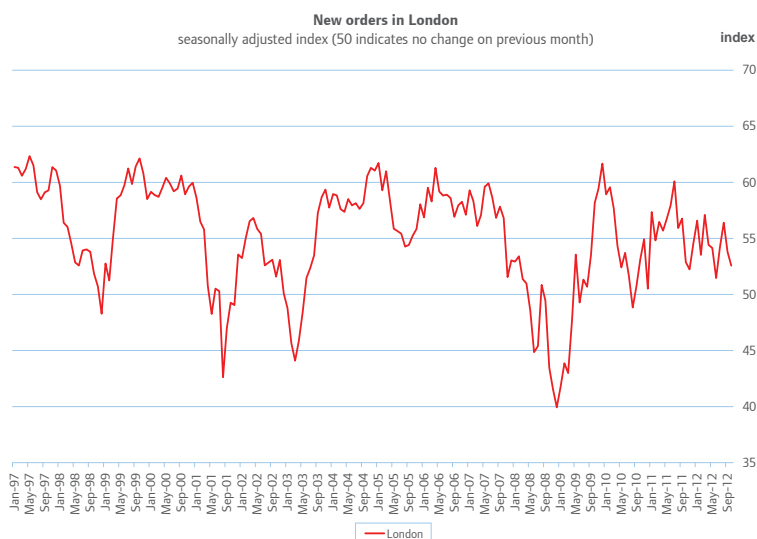
Source: Markit Economics

## New orders in London rising

- October 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 52.6 in October 2012 compared to 53.8 in September 2012.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: November 2012

Next release: December 2012



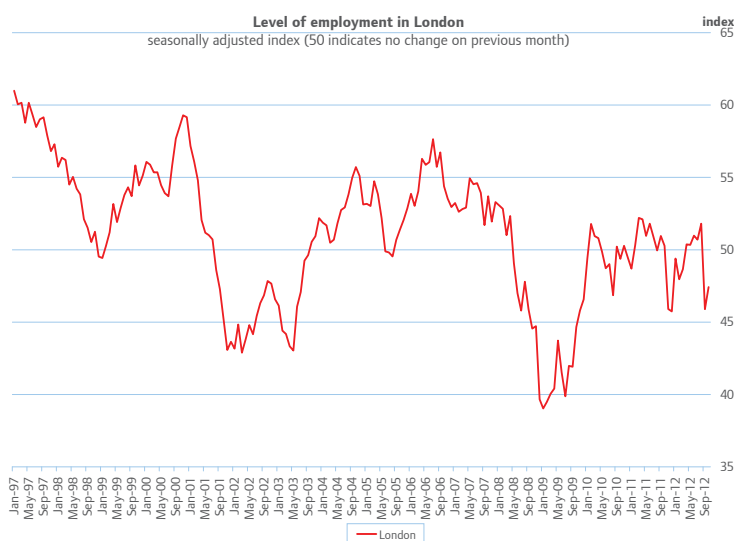
Source: Markit Economics

## Businesses report lower employment in October

- The PMI shows that the level of employment in London firms decreased in October 2012.
- The PMI for the level of employment was 47.4 in October 2012 compared to 45.9 in September 2012.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: November 2012

Next release: December 2012



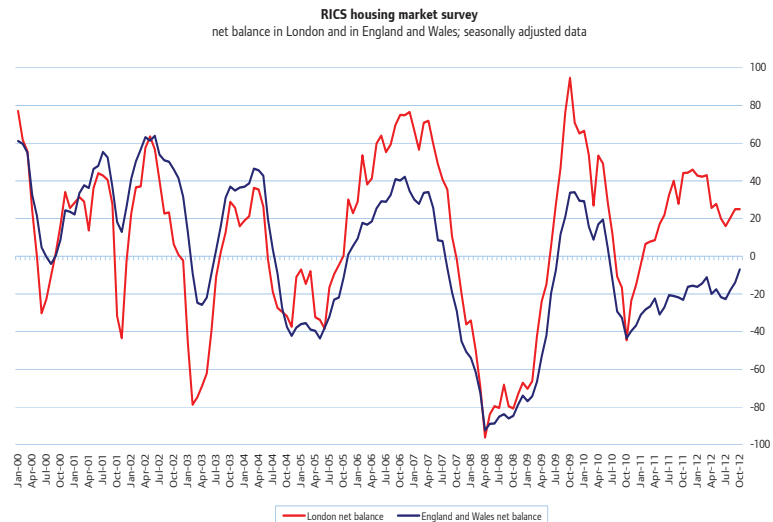
Source: Markit Economics

## 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 October 2012.
- Surveyors reported a negative net house price balance for England and Wales of -7 over the three months to October 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: November 2012

Next release: December 2012



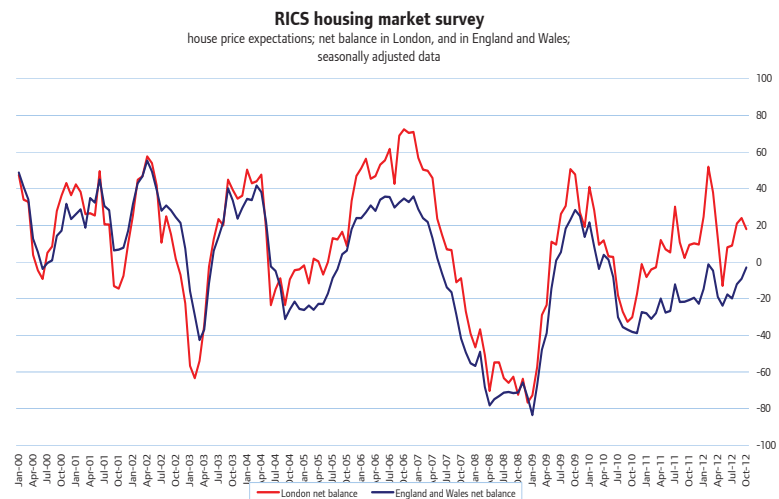
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices to rise over the next three months in London but to fall in England and Wales.
- The net house price expectations balance in London was 18 in October 2012.
- For England and Wales, the net house price expectations balance was -3 in October 2012.

Latest release: November 2012

Next release: December 2012



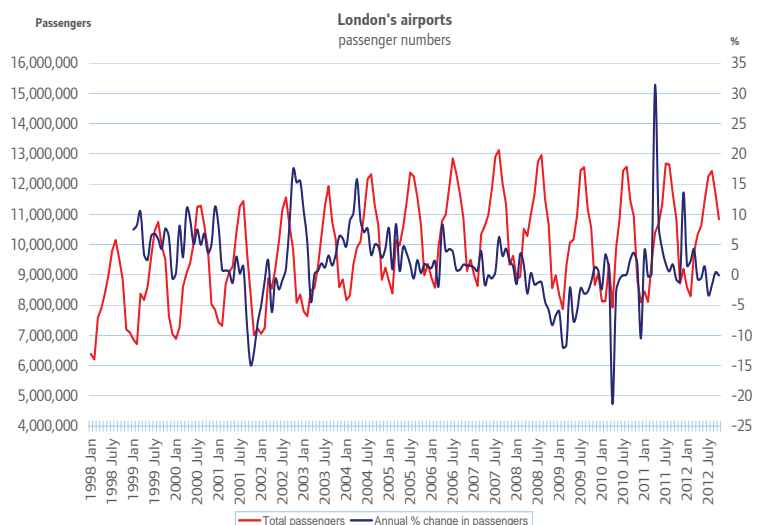
Source: Royal Institution of Chartered Surveyors

## Small decrease in year-on-year airport passenger numbers

- 10.8 million passengers travelled through London's airports in October 2012.
- The number of passengers using London's airports decreased by 0.1% from October 2011 to October 2012.
- Airport passenger numbers fell during the 2008/09 recession and are still below pre-2008/09 recession levels.

Latest release: November 2012

Next release: December 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 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

<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.