

# London's Economy Today

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

## Bank of England modifies forward guidance as UK unemployment heads towards seven per cent

By **Gordon Douglass**, Supervisory Economist and **Brian Smith**, Economist

**Last August the Bank of England set out its 'forward guidance' for monetary policy which stated that when unemployment reached seven per cent the Monetary Policy Committee (MPC) would re-assess the state of the economy before changing monetary policy. In its February Inflation Report, the Bank notes "that [this] threshold is likely to be reached in the next few months".**

The report therefore sets out some 'further guidance' on UK monetary policy by first observing that "the MPC's view is that the economy currently has spare capacity equivalent to about 1 per cent – 1½ per cent of GDP, concentrated in the labour market". This it argues is both wasteful and means that inflation could well be below the Bank's central symmetrical target rate in the medium term. The MPC therefore believes the economy has scope to absorb this spare capacity before the Bank needs to raise interest rates. The report further observes that when rates do begin to rise "the appropriate level of Bank Rate is likely to be materially below the 5 per cent level set on average by the Committee prior to the crisis". In relation to quantitative easing "the MPC intends to maintain the stock of purchased assets, including

## Latest news...

### Low pay in London – Working Paper 59

Increasingly low pay has become a factor in poverty. This paper looks at the incidence of low pay in London, concentrating on four sectors: cleaning; retail; social care; and hospitality and catering. Since 1997 the proportion of employees in the social care sector in low pay has been between 40 and 50 per cent. For the retail sector, the proportion has been even higher at 50-60 per cent. For the hospitality and catering sector the proportion in low pay has been higher still at 60-70 per cent and for the cleaning sector, between 75 and 85 per cent of employees have been in low pay. The paper shows that part-time employees are much more likely to be low-paid than full-time employees. Download this publication now from <http://www.london.gov.uk/priorities/business-economy/publications/gla-economics/low-pay-in-london>



reinvesting the cash flows associated with all maturing gilts held in the [Asset Purchase Facility], at least until Bank Rate has been raised from its current level of 0.5 per cent". Finally in relation to future monetary policy action the MPC announced it will be based on "the sustainability of the recovery", "the extent to which supply responds to demand" ie, the extent to which labour and capital move to more productive uses, and "the evolution of cost and price pressures" in the economy.

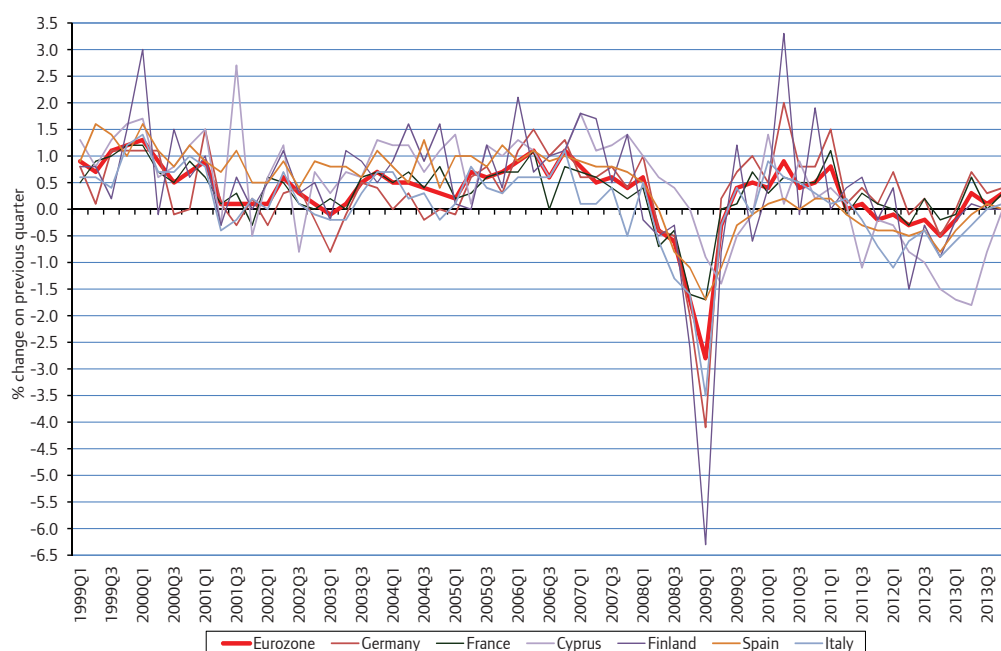
Elsewhere in the Inflation Report the Bank raised its forecast for economic growth to 3.4 per cent in 2014, compared to a previously forecast 2.8 per cent. This was the fourth consecutive upgrade in its growth forecast. However, Mark Carney, the Governor of the Bank of England, noted that the current recovery was "neither balanced nor sustainable" whilst adding that "a few quarters of above trend growth driven by household spending are a good start but they aren't sufficient for sustained momentum".

### Eurozone shows some more signs of positive growth

Data released in February showed that the Eurozone's recovery continued in Q4 2013 with its economy growing by 0.3 per cent, compared to 0.1 per cent in Q3 2013 (see Figure 1). However, over the whole of 2013, Eurozone GDP declined by 0.4 per cent. Within the Eurozone the French economy grew by 0.3 per cent in Q4 2013 after experiencing no growth in Q3 2013, the German economy grew by 0.4 per cent in Q4 2013 compared with 0.3 per cent in Q3 2013, whilst Italy grew by 0.1 per cent in Q4 2013 after not growing in Q3 2013, thus ending two years of recession. However, Finland re-entered recession with its economy contracting by 0.8 per cent in Q4 2013 after contracting by 0.2 per cent in Q3 2013 and Cyprus remains in recession with its economy contracting by 1 per cent in Q4 2013. Still, in response to what it says is an economic recovery that is "gaining ground" the European Commission has also slightly improved its growth forecasts for 2014 and 2015 to 1.2 per cent and 1.8 per cent respectively, a 0.1 per cent improvement on the forecast growth rates for both years.

**Figure 1: Quarterly GDP growth rates in the Eurozone and selected member countries**

Source: Eurostat



Elsewhere, concerns have been raised by the decision of the German Constitutional Court to refer the European Central Bank's (ECB) Outright Monetary Transactions scheme (the bond buying scheme, which the ECB has not used but which has been credited with stabilising the euro) to the European Court due to concerns that it violates the ECB's mandate. And in signs of the continuing weakness in certain Eurozone member states, unemployment in Greece reached a record 28 per cent in November 2013 (59 per cent for 16 to 24 year olds), more than twice the Eurozone unemployment rate of 12 per cent in December 2013.

### **London business confidence rises**

The ICAEW/Grant Thornton UK Business Confidence Monitor (BCM) Q1 2014 has found that business confidence in London is continuing to rise having "been on a steady upward trend from a low in Q3 2012 and now stands at its highest on record [the BCM has been carried out since 2003]"; whilst gross profit and sales volumes are also projected to pick up. For the UK the BCM found that business confidence has also continued to rise (the sixth consecutive such rise), with it standing "at an all-time high now, surpassing the record level seen last quarter. This suggests that businesses are becoming increasingly optimistic about the economic outlook facing their organisations". The survey also showed an improvement in the growth in capital spending "as companies become more confident in the economic outlook. In recent quarters, reported investment growth has generally surpassed projections from a year earlier, pointing to an improving investment environment." Whilst considering capital spending, it was announced in February that Bombardier won the £1 billion contract to supply trains for Crossrail. Elsewhere the BDO Optimism Index for UK businesses reached its highest level in 22 years in January. Peter Hemington, a partner at business consultants BDO, said "UK business confidence has hit record highs as we enter 2014 and we expect the economy to grow rapidly in the first half of the year".

### **Real wages remain tight but the recovery continues to bed in**

A recent report by the Office for National Statistics has found that "real wages have been falling consistently since 2010, the longest such period since at least 1964". Real wages have fallen by 2.2 per cent annually since the first quarter of 2010. Nevertheless, continuing signs of an improvement in the UK economy were evident in February with the CBI forecasting growth of 2.6 per cent in 2014, and 2.5 per cent in 2015; whilst UK trade showed an improvement in December 2013 to a trade deficit of £1 billion compared to £3.6 billion in November 2013. However, some concerns do remain about the state of the global economy as shown in January by the steepest fall in US factory orders for 33 years (in part due to the bad US weather) and also by Japan's economy growing by a slower than expected annualised rate of 1 per in Q4 2013. Still UK inflation remains moderate with Consumer Price Index (CPI) inflation falling to 1.9 per cent in January, whilst most business and consumer surveys show improved sentiment in both London and the UK. Thus although many London households continue to face challenging times, the economic indicators suggest the continued development of a more benign economic environment than has been experienced by many in recent years.

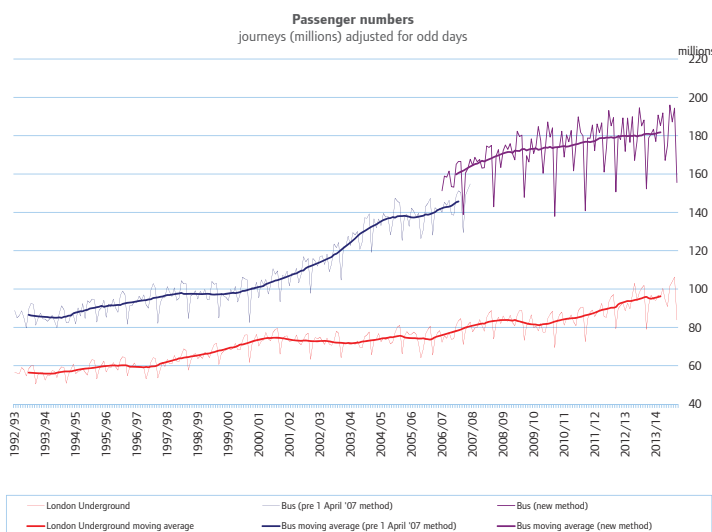
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28 day period is from 8 December 2013 to 4 January 2014. Adjusted for odd days, London's Underground and buses had 239.4 million passenger journeys; 155.6 million by bus and 83.9 million by Underground.
- The moving average of passengers every period increased to 278.0 million from 277.4 million in the previous period. The moving average for buses was 181.8 million. The moving average for the Underground was 96.2 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: February 2014

Next release: March 2014



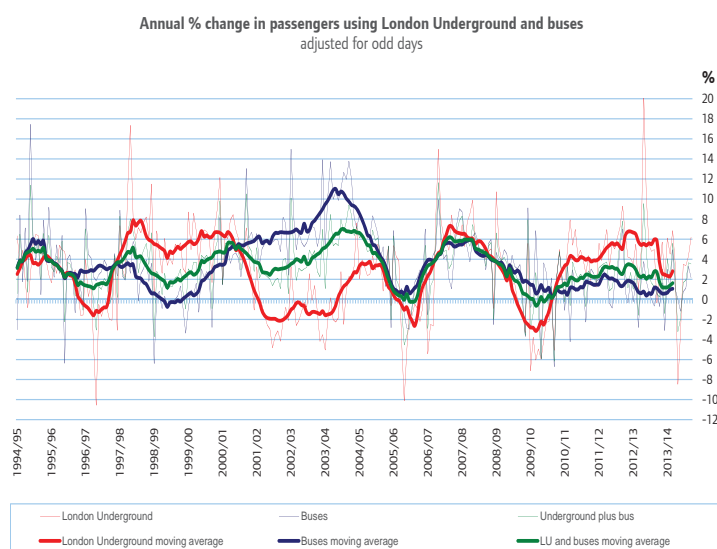
Source: Transport for London

## Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 1.6% from 1.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 1.1% from 1.0% in the previous period.
- The moving average annual rate of growth in Underground passenger journey increased to 2.8% from 2.3% in the previous period.

Latest release: February 2014

Next release: March 2014



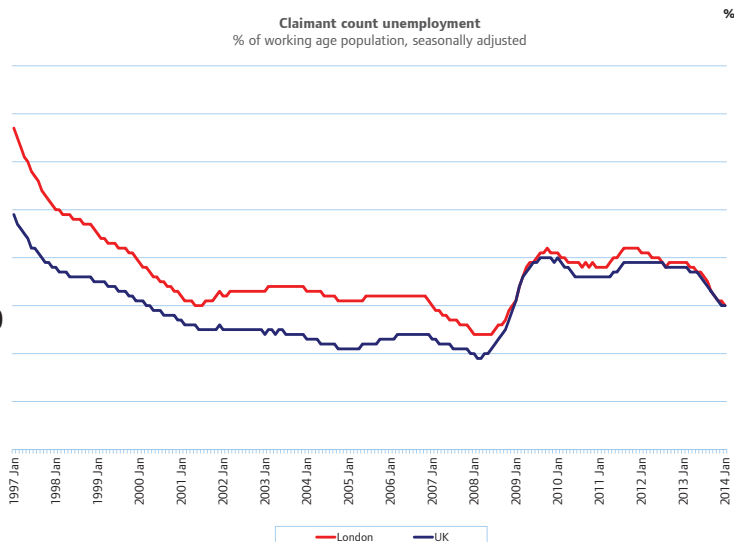
Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 3.0% in January 2014.
- There were 171,400 seasonally adjusted unemployment claimants in London in January 2014 compared to an upwardly-revised 174,300 in December 2013.
- There were 1,215,700 seasonally adjusted unemployment claimants in the UK in January 2014 compared to a downwardly-revised 1,243,300 in December 2013.

Latest release: February 2014

Next release: March 2014



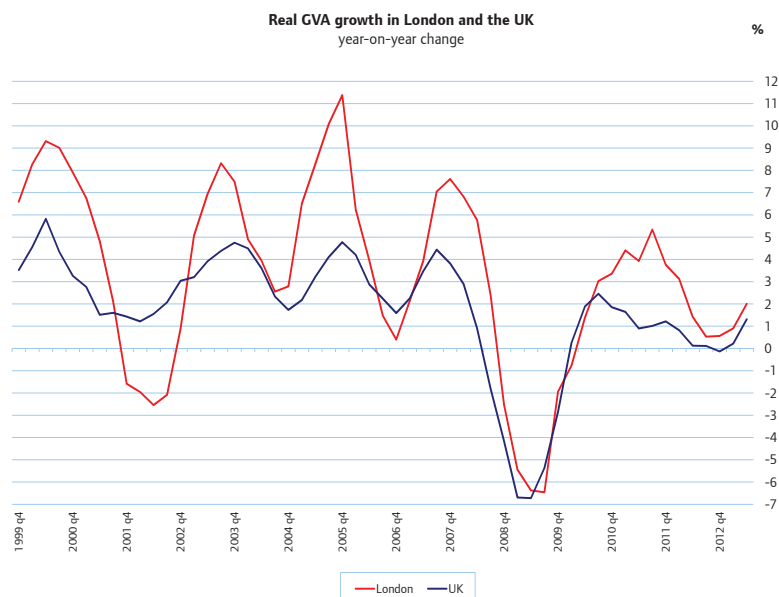
Source: Claimant Count, Nomis

## Faster annual output growth in Q2 2013

- London's annual growth in output increased to 2.0% in Q2 2013 from a downwardly-revised 0.9% in Q1 2013.
- Annual output growth in the UK increased to 1.3% in Q2 2013 from a downwardly-revised 0.2% in Q1 2013.
- In Q2 2013 London's annual growth rate was higher than in the UK as a whole.

Latest release: November 2013

Next release: March 2014

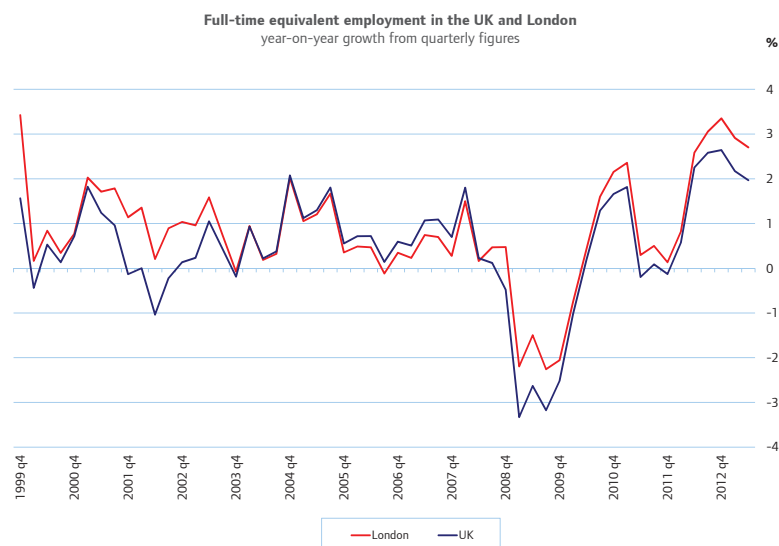


## Annual employment growth slows in Q2 2013

- London's annual employment growth decreased to 2.7% in Q2 2013 from 2.9% in Q1 2013.
- Annual employment growth in the UK decreased to 2.0% in Q2 2013 from 2.2% in Q1 2013.
- In Q2 2013 London's annual employment growth was higher than in the UK as a whole.

Latest release: November 2013

Next release: March 2014

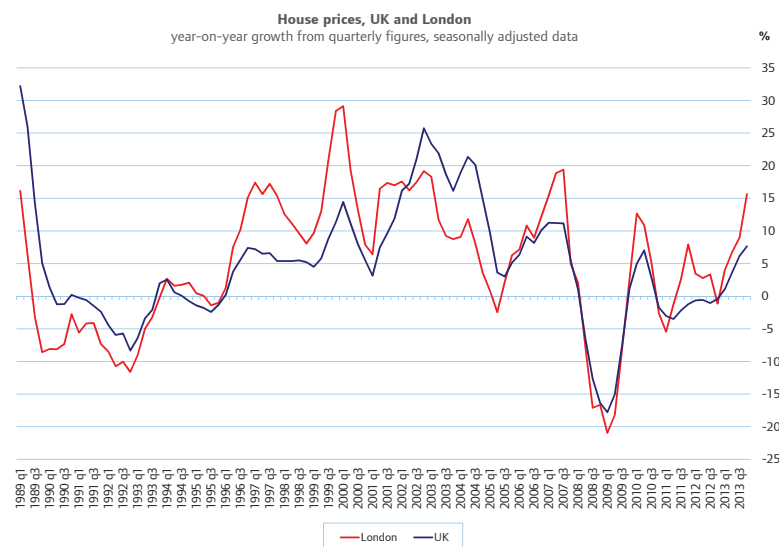


## Annual house price inflation higher in London than in the UK

- House prices, as measured by Halifax, were higher in Q4 2013 than in Q4 2012 in London and in the UK.
- Annual house price inflation in London was 15.6% in Q4 2013, up from 9.0% in Q3 2013.
- Annual house price inflation in the UK was 7.6% in Q4 2013, up from 6.2% in Q3 2013.

Latest release: January 2014

Next release: April 2014

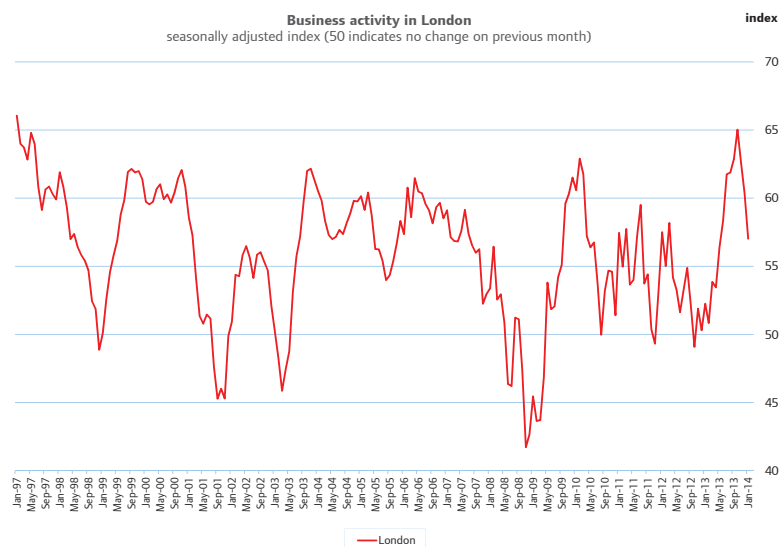


## London's business activity increasing

- London firms increased their output of goods and services in January 2014.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.0 in January 2014 compared to 60.3 in December 2013.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: February 2014

Next release: March 2014



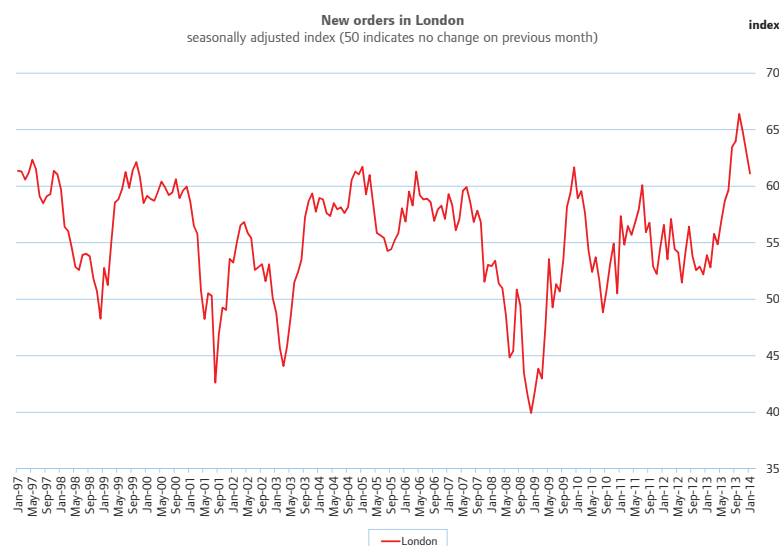
Source: Markit Economics

## New orders in London rising

- January 2014 saw an increase in new orders for London firms.
- The PMI for new orders recorded 61.1 in January 2014 compared to 63.0 in December 2013.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: February 2014

Next release: March 2014



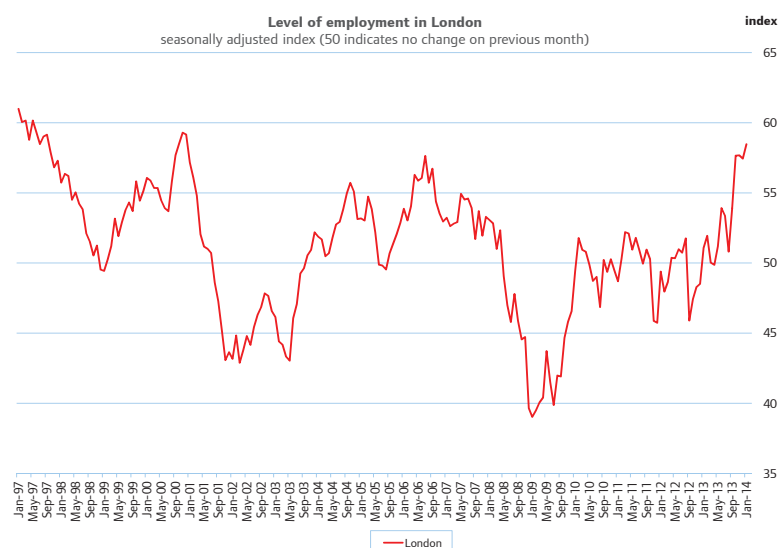
Source: Markit Economics

## Businesses report higher employment in January

- The PMI shows that the level of employment in London firms increased in January 2014.
- The PMI for the level of employment was 58.5 in January 2014 compared to 57.4 in December 2013.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: February 2014

Next release: March 2014



Source: Markit Economics

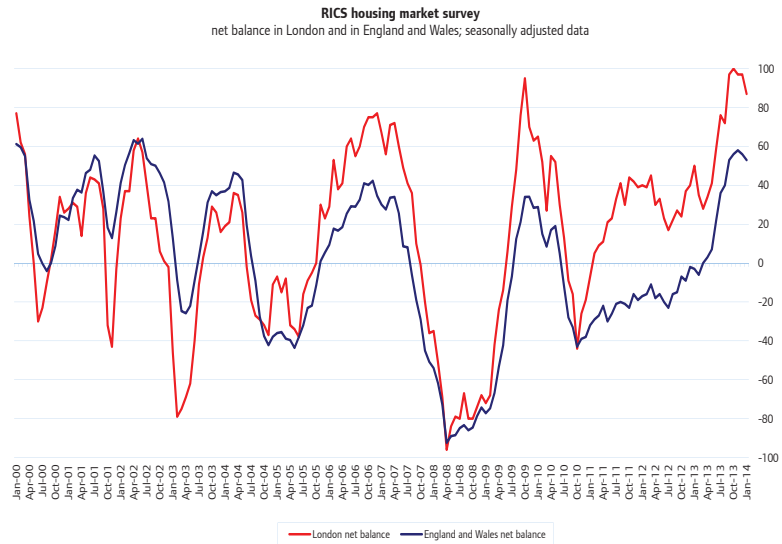


## Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 87 for London house prices over the three months to January 2014.
- Surveyors reported a positive net house price balance of 53 for England and Wales over the three months to January 2014.
- London's net house price balance is higher than that of England and Wales.

Latest release: February 2014

Next release: March 2014



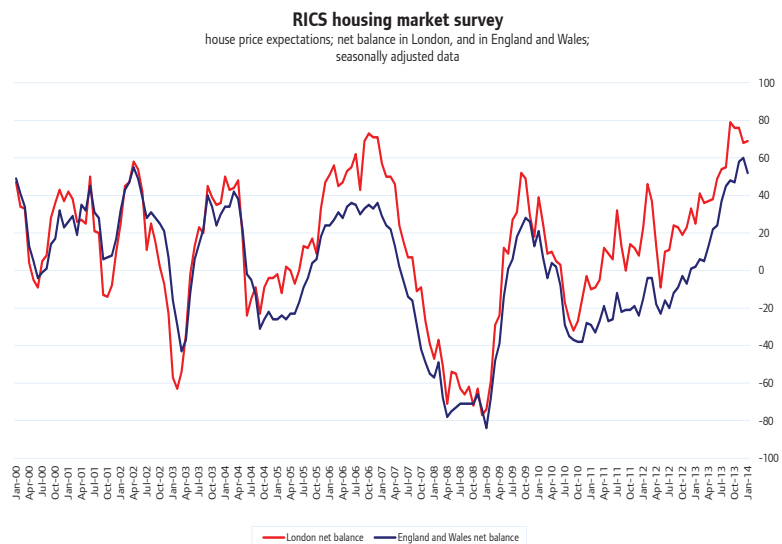
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to rise

- The RICS survey shows that surveyors expect house prices to rise over the next three months in London and in England and Wales.
- The net house price expectations balance in London was 69 in January 2014.
- For England and Wales, the net house price expectations balance was 52 in January 2014.

Latest release: February 2014

Next release: March 2014



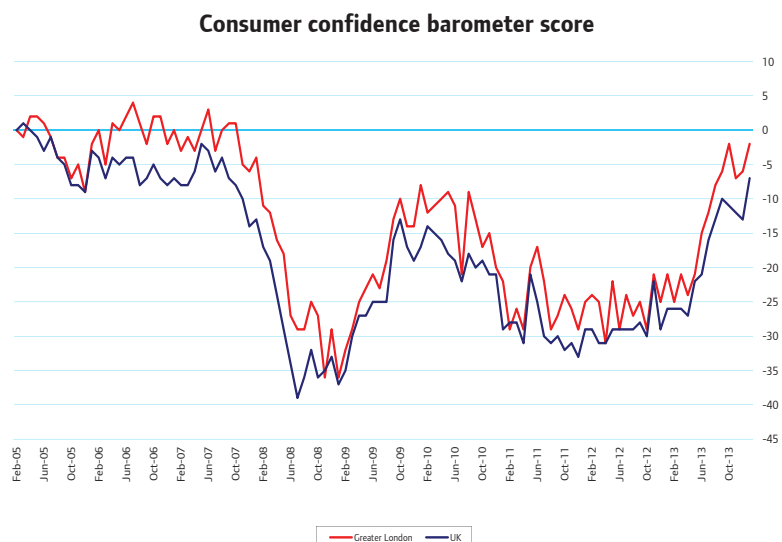
Source: Royal Institution of Chartered Surveyors

## 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 -2 in January 2014 from -6 in December 2013.
- For the UK the consumer confidence score increased to -7 in January 2014 from -13 in December 2013.

Latest release: January 2014

Next release: February 2014



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 2013/14 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2013.

### 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 2013/14 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2013.

## Acronyms

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