GLAECONOMICS

London’s Economy Today

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In this issue

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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/gla-economics/let/

London’s economy grew strongly in 2014

By **Gordon Douglass,** Supervisory Economist and **Victor Frebault,** Economist Intern

Data released from the Office for National Statistics (ONS) on 9 December on Regional Gross Value Added (GVA) (using the Income Approach), showed that in 2014 London’s nominal GVA grew by 6.8 per cent to £364.1 billion. Over half of this increase came from the combined growth of the Financial and insurance activities and Real estate sectors. London’s GVA now comprises 22.6 per cent of total UK GVA (see Figure 1). The ONS observed that “since the start of the time series in 1997 London has increased its share [of UK GVA] by 3.7 percentage points”.

For the first time the ONS published estimates of the GVA of London’s sectors for the same year as the overall GVA release; previously a lag of an additional year was included in this data series. According to that data, the Real estate sector, Financial and insurance activities, and Transportation and storage were the fastest growing major sectors in 2014 (with nominal growth rates on a year earlier of 12.8 per cent, 11.6 per cent and 10.1 per cent respectively). In contrast, Human health and social work activities saw output fall by 0.5 per cent in 2014. While, Wholesale and retail trade; repair of motor vehicles, Information and communication, and Manufacturing

Latest news...

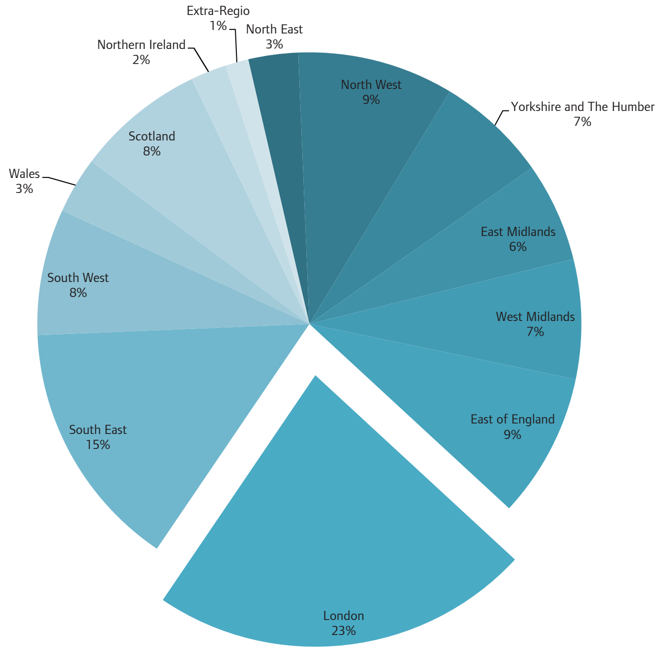
London Datastore highlights

Annual ethnic group population projections for London boroughs. This 2014 Round is the first to incorporate newly available ethnic migration rates and probabilities derived from moves captured by the 2011 Census.

The Valuation Office Agency have released a dataset of the number of homes covering a range of geographies from regions to lower super output areas. This visualisation shows the number of homes in 2015, the change in number of homes since the year before, and the percentage of these homes belonging to aggregated council tax band groups for both boroughs and middle super output areas.

Figure 1: Geographic breakdown of regional share of headline UK GVA in 2014

Source: ONS



grew at a more modest pace in 2014 (with nominal growth rates on a year earlier of 1.9 per cent, 2.9 per cent and 3.3 per cent respectively).

Also included in this publication was data for GVA at the new NUTS3 level which provides output estimates for London boroughs or combination of boroughs. This data showed that Tower Hamlets, Croydon, Bromley and Wandsworth were the fastest growing UK sub regions in 2014 with nominal output growth on a year earlier of 14.3 per cent, 10.3 per cent, 9.4 per cent and 9 per cent respectively; Darlington filled in fifth place with growth of 8.9 per cent. The London NUTS3 area with the highest overall output in 2014 was Camden and City of London (£64.08 billion), followed by Westminster (£48.64 billion) and Tower Hamlets (£35.66 billion).

This latest release from the ONS covers the measurement of GVA based on the Income Approach; new data on the calculation of GVA using the Expenditure Approach, which were first published in 2013 and remain as experimental statistics, were published on 16 December 2015 this time for the years 1998 to 2013. Fuller analysis of both these releases by GLA Economics will be published in the New Year.

Monetary divide between the US Fed and European Central Bank

Internationally the economic prospects of some of London's main trading partners remain mixed. Thus in their December 2015 meeting, the European Central Bank (ECB) took further steps to kick-start the Eurozone economic recovery, most notably by cutting the deposit rate further into negative territory, from -0.2 per cent to -0.3 per cent, in an attempt to push banks to increase lending. The ECB announced it would not change its other interest rates, including the key refinancing rate, which was cut to 0.05 per cent in June 2014.

The ECB also moved to extend its monthly €60 billion stimulus programme, and extended the assets eligible for purchase by it, to at least the end of March 2017, or beyond if necessary dependent on the ECB's governing council seeing a sustained adjustment in the path of inflation. The ECB also urged national governments to adopt structural reforms, more fiscal policies to enable growth, and to refrain from too severe austerity measures.

However, in the United States monetary policy headed in a different direction as shown by the Federal Reserve's decision to raise the Federal Funds interest rate on 16 December by 0.25 per cent to between 0.25 to 0.5 per cent from the near zero rate of between 0 to 0.25 per cent that has held since December 2008. It is expected that the Fed will continue to raise rates gradually over the course of the coming years. This decision was in part determined by the relative strength of the US economy with for example recent data from the US Bureau of Labor Statistics reporting that 211,000 jobs were added to the US economy over November 2015. US unemployment now stands at 5 per cent, half the rate from its peak in October 2009. Average earnings also rose by 2.3 per cent on the year.

Renminbi becomes an IMF reserve currency

In signs of China's continued emergence as an economic power the International Monetary Fund's (IMF) executive board decided in December that the Renminbi qualifies for its Special Drawing Rights (SDR) basket of currencies, the first change in 15 years. It joins the euro, Japanese yen, sterling and US dollar from October 2016. The IMF concluded that China and its currency met the two criteria for inclusion in the basket, namely, that the issuing country is among the largest exporters in the world, and that its currency is 'freely usable', in other words, is widely used for payments and trading in international transactions. Christine Lagarde, the IMF's managing director, observed that "the Executive Board's decision to include the [Renminbi] in the SDR basket is an important milestone in the integration of the Chinese economy into the global financial system. It is also a recognition of the progress that the Chinese authorities have made in the past years in reforming China's monetary and financial systems. The continuation and deepening of these efforts will bring about a more robust international monetary and financial system, which in turn will support the growth and stability of China and the global economy".

Each currency within the SDR is assigned weights, effectively reflecting the extent to which currencies play a role in international finance. The Renminbi will make up 11 per cent of the basket that defines the value of SDR. The dollar still largely dominates the basket but the Renminbi may become more important as a global reserve currency over time; with a survey conducted by HSBC, of reserve managers of central banks showing them expecting the Renminbi to account for 10 per cent of world currency reserves by 2025.

The Bank of England publishes their latest stress tests of banks

Looking at the stability of the UK financial sector the Bank of England published a new Financial Stability Report in December in which they observed that the Financial Policy Committee (FPC) judge that the UK's "financial system has moved out of the post-crisis period. Some domestic risks remain elevated. Buy-to-let and commercial real estate activity are strengthening. The United Kingdom's current account deficit remains high by historical and international standards, and household indebtedness is still high". It further noted that "the resilience of the UK banking sector to deterioration in global financial market conditions and the macroeconomic environment, including in emerging market economies, has been assessed in the 2015 annual stress test. The stress-test results and banks' capital plans, taken together, indicate that the banking system would have the capacity to maintain its core functions, notably lending capacity, in a stress scenario such as the one in the 2015 stress test. The results of the 2015 stress test also suggest that UK banks' capital adequacy is resilient to stressed projections for misconduct costs and fines, over and above those paid or provisioned for by end-2014".

The Bank's biannual Systemic Risk Survey was also published in December and reported that "the perceived probability of a high-impact event in the UK financial system over the short term has fallen slightly". While, "the risk to the UK financial system most cited by respondents was that of an economic downturn (mentioned by 72 per cent of respondents, +16 percentage points since 2015 H1). This was also most frequently cited as respondents' number one risk. About one third of responses for this risk referred to downturns in emerging market economies".

UK ends the year with signs of the global slowdown impacting some sectors

Looking at the UK economy as a whole there is some evidence that growth may be slowing down in certain sectors with for example the manufacturing organisation EEF reporting that the sector was having a poor end of the year due to the "gathering gloom" from the global economy. A survey for Lloyds Bank published in December also showed that car manufacturers have revised down their growth forecasts for the next two years to 14 per cent from 18 per cent last year, with 43 per cent of car makers saying that the global economy was the prevailing challenge for their industry. Further, the British Retail Consortium reported that retail sales dipped in November with them down 0.4 per cent compared to November 2014. And, the British Chamber of Commerce cut its UK growth forecasts for 2015 to 2017, with them now forecasting output growth of 2.4 per cent in 2015 (down from a previous forecast of 2.6 per cent) and 2.5 per cent in both 2016 and 2017 (down from a previous forecast of 2.7 per cent for both years).

Still, the IMF in their latest survey of the UK economy was relatively upbeat noting that the "recent economic performance has been strong, and considerable progress has been achieved in addressing underlying vulnerabilities". While "steady growth looks likely to continue over the next few years, and inflation should gradually return to target". However they did note some risks including that "house price growth has eased somewhat over the past year, but remains high"; "the current account deficit is … strikingly large"; "the 2014/15 fiscal deficit stood at nearly 5 per cent of GDP, with general government gross debt reaching 87 percent of GDP, despite steady progress in reducing fiscal imbalances"; and other uncertainties "may affect the outlook. For example, the presumed recovery of productivity growth to nearer its historical average rate, which is essential to ensure that the growth of output and incomes remains solid, may fail to materialize. In addition, uncertainty associated with the outcome of the planned referendum on EU membership could weigh on the outlook".

For London the long-term prospects, despite the decision on airport expansion in the South East having been again pushed back, remain encouraging with a global forecast from Oxford Economics published in December forecasting average annual output growth of 2.9 per cent for the capital compared to 2.6 per cent for New York for the years 2015 to 2030. London was also forecast to grow more quickly than Singapore, Hong Kong, Paris and Tokyo but slower than Shanghai, Beijing and Dubai over these years. While EY forecast in December that London's economy will have grown by 3.4 per cent in 2015 compared to 2.3 per cent for the UK as a whole; they further state that "between 2015 and 2018, we expect this pattern of expansion to continue. London is forecast to record an average GVA of 3.0 per cent per year over the period, with the East of England (2.4 per cent) and South East (2.5 per cent) also likely to outpace the UK three year average of 2.3 per cent, albeit to a lesser extent than the capital".

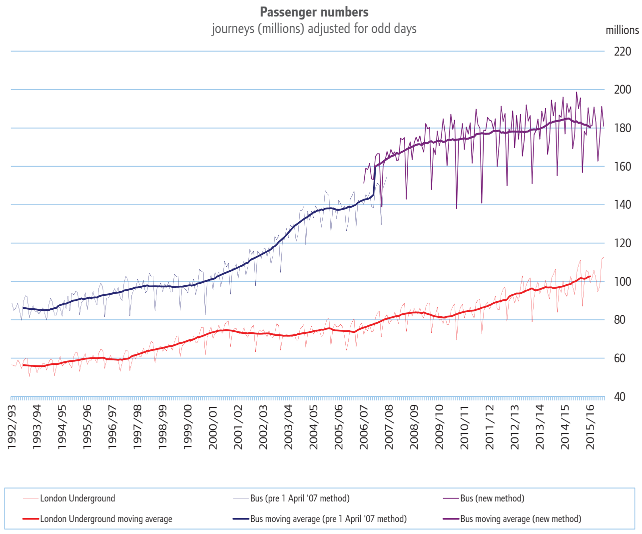
Data shows that London's economy is currently performing well with the employment rate (ie, the proportion of London's resident working age population in employment) in the three months to October 2015 increasing to 73.0 per cent – up by 0.7 percentage points on the previous quarter and up 1.2 percentage points on a year earlier. For comparison the UK employment rate stood at 73.9 per cent the highest rate since comparable records began for this measure at the UK level in 1971. Workforce jobs in London (ie, the number of jobs located in London, whether or not they are taken by residents of London), reached 5.575 million in Q3 2015 – a new high since the measure began in 1996 and an increase of 98,000 (or 1.8 per cent) over the year. Most evidence thus suggests that London's economy continues to grow strongly, as also indicated by Tube usage hitting a record high of 4.821 million journeys on Friday 4 December. So although the international economic outlook remains less certain than at the start of the year, compared to the economic situation seen for most of the 2010's so far London's economy enters the New Year on a relatively positive note.

Economic indicators

Decrease in average of passenger journey numbers

- The most recent 28-day period covered 18 October 2015 – 14 November 2015. Adjusted for odd days, London's Underground and buses had 293.6 million passenger journeys; 180.9 million by bus and 112.7 million by Underground.
- The 12-month moving average of passengers decreased to 282.9 million, from a downwardly revised 283.3 million in the previous period. The moving average for buses was 180.3 million. The moving average for the Underground was 102.6 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: December 2015
Next release: January 2016

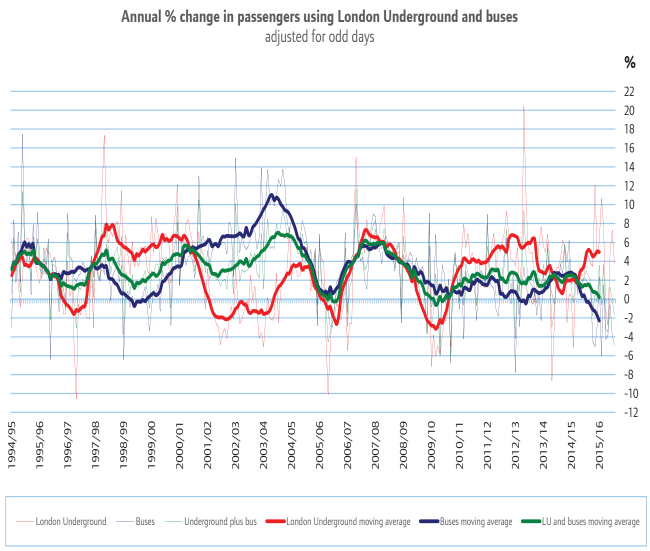


Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 0.2 per cent from 0.6 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -2.3% from a downwardly revised -1.8% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 5.0% from 5.1% in the previous period.

Latest release: December 2015
Next release: January 2016



Source: Transport for London

ILO unemployment decreases in London and in the UK

- The ILO unemployment rate in London stood at 6.3% in the quarter to October 2015, compared to 6.4% in the quarter to July 2015. In the UK, the unemployment rate was 5.2% in the quarter to October 2015, compared to 5.5% for the quarter to July 2015.
- There were 294,000 seasonally adjusted unemployed in London in the quarter to October 2015, a decrease of 3,000 from the quarter to July 2015. There were 1,713,000 seasonally adjusted unemployed in the UK in the quarter to October 2015, a decrease of 110,000 from the quarter to July 2015
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

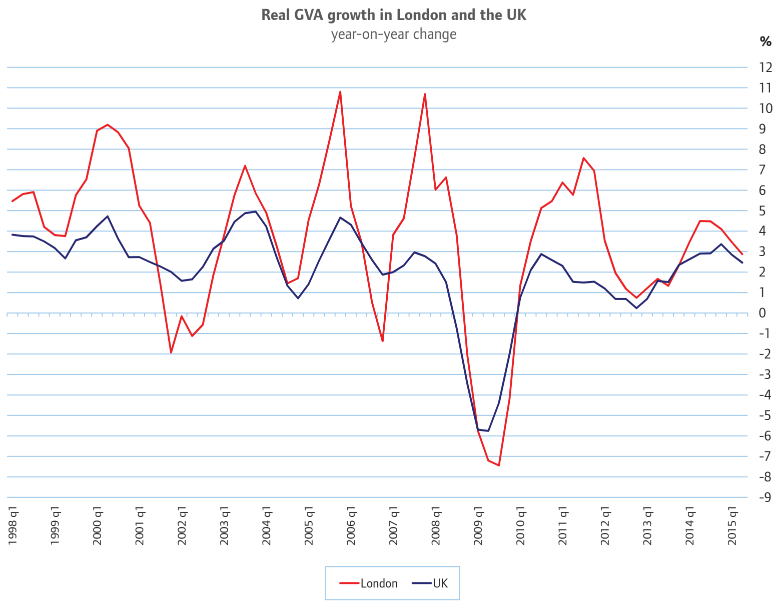
Latest release: December 2015
Next release: January 2016

Source: Labour Force Survey - Office for National Statistics

Annual output growth slows in London in Q2 2015

- London's annual growth in output decreased to 2.9% in Q2 2015 from 3.5% in Q1 2015.
- Annual output growth in the UK decreased to 2.5% in Q2 2015 from 2.8% in Q1 2015.
- In Q2 2015, annual output growth was higher in London than in the UK as a whole.

Latest release: December 2015
Next release: March 2016

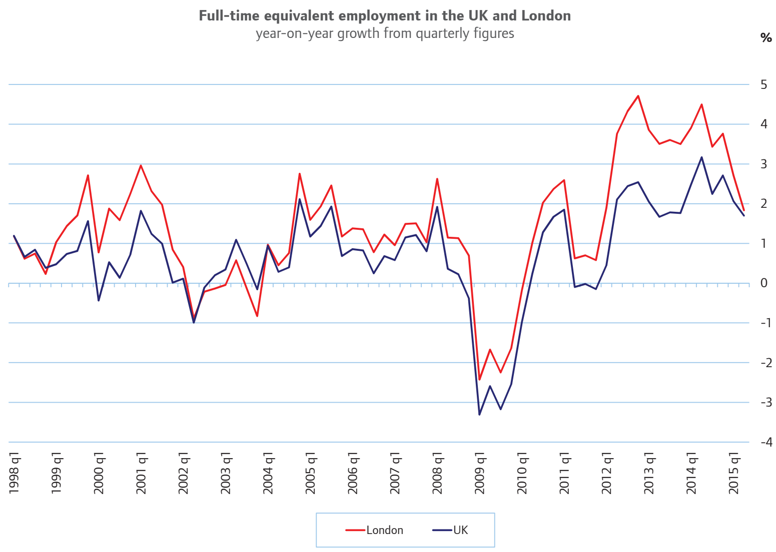


Source: Experian Economics

Annual employment growth slows in Q2 2015

- London's annual employment growth decreased to 1.8% in Q2 2015 from 2.7% in Q1 2015.
- Annual employment growth in the UK decreased to 1.7% in Q2 2015 from 2.1% in Q1 2015
- Annual employment growth was higher in London than in the UK as a whole.

Latest release: December 2015
Next release: March 2016

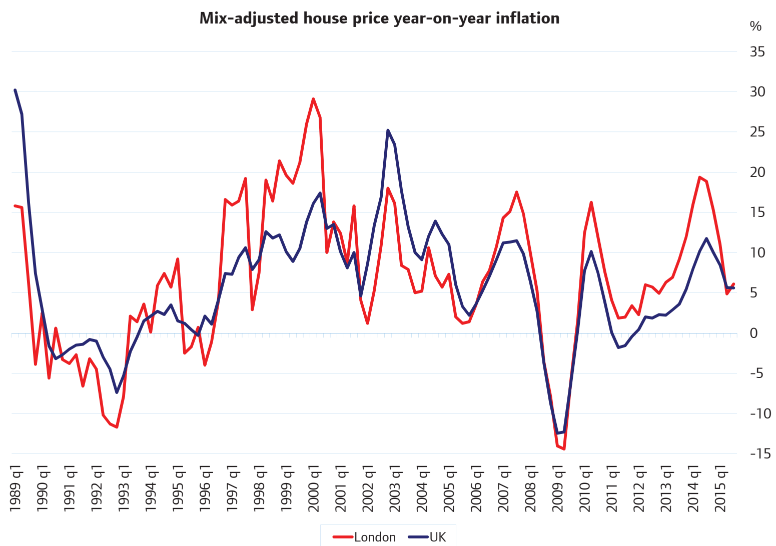


Source: Experian Economics

Annual house price inflation higher in London than in the UK

- House prices, as measured by the Office for National Statistics, were higher in Q3 2015 than in Q3 2014 for London and the UK.
- Annual house price inflation in London was 6.1% in Q3 2015, up from 4.9% in Q2 2015.
- Annual house price inflation in the UK was 5.6% in Q3 2015, unchanged from Q2 2015.

Latest release: November 2015
Next release: February 2016

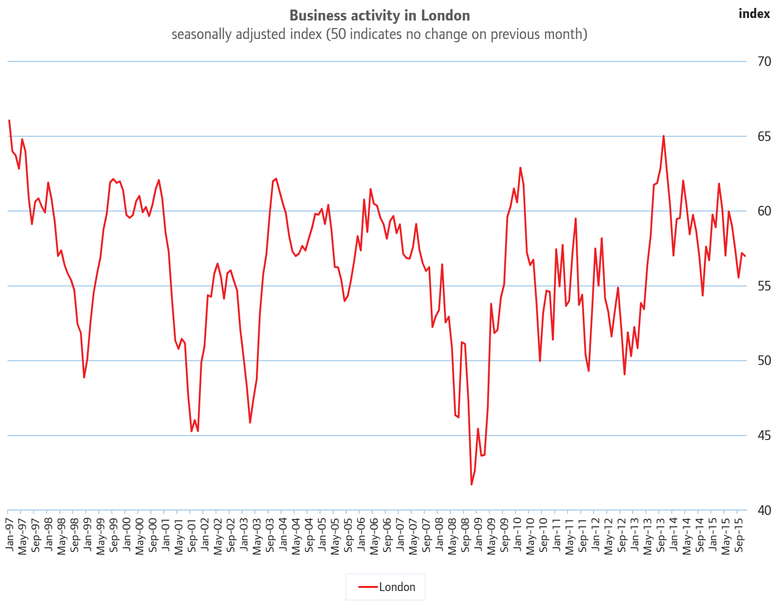


Source: Office for National Statistics

London’s business activity continues to increase

- Firms in London increased their output of goods and services in November 2015.
- The Purchasing Managers’ Index (PMI) of business activity recorded 57.0 in November 2015, down from 57.2 in October 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: December 2015
Next release: January 2016

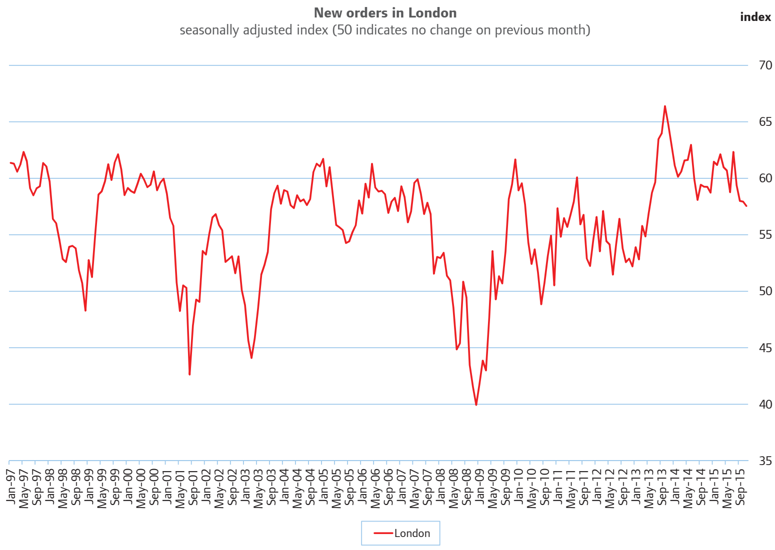


Source: Markit Economics

New orders in London rising

- November 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 57.6 in November 2015 compared to 57.9 in October 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: December 2015
Next release: January 2016

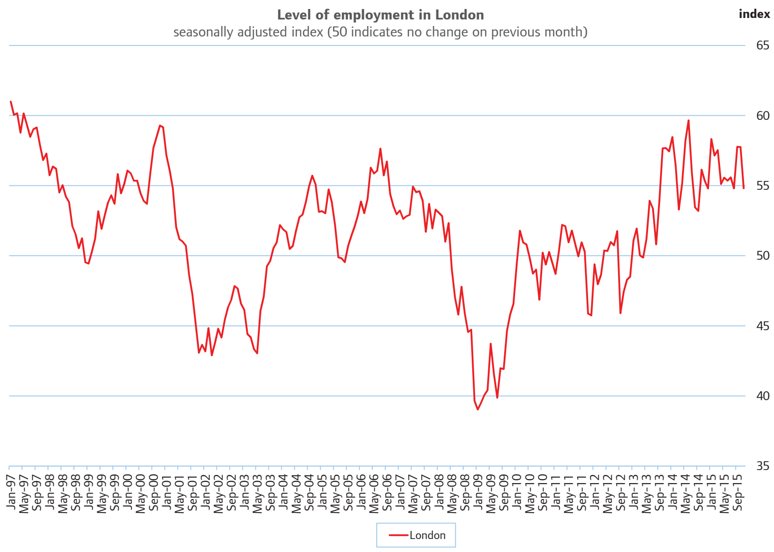


Source: Markit Economics

Businesses report higher employment in November

- The PMI shows that the level of employment in London firms increased in November 2015.
- The PMI for the level of employment was 54.8 in November 2015, down from 57.8 in October 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: December 2015
Next release: January 2016

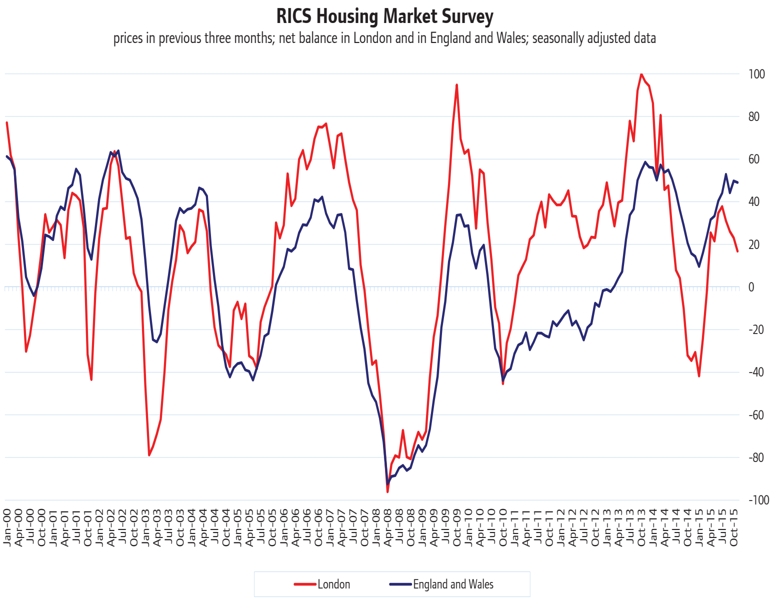


Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey showed a positive net balance of 17 for London house prices over the three months to November 2015.
- Surveyors reported a positive net house price balance of 49 for England and Wales over the three months to November 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: December 2015
Next release: January 2016

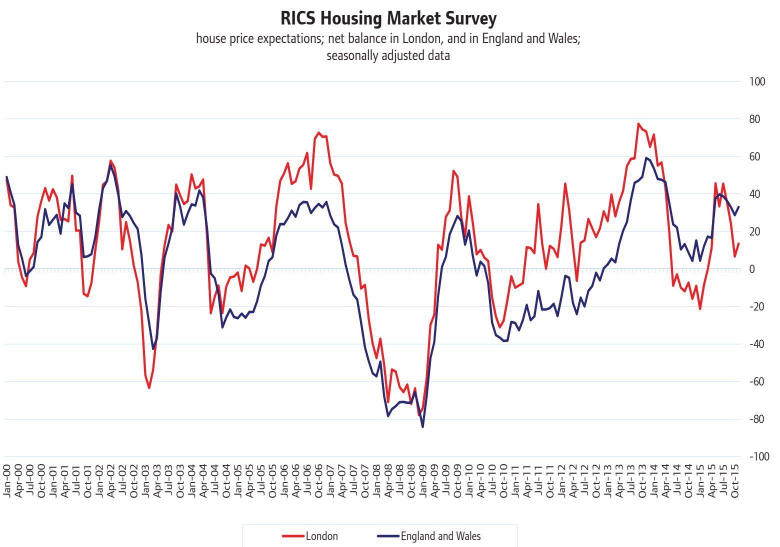


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise

- The RICS Residential Market 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 13 in November 2015.
- For England and Wales, the net house price expectations balance was 33 in November 2015.

Latest release: December 2015
Next release: January 2016

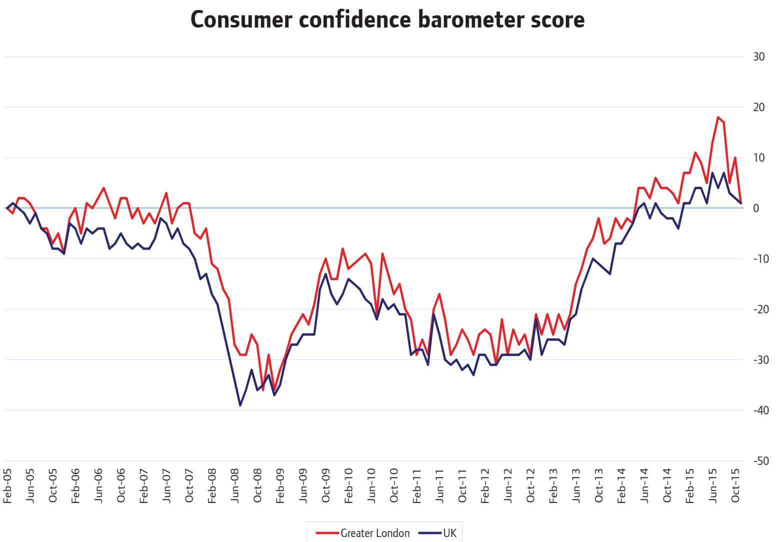


Source: Royal Institution of Chartered Surveyors

Consumer confidence positive in London and the UK

- 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 stood at 1 in November 2015, down from 10 in October 2015.
- For the UK the consumer confidence score stood at 1 in November 2015, down from 2 in October 2015.

Latest release: November 2015
Next release: December 2015



Source: GfK NOP on behalf of the European Commission

An economic analysis of London’s housing market

By **Joel Marsden,**
Economist

GLA Economics recently published a paper which looks at house prices in London over time[1]. The work shows that house prices in London have grown significantly over time. Figure A1 shows the path of London’s house prices over the longer term – going back to 1969 – both in nominal and real terms. It shows that nominal falls in house prices in London have been fairly rare over this period. In total house prices fell (in nominal terms) in five years out of this 45-year period (the early 1990s (4 years of price falls) and 2009). Real falls in house prices are more common however, with house prices falling in real terms in 14 years over this period.

Figure A1: Mix-adjusted house prices index (2003 = 100)[4]

Source: TONS House Price Index reference table 33, ONS long term indicator of prices of consumer goods and services (RPI all item). Notes: the real house-price index is deflated by retail prices and rebased at 100 to take account of the effects of inflation on purchasing power. Data is based on mortgages completed and adjusted for the mix of dwellings sold.

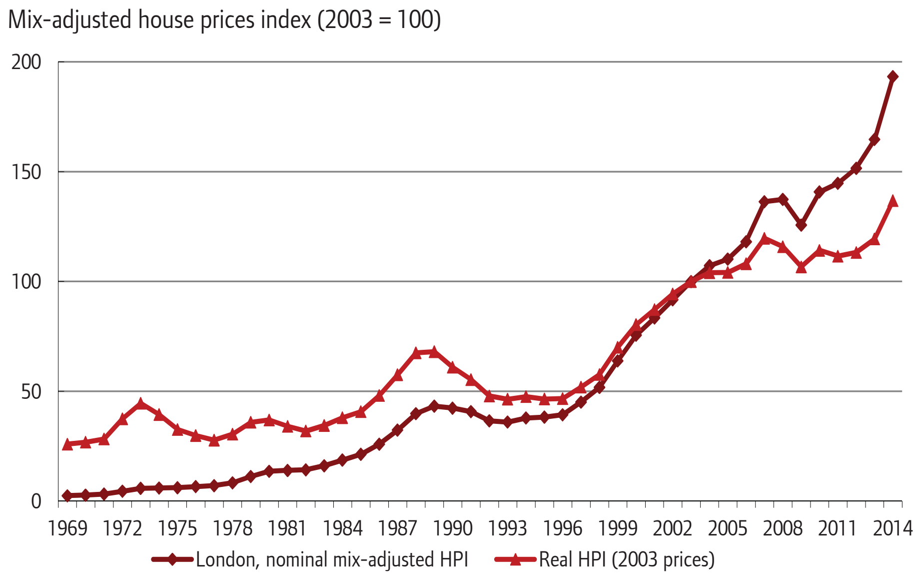
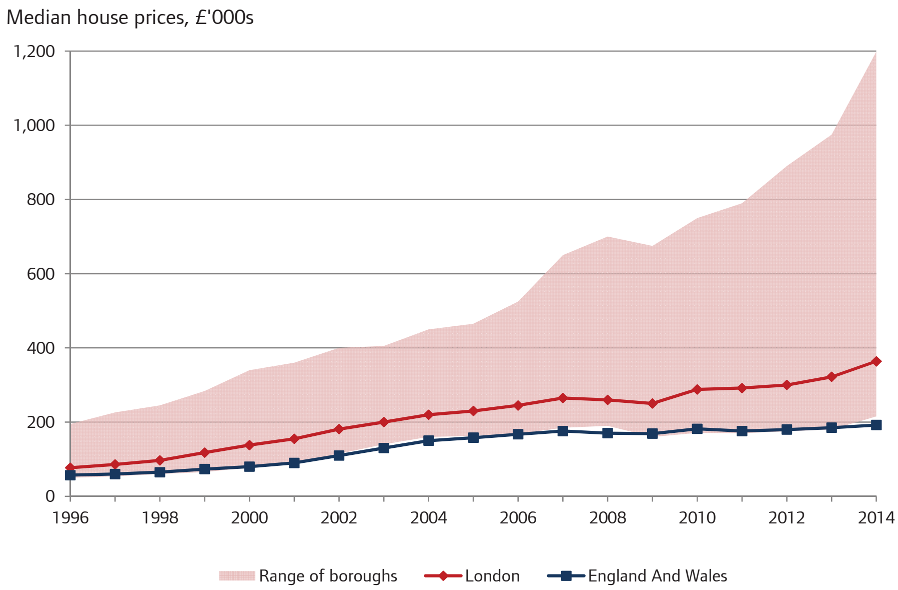


Figure A2 shows median house prices for London, England and Wales and the range of London boroughs over the past 20 years or so. The figure shows that median house prices in London have more than quadrupled in the last 20 years. It shows that house prices have increased by more in London than the rest of England and Wales (and particularly so for some London boroughs).

1 Marsden, J., November 2015, ‘Working Paper 72: House prices in London - an economic analysis of London’s housing market’. GLA Economics.

Figure A2: Median house prices, £'000s

Source: Land Registry price paid data. Notes: Excluded from the above figures are sales at less than market price (e.g. Right to Buy), sales below £1,000 and sales above £20 million

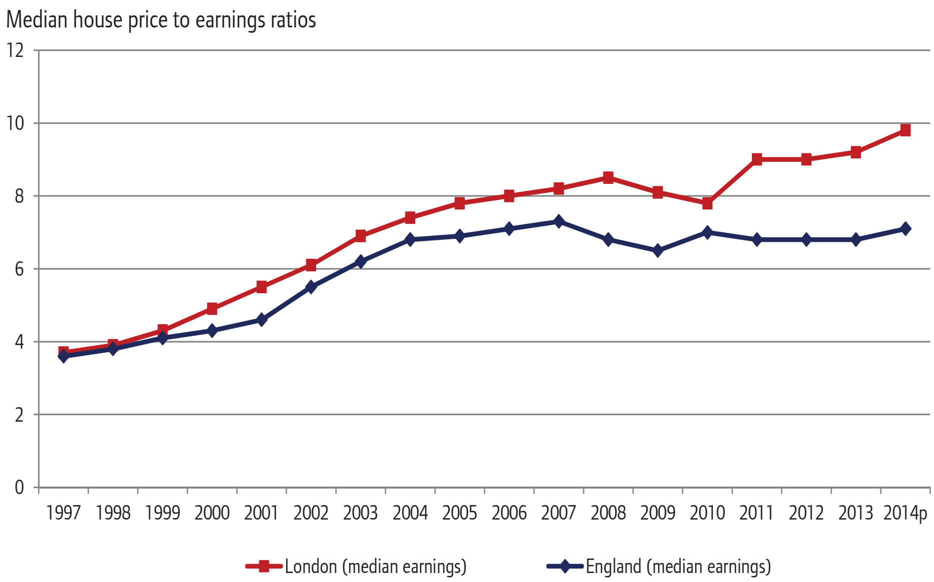


A common measure of whether or not housing is within reach of the typical buyer is the median house price to median annual earnings ratio ('median multiples')[2]. Figure A3 shows that the ratio of median house prices to resident earnings in London has been steadily increasing over time. In 2014 house prices were almost 10 times median earnings in London, compared to about four times in 1997. House prices in England as a whole have instead remained at around seven times annual earnings for the past 10 years or so (having itself increased from under four times earnings in 1997).

Figure A3: Median house price to earnings ratios

Sources: Land Registry prices paid data and ASHE tables 7.7a and 8.7a.

Notes: ASHE is based on a 1 per cent sample of employee jobs. Information on earnings and hours is obtained in confidence from employers. It does not cover the self-employed nor does it cover employees not paid during the reference period. The statistics used are full-time individual median earnings (excluding overtime). Data on earnings for 1997 to 2001 are workplace based, and residence-based from 2002 when this data series began. Data for 2014 are provisional. Land Registry data on median house prices excludes sales below market price (e.g. Right to Buy), and those above £20 million[3].



The paper looks at the affordability of housing from a few different angles. Data from the Council for Mortgage Lenders (CML) shows that the median cost of mortgages secured on properties in London increased from being 2 to 2.5 times greater than buyers' median income in the 1980s to early 1990s, to more than 3.5 times the value of borrowers' income by 2013. Over this period, income multiples associated with housing in London have been consistently higher than those in the UK as a whole, with this gap widening slightly over the period 1980-2015.

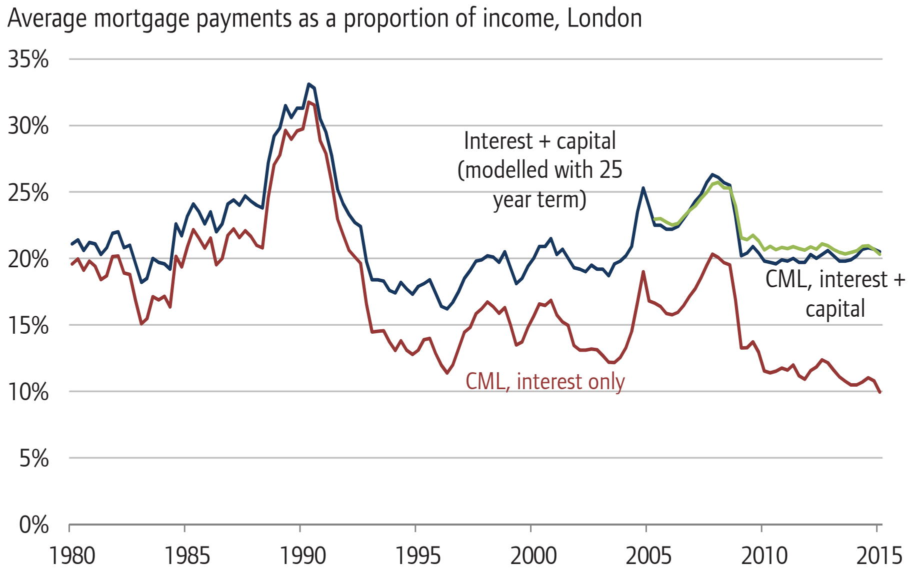
2 The median is typically the preferred measure of a typical home, as this reduces the effect of extreme prices (usually at the higher end of the scale) that influence the mean (or average) value.
3 Land Registry price paid data does not distinguish between actual price movements and changes in the mix of housing for sale over time.

Another way of considering affordability is to look at average mortgage payments as a percentage of average borrowers' income over time. Figure A4 shows that average mortgage payments in recent times have been around 'average' levels for the past 30 years or so (at around 20 per cent of income). This is likely to be due, principally, to the very low interest rates experienced in recent years; the Bank's base rate has been at 0.5 per cent - what were originally called 'emergency' levels - for the best part of seven years now. Given the increased loan-to-income multiples highlighted earlier, London households may be particularly exposed to future changes in mortgage interest rates.

Figure A4: Affordability of mortgages in London

Source: GLA calculations based on CML quarterly data

Notes: data is based on all home buyers including first-time buyers and home movers.



The paper also looks into some of the related issues like: population growth, foreign ownership of housing, the buy-to-let market and housing supply. The paper can be found at: Working Paper 72: House prices in London – an economic analysis of London's housing market

Additional information

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

Acronyms

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

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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.

MAYOR OF LONDON