

# London's Economy Today

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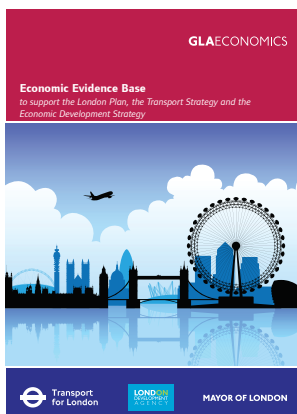
## Sovereign debt problems in the eurozone loom large whilst UK inflation hits a 19-year high

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Ben Behrens**, Trainee Economist

**On 24 May the new Government announced £6.2 billion of savings from Government spending in 2010/11 following advice from HM Treasury and the Bank of England that savings on this scale were feasible and advisable. The net saving will be £5.7 billion as £500 million will be reinvested in further education, apprenticeships and social housing. Starting to cut the huge public sector deficit now signals to international markets that the new Government is taking the UK's deficit seriously in light of recent negative market reaction to several European countries' poor fiscal positions.**

To improve the UK's fiscal credibility the Chancellor has also announced the creation of an independent Office for Budget Responsibility (OBR). The OBR exceeds the International Monetary Fund's (IMF) recommendations on fiscal transparency, enhancing the UK's fiscal credibility. The OBR will be tasked with making independent assessments of the state of public finances and determining independent forecasts of the UK economy. The Chancellor will employ these

## Latest news...



### ● Economic Evidence Base

*to support the London Plan, the Transport Strategy and the Economic Development Strategy*

The evidence base's purpose is to provide an understanding of the economic forces impacting on London and some of the main issues facing London. As a result, as well as looking at London's strengths the evidence base looks at some of the risks to London's future growth and some of the main socio-economic issues facing the capital.

Visit [www.london.gov.uk/who-runs-london/mayor/publications/business-and-economy/economic-evidence-base-may-2010](http://www.london.gov.uk/who-runs-london/mayor/publications/business-and-economy/economic-evidence-base-may-2010) to download this publication.

forecasts in both the Budget (an emergency one has been set for 22 June) and Pre-Budget Reports. Employing independent forecasts will ensure policy is developed using an unbiased view of the UK's economic prospects and will help improve confidence in the UK's fiscal forecasts.

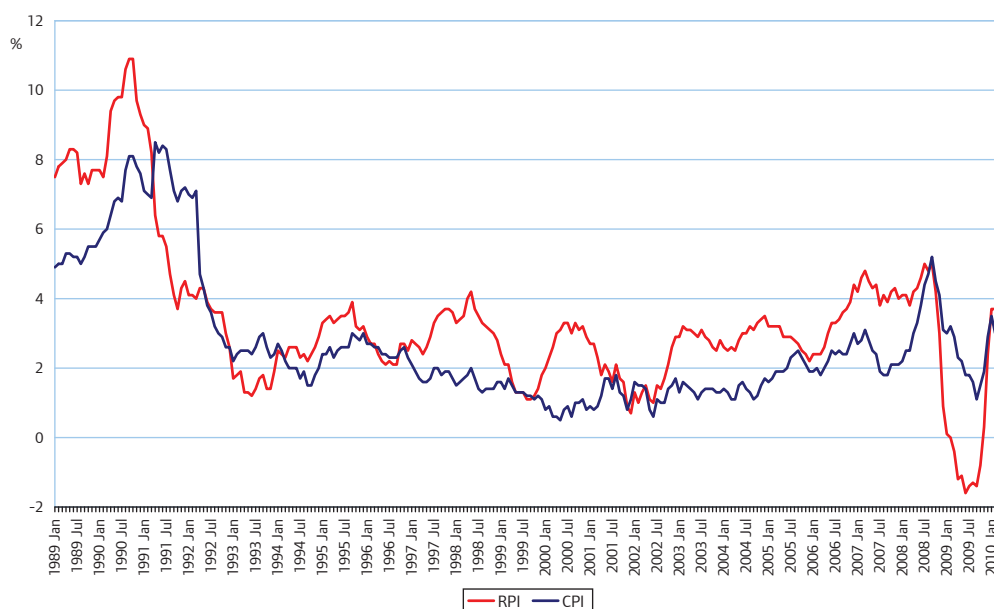
## UK inflation rises again

UK Consumer Price Index (CPI) annual inflation rose to 3.7 per cent in April (see Figure 1), up from 3.4 per cent in March. This was the fourth month in a row that CPI inflation has been above 3 per cent and necessitated that the Governor of the Bank of England write an explanatory letter to the Chancellor. In his letter to the Chancellor, the Governor confirmed that he believed that the rise in inflation was temporary although he did note that "if the current period of above-target inflation causes inflation expectations to move up that may lead to some persistence in the current high level of inflation". Retail Price Index (RPI) inflation rose sharply in April to 5.3 per cent, a 19-year high and up from 4.4 per cent in March. The increase in inflation has been mainly attributed to higher food and oil prices, higher duties on cigarettes and alcohol introduced in the March Budget, along with the continuing effect of the rise in VAT at the turn of the year.

**Figure 1: UK annual inflation rates**

*Last data point is April 2010*

*Source: Office for National Statistics*



## Greek sovereign debt crisis unnerves Governments and stock markets

On the night of 9 May finance ministers from EU countries agreed a package of emergency measures worth €500 billion, in order to try and deal with the financial crisis in Greece and prevent contagion. Concerns have risen that the problems seen in Greece could spread to other Eurozone countries with high budget deficits and government debt (especially Portugal and Spain). This has caused the cost of a number of countries debt to increase this year (see Figure 2). The €500 billion funding will come from both Eurozone members who will contribute €440 billion and the European Commission, which will contribute €60 billion. The IMF has also agreed to contribute up to a further €250 billion. At the same time the European Central Bank (ECB) announced that it would buy Eurozone government and private debt "to ensure depth and liquidity in those market segments which are dysfunctional". During the first week of operation the ECB purchased €16.5 billion of Eurozone government bonds.

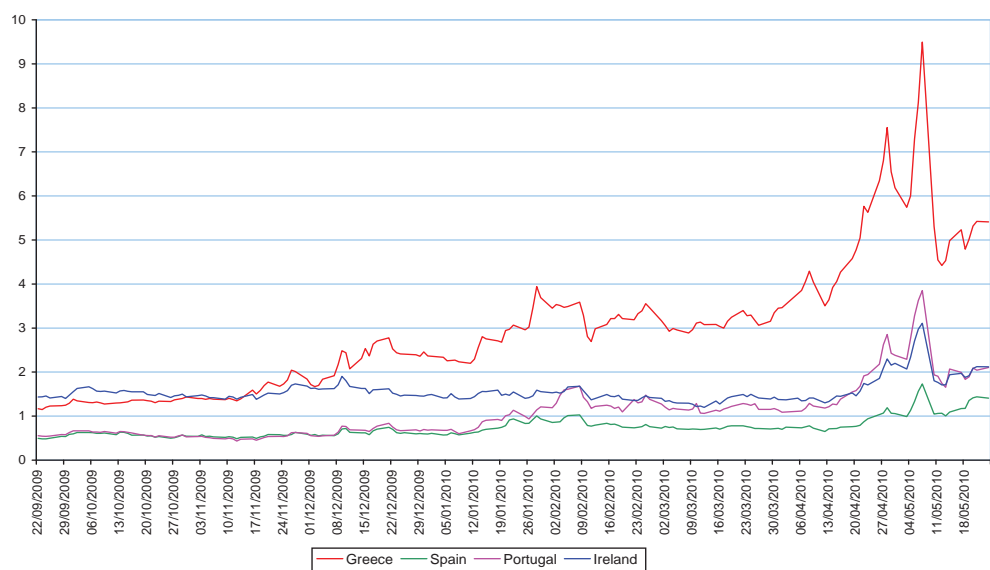
As part of a co-ordinated global effort to alleviate the strain on banks and inter-bank lending caused by the financial crisis in Greece the Federal Reserve Bank re-established its reciprocal currency arrangement, or “swap lines” on 9 May a mere 71 days after suspending the operations. These facilities, which have been supported by other central banks such as the ECB and the Bank of England, are designed to help improve liquidity and make it easier for banks under pressure to access funding in dollars. World stock markets have reacted badly to the continuing sovereign debt crisis in Europe with them suffering significant falls over the course of May. Stock market falls were further exacerbated by the German Governments decision on 19 May to ban some types of short selling of financial products and the required rescue of one of Spain’s biggest regional banks by Spanish authorities on 22 May. The FTSE 100 for example fell below 5000 on 25 May for the first time in 2010 and has seen a drop of around 15 per cent since its recent peak in April.

**Figure 2: 10-year government bond spreads over German bonds, percentage points**

*Last data point is 24/5/2010*

*Source: EcoWin*

% spread of 10-year bonds over German Bonds



## Economic recovery faces headwinds but is supported by loose monetary policy

The Bank of England’s Quarterly Inflation report published in May has produced a very wide forecast for the likely path of both economic growth and inflation over the next couple of years highlighting the high degree of uncertainty in the likely growth path of the UK economy. The report highlighted several factors that will negatively affect the strength of the economic recovery: the substantial fiscal tightening required to bring the public sector deficit down; the required further strengthening of the balance sheets of UK banks; and the private sector’s current desire for higher savings. However, the recovery will be supported by the lower level of sterling compared to a few years ago that will encourage net exports and the current huge monetary stimulus (£200 billion of quantitative easing and an interest rate of only 0.5%).

Recent evidence suggests that the manufacturing sector has picked up after the enormous fall in output during the recession. Markit Economics’ manufacturing PMI index rose to a 15 and half year high in April. This recent strength in the manufacturing sector has been accredited to stronger foreign sales, helped by the approximate 20 per cent depreciation of sterling since mid-2007. However, the generally positive Confederation of British Industry (CBI) monthly industrial trends report warned that inflationary pressures were likely to reduce profit

margins and access to credit remained a constraint on growth. Meanwhile, the service sector is also recovering slowly. Business services and finance output rose 0.7 per cent in Q1 2010, compared with an increase of 0.4 per cent in Q4 2009. Within this sector, financial intermediation, which is of importance to the London economy, grew by 1.0 per cent in Q1 2010.

Overall, the London economy should continue to recover in 2010. After a deep recession, output will not return to pre-recession levels for a couple of years. The labour market will face tough times with unemployment expected to remain high. However, a double dip recession now seems unlikely in London though its possibility has increased in some European countries heavily affected by the ongoing sovereign debt crisis.

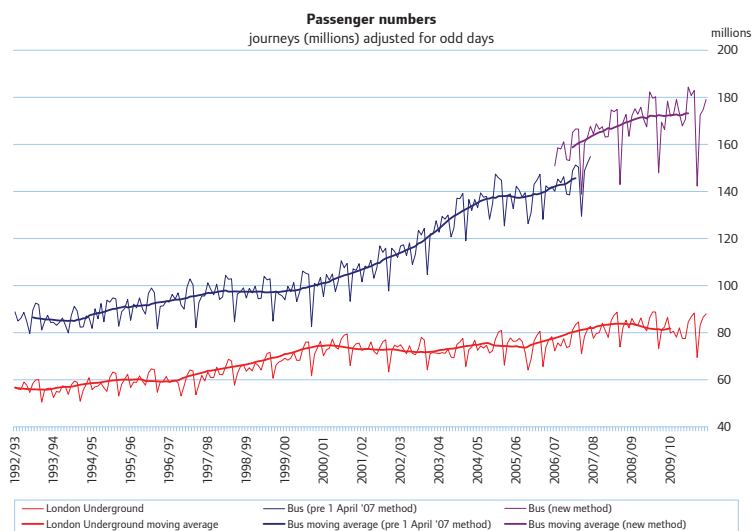
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 25-day period is from 7 March 2010 to 31 March 2010. Adjusted for odd days, London's Underground and buses had 267.0 million passenger journeys; 179.1 million by bus and 88.0 million by Underground.
- The moving average of passengers every period increased to 255.0 million from an upwardly revised 254.8 million in the previous period. The moving average for buses was 173.2 million. The moving average for the Underground was 81.7 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: May 2010

Next release: June 2010



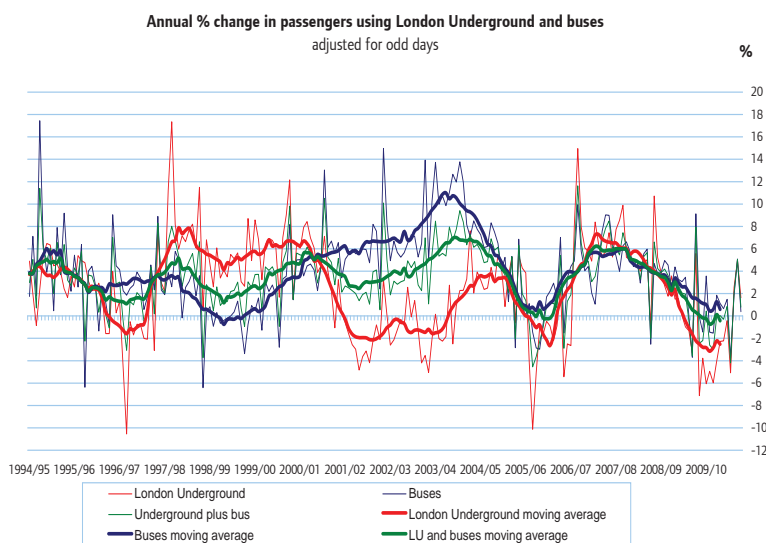
Source: Transport for London

## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to -0.4% from an upwardly revised 0.1% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.6% from an upwardly revised 1.3% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -2.5% from an upwardly revised -2.2% in the previous period.

Latest release: May 2010

Next release: June 2010



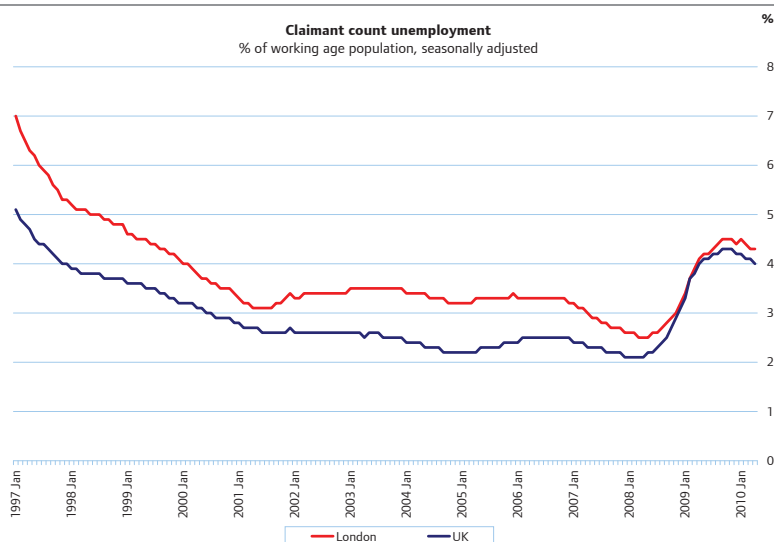
Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.3% in April 2010.
- There were 218,300 seasonally adjusted unemployment claimants in London in April 2010 compared with a downwardly revised 221,600 in March.
- There were 1,516,900 seasonally adjusted unemployment claimants in the UK in April 2010 compared with an upwardly revised 1,544,000 in March.

Latest release: May 2010

Next release: June 2010

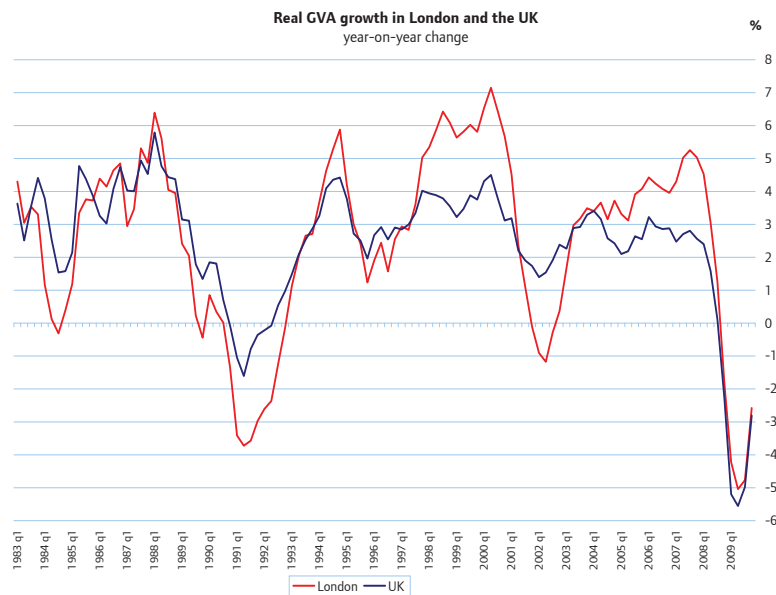


Source: Claimant Count, Nomis

## Annual output growth less negative in London than in the UK

- London's annual growth in output increased to -2.6% in Q4 2009 from -4.8% in Q3 2009.
- Annual output growth in the UK increased to -2.8% in Q4 2009 from an upwardly revised -5.0% in Q3 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2010  
Next release: August 2010

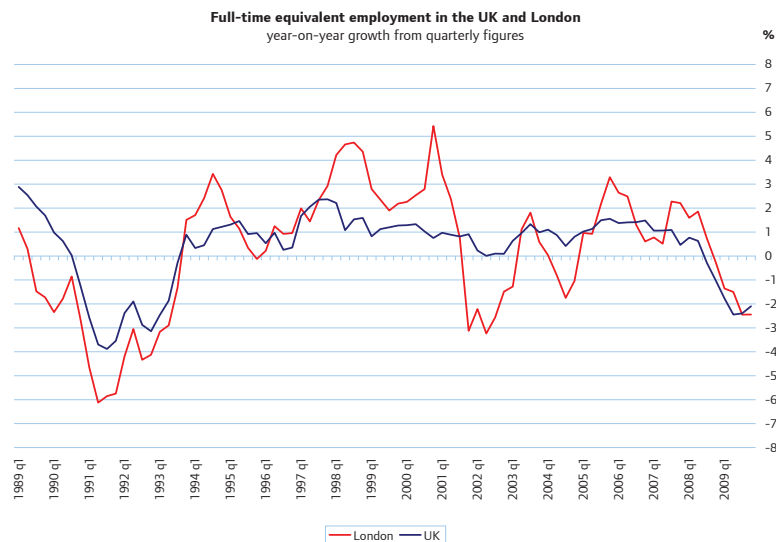


Source: Experian Economics

## Negative annual employment growth

- London's annual employment growth remained at -2.4% in Q4 2009 (the figure for Q3 2009 has been revised down from -2.2% to -2.4%).
- Annual employment growth in the UK increased to -2.1% in Q4 2009 from an upwardly revised -2.4% in Q3 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2010  
Next release: August 2010

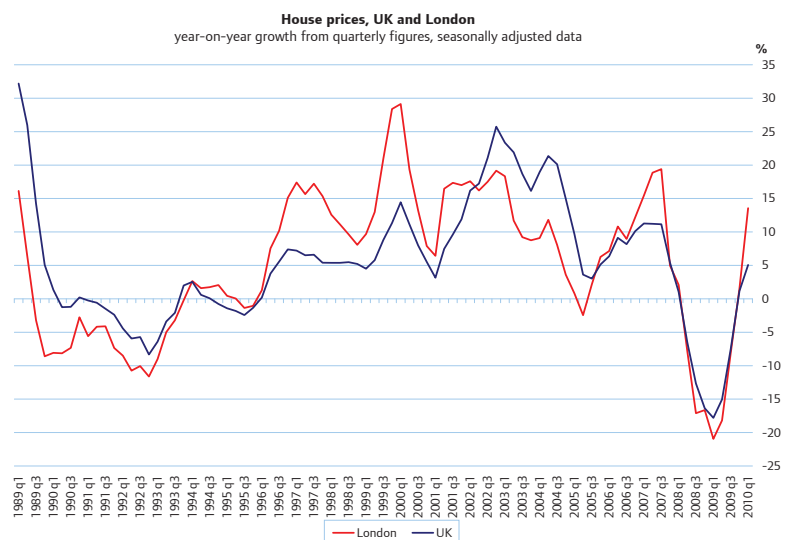


Source: Experian Economics

## Annual house price inflation rises

- House prices, as measured by the Halifax, were higher in Q1 2010 than in Q1 2009 in both London and the UK.
- Annual house price inflation in London was 13.6% in Q1 2010, up from 1.5% in Q4 2009.
- Annual house price inflation in the UK was 5.1% in Q1 2010, up from 1.2% in Q4 2009.

Latest release: April 2010  
Next release: July 2010



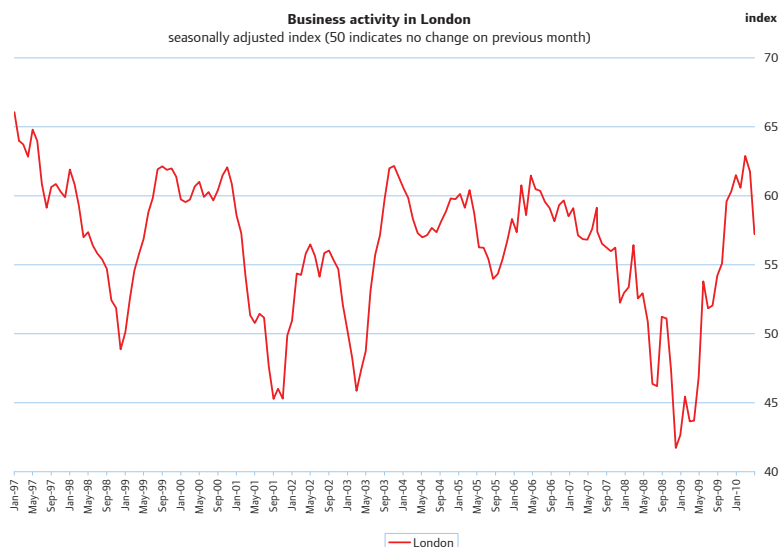
Source: Halifax house price index

## London's business activity increasing at a slower pace

- London firms increased their output of goods and services in April 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.2 in April compared to 61.8 in March.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: May 2010

Next release: June 2010



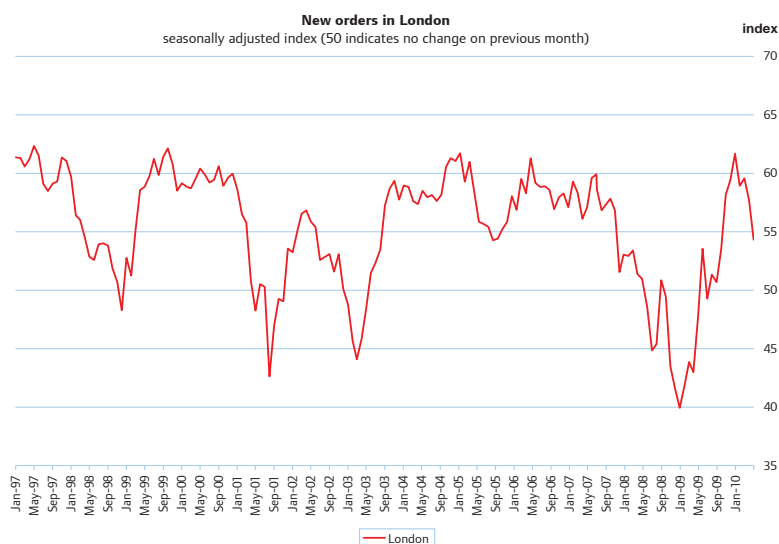
Source: Markit Economics

## New orders in London rising at a slower pace

- April 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 54.3 in April compared to 57.7 in March.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: May 2010

Next release: June 2010



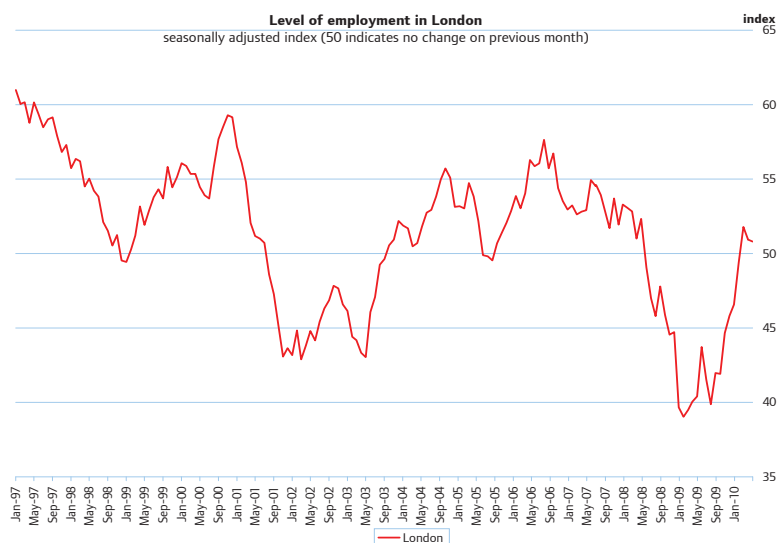
Source: Markit Economics

## Business report slightly higher employment in April

- The PMI shows that the level of employment in London firms increased in April 2010.
- The PMI for the level of employment was 50.8 in April compared to 50.9 in March.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: May 2010

Next release: June 2010



Source: Markit Economics

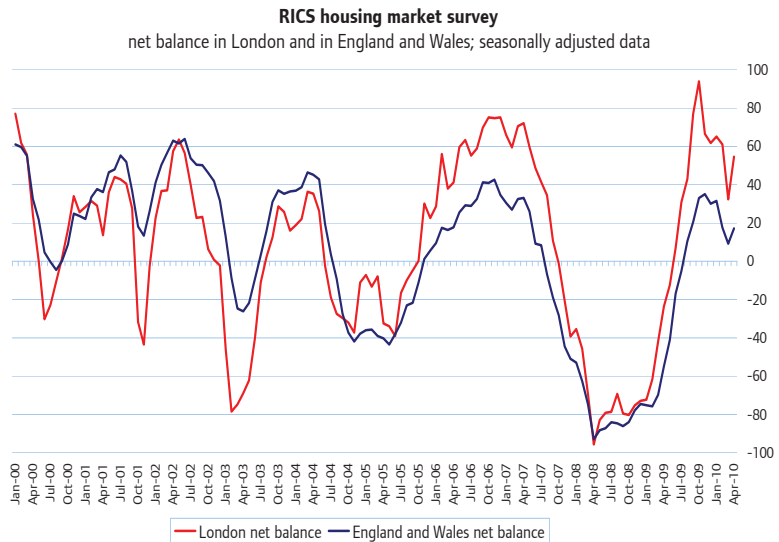


## Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 55 for London house prices over the past three months to April 2010. This net balance is up from a downwardly revised 32 in March 2010.
- Surveyors reported a positive net house price balance for England and Wales of 17 in the past three months to April 2010, up from 9 in March 2010.
- London's net house price balance is above that of England and Wales.

Latest release: May 2010

Next release: June 2010



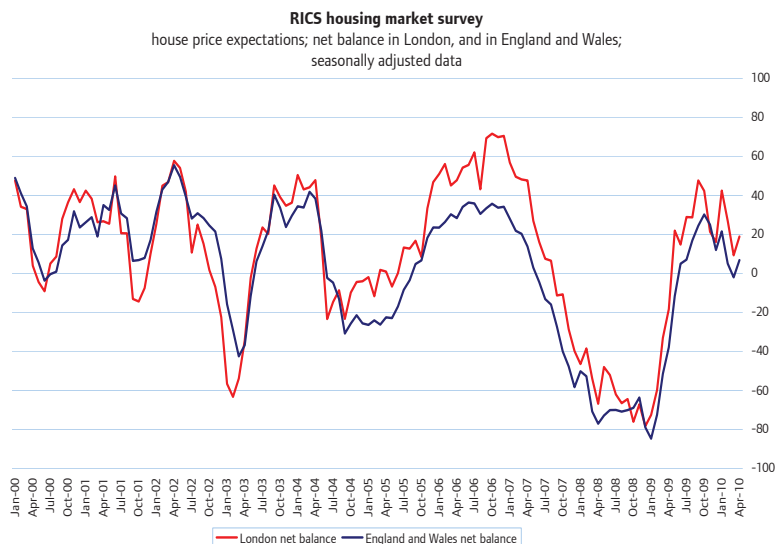
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to increase

- The RICS survey shows that surveyors expect house prices to increase over the next three months.
- The net house price expectations balance in London was 19 in April 2010, up from a downwardly revised 9 in March 2010.
- For England and Wales, the net house price expectations balance was 7 in March 2010, up from -2 in March 2010.

Latest release: May 2010

Next release: June 2010



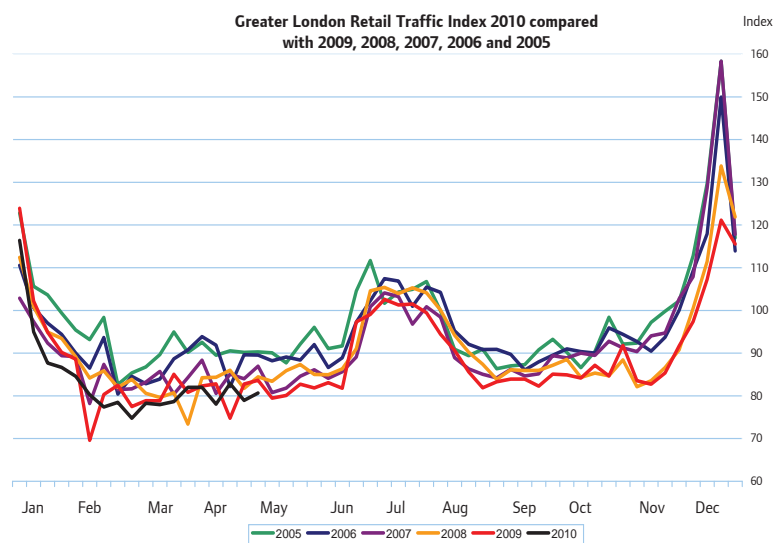
Source: Royal Institution of Chartered Surveyors

## Synovate Retail Traffic Index still weak

- The Synovate Retail Traffic Index of shoppers in London was 80.7 in the last week of April compared to 78.9 in the previous week.
- The index so far in 2010 has generally been below 2009 levels.
- Synovate's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Early-May 2010

Next release: Weekly



Source: Synovate



## Data sources

### Tube and bus ridership

Transport for London on 020 7222 5600  
or email: [enquire@tfl.gov.uk](mailto:enquire@tfl.gov.uk)

### GDP/GVA growth

### Unemployment rates

Experian Economics on 020 7746 8260  
[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 2009/10 there were eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April 2009.

### 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 2009/10 there were eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April 2009.

## Acronyms

<b>ABI</b>	Annual Business Inquiry
<b>BAA</b>	British Airports Authority
<b>BCC</b>	British Chamber of Commerce
<b>BITOA</b>	British Incoming Tour Operators Association
<b>CAA</b>	Civil Aviation Authority
<b>CBI</b>	Confederation of British Industry
<b>DCLG</b>	Department for 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.

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