

London's Economy Today

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UK growth picked up strength in Q2 2010

by **Christopher Lewis**, Senior Economist, **Simon Kyte**, Economist, and **Ben White**, Trainee Economist

The UK continued its recovery from recession with robust growth in Q2 2010. Gross Domestic Product (GDP) is estimated to have grown by 1.1 per cent in Q2 2010 (see Figure 1) compared with 0.3 per cent in Q1 2010. So overall, growth in the first half of 2010 was at around trend levels. Despite the stronger than expected pick up in Q2 2010 GDP is still 4.6 per cent below its pre-recession peak.

Output growth in the construction sector saw a bounce back in Q2 2010 at an estimated 6.6 per cent. Growth in the service sector (at 0.9 per cent) and manufacturing (at 1.6 per cent) also picked up in Q2 2010. Within services, the financial and business services sector grew particularly strongly (1.3 per cent) but this was partially offset by a decline in the transport, storage and communications sector.

Latest news...



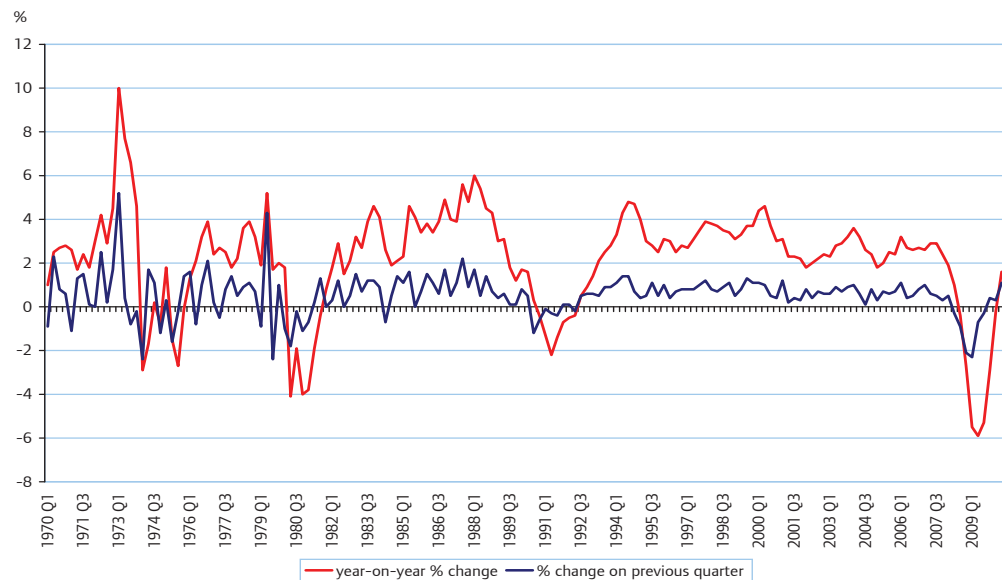
● GLA Economics Annual Report 2010

Within the pages of our annual report you can follow the range of topics where GLA Economics has influenced policy and investment decision making within the GLA Group. Over the past year we have been monitoring the slow recovery of the economy from the deepest recession to hit London in the past two decades and sharing our findings through London's Economy Today and London's Economic Outlook. We have produced the Economic Evidence Base to support and guide the development of the Mayor's London Plan, Transport Strategy and Economic Development Strategy. For a complete review of our achievements over the past year please see the full report at

www.london.gov.uk/publication/gla-economics-annual-report-2010

Figure 1: UK GDP Growth

Source: Office for National Statistics



Signs of improvement in London's economy

The latest CBI/KPMG London business survey found that, of those businesses surveyed, 53 per cent of respondents were optimistic about their business' future prospects – up six percentage points on six months earlier. Fifty-eight per cent of businesses were planning for expansion over the next year with nearly a third planning to expand in London. However, the cost of doing business in London and the quality and reliability of the capital's transport network remain concerns. Nearly all those who responded agreed that it was important that transport schemes in the pipeline were completed and that improvements to existing capacity were made. Richard Reid, London Chairman of KPMG, said, "With over half of the capital's businesses planning to expand and increase spending in the second half of this year it is clear that London will continue to be the driver of economic growth in the UK. The Government needs to continue to work with the private sector to ensure that much-needed investment projects such as Crossrail happen and that we don't slip behind other global centres".

US tightens financial regulation

New US financial regulation legislation has been passed that will have impacts on all parts of the financial system from hedge funds to debit cards. There are three main aspects to the legislation. Firstly, it will create new powers to identify risky banks and to close them down before they can cause damage to the wider financial system. Secondly, by requiring banks to hold greater quantities of capital and stopping them from making risky trades on their own behalf, it hopes to make banks less risky. Finally, it will create a new consumer financial protection bureau that will have powers for regulating products such as home equity loans and credit cards.

Meanwhile the results of the EU's bank stress tests may not give full confidence to markets or investors. Only seven of the 91 banks failed to meet the capital requirements under three economic shock scenarios. However, many consider that the test was not severe enough as a sovereign default by any EU country (i.e. Greece) was not in any scenario. The UK's Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland all passed the test comfortably. Five Spanish banks failed alongside one Greek lender and Germany's Hypo Real Estate. Together they have to raise €3.5 billion in capital.

Emerging market economies leading global recovery but all is not plain sailing

Concerns about the health of the global economy continue with the International Monetary Fund (IMF) highlighting in their latest World Economic Outlook that, “downside risks have risen sharply amid renewed financial turbulence”. However they have revised up their central forecast of world growth by 0.4 percentage points to 4.6 per cent for 2010. They note that “the new forecasts hinge on implementation of policies to rebuild confidence and stability, particularly in the euro area”. Thus, “policy efforts in advanced economies should focus on credible fiscal consolidation, notably measures that enhance medium-run growth prospects, such as reforms to entitlement and tax systems. Supported by accommodative monetary conditions, fiscal actions should be complemented by financial sector reform and structural reforms to enhance growth and competitiveness”.

The US economy lost 125,000 jobs in June according to the US Labor Department, stoking concerns that the US recovery may not be as strong as hoped although the figures were partially down to the laying off of US Census workers. Meanwhile China and India are growing particularly strongly though there is a risk of a marked correction in the Chinese property market. Kenneth Rogoff (the former Chief Economist of the International Monetary Fund) has predicted a collapse in China’s property market that will hit the nation’s banking system.

London well positioned for recovery to continue

The robust UK growth of Q2 2010 is unlikely to continue over the next 12 months. A patchy recovery seems the most likely outcome with monetary conditions remaining ultra loose while much needed fiscal retrenchment takes place. Graeme Leach, Chief Economist at the Institute of Directors believes that “the latest quarterly GDP figures were good news, but we think they’re likely to be as good as it gets. We do not think this rate of growth can be maintained”. The fact that some of the strength of Q2 2010 growth came as a result of a bounce back from the weak Q1 2010 figures (that were impacted upon by the timing issues of VAT being raised and bad weather conditions) means that a slowdown in Q3 should be expected. With its international outlook as a world city London is well positioned to take full advantage of the positive trends amongst the major emerging market countries. The overall picture for London’s economy remains one of modest recovery.

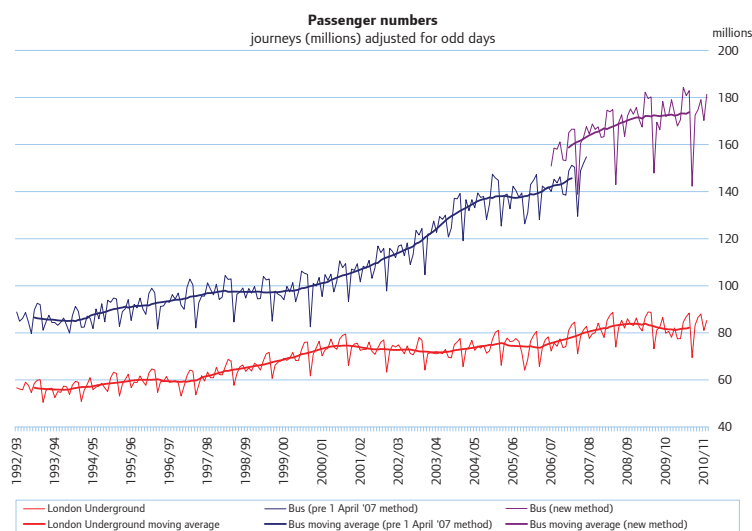
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 2 May 2010 to 29 May 2010. Adjusted for odd days, London's Underground and buses had 266.6 million passenger journeys; 181.3 million by bus and 85.3 million by Underground.
- The moving average of passengers every period increased to 256.0 million from 254.9 million in the previous period. The moving average for buses was 173.8 million. The moving average for the Underground was 82.2 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: July 2010

Next release: August 2010



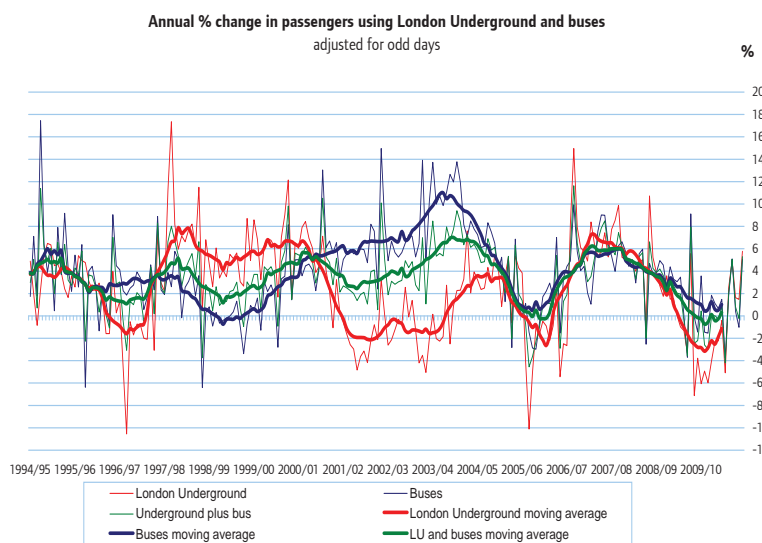
Source: Transport for London

Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 0.3% from -0.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 1.0% from 0.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to -1.1% from -1.9% in the previous period.

Latest release: July 2010

Next release: August 2010



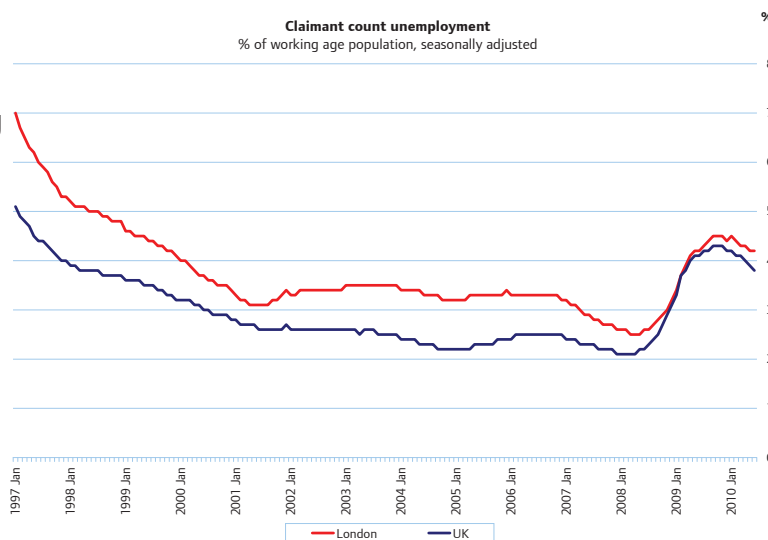
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in June 2010.
- There were 213,000 seasonally adjusted unemployment claimants in London in June 2010 compared with a downwardly revised 215,600 in May.
- There were 1,460,100 seasonally adjusted unemployment claimants in the UK in June 2010 compared with a downwardly revised 1,480,900 in May.

Latest release: July 2010

Next release: August 2010



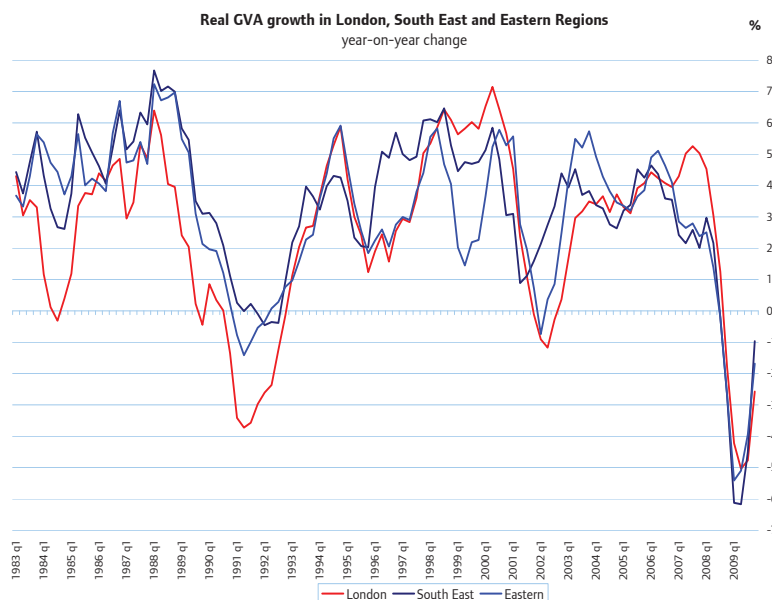
Source: Claimant Count, Nomis

Annual output growth negative in London, the South East and the Eastern region

- London's annual growth in output increased to -2.6% in Q4 2009 from -4.8% in Q3 2009.
- Annual output growth in the South East increased to -1.0% in Q4 2009 from an upwardly revised -4.5% in Q3 2009.
- Annual output growth in the Eastern region increased to -1.7% in Q4 2009 from an upwardly revised -3.9% in Q3 2009.

Latest release: May 2010

Next release: August 2010



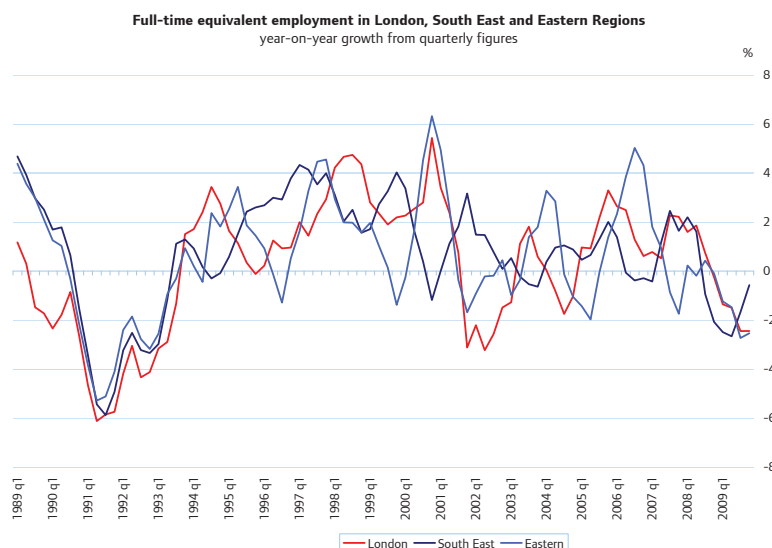
Source: Experian Economics

Annual employment growth negative in London, the South East and the Eastern region

- 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 South East increased to -0.6% in Q4 2009 from an upwardly revised -1.7% in Q3 2009.
- Annual employment growth in the Eastern region increased to -2.5% in Q4 2009 from an upwardly revised -2.7% in Q3 2009.

Latest release: May 2010

Next release: August 2010



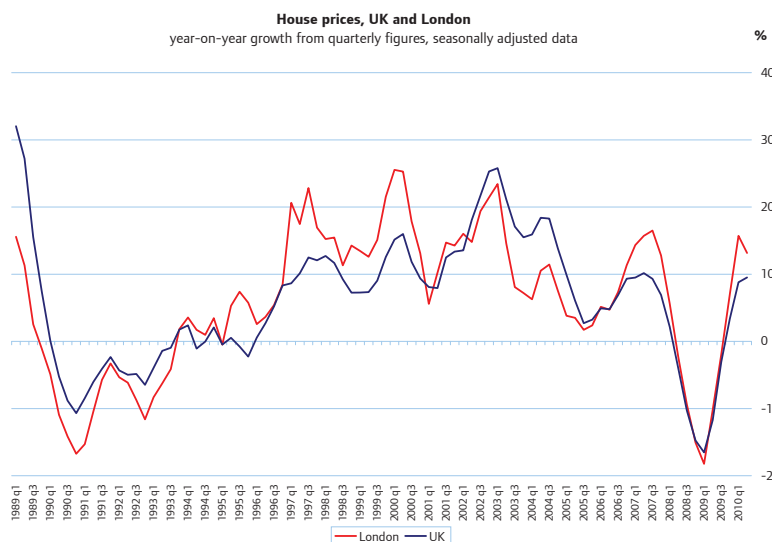
Source: Experian Economics

Annual house price inflation falls slightly in London

- House prices, as measured by the Nationwide, were higher in Q2 2010 than in Q2 2009 in both London and the UK.
- Annual house price inflation in London was 13.2% in Q2 2010, down from 15.7% in Q1 2010.
- Annual house price inflation in the UK was 9.5% in Q2 2010, up from 8.8% in Q1 2010.

Latest release: July 2010

Next release: October 2010



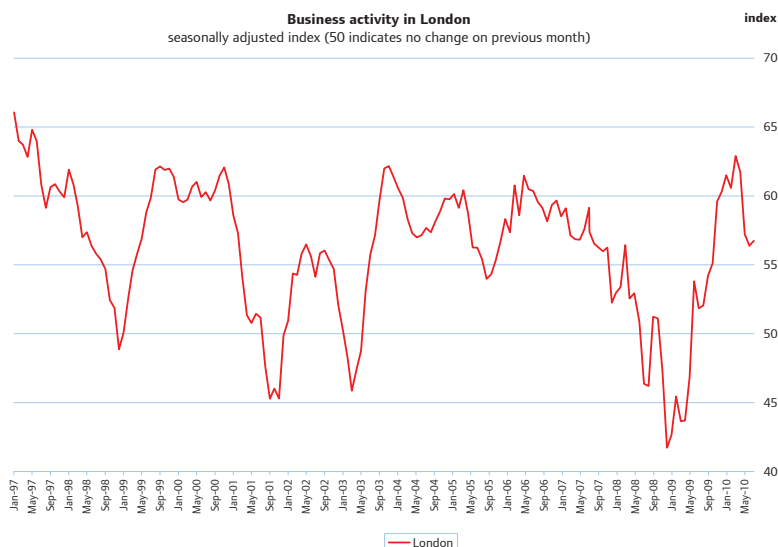
Source: Nationwide

London's business activity increasing

- London firms increased their output of goods and services in June 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.7 in June compared to 56.4 in May.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: July 2010

Next release: August 2010



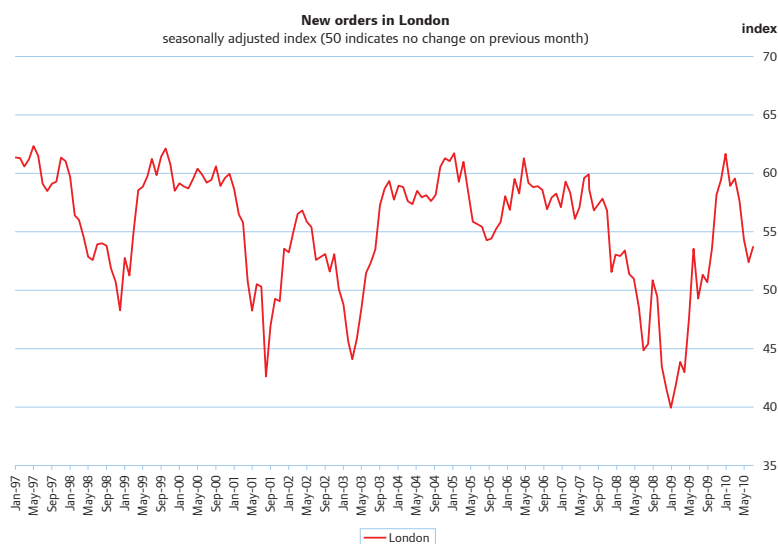
Source: Markit Economics

New orders in London rising

- June 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 53.7 in June compared to 52.4 in May.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: July 2010

Next release: August 2010



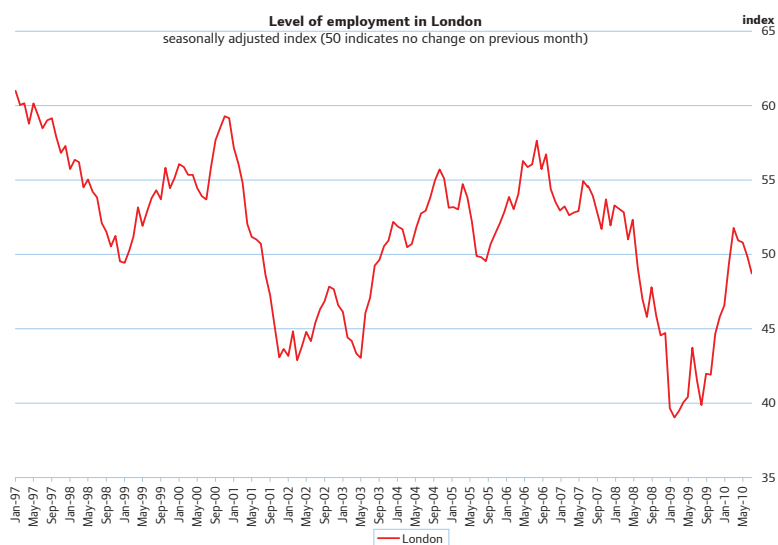
Source: Markit Economics

Businesses report lower employment in June

- The PMI shows that the level of employment in London firms decreased in June 2010.
- The PMI for the level of employment was 48.7 in June compared to 49.9 in May.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: July 2010

Next release: August 2010

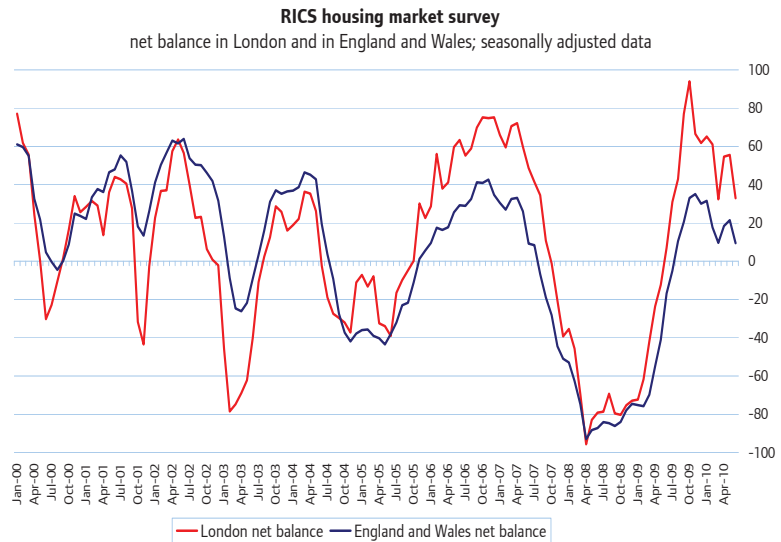


Source: Markit Economics

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 33 for London house prices over the past three months to June 2010. This net balance is down from a downwardly revised 56 in May 2010.
- Surveyors reported a positive net house price balance for England and Wales of 9 in the past three months to June 2010, down from a downwardly revised 21 in May 2010.
- London's net house price balance is above that of England and Wales.

Latest release: July 2010
Next release: August 2010

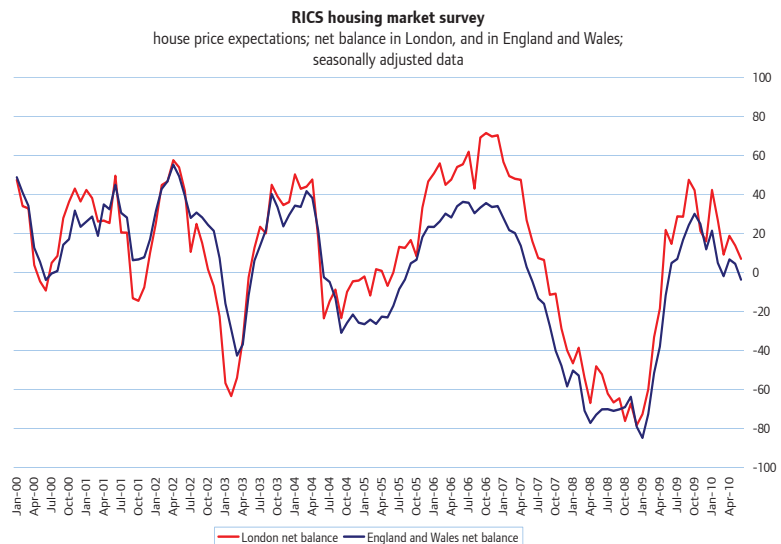


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to increase in London

- The RICS survey shows that surveyors expect house prices in London to increase over the next three months.
- The net house price expectations balance in London was 7 in June 2010, down from an upwardly revised 14 in May 2010.
- For England and Wales, the net house price expectations balance was -4 in June 2010, down from a downwardly revised 4 in May 2010.

Latest release: July 2010
Next release: August 2010

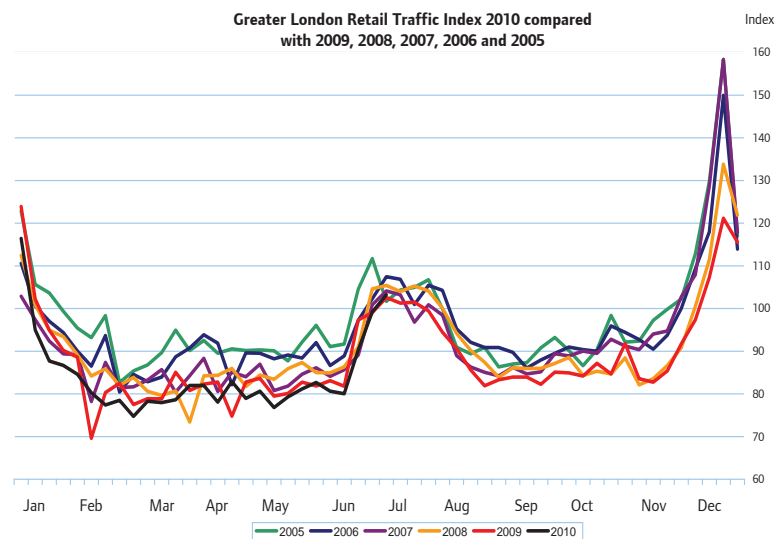


Source: Royal Institution of Chartered Surveyors

Synovate Retail Traffic Index still weak

- The Synovate Retail Traffic Index of shoppers in London was 103.2 in the last week of June compared to 99.2 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: Mid-July 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

GDP/GVA growth

Unemployment rates

Experian Economics on 020 7746 8260
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 2010/11 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2010.

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 2010/11 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2010.

Acronyms

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

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4137

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

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Public Liaison Unit
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

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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.

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