

# London's Economy Today

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## The UK economy is growing faster than expected as the scope of the Government's spending reductions are revealed in the Comprehensive Spending Review

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

**In the Comprehensive Spending Review (CSR) on 20 October the Chancellor announced a raft of measures designed to cut government spending by £81 billion a year by 2014/15, slightly down on the £83 billion a year announced in the June 2010 Budget.**

These cuts may lead to nearly 500,000 job losses in the public sector, whilst the average reduction in departmental spending is 19 per cent over the four years to 2014/15, which is less harsh than had been expected. These cuts were not equally distributed over departments with health spending and direct funding to schools being protected, whilst university teaching budgets face cuts of around 40 per cent. On the back of the CSR, Standard & Poor's (S&P) Rating Services have revised their outlook for the UK to stable from negative and affirmed the AAA long-term and A-1+ short-term sovereign credit ratings. S&P believes that the CSR has reduced any uncertainty about the Government's resolve to tackle the fiscal deficit.

## Latest news...



### ● GLA Economics seminar: Valuing Urban Realm

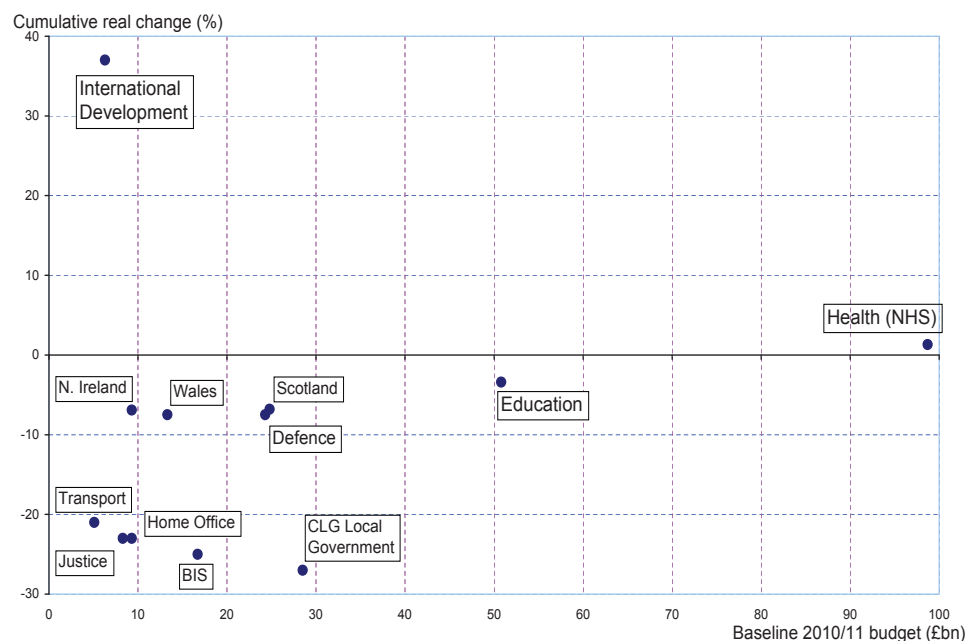
**Wednesday 3 November 2010, 9am-12.15pm, City Hall, London SE1 2AA**

The Mayor seeks to enrich the quality of life in London and high on his list is improving the public realm. This seminar will explore how society values public space. We will hear about a model analysing the link between house prices and green spaces, and a new 'toolkit' developed for Transport for London that provides a simple, structured guide to assessing the improvements to the public realm. This will be followed by a discussion on potential improvements to the toolkit. The event will be free of charge and places are strictly limited. For more information and to book, please email [glaeconomics@london.gov.uk](mailto:glaeconomics@london.gov.uk)

Headline announcements from the CSR include a rise in the retirement age to 66 in 2020, an additional £7 billion cut in welfare spending on top of the £11 billion previously announced, and the bank levy to be made permanent. Although local councils are to see a fall in their budgets from the Communities and Local Government (CLG) Department, the ring fencing of their revenue grants will end and they will have more freedom to borrow. Of some of the departmental spending cuts outlined in the CSR, Business, Innovation and Skills will see a cumulative real reduction of 25 per cent by 2014/15, and Culture, Media and Sport by 24 per cent, whilst the Home Office and Ministry of Justice see reductions of 23 per cent, with the Transport budget reduced by 21 per cent, and CLG (Local government) by 27 per cent (see Figure 1). TfL's overall grant funding from the Department for Transport (DfT) has been reduced by £2.17 billion over the four years covered by the CSR, or 21 per cent in real terms in 2014/15, when compared to 2010/11. However, the TfL funding settlement allows the Mayor to continue to deliver his top transport priorities including the upgrade of the Tube and Crossrail, which will boost the UK economy.

**Figure 1: Cumulative real percentage change in departmental budgets between 2010/11 and 2014/15 and initial size of departmental budgets in 2010/11 (£bn)**

Source: HM Treasury



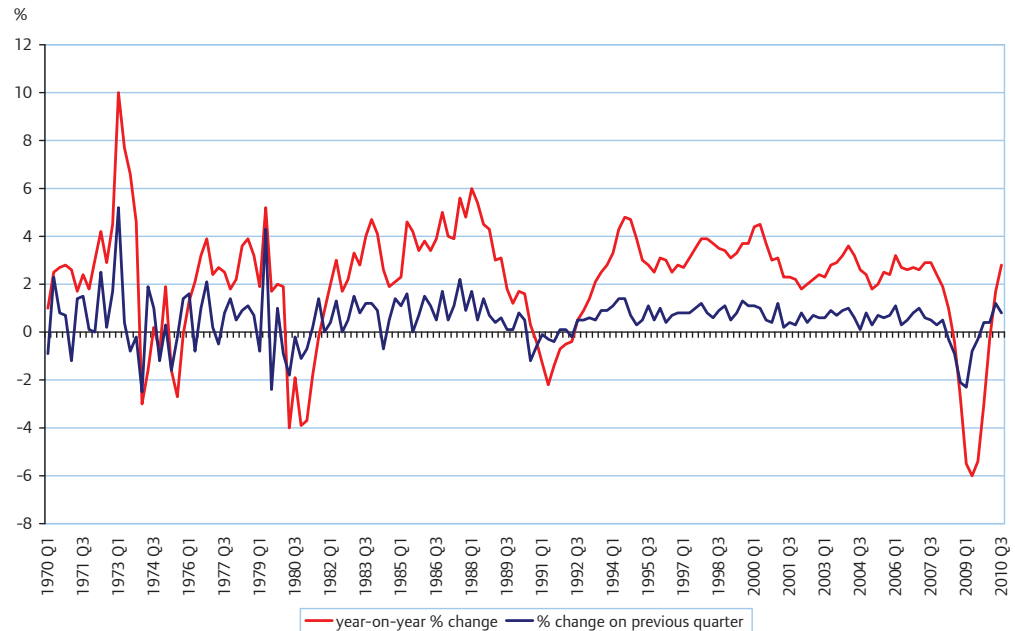
## The UK's economic recovery remained strong in Q3 2010

The UK economy continued its recovery in the third quarter of 2010 with GDP growing by a higher than expected 0.8 per cent (see Figure 2). This compares to a rate of growth in the second quarter of 2010 of 1.2 per cent. Allowing for the recovery in Q2 following the bad weather at the start of the year, the underlying growth in Q3 is broadly similar to that in Q2. The UK economy has had four consecutive quarters of GDP growth after a long and deep recession and GDP is now 2.8 per cent higher than in Q3 2009. However, GDP is still around 4 per cent below its pre-recession peak.

Output in the construction sector continued to rebound robustly in Q3 2010, growing by 4.0 per cent. Meanwhile, output in manufacturing grew by 1.0 per cent whilst the service sector grew by 0.6 per cent in Q3 2010. Within the service sector, business services and finance (which is important to London) grew by 0.5 per cent in Q3 compared to 1.0 per cent growth in the previous quarter. Output in business services and finance is now 2.9 per cent higher than in Q3 2009.

**Figure 2: UK GDP Growth**

Source: Office for National Statistics



## London is still the best 'business city' in Europe

Cushman and Wakefield published their 2010 European Cities Monitor in October and again found that London remained the top European city in which to do business, followed by Paris and then Frankfurt. London has consistently held this top position since the survey was launched in 1990. London was the number one city in half of the major rankings including access to markets, availability of qualified staff and international and internal transport links, but came poorly on the cost of office space, the cost of staff and levels of pollution. James Young, Head of Cushman & Wakefield's City office in London, commented that, "despite the financial crisis that has gripped the world over the last few years, London has retained its position as the number one place businesses want to be in Europe. Ultimately this is a city that has huge cultural, geographic and language advantages, although it must work hard to ensure that businesses are attracted by government policy and not over-regulated or taxed away".

## International concern over undervalued currencies worsening trade imbalances

Concern has been mounting over the possibility of a 'currency war', where countries try to devalue their currency or keep them undervalued to give themselves a competitive advantage. Worries have been expressed about the valuation of the yuan for a long time but these have intensified recently, with Europe and the US criticising China over the low valuation of its currency. Meanwhile some emerging economies have been critical of the Quantitative Easing (QE) policies being pursued in some developed countries as this could lead to larger capital inflows into their economies. Dominique Strauss-Kahn, the head of the International Monetary Fund (IMF), has stated "'currency war' might be too strong, but the fact the countries want to find domestic solutions to a global problem is really a threat to the recovery". He called for co-operation between countries to tackle global trade imbalances.

The G20 is now taking the issue of currency valuations more seriously with G20 finance ministers pledging to avoid a currency war at a meeting in South Korea over the weekend of 23-24 October with the communiqué stating that they will 'move towards more market determined exchange rate systems that reflect underlying fundamentals and refrain from competitive devaluations of

currencies'. Persistently large current account imbalances will now warrant an assessment by the IMF and the G20 have agreed to pursue the full range of policies conducive to reducing excessive imbalances.

## **Global economy is picking up but pace is uneven across nations**

UK CPI inflation remained unchanged for the third consecutive month at 3.1 per cent in September, with rising food prices being partially blamed for the persistence of inflation above the 2 per cent target. However, in more positive news for the UK economy, trading updates from both Hays and Michael Page observed that vacancy numbers were rising although net new jobs remained low. Commenting on the results Paul Venables, Hays' finance director, said "it's going to be a slow haul out of recession but there's no sign the employment market overall is deteriorating".

In the US the recovery remains precarious and in Japan, their Cabinet Office observed that the economy was at a standstill. A senior official at the Japanese Cabinet Office was quoted as saying, "if the economy turns out as expected in our main scenario, we may end up describing the current situation as a soft patch", but "if it comes under further downward pressure, it could end up slipping into recession". However, the major emerging market economies, such as China and India, continue to grow robustly.

In its most recent forecasts published in October the IMF expects the global economy to grow by 4.8 per cent in 2010 and by 4.2 per cent in 2011, with the UK growing by 1.7 per cent in 2010 and 2.0 per cent in 2011. Despite reasonable global growth the IMF remains cautious concerning the financial system with its October Financial Stability Report noting that the financial system, "remains the Achilles' heel of the economic recovery". Overall the UK economy has recovered quicker than expected during the last six months with the likelihood of the recovery continuing next year high though growth will probably be bumpy. This is also likely to be the case for London's economy.

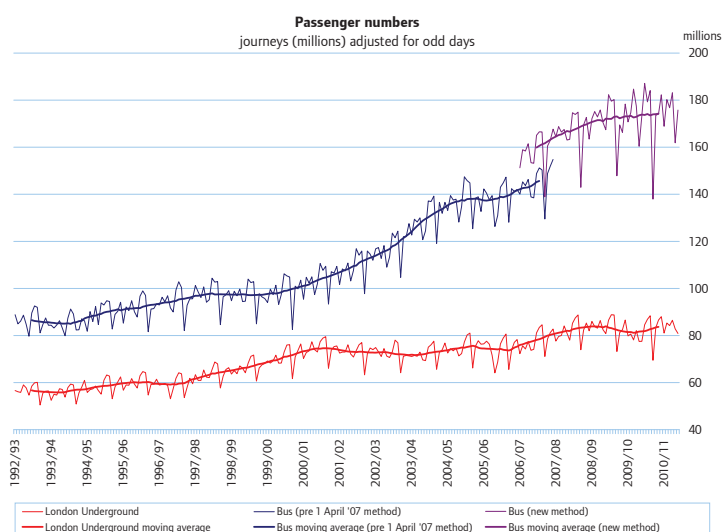
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28-day period is from 22 August 2010 to 18 September 2010. Adjusted for odd days, London's Underground and buses had 256.6 million passenger journeys; 175.8 million by bus and 80.9 million by Underground.
- The moving average of passengers every period increased to 257.9 million from 257.5 million in the previous period. The moving average for buses was 174.2 million. The moving average for the Underground was 83.7 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: October 2010

Next release: November 2010



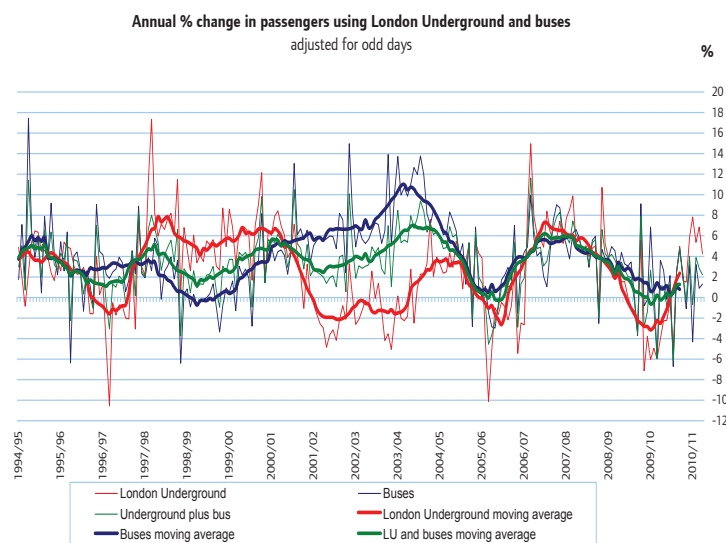
Source: Transport for London

## Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 1.3% from 1.2% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.8% from 1.0% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 2.4% from 1.7% in the previous period.

Latest release: October 2010

Next release: November 2010



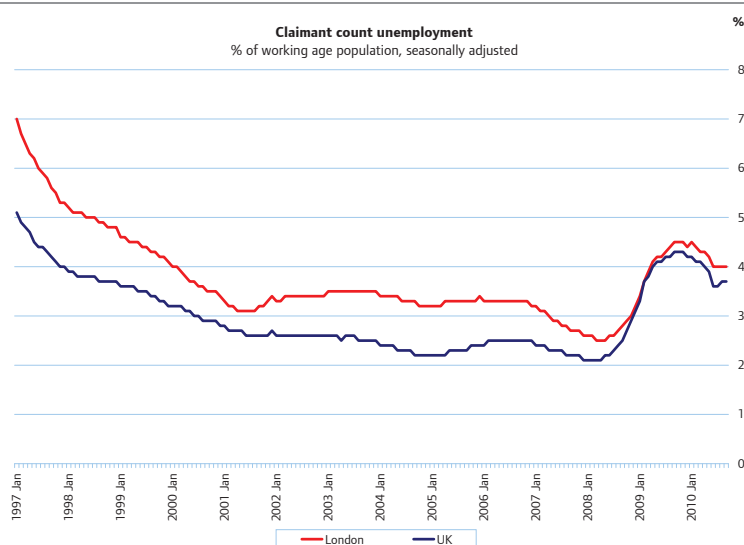
Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.0% in September 2010.
- There were 215,000 seasonally adjusted unemployment claimants in London in September 2010 compared with an upwardly revised 214,100 in August.
- There were 1,473,100 seasonally adjusted unemployment claimants in the UK in September 2010 compared with an upwardly revised 1,467,800 in August.

Latest release: October 2010

Next release: November 2010



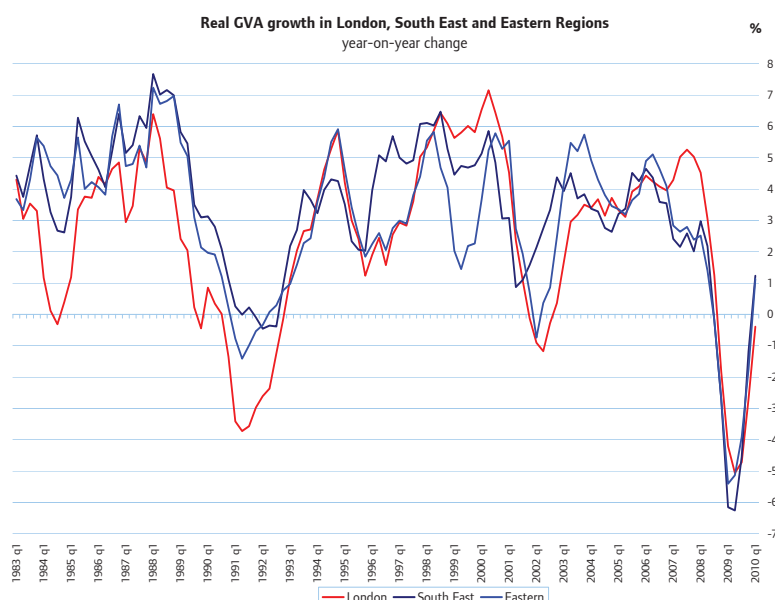
Source: Claimant Count, Nomis

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

- London's annual growth in output increased to -0.4% in Q1 2010 from a downwardly revised -2.7% in Q4 2009.
- Annual output growth in the South East increased to 1.2% in Q1 2010 from a downwardly revised -1.2% in Q4 2009.
- Annual output growth in the Eastern region increased to 1.1% in Q1 2010 from a downwardly revised -1.8% in Q4 2009.

Latest release: August 2010

Next release: November 2010

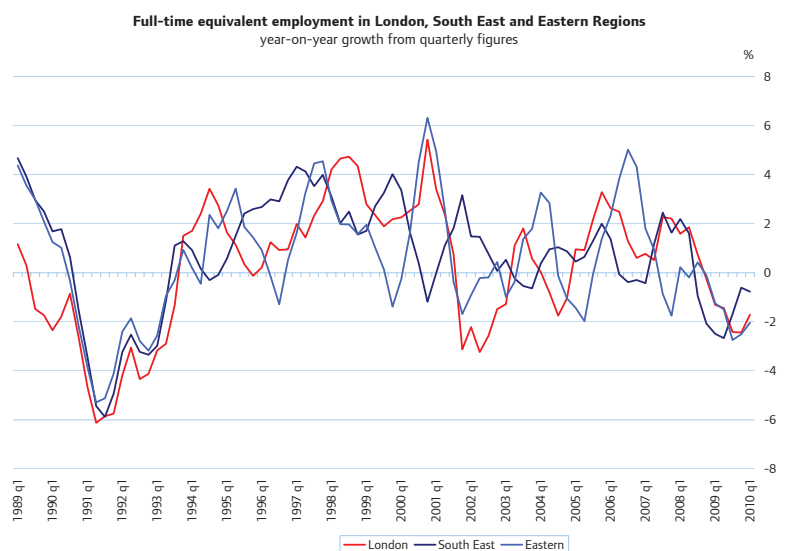


## Annual employment growth negative in London, the South East and the Eastern region

- London's annual employment growth increased to -1.7% in Q1 2010 from -2.4% in Q4 2009.
- Annual employment growth in the South East decreased to -0.8% in Q1 2010 from -0.6% in Q4 2009.
- Annual employment growth in the Eastern region increased to -2.0% in Q1 2010 from -2.5% in Q4 2009.

Latest release: August 2010

Next release: November 2010

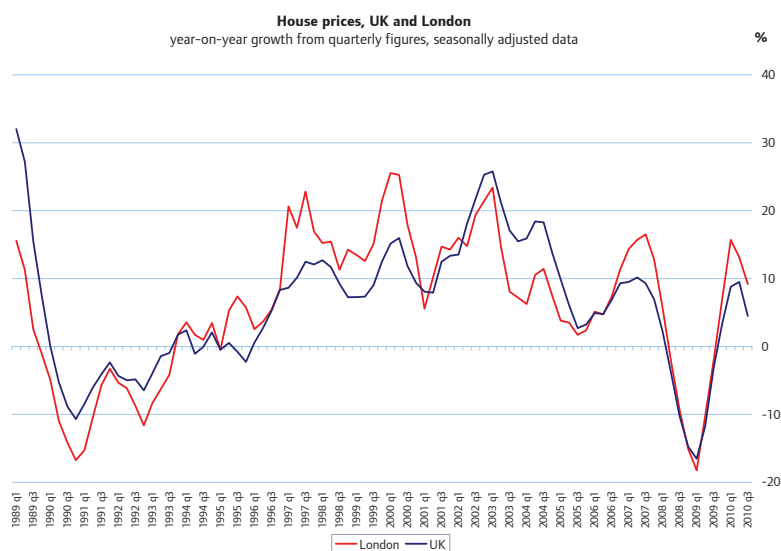


## Annual house price inflation falling

- House prices, as measured by the Nationwide, were higher in Q3 2010 than in Q3 2009 in both London and the UK.
- Annual house price inflation in London was 9.2% in Q3 2010, down from 13.2% in Q2 2010.
- Annual house price inflation in the UK was 4.5% in Q3 2010, down from 9.5% in Q2 2010.

Latest release: October 2010

Next release: January 2011



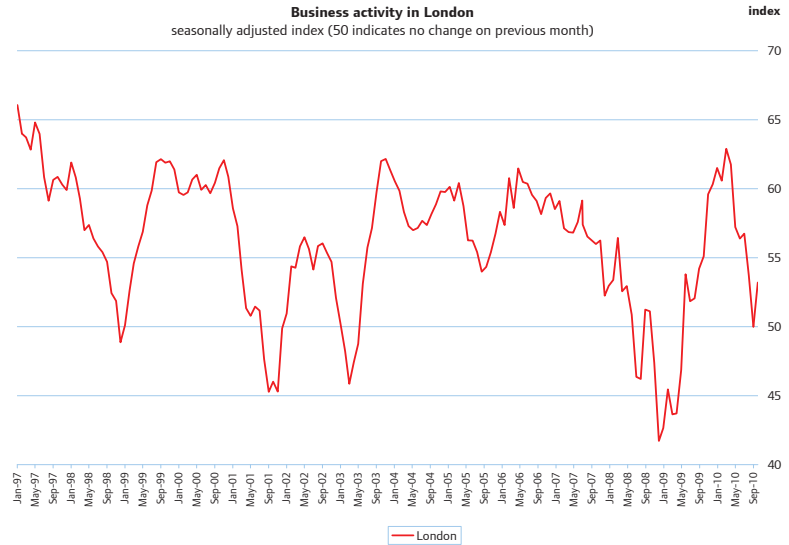


## London's business activity rising

- London firms increased their output of goods and services in September 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.2 in September compared to 50.0 in August.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: October 2010

Next release: November 2010



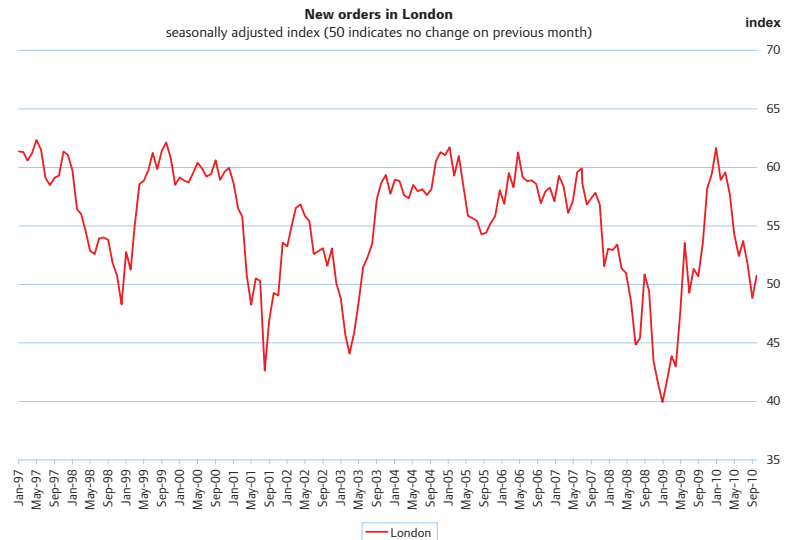
Source: Markit Economics

## New orders in London increasing

- September 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 50.8 in September compared to 48.8 in August.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: October 2010

Next release: November 2010



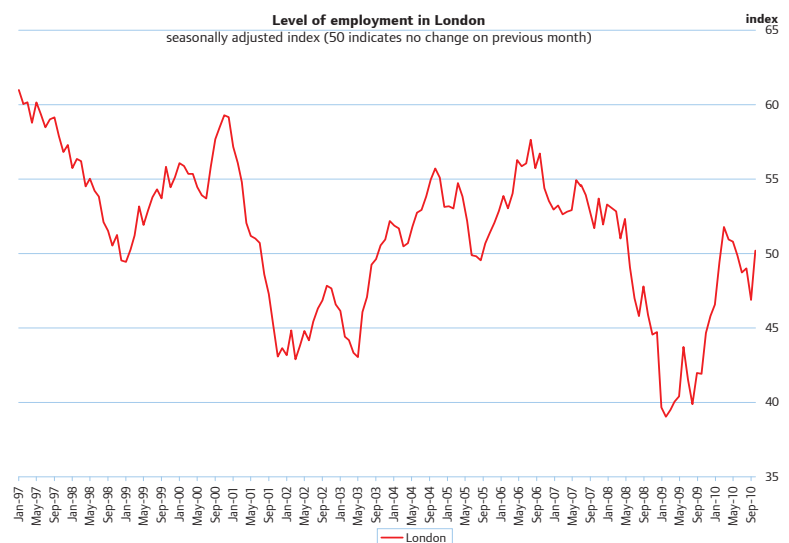
Source: Markit Economics

## Businesses report slightly higher employment in September

- The PMI shows that the level of employment in London firms increased slightly in September 2010.
- The PMI for the level of employment was 50.2 in September compared to 46.9 in August.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: October 2010

Next release: November 2010



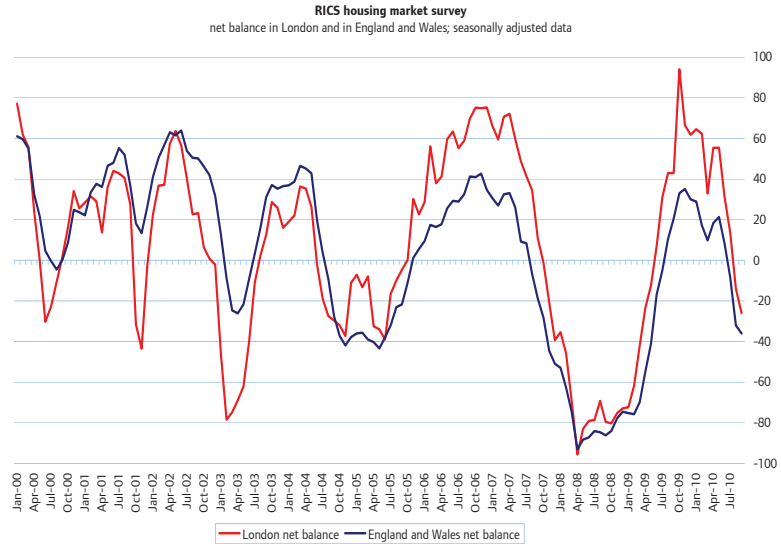
Source: Markit Economics

## Surveyors report that house prices are falling

- The RICS survey shows a negative net balance of -26 for London house prices over the past three months to September 2010.
- Surveyors reported a net house price balance for England and Wales of -36 over the past three months to September 2010.
- London's net house price balance is above that of England and Wales.

Latest release: October 2010

Next release: November 2010



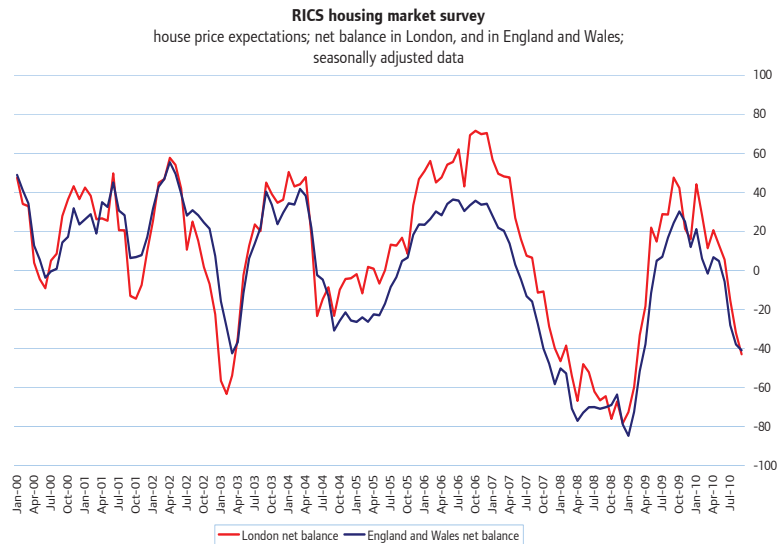
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to continue falling

- The RICS survey shows that surveyors expect house prices in London and in England and Wales to fall over the next three months.
- The net house price expectations balance in London was -43 in September 2010.
- For England and Wales, the net house price expectations balance was -41 in September 2010.

Latest release: October 2010

Next release: November 2010



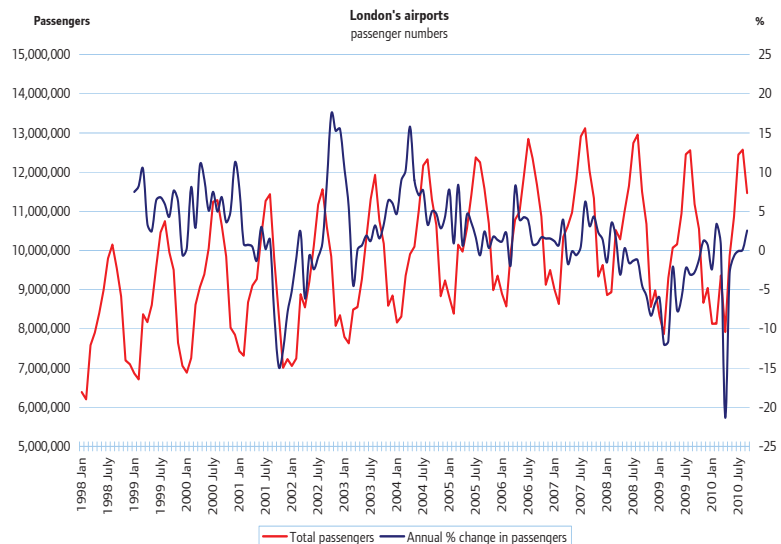
Source: Royal Institution of Chartered Surveyors

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

- 11.5 million passengers travelled through London's airports in September 2010.
- The number of passengers using London's airports increased by 2.5% from September 2009 to September 2010.
- Airport passenger numbers have been weak since 2007 but are now showing initial signs of some improvement.

Latest release: October 2010

Next release: November 2010



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 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

<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.

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