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In this issue

Ireland asks for a bailout as economic divergence within the Eurozone increases

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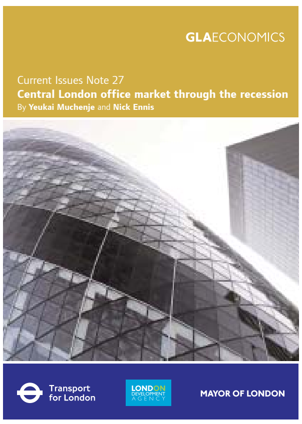
Worries about the economic situation in Ireland led to a large widening of the spread between Irish and German 10-year government bonds in November (see Figure 1). The difference between the interest paid on German Government bonds and other Eurozone countries' bonds reflects the degree of risk in holding that country's bonds compared to a German Government bond.

In response to this situation a number of talks took place between Irish and EU and International Monetary Fund (IMF) officials in November that led to a request for financial assistance from Ireland which was agreed to by European finance ministers on 21 November. The size of this assistance package is expected to be between €80 billion and €90 billion, whilst the UK will provide a bilateral loan of billions of pounds in addition to its contribution to the IMF component of the package.

Concerns about the Irish economy have increased recently as a result of the magnitude of support that the Irish Government has had to provide to its banking sector - pushing the government budget deficit above 30 per cent of GDP this year. Discounting the support provided to the banking sector, the deficit is still expected

Latest news...



● **Current Issues Note 27: Central London office market through the recession**

The main issues from the note are that:

The Central London office market is showing signs of recovery after financial crisis and recession

Take up is strong and availability is falling, resulting in relatively low vacancy rates in most submarkets

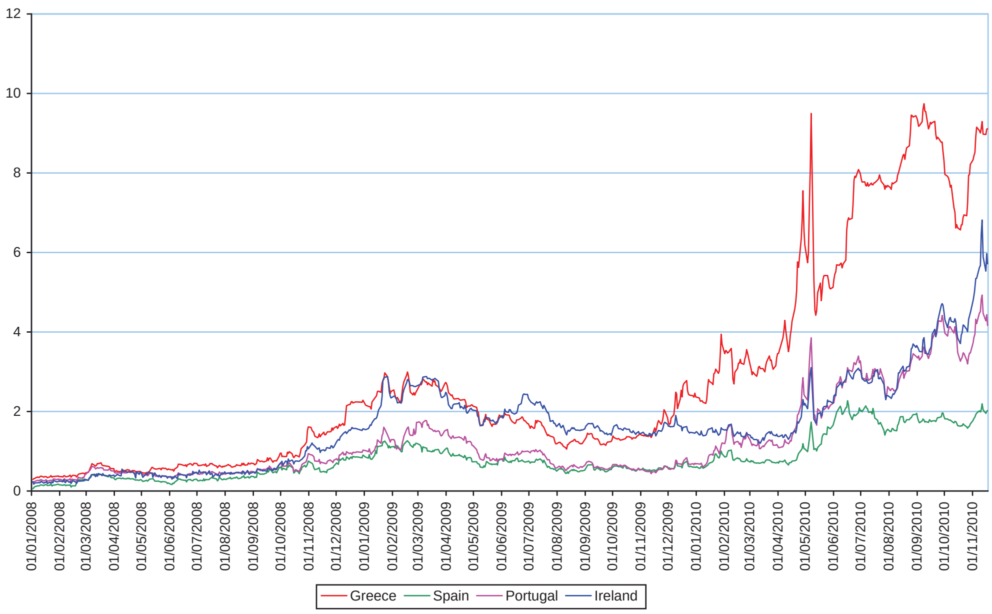
There is likely to be a shortage of quality space in coming years, which may cause rental price growth

Visit **http://www.london.gov.uk/publication/current-issues-note-27-central-london-office-market-through-recession** to download this publication.

Figure 1: Ten-year government bond spreads over German bonds, percentage points

Last data point is 19/11/2010

Source: EcoWin



to be nearly 12 per cent of GDP. Irish bond yields jumped considerably over November as investors became convinced that Ireland would eventually require some form of financial aid from the EU and the IMF in order to cover the (actual and potential) losses from its troubled banking sector. Irish banks have faced considerable difficulty funding themselves with the European Central Bank (ECB) having had to provide €130 billion of outstanding loans to them by the end of October. Financial troubles in Ireland would likely impact negatively on the UK economy due to the large amount of trade that is conducted between the two countries. In addition British banks would face major losses if an Irish bank defaulted. Concerns have also mounted in other Eurozone countries (especially Portugal) that have large budget deficits, with the spread on their bonds tracking higher. Meanwhile the German economy is performing strongly so divergence between the 'core' Eurozone nations and those on the 'southern periphery' is increasing.

Federal Reserve extends quantitative easing as US recovery remains weak

On 4 November the US Federal Reserve (Fed) announced that it would extend its quantitative easing (QE) program by $600 billion by June 2011. The QE program will see the Fed creating money to exchange for long dated government bonds and follows on from the first round of QE that the Fed undertook which pumped $1.75 trillion into the US economy. The move is an attempt to support the US economy, which has seen a sluggish recovery in the middle two quarters of 2010 but concerns have been expressed about the effect that this move will have on asset prices in other countries as investors move out of dollar denominated assets. In the UK the Bank of England's Monetary Policy Committee (MPC) has kept QE steady at the already undertaken £200 billion as the UK economic recovery has so far been more robust than expected.

In what many are seeing as a reaction to concerns about short term inflationary pressures in the developed world the price of gold hit a historic high of over £1400 per ounce in November (see Figure 2). According to Robert Zoellick, the World Bank's President, the increasing use of gold as a monetary asset reflects the shift to a global economy in which the US dollar will be only one of several reserve currencies with flexible exchange rates. Holders of money foresee weak or uncertain growth in most of the developed world economies whilst the Chinese yuan is still not completely free for exchange.

Figure 2: Price of gold ($ per troy ounce)

Last data point is 23/11/2010

Source: Global Insight

Turnover growth expectations amongst UK firms rise

The Institute of Chartered Accountants in England and Wales (ICAEW) published their Enterprise Survey Report 2010 in November. The report found that 80 per cent of UK businesses "say that they are planning turnover growth over the next two years", higher than in their 2009 survey but still less than their 2008 survey, with globally engaged businesses more optimistic than solely UK based firms. The proportion of UK firms "with operations, activities or trading relationships beyond the UK" has also increased to 70 per cent from 64 per cent in 2009, whilst "more than 40% of businesses have international expansion plans, with Europe, China and India the main targets". Fifty per cent of UK businesses also viewed the UK taxation and regulatory enviroment as business friendly, a "significant improvement since 2009". The report found that the factors most likely to negatively impact the operation or development of businesses were "employment tax and legislation, business tax changes and health and safety regulations". It also noted that although only 20 per cent of EU firms were likely to undertake inward investment in the UK, "around four in ten businesses based in the US, Asia-Pacific, the Gulf and Africa said they would consider the UK as a location for future investment in Europe".

Recovery expected to continue although its path remains unclear

UK Consumer Price Index (CPI) inflation rose unexpectedly to 3.2 per cent in October from 3.1 per cent in the previous month. In his explanatory letter to the Chancellor the Governor of the Bank of England, Mervyn King, noted that the current level of inflation was mainly due to temporary factors but also observed that "CPI inflation is expected to remain above target, and at a somewhat higher level than expected three months ago, for a period of a year or so". This was highlighted in the Bank of England's November 2010 Inflation Report which revised its near term inflation forecast upwards, with its central forecast now expecting inflation to hit around 3.5 per cent by the beginning of 2011 and remaining above target during 2011. Inflation is then expected to move towards its symmetrical 2 per cent target due to "continuing downward pressure on wages and prices from the persistent margin of spare capacity". However, the Bank also notes that there exist a number of upside risk factors to its forecast including higher commodity prices and a rise in individuals' inflation expectations.

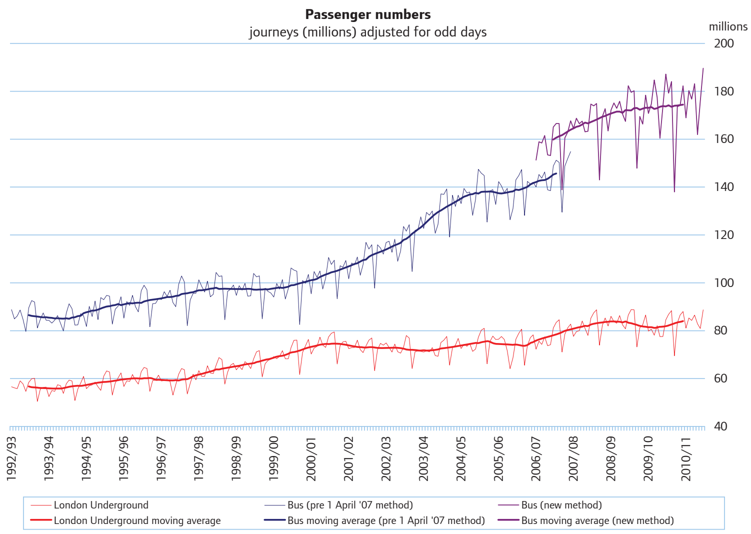
Internationally, leaders of the G20 nations agreed at their meeting in Seoul to develop 'indicative guidelines' to tackle global imbalances and also announced that they plan to avoid competitive devaluations of their currencies. However, the build up to the meeting was quite fractious and no solid plans to tackle global imbalances have been laid in place yet. Elsewhere the Chartered Institute of Personnel and Development (CIPD) has claimed that the impacts of the Spending Review may have been underestimated. It predicts that the total number of jobs that will be lost in the public sector by 2015/16 might be 725,000 compared to the Office for Budgetary Responsibility (OBR)'s figure of 610,000. Meanwhile, the International Monetary Fund (IMF) has generally endorsed the Government's spending reductions but it has warned that there is a need for 'contingency plans' given the degree of uncertainty in the global economy. The majority of current economic indicators would appear to suggest that the UK's and London's economies are likely to experience a continuation of the current recovery.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 19 September 2010 to 16 October 2010. Adjusted for odd days, London's Underground and buses had 278.4 million passenger journeys; 189.6 million by bus and 88.7 million by Underground.
- The moving average of passengers every period increased to 258.5 million from 257.9 million in the previous period. The moving average for buses was 174.4 million. The moving average for the Underground was 84.0 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: November 2010
Next release: December 2010

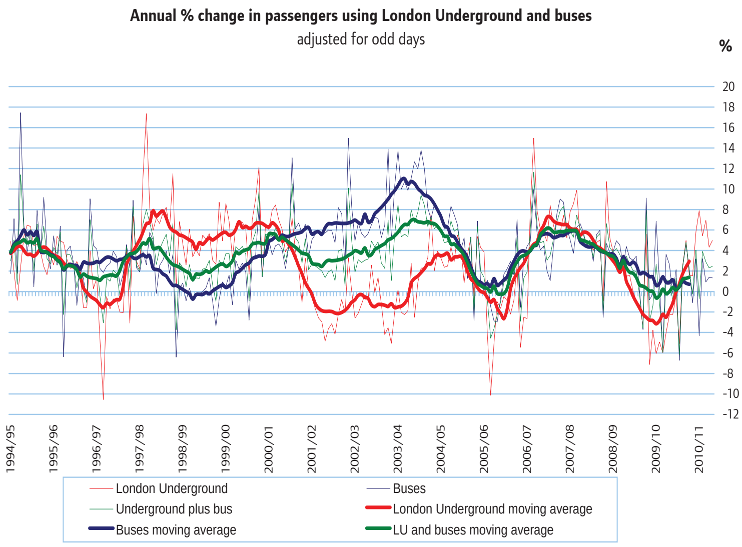


Source: Transport for London

Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 1.4% from 1.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.7% from 0.8% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 3.0% from 2.4% in the previous period.

Latest release: November 2010
Next release: December 2010

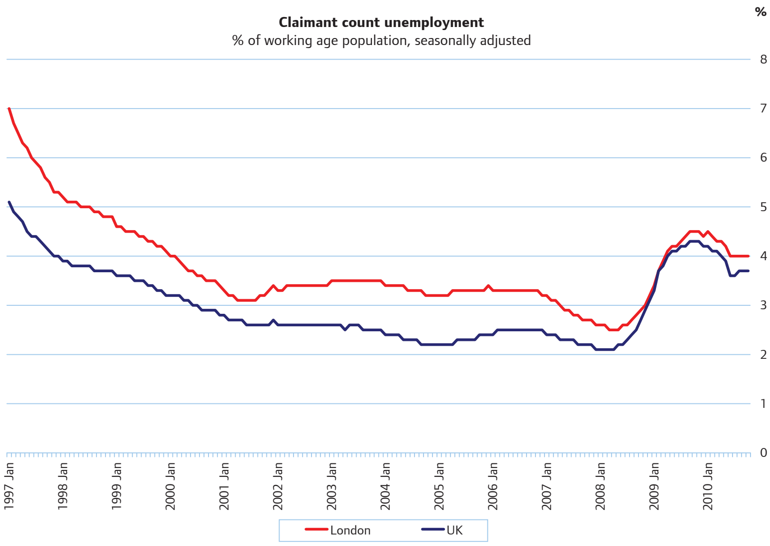


Source: Transport for London

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 October 2010.
- There were 214,900 seasonally adjusted unemployment claimants in London in October 2010 compared with a downwardly revised 214,700 in September.
- There were 1,465,400 seasonally adjusted unemployment claimants in the UK in October 2010 compared with a downwardly revised 1,469,100 in September.

Latest release: November 2010
Next release: December 2010

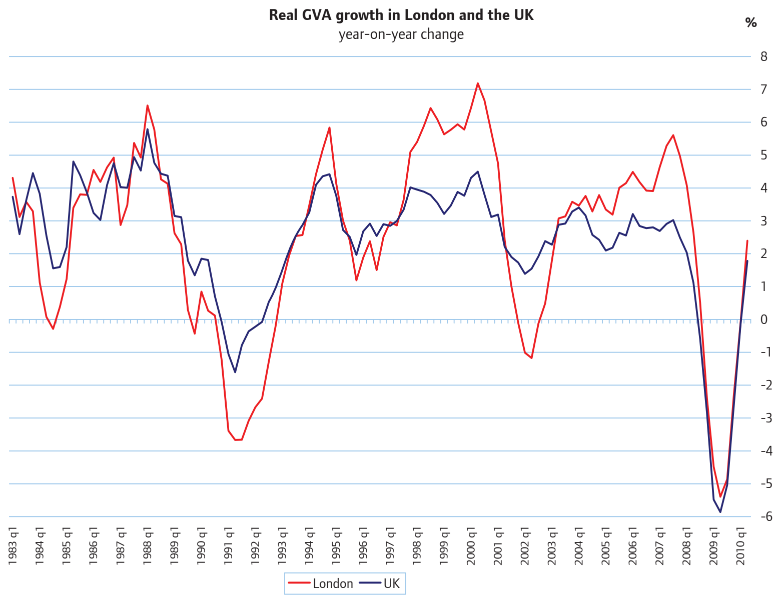


Source: Claimant Count, Nomis

Annual output growth increasing in London and the UK

- London's annual growth in output increased to 2.4% in Q2 2010 from an upwardly revised -0.1% in Q1 2010.
- Annual output growth in the UK increased to 1.8% in Q2 2010 from a downwardly revised -0.1% in Q1 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: November 2010
Next release: February 2011

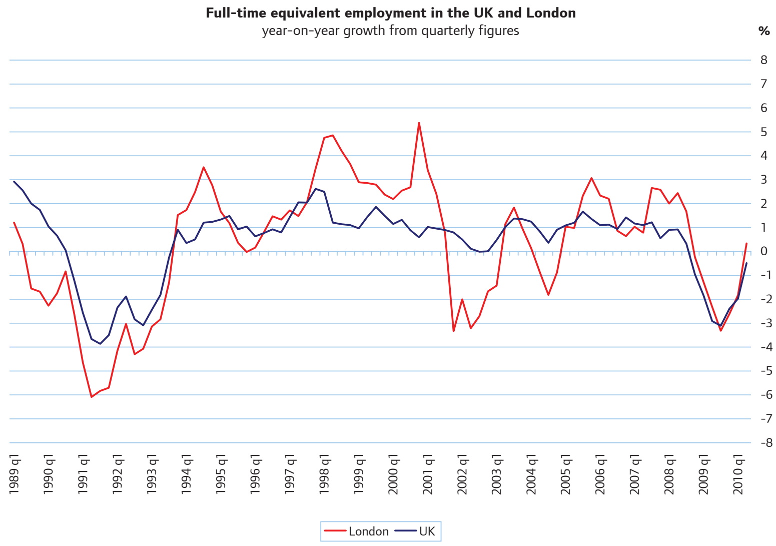


Source: Experian Economics

Annual employment growth positive in London

- London's annual employment growth increased to 0.3% in Q2 2010 from a downwardly revised -1.8% in Q1 2010.
- Annual employment growth in the UK increased to -0.5% in Q2 2010 from a downwardly revised -2.0% in Q1 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: November 2010
Next release: February 2011

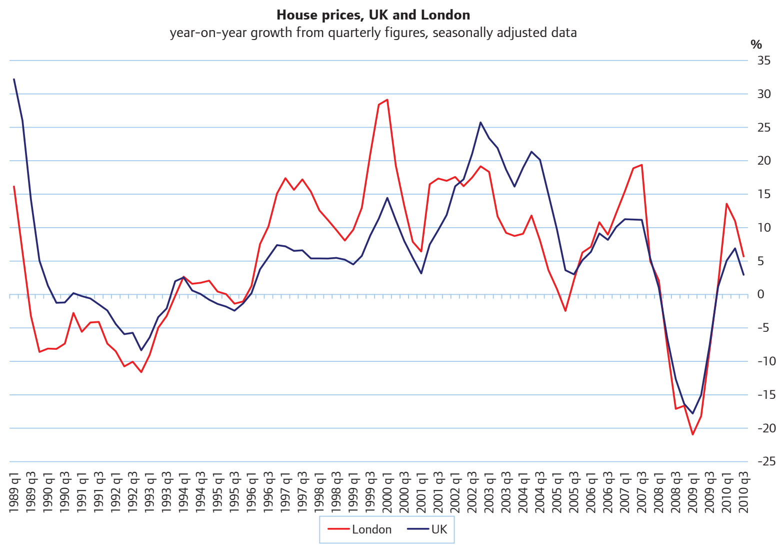


Source: Experian Economics

Annual house price inflation falling

- House prices, as measured by the Halifax, were higher in Q3 2010 than in Q3 2009 in both London and the UK.
- Annual house price inflation in London was 5.7% in Q3 2010, down from 11.0% in Q2 2010.
- Annual house price inflation in the UK was 2.9% in Q3 2010, down from 6.9% in Q2 2010.

Latest release: October 2010
Next release: January 2011

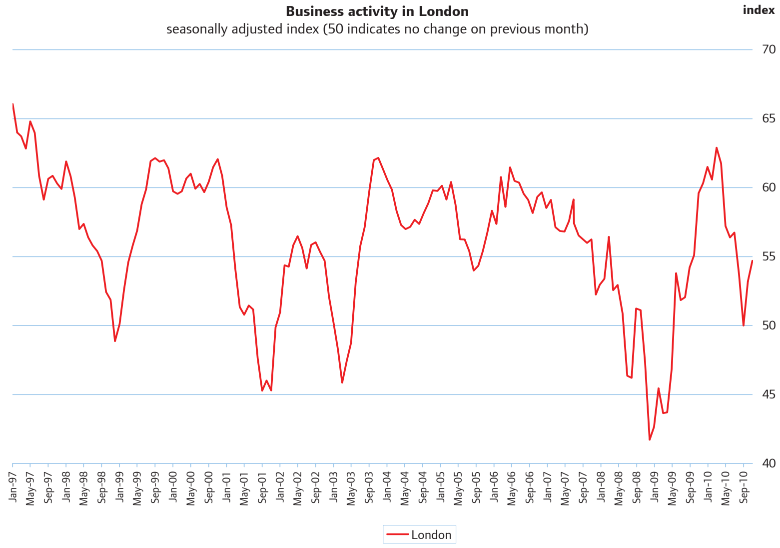


Source: Halifax house price index

London's business activity increasing

- London firms increased their output of goods and services in October 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.7 in October compared to 53.2 in September.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: November 2010
Next release: December 2010

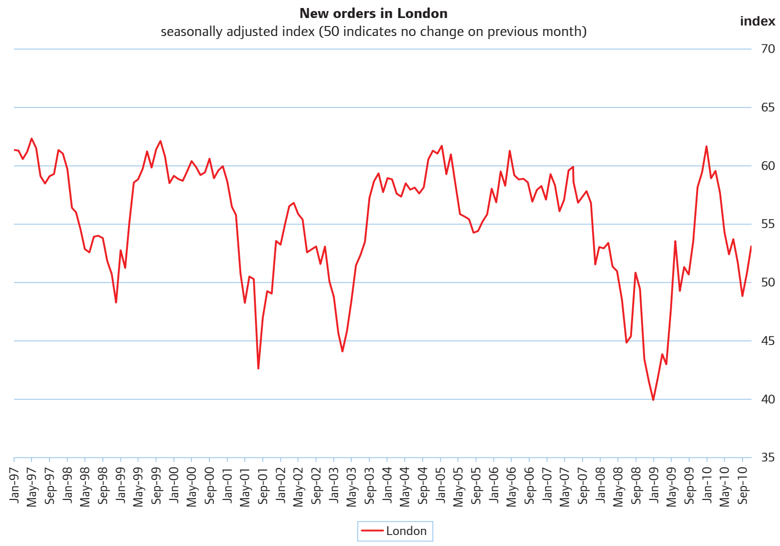


Source: Markit Economics

New orders in London rising

- October 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 53.1 in October 2010 compared to 50.8 in September 2010.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: November 2010
Next release: December 2010

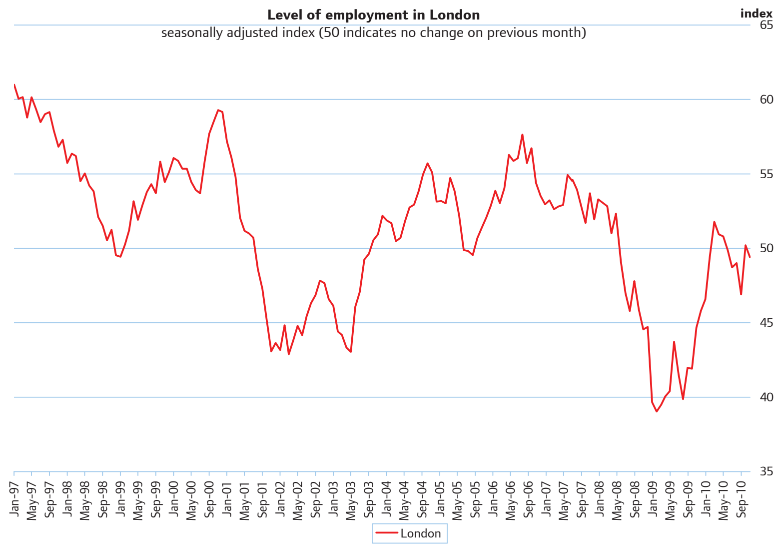


Source: Markit Economics

Businesses report slightly lower employment in October

- The PMI shows that the level of employment in London firms decreased slightly in October 2010.
- The PMI for the level of employment was 49.4 in October compared to 50.2 in September.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: November 2010
Next release: December 2010

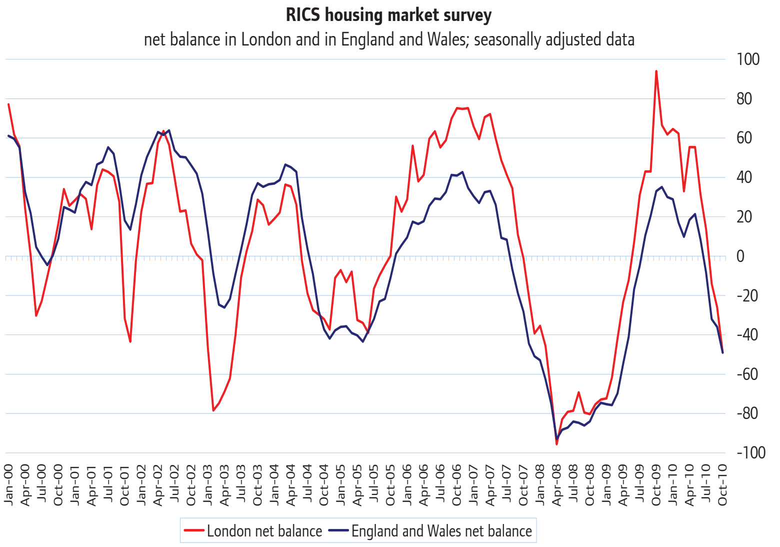


Source: Markit Economics

Surveyors report that house prices are falling

- The RICS survey shows a negative net balance of -49 for London house prices over the past three months to October 2010.
- Surveyors reported a net house price balance for England and Wales of -49 over the past three months to October 2010.
- London's net house price balance is the same as that of England and Wales.

Latest release: November 2010
Next release: December 2010

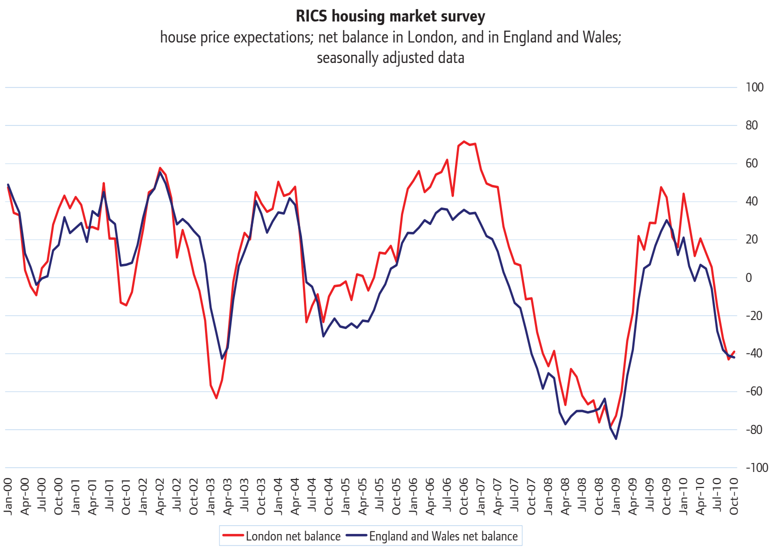


Source: Royal Institution of Chartered Surveyors

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 -39 in October 2010.
- For England and Wales, the net house price expectations balance was -42 in October 2010.

Latest release: November 2010
Next release: December 2010

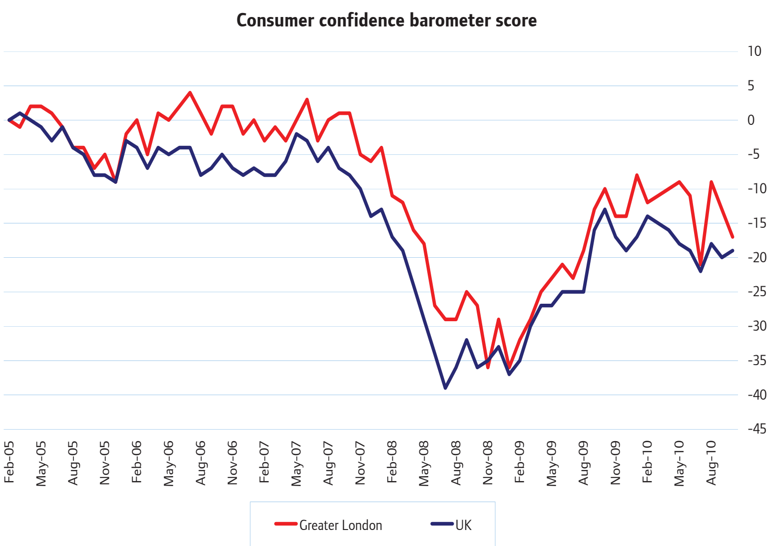


Source: Royal Institution of Chartered Surveyors

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 decreased to -17 in October from -13 in September.
- For the UK the consumer confidence score increased to -19 in October from -20 in September.

Latest release: October 2010
Next release: November 2010



Source: GfK NOP on behalf of the European Commission

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 2010/11 there were 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 were 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
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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