

# London's Economy Today



Issue 72 | August 2008

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## UK growth grinds to a halt

by **Richard Davies**, Economist and **Gordon Douglass**, Economist

**Quarterly UK economic growth slowed from 0.3 per cent in Q1 2008 to zero per cent in Q2 2008. Annual GDP growth fell to 1.4 per cent in Q2 2008 (see Figure 1). Construction output has been badly hit, with the fall mainly in new housing. In London, British Land has pushed back completion of the 47 storey "Cheesegrater" project until at least 2012 due to expected weak demand for office space. UK quarterly growth in the service sector was 0.2 per cent in Q2 2008 down from 0.3 per cent in Q1 2008. Meanwhile output of the production industries fell 0.8 per cent in Q2 2008 compared with a fall of 0.2 per cent in Q1 2008.**

### Business confidence declines to a new record low

Not surprisingly, the slow down in the economy has had an adverse impact on business confidence. According to the most recent UK business confidence monitor by the Institute of Chartered Accountants, business confidence declined for the fifth consecutive quarter to reach a new record low. Businesses are facing challenges from the ongoing credit crunch combined with inflationary pressures from high oil and commodity prices. The construction and property sectors are the least confident due to the continuing slump in the housing market. With consumers

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## Latest news...



- **Working Paper 32: Building Bridges - Some lessons from the Middle Ages on the long-term economic impact of bridges over the Thames** Taking a historical perspective on the impact of new infrastructure can help inform policy and here we look at the first key period of major bridge building over the Thames. This longer and broader perspective helps give comfort that new bridges such as the proposed Thames Gateway Bridge will also be successful.

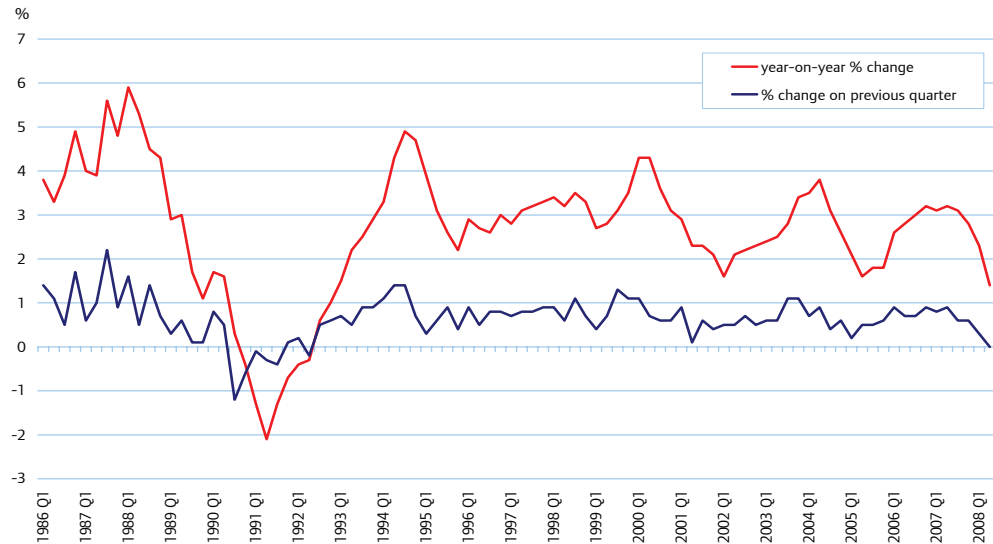


- **Current Issues Note 22: Patterns of low pay in London** In 2005 between 15 and 19 per cent of employees in London were low paid. Low pay more frequently affects less well qualified, young, and black and ethnic minority employees.

Visit [www.london.gov.uk/mayor/economic\\_unit](http://www.london.gov.uk/mayor/economic_unit) to download these publications.

**Figure 1: UK GDP Growth**

Source: Office for National Statistics



affected by the rise in living costs and concerns over falling house prices, the consumer dependent retail & wholesale and hotels & catering sectors have also seen large declines in business confidence. A cooling labour market will also affect consumer confidence. Over the next year, firms expect the growth in the number of employees to slow and salaries to rise by just 2.5 per cent.

## Inflation increasing

Annual UK inflation continued to rise in July with the Bank of England's target measure CPI inflation increasing from 3.8 per cent to 4.4 per cent, mainly due to higher food, fuel and transport prices. Most of the major energy suppliers in the UK have announced increases in gas and electricity prices adding further to inflationary pressures. In its August Inflation Report, the Bank of England said that it expected inflation to continue to increase, to above 5 per cent, over the next few months.

At least the price of Brent crude oil fell from its high of over \$145 per barrel in early July to around \$110 by early August. However, due to the current volatile situation in the Caucasus, oil prices have begun to increase again to around \$120 per barrel amidst oil supply concerns. Despite the fall in oil prices since early July, Brent oil is still over 20 per cent up since January 2008 and is over 550 per cent higher than its price of \$18 per barrel in January 2002.

## Lenders begin to cut mortgage interest rates

Despite the Bank of England base rate staying on hold at 5 per cent since April, lenders have begun to cut their mortgage interest rates. This has been due to the recent fall in the LIBOR rate, which is currently around 5.75 per cent. However, homebuyers now need to put down at least a 25 per cent deposit to access the best mortgage deals and banks are still tightening their lending criteria. This has meant little respite for first time buyers who are turning to renting in greater numbers, which has increased demand for private renting. New mortgage approvals are at very low levels. The British Bankers' Association reported mortgage approvals by its members for house purchases totalled only 22,500 in July, similar to June and 65 per cent below the level a year earlier. This weak demand for housing is causing house prices to fall.

## Growing evidence of a global slowdown

The UK and London are not alone in experiencing a slow down in their economies. Further evidence of the worsening global economy emerged in August with the publication of the Q2 2008 GDP estimates for the Eurozone, which showed a quarterly decline of 0.2 per cent. Significant declines were observed in Germany's GDP, which fell by 0.5 per cent, and Italy's and France's, which declined by 0.3 per cent. The US economy continues to experience sluggish growth. The economic climate in the US is still weak, but slightly better than previously predicted. US unemployment rose by around 50,000 to 5.5 per cent in June, the highest level in more than four years, and the effects of the bursting of the housing bubble is still ongoing as witnessed by the 55 per cent rise in home foreclosures in July compared to a year earlier. Combined with evidence of a slight slowdown in emerging market economies, which have also seen inflationary pressures pick up, the likelihood is for global growth to slow further in 2009. This will negatively impact London's open economy.

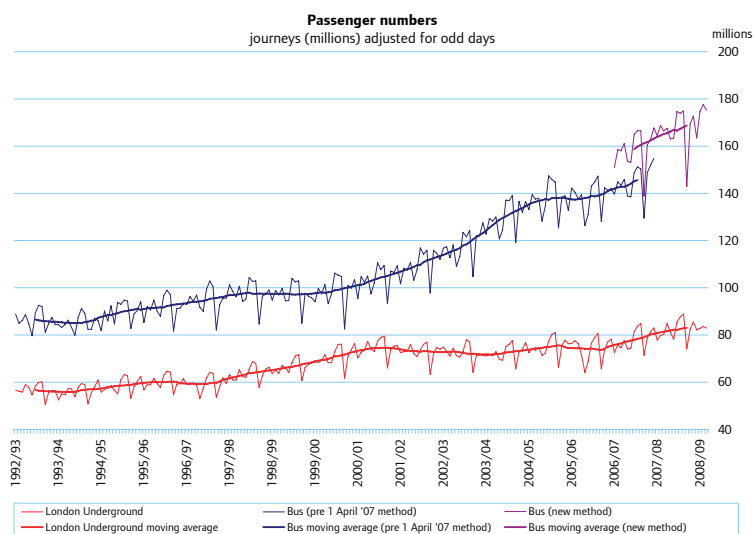
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28-day period is from 25 May 2008 to 21 June 2008. London's Underground and buses had 258.2 million passenger journeys; 175.2 million by bus and 82.9 million by Underground.
- The moving average of passengers every period increased to 251.8 million from a downwardly revised 250.9 million. The moving average for buses was 168.7 million. The moving average for the Underground was 83.1 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 edition 58 (June 2007).

Latest release: August 2008

Next release: September 2008



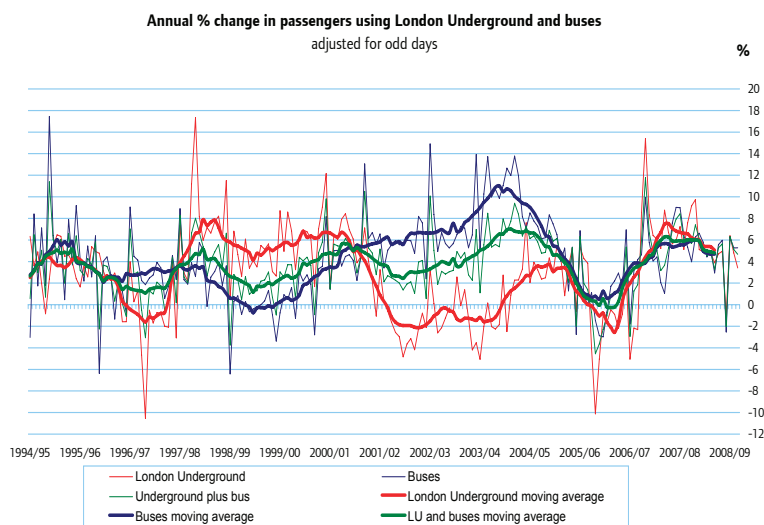
Source: Transport for London

## Average annual growth rate of passengers decreases slightly

- The moving average annual rate of growth in passenger journeys decreased to 4.8% from a downwardly revised 4.9% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers remained at 4.7%.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 5.0% from a downwardly revised 5.4%.

Latest release: August 2008

Next release: September 2008



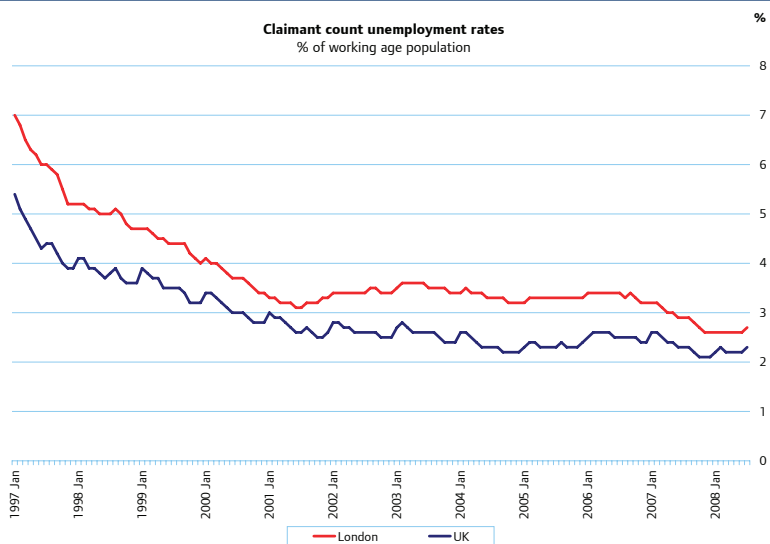
Source: Transport for London

## Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseekers' Allowance) in London was 2.7% in July 2008.
- There were 133,700 unemployment claimants in London in July 2008 compared with 144,100 in July 2007.
- The claimant count unemployment rate of the UK remains below that of London.

Latest release: August 2008

Next release: September 2008



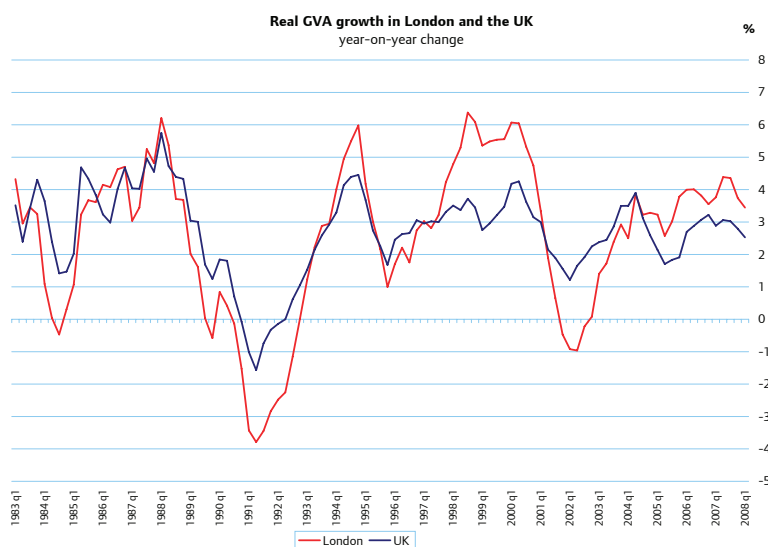
Source: Claimant Count, NOMIS

## Annual output growth in London faster than in the UK

- London's annual growth in output decreased to 3.4% in Q1 2008 from a downwardly revised 3.7% in Q4 2007.
- The UK's annual growth in output decreased to 2.5% in Q1 2008, from 2.8% in Q4 2007. London has been growing at a faster annual rate than the UK since Q3 2004.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2008

Next release: November 2008



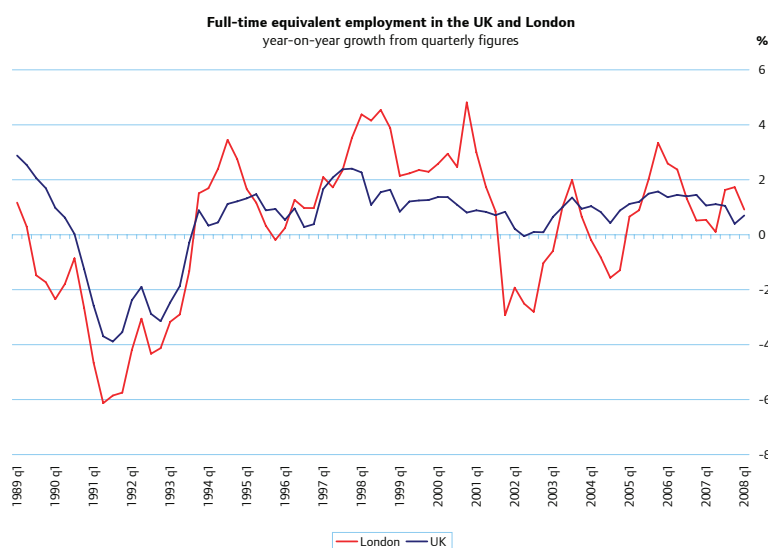
Source: Experian Business Strategies

## London's annual employment growth faster than in the UK

- London's annual employment growth decreased to 0.9% in Q1 2008 from a downwardly revised 1.7% in Q4 2007.
- Annual employment growth in the UK increased to 0.7% in Q1 2008 from 0.4% in Q4 2007.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2008

Next release: November 2008



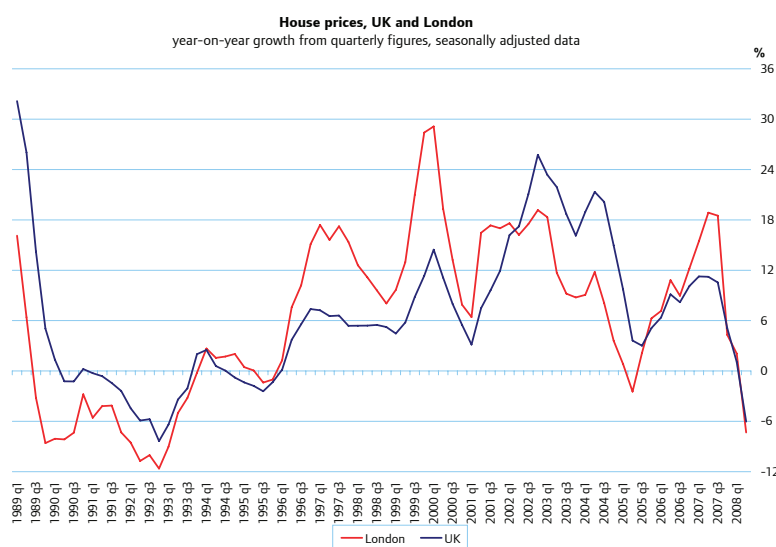
Source: Experian Business Strategies

## Falling house prices

- Annual house prices, as measured by the Halifax Bank of Scotland, fell in Q2 2008 in both London and the UK.
- Annual house price inflation in London decreased to -7.3% in Q2 2008 from 2.1% in Q1 2008. Annual house price inflation in the UK decreased to -6.0% in Q2 from 1.1% in Q1 2008.
- Annual house price inflation was negative in London for the first time since Q2 2005.

Latest release: July 2008

Next release: October 2008



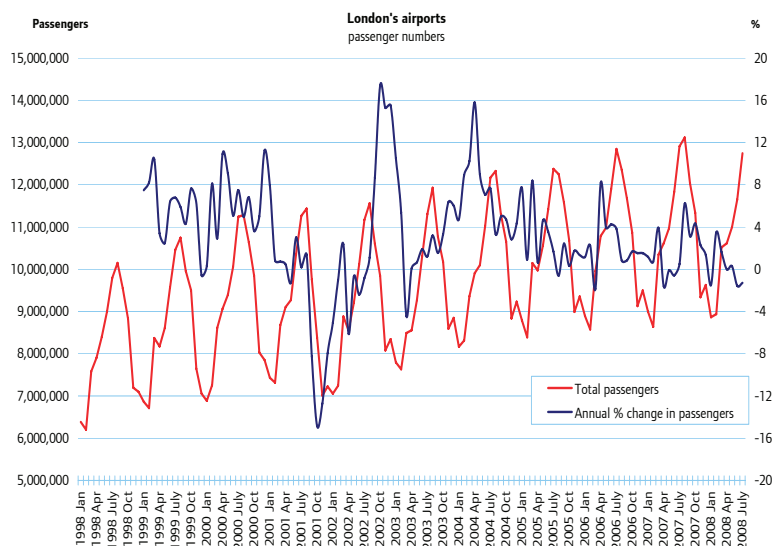
Source: HBoS

## Weak airport passenger numbers

- 12.7 million passengers travelled through London's airports in July 2008.
- The number of passengers using London's airports decreased by 1.3 per cent from July 2007 to July 2008.
- The number of passengers using London's airports has fallen year-on-year for the last two months.

Latest release: August 2008

Next release: September 2008



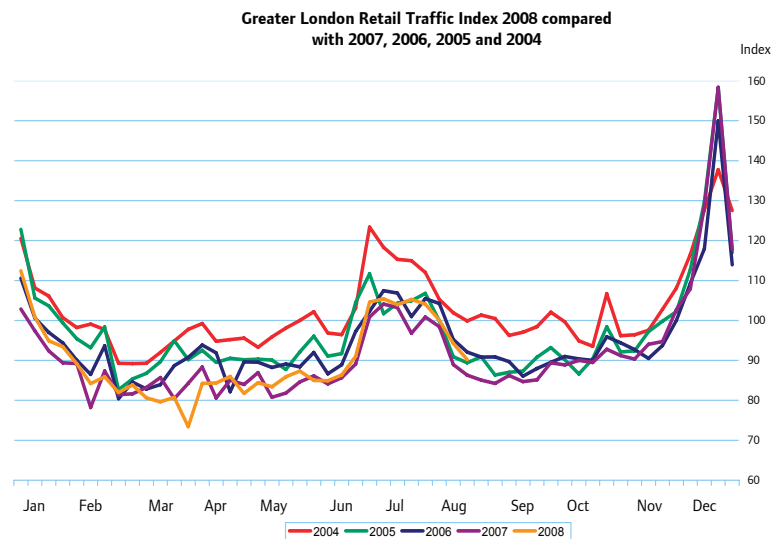
Source: Civil Aviation Authority

## SPSL Retail Traffic just above 2007 levels

- The SPSL Retail Traffic Index of shoppers in London was 90.2 in the second full week of August compared to 94.2 in the previous week.
- The index has been just above 2007 levels since June.
- SPSL's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-August

Next release: Weekly



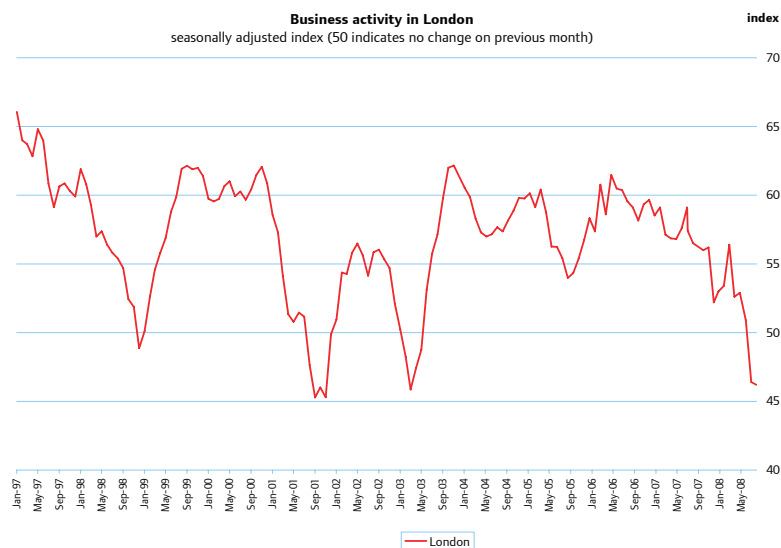
Source: SPSL

## London's business activity falls

- London firms decreased their output of goods and services in July 2008.
- The Purchasing Managers' Index (PMI) of business activity recorded 46.2 in July compared to 46.4 in June.
- A rate of below 50 on the index indicates a decrease in business activity from the previous month.

Latest release: August 2008

Next release: September 2008



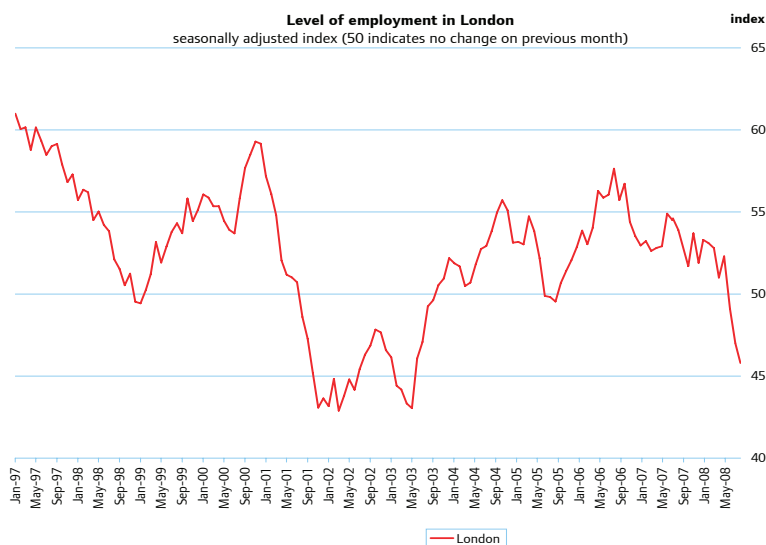
Source: RBS/Markit Economics

## London employment continues to weaken

- The PMI shows that the level of employment in London firms fell in July 2008.
- The PMI for the level of employment was 45.8 in July compared to 47.0 in June.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: August 2008

Next release: September 2008



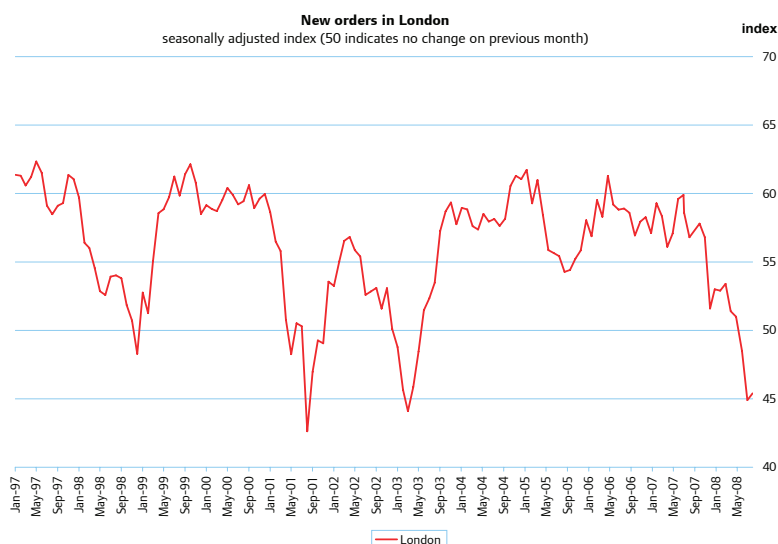
Source: RBS/Markit Economics

## New orders in London decreasing

- July 2008 saw a fall in new orders for London firms.
- The PMI for new orders recorded 45.4 in July 2008 compared to 44.9 in June 2008.
- A rate of below 50 on the index indicates a decrease in new orders from the previous month.

Latest release: July 2008

Next release: August 2008



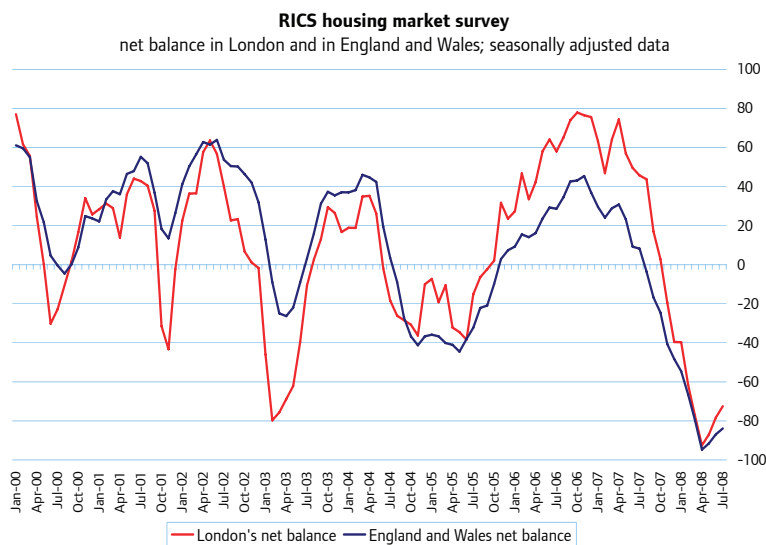
Source: RBS/Markit Economics

## Surveyors report that house prices are falling in London and in England and Wales

- The RICS survey shows a negative net balance of -72 for London house prices over the past three months up to July 2008. This net balance is up from -78 in June.
- Surveyors reported a negative net house price balance for England and Wales of -84 in July 2008, up from -87 in June.
- London's net balance remains just above that of England and Wales.

Latest release: August 2008

Next release: September 2008



Source: Royal Institute of Chartered Surveyors

# Snapshot mid-year update

Katerina Angelopoulou,  
Economist

**The latest Snapshot report which sets out the performance of London's economy against the objectives of the Mayor's Economic Development Strategy (EDS), was published in July 2008.**

The Snapshot aims to:

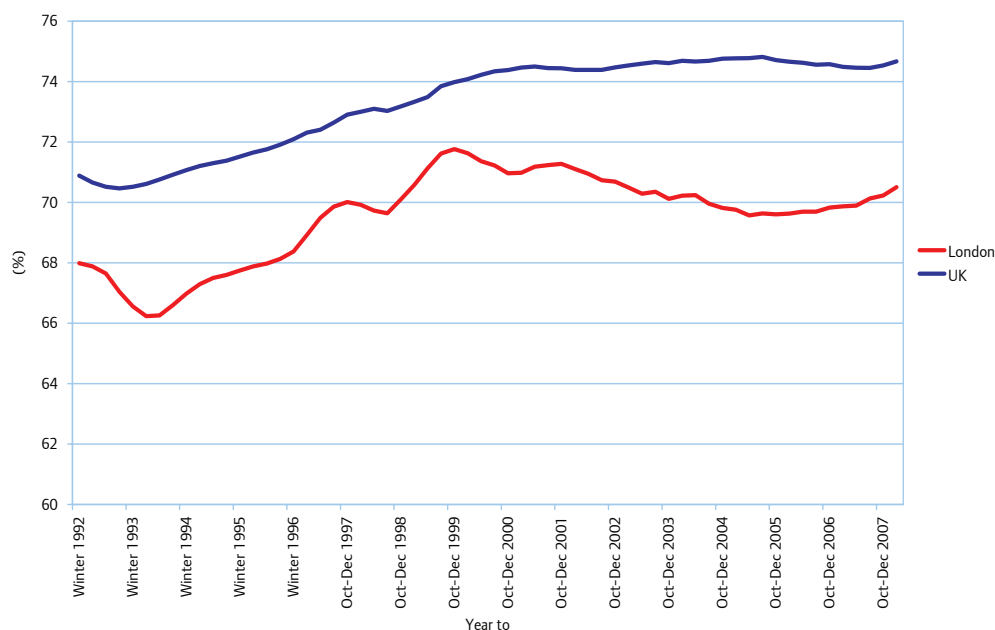
- identify and review London's progress against the strategic priorities of the EDS;
- provide a basis on which to review the priorities for London's economic development; and,
- act as a catalyst for directing economic development activities in London.

From 2008, the Snapshot report will be published on an annual basis in January of each year. The recent publication acts as a mid-year update to the main Snapshot report and aims to highlight any significant changes in the past six months.

Whilst the Snapshot shows that London performs well on a number of indicators, stakeholders in London's economy need to maintain their focus on London's relatively low employment rate, which particularly impacts on some disadvantaged groups and some deprived areas.

**Figure 2: Employment rate in London and the UK**

Source: LFS.



London's employment rate has been below the UK average since the beginning of the 1990s. Furthermore whilst the employment rate for the UK as a whole has increased by 2 percentage points over the current economic cycle (1997-to date), the employment rate for London has increased by only 0.6 percentage points. This led to the widening of the gap from 2.8 percentage points at the beginning of the cycle to 4.2 percentage points in the year to March 2008.

London's employment rate showed a slight improvement in the year to March 2008. However, London's economy may grow at a slower rate than the UK as a whole over the next couple of years. Therefore, the improvement in London's employment rate is unlikely to be sustained over the next few years.

The combined employment rate for the seven most disadvantaged areas of London continues to grow. Since 2007 the gap with London as a whole has fallen below 5 percentage points for the first time since at least the beginning of the 1990s. According to the 2007 Index of Multiple Deprivation the seven most disadvantaged boroughs are: Barking and Dagenham, Hackney, Haringey, Islington, Lambeth, Newham and Tower Hamlets.

The Snapshot report highlights that in 2007 London's skills position may have deteriorated. More specifically the London Annual Business Survey (LABS) 2007 shows that a higher proportion of London businesses indicated that the availability of appropriately skilled employees was a significant or a very significant problem than in last year's survey. Furthermore, the National Employers Skills Survey (NESS) 2007 indicates that staff in London were more likely to have skill gaps and employers in London were more likely to have skill shortage vacancies than England as a whole. Nevertheless, despite the recent deterioration in London's skill position relative to that for England, it is still the case that over 90 per cent of staff in London have no skill gaps and over 90 per cent of employers have no skill shortage vacancies.

For more information on the Snapshot visit:

<http://www.lda.gov.uk/server/show/ConWebDoc.1203>

## 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

Experian Business Strategies on 020 7630 5959

### Tourism – overseas visitors

[www.statistics.gov.uk](http://www.statistics.gov.uk)

### Tourism – domestic visitors

[www.visitlondon.com](http://www.visitlondon.com)

### London airports

[www.caa.co.uk](http://www.caa.co.uk)

### Business activity

[www.rbs.co.uk/pmireports](http://www.rbs.co.uk/pmireports)

### 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 rate

Unemployment rate 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.

### ILO unemployment rate

The International Labour Organisation's calculation of the number of people out of work.

### 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 2008/09 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April.

### 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 2008/09 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April.

# Acronyms

<b>ABI</b>	Annual Business Inquiry	<b>GVA</b>	Gross value added
<b>BAA</b>	British Airports Authority	<b>ILO</b>	International Labour Organisation
<b>BCC</b>	British Chamber of Commerce	<b>IMF</b>	International Monetary Fund
<b>BITOA</b>	British Incoming Tour Operators Association	<b>LCCI</b>	London Chamber of Commerce and Industry
<b>CAA</b>	Civil Aviation Authority	<b>LET</b>	London's Economy Today
<b>CBI</b>	Confederation of British Industry	<b>MPC</b>	Monetary Policy Committee
<b>DCLG</b>	Department for Communities and Local Government	<b>ONS</b>	Office for National Statistics
<b>EBS</b>	Experian Business Strategies	<b>PMI</b>	Purchasing Managers' Index
<b>GDP</b>	Gross domestic product	<b>PWC</b>	PricewaterhouseCoopers
		<b>RICS</b>	Royal Institute 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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