

London's Economy Today

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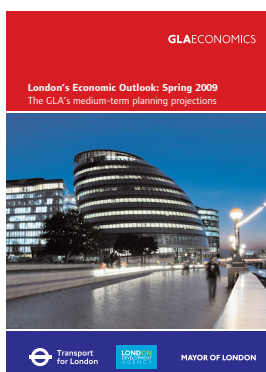
UK economy in deep recession

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

The UK economy contracted by a provisional 1.9 per cent in the first quarter of 2009 (see Figure 1). The rate of quarterly contraction was faster than the 1.6 per cent decline seen in the fourth quarter of 2008 and was the quickest quarter on quarter decline since Q3 1979. The economy thus remains mired in recession with the annual rate of decline standing at 4.1 per cent in Q1 2009.

Output continued to decline in virtually every sector of the economy in the first quarter, with an extremely steep fall seen in manufacturing, which declined by 6.2 per cent. The business services and finance sector, an area that London specializes in, also suffered a large decline of 1.8 per cent. Business surveys have however slightly improved recently (albeit from very low levels) and there would appear to be some signs that the rate at which the economy is contracting is now slowing down.

Latest news...



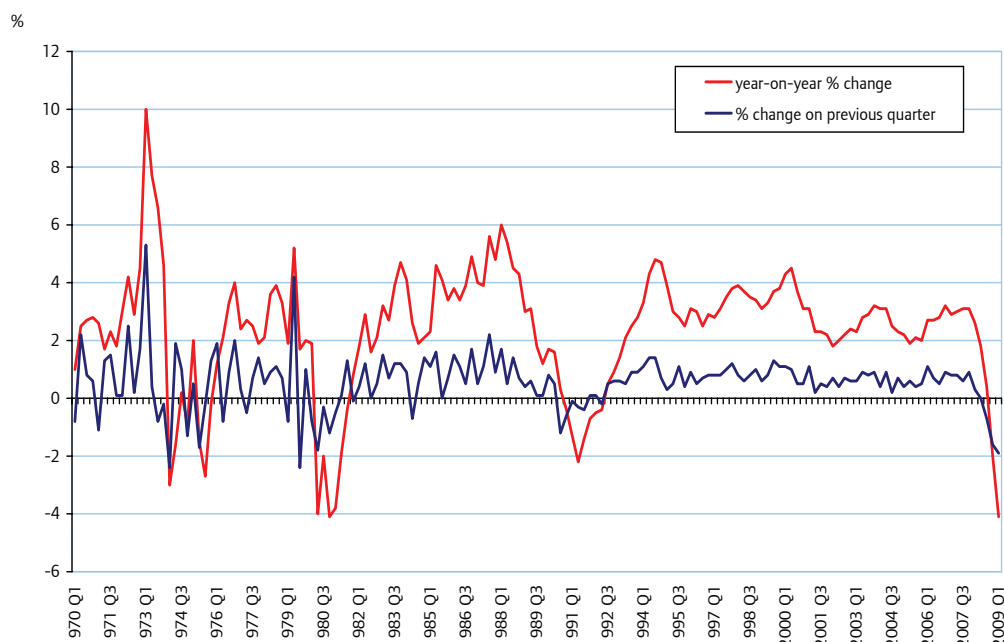
● London's Economic Outlook: Spring 2009 The GLA's medium-term planning projections

GLA Economics' fourteenth London forecast suggests that: London's Gross Value Added (GVA) growth rate should slow sharply to -2.7 per cent in 2009 and -0.2 per cent in 2010. Positive growth of 1.7 per cent is forecast for 2011.

Visit www.london.gov.uk/mayor/economic_unit to download this publication.

Figure 1: UK GDP Growth

Source: Office for National Statistics



Budget forecasts huge increases in public sector borrowing

The economic growth forecast for 2009 in the Budget is very substantially lower than the forecast published in last November's Pre-Budget Report (PBR). The Chancellor now expects the UK economy to contract by 3½ per cent broadly in line with the consensus amongst independent economic forecasters. The Chancellor's projections are very optimistic relative to the consensus with regard to the strength of the economic upturn in 2010 and 2011. By 2011, the Chancellor expects economic growth to reach a strong 3½ per cent compared to a below trend growth of 2.2 per cent in the consensus projection (see Table 1).

Table 1: Summary of the Treasury and Consensus Economic Projections

Source: HM Treasury

UK GDP Growth (%)	2008	2009	2010	2011
Budget 2008	1¾ – 2¼	2¼ – 2¾	2½ – 3	–
PBR 2008	¾	-1¼ to -¾	1½ – 2	2¾ – 3¼
Budget 2009	¾	-3½	1¼	3½
Consensus	0.7	-3.7	0.3	2.2

The Budget projections for public sector net borrowing (PSNB) for the 2009/10 financial year have increased by £57 billion since November's PBR to £175 billion. Thereafter, the Chancellor projects that public borrowing will decline but still remain well above £100 billion by 2012/13. Even on the Treasury's projections (which are generally seen as optimistic) the peaks in public borrowing at 12.4 per cent of GDP in 2009/10 and 11.9 per cent in 2010/11 will significantly exceed the previous post World War 2 peaks in public borrowing seen in the mid 1970s (7.0 per cent in 1975/76) and the early 1990s (7.4 per cent in 1992/93 and 7.7 per cent 1993/94). The Treasury projections are for the debt to GDP ratio to increase very rapidly from 43.0 per cent in 2008/09 to 55.4 per cent in 2009/10 and continue to rise to 76.2 per cent by 2013/14.

The Chancellor announced a slow down in the growth of public spending from 2011/12 onwards. Public sector current expenditure is now projected to grow at just 0.7 per cent per year on average in real terms (i.e. after accounting for inflation) compared to 1.1 per cent previously. This represents a very marked slow down from the 3.3 per cent real annual average growth seen in the 10

years from 1997/98 to 2007/08. Furthermore, the Budget also significantly reduced the level of future public investment. Investment spending is now projected to halve in cash terms from £44 billion in 2009/10 to £22 billion in 2013/14. As a percentage of GDP public investment is expected to fall from 3.1 per cent in 2009/10 to just 1.3 per cent in 2013/14. Overall, this would be the most sustained squeeze in public spending in decades.

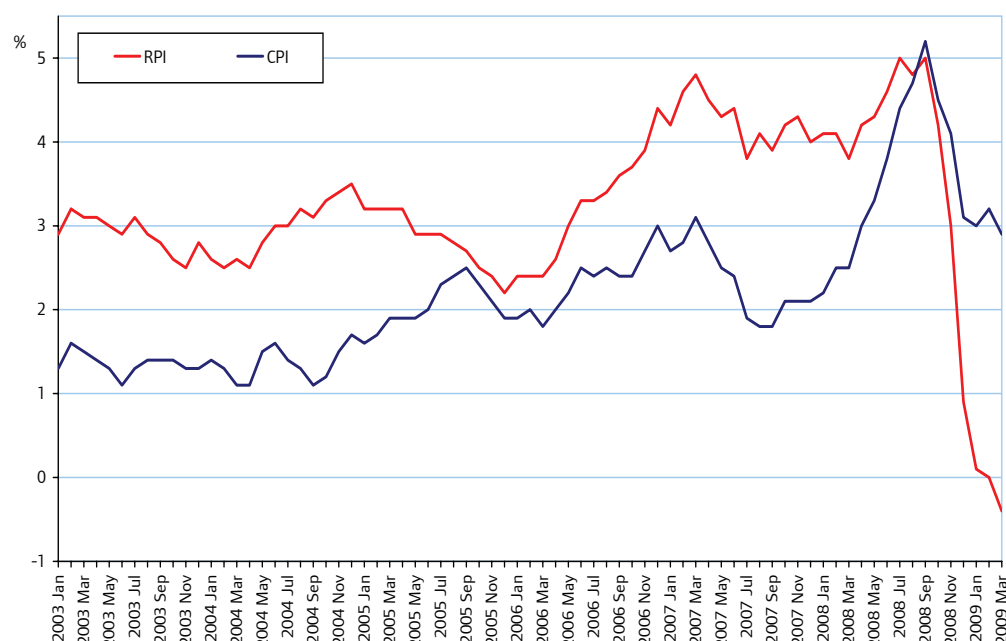
UK RPI inflation turns negative

Retail Price Index (RPI) inflation turned negative in March for the first time since 1960. RPI inflation was -0.4 per cent (see Figure 2), compared with 0 per cent in February. It is expected that RPI inflation will continue to decline with the Budget forecasting that it will fall “to -3 per cent by September, before moving back above zero next year.” Consumer Price Index (CPI) inflation slowed in March to 2.9 per cent from 3.2 per cent in February. Falling food price inflation and energy bills, with oil prices being significantly lower in March 2009 compared with a year earlier, were mainly responsible. However, CPI inflation is falling less rapidly than expected, which could well be due to the recent large depreciation of sterling increasing the price of imports. The Budget forecasts that CPI inflation will fall to 1 per cent by the end of the year but the risk of deflation on this measure seems to have reduced.

Figure 2: UK annual inflation rates

Last data point is
March 2009

Source: Office for
National Statistics



Dunfermline Building Society rescued as financial crisis continues

Nationwide took over the Dunfermline Building Society on 30 March after it incurred a £26 million loss, which has been blamed on problems in its commercial property lending book. The deal means that Nationwide will take over the retail and wholesale deposits, branches, head office and most of the residential mortgage book of the Dunfermline Building Society. Meanwhile a ‘bridge’ bank owned by the Bank of England will look after the society’s social housing portfolio and £900 million in risky assets have been placed in the Building Society Special Administration Process.

The IMF in its April Global Financial Stability Report estimated that the total cost of the credit crunch to financial institutions could top \$4 trillion, with the worldwide recession having deepened the crisis. It noted that “systemic

risks remain high and the adverse feedback loop between the financial system and the real economy has yet to be arrested, despite the wide range of policy actions and some limited improvement in market functioning". There have been some tentative signs of a future improvement in the UK lending market with the Q1 2009 Bank of England Credit Conditions Report showing that lenders expect unsecured and secured lending to households and corporations to either remain unchanged or increase over Q2 2009. Still, lending remained weak in Q1 and default rates "on secured and unsecured lending to households" had increased.

Severe economic downturn though London currently still performing better than the UK

The economic environment in the UK and London remains harsh. However retail sales held up strongly in Central London in March with the BRC-KPMG retail sales monitor showing that like-for-like sales were 5.1 per cent higher compared with a year earlier (whereas for the UK as a whole sales declined by 1.2 per cent). Stephen Robertson, the Director General of the British Retail Consortium, commented that "overseas visitors provided a boost to London sales, attracted by the favourable exchange rates. Consumer confidence in the capital also held up better than the rest of the UK".

The British Chamber of Commerce in its Q1 2009 Quarterly Economic Survey found that "all the critical national balances remained in negative territory in Q1, for both manufacturing and services. The Q1 results also reveal a clear divergence between a further disturbing deterioration in manufacturing, and an improvement in services". Any improvement in the service sector will benefit the London economy, where manufacturing plays a smaller part than in the UK as a whole. Forecasters of the UK economy expect 2009 to be a difficult year with the Ernst and Young Item Club forecasting a contraction of 3.5 per cent, the CBI forecasting a fall of 3.9 per cent and the IMF a fall of 4.1 per cent. The IMF's April World Economic Outlook predicts that advanced economies output will decline by 3.8 per cent in 2009 and not grow at all in 2010. Thus the UK and world economy remain in the depths of a deep economic downturn despite the G20 summit at the beginning of April announcing an approximate \$1 trillion package of measures to support the global economy.

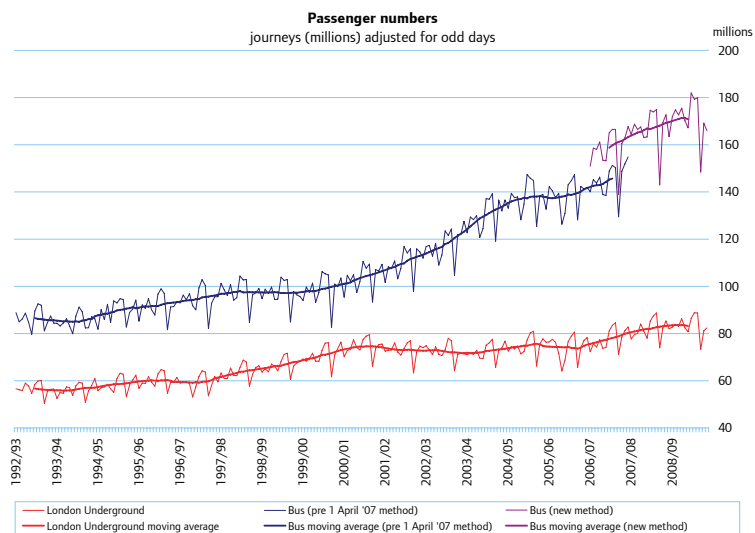
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28-day period is from 1 February 2009 to 28 February 2009. London's Underground and buses had 248.3 million passenger journeys; 166.0 million by bus and 82.4 million by Underground.
- The moving average of passengers every period decreased to 254.0 million from a downwardly revised 254.7 million in the previous period. The moving average for buses was 170.8 million. The moving average for the Underground was 83.2 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: April 2009

Next release: May 2009



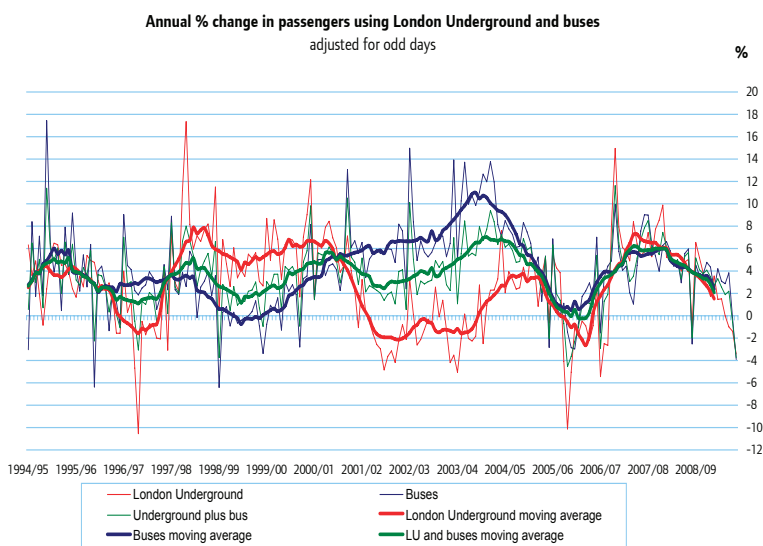
Source: Transport for London

Average annual growth rate of passengers continues to decrease

- The moving average annual rate of growth in passenger journeys decreased to 2.1% from 2.8% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 2.4% from a downwardly revised 3.1% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 1.5% from an upwardly revised 2.2% in the previous period.

Latest release: April 2009

Next release: May 2009



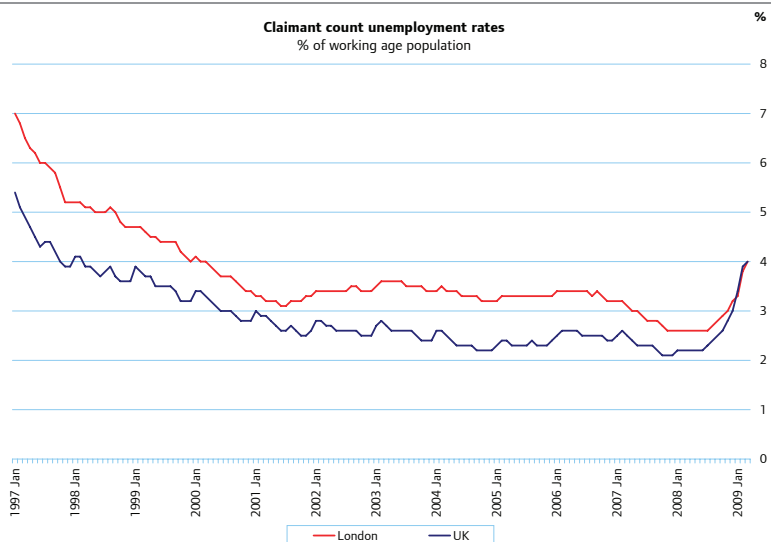
Source: Transport for London

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 4.0% in March 2009.
- There were 202,300 unemployment claimants in London in March 2009 compared with 131,900 in March 2008.
- The claimant count unemployment rate of London is now equal to that of the UK.

Latest release: April 2009

Next release: May 2009



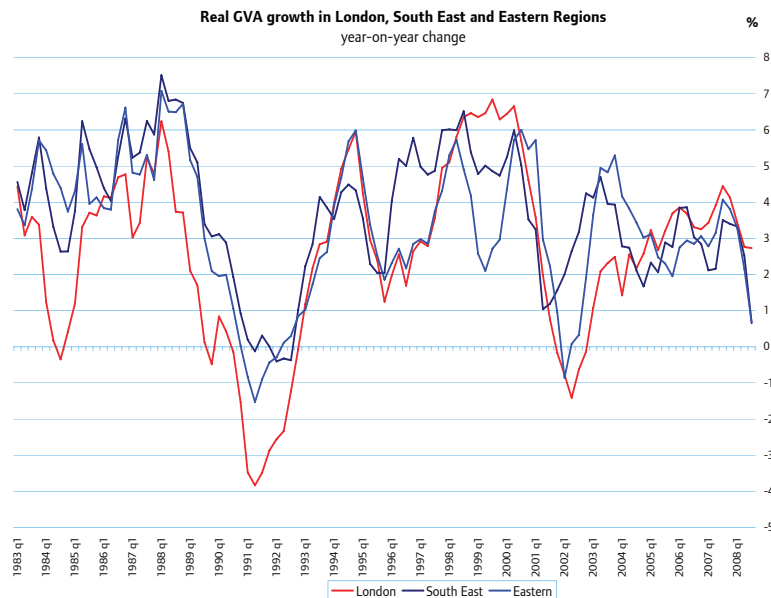
Source: Claimant Count, Nomis

London's annual output growth stronger than in surrounding regions

- London's annual growth in output decreased to 2.7% in Q3 2008 from an upwardly revised 2.8% in Q2 2008.
- Annual output growth in the South East decreased to 0.7% in Q3 2008 from an upwardly revised 2.5% in Q2 2008.
- Annual output growth in the Eastern region decreased to 0.7% in Q3 2008 from an upwardly revised 2.1% in Q2 2008.

Latest release: February 2009

Next release: May 2009



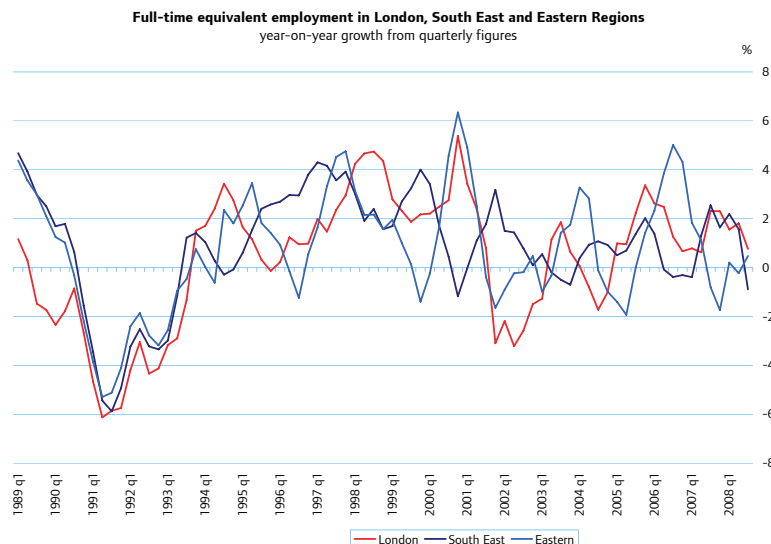
Source: Experian Business Strategies

London's annual employment growth faster than in surrounding regions

- London's annual employment growth decreased to 0.8% in Q3 2008 from an upwardly revised 1.8% in Q2 2008.
- Annual employment growth in the South East decreased to -0.9% in Q3 2008 from an upwardly revised 1.6% in Q2 2008.
- Annual employment growth in the Eastern region increased to 0.5% in Q3 2008 from a downwardly revised -0.2% in Q2 2008.

Latest release: February 2009

Next release: May 2009



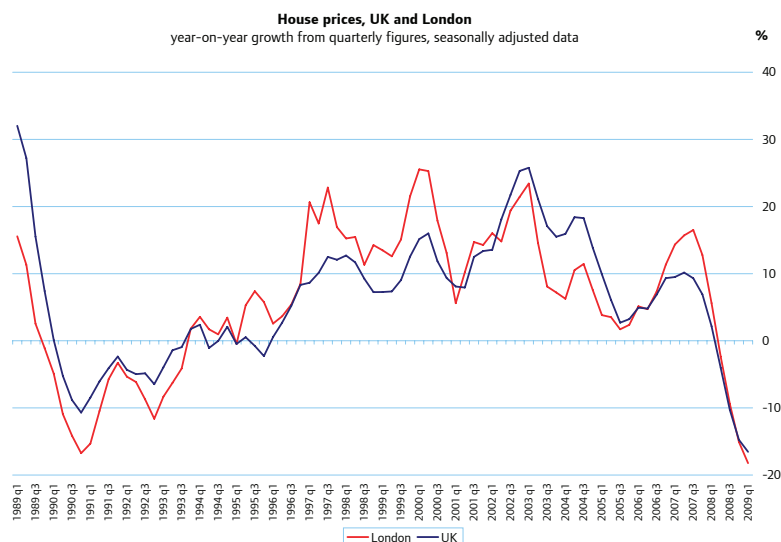
Source: Experian Business Strategies

Falling house prices

- Nationwide reported that house prices in London fell in Q1 2009 at their fastest year-on-year rate since the survey for London began in Q4 1973.
- Annual house price inflation in London was -18.2% in Q1 2009, down from -15.1% in Q4 2008.
- Annual house price inflation in the UK was -16.5% in Q1 2009, down from -14.7% in Q4 2008.

Latest release: April 2009

Next release: July 2009



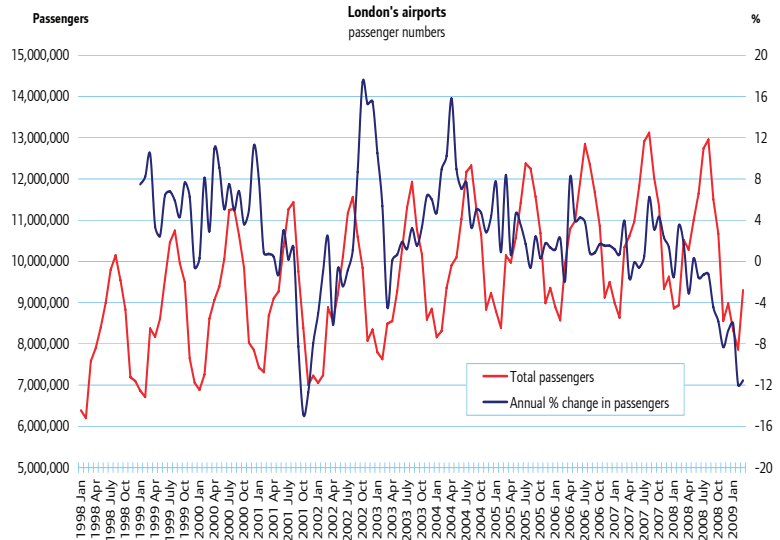
Source: Nationwide

Weak airport passenger numbers

- 9.3 million passengers travelled through London's airports in March 2009.
- The number of passengers using London's airports decreased by 11.6 per cent from March 2008 to March 2009.
- The number of passengers using London's airports has fallen year-on-year for the last ten months.

Latest release: April 2009

Next release: May 2009



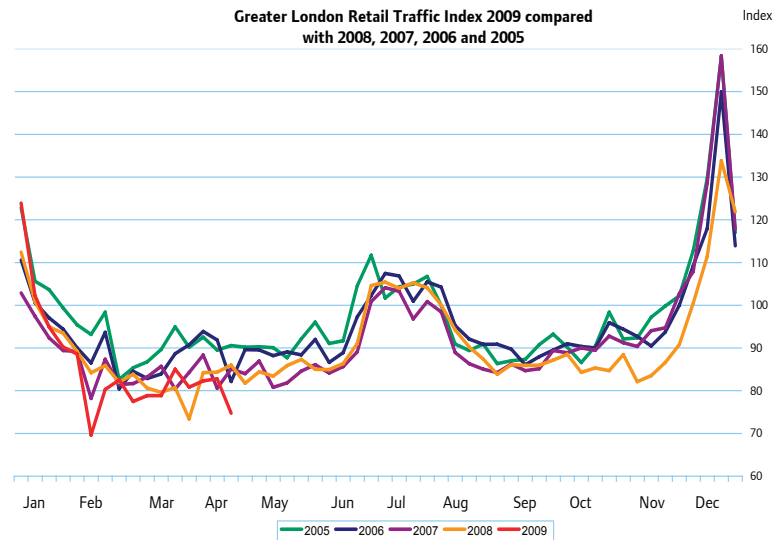
Source: Civil Aviation Authority

Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 74.8 in the second week of April compared to 82.8 in the previous week.
- The index has been below 2008 levels for the majority of 2009.
- Synovate's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-April 2009

Next release: Weekly



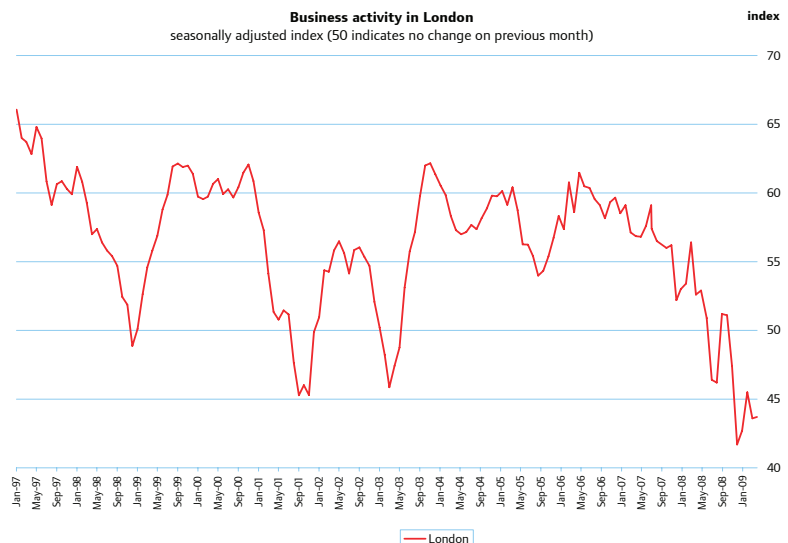
Source: Synovate

London's business activity continues to decrease

- London firms decreased their output of goods and services in March 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 43.7 in March compared to 43.6 in February.
- A rate of below 50 on the index indicates a decrease in business activity from the previous month.

Latest release: April 2009

Next release: May 2009



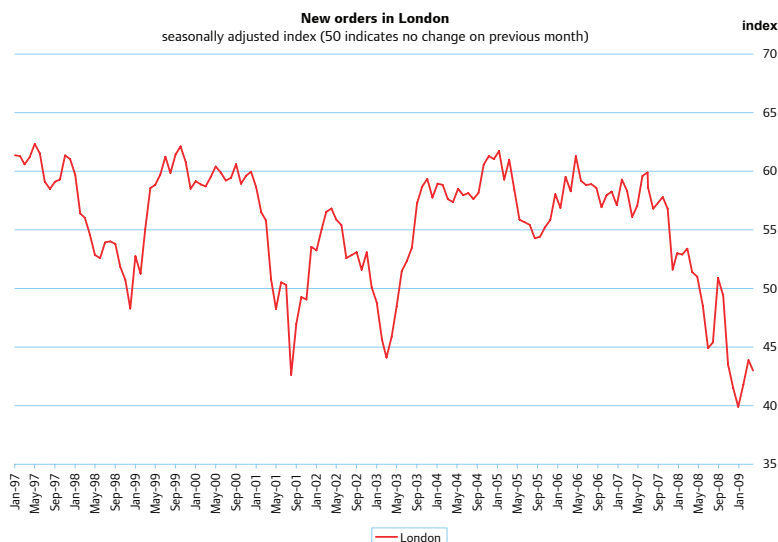
Source: RBS/Markit Economics

New orders in London declining

- March 2009 saw a fall in new orders for London firms.
- The PMI for new orders recorded 43.0 in March compared to 43.9 in February.
- A rate of below 50 on the index indicates a decrease in new orders from the previous month.

Latest release: April 2009

Next release: May 2009



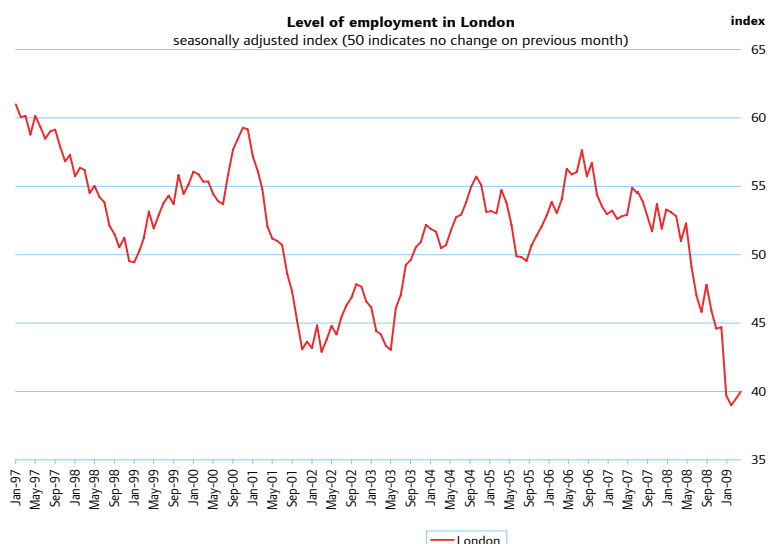
Source: RBS/Markit Economics

London employment remains weak

- The PMI shows that the level of employment in London firms decreased in March 2009.
- The PMI for the level of employment was 40.0 in March compared to 39.5 in February.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: April 2009

Next release: May 2009



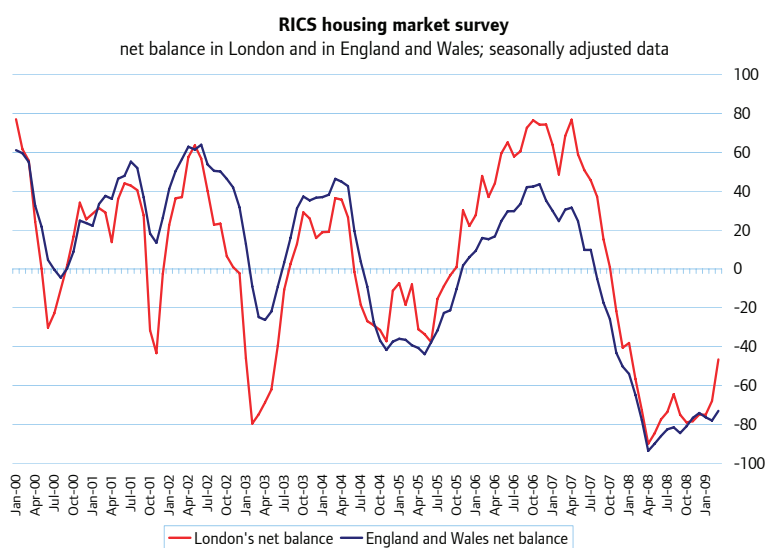
Source: RBS/Markit Economics

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

- The RICS survey shows a negative net balance of -47 for London house prices over the past three months to March 2009. This net balance is up from -68 in February 2009.
- Surveyors reported a negative net house price balance for England and Wales of -73 over the past three months to March 2009, up from -78 in February 2009.
- London's net house price balance is above that of England and Wales.

Latest release: April 2009

Next release: May 2009



Source: Royal Institution of Chartered Surveyors

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GDP/GVA growth	Experian Business Strategies on 020 7630 5959
Tourism – overseas visitors	www.statistics.gov.uk
Tourism – domestic visitors	www.visitlondon.com
London airports	www.caa.co.uk
Business activity	www.rbs.co.uk/pmireports
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 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.

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 were 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 were eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April.

Acronyms

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

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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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