

# London's Economy Today

Issue 81 | May 2009

## In this issue

Further relaxation of global monetary policy to combat recession .....	1
Latest news .....	1
Economic indicators .....	5

## Further relaxation of global monetary policy to combat recession

By **Gordon Douglass**, Economist and **Simon Kyte**, Economist

**On 7 May the Bank of England announced that it would expand its policy of quantitative easing (QE) by £50 billion in response to a "substantial margin of spare capacity in the economy". The move led to concerns that significantly more needs to be done to stimulate the British economy. The need for further QE was highlighted by the May Bank of England Inflation Report, which indicated that the Bank's central forecast expects CPI inflation to fall to around 0.5 per cent by the end of 2009. Mervyn King, the Bank's Governor observed that "there are pretty solid reasons for supposing that there will be a recovery next year, but also pretty solid reasons for questioning if that will be sustained".**

Meanwhile the European Central Bank (ECB) cut interest rates in the Eurozone by 25 basis points to 1 per cent on 7 May in response to the deteriorating economic situation. The European Commission has forecast that output will fall in the Eurozone by 4 per cent in 2009.

## Latest news...

### ● **Bridget Rosewell appointed as Consultant Chief Economic Advisor to the GLA**

Bridget Rosewell has been appointed as Consultant Chief Economic Advisor to the Greater London Authority. Bridget said, 'I am looking forward to working again with both my former colleagues and my new ones. London is one of the world's greatest cities and will remain so in spite of these challenging times. I will be making contributions to analysing our competitive position, infrastructure and funding needs, as well as the evidence base for the development of the Mayor's strategies.'

### ● **GLA Economics seminar: The economic impact of immigration on London**

Tuesday 16 June 2009, 9.00am-12.30pm, City Hall, London SE1 2AA.

GLA Economics brings together experts in this field (**Jonathan Wadsworth, Ian Gordon, Christine Whitehead, John Hollis, Tony Travers, and Kathleen Scanlon**) to discuss the evidence base used to inform policy development for migration-related issues. The event will be free of charge and places are strictly limited. For more information and to book your place, please email [glaeconomics@london.gov.uk](mailto:glaeconomics@london.gov.uk).

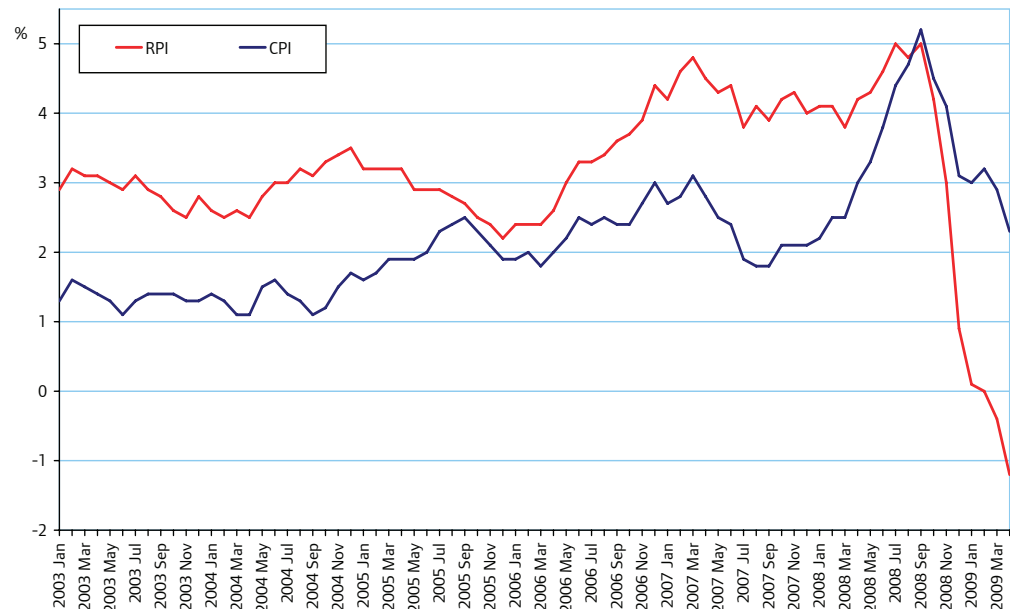
## CPI inflation falls towards target

Retail Price Index (RPI) inflation continued to fall in April hitting -1.2 per cent (see Figure 1), the lowest figure since records began in 1948 and lower than was expected. This compares with a figure of -0.4 per cent in March. A large part of this fall was due to lower mortgage costs, although cheaper gas and electricity bills as well as lower food bills also contributed to the fall. Consumer Price Index (CPI) inflation also slowed in April to 2.3 per cent from 2.9 per cent in March.

**Figure 1: UK annual inflation rates**

Last data point is April 2009

Source: Office for National Statistics



## Some indicators suggest that the pace of UK output falls may be easing

There have been some tentative signs that the fall in UK output in Q2 2009 will be less severe than it was in Q1. On May 11, the OECD's latest set of 'leading indicators' suggested that the UK had progressed from being in a state of 'strong slowdown' to a 'possible trough in March'. It has a similar analysis for both France and Italy. However, it noted that signs of improvement were weak and suggested that the US slowdown was continuing even though some US analysts are predicting that the US economy will start growing again by the end of the year. One risk must be a W-shaped recession where, after an initial UK recovery, the economy is then dragged backwards again. One cause of this could be the fiscal retrenchment that will be needed to put the Government's finances back onto a more solid foundation in the medium term.

## Commercial property market suffering in London

Recent data from the Purchasing Managers Index (PMI) for April suggests that London is still beneath the neutral ('no change') 50 threshold for all key indicators (business activity, employment and new orders). However, the rate of decline has ameliorated especially for new orders and business activity. The overall picture for London indicates that business confidence may now be less negative than it has been since the autumn of 2008 but that the labour market faces hard times. Consumer confidence also seems to be less negative. The GfK NOP index rose in April to -25 for London and to -27 for the UK. Significantly, it is the third consecutive month in which there has been an improvement in the index for both London and the UK.

The commercial property market in London remains weak with research by property consultants, NB Real Estate and ONCOR International, showing that the City of London has been knocked out of Europe's three most expensive office locations. Average office rents have fallen 38 per cent in the last 12 months when measured in Euros. However, the West End remains the most expensive office district in Europe in spite of having experienced the greatest fall (45 per cent) in office rents over the past year.

### **Recapitalisation of banks continues**

The US Treasury and Federal Reserve have released details of their 'stress tests' into the ability of 19 US banks to survive a worsening of the current recession. The tests found that ten of the banks would require extra capital of a combined total of \$74.6 billion with the Bank of America requiring \$33.9 billion. The banks now have until 8 June to finalise their plans to raise the extra capital, which will then have to be agreed with regulators. The US Treasury believes most of the money will be available from private sources, although government funds may have to be provided if needed. Meanwhile the IMF has called for European banks to be 'stress tested', with Marek Belka, the IMF's Europe Director, saying that "Europe is facing the economic storm of a lifetime and it urgently needs to weatherproof its institutions". The German Government has agreed a 'bad bank' plan, which will enable banks to swap toxic-debt for government backed bonds.

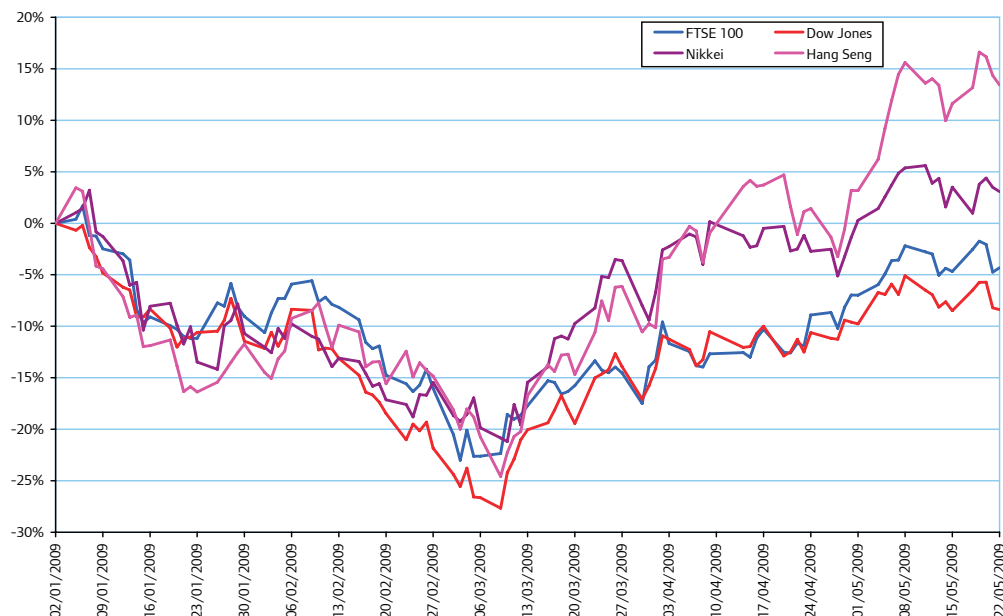
### **Stock markets recover from March lows but economies remain weak**

More evidence of the recent severity of the recession came to light with data from the Insolvency Service showing that bankruptcies in England and Wales hit over 19,000 (an all time high) in the first three months of the year, whilst Begbies Traynor forecast that personal insolvencies will hit 125,000 this year. Pat Boyden of PriceWaterhouseCoopers business recovery services noted, "what may be interesting is that in the 1990s recession, bankruptcies continued to increase for nearly three years after the worst of the recession had passed. If that is the case this time, we may be seeing record figures every quarter until 2012". The Chartered Institute of Personnel and Development/KPMG Quarterly Labour Market Outlook's 'net employment intentions' for the UK also hit a record low of -19. The public sector figure went negative for the first time in the recession, reflecting increasing job losses in local government. So far, London appears to be weathering the recession better than many other parts of the UK, partially due to the heavy impact that the recession has had on manufacturing. This is also highlighted by the large falls in GDP in those countries that are dependent on manufacturing such as Japan, which saw its GDP decline by a record 4 per cent quarter on quarter in Q1 2009.

Nationally, some tentative signs of optimism have emerged with the CIPS/Markit Economics Purchasing Managers Indices for manufacturing and services both improving in April compared to March. The FTSE and other global stock markets have also experienced recent large rises compared to their recent lows in March 2009 (see Figure 2) on the back of hopes that the darkest period of the recession may be behind us. However, the volatility of monthly data should make us cautious about reading the runes too closely for 'green shoots' of economic recovery.

**Figure 2: Stock market performance since January 2009**  
(percentage change)  
Last data point is 22/05/09

Source: EcoWin, FT



Prospects of an economic recovery in London and the UK will depend partially on the global economic environment and in particular the Eurozone and US economies which appear still to be mired in recession. US unemployment hit 8.9 per cent in April – a 25 year high – and Eurostat estimates that Eurozone GDP declined by 2.5 per cent in the first quarter of 2009 compared with the previous quarter. Overall, recent economic indicators are in line with GLA Economics' latest London forecast as published in London's Economic Outlook: Spring 2009 (<http://www.london.gov.uk/gla/publications/economy.jsp#leo09>).

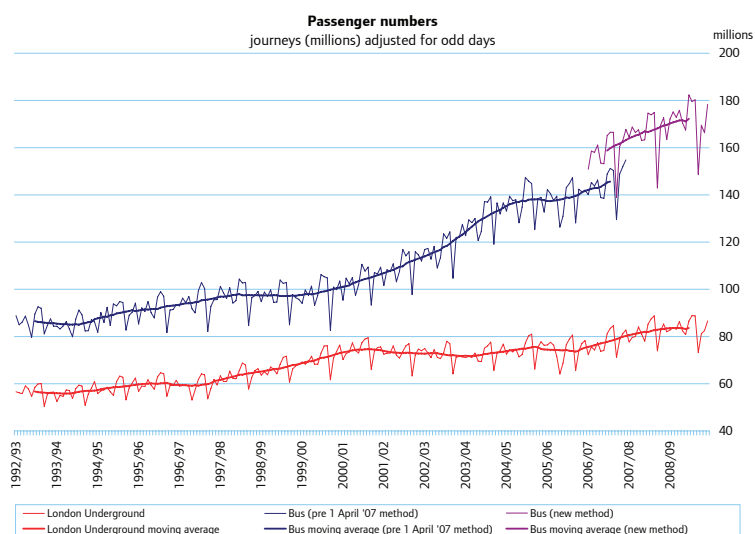
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 31-day period is from 1 March 2009 to 31 March 2009. Adjusted for odd days, London's Underground and buses had 264.9 million passenger journeys; 178.4 million by bus and 86.6 million by Underground.
- The moving average of passengers every period increased to 255.8 million from an upwardly revised 254.3 million in the previous period. The moving average for buses was 172.2 million. The moving average for the Underground was 83.6 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: May 2009

Next release: June 2009



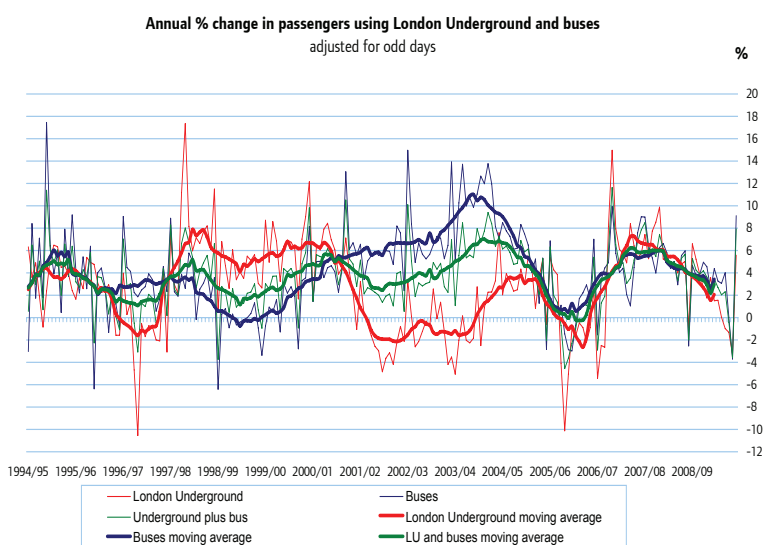
Source: Transport for London

## Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 3.0% from an upwardly revised 2.2% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 3.4% from an upwardly revised 2.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 2.1% from an upwardly revised 1.6% in the previous period.

Latest release: May 2009

Next release: June 2009



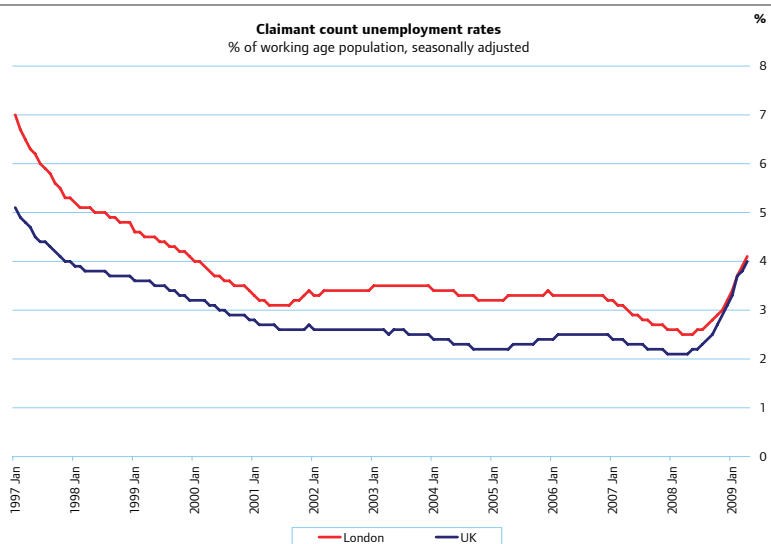
Source: Transport for London

## Claimant count unemployment

- The seasonally adjusted rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseekers' Allowance) in London was 4.1% in April 2009.
- There were 206,300 seasonally adjusted unemployment claimants in London in April 2009 compared with 197,500 in March 2009.
- The seasonally adjusted claimant count unemployment rate of London is slightly above that of the UK.

Latest release: May 2009

Next release: June 2009

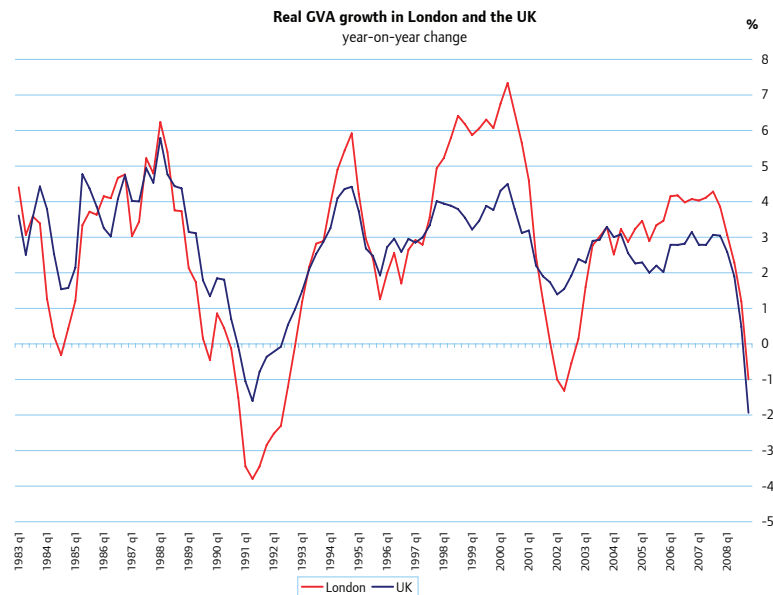


Source: Claimant Count, Nomis

## Annual output growth less negative in London than in the UK

- London's annual growth in output decreased to -1.0% in Q4 2008 from a downwardly revised 1.2% in Q3 2008.
- The UK's annual growth in output decreased to -1.9% in Q4 2008 from an upwardly revised 0.5% in Q3 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2009  
Next release: August 2009

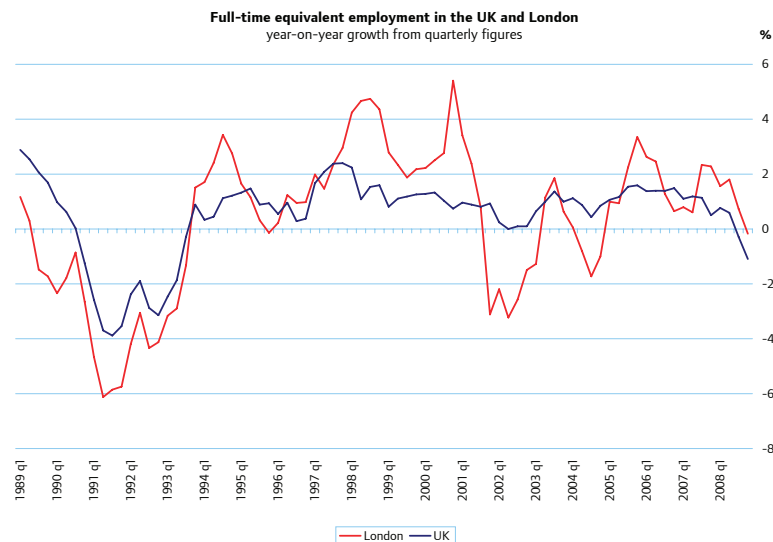


Source: Experian Business Strategies

## London's annual employment growth less negative than in the UK

- London's annual employment growth decreased to -0.2% in Q4 2008 from a downwardly revised 0.7% in Q3 2008.
- Annual employment growth in the UK decreased to -1.1% in Q4 2008 from -0.3% in Q3 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2009  
Next release: August 2009

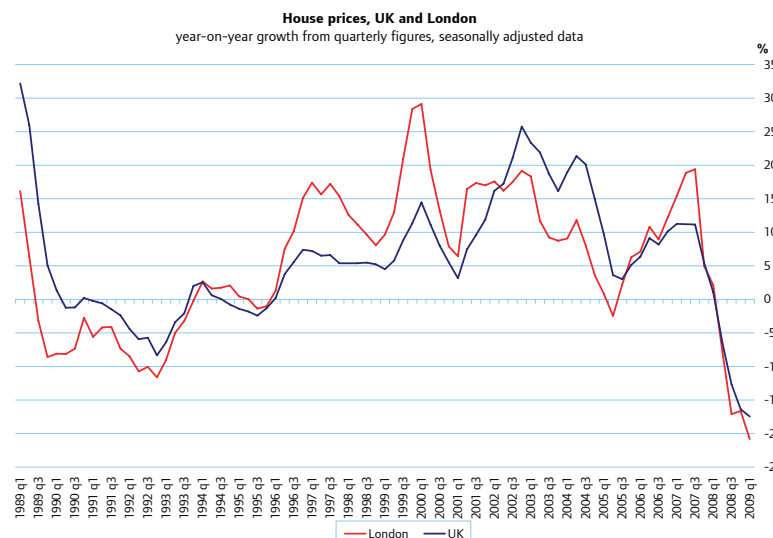


Source: Experian Business Strategies

## Falling house prices

- House prices, as measured by the Halifax house price index, fell in Q1 2009 in both London and the UK.
- Annual house price inflation in London was -20.8% in Q1 2009. Annual house price inflation in the UK was -17.5% in Q1 2009.
- Annual house price inflation in London and the UK has been negative for the last four quarters.

Latest release: April 2009  
Next release: July 2009



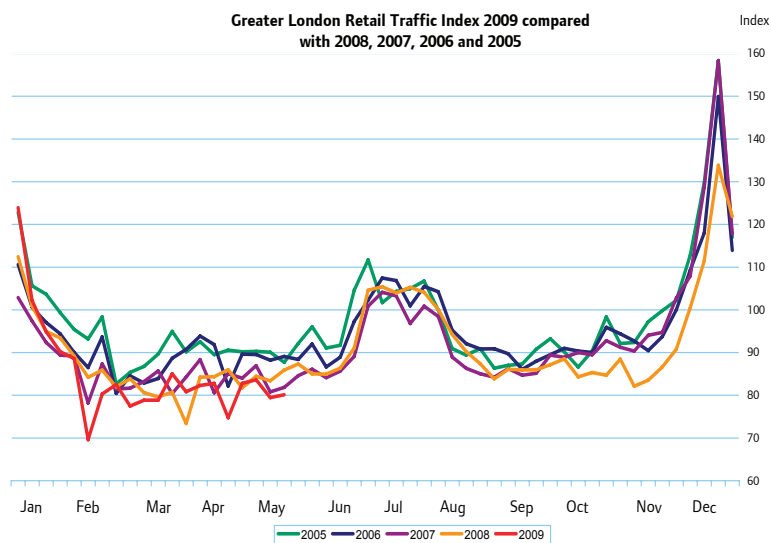
Source: Halifax house price index

## Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 80.1 in the second week of May compared to 79.5 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-May 2009

Next release: Weekly



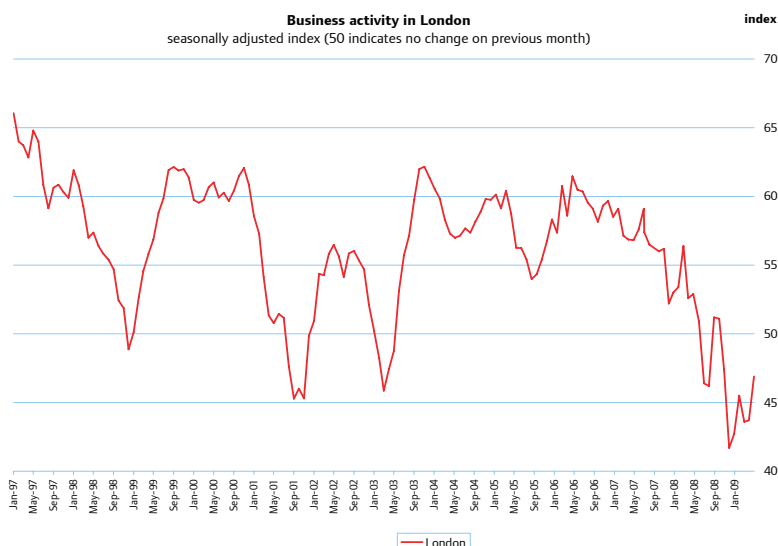
Source: Synovate

## London's business activity decreasing less rapidly

- London firms decreased their output of goods and services in April 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 46.9 in April compared to 43.7 in March.
- A rate of below 50 on the index indicates a decrease in business activity from the previous month.

Latest release: May 2009

Next release: June 2009



Source: RBS/Markit Economics

## London employment remains weak

- The PMI shows that the level of employment in London firms decreased in April 2009.
- The PMI for the level of employment was 40.4 in April compared to 40.0 in March.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: May 2009

Next release: June 2009



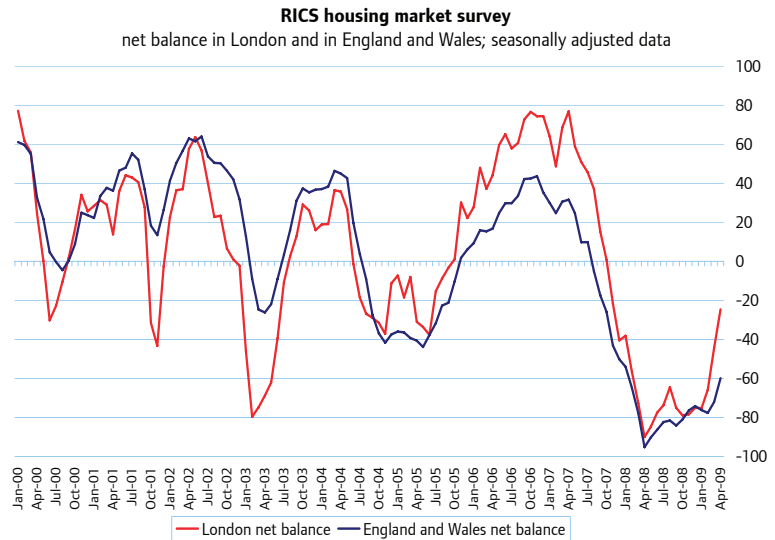
Source: RBS/Markit Economics



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

- The RICS survey shows a negative net balance of -25 for London house prices over the past three months to April 2009. This net balance is up from -44 in March 2009.
- Surveyors reported a negative net house price balance for England and Wales of -60 over the past three months to April 2009, up from -72 in March 2009.
- London's net house price balance is above that of England and Wales.

Latest release: May 2009  
Next release: June 2009

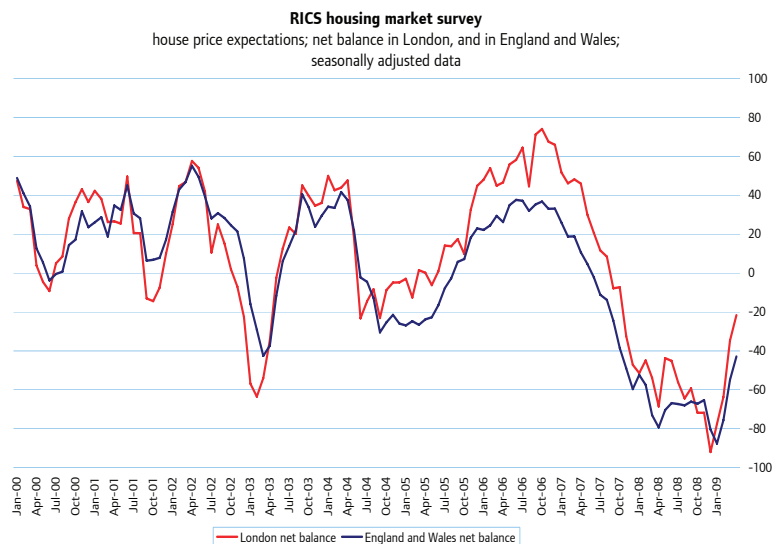


Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to continue falling

- The RICS survey shows that surveyors expect house prices to continue to decrease over the next three months in London and in England and Wales.
- The net house price expectations balance in London was -22 in April 2009, up from -35 in March.
- For England and Wales, the net house price expectations balance was -43 in April 2009, up from -55 in March.

Latest release: May 2009  
Next release: June 2009

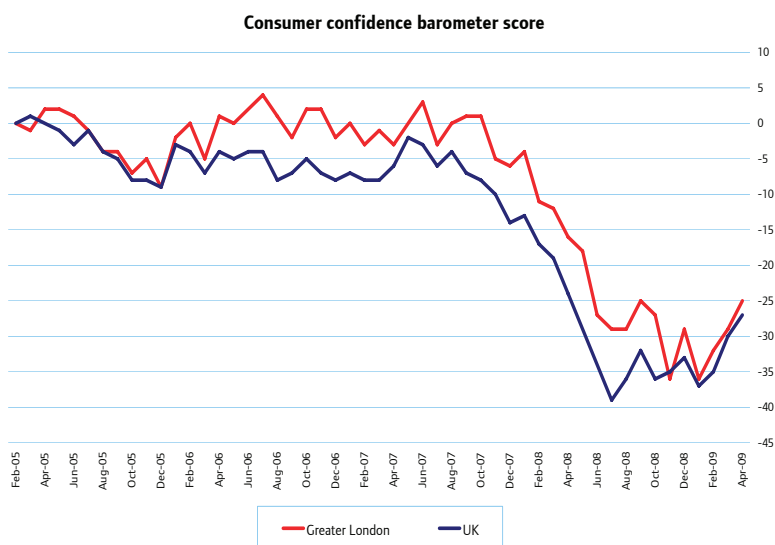


Source: Royal Institution of Chartered Surveyors

## Consumer confidence less 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 over the next 12 months.
- For Greater London the consumer confidence score increased to -25 in April from -29 in March.
- For the UK the consumer confidence score increased to -27 in April from -30 in March.

Latest release: April 2009  
Next release: May 2009



Source: GfK NOP on behalf of the European Commission



## Data sources

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

## 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

<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 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](mailto:glaeconomics@london.gov.uk)

**Internet** [www.london.gov.uk](http://www.london.gov.uk)

© Greater London Authority

May 2009

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

*London's Economy Today* is published by email and on [www.london.gov.uk](http://www.london.gov.uk) towards the end of every month. It provides an overview of the current state of the London economy, and a changing selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group and central government.

### Subscribe

Subscribe online at [http://www.london.gov.uk/mayor/economic\\_unit](http://www.london.gov.uk/mayor/economic_unit)

### Disclaimer

GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London, the London Development Agency and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

### Other formats

For a summary of this document in your language, or a large print, Braille, disc, sign language video or audio tape version, please contact us at the address below:

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

Tel **020 7983 4100**  
Minicom **020 7983 4458**  
**[www.london.gov.uk](http://www.london.gov.uk)**

Please provide your name, postal address and state the publication and format you require.

### 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.

### GLA Economics is funded by



**MAYOR OF LONDON**