

# London's Economy Today

Issue 83 | July 2009

## In this issue

|                                     |   |
|-------------------------------------|---|
| UK economy stuck in recession ..... | 1 |
| Latest news .....                   | 1 |
| Economic indicators .....           | 4 |

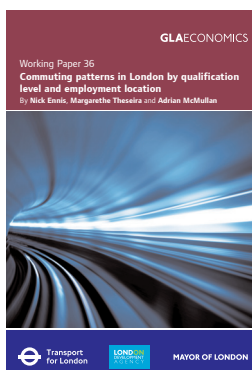
## UK economy stuck in recession

by **Gordon Douglass**, Economist

**The UK economy contracted for the fifth consecutive quarter by a provisional 0.8 per cent in the second quarter of 2009 (see Figure 1), after falling by a downwardly revised 2.4 per cent in the first quarter. The pace of contraction has thus eased since the first quarter, although the fall was worse than expected by most analysts and the economy still remains mired in a deep recession. The annual rate of decline now stands at 5.6 per cent, the biggest fall since records began in 1955.**

Output declined in all major sectors of the UK economy in the second quarter. Particularly steep declines were seen in construction which decreased by 2.2 per cent, electricity, gas and water supply which fell by 3.8 per cent and transport, storage and communication which fell by 2.1 per cent. Business services and finance, an area in which London specialises, decreased by 0.7 per cent, compared to a fall of 2.5 per cent in the first quarter.

## Latest news...



### ● Working Paper 36: Commuting patterns in London by qualification level and employment location

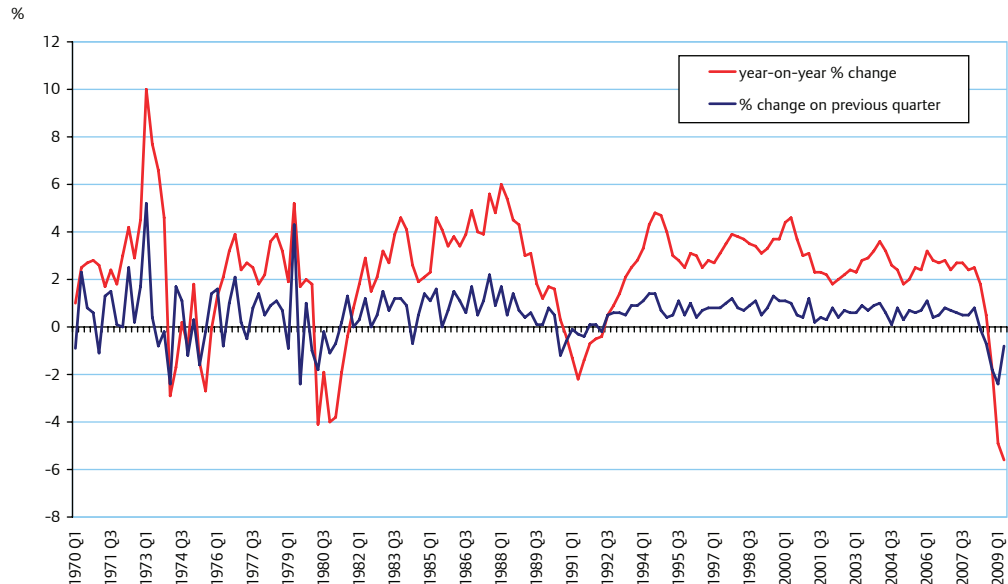
Our research on travel-to-work patterns in London suggests that:

- Employees in London with no qualifications travel shorter distances to work than people with high qualifications;
- Central London sources many of its low-qualified employees from the east where there are fewer employment centres;
- Only the Thames Valley competes significantly with Central London for employees with high qualifications, so a relatively smaller share of residents there commute to Central London.

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

**Figure 1: UK GDP Growth**

Source: Office for National Statistics



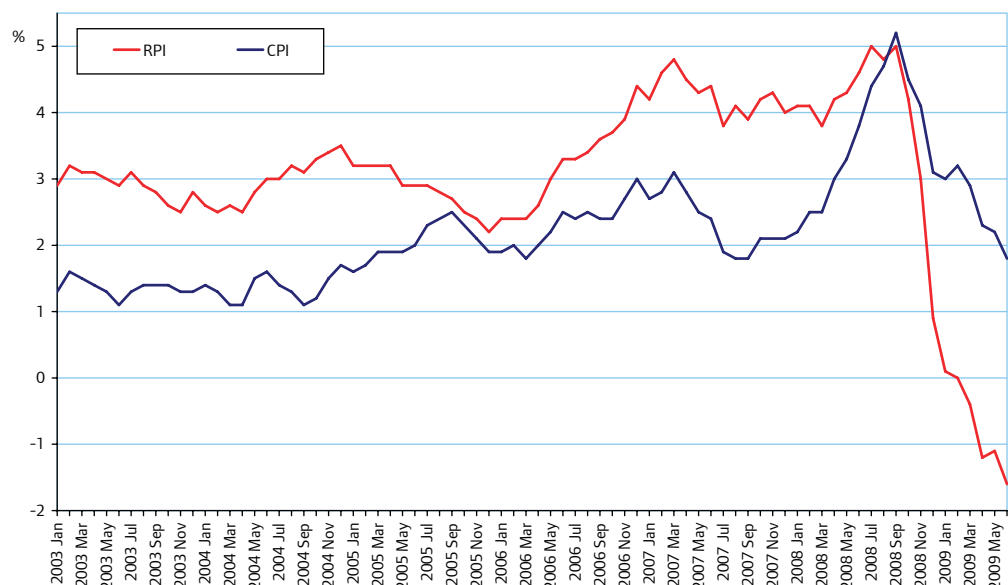
## UK CPI inflation drops below the government's target

UK Consumer Price Index (CPI) inflation fell to 1.8 per cent in June (see Figure 2), down from 2.2 per cent in May and below the Bank of England's 2 per cent symmetrical target. The last time CPI inflation was this low was in September 2007. The Office for National Statistics noted that lower prices for meat, milk and fruit in June were a significant cause for the fall in inflation. Meanwhile Retail Price Index (RPI) inflation continued to fall hitting -1.6 per cent in June, down from -1.1 per cent in May. It is expected that inflation will continue to head lower for some further time yet as demand remains weak in the economy. Inflation is also falling in other countries as the recession bites. Consumer price inflation fell to -0.1 per cent in the Eurozone in June; the first time annual inflation in the Eurozone has fallen below zero since comparable records began in 1991.

**Figure 2: UK annual inflation rates**

Last data point is June 2009

Source: Office for National Statistics



## **Credit conditions remain tight despite slight moderation in risks to the global financial system**

Credit availability in the UK remains tight especially for unsecured lending. The Bank of England's 2009 Q2 Credit Conditions Survey found that default rates on lending to households and to private non-financial corporations had risen. Lenders expect further increases in both default rates and losses given default to occur. Meanwhile the IMF's Global Financial Stability Market Update published in July observed that "the risks to the global financial system have moderated from the extreme levels identified in April 2009". The report also noted that "overall financial conditions remain tight". However, "the risk of a widespread banking crisis has eased", "but bank capitalization still remains a concern as further writedowns on loans are expected". Corporate bond markets were also found to be "functioning more normally".

## **Weaker pound makes London a more attractive choice for international businesses**

Mercer has released their Worldwide Cost of Living survey for 2009, a comprehensive survey that is "used to help multinational companies and governments determine compensation allowances for their expatriate employees". The survey found that London had dropped from the 3rd most expensive city last year to 16th due to the depreciation of the pound. On 24 June Vodafone announced that they would move their world headquarters from Berkshire to London in order to be closer to the company's business partners and stakeholders.

## **Economic recovery set to be slow and uneven**

The most recent Economic Outlook from the OECD forecasts that the UK economy will contract by 4.3 per cent in 2009 and will not grow in 2010, whereas the IMF's World Economic Outlook update released on 8 July expects a contraction in the UK economy of 4.2 per cent in 2009 and an expansion of just 0.2 per cent in 2010. So although there appears to be evidence of a moderation in the strength of the economic downturn talk of sustained recovery is premature. This is supported by a survey of 100 UK companies with annual revenues of more than £250m undertaken by Roland Berger, the restructuring consultants, which found that more than half of UK businesses do not expect to see an improvement in their prospects in the next 12 months. Just over 20 per cent of respondents were on course for a cash crisis this year and 17 per cent said that they were at risk of insolvency due to a lack of liquidity from banks and late payments by customers.

Meanwhile unemployment continues to rise with UK ILO unemployment increasing by a record 281,000 in the three months to May to stand at 2.38 million. The US economy also remains weak with the number of job losses rising by a much larger than expected 467,000 in June. The US unemployment rate now stands at 9.5 per cent the highest level since August 1983. Thus although global stock markets continue to enjoy something of a rally it would still appear that the developed world and UK economies are in very weak positions. This will hamper any recovery of London's economy during the remainder of 2009. Hence output in London's economy in 2009 is likely to be slightly lower than that forecast in GLA Economics' London's Economic Outlook: Spring 2009.

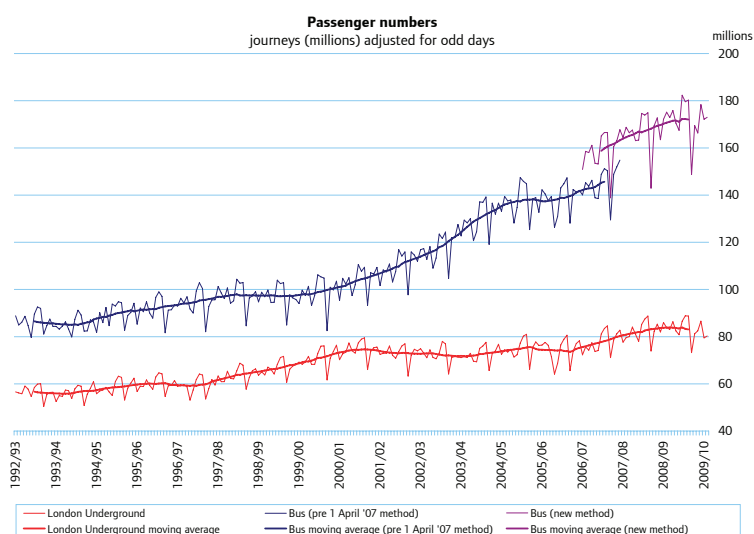
# Economic indicators

## Decrease in moving average of passenger numbers

- The most recent 28-day period is from 3 May 2009 to 30 May 2009. London's Underground and buses had 253.2 million passenger journeys; 173.0 million by bus and 80.3 million by Underground.
- The moving average of passengers every period decreased to 255.1 million from 255.6 million in the previous period. The moving average for buses was 172.1 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 issue 58 (June 2007).

Latest release: July 2009

Next release: August 2009

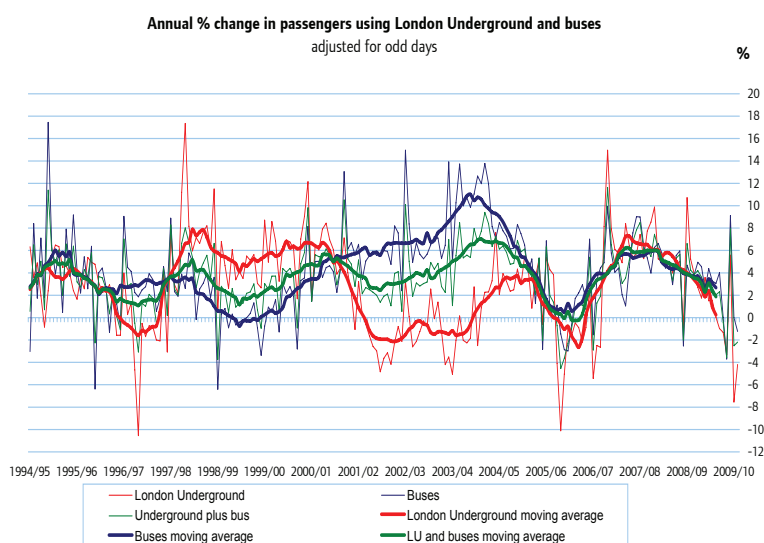


## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.9% from 2.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 2.7% from 3.1% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 0.2% from 1.0% in the previous period.

Latest release: July 2009

Next release: August 2009

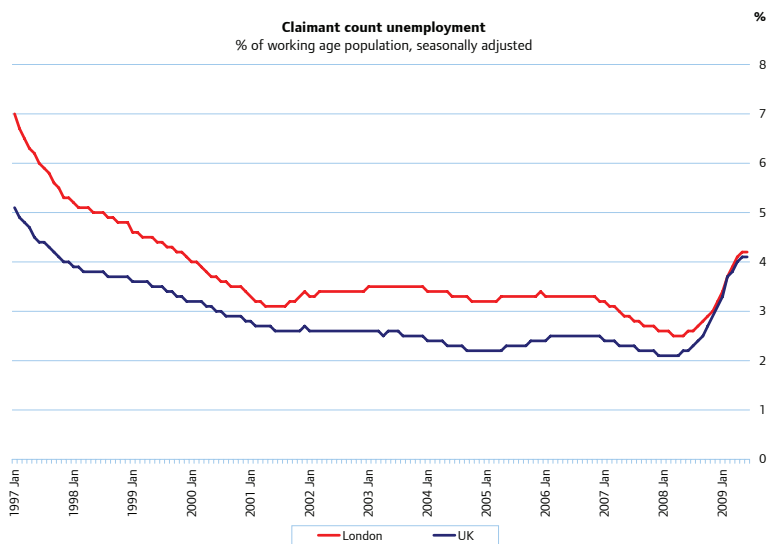


## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in June 2009.
- There were 213,600 seasonally adjusted unemployment claimants in London in June 2009 compared with 210,200 in May.
- There were 1,560,100 seasonally adjusted unemployment claimants in the UK in June 2009 compared with 1,536,300 in May.

Latest release: July 2009

Next release: August 2009

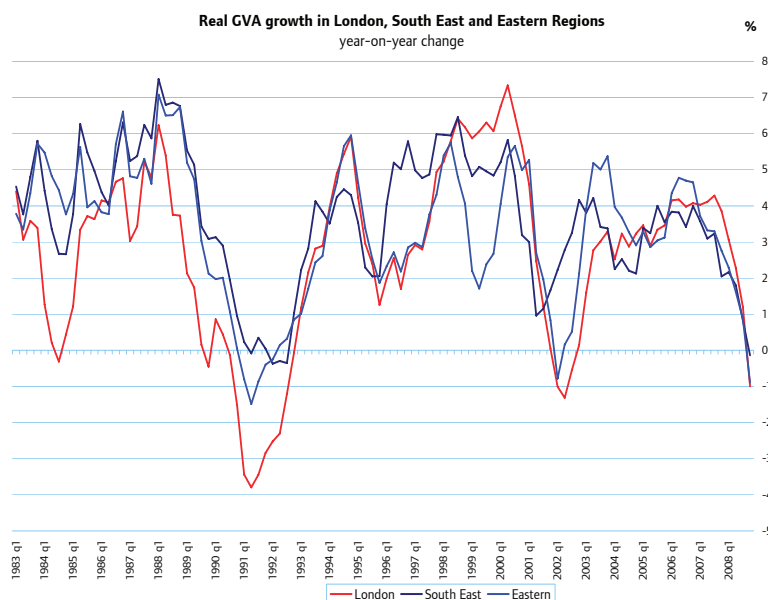


## Annual output growth negative in London, the South East and the Eastern region

- London's annual growth in output decreased to -1.0% in Q4 2008 from a downwardly revised 1.2% in Q3 2008.
- Annual output growth in the South East decreased to -0.1% in Q4 2008 from an upwardly revised 0.8% in Q3 2008.
- Annual output growth in the Eastern region decreased to -0.9% in Q4 2008 from an upwardly revised 0.9% in Q3 2008.

Latest release: May 2009

Next release: August 2009

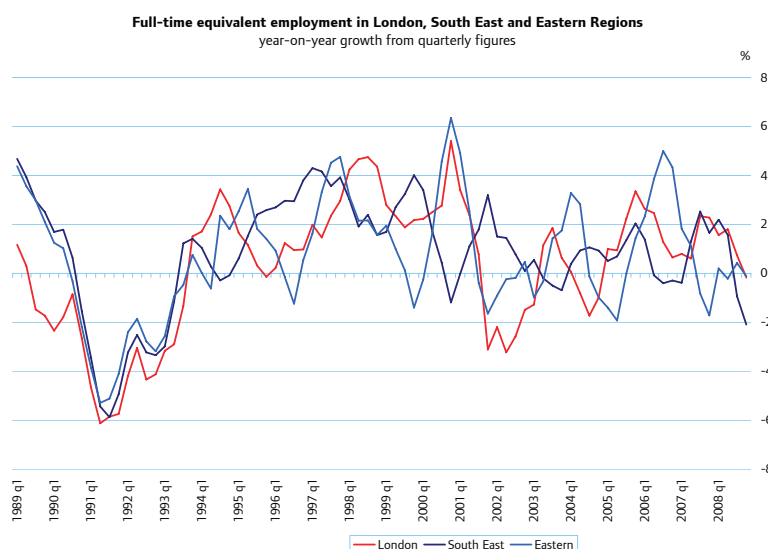


## Annual employment growth negative in London, the South East and the Eastern region

- 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 South East decreased to -2.1% in Q4 2008 from -0.9% in Q3 2008.
- Annual employment growth in the Eastern region decreased to -0.1% in Q4 2008 from a downwardly revised 0.4% in Q3 2008.

Latest release: May 2009

Next release: August 2009

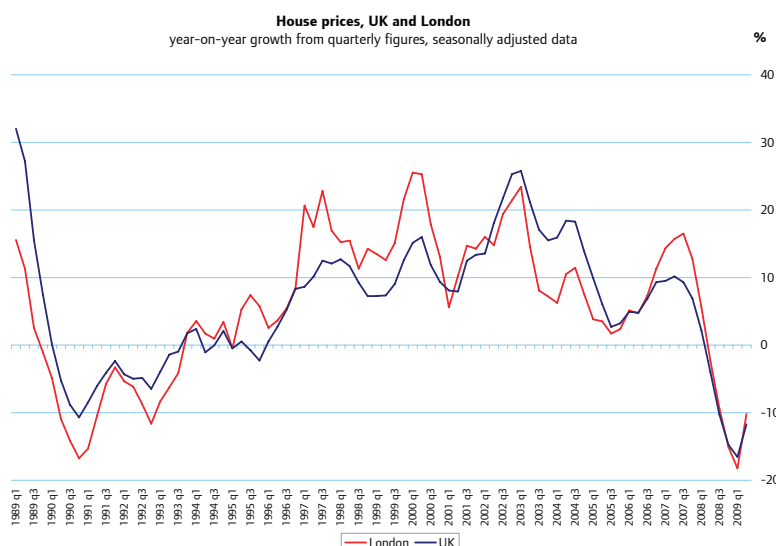


## Annual house price deflation slows

- House prices, as measured by the Nationwide, were lower in Q2 2009 than in Q2 2008 in both London and the UK.
- Annual house price inflation in London was -10.2% in Q2 2009, up from -18.2% in Q1 2009.
- Annual house price inflation in the UK was -11.7% in Q2 2009, up from -16.5% in Q1 2009.

Latest release: July 2009

Next release: October 2009

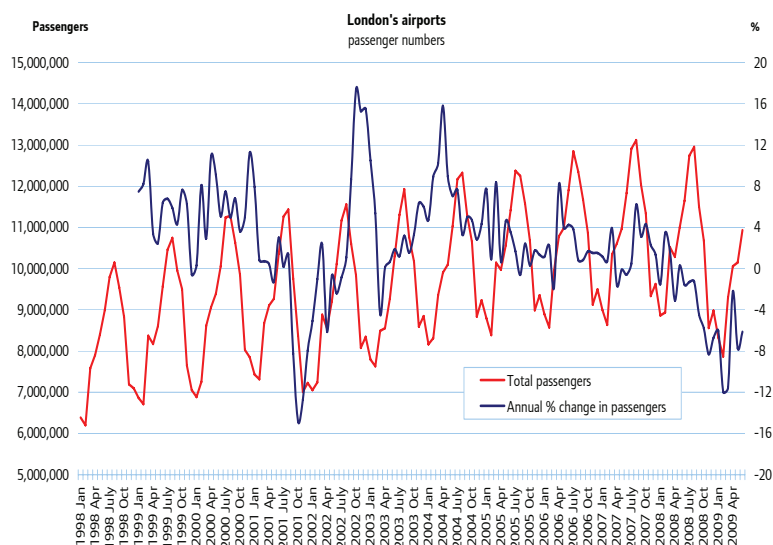


## Weak airport passenger numbers

- 10.9 million passengers travelled through London's airports in June 2009.
- The number of passengers using London's airports decreased by 6.1 per cent from June 2008 to June 2009.
- The number of passengers using London's airports has fallen year-on-year every month since May 2008.

Latest release: July 2009

Next release: August 2009



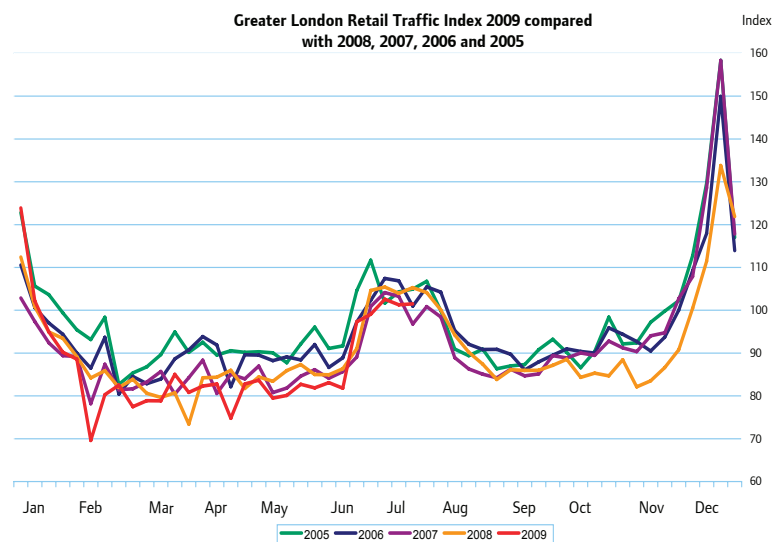
Source: Civil Aviation Authority

## Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 101.5 in the second full week of July compared to 101.3 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-July 2009

Next release: Weekly



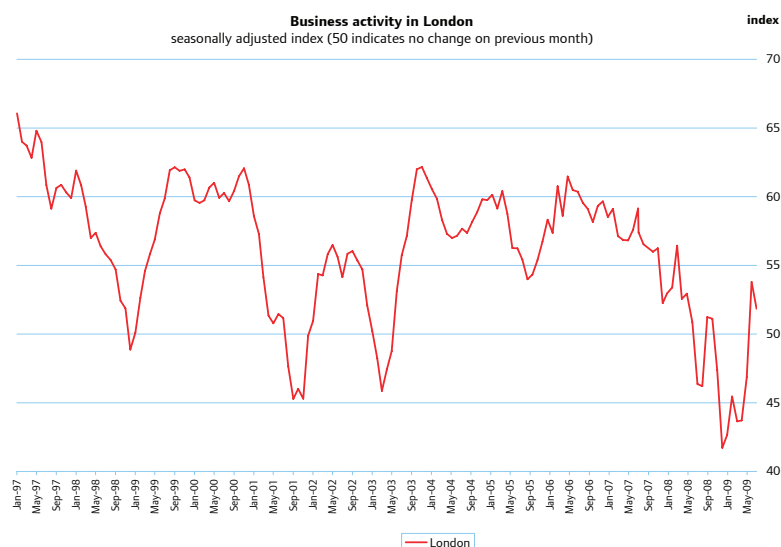
Source: Synovate

## London's business activity increases

- London firms increased their output of goods and services in June 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 51.8 in June compared to 53.8 in May.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: July 2009

Next release: August 2009



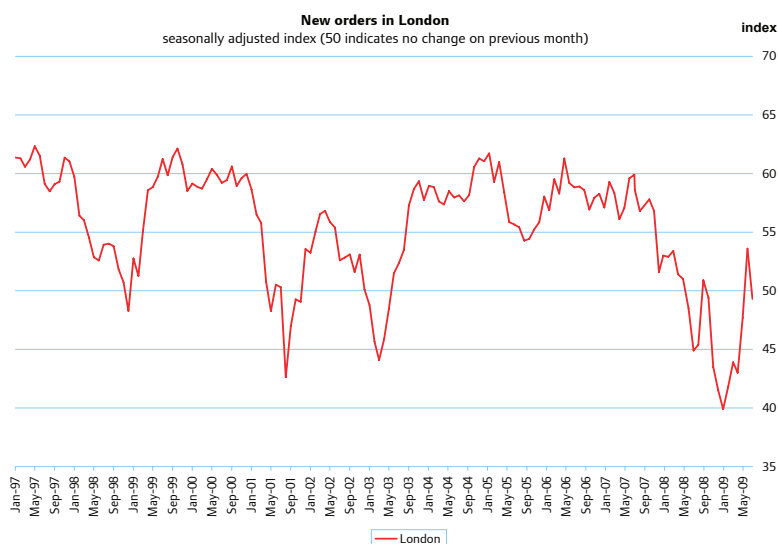
Source: Markit Economics

## New orders in London fall

- June 2009 saw a fall in new orders for London firms.
- The PMI for new orders recorded 49.3 in June compared to 53.6 in May.
- A rate of below 50 on the index indicates a decrease in new orders from the previous month.

Latest release: July 2009

Next release: August 2009



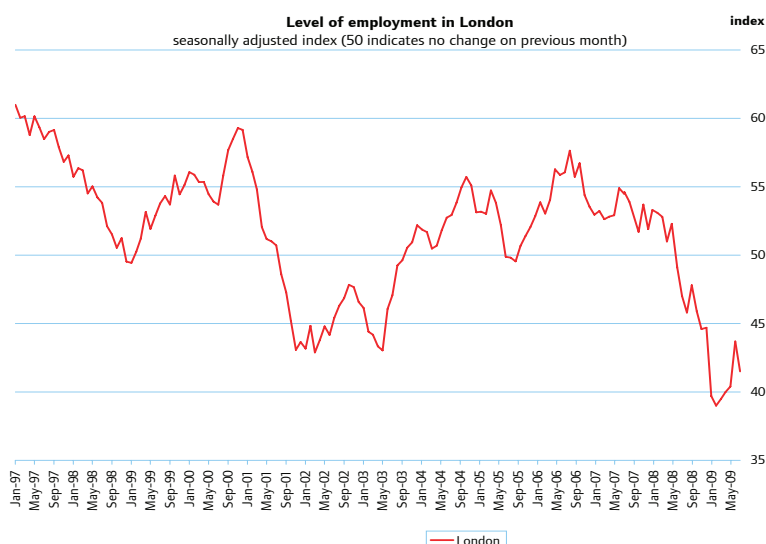
Source: Markit Economics

## London employment remains weak

- The PMI shows that the level of employment in London firms decreased in June 2009.
- The PMI for the level of employment was 41.5 in June compared to 43.7 in May.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: July 2009

Next release: August 2009



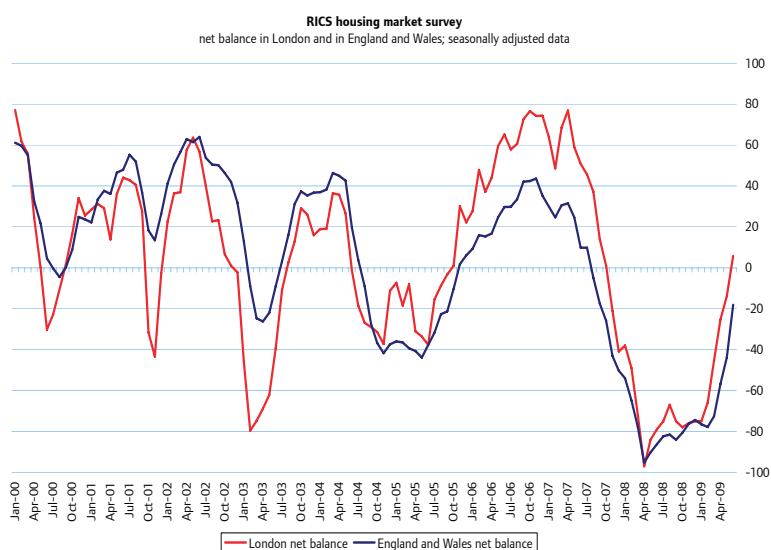
Source: Markit Economics

## Surveyors report that house prices are just rising in London but are still falling in England and Wales

- The RICS survey shows a positive net balance of 6 for London house prices over the past three months to June 2009. This net balance is up from -14 in May 2009.
- Surveyors reported a negative net house price balance for England and Wales of -18 over the past three months to June 2009, up from -44 in May 2009.
- London's net house price balance is above that of England and Wales.

Latest release: July 2009

Next release: August 2009



Source: Royal Institution of Chartered Surveyors



## Data sources

|                                    |   |
|------------------------------------|---|
| <b>Tube and bus ridership</b>      | Transport for London on 020 7222 5600<br>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.

### 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 2009/10 there are eleven 28-day periods, one 25-day period and one 32-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 2009/10 there are eleven 28-day periods, one 25-day period and one 32-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  
July 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**