

# London's Economy Today

Issue 84 | August 2009

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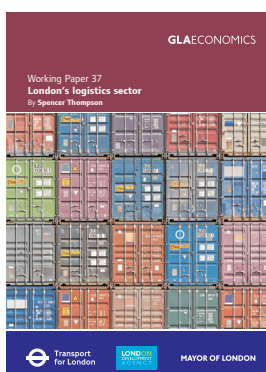
## Germany, France and Japan exit recession

By **Christopher Lewis**, Senior Economist, and **Simon Kyte**, Economist

**Second quarter GDP estimates for the Eurozone were a positive surprise. In particular, many analysts had expected both Germany and France to post small contractions in output. In fact, both economies returned to growth (see Figure 1). The Eurozone as a whole contracted by a smaller than expected 0.1 per cent in the second quarter. Nevertheless, the Eurozone has still contracted by 4.6 per cent when compared with the same quarter in 2008.**

Meanwhile Japan's second quarter GDP also showed that it had pulled out of recession, rising by 0.9 per cent in the quarter after four consecutive quarters of contraction. Output benefited from the very large government stimulus measures including cash handouts and subsidies to buy energy efficient home appliances. The Bank of Japan remains cautious as unemployment is likely to rise further and consumer spending to remain weak.

## Latest news...



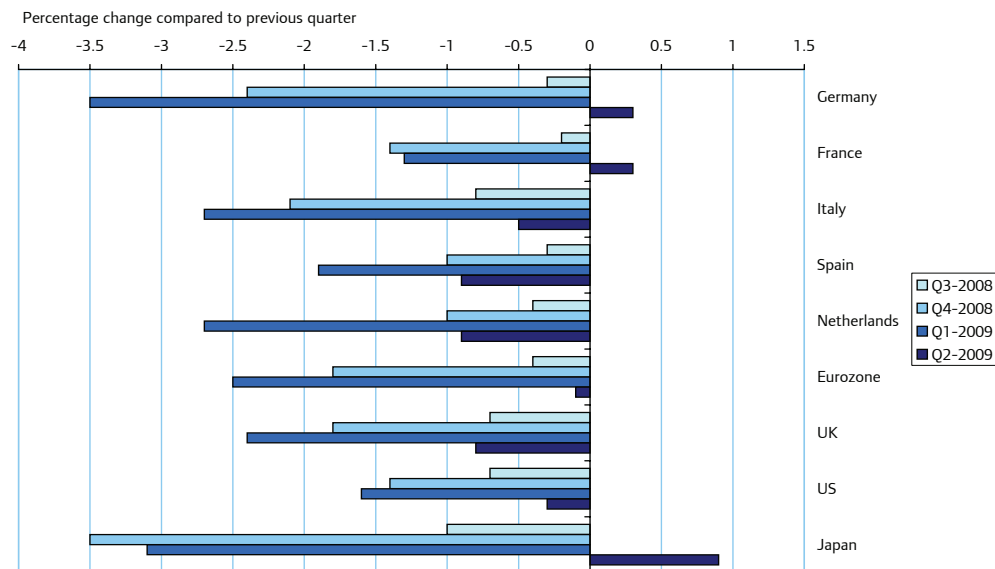
### ● Working Paper 37: London's logistics sector

This report provides a descriptive overview of the logistics sector and its importance to the London economy. It explores how the sector operates in London compared with the rest of the UK, the geographic extent of logistics jobs across London, the nature of logistics businesses (size, occupations, qualifications, skill requirements, labour market) as well as specifically covering the sectors contribution to GVA and employment in London.

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

**Figure 1: Quarterly growth of GDP in selected countries**

Source: Eurostat, Statistics Bureau of Japan



## A risk to recovery from rising oil prices

One risk to world economic recovery comes from recent rises in oil prices. In August Brent Crude oil price surpassed \$74 a barrel – its highest level in 2009 to date (see Figure 2). The spike in energy prices during the end of 2007 and the first half of 2008 was a major factor in initiating the global recession. Lower energy prices at the end of 2008 and beginning of 2009 have provided a degree of stimulus to the economy, along with looser monetary policy and expansive fiscal policy. If oil prices were to increase sharply in the autumn central bankers would face the difficult choice between allowing headline inflation to rise or tightening monetary policy whilst economies are still fragile.

**Figure 2: Brent crude oil price (US \$ per barrel)**

Last data point is 25/08/09

Source: FT



## Stock markets have rallied since the spring

Hopes that the worst of the global recession might be over sent the FTSE 100 above the 4,900 mark in August – the highest it has been since autumn 2008 (see Figure 3). The FTSE 100 has rallied by over 35 per cent since its recent low point in March. Asset prices in the UK (including shares) have been supported by the Bank of England's policy of quantitative easing.

**Figure 3: FTSE 100 Index**  
Last data point is  
25/08/09

Source: FT, Ecowin



### Bank of England extends quantitative easing

On 6 August the Bank of England extended its quantitative easing programme from £125bn to £175bn. At £175bn, quantitative easing will represent about 12 per cent of GDP. By leaving the taps running, the Bank risks the stoking-up of long-term inflation but lessens the probability of a prolonged period of below target inflation. The move surprised markets, which had expected the programme to be frozen after more positive recent economic news. The Bank warned that, although the recession might soon come to an end, recovery might be slower and take longer than most people currently expect. The Bank was worried that, without additional stimulus, any recovery might be throttled by a shortage of lending to both businesses and individuals. In fact, the minutes of the meeting revealed that the Governor (as well as Tim Besley and David Miles) would have preferred an even larger increase in the size of the quantitative easing programme, taking it to £200bn.

The fact that three members of the Committee wanted even more quantitative easing reflects the Committee's overall view that the risks to both inflation and economic growth over the medium term are still to the downside. Levels of lending remain a significant concern. Second quarter official statistics showed that total net lending by all UK resident banks and building societies had fallen across all the main sectors of the economy. Major UK lenders have reported that capital markets issuance has improved but availability of finance to smaller businesses - without capital market access - remains subdued.

### Economic recovery likely to be fragile

So far London has performed better than the UK as a whole through the recession. However, there has been a substantial increase in unemployment and this is expected to continue to rise. The fact that the recession has so far been less severe in London than the UK does not necessarily imply that London will perform better than the rest of the UK when recovery occurs. Whilst business activity appears to have experienced a marked improvement recently from very low levels, consumer confidence remains depressed. The recovery is expected to be both slow and fragile and could yet stall with lending conditions remaining weak. A further break on a robust medium term recovery will be the fiscal retrenchment required to bring the UK's public finances back to a sustainable long term position. July's dramatically worse than expected public sector net borrowing requirement once again highlighted that austerity will be needed over many years.

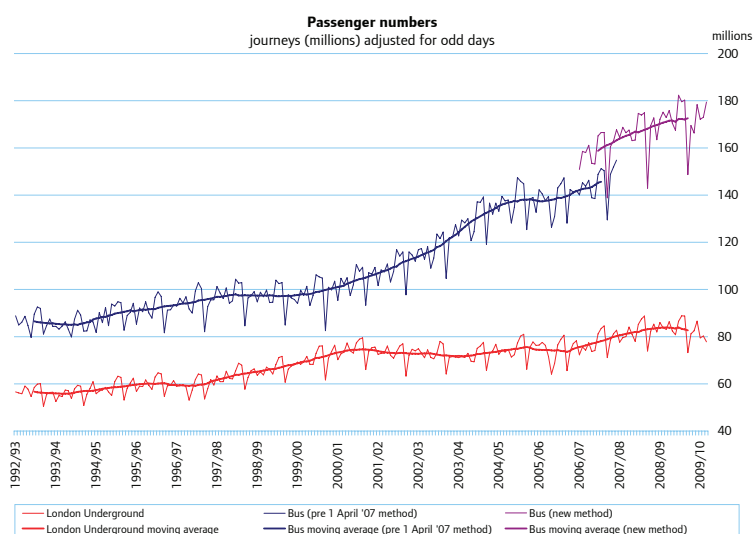
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28-day period is from 31 May 2009 to 27 June 2009. London's Underground and buses had 257.2 million passenger journeys; 179.4 million by bus and 77.8 million by Underground.
- The moving average of passengers every period increased to 255.2 million from 255.1 million in the previous period. The moving average for buses was 172.6 million. The moving average for the Underground was 82.7 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: August 2009

Next release: September 2009

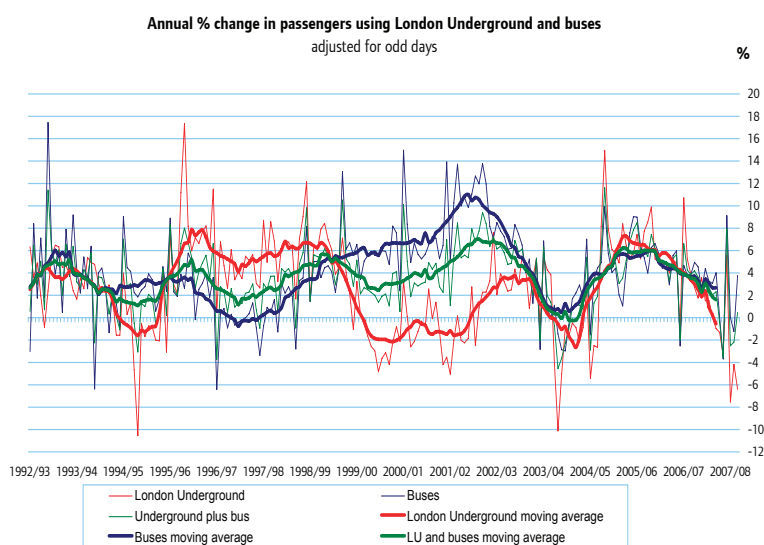


## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.6% from 1.9% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers remained at 2.7%.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -0.5% from 0.2% in the previous period.

Latest release: August 2009

Next release: September 2009

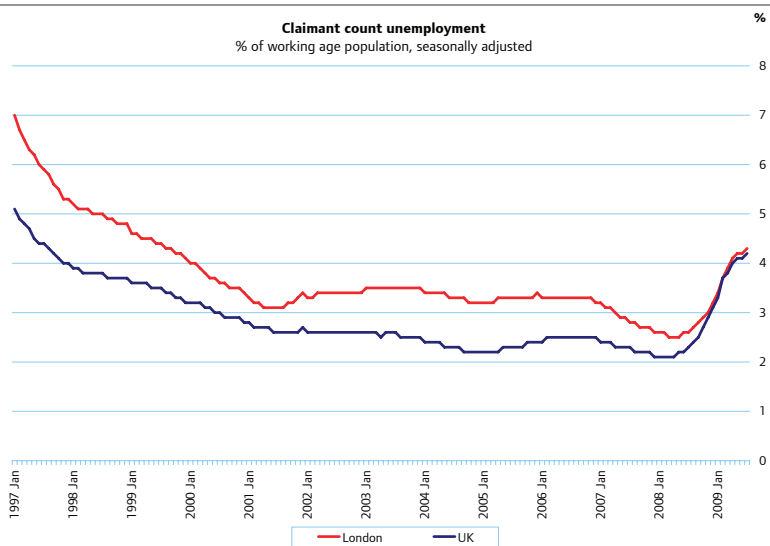


## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.3% in July 2009.
- There were 218,800 seasonally adjusted unemployment claimants in London in July 2009 compared with 213,900 in June.
- There were 1,582,700 seasonally adjusted unemployment claimants in the UK in July 2009 compared with 1,557,800 in June.

Latest release: August 2009

Next release: September 2009

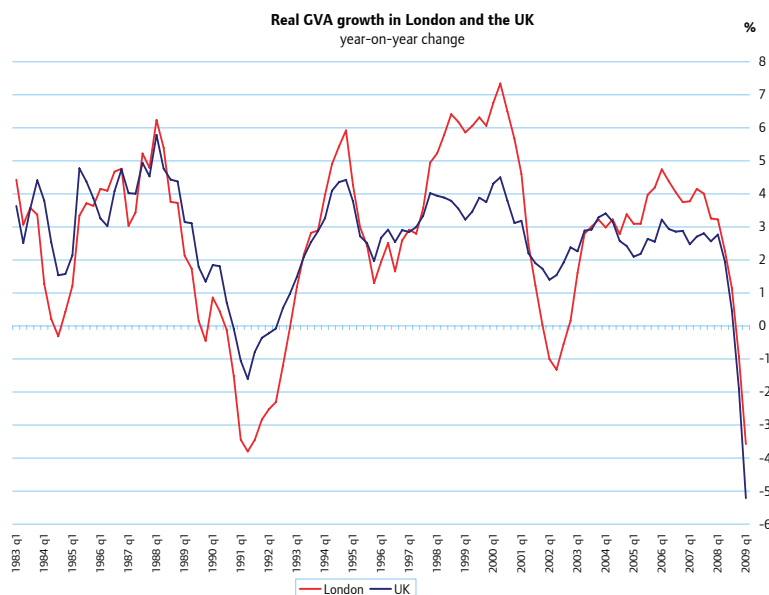


## Annual output growth less negative in London than in the UK

- London's annual growth in output decreased to -3.6% in Q1 2009 from an upwardly revised -0.9% in Q4 2008.
- The UK's annual growth in output decreased to -5.2% in Q1 2009 from -1.9% in Q4 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2009

Next release: November 2009



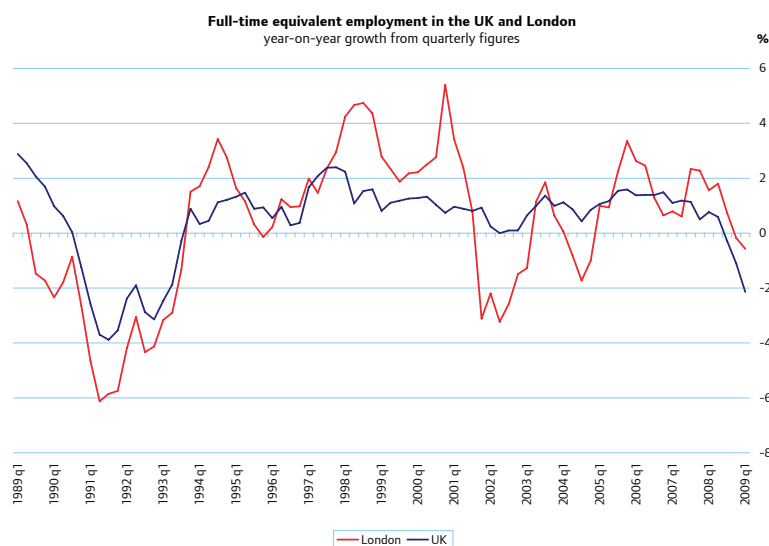
Source: Experian Business Strategies

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

- London's annual employment growth decreased to -0.6% in Q1 2009 from -0.2% in Q4 2008.
- Annual employment growth in the UK decreased to -2.1% in Q1 2009 from -1.1% in Q4 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2009

Next release: November 2009



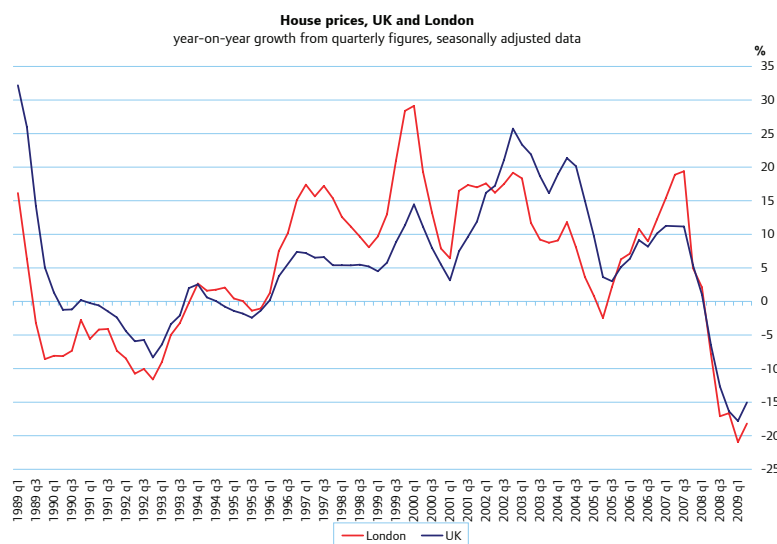
Source: Experian Business Strategies

## Annual house price deflation slows

- House prices, as measured by the Halifax house price index, fell in Q2 2009 in both London and the UK.
- Annual house price inflation in London was -18.2% in Q2 2009. Annual house price inflation in the UK was -15.0% in Q2 2009.
- Annual house price inflation in London and the UK has been negative for the last five quarters.

Latest release: July 2009

Next release: October 2009



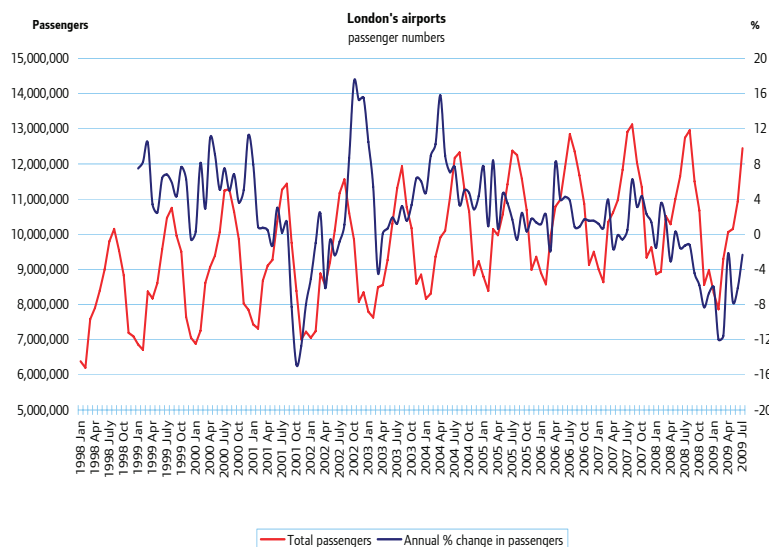
Source: Halifax house price index

## Weak airport passenger numbers

- 12.4 million passengers travelled through London's airports in July 2009.
- The number of passengers using London's airports decreased by 2.3 per cent from July 2008 to July 2009.
- The number of passengers using London's airports has fallen year-on-year every month for the whole of 2009 so far.

Latest release: August 2009

Next release: September 2009



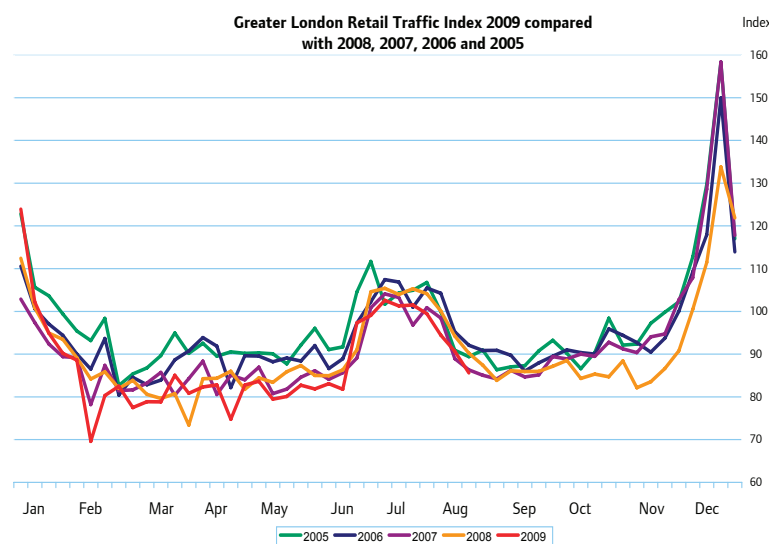
Source: Civil Aviation Authority

## Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 85.6 in the second full week of August compared to 90.7 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-August 2009

Next release: Weekly



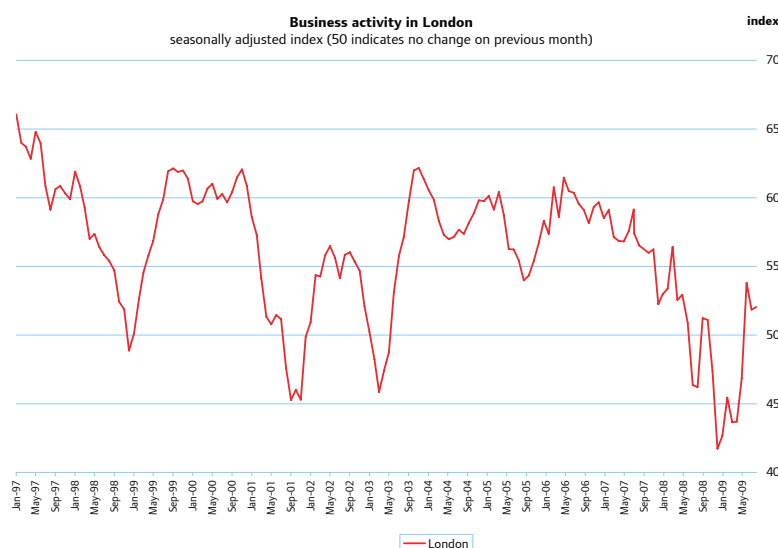
Source: Synovate

## London's business activity increases

- London firms increased their output of goods and services in July 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 52.1 in July compared to 51.8 in June.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: August 2009

Next release: September 2009



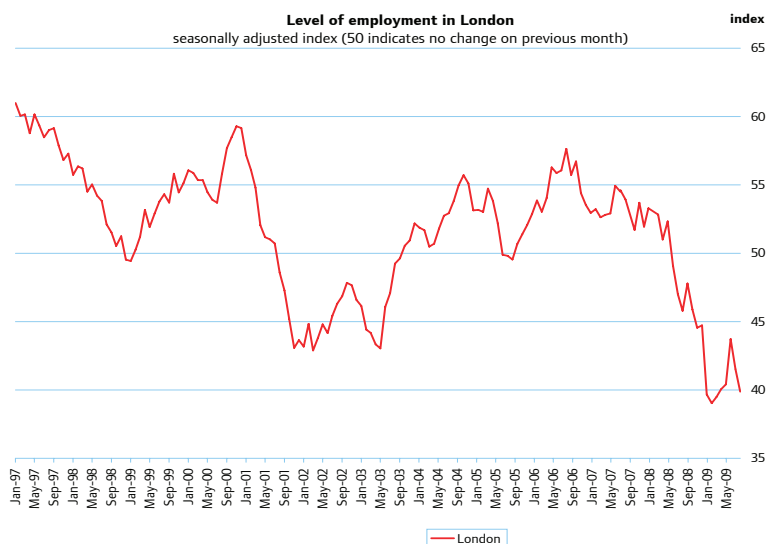
Source: Markit Economics

## London employment falling

- The PMI shows that the level of employment in London firms decreased in July 2009.
- The PMI for the level of employment was 39.9 in July compared to 41.5 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 2009

Next release: September 2009



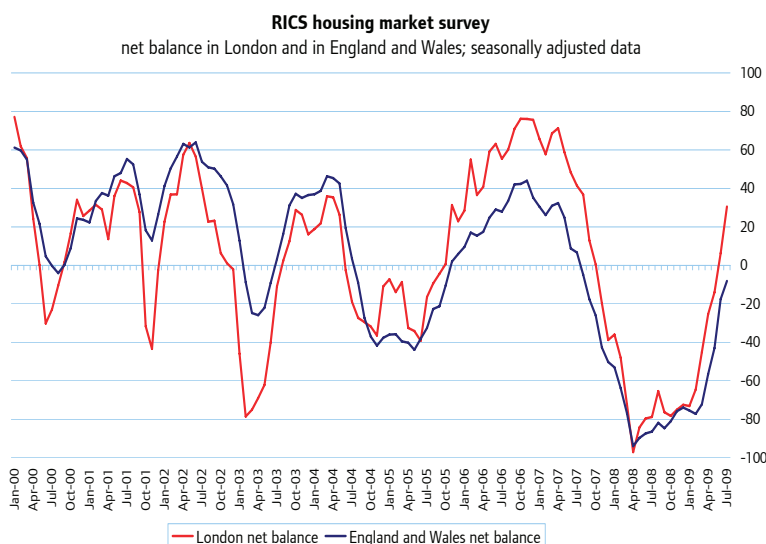
Source: Markit Economics

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

- The RICS survey shows a positive net balance of 31 for London house prices over the past three months to July 2009. This net balance is up from 6 in June 2009.
- Surveyors reported a negative net house price balance for England and Wales of -8 over the past three months to July 2009, up from -18 in June 2009.
- London's net house price balance is above that of England and Wales.

Latest release: August 2009

Next release: September 2009



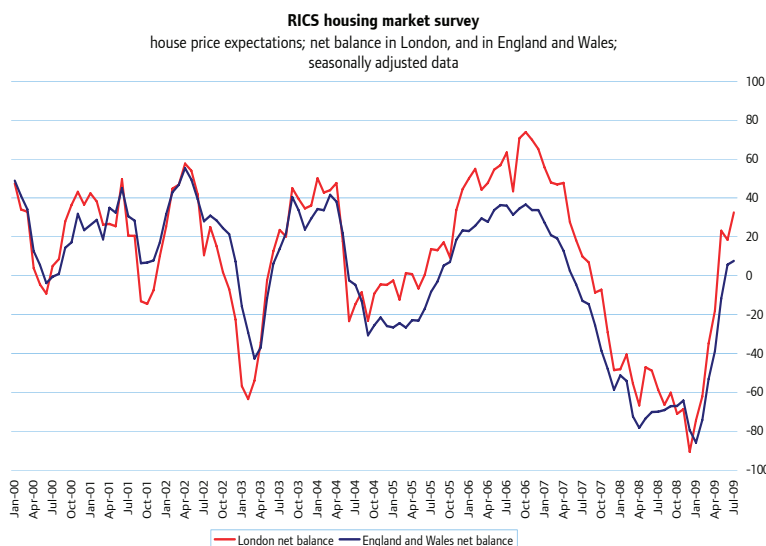
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to increase

- The RICS survey shows that surveyors expect house prices to increase over the next three months in London and in England and Wales.
- The net house price expectations balance in London was 33 in July 2009, up from 18 in June.
- For England and Wales, the net house price expectations balance was 8 in July 2009, up from 6 in June.

Latest release: August 2009

Next release: September 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](mailto:enquire@tfl.gov.uk)

### 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)

### 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.

### 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 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>BAA</b>	British Airports Authority
<b>BCC</b>	British Chamber of Commerce
<b>BITOA</b>	British Incoming Tour Operators Association
<b>CAA</b>	Civil Aviation Authority
<b>CBI</b>	Confederation of British Industry
<b>DCLG</b>	Department for Communities and Local Government
<b>EBS</b>	Experian Business Strategies
<b>GDP</b>	Gross domestic product

<b>GVA</b>	Gross value added
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>LCCI</b>	London Chamber of Commerce and Industry
<b>LET</b>	London's Economy Today
<b>MPC</b>	Monetary Policy Committee
<b>ONS</b>	Office for National Statistics
<b>PMI</b>	Purchasing Managers' Index
<b>PWC</b>	PricewaterhouseCoopers
<b>RICS</b>	Royal Institution of Chartered Surveyors



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August 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.

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### **GLA Economics is funded by**



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