

London's Economy Today

Issue 85 | September 2009

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Stock market recovery but economy remains fragile

By **Gordon Douglass**, Economist

A number of economic indicators released in September have continued to indicate that the worst of the recession may now be over. Thus the Office for National Statistics (ONS) released data that showed that manufacturing output had risen by 0.9 per cent between June and July, the fastest rate of increase in 18 months. The improving economic news has heartened the City with the FTSE 100 breaking through the 5000 mark for the first time since September 2008 (see Figure 1).

KPMG and the Recruitment and Employment Confederation have also found signs that the UK job market may be beginning to be slightly less pessimistic with them discovering "marginal increases" in appointments in August. Further, the Q3 2009 UK Business Confidence Monitor Report, conducted over 13 May – 3 August, found that for the UK as a whole "the Confidence Index has moved into positive territory for the first time since Q3 2007 when the credit crunch was in its infancy". However, for London the Confidence Index remained negative with it being only one of 3 UK regions along with the South East and the West Midlands to remain in negative territory.

Latest news...



● **GLA Economics Seminar – Economic impact of traffic signals**

GLA Economics will be launching a report on the economic impact of traffic signals on London at a seminar to be held at City Hall on the 18th November 2009. Speakers debating the implications of the study will include experts from Colin Buchanan and Partners, Transport for London and London First. Further details will be available in due course but to register your interest in attending this event please email glaeconomics@london.gov.uk

Figure 1: FTSE 100 Index

Last data point is
18/09/09

Source: FT, EcoWin



In counter-balancing news the British Retail Consortium estimated that UK like-for-like retail sales fell by 0.1 per cent in August compared to the previous year indicating that the economy is far from out of the woods, whilst in Central London like-for-like sales were reported to have declined by 5.9 per cent. Stephen Robertson, Director General, British Retail Consortium, said in relation to the London figures: "these results don't suggest the recovery is under way. This is the lowest London sales growth since August 2005". Further the OECD has revised down its forecast for the UK economy this year from a contraction of 4.3 per cent of GDP to 4.7 per cent, although their forecasts for Q3 and Q4 of this year have been slightly improved. The price of gold touched \$1000 per ounce in September (see Figure 2), the first time it has hit this value in six months, in a sign that some investors may be concerned about impending inflation in the medium term from extraordinarily loose global monetary policy in light of any world economic up tick.

Figure 2: Price of gold (\$ per troy ounce)

Last data point is
18/09/09

Source: Global Insight



Recent housing market pick-up could stall

On 14 September the Council of Mortgage Lenders (CML) released figures that indicated that “lending for house purchase showed its first material annual growth in July for the first time since early 2007”; thus there appears to be signs of improvement in the housing market. However, Fathom Consulting has found that the average price for properties sold at auction in August was 70 per cent of the price the house was expected to receive, a 30 per cent discount and a deterioration from the 10 per cent discount seen 3 months ago. Given that the price received in auctions gives an indication of the current level of demand, it is feared that this could mean house prices will resume their decline in coming months with Danny Gabay, Director of Fathom, saying “we would expect auction prices to react more quickly to changing market conditions than conventional measures, which suggests that we may see house prices falling again in coming months”. Further a report by the Ernst and Young ITEM club has predicted that house prices will fall by 1.6 per cent in the first half of 2010 and take five years to reach their 2007 levels.

UK “easiest” European economy in which to do business

A World Bank survey, ‘Doing Business 2010: Reforming through Difficult Times’, has found that the UK stood fifth in the world and first among European nations in the ease of doing business in its economy. This was an increase of one place in both the global and European rankings since the previous year’s survey. However, in a sign of the negative impact of the recession on the UK economy the UN Conference on Trade and Development has released their latest world investment report, which showed that inward investment into the UK in 2008 fell by half from the previous year, to £97 billion.

Restructuring in the car industry continues

It was announced on 10 September that the car manufacturers Opel and Vauxhall would be sold to the Canadian car parts manufacturer Magna. The company has agreed to keep all four plants open in Germany, however concerns have been raised about the long-term future of Vauxhall, although Magna has committed to keeping Vauxhall’s Ellesmere Port plant open. Elsewhere the UK scrappage scheme has continued to boost car sales with them being 6 per cent higher in August compared to a year earlier.

Developed world and UK economies remain weak

The OECD released their interim economic assessment on 3 September that forecasted that the recession in many economies was over, although the forecast also downgraded the estimate for UK growth in 2009 to -4.7 per cent. The British Chambers of Commerce has warned “the UK medium-term economic outlook is grim. A recovery is now starting, but the outlook is uncertain and we are facing a period of austerity”. Further it forecasted that UK GDP would fall by 4.3 per cent in 2009, then increase by only 1.1 per cent in 2010 and 1.9 per cent in 2011. Mervyn King, the Governor of the Bank of England warned on 15 September that the “strength and sustainability” of the recovery is still “highly uncertain”.

There emerged further signs of a continuing recovery in the world economy with the European Commission stating that the “Eurozone economy appears to be at a turning point” with positive growth of 0.2 per cent forecast for Q3 2009. However, unemployment hit a 10-year high in the Eurozone in July to stand at a seasonally adjusted 9.5 per cent, whilst industrial production declined for a second consecutive month in July indicating that the Eurozone’s recovery remains fragile. Elsewhere, Ben Bernanke the Federal Reserves chairman has commented that “from a technical perspective, the (US) recession is very likely over” but also noted that the economy remained “very weak”. This weakness was highlighted by Professor Tim Congdon from International Monetary Research who found in the three months to August 2009 that US bank loans had declined by 14 per cent with him noting “there has been nothing like this in the USA since the 1930s”. Thus with UK unemployment hitting a 14-year high and evidence for only a future sluggish recovery for London’s economy it is likely that business conditions in the capital will remain tough over the next year.

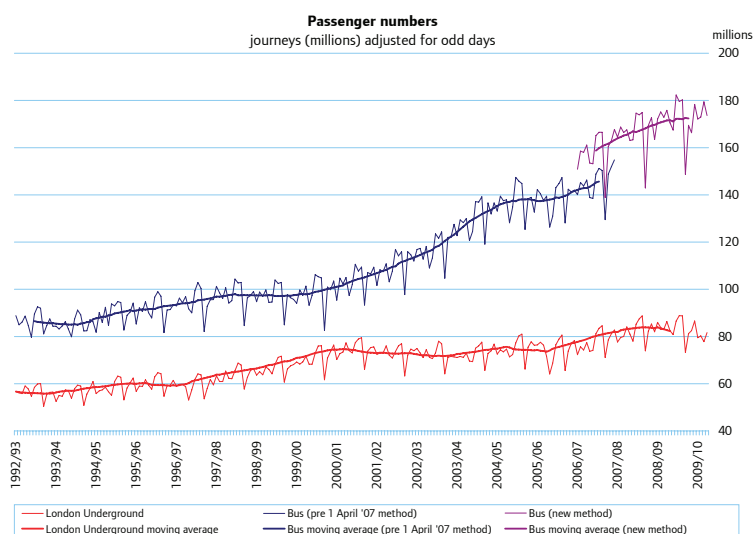
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28-day period is from 28 June 2009 to 25 July 2009. London's Underground and buses had 255.3 million passenger journeys; 173.6 million by bus and 81.7 million by Underground.
- The moving average of passengers every period decreased to 254.7 million from 255.2 million in the previous period. The moving average for buses was 172.4 million. The moving average for the Underground was 82.3 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: September 2009

Next release: October 2009



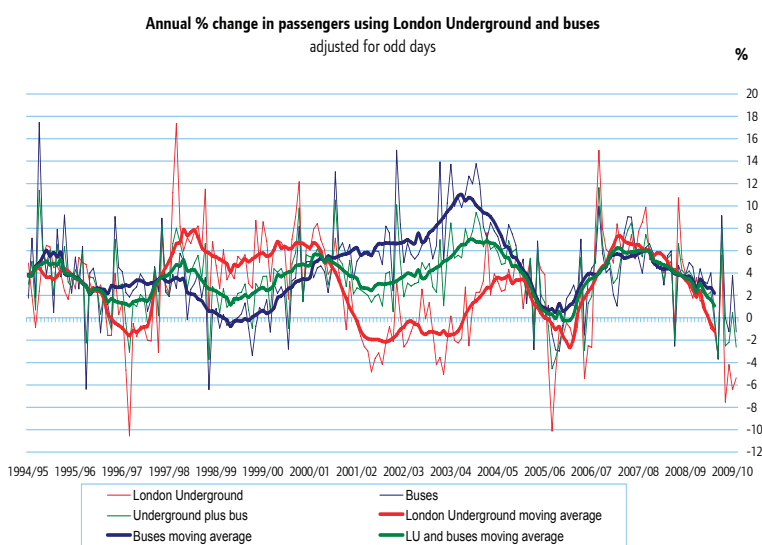
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.1% from 1.6% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 2.2% from 2.7% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -1.2% from -0.5% in the previous period.

Latest release: September 2009

Next release: October 2009



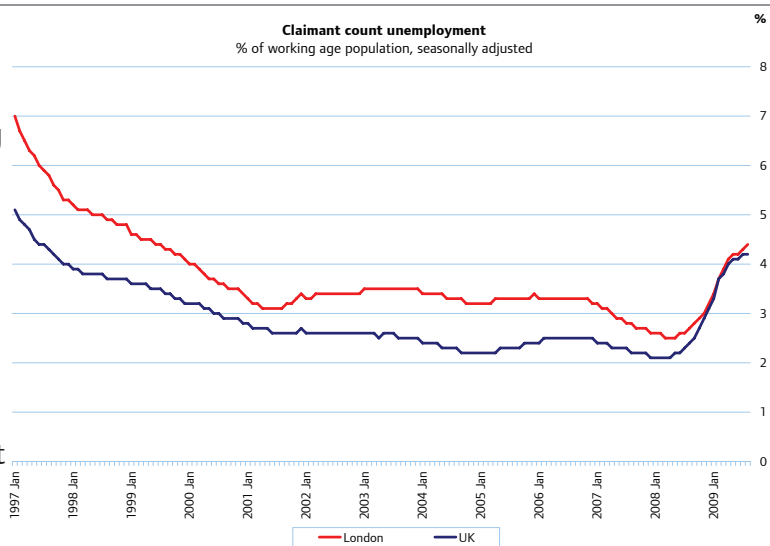
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.4% in August 2009.
- There were 223,500 seasonally adjusted unemployment claimants in London in August compared with an upwardly revised 219,000 in July.
- There were 1,607,400 seasonally adjusted unemployment claimants in the UK in August 2009 compared with 1,583,000 in July.

Latest release: September 2009

Next release: October 2009



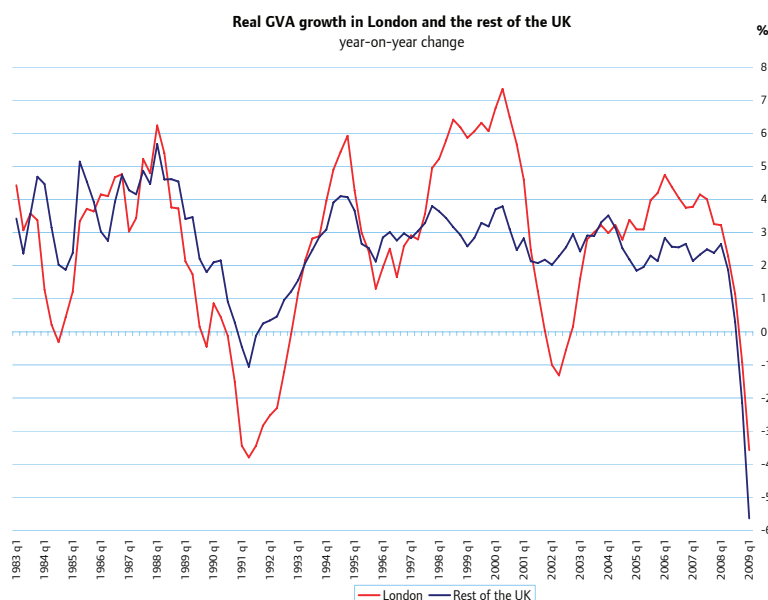
Source: Claimant Count, Nomis

Annual output growth less negative in London than in the rest of 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 rest of the UK's annual growth in output decreased to -5.6% in Q1 2009 from -2.2% 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



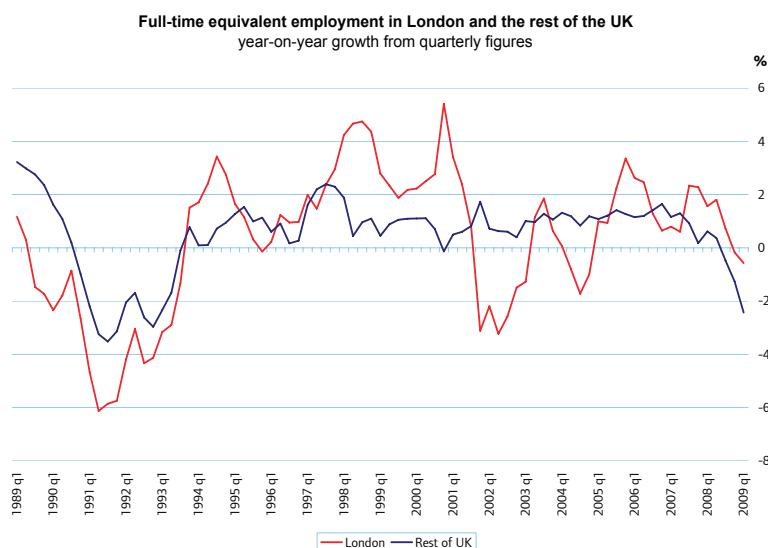
Source: Experian Business Strategies

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

- London's annual employment growth decreased to -0.6% in Q1 2009 from -0.2% in Q4 2008.
- The rest of the UK's annual employment growth decreased to -2.4% in Q1 2009 from -1.3% 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



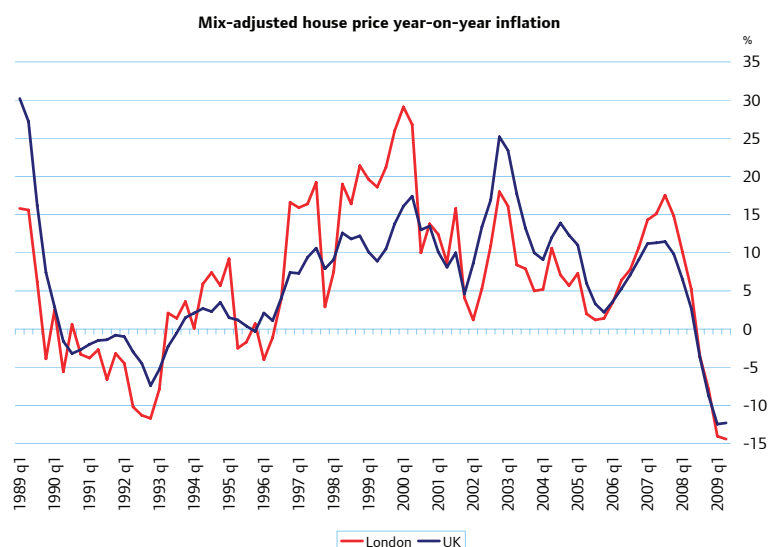
Source: Experian Business Strategies

Annual house price deflation

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q2 2009.
- The DCLG reported a fall in annual house prices in both London and the UK in Q2 2009.
- Annual house price inflation in London decreased to -14.4% in Q2 2009 from -14.0% in Q1 2009. Annual house price inflation in the UK increased to -12.3% in Q2 2009 from -12.5% in Q1 2009.

Latest release: August 2009

Next release: November 2009



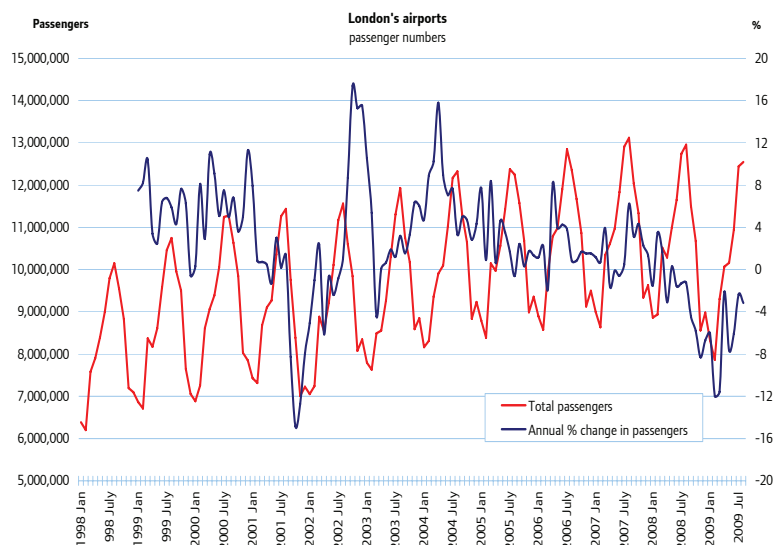
Source: Department for Communities and Local Government

Weak airport passenger numbers

- 12.5 million passengers travelled through London's airports in August 2009.
- The number of passengers using London's airports decreased by 3.2 per cent from August 2008 to August 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: September 2009

Next release: October 2009



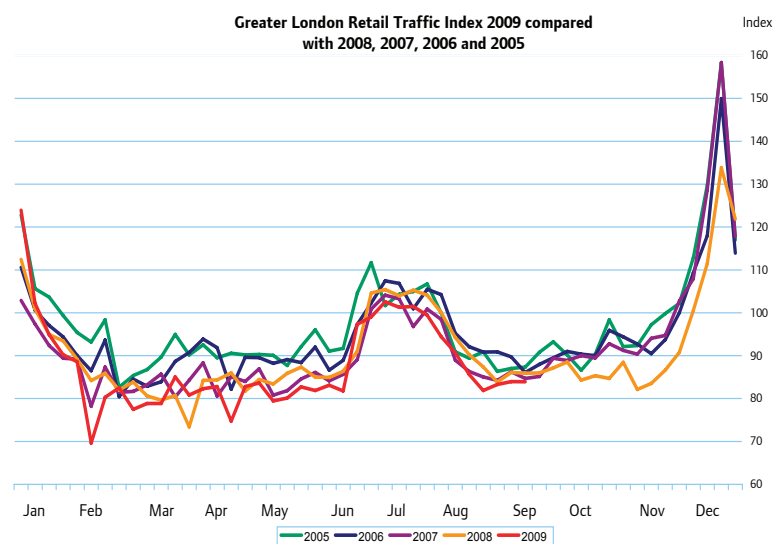
Source: Civil Aviation Authority

Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 83.9 in the first full week of September (the same as 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-September 2009

Next release: Weekly



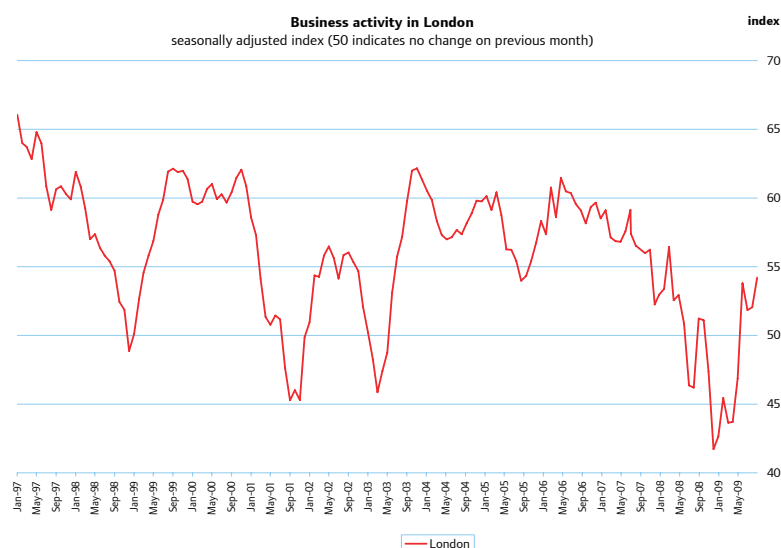
Source: Synovate

London's business activity continues to increase

- London firms increased their output of goods and services in August 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.2 in August compared to 52.1 in July.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: September 2009

Next release: October 2009



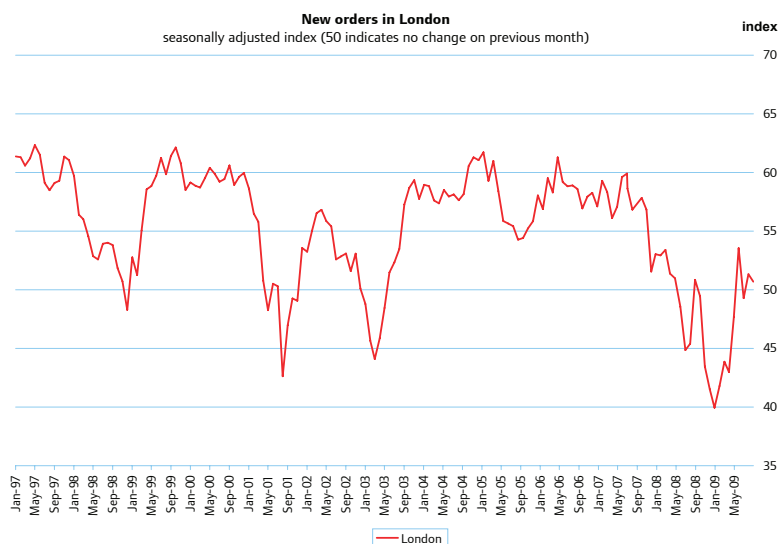
Source: Markit Economics

Rate of increase in new orders in London slows

- London firms saw a slower increase in new orders during August.
- The PMI Index of new orders fell to 50.7 from 51.3 in July.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: September 2009

Next release: October 2009



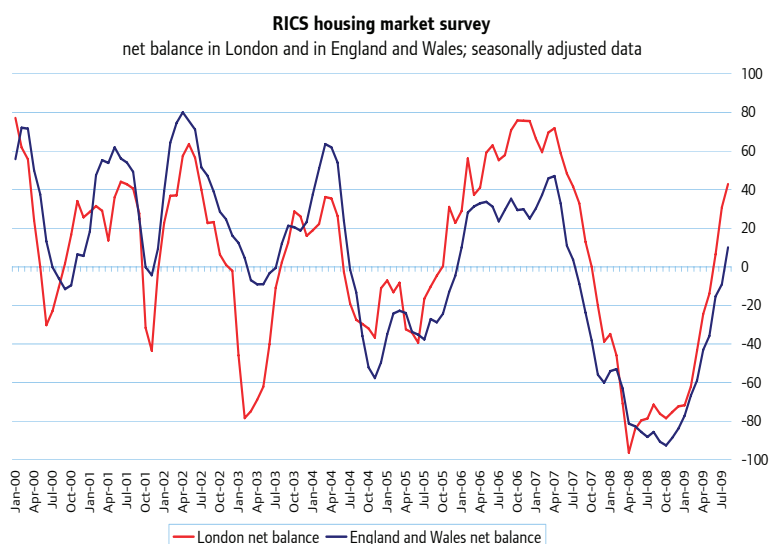
Source: Markit Economics

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

- The RICS survey shows a positive net balance of 43 for London house prices over the past three months to August 2009. This net balance is up from 31 in July 2009.
- Surveyors reported a positive net house price balance for England and Wales of 10 in the past three months to August 2009, up from a downwardly revised -9 in July.
- London's net house price balance is above that of England and Wales.

Latest release: September 2009

Next release: October 2009



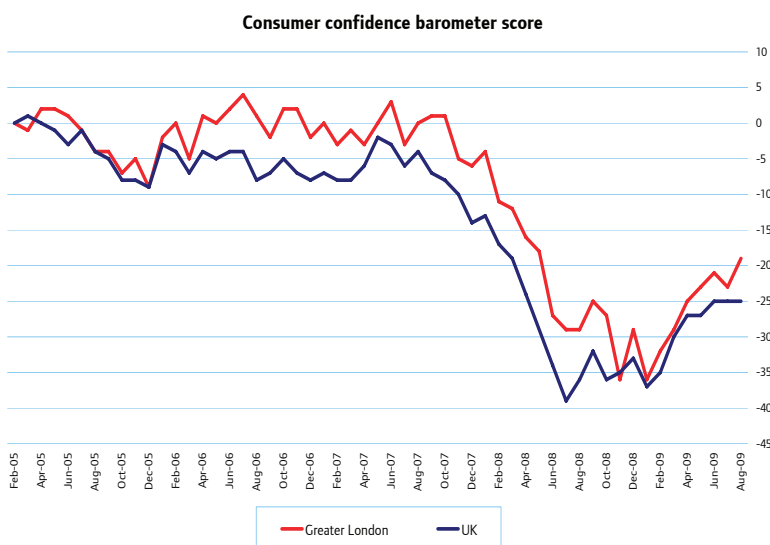
Source: Royal Institution of Chartered Surveyors

Consumer confidence less negative in London

- 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.
- For Greater London the consumer confidence score increased to -19 in August from -23 in July.
- For the UK the consumer confidence score was unchanged at -25 in August.

Latest release: August 2009

Next release: September 2009



Source: GfK NOP on behalf of the European Commission

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
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
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.

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

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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