

London's Economy Today

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UK economy stabilising but recovery will be bumpy

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On 5 November the Monetary Policy Committee of the Bank of England announced that it would pump a further £25 billion into the economy as part of the Bank's quantitative easing (QE) programme. This will be spent over the next three months and the increase comes on top of the £175 billion that the Bank has already spent on mainly buying gilts. However, the £25 billion spend over the next three months is lower than the £50 billion that was spent on QE in the previous three months and is being taken as an indication by many economists that the Bank may not expand QE further in 2010.

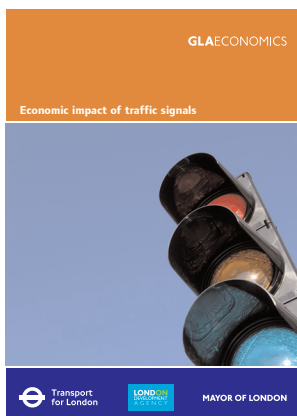
Latest news...

● Economic Impact of Traffic Signals

In recent years there has been a sustained debate on the role of traffic signals in London. The number of traffic signal installations has steadily increased with around 1,000 new sets being introduced since the year 2000 so that the total is now over 5,000.

This report seeks to better understand the wider economic impact of traffic signals in London by modelling actual traffic flows at a selection of signalised junctions in London during different times of the day.

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



UK output has long way to recover to get back to its peak in early 2008

Figure 1 shows how the 2008-09 recession compares to the last two recessions in the UK (which were in 1990/91 and 1980/81). In each of those two last recessions it took about 13 quarters to arrive back at the GDP level to when output started declining. In both those previous recessions, GDP started to rise again in the sixth quarter but in this recession it continued to fall (i.e. in Q3 2009). Furthermore, the total decline in output in this recession has been greater.

Figure 1: UK output path of this recession compared to the 1980s and 1990s recessions

Source: Office for National Statistics
[as of 23 November]

Q0 is the quarter of each peak before output started falling and GDP is set at an index of 100 at Q0. [Q0 represents 1979 Q4, 1990 Q2 and 2008 Q1 respectively.]



A worrying concern at the moment is the trend in business investment during this current recession; the fall in business investment has been very rapid. The Bank of England puts this down to a combination of expectations of uncertain future demand and the difficulties for SMEs in accessing finance. There are longer-term implications of this dramatic fall in business investment for the economy in the future as there is a clear risk of capacity constraints slowing growth after the initial stage of the recovery.

London firms outward looking into global markets

The Institute of Chartered Accountants in England and Wales published their Enterprise Survey Report 2009 in November. The report which is in its thirteenth year found that 77 per cent of London businesses are globally engaged with them being "significantly more likely than the UK average to be looking to expand their global footprint over the next five years through selling into or making acquisitions in more markets and adapting their products and services to overseas markets". London businesses "currently with operations or activities outside the UK or considering them" identified three significant barriers to international expansion: the lack of effective legal systems regarding commercial agreements; corruption; and the political environment. London businesses are "much in line with the UK average in regarding the UK's regulatory and taxation environment as not very/not at all business friendly (57%)". Further they cite "employment tax (60%), employment legislation (58%), and business tax changes (56%) as perceived hindrances to their operation and development". It was found that 79 per cent of London respondents have suffered a "negative effect" due to the downturn and a significant number of London firms also reported "problems in planning ahead (80%), reduced revenue growth (80%) and reduced planned staffing levels (63%)".

European Commission orders restructuring of Lloyds and RBS

On 3 November, in order to safeguard competition in the UK banking market, the European Commission ordered Lloyds Banking Group and the Royal Bank of Scotland (RBS) to sell over 600 and 300 branches respectively in the next four years. RBS will sell branches in England and Wales and NatWest in Scotland. RBS Insurance and Global Merchant Services will also be sold, whilst Lloyds will sell Lloyds TSB in Scotland along with some branches in England and Wales as well as Cheltenham & Gloucester and Intelligent Finance. Meanwhile the government announced a further injection of £37 billion into RBS and Lloyds Banking Group. RBS has now taken £53.5 billion in bailout money making it the world's biggest government banking rescue. Lloyds Banking Group instituted a £13.5 billion rights issue meaning that it will only take an extra £5.9 billion from the government. RBS will enter the Government Asset Protection Scheme that will insure it against possible losses from £282 billion of its assets. It will pay £700 million a year for this insurance and £2.5 billion to eventually leave the scheme. However, the scheme could leave the taxpayer open to significant losses if these assets turn bad. Lloyds has avoided entering this scheme but will pay £2.5 billion to the government for the "implicit protection" that it has received since the government offered to insure its assets in February.

Evidence of recovery in the rest of the world with the UK lagging behind

Further evidence of the ending of the global recession was announced in November with EuroStat releasing data that showed that the Eurozone exited recession in Q3 2009 with GDP increasing by 0.4 per cent during the quarter. Elsewhere the US announced that its economy had grown by 0.7 per cent in the third quarter, whilst Japan's economy grew at its fastest in two years. Meanwhile, the UK economy is still in a technical recession though growth is expected in Q4 2009 before VAT is put back to 17.5 per cent on 1 January 2010. Unemployment continues to rise globally and in the US it hit 10.2 per cent in October, its highest level since April 1983. In the UK the purchasing managers indices produced by Markit Economics indicated an expansion in activity in both services and manufacturing in October. Thus evidence of a weak global recovery and stabilisation in the UK economy continues to mount. However it is likely that the economic clouds hovering over London will remain on the horizon in 2010 with the magnitude of the fiscal retrenchment required to get the UK's public finances back onto a sustainable long run path vast in comparison with the past and other countries.

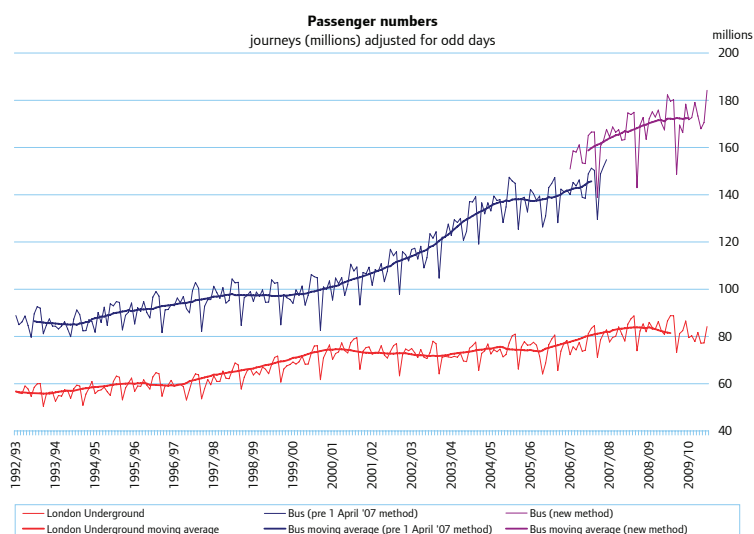
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28-day period is from 20 September 2009 to 17 October 2009. London's Underground and buses had 268.4 million passenger journeys; 184.2 million by bus and 84.2 million by Underground.
- The moving average of passengers every period decreased to 253.9 million from 254.0 million in the previous period. The moving average for buses was 172.5 million. The moving average for the Underground was 81.5 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: November 2009

Next release: December 2009



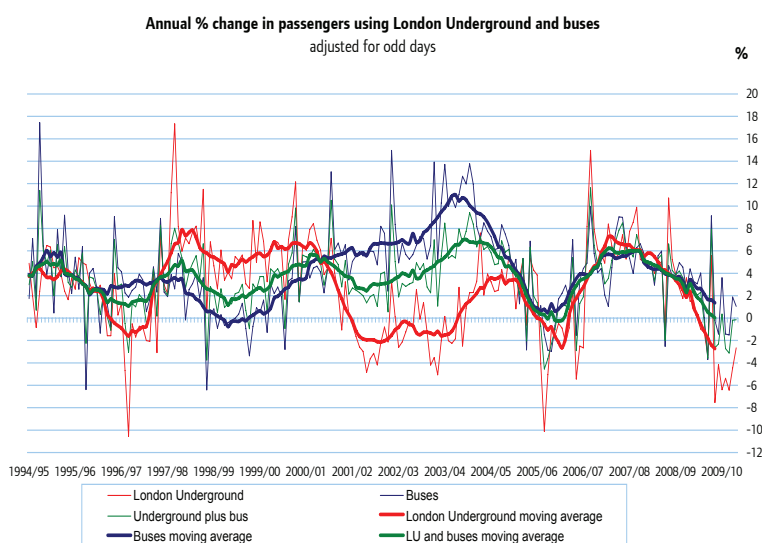
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 0.0% from 0.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.4% from 1.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -2.7% from -2.4% in the previous period.

Latest release: November 2009

Next release: December 2009



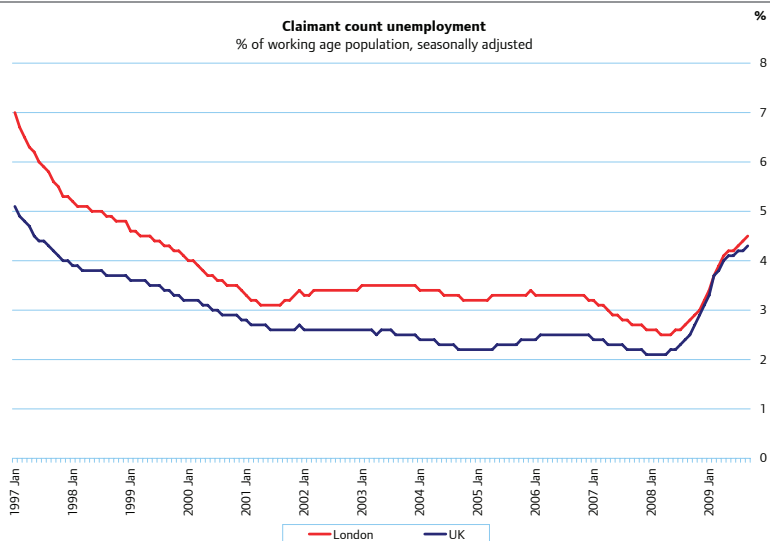
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.6% in October 2009.
- There were 232,200 seasonally adjusted unemployment claimants in London in October compared with an upwardly revised 227,600 in September.
- There were 1,639,500 seasonally adjusted unemployment claimants in the UK in October compared with a downwardly revised 1,626,600 in September.

Latest release: November 2009

Next release: December 2009



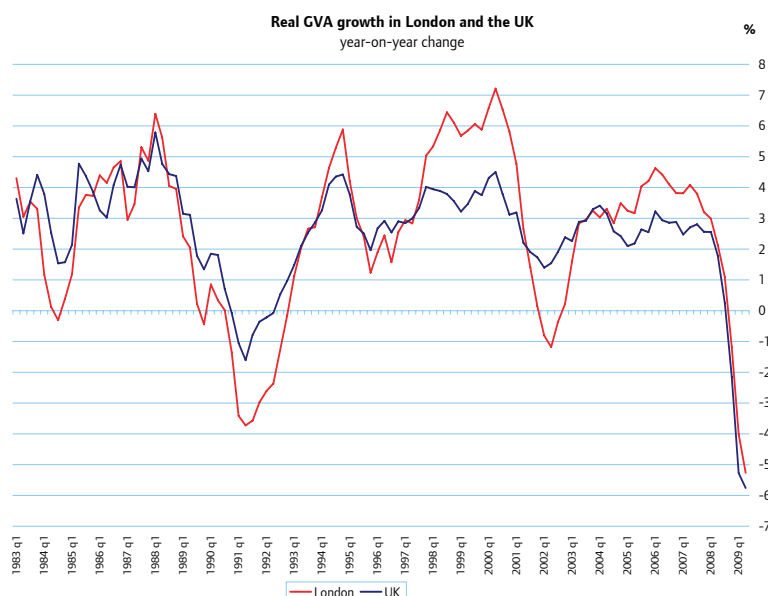
Source: Claimant Count, Nomis

Annual output growth less negative in London than in the UK

- London's annual growth in output decreased to -5.3% in Q2 2009 from -4.0% in Q1 2009.
- Annual output growth in the UK decreased to -5.8% in Q2 2009 from -5.3% in Q1 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: November 2009

Next release: February 2010



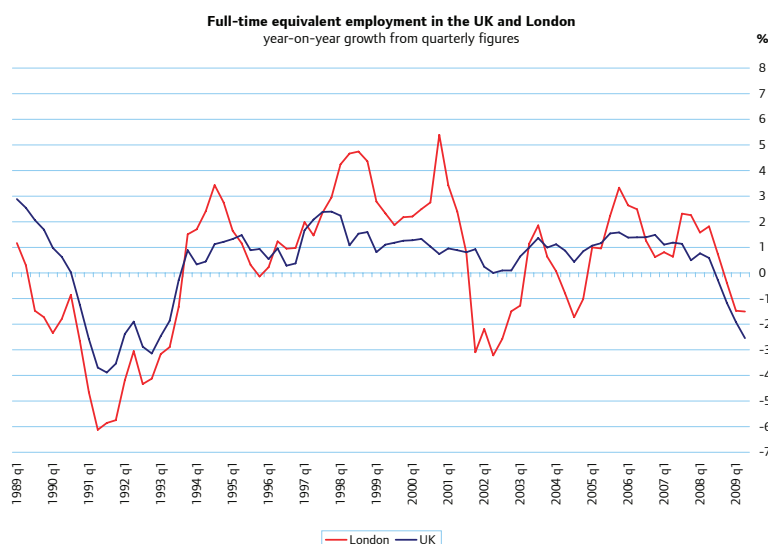
Source: Experian Business Strategies

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

- London's annual employment growth remained at -1.5% in Q2 2009.
- Annual employment growth in the UK decreased to -2.5% in Q2 2009 from -1.9% in Q1 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: November 2009

Next release: February 2010



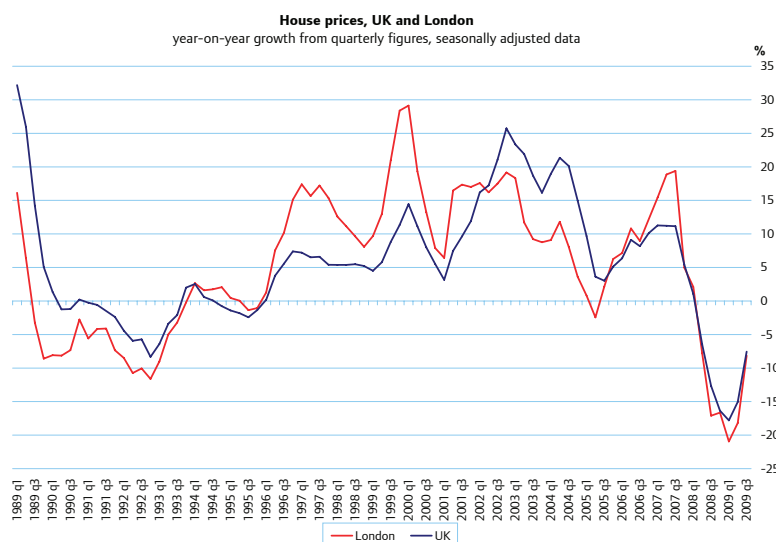
Source: Experian Business Strategies

Annual house price deflation slows sharply

- House prices, as measured by the Halifax house price index, were lower in Q3 2009 than in Q3 2008 in both London and the UK.
- Annual house price inflation in London was -8.1% in Q3 2009, up from -18.2% in Q2 2009.
- Annual house price inflation in the UK was -7.6% in Q3 2009, up from -15.0% in Q2 2009.

Latest release: October 2009

Next release: January 2010



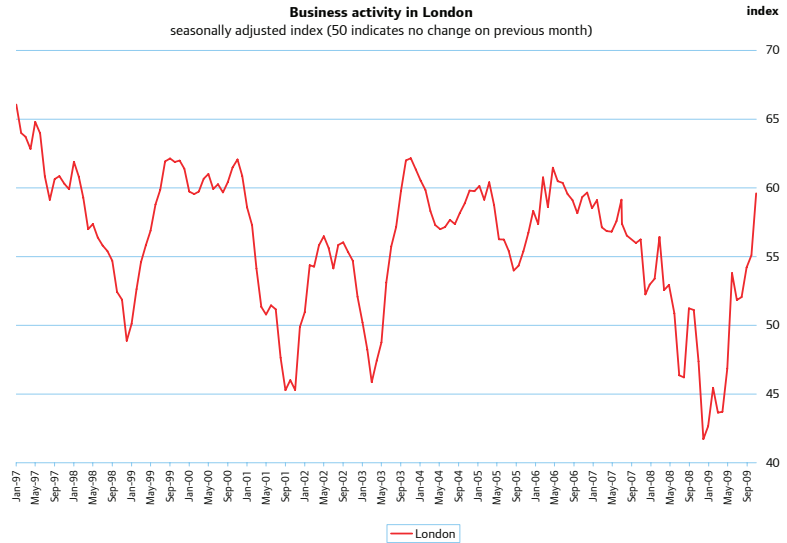
Source: Halifax house price index

London's business activity continues to increase

- London firms increased their output of goods and services in October 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 59.6 in October compared to 55.1 in September.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: November 2009

Next release: December 2009



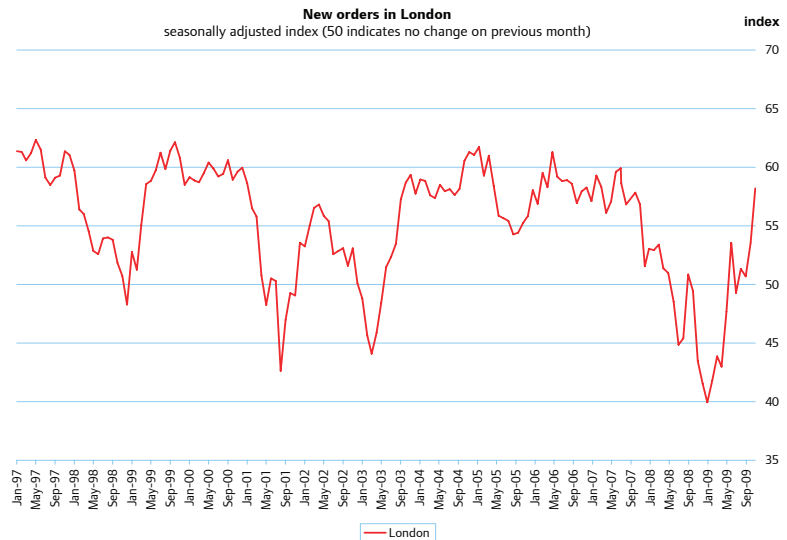
Source: Markit Economics

New orders in London rising

- October 2009 saw a rise in new orders for London firms.
- The PMI for new orders recorded 58.2 in October compared to 53.5 in September.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: November 2009

Next release: December 2009



Source: Markit Economics

London employment still falling

- The PMI shows that the level of employment in London firms decreased in October 2009.
- The PMI for the level of employment was 44.7 in October compared to 41.9 in September.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: November 2009

Next release: December 2009



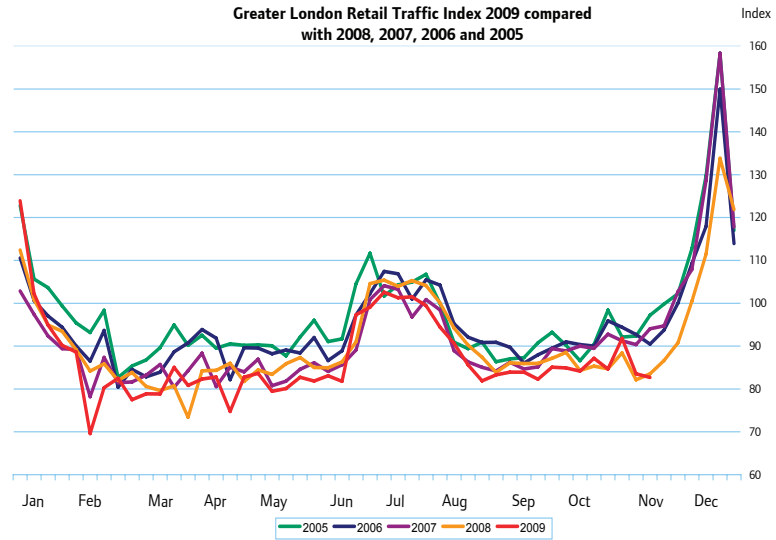
Source: Markit Economics

Synovate Retail Traffic Index still weak

- The Synovate Retail Traffic Index of shoppers in London was 82.7 in the second full week of November compared to 83.6 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-November 2009

Next release: Weekly



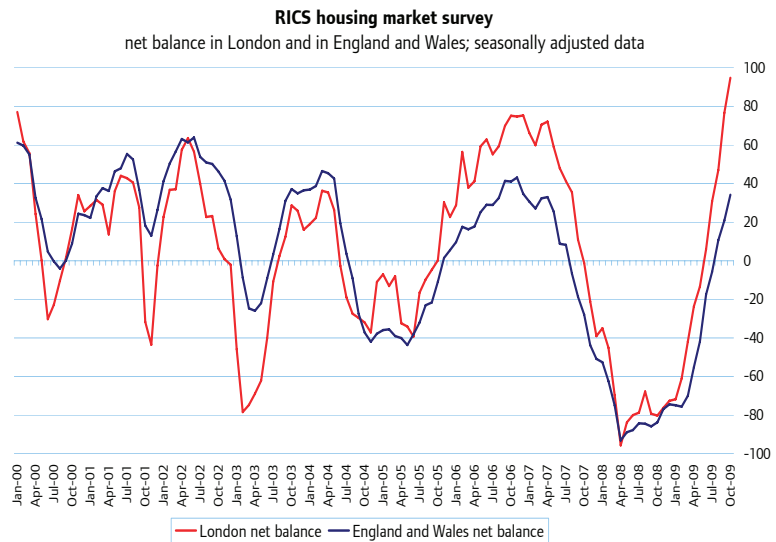
Source: Synovate

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

- The RICS survey shows a positive net balance of 95 for London house prices over the past three months to October 2009. This net balance is up from a downwardly revised 77 in September 2009.
- Surveyors reported a positive net house price balance for England and Wales of 34 in the past three months to October 2009, up from a downwardly revised 21 in September 2009.
- London's net house price balance is above that of England and Wales.

Latest release: November 2009

Next release: December 2009



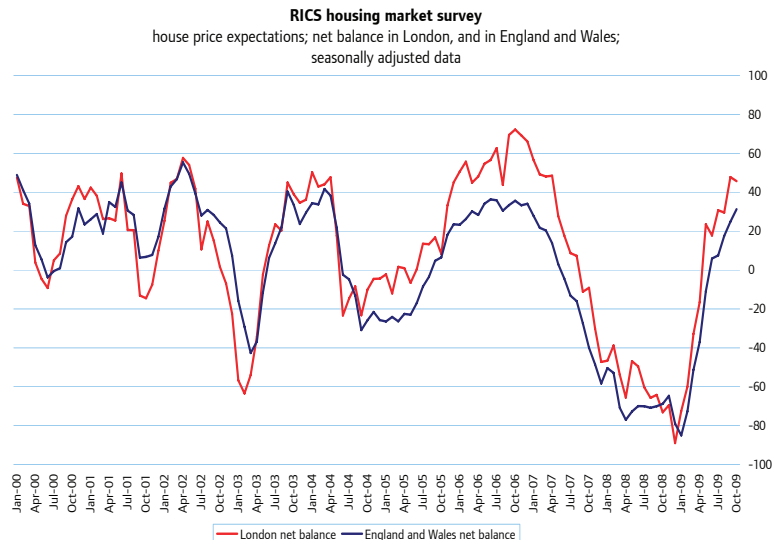
Source: Royal Institution of Chartered Surveyors

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 46 in October 2009, down from a downwardly revised 48 in September 2009.
- For England and Wales, the net house price expectations balance was 31 in October 2009, up from 25 in September 2009.

Latest release: November 2009

Next release: December 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
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.

Claimant count unemployment

Unemployment 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 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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