

London's Economy Today

Issue 88 | December 2009

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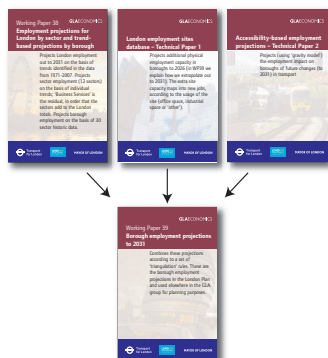
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Little Christmas cheer for London after the Pre-Budget Report

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

In the Pre-Budget Report (PBR) the Chancellor of the Exchequer revised his 2009 UK growth forecast down from -3½ per cent to -4¾ per cent but kept growth forecasts for years beyond that the same. The Chancellor's growth forecast for 2011 of 3¼ to 3¾ per cent looks quite optimistic. Since spending on frontline services is planned to continue to grow and the Chancellor remains committed to halving the huge public sector deficit over four years, this implies that cuts in other areas will have to be steep. Over the three years from April 2011, investment spending is projected to fall by one fifth per annum in real terms. In other areas the Chancellor provided little specific detail about where spending cuts or large tax increases would be made. It is to be hoped that financial markets will not react too negatively to the fact that a credible medium-term plan to restore public finances to a sustainable position remains lacking.

Latest news...



● Employment Projections to 2031

GLA Economics has published four papers (two technical papers and two working papers) that describe its updated employment projections out to 2031 and which appeared in the recently published Economic Evidence Base.

Visit www.london.gov.uk/mayor/economic_unit to download these publications.

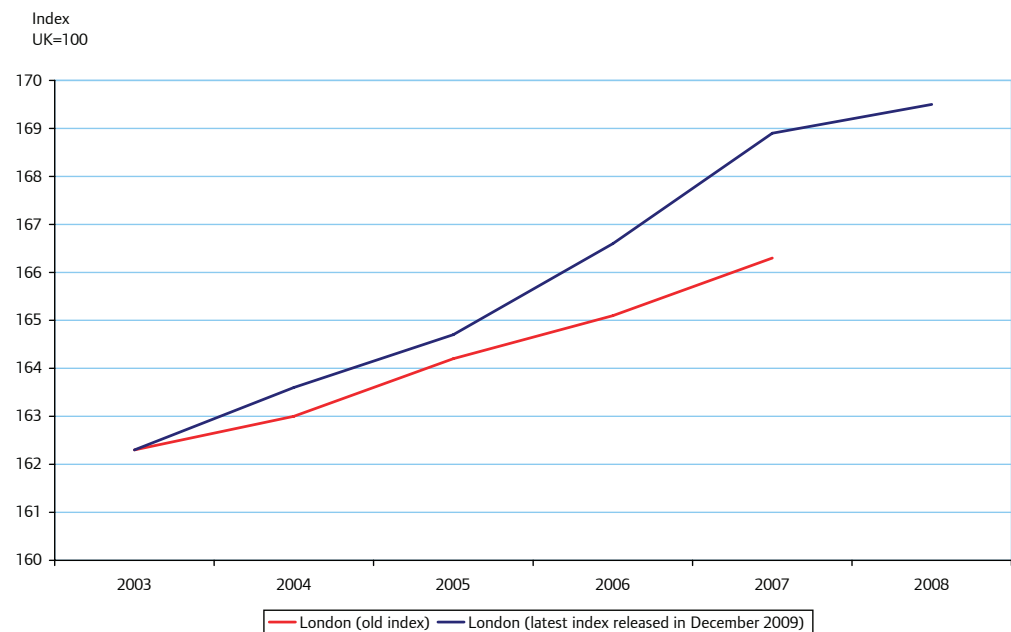
London will be hit disproportionately by the increased employment tax represented by the 2011-12 rise in National Insurance Contributions of 0.5 per cent (this is in addition to the 0.5 per cent increase that was already planned to come into effect in April 2010). Some key tax measures are coming to an end shortly such as the VAT reduction on 1 January 2010 and the holiday in stamp duty. The one off 50 per cent tax until 5 April 2010 on bonus pools (of bonuses worth over £25,000) to be paid by banks (and potentially other financial institutions) will also adversely impact London as a global financial centre.

London's nominal GVA per head rose in 2008

The Office for National Statistics (ONS) released their estimate for London's nominal GVA in 2008 on a workplace basis on 9 December 2009. As shown in Figure 1, London's GVA per head stood at 169.5 in 2008 up from 168.9 in 2007 (where 100 is indexed to the UK figure as a whole). Figure 1 highlights that London's output per head with respect to the UK's has been increasing in recent years. Figure 1 also shows that the estimates of London's GVA per head in relation to the UK as a whole has been revised upwards since 2003. In the UK National Accounts Blue Book 2009, the totals for UK GVA by industry were revised back to 2004. This led to revisions in the regional data, which are constrained to the UK figures. The largest upward revision at the UK level was to Financial Intermediation, an industry that is prominent in London compared to other regions.

Figure 1: London's GVA per head index released in December 2009 compared to the previously published index (UK=100)

Source: ONS



Dubai damaged by debt restructuring request

Dubai World an investment company that manages projects for the Dubai government, and which has been generally undifferentiated from the Dubai government in market perceptions, has requested the restructuring of \$26 billion in debts. UK banks are believed to have an aggregate exposure to around \$5 billion of Dubai World's \$40 billion in total debt. RBS is believed to be exposed to \$1-2 billion worth of lending, with HSBC, Standard Chartered and Lloyds Banking to around \$1 billion each. The announcement led to stock market falls as investors worried about a further global financial crisis and possible defaults by other governments on their sovereign debt, with Greece being warned that its credit rating may be cut by Standard & Poor's and Spain having its credit outlook downgraded to negative from stable. Dubai's problems

could also impact the London property market if Dubai were to face continuing financing difficulties as this could lead to a number of fire sales of Dubai-owned London property in order to raise capital. However, on 14 December Abu Dhabi's government finally agreed to give Dubai's government \$10 billion to help pay off its debts and \$4.1 billion will be used by Dubai World.

Gold hits a new record high

The price of gold broke through \$1,200 per ounce in December (see Figure 2), a new peak, taking its gains to over 40 per cent in the year so far. The surge in the price of gold partially reflects the current weakness of the dollar and the feeling that central banks and other investors may be tempted to further diversify their holdings of dollars into other assets and commodities.

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

Last data point is 11/12/09

Source: Global Insight



Times remain tough for London and the UK economy heading into 2010

The outlook for the world economy as it enters 2010 continues to be fragile, although the presence of a global recovery does exist. Emerging market countries are leading the way with Chinese industrial production in November rising by 19.1 per cent on the year before. Unfortunately, the UK's recovery is lagging behind other developed nations such as France, Germany and the US.

The Pre-Budget Report failed to deliver a credible plan for restoring the public finances to health. According to the Institute for Fiscal Studies, Departmental Expenditure Limits may have to fall by 3.2 per cent a year and the implied cuts to central government spending on public services could be £15 billion larger than the total of efficiency savings and cuts claimed so far. With government debt interest payments set to increase even more, tax rises are also extremely likely. The next half a dozen or so years look set to be ones of austerity with consumers also facing tighter monetary policy (ie, higher interest rates) at some point over the next couple of years.

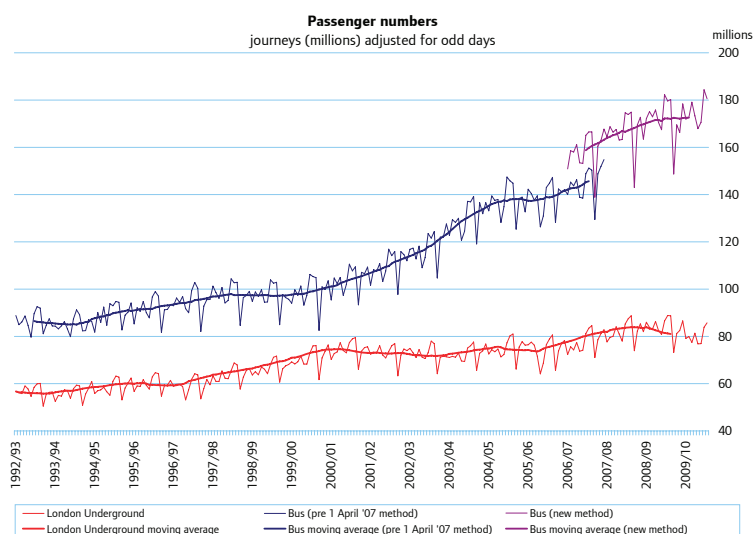
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28-day period is from 18 October 2009 to 14 November 2009. London's Underground and buses had 266.3 million passenger journeys; 180.6 million by bus and 85.7 million by Underground.
- The moving average of passengers every period decreased to 253.6 million from a downwardly revised 253.8 million in the previous period. The moving average for buses was 172.6 million. The moving average for the Underground was 81.0 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: December 2009

Next release: January 2010



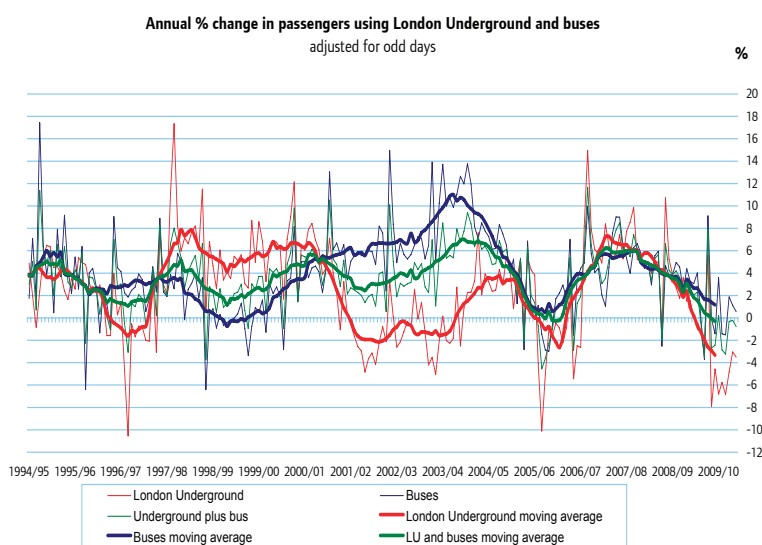
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to -0.3% from 0.0% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.2% from 1.4% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -3.3% from a downwardly revised -2.9% in the previous period.

Latest release: December 2009

Next release: January 2010



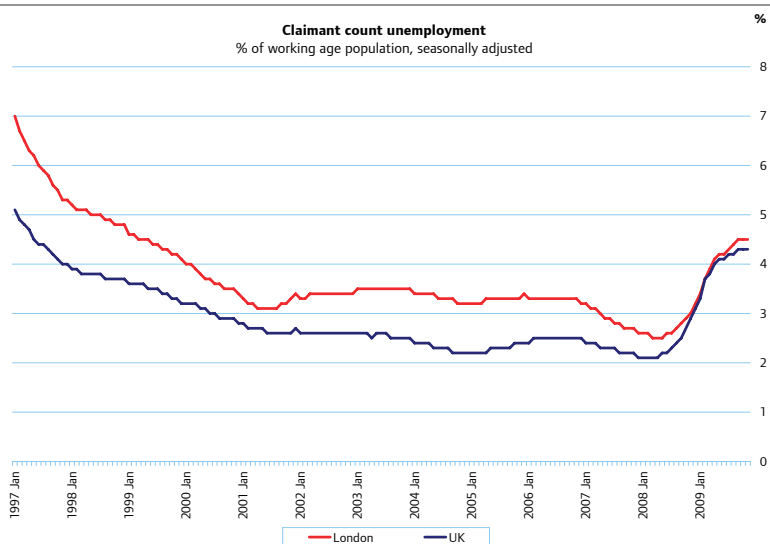
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.5% in November 2009.
- There were 228,300 seasonally adjusted unemployment claimants in London in November compared with a downwardly revised 229,600 in October.
- There were 1,626,200 seasonally adjusted unemployment claimants in the UK in November 2009 compared with a downwardly revised 1,632,500 in October.

Latest release: December 2009

Next release: January 2010



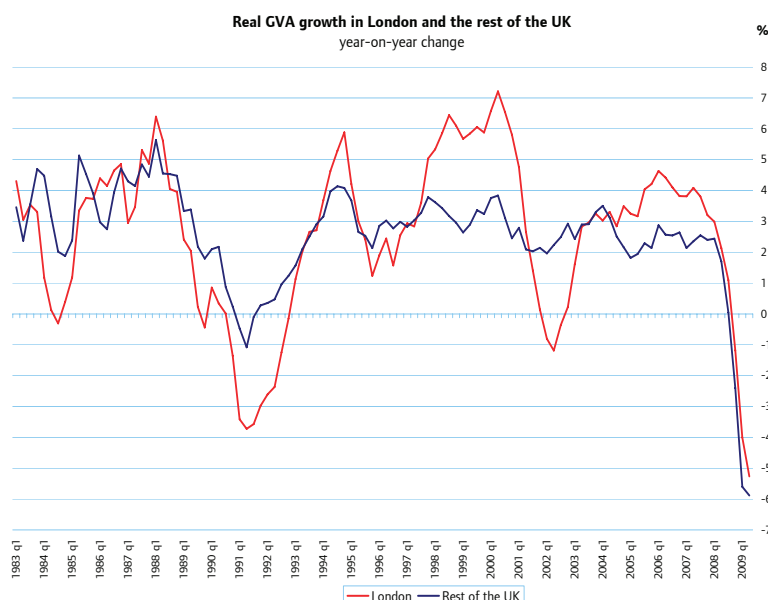
Source: Claimant Count, Nomis

Annual output growth less negative in London than in the rest of the UK

- London's annual growth in output decreased to -5.3% in Q2 2009 from a downwardly revised -4.0% in Q1 2009.
- The rest of the UK's annual growth in output decreased to -5.9% in Q2 2009 from -5.6% 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



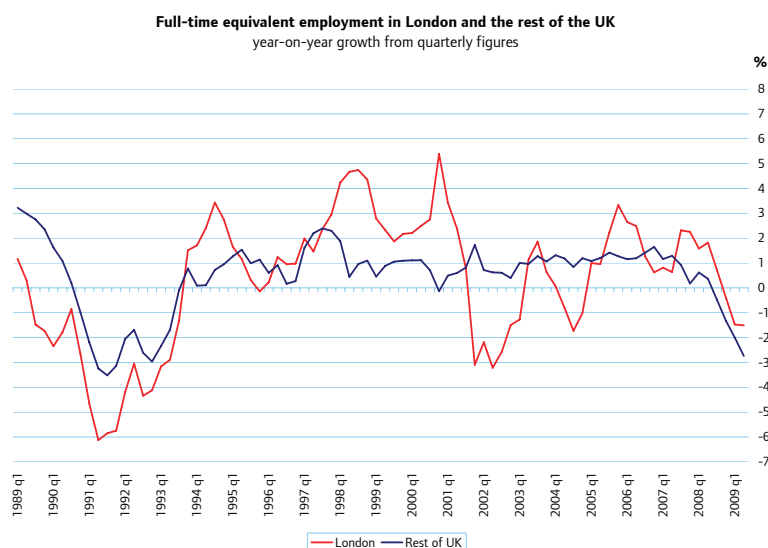
Source: Experian Business Strategies

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

- London's annual employment growth remained at -1.5% in Q2 2009.
- The rest of the UK's annual employment growth decreased to -2.7% in Q2 2009 from an upwardly revised -2.0% 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



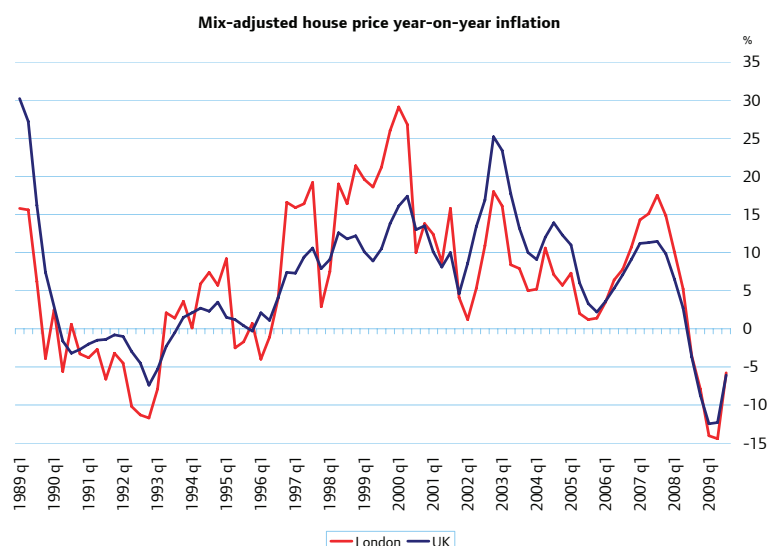
Source: Experian Business Strategies

Annual house price deflation slows

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q3 2009.
- The DCLG reported a fall in annual house prices in both London and the UK in Q3 2009.
- Annual house price inflation in London increased to -5.8% in Q3 2009 from -14.4% in Q2 2009. Annual house price inflation in the UK increased to -6.1% in Q3 2009 from -12.3% in Q2 2009.

Latest release: November 2009

Next release: February 2010



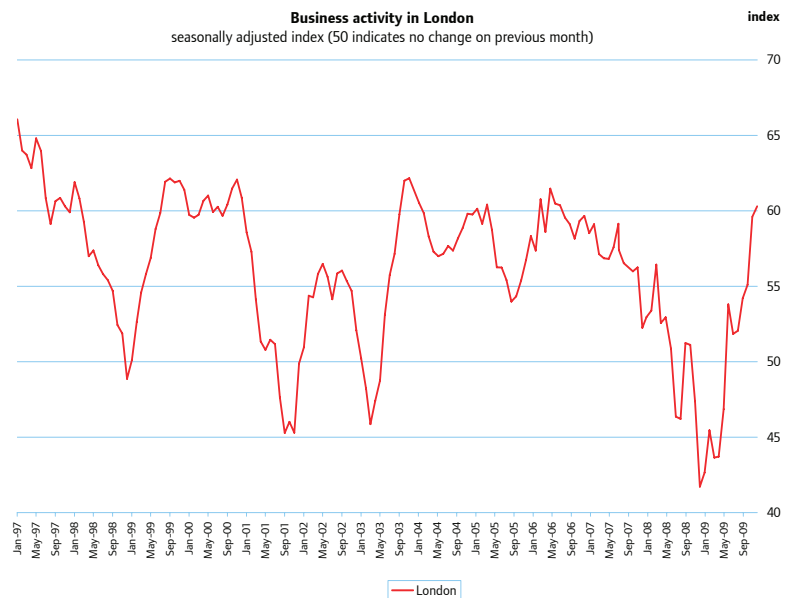
Source: Department for Communities and Local Government

London's business activity continues to increase

- London firms increased their output of goods and services in November 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 60.3 in November compared to 59.6 in October.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: December 2009

Next release: January 2010



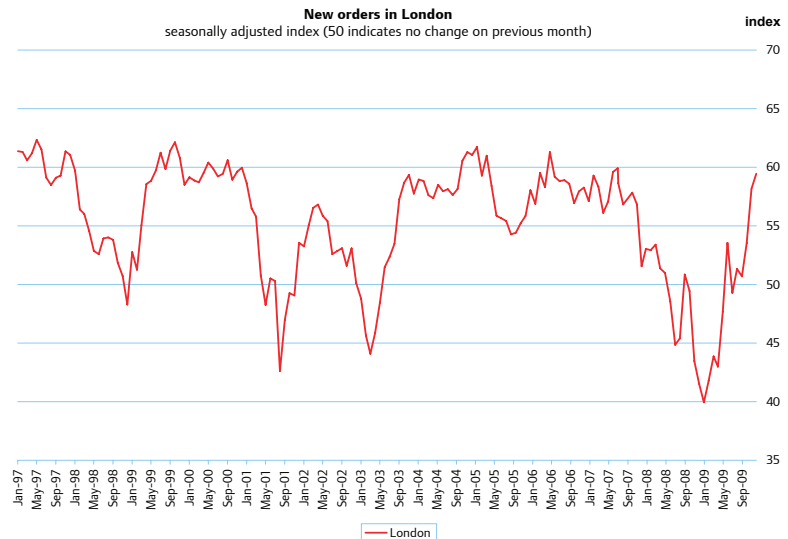
Source: Markit Economics

New orders in London rising

- November 2009 saw a rise in new orders for London firms.
- The PMI for new orders recorded 59.5 in November compared to 58.2 in October.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: December 2009

Next release: January 2010



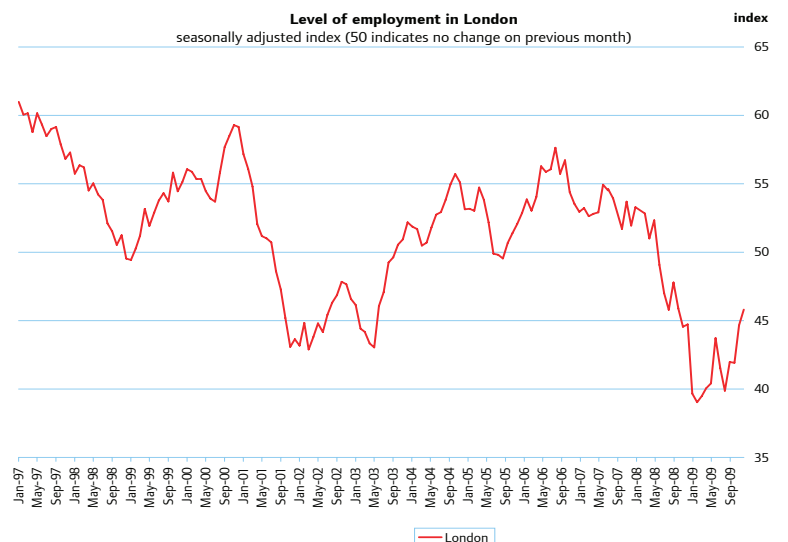
Source: Markit Economics

London employment still falling

- The PMI shows that the level of employment in London firms decreased in November 2009.
- The PMI for the level of employment was 45.8 in November compared to 44.7 in October.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: December 2009

Next release: January 2010



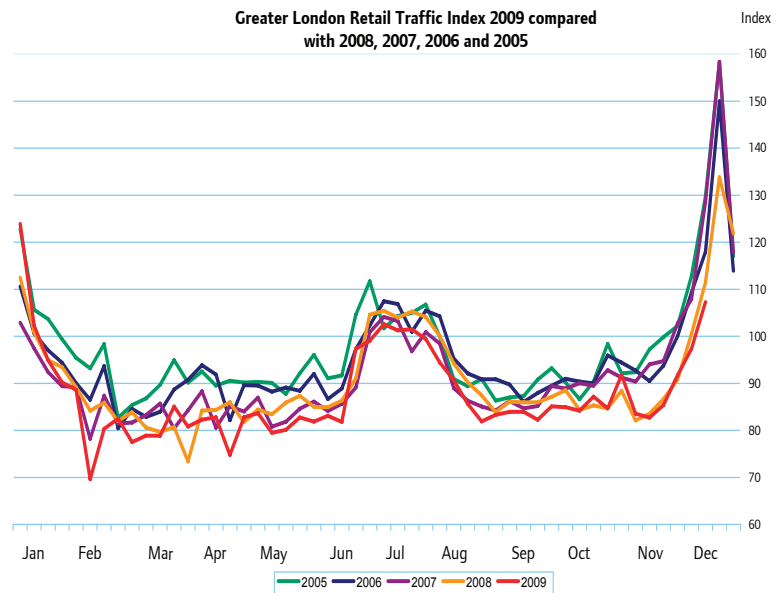
Source: Markit Economics

Synovate Retail Traffic Index still weak

- The Synovate Retail Traffic Index of shoppers in London was 107.3 in the first full week of December compared to 97.4 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-December 2009

Next release: Weekly



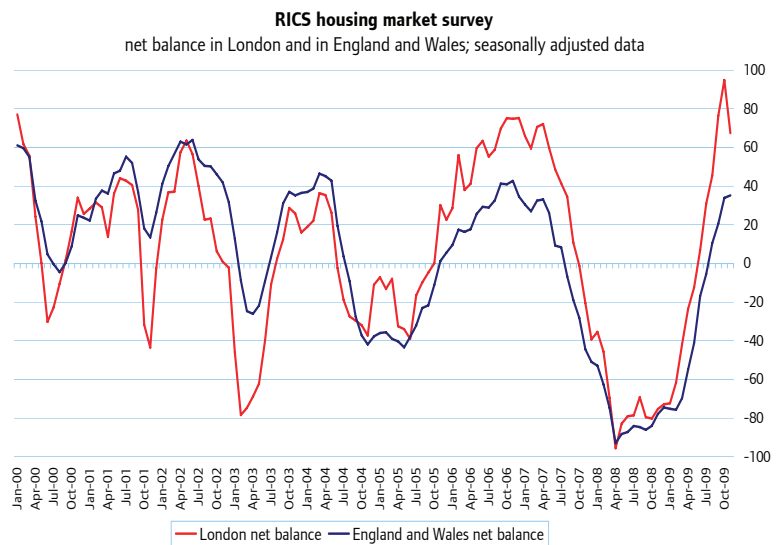
Source: Synovate

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 67 for London house prices over the past three months to November 2009. This net balance is down from 95 in October 2009.
- Surveyors reported a positive net house price balance for England and Wales of 35 in the past three months to November 2009, up from 34 in October 2009.
- London's net house price balance is above that of England and Wales.

Latest release: December 2009

Next release: January 2010



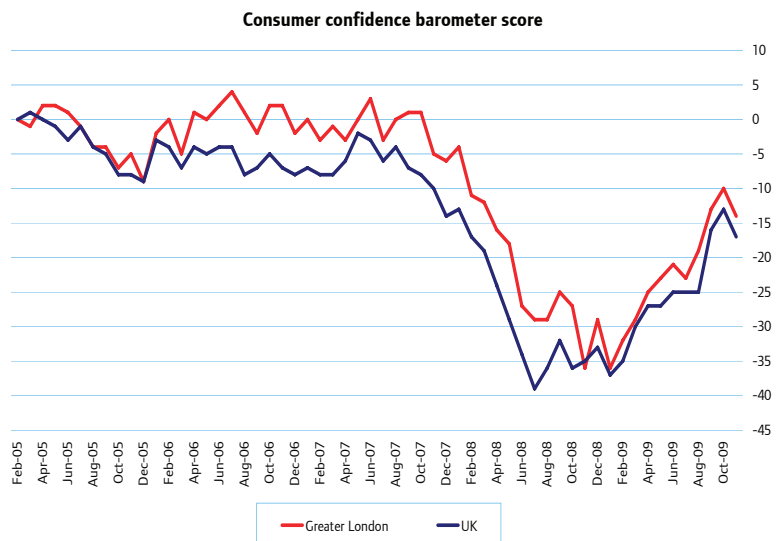
Source: Royal Institution of Chartered Surveyors

Consumer confidence falls

- 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 decreased to -14 in November from -10 in October.
- For the UK the consumer confidence score decreased to -17 in November from -13 in October.

Latest release: November 2009

Next release: December 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

GDP/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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December 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 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.

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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.

GLA Economics is funded by



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