

London's Economy Today

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UK finally crawls out of recession with extremely weak growth but inflation jumps higher

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

In the fourth quarter of 2009 the UK finally, and only just, emerged from the longest recession since quarterly records began in the mid-1950s. Gross Domestic Product (GDP) is initially estimated to have grown by a weaker than expected 0.1 per cent in Q4 2009 (see Figure 1). It should be emphasised that this is a preliminary estimate and is likely to be revised later. During the whole of 2009 the UK economy contracted by 4.8 per cent.

The UK economy has experienced an extremely deep and prolonged recession. The third quarter of 2009 was the sixth and final consecutive quarter of contraction in the UK economy. By this time GDP stood at 6.0 percentage points below its pre-recession level. Output is unlikely to reach its pre-recession level for a few years yet despite having increased slightly in Q4 2009. In the 1980s recession the final quarter of economic contraction occurred five quarters after the recession began, when GDP was 4.7 percentage points below the pre-recession level. The fifth quarter also marked the final contraction of the 1990s recession when GDP was only 2.5 percentage points lower than it was prior to the recession.

Latest news...



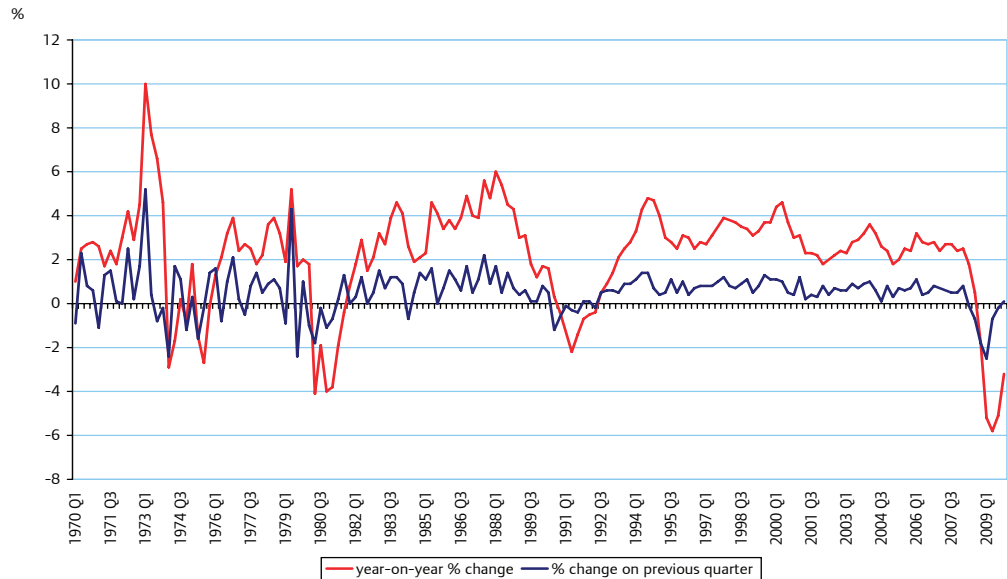
● 'Can economics learn from other social sciences?' seminar

GLA Economics is organising this event as part of the Economic and Social Research Council (ESRC) Social Science week. There will be short presentations from a number of speakers on disciplines to which we think that economists as a profession should be more open to than they are. This is particularly relevant since standard financial economic models are at least partly to blame for the recent crisis.

The event will take place on the afternoon of Thursday 18 March at City Hall. Further information on this event will be available in due course but to register your interest in attending please email glaeconomics@london.gov.uk

Figure 1: UK GDP Growth

Source: Office for National Statistics



Although the Q4 2009 data just about marks the official end of the recession (unless the Q4 figure is revised downwards), there remain severe weaknesses in the UK economy. A few sectors saw no growth in Q4 2009 including: business services and finance; transport, storage and communications; and construction. Public sector net borrowing needs to be reduced which is likely to require both further taxation increases and public expenditure cuts. This is unlikely to make for an economic environment that feels particularly positive for many people. Neither does the positive boost to GDP from a slowdown in de-stocking. There is also a risk that some quarters of GDP growth in 2010 could still be negative. Investment intentions are still weak and consumers remain nervous. The first quarter of 2010 has some particular challenges as the exceptionally bad weather may have slowed any recovery and the return of VAT to its 17.5 per cent level may have caused a shift in purchases to the fourth quarter of 2009.

As for London, it seems that it has performed relatively better during the downturn than the UK as whole. However, as the UK economy slowly starts to recover, London may do relatively worse in the initial stages of the upturn. Confidence continues to ebb in the financial services industry, which plays a larger role in London's economy than in the rest of the UK's.

Retail sector faces a difficult start to 2010

The UK retail sector had an upbeat run up to Christmas according to the British Retail Consortium (BRC). Sales figures were helped by last minute Christmas shopping and by strong online sales. BRC retail figures looked particularly strong when compared with the poor figures for December 2008.

However, VAT being put back to 17.5 per cent on 1 January 2010 may well have caused frenzied shopping in the early days of the post-Christmas sales only to be followed by a lull in sales in early January. This is likely to have been exacerbated by the heaviest snowfalls and lowest temperatures in the UK for decades. Early data indicators from Experian suggest that the VAT increase and snow has had a significant impact on shopping patterns in early 2010 with overall shopper numbers in non-food retail stores on Sunday 10 January being down 14 per cent on the equivalent Sunday last year.

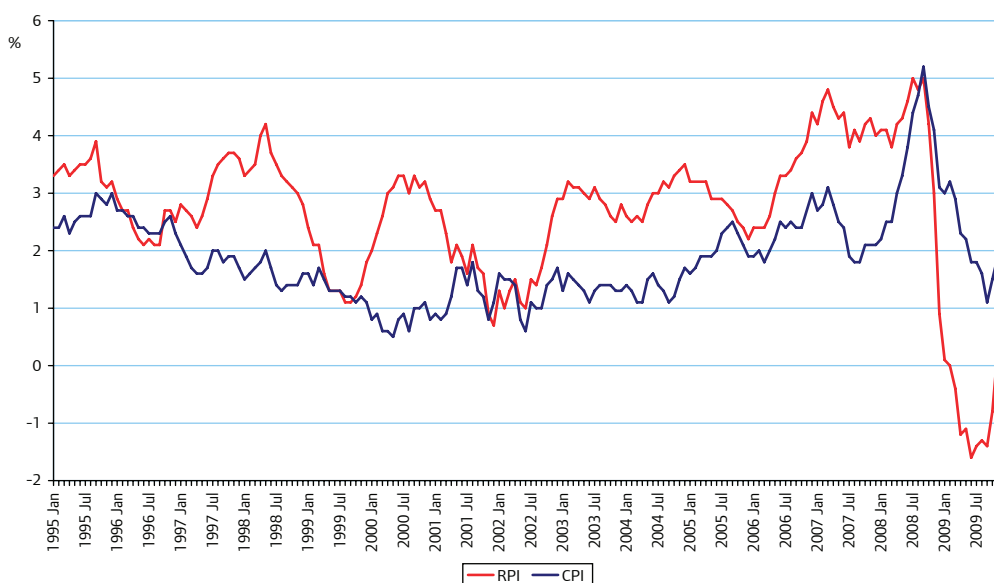
UK inflation rises sharply and is expected to spike higher over the next few months

UK RPI annual inflation rose to 2.4 per cent (see Figure 2), up from 0.3 per cent in November, which was the biggest monthly rise in the annual rate since 1979. UK CPI annual inflation also surged in December to 2.9 per cent, a jump of 1 percentage point on the November data, the biggest such rise that has occurred since records began. The rise was also a much higher increase in inflation than had been expected. This jump was caused by what the ONS called a series of “exceptional events that took place in December 2008”. These events in December 2008 included the temporary reduction in VAT to 15 per cent, sharp falls in petrol prices and heavy discounting by stores to shift unsold pre-Christmas stock, which was not replicated by similar events in December 2009. This makes it highly likely that, with VAT having risen back to 17.5 per cent on 1 January 2010, CPI inflation will breach 3 per cent in January which will necessitate Mervyn King writing a letter of explanation to the Chancellor. It also increases the likelihood that the Bank of England will not expand further its policy of quantitative easing in 2010. If higher inflation feeds through into higher pay settlements then the Bank of England may even raise interest rates a lot quicker than expected. This is also more likely to happen without a Budget that delivers a credible plan for restoring the public finances to health. Any rise in interest rates could well impair the fragile recovery severely.

Figure 2: UK annual inflation rates

Last data point is December 2009

Source: Office for National Statistics



Obama proposes new bank regulations

On 21 January US President, Barack Obama, proposed significant restrictions on the activities of banks in the US. The aim is to prevent future financial crises but international agreement on such measures would seem to be the best way forward. The plans, which need approval from Congress, would prohibit banks using their own money in trades (proprietary trading), and would ban them from owning hedge funds and private equity firms. The measures appear in many ways to return to the principles enshrined in the Glass-Steagall Act that was abolished in 1999. Stock markets reacted badly to the proposals, which could lead to the break up of a number of banks including JP Morgan and Bank of America. Shares in a number of banks fell heavily. The move also comes on the back of an announcement on 14 January of a \$117 billion levy over the next ten years that was imposed on banks in the US to recoup money the US Government spent on bailing out the financial services sector since Summer 2008.

The economy faces many hurdles in 2010

Although a global economic recovery is now underway the head of the IMF, Dominique Strauss-Kahn, warned of the danger of a double dip recession noting, "In most countries, growth is still supported by government policies". Meanwhile, the World Bank in its Global Economic Prospects 2010 forecasts that "the global economic recovery that is now underway will slow later this year as the impact of fiscal stimulus wanes". Therefore, although the UK economy is likely to continue to recover over the course of 2010, the ride is probably going to be bumpy. For many individuals the economic situation will continue to feel depressed with unemployment remaining high, taxation needing to rise, public expenditure needing to be cut and the fear of higher interest rates. The economy needs to rebalance with an increase in investment and net exports whilst household and public sector expenditure is restrained. At some point the huge monetary policy stimulus from quantitative easing and near zero-bound interest rates also needs to be withdrawn (hopefully gently). The task of policy makers will not be an easy one and it is hard to see at least the early years of this decade not being ones of austerity. During the downturn the London economy performed better than expected and relatively better than the UK as a whole. However, during the initial recovery phase London could perform less strongly than the UK.

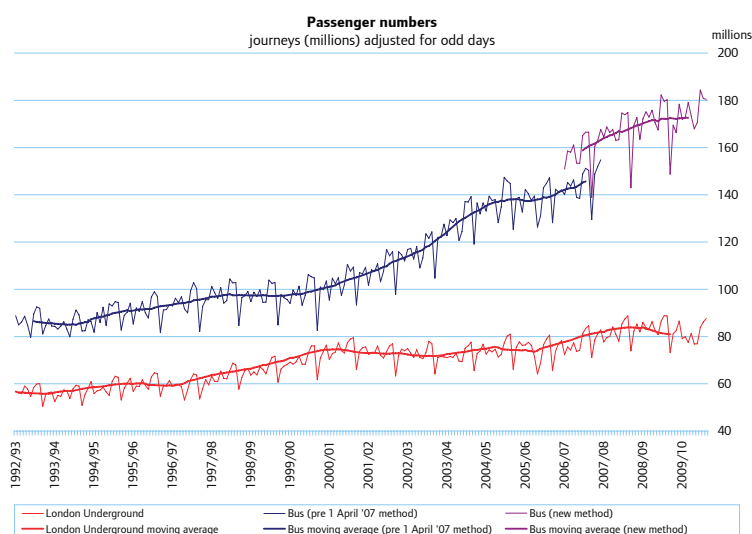
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28-day period is from 15 November 2009 to 12 December 2009. London's Underground and buses had 268.1 million passenger journeys; 180.4 million by bus and 87.6 million by Underground.
- The moving average of passengers every period decreased to 253.6 million from an upwardly revised 253.7 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: January 2010

Next release: February 2010



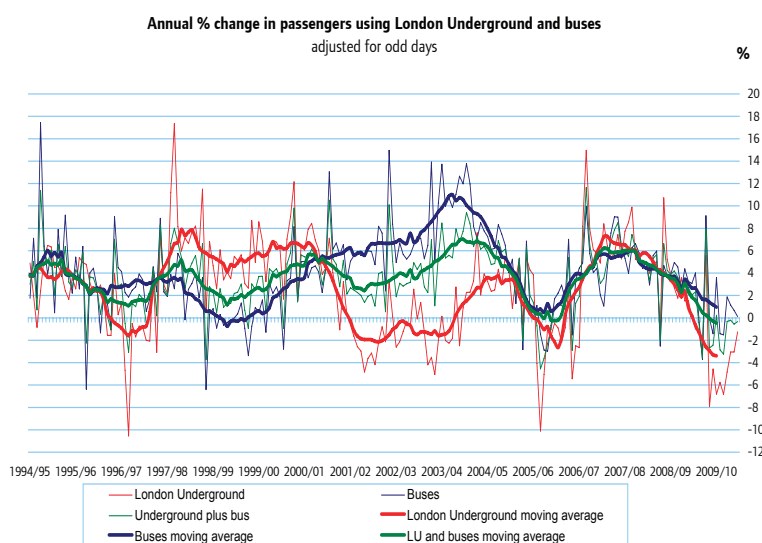
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to -0.5% from -0.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.0% from 1.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -3.4% from -3.3% in the previous period.

Latest release: January 2010

Next release: February 2010



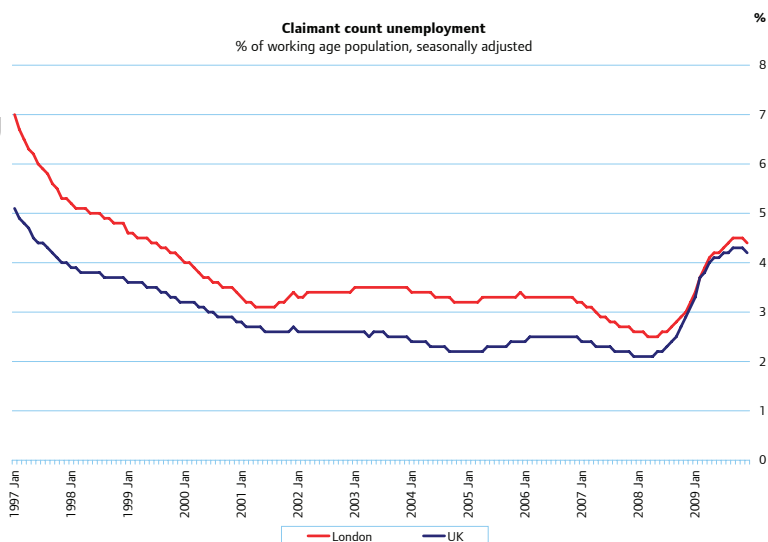
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.4% in December 2009.
- There were 226,100 seasonally adjusted unemployment claimants in London in December compared with a downwardly revised 227,700 in November.
- There were 1,606,500 seasonally adjusted unemployment claimants in the UK in December 2009 compared with a downwardly revised 1,621,700 in November.

Latest release: January 2010

Next release: February 2010



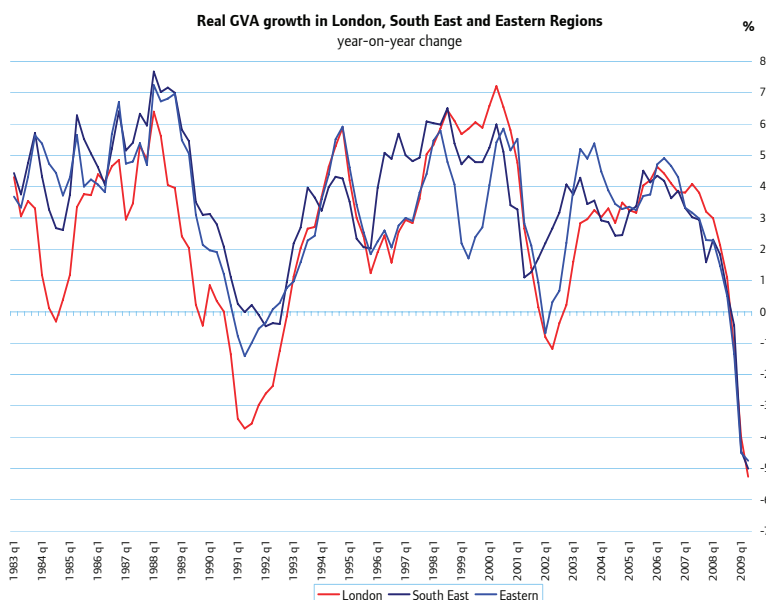
Source: Claimant Count, Nomis

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

- London's annual growth in output decreased to -5.3% in Q2 2009 from a downwardly revised -4.0% in Q1 2009.
- Annual output growth in the South East decreased to -5.0% in Q2 2009 from a downwardly revised -4.4% in Q1 2009.
- Annual output growth in the Eastern region decreased to -4.8% in Q2 2009 from a downwardly revised -4.5% in Q1 2009.

Latest release: November 2009

Next release: February 2010

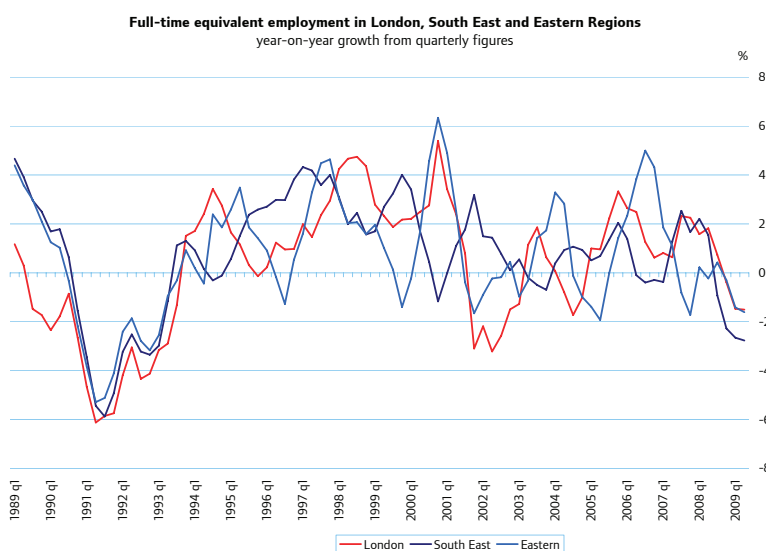


Annual employment growth negative in London, the South East and the Eastern region

- London's annual employment growth remained at -1.5% in Q2 2009 (the figure for Q1 2009 has been revised down from -0.6% to -1.5%).
- Annual employment growth in the South East decreased to -2.8% in Q2 2009 from -2.7% in Q1 2009.
- Annual employment growth in the Eastern region decreased to -1.6% in Q2 2009 from an upwardly revised -1.4% in Q1 2009.

Latest release: November 2009

Next release: February 2010

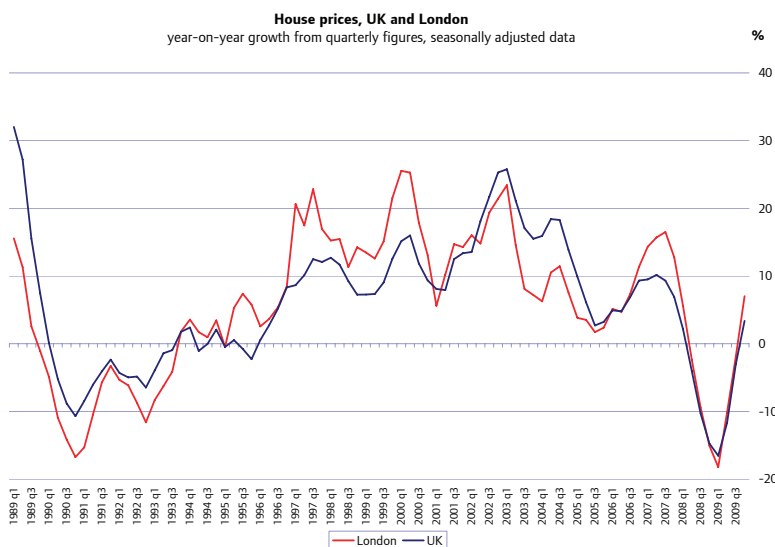


Annual house price inflation rises

- House prices, as measured by the Nationwide, were higher in Q4 2009 than in Q4 2008 in both London and the UK.
- Annual house price inflation in London was 7.0% in Q4 2009, up from -1.9% in Q3 2009.
- Annual house price inflation in the UK was 3.4% in Q4 2009, up from -3.0% in Q3 2009.

Latest release: January 2010

Next release: April 2010

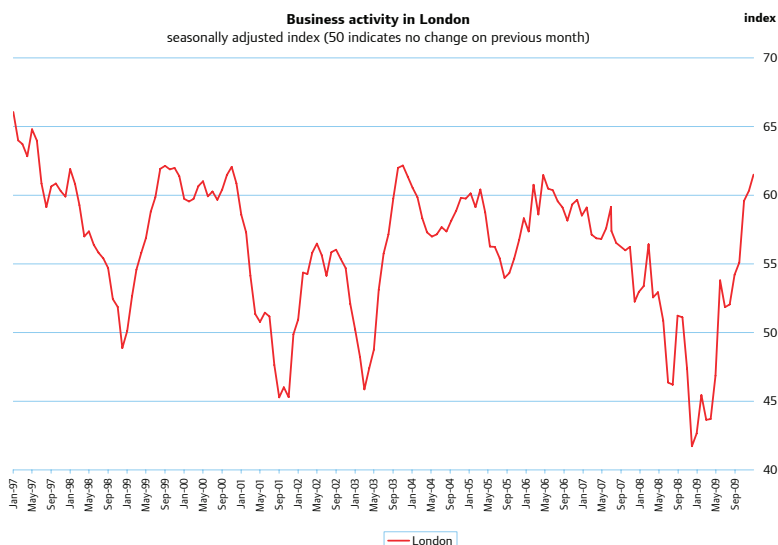


London's business activity continues to increase

- London firms increased their output of goods and services in December 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 61.5 in December compared to 60.3 in November.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: January 2010

Next release: February 2010



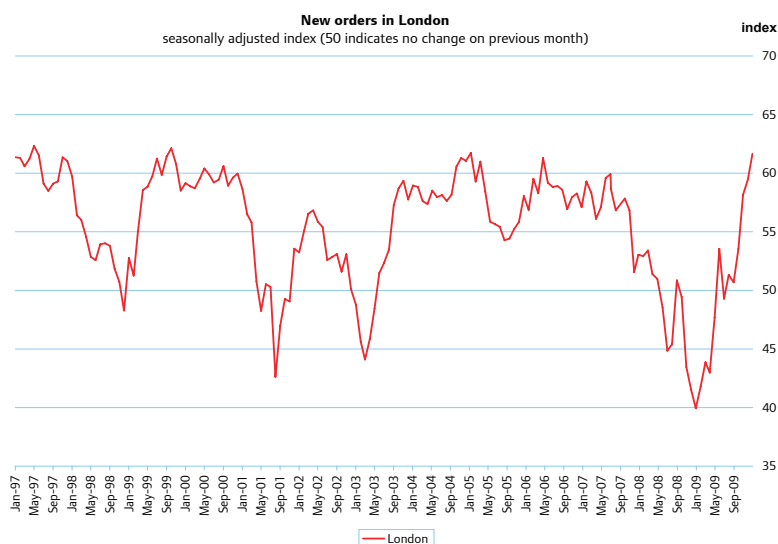
Source: Markit Economics

New orders in London rising

- December 2009 saw a rise in new orders for London firms.
- The PMI for new orders recorded 61.7 in December compared to 59.5 in November.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: January 2010

Next release: February 2010



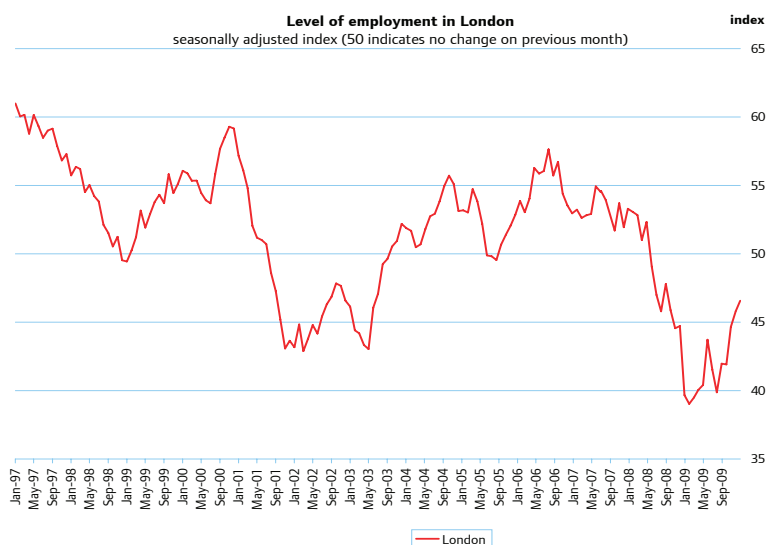
Source: Markit Economics

London employment still falling

- The PMI shows that the level of employment in London firms decreased in December 2009.
- The PMI for the level of employment was 46.6 in December compared to 45.8 in November.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: January 2010

Next release: February 2010



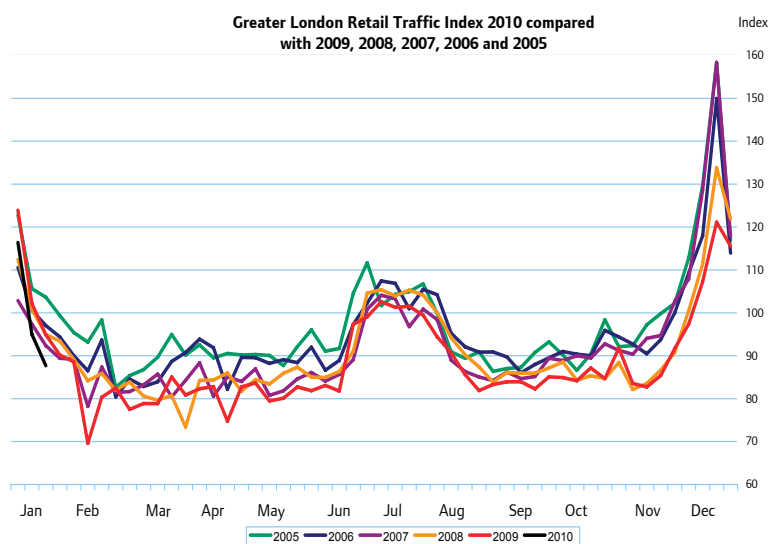
Source: Markit Economics

Synovate Retail Traffic Index has weak start to the new year

- The Synovate Retail Traffic Index of shoppers in London was 87.7 in the second week of January compared to 95.0 in the previous week.
- The index has started 2010 below 2009 levels.
- Synovate's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-January 2010

Next release: Weekly



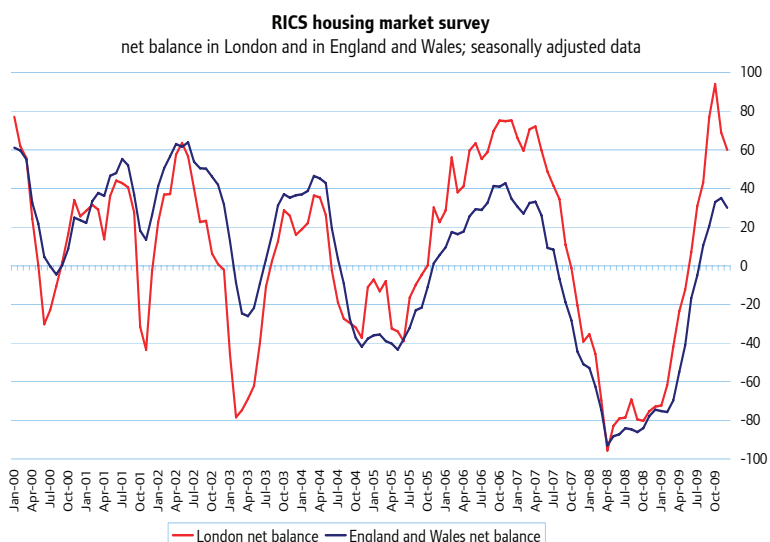
Source: Synovate

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 60 for London house prices over the past three months to December 2009. This net balance is down from an upwardly revised 69 in November 2009.
- Surveyors reported a positive net house price balance for England and Wales of 30 in the past three months to December 2009, down from 35 in November 2009.
- London's net house price balance is above that of England and Wales.

Latest release: January 2010

Next release: February 2010



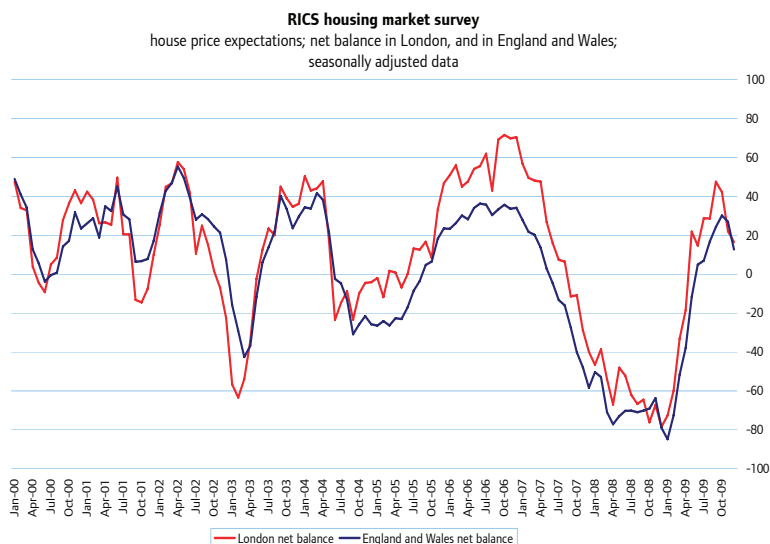
Source: Royal Institution of Chartered Surveyors

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 16 in December 2009, down from 22 in November 2009.
- For England and Wales, the net house price expectations balance was 13 in December 2009, down from 27 in November 2009.

Latest release: January 2010

Next release: February 2010



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

GDP/GVA growth

Experian Business Strategies on 020 7630 5959

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

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

Internet www.london.gov.uk

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Public Liaison Unit
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

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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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