

# London's Economy Today

Issue 113 | January 2012

## In this issue

Slight fall in UK output in Q4 2011 .....	1
Latest news .....	1
Economic indicators .....	5

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The LET presence on Datastore aims to create more interaction and a greater personal focus for London's Economy Today while also allowing for the incorporation of feedback and views from the readership.

<http://data.london.gov.uk/londons-economy-today>

## Slight fall in UK output in Q4 2011

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

**According to the preliminary estimate of GDP from the Office for National Statistics (ONS) on 25 January, the fourth quarter of 2011 saw UK GDP fall by 0.2 per cent (see Figure 1). This compares to an expansion of 0.6 per cent in Q3 2011.**

GDP is now about 4 per cent below its pre-recession peak. The economy will however need to contract again in Q1 2012 for the UK to have re-entered a technical recession, which is defined as two consecutive quarters of negative growth. The decrease in GDP in Q4 2011 was driven by falling output in the production industries and the construction sector. Meanwhile output in the services sector remained flat. The sectoral breakdown of the Q4 2011 UK GDP figures suggests that the London economy probably performed a bit better than the UK economy as a whole at the end of last year.

## Latest news...

### Ward level summary measures of deprivation and the older people's and children's indices

To supplement the published government data from the Indices of Deprivation 2010, GLA Intelligence has produced further measures at ward and borough level for London.

<http://www.london.gov.uk/publication/ward-level-summary-measures-deprivation-and-older-peoples-and-childrens-indices>

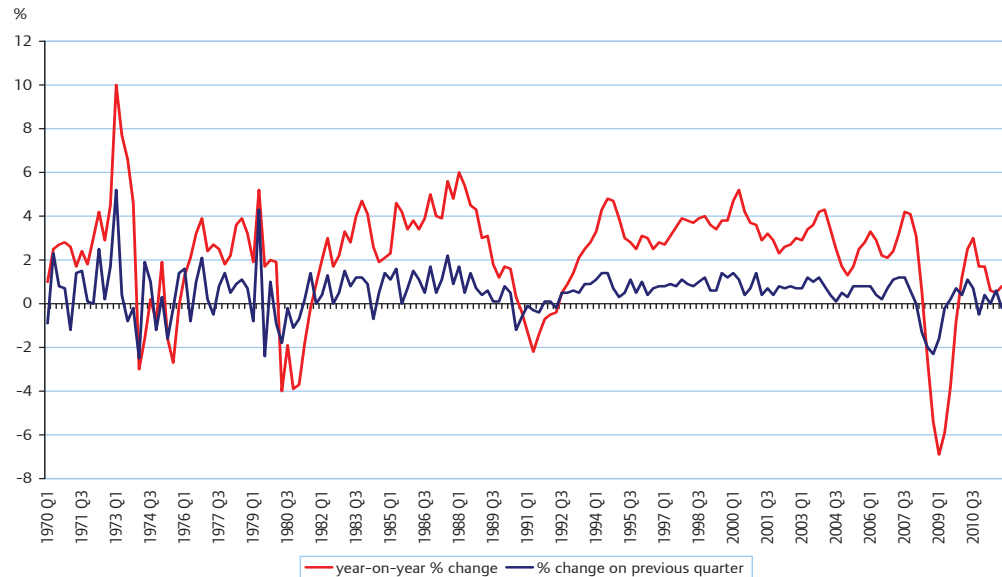
### Focus on London 2012 - Skills: Degrees of Qualification

This edition explores the skills and qualification levels of young people before moving on to an analysis of adults' qualifications and the skills that different occupations in London require.

<http://www.london.gov.uk/who-runs-london/mayor/publications/society/facts-and-figures/focus-on-london/skills-degrees-qualification>

**Figure 1: UK GDP Growth**

Source: Office for National Statistics



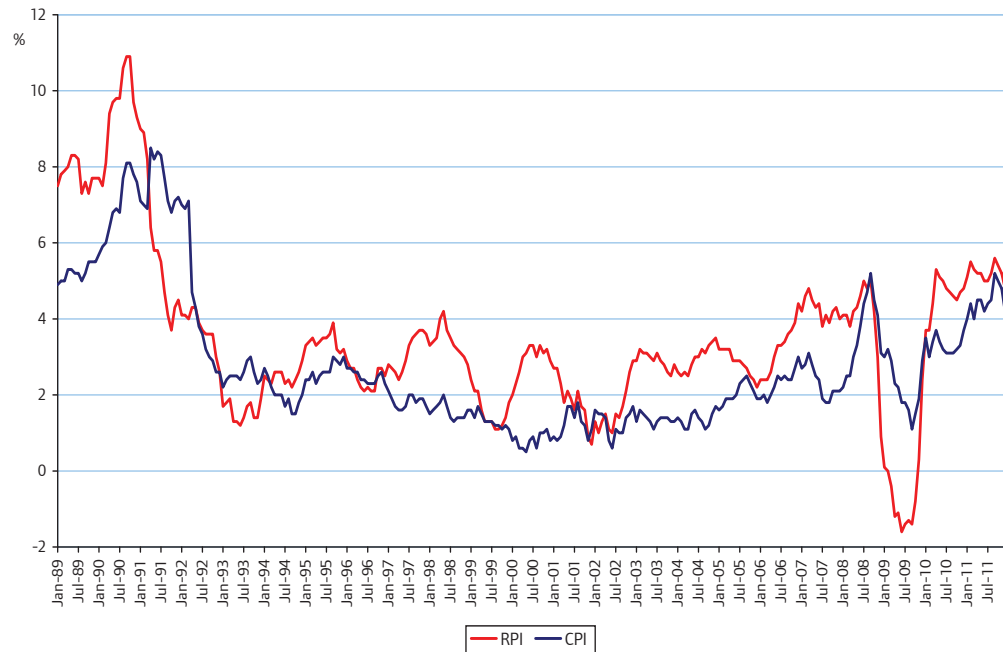
The breakdown of the Q4 GDP figure shows that not all sub-sectors of the UK economy contracted. For example output in 'government and other services' rose by 0.4 per cent. Output in the construction sector decreased by 0.5 per cent in Q4 2011, after increasing by 0.3 per cent in Q3 2011. Output in the production industries fell by 1.2 per cent in Q4 2011, after rising by 0.2 per cent in Q3 2011. Total output in the services sector was unchanged in Q4 2011, after growing by 0.7 per cent in the previous quarter. Output in business services and finance (a sector of importance to London) was unchanged in Q4 2011 compared to an increase of 1.2 per cent in Q3 2011. GDP was 0.8 per cent higher in Q4 2011 compared with Q4 2010. Between Q4 2010 and Q4 2011 construction output increased by 1.3 per cent, production industries output fell by 2.6 per cent whilst services sector output grew by 1.7 per cent (and within this, business services and finance grew by 2.1 per cent).

## **Inflation remains above target but is expected to keep falling during 2012**

Annual Consumer Price Index (CPI) inflation fell to 4.2 per cent in December 2011 down from 4.8 per cent in November (see Figure 2). Retail Price Index (RPI) inflation also fell in December to 4.8 per cent from 5.2 per cent in November 2011. CPI inflation however remains above the Bank of England's symmetrical target of 2 per cent and has been more than 1 per cent above this target since January 2010 (the level at which the Governor of the Bank of England is required to write an explanatory letter to the Chancellor of the Exchequer). Inflation is expected to moderate in 2012 with a number of one off factors that raised prices in 2011 dropping out of the index such as the VAT rise in January 2011. Wage inflation remains low and unemployment is rising so despite the easing in inflation household budgets will remain under pressure.

**Figure 2: UK annual inflation rates**  
Last data point is December 2011

Source: Office for National Statistics

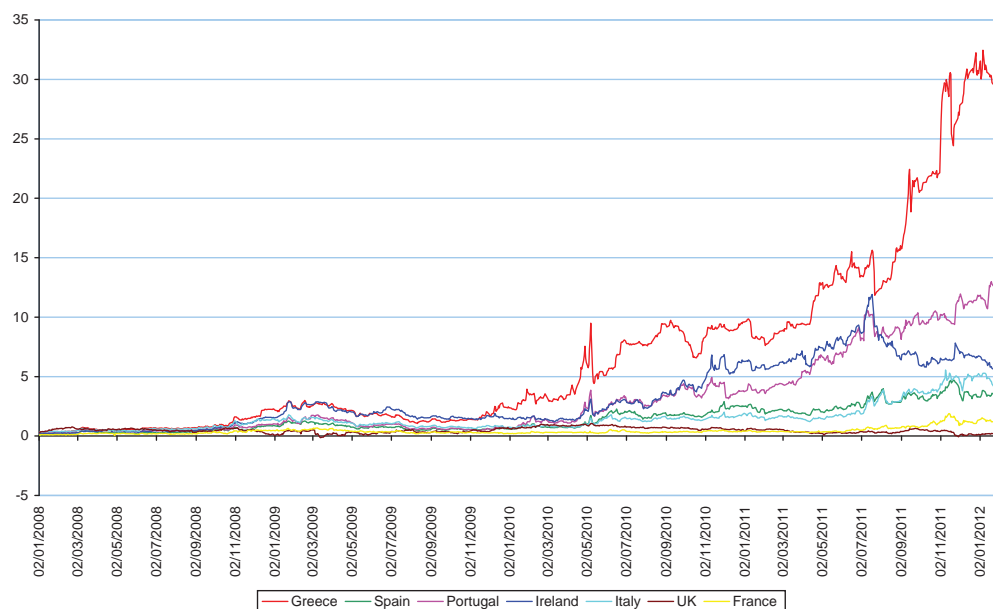


## Sovereign debt downgraded in France and other Eurozone countries

On 13 January Standard and Poor's (S&P) downgraded both Austrian and French government debt from AAA to AA+. Seven other Eurozone countries sovereign debt was also downgraded with Portuguese debt being downgraded to junk status. In justifying their move S&P claimed that the December 2011 EU summit had "not produced a breakthrough of sufficient size and scope to fully address the Eurozone's financial problems". S&P also gave 14 out of the 16 Eurozone countries a negative outlook, meaning that each country has a one in three chance of suffering a further downgrade in the next two years. Germany however kept its AAA status which could increase the financial imbalances in the Eurozone. The divergence in many governments' borrowing costs compared to Germany remains high (see Figure 3). The sovereign downgrades weakened the European Financial Stability Fund as it means that it is now backed by only four triple A rated countries. This led to its downgrade to AA+ on 16 January by S&P. The possibility of a messy sovereign debt default by Greece has not gone away and this would unsettle markets and potentially cause serious contagion knock on effects.

**Figure 3: Ten-year government bond spreads over German government bonds, percentage points**  
Last data point is 24/01/2012

Source: EcoWin



## **The first half of 2012 is likely to be tough with Eurozone weakness hitting the UK and London economies**

The end of 2011 saw the Eurozone economy slipping back towards recession as business and consumer confidence was hit by the ongoing sovereign debt crisis. China's economy grew at its slowest pace for over two years in the last quarter of 2011 but at a rate still over 8 per cent per annum. The World Bank has downgraded its forecasts for global economic growth with it now forecasting growth of 2.5 per cent for 2012 and 3.1 per cent for 2013 and the Eurozone is expected to contract in 2012. The World Bank also warned of the dangers to the global economy if the Eurozone crisis escalated with Andrew Burns, head of macroeconomics at the Bank saying that "an escalation of the crisis would spare no-one. Developed and developing-country growth rates could fall by as much or more than in 2008/09". More positive economic news is coming from the US with its economic recovery seeming to pick up in December as unemployment dropped to 8.5 per cent, its lowest rate in nearly three years. The UK economy is going through a weak patch with a significant pick-up not expected until the second half of this year. The London economy is not immune to this weakness but the capital's housing market has remained firmer, public transport usage is growing and the Olympics should provide a boost later in the year.

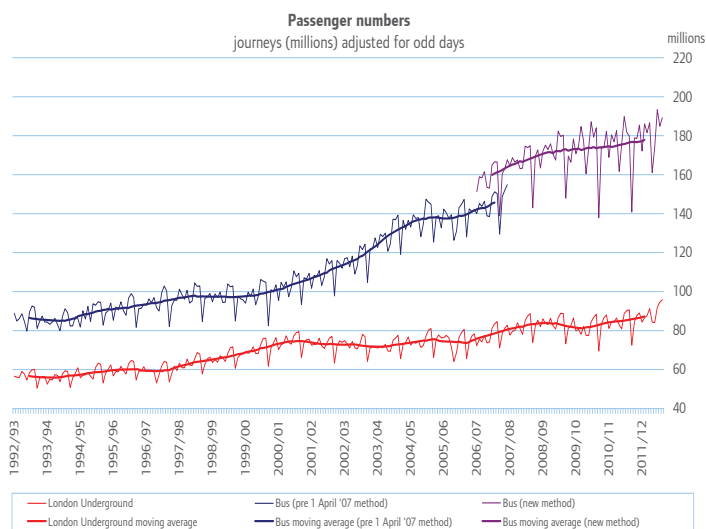
# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28 day period is from 13 November 2011 to 10 December 2011. Adjusted for odd days, London's Underground and buses had 285.0 million passenger journeys; 189.2 million by bus and 95.8 million by Underground.
- The moving average of passengers every period increased to 265.1 million from a downwardly revised 264.0 million in the previous period. The moving average for buses was 177.9 million. The moving average for the Underground was 87.3 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: January 2012

Next release: February 2012



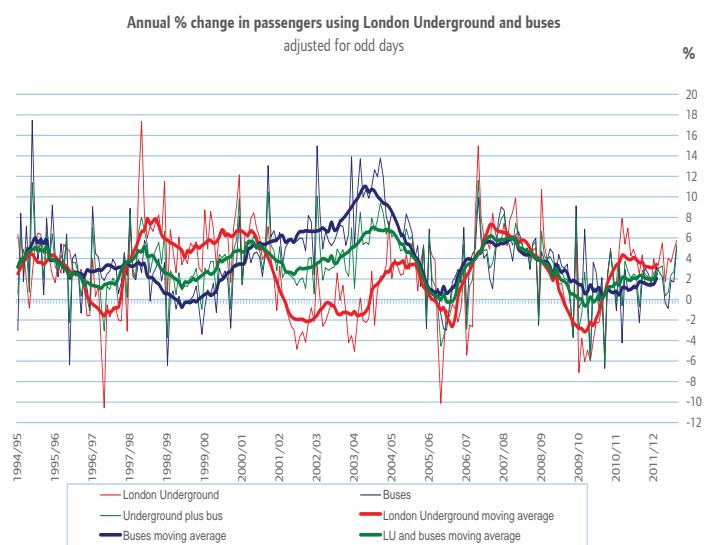
Source: Transport for London

## Average annual growth rate of passengers increases

- The moving average annual rate of growth in passenger journeys increased to 2.5% from 2.0% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 2.1% from 1.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 3.4% from 3.2% in the previous period.

Latest release: January 2012

Next release: February 2012



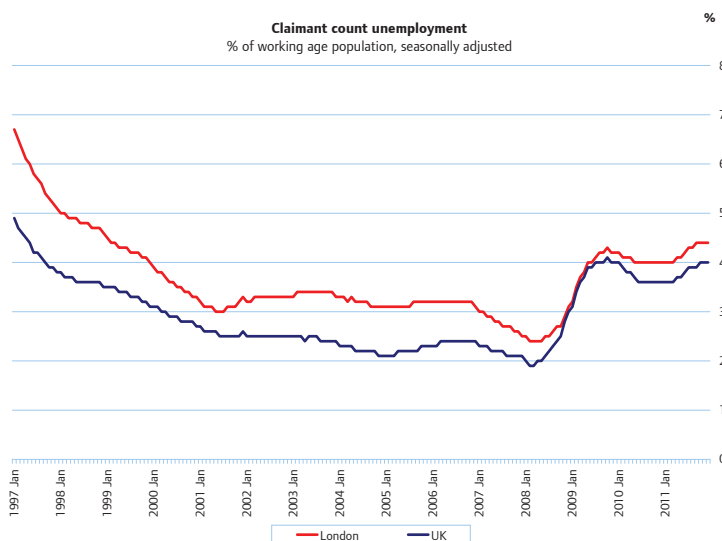
Source: Transport for London

## 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 2011.
- There were 238,400 seasonally adjusted unemployment claimants in London in December 2011 compared with a downwardly revised 237,400 in November 2011.
- There were 1,597,000 seasonally adjusted unemployment claimants in the UK in December 2011 compared with a downwardly revised 1,595,800 in November 2011.

Latest release: January 2012

Next release: February 2012



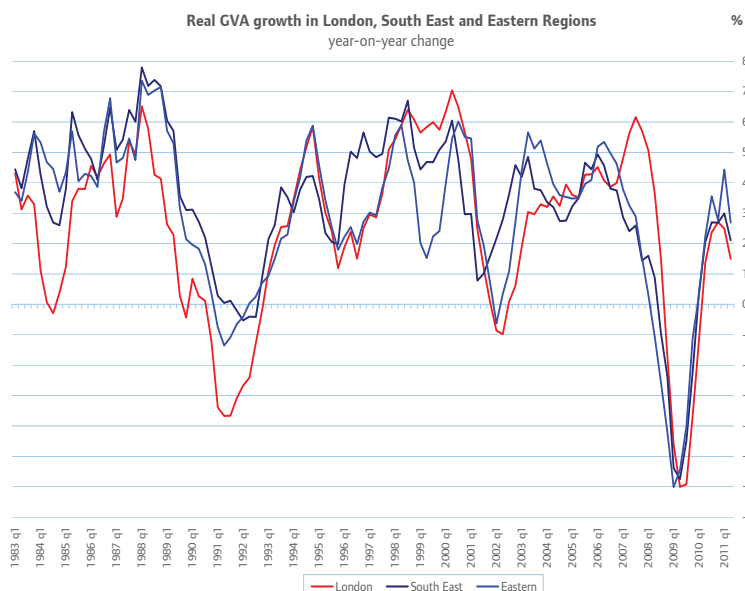
Source: Claimant Count, Nomis

## Annual output growth in London slowed in Q2 2011

- London's annual growth in output decreased to 1.5% in Q2 2011 from 2.5% in Q1 2011.
- Annual output growth in the South East decreased to 2.1% in Q2 2011 from 3.0% in Q1 2011.
- Annual output growth in the Eastern region decreased to 2.7% in Q2 2011 from 4.4% in Q1 2011.

Latest release: November 2011

Next release: February 2012

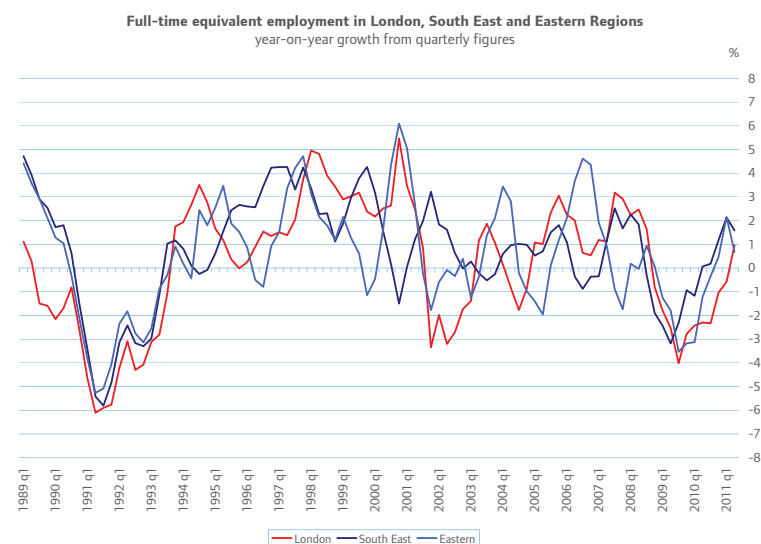


## Positive annual employment growth in London in Q2 2011

- London's annual employment growth increased to 1.0% in Q2 2011 from -0.6% in Q1 2011.
- Annual employment growth in the South East decreased to 1.6% in Q2 2011 from 2.1% in Q1 2011.
- Annual employment growth in the Eastern region decreased to 0.7% in Q2 2011 from 2.1% in Q1 2011.

Latest release: November 2011

Next release: February 2012

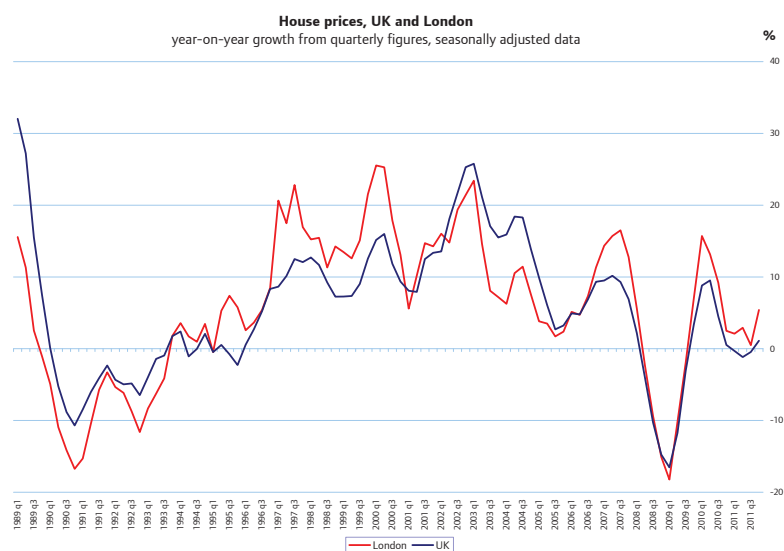


## Annual house price inflation rising

- House prices, as measured by Nationwide, were higher in Q4 2011 than in Q4 2010 in London and in the UK.
- Annual house price inflation in London was 5.4% in Q4 2011, up from 0.5% in Q3 2011.
- Annual house price inflation in the UK was 1.1% in Q4 2011, up from -0.5% in Q3 2011.

Latest release: January 2012

Next release: April 2012

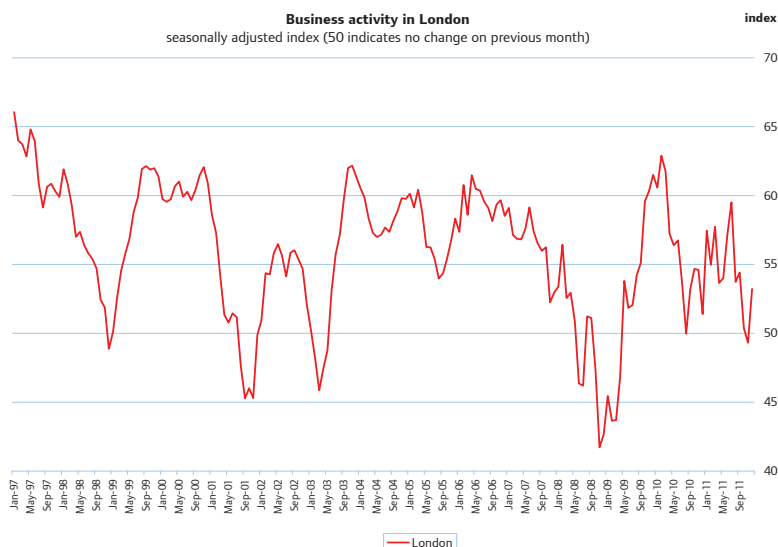


## London's business activity increasing

- London firms increased their output of goods and services in December 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.2 in December 2011 compared to 49.3 in November 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: January 2012

Next release: February 2012



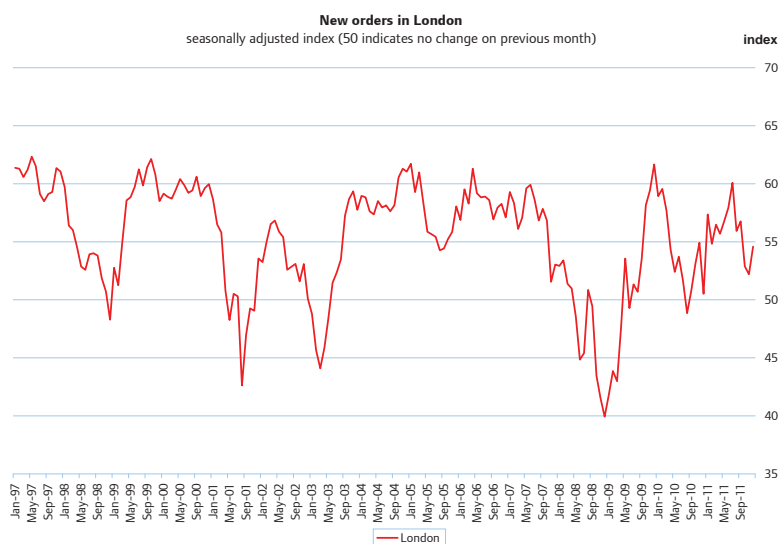
Source: Markit Economics

## New orders in London rising

- December 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 54.6 in December 2011 compared to 52.2 in November 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: January 2012

Next release: February 2012



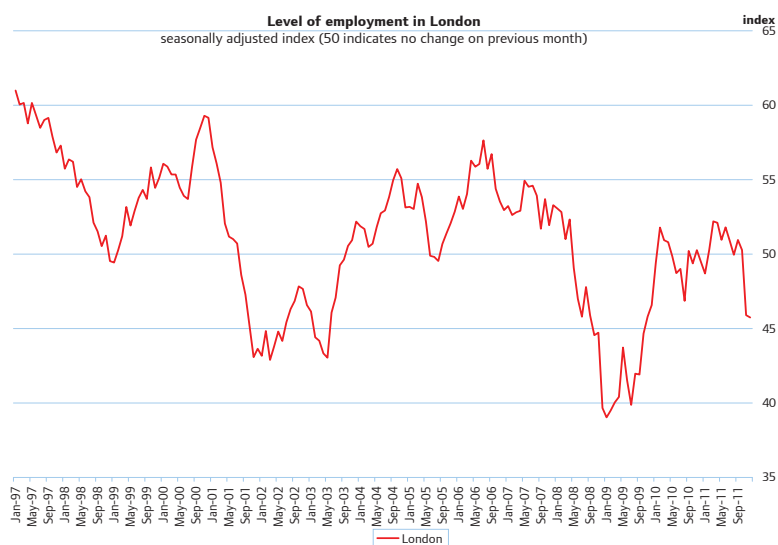
Source: Markit Economics

## Businesses report lower employment in December

- The PMI shows that the level of employment in London firms decreased in December 2011.
- The PMI for the level of employment was 45.7 in December 2011 compared to 45.9 in November 2011.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: January 2012

Next release: February 2012



Source: Markit Economics

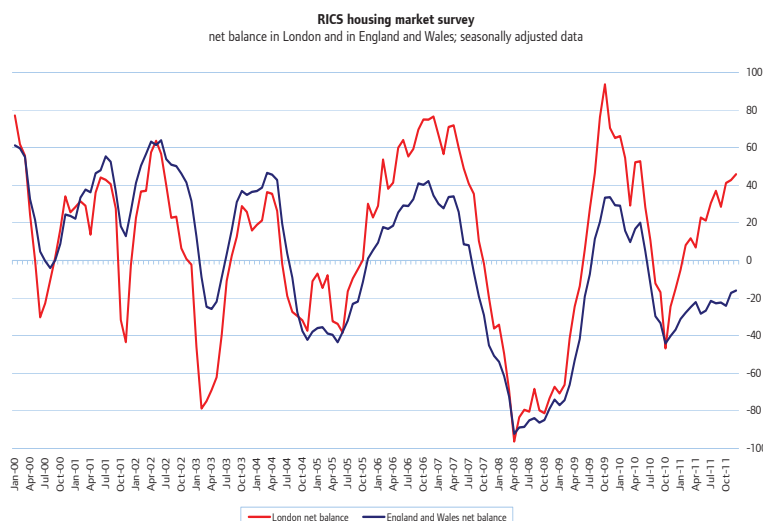


## Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 46 for London house prices over the three months to December 2011.
- Surveyors reported a negative net house price balance for England and Wales of -16 over the three months to December 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: January 2012

Next release: February 2012



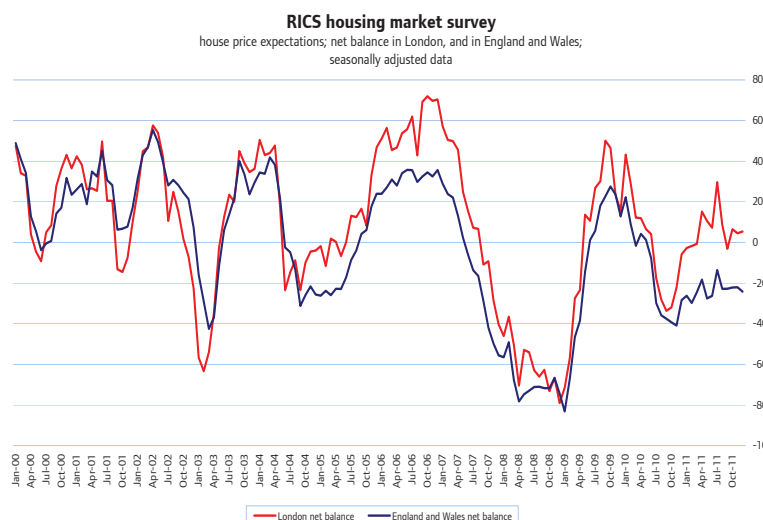
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices in London to rise over the next three months but to continue to fall in England and Wales.
- The net house price expectations balance in London was 5 in December 2011.
- For England and Wales, the net house price expectations balance was -24 in December 2011.

Latest release: January 2012

Next release: February 2012



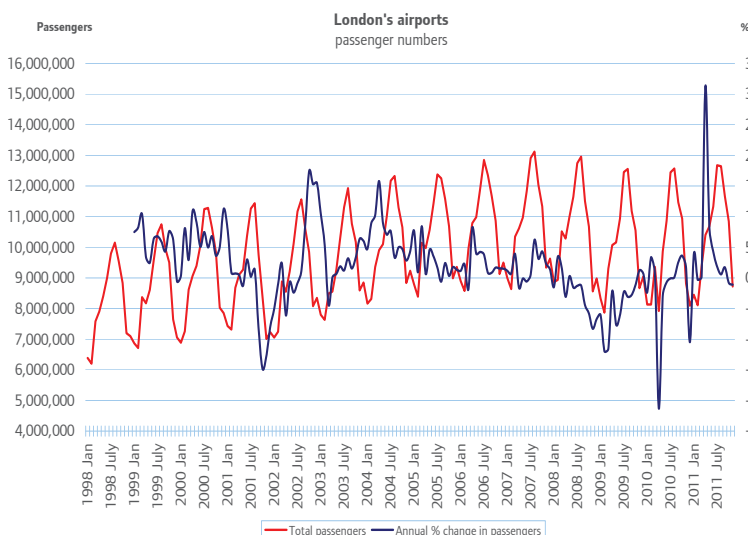
Source: Royal Institution of Chartered Surveyors

## Small decrease in year-on-year airport passenger numbers

- 8.7 million passengers travelled through London's airports in November 2011.
- The number of passengers using London's airports decreased by 1.1% from November 2010 to November 2011.
- Airport passenger numbers fell during the recession and are still below pre-recession levels.

Latest release: January 2012

Next release: February 2012



Source: Civil Aviation Authority



## 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 Economics on 020 7746 8260

### 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.

### 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 2011/12 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

### 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 2011/12 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

## Acronyms

<b>ABI</b>	Annual Business Inquiry	<b>IMF</b>	International Monetary Fund
<b>BAA</b>	British Airports Authority	<b>LCCI</b>	London Chamber of Commerce and Industry
<b>BCC</b>	British Chamber of Commerce	<b>LET</b>	London's Economy Today
<b>CAA</b>	Civil Aviation Authority	<b>MPC</b>	Monetary Policy Committee
<b>CBI</b>	Confederation of British Industry	<b>ONS</b>	Office for National Statistics
<b>CLG</b>	Communities and Local Government	<b>PMI</b>	Purchasing Managers' Index
<b>GDP</b>	Gross domestic product	<b>PWC</b>	PricewaterhouseCoopers
<b>GVA</b>	Gross value added	<b>RICS</b>	Royal Institution of Chartered Surveyors
<b>ILO</b>	International Labour Organisation		

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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.