GLAECONOMICS

London’s Economy Today

Issue 182 | October 2017

In this issue

LET data to Datastore

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/gla-economics/let/

UK economic growth remains weak

By **Mark Wingham,** Economist, and **Emma Christie,** Economist

Despite picking up slightly, the UK economy grew at a relatively weak pace in the third quarter of 2017. The rate of growth on a quarter-on-quarter basis was estimated at 0.4 per cent, compared with 0.3 per cent growth in the second quarter according to data from the Office for National Statistics (ONS) published in October. Although the UK economy has now grown in every quarter since Q4 2012, the latest rate of growth was weaker than the average during this period (0.6 per cent).

This weakness can more clearly be seen when looking at the GDP data on a year-on-year basis. Here, the UK economy grew by 1.5 per cent (on par with Q2 2017) and that was one of the weakest expansions since Q2 2012. Although this is the first estimate of GDP meaning that it can be revised up or down once more information becomes available, these GDP estimates do suggest a slowing underlying growth trend in the UK (Figure 1).

The labour market continued to perform strongly. During the three months to August 2017, the UK’s employment rate for 16-64 year olds was 75.1 per cent, which was one of the highest levels since records began in the early 1970s. Similarly, the unemployment rate for people aged 16 years and over was 4.3 per cent, its

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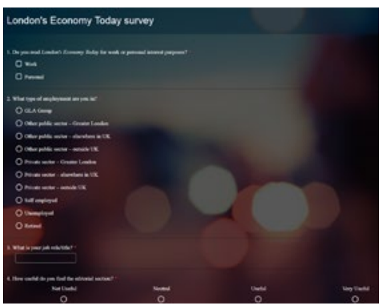


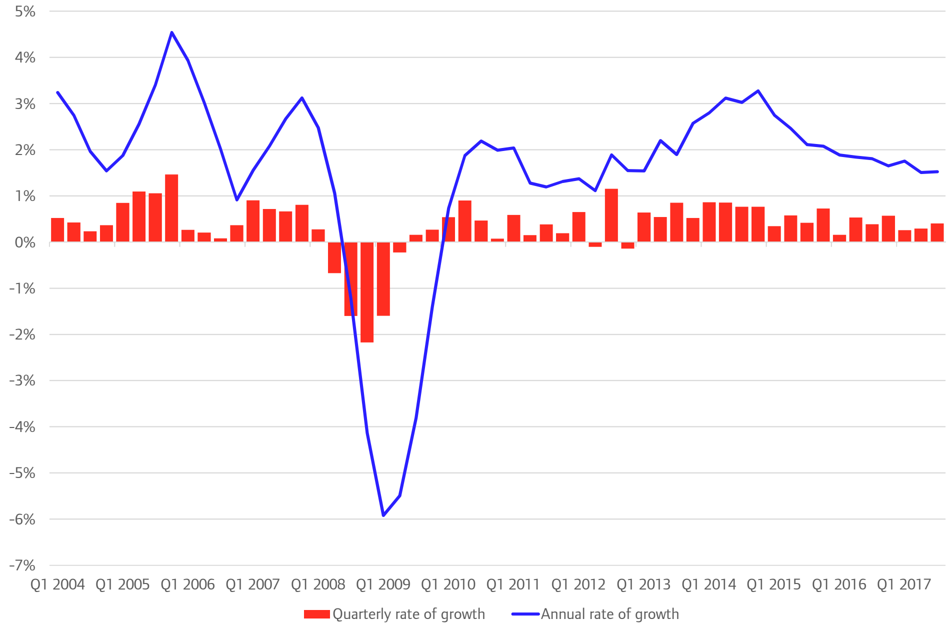
London’s Economy Today reader survey

The aim of ‘London’s Economy Today’ is to provide a relevant summary of what is happening in London’s economy every month. We want to know how useful you find it. We are also interested in whether it covers the right topics and includes the right information.

We would appreciate if you could spend just a couple of minutes to complete a very short online survey. It will be completely anonymous. We will then use your views to make improvements to ‘London’s Economy Today’.

Figure 1: Quarterly and annual real GDP growth for the UK between 2004 and 2017

Source: ONS

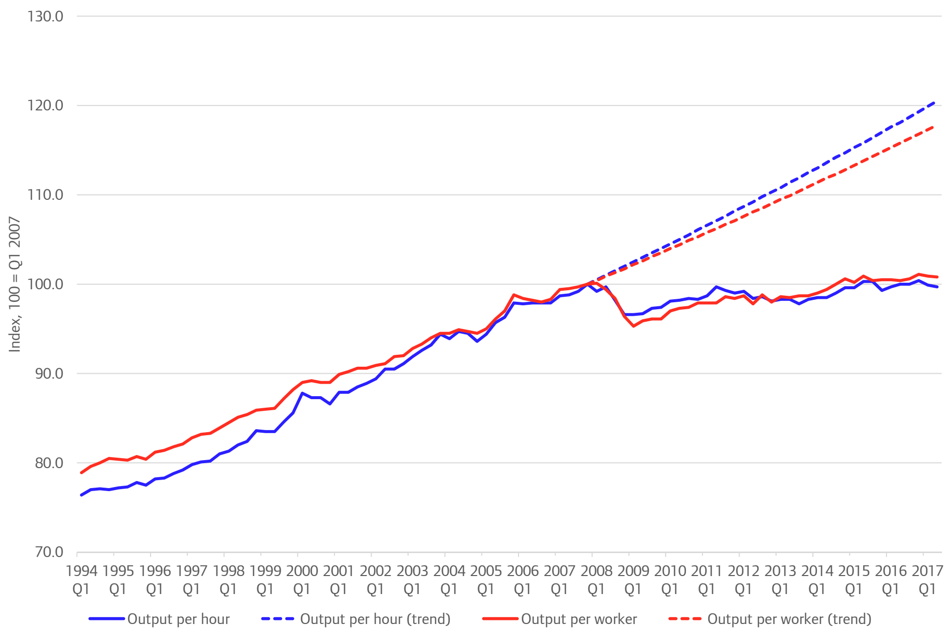


joint-lowest since 1975. However, blemishing this rosy employment picture is that earnings after adjusting for inflation continued to fall. Real earnings fell for the fifth consecutive month in August, with them being down 0.3 per cent from a year earlier.

The relatively strong labour market, but slowish GDP growth trend suggests weakness in terms of productivity. That is, it suggests the growth in employment is not being matched by an equally as strong rise in output. In fact, productivity estimates from the ONS showed output per hour worked fell 0.1 per cent during Q2 2017. Indeed, after adjusting for inflation, the amount produced per hour was broadly the same as in 2007. The UK's labour productivity has also lagged other major economies like the US, Germany and France.

Figure 2: Productivity measures for the UK between 1994 and 2017, constant prices, 100 = Q4 2007

Note: the dashed lines illustrate the productivity measures if they continued in line with the historic trend between 1994 and 2008.. Source: ONS



This sluggish labour productivity trend is expected to continue in the medium-term according to the Office for Budget Responsibility (OBR). The OBR noted in their biannual evaluation of their forecasts that they will significantly reduce their "assumption for potential productivity growth over the next five years" in their forthcoming November predictions. This is important as the OBR provides the economic forecasts used by the Government and can affect spending plans and fiscal targets. The Chancellor will present the next Budget on 22 November and this downward revision to future productivity growth – all other things being equal – would "weaken the medium-term outlook for the public finances".

Speculation about future UK interest rate rises intensifies

Meanwhile, consumer price index (CPI) inflation in the UK hit 3 per cent in September. It was closely watched as this month's inflation rate is used in the 'triple lock' guarantee for state pensions. Although the inflation rate was up only slightly from 2.9 per cent in August, it was nonetheless at the highest level since April 2012. Moreover, the Governor of the Bank of England, Mark Carney, told the Treasury Select Committee that he anticipates inflation rising even higher, though potentially peaking in the coming months.

The relatively high level of inflation – especially as it remains above the Bank of England target of 2 per cent – has raised speculation of an interest rate rise soon. In fact, it could be as early as the next Monetary Policy Committee meeting on 2 November. This would be the first increase since July 2007. This speculation is further fuelled by the Governor who recently suggested that it was time for the Bank to "ease its foot off the accelerator". That said, any increase would be to a "limited extent and gradual".

PM calls for a two-year transition period for Brexit

Despite the prospects of a slight increase in interest rates soon, a cloud of uncertainty still looms over the UK economy in terms of the outcome of the Brexit negotiations. At the end of September, the Prime Minister gave a speech in Florence with the aim of providing some clarity over the UK's negotiating position. Among other things, Theresa May called for a status-quo transition period starting from March 2019 and lasting for "about two years" and said that the UK will meet its financial commitments to the EU. However, despite the PM's announcement, the fifth round of negotiations ended with the EU chief negotiator Michael Barnier saying there is still "deadlock" on several key issues. Consequently, he does not think there has been sufficient progress yet to start discussions on the future relationship, though this could be reassessed by the end of the year.

Given the slow progress with negotiations to date, Theresa May and the EU Commission President Jean-Claude Juncker recently agreed to "accelerate" the talks. What this means in reality is still unknown, however.

With the negotiations still underway, the uncertainty around Brexit persists. For example, the Bank of England have called for a transition period to be agreed by Christmas or otherwise "firms would start discounting the likelihood of a transition in the central case of their planning". The British Chamber of Commerce also said that political uncertainty, Brexit and currency fluctuations are weighing down business growth prospects in their latest Quarterly Economic Survey. Similarly, the UK Chancellor acknowledged that "the sooner that there is clarity; the sooner we can move forward, give businesses and investors more certainty about the future, the quicker this economy will start growing again".

IMF raises global economic growth forecasts

Internationally the economic picture is generally quite upbeat. For instance, the International Monetary Fund (IMF) revised up their forecasts for global economic growth in its latest World Economic Outlook. It now expects the global economy to grow 3.6 per cent in 2017 and 3.7 per cent in 2018, both of which are up 0.1 percentage points from their previous forecasts.

Interestingly, the IMF raised its forecasts for all advanced economies, except for the UK for which its forecast of 1.7 per cent growth in 2017 and 1.5 per cent in 2018 remained unchanged from their last forecast. They cited that the UK's economic prospects reflected weaker consumer spending growth due to the fall in sterling and falls in real earnings, as well as the uncertain impact of Brexit. Meanwhile, the OECD is more pessimistic with their latest biennial economic survey of the UK suggesting that growth will be 1.6 per cent in 2017 and 1 per cent in 2018.

For the US, the IMF expects growth of 2.2 per cent in 2017 and 2.3 per cent in 2018 (up from 2.1 per cent for both years). This follows news that US economic growth in the second quarter was revised up from an initial annualised estimate of 2.6 per cent to 3.1 per cent (or 0.8 per cent on a quarterly basis). This means the US was growing at its fastest rate for over two years. Other indicators meanwhile showed temporary effects by Hurricanes Irma and Harvey. For example, business and fuel disruptions contributed to non-farm payrolls being little-changed and inflation rising to a five-month high both in September. Taken all together, the Federal Reserve looks set to raise interest rates again soon with the minutes of the last Federal Open Market Committee meeting saying that some "participants thought that another increase in [interest rates] later this year was likely to be warranted".

Elsewhere, in China, the economy grew 6.8 per cent in Q3 2017. While that was down slightly from 6.9 per cent in Q2, it was nonetheless above the Government's annual growth target of 6.5 per cent. Alongside these GDP numbers, President Xi Jinping also announced at the start of the Communist Party congress that China will deepen its economic and financial reforms and further open its market to foreign investors.

Meanwhile, in Spain, the political crisis in Catalonia has led the Spanish Government to cut its economic forecast for 2018. It now expects growth of 2.3 per cent, down from 2.6 per cent, citing lower consumer spending because of the referendum (among other factors).

Near-term risks to the global financial system fades

The IMF also published its Global Financial Stability report in October. It highlighted that the risks associated with the global financial system continues to diminish in response to better regulations, policy support and the upswing in the global economy. However, they warn that progress has been uneven and that risks are building in the longer term. For instance, the period of low interest rates has led to some investors seeking higher returns with riskier investments that are more likely to result in losses.

Similarly, the Bank of England has published its latest Purple Book that sets out the resolution process if a bank is failing. One of the new policies is introducing the new Minimum Requirements for Own Funds and Eligible Requirements (MREL). These are special bonds that can be converted into equity during times of crisis and essentially means that creditors of a bank will take some of the burden when it fails. That is, creditors would 'bail in' a bank rather than the Government 'bailing it out'. The Bank of England estimates that financial institutions will need to set aside £116 billion for MREL which will need to be in place by 2022.

Mixed signals for London's economy

In London, house prices fell for the first time in eight years during September according to data from Nationwide. It fell 0.6 per cent year-on-year and contrasted with a 2 per cent increase for the UK. Meanwhile, separate analysis by the Institute for Fiscal Studies suggested that median private rent in constant prices was 53 per cent higher in the mid-2010s compared with the mid-1990s for London. It also found that private tenants in London were spending around 40 per cent of their net household income on rent, compared with 28 per cent for the rest of Great Britain.

Elsewhere, the Trust for London has published research looking at poverty in London. It found that while the overall poverty rate in London had fallen from 29 per cent to 27 per cent between 1996-97 and 2012-13, more than half of Londoners in poverty were actually in working households. Around 58 per cent of people in poverty were living in working families, up from 44 per cent a decade ago. They argued that this can be linked somewhat to the high cost of housing in the capital.

Other London-specific indicators pointed towards continued economic growth. For example, the London PMI for September suggested solid increases in both output and new orders and consumer confidence remained above the UK average. More information on these and other indicators for London's economy is given in the following economic indicators section.

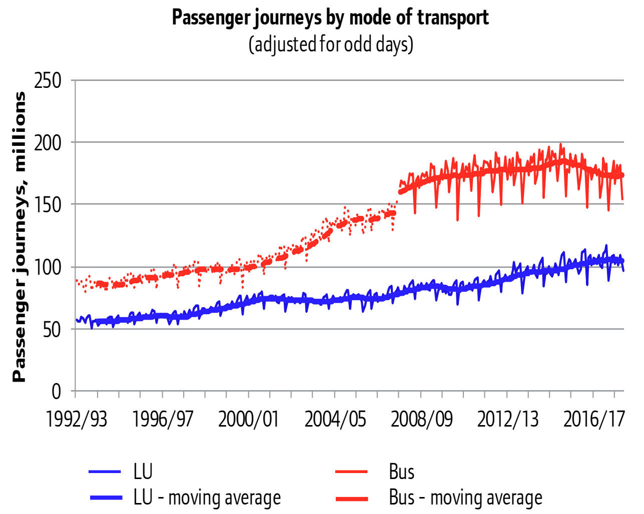
Overall, the economic outlook for the UK is mixed. While the labour market continues to perform strongly and the global economic picture has improved; falling real earnings, stagnant productivity trends and political uncertainties continue to act as drags. How this impacts London is not immediately clear, though most indicators point to a continued but subdued economic expansion.

Economic indicators

Slight decline in Tube passenger journeys

- Between 20 August and 16 September and accounting for odd days, there was a total of 262.4 million passenger journeys. This consisted of 96.4 million Tube journeys and 166 million bus journeys.
- The moving average number of Underground passenger journeys fell slightly, to 104.9 million (from 105.1 million). Meanwhile, the moving average number of bus passengers stayed constant at 173.2 million passenger journeys.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

Latest release: October 2017
Next release: November 2017

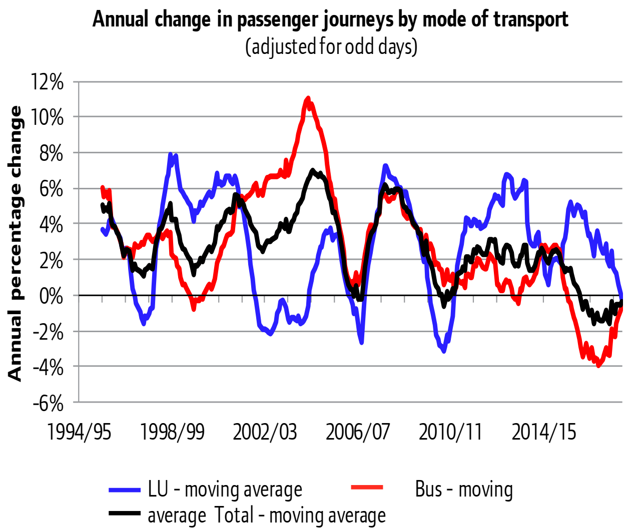


Source: Transport for London

First decline in the average annual rate of change in Tube passengers since 2010-11

- The moving average annual rate of change in the number of Underground passenger journeys was -0.2 per cent. This was the first negative change for almost eight years.
- The moving average annual rate of change in bus passengers remained negative (-0.5 per cent), though the pace of decline was the weakest (i.e. least negative) for over two years.
- Overall, the moving average annual rate of change in total passenger journeys was negative at -0.4 per cent.

Latest release: October 2017
Next release: November 2017

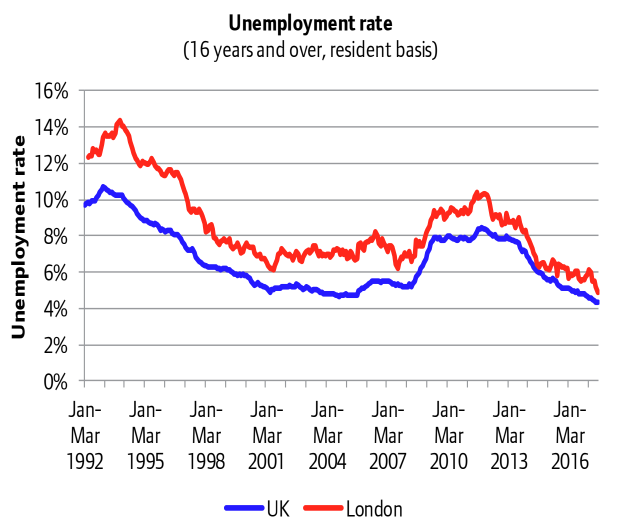


Source: Transport for London

London's unemployment rate reaches new record-low

- The number of London residents aged 16 years and over who were unemployed stood at 240,800 in the three months to August 2017.
- London's unemployment rate fell from 5.5 per cent in the three months to May to 4.9 per cent – a new record-low.
- The UK's unemployment rate similarly fell from 4.5 per cent to 4.3 per cent. This was the lowest rate since mid-1975.

Latest release: October 2017
Next release: November 2017



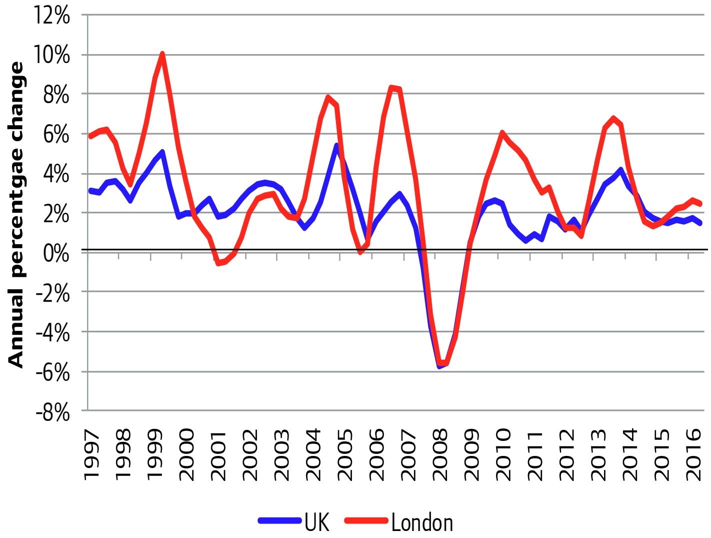
Source: ONS Labour Force Survey

London's annual output growth remains faster than the UK

- London's annual growth in output slowed marginally to 2.4 per cent in Q2 2017, down from an upwardly revised 2.6 per cent in Q1 2017.
- Annual output growth in the UK similarly slowed to 1.5 per cent in Q2 2017, down from a downwardly revised 1.7 per cent in Q1 2017. This means that London's output continued to grow at a faster pace.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: October 2017
Next release: January 2018

Annual percentage change in real GVA



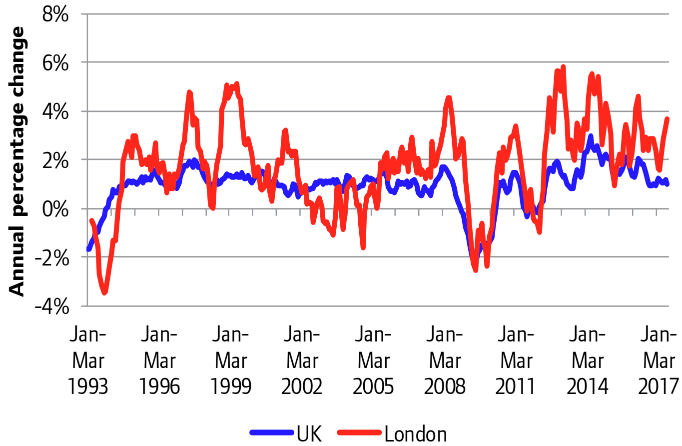
Source: GLA Economics and ONS

Fastest rate of annual employment growth in London for over a year

- There were 4.68 million London residents aged 16 years and over in work during the three months to August 2017.
- The rate of annual employment growth in London was 3.7 per cent, which was the fastest pace for over a year.
- London saw a faster rate of employment growth than the UK average (1.0 per cent).

Latest release: October 2017
Next release: November 2017

Annual percentage change in employment
(16 years and over, resident basis)



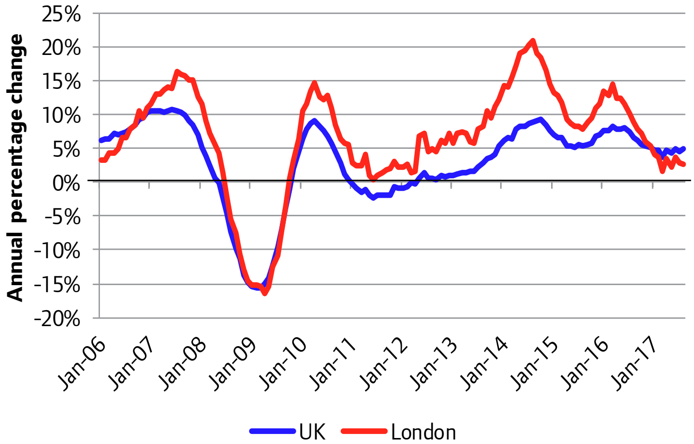
Source: ONS Labour Force Survey

London house prices increase at a weaker rate

- The average house price in London was £479,100 in August 2017.
- The annual rate of house price inflation was 2.7 per cent in London. That was slower than the pace recorded in July (2.9 per cent) and was one of the weakest since early 2012.
- The UK saw house prices rise year-on-year by 5.1 per cent in August. That was its fastest rate for eight months.

Latest release: October 2017
Next release: November 2017

Annual percentage change in average house prices
(seasonally adjusted)

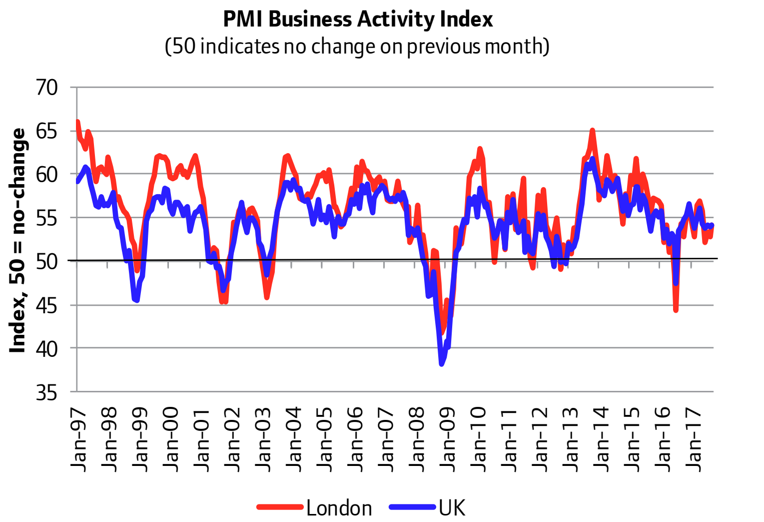


Source: Land Registry and ONS

PMI signals further rise in business activity levels

- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in that variable, while readings below indicate a decrease.
- London firms reported an increase in output during September (54.1). The rate of growth picked up since August (52.8) as indicated by a higher index reading.
- Businesses across the UK similarly reported an increase in activity (54.1).

Latest release: October 2017
Next release: November 2017

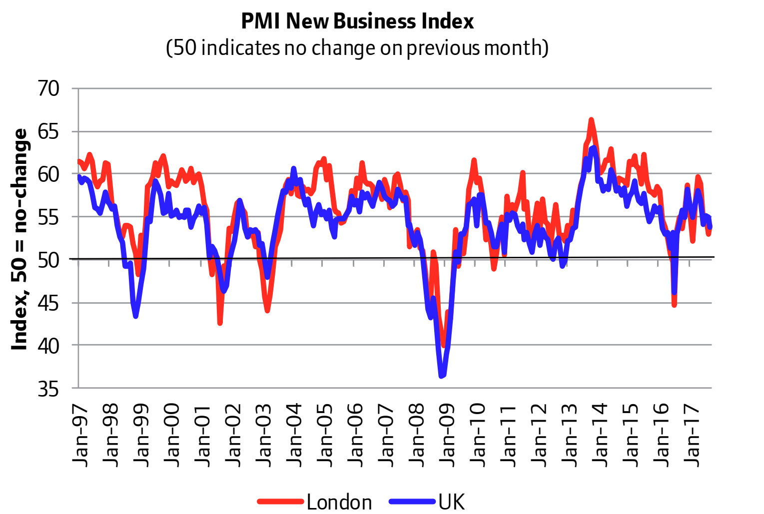


Source: IHS Markit

London businesses report a pick-up in new businesses

- The PMI New Business Index rose to 54.0 in September, up from 53.0 in August, and signalled a solid rise in new work.
- New business also increased across the UK as a whole. However, at 53.8, the index pointed to the slowest rate of growth for over a year.
- An index reading above 50.0 indicates an increase in new orders from the previous month

Latest release: October 2017
Next release: November 2017

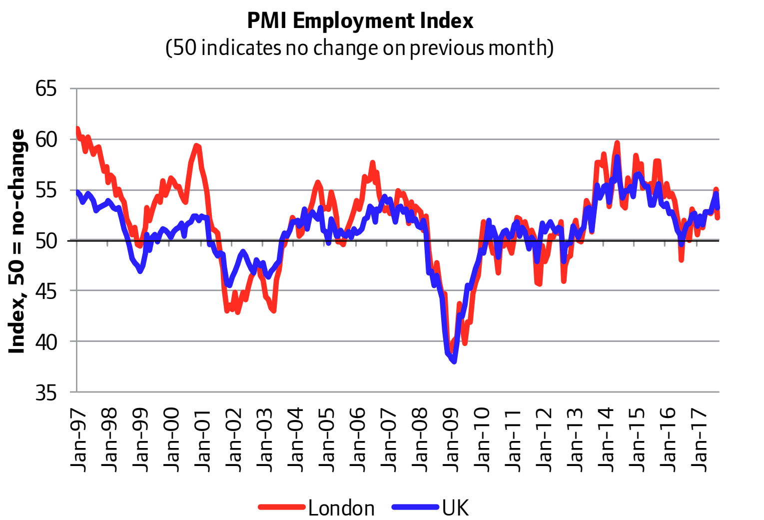


Source: IHS Markit

PMI Employment Index falls to six-month low

- The PMI Employment Index shows the monthly change in employment at private sector firms. Readings above 50.0 suggests and increase, whereas a reading below indicates a decrease in employment from the previous month.
- At 52.3 in September, the PMI Employment Index for London signalled the slowest rate of job creation since March. This followed a 19-month high of 55.0 recorded in August.
- The rate of employment growth also slowed across the UK, with the index falling from 54.6 to 53.3.

Latest release: October 2017
Next release: November 2017

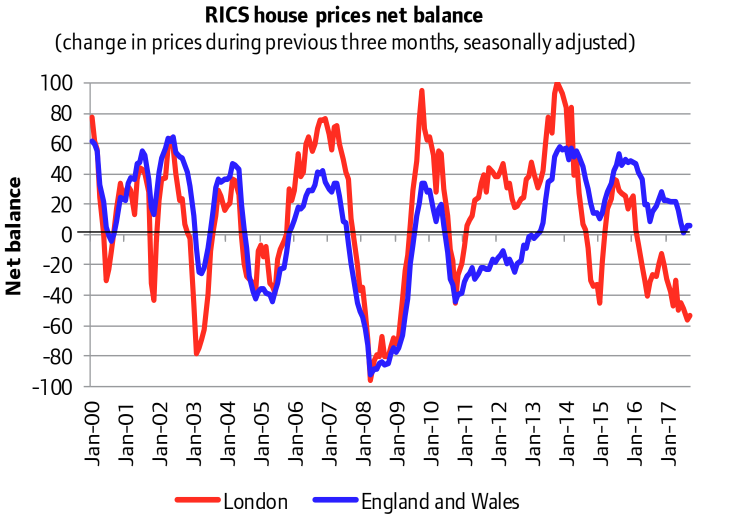


Source: IHS Markit

London's net balance remains close to August's near nine-year low

- A majority of property surveyors reported a fall in London's house prices during the three months to September 2017.
- The net balance was at -53 which, although an improvement on the -56 reported in August, was one of the lowest readings since February 2009.
- In contrast, the net balance was positive for England and Wales as a whole. However, at +6 in September, it was similarly one of the lowest since early 2013.

Latest release: October 2017
Next release: November 2017

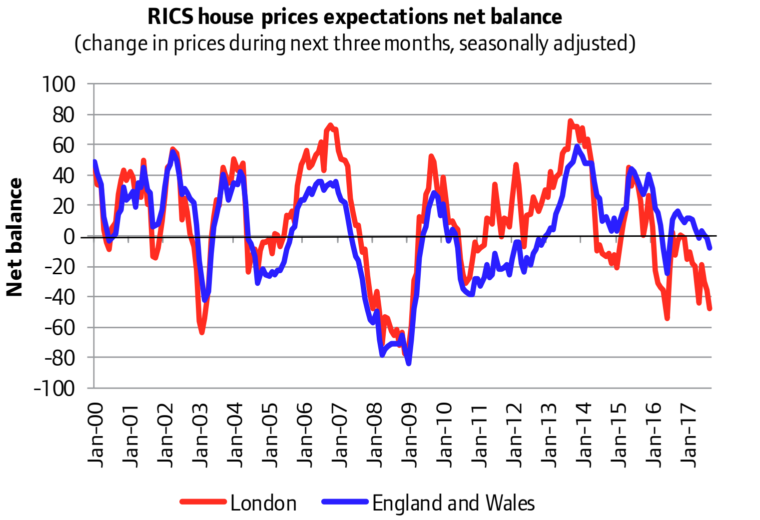


Source: Royal Institution of Chartered Surveyors

House price expectations fall further in London

- Property surveyors have negative sentiment towards London's house prices over the next three months. The net balance was -48 in September, down from -37 in July.
- Sentiment for England and Wales as a whole has also deteriorated, with the net balance at -8 in September (down from -2 in July).
- House price expectations have not been this low across England and Wales since June 2016.

Latest release: October 2017
Next release: November 2017

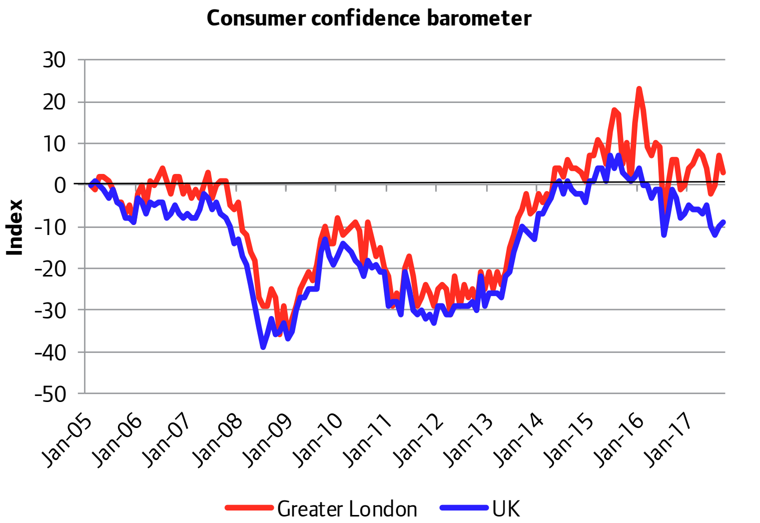


Source: Royal Institution of Chartered Surveyors

London consumer confidence slightly less positive

- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- At +3 in September, down from +7 in August, consumer confidence remained positive in London.
- In contrast, consumer confidence across the UK remained negative in September (-9).

Latest release: September 2017
Next release: October 2017



Source: GfK NOP on behalf of the European Commission

An analysis of London's exports

By Emma Christie,
Economist

London's economy has been shaped by globalisation – the increasingly connected and integrated nature of the international economy. This integrated international economy has, in large part, arisen through increases in trade over time.

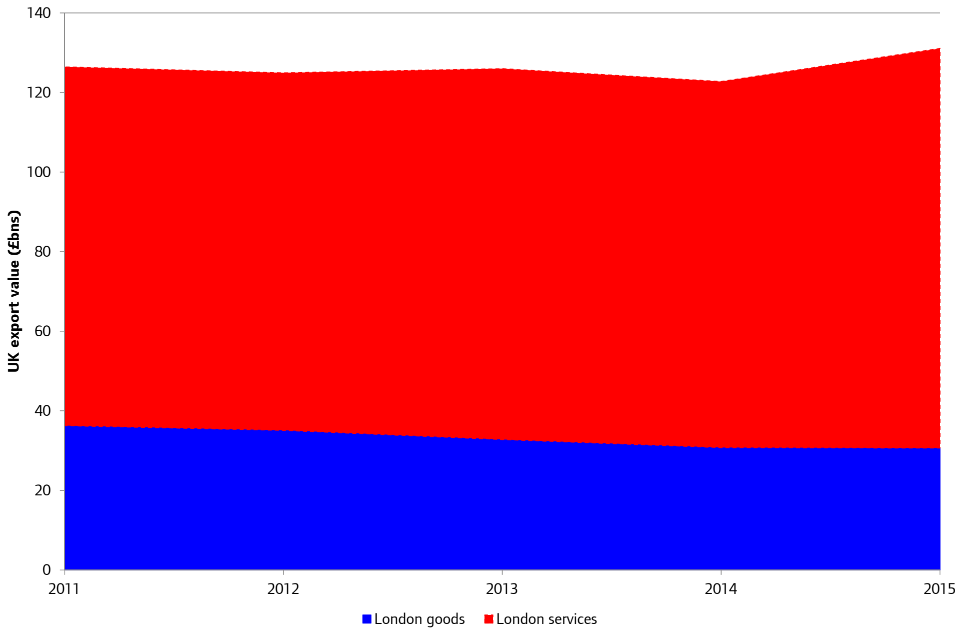
International trade is an important influence on London's economy because it increases the size of the market into which London's businesses can sell (or buy from). The bigger the market for a good or service, the more economically viable it is to focus greater resources on producing said good or service. Over time, international trade has therefore allowed London to specialise in a number of internationally competitive business areas, exporting these to other countries.

Highlighting the importance of trade to the capital, London's exports totalled around £131.1 billion in 2015. Service exports accounted for over three-quarters (£100.4 billion or 77 per cent) of this total in 2015, with the remainder made up by goods exports (£30.7 billion or 23 per cent of the total). Overall, London contributed 27 per cent of total UK exports in 2015. London's share of the UK total was larger for service exports (46 per cent) than goods exports (11 per cent).

Figure A1 shows how London's goods and services exports have changed since 2011 in nominal terms (i.e. without adjusting for inflation). London's total exports have risen from £126.4 billion in 2011, suggesting an average rate of growth of 0.9 per cent per annum. The recent growth trend was driven by a rise in service exports, which increased by over £10 billion or at an average rate of growth of 2.7 per cent per annum. In contrast, London's goods exports fell over the same period. The value of goods exports fell from £36.3 billion in 2011 to £30.7 billion in 2015, the equivalent of an average rate of decline of (-)4.1 per cent per annum.

Figure A1: London exports between 2011 and 2015, current prices, £ billions

Source: ONS: UK Balance of Payments - The Pink Book; International Trade in Services; Northern Ireland Annual Business Inquiry, Regional Trade Statistics, HMRC; and GLA Economics modelling



Looking at goods exports specifically, London exported around £31.7 billion worth of goods in 2016. This was up from £21.6 billion of goods exports in 1996. Other recent trends are described in Table A1. As can be seen over this longer time period, London's goods exports have generally increased at a slower rate to the UK, with the average annual rates of change at 1.9 per cent and 2.8 per cent respectively between 1996 and 2016. However, different trends emerge when looking at the periods before and after the financial crisis. For example, between 1996 and 2008, the UK saw a faster rate of growth (3.3 per cent) than London (1.2 per cent). And since 2012, London has seen a sharper average annual rate of decline (-2.5 per cent) than the UK (-0.5 per cent).

Table A1: Growth trends in UK and London's goods exports

Source: Regional Trade Statistics, HMRC, GLA Economics

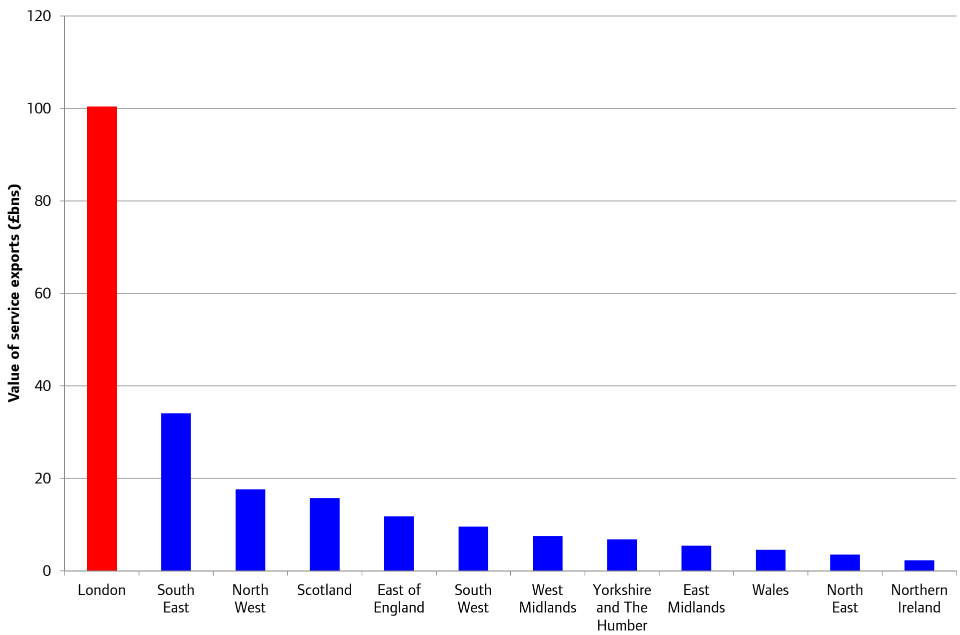
Time period	UK		London	
	Overall increase	Average annual growth rate	Overall increase	Average annual growth rate
All data: 1996-2016	73.2%	2.8%	46.6%	1.9%
Pre-crisis: 1996-2008	48.1%	3.3%	16.1%	1.2%
Post-crisis: 2012-2016	-1.8%	-0.5%	-9.7%	-2.5%

In 2016, London's largest goods export by product category (SITC) was Miscellaneous manufactured articles with exports worth £12.6 billion. This includes clothing, toys and games, works of art and antiques for example. This was followed by Machinery & transport equipment (£5.5 billion) and Mineral fuels, lubricants & related materials (£3.8 billion).

Turning to services, London exported around £100.4 billion worth of services in 2015. Given that total UK service exports was £219.2 billion, this suggested that London accounted for 45.8 per cent of the UK total service exports. That was up from 42.6 per cent in 2014 (though less than the 47.5 per cent share recorded in 2011) and was more than twice as large as any other UK region (see Figure A2).

Figure A2: Regional service exports, 2015 (£ billions)

Source: ONS: UK Balance of Payments - The Pink Book; International Trade in Services; Northern Ireland Annual Business Inquiry



Analysis of London's service exports by functional category shows that Financial services was the largest category with service exports valued at £28.3 billion in 2015. Although that was down on 2011, this represented a £3 billion increase on 2014. London's second largest category was Real estate, professional, scientific and technical services at £16.6 billion in 2015, followed by Travel at £16.3 billion.

For both goods and services, the EU has been London's largest exports market, accounting for 43 per cent of goods exports and 37 per cent of all service exports in 2015. Looking at individual countries, the US was the largest recipient of London's exports for both goods and services. In 2015, London exported £9.6 billion of services and £5.3 billion of goods to the US.

A report examining this data in more detail will soon be available on the GLA Economics publications website.

Additional information

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
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.

ILO unemployment
The International Labour Organization (ILO) measure of unemployment assesses the number of jobless people who want to work, are available to work and are actively seeking employment.

Residence-based employment
Employment measures the number of people in work rather than the total number of jobs (as people may have more than one job). It consists of employees, self-employed as well as unpaid family workers and those on government supported training and employment programmes. The measure included here is residence-based.

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 2017/18 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2017.

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 2017/18 there are twelve 28-day periods, and one 29-day period. Period 1 started on 1 April 2017.

Acronyms

BCC	British Chamber of Commerce
BRES	Business Register and Employment Survey
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CLG	Communities and Local Government
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

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October 2017

ISSN 1740-9136 (print) ISSN 1740-9195 (online) ISSN 1740-9144 (email)

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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.

MAYOR OF LONDON