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In this issue

The increasing possibility of a disorderly Greek exit from the Eurozone is hitting the global economy 1

Latest news 1

Economic indicators 4

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The increasing possibility of a disorderly Greek exit from the Eurozone is hitting the global economy

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Shevane Poyser**, Trainee Intelligence Officer

The Eurozone marginally avoided re-entering recession after recording zero growth in Q1 2012. The slightly stronger than expected performance was due to the German economy which saw GDP grow by 0.5 per cent, attributable to improved domestic consumption and strong exports of manufactured goods particularly to China.

The German performance off-set largely negative growth throughout the rest of the Eurozone. France, the Eurozone's second-largest economy, stagnated recording zero growth after a modest 0.1 per cent expansion in Q4 2011. The Italian economy contracted by 0.8 per cent, the third consecutive quarter for which it has done so and the steepest quarterly contraction for three years. In Spain the economy contracted by 0.3 per cent, whilst the country's official unemployment rate now stands at 24 per cent and its youth unemployment at more than 50 per cent. Concerns about Italian and especially Spanish banks have risen with Moody's cutting the credit ratings of a number of banks. On May 25 it was announced that Spain intends to inject a further €19 billion into the Bankia savings bank, effectively nationalising it.

Latest news...

GLAECONOMICS

London's business case for employee health and well-being

● London's business case for employee health and well-being

Employee ill health has costs to employers as well as to the individual and society. It has been estimated that an average London firm of 250 employees loses around £250,000 a year due to ill health.

Evidence would indicate that well designed employee welfare programmes that are integrated into the core of the firm can more than cover the costs of such a programme to the firm. The benefits of these programmes accrue not only to the firms running them but to the employee and society as a whole.

To download this report go to

www.london.gov.uk/publication/londons-business-case-employee-health-and-well-being.

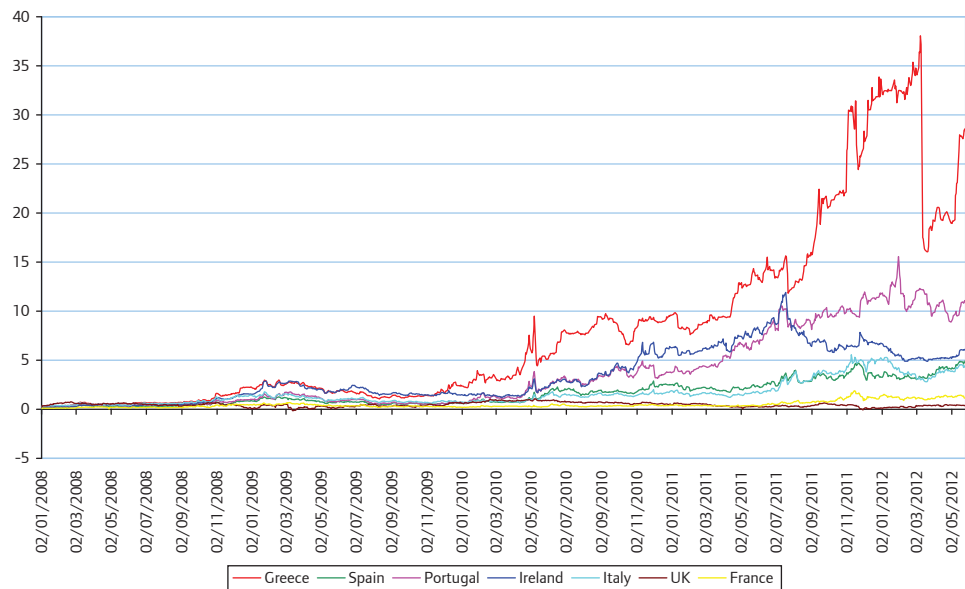


A great deal of attention within the ongoing Eurozone crisis now centres on a 'Grexit' – the prospect of Greece leaving the Eurozone. The Greek economy contracted by 6.2 per cent in Q1 2012. There is also continued political uncertainty in Greece as the political parties were unable to form a government after the May 6 election, meaning a new election is due on June 17. Fitch Ratings Agency has downgraded five Greek banks to CCC from B-minus. Likewise Greece's credit rating was lowered to CCC from B-minus, with Fitch citing the heightened risk that the country may have to leave the Eurozone. The continued crisis in the Eurozone has had ramifications for the UK economy. Sir Mervyn King the Governor of the Bank of England, has said the Eurozone is "tearing itself apart" and that the UK would not emerge "unscathed" from the Eurozone debt crisis, citing the region's economic problems as the single biggest threat to a UK recovery. Germany has continued for now to rule out the creation of a common Eurobond to share the debt burden of other members of the Eurozone. The yield spread on peripheral Eurozone sovereign debt compared to German debt remains elevated – see Figure 1.

Figure 1: Ten-year government bond spreads over German government bonds, percentage points

Last data point: 29/05/2012

Source: EcoWin



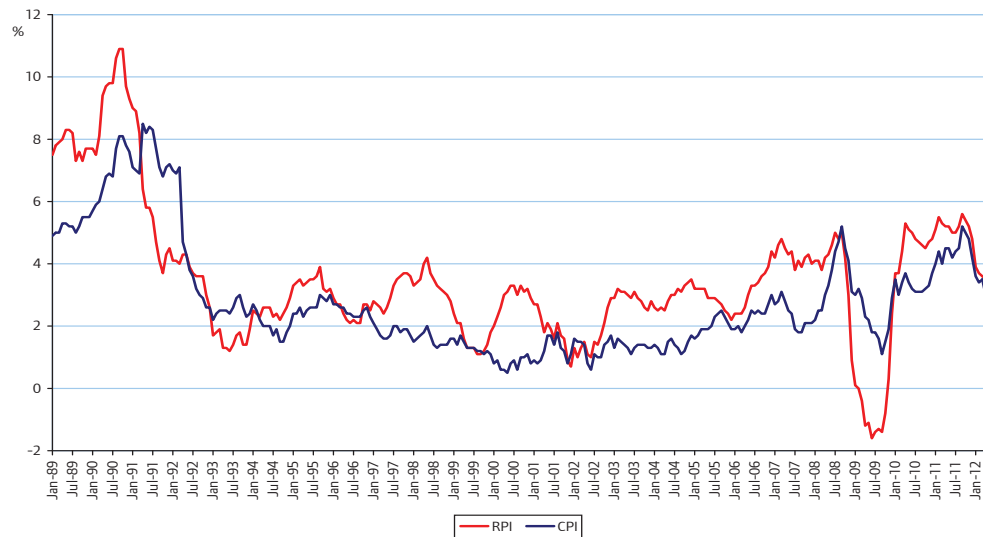
UK inflation falls but is expected to remain above target until 2013

UK inflation fell back in April 2012 with Consumer Price Index (CPI) annual inflation dropping to 3.0 per cent from 3.5 per cent in March 2012 (see Figure 2). However, the Bank in its May Inflation Report still expects CPI inflation to remain above its symmetrical 2 per cent target for the remainder of the year. Meanwhile Retail Price Index (RPI) inflation fell to 3.5 per cent in April from 3.6 per cent in March. Lower inflation will help support real household incomes. However, in Q2 2012 UK economic output as measured by the ONS will be hit by the extra bank holiday for the Diamond Jubilee. The Bank of England has estimated "that the Diamond Jubilee bank holiday is likely to lower measured output growth in Q2 by around 0.5 percentage points and correspondingly increase growth in Q3 by around the same amount".

Figure 2: UK annual inflation rates

Last data point is April 2012

Source: Office for National Statistics



The attractiveness of Canary Wharf continues

According to research by the Financial Times, the Docklands business district will become Europe's largest employer of bankers, after the completion of JP Morgan's transfer of 8,000 of its 11,000 London employees to the group's new European headquarters. The completion of the transfer in July will result in the employment of 44,500 bankers in Canary Wharf compared to 43,300 in the City. The high-rise blocks of Canary Wharf are seen as attractive destinations for banks as it enables companies to house several thousand employees in one site. Furthermore, in terms of annual average prime office rents Canary Wharf is almost a third cheaper than the City of London.

Slow UK growth expected over the next couple of years

The prospects for the UK economy have been hit by the confidence sapping ongoing Eurozone sovereign debt crisis. Ernst & Young's ITEM Club downgraded their latest Spring forecast for the UK economy. They now expect the UK to grow by just 0.4 per cent in 2012, and not return to trend growth until 2014. The CBI in its latest forecast released in May downgraded expected 2012 growth to 0.6 per cent from a previously forecast 0.9 per cent. Growth is expected to pick up to 2 per cent in 2013. Elsewhere, the IMF in its annual review of the UK economy called on the Bank of England to consider further cuts to interest rates and increases in quantitative easing to boost the economy. They forecast UK growth of 0.8 per cent in 2012 and 2.0 per cent in 2013.

The overall global economic situation remains shaky with the International Labour Organisation (ILO) warning that "it is unlikely that the world economy will grow at a sufficient pace over the next couple of years to both close the existing jobs deficit and provide employment for the more than 80 million people expected to enter the labour market during this period". Even Chinese economic data has confirmed a slowdown with factory output, retail sales and consumer price growth slowing in April in a sign of both falling domestic and global demand. In the US job growth continued but at a slower than expected rate in April. Meanwhile both the OECD and European Commission are forecasting slight contractions in Eurozone output in 2012 of -0.1 per cent and -0.3 per cent respectively. Hence the international economic situation remains fraught with the threat of a disorderly Greek exit from the Eurozone damaging business, consumer and market confidence throughout the world. With this international background the prospects for London's and the UK's economy remain unpredictable over the next year with large downside risks to growth.

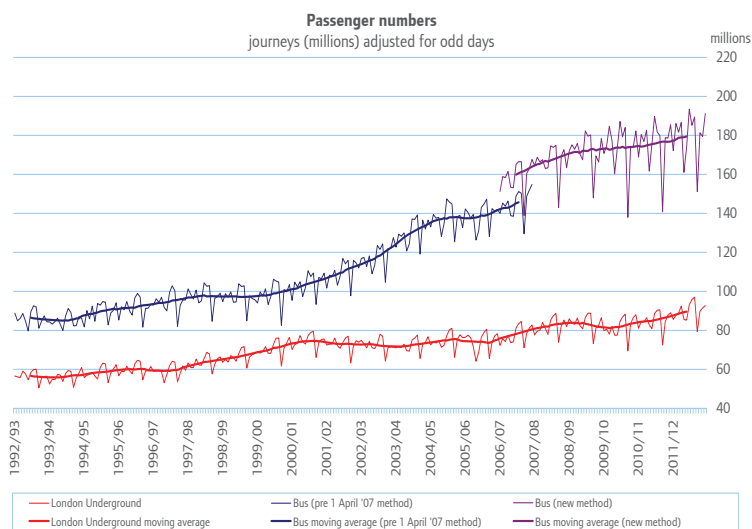
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28 day period is from 4 March to 31 March 2012. Adjusted for odd days, London's Underground and buses had 283.9 million passenger journeys; 191.2 million by bus and 92.7 million by Underground.
- The moving average of passengers every period increased to 269.1 million from 268.3 million in the previous period. The moving average for buses was 179.5 million. The moving average for the Underground was 89.6 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: April 2012

Next release: May 2012



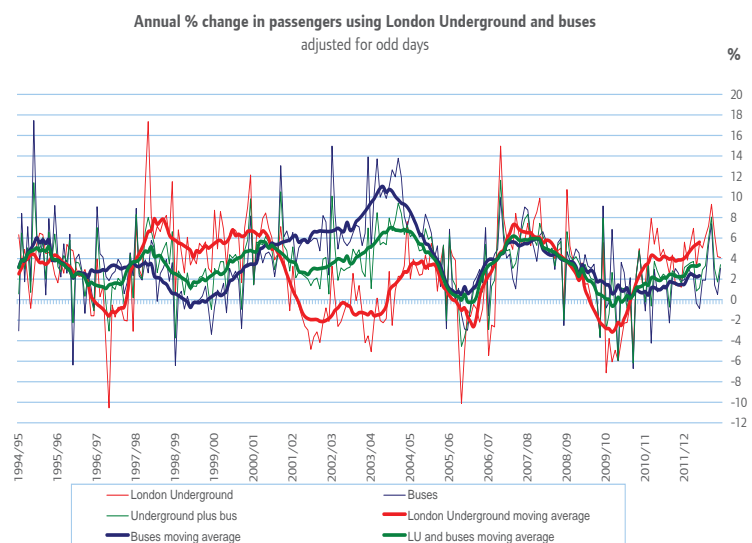
Source: Transport for London

Average annual growth rate of passengers increases

- The moving average annual rate of growth in passenger journeys increased to 3.4% from 3.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 2.3% from 2.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 5.6% from 5.4% in the previous period.

Latest release: April 2012

Next release: May 2012



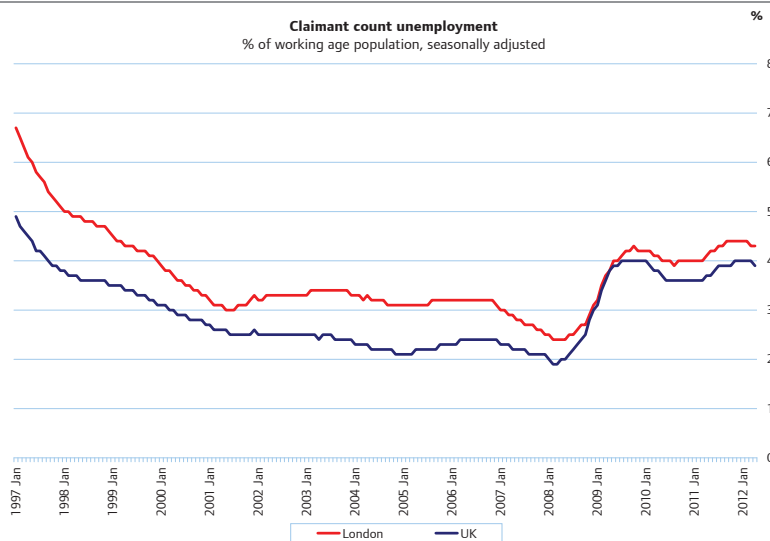
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.3% in April 2012.
- There were 229,800 seasonally adjusted unemployment claimants in London in April 2012 compared to a downwardly revised 232,700 in March 2012.
- There were 1,590,300 seasonally adjusted unemployment claimants in the UK in April 2012 compared to a downwardly revised 1,604,000 in March 2012.

Latest release: May 2012

Next release: June 2012



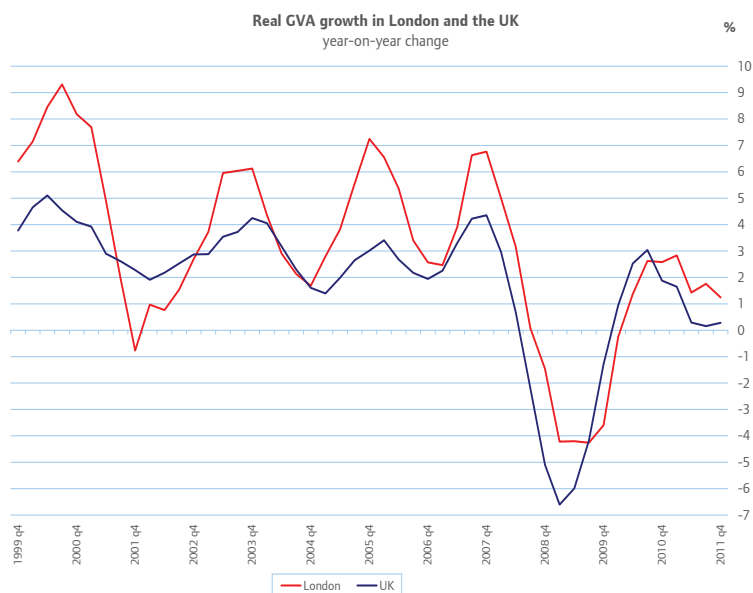
Source: Claimant Count, Nomis

Faster annual output growth in London than in the UK in Q4 2011

- London's annual growth in output decreased to 1.2% in Q4 2011 from 1.8% in Q3 2011.
- Annual output growth in the UK increased to 0.3% in Q4 2011 from 0.2% in Q3 2011.
- In Q4 2011 London's annual growth rate was faster than in the UK as a whole.

Latest release: May 2012

Next release: August 2012



Source: Experian Economics

Negative annual employment growth in Q4 2011

- London's annual employment growth increased to -0.2% in Q4 2011 from -0.4% in Q3 2011.
- Annual employment growth in the UK increased to -0.4% in Q4 2011 from -0.8% in Q3 2011.
- In Q4 2011 London's annual employment growth was less negative than the UK as a whole.

Latest release: May 2012

Next release: August 2012



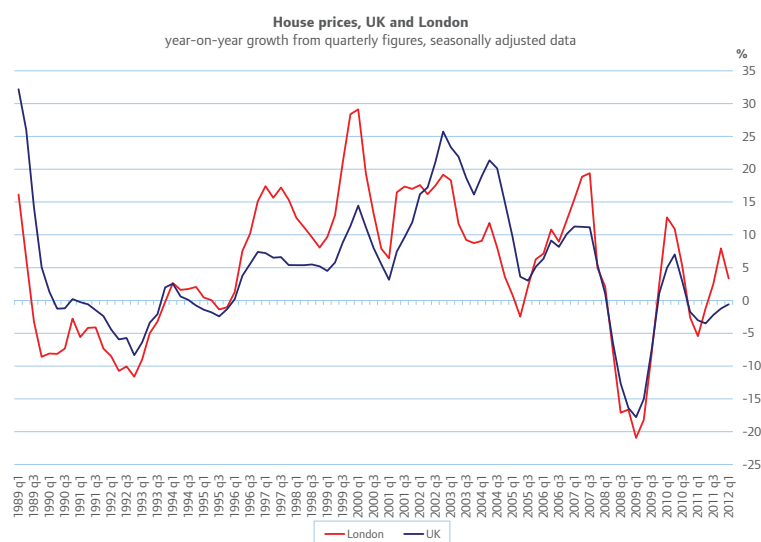
Source: Experian Economics

Annual house price inflation falling in London

- House prices, as measured by Halifax, were higher in Q1 2012 than in Q1 2011 in London but not in the UK.
- Annual house price inflation in London was 3.3% in Q1 2012, down from 7.9% in Q4 2011.
- Annual house price inflation in the UK was -0.6% in Q1 2012, up from -1.2% in Q4 2011.

Latest release: April 2012

Next release: July 2012



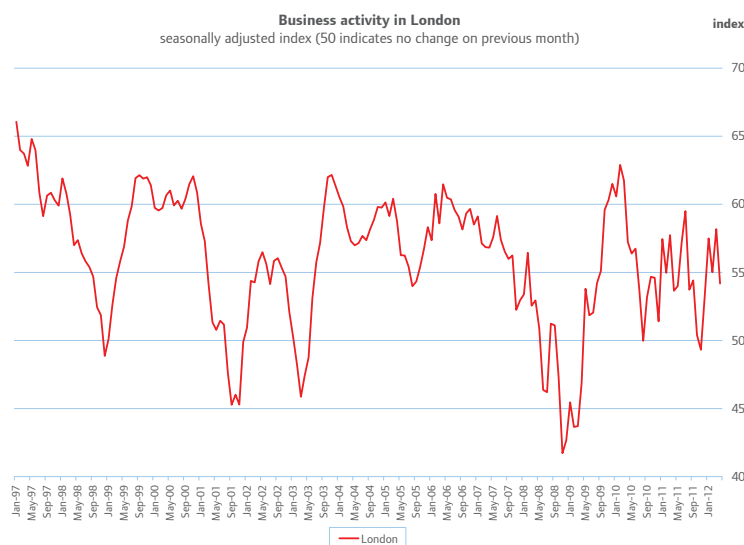
Source: Halifax house price index

London's business activity increasing

- London firms increased their output of goods and services in April 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.2 in April 2012 compared to 58.2 in March 2012.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: May 2012

Next release: June 2012



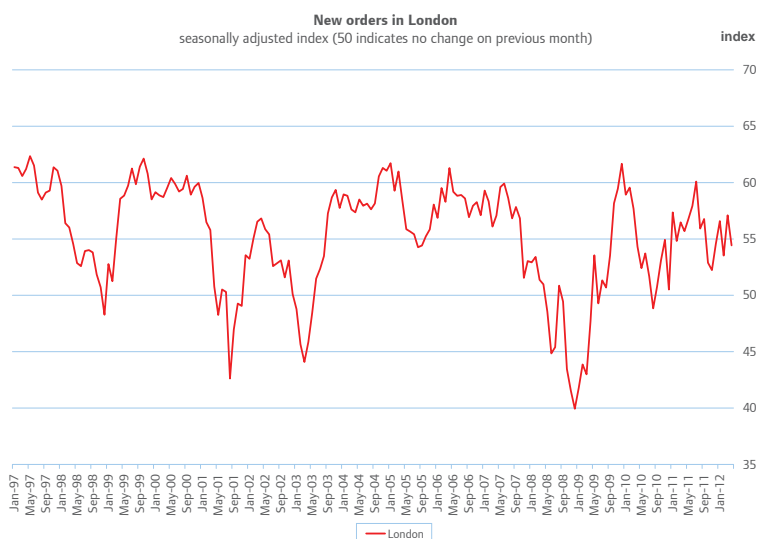
Source: Markit Economics

New orders in London rising

- April 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 54.4 in April 2012 compared to 57.1 in March 2012.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: May 2012

Next release: June 2012



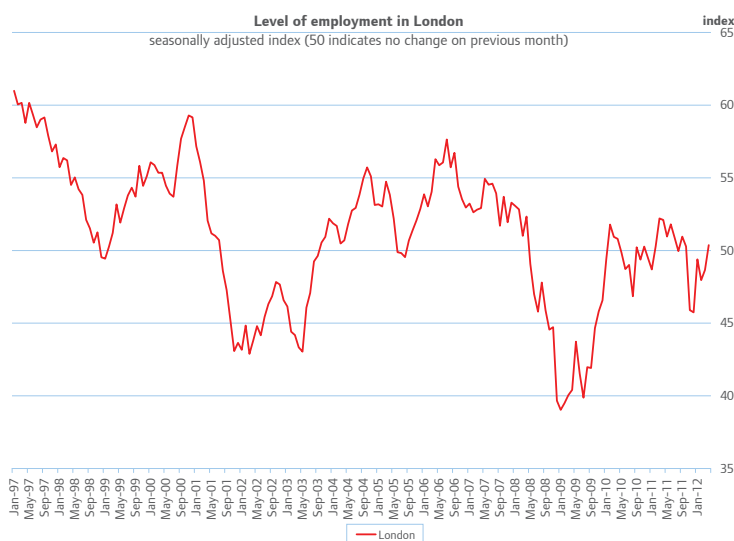
Source: Markit Economics

Businesses report higher employment in April

- The PMI shows that the level of employment in London firms increased in April 2012.
- The PMI for the level of employment was 50.4 in April 2012 compared to 48.7 in March 2012.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: May 2012

Next release: June 2012



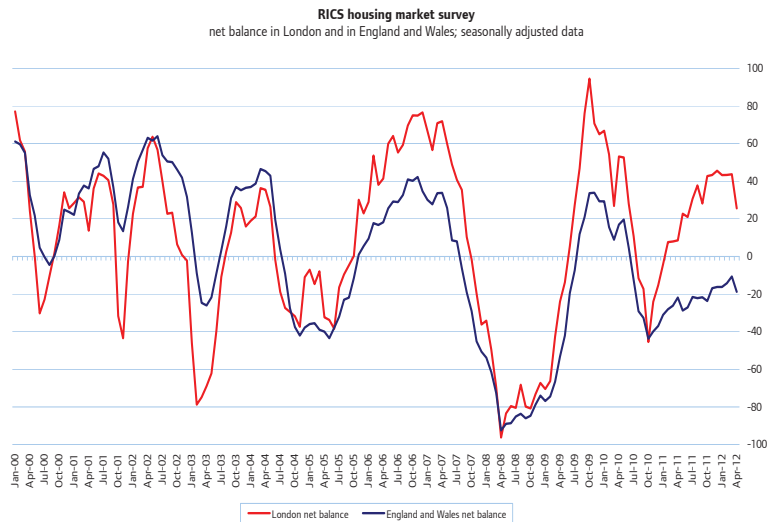
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 26 for London house prices over the three months to April 2012.
- Surveyors reported a negative net house price balance for England and Wales of -19 over the three months to April 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: May 2012

Next release: June 2012



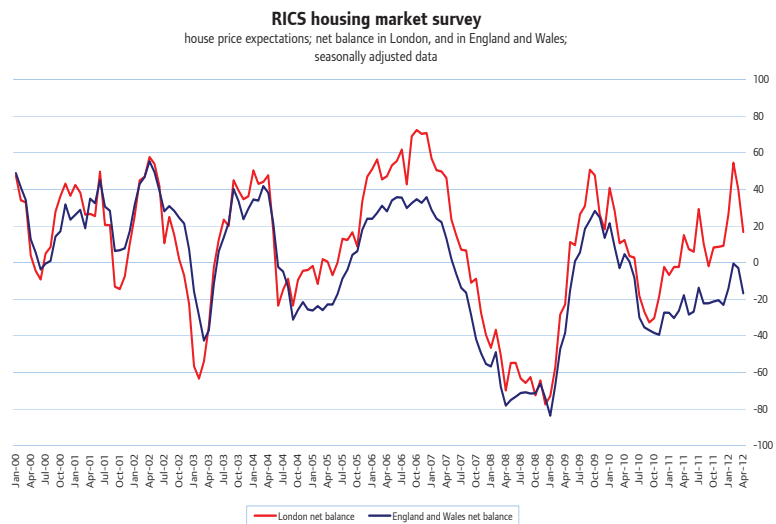
Source: Royal Institution of Chartered Surveyors

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 fall in England and Wales.
- The net house price expectations balance in London was 17 in April 2012.
- For England and Wales, the net house price expectations balance was -17 in April 2012.

Latest release: May 2012

Next release: June 2012



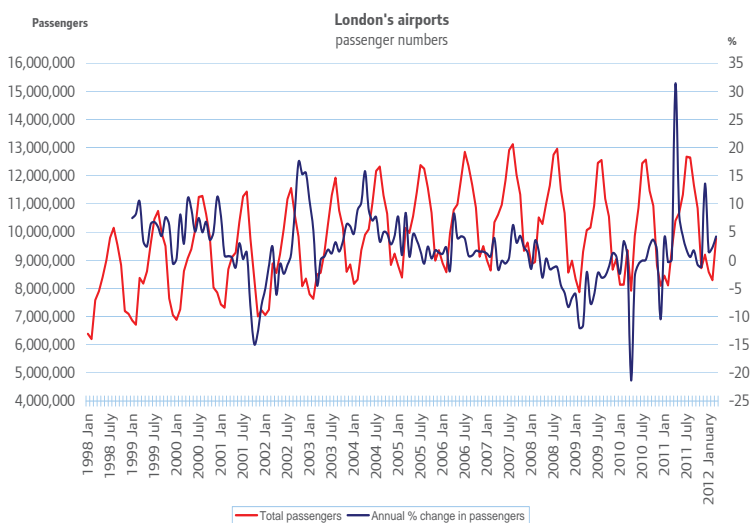
Source: Royal Institution of Chartered Surveyors

Increase in year-on-year airport passenger numbers

- 9.8 million passengers travelled through London's airports in March 2012.
- The number of passengers using London's airports increased by 4.2% from March 2011 to March 2012.
- Airport passenger numbers fell during the 2008/9 recession and are still below pre-2008/9 recession levels.

Latest release: May 2012

Next release: June 2012



Source: Civil Aviation Authority

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.

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 were twelve 28-day periods 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 were twelve 28-day periods and one 30-day period. Period 1 started on 1 April 2011.

Acronyms

ABI	Annual Business Inquiry
BAA	British Airports Authority
BCC	British Chamber of Commerce
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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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 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.