

London's Economy Today

Issue 94 | June 2010

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Budget sets out tough path for necessary fiscal consolidation

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In the Budget on 22 June the Chancellor of the Exchequer, George Osborne, announced a variety of measures to improve the weak state of the nation's public finances. These included: an increase in VAT to 20 per cent on 4 January 2011; a two year pay freeze from 2011/12 for public sector workers earning over £21,000; a levy on bank's balance sheets from 1 January 2011; a rise in the capital gains tax rate for higher rate taxpayers to 28 per cent from 18 per cent; the generally lower consumer price index (CPI) inflation rather than retail price index (RPI) inflation being used for the indexation of benefits and tax credits from April 2011; capping the maximum allowance payable for housing benefit; and freezing child benefit for the next three years.

An austere Budget was required with the background of severe sovereign debt problems rising across Europe. Ratings agency Fitch concluded that the Budget should materially strengthen confidence in the UK's public finances and the

Latest news...

● Public spending priorities in London

Public services in London provide essential services for Londoners, London's workers and visitors. Understanding how these are financed and how spending priorities are set is a crucial background to the necessary forthcoming debate on how best to close the deficit gap. Visit www.london.gov.uk/who-runs-london/mayor/publications/business-and-economy/public-spending-priorities

● Ward Profiles 2010

A summary of demographic and related data for each ward in Greater London, the profiles are designed to provide an overview of the population in each area by combining a range of data on the population, diversity, households, life expectancy, housing, crime, benefits, land use, deprivation, and employment. Visit <http://data.london.gov.uk/datastore/applications/ward-profiles-2010>

country's AAA credit rating whilst the OECD Secretary General said "it provides the necessary degree of fiscal consolidation over the coming years to restore public finances to a sustainable path, while still supporting the recovery".

To encourage entrepreneurship the Chancellor announced a variety of measures including: reducing the main rate of corporation tax from 28 per cent to 24 per cent by one per cent each year starting in 2011/12; cutting the tax paid by small companies on their profits to 20 per cent; creating a Growth Capital Fund to support small businesses with high growth potential; increasing the Enterprise Finance Guarantee by £200 million to support extra lending of up to £700 million for small business until the end of March 2011; and extending the 10 per cent capital gains tax rate for entrepreneurs from the first £2 million to the first £5 million of qualifying gains made over a lifetime. In addition the Government also provided support to help the low paid and those living in poverty by: increasing the personal tax allowance by £1,000 in 2011/12 to £7,745; raising the child element of child tax credit by £150 above indexation in 2011/12; and re-linking the basic state pension to earnings (from April 2011 it will be uprated by the higher of earnings growth, price inflation or 2.5 per cent).

Before the Budget on 14 June the Office for Budget Responsibility (OBR) issued their first economic forecast for the UK with it forecasting growth of 1.3 per cent in 2010, 2.6 per cent in 2011 and 2.8 per cent in 2012. This compared with forecast growth in the March 2010 Budget of 1-1.25 per cent in 2010, 3-3.5 per cent in 2011 and 3.25-3.75 per cent in 2012. The OBR revised upwards the structural budget deficit that the UK Government faced while the estimate of the output gap and the UK economies trend rate of growth were downwardly revised. After 2013 the trend rate of growth for the UK is assumed to be 2.1 per cent.

The OBR issued a new set of forecasts after the Budget, which revised growth down slightly in 2010 and 2011 to 1.2 per cent and 2.3 per cent respectively while revising growth up in 2013 and 2014. Public sector net borrowing is expected to fall from the huge 11 per cent in 2009/10 to 1.1 per cent by 2015/16 and public sector net debt as a proportion of GDP is now expected to peak at 70.3 per cent in 2013/14 before falling back. Before the Budget and its fiscal consolidation measures public sector net debt as a proportion of GDP was still rising in 2014/15 when it was expected to reach 74.4 per cent. The cyclically-adjusted deficit on the current budget is now expected to be eradicated by 2014/15.

The aim of the Government is to rebalance the UK economy away from its reliance on state spending and to encourage a private sector led recovery. Government spending is projected to fall from 48 per cent of GDP to 40 per cent by 2015/16 with receipts forecast to rise from 37 to 39 per cent. The majority of the fiscal consolidation will come from lower Government spending (77 per cent) rather than from higher taxes (23 per cent). With spending on the NHS and international development aid protected other Government departments face reductions of around 25 per cent by 2015/16. However, any savings found from further much needed welfare reform would allow departmental expenditure to be bolstered. The Comprehensive Spending Review, which will set all departmental expenditure limits, will be published on 20 October.

London remains the most attractive European city for inward investment

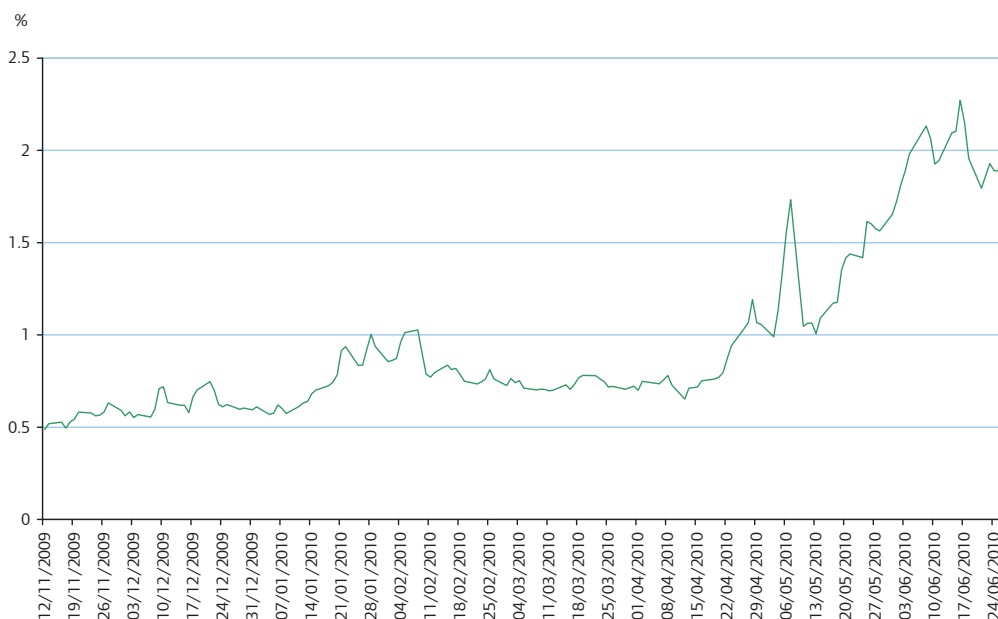
Ernst and Young's latest European Attractiveness Survey indicates that the UK retained its position as the most attractive destination for Foreign Direct Investment (FDI) into Europe in 2009. For European countries as a whole the number of investment deals declined by 11 per cent compared with 2008 to stand at 3,303. For the UK, investment projects stood at 678 in 2009, down 1 per cent on 2008. London remained the most attractive city for inward investment in Europe for the eighth year running, with the capital securing 263 projects compared to second place Paris' 99. Commenting on the results James Close a partner at Ernst and Young observed "the UK continues to achieve because of the strengths of London as a business and financial services centre and the underlying strengths of the UK in securing service sector investment and, crucially, our close corporate relationship with the US".

Fragility in the Spanish banking sector

The intensification of market concerns over fiscal sustainability in a number of European countries has resulted in heightened volatility and a reduction of liquidity in funding markets. There has especially been increasing tension in the Spanish banking sector with Spanish bond yields jumping higher (see Figure 1). Spanish banks borrowed a record €85.6 billion in May from the European Central Bank, double the amount they borrowed in September 2008 at the peak of the financial crisis highlighting the struggle they are facing gaining funds on the international capital markets and from inter-bank lending. Spain's latest 10-year bonds sale had a yield of 4.86 per cent, almost 1 per cent higher than its previous sale in May. In an attempt to increase confidence in European banks EU leaders agreed on 17 June to publish "stress tests" on the health of 25 big European banks, five of which will be British. They also agreed more in-depth economic governance for the Eurozone, including stronger mutual surveillance of national budgets, closer attention to debt levels and developing a scoreboard to measure competitiveness.

Figure 1: Spanish ten year bond yields over German bonds
Last data point is 25/06/10

Source: EcoWin



London's economic recovery is expected to continue

GLA Economics published its latest forecast for London's economy in early June. A modest recovery in 2010 is expected with output growing by 1.0 per cent. However, employment is forecast to fall in 2010 before rising in 2011 and 2012. Meanwhile the ICAEW Confidence Monitor for Q2 2010 found that "business sentiment has stabilised at a healthy level" in London.

For the UK the OECD recently published a forecast in their Economic Outlook in which they predict growth of 1.3 per cent in 2010 and 2.5 per cent in 2011. This compares to a growth forecast of 3.2 per cent in both 2010 and 2011 for the US and 2.7 per cent and 2.8 per cent respectively for the OECD as a whole. However, Eurozone growth is forecast to grow at only 1.2 per cent in 2010 and 1.8 per cent in 2011. The most recent survey from the Engineering Employers' Federation (EEF) in the UK suggests that there has been a sharp increase in demand for manufactured goods, but concerns about the ongoing fiscal crisis in the Eurozone were causing businesses to delay new investment. Meanwhile a slow recovery for the UK's service sector continues. The Budget should provide support to the UK economy in the medium term by placing downward pressure on long term interest rates and by being a step towards rebalancing the economy. Ratings agency Moody's concluded that "the UK Budget is supportive of the country's AAA rating and stable outlook because it is a key step towards reversing the significant deterioration in the government's financial position that occurred over the past two years".

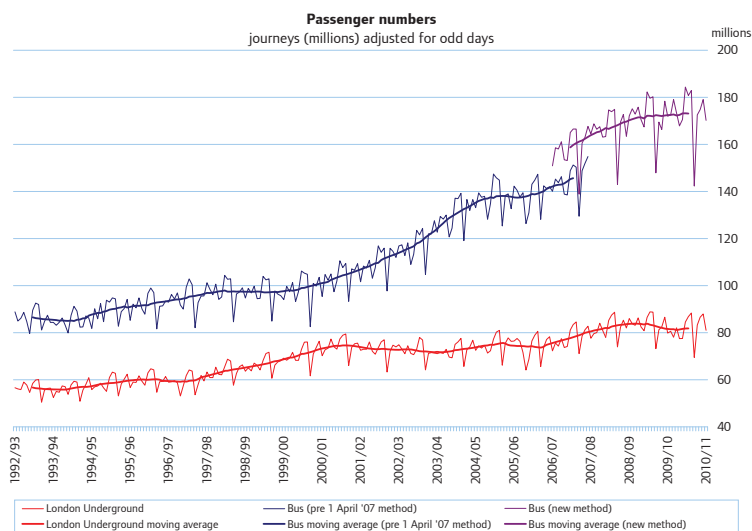
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 31-day period is from 1 April 2010 to 1 May 2010. Adjusted for odd days, London's Underground and buses had 251.3 million passenger journeys; 170.2 million by bus and 81.0 million by Underground.
- The moving average of passengers every period decreased to 254.9 million from 255.0 million in the previous period. The moving average for buses was 173.1 million. The moving average for the Underground was 81.8 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: June 2010

Next release: Junly 2010



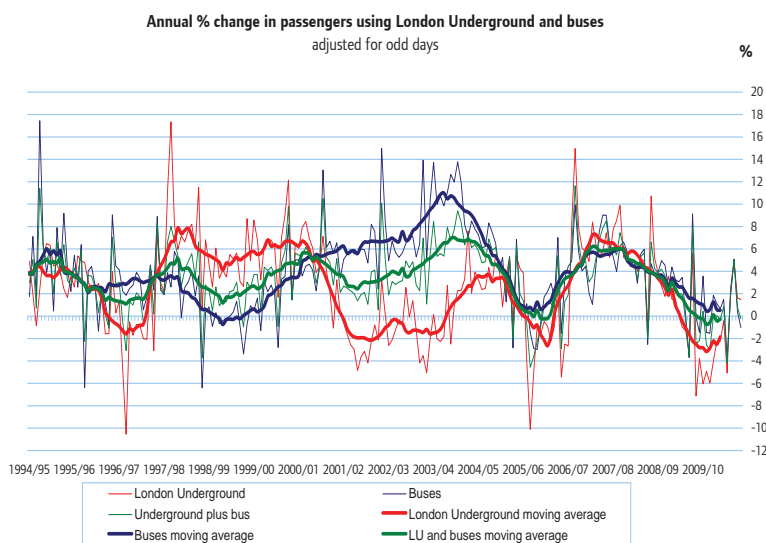
Source: Transport for London

Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to -0.3% from -0.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.5% from 0.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to -1.9% from -2.5% in the previous period.

Latest release: June 2010

Next release: July 2010



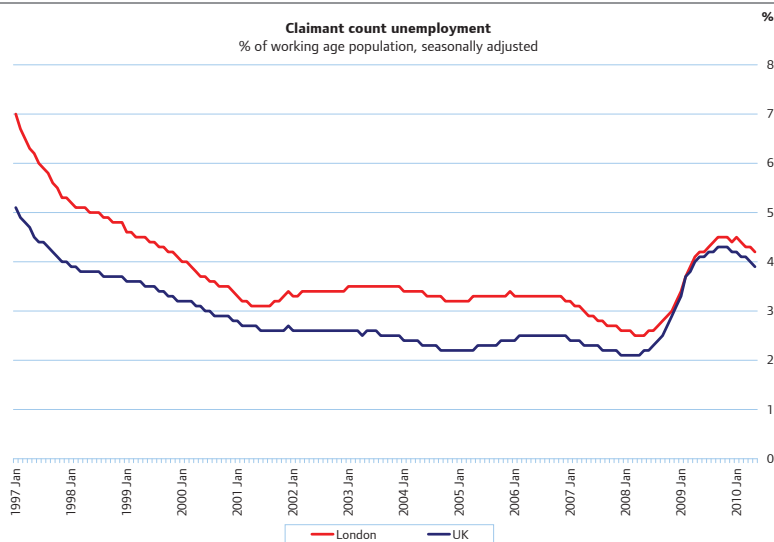
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in May 2010.
- There were 215,700 seasonally adjusted unemployment claimants in London in May 2010 compared with an upwardly revised 218,600 in April.
- There were 1,481,100 seasonally adjusted unemployment claimants in the UK in May 2010 compared with a downwardly revised 1,512,000 in April.

Latest release: June 2010

Next release: July 2010

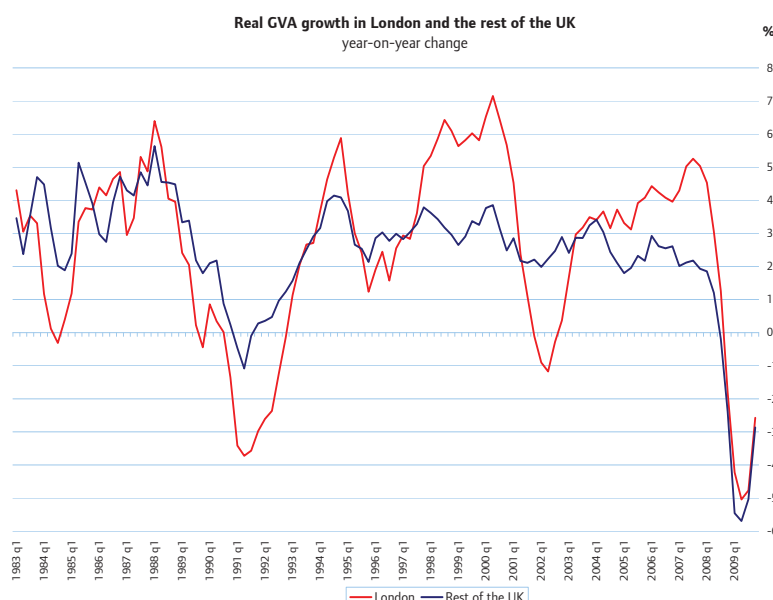


Source: Claimant Count, Nomis

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

- London's annual growth in output increased to -2.6% in Q4 2009 from -4.8% in Q3 2009.
- The rest of the UK's annual growth in output increased to -2.9% in Q4 2009 from an upwardly revised -5.0% in Q3 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2010
Next release: August 2010

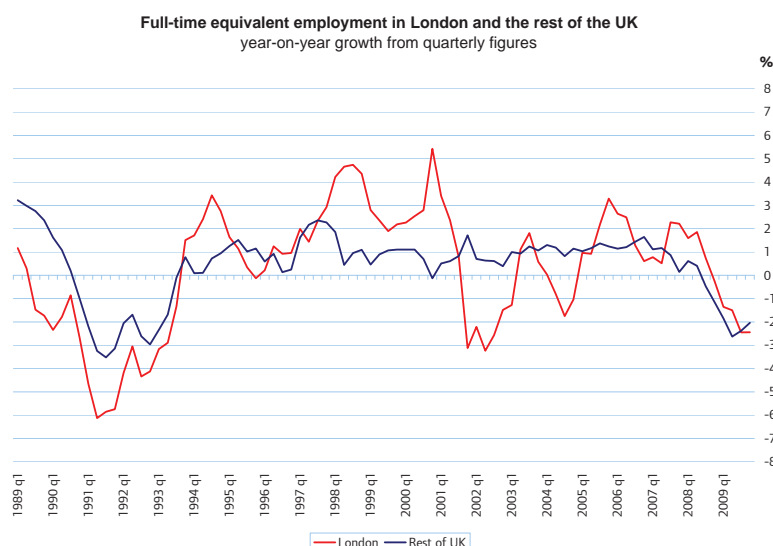


Source: Experian Economics

Negative annual employment growth

- London's annual employment growth remained at -2.4% in Q4 2009 (the figure for Q3 2009 has been revised down from -2.2% to -2.4%).
- The rest of the UK's annual employment growth increased to -2.0% in Q4 2009 from an upwardly revised -2.4% in Q3 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2010
Next release: August 2010

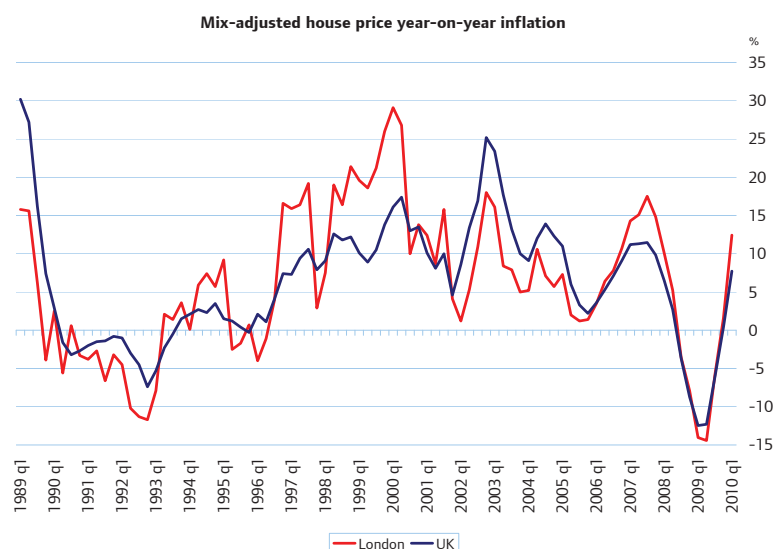


Source: Experian Economics

Annual house price inflation rises

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q1 2010.
- The DCLG reported a rise in annual house prices in both London and the UK in Q1 2010.
- Annual house price inflation in London increased to 12.4% in Q1 2010 from 1.6% in Q4 2009. Annual house price inflation in the UK increased to 7.7% in Q1 2010 from 0.4% in Q4 2009.

Latest release: May 2010
Next release: August 2010



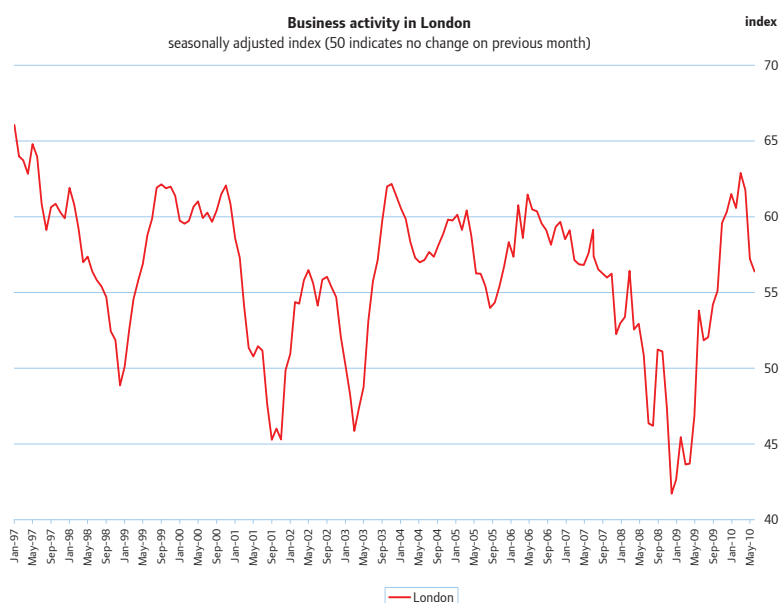
Source: Department for Communities and Local Government

London's business activity increasing at a slower pace

- London firms increased their output of goods and services in May 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.4 in May compared to 57.2 in April.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: June 2010

Next release: July 2010



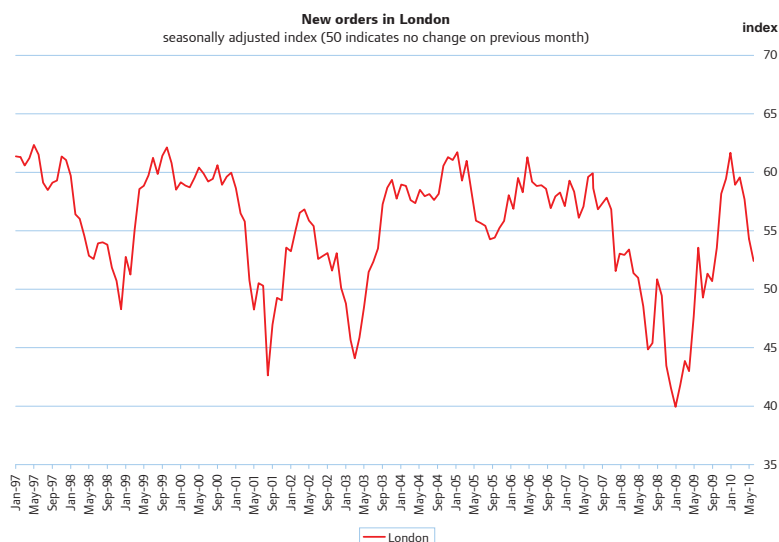
Source: Markit Economics

New orders in London rising at a slower pace

- May 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 52.4 in May compared to 54.3 in April.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: June 2010

Next release: July 2010



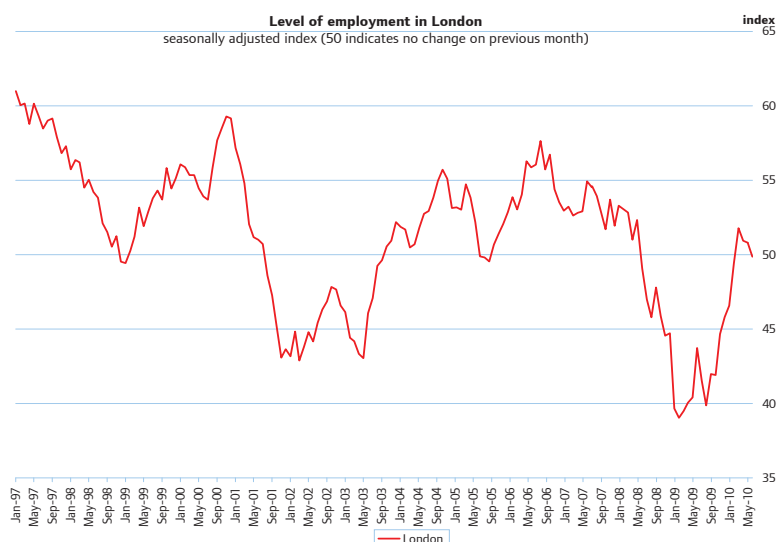
Source: Markit Economics

Businesses report slightly lower employment in May

- The PMI shows that the level of employment in London firms decreased slightly in May 2010.
- The PMI for the level of employment was 49.9 in May compared to 50.8 in April.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: June 2010

Next release: July 2010



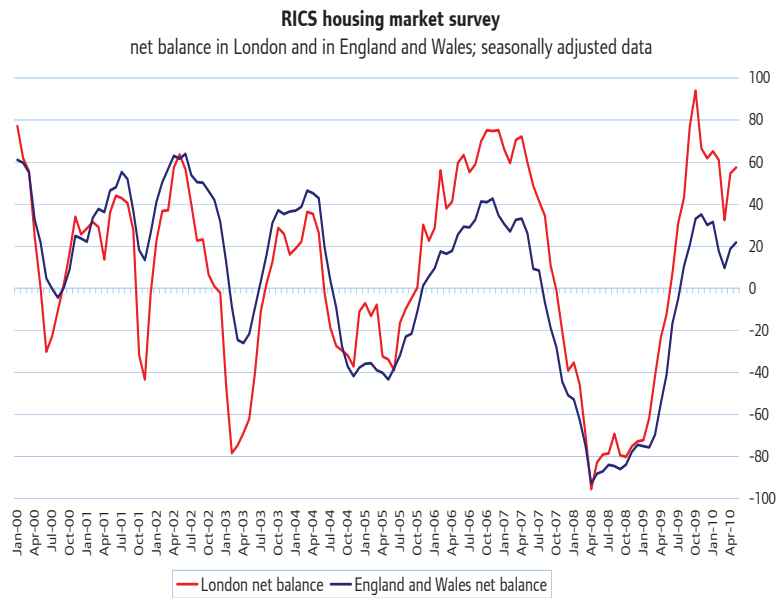
Source: Markit Economics

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 57 for London house prices over the past three months to May 2010. This net balance is up from 55 in April 2010.
- Surveyors reported a positive net house price balance for England and Wales of 22 in the past three months to May 2010, up from 19 in April 2010.
- London's net house price balance is above that of England and Wales.

Latest release: June 2010

Next release: July 2010



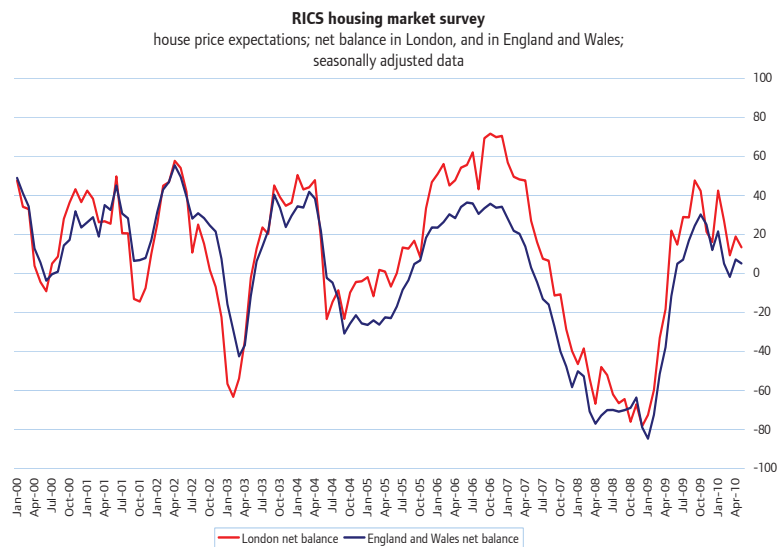
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to increase

- The RICS survey shows that surveyors expect house prices to increase over the next three months.
- The net house price expectations balance in London was 13 in May 2010, down from 19 in April 2010.
- For England and Wales, the net house price expectations balance was 5 in May 2010, down from 7 in April 2010.

Latest release: June 2010

Next release: July 2010



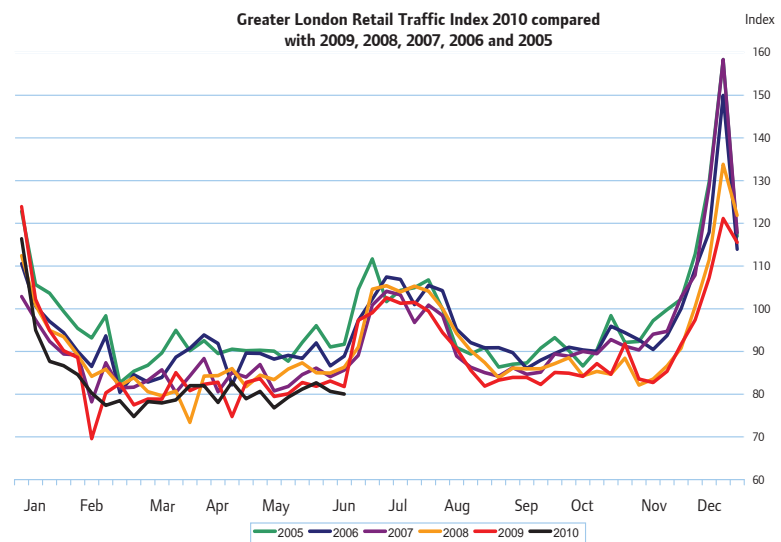
Source: Royal Institution of Chartered Surveyors

Synovate Retail Traffic Index still weak

- The Synovate Retail Traffic Index of shoppers in London was 80.0 in the first full week of June compared to 80.7 in the previous week.
- The index so far in 2010 has generally been 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-June 2010

Next release: Weekly



Source: Synovate

Data sources

Tube and bus ridership

Transport for London on 020 7222 5600
or email: enquire@tfl.gov.uk

GDP/GVA growth

Unemployment rates

Experian Economics on 020 7746 8260
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 2010/11 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2010.

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 2010/11 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2010.

Acronyms

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

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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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