

London's Economy Today

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In this issue

Economic recovery continues but pace eases .	1
Latest news	1
Economic indicators	5

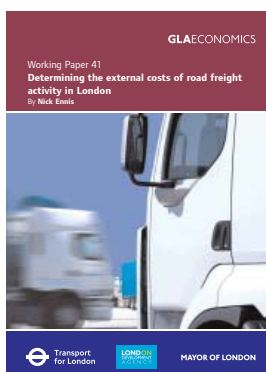
Economic recovery continues but pace eases

By **Christopher Lewis**, Senior Economist, **Gordon Douglass**, Economist and **Ben White**, Trainee Economist

In contrast to the higher than expected preliminary estimate of UK GDP growth in Q2 2010 of 1.1 per cent, the Bank of England's August Inflation Report revised down its fan chart growth forecasts for the UK economy. Meanwhile the Bank's central forecast for Consumer Price Index (CPI) inflation has risen and it now expects CPI inflation to be above its 2 per cent target for another year at least. The rise in VAT to 20 per cent in January 2011 will increase inflation in the New Year. However, spare capacity in the economy should provide downward pressure on inflation in the medium term.

In relation to GDP growth the Inflation Report noted that "risks to growth remain weighted to the downside" although "the UK recovery is likely to continue, underpinned by the considerable monetary stimulus, further growth in global demand and the past depreciation of sterling". Improvement in credit conditions have been slower than expected and consumer confidence has softened (see Figure 1), which may in part be a consequence of the fiscal consolidation announced in June's Budget.

Latest news...



● Working Paper 41: Determining the external costs of road freight activity in London

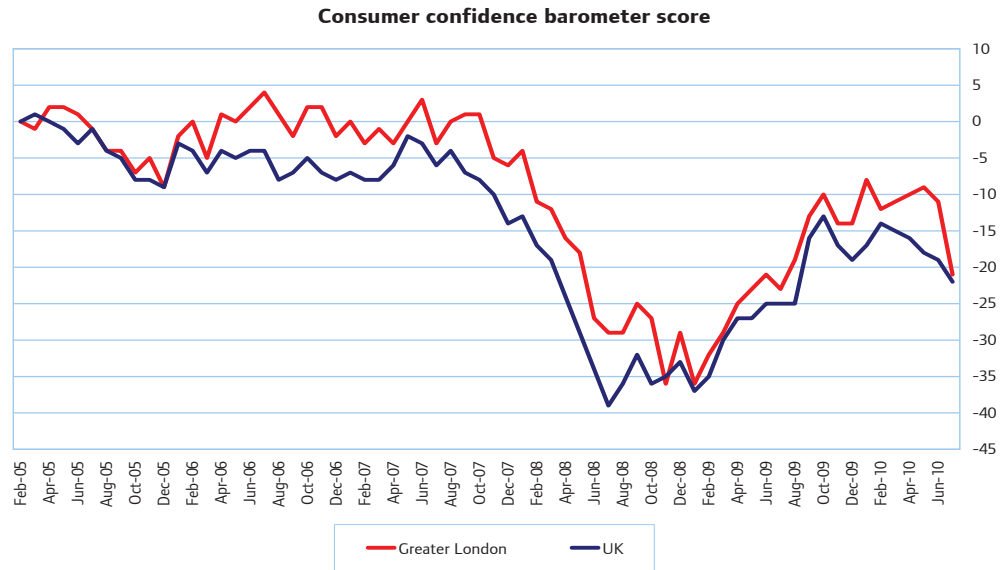
Goods vehicles are essential for the functioning of London's economy. The use of goods vehicles has been growing at a faster rate than other vehicle types in London, and their activity coincides with busy peak traffic periods, creating costs for others. This review seeks to prompt debate on whether and how policy should tackle these problems and highlights the complex nature of freight operations and the external costs they cause in London.

Visit <http://www.london.gov.uk/who-runs-london/mayor/publications/transport/wp-41-determining-external-costs-road-freight-activity-london> to download this publication.

Figure 1: Consumer confidence in London and the UK

Last data point is July 2010

Source: GfK NOP on behalf of the European Commission



CPI inflation falling slowly for now but remains above target

In July 2010 CPI annual inflation fell slightly to 3.1 per cent, down from 3.2 per cent in June. The largest upward contribution to annual inflation came from transport with the most significant effect from fuels and lubricants. The only negative contribution to annual inflation came from clothing and footwear. January 2010's VAT increase has had a significant impact on the current level of inflation. With price changes that are directly due to changes in indirect taxes excluded, CPIY inflation would actually be only 1.4 per cent (this is known as CPIY inflation and can be seen in Figure 2.)

Figure 2: UK CPI and CPIY annual inflation rates

Last data point is July 2010

Source: Office for National Statistics

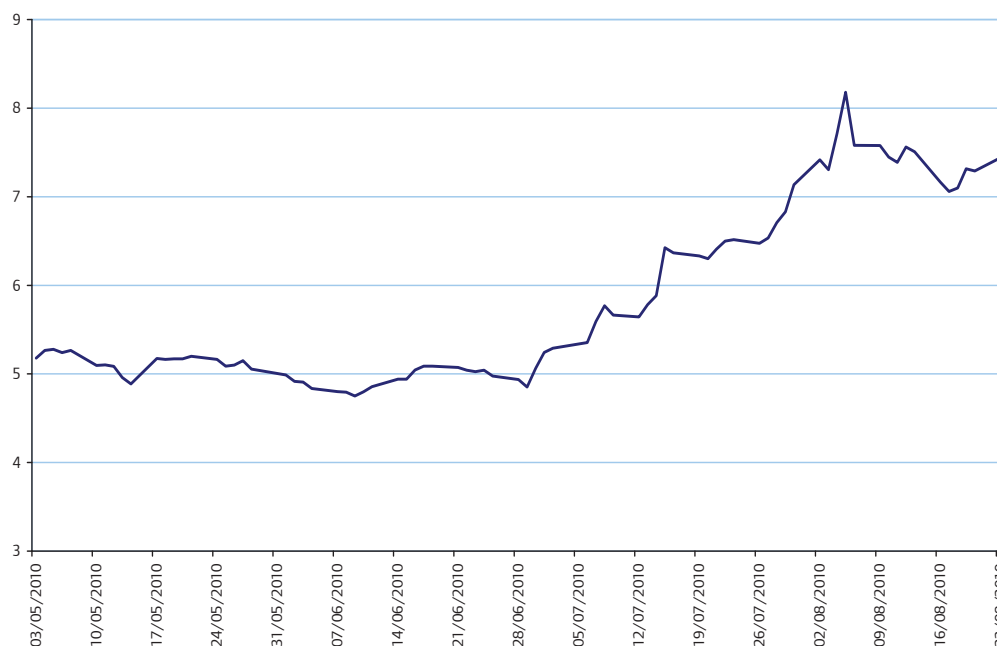


The future path of inflation seems uncertain at present with some commodity prices posing upward pressure. In particular, wholesale wheat prices rose almost 50 per cent in July (see Figure 3) due to the Russian heatwave, which has caused the country's worst drought for more than 100 years. The drought, which has also affected Kazakhstan and Ukraine, has led to Russia imposing a ban on its grain exports until the end of the year. This has caused concerns that such actions could trigger a repeat of the food crisis of 2007-08 with Ngozi Okonjo-Iweala, managing director at the World Bank, saying "export bans, while understandable from a national view, are counterproductive at the international level because they trigger hoarding and lead to further price distortions".

Figure 3: Global wheat price (US\$ per bushel)

Last data point is
23/08/10

Source: EcoWin



Corporate profitability picks up

A number of UK banks released profit figures for the first half of 2010 that indicated a significant improvement in profitability. For example, Barclays' profits were up over 40 per cent to £3.95 billion compared with the same period last year whilst RBS' profits stood at £1.14 billion compared with £15 million. Profitability of other firms is also picking up with two thirds of European companies' groups' profits exceeding the predictions of analysts. Part of the pick up in profitability is due to increased sales but sharp cost cutting has also contributed to the improvement. Globally, business confidence is quite strong with a survey for KPMG by Markit of 6,000 manufacturing and service sector companies across all leading economies finding that an increasing majority of companies thought that now was a good time to increase capital expenditure and employment.

US unemployment rises leading to fears for its economic recovery

In spite of robust growth in emerging market economies such as India and China not all the signs in the global economy are positive. Concerns that the US economic recovery may well be a 'jobless' one continued in August with data released in the month showing that the US economy lost 131,000 jobs in July, the second month in a row that jobs fell. The laying off of temporary workers hired to complete the census fuelled the job losses. However the private sector only created 71,000 jobs in the month, a figure that was worse than expected. In response to the continuing concerns about the US recovery the Federal Reserve Open Market Committee decided to keep its main interest rate between 0 and 0.25 per cent. One of the Federal Reserve board members, Thomas Hoenig, has cited concerns about inflation and wanted to raise interest rates but the other nine board members are more concerned about possible future deflation and low rates of resource utilisation. Monetary policy remains ultra loose with the Federal Reserve deciding to keep the level of securities it acquired through its quantitative easing programme stable rather than slowly reducing its holding of these securities as had been previously planned.

Recovery to slow from rapid pace in Q2 2010

The UK economy grew more strongly than expected in Q2 2010. The number of people in employment was 29.02 million in the three months to June 2010, up 184,000 from the three months to March 2010. However, nearly two thirds of this increase came from more part-time workers. In Europe, data for the German economy in Q2 2010 also provided positive news with it expanding by 2.2 per cent in the quarter, a record for reunified Germany. In the Eurozone as a whole growth was an above trend 1 per cent in Q2 2010. The outlook for Europe's southern fringe remains less optimistic. For example, Portugal's central bank has downgraded expected growth in 2011 to only 0.2 per cent, Spain is considering a fresh economic stimulus package and Greece's economy is still mired in an extremely harsh recession. This presents downside risks to Europe's banking sector. Meanwhile survey indicators suggest that the UK and London's economy are still growing though as expected the pace of that growth has slowed from the rapid speed seen in Q2 2010. Consumer confidence dropped sharply in London in July and with VAT to increase in January retailers could well face a tough time in 2011.

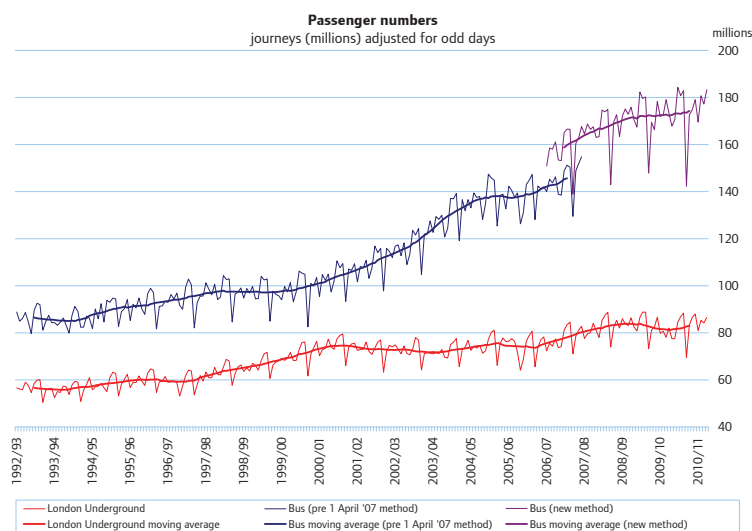
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 27 June 2010 to 24 July 2010. Adjusted for odd days, London's Underground and buses had 269.8 million passenger journeys; 183.4 million by bus and 86.4 million by Underground.
- The moving average of passengers every period increased to 257.3 million. The moving average for buses was 174.3 million. The moving average for the Underground was 83.0 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: August 2010

Next release: September 2010

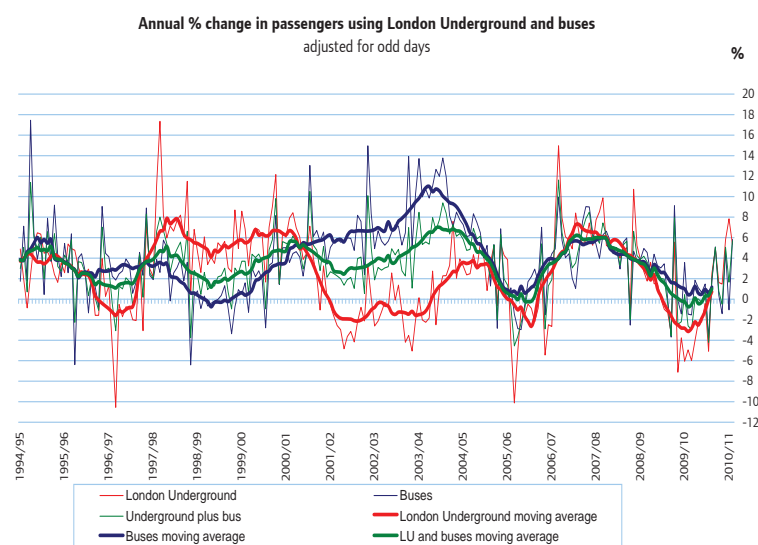


Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 1.0% from 0.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 1.2% from 0.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 0.7% from -0.1% in the previous period.

Latest release: August 2010

Next release: September 2010

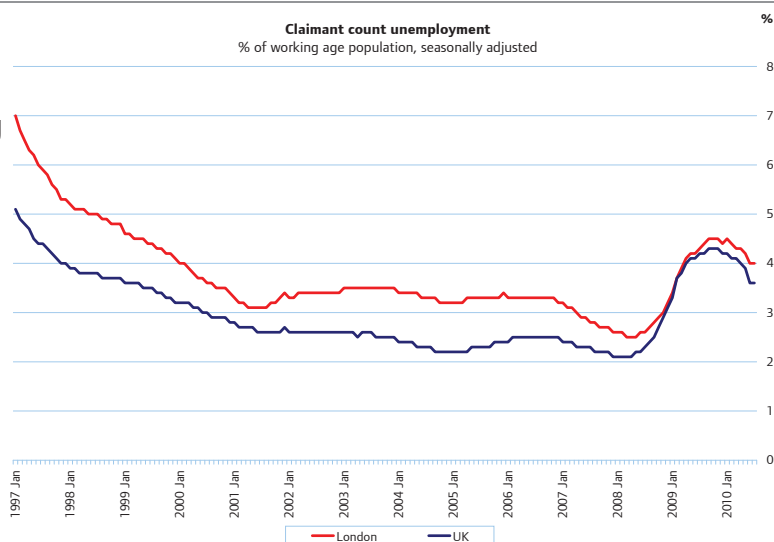


Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.0% in July 2010.
- There were 213,200 seasonally adjusted unemployment claimants in London in July 2010 compared with an upwardly revised 213,800 in June.
- There were 1,461,200 seasonally adjusted unemployment claimants in the UK in July 2010 compared with an upwardly revised 1,465,000 in June.

Latest release: August 2010

Next release: September 2010

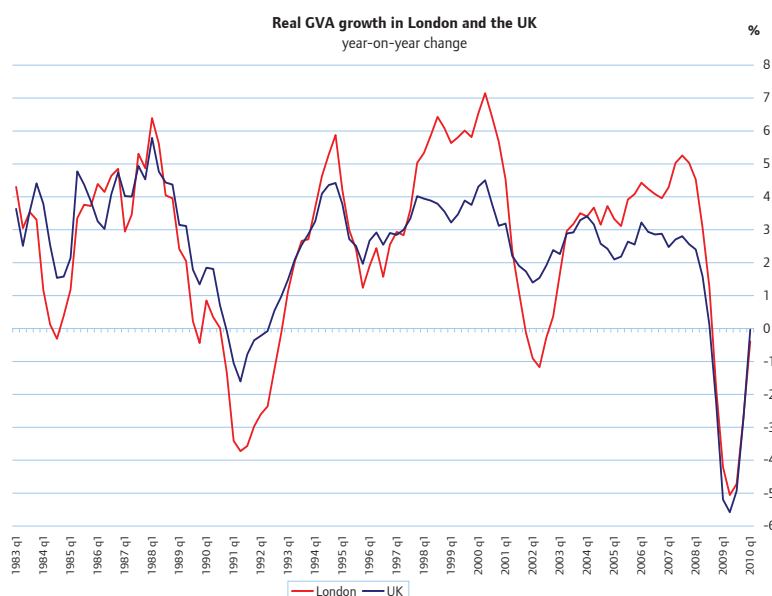


Annual output growth similar in London and the UK

- London's annual growth in output increased to -0.4% in Q1 2010 from a downwardly revised -2.7% in Q4 2009.
- Annual output growth in the UK increased to 0.0% in Q1 2010 from an upwardly revised -2.7% in Q4 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2010

Next release: November 2010



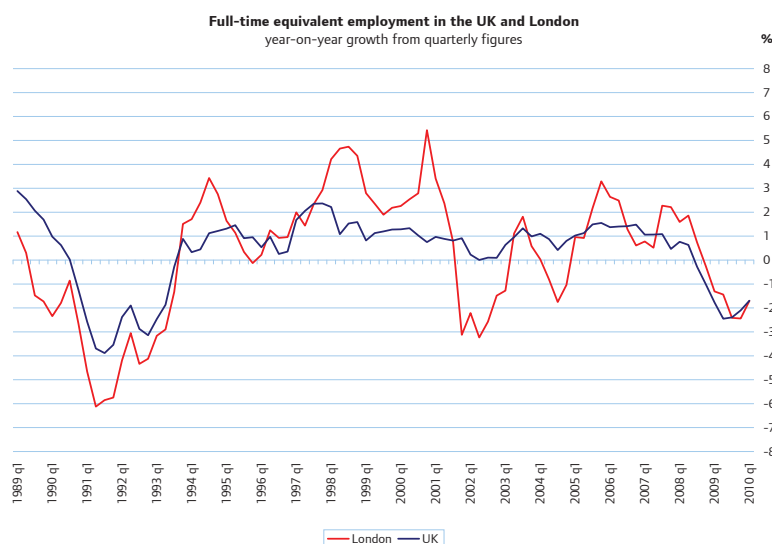
Source: Experian Economics

Negative annual employment growth

- London's annual employment growth increased to -1.7% in Q1 2010 from -2.4% in Q4 2009.
- Annual employment growth in the UK increased to -1.7% in Q1 2010 from -2.1% in Q4 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2010

Next release: November 2010



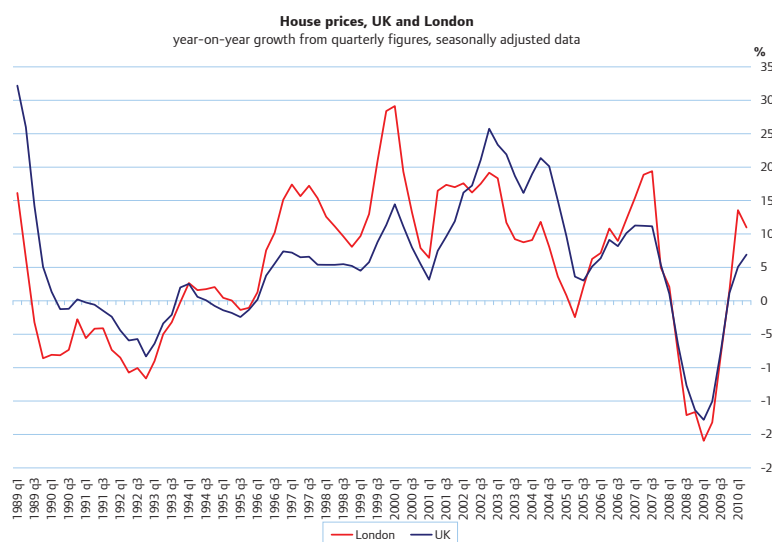
Source: Experian Economics

Annual house price inflation falls slightly in London

- House prices, as measured by the Halifax, were higher in Q2 2010 than in Q2 2009 in both London and the UK.
- Annual house price inflation in London was 11.0% in Q2 2010, down from 13.6% in Q1 2010.
- Annual house price inflation in the UK was 6.9% in Q2 2010, up from 5.1% in Q1 2010.

Latest release: July 2010

Next release: October 2010



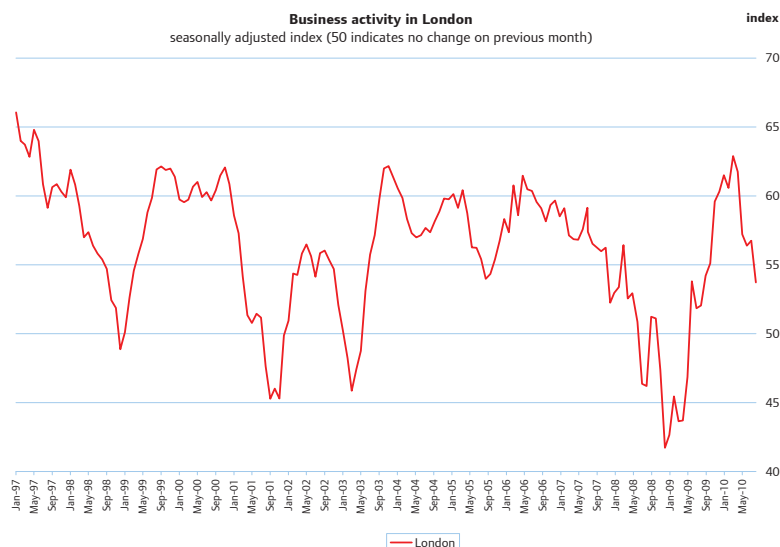
Source: Halifax house price index

London's business activity increasing at a slower pace

- London firms increased their output of goods and services in July 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.7 in July compared to 56.7 in June.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: August 2010

Next release: September 2010



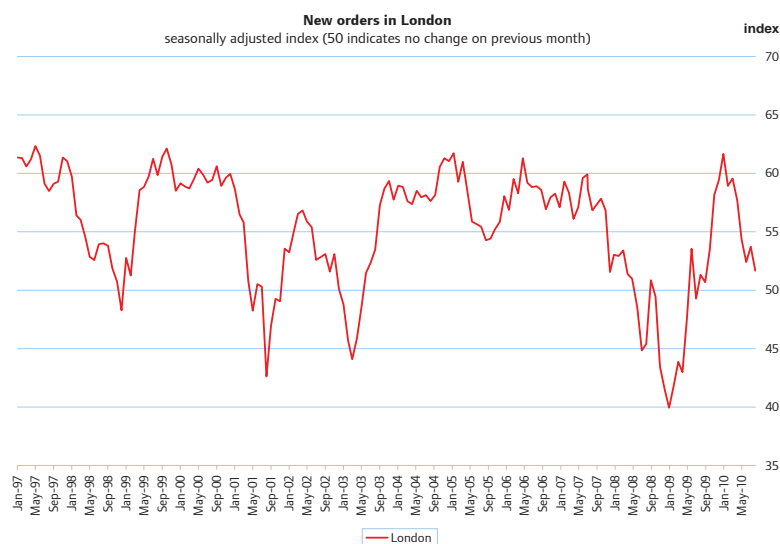
Source: Markit Economics

New orders in London rising slowly

- July 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 51.7 in July compared to 53.7 in June.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: August 2010

Next release: September 2010



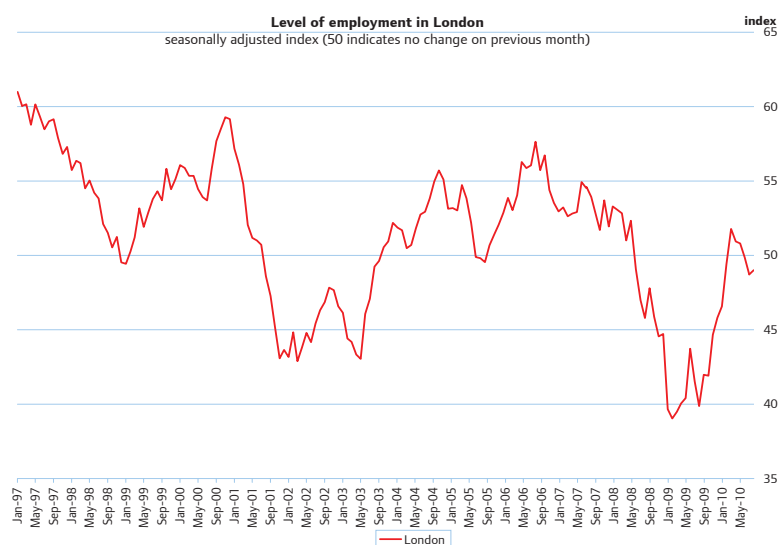
Source: Markit Economics

Businesses report lower employment in July

- The PMI shows that the level of employment in London firms decreased in July 2010.
- The PMI for the level of employment was 49.0 in July compared to 48.7 in June.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: August 2010

Next release: September 2010



Source: Markit Economics

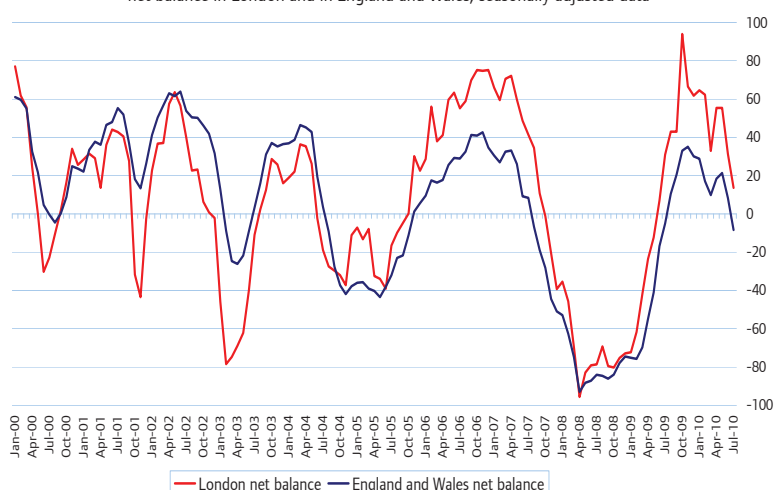
Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 14 for London house prices over the past three months to July 2010. This net balance is down from a downwardly revised 31 in June 2010.
- Surveyors reported a net house price balance for England and Wales of -8 in the past three months to July 2010, down from a downwardly revised 8 in June 2010.
- London's net house price balance is above that of England and Wales.

Latest release: August 2010

Next release: September 2010

RICS housing market survey
net balance in London and in England and Wales; seasonally adjusted data



Source: Royal Institution of Chartered Surveyors

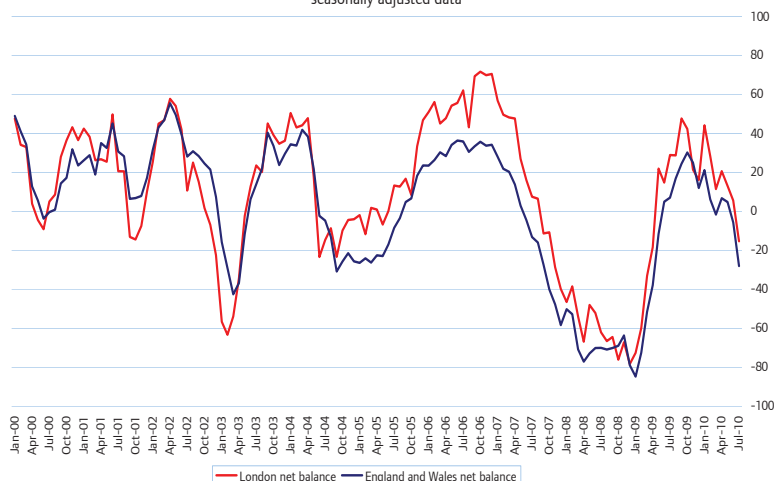
Surveyors expect house prices to fall

- The RICS survey shows that surveyors expect house prices in London and in England and Wales to fall over the next three months.
- The net house price expectations balance in London was -15 in July 2010, down from a downwardly revised 5 in June 2010.
- For England and Wales, the net house price expectations balance was -28 in July 2010, down from a downwardly revised -6 in June 2010.

Latest release: August 2010

Next release: September 2010

RICS housing market survey
house price expectations; net balance in London, and in England and Wales;
seasonally adjusted data



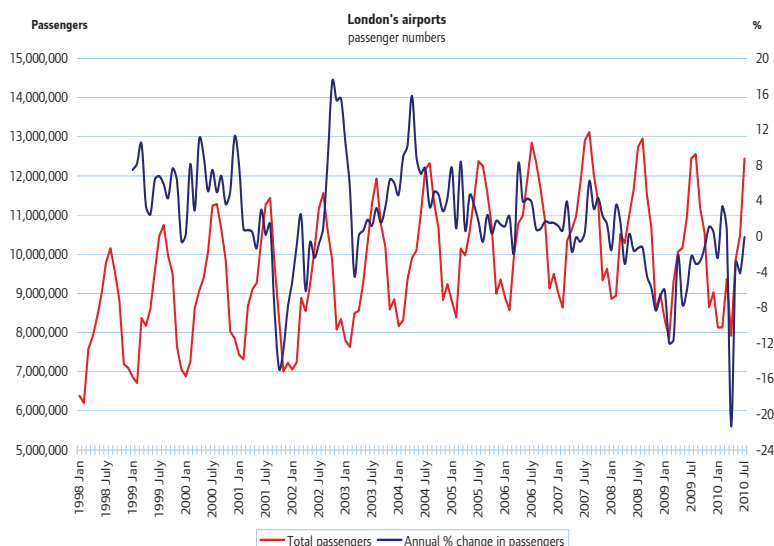
Source: Royal Institution of Chartered Surveyors

Weak airport passenger numbers

- 12.4 million passengers travelled through London's airports in July 2010.
- The number of passengers using London's airports decreased by 0.1 per cent from July 2009 to July 2010.
- The number of passengers using London's airports has fallen year-on-year for the last four months.

Latest release: August 2010

Next release: September 2010



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 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
CAA	Civil Aviation Authority	LET	London's Economy Today
CBI	Confederation of British Industry	MPC	Monetary Policy Committee
DCLG	Department for Communities and Local Government	ONS	Office for National Statistics
GDP	Gross domestic product	PMI	Purchasing Managers' Index
GVA	Gross value added	PWC	PricewaterhouseCoopers
		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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