

London's Economy Today

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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>

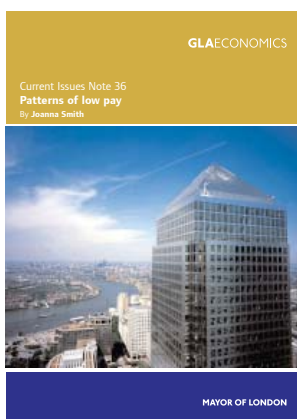
UK economy contracts in Q2 2012

by **Christopher Lewis**, Senior Economist, and **Gordon Douglass**, Economist and **Joanna Smith**, Trainee Intelligence Officer

UK GDP contracted by 0.7 per cent in Q2 2012 according to the preliminary estimate of Q2 output from the Office for National Statistics (ONS) released on 25 July (see Figure 1). This compares to a contraction of 0.3 per cent in Q1 2012 and a contraction of 0.4 per cent in Q4 2011. GDP is around 4.5 per cent lower than its pre 2008-09 recession peak.

In relation to the output fall in Q2 2012 the ONS stated that "the most significant contribution to this fall came from the construction sector; there was, however, also weakness in both the production and services sectors". The ONS also noted that the Diamond Jubilee bank holidays have been classed as a special event and "no adjustment has been made to account for it as part of the seasonal adjustment process. It is not possible to quantify the impact of the changes to the bank holidays at this stage; retrospective analysis will be carried out, in line with the ONS special events policy, when data for later periods are available. The bad weather in the quarter may have also had an impact in some sectors although it has not been formally designated as a special event". The ONS further noted "it is important to remind users that the estimates for June, and therefore the estimates for the quarter, may be subject to greater uncertainty than usual and therefore increase the chance that the GDP estimate will be revised". There is little doubt that the underlying performance of the economy is better than is suggested by the preliminary Q2 2012 GDP figure, which was negatively hit by the Diamond Jubilee. A rebound in output should be expected in Q3 2012.

Latest news...



Current Issues Note 36 - Patterns of low pay

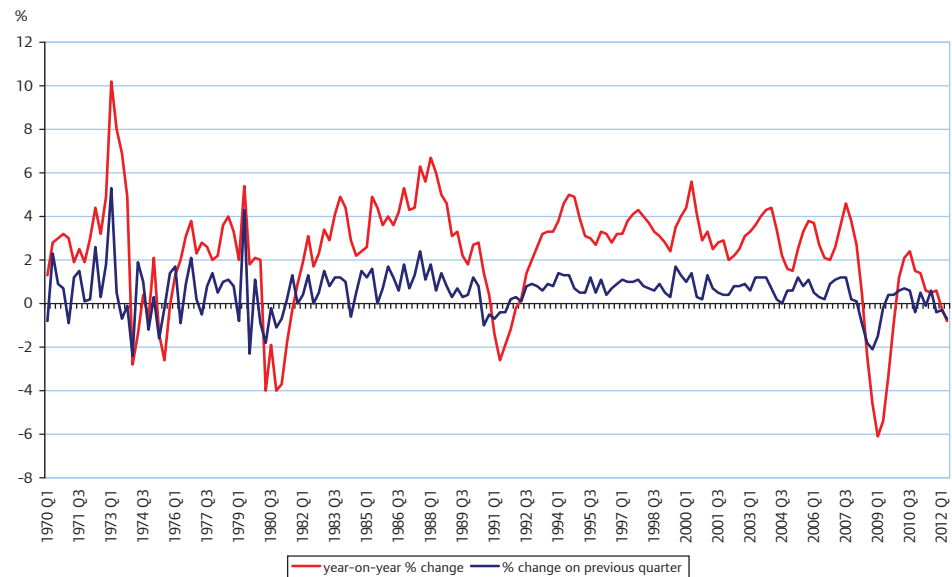
This report found that between 16 and 20 per cent of London's workforce earned less than London's Living Wage, £8.30. The people who are most likely to be low paid are those with low level qualifications, those of an ethnic minority background, young people, over 50s, women and those that work part-time.

The report can be downloaded here:

<http://www.london.gov.uk/publication/current-issues-note-36-patterns-low-pay>

Figure 1: UK GDP Growth

Source: Office for National Statistics



The sectoral breakdown of the Q2 GDP figure shows that not all sub-sectors of the UK economy contracted. For example output in ‘business services and finance’ (an important sector of London’s economy) increased by 0.1 per cent in Q2 2012 and output in ‘government and other services’ increased by 0.3 per cent. However, output in the construction sector decreased by 5.2 per cent in Q2 2012, after falling by 4.9 per cent in Q1 2012. Output in the production industries fell by 1.3 per cent in Q2 2012, after decreasing by 0.5 per cent in Q1 2012, and total output in the services sector decreased by 0.1 per cent in Q2 2012, after increasing by 0.2 per cent in Q1 2012. GDP was 0.8 per cent lower in Q2 2012 compared with Q2 2011. Between Q2 2011 and Q2 2012 construction output decreased by 9.7 per cent, production industries output fell by 3.2 per cent whilst services sector output grew by 0.7 per cent (and within this, business services and finance grew by 0.8 per cent).

The Bank of England launches a further wave of quantitative easing

On 5 July the Bank of England announced that it would undertake another round of quantitative easing (QE) to the value of £50 billion. This comes on the back of declining inflation figures which saw Consumer Price Index (CPI) annual inflation fall to 2.4 per cent in June and Retail Price Index (RPI) annual inflation fall to 2.8 per cent. The Monetary Policy Committee of the Bank announced that “against the background of continuing tight credit conditions and fiscal consolidation, the increased drag from the heightened tensions within the euro area meant that, without additional monetary stimulus, it was more likely than not that inflation would undershoot the target in the medium term”. Elsewhere the Government announced that it plans to underwrite up to £40 billion in infrastructure investment in an attempt to boost the economy. The UK Guarantee scheme is aimed at kick starting stalled projects, which will have to meet certain criteria and be able to begin within 12 months. The Government has also set aside a further £10 billion of guarantees to support struggling exporters. The IMF has warned in a report on 19 July that a number of its Executive Board Directors “considered that fiscal consolidation should not be accelerated as planned if growth does not build momentum even after further monetary and credit easing measures”.

The British Chambers of Commerce's Quarterly Economic Survey for Q2 2012 published in July indicated that the UK economy was stable but pointed towards a slow pace of recovery. Findings showed that export markets were still stronger than the domestic market. In Q2 export balances improved for both manufacturing and service sector firms and are above 2007 levels. Business confidence in the service sector remained broadly unchanged from Q1 2012 but at least it is higher than its 2008-09 recession levels. In London, business confidence in the service sector improved in Q2 2012.

The Eurozone crisis is dampening global growth

The global economic situation remains fragile with stock markets being hit by heightening concerns over the sustainability of public sector finances in Spain. The IMF, in its World Economic Outlook Update published in July, downgraded its forecast for global growth in 2012 and 2013. Forecast growth in the UK was also revised downwards in both 2012 and 2013 to 0.2 per cent and 1.4 per cent respectively. The IMF noted that "in the past three months, the global recovery, which was not strong to start with, has shown signs of further weakness. Financial market and sovereign stress in the euro area periphery have ratcheted up, close to end-2011 levels." The US economic recovery "remains tepid" according to the IMF, and the latest economic data shows that Chinese economic growth has slowed to an annual rate of 7.6 per cent in Q2 2012. At least Japan's Tankan survey showed an improvement in manufacturers' sentiment between April and June. With the capital facing a generally deteriorating international economic background London's economy is likely to only experience slow growth over the next few years.

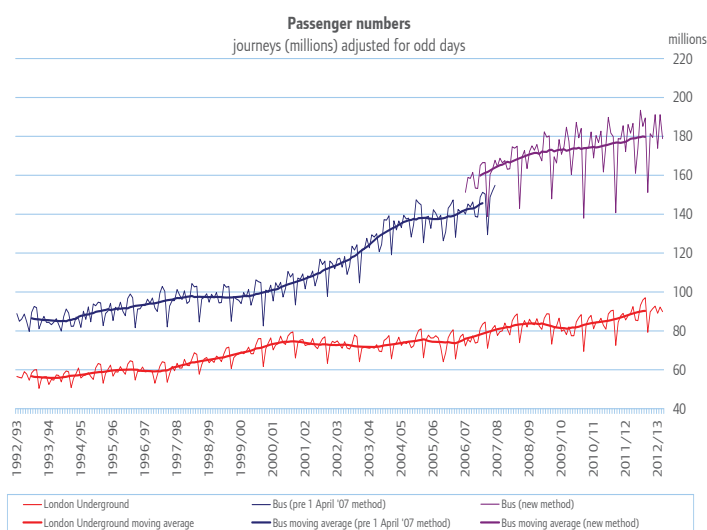
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28 day period is from 27 May to 23 June 2012. Adjusted for odd days, London's Underground and buses had 268.8 million passenger journeys; 178.9 million by bus and 89.9 million by Underground.
- The moving average of passengers every period decreased to 270.0 million from 270.2 million in the previous period. The moving average for buses was 179.8 million. The moving average for the Underground was 90.3 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: July 2012

Next release: August 2012



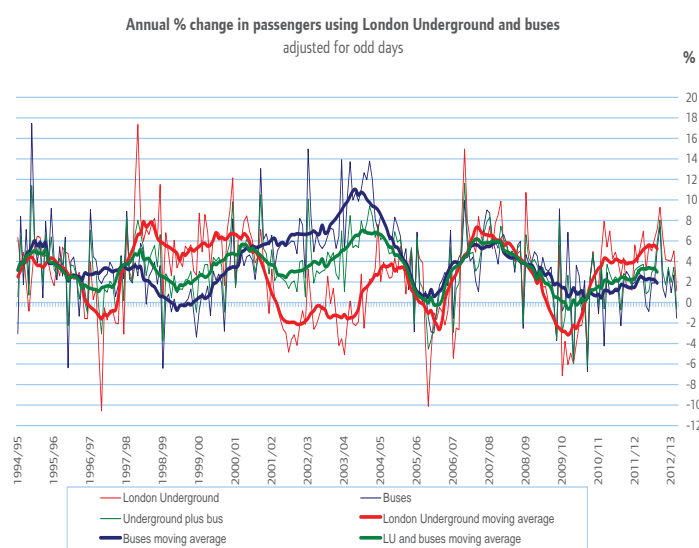
Source: Transport for London

Average annual growth rate of passengers decreases

- The moving average annual rate of growth in passenger journeys decreased to 3.0% from 3.3% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 1.9% from 2.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 5.2% from 5.6% in the previous period.

Latest release: July 2012

Next release: August 2012



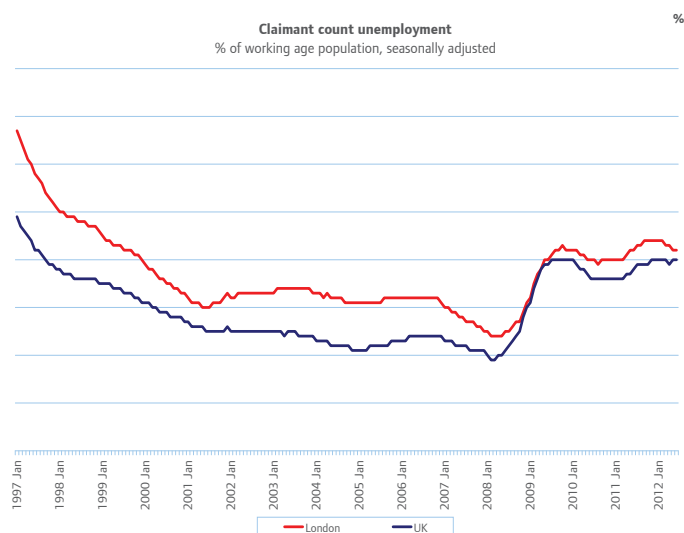
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in June 2012.
- There were 227,600 seasonally adjusted unemployment claimants in London in June 2012 compared to an upwardly revised 227,800 in May 2012.
- There were 1,604,200 seasonally adjusted unemployment claimants in the UK in June 2012 compared to a downwardly revised 1,598,100 in May 2012.

Latest release: July 2012

Next release: August 2012



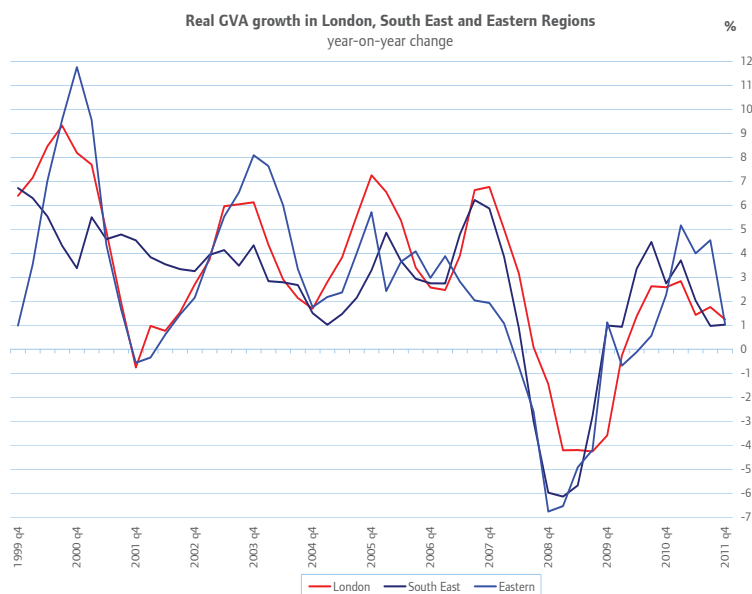
Source: Claimant Count, Nomis

Annual output growth slowed in London 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 South East remained constant at 1.0% in Q4 2011.
- Annual output growth in the Eastern region decreased to 1.0% in Q4 2011 from 4.5% in Q3 2011.

Latest release: May 2012

Next release: August 2012



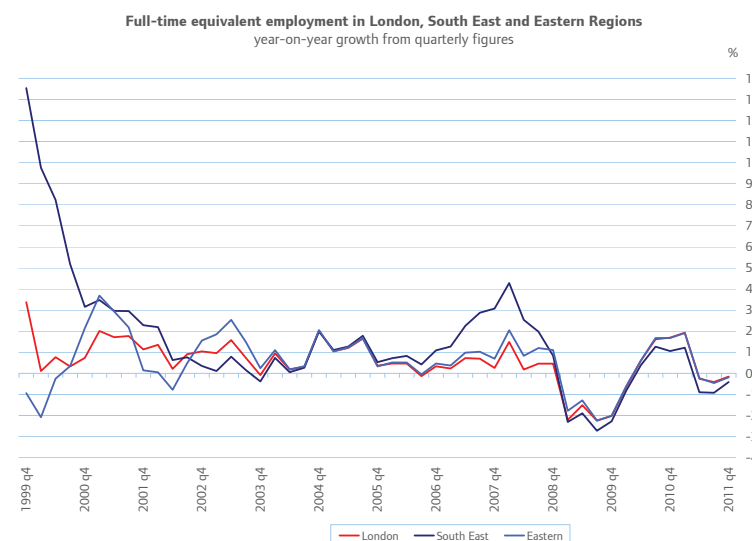
Source: Experian Economics

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 South East increased to -0.4% in Q4 2011 from -0.9% in Q3 2011.
- Annual employment growth in the Eastern region increased to -0.2% in Q4 2011 from -0.5% in Q3 2011.

Latest release: May 2012

Next release: August 2012



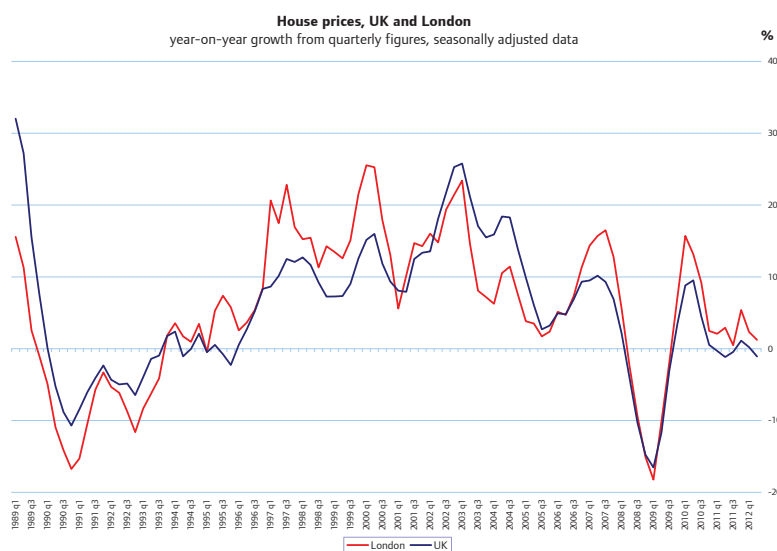
Source: Experian Economics

Annual house price inflation falling

- House prices, as measured by Nationwide, were higher in Q2 2012 than in Q2 2011 in London but not in the UK.
- Annual house price inflation in London was 1.2% in Q2 2012, down from 2.3% in Q1 2012.
- Annual house price inflation in the UK was -1.1% in Q2 2012 down from 0.2% in Q1 2012.

Latest release: July 2012

Next release: October 2012



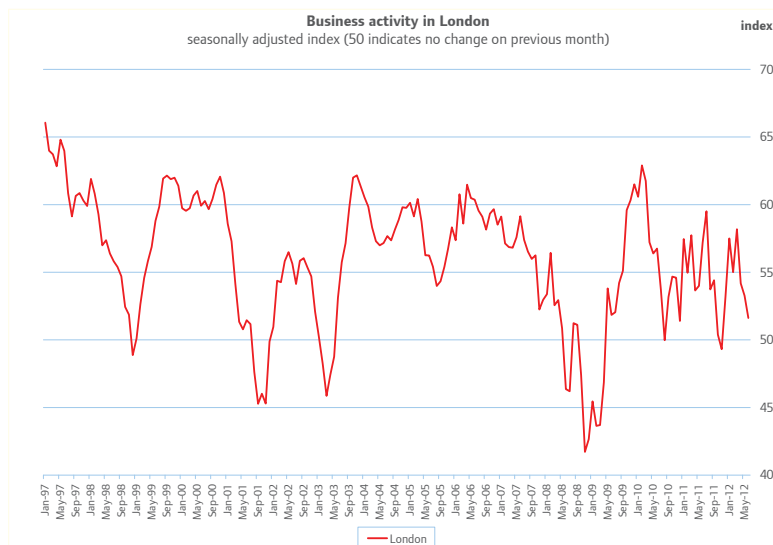
Source: Nationwide

London's business activity increasing

- London firms increased their output of goods and services in June 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 51.6 in June 2012 compared to 53.3 in May 2012.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: July 2012

Next release: August 2012



Source: Markit Economics

New orders in London rising

- June 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 51.5 in June 2012 compared to 54.1 in May 2012.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: July 2012

Next release: August 2012



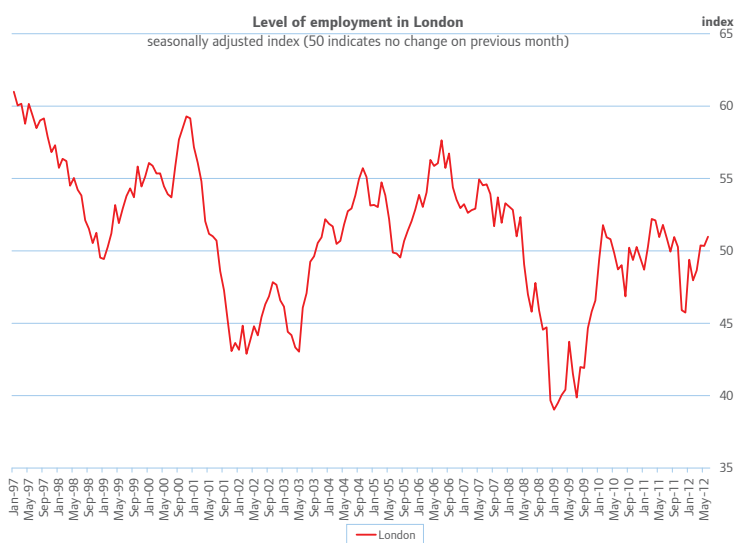
Source: Markit Economics

Businesses report higher employment in June

- The PMI shows that the level of employment in London firms increased in June 2012.
- The PMI for the level of employment was 51.0 in June 2012 compared to 50.3 in May 2012.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: July 2012

Next release: August 2012



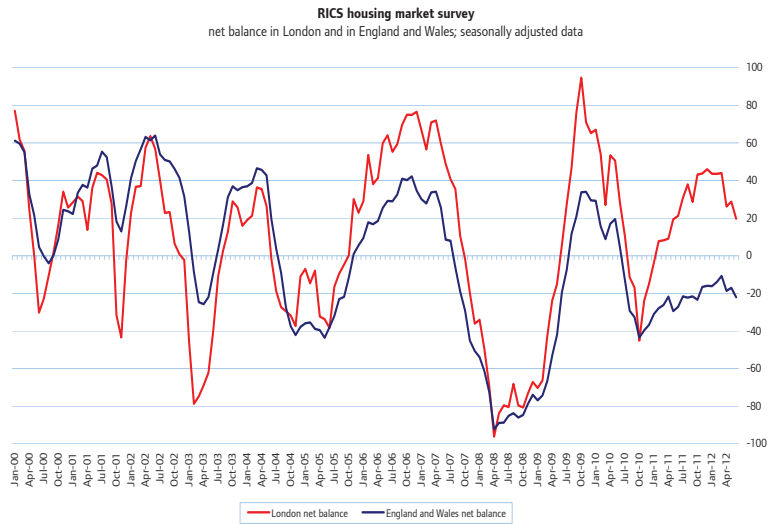
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 20 for London house prices over the three months to June 2012.
- Surveyors reported a negative net house price balance for England and Wales of -22 over the three months to June 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: July 2012

Next release: August 2012



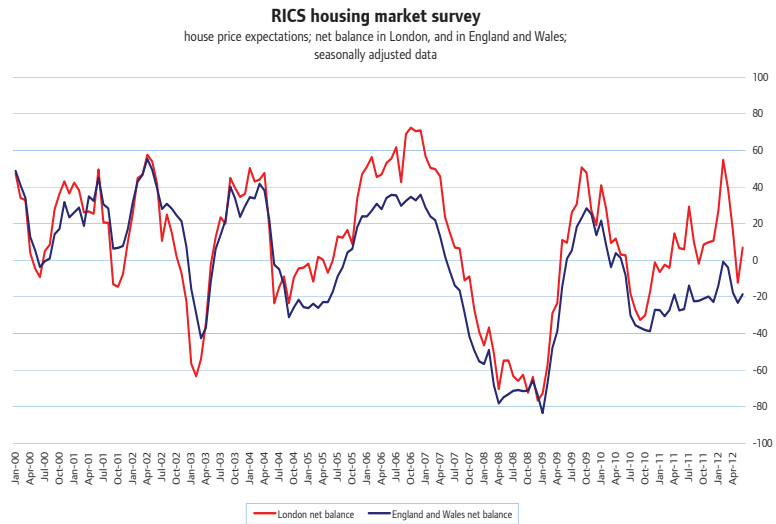
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices to rise over the next three months in London but not in England and Wales.
- The net house price expectations balance in London was 7 in June 2012.
- For England and Wales, the net house price expectations balance was -19 in June 2012.

Latest release: July 2012

Next release: August 2012



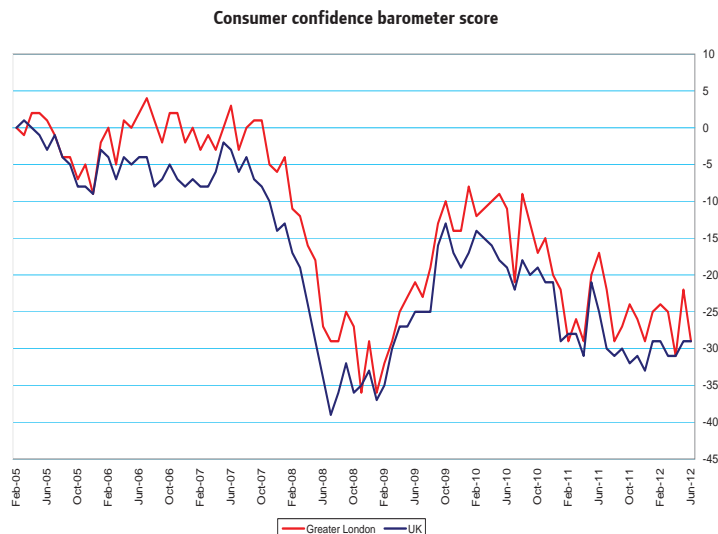
Source: Royal Institution of Chartered Surveyors

Consumer confidence remains negative

- The GfK index of consumer confidence reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London the consumer confidence score decreased to -29 in June 2012 from -22 in May 2012.
- For the UK the consumer confidence score remained constant at -29 in June 2012.

Latest release: June 2012

Next release: July 2012



Source: GfK NOP on behalf of the European Commission

Data sources

Tube and bus ridership

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

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 2012/13 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2012.

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 2012/13 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2012.

Acronyms

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

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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.