

London's Economy Today

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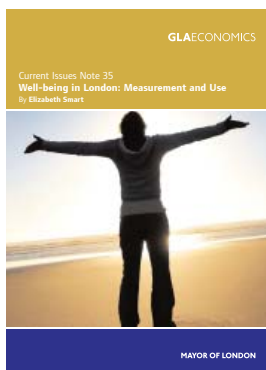
Falling inflation and the Bank of England extends quantitative easing

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

UK inflation fell back in January 2012 with Consumer Price Index (CPI) annual inflation dropping to 3.6 per cent from 4.2 per cent in December 2011 (see Figure 1). CPI inflation is now at a 14-month low. Retail Price Index (RPI) inflation fell to 3.9 per cent in January from 4.8 per cent in December. The main cause of the fall in inflation was the dropping out of the index of the rise in VAT to 20 per cent in January 2011.

Smaller price rises in commodities compared to those seen in January 2011 also helped ease annual inflation. With earnings growth remaining subdued it is unlikely that the fall in inflation so far will reverse the current decline in household real wages.

Latest news...



Current Issues Note 35: Well-being in London: Measurement and Use

Well-being is a growing area of interest as social scientists recognise the limitations of using GDP alone as a barometer of 'how society is doing'.

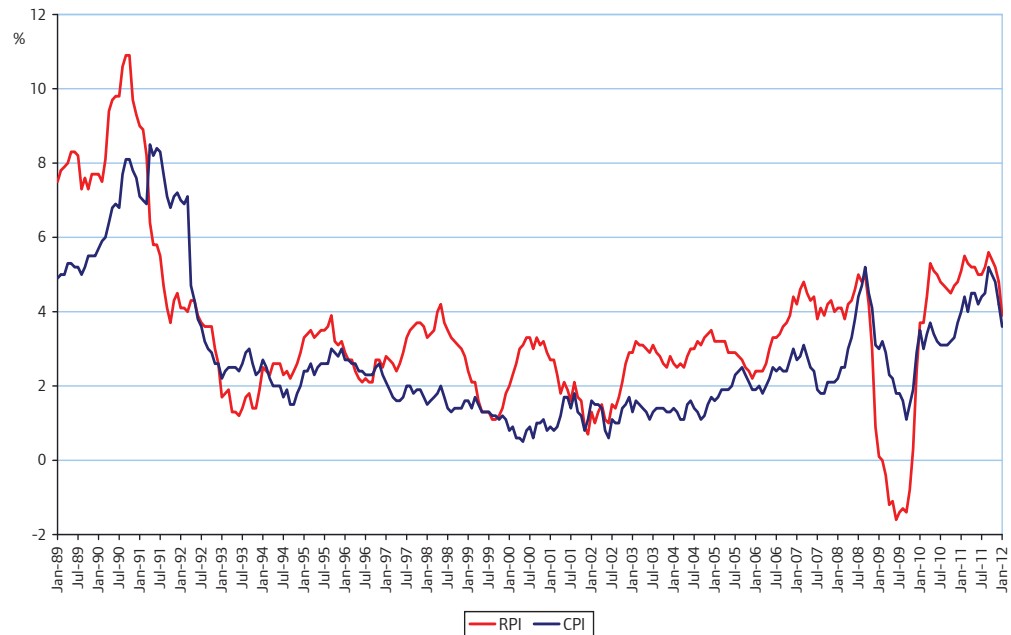
This paper examines the concept of well-being and how it can be measured with particular reference to London, as well as exploring potential policy uses for well-being analysis.

Visit <http://www.london.gov.uk/publication/current-issues-note-35-well-being-london-measurement-and-use> to download this publication.

Figure 1: UK annual inflation rates

Last data point is
January 2012

Source: Office for
National Statistics



On 9 February the Bank of England announced that it would further extend its programme of quantitative easing (QE) by £50 billion. This takes the total value of QE that the Bank has or plans to undertake to £325 billion. The Bank noted that “the underlying pace of recovery slowed during 2011, with activity falling slightly during the final quarter” and that without further QE inflation was likely to fall below its 2 per cent symmetrical target. In their February Inflation Report, the Bank of England observed that CPI inflation had fallen significantly since its peak of 5.2 per cent in September 2011. They did however revise upward their inflation forecast for the next two years, with their central estimate indicating that inflation is predicted to decrease to around 1.8 per cent during 2013, compared to their previous estimate of around 1.3 per cent. The Bank stated that “inflation is somewhat more likely to be below the target than above it for a good part of the forecast period. But by the end of the period those risks are judged to be broadly balanced”. This suggests the chances of a further round of QE is finely balanced.

In terms of output, the Bank’s central forecast suggests that the pace of growth should pick up to around its historical average during 2013. The report however does stress that the outlook for growth remains “unusually uncertain”, with downside threats stemming from weak credit growth, lower real incomes and, most significantly, the Eurozone. The report also notes that quarterly growth is likely to be volatile through 2012 due to one-off factors such as the extra bank holiday for the Queen’s Diamond Jubilee, but that the UK is expected to stay out of a technical recession.

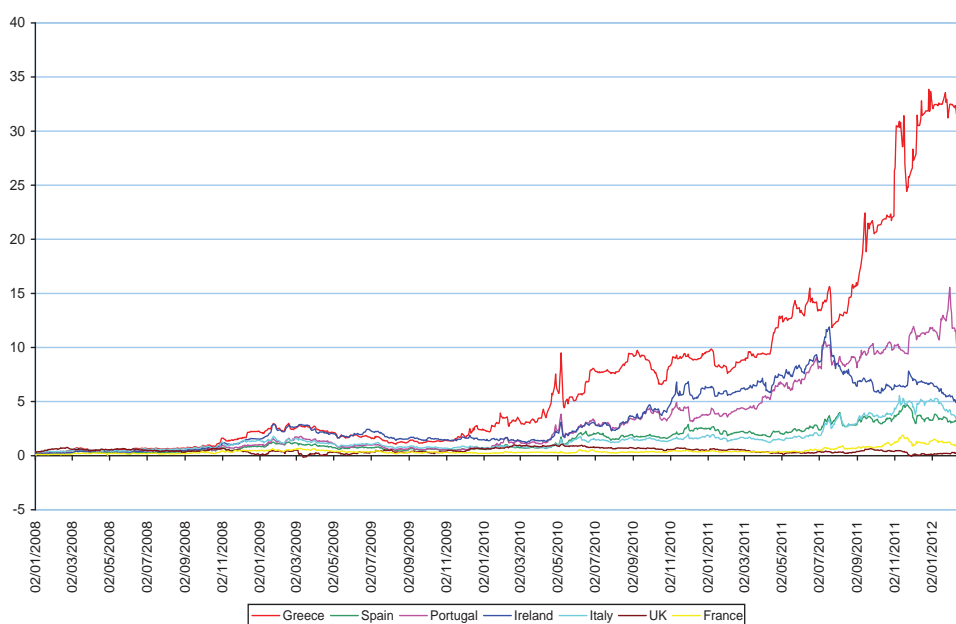
Moody’s express concerns on the UK’s AAA rating

On 14 February Moody’s put the UK AAA sovereign credit rating on a negative outlook, along with France and Austria. This means that there is a roughly 30 per cent chance of each country having its credit rating downgraded in the next 18 months. Moody’s also downgraded the ratings of Italy, Spain and Portugal. A debt downgrade could make it more expensive for the UK government to borrow in the financial markets. Moody’s stated that it had taken this action in respect to the UK due to concerns about the possible negative impact of the Eurozone crisis on UK growth with a statement saying “any further abrupt economic or fiscal deterioration would put into question the government’s ability to place the debt burden on a downward trajectory by fiscal year 2015-16”.

In the Eurozone itself the impact of the sovereign debt crisis continues to be felt as shown by the spreads on ten-year government debt (see Figure 2). On 12 February Greece's parliament passed an austerity package that will see 150,000 public sector job losses, a 20 per cent cut in the minimum wage, pension cuts and liberalisation of labour market laws. The measures were necessary in order that Greece would qualify for a new €130 billion bailout package, which was agreed on 21 February. The bailout was needed so that Greece can avoid default on 20 March when maturing loans need to be repaid. The new bailout deal aims to reduce Greek sovereign debt as a percentage of GDP to 120.5 per cent by 2020 and Greece has also accepted an "enhanced and permanent" presence of EU monitors to oversee economic management. Private sector Greek bond holders will take a haircut of 53.5 per cent on the value of their bonds. Greece will now need to implement further spending cuts and will have to pass legislation within two months to give priority to debt repayments over spending on government services.

Figure 2: Ten-year government bond spreads over German government bonds, percentage points
Last data point is 22/02/2012

Source: EcoWin



Slow UK growth expected in 2012

The Institute for Fiscal Studies (IFS), along with Oxford Economics, published their pre Budget Green Budget in February in which they forecast that the UK economy will grow by 0.3 per cent in 2012, compared to the Office for Budget Responsibility's projection of 0.7 per cent. However, the IFS are slightly more optimistic about government borrowing, predicting the government will borrow £2.9 billion less this financial year than the latest official forecast. The IFS concluded that "risks to our central forecast are very much on the downside" with a Eurozone break-up or weaker economic growth meaning that one, or both, of the Chancellor's fiscal objectives would be broken.

In its latest forecast the CBI predicts that the UK economy will avoid a technical recession with it expecting growth to resume in Q1 2012. Growth for 2012 is forecast to be 0.9 per cent before picking up to 2 per cent in 2013. Internationally the picture is mixed with data showing that the economies of Italy and the Netherlands contracted in Q4 2011 by 0.7 per cent, whilst Germany's contracted by 0.2 per cent and the Eurozone as a whole contracted by 0.3 per cent. China is still growing quickly, however the IMF has warned that a recession in the Eurozone could cut Chinese growth to 4.2 per cent, noting

that “China’s growth rate would drop abruptly if the euro area experiences a sharp recession”. Unlike the Eurozone the US economy continues to recover with unemployment starting to fall. Thus although the economic situation for London and the UK continues to remain worrisome, excluding the Eurozone there are signs of some international grounds for optimism. Stock markets have picked up recently and generally UK economic data regarding the start of the year has been stronger than expected. Oil prices though have risen over the last few weeks due mainly to tensions concerning Iran and if oil prices spike further this will act as a further headwind to the recovery.

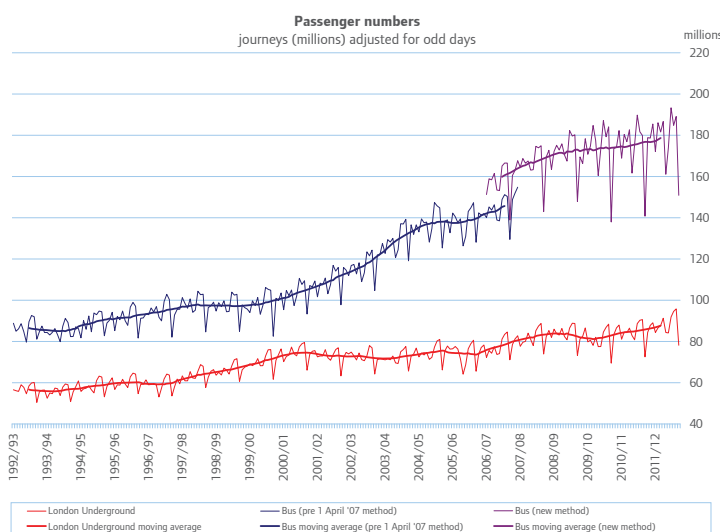
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28 day period is from 11 December 2011 to 7 January 2012. Adjusted for odd days, London's Underground and buses had 229.1 million passenger journeys; 150.9 million by bus and 78.2 million by Underground.
- The moving average of passengers every period increased to 266.4 million from 265.1 million in the previous period. The moving average for buses was 178.7 million. The moving average for the Underground was 87.7 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: February 2012

Next release: March 2012



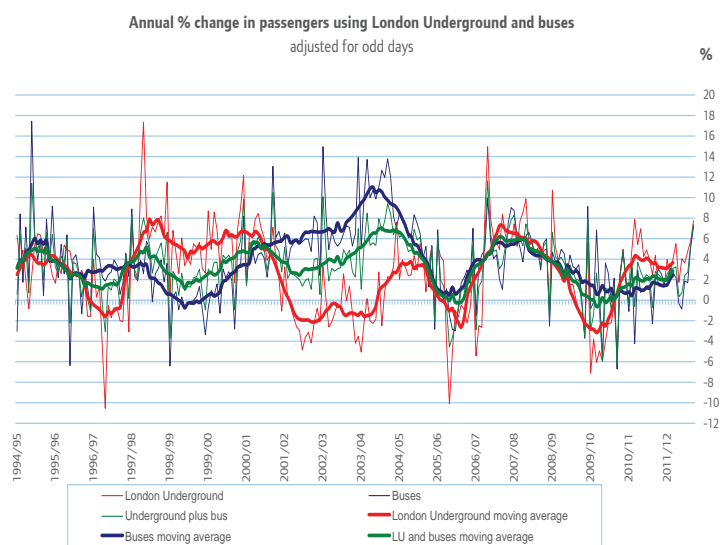
Source: Transport for London

Average annual growth rate of passengers increases

- The moving average annual rate of growth in passenger journeys increased to 2.8% from 2.5% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 2.5% from 2.1% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 3.7% from 3.4% in the previous period.

Latest release: February 2012

Next release: March 2012



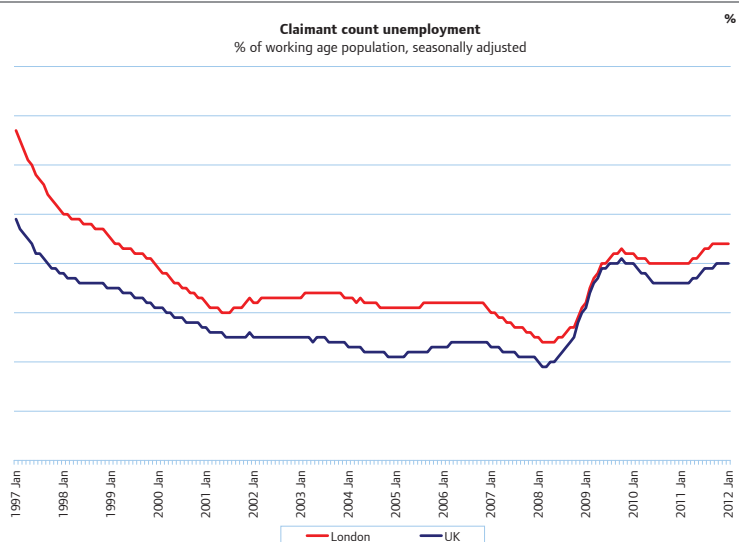
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.4% in January 2012.
- There were 236,100 seasonally adjusted unemployment claimants in London in January 2012 compared to a downwardly revised 237,000 in December 2011.
- There were 1,604,600 seasonally adjusted unemployment claimants in the UK in January 2012 compared to an upwardly revised 1,597,700 in December 2011.

Latest release: February 2012

Next release: March 2012



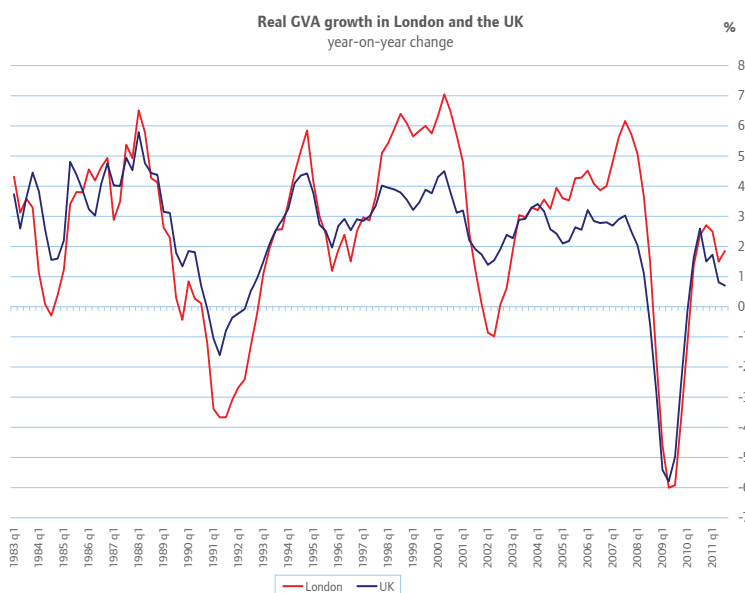
Source: Claimant Count, Nomis

Faster annual output growth in London than in the UK in Q3 2011

- London's annual growth in output increased to 1.9% in Q3 2011 from 1.5% in Q2 2011.
- Annual output growth in the UK decreased to 0.7% in Q3 2011 from 0.8% in Q2 2011.
- In Q3 2011 London's annual growth rate was faster than in the UK as a whole.

Latest release: February 2012

Next release: May 2012



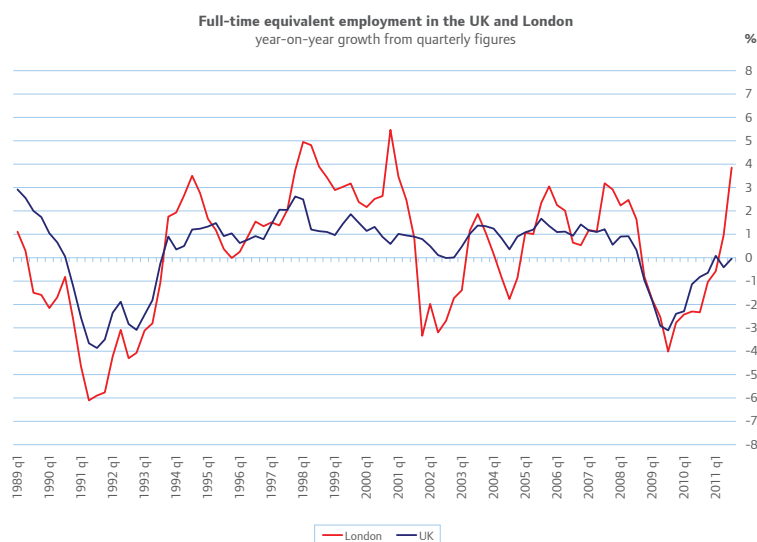
Source: Experian Economics

Positive annual employment growth in London in Q3 2011

- London's annual employment growth increased to 3.9% in Q3 2011 from 1.0% in Q2 2011.
- Annual employment growth in the UK increased to 0.0% in Q3 2011 from -0.4% in Q2 2011.
- In Q3 2011 London's annual employment growth was positive whilst that of the UK as a whole saw no growth.

Latest release: February 2012

Next release: May 2012



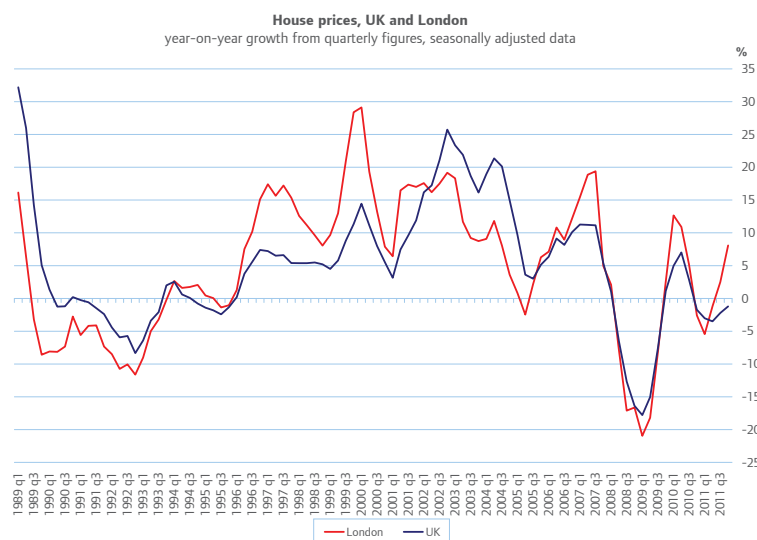
Source: Experian Economics

Annual house price inflation rising in London

- House prices, as measured by Halifax, were higher in Q4 2011 than in Q4 2010 in London but not in the UK.
- Annual house price inflation in London was 8.1% in Q4 2011, up from 2.5% in Q3 2011.
- Annual house price inflation in the UK was -1.2% in Q4 2011, up from -2.2% in Q3 2011.

Latest release: January 2012

Next release: April 2012



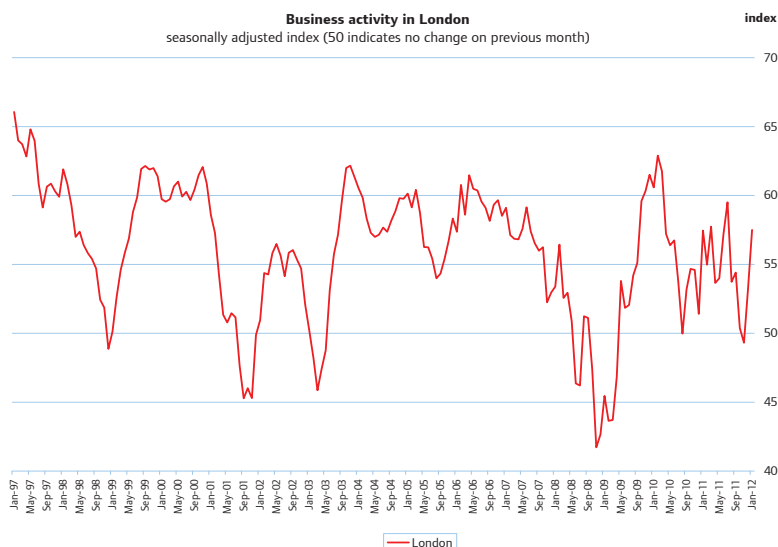
Source: Halifax house price index

London's business activity increasing

- London firms increased their output of goods and services in January 2012.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.5 in January 2012 compared to 53.2 in December 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: February 2012

Next release: March 2012



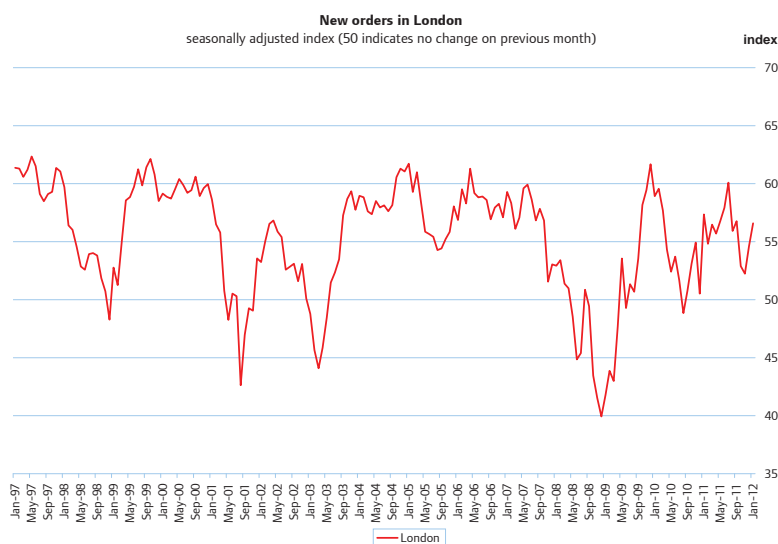
Source: Markit Economics

New orders in London rising

- January 2012 saw an increase in new orders for London firms.
- The PMI for new orders recorded 56.6 in January 2012 compared to 54.6 in December 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: February 2012

Next release: March 2012



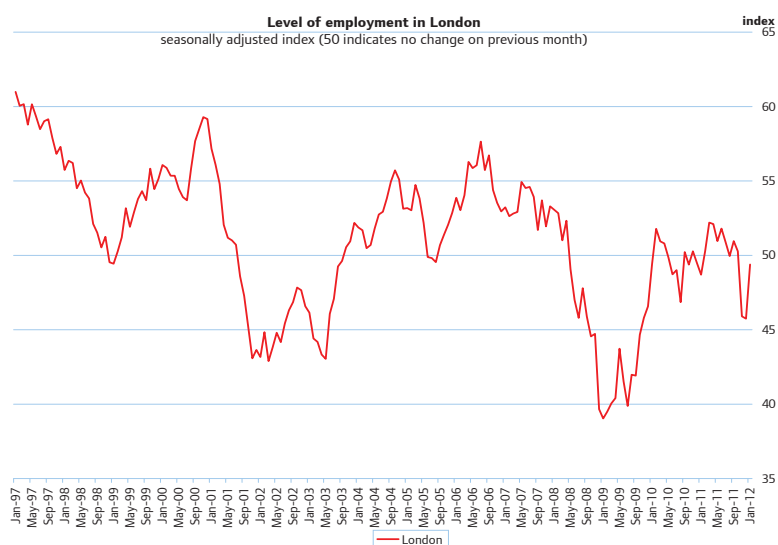
Source: Markit Economics

Businesses report slightly lower employment in January

- The PMI shows that the level of employment in London firms decreased in January 2012.
- The PMI for the level of employment was 49.4 in January 2012 compared to 45.7 in December 2011.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: February 2012

Next release: March 2012



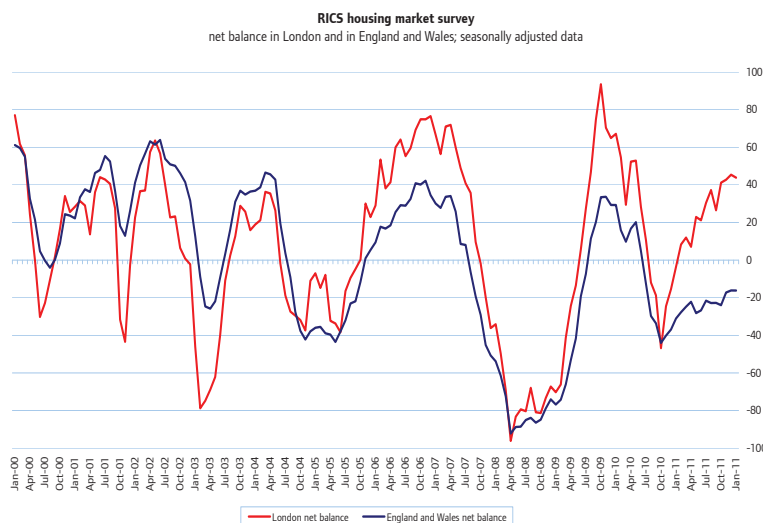
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 44 for London house prices over the three months to January 2012.
- Surveyors reported a negative net house price balance for England and Wales of -16 over the three months to January 2012.
- London's net house price balance is higher than that of England and Wales.

Latest release: February 2012

Next release: March 2012



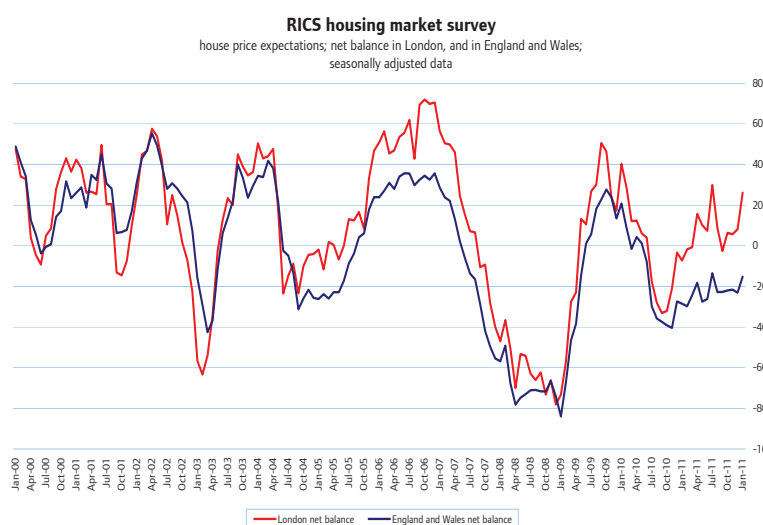
Source: Royal Institution of Chartered Surveyors

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 continue to fall in England and Wales.
- The net house price expectations balance in London was 26 in January 2012.
- For England and Wales, the net house price expectations balance was -15 in January 2012.

Latest release: February 2012

Next release: March 2012



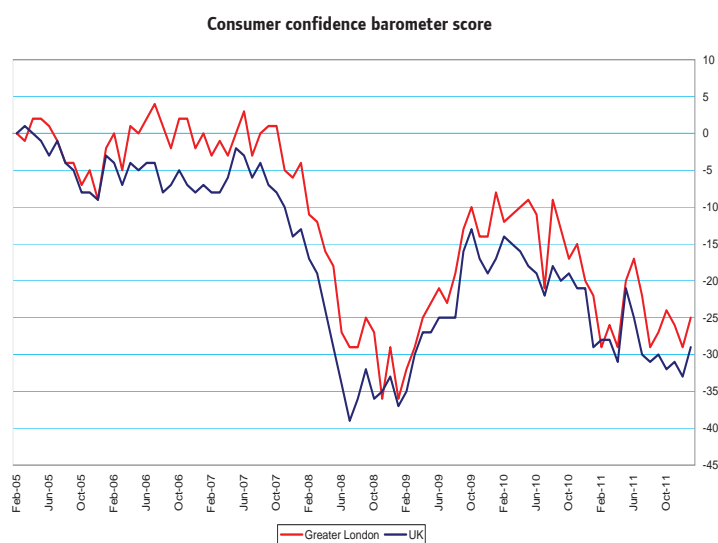
Source: Royal Institution of Chartered Surveyors

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 increased to -25 in January 2012 from -29 in December 2011.
- For the UK the consumer confidence score increased to -29 in January 2012 from -33 in December 2011.

Latest release: January 2012

Next release: February 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

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 are eleven 28-day periods, one 27-day period 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 are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

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		

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4674

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

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Public Liaison Unit
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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.