

London's Economy Today

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The 2011 Budget: Focus on London

By **Jonathan Hoffman**, Senior Economist

This was never going to be a Budget which radically changed the fiscal outlook – the ten-month old Coalition had already done that with its October Comprehensive Spending Review and its June emergency Budget, which itself filled in the gaps of the previous government's final Budget a year ago. Taking the Chancellor's tax and spending announcements together, their successful delivery would constitute the biggest fiscal tightening to deal with the biggest UK fiscal deficit since World War Two.

Background and fiscal mandate

The Budget was formulated at a time of unusual uncertainty. Not only did the snow hit GDP in Q4 (-0.5 per cent on the previous quarter) but events abroad (the Japanese earthquake and tsunami and the oil price rise triggered by unrest in the Arab Middle East) meant that it was particularly hard to have confidence in forecasts of the external environment.

Latest news...



● **GLA Intelligence Unit seminar: What does today's Budget mean for London? - analysis from the Institute for Fiscal Studies and the GLA Intelligence Unit** Tuesday 5 April 2011, 4.00pm-5.00pm at City Hall, London SE1 2AA

The Institute for Fiscal Studies (IFS) is one of Britain's leading independent microeconomic research institutions, and an authoritative commentator on the public finances. James Browne, Senior Research Economist, IFS, will speak about the impact of the tax and benefit changes announced in Budget 2011 and previously on households in London. The GLA Intelligence Unit provides expert advice and analysis on London's economy and the economic issues facing the capital. Jonathan Hoffman, Senior Economist, the GLA Intelligence Unit, will discuss the Budget's impact on London. To book your place, please register at the following address <http://ifsbudgetbriefing.eventbrite.com/> or email intelligence@london.gov.uk

The Office for Budget Responsibility (OBR) responded to these uncertainties by trimming its growth forecasts for 2011 and 2012. The forecast for 2011 falls from 2.1 per cent to 1.7 per cent; that for 2012 falls from 2.6 per cent to 2.5 per cent. Inflation has been higher than forecast, as the China deflationary effect diminishes and on the back of stronger commodity and oil prices and tax rises but the OBR sees it drifting back down to the target level of 2 per cent in the medium term, as these base effects fall out of the annual comparison.

Although the dramatic tightening is preserved by this Budget, there is a marginal worsening of the fiscal forecasts. Public sector borrowing now falls to 1.5 per cent in relation to GDP by the end of the forecast (2015-16) from 11.1 per cent in 2009-10; in November it was forecast to reach 0.9 per cent by the same year. Both weaker growth and higher inflation are responsible for this.

However – and importantly for the markets – anticipated progress on the Coalition’s “fiscal mandate” is hardly altered as compared with November. The principal target under that mandate is to achieve balance in the structural current deficit (ie, excluding investment spending) by 2015-16. In November this was achieved with a margin to spare, with a surplus of 0.5 per cent in 2014-15. Now that surplus is 0.4 per cent.

This mandate will be supplemented by a target for public sector debt, which in this Parliament is to ensure that debt is falling as a share of GDP by 2015-16. In November this was fulfilled, with the ratio falling from a peak of 70 per cent in 2013-14 to 67 per cent in 2015-16. Now it is still fulfilled but slightly less convincingly, with the ratio falling from a peak of 70.9 per cent in 2013-14 to 69.1 per cent by 2015-16.

The Budget and London

Although the Budget was fiscally neutral there were a number of positive features for London, especially for business. The Chancellor even went so far as to voice (for the first time) support for the City.

Those parts of the Budget most welcome for London are as follows.

1. Corporation tax is being further reduced. Already scheduled to gradually fall to 24 per cent, the rate will now drop by 2 per cent rather than the previously scheduled 1 per cent from April 2011 to 26 per cent, before falling in stages to 23 per cent by 2014. This will be the lowest company taxation rate in the G7.
2. Planning: All planning bodies must prioritise growth and jobs. Sustainable development will have the default of being allowed.
3. The Enterprise Investment Scheme (EIS) will become more generous from 2012. The amount an individual can invest through the EIS will double, and from April 2011 the rate of tax relief will rise (there are further concessions still);
4. The Chancellor accepted that “the 50 pence tax rate would do lasting damage to our economy if it were to become permanent” and he has asked HMRC to report on how much it raises.

5. A further nine new university centres for ‘innovative manufacturing’ will be funded and the number of University Technical Centres to receive funding will double to 24. One hundred thousand pupils will be offered work experience over the next two years and 40,000 additional apprenticeships will be funded.
6. The small companies R+D tax credit will rise to 200 per cent and from 2012 it will rise to 225 per cent; and the limit on capital allowances for short-life assets will be doubled from four to eight years.
7. London is to have one of the new Enterprise Zones, this has been named as Royal Docks by the Mayor.
8. The highly competitive tax rate on profits derived from patents in industries like pharmaceuticals is important to London’s pharmaceutical and creative industry sectors which are significant in UK terms. Business services will be helped by reform of money laundering and the trusted business visa arrangements.
9. In life sciences, the government intends to “radically reduce the time it takes to get approval for clinical trials” – this sector is important for London, as are the digital and creative sectors, where the government will improve the intellectual property regime.

However there is one Budget measure – the “First Buy” scheme to subsidise first time buyers buying new homes – which is slanted away from London. The scheme gives first time buyers access to a 20 per cent equity loan provided jointly by the government and housebuilders. The Chancellor has pledged £250 million to the scheme but it is only open to households earning below £66,000. Because salaries in London are higher than in other regions, a lower proportion of first time buyers in London will be eligible for this assistance.

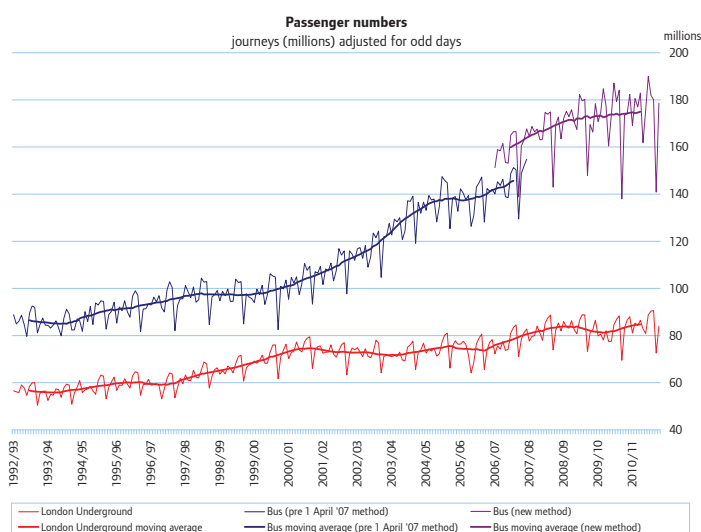
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 9 January 2011 to 5 February 2011. Adjusted for odd days, London's Underground and buses had 262.6 million passenger journeys; 178.6 million by bus and 84.0 million by Underground.
- The moving average of passengers every period increased to 259.7 million from an upwardly revised 259.3 million in the previous period. The moving average for buses was 175.0 million. The moving average for the Underground was 84.8 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: March 2011

Next release: April 2011



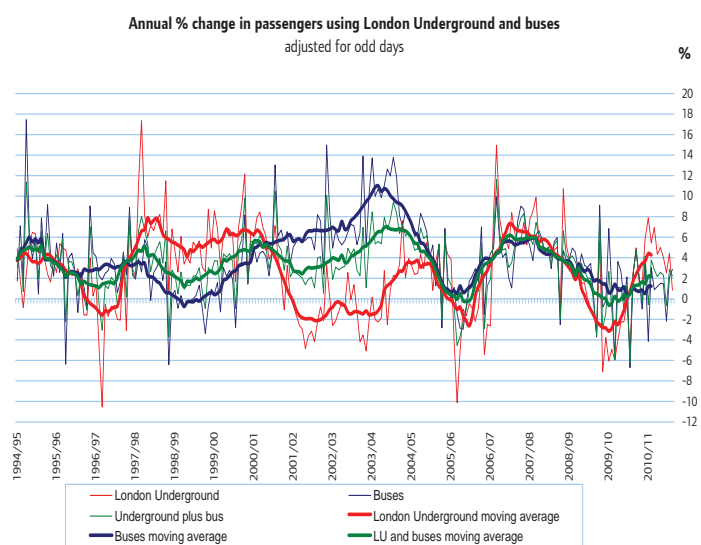
Source: Transport for London

Average annual growth rate of passengers remains unchanged

- The moving average annual rate of growth in passenger journeys was 2.2%, unchanged from an upwardly revised 2.2% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers was 1.2%, unchanged from an upwardly revised 1.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 4.3% from 4.4% in the previous period.

Latest release: March 2011

Next release: April 2011



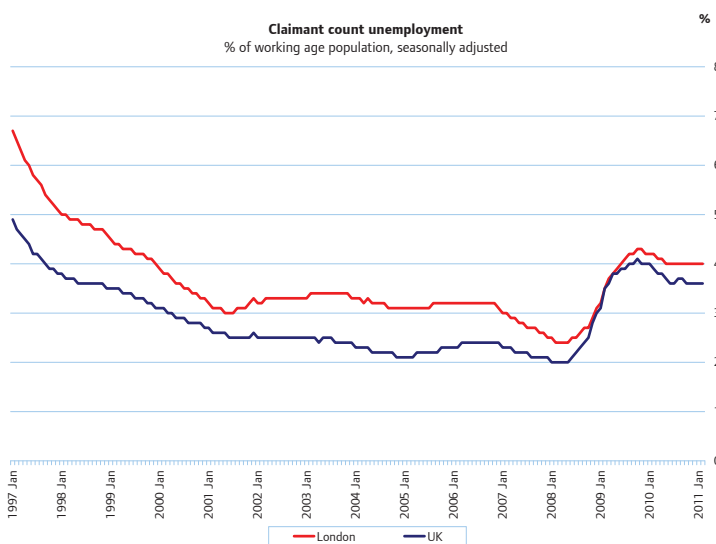
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.0% in February 2011.
- There were 214,400 seasonally adjusted unemployment claimants in London in February 2011 compared with a downwardly revised 214,600 in January 2011.
- There were 1,448,600 seasonally adjusted unemployment claimants in the UK in February 2011 compared with a downwardly revised 1,458,800 in January 2011.

Latest release: March 2011

Next release: April 2011



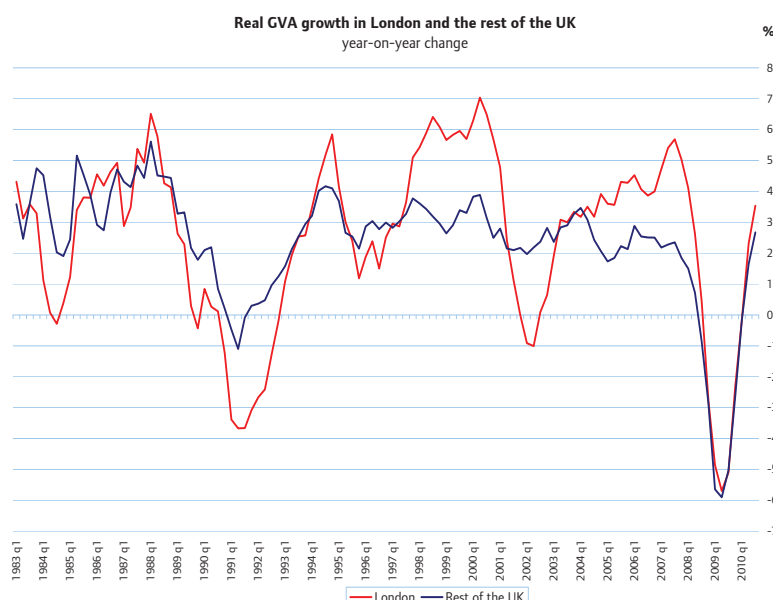
Source: Claimant Count, Nomis

Annual output growth increased in London and the rest of the UK in Q3 2010

- London's annual growth in output increased to 3.5% in Q3 2010 from a downwardly revised 2.3% in Q2 2010.
- Annual output growth in the rest of the UK increased to 2.7% in Q3 2010 from 1.6% in Q2 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2011

Next release: May 2011



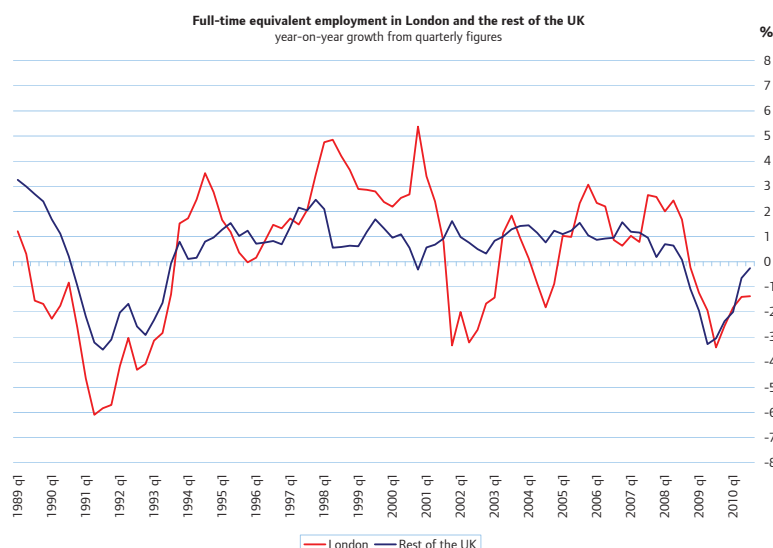
Source: Experian Economics

Negative annual employment growth in Q3 2010

- London's annual employment growth was -1.4% in Q3 2010 unchanged from a downwardly revised -1.4% in Q2 2010.
- Annual employment growth in the rest of UK increased to -0.3% in Q3 2010 from a downwardly revised -0.7% in Q2 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2011

Next release: May 2011



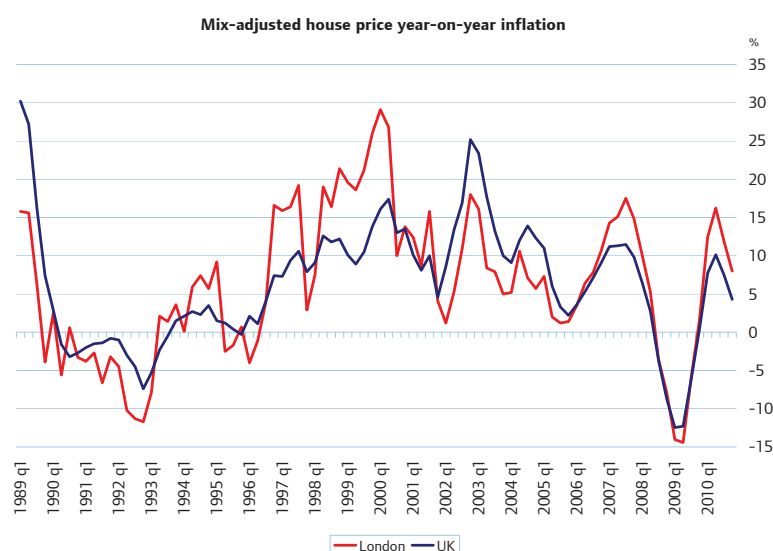
Source: Experian Economics

Annual house price inflation falling

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q4 2010.
- The DCLG reported a fall in annual house price inflation in both London and the UK in Q4 2010.
- Annual house price inflation in London decreased to 8.0% in Q4 2010 from 11.9% in Q3 2010. Annual house price inflation in the UK decreased to 4.3% in Q4 2010 from 7.5% in Q3 2010.

Latest release: February 2011

Next release: May 2011



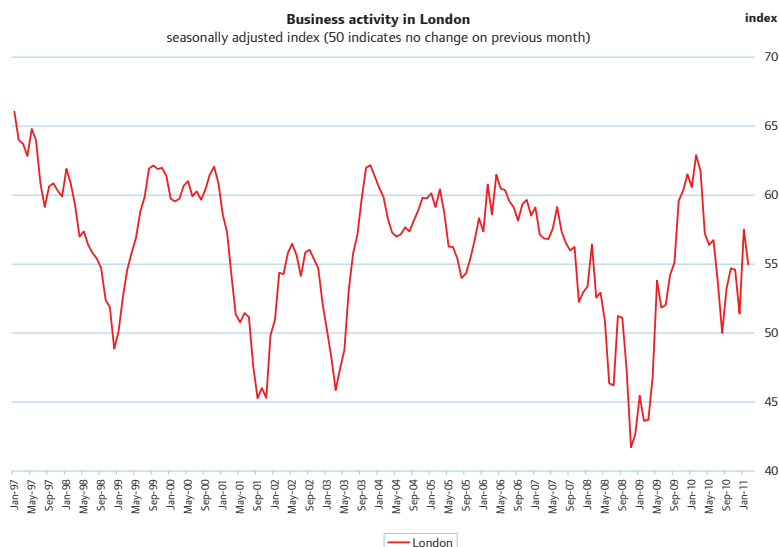
Source: Department for Communities and Local Government

London's business activity increasing

- London firms increased their output of goods and services in February 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 55.0 in February 2011 compared to 57.5 in January 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: March 2011

Next release: April 2011



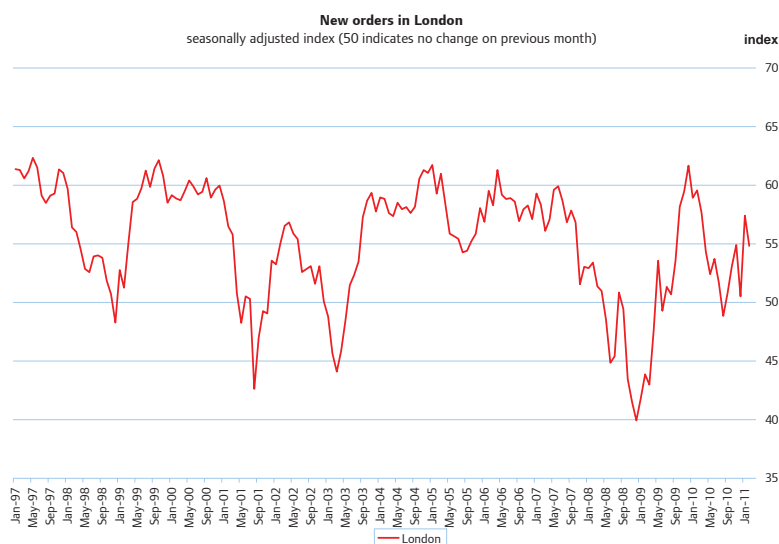
Source: Markit Economics

New orders in London rising

- February 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 54.8 in February 2011 compared to 57.4 in January 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

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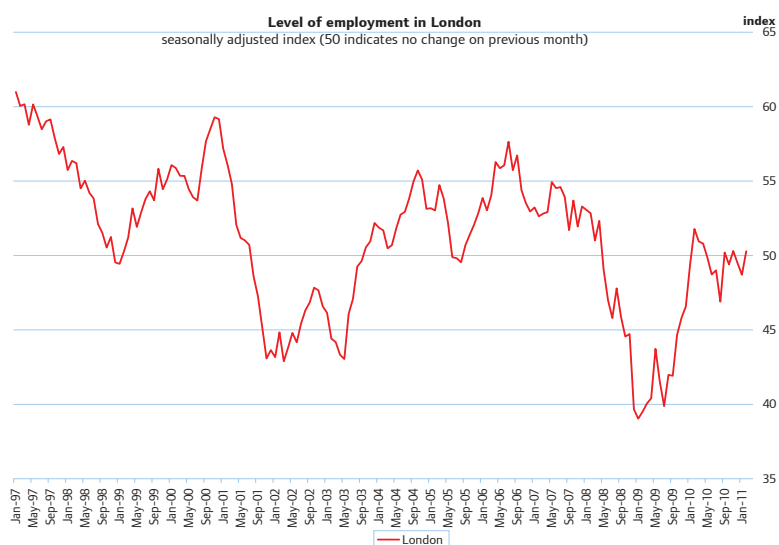
Source: Markit Economics

Businesses report slightly higher employment in February

- The PMI shows that the level of employment in London firms increased in February 2011.
- The PMI for the level of employment was 50.3 in February 2011 compared to 48.7 in January 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

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Next release: April 2011



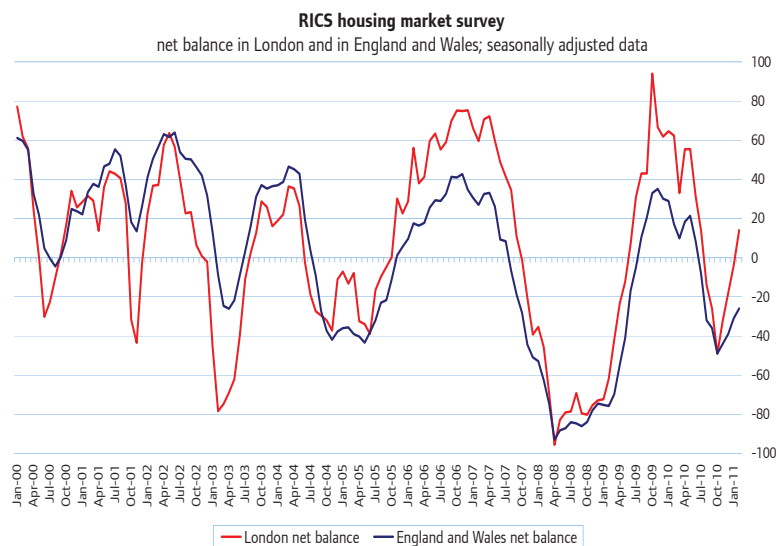
Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS survey shows a positive net balance of 14 for London house prices over the past three months to February 2011.
- Surveyors reported a negative net house price balance for England and Wales of -26 over the three months to February 2011.
- London's net house price balance is higher than that of England and Wales.

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Next release: April 2011



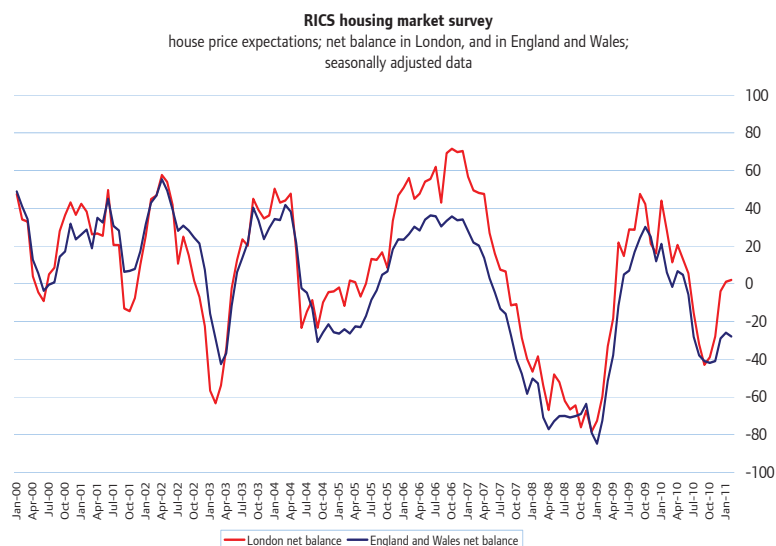
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices to rise in London over the next three months but to continue to fall in England and Wales.
- The net house price expectations balance in London was 2 in February 2011.
- For England and Wales, the net house price expectations balance was -28 in February 2011.

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Next release: April 2011



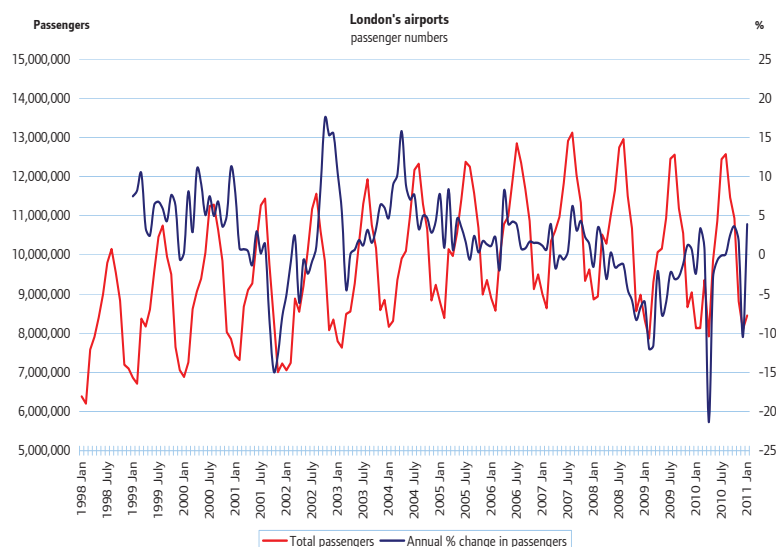
Source: Royal Institution of Chartered Surveyors

Increase in year-on-year airport passenger numbers

- 8.4 million passengers travelled through London's airports in January 2011.
- The number of passengers using London's airports increased by 3.9% from January 2010 to January 2011.
- Airport passenger numbers fell during the recession and are still below pre-recession levels.

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Next release: April 2011



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 |
| 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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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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