

London's Economy Today

Issue 101 | January 2011

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UK economy contracts in Q4 2010 due to bad weather and is likely to remain relatively subdued during 2011

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According to the preliminary estimate from the Office for National Statistics (ONS) the fourth quarter of 2010 saw UK GDP decline by 0.5 per cent after growing by 0.7 per cent in the third quarter (see Figure 1). Output in Q4 2010 was negatively affected by the extremely bad weather in December and the ONS believes that if there had been no disruption caused by the weather then GDP would have shown a flattish picture in Q4.

The fall in GDP was a surprise with the consensus of forecasts by economists being muted positive growth of around 0.5 per cent in Q4. The economy will however need to contract again in Q1 2011 for the UK to have re-entered recession, which is defined as two consecutive quarters of negative growth. The retail sector was especially hard hit by the snow and cold weather in the run-up to Christmas with data from the ONS showing that year-on-year there was no change in the volume of retail sales in December. Between November and December seasonally adjusted total retail sales volume decreased by 0.8 per cent.

Latest news...

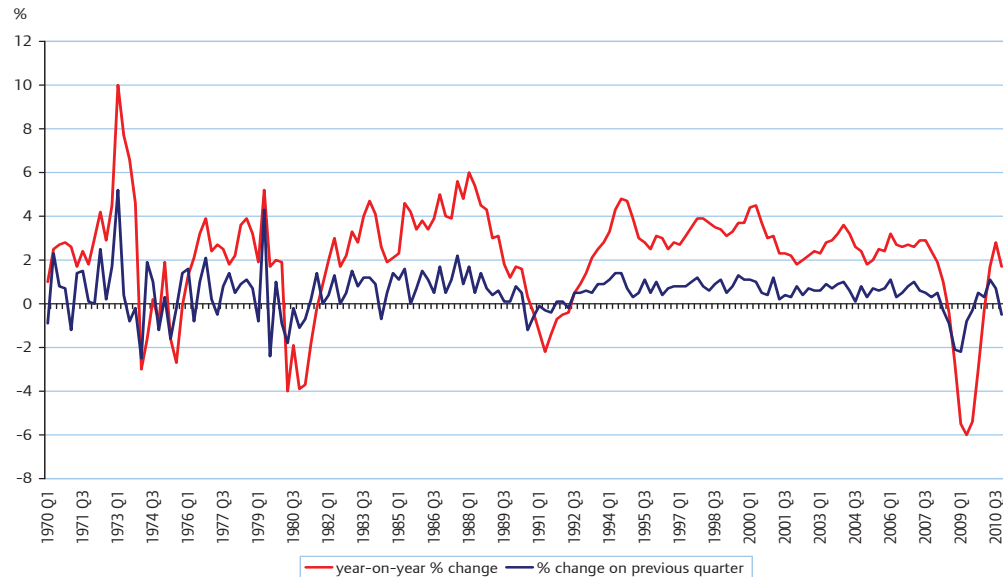


● Early Years Interventions to address Health Inequalities in London - the Economic Case

GLA Economics have developed an economic case for early years interventions to address health inequalities in London. This new report demonstrates how early years interventions provide high returns on investment for individuals and society. Please download the report from <http://www.london.gov.uk/who-runs-london/mayor/publication/early-years-interventions-economic-case>

Figure 1: UK GDP Growth

Source: Office for National Statistics



The sectoral breakdown of the Q4 GDP figure shows that while manufacturing continues to recover it has stalled in the service sector for the time being. The official ONS data reinforces the trend in manufacturing already detected in recent surveys undertaken for both the Confederation of British Industry and the British Chambers of Commerce with output in manufacturing increasing by 1.4 per cent in Q4 2010 (compared with 1.1 per cent growth in Q3). Meanwhile service sector output decreased by 0.5 per cent in Q4 compared with growth of 0.5 per cent in Q3. Within the service sector output in business services and finance (which is particularly important to the capital) fell by 0.7 per cent compared to no growth in Q3. The construction sector also saw output decline in Q4 2010 (by 3.3 per cent) after robust growth in the previous two quarters of 3.9 per cent and 7.0 per cent respectively. In spite of weaker than expected output figures for Q4 2010, GDP increased by 1.7 per cent in Q4 2010 compared with Q4 2009. Between Q4 2009 and Q4 2010 construction output increased 6.9 per cent, manufacturing output increased 5.7 per cent and the service sector grew by 0.9 per cent (and within this, business services and finance also grew by 0.9 per cent).

Inflation picks up and is expected to rise further

The Bank of England's Monetary Policy Committee voted to hold interest rates at their current historic low of 0.5 per cent in January 2011 and voted against extending quantitative easing. The Bank has a difficult course to steer as it faces short run higher than target inflation in an economy that still has spare capacity. This tricky balancing act is highlighted by the level of Consumer Price Index (CPI) annual inflation for December which stood at 3.7 per cent (see Figure 2), significantly above the Bank's 2 per cent symmetrical target. However, CPIY annual inflation, which excludes price changes due to indirect tax changes (such as VAT) stood at 2.0 per cent in December 2010, indicating that currently the divergence of CPI inflation from target is mainly driven by indirect tax rises.

Figure 2: UK CPI and CPIY annual inflation rates

Last data point is December 2010

Source: Office for National Statistics



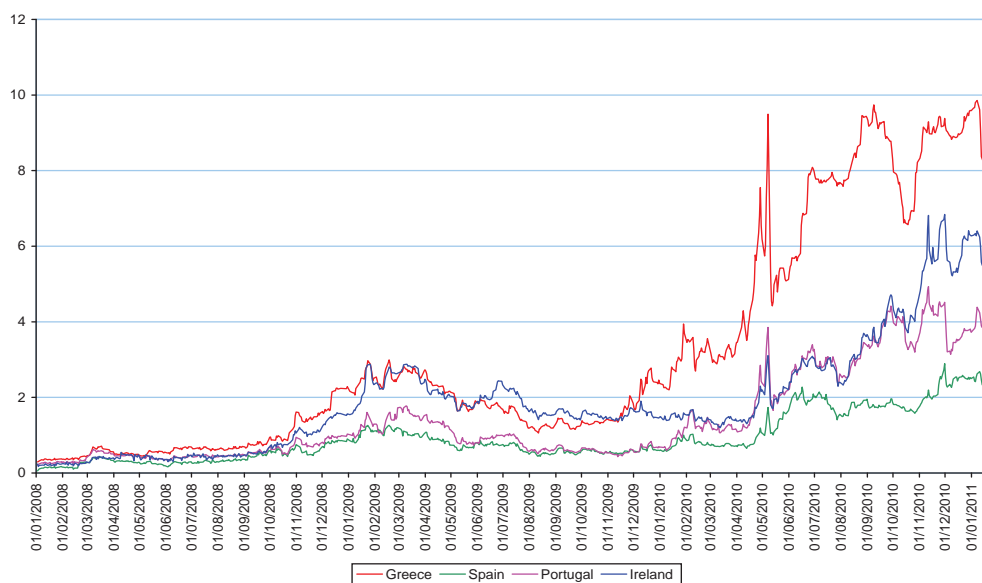
Sovereign debt interest rate spreads remain high in peripheral Eurozone countries

On 12 January Portugal succeeded in selling €650 million of government bonds with maturity dates in 2014 and €599 million of government bonds with maturity dates in 2020, which at least staved off the need for the country to seek an immediate fiscal bailout. The yield on the shorter-term debt was just under 5.4 per cent – higher than the 4 per cent investors had sought in an October 2010 bond sale. The following day Spain sold €3 billion of 5-year government bonds. This sale produced an average yield of just over 4.5 per cent, nearly 1 per cent higher than the yield at the last bond auction in November 2010. The spread on these countries ten-year government bonds compared to German government bonds remains elevated (see Figure 3) as investors continue to be concerned about the long-term fiscal and growth prospects of a number of the ‘peripheral’ Eurozone economies. Following on from the bailouts of Greece and Ireland, Portugal is the next in line if a further bailout is required.

Figure 3: Ten-year government bond spreads over German bonds, percentage points

Last data point is 24/1/2011

Source: EcoWin



World Bank forecasts that global growth will slow slightly in 2011 from the strong recovery in 2010

The latest forecasts from the World Bank suggest that global GDP growth will slow slightly to 3.3 per cent in 2011, down from a better than expected 3.9 per cent in 2010, before picking up slightly to 3.6 per cent in 2012. Much of the global growth is likely to be in the emerging market economies, which are forecast to grow by 6 per cent in 2011 compared to 2.4 per cent by the developed economies. The recovery in many developed countries has not been strong enough to make major inroads into unemployment and spare capacity. Growth in these economies is likely to be constrained by a number of factors including high levels of household and government debt and weak banking sectors. There are also negative economic risks from rising commodity and energy prices. The Global Risks Report published by the World Economic Forum has identified a cluster of risks around global macroeconomic imbalances, currency volatility and asset prices arising from the tensions between the increasing economic influence of the emerging market economies and the general indebtedness of most developed nations.

Households face a tough beginning to 2011

With wage growth remaining muted while inflation picks up due to higher commodity prices (i.e. oil and food), rises in indirect taxes (i.e. VAT) and sterling's past depreciation households will find that their budgets are stretched at the start of the new year. The economic recovery stuttered at the end of 2010 and is likely to remain bumpy in 2011 driven for now by higher private sector investment rather than consumption. This rebalancing of the economy is required but will be a painful one for many households. Internationally in emerging market economies and in Germany the picture is more optimistic. China published data in January indicating that its economy grew by a rapid 10.3 per cent in 2010 and Germany's economy in 2010 grew at its fastest pace since reunification. With a relatively weak pound and robust growth in emerging markets expected in 2011 the opportunity is there for London businesses to expand exports and to drive forward a private sector led recovery.

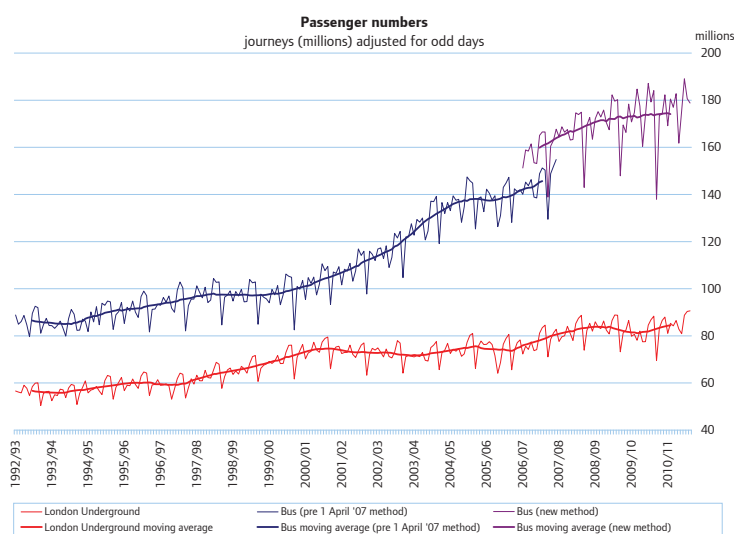
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28-day period is from 14 November 2010 to 11 December 2010. Adjusted for odd days, London's Underground and buses had 269.4 million passenger journeys; 178.8 million by bus and 90.6 million by Underground.
- The moving average of passengers every period decreased to 258.5 million from 258.8 million in the previous period. The moving average for buses was 174.1 million. The moving average for the Underground was 84.5 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: January 2011

Next release: February 2011



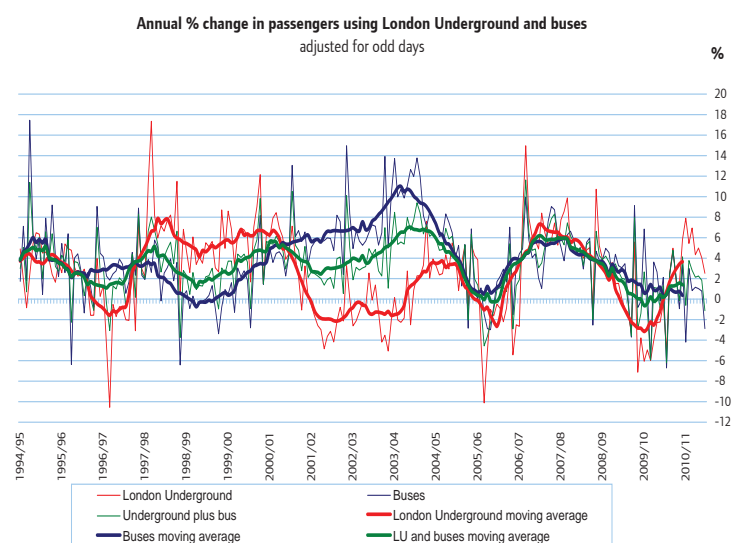
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.4% from 1.6% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.4% from 0.7% 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: January 2011

Next release: February 2011



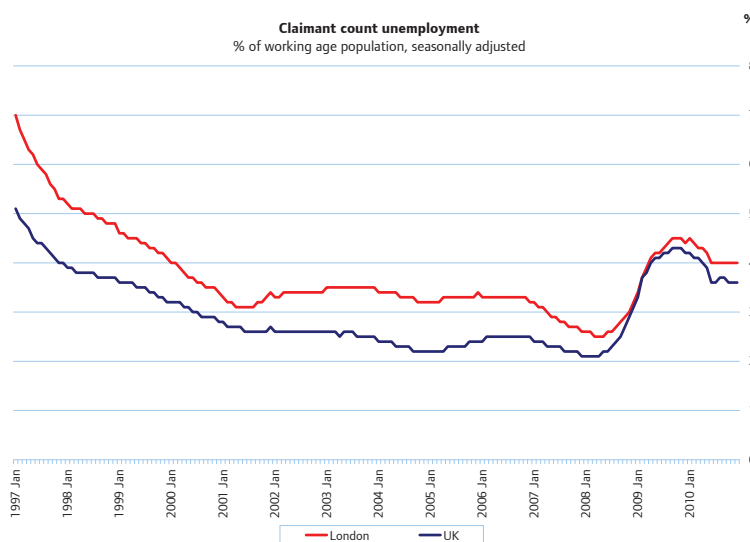
Source: Transport for London

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 December 2010.
- There were 214,100 seasonally adjusted unemployment claimants in London in December 2010 compared with a downwardly revised 215,400 in November 2010.
- There were 1,456,600 seasonally adjusted unemployment claimants in the UK in December 2010 compared with a downwardly revised 1,460,700 in November 2010.

Latest release: January 2011

Next release: February 2011



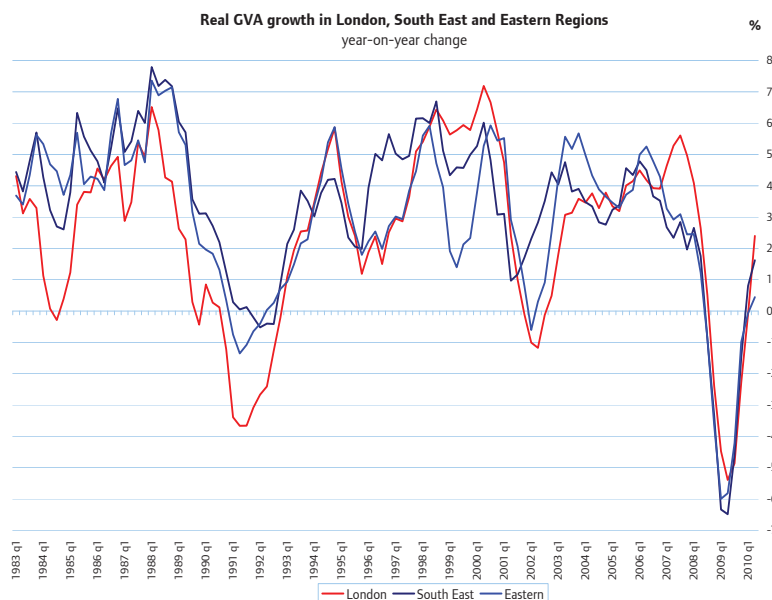
Source: Claimant Count, Nomis

Annual output growth increasing in London, the South East and Eastern regions

- London's annual growth in output increased to 2.4% in Q2 2010 from an upwardly revised -0.1% in Q1 2010.
- Annual output growth in the South East increased to 1.6% in Q2 2010 from a downwardly revised 0.8% in Q1 2010.
- Annual output growth in the Eastern region increased to 0.4% in Q2 2010 from a downwardly revised -0.1% in Q1 2010.

Latest release: November 2010

Next release: February 2011

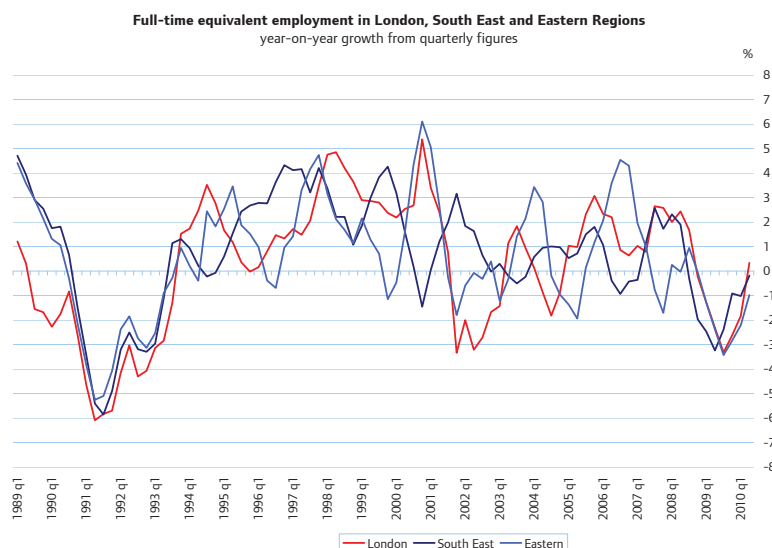


Annual employment growth positive in London

- London's annual employment growth increased to 0.3% in Q2 2010 from a downwardly revised -1.8% in Q1 2010.
- Annual employment growth in the South East increased to -0.2% in Q2 2010 from a downwardly revised -1.0% in Q1 2010.
- Annual employment growth in the Eastern region increased to -1.0% in Q2 2010 from a downwardly revised -2.2% in Q1 2010.

Latest release: November 2011

Next release: February 2011

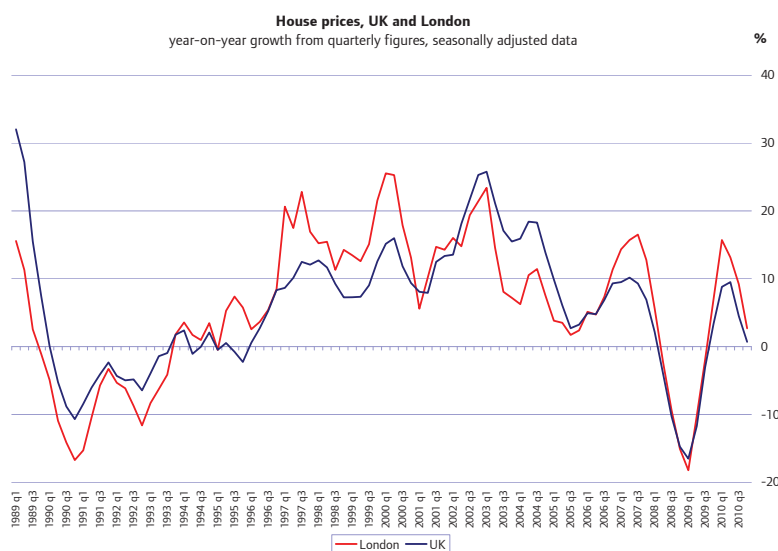


Annual house price inflation continues to fall

- House prices, as measured by Nationwide, were higher in Q4 2010 than in Q4 2009 in both London and the UK.
- Annual house price inflation in London was 2.7% in Q4 2010, down from 9.2% in Q3 2010.
- Annual house price inflation in the UK was 0.7% in Q4 2010, down from 4.5% in Q3 2010.

Latest release: January 2011

Next release: April 2011

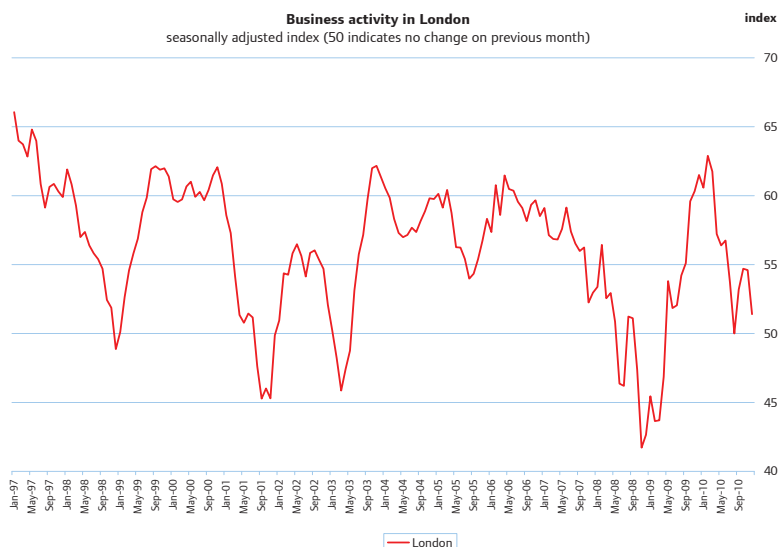


London's business activity still increasing

- London firms increased their output of goods and services in December 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 51.4 in December 2010 compared to 54.6 in November 2010.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: January 2011

Next release: February 2011



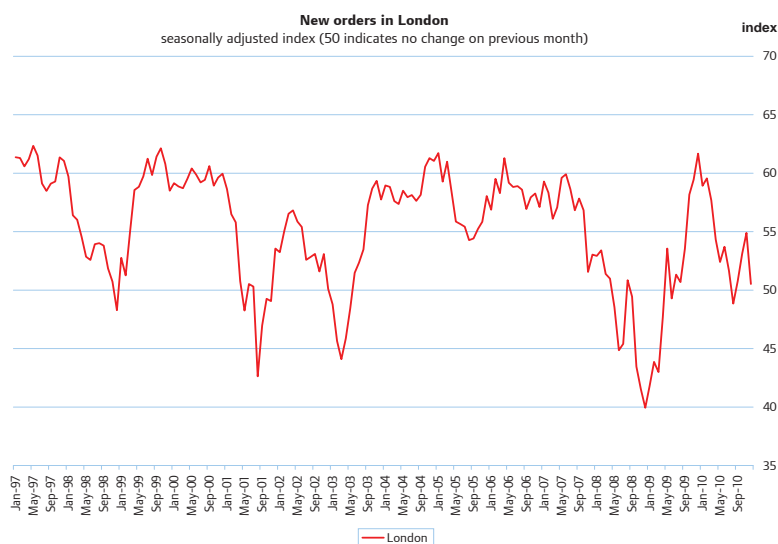
Source: Markit Economics

New orders in London just rising

- December 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 50.5 in December 2010 compared to 54.9 in November 2010.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: January 2011

Next release: February 2011



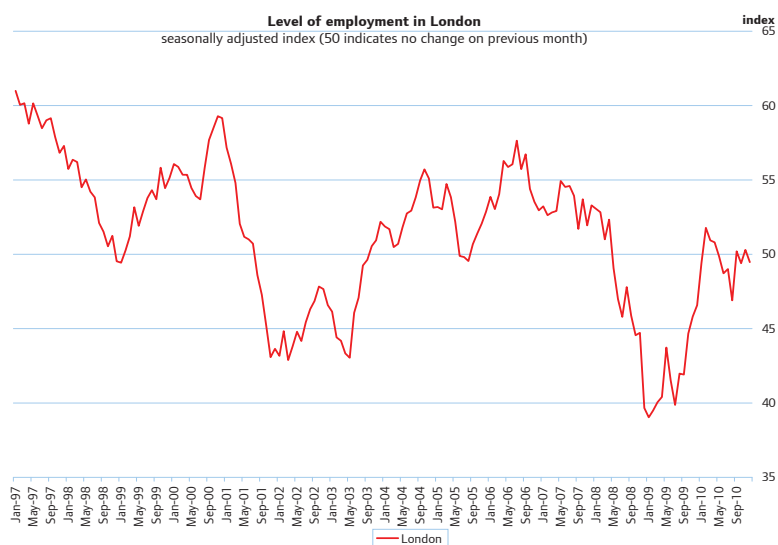
Source: Markit Economics

Businesses report slightly lower employment in December

- The PMI shows that the level of employment in London firms decreased slightly in December 2010.
- The PMI for the level of employment was 49.5 in December 2010 compared to 50.3 in November 2010.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: January 2011

Next release: February 2011



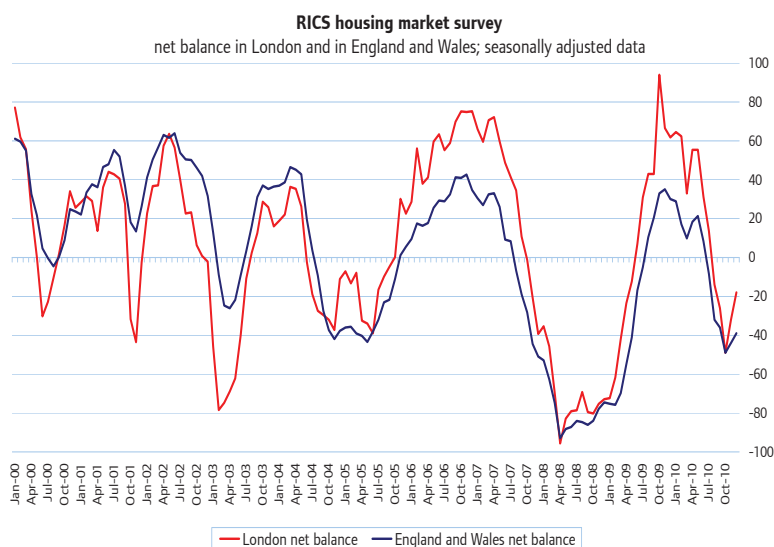
Source: Markit Economics

Surveyors report that house prices are falling

- The RICS survey shows a negative net balance of -18 for London house prices over the past three months to December 2010.
- Surveyors reported a negative net house price balance for England and Wales of -39 over the three months to December 2010.
- London's net house price balance is higher than that of England and Wales.

Latest release: January 2011

Next release: February 2011



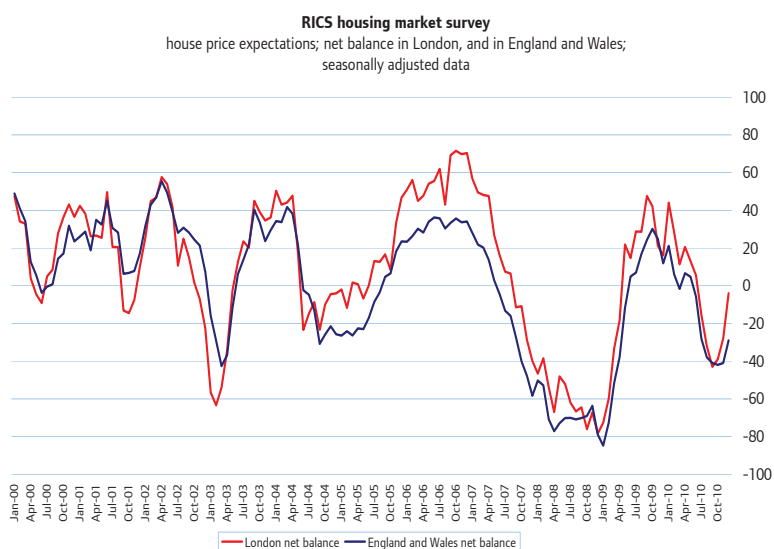
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to continue falling

- 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 -4 in December 2010.
- For England and Wales, the net house price expectations balance was -29 in December 2010.

Latest release: January 2011

Next release: February 2011



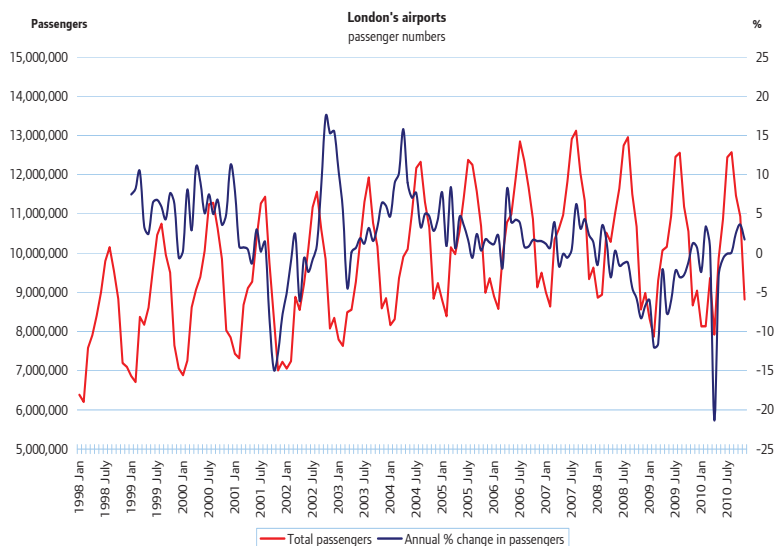
Source: Royal Institution of Chartered Surveyors

Small increase in year-on-year airport passenger numbers

- 8.8 million passengers travelled through London's airports in November 2010.
- The number of passengers using London's airports increased by 1.7% from November 2009 to November 2010.
- Airport passenger numbers were weak during the recession and are still only showing some initial signs of improvement.

Latest release: December 2010

Next release: January 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	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
BITOA	British Incoming Tour Operators Association	MPC	Monetary Policy Committee
CAA	Civil Aviation Authority	ONS	Office for National Statistics
CBI	Confederation of British Industry	PMI	Purchasing Managers' Index
CLG	Communities and Local Government	PWC	PricewaterhouseCoopers
GDP	Gross domestic product	RICS	Royal Institution of Chartered Surveyors
GVA	Gross value added		
ILO	International Labour Organisation		

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January 2011

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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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.

GLA Economics is funded by



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