

London's Economy Today

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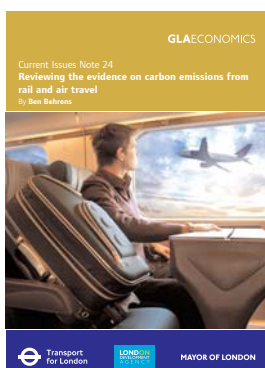
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Budget measures on income tax and stamp duty hit London hardest

By **Gordon Douglass**, Economist, **Simon Kyte**, Economist and **Benjamin Behrens**, Trainee Economist

“At least a third” of civil service jobs should be relocated outside London within the next five years according to a report chaired by Ian Smith, the former Reed Elsevier chief, and released with the Budget. The Government has responded with a programme of relocating 3,000 civil servants each year for the next five years on top of those recommended for relocation by the Lyons Review as part of a programme of streamlining the cost of Central Government. Given the state of public finances, this could make the rest of the UK – particularly cities such as Liverpool – even more vulnerable to public sector cuts. However, there are currently nearly 85,000 civil servants working in the capital which could mean that as many as 30,000 jobs being moved out of the capital with a potential loss of income to the capital in the order of £0.75 billion.

Latest news...



● Current Issues Note 24: Reviewing the evidence on carbon emissions from rail and air travel

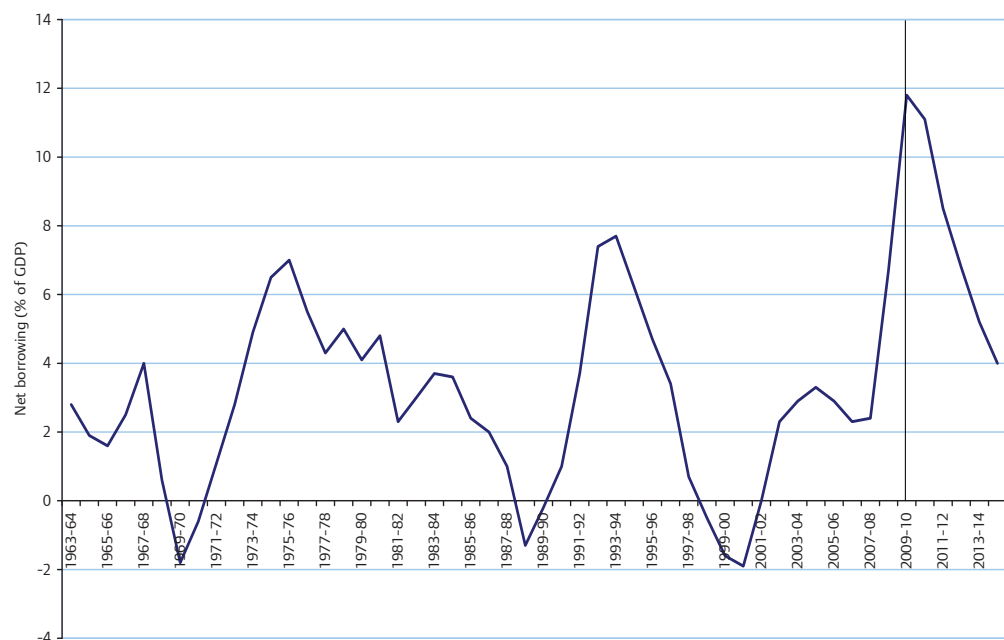
This paper analyses the existing literature on calculating the carbon emissions from high-speed rail and short-haul aviation.

Visit www.london.gov.uk/who-runs-london/mayor/publications/transport/current-issues-note-24 to download this publication.

The biggest change in the Budget since the Pre-Budget Report to the 2010-11 projections is on debt interest which is down by £2.9 billion, reflecting a lower Central Government Net Cash Requirement in 2009-10 and 2010-11, lower forecast inflation and the move to a more detailed model of debt issuance. The Chancellor downgraded his growth forecast for 2011 to 3-3.5 per cent but that is still out of line with many other forecasts. Furthermore, for 2012, the Chancellor's forecast was unchanged at an optimistic 3.25-3.75 per cent. According to the International Monetary Fund (IMF), the UK is expected to grow by 1.3 per cent in 2010 but then experience a marked recovery in 2011, growing by 2.7 per cent – significantly faster than other, major European economies but well below the Chancellor's forecast. The Organisation for Economic Co-operation and Development (OECD) is even less optimistic, suggesting a central forecast for UK growth in 2011 of only 2.1 per cent. As expected, the Chancellor announced that borrowing would be less than the figure outlined in his previous forecast. He said that borrowing in 2009-10 would be £167 billion rather than the previous estimate of £178 billion, falling to £163 billion in 2010-11 and £131 billion in 2011-12, with the Public Sector Net Borrowing Requirement as a percentage of GDP also being lower than previously forecast for these years (see Figure 1). However, these optimistic forecasts rely on a very strong UK recovery from the recession.

Figure 1: Public sector net borrowing as a percentage of GDP (including Chancellor's forecasts)

Source: HM Treasury



The stamp duty changes in the Budget will also have significant impacts on London. For one year the stamp duty threshold for first time buyers will be raised to £250,000. The stamp duty threshold had reverted back to £125,000 in January 2010. Impacts are likely to be at least three fold. Firstly, the threshold is likely to create some degree of 'knock down' for properties that would otherwise have been for sale just above that limit. At present around 48 per cent of property sales in London are for properties sold at less than £250,000 and the proportion for first time buyers will be higher. Therefore, although the effect may be less in London than on some other regions of the UK, the effect could be very significant if combined with measures to encourage lending. Data from Halifax suggests that in London 26 per cent of first time buyers are spending over £250,000.

At the other end of the scale, properties over £1 million will be subject to a higher level of stamp duty of 5 per cent. This will have a particular impact on London – especially if this rate is to be permanent. According to data from the Land Registry, 37 per cent of all properties sold for over £1 million last year were in London and Knight Frank has said that 60 per cent of properties in England and Wales worth £1 million or more are in London or the South East (as defined by them). The new 50 per cent income tax band will also hit London disproportionately. The Institute for Fiscal Studies (IFS) estimates that a third of those on more than £150,000 live in the capital and the proportion who work in the capital will be even higher. In addition the phasing out of personal allowances over £100,000 will hit London as opposed to the poorer regions of the UK. This all comes on top of the Pre-Budget Report announcement of the 2011-12 increase in National Insurance Contributions which also bears disproportionately on London's businesses.

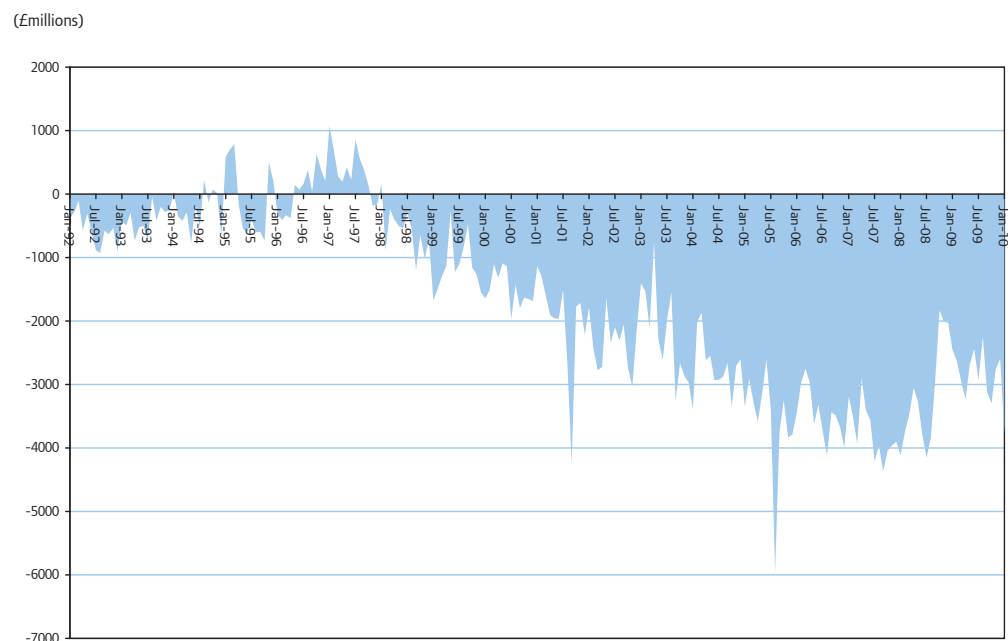
The changes could also impact on London house prices. Bonus earners in London have contributed heavily to the increases in average house prices since Spring 2009. As a response, many experts believe that there could be a spike in the sale of properties over £1 million within the next year before the higher rate of stamp duty kicks in followed by stagnation after that. The Treasury believes that high earners bringing their property purchases forward could raise an extra £90 million in stamp duty revenues this year.

Sharp fall in UK exports results in widest trade deficit since August 2008

The UK's trade deficit jumped unexpectedly in January from £2.6 billion to £3.8 billion (see Figure 2). The deficit in goods rose markedly from £1 billion to £8 billion whilst the surplus trade in services fell slightly.

Figure 2: The UK monthly balance of payments
Last data point is January 2010

Source: The Office for National Statistics



Global trade suffered its worst fall in the post-War period in 2009 but is now recovering. In January the Ernst & Young ITEM Club claimed that “(UK) growth is almost totally dependent on a sustained upturn in the world economy and the energy and enterprise of UK exporters... to cash in on a rebound in world trade”. Normally, the 26 per cent fall in Sterling against a trade-weighted basket of currencies since the start of 2007 would be expected to facilitate an increase in UK exports. However, export volumes in January actually fell by 8 per cent – the sharpest drop for eight years (ignoring data issues in 2006). Exports to the US seem to have been hit particularly badly. Imports also fell but by a far smaller percentage.

Some have speculated that the marked fall in exports is a ‘one off’ driven primarily by the very unusual weather conditions during January that made getting UK goods to port difficult whilst having less of a direct effect on imports. As manufacturing is important to the UK export situation much depends on whether a true manufacturing recovery is really underway. The latest EEF quarterly survey shows manufacturing output and orders to be in positive territory but the sector has been particularly badly hit by the recession.

The Bank of England believes that an improved UK trade situation is key to the economic recovery. However, so far, imports appear to have recovered far more rapidly than exports in spite of the exchange rate situation. The Bank believes that this is a short-term situation and that, to date, exporting firms have simply charged higher prices rather than pushing to take a greater share of their markets. If, at some point, firms take advantage of higher export profit margins, this should boost output. The British Chambers of Commerce claims that exports are actually being held back by a lack of suitable trade finance schemes in the UK.

Commodity prices in the UK rise on the back of the pound’s depreciation

The continuing weakness of Sterling against the Dollar has led to pricing pressures on commodities internationally priced in Dollars when these prices are converted into Sterling terms. This is shown in the price of Brent Crude oil when expressed in Sterling terms as compared to when expressed in Dollar terms (see Figure 3). Thus Brent Crude is around 50 per cent lower than its peak price seen in July 2008 when expressed in Dollar terms but only 30 per cent lower than its July 2008 peak when expressed in Sterling terms. The inflationary impact of Sterling depreciation will thus have negative impacts on those UK companies that require imports from overseas in their production process as well as having a negative impact on UK consumers.

Figure 3: Brent crude oil price (pounds per barrel (left hand axis)/ dollars per barrel (right hand axis))

Last data point is
24/3/10

Source: Bank of England/FT



London's position as global financial centre under threat

According to Z/Yen's Global Financial Centres Index for the City of London Corporation, London has lost its pre-eminence in banking and finance and now ties with New York. The report puts the decline in London's score down to the introduction of new taxes and fears about increased regulation. Many Asian cities such as Hong Kong and Singapore continued to post strong gains in the Index suggesting that the longer-term threat comes from Asia. The most recent rankings were based on surveys taken from July 2009 to December 2009. Commenting on the report Stuart Fraser, Policy Chairman at the City of London Corporation, said: "although London and New York have always led the pack, this research is a wake-up call for decision-makers that our standing as a world-leading global financial centre should not be taken for granted. Damage has been done to the Square Mile's perceived competitiveness relative to New York but this is not irreversible provided the new incoming government – regardless of political persuasion – makes a clear, positive statement on their 'direction of travel' with regard to tax and regulation". The City also released a report undertaken by CB Richard Ellis into the competitiveness of London's business property, in which it found that "current office availability in Central London is nearly on a par with New York, lower than Hong Kong and Singapore and higher than Paris, Tokyo and Geneva". Whilst London "has a similar profile of availability by rent to Paris – 71% of available units are quoting a rent of less than £40.00 per sq ft in Central London, compared with 73% in Paris and 86% in New York". However, inelastic supply due to "pronounced volatility in development and rental levels" was problematic for occupiers. Meanwhile a survey of 182 respondents for the London Business Leaders Panel for the London Chamber of Commerce and Industry found that two-thirds of respondents thought immigration had a positive effect on the London economy. In relation to these results Sunil Gadhia, chairman of the LCCI's Asian Business Association, said: "London businesses know first-hand foreign workers bring much-needed skills and ideas to the capital. Without them, London would be a less competitive and dynamic place ... and our economic success would undoubtedly suffer".

The road to recovery may remain bumpy

London continues to face a very difficult recovery. The CBI suggests that UK firms have seen business stabilise in the past three months but that improvements in the consumer sector are not being matched by the ongoing poor picture in the business services sector. However, the latest financial forecast from the British Chambers of Commerce suggests that the recovery will be very fragile with a forecast of 1 per cent growth in 2010 but also with a considerable risk of relapse. The CBI also forecasts growth for the UK of just 1 per cent in 2010 due to the end of stimulus measures and weak consumer spending. The critical issue is what happens in later years. If the Chancellor is being overly optimistic for 2011 and beyond then Treasury receipts will be lower and debts will not fall as forecast. At some point in the future this may jeopardise the UK's Triple A Star rating.

Elsewhere the Index of Production data for January 2010 released on 10 March showed growth of -0.4 per cent on December 2009 with manufacturing posting an unanticipated fall of 0.9 per cent. The decline in the Index of Manufacturing was the first for five months. However, the most recent three months of the Index of Production are still 1.0 per cent higher than the previous three months but 3.7 per cent lower when compared with the same period one year earlier. Further commercial property in London is improving with CoStar Group's February 2010 report showing that the amount of available space in the City fell for the first time since 2008 in January to 12.5 million square feet. This is some 1 per cent down on the space available at the end of 2009. The amount of space being marketed in the West End also fell but was up in Midtown. However, even given this, it still remains likely that rocks will remain strewn on the road to a strong upturn for both the UK and London economies as we move through 2010.

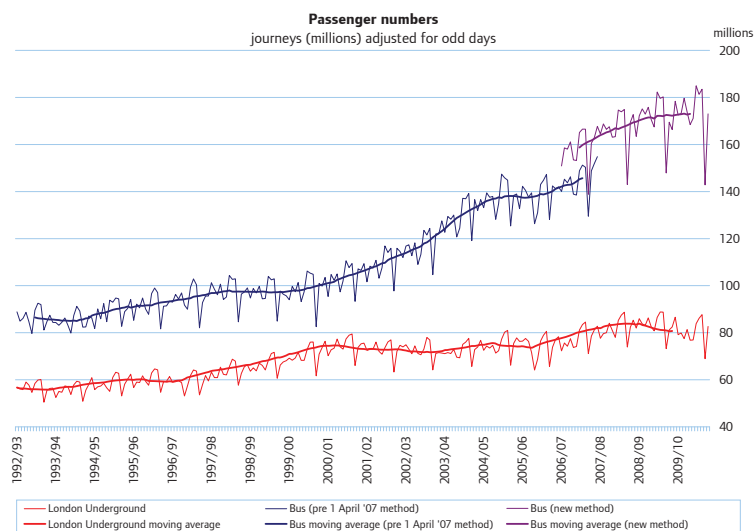
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 10 January 2010 to 6 February 2010. London's Underground and buses had 255.7 million passenger journeys; 173.0 million by bus and 82.7 million by Underground.
- The moving average of passengers every period increased to 253.8 million from 253.4 million in the previous period. The moving average for buses was 173.0 million. The moving average for the Underground was 80.8 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 2010

Next release: April 2010



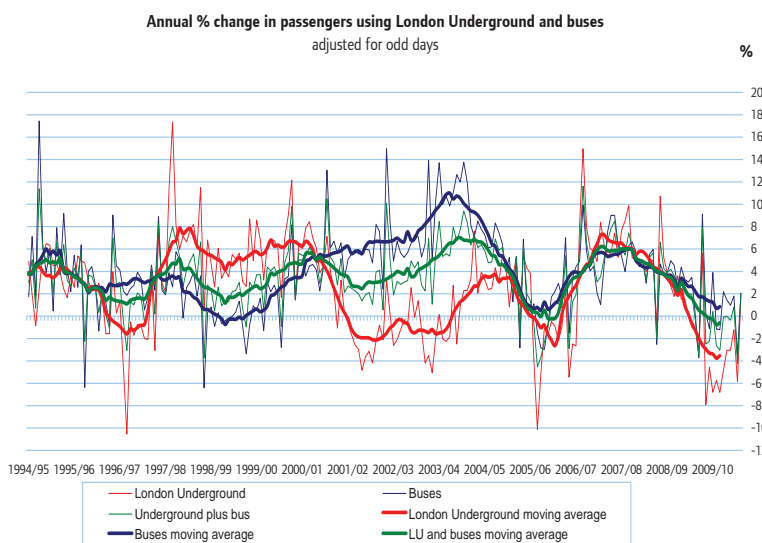
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to -0.6% from -0.8% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 0.9% from 0.7% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to -3.5% from -3.8% in the previous period.

Latest release: March 2010

Next release: April 2010



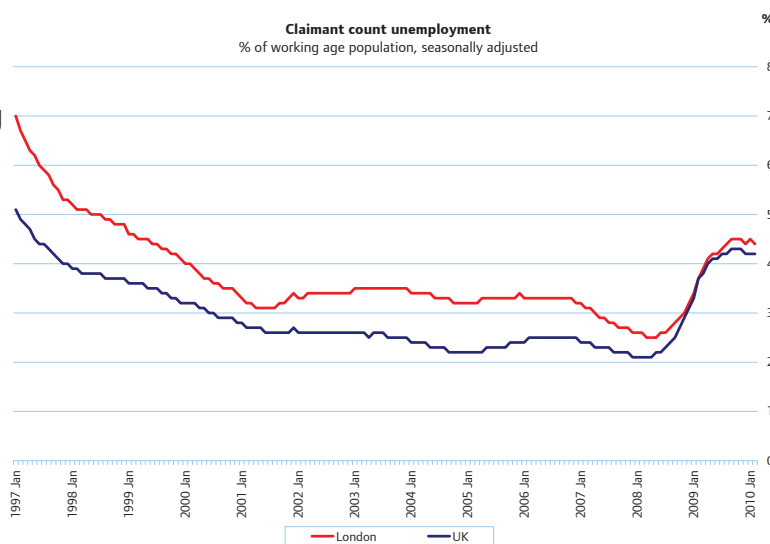
Source: Transport for London

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 February 2010.
- There were 225,400 seasonally adjusted unemployment claimants in London in February compared with a downwardly revised 226,800 in January.
- There were 1,585,100 seasonally adjusted unemployment claimants in the UK in February 2010 compared with a downwardly revised 1,617,400 in January.

Latest release: March 2010

Next release: April 2010



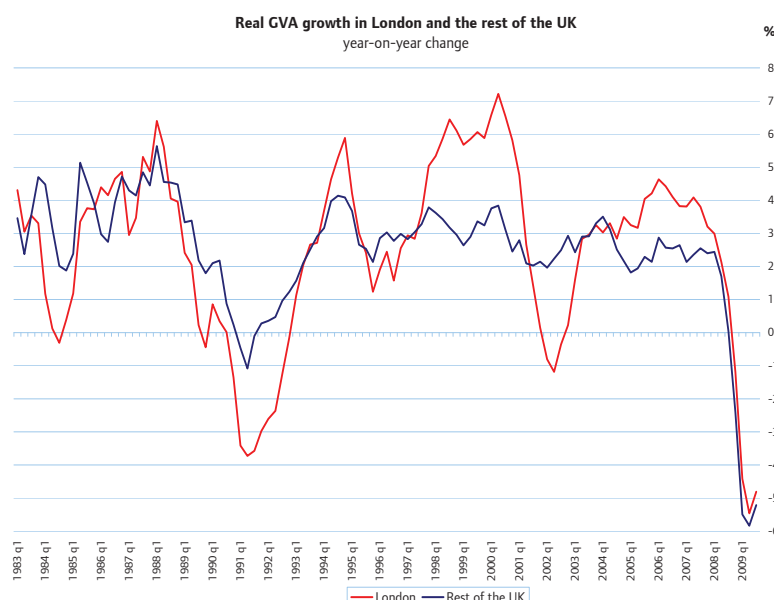
Source: Claimant Count, Nomis

Annual output growth less negative in London than in the rest of the UK

- London's annual growth in output increased to -4.8% in Q3 2009 from a downwardly revised -5.5% in Q2 2009.
- The rest of the UK's annual growth in output increased to -5.2% in Q3 2009 from an upwardly revised -5.8% in Q2 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2010

Next release: May 2010



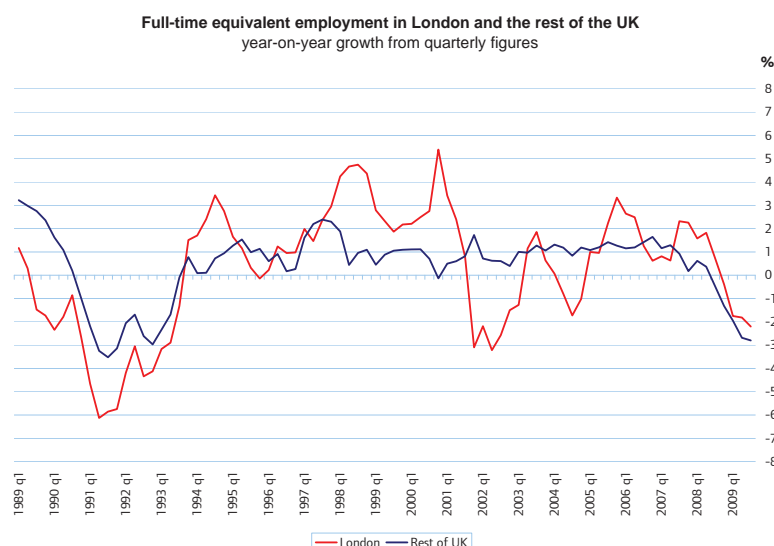
Source: Experian Economics

London's annual employment growth less negative than in the rest of the UK

- London's annual employment growth decreased to -2.2% in Q3 2009 from a downwardly revised -1.8% in Q2 2009.
- The rest of the UK's annual employment growth decreased to -2.8% in Q3 2009 from -2.7% in Q2 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2010

Next release: May 2010



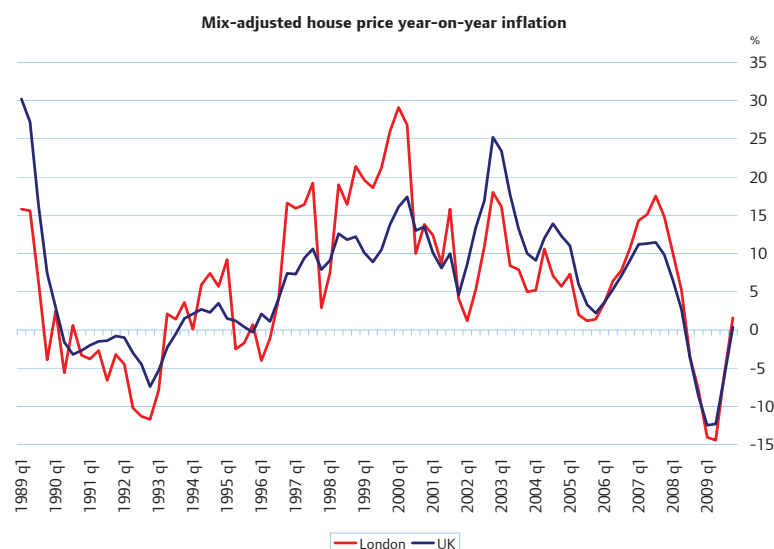
Source: Experian Economics

Annual house price inflation rises

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q4 2009.
- The DCLG reported a small rise in annual house prices in both London and the UK in Q4 2009.
- Annual house price inflation in London increased to 1.6% in Q4 2009 from -5.8% in Q3 2009. Annual house price inflation in the UK increased to 0.4% in Q4 2009 from -6.1% in Q3 2009.

Latest release: February 2010

Next release: May 2010



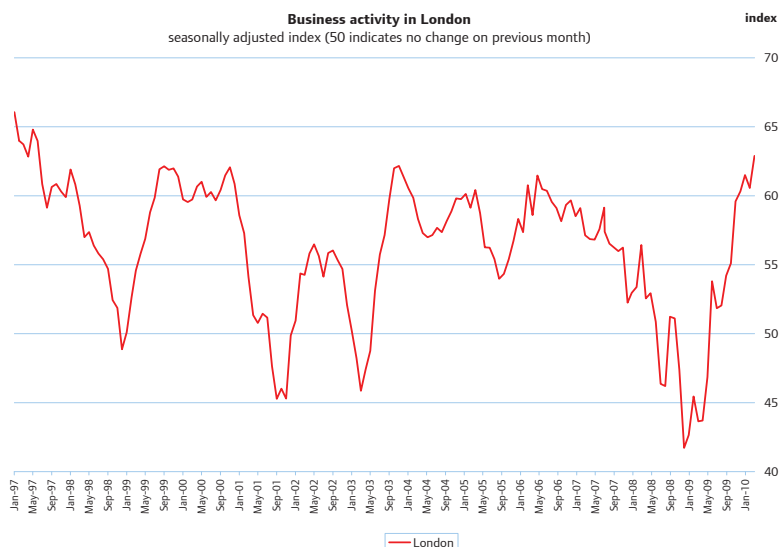
Source: Department for Communities and Local Government

London's business activity continues to increase

- London firms increased their output of goods and services in February 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 62.9 in February compared to 60.6 in January.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: March 2010

Next release: April 2010



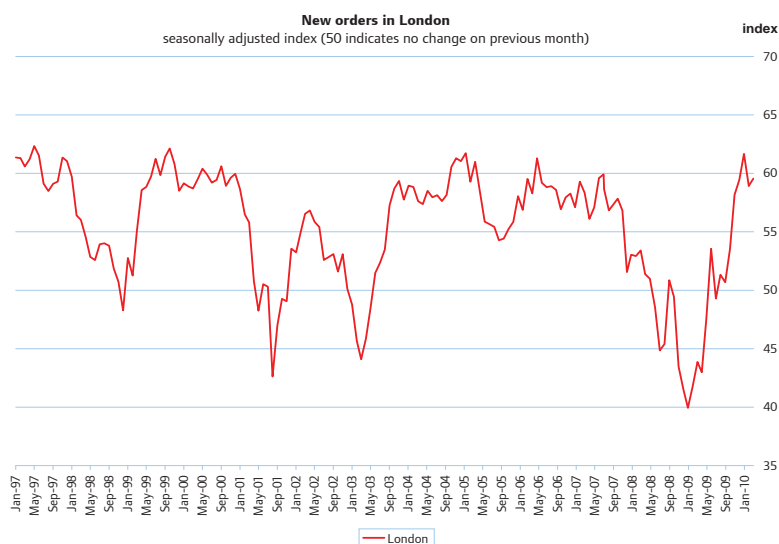
Source: Markit Economics

New orders in London rising

- February 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 59.6 in February compared to 58.9 in January.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: March 2010

Next release: April 2010



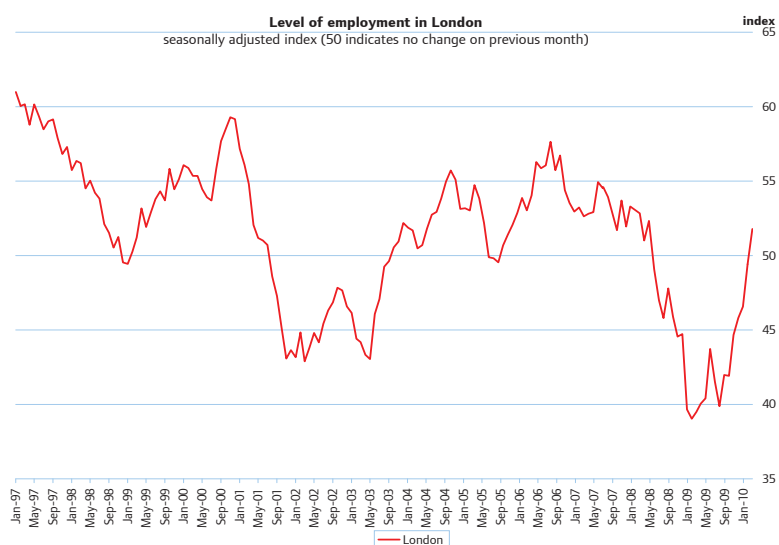
Source: Markit Economics

Business report higher employment in February

- The PMI shows that the level of employment in London firms increased in February 2010.
- The PMI for the level of employment was 51.8 in February compared to 49.4 in January.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: March 2010

Next release: April 2010



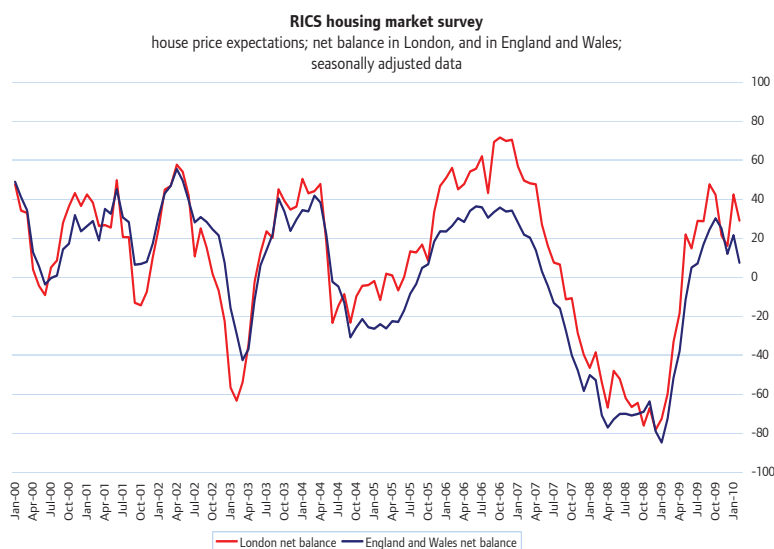
Source: Markit Economics

Surveyors expect house prices to increase

- The RICS survey shows that surveyors expect house prices to increase over the next three months in London and in England and Wales.
- The net house price expectations balance in London was 29 in February 2010, down from a downwardly revised 42 in January 2010.
- For England and Wales, the net house price expectations balance was 7 in February 2010, down from a downwardly revised 21 in January 2010.

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Next release: April 2010



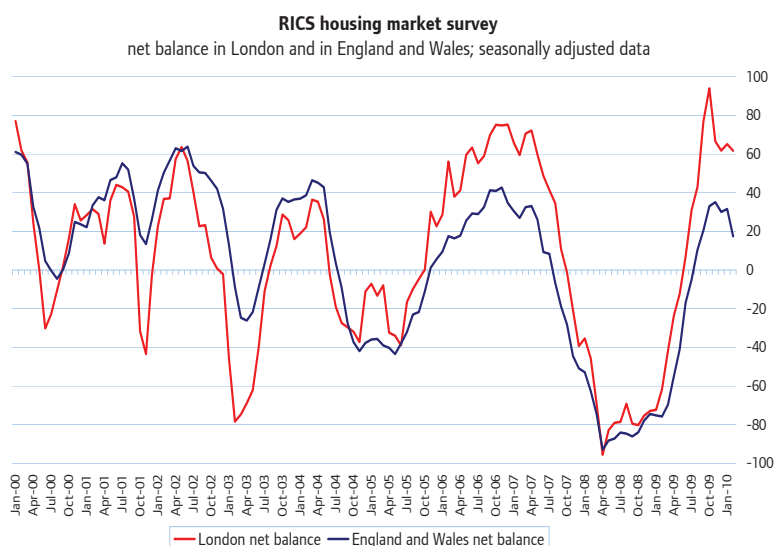
Source: Royal Institution of Chartered Surveyors

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 62 for London house prices over the past three months to February 2010. This net balance is down from 65 in January 2010.
- Surveyors reported a positive net house price balance for England and Wales of 17 in the past three months to February 2010, down from 32 in January 2010.
- London's net house price balance is above that of England and Wales.

Latest release: March 2010

Next release: April 2010



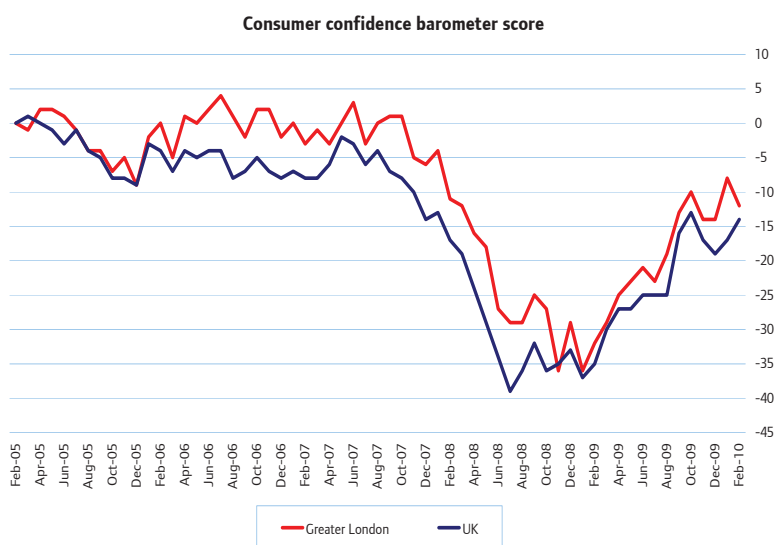
Source: Royal Institution of Chartered Surveyors

Consumer confidence falls in London

- 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 -12 in February from -8 in January.
- For the UK the consumer confidence score increased to -14 in February from -17 in January.

Latest release: February 2010

Next release: March 2010



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

GDP/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 2009/10 there are eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April.

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 2009/10 there are eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April.

Acronyms

ABI	Annual Business Inquiry
BAA	British Airports Authority
BCC	British Chamber of Commerce
BITOA	British Incoming Tour Operators Association
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
DCLG	Department for 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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