

London's Economy Today

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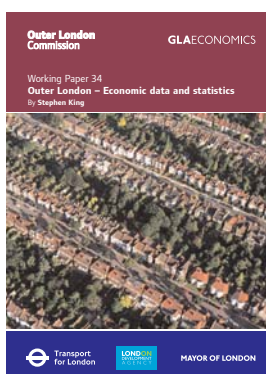
Bank of England cuts interest rates yet again

By **Gordon Douglass**, Economist

On 5 February the Bank of England announced that it would reduce the base rate by half a per cent to 1 per cent (see Figure 1), the lowest interest rate the Bank has ever set since it was established in 1694. This continues the Banks' rate-cutting agenda, which it has followed since the financial market turmoil of last October. This has seen rates cut in each successive month until they had fallen from the 5 per cent seen at the beginning of that month to the current rate.

The possibility that rates could be cut close to zero per cent in the coming months leads to a dilemma for the Bank in how to influence the macro economy, given that nominal rates can not be reduced below zero and real rates are unlikely to fall much below zero in the short term given the current low inflationary outlook. There has therefore been discussion about the prospect of the Bank undertaking quantitative easing (QE) in which it would increase the amount of money in circulation by the purchase of financial assets, which in turn would reduce the possibility of inflation undershooting its target. The minutes of the February Monetary Policy meeting thus note "in the present environment, where particular credit markets were not functioning normally, it was appropriate to consider increasing the supply of central

Latest news...



Coming soon...

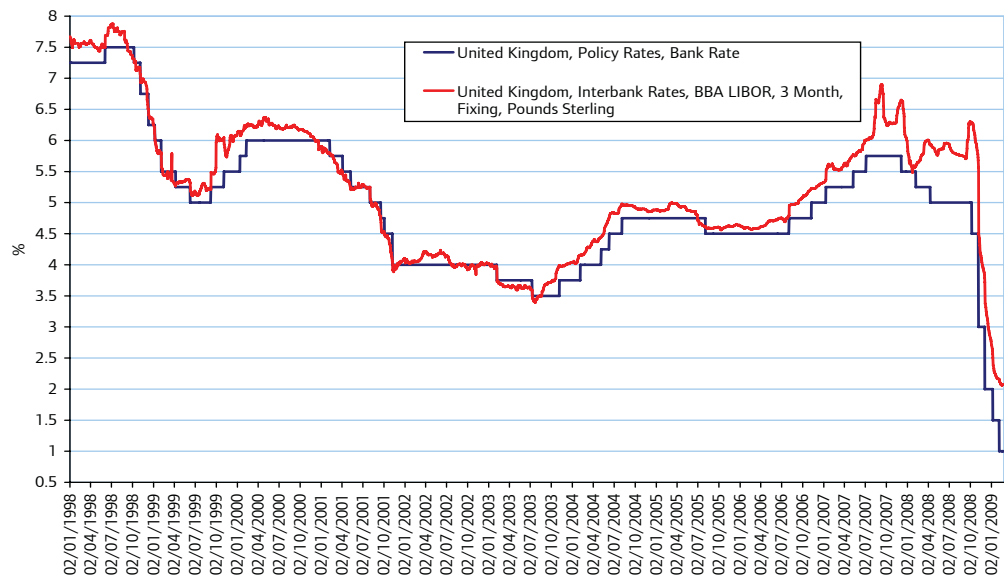
● Working Paper 34: Outer London – Economic data and statistics

This publication from GLA Economics and the Outer London Commission will be available on the GLA Economics website very soon. The paper is intended to set the scene for moving forward policy development directed towards economic activities in Outer London. Using the following broad headings: business and industrial structure; population, jobs and commuting; qualifications and schools; worklessness and poverty; income and lifestyles; housing; transport; and crime, the intention is to provide a snapshot of the current situation across Outer London.

Visit www.london.gov.uk/mayor/economic_unit to download this publication in due course.

Figure 1: Bank of England's Repo rate and the 3 month London Inter-Bank Offered Rate (LIBOR)
Last data point is 24/02/09

Source EcoWin



UK unemployment nudges two million as the recession bites

UK unemployment has continued to rise with the International Labour Organisation (ILO) measure of unemployment increasing by 369,000 to 1,971,000 (or 6.3 per cent of the economically active) in the three months to December compared with the same period a year earlier, whilst London's unemployment as measured by the ILO methodology increased by 33,000 to 294,000 (or 7.2 per cent of the economically active) in the same three months compared with a year earlier. Car sales have also remained weak with data from the Society of Motor Manufacturers and Traders showing car registrations in January 2009 down over 30 per cent compared with January 2008. The weakness in car manufacturing has seen a number of production cuts and job losses announced in recent months. The UK Business Confidence Monitor (BCM) for Q1 2009 from the Institute of Chartered Accountants in England and Wales found that over the period 29 October 2008 – 23 January 2009 business confidence had declined for a seventh consecutive quarter and hit another record low, whilst "almost a third of UK" businesses were much less confident about the economic prospects facing their company in the next year than 12 months ago. The BCM also found an expectation of job cuts amongst firms for the first time in the survey's history and that business confidence remains lower in London than in the rest of the UK. Meanwhile, the Bank of England's February Inflation Report indicates that the Bank expects a significant slowdown in the UK economy with the Financial Times reporting that "the Bank's forecast, after taking account of 'downside' risks, suggested the economy would shrink by more than 3.5 per cent in 2009 with only anaemic growth in 2010". This compares with the average forecast from the February 2009 HM Treasury survey of independent forecasters of -2.8 per cent growth in 2009, followed by 0.5 per cent growth in 2010. The Investment Property Databank (IPD) has also released its Quarterly Property Index, which found

that commercial property has lost over 25 per cent of its value over 2008, the biggest drop since records began in 1987. Whilst commercial mortgage loans declined in 2008 with the Council of Mortgage Lenders (CML) releasing data that showed the number of house purchase loans fell by 49 per cent compared with 2007 to stand at 516,000, which was the lowest level of activity since 1974. With data from the Insolvency Service showing that corporate insolvencies had risen by 220 per cent in the last three months of 2008 compared with the same period in 2007, and corporate liquidations rising by 53 per cent over the same period compared with a year earlier so that 1 in 150 companies became insolvent in 2008 (the worst figure since 1994), it is clear that the economic downturn is well underway.

US downturn deepens

The US economy contracted by 1 per cent in the final quarter of 2008, the worst quarterly decline since 1982. Consumer spending also experienced its second quarterly fall, declining by 3.5 per cent. The IMF in its most recent World Economic Outlook Update forecasts that the US is likely to see a decline of 1.6 per cent in GDP in 2009. Unemployment has also continued to rise in the US increasing by 598,000, worse than had been expected, and the unemployment rate now stands at 7.6 per cent in January up from 7.2 per cent in December. Meanwhile US home sales continued to decline in December with data from the US Commerce Department showing that sales were down 14.7 per cent on November to 331,000. In response to the bad economic news, the Dow Jones Index suffered its worst January on record with a decline of 8.8 per cent on the month. General Motors (GM) and Chrysler have also asked the US government for a further \$21.6 billion in support, on top of the \$17.4 billion they have already received, as they begin their restructuring plans that are likely to see numerous job losses from the firms. However, US retail sales unexpectedly increased by around 1 per cent in January but only on the back of heavy discounting. The US government has responded to the slowdown by passing an economic stimulus plan costing \$787 billion. The package includes \$240 billion in tax cuts, \$140 billion in health care funding, \$100 billion for education and \$48 billion for transport projects.

The effects of the credit crunch continues

The effects of the dislocation in the financial markets continues to be felt with the Bank of England announcing that it has lent £185 billion to 32 banks and building societies under the special liquidity scheme since April 2008. Shares in Lloyds Banking Group also tumbled on 13 February as it emerged that the HBOS part of the group would make a pre-tax loss of £10 billion in 2008, £1.6 billion more than predicted in November. Meanwhile the Financial Services Authority (FSA) announced on 12 February that it planned to raise the fees it collects from those it regulates by £117 million or 36.5 per cent to cover the cost of the extra staff it plans to hire to develop a more invasive, judgment-based form of regulation. In the US, the Treasury Secretary Timothy Geithner unveiled a bank bailout plan worth at least \$1.5 trillion on 10 February. The scheme will see a key Federal Reserve lending program (the Term Asset-Backed Liquidity Facility) increased to \$1 trillion from \$200 billion, and the creation of a \$500 billion or more fund to absorb banks' toxic assets.

London's economy faces challenging times as the world economic outlook remains poor

The IMF has forecast that the UK economy will contract by 2.8 per cent in 2009 with growth of only 0.2 per cent in 2010 as the recession deepens. This is its worst forecast for any G7 economy. UK manufacturing also remains weak with the CBI's monthly industrial trends survey for February showing a net balance of 56 per cent of manufacturers reporting lower new orders in February, up from 48 per cent in January, whilst more manufacturers expect output to fall in the next three months than at any time since 1980. London's economy is also expected to worsen with a recent survey by the London Chamber of Commerce and Industry showing nearly 40 per cent of surveyed London firms expecting their economic prospects to worsen, up from 18 per cent a year ago. However, the most recent estimate of London's economic growth by Experian Business Strategies showed that London's annual output growth slowed only slightly to 2.7 per cent in the third quarter of 2008, compared with 2.8 per cent in the second quarter of 2008. Elsewhere the Eurozone has entered a significant slowdown in the final quarter of 2008 with its economy contracting by 1.5 per cent on the previous quarter, with the German economy contracting by 2.1 per cent and the French economy contracting by 1.2 per cent. The ILO forecasts that world unemployment could increase by 51 million, to 7.1 per cent, by the end of 2009 due to the global downturn.

January did, however, see a large rise in like-for-like retail sales in central London, as measured by BRC-KPMG Retail Sales Monitor, of 6.5 per cent compared with January 2008; the UK also saw a smaller rise of 1.5 per cent on a year earlier. Stephen Robertson, Director General of the British Retail Consortium noted "customers took advantage of the many clearance sales on offer, resulting in the highest like-for-like increase since August. There was also a boost from overseas shoppers taking advantage of sterling's weakness and the wide range of clearances". Still, with unemployment continuing to rise in both the UK and London it is likely that the economy will experience a sustained period of contraction before the economic weather improves.

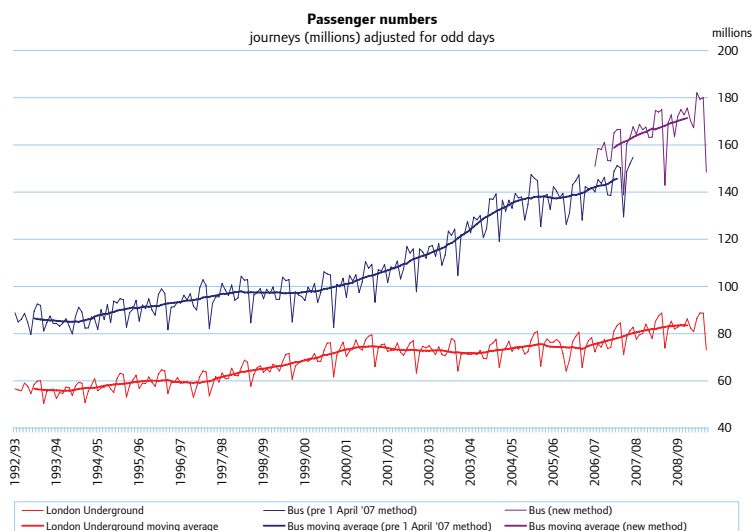
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 7 December 2008 to 3 January 2009. London's Underground and buses had 221.6 million passenger journeys; 148.5 million by bus and 73.1 million by Underground.
- The moving average of passengers every period increased to 254.9 million from an upwardly revised 254.6 million in the previous period. The moving average for buses was 171.4 million. The moving average for the Underground was 83.5 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: February 2009

Next release: March 2009



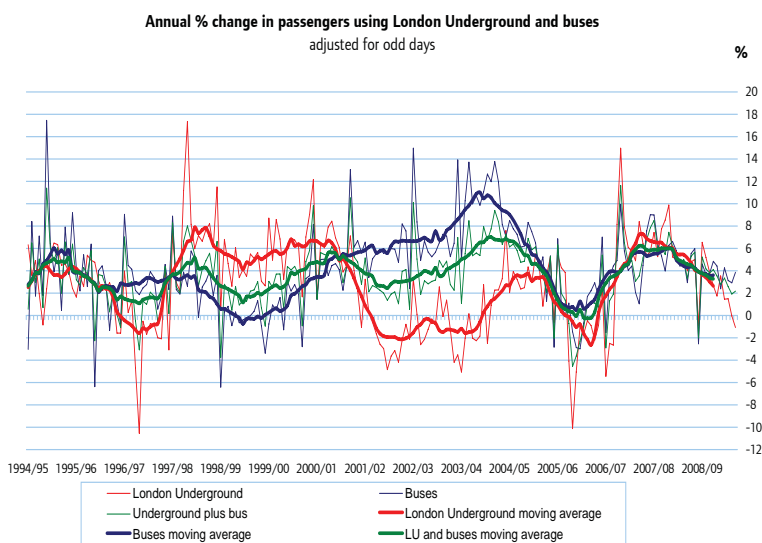
Source: Transport for London

Average annual growth rate of passengers continues to decrease

- The moving average annual rate of growth in passenger journeys decreased to 3.3% from an upwardly revised 3.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 3.6% from 3.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 2.6% from 3.0% in the previous period.

Latest release: February 2009

Next release: March 2009



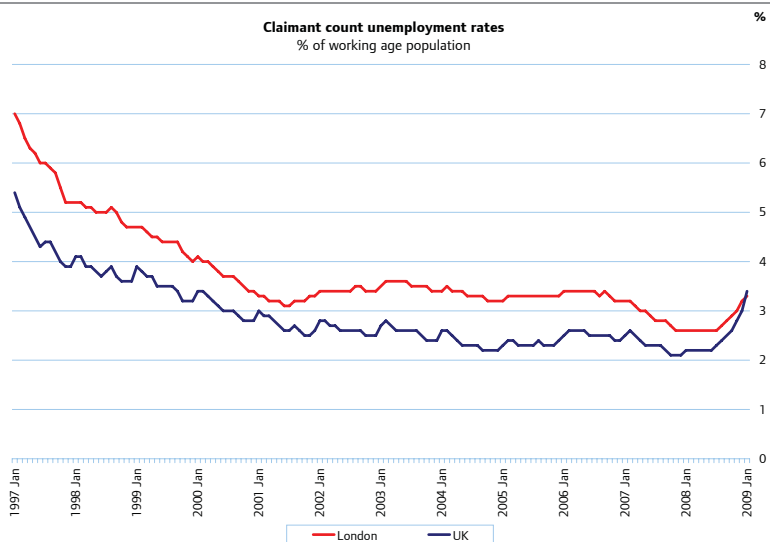
Source: Transport for London

Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseekers' Allowance) in London was 3.3% in January 2009.
- There were 169,400 unemployment claimants in London in January 2009 compared with 131,200 in January 2008.
- The claimant count unemployment rate of London is now below that of the UK.

Latest release: February 2009

Next release: March 2009



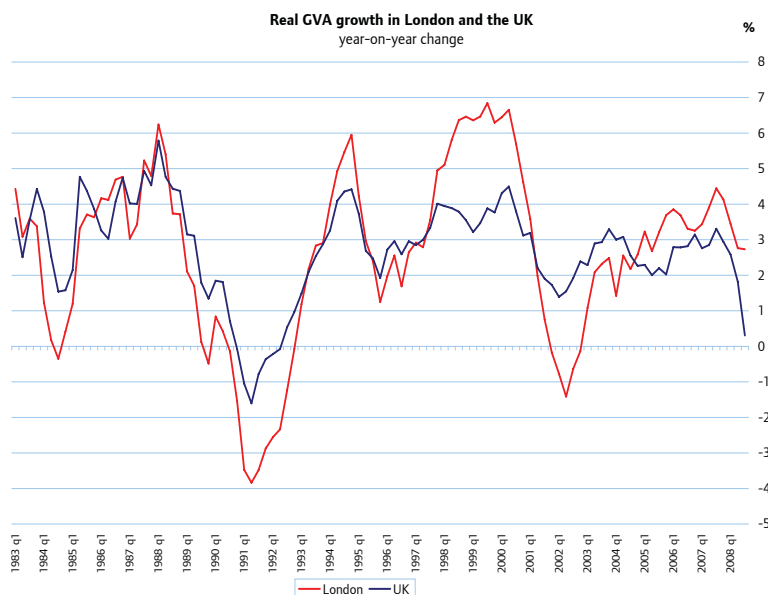
Source: Claimant Count, Nomis

Annual output growth slowing less sharply in London than in the UK

- London's annual growth in output decreased to 2.7% in Q3 2008 from an upwardly revised 2.8% in Q2 2008.
- The UK's annual growth in output decreased to 0.3% in Q3 2008 from an upwardly revised 1.8% in Q2 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2009

Next release: May 2009



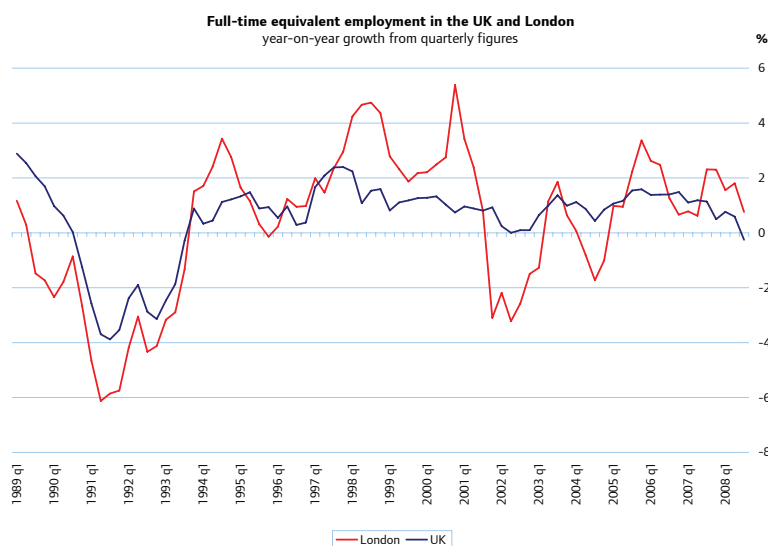
Source: Experian Business Strategies

London's annual employment growth faster than in the UK

- London's annual employment growth decreased to 0.8% in Q3 2008 from an upwardly revised 1.8% in Q2 2008.
- Annual employment growth in the UK decreased to -0.3% in Q3 2008 from an upwardly revised 0.6% in Q2 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2009

Next release: May 2009



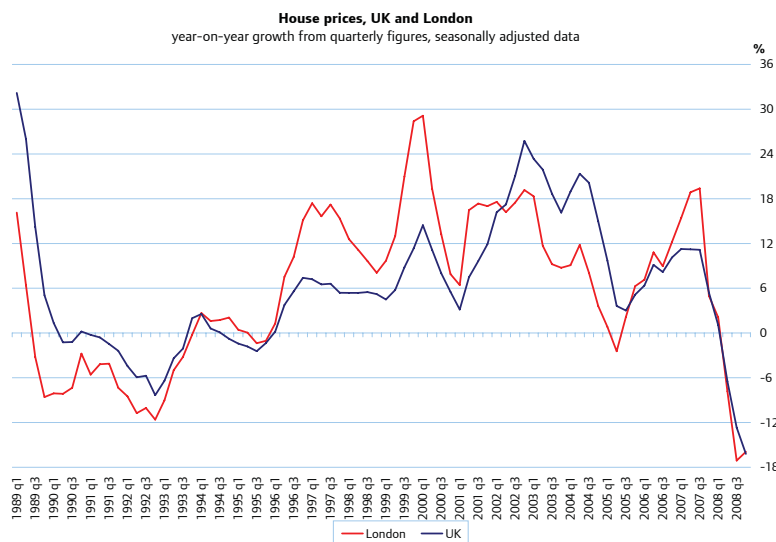
Source: Experian Business Strategies

Falling house prices

- House prices, as measured by the Halifax house price index, fell in Q4 2008 in both London and the UK.
- Annual house price inflation in London was -15.9% in Q4 2008. Annual house price inflation in the UK was -16.2% in Q4 2008.
- Annual house price inflation in London and the UK has been negative for the last three quarters.

Latest release: January 2009

Next release: April 2009



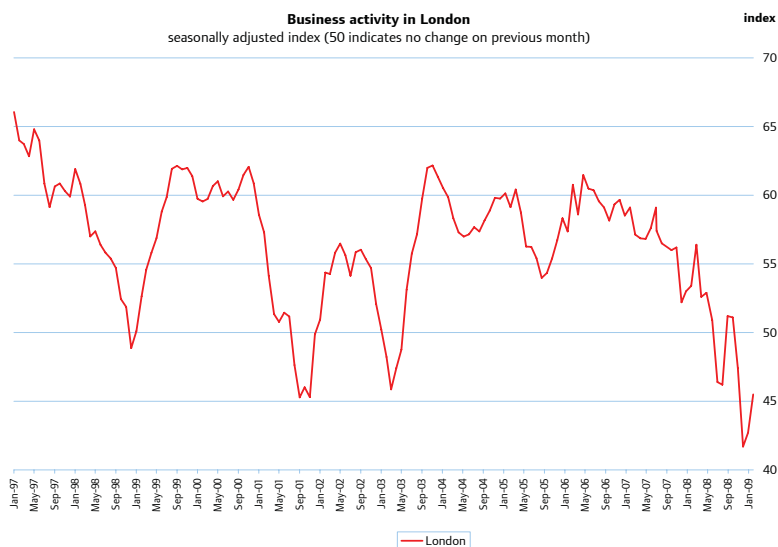
Source: Halifax house price index

London's business activity decreasing but at a slower pace

- London firms decreased their output of goods and services in January 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 45.5 in January compared to 42.7 in December.
- A rate of below 50 on the index indicates a decrease in business activity from the previous month.

Latest release: February 2009

Next release: March 2009



Source: RBS/Markit Economics

London employment weakens

- The PMI shows that the level of employment in London firms decreased in January 2009.
- The PMI for the level of employment was 39.0 in January compared to 39.7 in December.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: February 2009

Next release: March 2009



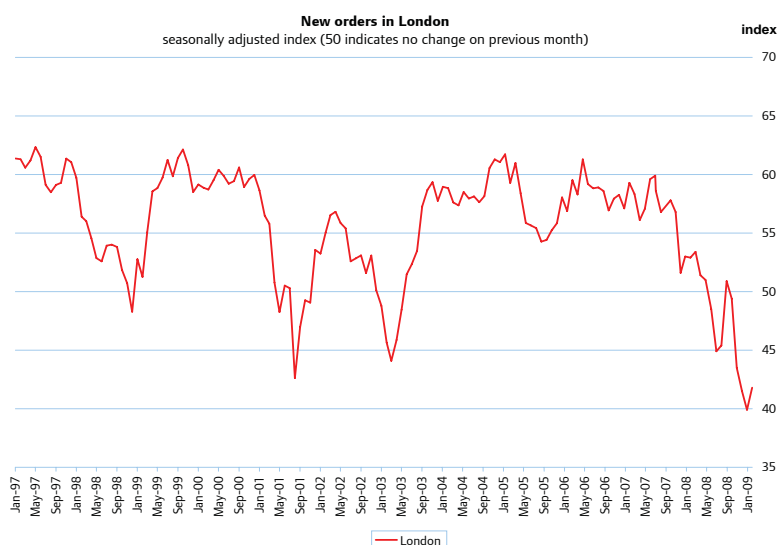
Source: RBS/Markit Economics

New orders in London remain weak

- January 2009 saw a fall in new orders for London firms.
- The PMI for new orders recorded 41.8 in January compared to 39.9 in December.
- A rate of below 50 on the index indicates a decrease in new orders from the previous month.

Latest release: February 2009

Next release: March 2009



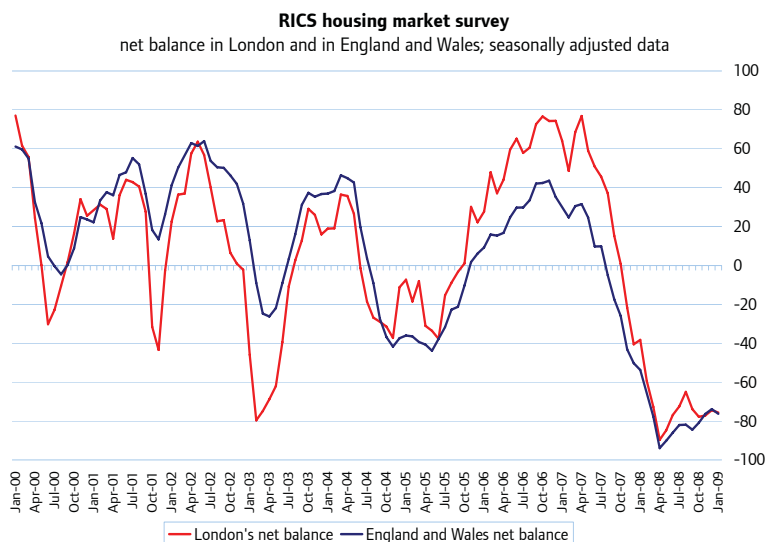
Source: RBS/Markit Economics

Surveyors report that house prices are falling in London and in England and Wales

- The RICS survey shows a negative net balance of -76 for London house prices over the past three months to January 2009. This net balance is down from -74 in December 2008.
- Surveyors reported a negative net house price balance for England and Wales of -76 in January 2009, down from -74 in December 2008.
- London's net house price balance is the same as that of England and Wales.

Latest release: February 2009

Next release: March 2009



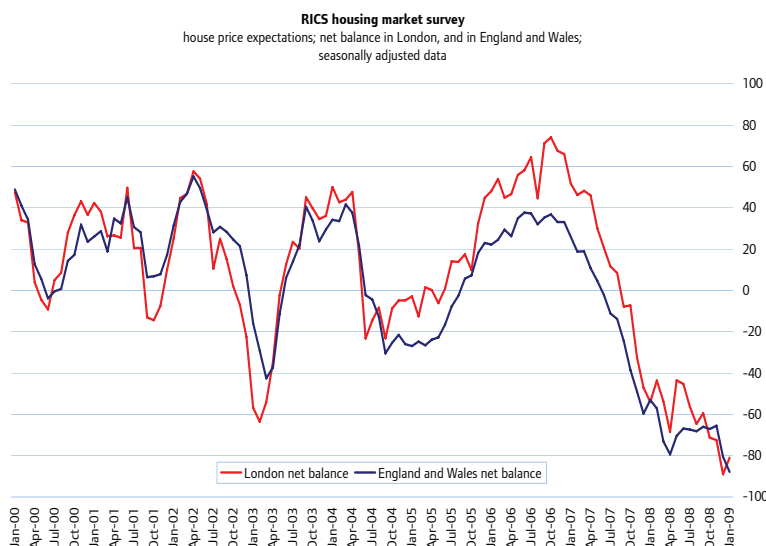
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to continue falling

- The RICS survey shows that surveyors expect house prices to continue to decrease over the next three months in London and in England and Wales.
- The net house price expectations balance in London was -81 in January 2009, up from -89 in December.
- For England and Wales, the net house price expectations balance was -88 in January 2009, down from -81 in December.

Latest release: February 2009

Next release: March 2009



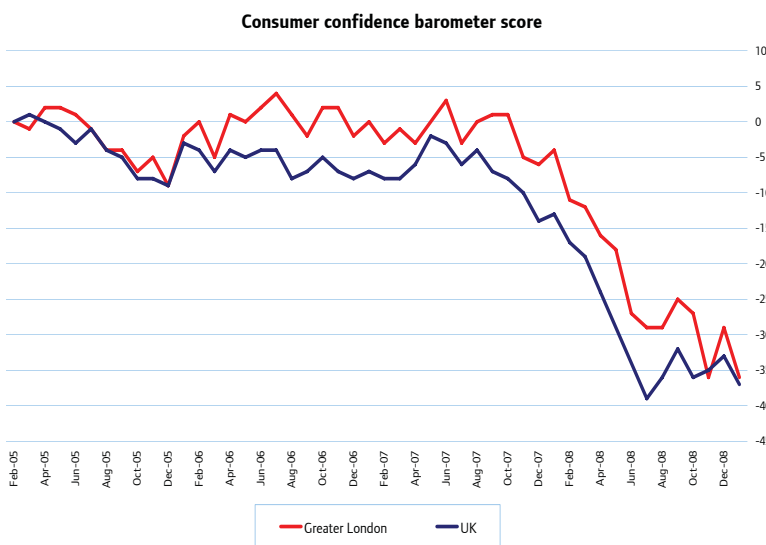
Source: Royal Institution of Chartered Surveyors

Consumer confidence still 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 a negative change in views.
- For Greater London the consumer confidence score decreased to -36 in January from -29 in December.
- For the UK the consumer confidence score decreased to -37 in January from -33 in December.

Latest release: January 2009

Next release: February 2009



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	Experian Business Strategies on 020 7630 5959
Tourism – overseas visitors	www.statistics.gov.uk
Tourism – domestic visitors	www.visitlondon.com
London airports	www.caa.co.uk
Business activity	www.rbs.co.uk/pmireports
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 rate

Unemployment rate 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.

ILO unemployment rate

The International Labour Organisation's calculation of the number of people out of work.

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 2008/09 there are eleven 28-day periods, one 26-day period and one 31-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 2008/09 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April.

Acronyms

ABI	Annual Business Inquiry	GVA	Gross value added
BAA	British Airports Authority	ILO	International Labour Organisation
BCC	British Chamber of Commerce	IMF	International Monetary Fund
BITOA	British Incoming Tour Operators Association	LCCI	London Chamber of Commerce and Industry
CAA	Civil Aviation Authority	LET	London's Economy Today
CBI	Confederation of British Industry	MPC	Monetary Policy Committee
DCLG	Department for Communities and Local Government	ONS	Office for National Statistics
EBS	Experian Business Strategies	PMI	Purchasing Managers' Index
GDP	Gross domestic product	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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