

London's Economy Today

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The International Monetary Fund gives support to the Government's fiscal consolidation plans

By **Christopher Lewis**, Senior Economist, and **Simon Kyte**, Economist

The International Monetary Fund (IMF) has just completed its 2010 UK Article IV consultation mission and believes that the benefits from the Government's fiscal consolidation plans outweigh any adverse effects on near-term growth. The IMF has stated that "market reaction to the adjustment plan has been positive" and that "the government's strong and credible multi-year fiscal deficit reduction plan is essential to ensure debt sustainability. The plan greatly reduces the risk of a costly loss of confidence in public finances and supports a balanced recovery. Fiscal tightening will dampen short-term growth but not stop it as other sectors of the economy emerge as drivers of recovery, supported by continued monetary stimulus".

Latest news...



● GLA Intelligence Unit seminar: Visualising London

Wednesday 27th October 2010, 9.30am-12.30pm at City Hall, London SE1 2AA

The drive for freeing up government data sources has resulted in an explosion of new visualisation techniques and innovative uses of information. In this seminar we will hear from the Guardian about their Data Blog and how this helps them convey their news. We will explore some of the inspirational uses that have arisen from the London Data Store. Our academic partners at UCL will share how they are using new telecommunications data and modelling approaches. Finally, Google will share their new Public Data Explorer project that aims to make large data sets easy to explore, visualise and communicate.

The event will be free of charge and places are limited. To register your interest to attend please email intelligence@london.gov.uk

The IMF expects the UK economy to recover at a moderate pace with growth of 2 per cent in 2011 with companies beginning to increase investment as the demand outlook strengthens. However, downside risks are sizeable with signs of renewed weakness in the housing market, continued fragile confidence and still strained balance sheets among banks. While squeezing Government expenditure will dampen growth, the releasing of resources for the private sector should help the recovery continue as interest rates remain low.

London still the top global financial centre

The latest Global Financial Centres Index for the City of London produced by Z/Yen showed that London remained as the top global financial centre closely followed by New York. The report also indicated that Hong Kong was making steady progress with it now being almost on an equal footing with New York and London as a global financial centre. In other London news a new survey for Cushman & Wakefield found that New Bond Street is now the most expensive retail location in Europe, with shop rents standing at \$836 per square foot in the year to June 2010, compared to a cost of \$793 per square foot on the Champs Elysées. Internationally, New Bond Street was the fourth most expensive location in the world behind Fifth Avenue, New York, Causeway Bay [Hong Kong] and Ginza [Tokyo]. Meanwhile the ICAEW/Grant Thornton Business Confidence Monitor shows London's confidence index score softening slightly in line with the national pattern. However, London businesses reported a return to positive growth in turnover and gross profit.

The property market is weakening

The bounce in property prices over the last year or so seems to be coming to an end. According to the Nationwide, UK house prices in August fell by 0.9 per cent. On an annual basis, prices were still up by 3.9 per cent but this was the slowest rise since November 2009. Meanwhile, prices for luxury properties in Central London fell by 0.1 per cent in August following a 0.5 per cent decline in July according to the Knight Frank Prime Central London Index. Liam Bailey, Knight Frank's head of residential research believes that the recent weakening has been driven by demand and supply becoming "more closely aligned... with stock for sale rising 22 per cent over the past four months and new applicant volumes falling back marginally by 8 per cent over the same period".

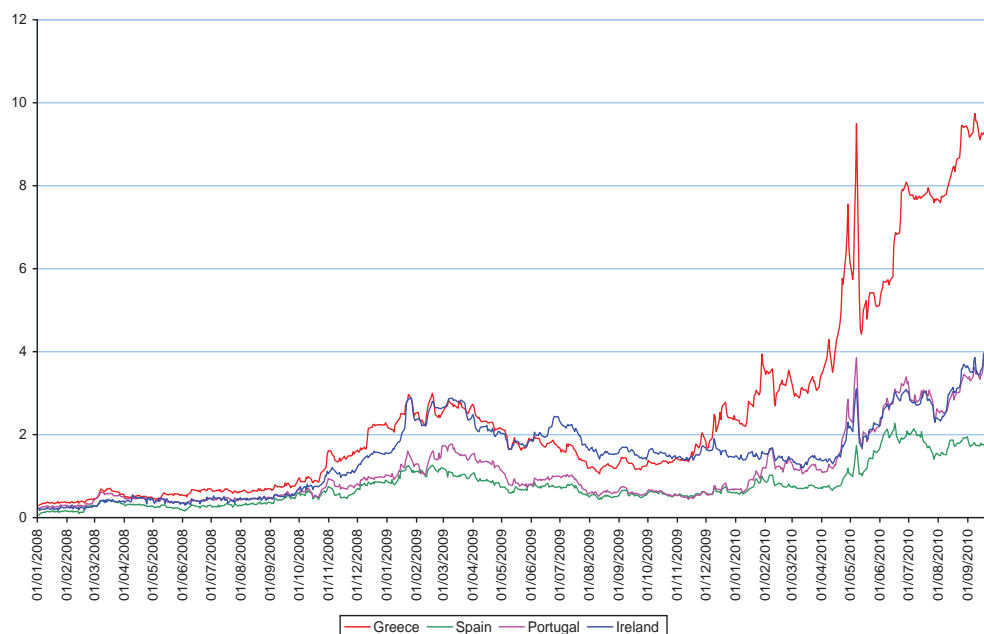
A two speed Eurozone

The spreads on Irish and Portuguese government bonds have risen sharply (see Figure 1) as divergence widens between the economic performances of different members within the eurozone. While German business confidence has hit a two-year high and French private sector output remains strong other members are experiencing anaemic or even negative growth. In Q2 Ireland's economy contracted by 1.2 per cent and Greece's by 1.5 per cent. Continued problems in Ireland's banking sector, especially regarding Anglo Irish Bank, have increased concerns about the Government's finances. Total foreign bank exposure to Ireland's economy is five times its GDP and over 200bn euros of this is to UK banks. Survey data by PMI suggest that in September there was a contraction in economic activity in non-core eurozone countries. This group includes Portugal, Ireland, Greece and Spain, which have been hit hardest by the eurozone sovereign debt crisis. The PMI survey also showed that in September private sector employment shrank much more rapidly in non-core eurozone countries than in recent months.

Figure 1: Ten-year government bond spreads over German bonds, percentage points

Last data point is 28/9/2010

Source: EcoWin



Japan sells the yen while the Chinese yuan remains undervalued

Japan's stagnant economy has led its central bank to sell the yen to weaken its currency and to therefore help bolster its exports. The Bank of Japan has bought US dollars on a large scale for the first time in six years and has said it will take further action if needed. Meanwhile, the weakness of the yuan, the Chinese currency, continues to be a bone of contention, especially with US authorities. The US is threatening trade sanctions against China unless it goes further in allowing the yuan to appreciate more quickly. A US Congress Committee has approved a bill that will enable the US to impose import duties on countries who have fundamentally undervalued currencies. Where in general trade protection is bad for the world economy so is the current undervaluation of the yuan. Since the global recession ended China has been recording even bigger trade surpluses. The imbalances to the world economy this helps to create is a serious matter and was one of the contributory factors to the recent global economic crisis. Little international headway has been made in solving these imbalances (which requires China to let its currency appreciate more quickly now that it has at least abandoned the yuan's dollar peg in June) and this is building up difficulties for the future.

Uneven economic recovery

Emerging market economies, such as China and India, are growing robustly while many developed countries are still facing economic difficulties. This is especially true of non-core eurozone nations. Meanwhile the rebound in world trade from the depths of late 2008 and early 2009 has helped drive the rapidly recovering German economy. The US economy is struggling with high unemployment and an extremely weak housing market. New home sales in the US are bumping along at their lowest levels for 50 years and despite a slight pick up in the number of new-builds they remain 75 per cent below their peak in early 2006.

During the recession London and the UK shed far fewer jobs than many had expected. In part this was probably a result of this country's flexible labour market. Some part of the relative success of the labour market during the recession can be attributed to measures taken in order to avoid job losses,

such as shorter working hours, unpaid sabbaticals and pay freezes. Since the UK exited recession the rate of unemployment has remained broadly stable although job creation was strong in Q2 2010. There is a risk of the UK moving towards the type of recovery that the US is experiencing where unemployment takes time to fall. Having retained more skilled staff than over previous recessions, firms are likely to be able increase output without taking on new employees.

The UK and London economies are both recovering from the recent recession but growth is unlikely to be rapid or smooth. The boost from restocking will be temporary and there will be muted consumer expenditure. A report by the Engineering Employers Federation (EEF) showed that UK manufacturers experienced strong growth over the summer, contrasting weak domestic demand with strong increases in overseas sales, benefitting from robust growth in Germany. The EEF 'Economic Prospects August 2010' report has a central forecast for economic growth to remain bumpy over the next year with slow and uncertain growth in key markets reinforcing business caution. The CBI has downgraded its growth forecast for 2011 from 2.5 per cent to 2 per cent with its Director-General, Richard Lambert, observing that "the degree of uncertainty around the outlook remains high, but our view is that the UK's tentative recovery will be sustained, albeit with weaker levels of growth". Overall, business activity in London has been subdued recently while the rapid improvement in London's employment levels during Q2 2010 will be difficult to sustain.

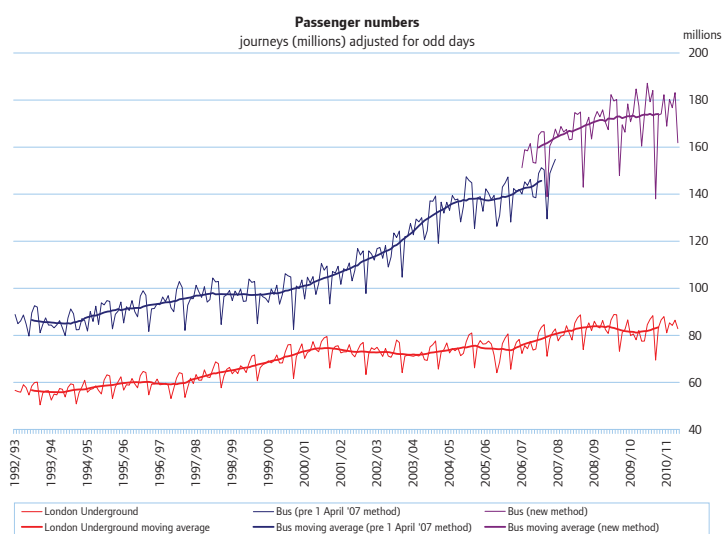
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 25 July 2010 to 21 August 2010. Adjusted for odd days, London's Underground and buses had 244.7 million passenger journeys; 161.9 million by bus and 82.8 million by Underground.
- The moving average of passengers every period increased to 257.5 million from a downwardly revised 257.0 million in the previous period. The moving average for buses was 174.1 million. The moving average for the Underground was 83.4 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: September 2010

Next release: October 2010



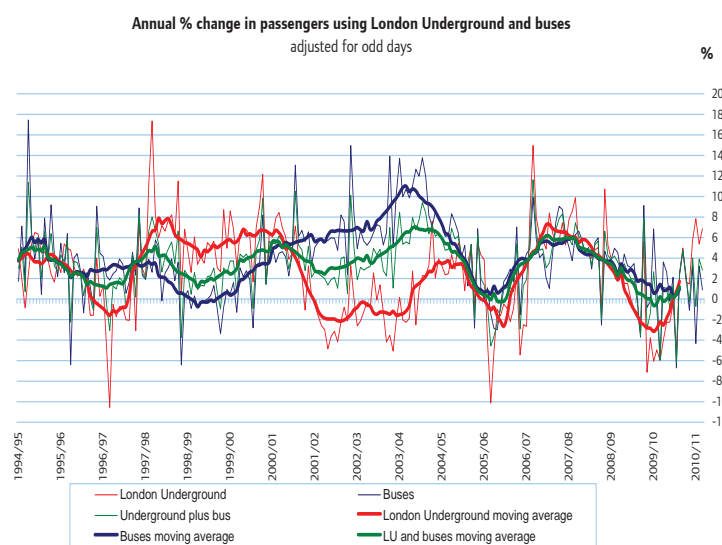
Source: Transport for London

Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 1.2% from a downwardly revised 0.5% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 1.0% from a downwardly revised 0.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 1.7% from 0.7% in the previous period.

Latest release: September 2010

Next release: October 2010



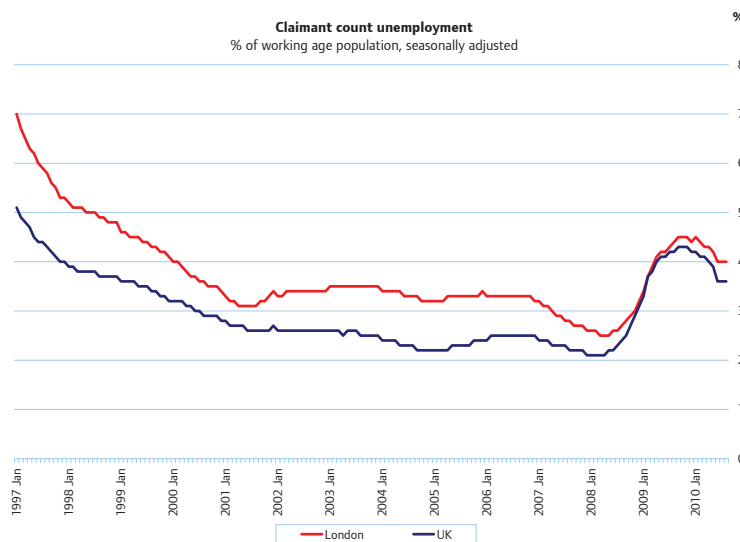
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.0% in August 2010.
- There were 213,700 seasonally adjusted unemployment claimants in London in August 2010 compared with an upwardly revised 213,600 in July.
- There were 1,466,300 seasonally adjusted unemployment claimants in the UK in August 2010 compared with an upwardly revised 1,464,000 in July.

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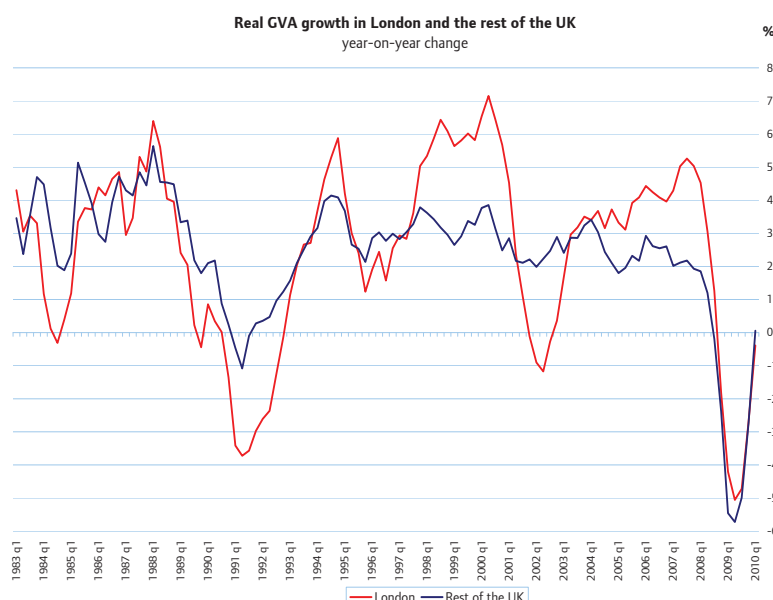
Source: Claimant Count, Nomis

Annual output growth improving in London and the rest of the UK

- London's annual growth in output increased to -0.4% in Q1 2010 from a downwardly revised -2.7% in Q4 2009.
- Annual output growth in the rest of the UK increased to 0.1% in Q1 2010 from an upwardly revised -2.7% in Q4 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2010

Next release: November 2010



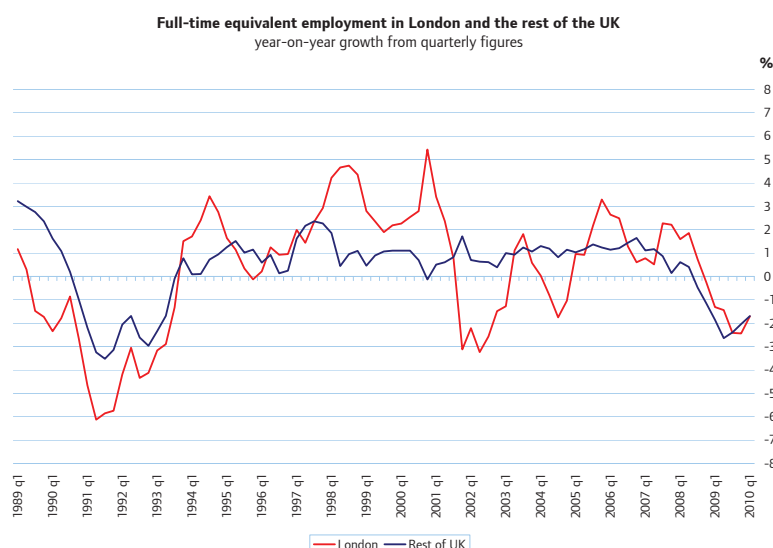
Source: Experian Economics

Negative annual employment growth

- London's annual employment growth increased to -1.7% in Q1 2010 from -2.4% in Q4 2009.
- Annual employment growth in the rest of the UK increased to -1.7% in Q1 2010 from -2.0% in Q4 2009.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2010

Next release: November 2010



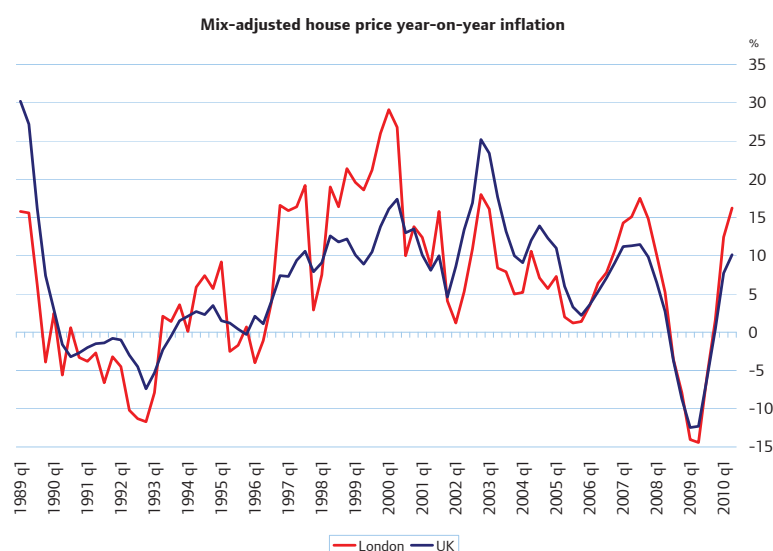
Source: Experian Economics

Annual house price inflation above 10 per cent in Q2 2010

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q2 2010.
- The DCLG reported a rise in annual house prices in both London and the UK in Q2 2010.
- Annual house price inflation in London increased to 16.2% in Q2 2010 from 12.4% in Q1 2010. Annual house price inflation in the UK increased to 10.1% in Q2 2010 from 7.7% in Q1 2010.

Latest release: August 2010

Next release: November 2010



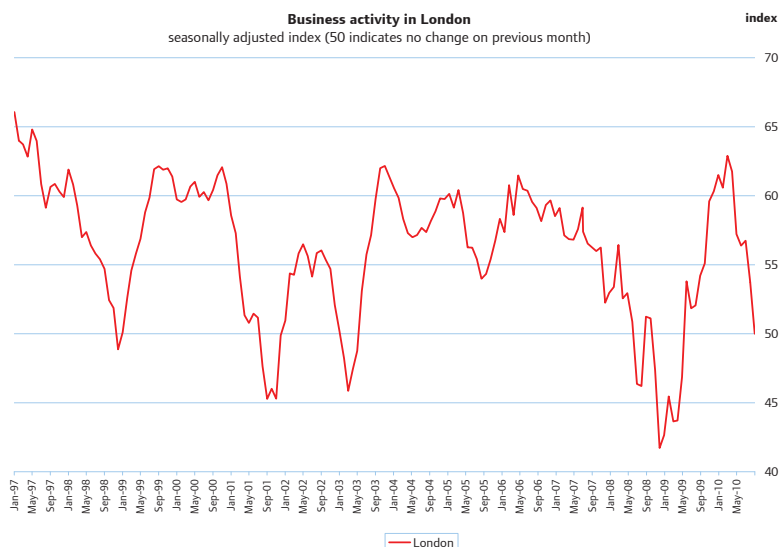
Source: Department for Communities and Local Government

London's business activity stable

- London firms had a stable output of goods and services in August 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 50.0 in August compared to 53.7 in July.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: September 2010

Next release: October 2010



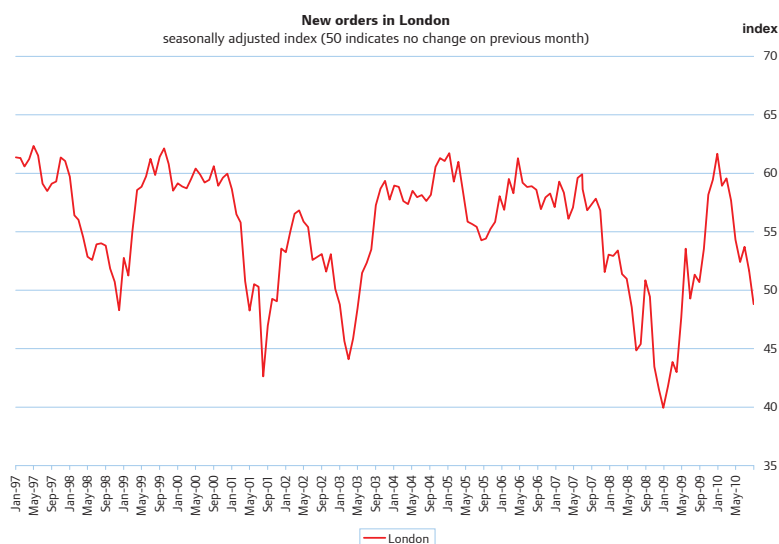
Source: Markit Economics

New orders in London declining

- August 2010 saw a decline in new orders for London firms.
- The PMI for new orders recorded 48.8 in August compared to 51.7 in July.
- A rate of below 50 on the index indicates a decrease in new orders from the previous month.

Latest release: September 2010

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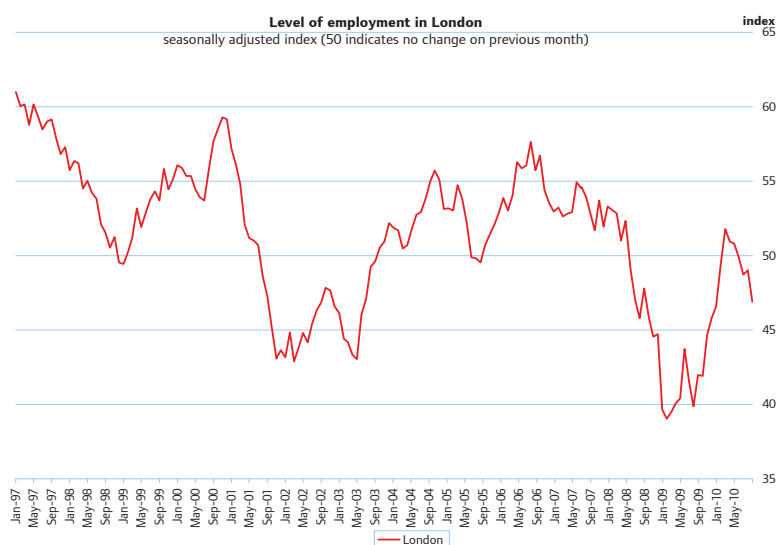
Source: Markit Economics

Businesses report lower employment in August

- The PMI shows that the level of employment in London firms decreased in August 2010.
- The PMI for the level of employment was 46.9 in August compared to 49.0 in July.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

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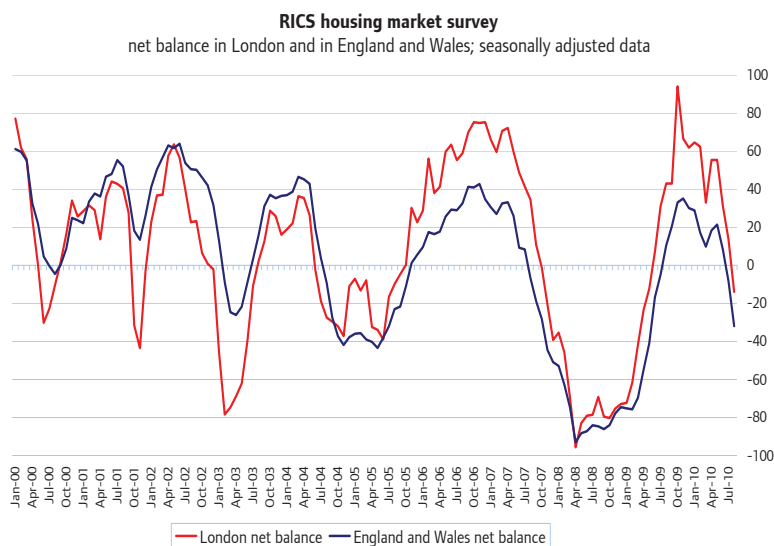
Source: Markit Economics

Surveyors report that house prices are falling

- The RICS survey shows a negative net balance of -14 for London house prices over the past three months to August 2010.
- Surveyors reported a net house price balance for England and Wales of -32 over the past three months to August 2010.
- London's net house price balance is above that of England and Wales.

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Next release: October 2010



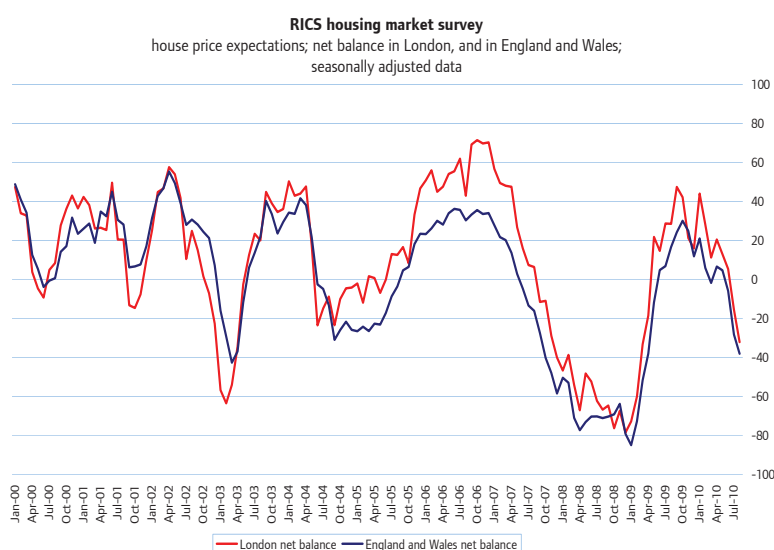
Source: Royal Institution of Chartered Surveyors

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 -32 in August 2010.
- For England and Wales, the net house price expectations balance was -38 in August 2010.

Latest release: August 2010

Next release: September 2010



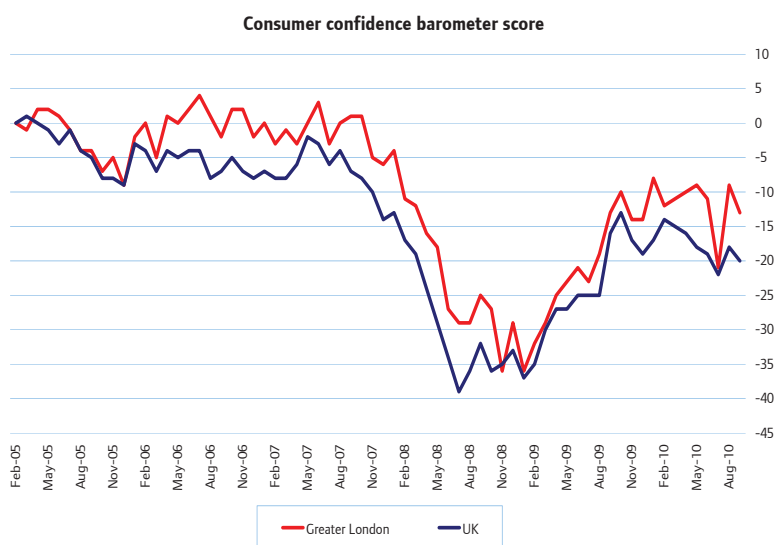
Source: Royal Institution of Chartered Surveyors

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 decreased to -13 in September from -9 in August.
- For the UK the consumer confidence score decreased to -20 in September from -18 in August.

Latest release: September 2010

Next release: October 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

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
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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