

London's Economy Today

Issue 100 | December 2010

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Ireland bailout is finalised but stresses remain in Eurozone sovereign bond markets

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On 27 November European ministers finally agreed the details of the bailout package for Ireland worth around €85 billion. However, markets remained concerned about the financial situation in other Eurozone countries (see Figure 1), although the European Central Bank (ECB) did provide some reassurance to the markets by promising to continue to support Eurozone banks that need liquidity into 2011.

Proposals to increase the size of the EU's €440 billion rescue fund or to create a Eurozone-wide bond, which many believed would provide increased confidence in the Eurozone, were rejected by Angela Merkel, the German Chancellor. However, on 16 December EU leaders did agree to amend European Union treaties to create a permanent bailout system, which Eurozone countries will contribute to, that will replace its temporary rescue fund in 2013.

On 7 December the Irish government unveiled another budget in response to the financial crisis. The budget announced amongst other measures the introduction of a new income tax system, rises in fuel duties, a VAT increase and reductions in both the minimum wage and child benefit, although corporation tax will remain at

Latest news...

● **Working Paper 44: London's labour market in the recent recession**

Initial analysis would seem to suggest that reductions in wages, continued employment growth in the public sector and strong levels of corporate profitability moving into the recession (and correspondingly low rates of business failures during the recession) are the main factors that can explain London's, and particularly the UK's, labour market showing surprising resilience to the recent economic downturn so far.

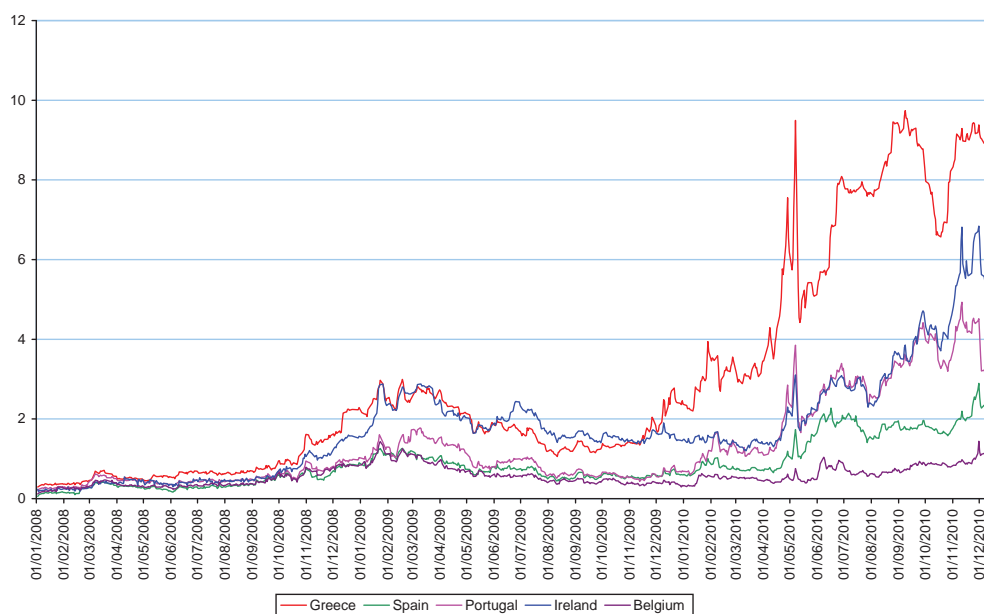
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12.5 per cent. However, this did not stop credit agencies further downgrading Ireland's government debt with both Fitch and Moody's stripping the country of its "A" rating. A new forecast from the European Commission highlights the impact of the recent crisis on the Irish economy with the economy forecast to contract by 0.2 per cent in 2010, the third year in a row that the economy would have shrunk, and grow by only 0.9 per cent in 2011. Concern has also risen about the size of the budget deficit in Belgium which has led to a widening of the spread between its and Germany's bonds. The IMF has noted that in Belgium "measures at all levels of government are needed to help ensure the reduction of the overall budget deficit to 3 per cent of GDP by 2012 and achieve a balanced budget by 2015". Elsewhere Moody's also placed Spain's government bonds on review for possible downgrade due to concerns about its ability to raise funds in 2011.

Figure 1: Ten-year government bond spreads over German bonds, percentage points
Last data point is 15/12/10

Source: EcoWin



OBR forecasts higher growth in 2010 but slower growth in 2011

The Office for Budget Responsibility (OBR) published revised forecasts for UK economic growth on 28 November. In its new forecast the OBR now predicts faster growth in 2010 with the economy expected to grow by 1.8 per cent, 0.6 per cent higher than their June forecast. This reflects the higher than expected growth experienced during the middle two quarters of 2010. However, the OBR has also marginally downgraded its growth forecasts for 2011 and 2012. The OBR has reduced its forecast for the number of public sector jobs likely to be lost over the next four years with it now expecting 330,000 public sector workers to lose their jobs, compared to 490,000 forecast by it in June.

Business confidence declines

The Institute of Chartered Accountants in England and Wales (ICAEW) published their Q4 2010 Business Confidence Index in December. The research that was carried out over 28 July to 21 October 2010 found that in the UK "business confidence fell sharply", but although economic growth will slow in the final quarter of 2010 it is still expected to remain positive. The report also highlighted that "annual turnover and profit growth rose this quarter", whilst "export growth has continued to rise". For London the Business Confidence Index also fell. However, "London still remains the third most confident part of the UK." London businesses also reported "an improvement in turnover,

gross profit and sales volume growth over the 12 months to Q4 2010", but, "expectations for turnover, gross profit and sales volume growth over the 12 months ahead all slipped this quarter, signalling a weakening in the outlook for London businesses".

London rated as a good place to do business

The CBI/KPMG London Business Survey published in December found an improvement in the labour market in London with 45 per cent of surveyed companies planning "to hire as normal over the next six months" compared to 11 per cent when surveyed last year. The survey also found that 54 per cent of "firms are optimistic about their business prospects over the next six months", although "businesses' views of how the economy will perform over the next six months are mixed". Of the major issues facing the economy in the coming 12 months "sixty-nine per cent of firms highlight the possibility of a double-dip recession, while 55 per cent say reduced public sector investment is a worry." Eighty-four per cent of surveyed businesses also "rate London as a good or very good place to do business", the highest figure since September 2008, whilst 79 per cent of respondents think that London's status as a world city will stay the same or improve over the next five years. Concerns for firms operating in London include the overall cost of operating in London, which was highlighted by 67 per cent of respondents, with the tax environment being of concern to 57 per cent of them. The lack of transferable skills in the labour force was a concern to 56 per cent of businesses, with 69 per cent of businesses also saying that the proposed cap on immigration would negatively impact on their ability to recruit from overseas.

The VAT rise and public spending cuts will make 2011 a challenging year

In signs of further strengthening in the manufacturing recovery a survey of 500 leading manufacturing firms for the Engineering Employers Federation found that firms were "powering ahead" by investing in their businesses and recruiting new staff. This relative health (after a severe contraction during the recession) has been attributed to strong overseas demand and augers that manufacturing could be well placed to provide support to the overall recovery in 2011. However, inflation crept up in November with UK Consumer Price Index (CPI) inflation hitting 3.3 per cent. With the rise in VAT in January 2011 it is likely that inflation will remain above the Bank of England's central 2 per cent target for the whole of 2011. In other negative news for the UK economy the British Chambers of Commerce (BCC) in December downgraded their forecast for growth in 2011 to 1.9 per cent compared to a forecast growth rate of 2.2 per cent in their September forecast. The BCC blamed the present sovereign debt crisis in the Eurozone, austerity cuts, the looming VAT rise and a weak housing market for their downgrade. However, other forecasters remain more optimistic about the UK economy with the European Commission in its latest forecast expecting that the economy will have grown by 1.8 per cent in 2010 and will then grow by 2.2 per cent and 2.5 per cent respectively in 2011 and 2012. Although the global recovery continues to roll along especially in emerging market economies (such as China and India), it is likely that the beginning of 2011 will be a difficult time for the UK and London economies due to the rise in VAT. Stock markets have been performing well recently but a major risk remains from the potential for contagion in Eurozone sovereign debt markets, especially in Portugal and Spain.

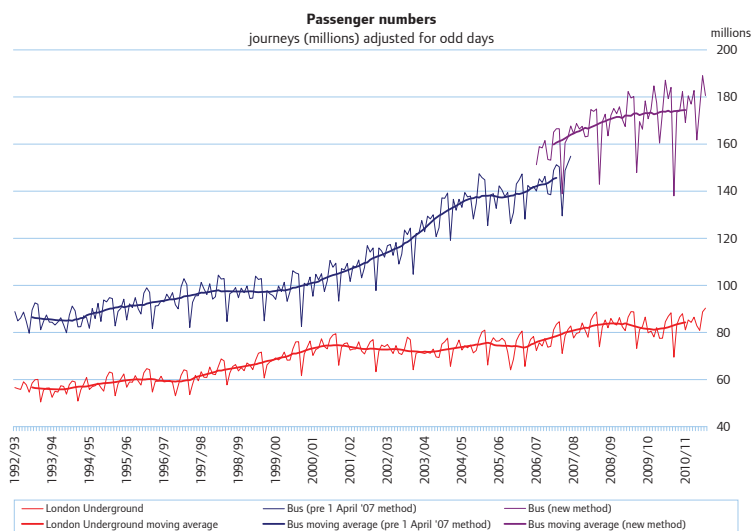
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 17 October 2010 to 13 November 2010. Adjusted for odd days, London's Underground and buses had 270.9 million passenger journeys; 180.6 million by bus and 90.3 million by Underground.
- The moving average of passengers every period increased to 258.8 million from a downwardly revised 258.4 million in the previous period. The moving average for buses was 174.5 million. The moving average for the Underground was 84.3 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: December 2010

Next release: January 2011



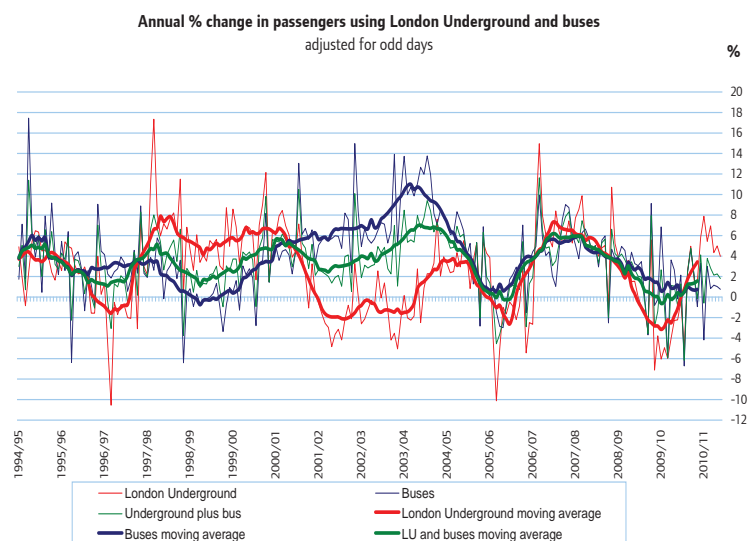
Source: Transport for London

Increase in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys increased to 1.6% from 1.4% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers remained unchanged from the previous period at 0.7%.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 3.4% from 3.0% in the previous period.

Latest release: December 2010

Next release: January 2011



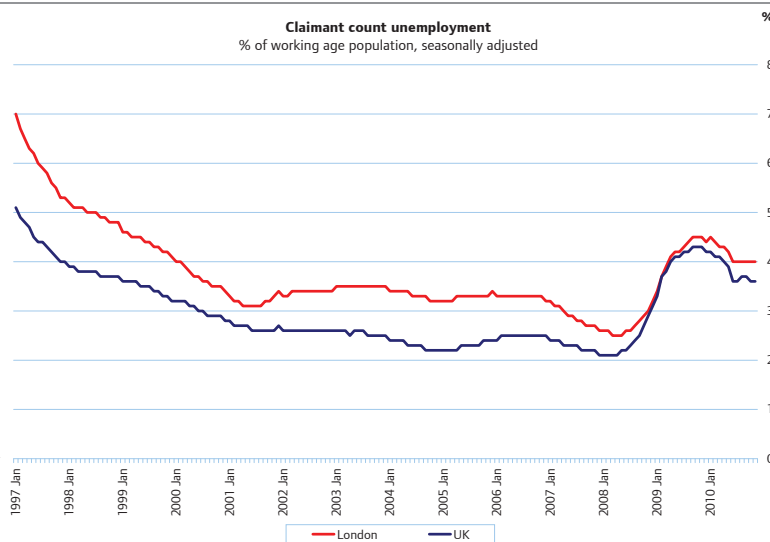
Source: Transport for London

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 November 2010.
- There were 216,300 seasonally adjusted unemployment claimants in London in November 2010 compared with an upwardly revised 215,400 in October.
- There were 1,462,700 seasonally adjusted unemployment claimants in the UK in November 2010 compared with a downwardly revised 1,463,900 in October.

Latest release: December 2010

Next release: January 2011



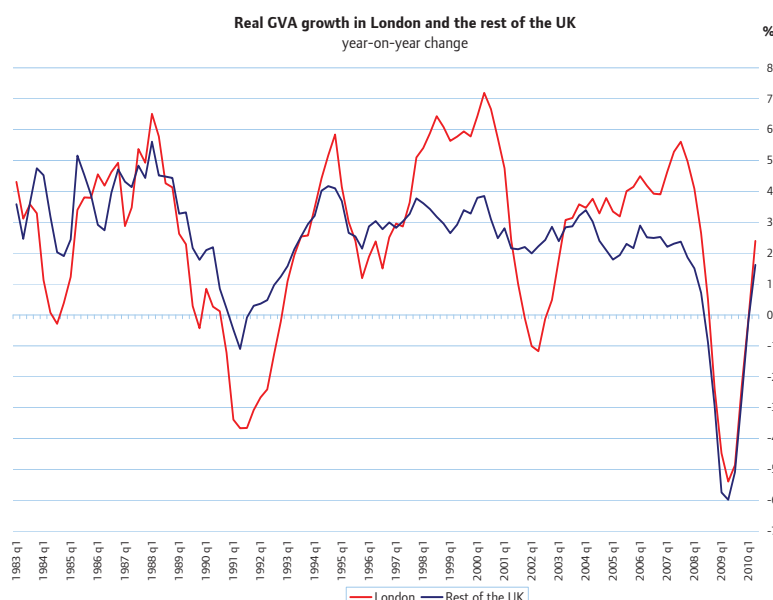
Source: Claimant Count, Nomis

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

- 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 rest of the UK increased to 1.6% in Q2 2010 from a downwardly revised -0.2% in Q1 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: November 2010

Next release: February 2011



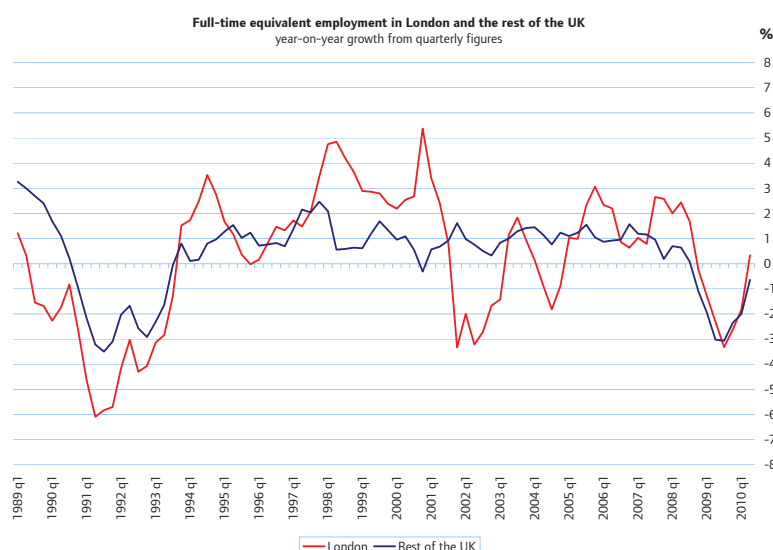
Source: Experian Economics

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 rest of the UK increased to -0.6% in Q2 2010 from a downwardly revised -2.0% in Q1 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: November 2010

Next release: February 2011



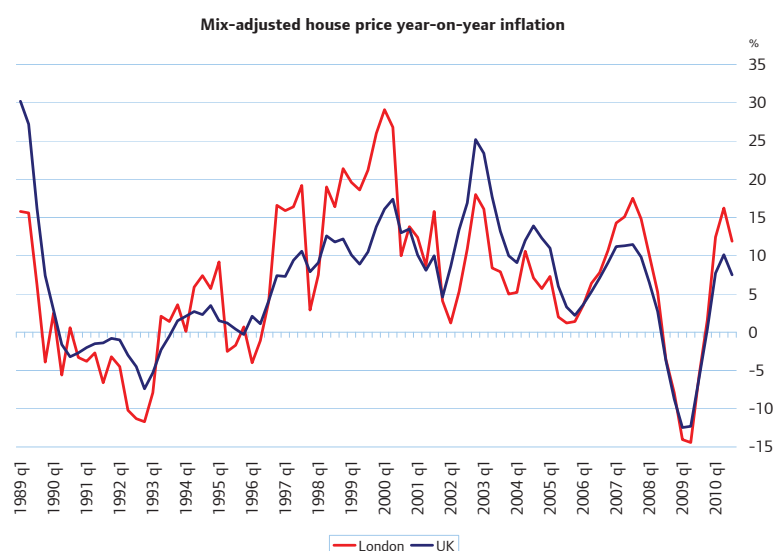
Source: Experian Economics

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 Q3 2010.
- The DCLG reported a fall in annual house price inflation in both London and the UK in Q3 2010.
- Annual house price inflation in London decreased to 11.9% in Q3 2010 from 16.2% in Q2 2010. Annual house price inflation in the UK decreased to 7.5% in Q3 2010 from 10.1% in Q2 2010.

Latest release: November 2010

Next release: February 2011



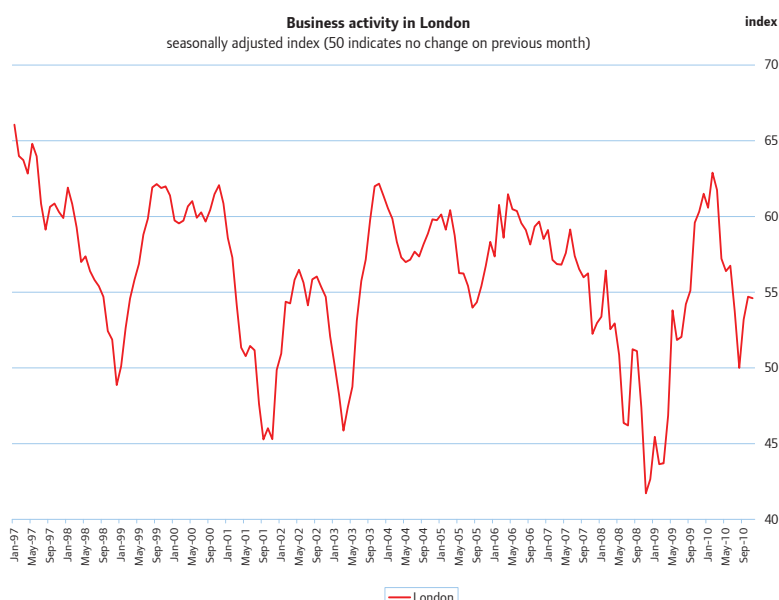
Source: Department for Communities and Local Government

London's business activity increasing

- London firms increased their output of goods and services in November 2010.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.6 in November 2010 compared to 54.7 in October 2010.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: December 2010

Next release: January 2011



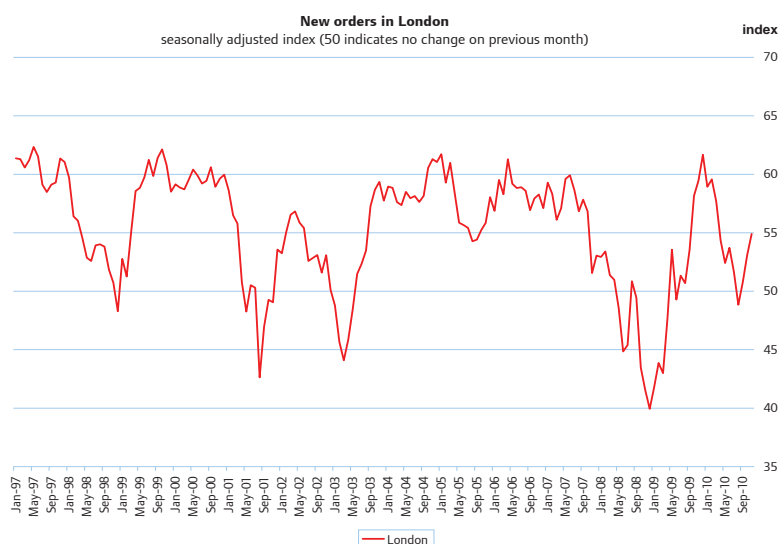
Source: Markit Economics

New orders in London rising

- November 2010 saw a rise in new orders for London firms.
- The PMI for new orders recorded 54.9 in November 2010 compared to 53.1 in October 2010.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: December 2010

Next release: January 2011



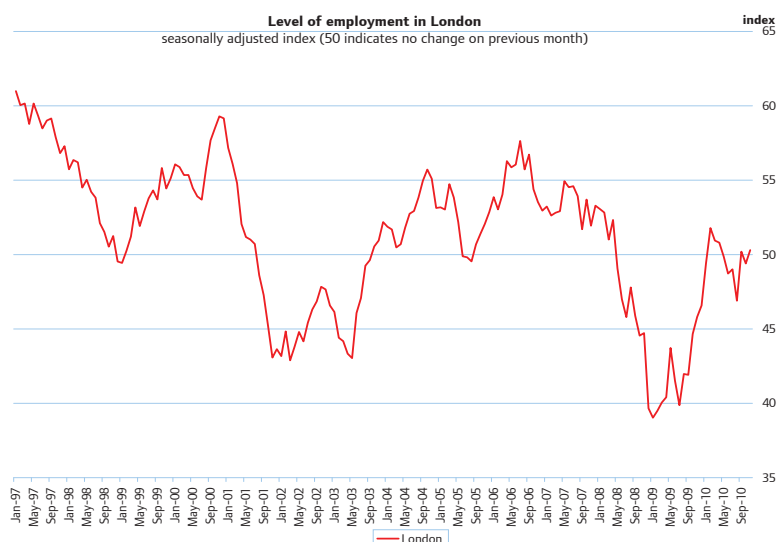
Source: Markit Economics

Businesses report higher employment in November

- The PMI shows that the level of employment in London firms increased slightly in November 2010.
- The PMI for the level of employment was 50.3 in November 2010 compared to 49.4 in October 2010.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: December 2010

Next release: January 2011



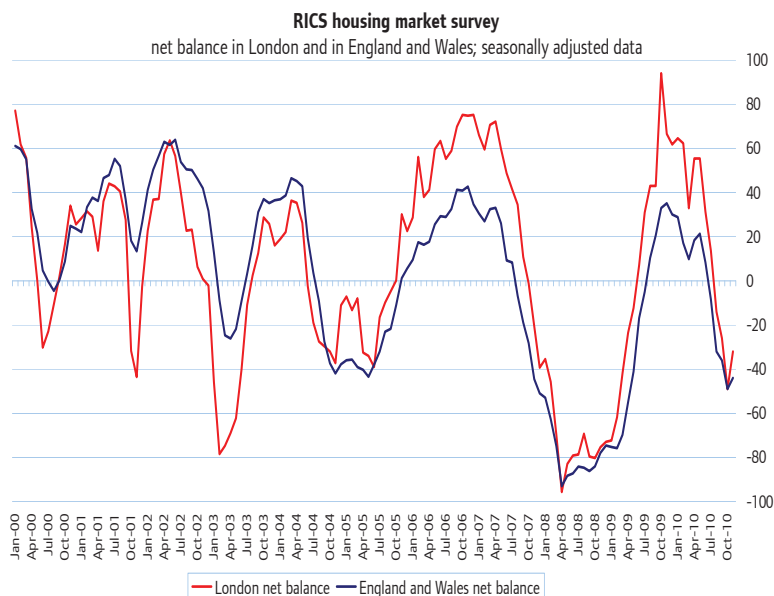
Source: Markit Economics

Surveyors report that house prices are falling

- The RICS survey shows a negative net balance of -32 for London house prices over the past three months to November 2010.
- Surveyors reported a net house price balance for England and Wales of -44 over the past three months to November 2010.
- London's net house price balance is higher than that of England and Wales.

Latest release: December 2010

Next release: January 2011



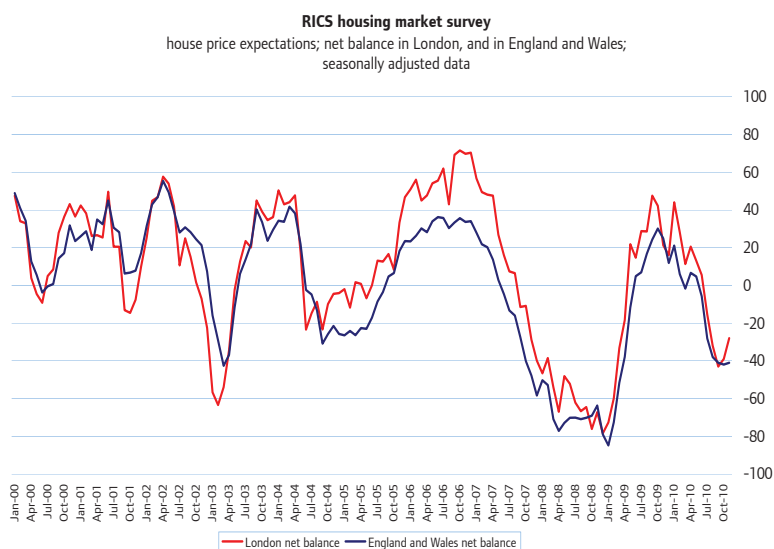
Source: Royal Institution of Chartered Surveyors

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 -28 in November 2010.
- For England and Wales, the net house price expectations balance was -41 in November 2010.

Latest release: December 2010

Next release: January 2011



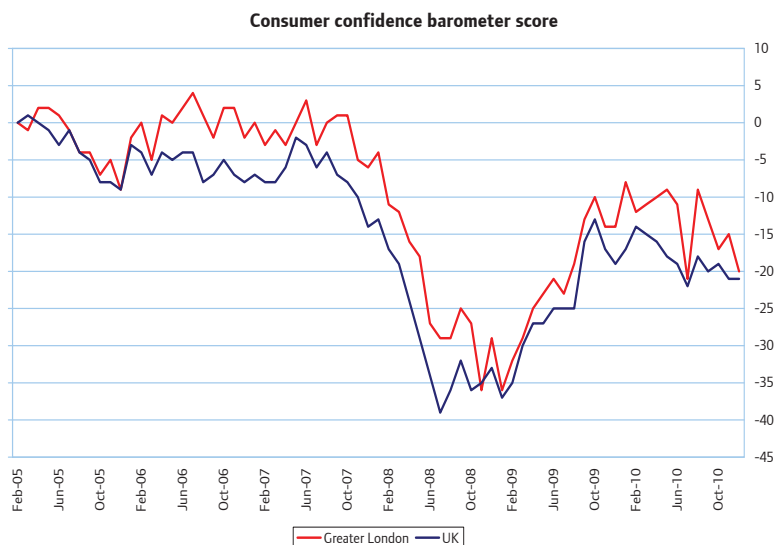
Source: Royal Institution of Chartered Surveyors

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 -20 in December from -15 in November.
- For the UK the consumer confidence score for December remained unchanged at -21 from November.

Latest release: December 2010

Next release: January 2011



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

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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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