GLAECONOMICS

London's Economic Outlook: Spring 2016
The GLA's medium-term planning projections

May 2016

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1. Executive summary

GLA Economics' twenty eighth London forecast[1] suggests that:

London's Gross Value Added (GVA) growth rate is forecast to be 2.9 per cent in 2016 with growth increasing to 3.4 per cent in 2017 and 3.3 per cent in 2018.

London is forecast to see rises in employment in 2016, 2017 and 2018.

London household income and spending are both forecast to increase over the next three years.

Table 1.1 summarises this report's forecasts and provides an average of independent forecasts.

Table 1.1: Summary of forecasts

Annual growth rates (per cent)	**2015[2]**	**2016**	**2017**	**2018**
London GVA[3] (constant 2012, £ billion)	3.4	2.9	3.4	3.3
Consensus (average of independent forecasts)		2.6	2.6	2.6
London civilian workforce jobs	1.9	0.7	0.7	0.7
Consensus (average of independent forecasts)		1.4	1.2	0.9
London household spending (constant 2012, £ billion)	3.1	2.7	2.6	2.5
Consensus (average of independent forecasts)		3.9	2.9	2.6
London household income (constant 2012, £ billion)	4.1	2.9	2.4	2.0
Memo: Projected UK RPI[4] (Inflation rate)	1.0	2.0	2.8	3.1
Projected UK CPI[5] (Inflation rate)	0.0	0.9	1.8	2.0

Sources: GLA Economics' Spring 2016 forecast and consensus calculated by GLA Economics

Since the publication of the November 2015 London's Economic Outlook (LEO), the economic environment in the UK and London has remained generally sound although displaying evidence of the continuing moderation in growth that was seen throughout 2015. Looking at a plethora of economic indicators, the majority show a continuing expansion of London's economy but with signs of a moderation, but not a reversal, in growth. This is generally reflected at the UK level, for example the Bank of England's agents found in the first quarter of 2016 that "annual rates of activity growth had eased, in part reflecting slowing world growth and an associated increase in uncertainty"[6], although consumer spending had remained resilient "investment intentions had eased, mostly reflecting increased caution in the face of heightened global

[1] The forecast is based on an in-house model built by GLA Economics.
[2] Historic data for London GVA and workforce jobs is based on GLA Economics 'now-casting' estimates, while household spending and household income is based on Experian Economics data. It should be noted that the 2015 figures for London GVA, civilian workforce jobs, household spending and household income are estimates.
[3] A future publication by GLA Economics will outline the methodology used to estimate London's GVA.
[4] RPI = Retail Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2016 of the UK RPI inflation rate are reported.
[5] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2016 of the UK CPI inflation rate are reported. Since December 2003 the Bank of England's symmetrical inflation target has been annual CPI inflation at 2 per cent.
[6] Bank of England, 23 March 2016, 'Agents' Summary of Business Conditions, 2016 Q1'.

uncertainty"[7]. While, the Bank observed in May that "commercial real estate investment transactions had slowed markedly on a year ago in London"[8]. In terms of credit conditions the Bank has noted that "the availability of secured credit to households was reported to have been unchanged in the three months to mid-March. Lenders expected availability to increase in Q2". They further observe that, "lenders reported that the availability of unsecured credit to households increased slightly in 2016 Q1", with them adding that "the availability of total unsecured credit was expected to increase further in 2016 Q2"[9]. In London, consumer confidence remains positive and high although down from the historic highs seen at the start of 2016[10], and amongst companies in London, business confidence in the service sector was moderately strong in Q1 2016 but had weakened on the second half of 2015[11].

The UK economy continues to grow, with output increasing by 0.4 per cent in Q1 2016, however this was a smaller increase than the 0.6 per cent in Q4 2015. Output in Q1 2016 was 2.1 per cent higher than a year earlier and UK GDP now stands 7.3 per cent higher than its pre-recession peak. Inflation remained around zero in 2015 but has picked up slightly although it has remained low in the first few months of 2016, with Consumer Prices Index (CPI) inflation standing at 0.3 per cent in April 2016 compared to April 2015, a slight fall from the rate of 0.5 per cent seen in March 2016[12]. Given the continuing low level of inflation and ongoing evidence of a global economic slowdown it appears likely that the timing of any first interest rate rise in the UK may be delayed even further with the possibility of a rise not occurring until at least 2017 or even later. The Bank of England in their May 2016 Inflation Report observed that the Bank's Monetary Policy Committee (MPC) "judges that it is more likely than not that Bank Rate will need to be higher by the end of the forecast period than at present to ensure inflation returns to the target in a sustainable manner. All members agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path Bank Rate will follow over the next few years will depend on economic circumstances"[13]. It should be noted that the Bank has reiterated this view in a number of previous inflation reports.

Workforce jobs growth continues in London although at a more moderate pace than was seen in recent years; a similar situation is observed in the UK as a whole. Thus in London the number of jobs increased to 5.576 million in Q4 2015, an 85,000 (1.5 per cent) increase from a year earlier[14] and the highest level since the series records began in 1996. The employment rate in London stood at 73.2 per cent in the three months to March 2016, the highest rate for this measure since records began in 1992. Real wages have also continued to grow although at a modest pace[15]; thus with continued low inflation it is likely that households will continue to see a rise in their real incomes over the coming year.

Risks to the economy have picked up a touch compared to those seen in November 2015; although others risks remain constant such as the risk that the ongoing fiscal consolidation as

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[7] Ibid.
[8] Bank of England, 18 May 2016, 'Agents' Summary of Business Conditions, May 2016 Update'.
[9] Bank of England, 13 April 2016, 'Credit Conditions Survey: 2016 Q1'.
[10] Douglass, G., Christie, E. & Frebault, V., 31 March 2016, 'London's Economy Today: Issue 163'. GLA Economics.
[11] British Chambers of Commerce, April 2016, 'Quarterly Economic Survey: 1st Quarter 2016'.
[12] ONS, 17 May 2016, 'Consumer Price Inflation: Apr 2016'.
[13] Bank of England, 12 May 2016, 'Inflation Report: May 2016'.
[14] ONS, 16 March 2016, 'Regional labour market, March 2016'.
[15] ONS, 20 April 2016, 'UK Labour Market: April 2016'.

announced in the recent Comprehensive Spending Review could potentially drag on economic growth throughout the course of this parliament especially if further consolidation is required due to missed fiscal targets. Risks are also associated with at least the short-term economic shock that could possibly occur if there is a vote to leave the EU in the upcoming referendum. The uncertainty caused by such a vote may at least temporarily dampen business investment and other decisions. However, it should be noted that the longer-term impact of such a vote is harder to model with competing claims produced by a variety of commentators with the exact long-term growth prospects likely to be dependent on what post 'Brexit' economic relationships and policies are followed.

As has been the case for a number of years, slow growth in Europe, the levels of sovereign debt and the structural problems facing individual countries, their financial systems and the Eurozone as a whole remain key concerns due to the impact these could have on the UK and London's trade and therefore growth. Despite these ongoing risks and continuing low inflation there is evidence of a slight improvement in growth prospects in the Eurozone as a whole more recently. Nevertheless, the risks of a global slowdown have risen further over the winter with the forecasts for a number of countries growth continuing to be revised down. If any significant global slowdown did occur then this would act as a break on the UK and London economies especially in the short term.

Lower oil and commodity prices are continuing to act as a drag on some emerging market economies whilst providing support to a number of developed economies. Any rapid rebound in oil prices, due to a reduction in global supply as higher costs producers are driven out of the market, may act as a damper on global economic activity and thus depress economic activity within the capital. The beginning of the normalisation of monetary policy in some developed economies, and in particular the United States, may also have negative effects on emerging market economies and knock on effects on the global economy. However, although the tightening in US monetary policy began in December 2015 it may progress more slowly than was expected during the latter part of 2015.

In summary the outlook for the London economy still remains positive for the coming years. A gradual pick-up in inflation sometime this year seems the most likely prospect and should remove the risk of persistently low inflation. Although likely to tighten over the coming years, UK monetary policy may not be tightened for a while yet and will most probably remain loose by historical standards for a time after that thus continuing to support the economy. Sterling has weakened recently and businesses and consumers remain generally confident about the future economic outlook. The improvements in real income seen in 2015 should continue and provide support to household spending in the coming years. Of the sectors of the UK economy the service sector appears the most robust which, given its size in London, should benefit London's economy. Taking account of all these factors both output and employment should see continued growth in the next few years.

2. Introduction

The spring 2016 edition of *London's Economic Outlook* (LEO) is GLA Economics' twenty eighth London forecast. The forecasts are issued every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economies with analysis of important events, trends and risks to short and medium-term growth (Section 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Section 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Section 5).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. From the Spring 2016 LEO GLA Economics' forecast is based on an in-house model built by GLA Economics[16], previously forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)[17]
- Experian Economics (EE)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely but these are not shown here. The low and high forecasts combine the lowest and highest forecasts respectively taken from each year separately and which, may therefore, come from different forecasters. High and low estimates therefore may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen.

[16] A future publication by GLA Economics will describe the production of the new forecast model in more detail.
[17] CEBR does not provide a forecast for employment in the sectors of the London economy or for household expenditure in London.

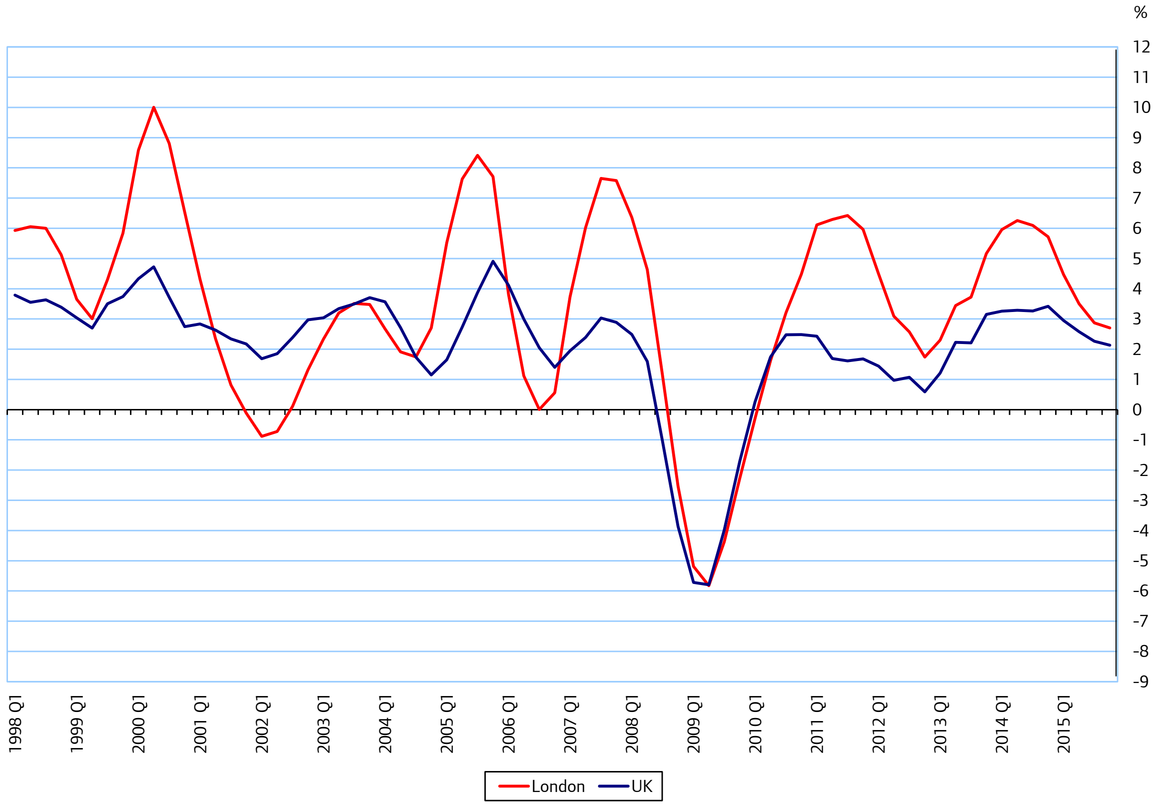
3. Economic background: Global slowdown may weaken a still expanding London and UK economy

This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's annual growth in output stood at 2.7 per cent in the fourth quarter of 2015 compared to 2.1 per cent in the UK (see Figure 3.1). London's economic expansion continues with other economic indicators continuing to suggest that the London economy has grown more strongly than the UK throughout 2015 and into 2016.

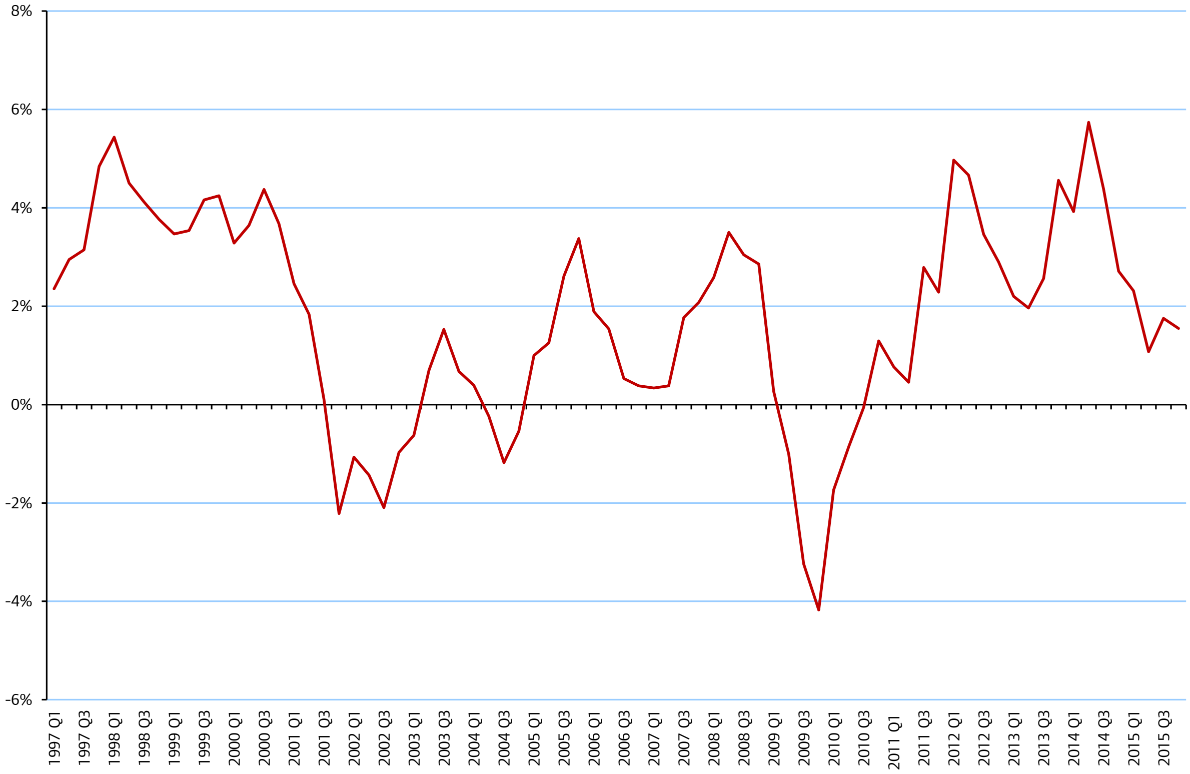
Figure 3.1: Output growth – London and UK
Real GVA, annual % change, last data point is Q4 2015



Source: GLA Economics calculations for London and ONS for the UK

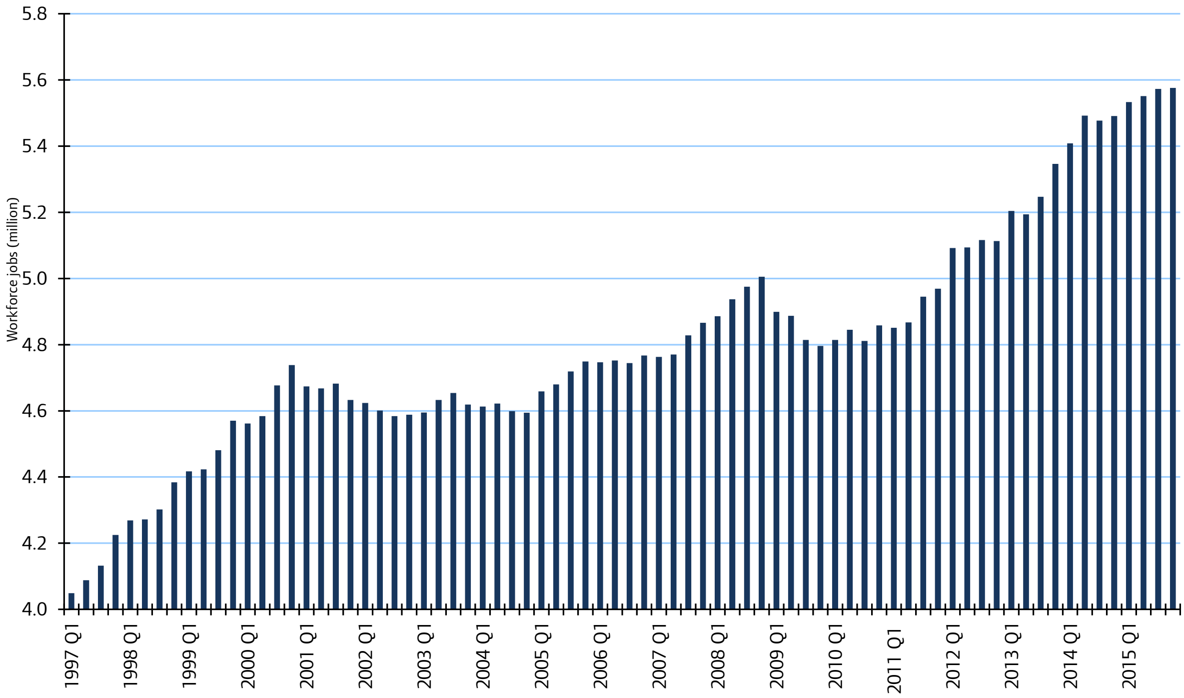
In the year to Q4 2015, there has been a 1.5 per cent increase in the number of workforce jobs in London (see Figure 3.2), with the total number of workforce jobs in the capital standing at 5.576 million, a record high (see Figure 3.3). London's employment rate (ie, the proportion of London's resident working age population in employment) stands at a record level compared with any time since the series began in 1992. In the period January – March 2016, London's employment rate stood at 73.2 per cent, up by 1.1 percentage points on the year; for the UK the rate stood at 74.2 per cent, an increase of 0.7 percentage points on the year. London's ILO unemployment rate is down 0.5 percentage points on the year, standing at 5.8 per cent in the three months to March; this compares to an ILO unemployment rate for the UK as a whole of 5.1 per cent, also down 0.5 percentage points on the year.

Figure 3.2: London civilian workforce jobs (annual percentage change)
Last data point is Q4 2015



Source: Office for National Statistics

Figure 3.3: London civilian workforce jobs (level)
Last data point is Q4 2015

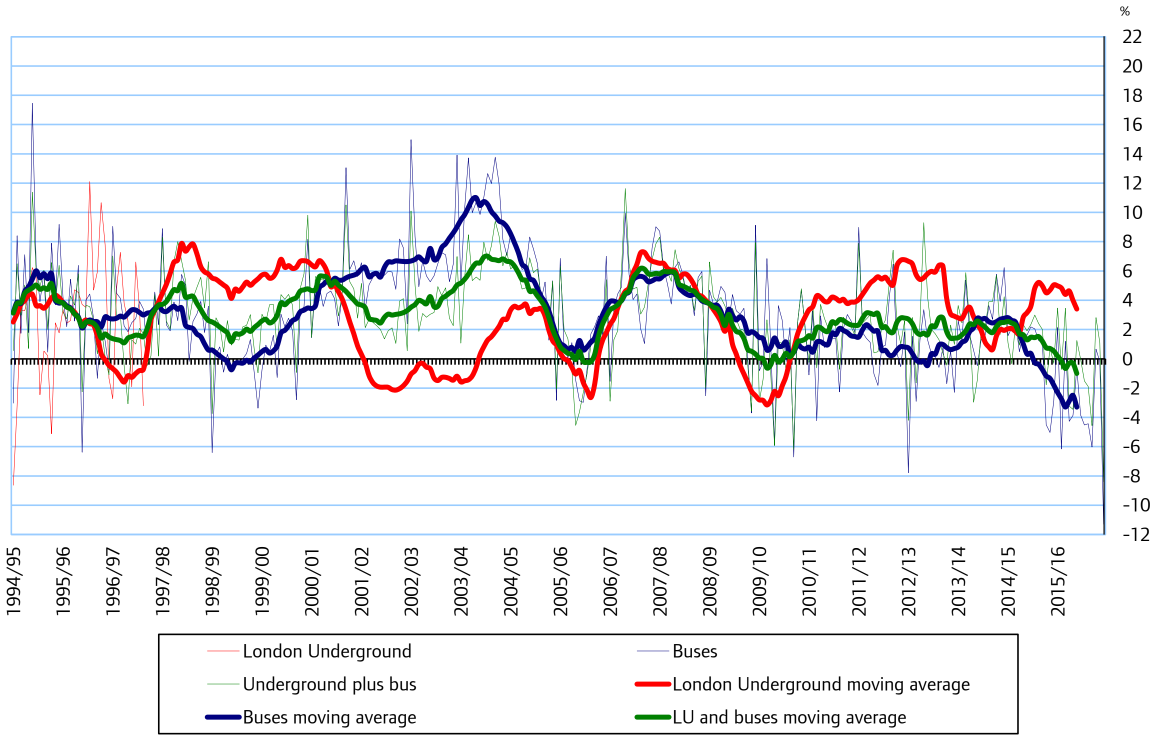


Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.4 shows that there is positive and relatively strong annual growth in the moving average of underground usage but that the moving average of bus usage remains negative (this may reflect the impact of increased congestion on London's roads making certain bus journeys inefficient to take).

Figure 3.4: London public transport usage

Annual % change in passengers using London Underground and buses (adjusted for odd days). Last data point is the 26-day period ending 31/3/2016

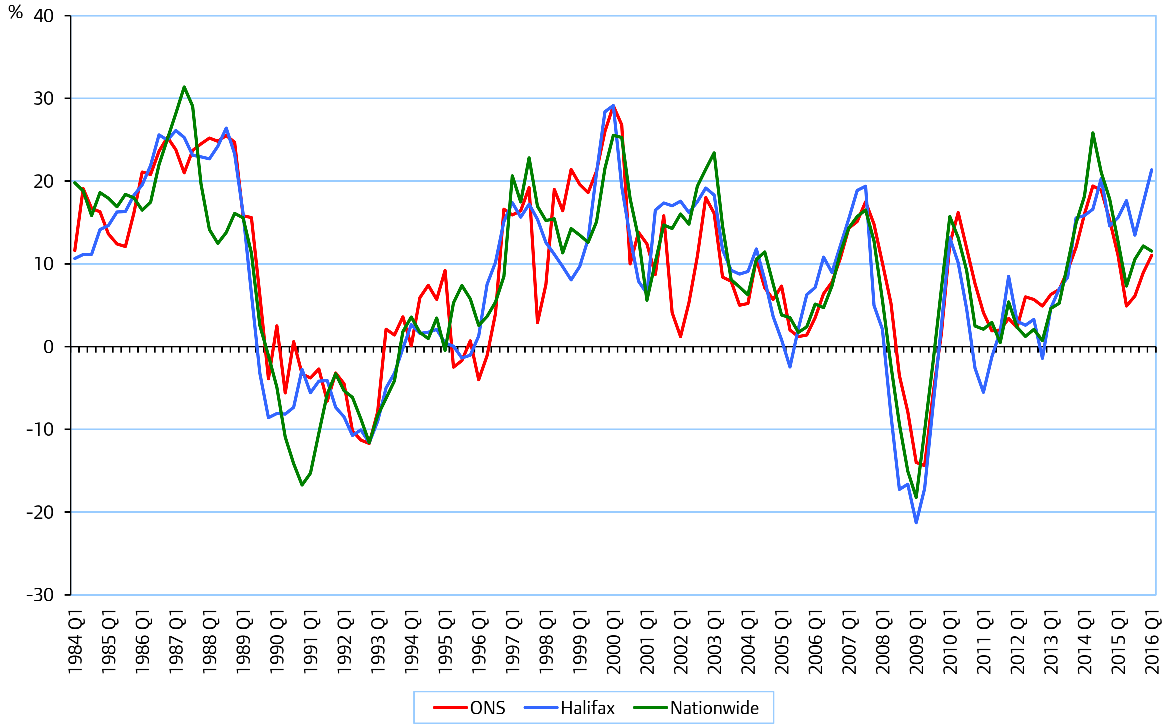


Source: Transport for London

There remains evidence of a slowdown in the housing market in London over the course of 2015 and the beginning of 2016 compared with that seen in 2014, as measured by the ONS and Nationwide, although the Halifax's measure slightly contradicts this picture, and a slight uptick was seen in all measures at the end of 2015 (see Figure 3.5). More timely data from the Royal Institution of Chartered Surveyors (RICS) Residential Market Survey showed that after rising for most of 2015, by April 2016 both the current measure of house prices and the expectation of future price were negative, with a net balance of surveyors in London as a whole reporting both falling house prices and expecting house prices to continue to fall. As of Q1 2016, annual house price inflation in London remains higher than in the UK with it estimated as standing between 21.4 and 11.0 per cent across the three measures for London; while estimates for the UK stand between 10.1 and 5.3 per cent.

Figure 3.5: House price inflation in London

Annual % change, last data point is Q1 2016

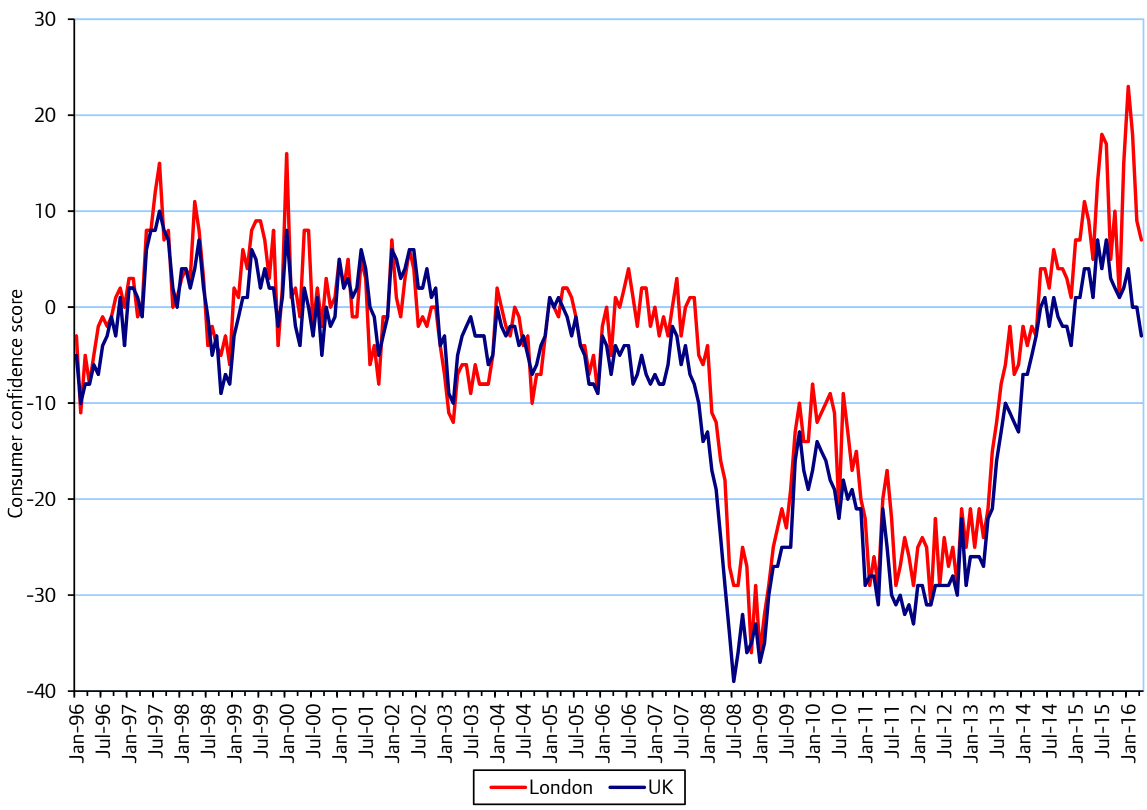


Sources: Office for National Statistics, Halifax house price index, Nationwide

Knight Frank's Q1 2016 'Central London Quarterly' for commercial property found that "take-up in Central London totalled 3.1 m sq ft in the first quarter, marginally lower than the long-term average. Technology, media and telecoms was the most active sector accounting for 34 per cent of all leasing activity". In the West End the "take-up in the first quarter of 2016 fell to 923,000 sq ft, the second lowest result since 2012. This was primarily due to a decline in take-up of new and refurbished space", while "over the course of Q1 2016, availability in the West End increased by 56 per cent to 4.9 m sq ft. This is mainly attributable to a number of schemes due for completion in Q3 2015 entering the supply figures", and "investment turnover in the first quarter of 2016 noticeably slowed to £980 m from a record high result in the final quarter of 2015. However, volumes were down a minor 5 per cent from the corresponding quarter in 2015 and were 16 per cent above the long term average". In the City "take-up totalled 1.8 m sq ft in the first quarter, down 13 per cent on the previous quarter but in-line with long-term average levels and a sentiment that remains solid", while "availability across the City fell by 10 per cent from 5.9 m sq ft to 5.4 m sq ft in the first quarter. Levels of supply are now 43 per cent below the long-term average of 9.5 m sq ft. The vacancy rate contracted to 4.6 per cent over the quarter, its lowest level since Q2 2001", although "investment turnover in the first quarter totalled £1.2 bn, 37 per cent below the long-term average level and the lowest for two years. However, there are five buildings totalling more than £1.8 billion, which have been under offer since the end of 2015 and are due to transact soon". In relation to Docklands they observed that "there was a strong start to the year in the Docklands market as 361,382 sq ft was transacted, well above the long-term average of 257,000 sq ft", and "Docklands availability fell for the sixth consecutive quarter to 708,107 sq ft, a fall of almost 50 per cent year-on-year and more than 50 per cent below the long-term average. The vacancy rate is now 3.5 per cent for the wider Docklands market, and 3.3 per cent in Canary Wharf" [18].

Data from the UK Consumer Confidence Barometer, produced by GfK-NOP (Figure 3.6) shows that consumer confidence in London improved significantly in 2013 and turned positive in the middle of 2014 for London. Consumer confidence in London then increased further in 2015, before hitting a high in January 2016 and then moderating with confidence in London standing at 7 in April, while for the UK as a whole it stood at -3. The index 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.

Figure 3.6: UK Consumer Confidence Barometer
Consumer confidence score, last data point is April 2016

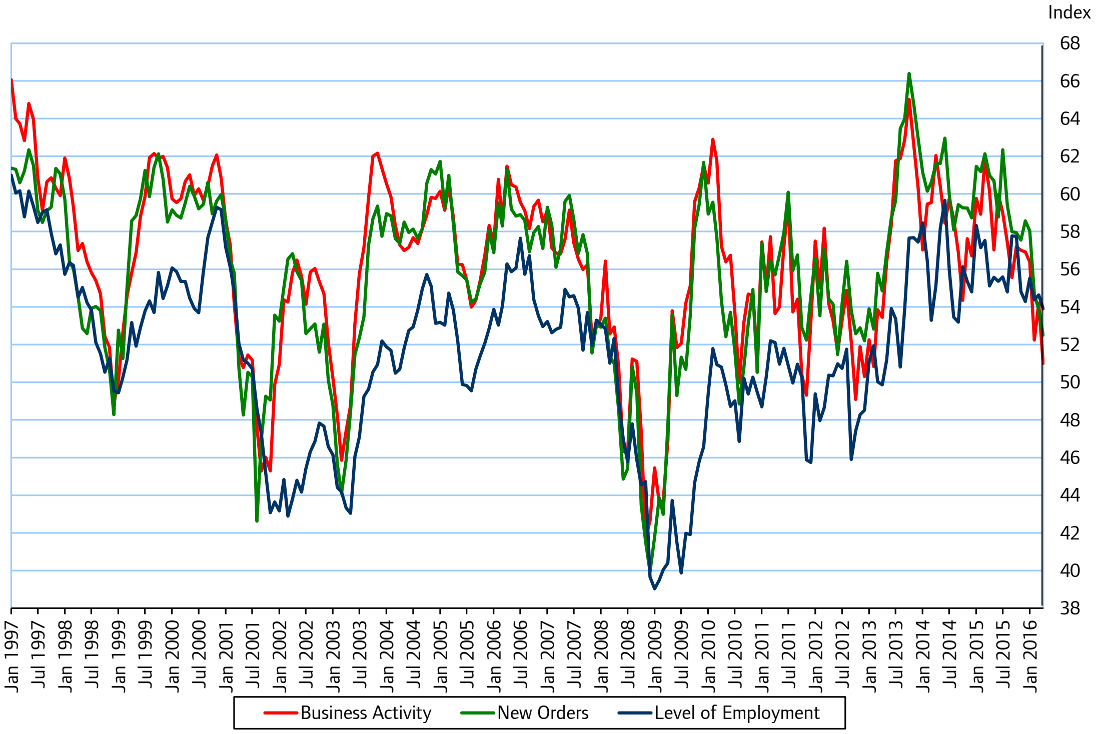


Sources: GfK NOP on behalf of the European Commission

The Purchasing Manager's Index (PMI) business survey indicates that business activity has been expanding since May 2009 (apart from the months of August 2010, November 2011 and October 2012) and new orders are also increasing. Employment in London firms, after falling in April 2013, has been rising consistently since then (see Figure 3.7).

[18] Knight Frank, May 2016, 'Central London Quarterly – Offices Q1 2016'.

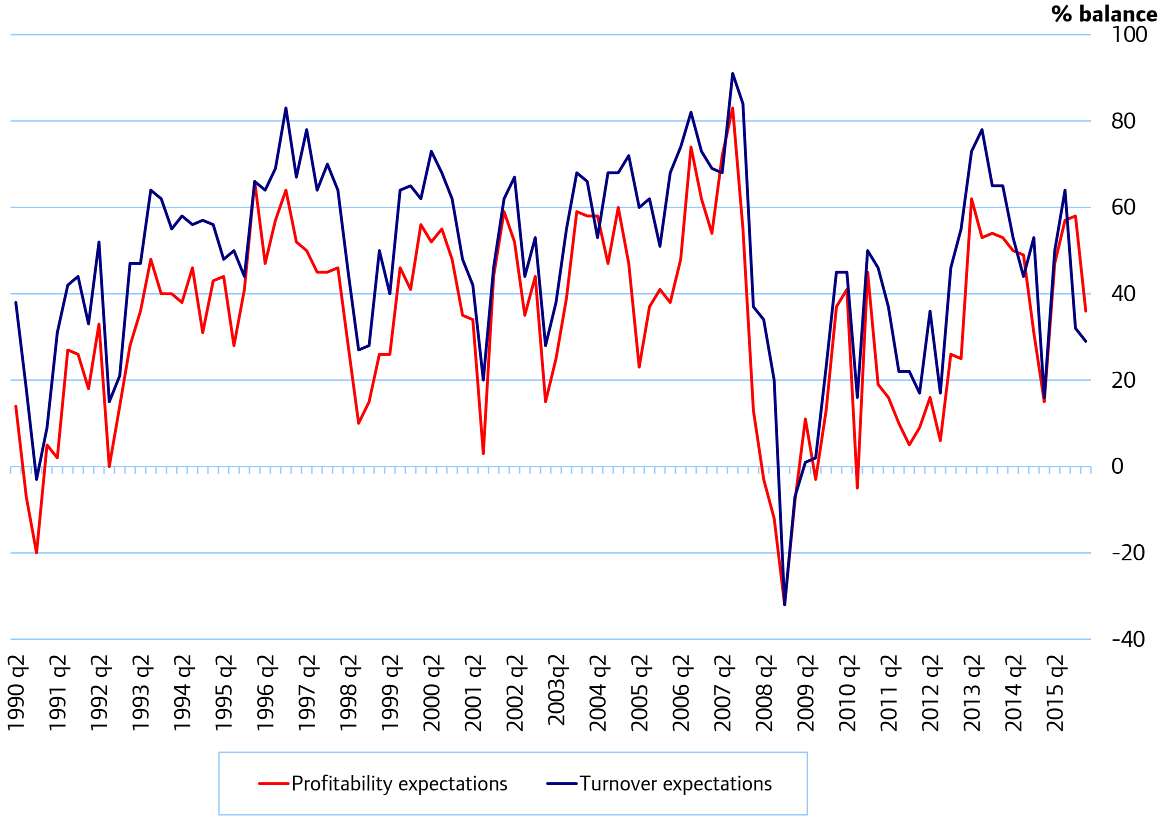
Figure 3.7: Recent survey evidence on London's economic climate
Purchasing Manager's Index (PMI) survey, last data point April 2016
Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Markit Economics

The British Chamber of Commerce survey of profitability and turnover expectations in services for the next 12 months for London (Figure 3.8) was volatile over 2015 and into 2016 with it declining in the first quarter of 2016, although it still remains well above the levels seen in periods of economic downturn.

Figure 3.8: Services profitability and turnover expectations in London for the next 12 months
Last data point is Q1 2016. The balance of businesses in services in London who believe their profitability and turnover will improve in the next 12 months



Source: British Chamber of Commerce

3.2 The UK economy

The Office for National Statistics (ONS) estimates that the UK economy continued to grow in the first quarter of 2016, but at a slower rate than in the previous quarter. Having grown by 0.6 per cent in Q4 2015, output rose by 0.4 per cent in Q1 2016, which is the thirteenth consecutive quarter of rising UK output. UK output was 2.1 per cent higher in Q1 2016 than in Q1 2015. GDP is now 7.3 per cent above its peak of Q1 2008 (from the peak in Q1 2008 to the trough in Q2 2009, GDP decreased by 6.1 per cent) [19]. The International Monetary Fund (IMF) now forecasts that the UK economy will grow by 1.9 per cent in 2016 (a 0.3 per cent downgrade on their January forecast) and by 2.2 per cent in 2017 [20]. Table 3.1 shows a summary of forecasts for the UK economy.

[19] ONS, 27 April 2016, 'Gross Domestic Product Preliminary Estimate: January to March 2016'.
[20] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.

Table 3.1: Office for Budget Responsibility and HM Treasury consensus forecasts for the UK economy
Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Budget March 2016	
	2016	2017	2016	2017
GDP growth (per cent)	1.9	2.1	2.0	2.2
Claimant unemployment (mn)	0.74	0.72	0.75	0.78
Current account (£bn)	-92.5	-85.5	-80.3	-75.1
PSNB (2016-17; 2017-18: £bn)	61.0	46.5	55.5	38.8

Note: mn = million, bn = billion
Sources: HM Treasury Comparison of Independent Forecasts, May 2016.
Office for Budget Responsibility, Economic and fiscal outlook, March 2016.

As can be seen in Table 3.2 annual growth was positive in Q1 2016 in most sectors except Manufacturing; Electricity gas and water supply; and Construction. Strong growth is observed in most service sectors, specifically Distribution, hotels and catering; and Transport, storage and communication. Business services and finance (a sector of importance for London) showed 2.0 per cent annual growth in Q1 2016 in keeping with the slower annual growth seen over the second half of 2015. In line with forecasts of the UK economy, it is expected that growth will continue throughout 2016 across the majority of sectors.

Table 3.2: Recent growth in broad industrial sectors of the UK economy
Annual % change

	2014		2015				2016
Industrial sectors	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Agriculture, forestry, and fishing	14.3%	15.1%	3.0%	1.8%	0.0%	-2.0%	1.0%
Mining & quarrying inc oil & gas extraction	-4.3%	-2.5%	-0.5%	6.8%	12.2%	9.2%	5.4%
Manufacturing	2.8%	2.7%	1.0%	0.0%	-1.0%	-1.1%	-1.3%
Electricity gas and water supply	-0.1%	-4.1%	3.1%	-0.2%	-2.1%	-1.7%	-3.2%
Construction	7.8%	6.2%	6.2%	5.3%	1.3%	1.0%	-1.8%
Distribution hotels and catering	4.2%	5.2%	4.8%	4.7%	4.7%	4.6%	4.9%
Transport, storage and communication	3.9%	5.0%	5.0%	4.2%	4.0%	4.1%	4.2%
Business services and finance	3.6%	4.1%	3.5%	2.8%	2.5%	2.0%	2.0%
Government and other services	2.0%	1.3%	0.6%	0.4%	0.7%	1.2%	1.6%

Source: Office for National Statistics (as of 27 April 2016)

Table 3.3 shows that household annual spending growth was positive and strong throughout the sample period, whilst all other measures were positive in Q4 2015. Investment, however, moderated to an extent in the second half of 2015. Looking forward, investment is likely to remain positive.

Table 3.3: UK domestic expenditure growth
Annual % change

	2014			2015			
Expenditure	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Households	2.9%	2.7%	2.5%	2.9%	2.9%	3.1%	3.1%
Non-profit institutions	2.3%	0.0%	-1.5%	-1.1%	0.6%	1.2%	3.2%
General Government	2.8%	2.4%	1.9%	1.2%	1.4%	1.7%	2.5%
Gross fixed capital formation	8.6%	7.4%	5.3%	6.1%	5.0%	2.9%	2.7%

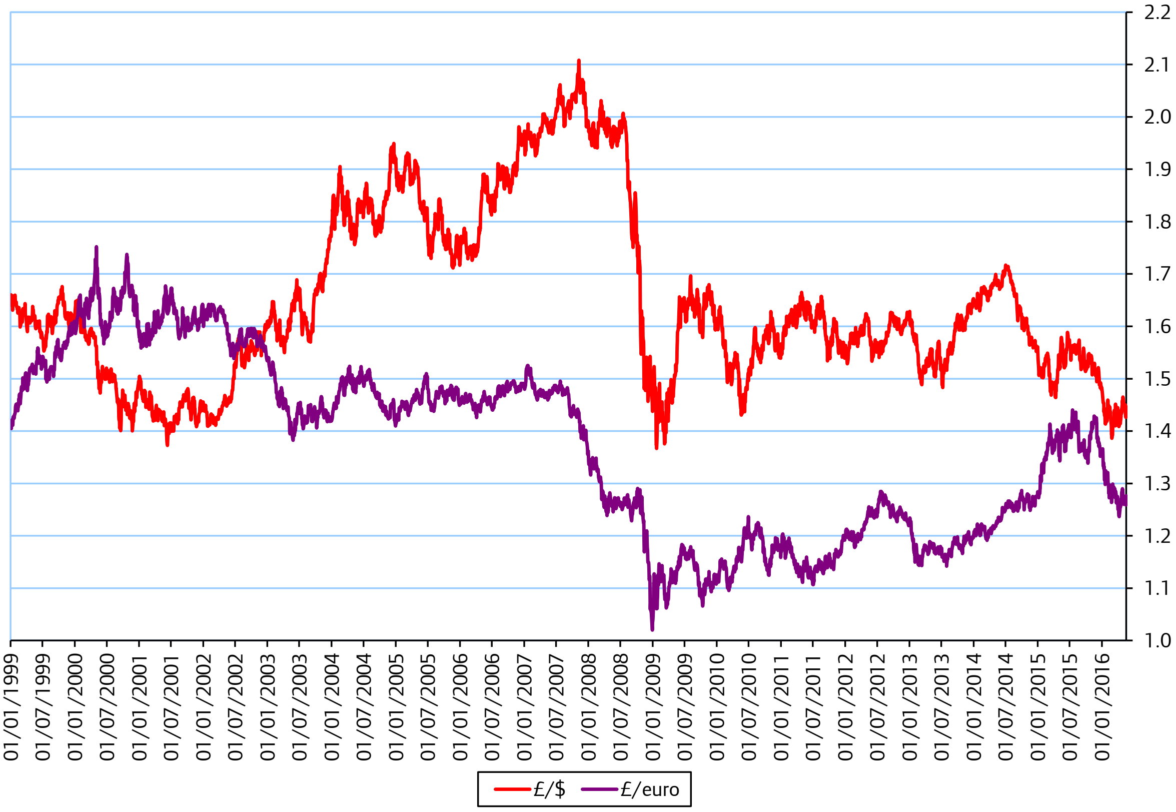
Source: Office for National Statistics (as of 27 April 2016)

Inflation remained very low throughout 2015, although it picked up slightly into 2016 with Consumer Price Index (CPI) inflation standing at 0.3 per cent in April 2016, after hovering slightly above zero for the first few months of 2016. The ONS observed that "from late 2015, the rate began to increase gradually from close to zero. The drop in April 2016 is the first fall since September 2015. Falls in air fares and prices for clothing, vehicles and social housing rent were the main contributors to the decrease in the rate"[21], with the drop in airfares being attributed to the timing of Easter. The Bank of England in their May 2016 Inflation Report observes that the Bank's MPC believes that "as the dampening influence of past falls in energy and food prices unwinds over the next year, inflation should rise mechanically". They further expect that "spare capacity is projected to be eliminated by early next year, increasing domestic cost pressures and supporting a return of inflation to the 2% target by mid-2018. Thereafter, as in the February Inflation Report, inflation is forecast to rise slightly above the target, conditioned on the path for Bank Rate implied by market rates"[22]. Box 3.1 examines UK inflation and monetary policy in more detail.

Having seen large movements in the exchange rate over the end of 2014 and through 2015, due to external factors such as the expectation of an imminent rise in US interest rates and the ongoing weakness in the Eurozone, in 2016 so far sterling's exchange rate has seen further movement with it depreciating against both the euro and dollar (see Figure 3.9). This depreciation is seen against a number of currencies, and follows on from a period where sterling had rebounded from the sharp depreciation of 2008/09 as is shown by the sterling effective exchange rate index (EERI) (see Figure 3.10). This depreciation of sterling, if it were to remain for some time, may help exporters, make the UK a more attractive tourist location, and may thus help address the UK's large current account deficit whilst providing a boost to the overall economy.

[21] ONS, 17 May 2016, 'Consumer Price Inflation: Apr 2016'.
[22] Bank of England, 12 May 2016, 'Inflation Report: May 2016'.

Figure 3.9: £ to $ and £ to euro exchange rates
Last data point is 17/5/2016



Source: Bank of England

Figure 3.10: Sterling EERI rate
Last data point is 17/5/2016

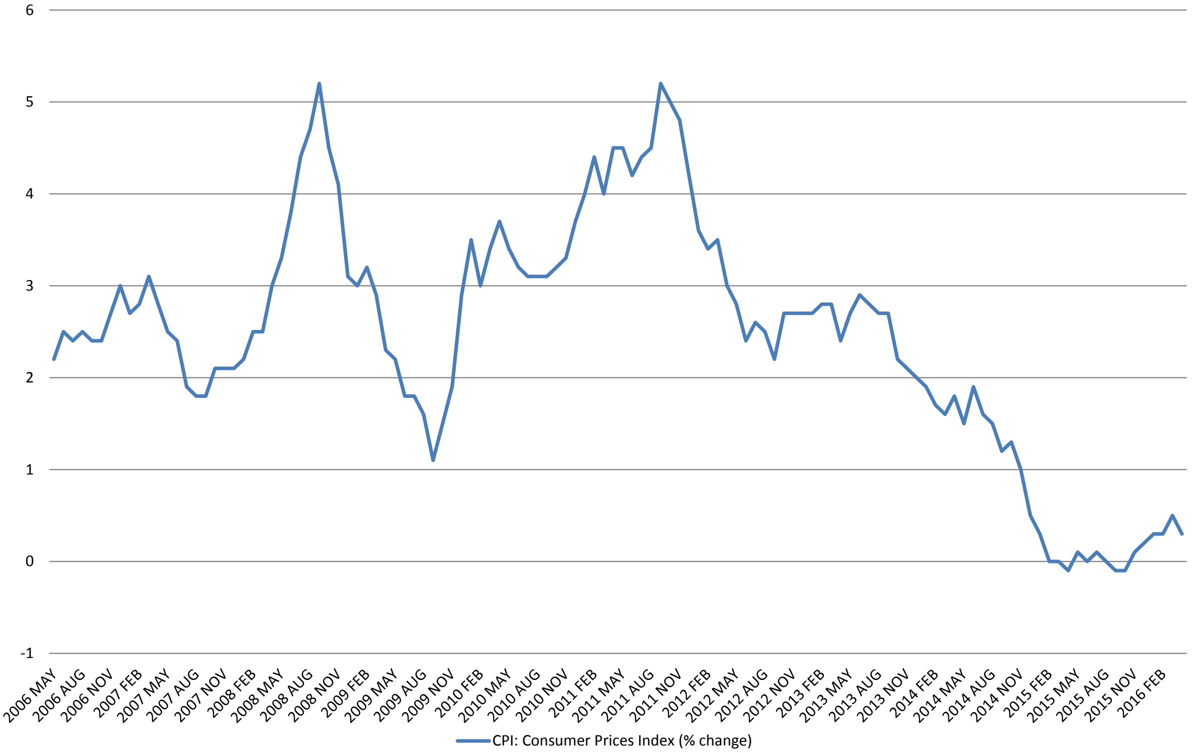
Source: Bank of England

Box 3.1 Seven years of low interest rates in the UK

The downside risks from deflation - or protracted low levels of inflation - in the UK economy continue into 2016, but at a reduced level to that seen during 2015.

Inflation fell to 0.3 per cent in April 2016, down from 0.5 per cent in March, as shown in Figure 3.11, with the March rate being the highest inflation rate since December 2014 and was largely the result of upward pressure from the cost of housing and utilities. Despite the drop in April, in part due to the timing of Easter, forecasters predict that inflation will start to pick up further during 2016 as the dampening effect of past falls in energy and food prices starts to unwind, allowing inflation to rise mechanically. However, GDP growth slowed in 2015 from the recent high of 0.7 per cent growth we saw in Q4 2014. GDP growth has softened further in 2016 Q1 and is predicted to slow even further into Q2.

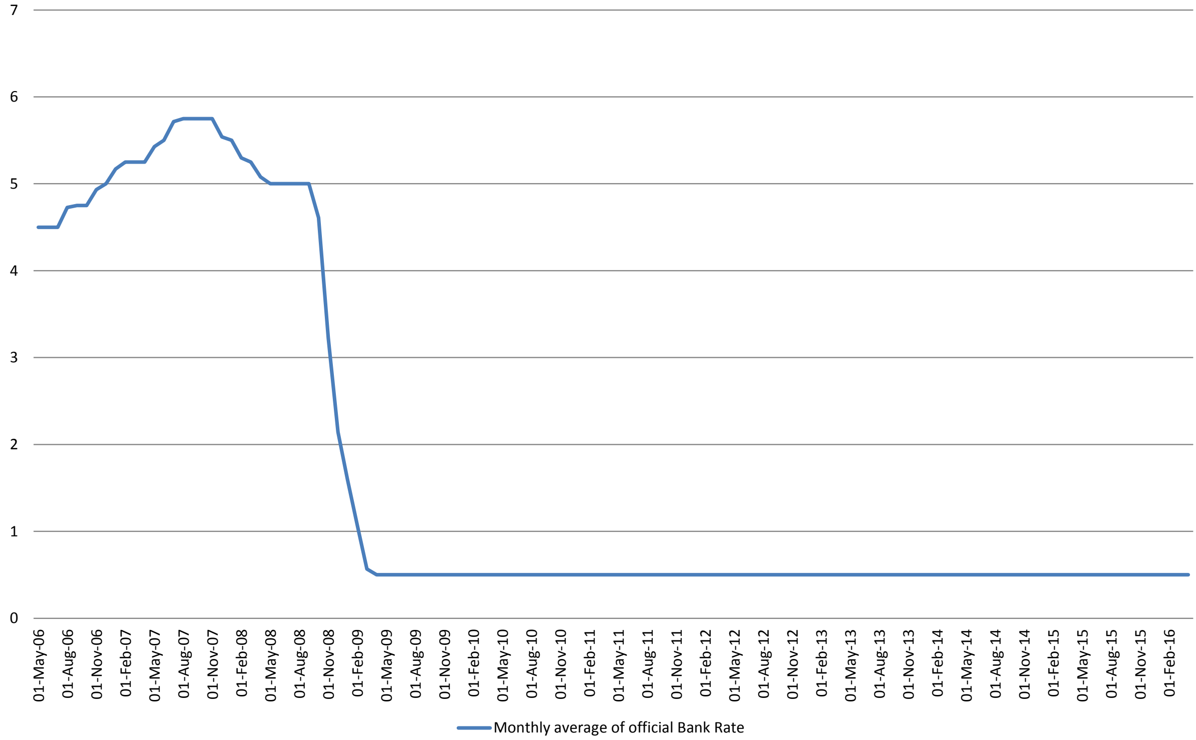
Figure: 3.11: CPI 12-month inflation rate for the last 10 years (per cent)
Last data point is April 2016



Source: Office for National Statistics

Despite inflation generally rising slightly in recent months it is unlikely that the UK will see a return to more historically normal monetary policy any time soon. In 2008, at the start of the global financial crisis, interest rates were at 5 per cent. Since this time, the Bank of England has cut rates dramatically, hitting 0.5 per cent by March 2009 (see Figure 3.12). At this time, unemployment was still rising, and business and consumer confidence in the economy was depressed, which led to the introduction of a programme of quantitative easing (QE) to kick-start the economy; this involved an initial injection of £75 billion, but quickly rose to £375 billion. Monetary policy will likely stay this way until the present risks to the UK economy subside.

Figure 3.12: Official bank rates for the last 10 years per cent
Last data point is 17 May 2016



Source: Bank of England

Inflation is still significantly below the Bank of England's central symmetrical target of 2 per cent (+/- 1 per cent) and further deflationary shocks cannot be ruled out. Inflation remains weak around the world, standing at 1.1 per cent in the US, and -0.2 per cent in the Euro area in April. Inflation forecasts for the UK by the Bank of England have been revised downwards in 2016, from 0.7 per cent to 0.4 per cent. Inflation is now expected to reach 1.5 per cent by Q2 2017, and meet the central symmetrical target by 2018.

In his latest letter to the Chancellor, the Governor of the Bank of England gave the underlying causes of the below-target inflation over the last year as being: 'sharp falls in commodity prices'; 'the past appreciation of sterling', and 'the subdued pace of domestic cost growth'[23]. Looking forward, uncertainty over Brexit – the MPC cites the EU referendum as the most significant risk to the current forecast - as well as the substantial falls in the price of oil and other commodities are causes for concern, and while global growth is expected to pick up, this will be at below past average rates. This reflects the steady but softened growth in advanced economies, coupled with only a modest recovery in emerging economies, including China.

Examining risks to the economy in more detail, the Bank of England's most recent Inflation Report, published in May, said that 'a vote to leave the EU could materially alter the outlook for output and inflation, and therefore the appropriate setting on monetary policy'[24]. Households could opt to defer consumption and firms delay investment, resulting in a lower demand for

[23] Carney, M., 12 May, 'Letter from the Governor to the Chancellor'. Bank of England.
[24] Bank of England, Inflation Report, May 2016, p. ii.

labour and a short-term rise in unemployment (the UK unemployment rate is already at 5.1 per cent, putting pressure on rates to rise). The depreciation of sterling could continue further (it is currently down around 8 per cent on its November peak), perhaps quite sharply in the immediate term. Should these changes come into play, the UK could see a notably lower path for growth and higher path for inflation than current predictions suggest.

Given the low level of inflation, risks posed by the referendum, and sluggish global growth generally, it appears increasingly unlikely that we will see an interest rate rise during 2016. In fact the Inflation Report notes that the market expects that the Bank Rate could fall over the course of 2016, before returning to current rates in Q2 2017, and then climb further by the end of 2018 (however the size of this rise was downwardly revised from the markets expectations used in the February Inflation Report).

Still, the May Inflation Report noted that the Bank Rate will need to be higher by the end of the forecast period than the rate currently expected by the markets, in order to assure that 'inflation returns to target in a sustainable manner'. All MPC members were in agreement that 'given the likely headwinds weighing on the economy', when the Bank Rate does finally start to rise, it will necessarily be much more gradual, and 'to a lower level than in recent cycles'[25]. This is a view that has previously been iterated in the August and November Inflation Reports.

3.3 The world economy

In April, the IMF released their latest World Economic Outlook[26], in which they forecast that the world economy will grow by 3.2 per cent for 2016, and 3.5 per cent for 2017 (downward revisions of 0.2 and 0.1 per cent respectively compared to their January forecast). Advanced economies are forecast to grow by 1.9 per cent in 2016 and 2.0 per cent in 2017 (downgrades of 0.2 and 0.1 per cent respectively), with the US forecast to grow by 2.4 per cent this year and 2.5 per cent next year (downgrades of 0.2 and 0.1 per cent respectively), while the Eurozone is forecast to grow by 1.5 per cent in 2016 and 1.6 per cent in 2017 (also downgrades of 0.2 and 0.1 per cent respectively)

In relation to their forecast the IMF noted that "the global recovery has weakened further amid increasing financial turbulence. Activity softened toward the end of 2015 in advanced economies, and stresses in several large emerging market economies showed no signs of abating. Adding to these headwinds are concerns about the global impact of the unwinding of prior excesses in China's economy as it transitions to a more balanced growth path after a decade of strong credit and investment growth, along with signs of distress in other large emerging markets, including from falling commodity prices. With heightened risk aversion and increasing concerns about the lack of policy space, the valuation of risky assets as well as oil prices dropped sharply in early 2016. However, market sentiment began to improve in mid-February, and by the end of March market valuations had recovered most of or all the ground lost earlier in the year". With them further observing that "while growth in emerging market and developing economies still accounts for the lion's share of projected world growth in 2016, prospects across countries remain uneven and generally weaker than over the past two decades". They also noted that "growth in advanced economies is projected to remain modest, in line with 2015 outcomes. Unfavourable demographic trends, low productivity growth, and legacies from the global financial crisis continue to hamper a more robust pickup in activity.

[25] Bank of England, Inflation Report, May 2016, p. i.
[26] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.

While very accommodative monetary policy and lower oil prices will support domestic demand, still-weak external demand, further exchange rate appreciation—especially in the United States—and somewhat tighter financial conditions will weigh on the recovery. In the euro area, the risk of a de-anchoring of inflation expectations is a concern amid large debt overhangs in several countries" [27].

The IMF also published their Global Financial Stability Report in April, which observed that "risks to global financial stability have increased since the October 2015 Global Financial Stability Report. In advanced economies, the outlook has deteriorated because of heightened uncertainty and setbacks to growth and confidence. Disruptions to global asset markets have added to these pressures. Declines in oil and commodity prices have kept risks elevated in emerging market economies, while greater uncertainty about China's growth transition has increased spill overs to global markets. These developments tightened financial conditions, reduced risk appetite, raised credit risks, and stymied balance sheet repair, undermining financial stability". They also warn that "additional measures are needed to deliver a more balanced and potent policy mix for improving the growth and inflation outlook and securing financial stability. In the absence of such measures, market turmoil may recur. In such circumstances, rising risk premiums may tighten financial conditions further, creating a pernicious feedback loop of fragile confidence, weaker growth, lower inflation, and rising debt burdens. Disruptions to global asset markets could increase the risks of tipping into a more serious and prolonged slowdown marked by financial and economic stagnation. In a situation of financial stagnation, financial institutions responsible for the allocation of capital and mobilization of savings might struggle with impaired balance sheets for an extended period of time. Financial soundness could become eroded to such an extent that both economic growth and financial stability are adversely affected in the medium term. In such a scenario, world output could fall by 3.9 per cent relative to the baseline by 2021". They thus suggest that "policymakers need to build on the current economic recovery and deliver a stronger path for growth and financial stability by tackling a triad of global challenges— legacy challenges in advanced economies, elevated vulnerabilities in emerging markets, and greater systemic market liquidity risks. Progress along this path will enable the world's economies to make a decisive break toward a strong and healthy financial system and a sustained recovery. In such a scenario, world output could expand by 1.7 percent relative to the baseline by 2018" [28].

The **US** economy continues to grow although at a slower rate than seen at the end of 2015 with output increasing by an annualized rate of 0.5 per cent in Q1 2016, after increasing by an annualised rate of 1.4 per cent in Q4 2015 [29]. US consumer confidence dropped in April after increasing slightly in March [30]; still the US economy continues to create jobs with it adding 160,000 jobs in April, with unemployment standing at 5.0 per cent [31]. Interest rates in the US were raised in December 2015 by 0.25 per cent to between 0.25 to 0.5 per cent from the near zero rate of between 0 to 0.25 per cent that had held since December 2008. Most evidence continues to point towards a continued expansion of the US economy, but at perhaps a more moderate pace. This is shown by the April 2016 Beige Book from the Federal Reserve which stated that "reports from the twelve Federal Reserve Districts suggest that national economic

[27] Ibid.
[28] IMF, April 2016,'Global Financial Stability Report: Potent Policies for a Successful Normalization'.
[29] Bureau of Economic Analysis, 28 April 2016, 'National Income and Product Accounts: Gross Domestic Product: First Quarter 2016 (Advance Estimate)'.
[30] The Conference Board, 26 April 2016, 'The Conference Board Consumer Confidence Index Declined in April'.
[31] Bureau of Labor Statistics, 6 May 2016, 'News Release: The Employment Situation – April 2016'.

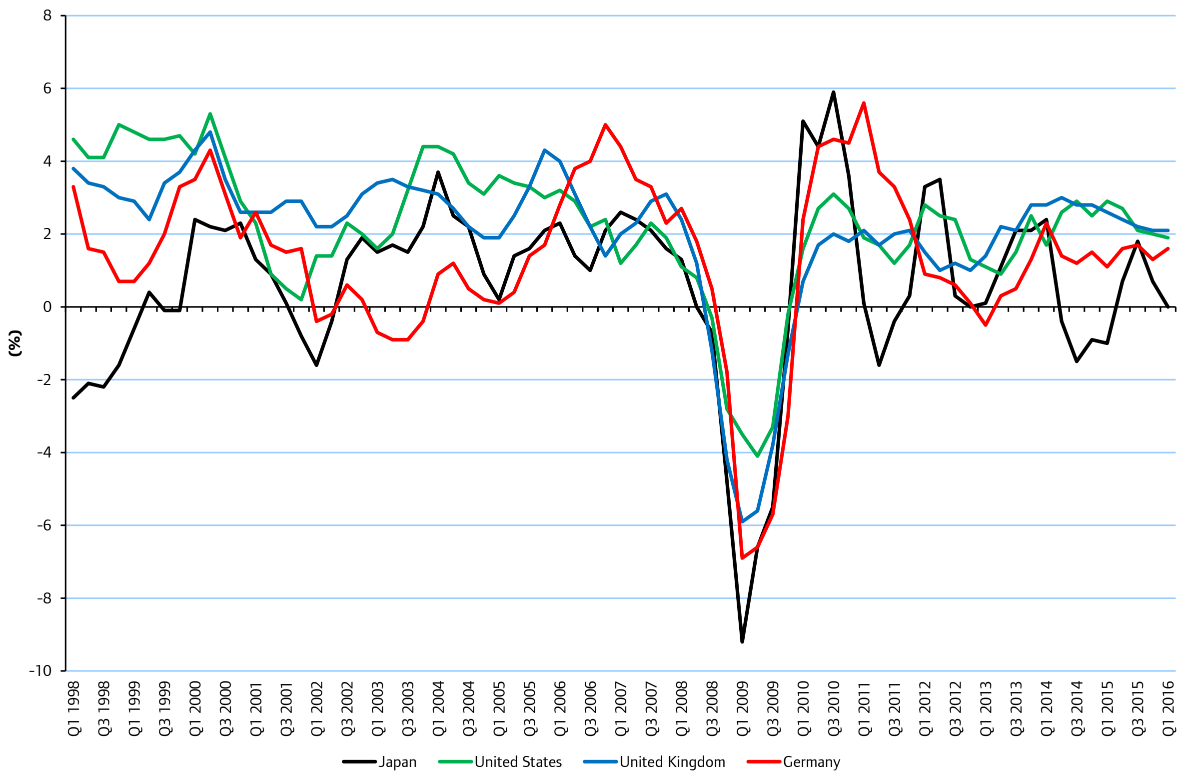
activity continued to expand in late February and March, though the pace of growth varied across Districts. Most Districts said that economic growth was in the modest to moderate range and that contacts expected growth would remain in that range going forward"[32].

Despite its economy expanding over the final half of 2015 and into 2016 the **Eurozone** remains a very large downside risk to the UK economy with commentators highlighting a number of issues that could reignite the problems within the Zone (see Box 3.2). Still, at an aggregate level growth in the Eurozone continues and has picked up, with output growth standing at 0.5 per cent in Q1 2016 compared to 0.3 per cent in Q4 2015[33]. However, unemployment although falling remains high at 10.2 per cent in March 2016, with unemployment being very high in both Greece and Spain where it currently stands at above 20 per cent[34]. Inflation has again turned negative with it standing at -0.2 per cent in April 2016, down from 0.0 per cent in March[35].

Japan's economy avoided re-entering recession with output expanding in the first quarter of 2016 by 0.4 per cent after falling by 0.4 per cent in Q4 2015; however the Tankan survey of business conditions in the first quarter showed that conditions and sentiment among big manufacturers had hit a three year low. Inflation also remains low and has led the Bank of Japan to introduce negative interest rates. The IMF's latest forecast for GDP growth has also been downwardly revised to 0.5 per cent growth in 2016 and -0.1 per cent growth in 2017 (declines of 0.5 and 0.4 per cent respectively on their January forecast)[36].

[32] The Federal Reserve Board, 11 April 2016, 'The Beige Book: Summary of Commentary on Current Economic Conditions by Federal Reserve District'.
[33] Eurostat, 13 May 2016, 'Flash estimate for the first quarter of 2016: GDP up by 0.5% in both the euro area and the EU28'.
[34] Eurostat, 29 April 2016, 'March 2016: Euro area unemployment down to 10.2%'.
[35] Eurostat, 18 May 2016, 'April 2016: Annual inflation down to -0.2% in both euro area and EU'.
[36] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.

Figure 3.13: GDP growth in selected industrialised countries
Real GDP, growth rate compared to same quarter of previous year, last data point is Q1 2016



Source: OECD

Box 3.2: Concerns around debt in the Eurozone

Since the publication of the November 2015 LEO, growth has continued in the Eurozone and unemployment continues to fall (albeit from a high level). However, the economic situation within the Eurozone remains weak which has precipitated further monetary responses from the European Central Bank (ECB) with it deciding to cut its benchmark interest rate to 0 per cent from 0.05 per cent on 10 March. It further announced that it would expand its QE programme from €60 billion to €80 billion a month and will now include the purchase of corporate bonds. This followed on from its decision in December 2015 to extend QE to at least the end of March 2017. The president of the ECB Mario Draghi observed in March that "the risks to the euro-area growth outlook remain tilted to the downside" [37], while the governing council of the ECB expects interest rates "to remain at present or lower levels for an extended period of time" [38].

Low inflation also remains a concern, with the European Commission in its spring 2016 forecast observing that "sluggish core inflation reflects the slack still present in the economy" [39]. With it further stating that "oil prices fell again at the start of 2016, dragging inflation below zero. It is expected to remain negative in the near term as a result of base effects. External price pressure is also weak due to the slight appreciation of the euro and overcapacities in several emerging market economies that are holding back global producer prices. At the same time, core inflation

[37] Draghi, M., & Constâncio, V., 10 March 2016, 'Introductory statement to the press conference (with Q&A)'. European Central Bank.
[38] Ibid.
[39] European Commission, May 2016, 'European Economic Forecast: Spring 2016'.

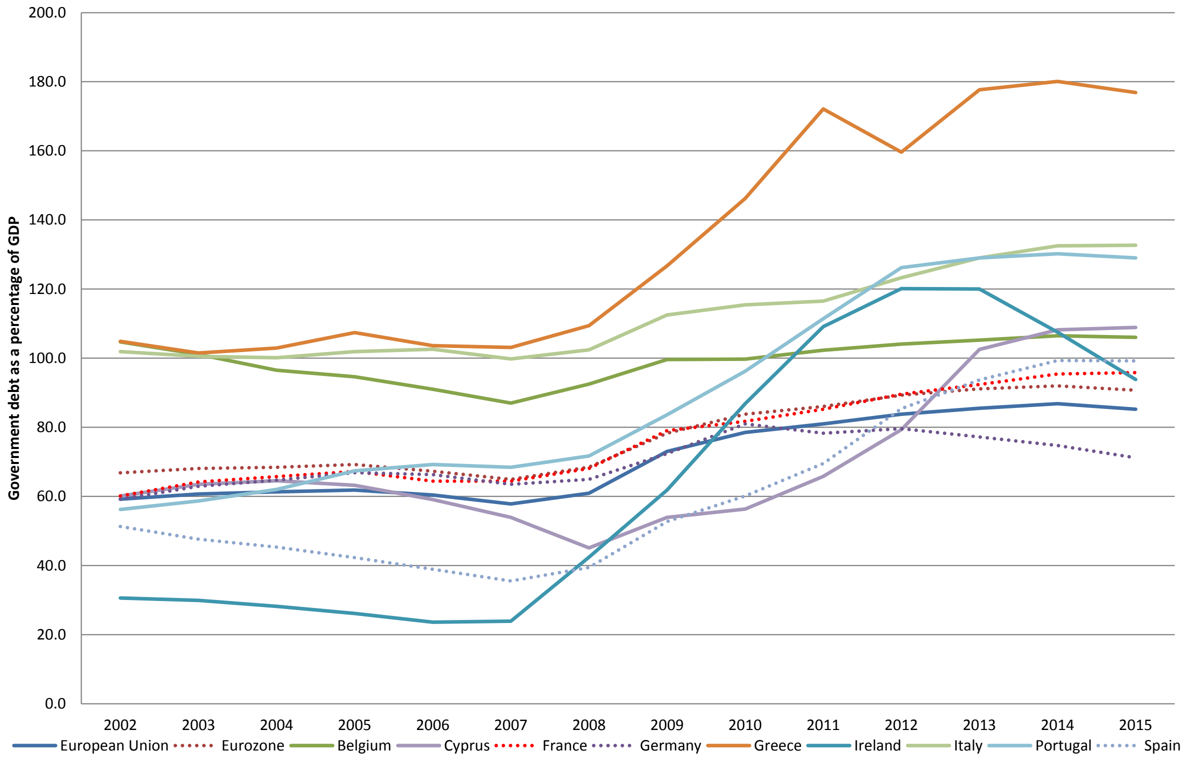
has so far failed to show an upward trend, as moderate economic growth and subdued wage developments have kept a lid on domestic price dynamics. Inflation in the euro area is therefore set to remain very low for longer than previously forecast"[40]. Accordingly it has downgraded its forecast for inflation in the Eurozone in 2016 to 0.2 per cent, with inflation in 2017 expected to reach 1.4 per cent.

The long-term sustainability of the current bailout programme for Greece had also been called into question. In particular the requirement that the Greek government reaches a primary budget surplus (a surplus minus interest payments) of 3.5 per cent by 2018, with surpluses of 0.5 per cent in 2016 and 1.75 per cent in 2017 is seen as tough given the long period of economic decline and stagnation Greece has experienced. Thus in relation to this Christine Lagarde, the head of the IMF observed in April that "we find highly unrealistic … the assumption that this primary surplus of 3.5 per cent can be maintained over decades. That just will not happen. So, that is where I draw the line between the short-term objectives and the medium- to long-term similar objectives"[41]. While a letter from the IMF to Eurozone finance ministers which was leaked to the press in May further cast doubt on their long-run involvement in the bailout with them arguing that "for us to support Greece with a new IMF arrangement, it is essential that the financing and debt relief from Greece's European partners are based on fiscal targets that are realistic because they are supported by credible measures to reach them"[42]. However, early on 25 May the IMF and Eurozone finance ministers agreed a number of concessions to restructure Greek debt after 2018 when its current bailout ends, although as of yet no figures have been put on these measures which will be decided later by Eurozone countries.

While the risk of an imminent problem may have receded somewhat since the first half of 2015, levels of government debt in a number of Eurozone countries remain at very high levels as shown in Figure 3.14. This makes an effective response to any further problems in these countries as a result of additional economic shocks more difficult. Concerns about the stability of the Eurozone economy remain despite the European Commission forecasting accelerating growth of 1.6 per cent in 2016 and 1.8 per cent in 2017[43] (although these were slight downgrades of 0.1 per cent on the growth rates forecast in its winter forecast[44]). One concern that has drawn attention over recent months has been worries about the state of Italian banks with non-performing loans amounting to €360 billion or 18 per cent of total loans[45], with €202 billion of these being classed as especially troubled. Further concerns have been raised by the amount of Italian government securities held by Italian banks which stands at €410 billion, or 10.4 per cent of the banks' assets[46]. Given the size of Italian government debt if a debt restructuring like that experienced by Greece did become necessary this would have significant and possibly terminal impacts on some Italian banks.

[40] Ibid.
[41] IMF, 14 April 2016, 'Transcript: Press Briefing of the Managing Director'.
[42] The Financial Times, 6 May 2016, 'IMF tells eurozone to start Greek debt talks'.
[43] European Commission, May 2016, 'European Economic Forecast: Spring 2016'.
[44] European Commission, February 2016, 'European Economic Forecast: Winter 2016'.
[45] The Economist, 24 March 2016, 'A merger between two Italian banks offers hope to a fragmented industry'.
[46] The Financial Times, 7 March 2016, 'The 'doom loop' that ties Italian banks'.

Figure 3.14: Government debt as a percentage of GDP of selected Eurozone nations



Source: Eurostat

In order to try to address the concerns about the state of the banking system the Italian government has undertaken a number of reforms including passing a law that the 10 biggest people's banks (banche popolari) convert from mutual to joint stock companies by the end of this year. The aim of the law is to encourage consolidation in this sector to improve governance and provide competition to Italy's main banks. Measures to encourage the consolidation of co-operatives and reforms to bankruptcy procedures are also underway, in order to attempt to stabilise the financial system by producing bigger financial institutions with fewer long-term nonperforming loans. The Italian government has also agreed with the European Commission a scheme to speed the sale of bad bank assets. In addition, Italy's strongest banks, insurers and asset managers agreed in April a €5 billion bailout fund called Atlante, for weaker lenders if they need it. Atlante will be able to buy shares in regional banks to stabilise them as well as buying non-performing loans [47]. Although shares in Italian banks rose on reports of the setting up of the fund they still remain weak with some commentators suggesting future problems in the Eurozone may emerge from them.

3.4 Emerging market economies

Emerging market economies showed evidence of continued weakness into the beginning of 2016 with the IMF observing that although they "will still account for the lion's share of world growth in 2016, yet their growth rate is projected to increase only modestly relative to 2015, remaining 2 percentage points below the average of the past decade. This growth projection

[47] The Financial Times, 20 April 2016, 'Italy's Atlante bank fund shoulders big burden'.

reflects a combination of factors: weakness in oil-exporting countries; a moderate slowdown in China (0.4 percentage point), where growth continues to shift away from manufacturing and investment; and a still-weak outlook for exporters of non-oil commodities, including in Latin America, following further price declines"[48]. The IMF now forecasts that emerging market and developing economies will grow by 4.1 per cent in 2016 and 4.6 per cent in 2017 (downgrades of 0.2 and 0.1 per cent respectively). Box 3.3 examines the relationship between emerging market economies and commodity prices in more detail.

Of the major emerging markets **China's** economy slowed in the first quarter of 2016 when it grew at an annualised rate of 6.7 per cent, down from 6.8 per cent in the final quarter of 2015. China has set a growth target for 2016 of between 6.5 to 7 per cent, down from the 2015 target of around 7 per cent. The Asian Development Bank (ADB) has observed that slowing growth continued "a trend since 2010 as the economy of the People's Republic of China shifts further toward a new normal in which domestic consumption and services are the main engines of growth, with the government increasingly focused on growth quality over quantity"[49]. The IMF forecasts that China will grow by 6.5 per cent in 2016 and 6.2 per cent in 2017 (upgrades of 0.2 per cent in both years on their previous forecast)[50], while the ADB forecasts growth of 6.5 per cent in 2016 and 6.3 per cent in 2017[51].

India's economy grew by 1.7 per cent on the previous quarter in the quarter to December 2015, slower than the 1.8 per cent growth seen in the quarter to September 2015. However, the Reserve Bank of India (India's central bank) has continued with its policy of supportive interest rate cuts into 2016 with most commentators expecting further cuts to follow. The IMF forecasts that Indian growth will be 7.5 per cent in both 2016 and 2017 (upgrades of 0.2 per cent in both years on their previous forecast)[52], while the ADB forecasts growth of 7.4 per cent in 2016 and 7.8 per cent in 2017[53].

Russia's economy contracted in 2015 due to falling commodity prices, the continued impact of international sanctions and structural weakness, however the IMF notes that "sizable currency depreciations have offset to a large extent the effect of lower commodity prices, and inflation has risen"[54]. Further, the World Bank has observed that "in 2015 the Russian economy began its difficult adjustment to the severe global oil-price shock and the imposition of economic sanctions in 2014. The impact of these twin shocks drove Russia's economy into a deep recession, which reached its nadir in the second quarter of 2015. Following a brief rally early in the year, a further decline in global oil prices in August 2015 derailed an anticipated recovery, and annual real GDP contracted by a total of 3.7 percent". They added that "the economic adjustment occurred primarily through a sharp drop in income. The adjustment to the worsening external environment caused an estimated 10 percent drop in gross domestic income, which sapped consumer demand and discouraged investment"[55]. The World Bank's baseline scenario

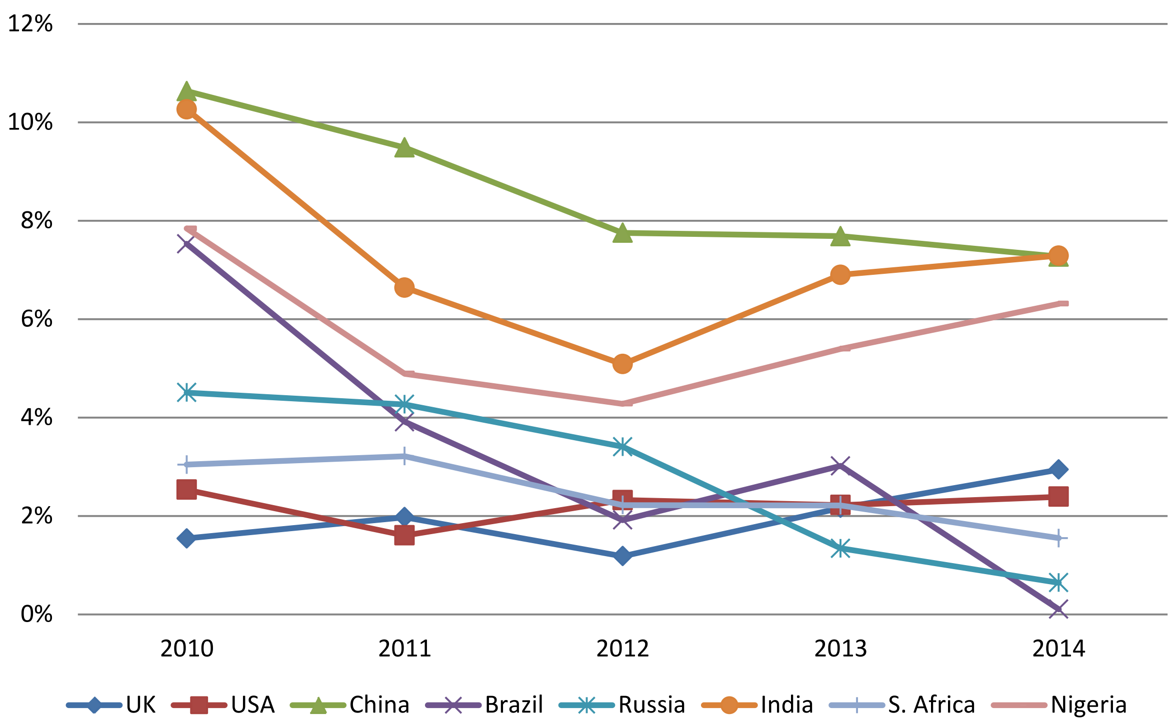
[48] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
[49] Asian Development Bank, March 2016, 'Asian Development Outlook 2016: Asia's Potential Growth'.
[50] Ibid.
[51] Asian Development Bank, March 2016, 'Asian Development Outlook 2016: Asia's Potential Growth'.
[52] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
[53] Asian Development Bank, March 2016, 'Asian Development Outlook 2016: Asia's Potential Growth'.
[54] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
[55] World Bank, April 2016, 'Russia Economic Report No. 35: The Long Journey to Recovery'.

thus forecasts growth for Russia of -1.9 per cent in 2016, 1.1 per cent in 2017 and 1.8 per cent in 2018[56]. While the IMF forecasts growth of -1.8 per cent in 2016 and 0.8 per cent in 2017[57].

Box 3.3: Emerging markets and commodity prices

Throughout 2015, global economic growth was sluggish and for London and the UK in 2016, there continues to be a short-term risk from a continued slowdown in China and emerging market economies. While developing economies still account for over 70 per cent of global growth each year, 2015 marked the fifth consecutive year of decline. This lack of growth can be attributed – in large part – to the gradual rebalancing of the Chinese economy away from manufacturing and investment towards services and consumption, and the persistently low prices of energy and other commodities. These factors, in combination, are acting as a drag on emerging market economies[58] (as shown in Figure 3.15).

Figure 3.15: GDP Annual Growth in selected countries



Source: World Bank, 2016

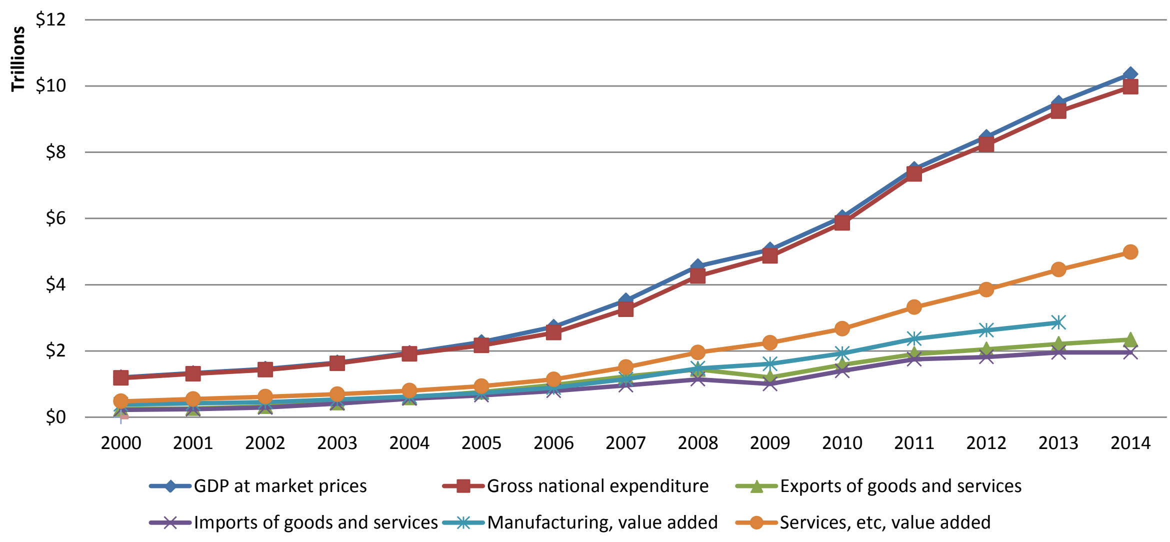
GLA Economics flagged the Chinese slowdown as a key issue for London in the November 2015 edition of LEO and this remains the position six months on. Thus as previously highlighted, while these factors may have only a limited direct impact on London's economy, the greater the impact on developing economies, the greater the risk from knock on effects to the UK[59].

[56] Ibid.
[57] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
[58] IMF, January 2016, 'World Economic Outlook: Update'.
[59] GLA Economics, November 2015, 'London's Economic Outlook: Autumn 2015'.

Over the past quarter of a century, China has experienced unprecedented levels of economic growth, and has become a key driver for the global economy. China has also become increasingly integrated within the global economy, promoting policies of export-led growth to fund its expansion. Strong growth has been a stated objective for the Chinese government over recent decades, helping China to expand to become the second largest economy in the world.

Over the last 10 years, China's expansion has surpassed targets, regularly exceeding a growth rate of 10 per cent. However, China now faces a number of challenges in seeking to sustain such pronounced levels of growth. In the first quarter of this year, China's economy grew at an annual rate of 6.7 per cent[60], with growth predicted to slow to an average of 6.5 per cent over the whole of 2016, and 6.2 per cent in 2017[61]. This is likely to lead to the slowest period of growth on several measures that China has seen in a number of years (see Figure 3.16).

Figure 3.16: Selected data on China's Economy, US$



Source: World Bank, 2016

While this trend is concerning for the global economy, it is by no means unexpected, being evidence of the Chinese shift away from a manufacturing and investment-focused economy, rebalancing toward an economy led by services and consumption (retail sales increased by 10.5 per cent in March 2016[62]), and is in line with China's own expectations for growth.

Early in 2016, a faster than anticipated slowdown in exports and imports[63], along with slower growth more generally, spooked investors; with China becoming increasingly interconnected to global financial markets, this is of particular concern to London.

The Chinese market dropped so sharply on the first day of trading in 2016 that markets were forced to close;[64] the FTSE 100 index fell by 5 per cent or £81 billion in value as a result of

[60] BBC, 15 April 2016, 'China GDP: Economy slows to 6.7% in first quarter'.
[61] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
[62] BBC, 15 April 2016, 'China GDP: Economy slows to 6.7% in first quarter'.
[63] IMF, January 2016, 'World Economic Outlook: Update'.
[64] International Business Times, 17 January 2016, 'Chinese Economic Slowdown Fallout 2016: Emerging Markets Should Brace Themselves, Mexico Bank Chief Warns, Urging Policy Action'.

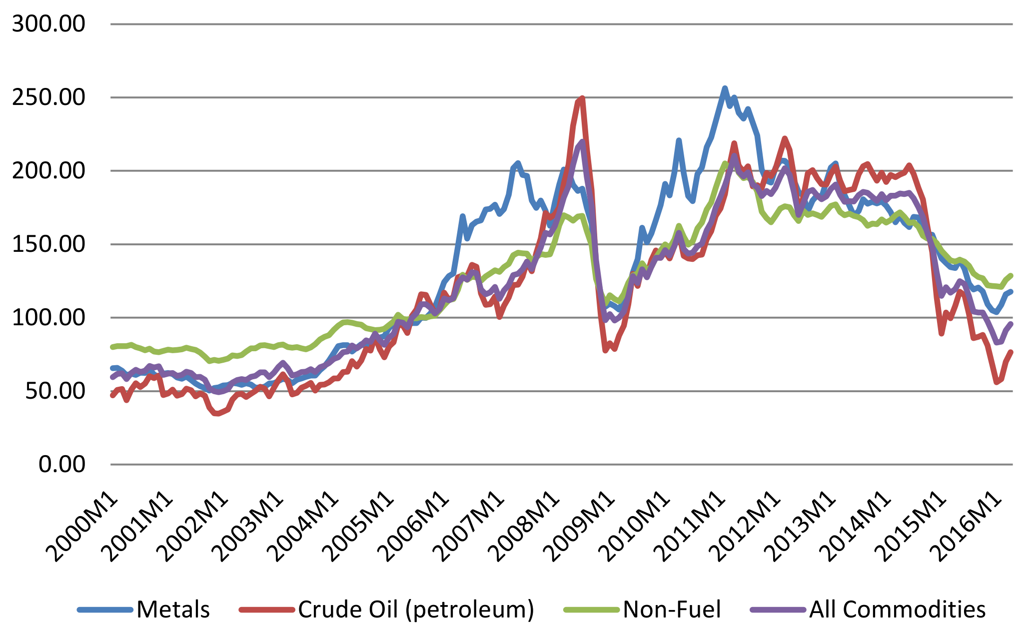
events in Beijing[65]. IMF research suggests that Chinese policy will have increasingly significant implications for global financial market stability over the coming years, as the country continues to accelerate the opening up of its bond and equity markets[66]. The Bank of England, as well as investors in the US, have cited a Far East crash to be one of the most likely causes of the next global recession[67, 68].

These spill-overs will extend to other economies through financial markets, existing trade channels, weaker manufacturing activity, and falling commodity prices[69].

Since September 2015, oil prices have been falling sharply as a result of an increase in production from OPEC members, as well as a decrease in demand from China as it moves away from a manufacturing-led economy. The prices of other commodities, particularly metals, have also fallen, as shown in Figure 3.17. Commodity prices in general are known for their high level of volatility, but such persistently low prices could be a cause for concern.

Figure 3.17: Selected commodity Prices

Index: 2005=100



Source: IMF, 2016

The IMF believes that current futures markets suggest that we are likely to see only modest increases in oil prices in 2016 and 2017[70]. This will put a significant strain on oil exporters and could limit their growth over the coming years.

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[65] International Business Times, 5 April 2016, 'IMF warns that an economic crisis in China could cause global recession again'.
[66] The Telegraph, 4 April 2016, 'China jitters could trigger global market bloodbath, IMF warns'.
[67] International Business Times, 5 April 2016, 'IMF warns that an economic crisis in China could cause global recession again'.
[68] International Business Times, 17 January 2016, 'Chinese Economic Slowdown Fallout 2016: Emerging Markets Should Brace Themselves, Mexico Bank Chief Warns, Urging Policy Action'.
[69] IMF, January 2016, 'World Economic Outlook: Update'.
[70] Ibid.

Some analysts are more hopeful, believing that we are about to see commodity prices pick up. James de Bunsen, a fund manager at Henderson Global Investors, said "sentiment is very negative but we are seeing tentative signs that commodity prices are stabilising too, which emerging markets are very sensitive to. After dipping to $28 a barrel this year, the oil price has since moved back up"[71] to nearly $49, while industrial metals have also witnessed an uptick in demand[72].

The Chinese slowdown and fall in commodity prices is not expected to hit all emerging markets equally but forecasters expect contraction or slow growth over the next few years.

The Brics (Brazil, India, China and Russia), have accounted for more than half of global growth over the last 15 years, and are home to 40 per cent of the world's population[73] but the IMF predicts that emerging market and developing economies, while having seen strong growth over the last decade, will continue to struggle throughout 2016. Projections show that GDP in Latin America and the Caribbean will contract in 2016, reflective of the Brazilian recession. The growth rate of emerging Europe will also be slow in 2016, as a result of the impact of low oil prices and sanctions on Russia[74].

Despite their recent and predicted poor performance, in general, many of these countries continue to grow at a much faster rate than the more advanced nations, as Figure 3.15 shows. Between them, they still typically have a wealth of natural resources, large numbers of young people, and a rising middle class; as these countries continue to grow, so will consumer spending and investment, spurring greater global economic growth[75]. Growth in the developing economies is expected to increase from 4 per cent in 2015 – the lowest rate since 2008, to 4.1 per cent by the end of 2016; while this growth rate is not strong, it does represent some improvement[76]. Unfortunately, these predictions may not be strong enough to assuage the concerns of all global investors, who pulled $40 billion from emerging markets in the third quarter of 2015.

As China and the other emerging markets become increasingly interconnected with the rest of the world, so do the economies of the advanced nations with them – the UK is no exception. Research by KPMG, found that the UK was the number one major European economic target for inbound deals from emerging markets during the second half of 2015. This placed the UK only narrowly behind the US in terms of the number of deals (45 compared to 47)[77]. Spill-overs from emerging market economies are now thought to contribute to over a third of the fluctuations seen in equity and currency markets in advanced nations[78]. A slowdown in any of these economies will clearly have implications for London and the UK[79].

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71 The Telegraph, 17 March 2016, 'Is it now time to take a risk on these emerging markets?'
72 http://www.bloomberg.com/energy
73 The Telegraph, 17 March 2016, 'Is it now time to take a risk on these emerging markets?'
74 IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
75 The Telegraph, 17 March 2016, 'Is it now time to take a risk on these emerging markets?'
76 IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.
77 KPMG, 12 April 2016, 'UK is the top European destination for emerging markets buyers looking for developed market acquisitions'.
78 The Telegraph, 4 April 2016, 'China jitters could trigger global market bloodbath, IMF warns'.
79 International Business Times, 17 January 2016, 'Chinese Economic Slowdown Fallout 2016: Emerging Markets Should Brace Themselves, Mexico Bank Chief Warns, Urging Policy Action'.

3.5 Risks to the world economy

For London and the UK's economies one of the more significant short-term risks remains that of a more substantial slowdown in China and emerging market economies than so far observed, combining with any impact on financial stability this may have in these countries. Although a slowdown in these countries may have a limited direct impact on London's economy, if it were to have a detrimental impact on developed economies which these countries are heavily integrated with, it could have knock on effects due to the capital's and the UK's trade with these developed economies. Still another, and arguably greater, threat to London from a Chinese slowdown comes from the potential impact this could have on financial companies and markets given London's status as a financial centre especially if China's borrowing fuelled stimulus becomes unsustainable as some commentators argue it has become[80].

Over a longer time period the most pre-eminent risk, as has been highlighted in numerous LEO's in recent years, still remains from within the Eurozone, and particularly the unresolved fundamental issues with the sovereign debt and banking situation in a number of countries. So although the UK might not be directly exposed to significant risks from these countries the uncertainty and shocks to markets which could occur from any debt default would have negative impacts to the UK and London's economy. Even without a default, continued structural problems in the Eurozone could act as a break on its growth hindering the UK's and London's trade with this important market.

Increased uncertainty due to the upcoming referendum on UK membership of the EU could act as a drag on economic growth in London in the first half of the year as businesses potentially delay some decisions until after the result from the referendum. The long term impact of any vote to the leave the EU on the UK and London's economies is debatable although the IMF has warned that "a British exit from the European Union could pose major challenges for both the United Kingdom and the rest of Europe. Negotiations on post exit arrangements would likely be protracted, resulting in an extended period of heightened uncertainty that could weigh heavily on confidence and investment, all the while increasing financial market volatility. A U.K. exit from Europe's single market would also likely disrupt and reduce mutual trade and financial flows, curtailing key benefits from economic cooperation and integration, such as those resulting from economies of scale and efficient specialization"[81]. Despite this it should be noted that the long-term impact of a vote to leave the EU on London's economy is hard to assess and will depend significantly on what economic and trade policy environment is put in place in the UK in a post 'Brexit' world, with a number of commentators giving different ranges for the impact on the UK economy of different policy options leading to both positive and negative economic outcomes.

Further, as has also been highlighted previously the risks of protracted low or negative inflation remain as a relevant downside risk for the global economy for the foreseeable future, especially if it were to become embedded in a number of economies. However, it is likely that within the UK as a whole inflation will continue to pick-up further into 2016. Still, having noted this risk, the era of extremely accommodative monetary policy in at least some developed economies is likely to begin to end over the coming few years or so. This tightening, especially in US monetary policy, may have further detrimental effects on emerging market economies. While, for the UK even though it is likely that monetary policy will remain loose by historical standards

[80] The Economist, 7 May 2016, 'China's financial system: The coming debt bust'.
[81] IMF, April 2016, 'World Economic Outlook: Too Slow for Too Long'.

for some time to come and hence continue to provide support to the economy, it is possible that over the course of the forecast period monetary policy will begin to return to more normal levels although commentators have pushed back when the likely first rise will be compared to what they were expecting when the November 2015 LEO was published. Geopolitical risks such as the continuing conflicts in Ukraine and the Middle East could also negatively impact on the global economy. While the impact of the US elections in November and any radical changes in economic policy this could entail could also have a destabilising impact on the world economy. And the dangers to some emerging market economies through low commodity prices continue as a risk to the global economy as a whole.

Upside risks to the forecast have dampened further since the November 2015 LEO but continue to include the possibility that global growth, especially in the second half of 2016, turns out stronger than currently expected. Despite a recent slight improvement in prices there should as well remain a consumption impact due to cheap oil and commodity prices across many advanced and some emerging economies which should not be discounted. The general outlook for the Eurozone also remains slightly more optimistic than has been the case in the past few years. If business and consumer confidence in the Eurozone picks up further, and the ECB continues to provide a supportive monetary policy, then growth in the Eurozone may be quicker than currently expected. While the recent depreciation of sterling against a number of currencies could be an upside risk to the UK and London's economy with it making both tourism to London and exports from the capital more competitive. Further, in London, consumer confidence remains quite strong and if this continues this should provide support to consumer spending and thus to London's economy. Still, on balance, the risks to the global (and thus London and UK) economy remain more on the downside over the coming couple of years.

3.6 Conclusion

After growing at a relatively respectable pace through 2015, economic growth slowed a touch at the start of 2016 in the UK, but remained stronger in the service sector and also remains faster than that seen in a number of other advanced economies. Inflation however remains very low although it has begun to pick up and this is expected to continue. This low inflation, combined with continued evidence of a global economic slowdown, makes it likely that the potential first increases in interest rates will occur even later than was expected in November, while interest rates when they do begin to rise may remain low by historical standards for some time to come. Outside of the UK, although the Federal Reserve has raised rates once since November it is possible that any further rises may be slower than was expected at the time of the first rate increase in December 2015. Still the economic situation in the Eurozone is more stable than this time last year.

In general London's economy continues to grow, and to grow more strongly than the UK as a whole. The labour market also remains robust as does consumer and business confidence to an extent. Taken all together London's economy in terms of both output, employment and household income should continue to grow over the coming years, and may pick-up slightly once the economic uncertainty caused by the forthcoming referendum is removed. However, the effects of ongoing fiscal retrenchment and gradually tightening monetary policy is likely to be felt in the latter part of the forecast period acting as a slight break on growth during this period.

4. Review of independent forecasts

What the forecasts provide

In Chapter 5, GLA Economics' forecast of four economic indicators is provided: workforce jobs, real output, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 18 May 2016 on the first three of these indicators is summarised [82], drawing on forecasts from outside (independent) organisations [83]. Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for the historic data in the following tables and charts is for GVA and workforce jobs GLA Economics modelling using ONS data while the source data for Household Income and Expenditure is EE for the historic growth rates and GLA Economics modelling using EE data for the levels data.

Additionally, both the consensus [84] and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transportation and storage
- distribution [85], accommodation and food service activities
- finance [86] and business services [87]
- other (public & private) services [88].

It should be noted, that since our Spring 2012 forecast GLA Economics has been using the new Standard Industrial Classification (SIC 2007), which is explained in more detail in Appendix A.

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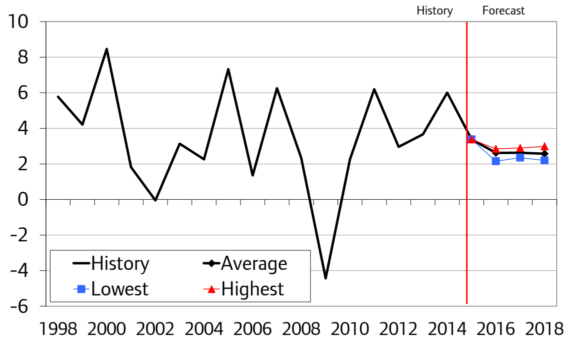
[82] The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE, while the consensus forecast for household expenditure is based on the latest available forecast from CE, EE and OE only.
[83] Most forecasters do not yet provide forecasts of household income.
[84] The consensus GVA forecast for the six broad sectors is based on the latest available forecast from CE, CEBR, EE and OE for GVA but the consensus employment forecast for the six broad sectors is based on the latest available forecast from CE, EE and OE only.
[85] Distribution is made from the summation of Wholesale and Retail (see Appendix A).
[86] This is defined as Financial and insurance activities in Appendix A.
[87] Business services is made from the summation of Information and Communication, Professional, scientific and technical services and real estate, and Administrative and support service activities (see Appendix A).
[88] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services (see Appendix A).

Output

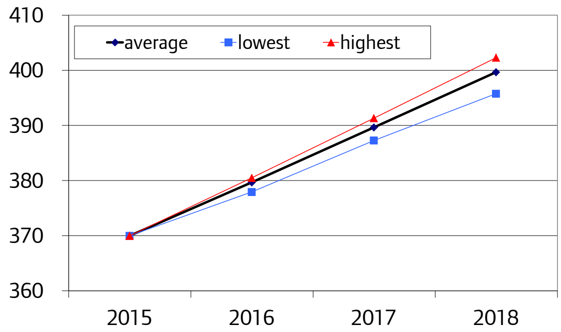
(London GVA, constant prices (base year 2012), £ billion)

The consensus (mean average view) is for real output growth to be 2.6 per cent in 2016, 2017 and 2018.

Annual growth (per cent)



Level (constant year 2012, £ billion)



Annual growth (per cent)					Level (constant year 2012, £ billion)			
	2016	2017	2018			2016	2017	2018
Average	2.6	2.6	2.6		Average	380	390	400
Lowest	2.1	2.3	2.2		Lowest	378	387	396
Highest	2.8	2.9	3.0		Highest	381	391	402

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
5.8	4.2	8.5	1.8	0.0	3.1	2.3	7.3	1.4	6.3	2.3	-4.4	2.3	6.2	3.0	3.7	6.0	3.4

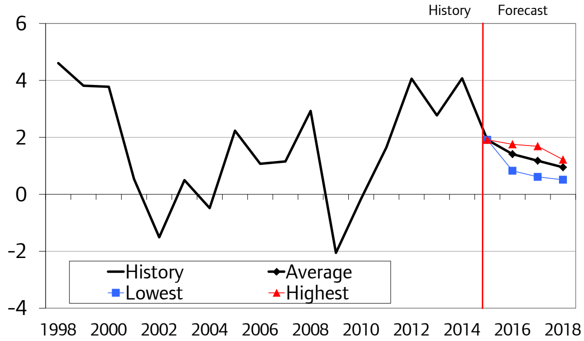
History: Level (constant year 2012, £ billion)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
200.9	212.4	221.4	240.1	244.5	244.4	252.0	257.7	276.6	280.4	297.9	304.8	291.3	297.9	316.3	325.7	337.6	357.9	370.0

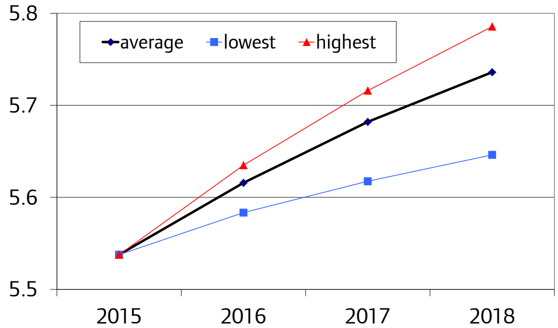
Employment
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 1.4 per cent in 2016, by 1.2 per cent in 2017 and 0.9 per cent in 2018.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)					Level (millions)			
	2016	2017	2018			2016	2017	2018
Average	1.4	1.2	0.9		Average	5.62	5.68	5.74
Lowest	0.8	0.6	0.5		Lowest	5.58	5.62	5.65
Highest	1.8	1.7	1.2		Highest	5.63	5.72	5.79

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.6	3.8	3.8	0.5	-1.5	0.5	-0.5	2.2	1.1	1.2	2.9	-2.1	-0.2	1.6	4.1	2.8	4.1	1.9

History: Level (millions)

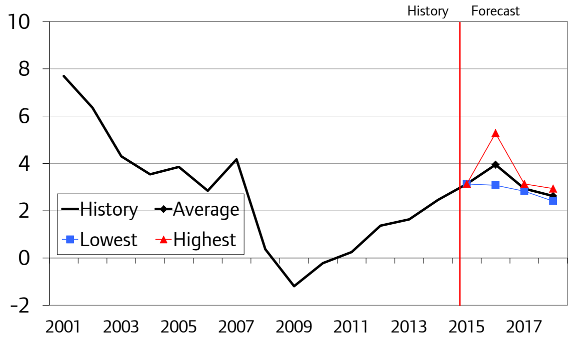
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.09	4.28	4.44	4.61	4.63	4.56	4.59	4.57	4.67	4.72	4.77	4.91	4.81	4.80	4.88	5.08	5.22	5.43	5.54

Household expenditure

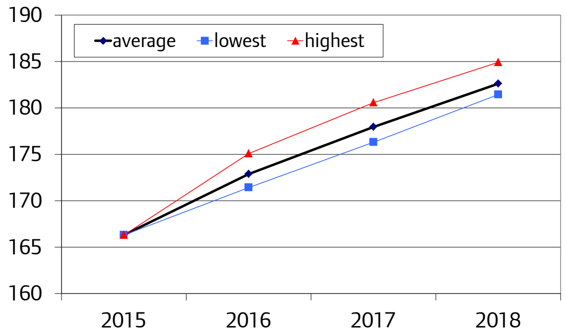
(London household spending, constant year 2012, £ billion)

The consensus view is for positive household expenditure growth of 3.9 per cent in 2016, 2.9 per cent in 2017 and 2.6 per cent in 2018.

Annual growth (per cent)



Level (constant year 2012 £ billion)



Annual growth (per cent)					Level (constant year 2012 £ billion)			
	2016	2017	2018			2016	2017	2018
Average	3.9	2.9	2.6		Average	173	178	183
Lowest	3.1	2.8	2.4		Lowest	171	176	181
Highest	5.3	3.1	2.9		Highest	175	181	185

History: Annual growth (per cent)

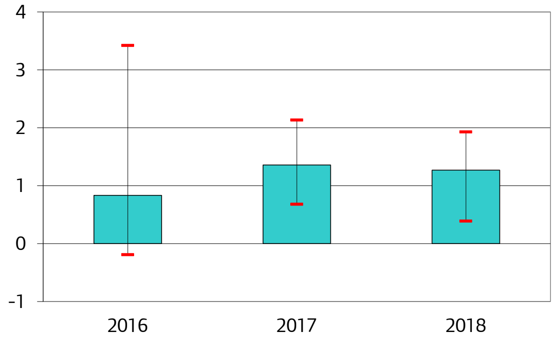
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
7.7	6.4	4.3	3.5	3.9	2.8	4.2	0.4	-1.2	-0.2	0.3	1.4	1.6	2.5	3.1

History: Level (constant year 2012, £ billion)

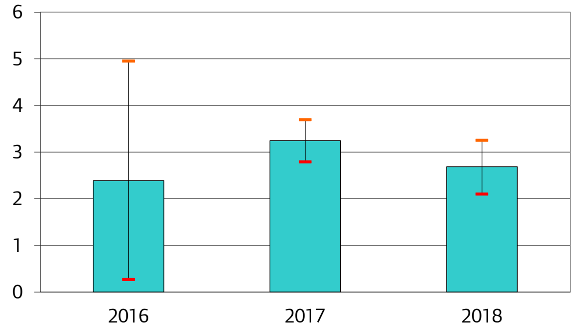
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
111.9	120.5	128.1	133.7	138.4	143.7	147.8	154.0	154.6	152.7	152.4	152.8	154.9	157.4	161.3	166.3

Output growth by sector (per cent annual change)
As the economic expansion continues it is expected that there will be positive output growth in all sectors.

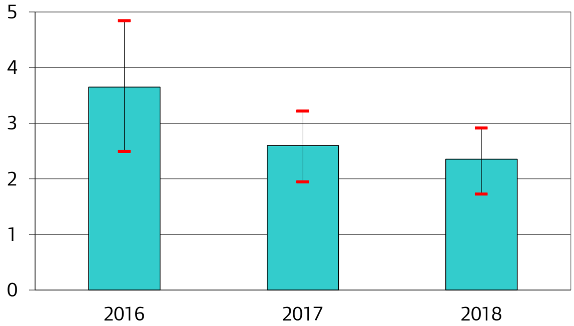
Manufacturing



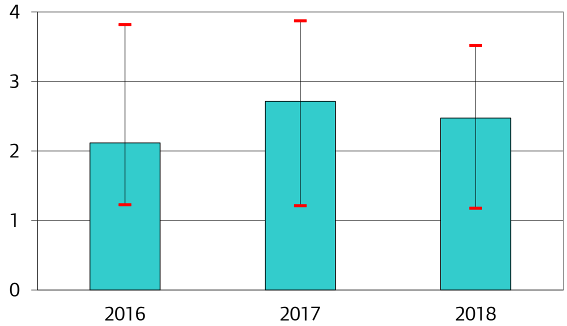
Construction



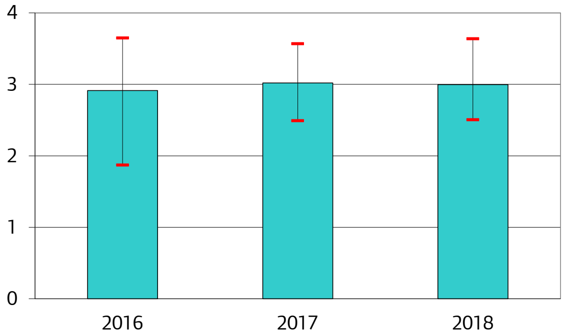
Distribution, accommodation and food service activities



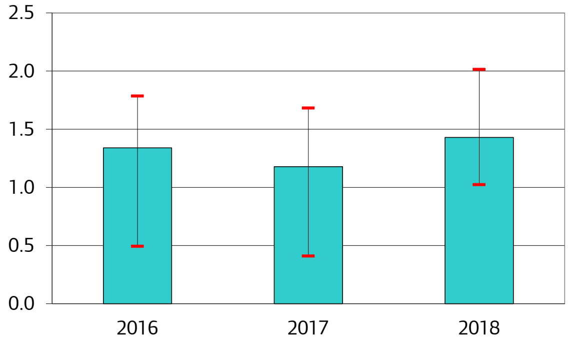
Transportation and storage



Finance and business



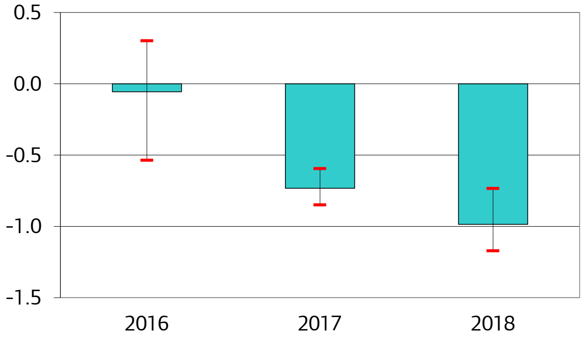
Other (public & private) services



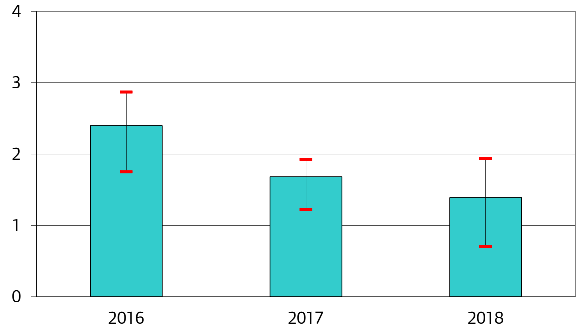
		2016	2017	2018			2016	2017	2018
Manufacturing	*Average*	0.8	1.4	1.3	**Construction**	*Average*	2.4	3.2	2.7
	Lowest	-0.2	0.7	0.4		*Lowest*	0.3	2.8	2.1
	Highest	3.4	2.1	1.9		*Highest*	5.0	3.7	3.3
Distribution, accommodation and food service activities	*Average*	3.6	2.6	2.4	**Transportation and storage**	*Average*	2.1	2.7	2.5
	Lowest	2.5	1.9	1.7		*Lowest*	1.2	1.2	1.2
	Highest	4.8	3.2	2.9		*Highest*	3.8	3.9	3.5
Finance and business	*Average*	2.9	3.0	3.0	**Other (public & private) services**	*Average*	1.3	1.2	1.4
	Lowest	1.9	2.5	2.5		*Lowest*	0.5	0.4	1.0
	Highest	3.6	3.6	3.6		*Highest*	1.8	1.7	2.0

Employment growth by sector (per cent annual change)
Forecast employment growth is positive for all sectors, excluding the manufacturing sector which is expected to see declines in employment over all years of the forecast period.

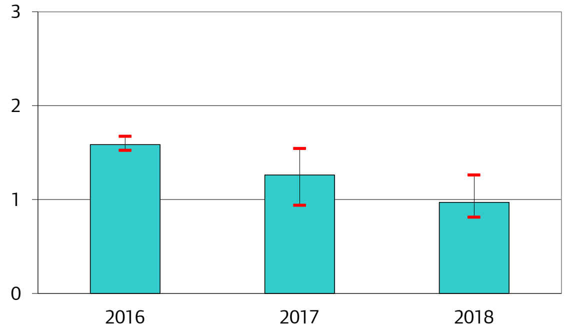
Manufacturing



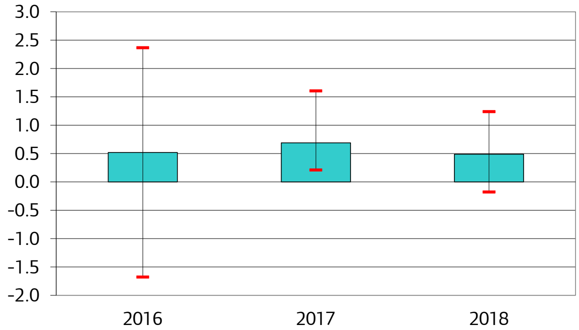
Construction



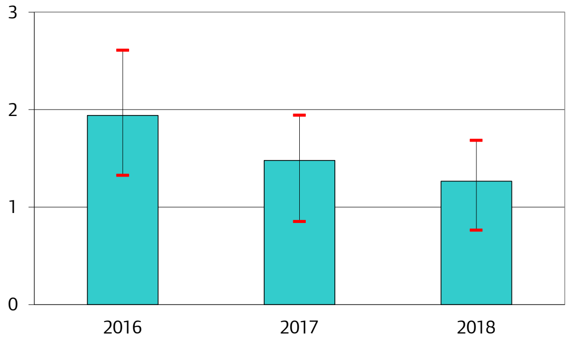
Distribution, accommodation and food service activities



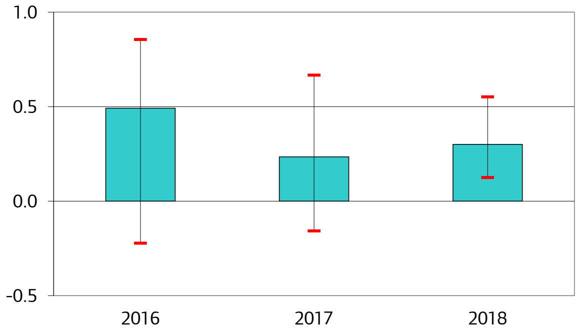
Transportation and storage



Finance and business



Other (public & private) services



		2016	2017	2018			2016	2017	2018
Manufacturing	*Average*	-0.1	-0.7	-1.0	**Construction**	*Average*	2.4	1.7	1.4
	Lowest	-0.5	-0.8	-1.2		*Lowest*	1.7	1.2	0.7
	Highest	0.3	-0.6	-0.7		*Highest*	2.9	1.9	1.9
Distribution, accommodation and food service activities	*Average*	1.6	1.3	1.0	**Transportation and storage**	*Average*	0.5	0.7	0.5
	Lowest	1.5	0.9	0.8		*Lowest*	-1.7	0.2	-0.2
	Highest	1.7	1.5	1.3		*Highest*	2.4	1.6	1.2
Finance and business	*Average*	1.9	1.5	1.3	**Other (public & private) services**	*Average*	0.5	0.2	0.3
	Lowest	1.3	0.9	0.8		*Lowest*	-0.2	-0.2	0.1
	Highest	2.6	1.9	1.7		*Highest*	0.9	0.7	0.6

5. The GLA Economics forecast

It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points. For business planning (for example the likely course of revenue), estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections provide these estimates. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for the historic data in the following tables and charts is for GVA and workforce jobs GLA Economics modelling using ONS data while the source data for Household Income and Expenditure is EE for the historic growth rates and GLA Economics modelling using EE data for the levels data.

5.1 The background

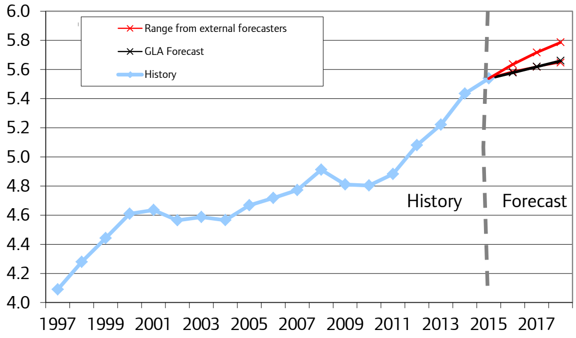
5.2 Results

Following the resumption of positive growth in 2010, output is expected to continue to rise between 2016 and 2018. Employment growth is forecast to be positive over the forecast period.

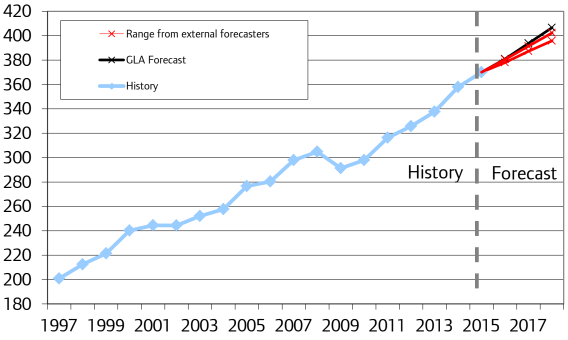
Household spending is expected to continue to grow between 2016 and 2018. Household income growth is also expected to be positive over the forecast period.

Figure 5.1: Trend and forecast employment and output

Employment (millions of workforce jobs)



Output (constant year 2012, £ billion)



Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Table 5.1: Forecast and historical growth rates
(Annual % change)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
GVA	2.3	6.2	3.0	3.7	6.0	3.4	2.9	3.4	3.3
Workforce jobs	-0.2	1.6	4.1	2.8	4.1	1.9	0.7	0.7	0.7
Household spending	-0.2	0.3	1.4	1.6	2.5	3.1	2.7	2.6	2.5
Household income	1.2	-1.3	3.5	-0.1	1.2	4.1	2.9	2.4	2.0

Table 5.2: Forecast and historical levels
(constant year 2012, £ billion except jobs)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
GVA	297.9	316.3	325.7	337.6	357.9	370.0	380.9	393.8	406.6
Workforce jobs (millions)	4.80	4.88	5.08	5.22	5.43	5.54	5.58	5.62	5.66
Household spending	152.4	152.8	154.9	157.4	161.3	166.3	170.8	175.2	179.5
Household income	184.8	182.5	188.9	188.7	191.1	199.0	204.7	209.5	213.7

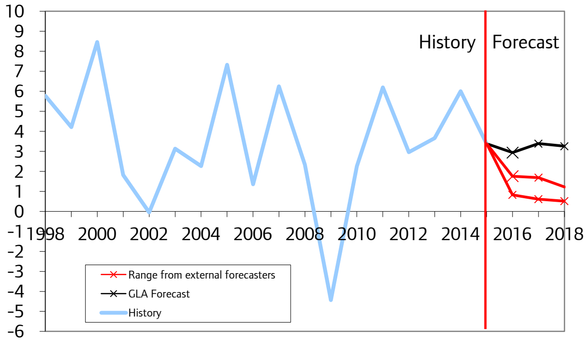
Output

(London GVA, constant year 2012, £ billion)

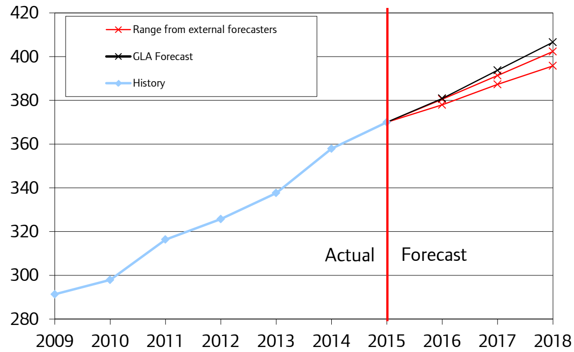
London's real GVA is forecast to grow between 2016 and 2018. Forecast growth rates are 2.9 per cent in 2016, 3.4 per cent in 2017 and 3.3 per cent in 2018.

The GLA Economics' forecast is more optimistic than the consensus average forecast over the whole forecast period.

Annual growth (per cent)



Level (constant year 2012, £ billion)



Growth (annual per cent)						Level (constant year 2012, £ billion)				
	2015	2016	2017	2018			2015	2016	2017	2018
GLA	3.4	2.9	3.4	3.3		GLA	370	381	394	407
Consensus		2.6	2.6	2.6		Consensus		380	390	400

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
5.8	4.2	8.5	1.8	0.0	3.1	2.3	7.3	1.4	6.3	2.3	-4.4	2.3	6.2	3.0	3.7	6.0	3.4

History: Level (constant year 2012, £ billion)

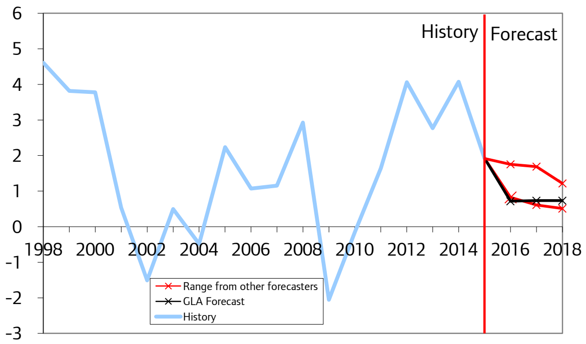
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
200.9	212.4	221.4	240.1	244.5	244.4	252.0	257.7	276.6	280.4	297.9	304.8	291.3	297.9	316.3	325.7	337.6	357.9	370.0

Employment
(London workforce jobs)

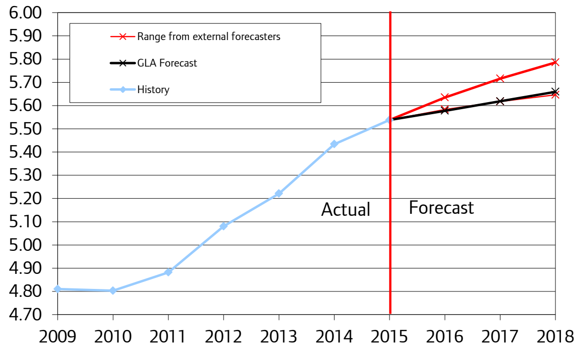
London's employment is forecast to rise between 2016 and 2018.

GLA Economics' forecast for employment growth is lower than the consensus average forecast over the whole forecast period.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)						Level (millions of workforce jobs)				
	2015	2016	2017	2018			2015	2016	2017	2018
GLA	1.9	0.7	0.7	0.7		GLA	5.54	5.58	5.62	5.66
Consensus		1.4	1.2	0.9		Consensus		5.62	5.68	5.74

History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.6	3.8	3.8	0.5	-1.5	0.5	-0.5	2.2	1.1	1.2	2.9	-2.1	-0.2	1.6	4.1	2.8	4.1	1.9

History: Level (millions)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.09	4.28	4.44	4.61	4.63	4.56	4.59	4.57	4.67	4.72	4.77	4.91	4.81	4.80	4.88	5.08	5.22	5.43	5.54

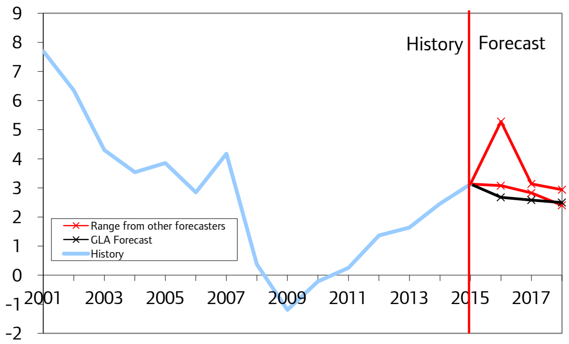
Household expenditure

(London household spending, constant year 2012, £ billion)

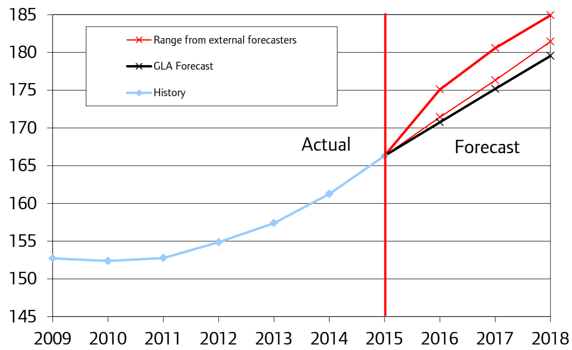
Growth in London's household spending is forecast to be positive over the forecast period.

GLA Economics' household spending growth forecast is lower than the consensus average over all of the forecast period.

Annual growth (per cent)



Level (constant year 2012, £ billion)



Growth (annual per cent)						Level (constant year 2012, £ billion)				
	2015	2016	2017	2018			2015	2016	2017	2018
GLA	3.1	2.7	2.6	2.5		GLA	166	171	175	180
Consensus		3.9	2.9	2.6		Consensus		173	178	183

History: Annual growth (per cent)

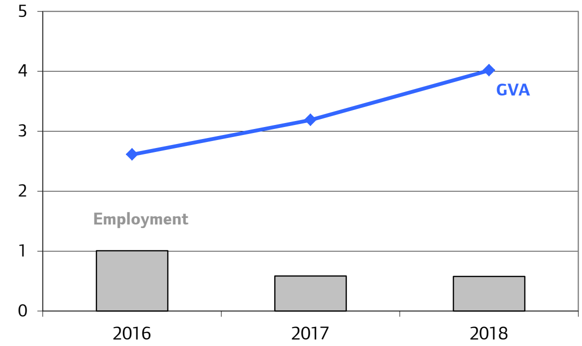
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
7.7	6.4	4.3	3.5	3.9	2.8	4.2	0.4	-1.2	-0.2	0.3	1.4	1.6	2.5	3.1

History: Level (constant year 2012, £ billion)

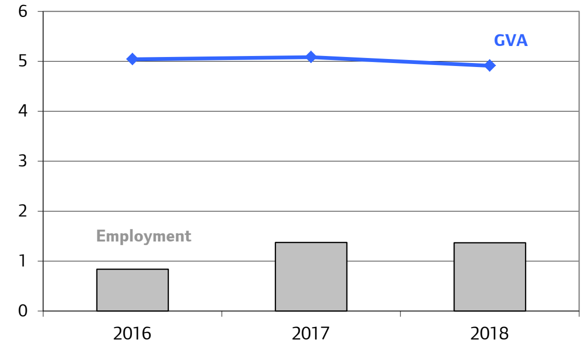
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
111.9	120.5	128.1	133.7	138.4	143.7	147.8	154.0	154.6	152.7	152.4	152.8	154.9	157.4	161.3	166.3

Output and employment growth by sector (per cent annual change)

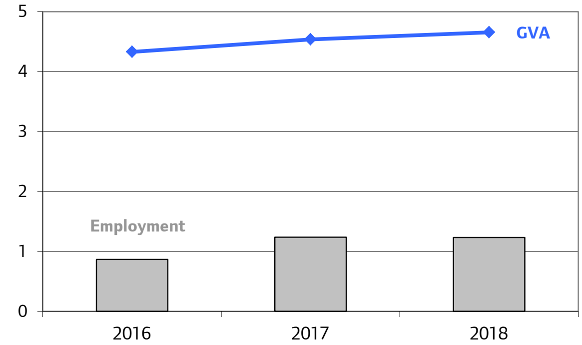
Financial services



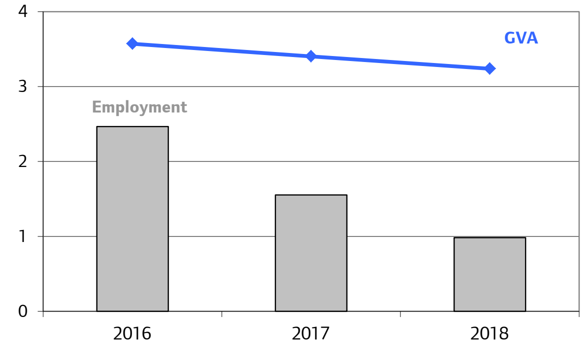
Business services



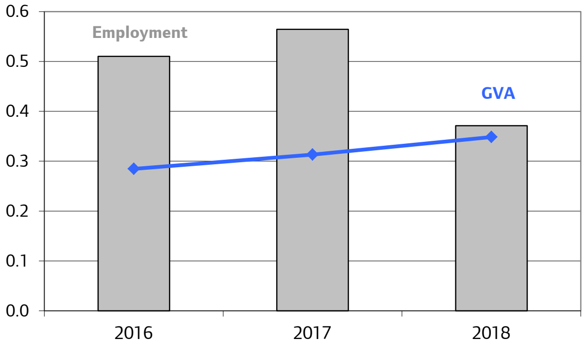
Finance and business (combined)



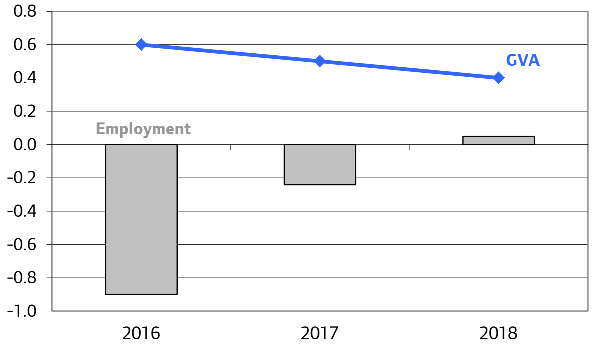
Distribution, accommodation and food service activities



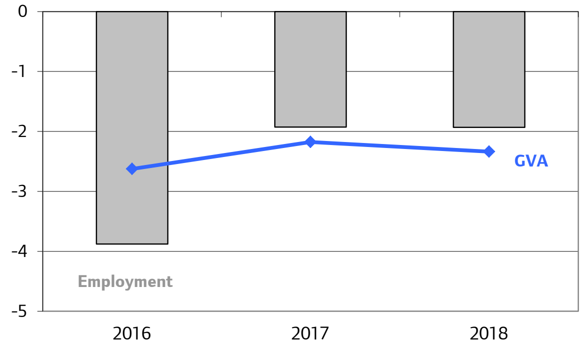
Transportation and storage



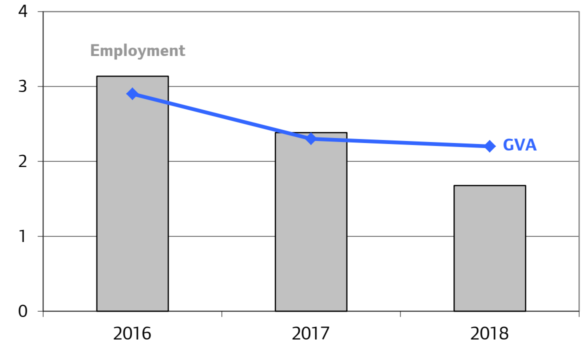
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector (per cent annual change)

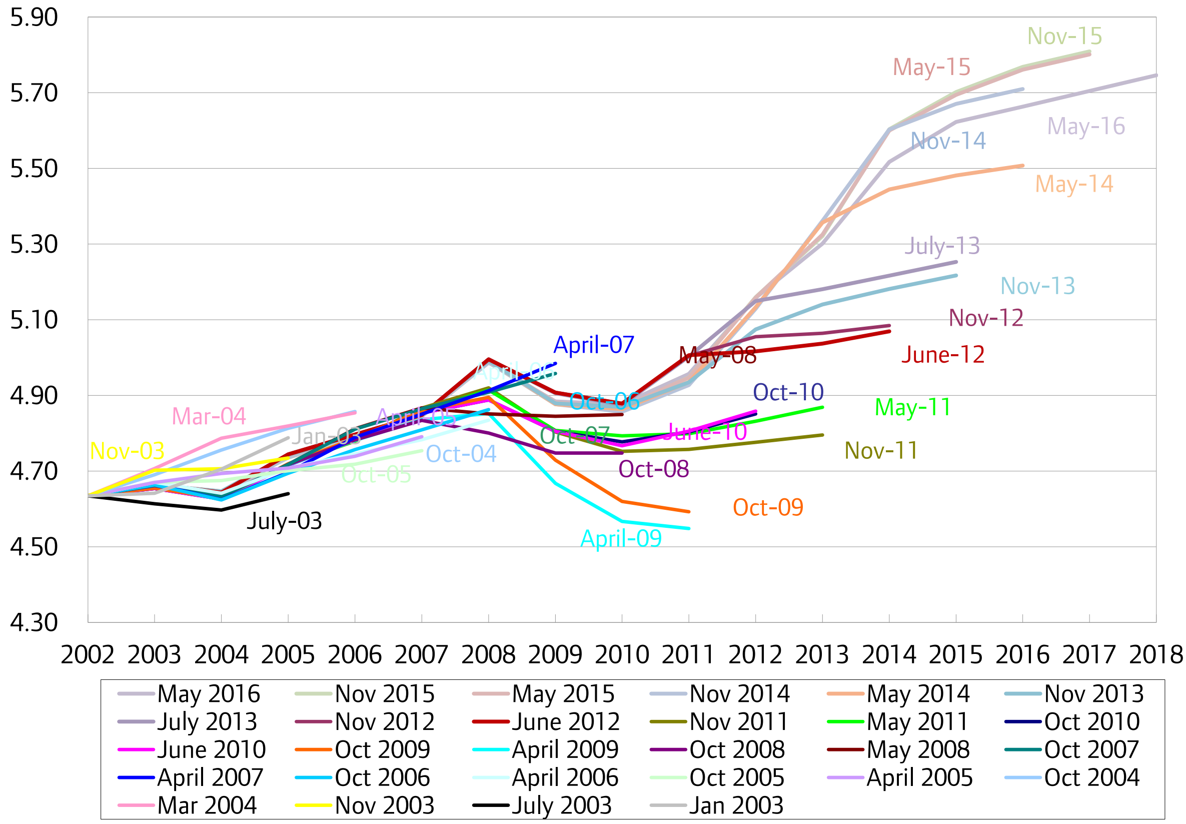
	2016	2017	2018
Financial services			
Output	2.6	3.2	4.0
Employment	1.0	0.6	0.6
Business services			
Output	5.0	5.1	4.9
Employment	0.8	1.4	1.4
Financial and business services combined			
Output	4.3	4.5	4.7
Employment	0.9	1.2	1.2
Distribution, accommodation and food service activities			
Output	3.6	3.4	3.2
Employment	2.5	1.6	1.0
Transportation and storage			
Output	0.3	0.3	0.3
Employment	0.5	0.6	0.4
Other (public & private) services			
Output	0.6	0.5	0.4
Employment	-0.9	-0.2	0.0
Manufacturing			
Output	-2.6	-2.2	-2.3
Employment	-3.9	-1.9	-1.9
Construction			
Output	2.9	2.3	2.2
Employment	3.1	2.4	1.7
(Memo: non-manufacturing)			
Output	3.1	3.5	3.4
Employment	0.8	0.8	0.8

5.3 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparison in Figures 5.2 and 5.3. The most recent forecast for London's workforce jobs growth is lower than in the November 2015 forecast for 2016, while the output growth forecast is slightly lower in 2016 and slightly higher in 2017.

Figure 5.2: Employment – latest forecast growth rates compared with previous forecasts

(millions of workforce jobs)

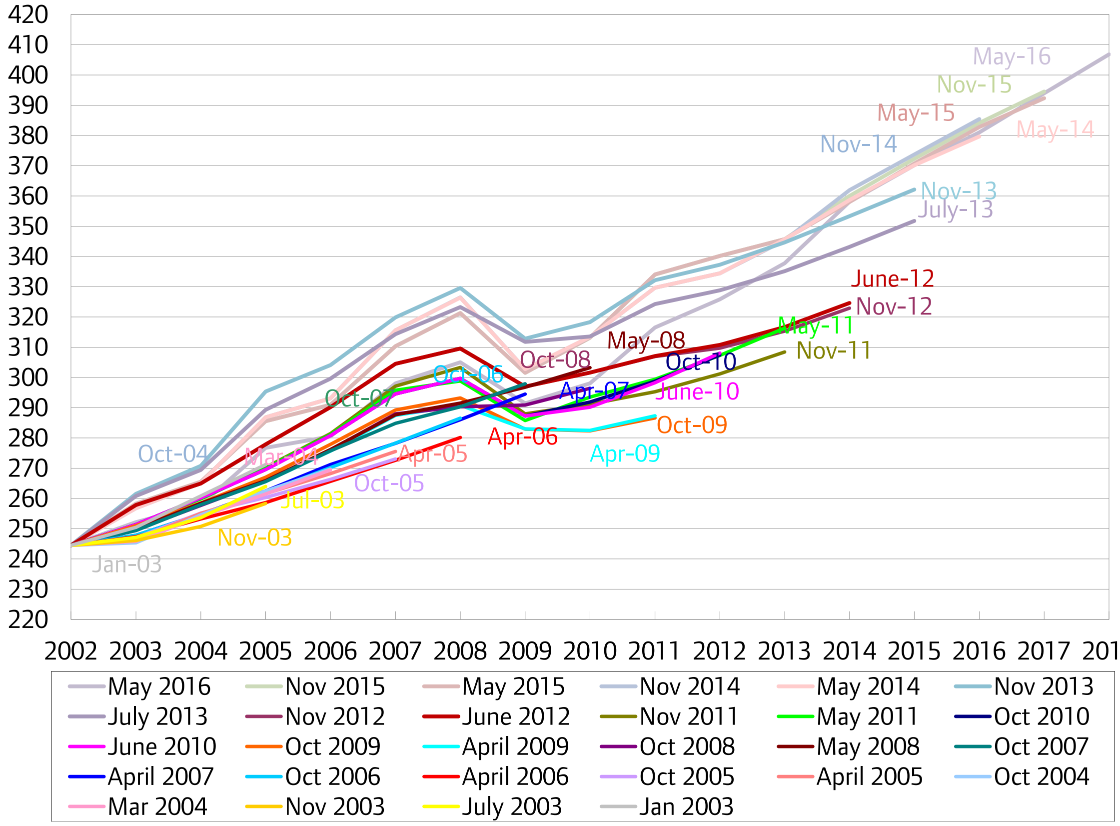


Source: Various London's Economic Outlooks

Table 5.3: Comparisons with previous published forecasts
(London workforce jobs, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
May 2016	0.5%	-0.5%	2.2%	1.1%	1.2%	2.9%	-2.1%	-0.2%	1.6%	4.1%	2.8%	4.1%	1.9%	0.7%	0.7%	0.7%
Nov 2015													1.7%	1.2%	0.7%	
May 2015													1.7%	1.2%	0.7%	
Nov 2014												4.5%	1.2%	0.7%		
May 2014												1.6%	0.7%	0.5%		
Nov 2013											1.3%	0.8%	0.7%			
July 2013											0.6%	0.7%	0.7%			
Nov 2012										1.0%	0.2%	0.4%				
June 2012										0.2%	0.4%	0.6%				
Nov 2011									0.1%	0.4%	0.4%					
May 2011									0.1%	0.7%	0.8%					
Oct 2010								-0.6%	0.6%	1.0%						
June 2010								-0.8%	0.8%	1.1%						
Oct 2009							-3.4%	-2.3%	-0.6%							
April 2009							-3.8%	-2.2%	-0.4%							
Oct 2008						-0.7%	-1.1%	0.0%								
May 2008						-0.3%	-0.1%	0.1%								
Oct 2007					1.2%	0.9%	1.0%									
April 2007					1.2%	1.4%	1.5%									
Oct 2006				1.3%	1.1%	1.1%										
April 2006				0.8%	0.8%	1.1%										
Oct 2005			0.6%	0.4%	0.8%											
April 2005			0.3%	0.7%	1.1%											
Oct 2004		1.4%	1.2%	0.9%												
Mar 2004		1.7%	0.7%	0.7%												
Nov 2003	1.5%	0.1%	0.6%													
July 2003	-0.5%	-0.4%	0.9%													
Jan 2003	0.2%	1.4%	1.8%													

Figure 5.3: Output – latest forecast growth rates compared with previous forecasts (constant year 2012, £ billion)



Source: Various London's Economic Outlooks

Table 5.4: Comparisons with previous published forecasts
(London GVA, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
May 2016	3.1%	2.3%	7.3%	1.4%	6.3%	2.3%	-4.4%	2.3%	6.2%	3.0%	3.7%	6.0%	3.4%	2.9%	3.4%	3.3%
Nov 2015													3.4%	3.2%	2.7%	
May 2015													3.6%	3.2%	2.5%	
Nov 2014												4.8%	3.3%	3.1%		
May 2014												3.8%	3.2%	2.6%		
Nov 2013											2.2%	2.5%	2.5%			
July 2013											1.9%	2.4%	2.5%			
Nov 2012										0.9%	1.8%	2.4%				
June 2012										1.2%	1.9%	2.5%				
Nov 2011									1.4%	2.0%	2.4%					
May 2011									2.0%	2.6%	2.9%					
Oct 2010								1.6%	2.4%	2.9%						
June 2010								1.0%	2.8%	3.3%						
Oct 2009							-3.5%	-0.2%	1.5%							
April 2009							-2.7%	-0.2%	1.7%							
Oct 2008						0.8%	0.2%	1.9%								
May 2008						1.3%	1.8%	2.2%								
Oct 2007					3.3%	2.0%	2.6%									
April 2007					2.6%	2.8%	3.0%									
Oct 2006				3.1%	3.0%	3.0%										
April 2006				2.7%	2.6%	2.8%										
Oct 2005			2.0%	2.3%	2.6%											
April 2005			2.6%	2.5%	2.7%											
Oct 2004		3.8%	3.1%	2.7%												
Mar 2004		3.3%	2.9%	3.0%												
Nov 2003	0.7%	1.9%	3.0%													
July 2003	1.1%	2.6%	4.1%													
Jan 2003	2.4%	4.1%	4.0%													

Appendix A: From SIC 2003 to SIC 2007[89]

Before the Spring 2012 LEO GLA Economics used a 12-sector breakdown of the economy in our long-run employment projections – see Table A1. However, the switch over to SIC 2007 allows us both to use sector categories which are more relevant to London and to use a 'higher resolution' of sectors: we now use 16 sectors in our long-run employment projections. The main innovations in SIC 2007 were the new section J, "Information and Communication" and the breakdown of "Business Services" into three categories that are highly relevant to London.

Table A1 shows the broad level mapping of the SIC 2003 categories used in Working Paper 38: 'Employment projections for London by sector and trend-based projections by borough' (November 2009), into the SIC 2007 categories we use now.

Table A1: GLA SIC categories

SIC 2007 GLA Sectors	SIC 2003 GLA Sectors
Primary & utilities	Primary & utilities
Manufacturing	Manufacturing
Construction	Construction
Wholesale	Wholesale
Retail	Retail
Transportation and Storage	Transport & communications
Accommodation and food service activities	Hotels & restaurants
Financial and insurance activities	Financial services
Information and Communication	Business services
Professional, scientific and technical services and real estate	
Administrative and support service activities	
Public Admin and defence	Public Admin
Education	Health & education
Health	
Arts, entertainment and recreation	
Other services	Other services

Most of the new categories introduced by SIC 2007 relate to service activities. This is significant for London as many of its jobs are service sector based. For example Real Estate and Professional and Administrative Service activities have almost three times as many divisions under SIC 2007. Business activities (Section K under SIC 2003), which make up a large proportion of London's employee jobs, has moved to several areas in SIC 2007 including Sections L (Real Estate Activities), M (Professional, Scientific and Technical Activities) and N (Administrative and Support Services Activities). Section M includes legal and accounting activities, head office activities, management consultancy, architectural and engineering activities, scientific research and development, advertising and market research, other professional, scientific and technical activities and veterinary activities.

[89] Hoffman, J., Ram, J. & Smart, E., December 2011, 'Working Paper 51: Employment projections for London by sector and trend-based projections by borough'. GLA Economics.

Some of the business activities from Section K of SIC 2003 have also moved to Sections S (Other service activities) and J (Information and communication) in SIC 2007. Section J in SIC 2007 also includes publishing, film, broadcasting and news agencies in addition to telecoms and computer related activities. The sale of fuel is now considered a retail activity (in SIC 2003 it was part of motor trade), and recycling has moved from manufacturing to water supply and sewerage and waste management.

Appendix B: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report, as far as is compatible with the individual definitions applied by the forecasters, 'employment' refers to 'workforce employment' as defined in, the ONS publication *Labour Market Trends*. *London's Economic Outlook: December 2003* and *The GLA's Workforce Employment Series* provide a more detailed explanation of this term.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). Some forecasters still estimate GDP, which differs slightly from GVA. Imputed rental income from the ownership of property is included in some cases but not in others. GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

Estimates of nominal regional GVA are available up to 2014 from the ONS[90]. So far only experimental official estimates of real regional GVA[91] are available because of the difficulties in producing authoritative regional price deflators, although the ONS has produced regional price indexes for the year 2010[92]. Most regional forecasters supply their own estimates of London's real GVA. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases the expenditure of non-profit organisations is included and in other cases it is not.

[90] ONS, 10 December 2015, 'Regional Gross Value Added (Income Approach): December 2015'.
[91] ONS, 16 December 2015, 'Regional Gross Value Added (Production Approach): 1998 to 2013'.
[92] ONS, 12 July 2011, 'UK Relative Regional Consumer Price Levels for Goods and Services for 2010'.

Appendix C: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
Fed	Federal Reserve
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
GDP	Gross Domestic Product
HM Treasury	Her Majesty's Treasury
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
mn	Million
MPC	Monetary Policy Committee
OBR	Office for Budget Responsibility
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
TfL	Transport for London

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