

**London's Economic Outlook: Spring 2012**  
The GLA's medium-term planning projections



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**Greater London Authority**  
**June 2012**

**Published by**

Greater London Authority  
City Hall  
The Queen's Walk  
London SE1 2AA

**[www.london.gov.uk](http://www.london.gov.uk)**

enquiries **020 7983 4000**

minicom **020 7983 4458**

ISBN: **978-1-84781-514-9**

**Cover photograph**

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## 1. Executive summary

GLA Economics' twentieth London forecast<sup>i</sup> suggests that:

- London's Gross Value Added (GVA) growth rate should be 1.2 per cent in 2012. Growth should increase to 1.9 per cent in 2013 and 2.5 per cent in 2014.
- London is likely to see a modest rise in employment in 2012, 2013 and 2014.
- London household income and spending will both probably increase slowly over the forecast period.

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

**Table 1.1: Summary of forecasts**

<b>Annual growth rates (per cent)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
London GVA (constant 2008 £ billion)	1.8	1.2	1.9	2.5
<i>Consensus (average of independent forecasts)</i>		1.3	2.1	2.6
London civilian workforce jobs	2.6	0.2	0.4	0.6
<i>Consensus (average of independent forecasts)</i>		1.0	0.5	1.1
London household spending (constant 2008 £ billion)	-1.1	0.8	1.3	2.2
<i>Consensus (average of independent forecasts)</i>		2.0	1.0	2.8
London household income (constant 2008 £ billion)	-0.3	0.2	1.2	2.3
<i>Memo: Projected UK RPI<sup>ii</sup> (Inflation rate)</i>	5.2	3.8	2.9	3.1
<i>Projected UK CPI<sup>iii</sup> (Inflation rate)</i>	4.5	3.2	2.2	2.2

Sources: GLA Economics' Spring 2012 forecast and consensus calculated by GLA Economics.

The most recent available evidence indicates that London's economy continues its recovery from the 2008/09 recession and may not have fallen into a double dip recession. Latest economic indicators show a modest improvement in the London economy. However, the recovery for London is expected to be slow and patchy. Consumer confidence remains weak and real wages remain squeezed by inflation which has been more persistent than expected. Slow employment growth is forecast over the next few years with increases in private sector employment likely to outweigh public sector job losses. Unemployment will probably be quite sticky. The Government's fiscal retrenchment is expected to dampen economic growth in the short run but provides support to market confidence in the country's finances. Fiscal tightening should keep downward pressure on market interest rates, which encourages private sector investment.

A large downside risk to the economy remains the large deficits of a number of developed countries public finances and the possibility of a worsening of the sovereign debt crisis in the Eurozone. Disorderly sovereign debt defaults or a disorderly exit from the Eurozone of a member state (i.e. Greece) would put great pressure on the financial system. Concerns also remain about the size of the US budget deficit and national debt. Inflation has so far remained more persistent than expected in 2012 due in part to past high oil prices and is likely to remain above the Bank of England's 2 per cent target until 2013. However, inflation is still likely to follow a downward path during the rest of 2012 in light of the spare capacity in the economy. In response to this and the continuing weakness in the UK economy, interest rates will probably be kept low by the Bank of England over the next few years and the recent round of quantitative easing is unlikely to be wound back soon (and could be extended). Sterling remains weaker than pre 2008/09 recession levels and this should provide support to the economy from import substitution and improved export competitiveness. A competitive exchange rate benefits London's tourism sector and encourages inward foreign investment. An improvement in the economy is likely to be led by net trade and private sector investment rather than by public sector and household consumption. Overall the short-term prospects for the economy remain relatively gloomy. Household budgets are likely to remain tight during the next year or so with at best low real wage growth.

## 2. Introduction

The spring 2012 edition of *London's Economic Outlook* (LEO) is GLA Economics' twentieth 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. GLA Economics' forecast is 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)<sup>iv</sup>
- 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 most *likely* to happen, not what will *definitely* happen.

### 3. Economic background: Eurozone sovereign debt crisis threatens the London economy

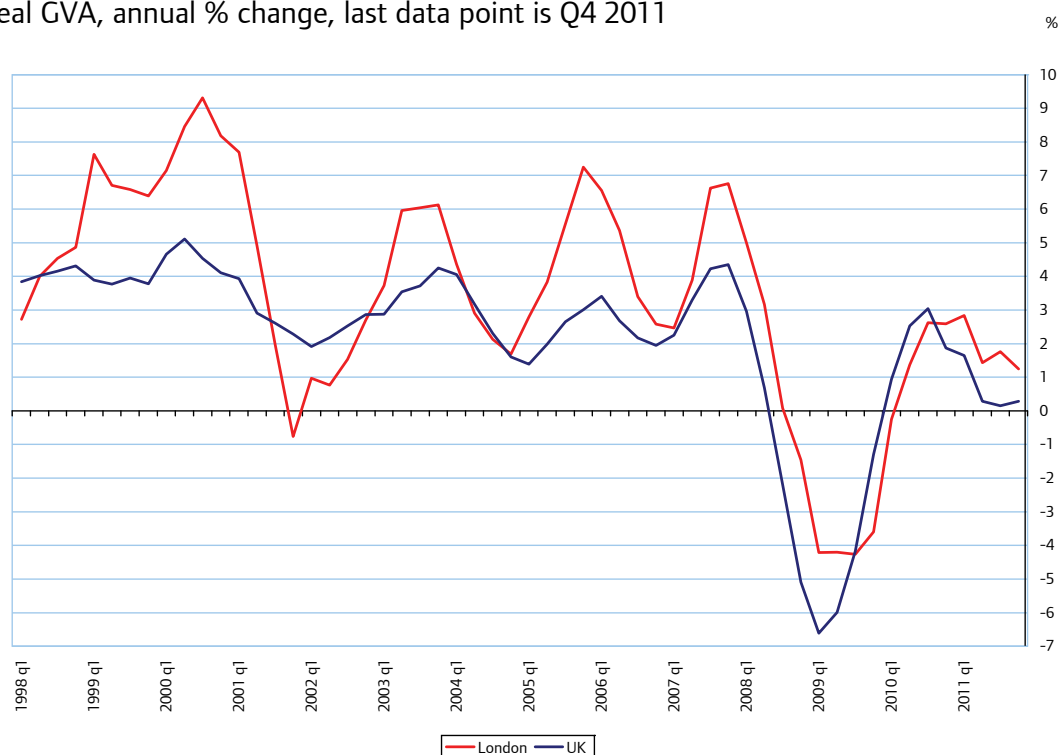
This section provides an overview of recent developments in the London, UK and world economies.

#### 3.1 The London economy

London's annual growth in output stood at 1.2 per cent in the fourth quarter of 2011 compared to 0.3 per cent in the UK. London's economic recovery continues with indicators suggesting that the London economy performed better than the UK economy during the first quarter of 2012.

**Figure 3.1: Output growth – London and UK**

Real GVA, annual % change, last data point is Q4 2011

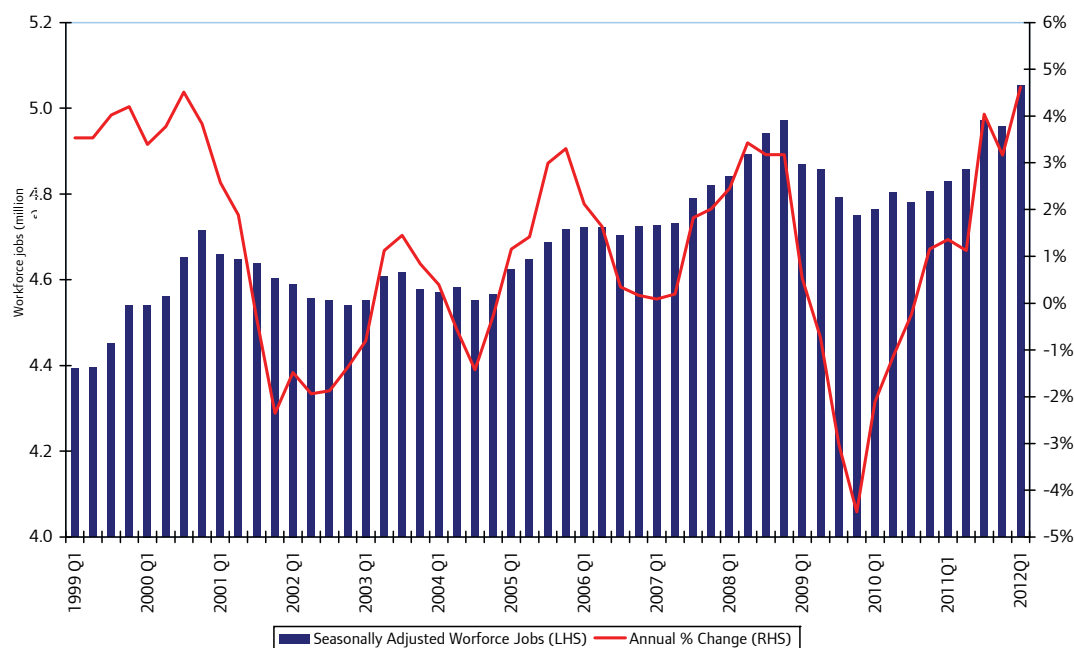


Source: Experian Economics

Annual employment growth in London was strong in Q1 2012 at 4.6 per cent. The total number of workforce jobs in London was just over 5 million in Q1 2012 (see Figure 3.2).

**Figure 3.2: London civilian workforce jobs**

Level and annual % change, last data point is Q1 2012

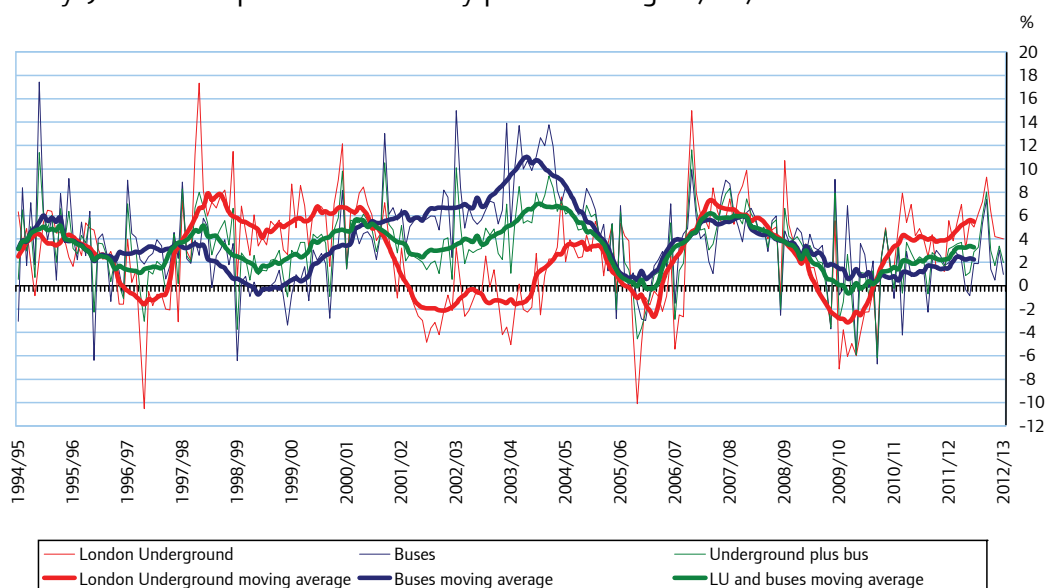


Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows that there is positive annual growth in both the moving average of bus travel and underground usage. Annual growth in underground usage is currently stronger than that for bus travel.

**Figure 3.3: London public transport usage**

Annual % change in passengers using London Underground and buses (adjusted for odd days). Last data point is the 28-day period ending 28/04/12



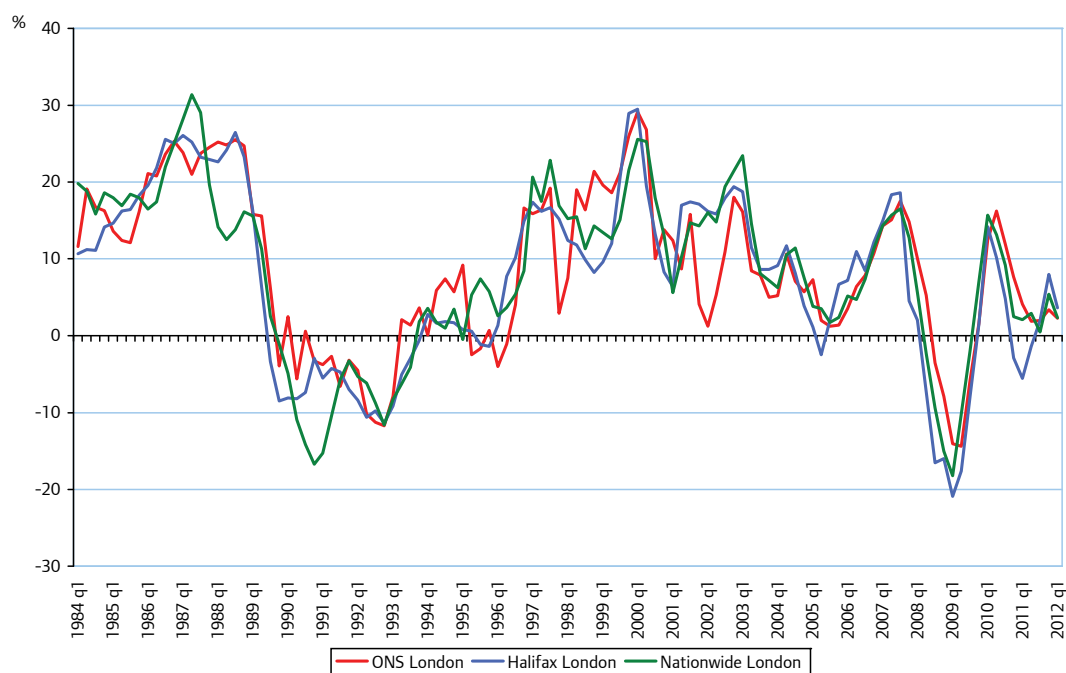
Source: Transport for London



Annual house price inflation weakened in the second half of 2007 and turned negative in 2008. Since then the London housing market has strengthened and is seen as more robust than the market in the rest of the country<sup>v</sup>. Annual house price inflation in London as measured by the Halifax, Nationwide, and the ONS was positive in Q1 2012 (see Figure 3.4).

**Figure 3.4 House price inflation in London**

Annual % change, last data point is Q1 2012



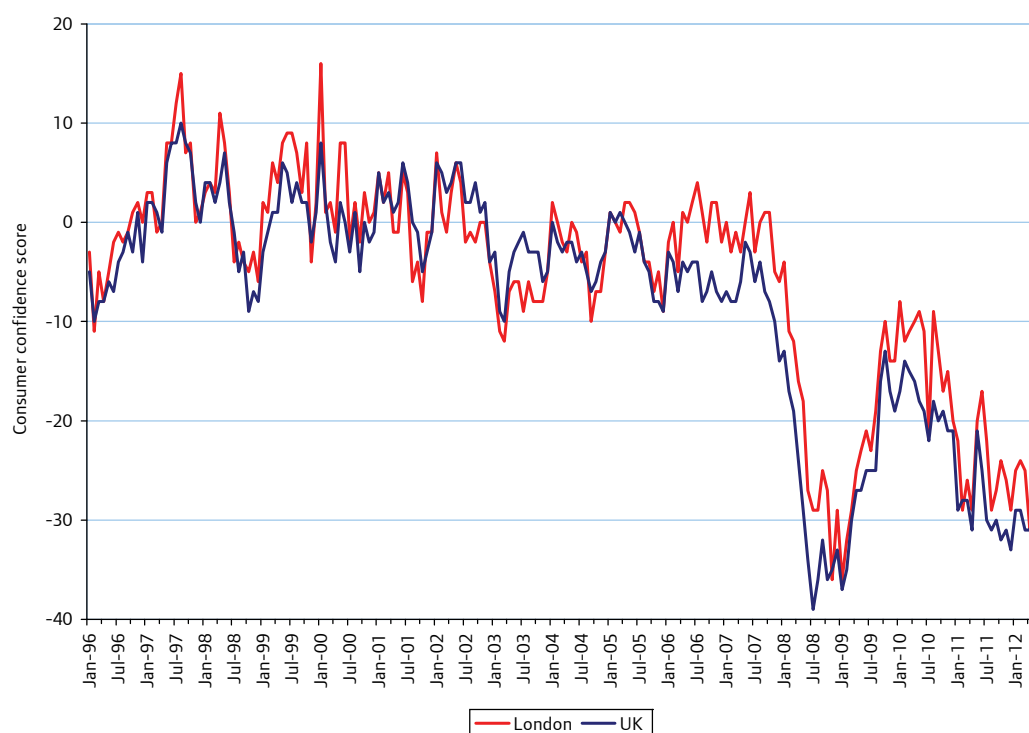
Sources: ONS, Halifax house price index, Nationwide

Knight Frank's 'Central London Quarterly' for commercial property showed that "Central London take-up fell by 26 per cent to 2.2 m sq ft in the first quarter as the uncertainty in the global economy in the second-half of last year filtered through to the occupational market. However, sentiment has improved noticeably during the quarter." Meanwhile "supply in Central London rose to 18.1 m sq ft, reflecting a vacancy rate of 7.9 per cent"; whilst "investment turnover totalled £2.9 bn in the final quarter, the highest for more than 12 months" and "overseas investors were particularly active in the City, while in the West End domestic investors dominated the purchaser profile."<sup>vi</sup>

GfK NOP's regional consumer confidence index (Figure 3.5) shows that consumer confidence has deteriorated in London since summer 2010 but it improved in May 2012 and stands higher than in the UK as a whole. Consumer confidence is above the level at the depth of the 2008/09 recession. 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 3.5: GfK NOP's regional consumer confidence index**

Consumer confidence score, last data point is May 2012



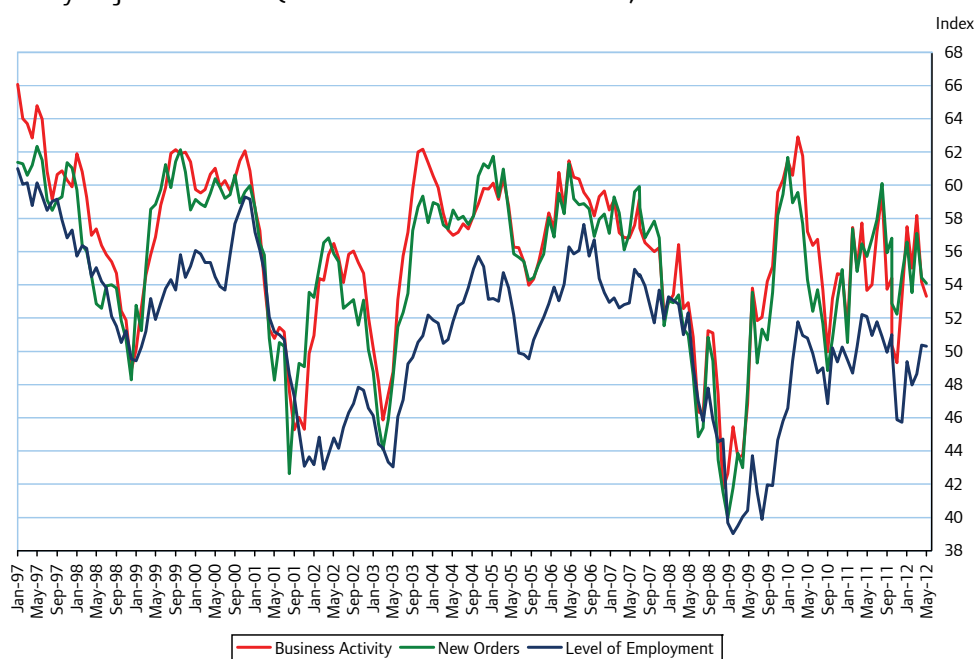
Sources: GfK NOP on behalf of the European Commission

The PMI business survey indicates that business activity has been expanding since May 2009 (apart from August 2010 and November 2011). Employment in London firms just increased in both April and May 2012 and new orders continue to rise (see Figure 3.6).

**Figure 3.6: Recent survey evidence on London's economic climate**

Purchasing Manager's Index (PMI) survey, last data point May 2012

Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Markit Economics

### 3.2 The UK economy

The Office for National statistics (ONS) in its second release for Q1 2012 GDP estimates that the UK economy re-entered recession (defined as two or more consecutive quarters of declining output) in Q1 2012. Output declined by 0.3 per cent in Q1 2012 after also declining by 0.3 per cent in Q4 2011. UK output was -0.1 per cent lower in Q1 2012 than in Q1 2011<sup>vii</sup>, and is just over 4 per cent below its pre 2008/09 recession peak. The IMF forecasts that the UK economy will grow by 0.8 per cent in 2012 and by 2.0 per cent in 2013<sup>viii</sup>.

**Table 3.1: HM Treasury and consensus forecasts for the UK economy**

Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Budget March 2012	
	2012	2013	2012	2013
GDP growth (per cent)	0.4	1.7	0.8	2.0
Claimant unemployment (mn)	1.77	1.76	1.65	1.64
Current account (£bn)	-26.6	-22.4	-27	-21
PSNB (2012-13, 2013-14: £bn)	107.5	103.5	92 <sup>ix</sup>	98

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, May 2012.

Office for Budget Responsibility, Economic and fiscal outlook, March 2012.

As can be seen in Table 3.2 annual growth was positive in Q1 2012 in distribution, hotels and catering, transport, storage and communication, business services and finance, and government and other services. The overall strength of the economy in the rest of 2012 is likely to be modest.

**Table 3.2: Recent growth in broad industrial sectors of UK economy**

Annual % change

Industrial sectors	2010 Q4	2011				2012 Q1
		Q1	Q3	Q2	Q3	
Agriculture, forestry, and fishing	-11.1%	-4.3%	-4.1%	-4.0%	5.0%	-4.6%
Mining & quarrying inc oil & gas extraction	-5.8%	-10.9%	-18.5%	-16.8%	-14.8%	-14.1%
Manufacturing	5.0%	4.4%	2.7%	1.2%	-0.2%	-0.8%
Electricity gas and water supply	6.3%	-4.9%	-5.7%	-0.4%	-11.0%	-4.8%
Construction	10.9%	8.3%	2.4%	-0.1%	1.0%	-2.2%
Distribution, hotels and catering	-0.5%	1.0%	0.4%	0.4%	1.1%	0.6%
Transport, storage and communication	2.1%	1.1%	1.3%	2.0%	0.7%	1.7%
Business services and finance	2.0%	2.3%	1.8%	2.2%	2.2%	0.9%
Government and other services	-0.5%	1.5%	1.3%	1.3%	2.2%	1.1%

Source: Office for National Statistics (as of 24 May 2012)

Table 3.3 shows that household annual spending growth remained negative in Q1 2012. Investment fell heavily during the 2008/09 recession, and after picking up in 2010

annual growth again turned negative in Q1 2011 and has remained so since. Looking forward investment is expected to pick-up.

**Table 3.3: UK domestic expenditure growth**

Annual % change

Expenditure	2010 Q4	2011				2012 Q1
		Q1	Q4	Q2	Q3	
Households	0.5%	-0.3%	-1.5%	-1.8%	-1.0%	-0.1%
Non-profit institutions	2.7%	0.6%	-2.0%	-3.7%	-4.5%	-1.7%
General Government	0.8%	0.4%	-0.1%	-0.4%	0.3%	1.8%
Gross fixed capital formation	3.3%	-3.0%	-0.3%	-0.5%	-1.0%	-0.4%

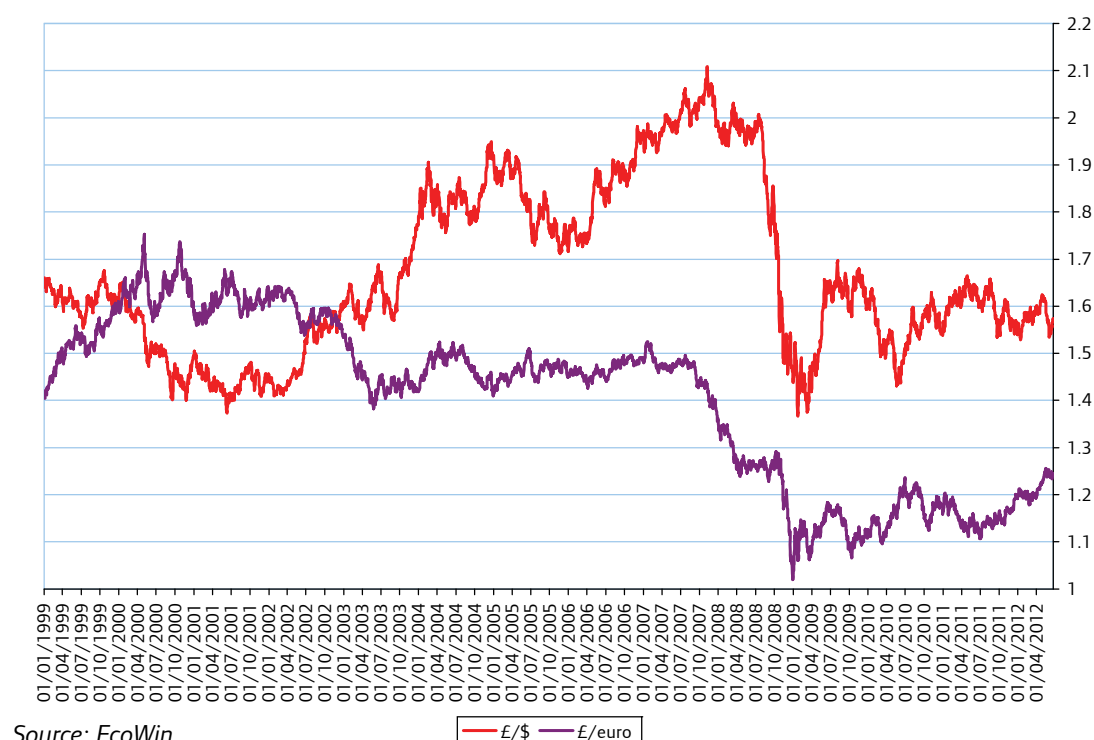
Source: Office for National Statistics (as of 24 May 2012)

Inflation continues to remain above the Bank of England's central symmetrical target of 2 per cent, with annual Consumer Price Index (CPI) inflation standing at 2.8 per cent in May. The Bank of England now believes CPI inflation will stay above its 2 per cent symmetrical target "for the next year or so"<sup>x</sup>. However interest rates are expected to remain extremely accommodating and there have been calls for a further loosening of monetary policy<sup>xi</sup>. Meanwhile annual Retail Price Index (RPI) inflation stood at 3.1 per cent in May.

Sterling continues to remain relatively weak against the dollar compared to the heights it reached in 2007 (see Figure 3.7). Against the Euro sterling has recently risen slightly<sup>xii</sup> but still remains below pre 2009 levels which should support exporters, tourism and import substitution.

**Figure 3.7: £ to \$ and £ to euro exchange rates**

Last data point is 20/06/12



Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)<sup>xiii</sup> (see Figure 3.8). There was a fall of approximately 30 per cent from its peak in early 2007 up to January 2009. Since then sterling has fluctuated a bit but remains weak and around the level seen after sterling came out of the Exchange Rate Mechanism (ERM) in 1992. The large depreciation of sterling in 2008 should continue to provide support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports. UK exporters should also be helped by relatively strong growth in emerging market economies, such as China.

**Figure 3.8: Sterling EERI rate**

Last data point is 20/06/12



Source: Bank of England

### 3.3 The world economy

In April the IMF forecast that the world economy would expand by 3.5 per cent in 2012<sup>xiv</sup>, with growth of 4.1 per cent forecast for 2013. Most developed economies are forecast to grow but at a subdued rate. The US economy is forecast to grow by 2.1 per cent in 2012 and then by 2.4 per cent in 2013<sup>xv</sup>. The Eurozone is forecast to contract by -0.3 per cent in 2012 and grow by 0.9 per cent in 2013<sup>xvi</sup>. Growth in emerging and developing economies is expected to be 5.7 per cent in 2012 and 6.0 per cent in 2013<sup>xvii</sup>.

In April the IMF observed that “after suffering a major setback during 2011, global prospects are gradually strengthening again, but downside risks remain elevated”. They therefore expect “that growth will remain weak, especially in Europe, and unemployment will remain high for some time”<sup>xviii</sup>. In relation to risks for the global economy they note “geopolitical tension affecting the oil market is surely a risk. The main one, however, remains another acute crisis in Europe. The building of the firewalls, when it is completed, will represent major progress. If and when needed, funds can be mobilized to help some countries survive the effects of adverse shifts in investor

sentiment and give them more time to implement fiscal consolidation and reforms. By themselves, however, firewalls cannot solve the difficult fiscal, competitiveness, and growth issues some of these countries face.”<sup>xxix</sup> The IMF further observed in its Global Financial Stability Report that “pressures on European banks remain, including from sovereign risks, weak euro area growth, high rollover requirements, and the need to strengthen capital cushions to regain investor trust.”<sup>xxx</sup> The IMF further observed that “European policymakers need to build on recent improvements to implement the agreed reforms swiftly.”<sup>xxxi</sup> However “to achieve lasting stability and move to a path that inspires confidence, these crisis management policies need to be anchored with a road map of further financial and fiscal integration of the Economic and Monetary Union.”<sup>xxii</sup> Elsewhere, it observes that, “most emerging markets have policy room to buffer moderate deleveraging forces emanating from the European Union, but their resilience could be tested in a downside scenario, notably in emerging Europe. Elsewhere, the United States and Japan have yet to forge a political consensus for medium term deficit reduction, perpetuating latent risks to financial stability.”<sup>xxiii</sup>

The **US** economy has continued its recovery into 2012 although growth remains subdued<sup>xxiv</sup>. US consumer confidence has improved in 2012<sup>xxv</sup> and the US is adding new jobs but unemployment remains high standing at 8.2 per cent in May<sup>xxvi</sup>. The US economy appears to be in a modest recovery but international events could still unhinge it<sup>xxvii</sup>. Thus the June 2012 Beige Book from the Federal Reserve reported that “overall economic activity expanded at a moderate pace during the ... period from early April to late May”<sup>xxviii</sup>. However, the US remains wary of events in the Eurozone with minutes from the April Federal Open Market Committee of the Federal Reserve stating that “strains in global financial markets stemming from the sovereign debt and banking situation in Europe continued to pose significant downside risks to economic activity both here and abroad”<sup>xxix</sup>. This is likely to lead to the Fed keeping interest rates very low for some time, with them currently standing at a target rate of between 0 and 0.25 per cent. It is expected that US interest rates are unlikely to rise until 2014<sup>xxx</sup>, but the prospects of a further round of quantitative easing have reduced slightly<sup>xxxi</sup>.

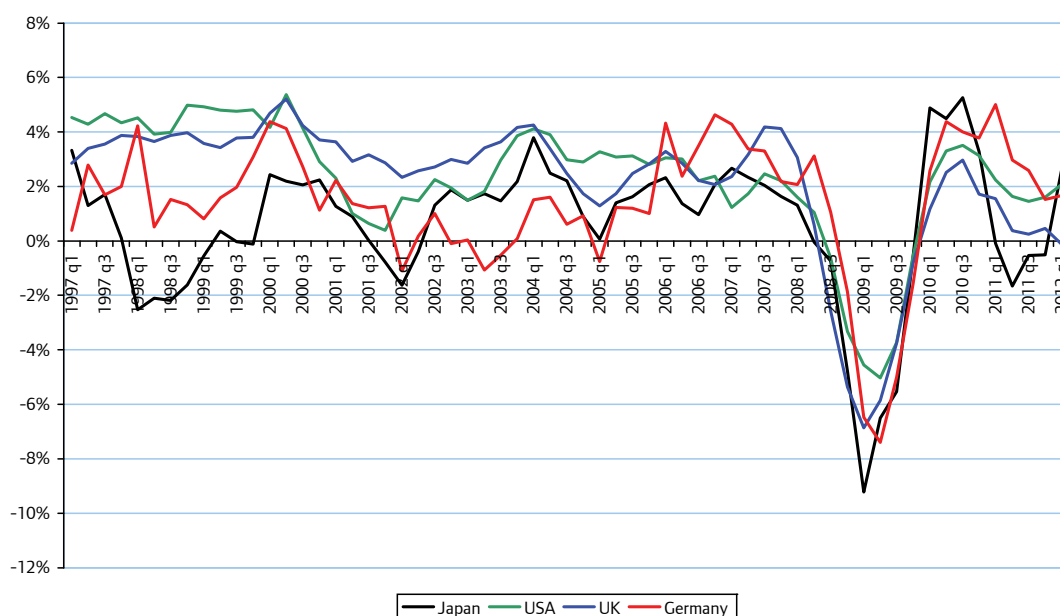
Initial estimates suggest that the **Eurozone** economy only just avoided returning to recession in the first quarter of 2012, with output staying unchanged in Q1 2012 after decreasing by 0.3 per cent in Q4 2011. The better than expected Q1 2012 output figure was driven by Germany whose economy grew by 0.5 per cent in Q1 2012<sup>xxxii</sup>. The European Commission forecasts that the Eurozone economy will contract by 0.3 per cent in 2012 before growing by 1 per cent in 2013<sup>xxxiii</sup>. Growth slowed in a number of Eurozone countries in the second half of 2011 and into the first quarter of 2012 (excluding Germany). France's GDP remained unchanged at 0.0 per cent in Q1 2012, after growing by 0.1 per cent in Q4 2011, Spain's economy contracted by -0.3 per cent in Q4 2011 and Q1 2012, Italy's economy contracted by -0.7 per cent in Q4 2011 and -0.8 per cent in Q1 2012 and Portugal's economy contracted by -1.3 per cent in Q4 2011 and -0.1 per cent in Q1 2012. In December 2011 in response to the problems in the Eurozone (see Box 3.1) the European Central Bank (ECB) cut interest rates by 25 basis points to 1 per cent<sup>xxxiv</sup>. Eurozone unemployment remains high with it standing at 11.0 per cent in April, the highest since records began in 1995<sup>xxxv</sup>. Further, the sovereign debt position and the

public finances of a number of members of the Eurozone continues to have the potential to lead to a world financial crisis.

**Japan** experienced faster than expected growth in Q1 2012. Having not grown in Q4 2011 output grew by 1.0 per cent in the first quarter of 2012<sup>xxxvi</sup> but output growth is expected to be less strong in coming quarters<sup>xxxvii</sup>. Results from the Bank of Japan's Tankan survey of manufacturing sentiment continues to be pessimistic<sup>xxxviii</sup>. In April the IMF forecast that Japan's economy would grow by 2 per cent in 2012 and by 1.7 per cent in 2013<sup>xxxix</sup>.

### Figure 3.9: GDP growth in selected industrialised countries

Real GDP, annual % change, last data point is Q1 2012.



Source: Ecwin

### Box 3.1: London's recovery is threatened by the Eurozone sovereign debt crisis and would be by any spike in oil prices

All economies face the potential for an external shock and London's recovering economy is no exception. Two particular exogenous shocks could yet impact upon the recovery. The most profound risk comes from the Eurozone.

#### A return to higher oil prices

The first of these is from oil prices. Even in the usual US dollar terms a barrel of Brent crude rose from a low of around \$40 at Christmas 2008 to \$125 at Easter 2012. However, on account of the fact that sterling had weakened against the US dollar over the period, once exchange rates are introduced the picture was even worse with the price going from around £25 at Christmas 2008 to £80 at Easter 2012 as shown in Figure 3.10. This was reflected at the petrol pumps where the price of a litre of unleaded hit a new record in late March, exceeding 140p per litre according to Experian Catalyst.

**Figure 3.10: Price of a barrel of Brent crude in sterling and dollar terms**

Last Data point is 20/6/12



Source: Ecowin

However, the global experience in oil markets since the end of April has been entirely different. The International Energy Agency's monthly oil report for April sent the first signals that oil prices might have peaked. Since then a number of inter-related factors on both the demand and supply sides have conspired to drive prices markedly lower.

On the demand side these include:

1. The weakness of the European economies, ongoing concerns over Greece and the lack of a united vision from the EU in the face of that.
2. The US jobs report at the beginning of May suggesting that the US recovery may now weaken.
3. Some potential for slower growth in China.
4. A shift in the weather across Europe during May from markedly below seasonal norms to markedly above.

Meanwhile, on the supply side these include:

5. The resurgence of oil exports from both Libya and Iraq. In the case of the former, production figures have now reached levels not seen since the autumn of 2008.
6. The effect of US shale oil fracking on driving up US oil output.
7. Signs of a possible deal between Western countries and Iran on the inspection of nuclear facilities, potentially breaking the diplomatic deadlock and removing the threat of the closure of the Straits of Hormuz.

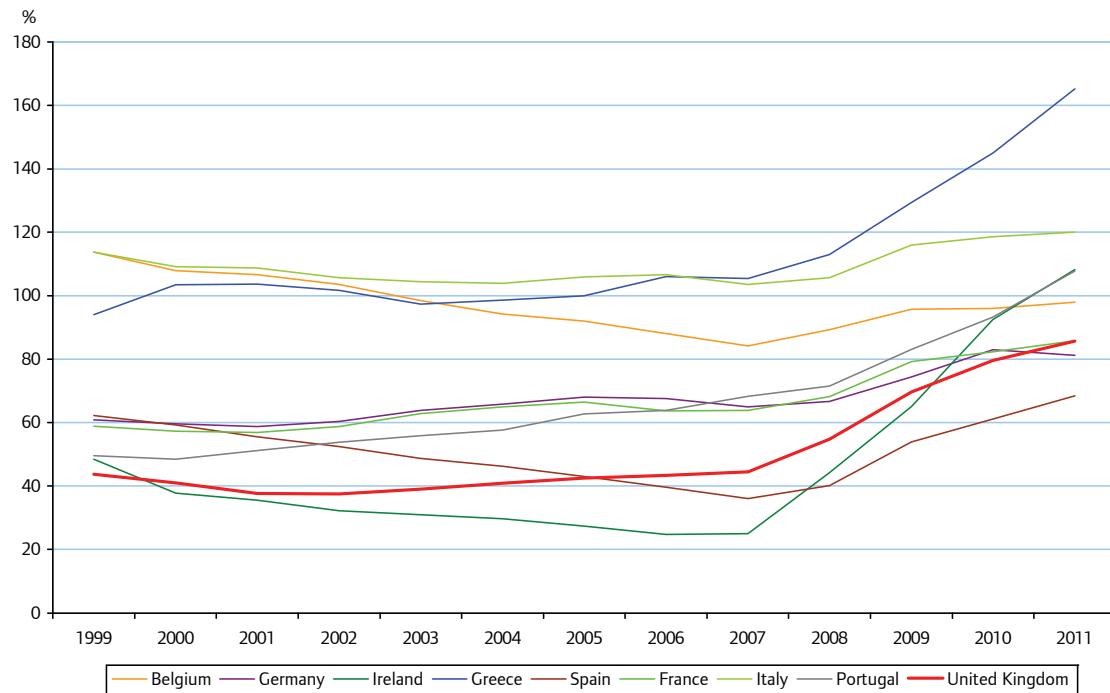
The combined result of the interaction of these factors is that a barrel of Brent Crude had fallen to below \$100 a barrel by mid June but this is still relatively high in historical terms.



### Eurozone sovereign debt crises worsen with a possible disorderly Greek exit from the Euro

The main threat to London's recovery comes from the Eurozone. A number of countries within the Eurozone – particularly those on its southern and western physical peripheries – have ongoing sovereign debt crises. The percentage of GDP accounted for by sovereign debt for a selection of Eurozone countries and the UK is shown in Figure 3.11.

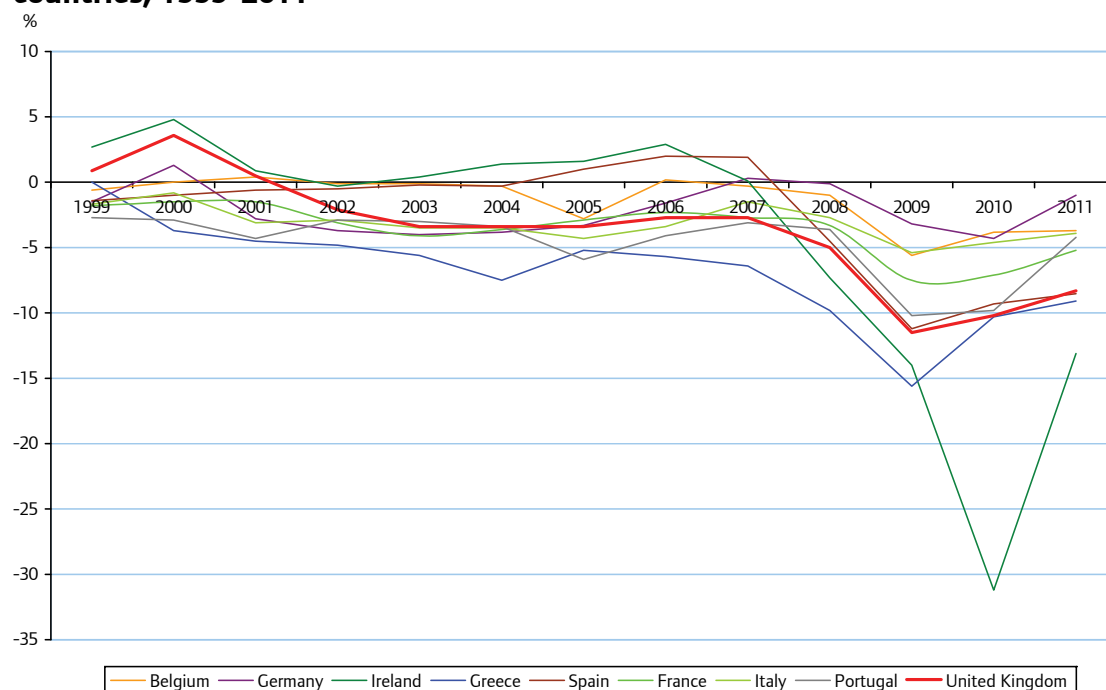
**Figure 3.11: Sovereign debt as a percentage of GDP for selected countries, 1999 – 2011**



Source: EUROSTAT

A number of these countries also have large budget deficits as a percentage of GDP as shown in Figure 3.12.

**Figure 3.12: Government deficit / surplus as a percentage of GDP for selected countries, 1999-2011**



Source: EUROSTAT

### Greece

So far the most seriously affected country from the Eurozone sovereign debt crisis has been Greece. A new austerity package was agreed in February 2012 as the price of a further €130 billion bailout and, one month later, a debt swap deal with the country's private sector lenders enabled Greece to reduce its debt load. However, Greece's problems were exacerbated by the inconclusive result of the May 2012 election. No group of political parties were capable of forming a coalition Government so a new election was called for 17 June with that fact alone increasing market instability. The result of this election has led to a coalition Government being formed.

If Greece were to be forced to leave the Eurozone in a disorderly manner, some or more of the following seem likely to happen:

1. Greek banks would risk going bust because they are large lenders to the Greek government.
2. Ordinary Greek citizens would attempt to clean out their bank accounts causing a run on banks and potentially destroying the Greek banking sector even prior to its complete departure from the Euro.
3. There would be no logical reason for Greece not to repudiate all agreements totally – including those made for the Greek Loan Facility. The Greek Central Bank would be unable to pay the ECB and it would be likely that the ECB would cut its credit line.
4. Investors would become more nervous about lending to other Southern European economies.
5. Greek businesses owing money to foreign lenders in Euros would most likely be unable to repay their debts resulting in serious losses for foreign lenders.
6. There would be market turmoil as investors fled to safe investments such as the US dollar and gold. Oil prices might fall further.

7. Across the wider EU, confidence in banks which have lent heavily to Southern Europe might collapse.
8. The impact from the hit on banks might induce a steep rise in liquidity problems and induce a deepening of a likely recession in the Eurozone.
9. With Greece having set a precedent, other countries such as Spain and Portugal might be tempted or forced to default.

A disorderly Greek exit from the Eurozone also carries further potential risks in that equity markets might correct downwards very sharply in response. There would likely be a longer term problem for British exporters in terms of reduced demand across the Eurozone.

Ireland and Portugal have also required international financial support although their problems are in fact rather different. The situation in both is currently relatively stable. However, Ricardo Santos of BNP Paribas argues that Portugal will still be likely to need an extension of the current programme until 2015, requiring somewhere in the order of €60 billion in additional funding.

The relatively small sizes of the Irish, Portuguese and Greek economies meant that their problems could initially be contained through international bailouts. The worry now is that uncontrollable contagion might well hit one of the larger southern European economies such as Italy or, especially, Spain.

### **Spain**

In April 2012, official data confirmed what most had already anticipated: that Spain was back in recession. In spite of the fact that the figure of a 0.3 per cent contraction (following a similar contraction in the previous quarter) was not quite as bad as most had feared, the data release coincided with negative actions from the ratings agency, Standard and Poor's, against a host of Spanish financial institutions. One of the reasons that the government is actually having to borrow more is the parlous state of the Spanish labour market. Unemployment is close to 25 per cent and youth unemployment is now more than one in two. The government is having to borrow to fill the gap left by the jump in unemployment claims and the collapse of the tax take. The real estate bubble has burst but, if Spanish property prices are going to follow the Irish pattern, then prices have a fair way to fall yet.

On May 18<sup>th</sup> 2012, Moody's downgraded 16 Spanish banks including both Santander and Banco Bilbao Vizcaya Argentaria – the country's two largest lenders. The main driver was the return to recession, restricted funding access and the decreased ability of the Spanish government to support banks given the state of its own creditworthiness. The Prime Minister, Mr Rajoy, had already warned that the country was at risk of being shut out of the financial markets. On May 25<sup>th</sup> it was announced that Spain intends to inject a further €19 billion into the Bankia savings bank, effectively nationalising it. On the weekend of 9<sup>th</sup> June it became clear that Spain would need around €100 billion from Eurozone bailout funds to recapitalise its weak banks<sup>xl</sup>. It seems that further austerity measures will not be linked to this loan/credit line which has been given a mixed reaction by the markets.

### Prospects for the Eurozone economy

The required improvement in competitiveness and the rebalancing of economies in countries such as Greece, Spain, Ireland, Portugal and Italy will impact negatively on their growth prospects for at least a couple of years. So far, UK exports to the Eurozone have held up reasonably well but that may not continue. In May 2012, the European Commission released new growth forecasts. Table 3.4 shows forecasts for 2012 and 2013 for the indebted peripheral economies and the EU as a whole.

**Table 3.4: European Commission forecasts for Greece, Portugal, Ireland, Spain, Italy and the EU for 2012 and 2013**

Area	GDP growth forecast 2012 (%)	GDP growth forecast 2013 (%)
Greece	-4.7	0.0
Portugal	-3.3	0.3
Ireland	0.5	1.9
Spain	-1.8	-0.3
Italy	-1.4	0.4
<b>EU</b>	<b>0.0</b>	<b>1.3</b>

Source: *European Economic Forecast, Spring 2012 (Provisional)*, EC / [europa.eu](http://europa.eu)

The summit of EU leaders in May 2012 also ended in deadlock on the issue of Eurobonds – advanced by many but rejected by Chancellor Merkel. The introduction of such bonds would make debt servicing far more expensive for Germany but considerably cheaper for Italy and Spain. Eurobonds would effectively collectivise future Eurozone debt, being issued by one country but actually being underwritten by all Eurozone member states. Proponents of the bonds argue that they would stabilise the Eurozone and put an end to market speculation about which Eurozone economies might leave the Euro. However, collectivising debt would create moral hazard by removing the incentive for an individual economy to sort its own fiscal problems out.

### 3.4 Emerging market economies

**China's** economy grew by 9.2 per cent in 2011<sup>xi</sup> but slowed slightly in the first quarter of 2012 with it expanding by 8.1 per cent year-on-year<sup>xlii</sup>. There is now evidence emerging of a mounting slowdown<sup>xliii</sup>. Chinese inflation fell back slightly to 3.4 per cent in April 2012<sup>xliv</sup>; the figure was within the Chinese Government's target of keeping full year inflation to around 4 per cent<sup>xlv</sup>. The IMF is forecasting that the Chinese economy will grow by 8.2 per cent in 2012 and by 8.8 per cent in 2013<sup>xlvi</sup>, whilst the Asian Development Bank (ADB) forecasts Chinese growth of 8.5 per cent in 2012 and 8.7 per cent in 2013<sup>xlvii</sup>. **India's** economy grew at its slowest rate since 2003 in the first three months of 2012 at an annualised rate of 5.3 per cent<sup>xlviii</sup>. The Reserve Bank of India cut the repo rate for the first time in three years by 50 basis points to 8 per cent in April to stimulate the economy<sup>xlix</sup>. However, inflation remains a concern making any more decisions by the central bank to stimulate the economy by further cutting the interest rate more difficult<sup>l</sup>. The IMF forecasts Indian growth will be 6.9 per cent in 2012 and 7.3 per cent in 2013<sup>li</sup>, whilst the ADB forecasts growth of 7.0 per cent in 2012 and 7.5 per cent in 2013<sup>lii</sup>. **Russia's** economy is forecast by the IMF to grow by 4.0 per cent in 2012 and by 3.9 per cent in 2013<sup>liii</sup>, but concerns have been raised about the stability of its finances if the oil price experienced a sustained fall<sup>liv</sup>.

### 3.5 Risks to the world economy

Downside risks to the world economic outlook increased in the second half of 2011, and after stabilising in the first few months of 2012 have recently risen again. Continuing sovereign debt problems (especially in 'peripheral' Eurozone nations) remain of particular concern, whilst globally the level of unemployment is also a worry<sup>lv</sup>. A disorderly exit of Greece from the Eurozone and all the upheaval this would bring to the global financial system and the damage to business confidence is the most significant risk to the world economy at the moment. Many emerging market economies grew strongly in 2011 but showed evidence of a slowdown at the beginning of 2012. A majority of developed economies displayed signs of economic weakness at the beginning of the year. Global commodity prices rose in early 2012, although this rise has recently abated. Global stock markets could experience further volatility if the current problems in the Eurozone continue or worsen. Consumer, business and investor confidence remains weak and is being negatively affected by the Eurozone crisis. However, the monetary policies of most central banks in the developed world remain extremely accommodating and are expected to remain so for some time to come providing some support to the global economy.

The major ongoing risk to the world economy is the weak fiscal position of many governments in the developed world, although the UK is implementing policies to improve its own situation. Global inflationary pressures partially from previous strong growth in emerging market economies are only easing slowly and have dampened real household expenditure growth. There remains a danger that the global economy will become even more unbalanced with emerging market economies doing relatively well, whilst the developed economies, especially in Europe, recover sluggishly if at all. Above all the world economy is being hindered by sovereign debt problems in the Eurozone. Further exchange rate flexibility would help ease global economic imbalances but progress is slow at best. The global financial system remains vulnerable from fragile banks some of which are requiring further recapitalisation<sup>lv</sup>. The weakening economic condition in some Eurozone countries is amplifying this vulnerability and the potential for adverse feedback loops between sovereign debt problems, fragile banking systems and weakening economies is increasing.

### 3.6 Conclusion

London's economy is expected to grow at a subdued rate over 2012-14 with employment rising moderately. The pace of economic growth is likely to pick up somewhat by the end of the forecast horizon. However downside risks to the London economy are high due to the Eurozone sovereign debt crisis. Inflation remains above target and combined with higher taxes, low wage growth and public sector spending cuts means that consumers will be under continued financial pressure for the next year or so. If growth is to pick up it is likely to be due to private sector investment and net exports. This will help rebalance the economy and put it on a sounder footing in the long term. However, the process will continue to be a difficult one and consumer credit is likely to remain tight.

## 4. Review of independent forecasts

### What the forecasts provide

In Chapter 5, GLA Economics' forecast of four economic indicators is provided: workforce employment, real output, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 31 May 2012 on the first three of these indicators is summarised<sup>lvii</sup>, drawing on forecasts from outside (independent) organisations.<sup>lviii</sup> Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for all historic data in the following tables and charts is EE.

Additionally, both the consensus<sup>lix</sup> and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transportation and storage
- distribution<sup>lx</sup>, accommodation and food service activities
- finance<sup>lxi</sup> and business services<sup>lxii</sup>
- other (public & private) services<sup>lxiii</sup>.

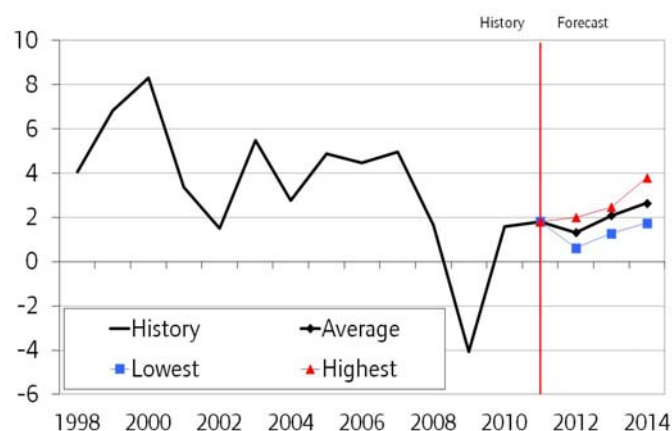
It should be noted, that since our Autumn 2011 forecast GLA Economics has moved to using the new Standard Industrial Classification (SIC 2007), which is explained in more detail in Appendix A.

## Output

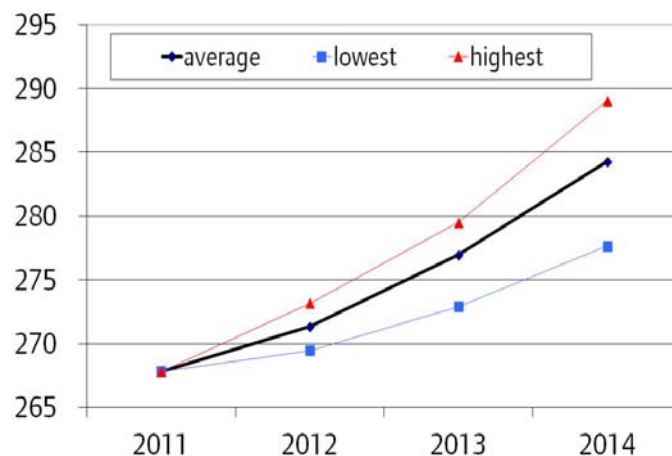
(London GVA, constant prices (base year 2008), £ billion)

The consensus (mean average view) is for real output growth to remain positive in 2012 and to reach 2.6 per cent in 2014.

### Annual growth (per cent)



### Level (constant year 2008, £ billion)



Annual growth (per cent)			
	2012	2013	2014
Average	1.3	2.1	2.6
Lowest	0.6	1.3	1.7
Highest	2.0	2.5	3.8

Level (constant year 2008, £ billion)			
	2012	2013	2014
Average	271	277	284
Lowest	269	273	278
Highest	273	280	289

### History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.0	6.8	8.3	3.4	1.5	5.5	2.8	4.9	4.4	4.9	1.6	-4.1	1.6	1.8

### History: Level (constant year 2008, £ billion)

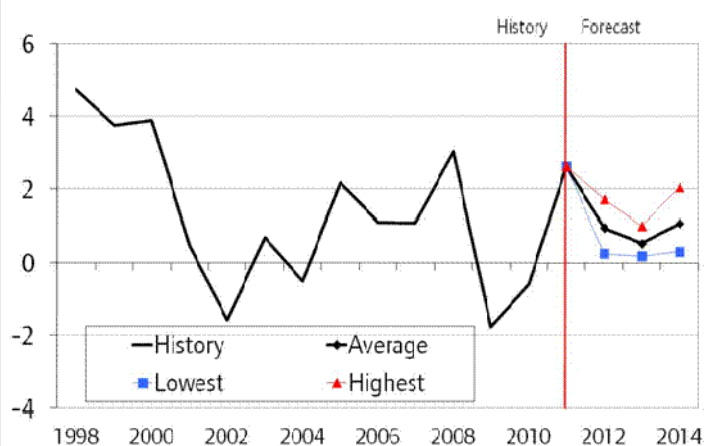
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
168.9	175.7	187.7	203.3	210.1	213.2	224.9	231.1	242.3	253.1	265.6	270.0	259.0	263.1	267.8

## Employment

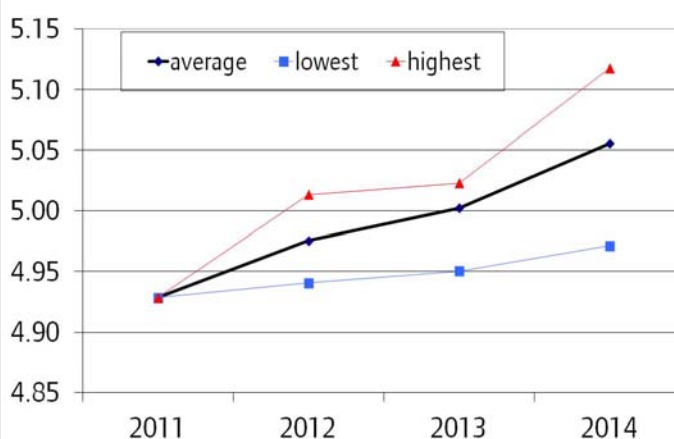
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 1.0 per cent in 2012, by 0.5 per cent in 2013 and by 1.1 per cent in 2014.

### Annual growth (per cent)



### Level (millions)



Annual growth (per cent)			
	2012	2013	2014
Average	1.0	0.5	1.1
Lowest	0.2	0.2	0.3
Highest	1.7	1.0	2.1

Level (millions)			
	2012	2013	2014
Average	4.98	5.00	5.06
Lowest	4.94	4.95	4.97
Highest	5.01	5.02	5.12

### History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.7	3.8	3.9	0.5	-1.6	0.7	-0.5	2.2	1.1	1.1	3.0	-1.8	-0.6	2.6

### History: Level (millions)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.09	4.28	4.44	4.61	4.64	4.56	4.59	4.57	4.67	4.72	4.77	4.92	4.83	4.80	4.93

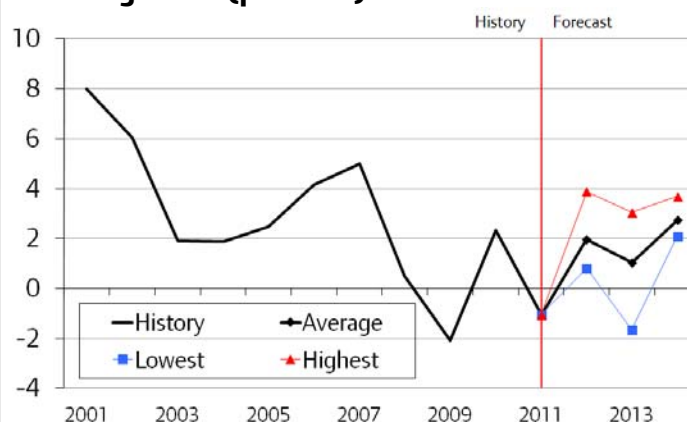


## Household expenditure

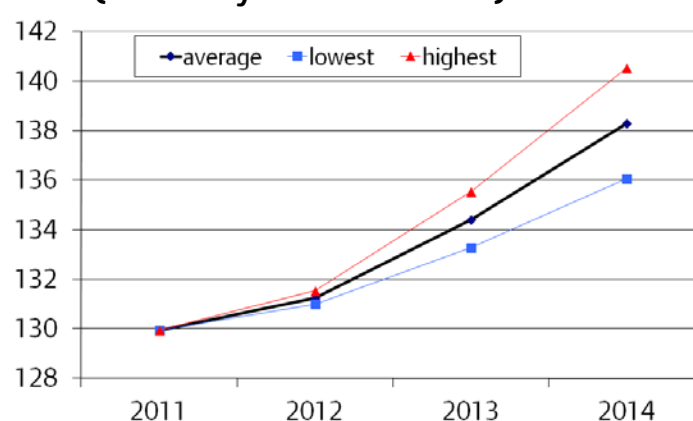
(London household spending, constant year 2008, £ billion)

The consensus view is for positive household expenditure growth of 2.0 per cent in 2012, 1.0 per cent in 2013 and 2.8 per cent in 2014.

### Annual growth (per cent)



### Level (constant year 2008 £ billion)



Annual growth (per cent)			
	2012	2013	2014
Average	2.0	1.0	2.8
Lowest	0.8	-1.7	2.1
Highest	3.9	3.1	3.7

Level (constant year 2008, £ billion)			
	2012	2013	2014
Average	131	134	138
Lowest	131	133	136
Highest	132	136	141

### History: Annual growth (per cent)

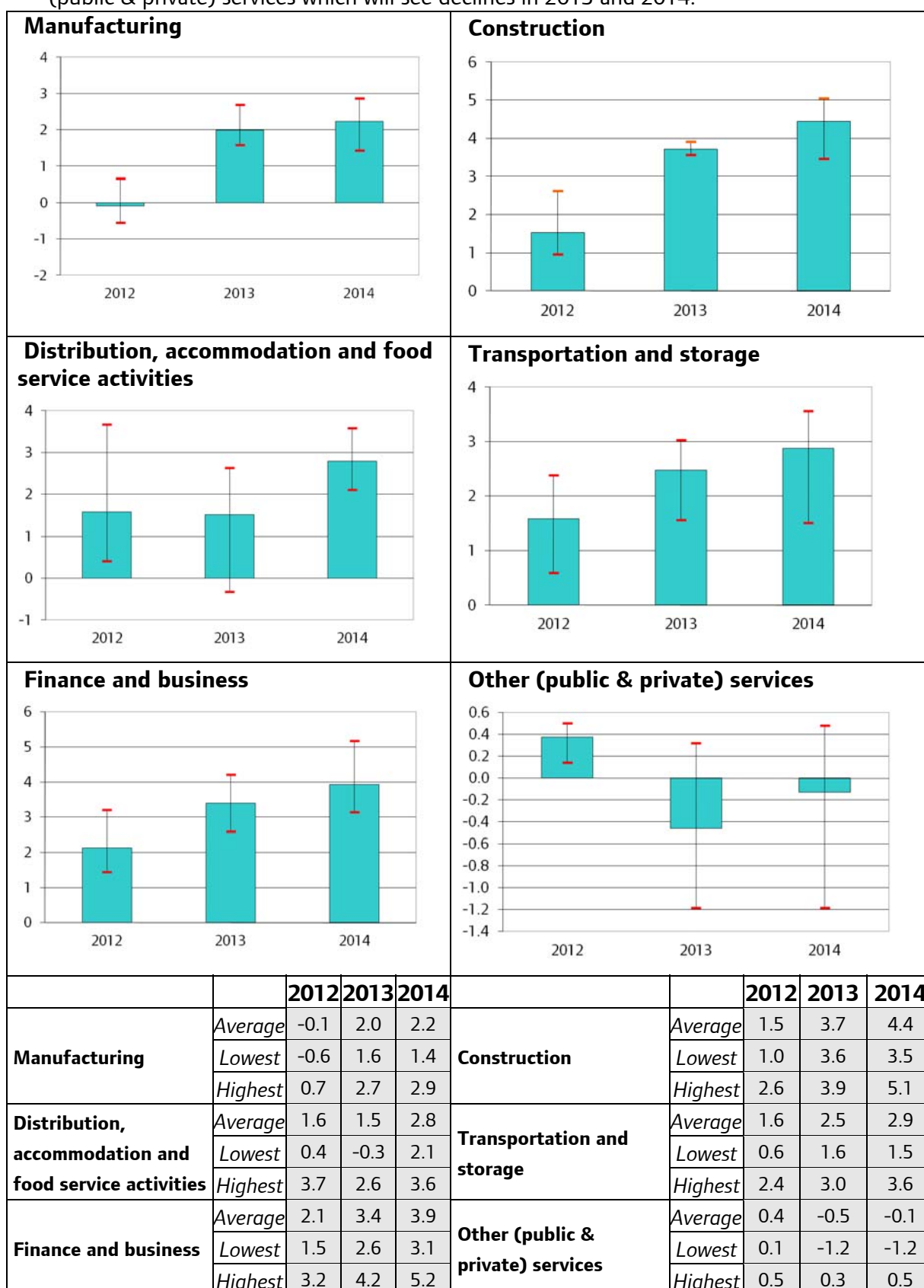
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
8.0	6.1	1.9	1.9	2.5	4.2	5.0	0.5	-2.1	2.3	-1.1

### History: Level (constant year 2008, £ billion)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
97.9	105.7	112.1	114.2	116.4	119.2	124.2	130.4	131.1	128.3	131.3	129.9

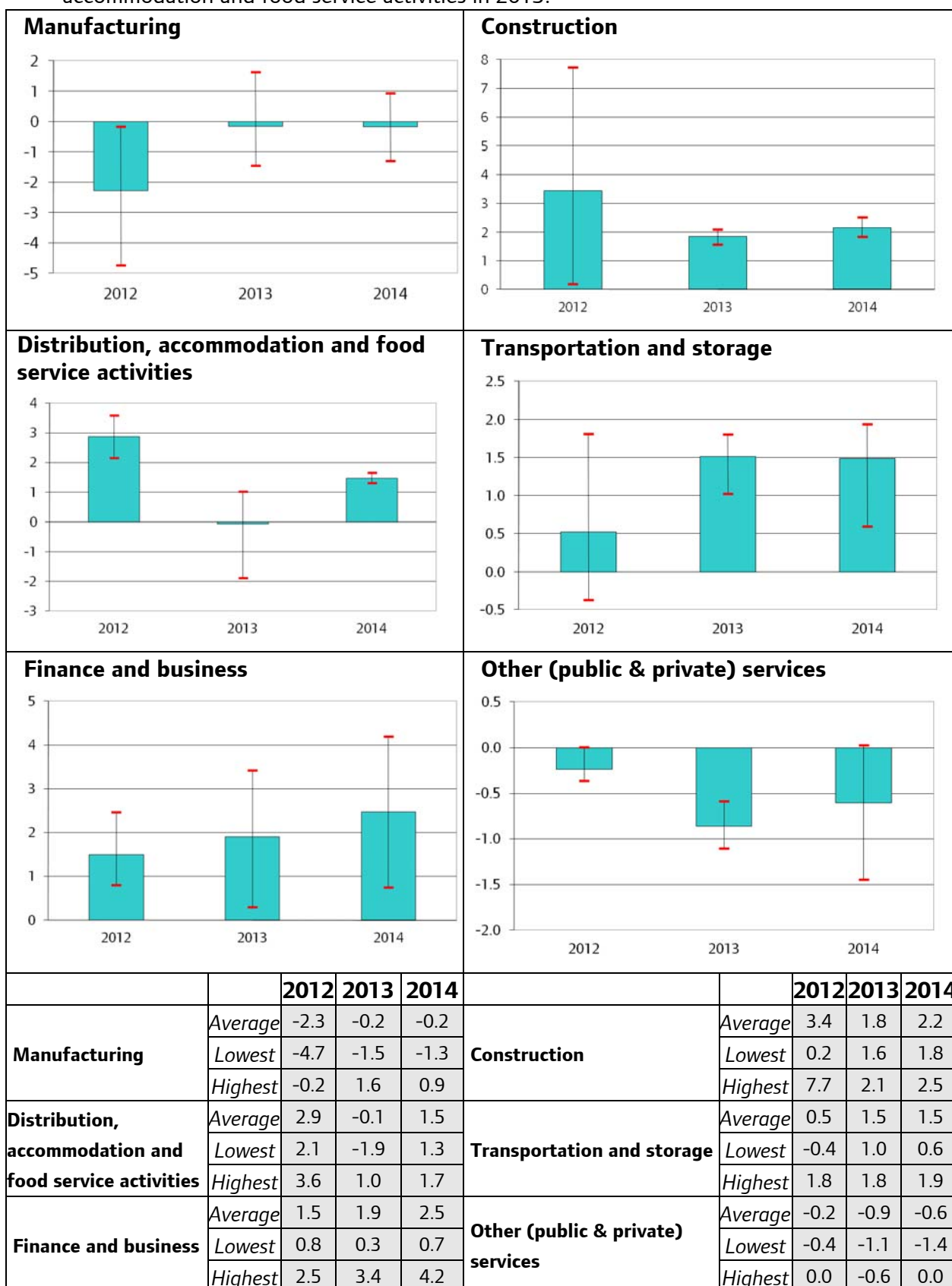
# Output growth by sector (per cent annual change)

As the recovery continues it is expected that there will be positive output growth in all sectors, except for manufacturing, which will see output decline in 2012 and other (public & private) services which will see declines in 2013 and 2014.



### Employment growth by sector (per cent annual change)

Forecasted employment growth is positive for most sectors between 2012 and 2014 apart from manufacturing and other (public & private) services and distribution, accommodation and food service activities in 2013.



## 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 all historic data in the following tables and charts is EE.

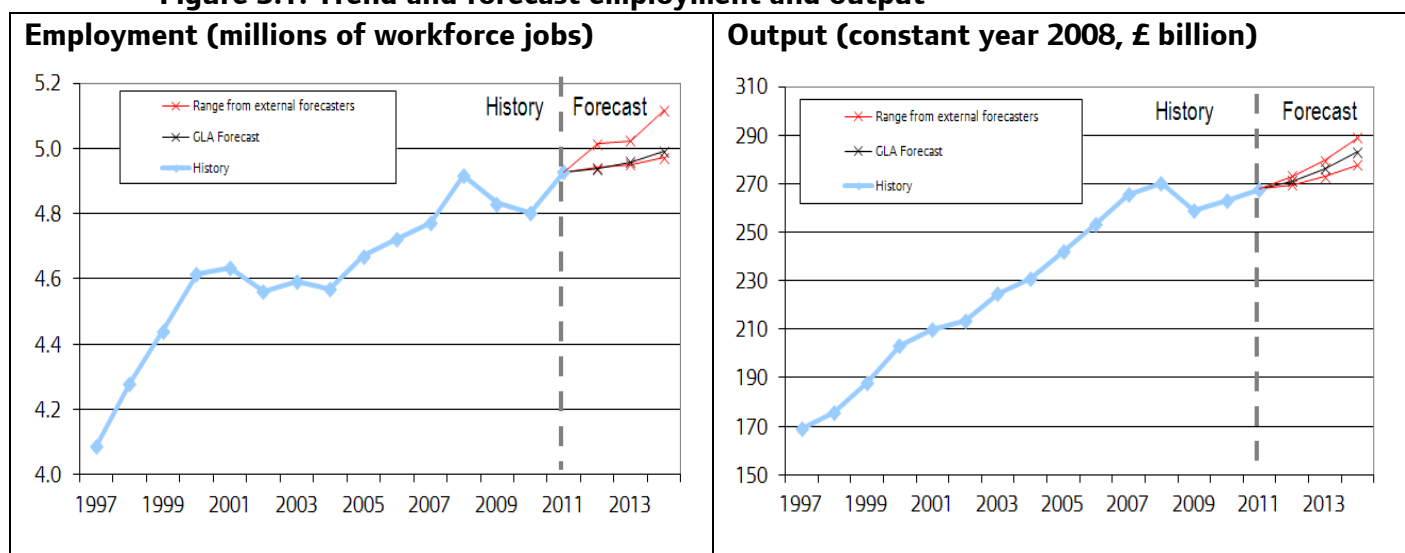
## 5.1 Results

Following the resumption of positive growth in 2010 output is expected to continue to rise between 2012 and 2014. Employment growth is forecast to be modest but positive between 2012 and 2014.

Household spending is expected to continue to grow between 2012 and 2014.

Household income growth is also expected to be positive over the forecast period.

**Figure 5.1: Trend and forecast employment and output**



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

**Table 5.1: Forecast and historical growth rates**

Annual % change

	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>GVA</b>	4.4	4.9	1.6	-4.1	1.6	1.8	1.2	1.9	2.5
<b>Workforce jobs</b>	1.1	1.1	3.0	-1.8	-0.6	2.6	0.2	0.4	0.6
<b>Household spending</b>	4.2	5.0	0.5	-2.1	2.3	-1.1	0.8	1.3	2.2
<b>Household income</b>	3.0	3.1	0.7	1.6	-0.3	-0.3	0.2	1.2	2.3

**Table 5.2: Forecast and historical levels**

(constant year 2008, £ billion except jobs)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>GVA</b>	253.1	265.6	270.0	259.0	263.1	267.8	271.0	276.2	283.1
<b>Workforce jobs (millions)</b>	4.72	4.77	4.92	4.83	4.80	4.93	4.94	4.96	4.99
<b>Household spending</b>	124.2	130.4	131.1	128.3	131.3	129.9	131.0	132.7	135.6
<b>Household income</b>	141.0	145.4	146.4	148.8	148.3	147.9	148.2	150.0	153.5

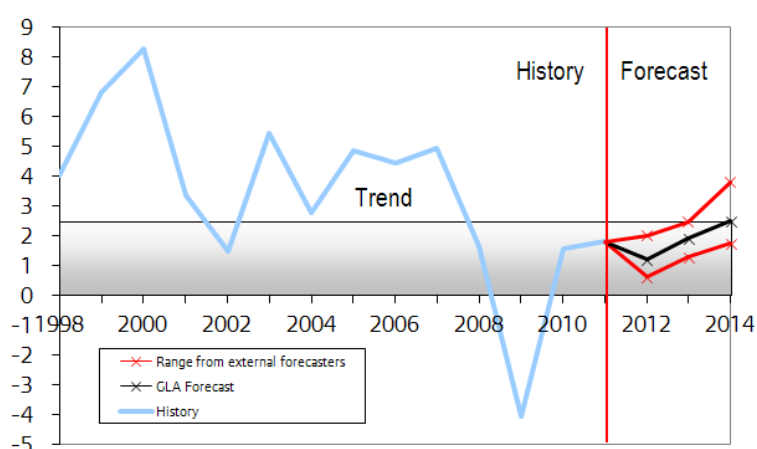
## Output

(London GVA, constant year 2008, £ billion)

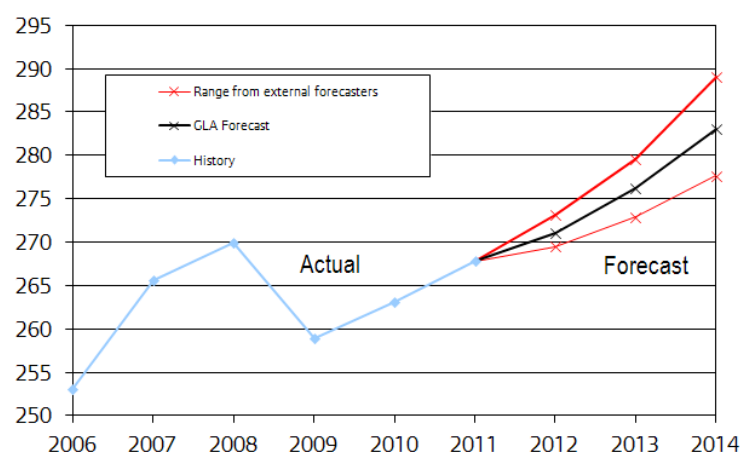
London's real GVA is forecast to grow at a moderate rate between 2012 and 2014. Forecast growth rates are 1.2 per cent in 2012, 1.9 per cent in 2013, and 2.5 per cent in 2014.

The GLA Economics' forecast is slightly more pessimistic compared with the consensus average forecast throughout 2012-14.

### Annual growth (per cent)



### Level (constant year 2008, £ billion)



Growth (annual per cent)				
	2011	2012	2013	2014
GLA	1.8	1.2	1.9	2.5
Consensus		1.3	2.1	2.6

Level (constant year 2008, £ billion)				
	2011	2012	2013	2014
GLA	268	271	276	283
Consensus		271	277	284

### History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.0	6.8	8.3	3.4	1.5	5.5	2.8	4.9	4.4	4.9	1.6	-4.1	1.6	1.8

### History: Level (constant year 2008, £ billion)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
168.9	175.7	187.7	203.3	210.1	213.2	224.9	231.1	242.3	253.1	265.6	270.0	259.0	263.1	267.8

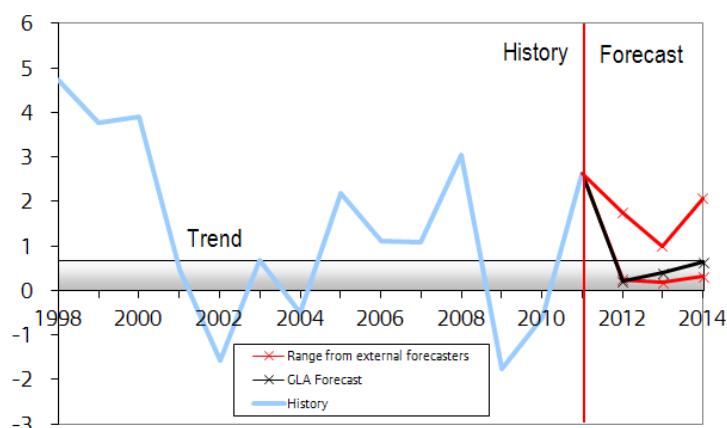
## Employment

(London workforce jobs)

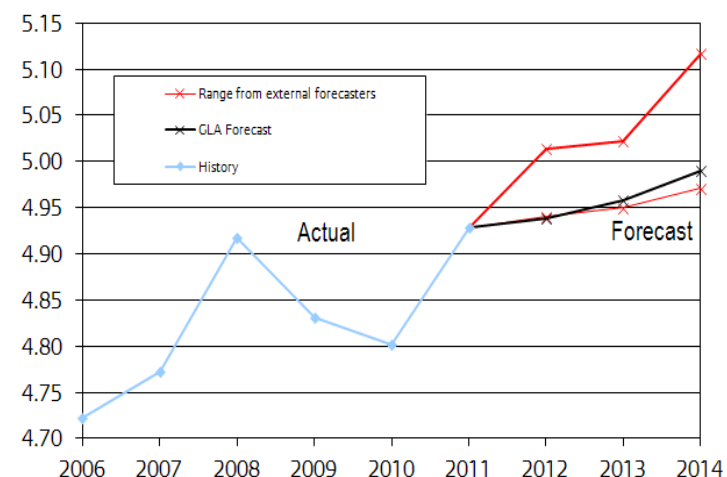
London's employment is forecast to rise throughout the forecast period.

GLA Economics' forecast for employment growth is more pessimistic than the consensus average forecast throughout 2012-2014.

### Annual growth (per cent)



### Level (millions of workforce jobs)



Growth (annual per cent)				
	2011	2012	2013	2014
GLA	2.6	0.2	0.4	0.6
Consensus		1.0	0.5	1.1

Level (millions of workforce jobs)				
	2011	2012	2013	2014
GLA	4.93	4.94	4.96	4.99
Consensus		4.98	5.00	5.06

### History: Annual growth (per cent)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.7	3.8	3.9	0.5	-1.6	0.7	-0.5	2.2	1.1	1.1	3.0	-1.8	-0.6	2.6

### History: Level (millions)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.09	4.28	4.44	4.61	4.64	4.56	4.59	4.57	4.67	4.72	4.77	4.92	4.83	4.80	4.93

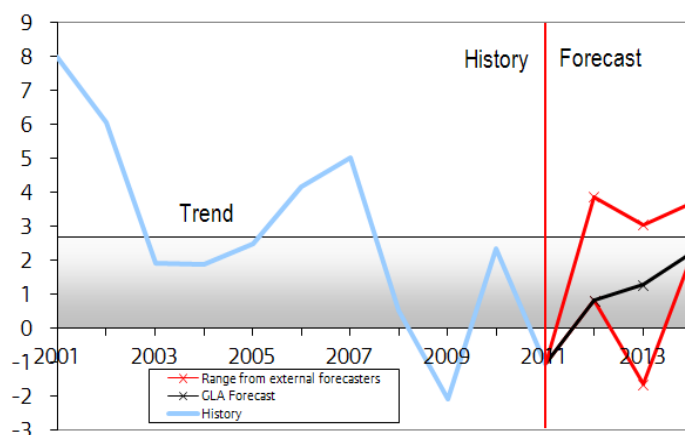
## Household expenditure

(London household spending, constant year 2008, £ billion)

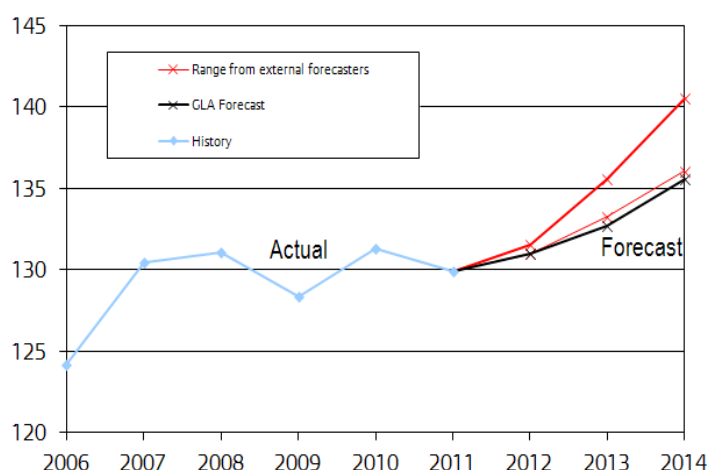
Growth in London's household spending is forecast to be positive over the forecast period.

GLA Economics' household spending growth forecast is lower than the consensus average in 2012 and 2014 but slightly higher in 2013.

### Annual growth (per cent)



### Level (constant year 2008, £ billion)



Growth (annual per cent)				
	2011	2012	2013	2014
GLA	-1.1	0.8	1.3	2.2
Consensus		2.0	1.0	2.8

Level (constant year 2008, £ billion)				
	2011	2012	2013	2014
GLA	130	131	133	136
Consensus		131	134	138

### History: Annual growth (per cent)

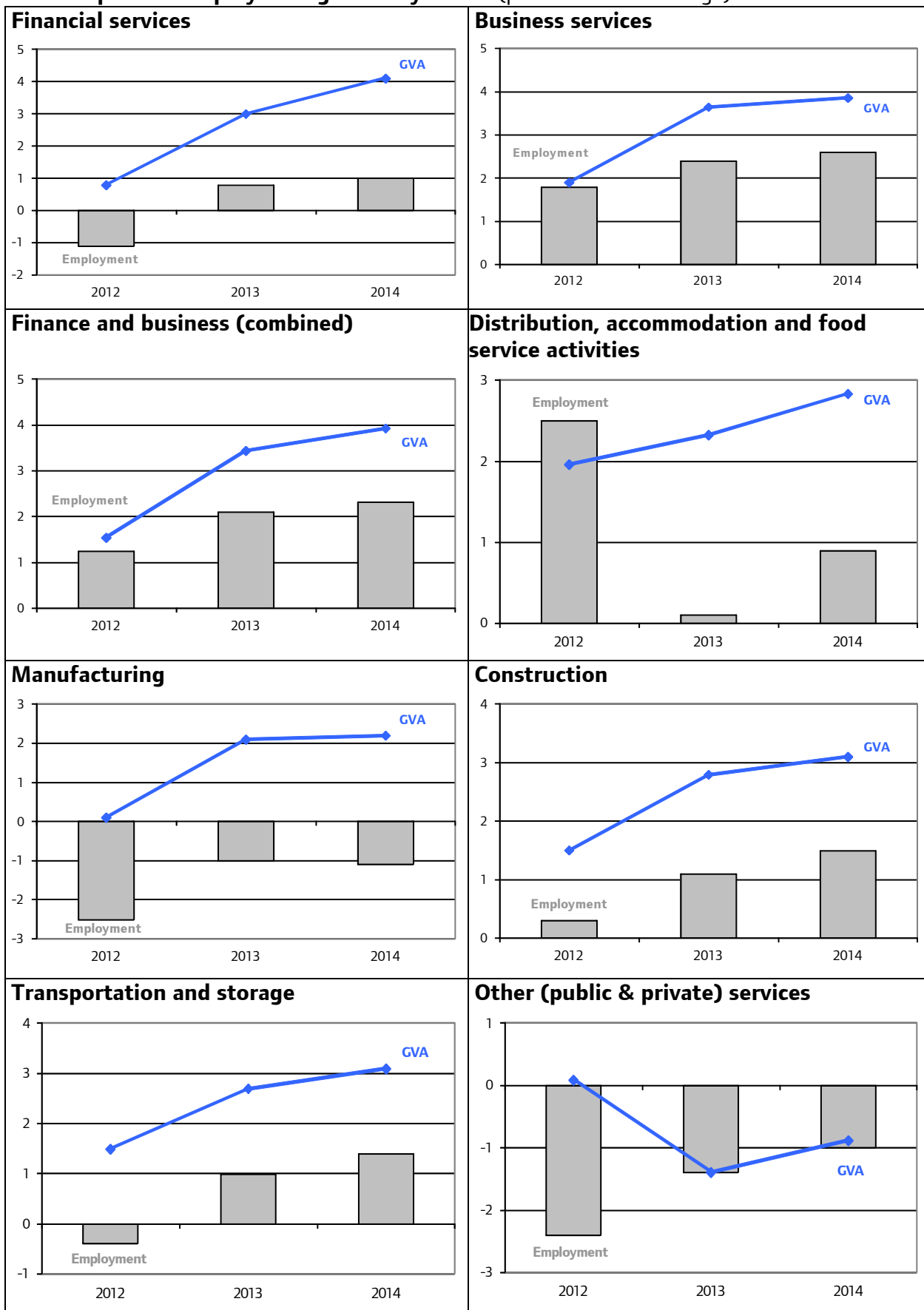
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
8.0	6.1	1.9	1.9	2.5	4.2	5.0	0.5	-2.1	2.3	-1.1

### History: Level (constant year 2008, £ billion)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
97.9	105.7	112.1	114.2	116.4	119.2	124.2	130.4	131.1	128.3	131.3	129.9



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



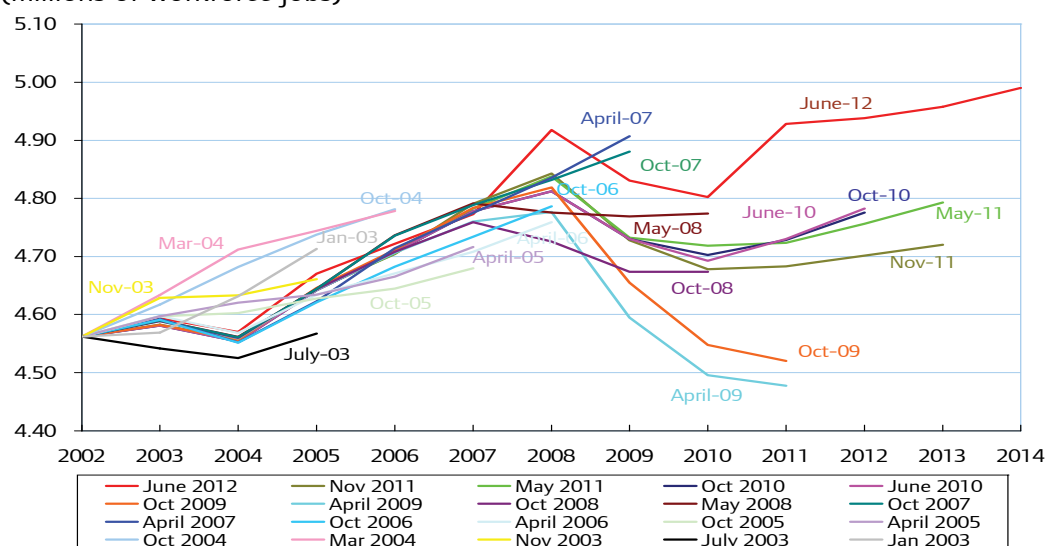
**Output and employment growth by sector** (per cent annual change)

	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Financial services</b>			
Output	0.8	3.0	4.1
Employment	-1.1	0.8	1.0
<b>Business services</b>			
Output	1.9	3.7	3.9
Employment	1.8	2.4	2.6
<b>Financial and business services combined</b>			
Output	1.5	3.4	3.9
Employment	1.2	2.1	2.3
<b>Distribution, accommodation and food service activities</b>			
Output	2.0	2.3	2.8
Employment	2.5	0.1	0.9
<b>Transportation and storage</b>			
Output	1.5	2.7	3.1
Employment	-0.4	1.0	1.4
<b>Other (public &amp; private) services</b>			
Output	0.1	-1.4	-0.9
Employment	-2.4	-1.4	-1.0
<b>Manufacturing</b>			
Output	0.1	2.1	2.2
Employment	-2.5	-1.0	-1.1
<b>Construction</b>			
Output	1.5	2.8	3.1
Employment	0.3	1.1	1.5
<b><i>(Memo: non-manufacturing)</i></b>			
Output	1.2	1.9	2.5
Employment	0.3	0.4	0.7

## 5.2 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 and output growth is generally lower than the November 2011 forecast.

**Figure 5.2: Employment – latest forecast compared with previous forecasts**  
(millions of workforce jobs)



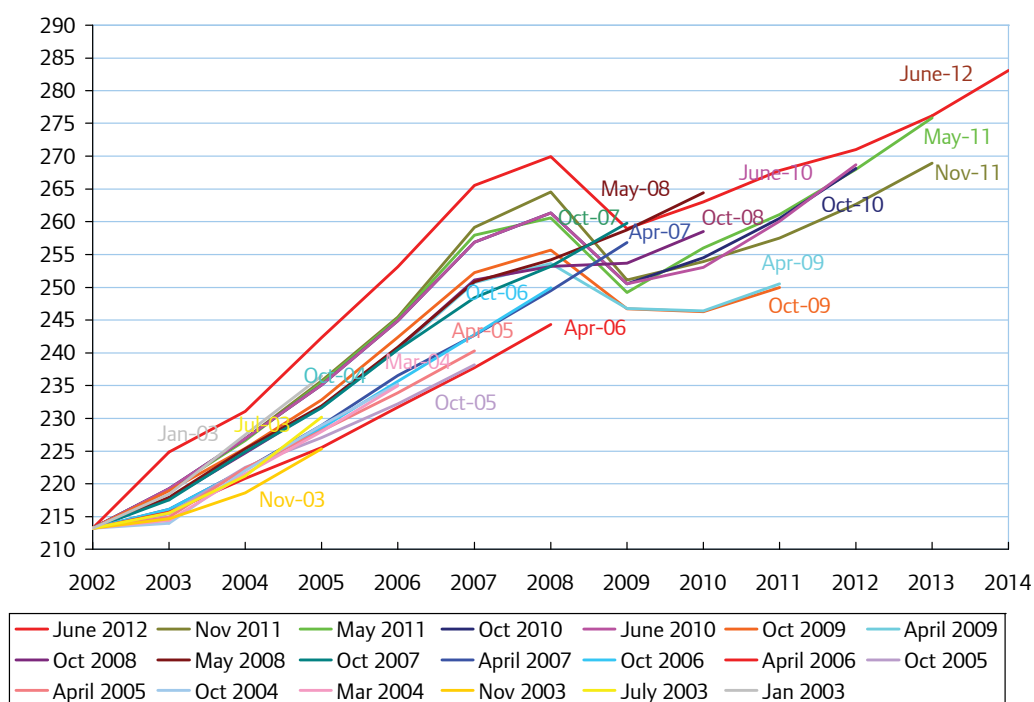
Source: Various London's Economic Outlooks

**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
June 2012	0.7%	-0.5%	2.2%	1.1%	1.1%	3.0%	-1.8%	-0.6%	2.6%	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 compared with previous forecasts**  
(constant year 2008, £ billion)



**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
<b>June 2012</b>	<b>5.5%</b>	<b>2.8%</b>	<b>4.9%</b>	<b>4.4%</b>	<b>4.9%</b>	<b>1.6%</b>	<b>-4.1%</b>	<b>1.6%</b>	<b>1.8%</b>	<b>1.2%</b>	<b>1.9%</b>	<b>2.5%</b>
<b>Nov 2011</b>									1.4%	2.0%	2.4%	
<b>May 2011</b>									2.0%	2.6%	2.9%	
<b>Oct 2010</b>								1.6%	2.4%	2.9%		
<b>June 2010</b>								1.0%	2.8%	3.3%		
<b>Oct 2009</b>							-3.5%	-0.2%	1.5%			
<b>April 2009</b>							-2.7%	-0.2%	1.7%			
<b>Oct 2008</b>						0.8%	0.2%	1.9%				
<b>May 2008</b>						1.3%	1.8%	2.2%				
<b>Oct 2007</b>					3.3%	2.0%	2.6%					
<b>April 2007</b>					2.6%	2.8%	3.0%					
<b>Oct 2006</b>				3.1%	3.0%	3.0%						
<b>April 2006</b>				2.7%	2.6%	2.8%						
<b>Oct 2005</b>			2.0%	2.3%	2.6%							
<b>April 2005</b>			2.6%	2.5%	2.7%							
<b>Oct 2004</b>		3.8%	3.1%	2.7%								
<b>Mar 2004</b>		3.3%	2.9%	3.0%								
<b>Nov 2003</b>	0.7%	1.9%	3.0%									
<b>July 2003</b>	1.1%	2.6%	4.1%									
<b>Jan 2003</b>	2.4%	4.1%	4.0%									

## Appendix A: From SIC 2003 to SIC 2007<sup>lxiv</sup>

Previously 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**

<b>SIC 2007 GLA Sectors</b>	<b>SIC 2003 GLA Sectors</b>
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	
Professional, scientific and technical services and real estate	
Administrative and support service activities	
Public Admin and defence	Business services
Education	
Health	
Arts, entertainment and recreation	Public Admin
Other services	
	Health & education
	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.

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, *Labour Market Trends. London's Economic Outlook: December 2003* and *The GLA's Workforce Employment Series* provides 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 2010 from the ONS. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price deflators, although the ONS has produced regional price indexes for the year 2010<sup>lxv</sup>. Most regional forecasters supply their own estimates of London's real GVA. The real London GVA figures used in this GLA Economics' forecast are supplied by EE.

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.

## Appendix C: Glossary of acronyms

<b>ADB</b>	Asian Development Bank
<b>bn</b>	Billion
<b>CE</b>	Cambridge Econometrics
<b>CEBR</b>	The Centre for Economic and Business Research
<b>CIPS</b>	The Chartered Institute of Purchasing and Supply
<b>CPI</b>	Consumer Price Index
<b>DCLG</b>	Department for Communities and Local Government
<b>ECB</b>	European Central Bank
<b>EE</b>	Experian Economics
<b>EERI</b>	Effective Exchange Rate Index
<b>EFSF</b>	European Financial Stability Facility
<b>EU</b>	European Union
<b>FT</b>	Financial Times
<b>GDP</b>	Gross Domestic Product
<b>GLA</b>	Greater London Authority
<b>GVA</b>	Gross Value Added
<b>GDP</b>	Gross Domestic Product
<b>HM Treasury</b>	Her Majesty's Treasury
<b>IFS</b>	The Institute for Fiscal Studies
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>LEO</b>	London's Economic Outlook
<b>LFS</b>	Labour Force Survey
<b>LHS</b>	Left Hand Scale
<b>mn</b>	Million
<b>MPC</b>	Monetary Policy Committee
<b>OE</b>	Oxford Economics
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONS</b>	Office for National Statistics
<b>OPEC</b>	Organisation of Petroleum Exporting Countries
<b>PMI</b>	Purchasing Managers' Index
<b>Q2</b>	Second Quarter
<b>QE</b>	Quantitative Easing
<b>RHS</b>	Right Hand Scale
<b>RPIX</b>	Retail Price Index (excluding mortgage interest payments)
<b>RPI</b>	Retail Price Index
<b>TfL</b>	Transport for London



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## Footnotes

- <sup>i</sup> The forecast is based on an in-house model built by Volterra Consulting Limited.
- <sup>ii</sup> RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2012 of the UK RPI inflation rate are reported.
- <sup>iii</sup> CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2012 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 two per cent.
- <sup>iv</sup> CEBR does not provide a forecast for the sectors of the London economy.
- <sup>v</sup> The Financial Times, 'London strength boosts housing market', April 30 2012.
- <sup>vi</sup> Knight Frank, Central London Quarterly - Offices, Quarter 1 2012.
- <sup>vii</sup> Office for National Statistics, 'Second Estimate of GDP, Q1 2012', Statistical Bulletin, 24 May 2012.
- <sup>viii</sup> The IMF, 'World Economic Outlook: Slowing Growth, Growth Resuming, Dangers Remain', April 2012.
- <sup>ix</sup> The PSNB forecast from the OBR takes account of the transfer of the Royal Mail pension scheme to the public sector in 2012-13 and "leads to a one-off reduction in PSNB in 2012-13 of £28 billion" (Office for Budget Responsibility, Economic and fiscal outlook, March 2012).
- <sup>x</sup> BBC, 'Bank governor warns of eurozone crisis 'storm'', 16 May 2012.
- <sup>xi</sup> The Financial Times, 'IMF calls on Bank of England to cut rates', 22 May 2012.
- <sup>xii</sup> BBC, 'Pound at 1.20 euros for tourists', 8 May 2012.
- <sup>xiii</sup> The Sterling Effective Exchange Rate Index measures the overall change in the trade-weighted exchange value of sterling. It is designed to measure changes in the price competitiveness of traded goods and services and so the weights reflect trade flows in goods and services.
- <sup>xiv</sup> The IMF, 'World Economic Outlook: Slowing Growth, Growth Resuming, Dangers Remain', April 2012.
- <sup>xv</sup> Ibid.
- <sup>xvi</sup> Ibid.
- <sup>xvii</sup> Ibid.
- <sup>xviii</sup> Ibid.
- <sup>xix</sup> Ibid.
- <sup>xx</sup> The IMF, 'Global Financial Stability Report: The Quest for Lasting Stability', April 2012.
- <sup>xxi</sup> Ibid.
- <sup>xxii</sup> Ibid.
- <sup>xxiii</sup> Ibid.
- <sup>xxiv</sup> Bureau of Economic Analysis, 'National Income and Product Accounts: Gross Domestic Product, 1st quarter 2012 (second estimate); Corporate Profits, 1st quarter 2012 (preliminary estimate)', 31 May 2012.
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- <sup>xxvi</sup> BBC, 'Payroll figures show US economy added 69,000 jobs in May', 1 June 2012.
- <sup>xxvii</sup> The Economist, 'Unmired at last: America's recovery is neither robust nor dramatic. But it is real', 17 March 2012.
- <sup>xxviii</sup> The Federal Reserve Board, 'The Beige Book', 6 June 2012.
- <sup>xxix</sup> The Financial Times, 'Federal Reserve wary of Eurozone risks', 16 May 2012.
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- <sup>xxxi</sup> The Economist, 'Unmired at last: America's recovery is neither robust nor dramatic. But it is real', 17 March 2012.
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- <sup>xxxi</sup> European Commission, 'European Economic Forecast', Spring 2012.
- <sup>xxxi</sup> BBC, 'ECB cuts interest rates to 1%' 8 December 2011.
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- <sup>xxxi</sup> Reuters 'RPT-Japan Q1 GDP +1.0 pct q/q', 16 May 2012.
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- <sup>xlvi</sup> Asian Development Bank, 'Asian Development Outlook 2012: Confronting Rising Inequality in Asia', April 2012.
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- <sup>i</sup> The Financial Times, 'India inflation climbs higher', 14 May 2012.
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- <sup>lii</sup> Asian Development Bank, 'Asian Development Outlook 2012: Confronting Rising Inequality in Asia', April 2012.
- <sup>liii</sup> The IMF, 'World Economic Outlook: Slowing Growth, Growth Resuming, Dangers Remain', April 2012.
- <sup>liv</sup> BBC, 'S&P warns over oil threat to Russian finances', 26 March 2012.
- <sup>lv</sup> BBC, 'ILO warns global employment situation is 'alarming'', 30 April 2012.
- <sup>lvi</sup> The Financial Times, 'Spain to inject €19bn into Bankia', 25 May 2012.
- <sup>lvii</sup> The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE, whilst the consensus forecast for household expenditure is based on the latest available forecast from CE, EE and OE only.
- <sup>lviii</sup> Most forecasters do not yet provide forecasts of household income.
- <sup>lix</sup> The consensus forecast for the six broad sectors is based on the latest available forecast from CE, EE and OE only.
- <sup>lx</sup> Distribution is made from the summation of Wholesale and Retail (see Appendix A).
- <sup>lxi</sup> This is defined as Financial and insurance activities in Appendix A.
- <sup>lxii</sup> 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).
- <sup>lxiii</sup> This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services (see Appendix A).
- <sup>lxiv</sup> GLA Economics, 'Employment projections for London by sector and trend-based projections by borough', Working Paper 51, December 2011.
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## Greek

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## Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

## Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

## Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

## Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

## Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

## Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

## Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.