

London's Economy Today

Issue 127 | March 2013

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<http://data.london.gov.uk/londons-economy-today>

Chancellor delivers Budget whilst Eurozone crisis continues

By **Matthew Waite**, Senior Economist, and **Simon Kyte**, Economist

On March 20, the Chancellor delivered his Budget against a background of reduced UK GDP forecasts for 2013 and 2014. The Office for Budget Responsibility (OBR) cut its forecast for 2013 from 1.2 per cent to 0.6 per cent GDP growth and from 2.0 per cent to 1.8 per cent for 2014.

Public sector net borrowing is forecast to fall by a third over the three years from 2009-10, from its post-war peak of 11.2 per cent of GDP, to 7.4 per cent of GDP in 2012-13. It is then forecast to continue to fall to 5.0 per cent of GDP in 2015-16 and 2.2 per cent of GDP in 2017-18. As a result, public sector net debt as a share of GDP is forecast to peak at 85.6 per cent of GDP in 2016-17, before falling to 84.8 per cent of GDP in 2017-18 as shown in Figure 1.

Headline tax announcements included the raising of the personal allowance by an extra £560 in 2014/15 [raising the tax-free threshold to £10,000 (from 5 April 2013 it is to be raised to £9,440)] and a further 1 per cent cut in corporation tax to 20 per cent in April 2015. On the expenditure side, Departmental Expenditure Limits (DELs) are being cut by a further £1.1 billion in 2013/14 and by £1.2 billion in 2014/15 – equivalent to a 1 per cent reduction for most Departments excluding the budgets set for education and health which remain unchanged. The Government will use the proceeds from these additional cuts and from increased National Insurance contributions to raise capital expenditure by £3 billion a year from 2015/16 onwards.

Latest news...

● Datastore and Dashboard March Update

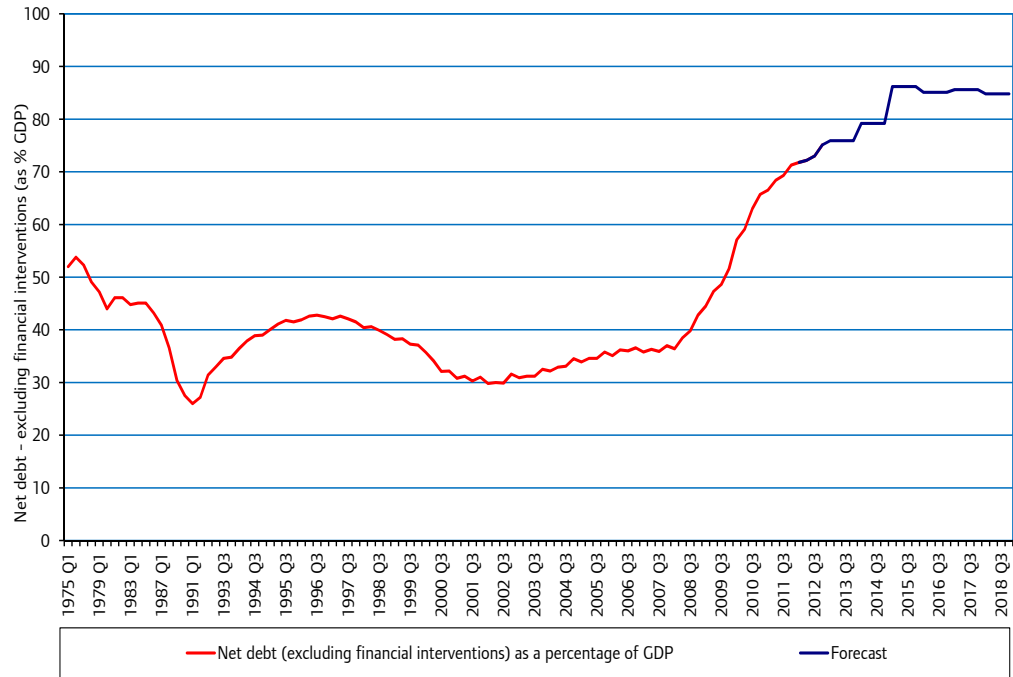
The March edition of a series of monthly updates, letting you know what is new on the **London Dashboard**, plus a list of some other highlights available on the **London Datastore** is now available to view. The London Dashboard's purpose is to further open up London's data, and use it to increase transparency, which will drive accountability and improvement in public services, ultimately so that the public has greater confidence in the organisations that deliver them. View the key trends and download any of the datasets for: Jobs and Economy; Housing; Transport; Policing & Crime; Fire & Rescue; Health; Environment; Communities; and Tourism.

You can view all work published from GLA Economics and the wider GLA Intelligence Unit at

<http://www.london.gov.uk/gla-intelligence>

Figure 1: UK public sector net debt (excluding financial interventions) as a percentage of GDP over time

Source: ONS/OBR



Other policies relevant to London included the abolition of stamp duty on equities listed on the Alternative Investment Market (AIM) and on ISDX, an independent recognised investment exchange in the City dedicated to small and mid-cap companies. From April 2014, businesses (and charities) will receive an entitlement to an annual £2,000 Employment Allowance towards their employer National Insurance contributions (NICs) bill. The Chancellor also announced the creation of the Financial Services Trade and Investment Board (FSTIB) which will bring together senior representatives from HM Treasury, UKTI and the 'TheCityUK' to identify trade and investment priorities for UK firms.

There were also a raft of announcements on housing including the introduction of 'Help to Buy' – a package of measures aimed at increasing the supply of low deposit mortgages to creditworthy households. Part of the package includes the offer of an equity loan worth up to 20 per cent of the value of a newbuild home, repayable once the home is sold. Furthermore, the government will offer a mortgage guarantee scheme for people who cannot afford a large deposit. Under the scheme a property can be new or existing, the scheme is not restricted to first time buyers and there will be no income cap constraint. In the capital only, the maximum discount for social housing tenants to exercise the 'Right to Buy' their homes rises from £75,000 to £100,000. London will get a minimum of £750 million of combined 'Help to Buy' equity and 'Build to Rent' funding up to 2015/16.

Eurozone finance ministers approve Cypriot bailout

On 25 March Eurozone finance ministers approved a bailout package for Cyprus 'providing financial assistance for an amount of up to €10 billion'. Cyprus' problems, at least in part, emanate from Greece to which Cypriot banks were very heavily exposed. When Greek debt was written down in 2011, the Popular Bank lost €2.5 billion and the Bank of Cyprus €1 billion; resulting in the nationalisation of the Popular Bank. Interest rates on long-term Cypriot debt spiked to 7 per cent, creating difficulties for borrowing and forcing the Cypriot Government to go to the EC/ECB/IMF (known as the 'Troika') for help.

The, finally agreed, package is aimed at preventing the Cypriot banking system from collapsing and keeping Cyprus within the Eurozone. As part of the agreement, deposits up to €100,000 in the two main Cypriot banks affected, the Cyprus Popular Bank (Laiki) and Bank of Cyprus, will be guaranteed. The Cyprus Popular Bank will be wound down with its existing deposits of up to €100,000 'folded into' the Bank of Cyprus. That integration will be supported with Emergency Liquidity Assistance. Shareholders, bondholders and those with deposits of over €100,000 at the two banks will make a significant contribution to the restructuring. 'Temporary' tough capital controls are to be applied to try and stem any significant outflow of capital.

Whilst this bailout will help Cyprus in the immediate period, the Cyprus economy faces a tough economic outlook. Moreover, there may be a wider impact on investor sentiment towards certain banks. The nature of the Cyprus bailout may heighten concerns around the robustness of certain other Eurozone banks, possibly leading to further difficulties in the Eurozone banking sector and beyond.

United States jobs growth picks up

In February 2013 non-farm payrolls in the US surged by 236,000, beating the consensus forecast of 160,000, although jobs growth for December 2012 and January 2013 was revised down. The construction sector alone added 48,000 jobs – in part driven by reconstruction along the East Coast following Superstorm Sandy last October. The unemployment rate fell to 7.7 per cent – its lowest since December 2008.

Mixed signals for the start of 2013 but London has been performing better than the rest of the country

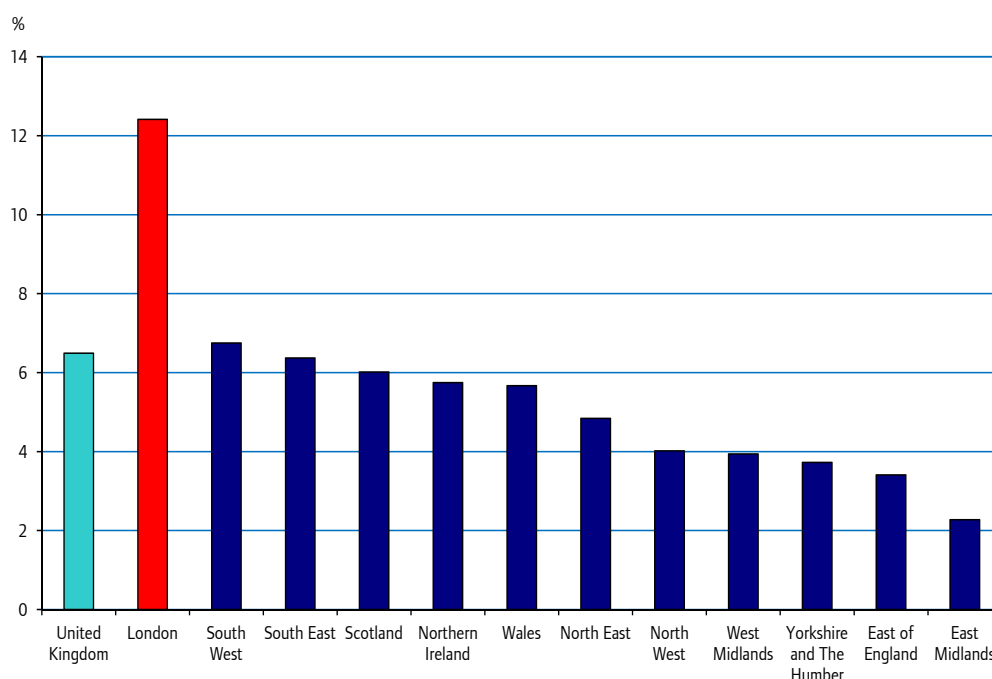
Data from the ONS show that UK manufacturing output fell by 1.5 per cent in January 2013 when compared to the previous month. The wider measure of industrial production was weighed down by reductions in investment in North Sea oil and gas, recording a 1.2 per cent fall in output month-on-month. The output of the mining and quarrying sector was 9.3 per cent lower in January 2013 compared to a year earlier with a 15.0 per cent fall in oil and gas extraction. A critical factor in this has been the suspension of production at the Schiehallion platform (110 miles west of Shetland) which will continue for four or five years whilst a new floating production facility is constructed. Sterling reacted to the news by falling to a three month low. However, growth in services may still be enough to prevent a 'triple dip' recession and the OBR indicated that is its expectation in its most recent forecast.

In support of this view, the latest retail figures are more encouraging. Following very subdued year-on-year sales growth figures since September 2012, in February 2013 both the volume and value of sales in the sector increased by 2.6 per cent when compared to February 2012. Particularly strong contributions came from telecommunications equipment sales, internet retailers and department stores. There were also broad-based increases when compared with January 2013.

A recent report from the Office for National Statistics¹ emphasises just how differently London has performed compared to the rest of the country since 2007. In terms of nominal GVA, London grew by 12.4 per cent between 2007 and 2011 as shown in Figure 2. That made it by far the fastest growing UK region or country followed by the South West (6.8 per cent) and the South East (6.4 per cent). Over a similar period (September 2007 to September 2012) workforce jobs in the capital rose by 267,000 whilst all other UK regions or countries with the exceptions of the South West and Wales experienced net workforce jobs loss. The gap between Londoners' average incomes and those of the rest of the UK has also risen with London now 30 per cent above the UK average. The sole indicator not showing a markedly better improvement in London relative to elsewhere in the UK is labour productivity, which has fallen relative to other regions.

Figure 2: Percentage change in nominal GVA 2007 to 2011 by region

Source: ONS



¹ London's economy has outperformed other regions since 2007' (Office for National Statistics, March 2013).

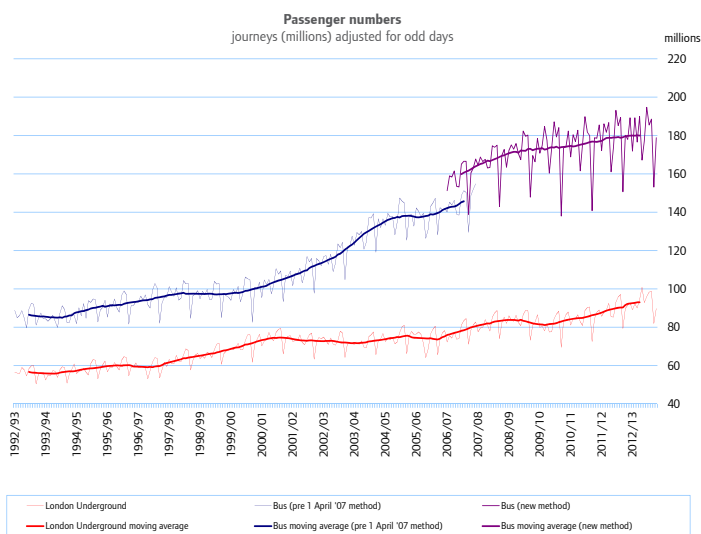
Economic indicators

Decrease in moving average of passenger numbers

- The most recent 28 day period is from 6 January 2013 to 2 February 2013. Adjusted for odd days, London's Underground and buses had 268.6 million passenger journeys; 178.8 million by bus and 89.8 million by Underground.
- The moving average of passengers every period decreased to 272.9 million from a downwardly-revised 273.0 million in the previous period. The moving average for buses was 180.0 million. The moving average for the Underground was 93.0 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET issue 58 (June 2007).

Latest release: March 2013

Next release: April 2013



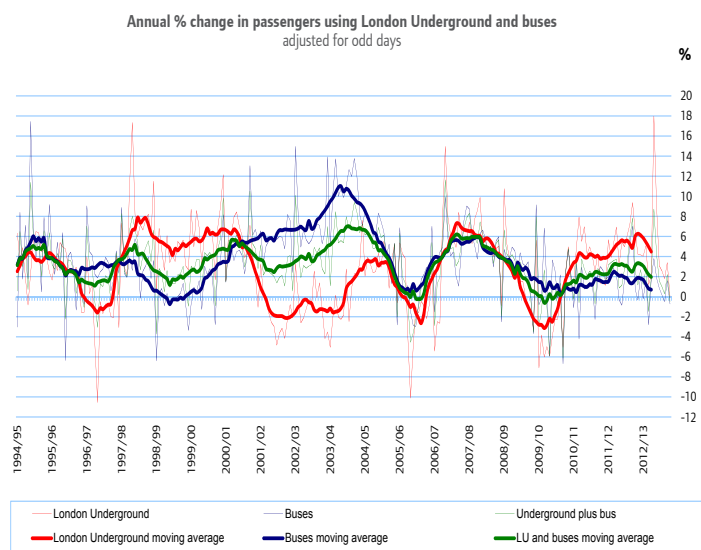
Source: Transport for London

Average annual growth rate of passengers decreases

- The moving average annual rate of growth in passenger journeys decreased to 2.0% from a downwardly-revised 2.2% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.7% from a downwardly-revised 0.8% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 4.5% from 5.0% in the previous period.

Latest release: March 2013

Next release: April 2013



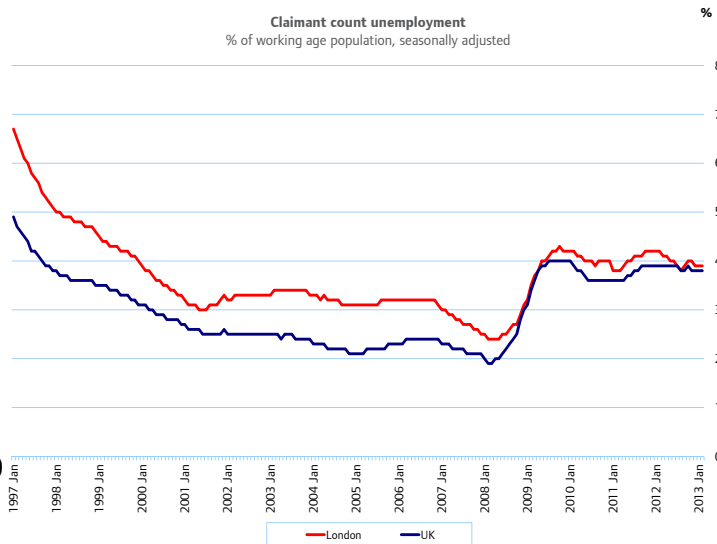
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 3.9% in February 2013.
- There were 220,800 seasonally adjusted unemployment claimants in London in February 2013 compared to an upwardly-revised 221,300 in January 2013.
- There were 1,541,900 seasonally adjusted unemployment claimants in the UK in February 2013 compared to an upwardly-revised 1,543,400 in January 2013.

Latest release: March 2013

Next release: April 2013



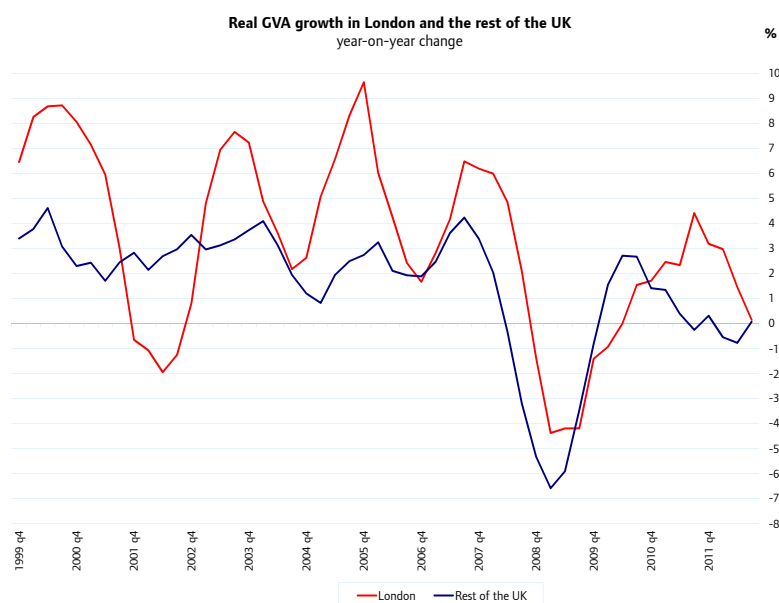
Source: Claimant Count, Nomis

Annual output growth positive in Q3 2012

- London's annual growth in output decreased to 0.1% in Q3 2012 from an upwardly-revised 1.5% in Q2 2012.
- Annual output growth in the rest of the UK increased to 0.1% in Q3 2012 from a downwardly-revised -0.8% in Q2 2012.
- In Q3 2012 London's annual growth rate was the same as the rest of the UK.

Latest release: February 2013

Next release: May 2013



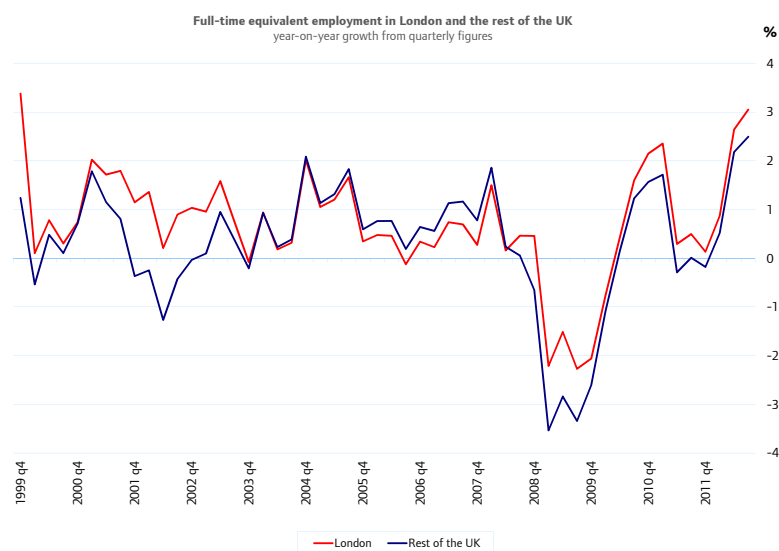
Source: Experian Economics

Stronger annual employment growth in London than in the rest of the UK in Q3 2012

- London's annual employment growth increased to 3.0% in Q3 2012 from 2.6% in Q2 2012.
- Annual employment growth in the rest of the UK increased to 2.5% in Q3 2012 from 2.2% in Q2 2012.
- In Q3 2012 London's annual employment growth was stronger than in the rest of the UK.

Latest release: February 2013

Next release: May 2013



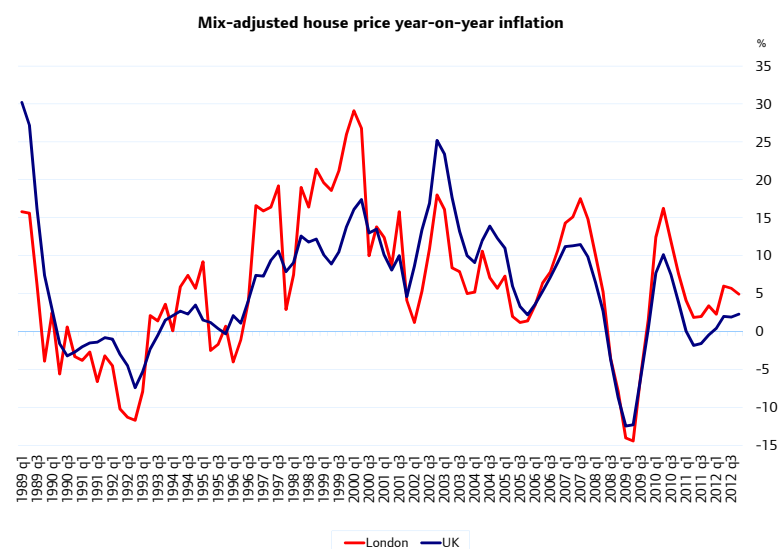
Source: Experian Economics

Annual house price inflation higher in London than in the UK

- The Office for National Statistics (ONS) house price index is an official measure of house prices. It is available up to Q4 2012.
- Annual house price inflation in London was 4.9% in Q4 2012, down from 5.7% in Q3 2012.
- Annual house price inflation in the UK was 2.3% in Q4 2012, up from 1.9% in Q3 2012.

Latest release: February 2013

Next release: May 2013

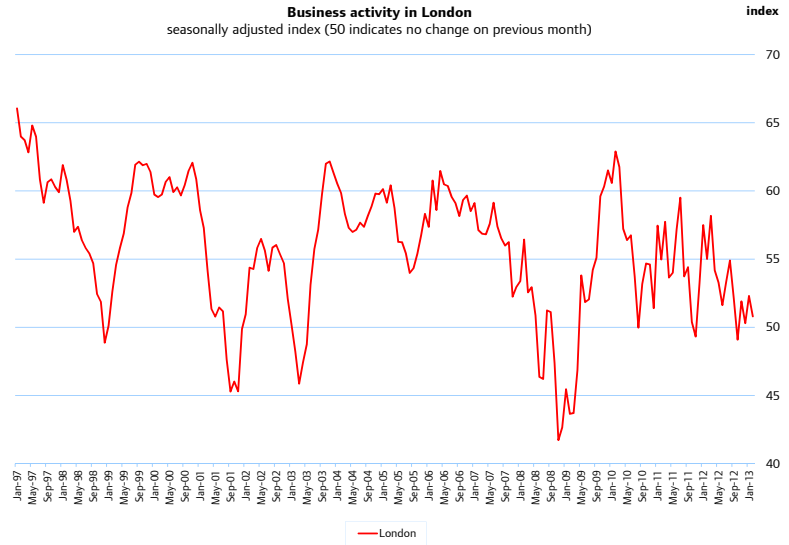


Source: Office for National Statistics

London's business activity increasing

- London firms increased their output of goods and services in February 2013.
- The Purchasing Managers' Index (PMI) of business activity recorded 50.8 in February 2013 compared to 52.3 in January 2013.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: March 2013
Next release: April 2013

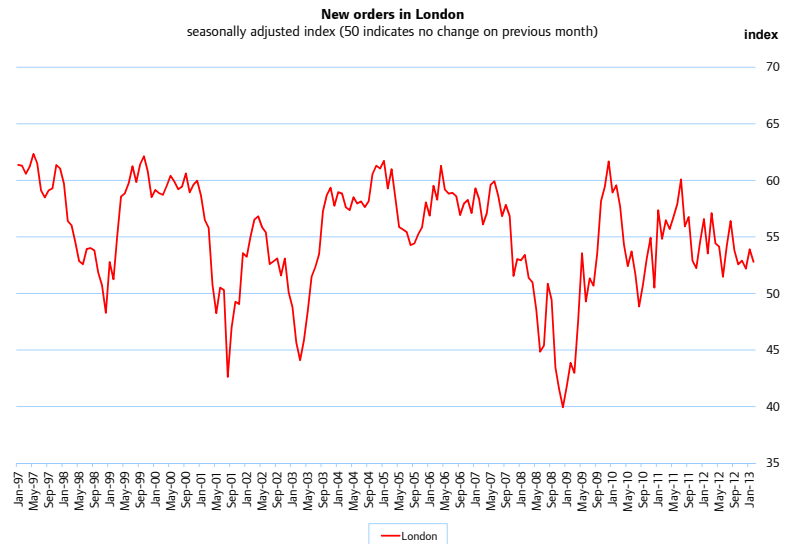


Source: Markit Economics

New orders in London rising

- February 2013 saw an increase in new orders for London firms.
- The PMI for new orders recorded 52.8 in February 2013 compared to 53.9 in January 2013.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: March 2013
Next release: April 2013

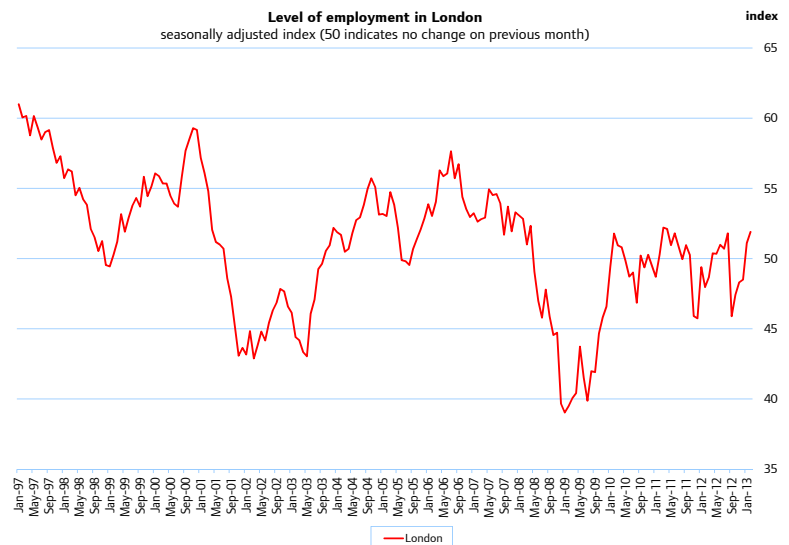


Source: Markit Economics

Businesses report higher employment in February

- The PMI shows that the level of employment in London firms increased in February 2013.
- The PMI for the level of employment was 51.9 in February 2013 compared to 51.1 in January 2013.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: March 2013
Next release: April 2013



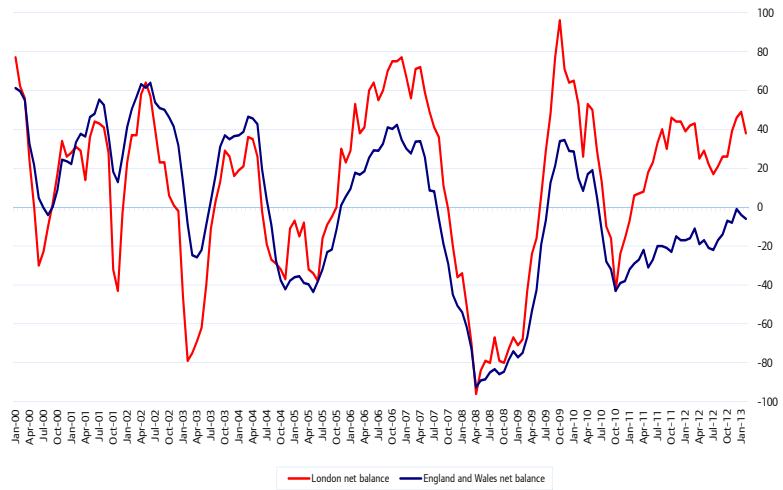
Source: Markit Economics

Surveyors report that house prices are rising in London

- The RICS survey shows a positive net balance of 38 for London house prices over the three months to February 2013.
- Surveyors reported a negative net house price balance of -6 for England and Wales over the three months to February 2013.
- London's net house price balance is higher than that of England and Wales.

Latest release: March 2013
Next release: April 2013

RICS housing market survey
net balance in London and in England and Wales; seasonally adjusted data



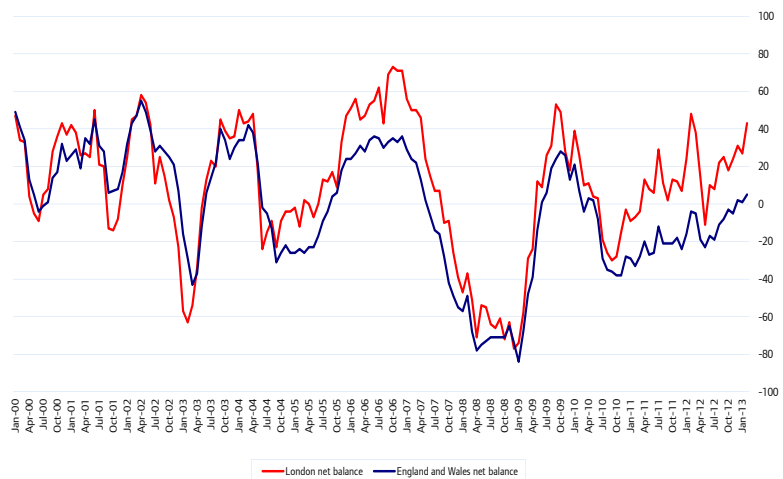
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise

- The RICS survey shows that surveyors expect house prices to rise over the next three months in London and in England and Wales.
- The net house price expectations balance in London was 43 in February 2013.
- For England and Wales, the net house price expectations balance was 5 in February 2013.

Latest release: March 2013
Next release: April 2013

RICS housing market survey
house price expectations; net balance in London, and in England and Wales; seasonally adjusted data

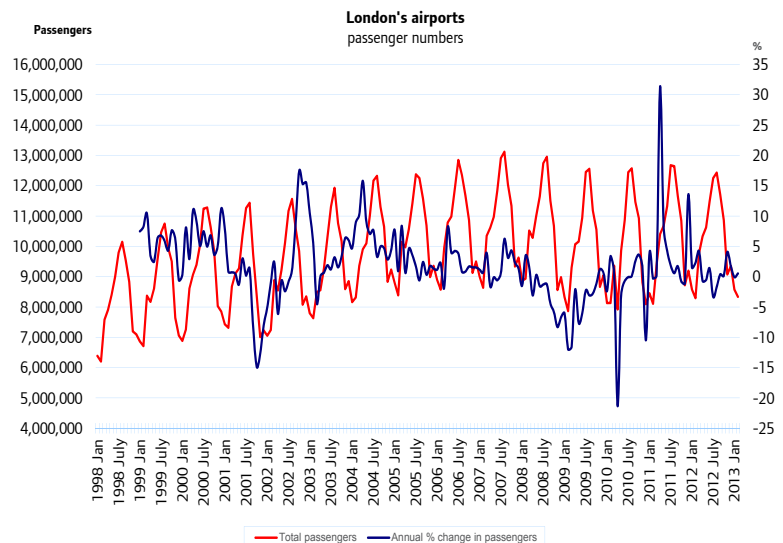


Source: Royal Institution of Chartered Surveyors

Increase in year-on-year airport passenger numbers

- 8.3 million passengers travelled through London's airports in February 2013.
- The number of passengers using London's airports increased by 0.5% from February 2012 to February 2013.
- Airport passenger numbers fell during the 2008/09 recession and are still below pre-2008/09 recession levels.

Latest release: March 2013
Next release: April 2013



Source: Civil Aviation Authority

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count unemployment

Unemployment based on the number of people claiming unemployment benefits.

Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2012/13 there are twelve 28-day periods, and one 29-day period. Period 1 started on 1 April 2012.

Bus ridership

Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2012/13 there are twelve 28-day periods, and one 29-day period. Period 1 started on 1 April 2012.

Acronyms

ABI	Annual Business Inquiry	IMF	International Monetary Fund
BCC	British Chamber of Commerce	LCCI	London Chamber of Commerce and Industry
CAA	Civil Aviation Authority	LET	London's Economy Today
CBI	Confederation of British Industry	MPC	Monetary Policy Committee
CLG	Communities and Local Government	ONS	Office for National Statistics
GDP	Gross domestic product	PMI	Purchasing Managers' Index
GVA	Gross value added	PWC	PricewaterhouseCoopers
ILO	International Labour Organisation	RICS	Royal Institution of Chartered Surveyors

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.