

# London's Economy Today

Issue 130 | June 2013

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

## The Government unveils the spending round for 2015/16

By **Gordon Douglass**, Economist and **Simon Kyte**, Economist

**On 26 June the Chancellor of the Exchequer unveiled details of the spending round for the single financial year 2015/16. The Chancellor announced details of a number of spending cuts that are intended to generate £11.5 billion in savings (with £5 billion of this accruing from efficiency savings) in 2015/16, along with a £3 billion a year rise in capital spending. The overall reduction in total public expenditure (the broad level of which was outlined in the Budget) is intended to reduce the public sector deficit from its continuing high level (see Figure 1). Indeed the UKs current budget deficit is among the largest of the major international economies.**

## Latest news...

**June updates on the London Dashboard - <http://data.london.gov.uk/london-dashboard>**

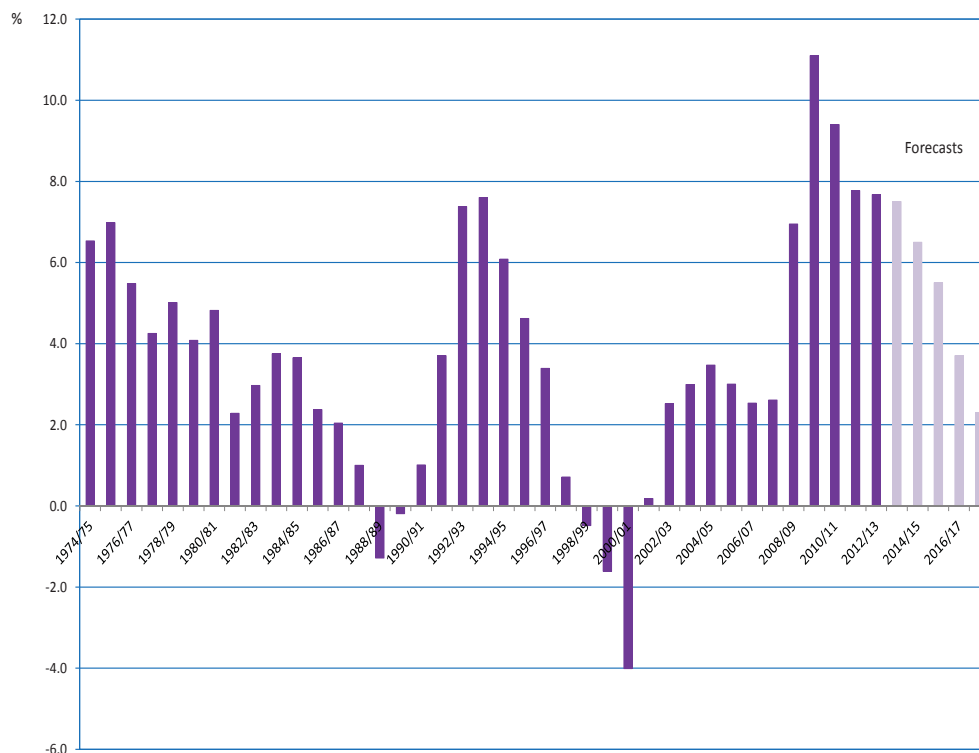
The London Dashboard's purpose is to further open up London's data, and use it to increase transparency, which will drive accountability and improvement in public services, ultimately so that the public has greater confidence in the organisations that deliver them.

View key trends and download any of the datasets for:

Jobs and Economy, Housing, Transport, Policing & Crime, Fire & Rescue, Health, Environment, Tourism, and Communities.

### Figure 1: Public sector net borrowing excluding the Royal Mail and Asset Purchase Facility transfers as a % of GDP

Source: Office for National Statistics (ONS) & Office of Budget Responsibility (OBR)



Some of the details of the spending round and the associated announcement around longer term capital investment (made by the Chief Secretary to the Treasury on 27 June) include:

- Some departments will experience significant reductions in current (as distinct from capital) expenditure in 2015/16 given the targeted reduction in current expenditure and given some departments were 'protected' from such reductions. For instance, DCLG Communities, DCLG Local Government, the Department of Transport, the Ministry of Justice, the Department for Environment, Food and Rural Affairs, the Department for Work and Pensions, HM Treasury and Cabinet Office all face reductions of 9 per cent or more in their departmental programme and administration budgets for 2015/16.
- There will be a new cap on over £100 billion of welfare spending (excluding pensions and some other counter-cyclical elements of welfare) from April 2015, which will be set in cash terms at each Budget for four years and reflect forecast inflation.
- £100 billion is proposed to be invested over the next parliament in capital spending in transport (particularly road and rail schemes), energy, science, schools, housing, broadband and flood defences.

For London, specific announcements included:

- a six-year capital and borrowing settlement for Transport for London from 2015.
- West Anglia suburban rail services to be devolved, in principle, to the Mayor and Transport for London (aiming for the transfer to take place by the end of 2015).
- A borrowing guarantee to support housing and transport infrastructure in Tottenham.
- Investment to electrify the Gospel Oak to Barking rail line and a commitment to explore the case for extending the line to Barking Riverside.
- An initial commitment from Government of £2m to carry out a funding and financing feasibility study for Crossrail 2.

## Business confidence in London rising

In their Q2 2013 UK Business Confidence Monitor Report ICAEW/Grant Thornton found that surveyed businesses in London “saw modest but stable growth continuing this quarter, with turnover rising over the past 12 months by 3.8%, while domestic sales and exports rose by 2.6% and 3.8% respectively over the same period. These figures are broadly in line with growth rates seen in recent quarters”. They also found that “businesses in London expect growth to pick up over the coming year”. For the UK as a whole the report stated that business confidence reached “its highest point since Q3 2010. This quarter sees the third consecutive year-on-year increase on the Index, following two full years of negative year-on-year movement, suggesting that businesses feel that conditions are notably stronger in 2013 than they were in 2012”.

## Data revisions increase the ‘peak-to-trough’ fall of the 2008-09 recession but remove the ‘double-dip’ recession

Updated historical data published by the ONS on 27 June now shows that the UK economy experienced a sharper fall in output during the 2008/09 recession than was previously estimated: “the peak-to-trough fall in output during the recession is 7.2%, revised from a fall of 6.3% in previously published figures”. Moreover, despite UK GDP falling in both Q4 2011 and Q2 2012, a revision to GDP data for Q1 2012 (from a previous fall of 0.1 per cent to now being flat) means that, technically speaking, the UK did not enter recession at the beginning of 2012. Nevertheless, whilst revised figures suggest a technical recession (of two or more consecutive quarters of negative growth) was avoided, they also show that the real level of economic activity in Q2 2012 was at, or slightly below, that which occurred a year earlier in Q2 2011. In terms of the current level of output, the revisions mean that “in Q1 2013, GDP was estimated to have been 3.9% lower than the pre-financial crisis peak in Q1 2008”.

## OECD cuts Eurozone economic growth forecast

The OECD has again downgraded the 2013 growth forecast for the Eurozone in its latest Economic Outlook. The Eurozone is now forecast to contract by -0.6 per cent in 2013 and then grow by 1.1 per cent in 2014. The OECD also downgraded the growth forecast for the UK economy for 2013 to 0.8 per cent with growth then picking up to 1.5 per cent in 2014, whilst for the world economy it forecast growth of 3.1 per cent in 2013 and 4 per cent in 2014. The European Central Bank (ECB) has also downgraded its growth forecast for the Eurozone in 2013 with it now anticipating a contraction of -0.6 per cent although the forecast of 1.1 per cent growth in 2014 was a marginal upward revision. In commenting on the forecast ECB President, Mario Draghi, said “the governing council continues to see downside risks surrounding the economic outlook for the euro area”, with these including “the possibility of weaker than expected domestic and global demand and slow or insufficient implementation of structural reforms in euro area countries”.

In a separate development, the German Constitutional Court was asked to rule on whether the ECB’s Outright Monetary Transactions (OMT) is lawful and whether either the Bundesbank or the ECB has overstepped its existing mandate. OMT is the programme whereby the ECB makes direct purchases in national sovereign bond markets. The ECB’s decision to enact OMT operations was not unanimous and the court hearing took place on 11th and 12th June although it could be months before the court comes to a decision.

## **London forecast to be the second most competitive city in 2025**

The Hot Spots 2025 report produced by The Economist Intelligence Unit for Citigroup forecasts that in 2025 London will rank behind only New York in competitiveness noting that “while there is much concern in the West about the lingering impacts of the financial crises that have slowed plans for urban renewal, this has not reduced the ability of US, Canadian and European cities to attract capital, businesses and people, which is ultimately what this Index seeks to measure. New York (1st) and London (2nd) are rated as the world’s two most competitive cities in 2025”. It further notes that in 2025 “London ranks particularly well in terms of its financial maturity (joint first overall), physical capital (joint first) and global appeal (joint first). The city retains its role as the UK’s and Europe’s leading financial centre. Notably, London is the only city in the developed world that rises significantly in terms of its economic strength between 2012 and 2025”.

## **Continuing signs of a gradual economic recovery outside of the Eurozone**

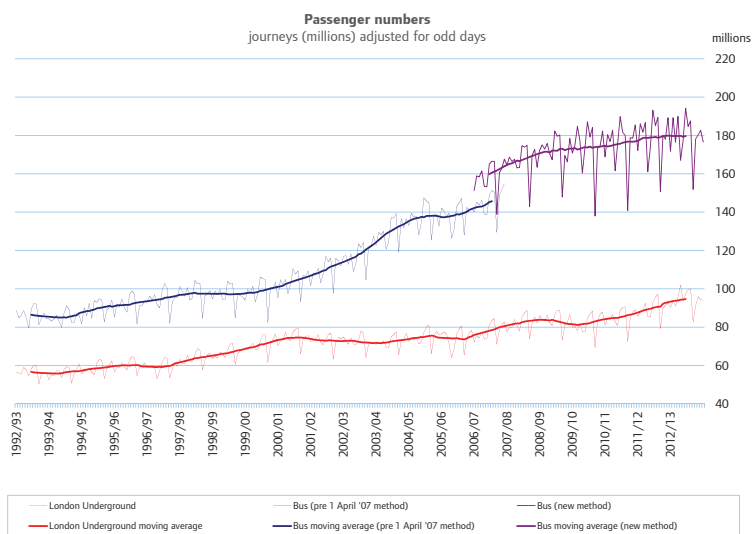
Although the 2015/16 spending round shows that the UK path to full economic health is likely to be protracted, signs of a gradual economic recovery in the global economy continue to be evident. Thus in June Standard & Poor’s lifted its credit outlook for US government debt from negative to stable meaning that a further downgrade in its debt from AA+ is less likely. In its report S&P noted that strengths of the US include “its resilient economy, its monetary credibility, and the US dollar’s status as the world’s key reserve currency”. The US economy also continues to add jobs with it creating 175,000 in May; whilst in Japan Q1 2013 GDP growth was revised upwards to 1 per cent. Thus, even though India’s growth rate in the first three months of 2013 was the lowest recorded in a decade, there are indications that in general the global economy excluding the Eurozone continues its slow recovery. This is also shown in more positive economic news emanating from the UK. The British Chamber of Commerce (BCC) has raised its UK growth forecast for 2013 to 2015 (BCC now forecasts growth of 0.9 per cent in 2013, 1.9 per cent in 2014 and 2.4 per cent in 2015, compared to its previous forecast of 0.6 per cent, 1.7 per cent and 2.2 per cent respectively).

## Increase in moving average of passenger numbers

- The most recent 27 day period is from 1 April 2013 to 27 April 2013. Adjusted for odd days, London's Underground and buses had 270.7 million passenger journeys; 176.6 million by bus and 94.1 million by Underground.
- The moving average of passengers every period increased to 274.4 million from 273.7 million in the previous period. The moving average for buses was 179.7 million. The moving average for the Underground was 94.7 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: June 2013

Next release: July 2013



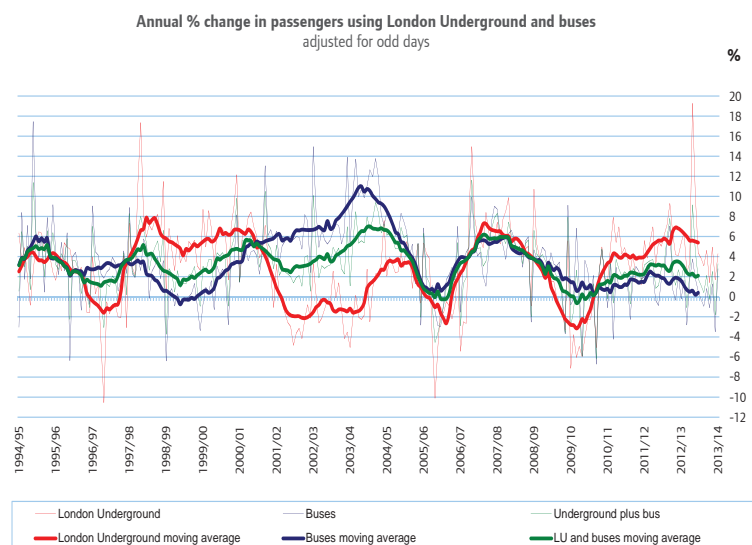
Source: Transport for London

## Average annual growth rate of passengers increases

- The moving average annual rate of growth in passenger journeys increased to 2.1% from 2.0% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 0.4% from 0.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 5.4% from 5.5% in the previous period.

Latest release: June 2013

Next release: July 2013



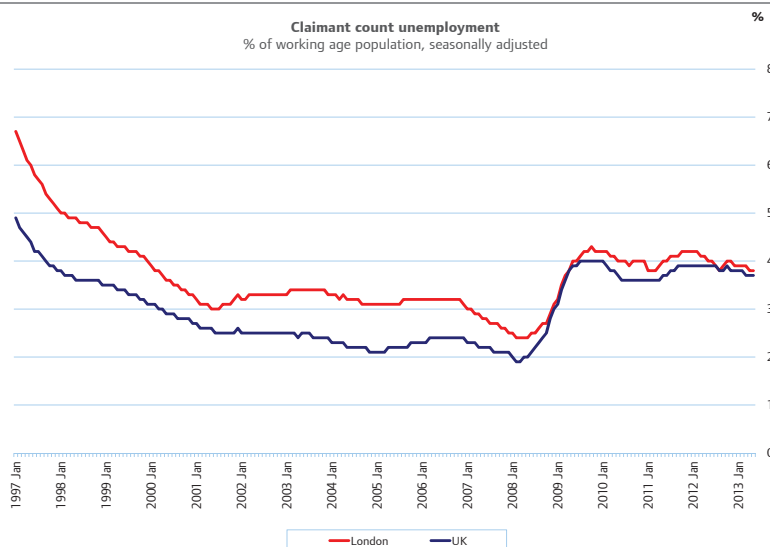
Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 3.8% in May 2013.
- There were 214,000 seasonally adjusted unemployment claimants in London in May 2013 compared to a downwardly-revised 216,300 in April 2013.
- There were 1,507,700 seasonally adjusted unemployment claimants in the UK in May 2013 compared to a downwardly-revised 1,516,300 in April 2013.

Latest release: June 2013

Next release: July 2013



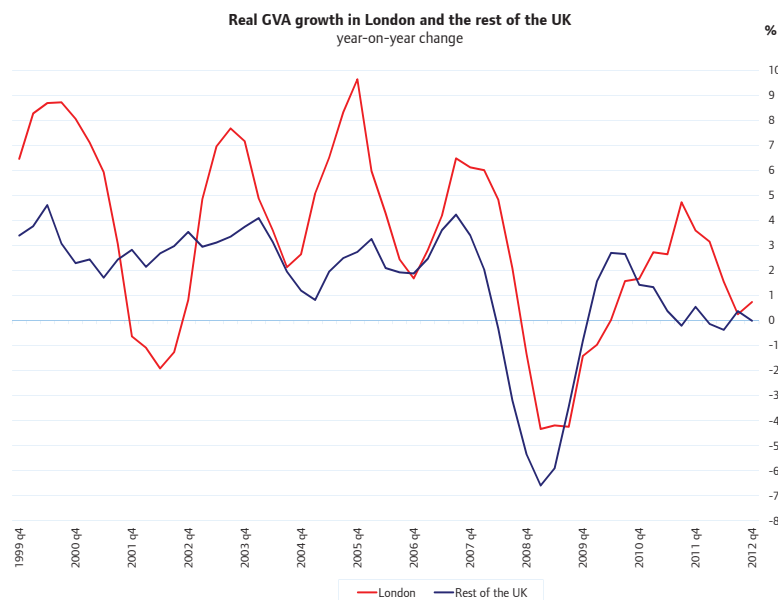
Source: Claimant Count, Nomis

## Annual output growth positive in London in Q4 2012

- London's annual growth in output increased to 0.7% in Q4 2012 from an upwardly-revised 0.2% in Q3 2012.
- Annual output growth in the rest of the UK decreased to 0.0% in Q4 2012 from an upwardly-revised 0.4% in Q3 2012.
- In Q4 2012 London's annual growth rate was higher than in the rest of the UK.

Latest release: May 2013

Next release: August 2013

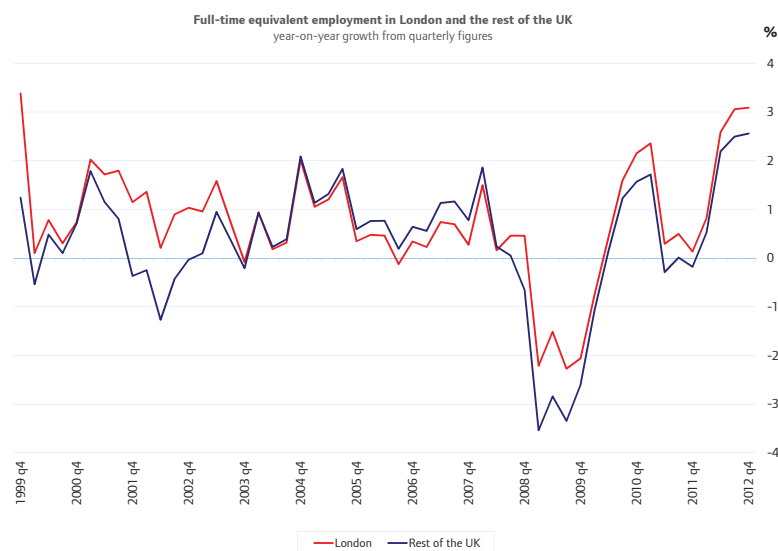


## Strong annual employment growth in Q4 2012

- London's annual employment growth was 3.1% in Q4 2012 the same rate as the upwardly-revised figure for Q3 2012.
- Annual employment growth in the rest of the UK was 2.6% in Q4 2012, up from 2.5% in Q3 2012.
- In Q4 2012 London's annual employment growth was stronger than in the rest of the UK.

Latest release: May 2013

Next release: August 2013

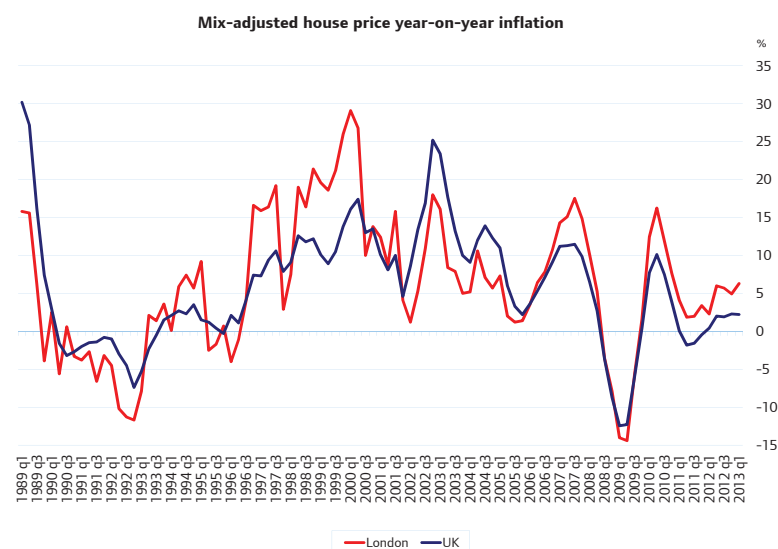


## Annual house price inflation higher in London than in the UK

- The Office for National Statistics (ONS) house price index is an official measure of house prices. It is available up to Q1 2013.
- Annual house price inflation in London was 6.3% in Q1 2013, up from 4.9% in Q4 2012.
- Annual house price inflation in the UK was 2.2% in Q1 2013, down from 2.3% in Q4 2012.

Latest release: May 2013

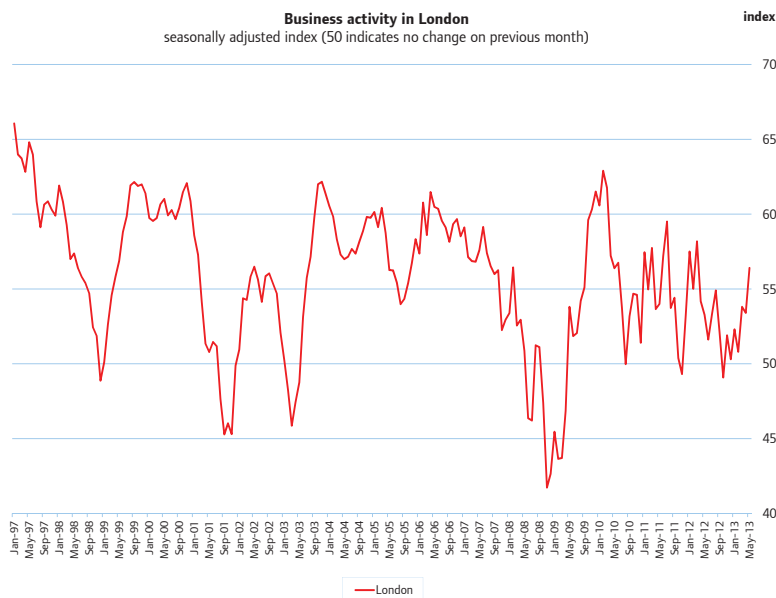
Next release: August 2013



## London's business activity increasing

- London firms increased their output of goods and services in May 2013.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.4 in May 2013 compared to 53.4 in April 2013.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: June 2013  
Next release: July 2013

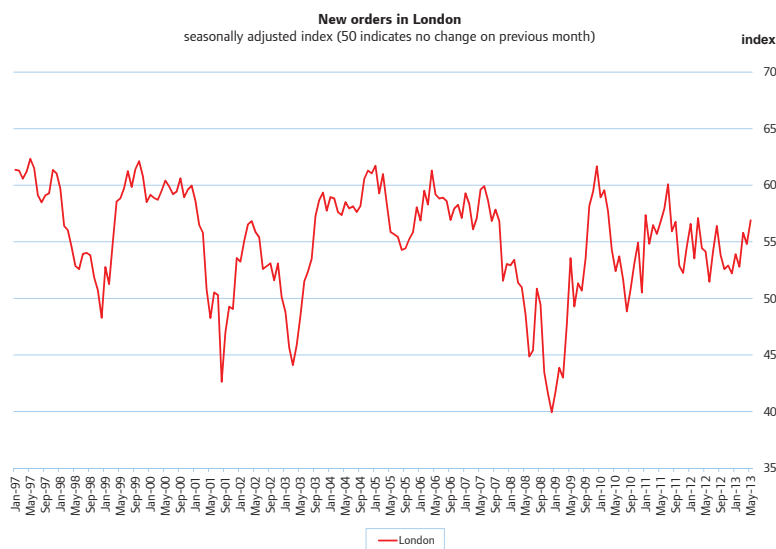


Source: Markit Economics

## New orders in London rising

- May 2013 saw an increase in new orders for London firms.
- The PMI for new orders recorded 56.9 in May 2013 compared to 54.8 in April 2013.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: June 2013  
Next release: July 2013

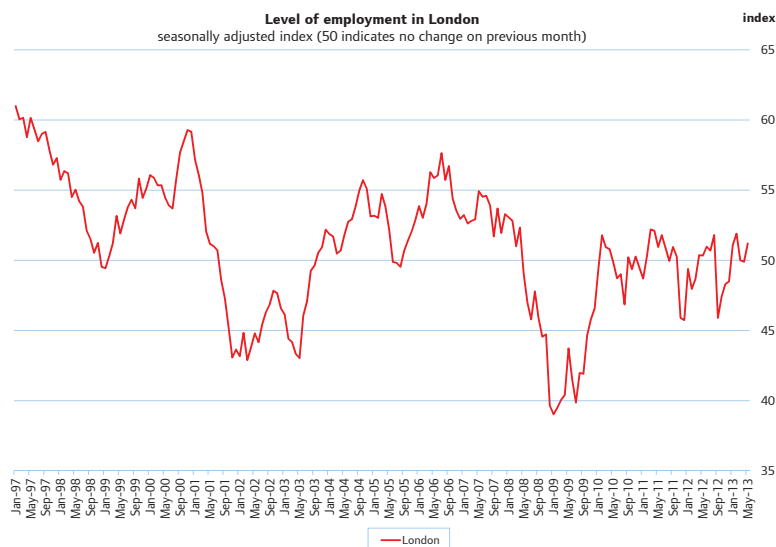


Source: Markit Economics

## Businesses report higher employment in May

- The PMI shows that the level of employment in London firms increased in May 2013.
- The PMI for the level of employment was 51.2 in May 2013 compared to 49.9 in April 2013.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: June 2013  
Next release: July 2013



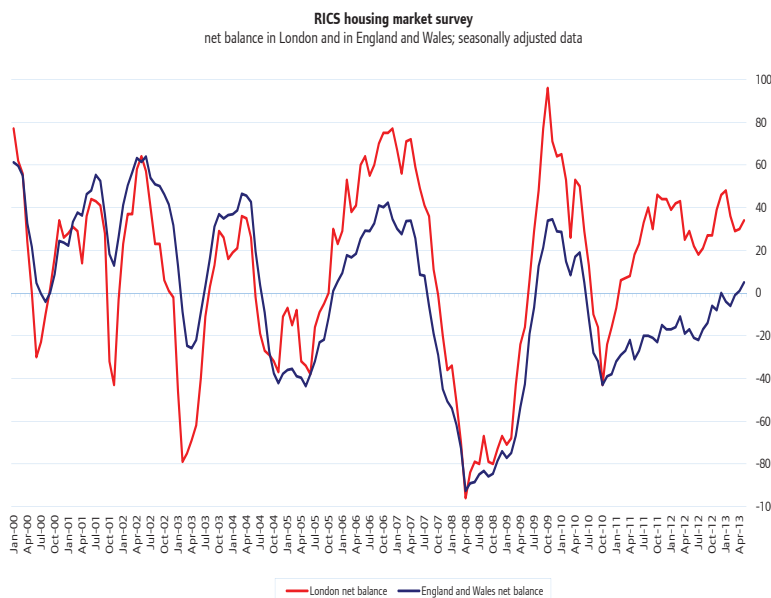
Source: Markit Economics



## Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 34 for London house prices over the three months to May 2013.
- Surveyors reported a positive net house price balance of 5 for England and Wales over the three months to May 2013.
- London's net house price balance is higher than that of England and Wales.

Latest release: June 2013  
Next release: July 2013

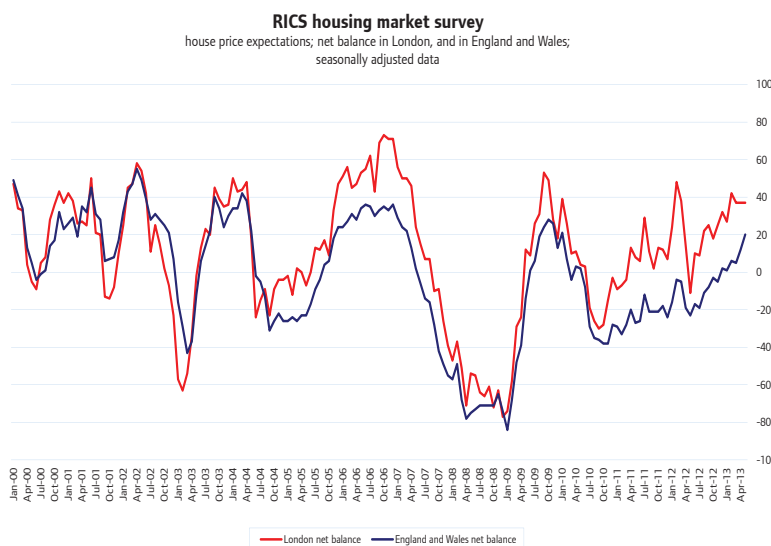


Source: Royal Institution of Chartered Surveyors

## 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 37 in May 2013.
- For England and Wales, the net house price expectations balance was 20 in May 2013.

Latest release: June 2013  
Next release: July 2013

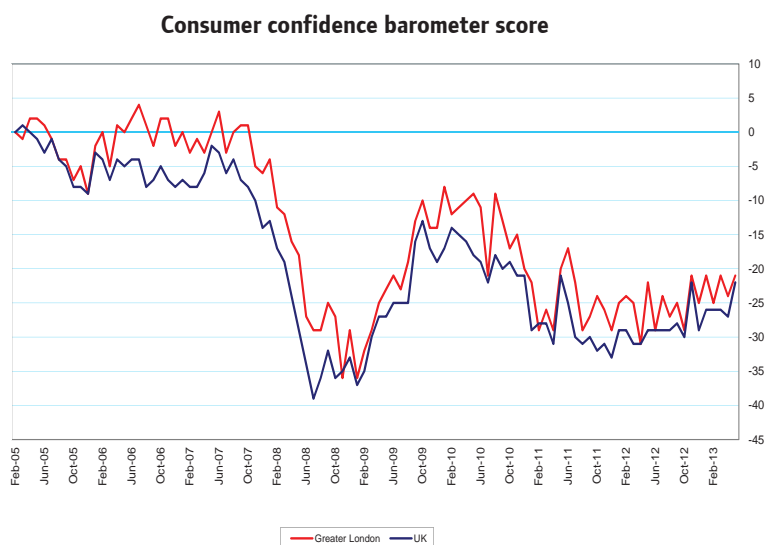


Source: Royal Institution of Chartered Surveyors

## Consumer confidence remains negative

- The GfK index of consumer confidence reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London the consumer confidence score increased to -21 in May 2013 from -24 in April 2013.
- For the UK the consumer confidence score increased to -22 in May 2013 from -27 in April 2013.

Latest release: May 2013  
Next release: June 2013



Source: GfK NOP on behalf of the European Commission



## Data sources

<b>Tube and bus ridership</b>	Transport for London on 020 7222 5600 or email: <a href="mailto:enquire@tfl.gov.uk">enquire@tfl.gov.uk</a>
<b>GVA growth</b>	Experian Economics on 020 7746 8260
<b>Unemployment rates</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>

## 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 2013/14 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2013.

### 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 2013/14 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2013.

## Acronyms

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