

London's Economy Today

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In this issue

UK economic recovery gathers pace as Bank of England introduces 'Forward Guidance' 1

Latest news 1

Economic indicators 5

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

UK economic recovery gathers pace as Bank of England introduces 'Forward Guidance'

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

The new Governor of the Bank of England, Mark Carney, unveiled in August explicit policy guidance on the Bank interest rate, also known as 'Forward Guidance'. He announced that the benchmark interest rate would not be raised from 0.5 per cent by the Monetary Policy Committee (MPC) at least until the LFS (Labour Force Survey) unemployment rate has fallen to 7 per cent subject to 'knockout' conditions not being met. These conditions include: if, in the MPC's view, it is more likely than not, that CPI inflation 18 to 24 months ahead will be 0.5 percentage points or more above the 2 per cent target; if inflation expectations got out of control; or if financial stability was threatened by the policy.

The Bank suggests that "explicit policy guidance can enhance the effectiveness of monetary stimulus in three ways. It provides greater clarity regarding the MPC's view of the appropriate trade-off between the speed with which inflation is returned to

Latest news...



Understanding the demand for and supply of visitor accommodation in London to 2036 Working Paper 58

In 2012 GLA Economics' best estimate suggests that there was an existing supply of 131,600 serviced rooms in London (and 165,700 serviced and unserviced) with significant growth over the past couple of years.

Based on a range of models, tourism nights in London are projected to reach a central estimate of 183.6 million by 2036.

Using the past relationship between tourism nights and the level of serviced accommodation in London, the central projection for the number of net new serviced rooms required by 2036 is 42,900 (or just under 1,800 per annum). Download this publication now from <http://www.london.gov.uk/priorities/business-economy/publications/gla-economics/understanding-the-demand-for-and-supply-of-visitor-accommodation>

the target and the support given to the recovery. It reduces uncertainty about the future path of monetary policy as the economy recovers. And it delivers a robust framework within which the MPC can explore the scope for economic expansion without putting price stability and financial stability at risk". The Federal Reserve has already provided forward guidance on its interest rate policy.

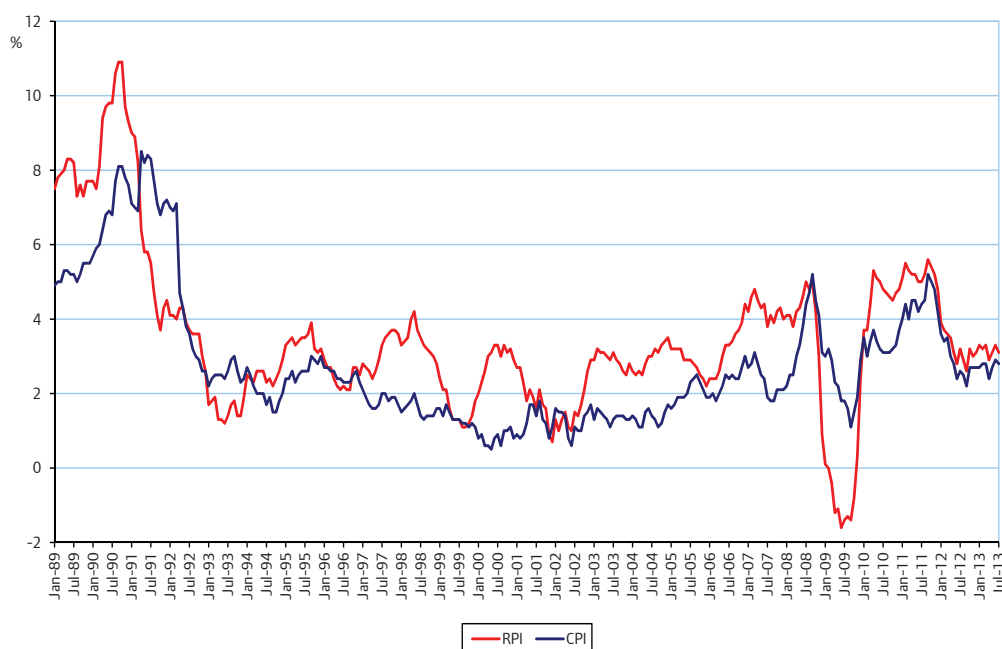
Commenting on the policy, the Governor emphasised that the 7 per cent unemployment rate should be seen as a 'way-station' where a review of policy would take place and not a trigger for rate rises. The UK unemployment rate currently stands at 7.8 per cent and to reach 7 per cent the Bank believes would require the net creation of 750,000 jobs, which it does not expect to occur on the balance of probabilities until mid-2016. Overall, in the August Inflation Report the Bank observes that "in the United Kingdom, a recovery appears to be taking hold. But the legacy of adjustment and repair left by the financial crisis means that the recovery is likely to remain weak by historical standards. CPI inflation rose to 2.9% in June and looks set to remain around that rate in the near term".

It should be noted here that the above statement was made before the Office for National Statistics (ONS) published the July 2013 inflation data which showed that CPI inflation fell to 2.8 per cent from 2.9 per cent in June (see Figure 1). The slight fall was attributed to a decline in the cost of clothing, leisure and cultural activities. The July retail price index (RPI) inflation rate also fell to 3.1 per cent from 3.3 per cent in June. The July RPI figure is particularly important as it is used to calculate many pension upratings, as well as inflation-linked government bonds and regulated rail ticket price increases.

Figure 1: UK annual inflation rates

Last data point is July 2013

Source: Office for National Statistics



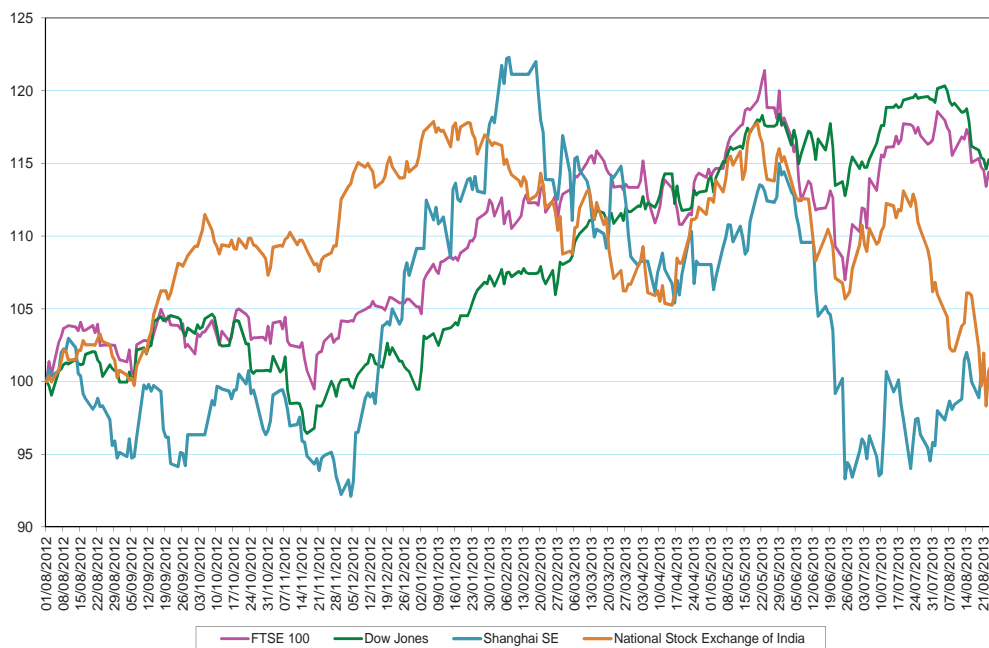
Signs of recovery in many developed economies while emerging markets slow down

There are increasing signs of recovery in many developed economies. However, concerns have risen about the slowing state of some emerging economies. Differences can also be seen by the performance of stock markets over the past year: with markets in the developed economies generally rising whilst those in developing economies have been more subdued and have seen falls recently (see Figure 2).

Figure 2: Stock market performance since August 2012 [100 = 1 August 2012]

Last data point is
27/08/13

Source: EcoWin



In the US, employment is rising. The US economy added 162,000 jobs in July leaving the unemployment rate at 7.4 per cent, its lowest level in four years. Over the last month there has been more positive news in the Eurozone. Data for Q2 2013 GDP indicated that the Eurozone grew by 0.3 per cent, bringing 18 months of recession to an end. Both the German and French economies grew, by 0.7 per cent and 0.5 per cent respectively, whilst the Portuguese economy grew by 1.1 per cent. PMI indicators for German manufacturing and services have outpaced expectations. Nevertheless, Spain's economy continued to contract in Q2 2013, declining by 0.1 per cent and Italy and the Netherlands saw contractions of 0.2 per cent.

News from emerging market economies was more mixed in August with data being published showing that the Indian wholesale price index inflation rate rose to 5.79 per cent in July, compared to 4.86 per cent in June. The rise in inflation has been blamed on the fall in the value of the rupee, which has declined by around 20 per cent against the US dollar since the beginning of the year, pushing up import prices. Other emerging economies have also seen capital flight and dramatic falls in their currencies against the US dollar. However, the economic data coming out of China was slightly more positive in August than it has been in recent months. For example, trade data published in August showed that exports rose by 5.1 per cent in July compared to a year earlier and imports rose by 10.9 per cent and has been taken by some as an indicator that the Chinese economy may be stabilising. The flash HSBC PMI survey for Chinese manufacturing also hit a four month high in August but concerns remain that the Chinese slowdown still has some way to go.

Positive indicators for the UK economy imply a rosier end to 2013 and a better 2014

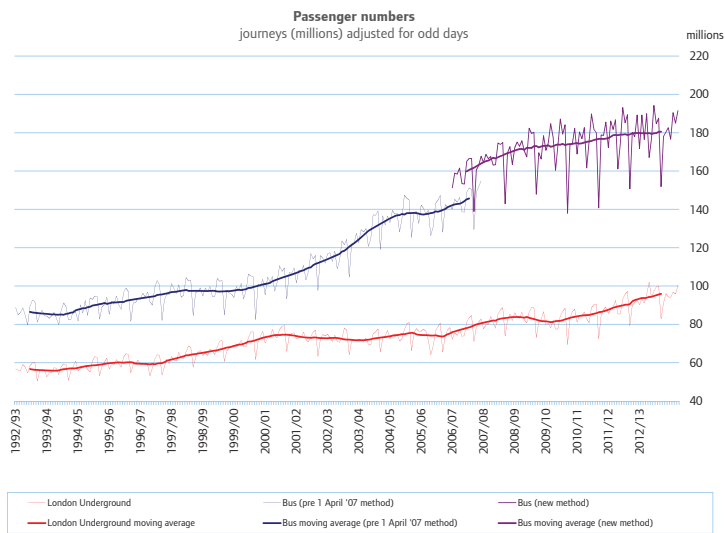
On 23 August, the ONS revised UK growth up for Q2 2013 from 0.6 per cent to 0.7 per cent. Compared with one year earlier, GDP was 1.5 per cent higher in Q2 2013. Although the current rate of economic growth is still beneath the rate experienced in previous recoveries from recession, the latest revision adds to a growing body of evidence that the UK's recovery is picking up speed. Services, manufacturing, the primary industries and construction all grew in the second quarter. With regard to London, a wide range of evidence still suggests that the capital's economy is growing even more quickly than that of the UK as a whole.

Furthermore, a number of economic indicators published in August suggest that the UK economic recovery has picked up pace into the second half of 2013. UK retail sales rose by 1.1 per cent in July compared to the previous year, a rise significantly higher than expected. The housing market is starting to look quite buoyant with the Royal Institution of Chartered Surveyors stating that in July their headline price balance reached its highest level since November 2006. The CBI has also increased its UK growth forecast for 2013 from 1 per cent to 1.2 per cent and for 2014 from 2 per cent to 2.3 per cent. The manufacturing employers' association, EEF, has also announced that it expects consumer spending and increased confidence to support GDP growth of 1.1 per cent for 2013 (up from the 0.9 per cent it forecast at the beginning of the year). For comparison, GLA Economics' latest 'London's Economic Outlook' forecasts growth in London's output of 1.9 per cent in 2013.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28 day period is from 28 June 2013 to 20 July 2013. Adjusted for odd days, London's Underground and buses had 291.8 million passenger journeys; 191.5 million by bus and 100.3 million by Underground.
- The moving average of passengers every period increased to 276.4 million from 276.1 million in the previous period. The moving average for buses was 180.6 million. The moving average for the Underground was 95.9 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).

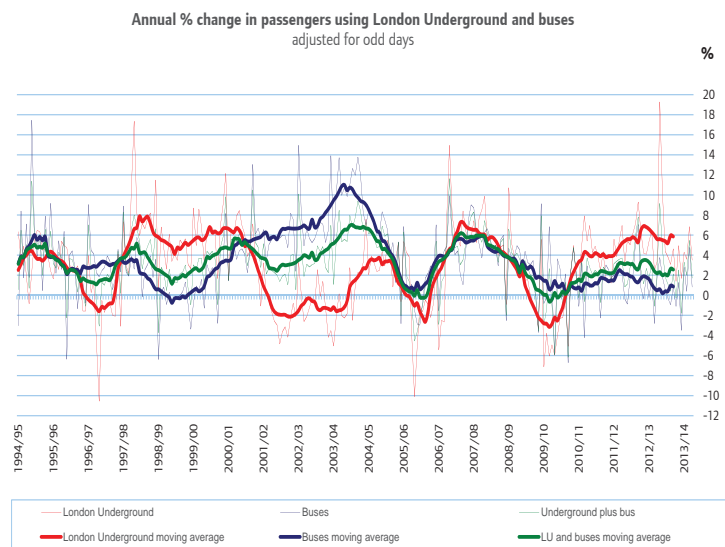


Source: Transport for London

Latest release: August 2013
Next release: September 2013

Average annual growth rate of passengers unchanged

- The moving average annual rate of growth in passenger journeys was unchanged from 2.6% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.9% from 1.0% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 5.9% from 6.0% in the previous period.

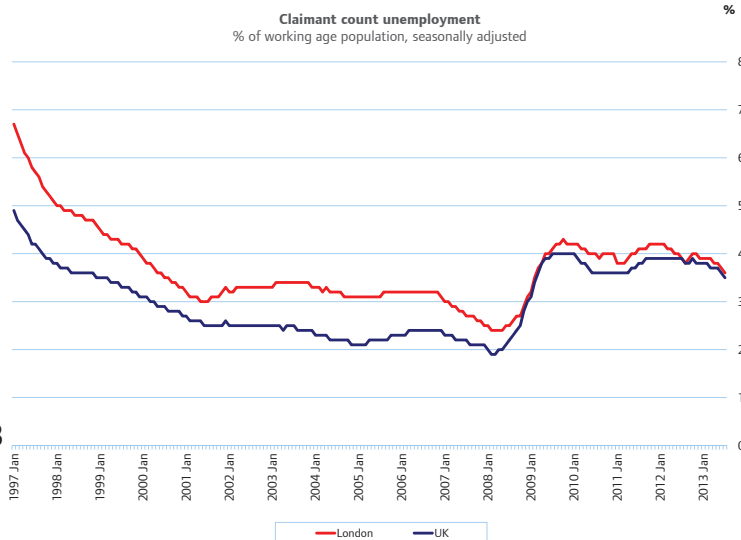


Source: Transport for London

Latest release: August 2013
Next release: September 2013

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 3.6% in July 2013.
- There were 205,000 seasonally adjusted unemployment claimants in London in July 2013 compared to a downwardly-revised 209,300 in June 2013.
- There were 1,441,500 seasonally adjusted unemployment claimants in the UK in July 2013 compared to a downwardly-revised 1,470,700 in June 2013.



Source: Claimant Count, Nomis

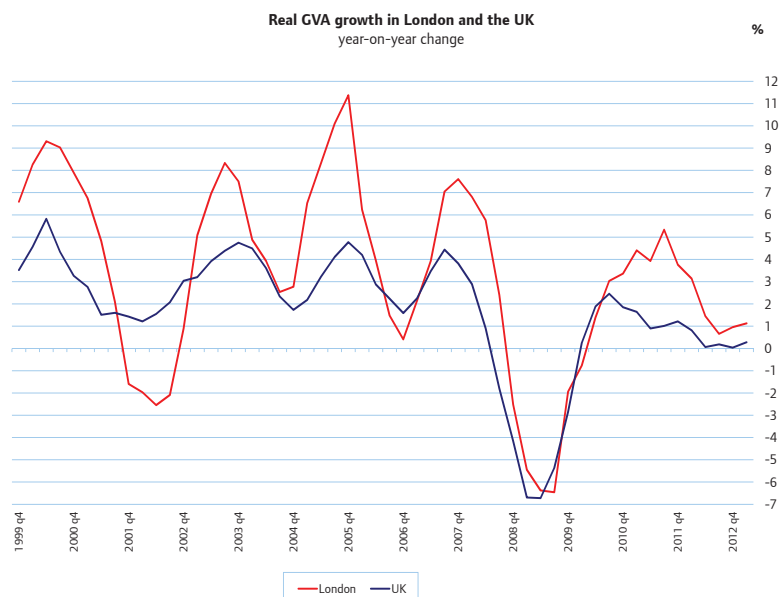
Latest release: August 2013
Next release: September 2013

Faster annual output growth in Q1 2013

- London's annual growth in output increased to 1.1% in Q1 2013 from an upwardly-revised 1.0% in Q4 2012.
- Annual output growth in the UK increased to 0.3% in Q1 2013 from a downwardly-revised 0.0% in Q4 2012.
- In Q1 2013 London's annual growth rate was higher than in the UK as a whole.

Latest release: August 2013

Next release: November 2013



Annual employment growth slows in Q1 2013

- London's annual employment growth decreased to 2.9% in Q1 2013 from an upwardly-revised 3.3% in Q4 2012.
- Annual employment growth in the UK decreased to 2.2% in Q1 2013 from 2.6% in Q4 2012.
- In Q1 2013 London's annual employment growth was higher than in the UK as a whole.

Latest release: August 2013

Next release: November 2013

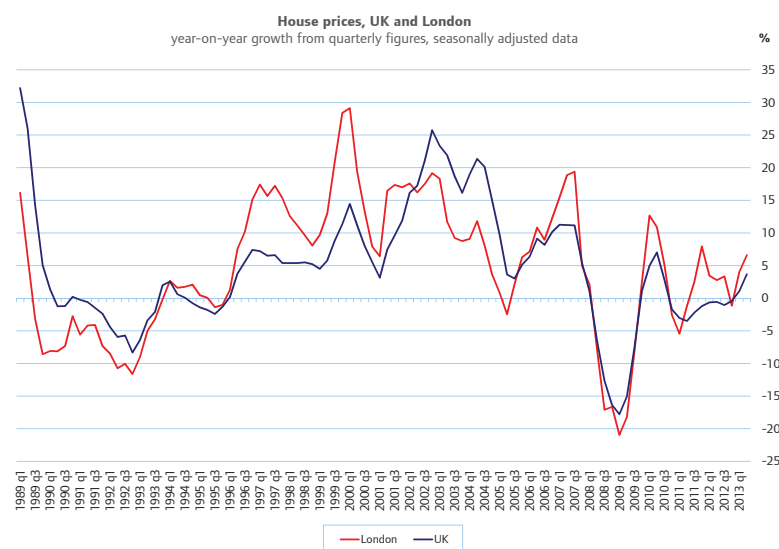


Annual house price inflation higher in London than in the UK

- House prices, as measured by Halifax, were higher in Q2 2013 than in Q2 2012 in London and in the UK.
- Annual house price inflation in London was 6.6% in Q2 2013, up from 4.0% in Q1 2013.
- Annual house price inflation in the UK was 3.7% in Q2 2013, up from 1.1% in Q1 2013.

Latest release: July 2013

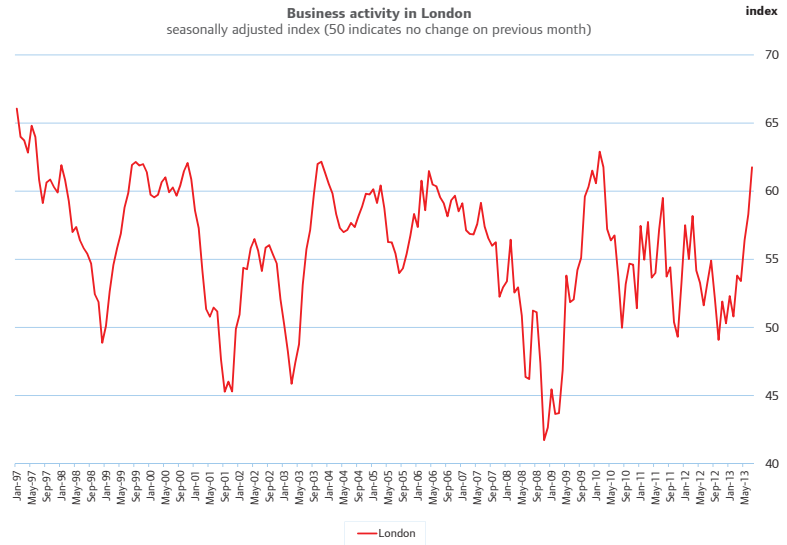
Next release: October 2013



London's business activity increasing

- London firms increased their output of goods and services in July 2013.
- The Purchasing Managers' Index (PMI) of business activity recorded 61.8 in July 2013 compared to 58.3 in June 2013.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: August 2013
Next release: September 2013

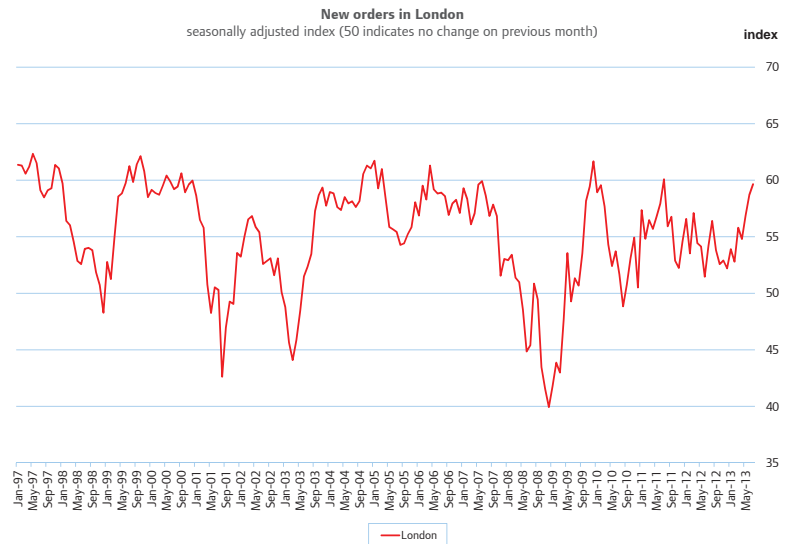


Source: Markit Economics

New orders in London rising

- July 2013 saw an increase in new orders for London firms.
- The PMI for new orders recorded 59.6 in July 2013 compared to 58.7 in June 2013.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: August 2013
Next release: September 2013

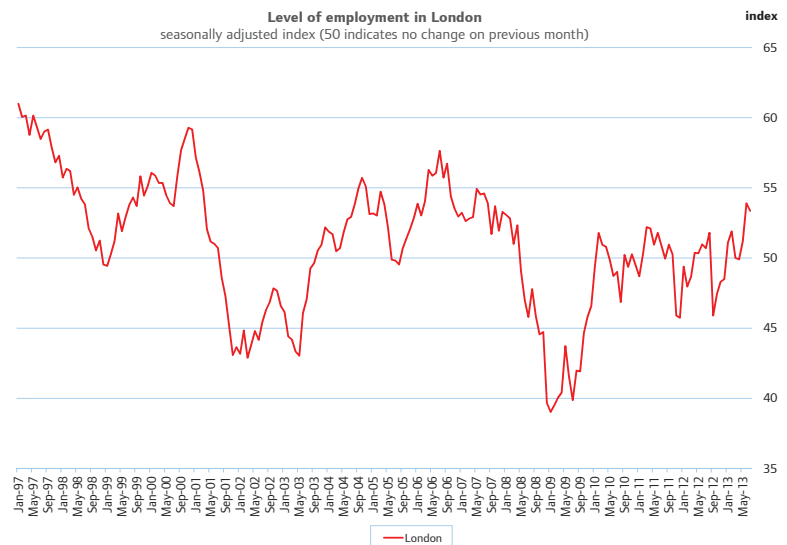


Source: Markit Economics

Businesses report higher employment in July

- The PMI shows that the level of employment in London firms increased in July 2013.
- The PMI for the level of employment was 53.4 in July 2013 compared to 53.9 in June 2013.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: August 2013
Next release: September 2013

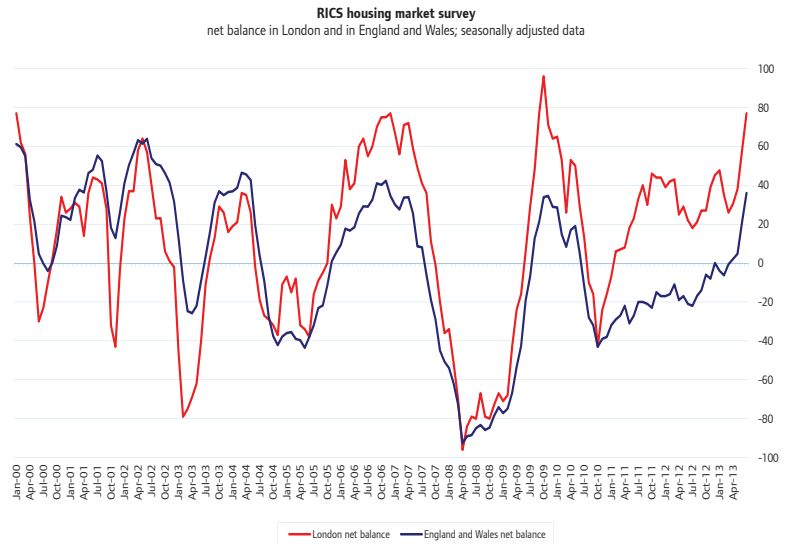


Source: Markit Economics

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 77 for London house prices over the three months to July 2013.
- Surveyors reported a positive net house price balance of 36 for England and Wales over the three months to July 2013.
- London's net house price balance is higher than that of England and Wales.

Latest release: August 2013
Next release: September 2013

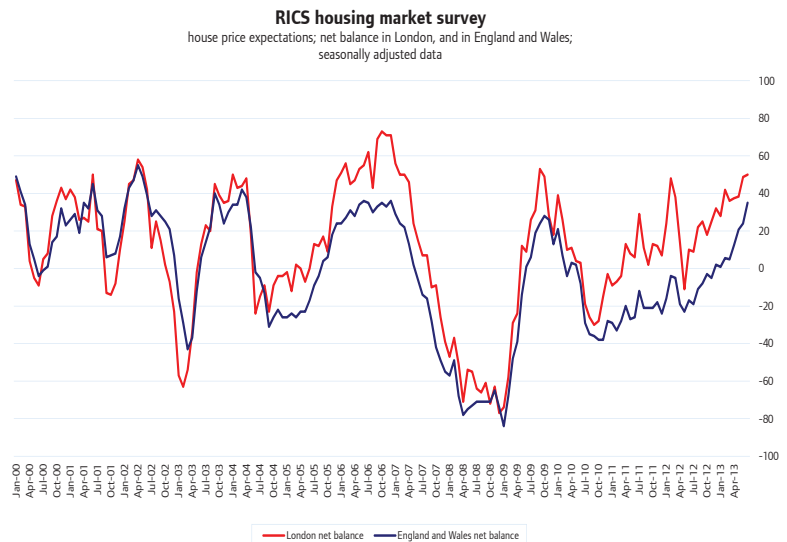


Source: Royal Institution of Chartered Surveyors

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 50 in July 2013.
- For England and Wales, the net house price expectations balance was 35 in July 2013.

Latest release: August 2013
Next release: September 2013

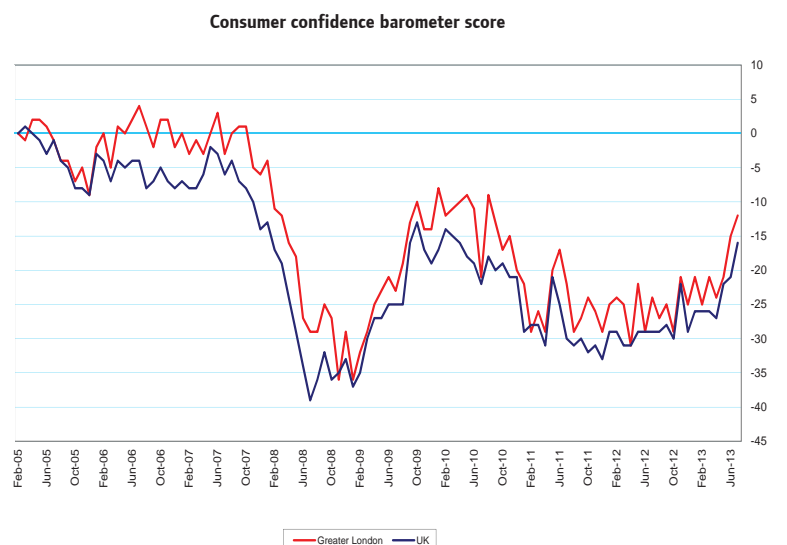


Source: Royal Institution of Chartered Surveyors

Consumer confidence shows improvement but still 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 -12 in July 2013 from -15 in June 2013.
- For the UK the consumer confidence score increased to -16 in July 2013 from -21 in June 2013.

Latest release: July 2013
Next release: August 2013



Source: GfK NOP on behalf of the European Commission

Data sources

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

Glossary

Civilian workforce jobs

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

Claimant count unemployment

Unemployment based on the number of people claiming unemployment benefits.

Employee jobs

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

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

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

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 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

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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About GLA Economics

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.