

London's Economy Today

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UK inflation heads back towards target as the economy strengthens

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

UK Consumer Price Index (CPI) annual inflation fell to 2.2 per cent in October from 2.7 per cent in September (see Figure 1). The inflation rate was below the level expected by many forecasters. The Office for National Statistics (ONS) said the drop was partially driven by the largest fall in transport costs since July 2009 (down 1.5 per cent between September and October). A further impact was due to education costs, with the effect of rising tuition fees being less marked this year. Retail Price Index (RPI) inflation also moderated in October with it standing at 2.6 per cent, compared to 3.2 per cent in September.

In November the Bank of England published its latest Inflation Report, which indicated that it feels that the current recovery is bedding in. The Bank observed that "in the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise". The report also indicated that the Bank

Latest news...



London's Economic Outlook – Autumn 2013:

The GLA's medium-term planning projections

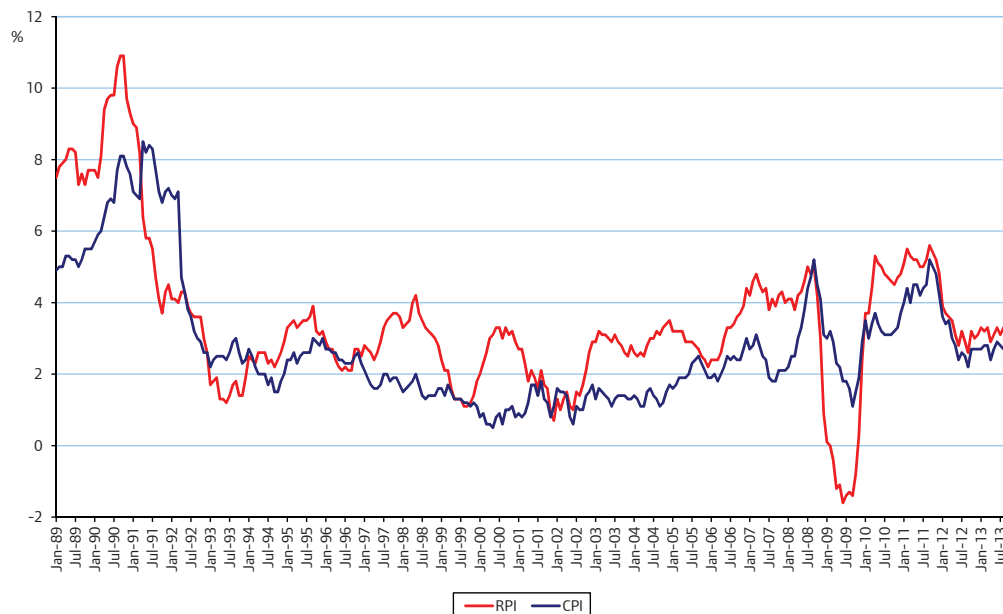
Our latest forecast for London's economy has just been released. Download the full publication now at: www.london.gov.uk/london-s-economic-outlook-autumn-2013

GLA Economics' twenty-third London forecast suggests that:

- London's Gross Value Added (GVA) growth rate should be 2.2 per cent in 2013. Growth should increase to 2.5 per cent in both 2014 and 2015.
- London is likely to see a reasonable rise in employment in 2013, 2014 and 2015.
- London household income & spending will both probably increase over the forecast period.

Figure 1: UK annual inflation rates
Last data point is October 2013

Source: Office for National Statistics



believes that unemployment may hit 7 per cent as early as the beginning of 2015. At this point under the forward guidance that the Bank set out in August it would review its monetary policy. Meanwhile, in respect to inflation the Bank noted that “the near-term outlook for inflation is lower than expected three months ago, reflecting unexpectedly low outturns and the recent appreciation of sterling. Inflation is set to fall back to around the 2 per cent target over the next year or so as the impetus from past increases in import prices fades and a gradual revival in productivity growth, together with a persistent margin of spare capacity, curbs domestic price pressures”.

European Central Bank cuts interest rates to a record low

On 7 November the European Central Bank (ECB) cut interest rates by one quarter of a per cent to a record low level of 0.25 per cent. The move came on the back of inflation in the Eurozone falling to 0.7 per cent in October, its lowest level since January 2010, and well below its target. Mario Draghi, the President of the ECB said that it expected “a prolonged period of low inflation followed by a gradual upward movement towards inflation rates of below but close to 2 per cent” and that their stance would “remain accommodative as long as necessary”, in order to deal with “weaker than expected economic activity”. The Eurozone economic situation still remains poor with data published on 14 November indicating that the Eurozone economy grew by just 0.1 per cent in Q3 2013. France’s economy declined by 0.1 per cent and so did Italy’s, which is entering its third year of recession. Meanwhile the European Commission has published its winter economic forecast which observed that “the recovery is expected to continue, and to gather some speed next year. However, it is too early to declare the crisis over. Growth is set to remain subdued on account of various adjustment needs. Risks and uncertainty remain elevated. Policy action continues to be warranted to improve the growth outlook going forward and to make the EU economy more resilient to domestic and external shocks”. The Eurozone is forecast by the European Commission to contract by -0.4 per cent in 2013 and grow by a downwardly revised rate of 1.1 per cent in 2014 before growing by 1.7 per cent in 2015. This compares with a forecast by the

Commission for the UK of growth of 1.3 per cent in 2013, 2.2 per cent in 2014 and 2.4 per cent in 2015. French government debt has been downgraded by Standard & Poor's to AA with them stating that "the downgrade reflects our view that the French government's current approach to budgetary and structural reforms to taxation, as well as to product, services and labour markets, is unlikely to substantially raise France's medium-term growth prospects". Structural weaknesses in the French and Italian economies are significantly dampening Eurozone growth prospects over the medium term.

London's business confidence equals all-time high

The Q4 2013 ICAEW/Grant Thornton UK Business Confidence Monitor published in November found that "confidence in London has been rising steadily since mid-2012", with "the last time the reading was this high was in Q2 2004". Companies reported stable growth in the quarter "as turnover and sales volumes increased by 3.5 per cent and 3.7 per cent respectively over the past year". Confidence was also high looking forward with "turnover and sales volume growth projected to grow by 5.3 per cent and 4.5 per cent respectively over the year to Q4 2014, while gross profits are expected to rise by 5.5 per cent in the next 12 months". Elsewhere in a report published in November Deloitte observed that compared to any other city London is the "world's biggest employer of high-skill people" with it finding that 1.5 million people were employed in London across 22 high-skill sectors compared to 1.2 million in New York.

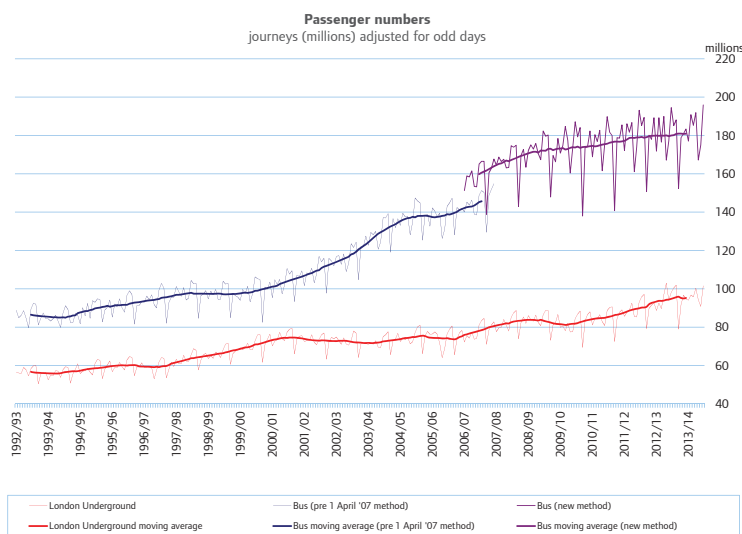
Evidence points to a more buoyant London and UK economy

The Chartered Institute of Personnel and Development's latest quarterly Labour Market Outlook has found that the UK's short-term jobs outlook "is increasingly positive - near-term employer confidence has risen to its highest level since the report began in 2005". The report further found that "private sector firms will continue to drive much of the upturn in employment prospects, with confidence particularly strong in the manufacturing and production and the wholesale, retail and motor trade sectors, as well as SMEs and employers in the south-east of England". The US recovery is also continuing with its GDP rising by an annualised rate of 2.8 per cent in Q3 2013. Federal Reserve minutes indicate that it expects to start trimming its monetary stimulus programme in "the coming months". Thus overall with most economic indicators painting a generally bullish picture with regard to business attitudes in London's economy it looks like the capital will be entering the new year in a far more optimistic mood than that experienced a year ago. Consumer confidence has also picked up so the economy is heading into 2014 with a fair degree of momentum.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28 day period is from 15 September 2013 to 12 October 2013. Adjusted for odd days, London's Underground and buses had 297.5 million passenger journeys; 195.9 million by bus and 101.6 million by Underground.
- The moving average of passengers every period increased to 276.1 million from 275.8 million in the previous period. The moving average for buses was 180.9 million. The moving average for the Underground was 95.2 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).



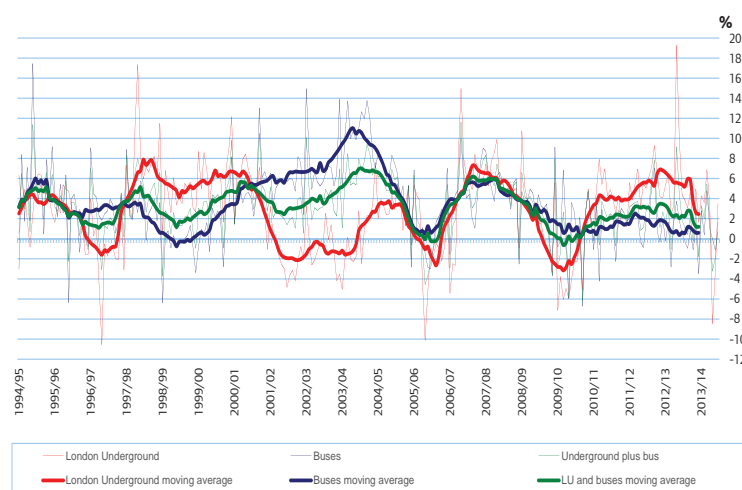
Source: Transport for London

Latest release: November 2013
Next release: December 2013

Average annual growth rate of passengers unchanged

- The moving average annual rate of growth in passenger journeys was 1.2%, unchanged from the previous period.
- The moving average annual rate of growth in bus passenger journey numbers was 0.6%, unchanged from the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 2.5% from 2.6% in the previous period.

Annual % change in passengers using London Underground and buses adjusted for odd days



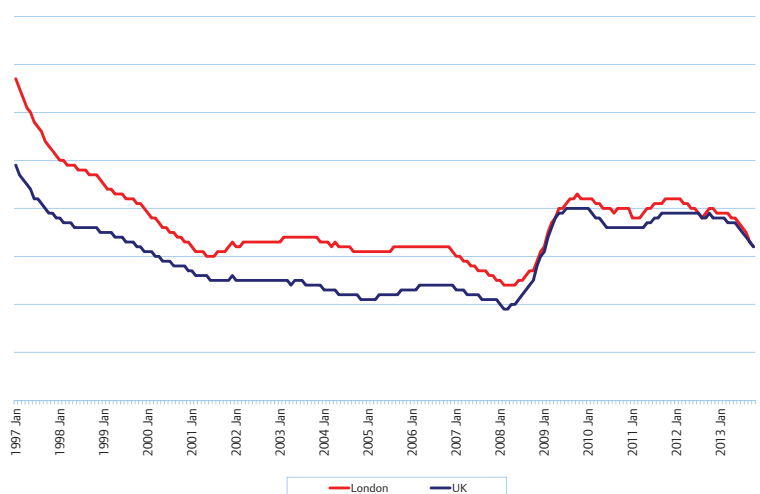
Source: Transport for London

Latest release: November 2013
Next release: December 2013

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 3.2% in October 2013.
- There were 183,000 seasonally adjusted unemployment claimants in London in October 2013 compared to a downwardly-revised 191,000 in September 2013.
- There were 1,306,400 seasonally adjusted unemployment claimants in the UK in October 2013 compared to a downwardly-revised 1,348,100 in September 2013.

Claimant count unemployment % of working age population, seasonally adjusted



Source: Claimant Count, Nomis

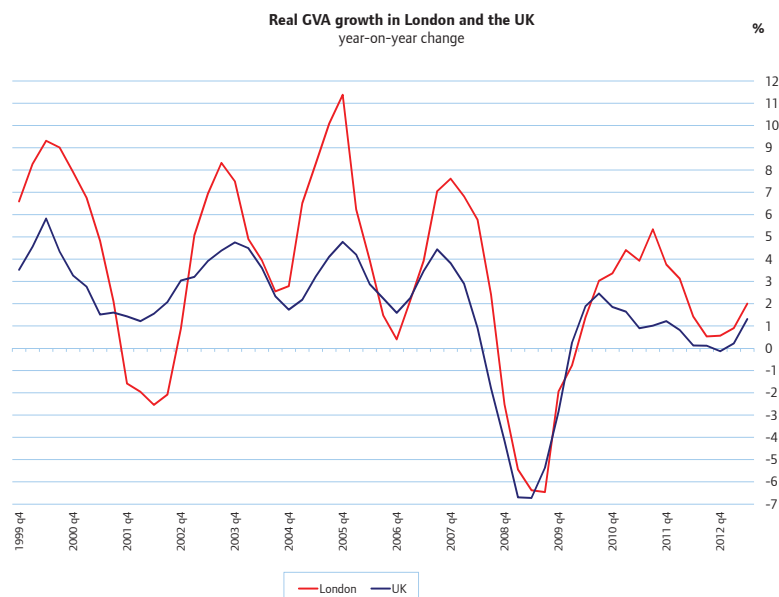
Latest release: November 2013
Next release: December 2013

Faster annual output growth in Q2 2013

- London's annual growth in output increased to 2.0% in Q2 2013 from a downwardly-revised 0.9% in Q1 2013.
- Annual output growth in the UK increased to 1.3% in Q2 2013 from a downwardly-revised 0.2% in Q1 2013.
- In Q2 2013 London's annual growth rate was higher than in the UK as a whole.

Latest release: November 2013

Next release: February 2014

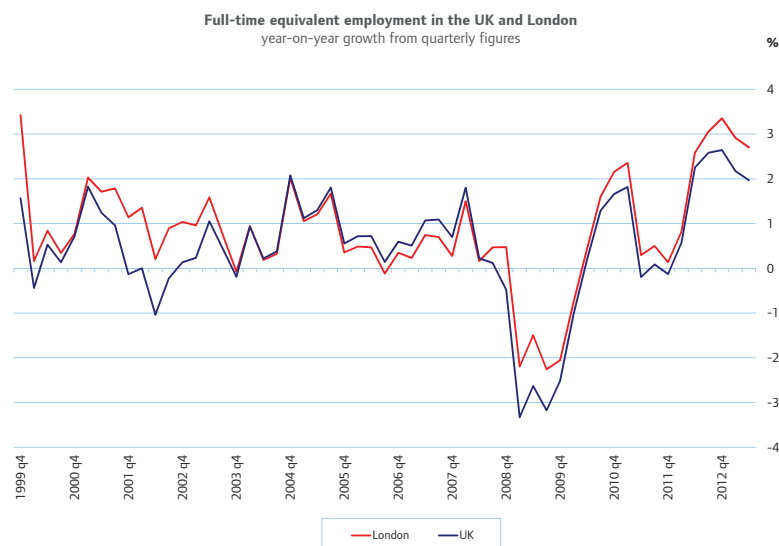


Annual employment growth slows in Q2 2013

- London's annual employment growth decreased to 2.7% in Q2 2013 from 2.9% in Q1 2013.
- Annual employment growth in the UK decreased to 2.0% in Q2 2013 from 2.2% in Q1 2013.
- In Q2 2013 London's annual employment growth was higher than in the UK as a whole.

Latest release: November 2013

Next release: February 2014

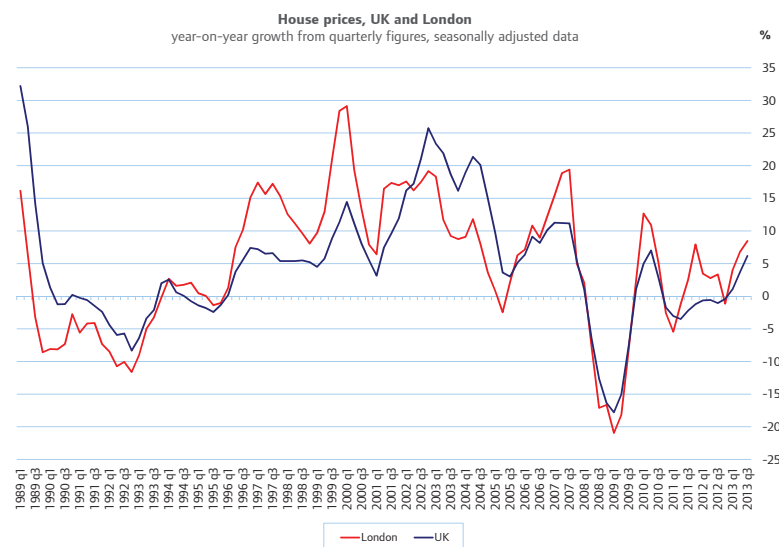


Annual house price inflation higher in London than in the UK

- House prices, as measured by Halifax, were higher in Q3 2013 than in Q3 2012 in London and in the UK.
- Annual house price inflation in London was 8.5% in Q3 2013, up from 6.8% in Q2 2013.
- Annual house price inflation in the UK was 6.2% in Q3 2013, up from 3.7% in Q2 2013.

Latest release: October 2013

Next release: January 2014

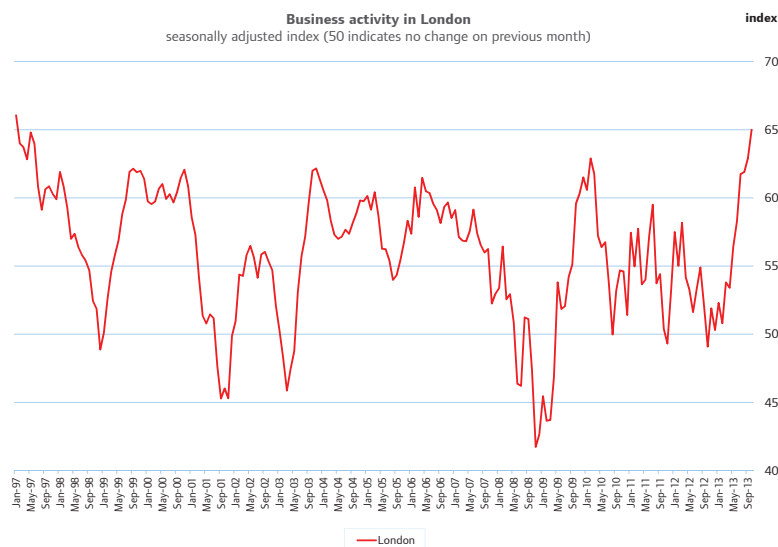


London's business activity increasing

- London firms increased their output of goods and services in October 2013.
- The Purchasing Managers' Index (PMI) of business activity recorded 65.0 in October 2013 compared to 62.9 in September 2013.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: November 2013

Next release: December 2013



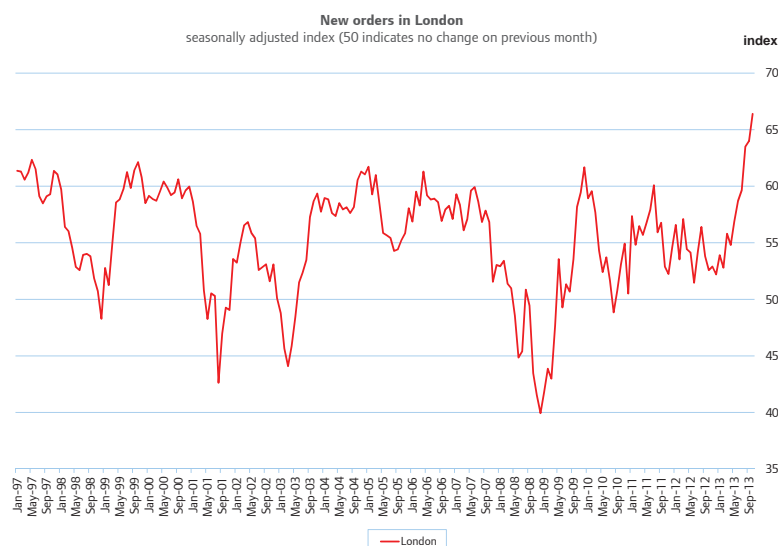
Source: Markit Economics

New orders in London rising

- October 2013 saw an increase in new orders for London firms.
- The PMI for new orders recorded 66.4 in October 2013 compared to 64.0 in September 2013.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: November 2013

Next release: December 2013



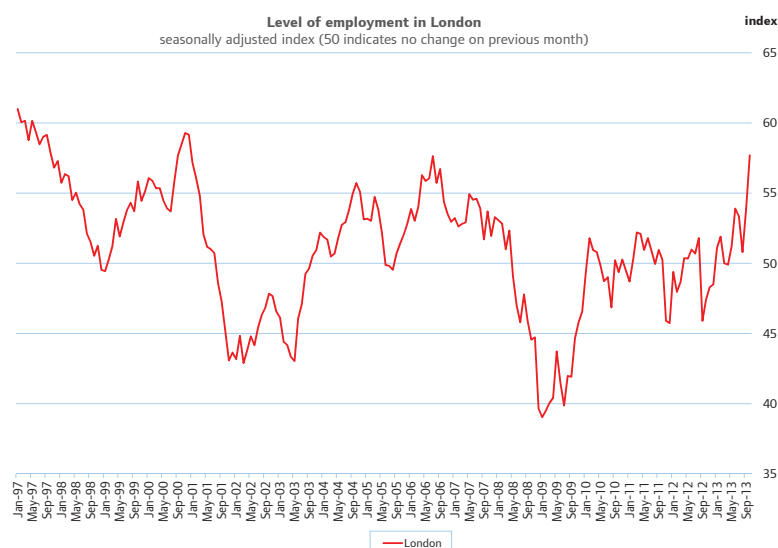
Source: Markit Economics

Businesses report higher employment in October

- The PMI shows that the level of employment in London firms increased in October 2013.
- The PMI for the level of employment was 57.7 in October 2013 compared to 53.9 in September 2013.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: November 2013

Next release: December 2013

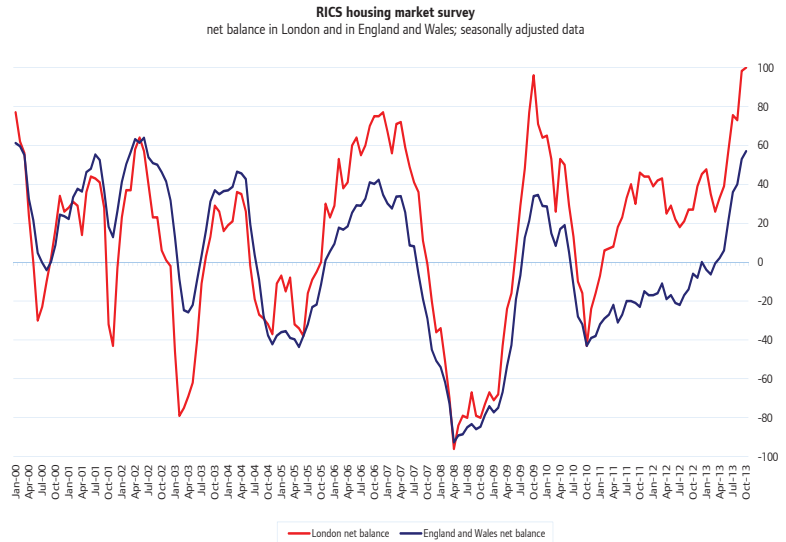


Source: Markit Economics

Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 100 for London house prices over the three months to October 2013.
- Surveyors reported a positive net house price balance of 57 for England and Wales over the three months to October 2013.
- London's net house price balance is higher than that of England and Wales.

Latest release: November 2013
Next release: December 2013

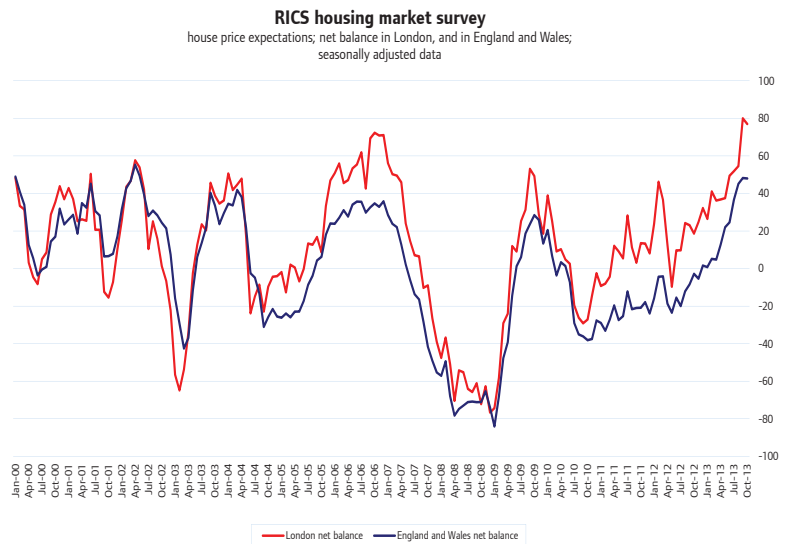


Source: Royal Institution of Chartered Surveyors

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 77 in October 2013.
- For England and Wales, the net house price expectations balance was 48 in October 2013.

Latest release: November 2013
Next release: December 2013

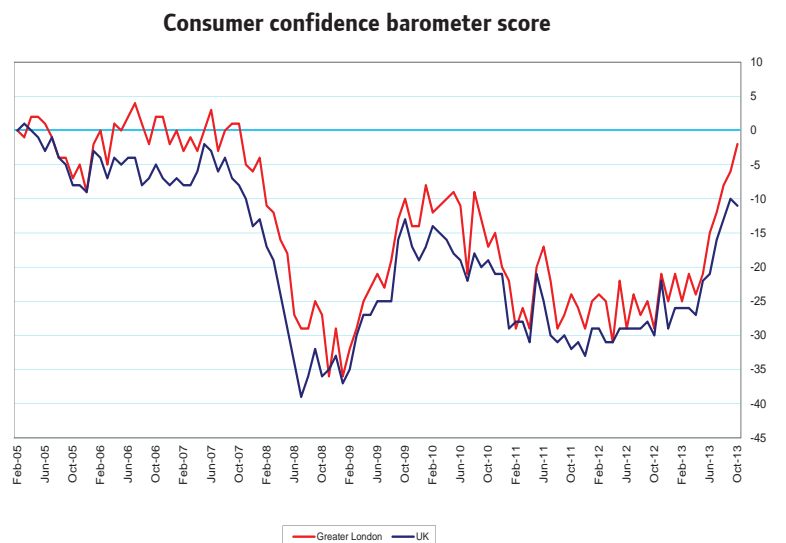


Source: Royal Institution of Chartered Surveyors

Consumer confidence remains negative but improving rapidly in London

- 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 -2 in October 2013 from -6 in September 2013.
- For the UK the consumer confidence score decreased to -11 in October 2013 from -10 in September 2013.

Latest release: October 2013
Next release: November 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.