

# London's Economy Today

Issue 136 | December 2013

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

## Falling budget deficits as UK growth quickens

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

**The Office for Budget Responsibility (OBR) has raised its near-term UK growth forecasts whilst public sector borrowing forecasts have been revised down. The OBR has revised up UK growth forecasts for 2013 and 2014, the former by 0.8 percentage points to 1.4 per cent, the latter by 0.6 percentage points to 2.4 per cent. The OBR's 2015 growth forecast was edged down by 0.1 percentage points to 2.2 per cent; as were the forecasts for 2016 and 2017 (by 0.1 percentage points, to 2.6 per cent and 2.7 per cent respectively).**

With the pick-up in near-term growth forecasts came downward revisions in the forecasts for public sector borrowing. Borrowing to 2017/18 is forecast at £73 billion less than in the March Budget. National debt is also expected to be lower this year than was forecast in the March Budget, and is now expected to start falling as a proportion of GDP in 2016/17, a year earlier than expected in March. These improvements to public sector finances have been driven by improvements in the expected cyclical budget deficit. The outlook for the structural budget deficit, which exists regardless of the economic cycle, remains unchanged.

## Latest news...

### Datastore and Dashboard December Update

The December edition of a series of monthly updates, letting you know what is new on the London Dashboard (<http://data.london.gov.uk/london-dashboard>), plus a list of some other highlights available on the London Datastore ([data.london.gov.uk/datastore](http://data.london.gov.uk/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. 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>

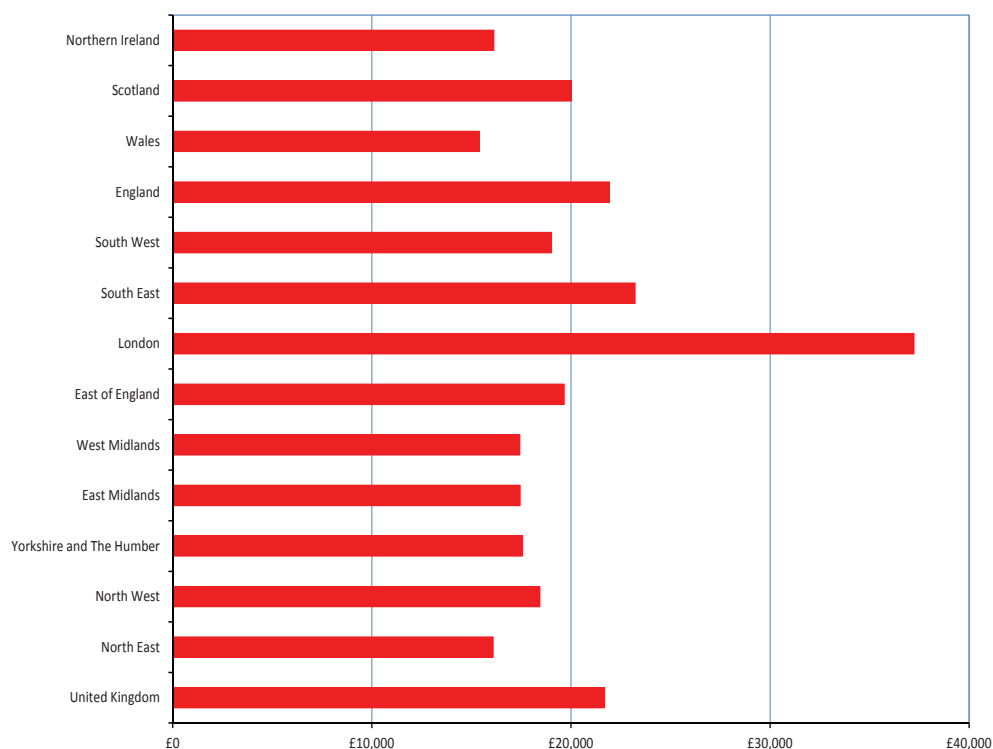
On London-specific issues, the Autumn Statement on 5 December confirmed that the Government will support the London Legacy Development Corporation (LLDC) and the Mayor in developing their plans for the Queen Elizabeth Olympic Park, including attracting leading higher educational and cultural institutions. It also confirmed that the Government will contribute £30 million to the Garden Bridge for London between the South Bank and Temple. The National Infrastructure Plan set out on 4 December confirmed that a UK government guarantee has now been agreed for the £1 billion Northern Line extension to Battersea, unlocking a development the size of the Olympics in the Nine Elms area. Mark Boleat, Policy Chairman at the City of London Corporation commented, “confirmation that a guarantee for the £1bn Northern Line extension to Battersea has been agreed is a positive signal. A pipeline of deliverable major projects is needed to encourage international investment, and to retain the skills and experience that have so successfully come together during the Crossrail project. Crossrail 2, in particular, is a scheme that could deliver considerable long-term benefits while greater airport capacity in the South East is urgently required to ensure that the UK does not fall behind in the global race”.

### ONS data shows that London had the highest GVA per head of any UK region in 2012

Data released by the ONS on 11 December showed GVA per head in London was £37,232 in 2012 on a workplace basis. This was the highest GVA per head of any region (see Figure 1). In 2012, total workplace GVA in London represented a 22.4 per cent share of the UK as a whole. The ONS data also shows that between 1997 and 2011, the contribution of manufacturing as a share of total GVA in London had fallen from 7.0 per cent to 2.7 per cent.

**Figure 1: Workplace based estimates of regional GVA per head in 2012**

Source: Office for National Statistics (ONS)



## **Finally a deal on rules of how failing banks within the Eurozone will be dealt with from 2015**

EU finance ministers have reached a deal on a system of financial burden-sharing for ailing banks in the Eurozone that would spread the cost of failure between shareholders and uninsured creditors. The deal includes a fund consisting of contributions from banks. The Banking Recovery and Resolution Directive will make losses for senior bondholders and large savers a permanent feature of the response to banking difficulties with taxpayers only being brought in under exceptional circumstances. Deposits under €100,000 will be entirely exempt from any loss, and deposits of individuals and SMEs above €100,000 will benefit from preferential treatment ensuring that they do not suffer any loss before all other secured creditors' claims are absorbed.

## **UK economy bouncing back with London leading the way**

The British Chambers of Commerce (BCC) now expects that the size of the UK economy will surpass the peak in the first quarter of 2008, in the second half of 2014. Director General of the BCC, John Longworth commented that, "it is really great that next year the UK economy is finally expected to bounce back from the deepest recession in modern times. As household consumption slows in the medium term, we have to find ways of boosting business investment and exports, as rebalancing our economy is critical to our long-term economic future."

The BCC has increased its forecast for UK growth in 2013 to 1.4 per cent with a bigger upward revision to 2014, raising that to 2.7 per cent. The BCC slightly lowered its 2015 growth forecast from 2.5 per cent to 2.4 per cent on account of the constraints imposed by high levels of personal debt. With regard to the Bank of England's Forward Guidance, the BCC believes that the 7 per cent unemployment threshold could be reached in the third quarter of 2015. Other forecasters believe that this will happen even earlier especially after the release of recent robust labour market data.

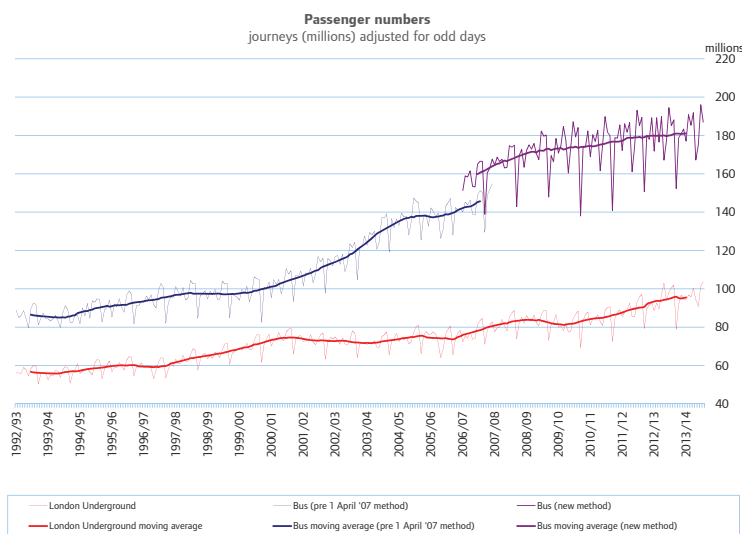
In general, in 2013 economic indicators for London have been significantly stronger than for the rest of the UK. GLA Economics released its Autumn 2013 London's Economic Outlook in November where London's Gross Value Added (GVA) growth rate was forecast at 2.2 per cent in 2013 before rising further to 2.5 per cent in both 2014 and 2015. Our Autumn 2013 forecast is generally stronger than our Spring 2013 forecast and indicates the overall improvement of the London economy since the end of 2012. The next couple of years should build on this improvement. In 2014 the UK and London economies are expected to perform strongly. This is in stark contrast with the weakness in the Eurozone. UK public sector finances are also being brought under control and the UK public sector budget deficit is on a firm downward path from its extraordinary high level of 2009/10.

# Economic indicators

## Increase in moving average of passenger numbers

- The most recent 28 day period is from 13 October 2013 to 9 November 2013. Adjusted for odd days, London's Underground and buses had 290.8 million passenger journeys; 187.0 million by bus and 103.8 million by Underground.
- The moving average of passengers every period increased to 276.6 million from 276.2 million in the previous period. The moving average for buses was 181.1 million. The moving average for the Underground was 95.5 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: December 2013  
Next release: January 2014

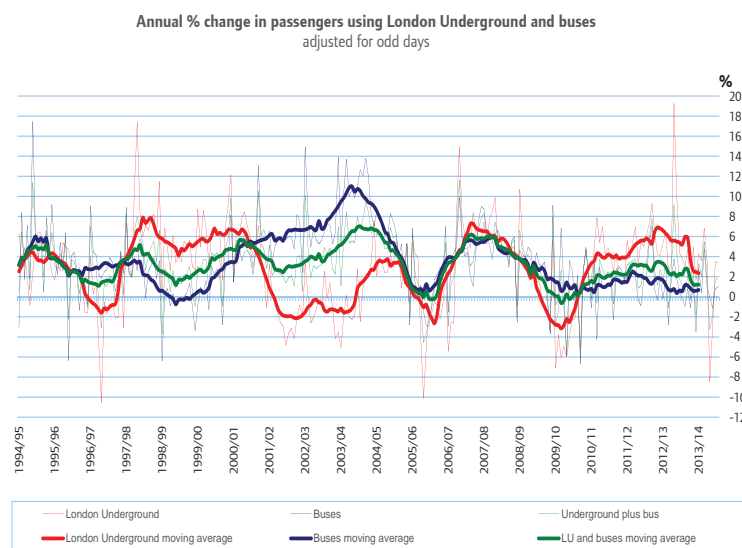


Source: Transport for London

## 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 increased to 0.7% from 0.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 2.3% from 2.5% in the previous period.

Latest release: December 2013  
Next release: January 2014

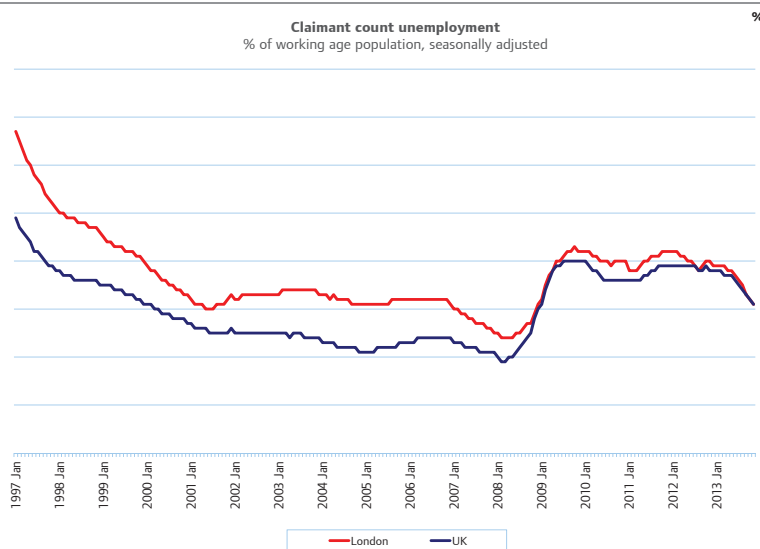


Source: Transport for London

## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 3.1% in November 2013.
- There were 177,200 seasonally adjusted unemployment claimants in London in November 2013 compared to 183,000 in October 2013.
- There were 1,268,600 seasonally adjusted unemployment claimants in the UK in November 2013 compared to a downwardly-revised 1,305,300 in October 2013.

Latest release: December 2013  
Next release: January 2014



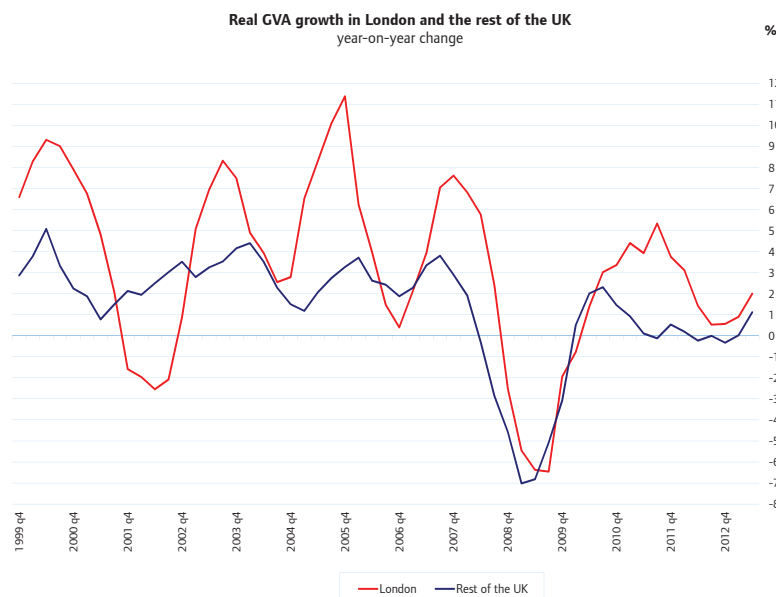
Source: Claimant Count, Nomis

## 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 rest of the UK increased to 1.1% in Q2 2013 from 0.0% in Q1 2013.
- In Q2 2013 London's annual growth rate was higher than in the rest of the UK.

Latest release: November 2013

Next release: February 2014



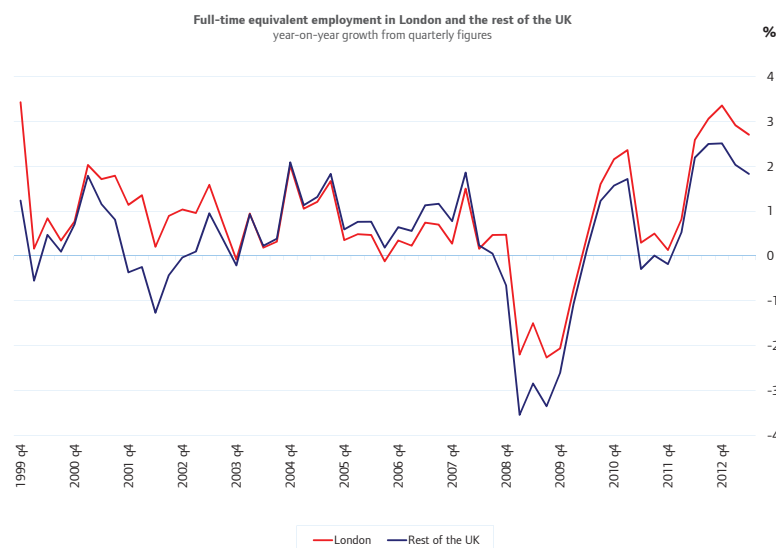
Source: Experian Economics

## 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 rest of the UK decreased to 1.8% in Q2 2013 from 2.0% in Q1 2013.
- In Q2 2013 London's annual employment growth was higher than in the rest of the UK.

Latest release: November 2013

Next release: February 2014



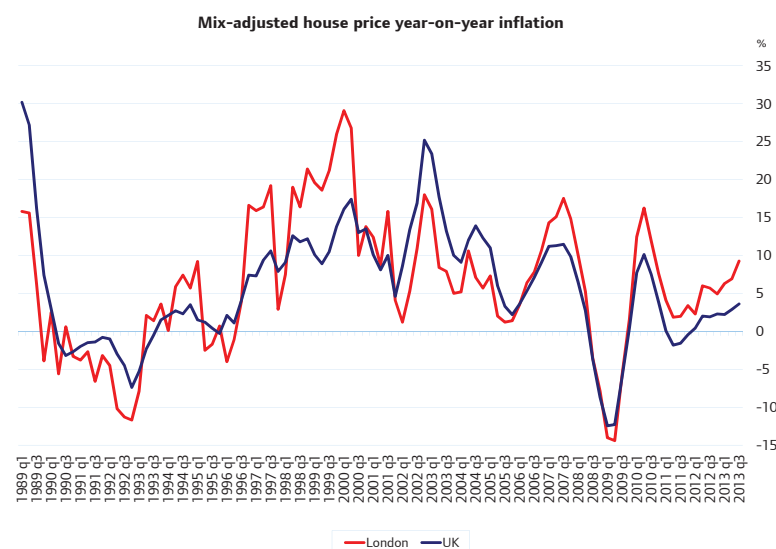
Source: Experian Economics

## 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 Q3 2013.
- Annual house price inflation in London was 9.3% in Q3 2013, up from 6.9% in Q2 2013.
- Annual house price inflation in the UK was 3.6% in Q3 2013, up from 2.9% in Q2 2013.

Latest release: November 2013

Next release: February 2014



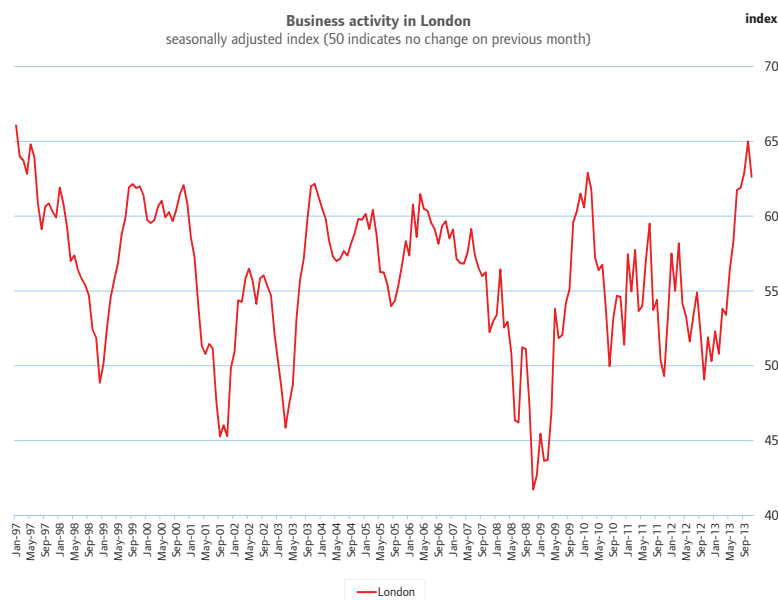
Source: Office for National Statistics

## London's business activity increasing

- London firms increased their output of goods and services in November 2013.
- The Purchasing Managers' Index (PMI) of business activity recorded 62.6 in November 2013 compared to 65.0 in October 2013.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: December 2013

Next release: January 2014



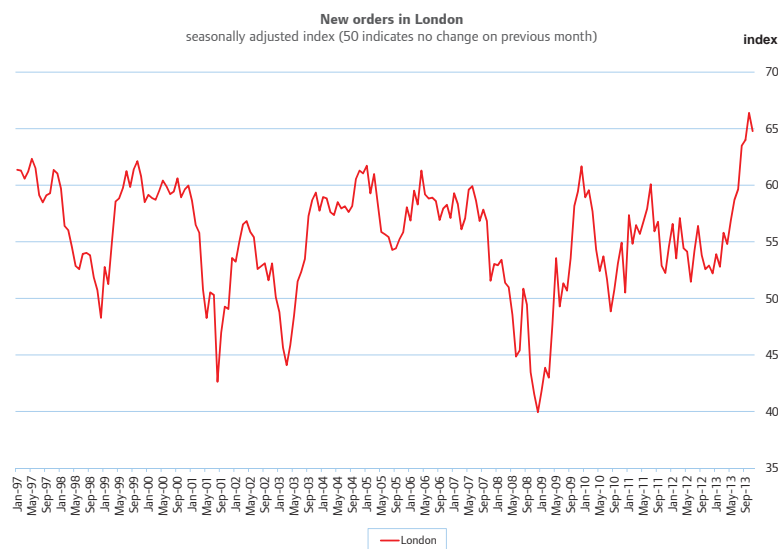
Source: Markit Economics

## New orders in London rising

- November 2013 saw an increase in new orders for London firms.
- The PMI for new orders recorded 64.8 in November 2013 compared to 66.4 in October 2013.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: December 2013

Next release: January 2014



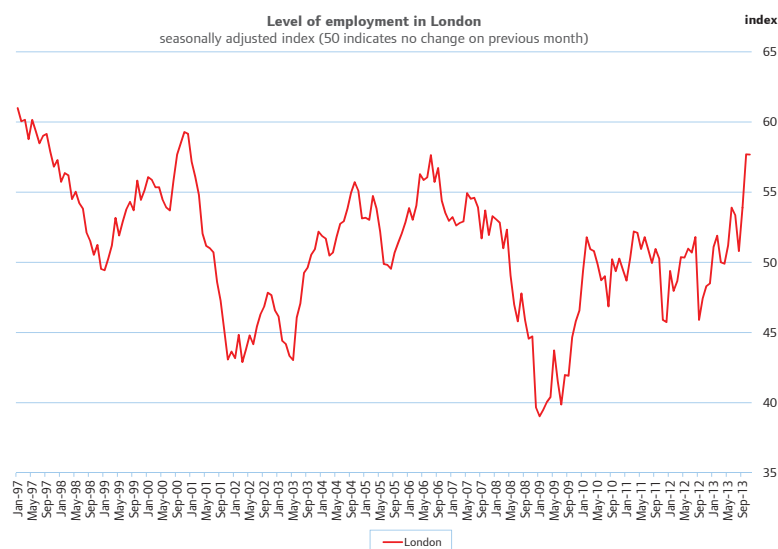
Source: Markit Economics

## Businesses report higher employment in November

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

Latest release: December 2013

Next release: January 2014



Source: Markit Economics

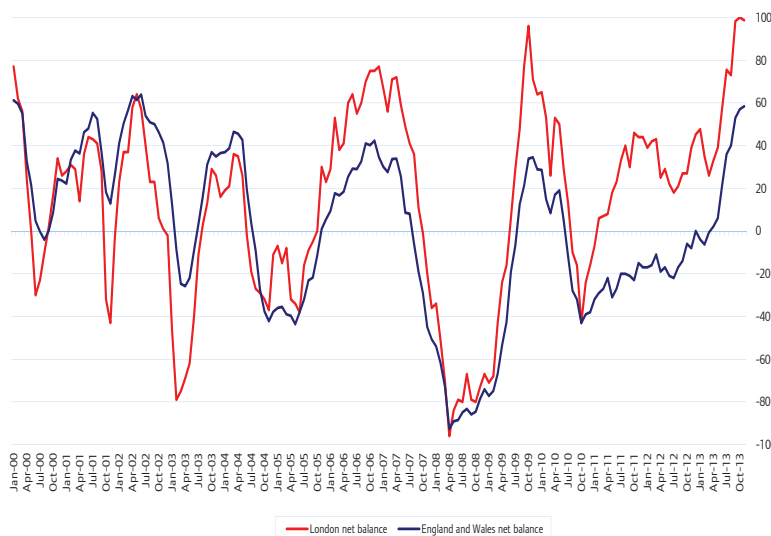
## Surveyors report that house prices are rising

- The RICS survey shows a positive net balance of 99 for London house prices over the three months to November 2013.
- Surveyors reported a positive net house price balance of 58 for England and Wales over the three months to November 2013.
- London's net house price balance is higher than that of England and Wales.

Latest release: December 2013

Next release: January 2014

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



Source: Royal Institution of Chartered Surveyors

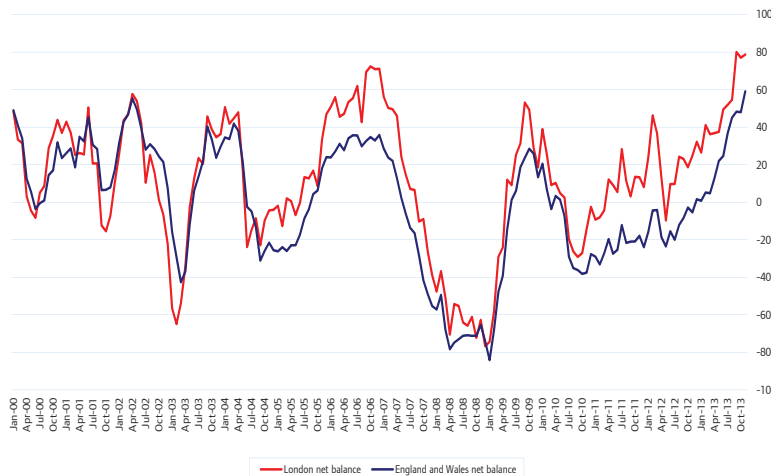
## Surveyors expect house prices to rise

- 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 79 in November 2013.
- For England and Wales, the net house price expectations balance was 59 in November 2013.

Latest release: December 2013

Next release: January 2014

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

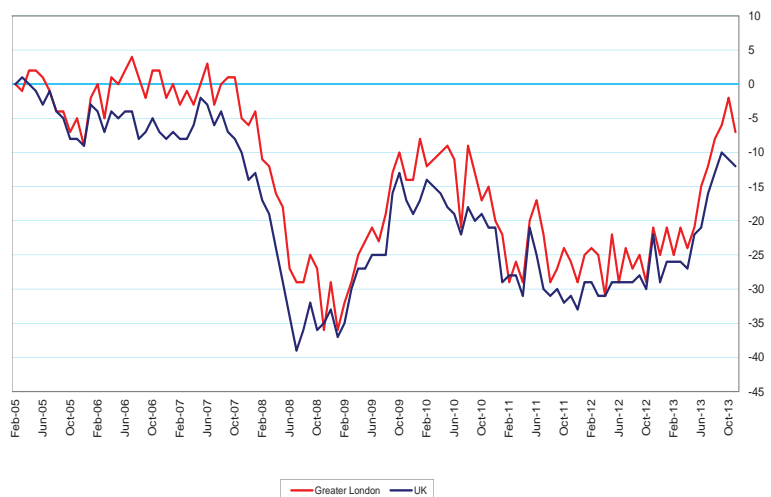
## Consumer confidence remains negative

- 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 decreased to -7 in November 2013 from -2 in October 2013.
- For the UK the consumer confidence score decreased to -12 in November 2013 from -11 in October 2013.

Latest release: November 2013

Next release: December 2013

Consumer confidence barometer score



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.