

# London's Economy Today

Issue 153 | May 2015

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<http://data.london.gov.uk/let/>

## Inflation moves into negative territory for the first time since 1960

By **Brian Smith**, Economist

**On 19 May, the Office for National Statistics (ONS) published the Consumer Price Index for April 2015, finding that prices fell by 0.1 per cent over the year, compared to no change in the year to March. According to the ONS, "this is the first time the CPI has fallen over the year since official records began in 1996 and the first time since 1960 based on comparable estimates".**

The recent trends in inflation have largely been expected and before the publication of these data on 13 May, the Bank of England published its Inflation Report, providing its expectations as to the path of inflation and the economy in the medium term. Regarding consumer prices, the Governor of the Bank of England, Mark Carney, in his opening remarks to the press conference, stated "although it could temporarily turn negative in the near term, inflation is expected to pick up notably towards the end of the year as the past falls in prices drop out of the annual comparison". In addition, the Bank does not expect the movement of inflation into negative territory to lead to potentially damaging effects, such as those which can occur if households delay spending in anticipation of further falling prices.

## Latest news...



### London's Economic Outlook: Spring 2015

Our latest forecast report for London, London's Economic Outlook: Spring 2015 has just been published. Download it now from our website.

[www.london.gov.uk/priorities/business-economy/publications/gla-economics/londons-economic-outlook-spring-2015](http://www.london.gov.uk/priorities/business-economy/publications/gla-economics/londons-economic-outlook-spring-2015)

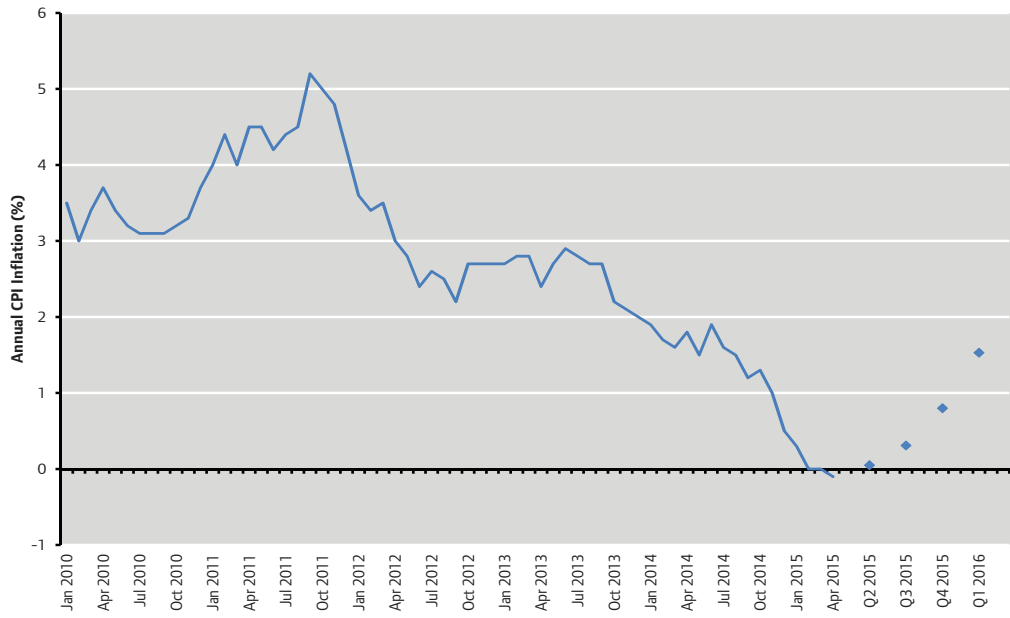
GLA Economics' twenty-sixth London forecast suggests that:

London's Gross Value Added (GVA) growth rate is forecast to be 3.6 per cent in 2015 with growth moderating to 3.2 per cent in 2016 and 2.5 per cent in 2017.

**Figure 1: Consumer Price Inflation**

Note: Solid line denotes ONS CPI data; markers denote Bank of England median CPI projections

Source: Office for National Statistics, Bank of England

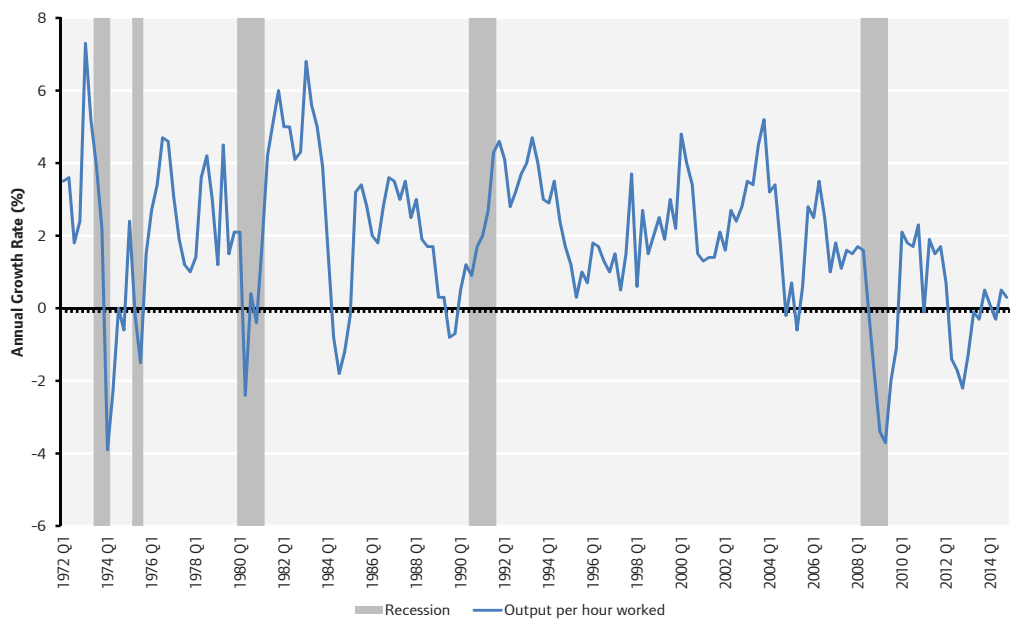


The Governor stated that “the economy is growing, unemployment is falling, earnings growth is improving and there is no evidence of household spending being delayed”.

Whilst there were only minor revisions in the outlook for the economy in the May Inflation Report compared to February, further attention continues to be centred on productivity, with the Governor stating that “going forward, growth in the UK economy’s potential will increasingly depend on productivity”, continuing that “the timing and extent of any prospective pick-up in productivity growth remains our most difficult judgement”. The Bank’s forecast for productivity growth has “become even more conservative”, with it projected to “grow only modestly in the year ahead, before returning towards, but remaining below, past average growth rates.”

**Figure 2: Output per hour worked, UK**

Source: Office for National Statistics



## Prospects for the Eurozone improving

Whilst the overall outlook for the UK economy is slightly weaker than that presented in the February Inflation Report, the global economy is expected to “expand at a steady not spectacular rate”. However the Governor also noted that as regards the global economy, “the most significant development in recent months has been the increased momentum in our main trading partner, the euro area”. Much attention in recent months has been focused on the programme of quantitative easing put in place by the European Central Bank (ECB), a programme “which the MPC [Monetary Policy Committee] judges to be a net positive for UK growth”. In his speech at the International Monetary Fund (IMF) on 14 May, the President of the ECB, Mario Draghi, outlined the positive effects of the monetary policy measures put in place since early 2014, stating that “as a result of the comprehensive easing cycle from June 2014 to January 2015, both the inflation and growth outlook have improved considerably and consumer confidence is on the rise”. However he steered clear of over-optimism, saying that “quite some time is needed before we can declare success, and our monetary policy stimulus will stay in place as long as needed for its objective to be fully achieved on a truly sustained basis”.

That said, data for the first quarter of 2015 shows that the Eurozone economy grew by 0.4 per cent, meaning that output is 1.0 per cent higher than the same quarter a year earlier. Performance across member states was variable, with France growing by 0.6 per cent following no growth in Q4 2014, whilst Germany grew by only 0.3 per cent following 0.7 per cent growth in Q4 2014. However the Eurozone as a whole performed better in Q1 2015 than the UK and the United States, which grew at 0.3 per cent and 0.1 per cent respectively; and the most recent forecasts from the European Commission released on 5 May show that the Eurozone is expected to grow by 1.5 per cent in 2015, an upgrade of 0.2 percentage points on their Winter forecast, and the forecast for Germany was upgraded by 0.4 percentage points, with a forecast of 1.9 per cent growth for 2015.

## Increased uncertainty as to Greece’s ability to service its debts

Whilst the forecasts for the Eurozone economy have been upgraded in recent months, in part due to the optimism around the effect that the ECB’s monetary policy operations should have in stimulating the recovery, it is clear that the most significant downside risk comes from the continued uncertainty in Greece. Despite successful payment of €753m to the IMF on 12 May, later in the month on 24 May, the Greek Interior Minister Nikos Voutsis stated, in reference to the upcoming repayments due in the next month, that, “this money will not be given and is not there to be given”. In June, Greece is scheduled to repay in excess of €1.5bn to the IMF, as well as €5.2bn of short-term treasury bills due to mature (see Table 1).

Going forward, beyond June, further maturing of treasury bills, ECB bonds, and further smaller repayments to the IMF and European Investment Bank are due; with the next major tranche of repayments to the IMF due to be repaid in September (€1.5 bn). There is clear uncertainty as to the future path for the Greek economy, and the risk of contagion through the shock to financial markets of a debt default and potential exclusion from the Eurozone remain the foremost downside risk to the UK economy.

**Table 1: Greece Debt Repayments – June 2015**

*Source: Financial Times*

Date	Amount	Creditor
5-Jun	€301m	IMF
12-Jun	€1,600m	Short-term treasury bills
12-Jun	€339m	IMF
12-Jun	€2,000m	Short-term treasury bills
16-Jun	€565m	IMF
16-Jun	€339m	IMF
19-Jun	€1,600m	Short-term treasury bills

## **A range of statistics and indicators provide evidence for improved prospects for London and the UK economy**

Despite the potential for a Greek financial crisis to negatively impact on UK growth, performance against a broad range of economic indicators suggests cause for optimism in the prospects for the London and the UK economy. In particular, London's labour market continues to show near record strength; London's resident employment rate in three months to March stood at 72.1 per cent, an increase of 1.0 percentage points on the year. The unemployment rate has fallen by 1.6 percentage points over the last year, and the claimant count, at just 2.1 per cent, is at its lowest rate since 1975.

In addition to improved labour market conditions, data from the GfK-NOP Consumer Confidence Barometer has shown steady increases over the last two years, reaching a record high in London in March; data for the UK shows that over the last year confidence has been at levels not seen for the last decade. Retail sales data published by the ONS on 21 May showed that the volume of sales in April 2015, in the UK, increased by 4.7 per cent compared to April 2014; this was the 25th consecutive month of year-on-year growth and the longest period of sustained growth since 2008 (when there were 31 consecutive months of growth). Alongside improvements in consumer confidence, business confidence remains in positive territory with the ICAEW/Grant Thornton Business Confidence Monitor for London for Q2 2015 rising slightly over the last quarter (however the index sits at levels well below those seen in the first half of 2014).

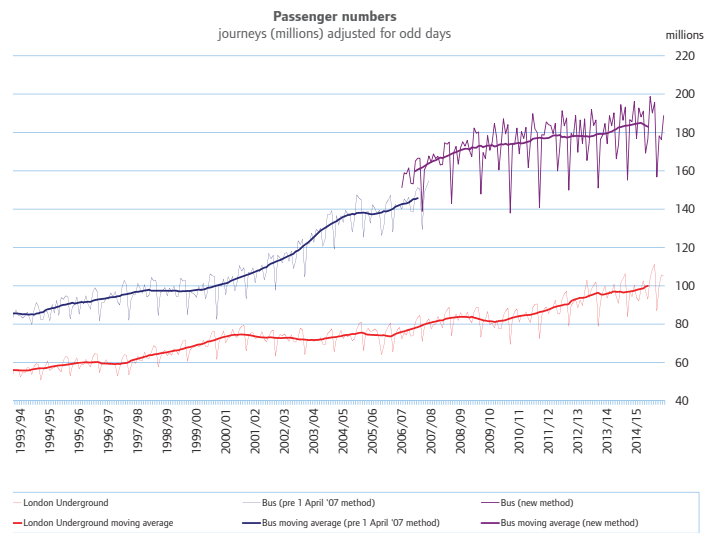
The outlook for London's economy remains strong, with GLA Economics latest forecast published at the end of May, forecasting that London's economy will grow by 3.6 in 2015, with growth moderating to 3.2 per cent in 2016 and 2.5 per cent in 2017. Despite a relatively disappointing estimate that the UK economy grew by only 0.3 per cent in Q1 2015 (and within that business services and finance by only 0.1 per cent), a broad range of other official statistics and survey data suggest that growth (both in the UK and London) should be much more robust over the course of the coming year.

## Decrease in average of passenger journey numbers

- The most recent 31-day period covered 1 March 2015 – 31 March 2015. Adjusted for odd days, London's Underground and buses had 293.8 million passenger journeys; 188.8 million by bus and 105.1 million by Underground.
- The 12-month moving average of passengers decreased to 283.0 million from an upwardly revised 283.2 million in the previous period. The moving average for buses was 183.0 million. The moving average for the Underground was 99.9 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).

Latest release: May 2015

Next release: June 2015



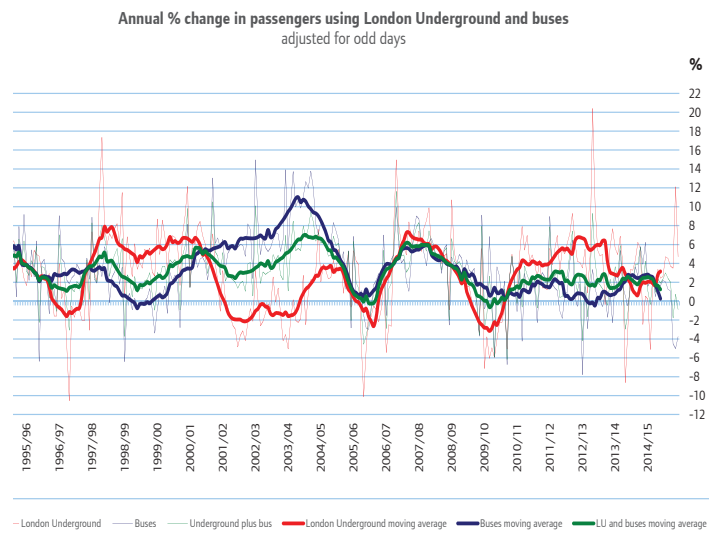
Source: Transport for London

## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.2% from 1.6% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 0.3% from 1.0% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys increased to 3.2% from 2.8% in the previous period.

Latest release: May 2015

Next release: June 2015



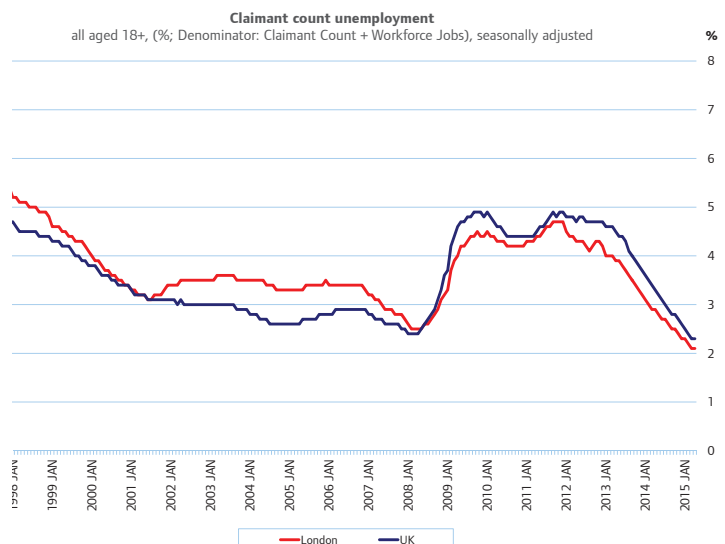
Source: Transport for London

## Claimant count unemployment

- The claimant count unemployment rate in London was unchanged at 2.1% in April 2015.
- There were 114,700 seasonally adjusted unemployment claimants in London in April 2015, compared to an upwardly revised 116,700 in March 2015. There were 763,800 seasonally adjusted unemployment claimants in the UK in April 2015, compared to an upwardly revised 776,400 in March 2015.
- The methodology used to calculate the claimant count rates was changed for the August 2014 LET onwards. For a detailed explanation please see LET issue 144 (August 2014).

Latest release: May 2015

Next release: June 2015



Source: Claimant Count, Nomis

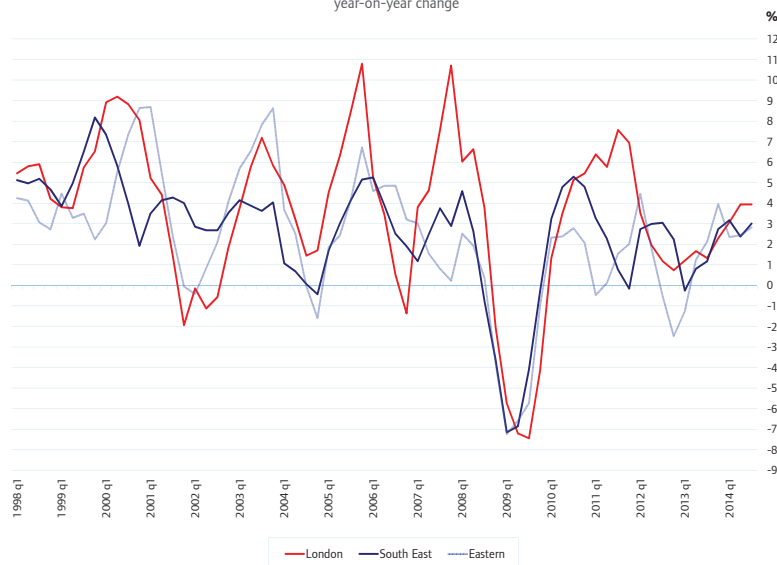
## Annual output growth unchanged in London in Q3 2014

- London's annual growth in output was 3.9% in Q3 2014, unchanged from an upwardly revised estimate in Q2 2014.
- Annual output growth in the South East increased to 3.0% in Q3 2014 from a downwardly revised 2.4% in Q2 2014.
- Annual output growth in the Eastern region increased to 2.8% in Q3 2014 from a downwardly revised 2.4% in Q2 2014.

Latest release: March 2015

Next release: June 2015

Real GVA growth in London, South East and Eastern Regions  
year-on-year change



Source: Experian Economics

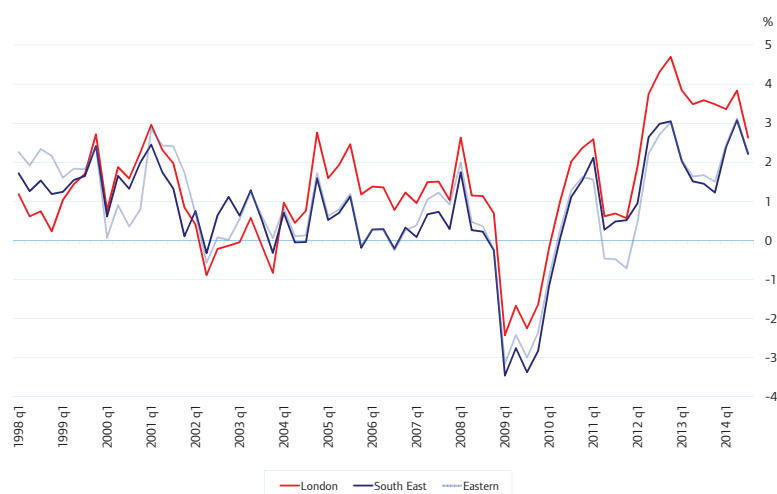
## Annual employment growth slows in Q3 2014

- London's annual employment growth decreased to 2.6% in Q3 2014 from an upwardly revised 3.8% in Q2 2014.
- Annual employment growth in the South East decreased to 2.2% in Q3 2014 from a downwardly revised 3.1% in Q2 2014.
- Annual employment growth in the Eastern region decreased to 2.2% in Q3 2014 from an upwardly revised 3.1% in Q2 2014.

Latest release: March 2015

Next release: June 2015

Full-time equivalent employment in London, South East and Eastern regions  
year-on-year growth from quarterly figures



Source: Experian Economics

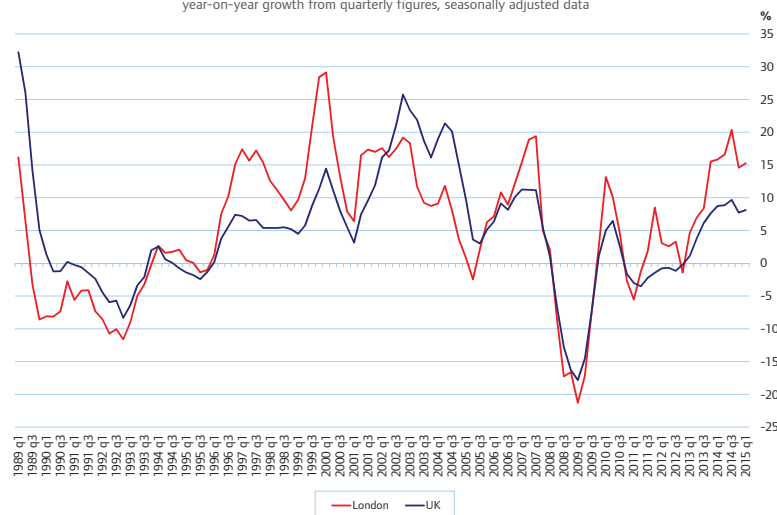
## Annual house price inflation higher in London than in the UK

- House prices, as measured by Halifax, were higher in Q1 2015 than in Q1 2014 for London and the UK.
- Annual house price inflation in London was 15.3% in Q1 2015, up from a downwardly revised 14.6% in Q4 2014.
- Annual house price inflation in the UK was 8.1% in Q1 2015, up from a downwardly revised 7.7% in Q4 2014.

Latest release: April 2015

Next release: July 2015

House prices, UK and London  
year-on-year growth from quarterly figures, seasonally adjusted data



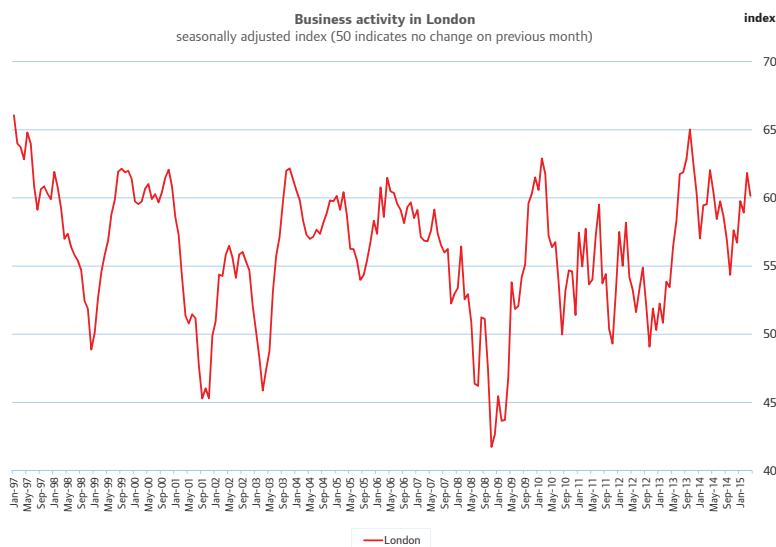
Source: Halifax house price index

## London's business activity continues to increase

- Firms in London increased their output of goods and services in April 2015.
- The Purchasing Managers' Index (PMI) of business activity recorded 60.2 in April 2015, down from 61.8 in March 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: May 2015

Next release: June 2015



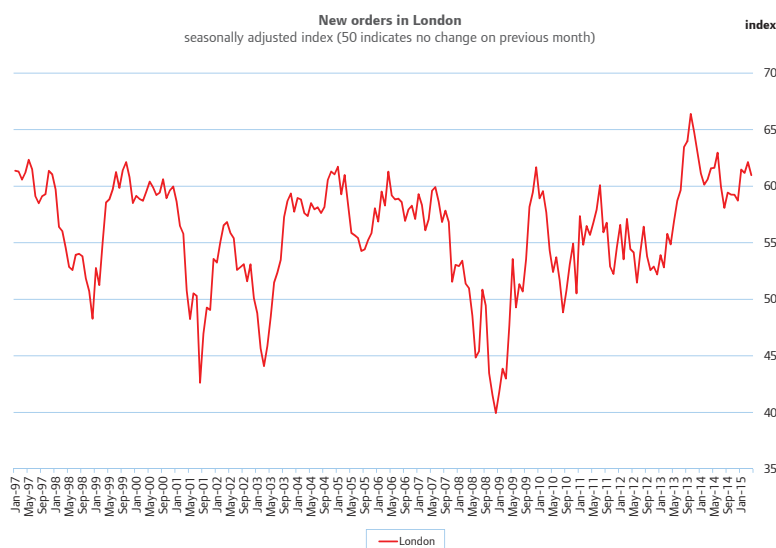
Source: Markit Economics

## New orders in London rising

- April 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 61.0 in April 2015 compared to 62.1 in March 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: May 2015

Next release: June 2015



Source: Markit Economics

## Businesses report higher employment in April

- The PMI shows that the level of employment in London firms increased in April 2015.
- The PMI for the level of employment was 55.1 in April 2015 compared to 57.5 in March 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: May 2015

Next release: June 2015



Source: Markit Economics

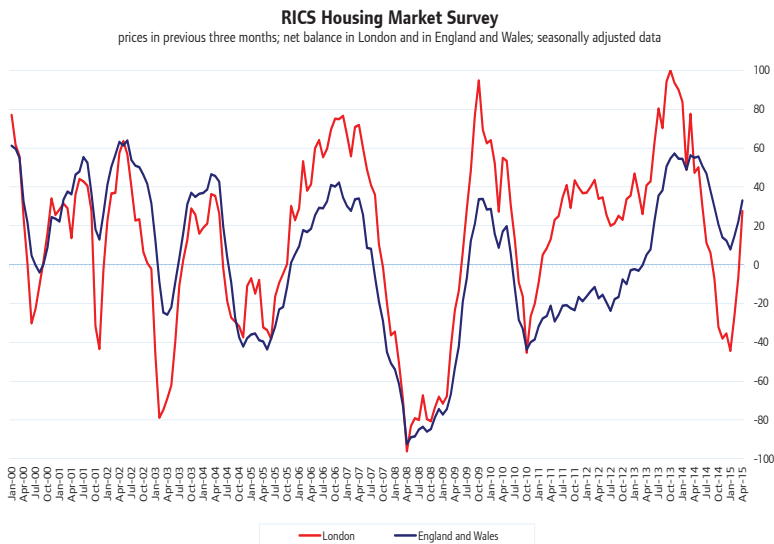


## Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey shows a positive net balance of 28 for London house prices over the three months to April 2015.
- Surveyors reported a positive net house price balance of 33 for England and Wales over the three months to April 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: May 2015

Next release: June 2015



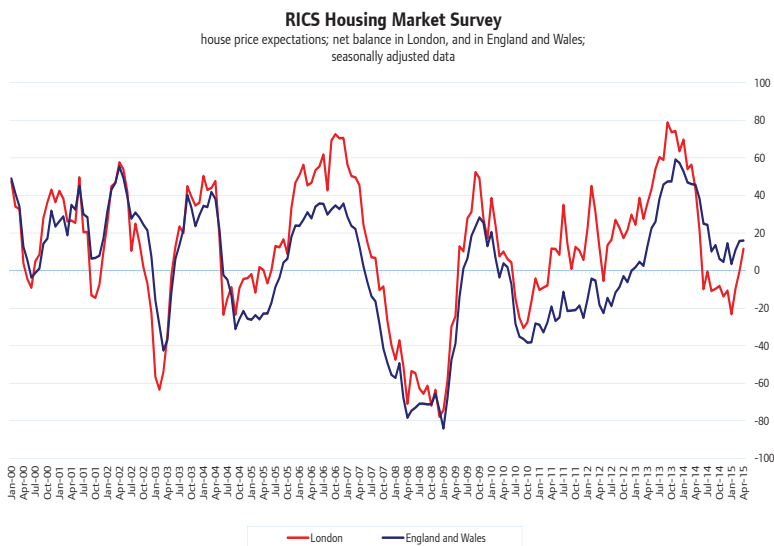
Source: Royal Institution of Chartered Surveyors

## Surveyors expect house prices to rise

- The RICS Residential Market 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 11 in April 2015.
- For England and Wales, the net house price expectations balance was 16 in April 2015.

Latest release: May 2015

Next release: June 2015



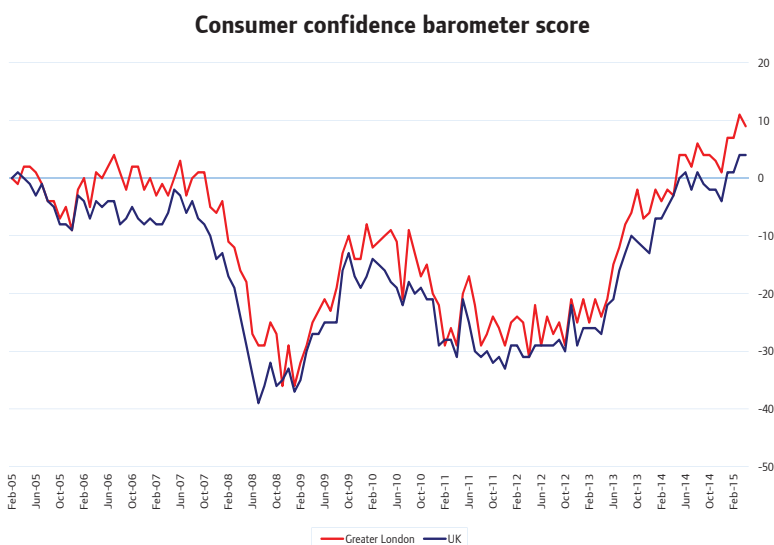
Source: Royal Institution of Chartered Surveyors

## Consumer confidence remains positive in London and the UK

- 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 stood at 9 in April 2015, down from 11 in March 2015.
- For the UK the consumer confidence score stood at 4 in April 2015, unchanged from March 2015

Latest release: April 2015

Next release: May 2015



Source: GfK NOP on behalf of the European Commission



# Employment by Industry

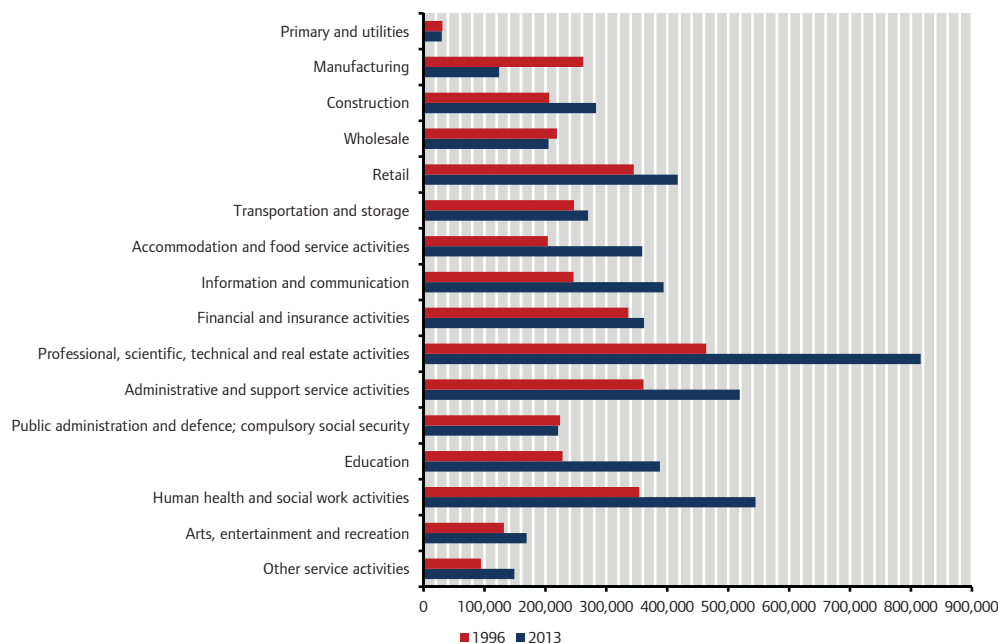
By **Milja Keijonen**,  
Economist

The Office for National Statistics (ONS) publishes data on jobs by industry level (see Figure 1A) for all sectors of the economy; however, below industry section level<sup>1</sup>, a consistent time-series is not available. GLA Economics has recently produced some work to address this information gap<sup>2</sup>. In this supplement we summarise some of the key findings of this work and look at the changes in workforce jobs by industry between 1996, the first data point that the official data refers to, and 2013<sup>3</sup>. In addition, this note provides a brief overview of London's specialisation compared to the rest of Great Britain<sup>4</sup>.

Figure 1A illustrates the number of workforce jobs by Standard Industrial Classification 2007 (SIC07) industry section in 1996 and 2013. Professional, scientific, technical and real estate activities<sup>5</sup> is the largest sector in London with around 816,000 jobs in 2013, accounting for around 15.5 per cent of all jobs in the capital. Since 1996, the number of workforce jobs in the sector has risen by 76 per cent. The second largest sector in London in 2013 is the Human health and social work activities sector with around 545,000 jobs, followed by Administrative and support service activities sector that provides 519,000 jobs.

**Figure 1A: Workforce jobs in London by sector in 2013 and change since 1996**

Source: *Workforce Jobs*, ONS



1 Industry sections defined as 1 digit level of the Standard Industrial Classification 2007 (SIC07)

2 GLA Economics: 'Working Paper 65, London's sectors: more detailed jobs data (March 2015)' and 'Working Paper 66, Methodology – London's sectors: more detailed jobs data (March 2015)'.

3 It should be noted that the latest workforce jobs (WFJ) data refer to 2014 but the last data point that Working Paper 65 includes is for 2013. This is to ensure that WFJ figures are consistent with the employee jobs figures based on the Business Register and Employment Survey (BRES) 2013.

4 Index of specialisation calculations are based on Business Register and Employment Survey (BRES) data that include country-level data on employee jobs for Great Britain, ie, England, Scotland and Wales.

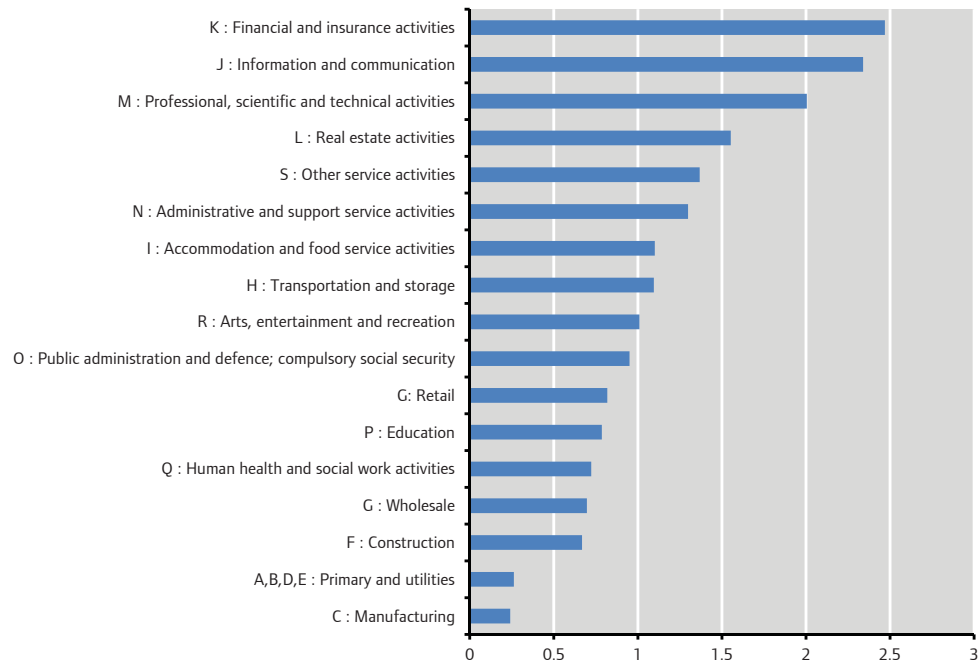
5 These combine sections L and M of the SIC07.

Whilst the number of jobs in most industries has increased since 1996, manufacturing jobs in London have more than halved, and in 2013, there were a total of 124,000 jobs, accounting for 2.4 per cent of all jobs in the capital. Similarly, jobs in the Wholesale sector in London fell by 6 per cent between 1996 and 2013 to total around 206,000 jobs (accounting for around 3.9 per cent of all jobs in London).

The analysis also looked at what sectors London tends to specialise in compared to the rest of Great Britain, as demonstrated by calculating the index of specialisation<sup>6</sup>. An index of specialisation greater than one indicates that London has a greater proportion of employee jobs in that sector compared to the rest of Great Britain and as such a relative specialisation when compared to the rest of Great Britain<sup>7</sup>. As seen from Figure 2A, London has a particular specialisation in Financial and insurance activities, and in Information and communication with index of specialisation scores of 2.5 and 2.3 respectively. To put this in context, around 33.4 per cent of all employee jobs in the Financial and insurance activities sector in Great Britain are located in London, and 32.2 per cent of all employee jobs in the Information and communication sector are located in London.

**Figure 2A: London's industrial structure and main specialisation in 2013<sup>8</sup>**

Source: Business Register and Employment Survey (BRES), ONS



As a sector, Professional, scientific, technical and real estate activities is both a large provider of jobs (15.5 per cent of all workforce jobs in 2013 in London), but also a sector that London specialises in, with an index of specialisation of 2.0. The sector consists of head offices and management consultancy activities, real estate, legal and accounting services as well as advertising and market research activities (Figure 3A shows the growth in jobs in these industry divisions over time)<sup>9</sup>. In addition, architectural and engineering, and other professional, scientific and technical activities provide a significant number of employee jobs.

6 Index of specialisation is defined as (share of employees in sector x in London/share of employees in sector x in rest of Great Britain).

7 The index of specialisation numbers in Figure 2A are based on the latest Business Register and Employment Survey (BRES) for 2013. Sector totals differ slightly in magnitude from the numbers presented in Figure 1A (based on workforce jobs) for 2013 in the previous section.

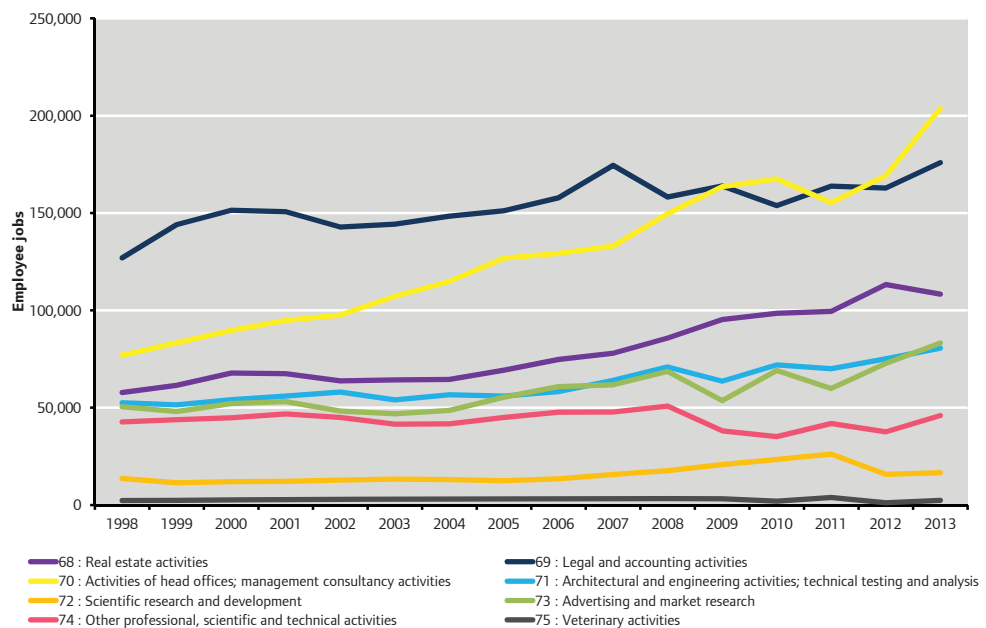
8 Figure 2A is based on Table 1 in 'Working Paper 65, London's sectors: more detailed jobs data'.

9 Industry divisions refer to the 2 digit SIC07 level.

Growth in jobs in the Professional, scientific, technical and real estate activities sector in London since the end of the 1990s has been largely driven by the rise in the number of employee jobs in head office and management consultancy activities supported by growth in real estate activities, and, legal and accounting activities. Jobs in activities of head offices and management consultancies was the largest industry segment in 2013 providing around 203,700 employee jobs (a 165 per cent increase from 1998, and 20 per cent higher than in 2012). Legal and accounting activities, the second largest component of the professional, scientific, technical and real estate sector, provided around 175,900 employee jobs in 2013 (a 39 per cent rise from 1998); whilst in advertising and market research, there were approximately 83,200 employee jobs (65 per cent higher than in 1998).

### Figure 3A: Professional, scientific, technical and real estate activities employee jobs<sup>10</sup>

Source: Annual Business Inquiry and Business Register and Employment Survey (BRES), ONS and GLA Economics modelling



More detailed information on trends in jobs by sector in London is available in Working Paper 65, whilst Working Paper 66 provides details on the methodology used to produce the jobs time series and greater detail on the different data sets used for the work.

<sup>10</sup> Figure 3A corresponds to Figure 33 in the 'Working Paper 65, London's sectors: more detailed jobs data'.

## 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 2014/15 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2014.

### 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 2014/15 there are eleven 28-day periods, one 26-day period and one 31-day period. Period 1 started on 1 April 2014.

## Acronyms

<b>BCC</b>	British Chamber of Commerce	<b>IMF</b>	International Monetary Fund
<b>BRES</b>	Business Register and Employment Survey	<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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