

London's Economy Today

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<http://data.london.gov.uk/gla-economics/let/>

Bank of England updates its forecasts for growth

By **Gordon Douglass**, Supervisory Economist and **Milja Keijonen**, Economist

On 18 August the Office for National Statistics (ONS) published their latest statistics on Consumer Price Index (CPI) inflation which showed that prices increased by 0.1 per cent over the year to July compared to no change in June (see Figure 1). Retail Price Index (RPI) inflation, which will be used to calculate next year's regulated rail fare increases, stood at 1 per cent in July.

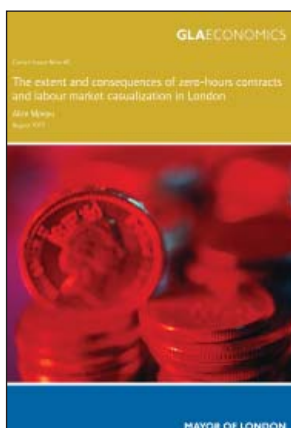
Sluggish CPI inflation was expected and in line with the Bank of England forecast published in their August Inflation Report earlier this month. Its publication coincided with the August Monetary Policy Committee (MPC) decision on monetary policy which voted 8-1 in favour of leaving the base rate unchanged at 0.5 per cent and quantitative easing at £375 billion. Reflecting on the interest rate decision the Governor of the Bank of England, Mark Carney, stated "the likely timing of the first Bank rate increase is drawing closer. However, the exact timing of the first move cannot be predicted in advance; it will be the product of economic developments and prospects. In short, it will be data dependent". However, since then a couple of MPC members have gone on record stating that the Bank rate should rise sooner rather than later. With MPC member Kristin Forbes stating that "waiting too long would risk undermining the recovery - especially if interest rates then need to

Latest news...

The extent and consequences of zero-hours contracts and labour market casualization in London – Current Issues Note 45

Official estimates suggest there are around 70,000 people currently employed on zero-hours contracts in London. Despite the possibility of an underestimate in the statistics, zero-hours contracts account for a very small proportion of all employment in London.

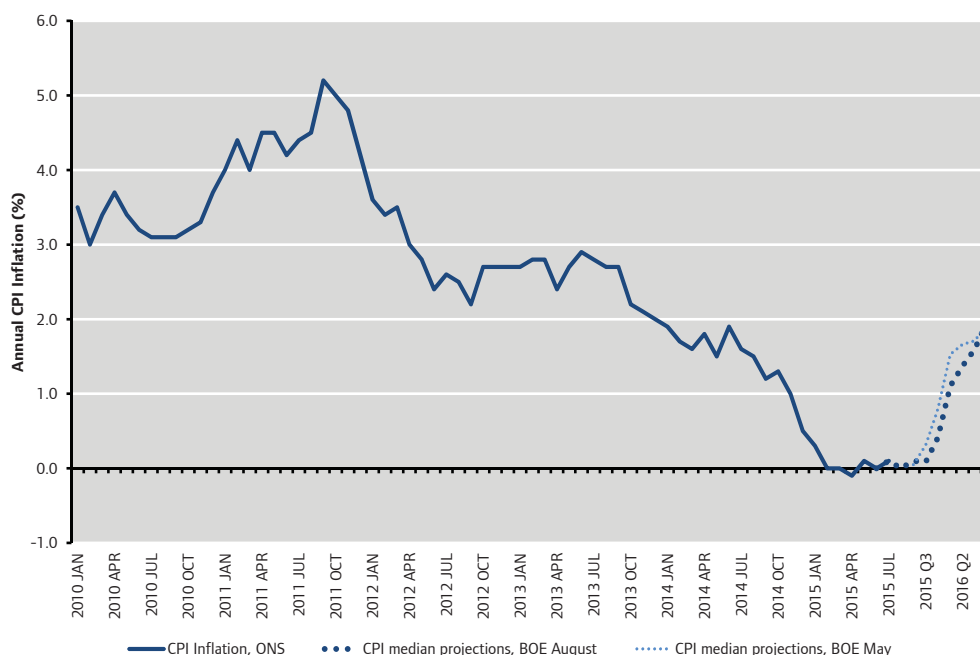
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be increased faster than the gradual path which we expect". The majority of UK households expect rates to rise with the Markit Household Finance Index finding in August that over three-quarters of UK households expect rates to rise in the next year and nearly 50 per cent expect a rise in the next six months.

Figure 1: CPI Inflation, historic (solid line to July 2015) and forecast (dashed lines to Q4 2016)

Source: ONS, Bank of England



The Bank remains relatively upbeat on the state of the UK economy with its central forecast for GDP being upgraded to 2.8 per cent growth in 2015, 2.6 per cent in 2016 and 2.5 per cent in 2017. In contrast, the outlook for inflation is now expected to be weaker with the Bank forecasting inflation of 0.3 per cent in 2015, down from 0.6 per cent at the time of the May Inflation Report. According to the Bank, the recent developments in CPI inflation reflect, in the main, unusually low contributions from energy, food and other imported goods prices. However, in the Governor's view "the closing of the output gap, in turn, should generate the rise in domestic costs necessary to counterbalance the drag on price pressures from sterling, and so return inflation to the target in the medium term".

Worries over the Chinese economy cause global stock market turbulence

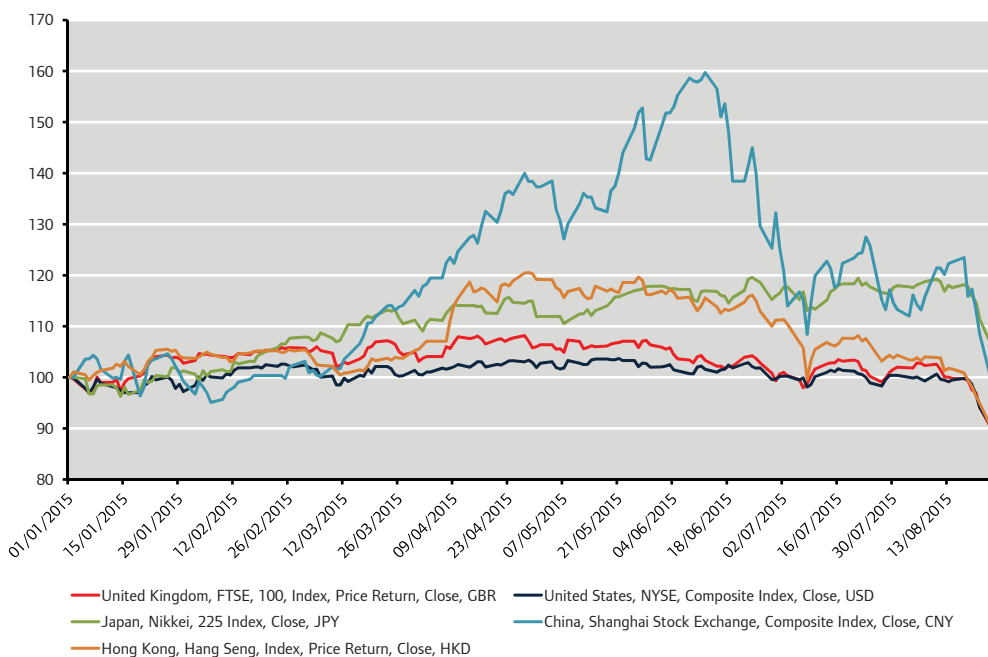
Stock markets across the world tumbled sharply on 24 August as a lack of confidence in the strength of the Chinese economy and fears of a slowdown intensified. The Shanghai stock market saw its sharpest daily fall (down 8.49 per cent) since the beginning of 2007 and is being referred to as China's "Black Monday". This follows on from falls seen in July. The falling Chinese stock market swept across global markets with all key stock markets down on the previous trading day (see Figure 2); with the FTSE 100 closing 4.7 per cent lower, the Nikkei 225 down by 4.6 per cent and the New York Stock Exchange (NYSE) composite falling 4.0 per cent. On 25 August, the Shanghai Stock Exchange composite fell by a further 7.6 per cent, although the response from global indices was mixed with the FTSE 100 and Hong Kong's Hang Seng improving by 3.1 and 0.7 per cent respectively, but the Nikkei 225 and NYSE were both down a further 4.0 and 1.0 per cent respectively. This turmoil saw the People's Bank of China, China's central bank, cutting its benchmark one-year lending rate by 25 basis points on 25 August to 4.6 per cent in order to support

the economy. The fall in the Chinese market has been blamed on concerns about the state of the Chinese economy which have been mounting due to a number of poor economic indicators in recent months and which saw the People's Bank also devalue the renminbi in August.

Figure 2: Key stock market index performance since the beginning of 2015 (Index 1 January 2015 = 100)

Last data point:
25/8/2015

Source: Macrobond



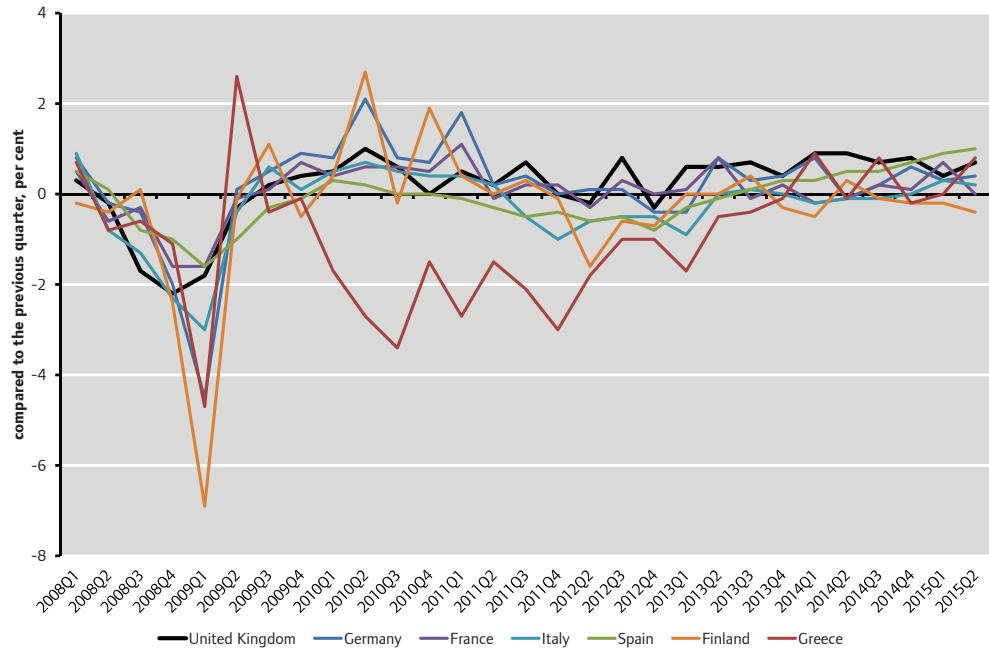
Eurozone grows in the second quarter of 2015

Data released prior to the recent stock market volatility showed that while the outlook for the UK economy remained relatively bright, conditions in the Eurozone were weaker. Still, despite prolonged uncertainty in the first half of the year around its euro membership, Greek GDP grew by 0.8 per cent in the second quarter of 2015, while the first quarter figures were upgraded from a 0.2 per cent contraction to zero growth (see Figure 3). However, as most of July was overshadowed by the debt crisis in Greece, there are continued concerns over its most recent economic performance. Latest survey data suggest that Greek manufacturing output collapsed in July with the manufacturing Purchasing Managers Index (PMI) falling to 30.2 from 46.9 (an index value below 50 indicates contraction). Also, the Greek stock market fell by 16 per cent on 3 August (its weakest ever daily performance since comparable records began in 1985) after it reopened following its five-week closure. Further, although Eurozone finance ministers have reached an agreement to provide Greece up to €86 billion in loans over the next three years, the International Monetary Fund (IMF) is yet to agree to take part in the latest bailout. Instead, the IMF voiced its concern that the size of Greek debt has become unsustainable and that Greece required debt relief “well beyond what has been considered so far”.

The Greek growth performance in Q2 2015 not only beat market expectations but also German, Italian and the whole Eurozone's growth of 0.4, 0.2 and 0.3 per cent respectively. Still, the Bundesbank is forecasting “solid” growth for the German economy in the second half of the year boosted by both export and domestic demand. Spain however saw strong growth in Q2 2015 of 1.0 per cent following seven consecutive quarters of sustained growth. In contrast, France's economy did not grow at all in Q2 2015 and Finland's economy continued to contract with GDP falling by 0.4 per cent having recorded a fall of 0.2 per cent in Q1 2015.

Figure 3: GDP growth in the Eurozone and the UK

Source: Eurostat



US economy remains strong while Japan's economy shrinks

Looking further afield, Japan's growth performance was disappointing in Q2 2015 with the economy shrinking at an annualised rate of 1.6 per cent. The key drag on its growth was weak exports, business investment and consumer spending, and follows on from a relatively strong performance in Q1 when output increased by an annualised rate of 4.5 per cent. Still the US economy remains strong with it adding 215,000 jobs in July, while also experiencing robust retail sales. However, a rise in the US interest rate in the near future is likely, with minutes from the Federal Reserve policy meeting in July showing that policymakers thought conditions for a rate rise "were approaching" but not yet ready. However, the recent global stock market turbulence may push the timing of this rise back a bit. Elsewhere, and before the stock market falls seen at the end of August, the National Institute of Economic and Social Research (NIESR) while identifying Greece as one of the key risks to global growth prospects, also highlighted a slowdown in China as a major risk to its forecasts with its growth risking falling short of the official prediction of 7 per cent. NIESR expects global growth in 2015 to slow down driven by weaker than predicted growth in the US and emerging market economies.

The majority of indicators suggest respectable growth for the UK and London

Although ILO unemployment rose in the UK and London in the three months to June to stand at 5.6 and 6.7 per cent respectively; the latest labour market statistics provided some positive news with the ONS stating that "pay for employees in Great Britain increased by 2.4 per cent including bonuses and by 2.8 per cent excluding bonuses". Given low inflation this provides a significant boost to workers pay. While timelier survey evidence suggests that firms continue to hire workers in London with the employment PMI standing at 55.6 in July, a slight improvement on the June figures (an index above 50 indicates expansion). Elsewhere the Q3 2015 ICAEW UK Business Confidence Monitor by Grant Thornton found that "turnover and profit growth is stable and expected to stay so, helping to shore up confidence levels". While "spare capacity has reached its lowest level since 2008, which should provide a small boost to

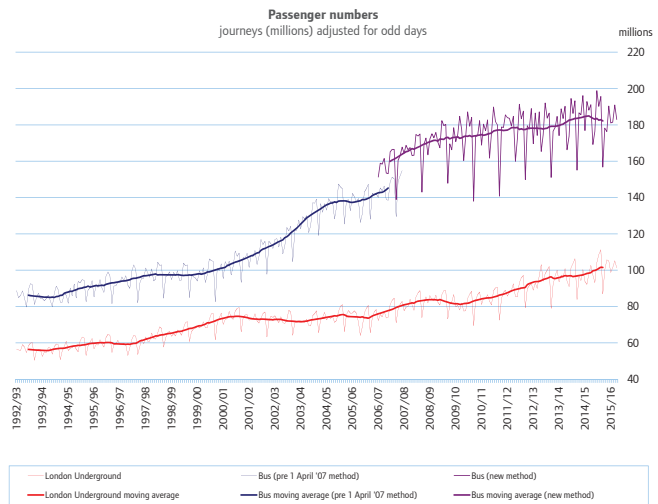
productivity". Similarly, driven by improved prospects for household spending and robust investment growth, the CBI upgraded its economic forecasts for the UK with growth of 2.6 per cent expected in 2015 and 2.8 per cent in 2016. However the recent global stock market volatility, a slowdown in China, a possible rise in US interest rates and evidence of weak global trade may put pressure on the global economy. Still, the sum of data indicates that although there may be evidence that the recent strong performance of the labour market is moderating there appears to be continued strength in the London and UK economies heading into the autumn.

Decrease in average of passenger journey numbers

- The most recent 28-day period covered 28 June 2015 – 25 July 2015. Adjusted for odd days, London's Underground and buses had 284.3 million passenger journeys; 183.0 million by bus and 101.3 million by Underground.
- The 12-month moving average of passengers decreased to 283.6 million from 284.4 million in the previous period. The moving average for buses was 182.2 million. The moving average for the Underground was 101.5 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: August 2015

Next release: September 2015



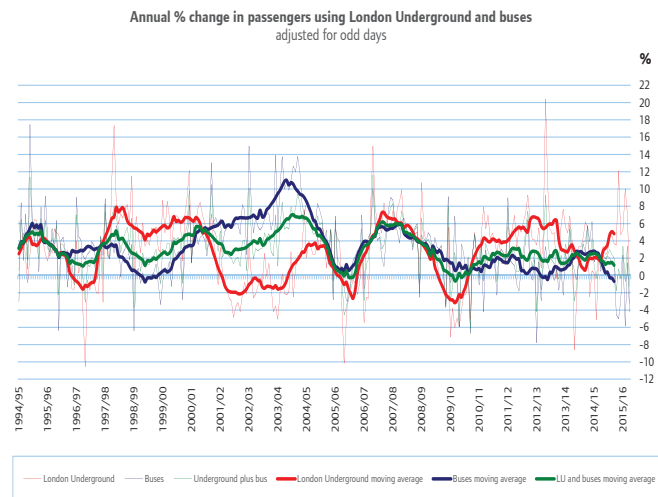
Source: Transport for London

Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 1.2% from 1.5% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -0.7% from -0.3% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 4.8% from 5.1% in the previous period.

Latest release: August 2015

Next release: September 2015



Source: Transport for London

ILO unemployment rises in London

- The ILO unemployment rate in London stood at 6.7% in the three months to June 2015, an increase of 0.4 percentage points on the previous quarter, however represents a fall of 0.6 percentage points on the year.
- There were 307,000 seasonally adjusted unemployed in London in the three months to June 2015, an increase of 22,000 on the previous quarter. There were 1,852,000 seasonally adjusted unemployed in the UK in the three months to June 2015, an increase of 25,000 on the previous quarter.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: August 2015

Next release: September 2015

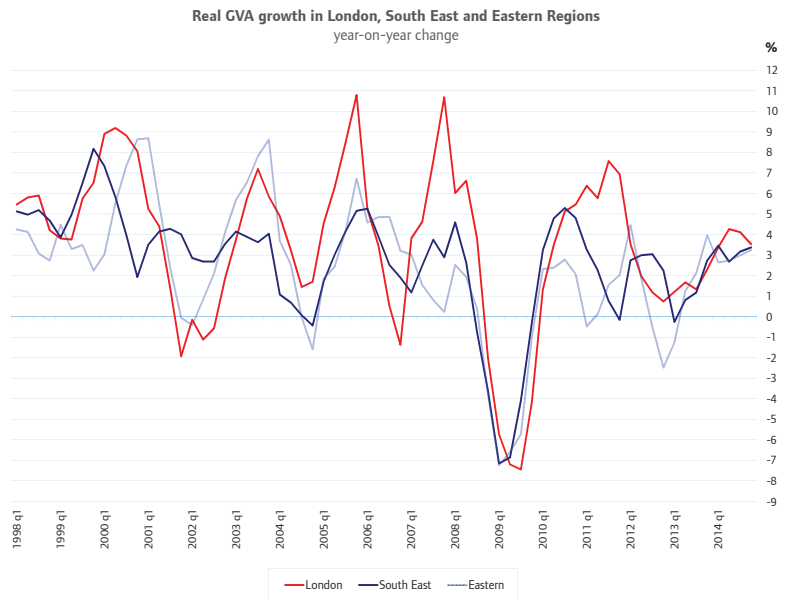


Source: Labour Force Survey - Office for National Statistics

Annual output growth slows in London in Q4 2014

- London's annual growth in output decreased to 3.5% in Q4 2014 from an upwardly revised 4.1% in Q3 2014.
- Annual output growth in the South East increased to 3.4% in Q4 2014 from an upwardly revised 3.2% in Q3 2014.
- Annual output growth in the Eastern region increased to 3.2% in Q4 2014 from an upwardly revised 3.0% in Q3 2014.

Latest release: June 2015
Next release: September 2015

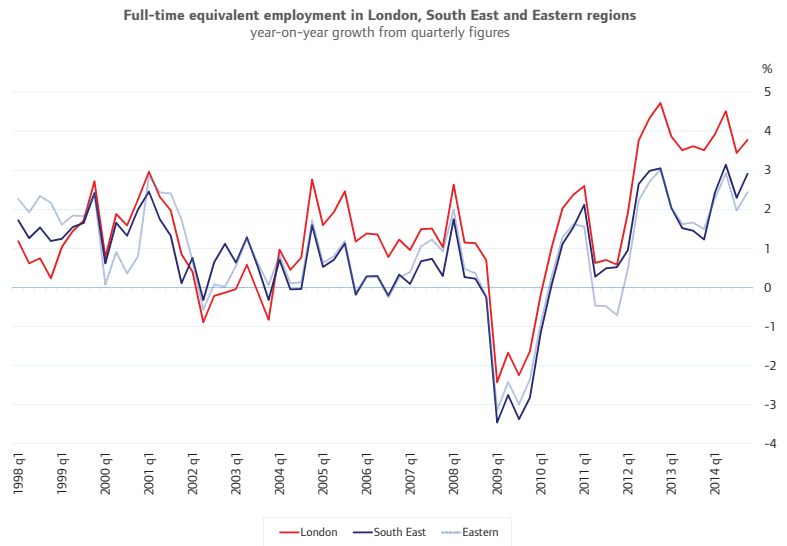


Source: Experian Economics

Annual employment growth increases in Q4 2014

- London's annual employment growth increased to 3.8% in Q4 2014 from an upwardly revised 3.4% in Q3 2014.
- Annual employment growth in the South East increased to 2.9% in Q4 2014 from an upwardly revised 2.3% in Q3 2014.
- Annual employment growth in the Eastern region increased to 2.4% in Q4 2014 from a downwardly revised 2.0% in Q3 2014.

Latest release: June 2015
Next release: September 2015

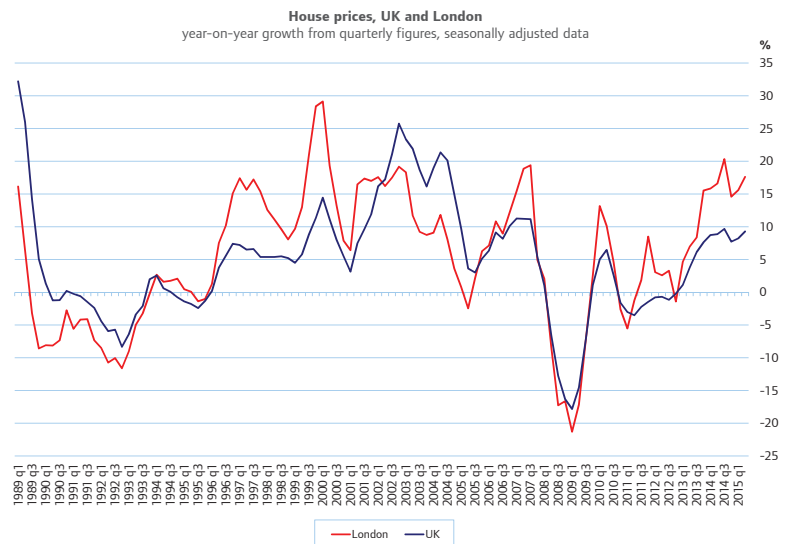


Source: Experian Economics

Annual house price inflation higher in London than in the UK

- House prices, as measured by Halifax, were higher in Q2 2015 than in Q2 2014 for London and the UK.
- Annual house price inflation in London was 17.6% in Q2 2015, up from an upwardly revised 15.6% in Q1 2015.
- Annual house price inflation in the UK was 9.3% in Q2 2015, up from an upwardly revised 8.2% in Q1 2015.

Latest release: July 2015
Next release: October 2015

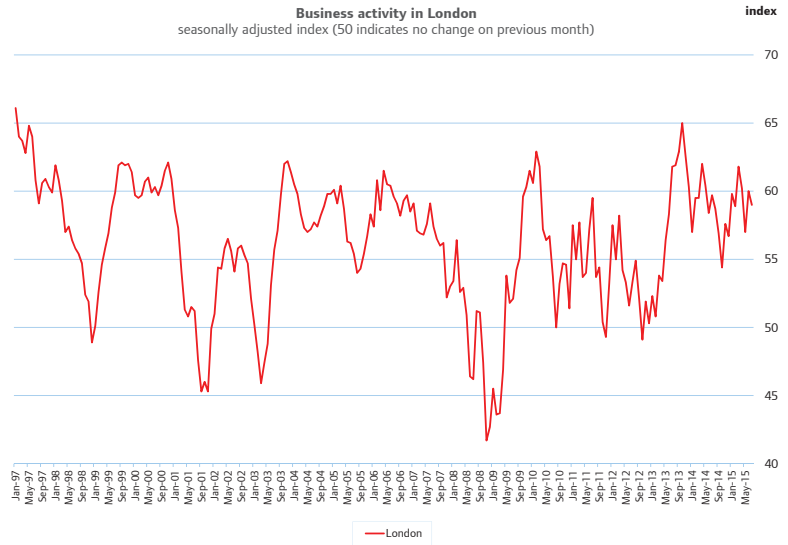


Source: Halifax House Price Index

London's business activity continues to increase

- Firms in London increased their output of goods and services in July 2015.
- The Purchasing Managers' Index (PMI) of business activity recorded 59.0 in July 2015, down from 60.0 in June 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: August 2015
Next release: September 2015

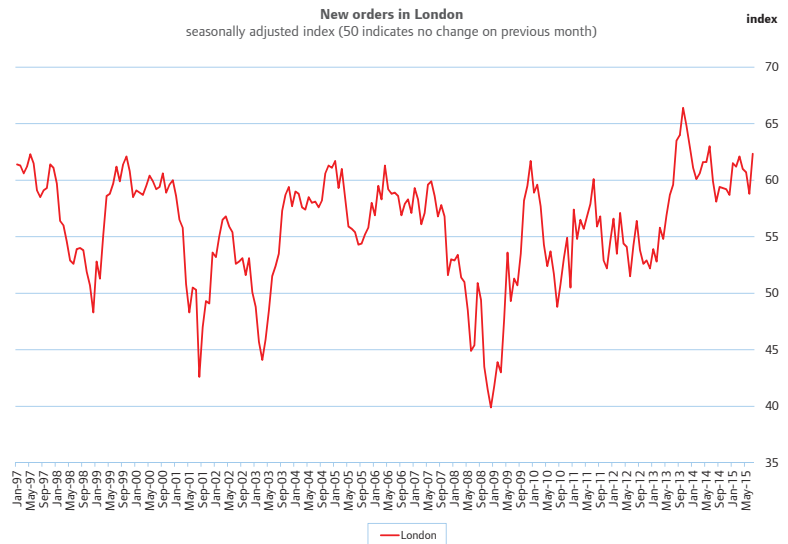


Source: Markit Economics

New orders in London rising

- July 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 62.3 in July 2015 compared to 58.8 in June 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: August 2015
Next release: September 2015

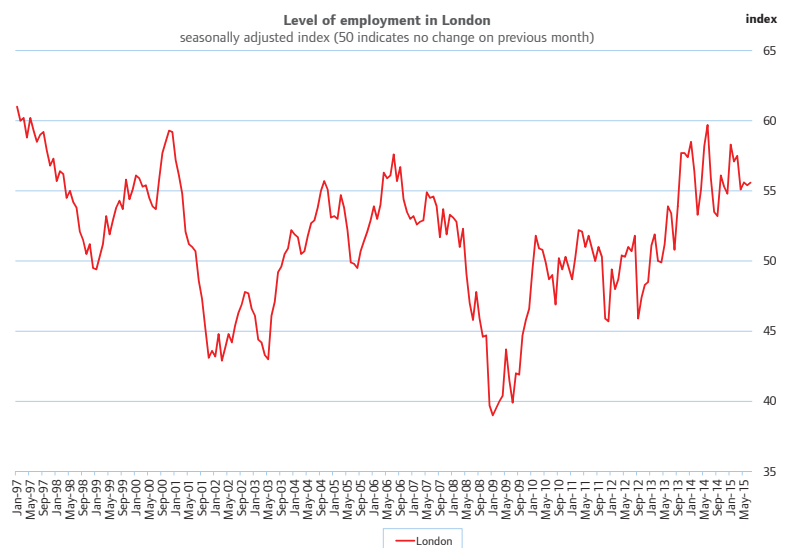


Source: Markit Economics

Businesses report higher employment in July

- The PMI shows that the level of employment in London firms increased in July 2015.
- The PMI for the level of employment was 55.6 in July 2015 compared to 55.4 in June 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: August 2015
Next release: September 2015



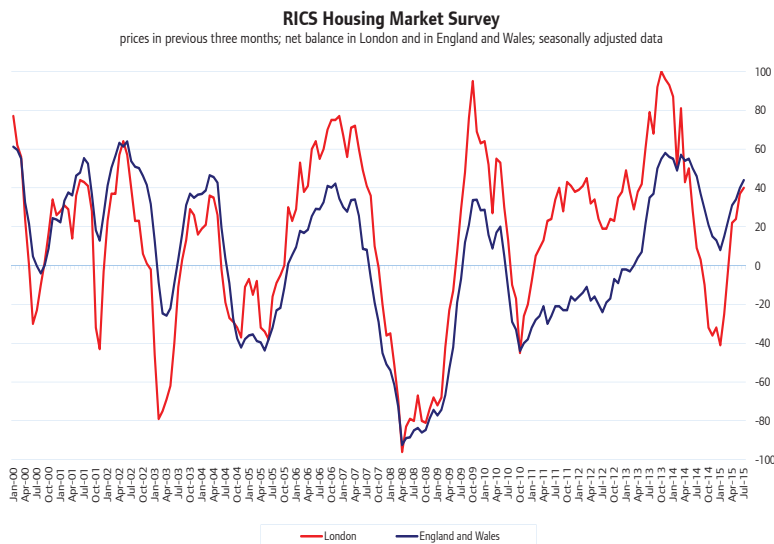
Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey shows a positive net balance of 40 for London house prices over the three months to July 2015.
- Surveyors reported a positive net house price balance of 44 for England and Wales over the three months to July 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: August 2015

Next release: September 2015



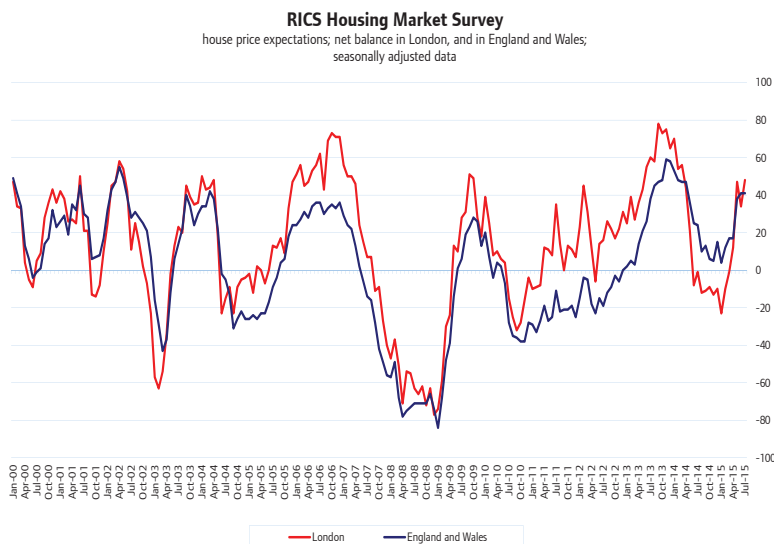
Source: Royal Institution of Chartered Surveyors

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 48 in July 2015.
- For England and Wales, the net house price expectations balance was 41 in July 2015.

Latest release: August 2015

Next release: September 2015



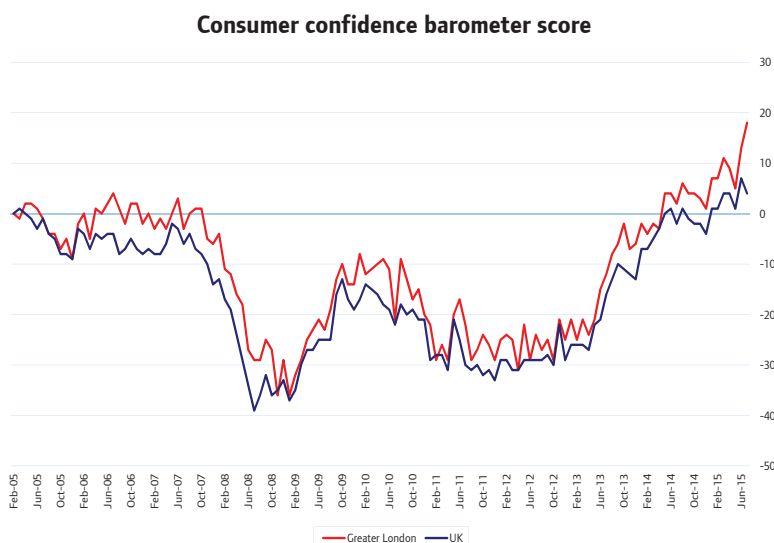
Source: Royal Institution of Chartered Surveyors

Consumer confidence rises 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 stood at 18 in July 2015, up from 13 in June 2015.
- For the UK the consumer confidence score stood at 4 in July 2015, down from 7 in June 2015.

Latest release: July 2015

Next release: August 2015



Source: GfK NOP on behalf of the European Commission

London's Central Activities Zone, Northern Isle of Dogs and their fringes

By **Gordon Douglass**,
Supervisory Economist

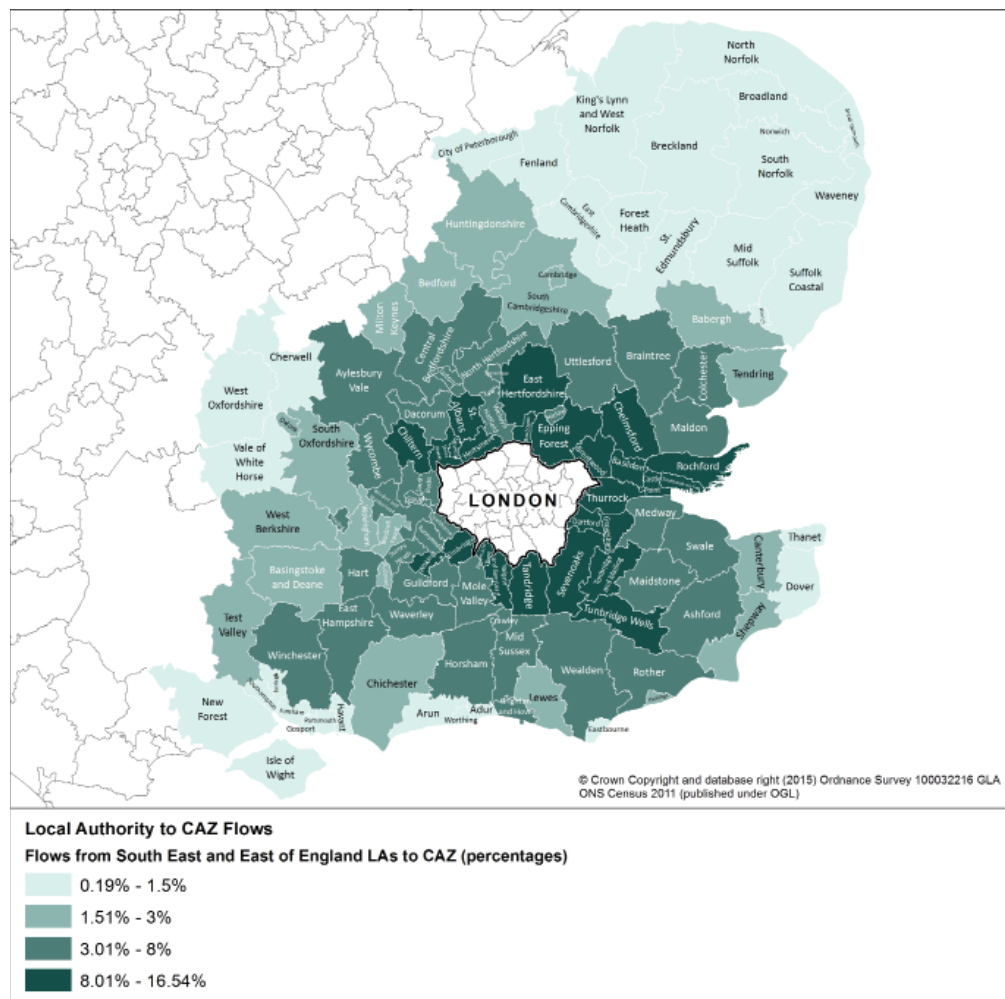
The Central Activities Zone (CAZ) contains a large concentration of business activity including many company headquarters, with many businesses clustering by industry sector. This clustering also occurs in the northern part of the Isle of Dogs (NIOD) and may further bleed into a fringe surrounding the CAZ and the NIOD. To better understand this area GLA Economics has recently published research looking at work and life within the CAZ, NIOD and their fringes¹.

A number of interesting findings were discovered including that:

- The CAZ had over 125,000 local business units based within it in 2014, generating employment of over 1.8 million. The area produced output worth around £139 billion in 2012. The area saw its population increase by 21 per cent between 2001 and 2011 compared to an increase for London as a whole of 14 per cent.
- The NIOD had over 4,000 local business units based within it in 2014, generating employment of over 110,000. The area produced output worth around £15 billion in 2012. The resident population of the area nearly doubled between 2001 and 2011.
- This combined area plus their fringes produced output of just over £179 billion in 2012 accounting for nearly 55 per cent of London's output and just over 12 per cent of UK output.
- Employment in this combined area plus their fringes stood at 2.14 million in 2013 a rise of 14.3 per cent on 2009 and accounted for around 45 per cent of London's employment.
- The top five sectors of employment in this combined area in 2013 were Professional, scientific and technical; Financial & insurance; Information & communication; Business administration and support services; and Accommodation & food services.

¹ Douglass, G., August 2015, '[Working Paper 68: Work and life in the Central Activities Zone, northern Isle of Dogs and their fringes](#)'. GLA Economics.

Map A1: Workers in CAZ-based workplaces by residence origin in the Greater South East (excluding London), 2011, as percentage of an area's workforce
 Source: Census² and GLA Intelligence Unit analysis



However, there is not a uniform dispersal of employment in the dominant sectors of the economy across the CAZ, NIOD and their fringes. In fact a geographic concentration of employment by industrial sector in certain areas of the CAZ etc. could well be expected from knowledge of industries clustering together whether it is, for example, insurance firms around Lloyds or tech firms around 'Silicon Roundabout'. Map A2, which used statistical analysis of census employment data (and is thus for the year 2011), shows the effect of these economies of agglomeration to form employment clusters for a number of industries.

² Census data are adapted from data from the Office for National Statistics licenced under the Open Government Licence v.3.0.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

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 2015/16 there are eleven 28-day periods, one 26-day period and one 32-day period. Period 1 started on 1 April 2015.

Acronyms

BCC	British Chamber of Commerce	IMF	International Monetary Fund
BRES	Business Register and Employment Survey	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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