

# London's Economy Today

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## Inflation in the UK falls back to zero

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

**On 15 September the Office for National Statistics (ONS) published data on annual Consumer Price Index (CPI) inflation in the UK in August, which fell back to 0 per cent from 0.1 per cent in July (see Figure 1). The ONS observed that "a smaller rise in clothing prices on the month compared with a year ago was the main contributor to the slight fall in the rate. There were also downward effects from changes in motor fuel prices and sea fares". If however, the impact of low energy inflation is removed from the data then CPI excluding Energy, Food, Alcohol & Tobacco stood at a higher level of 1 per cent in August although still down from 1.2 per cent in July.**

With inflation remaining well below the Bank of England's central symmetrical target of 2 per cent the Bank's Monetary Policy Committee (MPC) voted by 8 to 1 earlier in the month to hold interest rates at 0.5 per cent. The minutes of the MPC's September meeting observe that "all members agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path that Bank Rate will follow over the next few years will depend on the economic

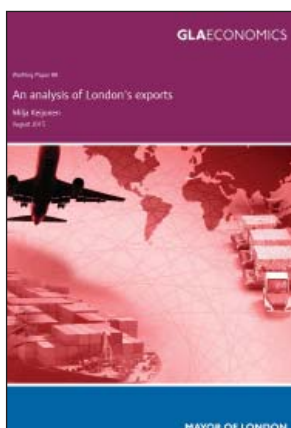
## Latest news...

### ● An analysis of London's exports – Working Paper 69

In 2013, London's total exports were estimated to be around £139.9 billion, around a £64.7 billion increase from a decade earlier.

Service exports accounted for around 77 per cent of the total (worth around £107.3 billion), around double the value in 2003. Goods exports grew significantly slower over the period with around £32.6 billion worth of goods exported in 2013, a 40 per cent increase compared to 2003.

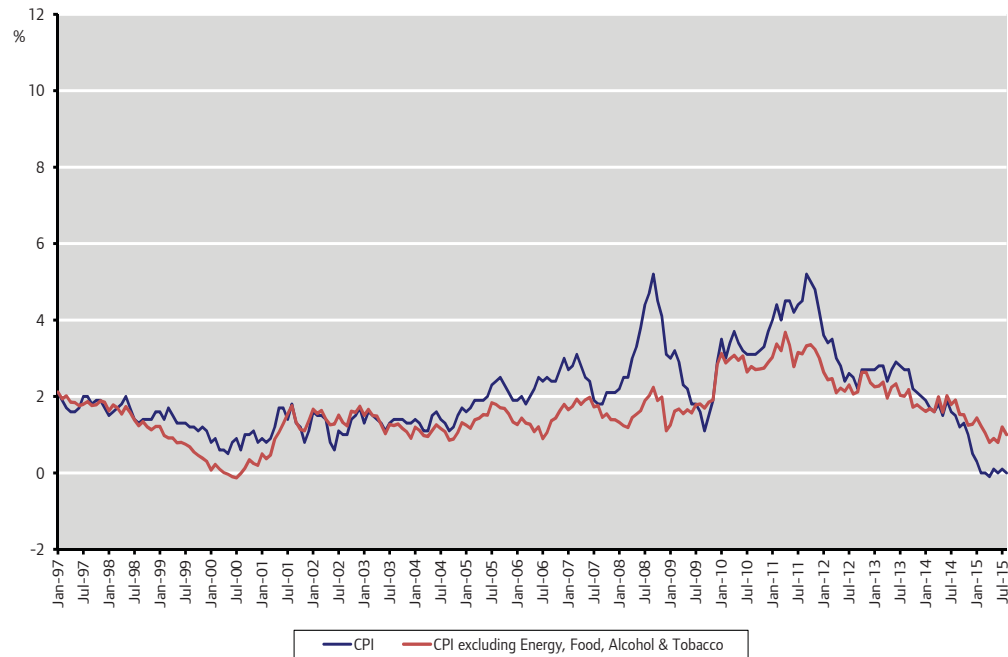
[Download](#) the full paper.



**Figure 1: UK annual CPI and CPI excluding Energy, Food, Alcohol & Tobacco inflation rate**

Last data point is August 2015

Source: ONS



circumstances". However, the Bank of England's chief economist, Andy Haldane recently argued that risks to the economy were "squarely and significantly to the downside", adding "were the downside risks I have discussed to materialise, there could be a need to loosen rather than tighten the monetary reins as a next step to support UK growth and return inflation to target".

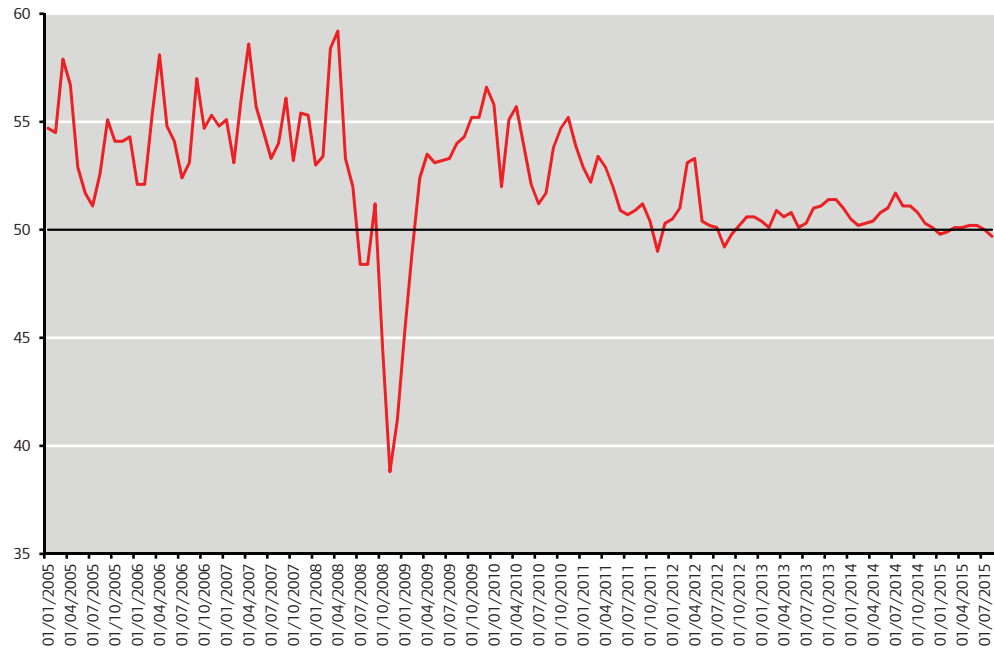
### Further signs of a global slowdown

Outside of the UK there were continuing signs that the pace of growth in China's economy is slowing with China's official manufacturing Purchasing Managers' Index (PMI) falling to 49.7 in August (a number below 50 indicates a contraction), the first time it has been below 50 since February (see Figure 2), while flash estimates for a different Chinese manufacturing PMI indicated that falls in this sector continued in September. Further, the Bank for International Settlements in their latest quarterly review observed that investors are "increasingly focused on growing vulnerabilities in emerging market economies, particularly China, as they reassessed the global growth outlook". And, the International Monetary Fund (IMF) warned in September that China's transition to slower growth could have risks to global economic growth. While another member of the BRIC group of countries Brazil entered recession with its economy contracting by 1.9 per cent in the second quarter of 2015 after contracting by 0.7 per cent in the first quarter. The decline is being blamed on low commodity prices, sluggish global growth, high interest rates, falling government spending and rising taxes. On 9 September Standard & Poor's (S&P) cut Brazil's credit rating to junk blaming government backpedalling on its budget deficit targets. Australian growth has also been hit by the slowdown in China with growth in Q2 2015 standing at just 0.2 per cent due to declines in manufacturing and construction activity. And India's economy slowed in the three months to June growing at an annualised rate of 7 per cent, slower than the 7.5 per cent growth rate seen in the previous quarter and lower than analysts had expected. Japanese government debt was also downgraded by S&P to A+ from AA- with it stating that "economic support for Japan's sovereign creditworthiness has continued to weaken in the past three to four years".

**Figure 2: China Federation of Logistics & Purchasing, Manufacturing PMI (SA)**

Last data point is August 2015

Source: Macrobond



Closer to home the growth prospects of the Eurozone remain subdued with the European Central Bank (ECB) cutting its forecast for economic growth and also inflation for this year and the following two years. Output is now forecast to grow by 1.4 per cent this year, 1.7 per cent in 2016 and 1.8 per cent in 2017, while HICP inflation is forecast to average 0.1 per cent in 2015, 1.1 per cent in 2016 and 1.7 per cent in 2017. Commenting on this forecast Mario Draghi, the president of the ECB, said that the recovery will continue but “at a somewhat weaker pace than expected”. However, Eurozone economic growth in Q2 2015 was upgraded to 0.4 per cent compared to a previous estimate of 0.3 per cent while the unemployment rate in the Zone in July stood at 10.9 per cent, down slightly from 11.1 per cent in June and the lowest rate seen in over three years.

Thus, despite more positive economic news in the US - with it adding 173,000 jobs in August and unemployment falling to 5.1 per cent down from 5.3 per cent in August - concerns remain for the global economy. The IMF noted in relation to supporting the global economy that “advanced economies should maintain supportive policies. In most advanced economies substantial output gaps and below-target inflation suggest that the monetary stance must stay accommodative. Fiscal policy should remain growth friendly and be anchored in credible medium-term plans. Managing high public debt in a low-growth and low-inflation environment remains a key challenge”. Still although rate rises in the US remain on the cards the Federal Reserve voted in September to maintain interest rates at their current historically low levels.

### **Confidence in London remains generally high but concerns about the global economy cloud the horizon**

In London both consumer and business confidence remain, for the most part, buoyant. GfK’s measure of consumer confidence stood at 17 in London in August (and 7 in the UK as a whole). The Q3 2015 ICAEW/Grant Thornton UK Business Confidence Monitor found for London that “confidence is buoyant in the capital, climbing this quarter from lower levels in the first half of the year”. With it further finding that “turnover and profits both increased year-on-year by around 5 per cent, broadly in line with results reported since the second half of 2014”; while in relation to employment “firms in London continued to rapidly increase staff headcounts during the past 12 months, with reported

employment growth of 3.0 per cent". However, the Federation of Small Businesses (FSB) London Small Business Index for Q3 2015 was less optimistic with it reporting that "small business optimism levels have fallen back year-on-year this quarter in every part of the UK, suggesting trading conditions have cooled to some extent nationwide. This confidence decline is particularly noticeable in London, where the Index has fallen from +43 in Q3 2014 to just +8 this quarter". While at a UK level the EEF manufacturers' organisation has become less optimistic about the state of UK manufacturing with it downgrading its forecast for growth in that sector in 2015 to 0.7 per cent from a previously forecast 1.7 per cent, with it noting that all major manufacturing indicators have fallen as shown by manufacturing output declining by 0.5 per cent in July compared with a year earlier (the first fall in two years).

Workforce jobs in London hit a record level of 5.645 million in Q2 2015, up 0.6 per cent on the quarter and 1.2 per cent on the year. Similarly, London's employment rate increased slightly over the last quarter to 72.2 per cent – close to its highest level since at least the early 1990s. Wages also continue to rise in the UK, with the ONS observing that "comparing May to July 2015 with a year earlier, both total pay (including bonuses) and regular pay (excluding bonuses) for employees in Great Britain increased by 2.9 per cent". Looking further ahead though, there have been warnings from the president of the CBI, the FSB and some individual employers that the introduction of the UK wide National Living Wage (a higher minimum wage for those aged over 25) could affect profits and jobs and could also lead to some price rises. The size of the exact impact has been debated with the Resolution Foundation having calculated that the rise in the minimum wage due in April will increase the UK's total pay bill by only 0.6 per cent. At the time of the Summer Budget the Office for Budget Responsibility, forecast that even after the introduction of the higher minimum wage, employment is likely to rise by 1.1 million in 2021, although this is 60,000 lower than it would have risen without the higher minimum wage.

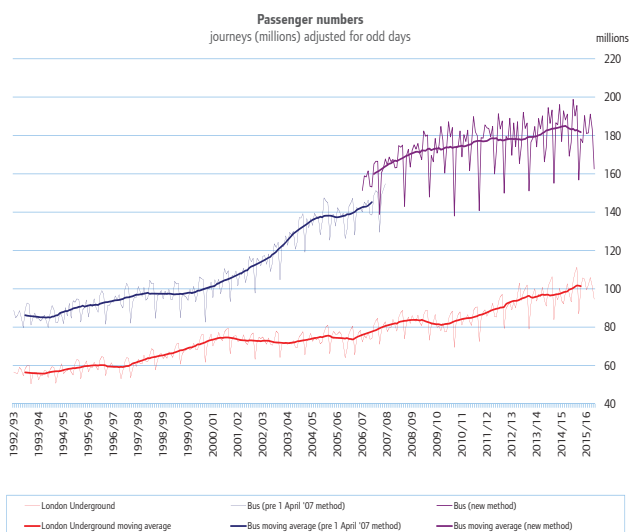
Internationally Wolfgang Schaeuble, the German finance minister, has warned that the global economy faces a financial bubble due to continuing loose monetary policy stating that "we should take on board the lessons of the last crisis". While, Claudio Borio, Head of the Monetary & Economic Department at the Bank for International Settlements has stated that we are living in a world, "in which debt levels are too high, productivity growth too weak and financial risks too threatening. This is also a world in which interest rates have been extraordinarily low for exceptionally long and in which financial markets have worryingly come to depend on central banks' every word and deed, in turn complicating the needed policy normalisation. It is unrealistic and dangerous to expect that monetary policy can cure all the global economy's ills". And, the World Bank has warned developing countries of possible financial turbulence when the Federal Reserve begins to raise US interest rates. As some commentators have noted, with interest rates at record lows, £375bn of outstanding quantitative easing and fiscal policy still showing a significant budget deficit, the UK is, arguably, not as well endowed with the 'traditional stimulus tools' to battle any prolonged global downturn as it may have been in the past. Still, London's strengths should hold it in good stead in the long run as shown by four of London's universities appearing in the top 40 universities in the world in the 2015 QS World University rankings. To conclude, although there is evidence of global economic weakness and some concerns at the national and London level, the UK and London economies are still performing well within a global context.

## Decrease in average of passenger journey numbers

- The most recent 28-day period covered 26 July 2015 – 22 August 2015. Adjusted for odd days, London's Underground and buses had 257.2million passenger journeys; 162.6 million by bus and 94.6 million by Underground.
- The 12-month moving average of passengers decreased to 283.1 million from an upwardly revised 283.8 million in the previous period. The moving average for buses was 181.7 million. The moving average for the Underground was 101.4 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: September 2015

Next release: October 2015



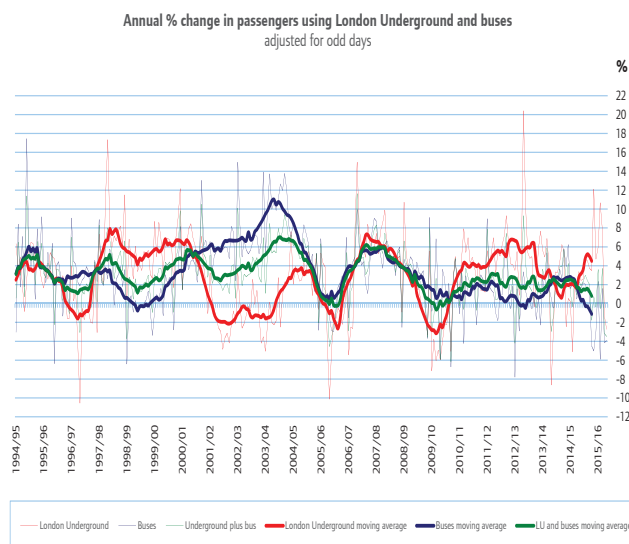
Source: Transport for London

## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 0.8% from 1.2% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -1.1% from -0.7% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys decreased to 4.5% from an upwardly revised 5.0% in the previous period.

Latest release: September 2015

Next release: October 2015



Source: Transport for London

## ILO unemployment increases in London

- The ILO unemployment rate in London stood at 6.4% in the quarter to July 2015, compared to 6.3% in the quarter to April 2015. In the UK, unemployment rate was 5.5% in the quarter to July 2015, unchanged from the quarter to April.
- There were 297,000 seasonally adjusted unemployed in London in the quarter to July 2015, an increase of 11,000 from the quarter to April 2015. There were 1,823,000 seasonally adjusted unemployed in the UK in the quarter to July 2015, an increase of 10,000 from the quarter to April 2015.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: September 2015

Next release: October 2015



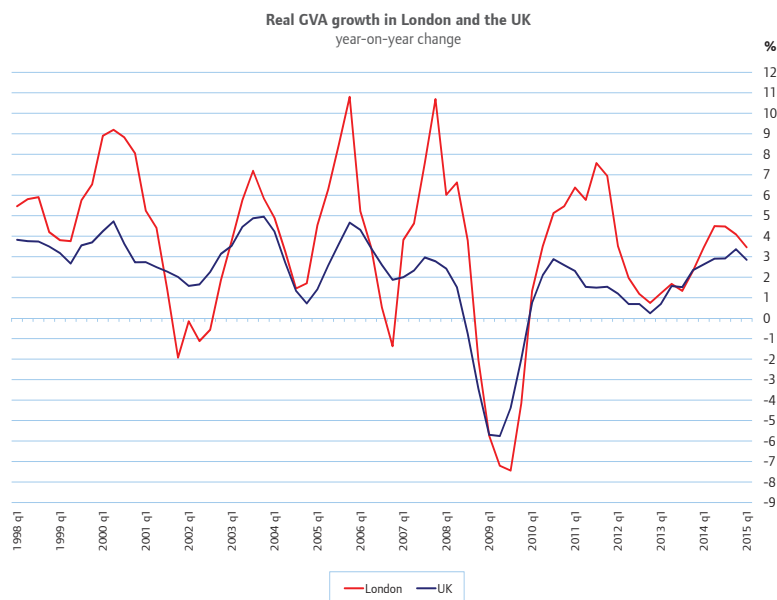
Source: Labour Force Survey - Office for National Statistics

## Annual output growth slows in London in Q1 2015

- London's annual growth in output decreased to 3.5% in Q1 2015 from an upwardly revised 4.1% in Q4 2014.
- Annual output growth in the UK decreased to 2.8% in Q1 2015 from an upwardly revised 3.4% in Q4 2014.
- In Q1 2015, London's annual output growth was higher than in the UK as a whole.

Latest release: September 2015

Next release: December 2015

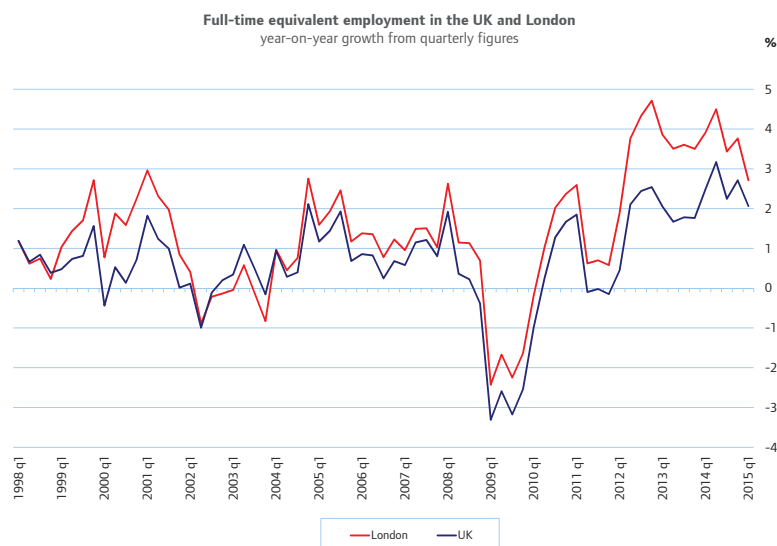


## Annual employment growth slows in Q1 2015

- London's annual employment growth decreased to 2.7% in Q1 2015 from 3.8% in Q4 2014.
- Annual employment growth in the UK decreased to 2.1% in Q1 2015 from 2.7% in Q4 2014.
- Annual employment growth in London was higher than in the UK as a whole.

Latest release: September 2015

Next release: December 2015

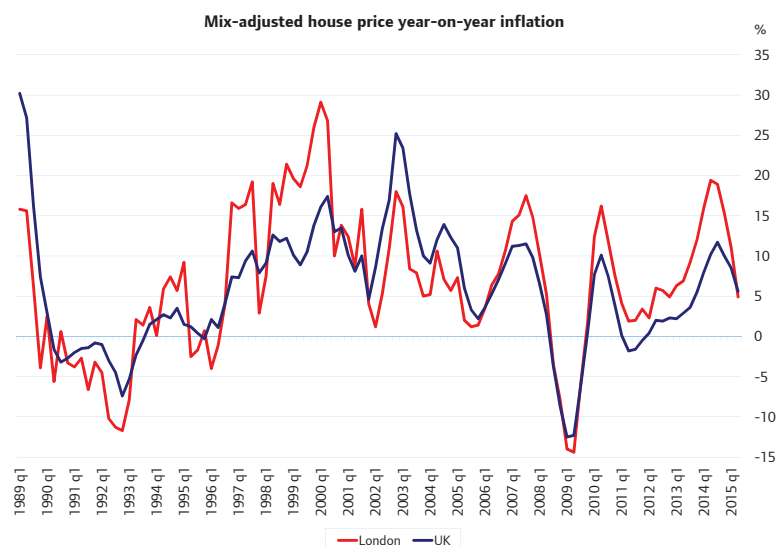


## Annual house price inflation higher in the UK than in London

- House prices, as measured by Office for National Statistics, were higher in Q2 2015 than in Q2 2014 for London and the UK.
- Annual house price inflation in London was 4.9% in Q2 2015, down from 11.0% in Q1 2015.
- Annual house price inflation in the UK was 5.6% in Q2 2015, down from 8.5% in Q1 2015.

Latest release: August 2015

Next release: November 2015

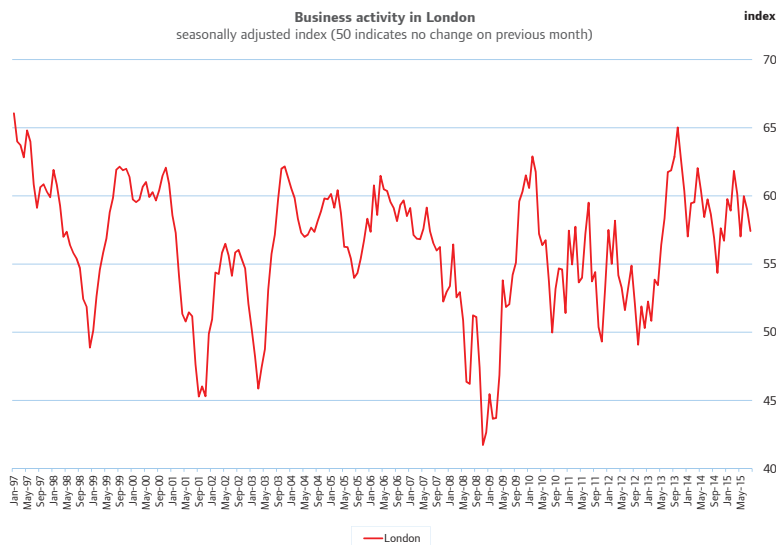


## London's business activity continues to increase

- Firms in London increased their output of goods and services in August 2015.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.4 in August 2015, down from 59.0 in July 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: September 2015

Next release: October 2015



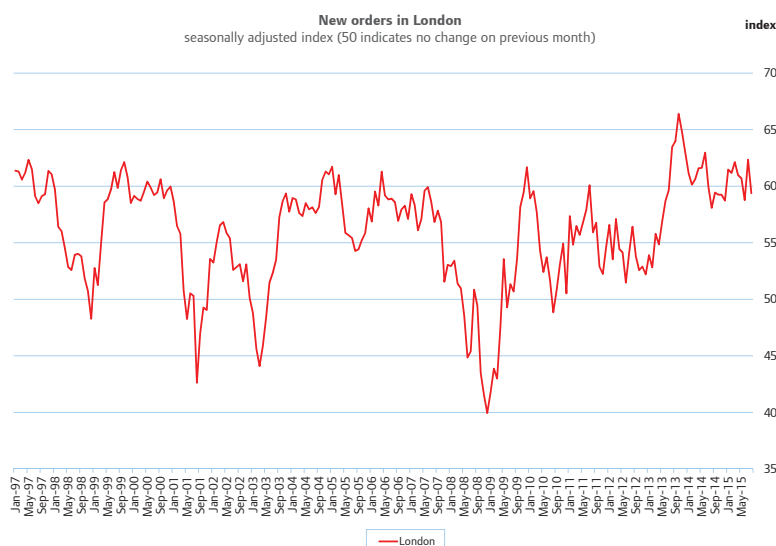
Source: Markit Economics

## New orders in London rising

- August 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 59.4 in August 2015 compared to 62.3 in July 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: September 2015

Next release: October 2015



Source: Markit Economics

## Businesses report higher employment in August

- The PMI shows that the level of employment in London firms increased in August 2015.
- The PMI for the level of employment was 54.8 in August 2015 compared to 55.6 in July 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: September 2015

Next release: October 2015

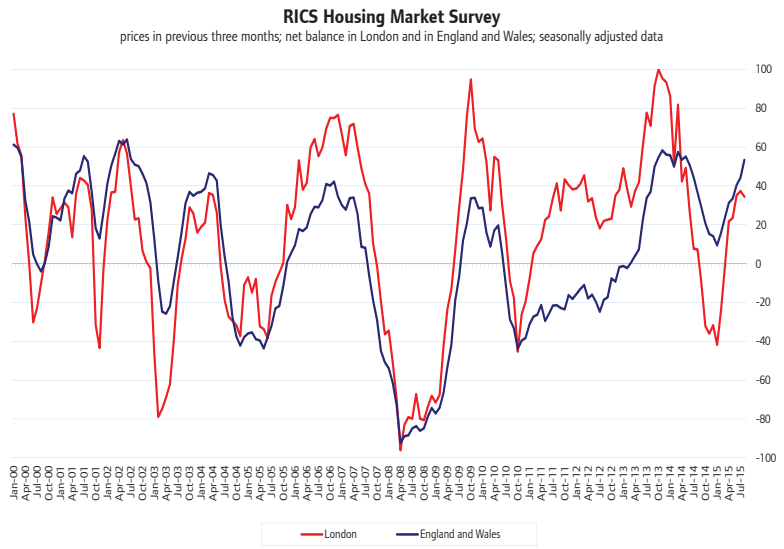


Source: Markit Economics

## Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey shows a positive net balance of 34 for London house prices over the three months to August 2015.
- Surveyors reported a positive net house price balance of 53 for England and Wales over the three months to August 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: September 2015  
 Next release: October 2015

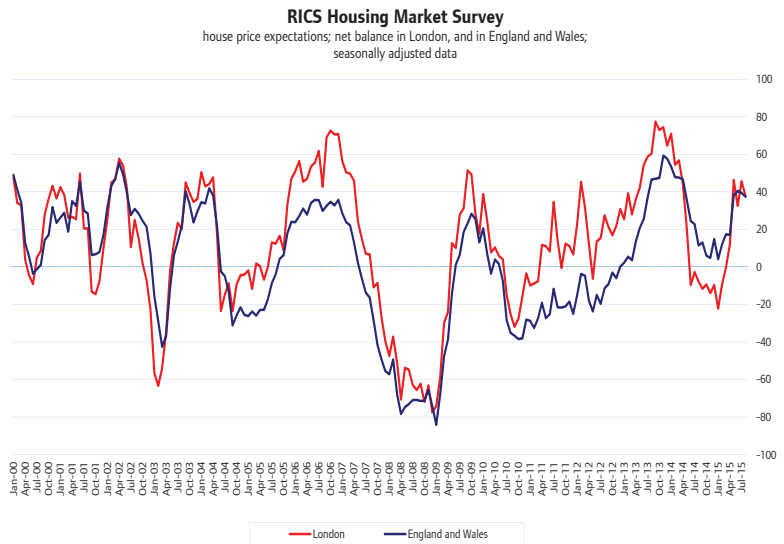


Source: Royal Institution of Chartered Surveyors

## 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 38 in August 2015.
- For England and Wales, the net house price expectations balance was 37 in August 2015.

Latest release: September 2015  
 Next release: October 2015

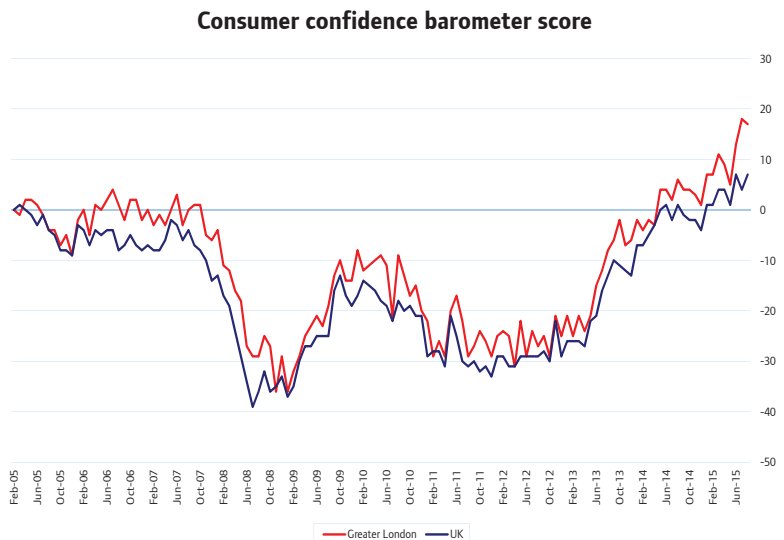


Source: Royal Institution of Chartered Surveyors

## Consumer confidence positive in London and in 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 17 in August 2015, down from 18 in July 2015.
- For the UK the consumer confidence score stood at 7 in August 2015, up from 4 in July 2015.

Latest release: August 2015  
 Next release: September 2015



Source: GfK NOP on behalf of the European Commission



By **Alice Mpepu,**  
Apprentice

## **GLA Economics has recently published analysis looking at zero-hours contracts in relation to London<sup>1</sup>; this supplement highlights some of the findings.**

It is estimated that there are less than 100,000 people<sup>2</sup> currently employed on contracts that do not guarantee minimum working hours in London and with this comes a growing debate over their use. Labour market flexibility is often argued to have aided the recovery with frequent media reports quoting falling unemployment rates and record levels of employment.

Zero-hours contracts are defined in the Small Business, Enterprise and Employment Act 2015 as a contract of employment or other worker's contract under which:

- a) the undertaking to do or perform work or services is an undertaking to do so conditionally on the employer making work or services available to the worker; and
- b) there is no certainty that any such work or services will be made available to the worker.

In order to assess how, what might be considered as, more casual working arrangements might be influencing labour market trends more broadly, the report begins by looking at zero-hours contracts and changes to average weekly hours worked in the context of London's employment and unemployment statistics. The report also presents evidence on changes to the real earnings of London and UK residents since the 2008 recession.

To gain a better understanding of the prevalence of zero-hours contracts, the report analyses statistics from the ONS and draws on empirical findings from research studies conducted by the CIPD and Resolution Foundation. The report is further supported by analysis by the International Labour Organisation which warns of a global structural shift towards 'casual employment' in advanced economies (see Map A1) and the potentially adverse effects on the currently weak levels of global aggregate demand.

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<sup>1</sup> Mpepu, A., August 2015, 'Current Issues Note 45: The extent and consequences of zero-hours contracts and labour market casualization in London'. GLA Economics.

<sup>2</sup> This is based on data published after the publication of Current Issues Note 45.

## Figure A1: Percentage of workers without a permanent contract

Source: International Labour Organisation



Zero-hours contracts are a more prevalent form of employment (when compared to other forms of employment) for young workers and those aged 65 and older. Women make up a larger proportion of individuals that report working on zero-hours contracts when compared to men. However, the average weekly hours worked by individuals on zero-hours contracts is 25 hours, which is greater than the average for part-time employment of 16 hours. Statistics also show there are considerable variations in the spread of zero-hours contracts across sectors.

Proponents of zero-hours contracts cite the benefits such contracts can bring: employers value the flexibility during times of highly-intermittent demand and employees are able to balance work and personal responsibilities. That said, there is a risk that many zero-hours contract workers do not by default accrue the same employment rights normally entitled to employees, which deprives them of the protection they are due (information on the employment law for people on zero-hours contracts is provided within the report).

Although, the prevalence of zero-hours contracts has increased in the past couple of years, it still represents a very small proportion of overall employment. Any potentially damaging consequences from zero-hours contracts are most likely to arise in situations where the individual feels they have no alternative means of employment (such that there is an imbalance of power between the employer and the employed). This and other issues surrounding the proliferation of zero-hours contracts are discussed in greater detail in the main report which also highlights the implications to London and can be found in: Current Issues Note 45: The extent and consequences of zero-hours contracts and labour market casualization in London

## 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 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

<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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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.