GLAECONOMICS

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In this issue

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London's employment rate reaches a record high

By **Adam van Lohuizen,** Economist, and **Victor Frebault,** Economist Intern

Over the three months to August the ILO unemployment rate in London fell to 6.0 per cent, down from 6.7 per cent the previous quarter (see Figure 1). This is the lowest rate of unemployment seen in the capital since records for this measure of unemployment began in 1992, falling below the previous record of 6.1 per cent in 2001.

Falling unemployment has been driven by higher levels of employment illustrated by the highest rate of employment ever recorded in London, with 72.5 per cent of the working age population employed for the quarter. This is up 0.7 per cent on the previous quarter, but remains below the UK employment rate of 73.6 per cent.

Wages also continued to grow strongly in Great Britain as a whole, with them increasing by 3 per cent (including bonuses) for the year to August. This was driven by a 3.4 per cent increase in private sector wages, while public sector wages were up by 1.1 per cent compared to a year earlier. Given that inflation was negative over the year to August, these wage rises have delivered real wage growth for workers.

However, looking at more recent trends, wage growth has slowed down, growing by 0.1 per cent over the last quarter, compared to growth of 1.3 per cent in the previous quarter. Moreover, as shown in Figure 2 – which compares the quarterly rate of

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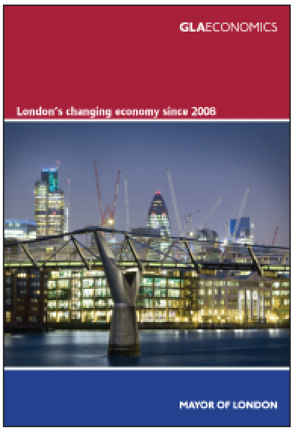

London's changing economy since 2008

London's growth since 2008 has been stronger than the UK's with London's GVA having increased by 18.2 per cent in nominal terms (ie, without taking account of inflation), compared to 11.4 per cent for the UK.

In 2014 there were around 5.554 million jobs in London, 12 per cent higher than in the pre-recession peak in 2008; for the UK as a whole jobs in 2014 were around 4 per cent higher than in the 2008 pre-recession peak.

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growth in wages with the quarterly rate of growth in prices – the quarterly rate of growth in wages has fallen below the growth in prices for the first time since the middle of 2014.

Figure 1: Employment and ILO unemployment rates, London

Source: ONS

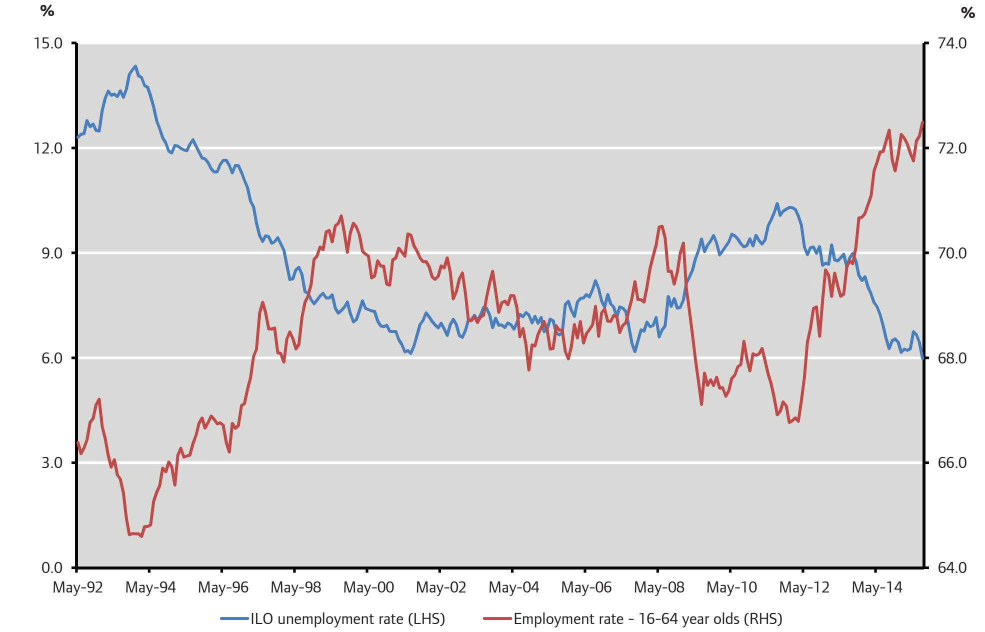
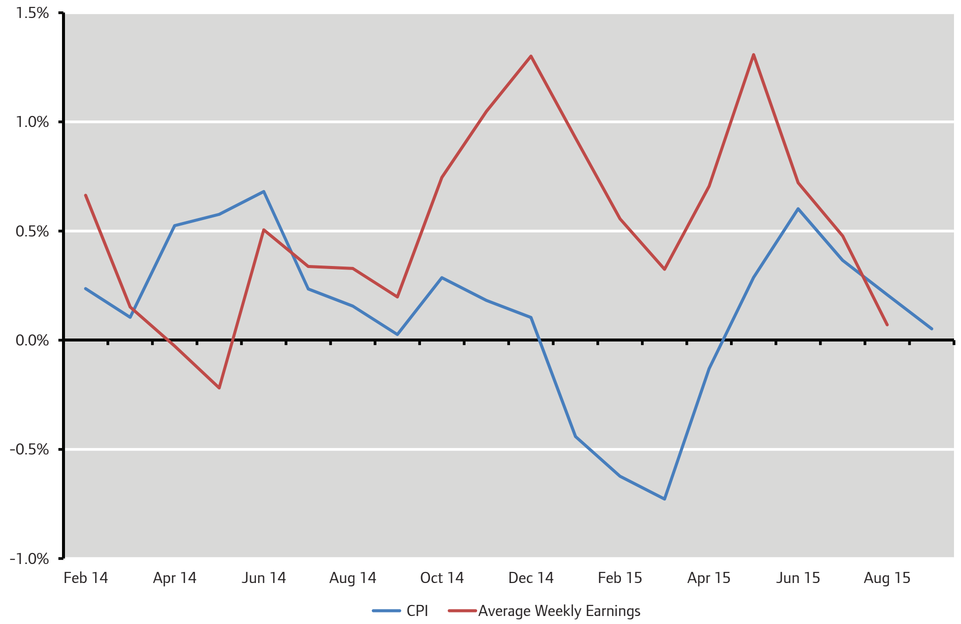


Figure 2: Inflation and earnings, rolling three-month average, UK

Source: ONS



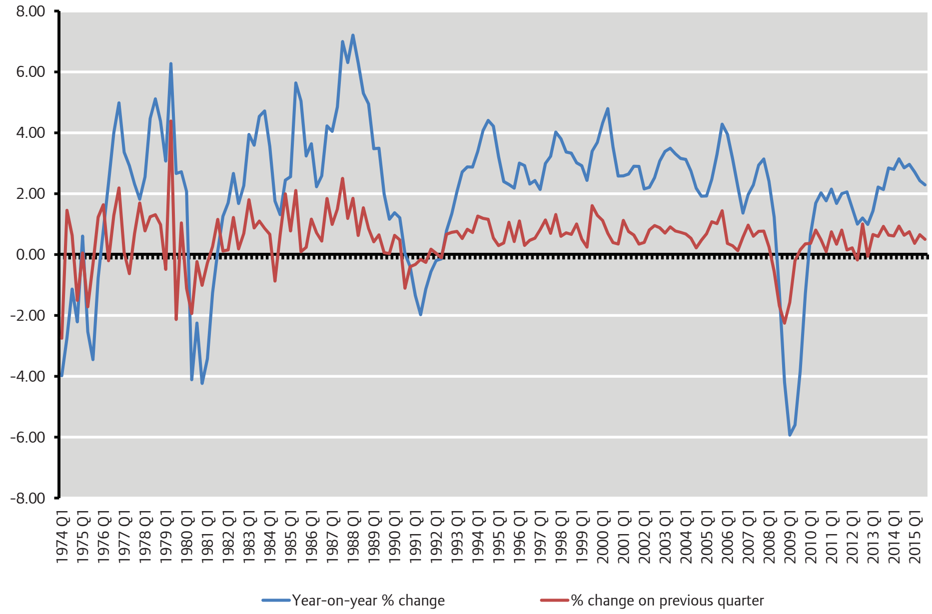
The London Chamber of Commerce and Industry Capital 500 London Quarterly Economic Survey also reflects a slow-down in wages growth, with fewer firms citing higher wages as a cost pressure in the September quarter compared to the June quarter. The number of firms looking to hire also declined over the quarter, as did the number of firms having difficulties in hiring staff. The movements in these indicators all suggest that pressure on wages growth may be easing in London.

UK GDP growth slows – but services remain strong

Nationally, the ONS released the preliminary estimates of GDP for the third quarter of 2015 in October which showed economic growth slowed to 0.5 per cent for the quarter, down from 0.7 per cent in the second quarter. Over the year, GDP growth also slowed slightly to 2.3 per cent in the third quarter compared to 2.4 per cent previously.

Figure 3: UK GDP Growth

Source: ONS



The slowdown in growth was driven by a significant fall in construction activity of 2.2 per cent, which removed over 0.1 percentage points from quarterly GDP growth. However, growth in services contributed significantly to GDP growth, adding 0.6 percentage points to GDP while growing at 0.7 per cent for the quarter. Business services and finance – a particularly important industry for London – was the main driver of the growth in services, contributing 0.3 percentage points to GDP growth and growing by 1 per cent over the quarter.

The latest GDP estimates follow the ONS publishing a set of revisions to historic GDP estimates due to a series of methodological changes and introducing new data sources. The data revisions resulted in GDP growth being revised between 1 percentage point downwards in 2003, to 0.5 percentage points up in 2012 and 2013. The ONS observed that the changes mean "that UK GDP is now estimated to have been 5.9 per cent larger in Q2 2015 than in Q1 2008, compared with 5.2 per cent in the previously published data." However, the economic story remains similar, with the ONS noting that "the changes to the constituent parts of GDP do not fundamentally alter the overall economic narrative of the post-downturn period".

Global outlook softens due to weakness in emerging economies, particularly China

Elsewhere, the International Monetary Fund (IMF) released their latest World Economic Outlook in October. In it they revised down their world growth forecasts from their last forecast in July by 0.2 percentage points in both 2015 and 2016 to 3.1 per cent and 3.6 per cent respectively. However, the IMF observes that the recovery of advanced economies is strongest in the United States, and here in the United Kingdom, revising up the forecasts for these economies by 0.1 percentage points in 2015. The continued recovery of the Eurozone has also contributed to a more positive outlook.

However, they see that "near-term economic growth still looks stronger in advanced economies, compared with the recent past, but weaker in the emerging market and developing economies that account for a growing share of world output, and will still account for the lion's share of world growth." The IMF also noted that "while the growth slowdown in China is so far in line with forecasts, its cross-border repercussions appear greater than previously envisaged. This is reflected in weakening commodity prices (especially those for metals) and reduced exports to China (particularly in some East Asian economies)". Still despite this the IMF forecasts growth of 6.8 per cent in China in 2015, slowing to 6.3 per cent in 2016.

Other forecasters have also been revising their forecasts down for China, with the Asian Development Bank reducing forecast growth to 6.8 per cent in 2015, down from 7.2 per cent previously as "economic activity fell short of expectations in the first 8 months of the year as investment and exports underperformed" despite robust consumption demand. The World Bank made a similar revision to its forecasts for China, down by 0.2 percentage points in 2015 to 6.9 per cent. It expects that as the Chinese economy transitions towards consumption lead growth "investment will decelerate, owing to tighter credit and more subdued property sector conditions. The labour market will remain robust, supporting private consumption growth. The shift from capital- and resource-intensive manufacturing to services will continue". This weakness in China's economy is reflected by a number of economic indicators, such as imports which fell by 17.7 per cent in the year to September, hitting exporters to China as investment growth slowed, while consumption growth remained relatively steady. It is likely that the path of rebalancing the Chinese economy will continue to impact on its trade partners moving forward.

Still the impact of the slowdown of growth in China on the advanced economies should "not be overestimated" according to European Central Bank (ECB) minutes for its 3 September 2015 meeting in relation to its impact on the Eurozone. However, it also acknowledged the role that China has played in driving global growth over the past 20 years, and that the slowdown could "contribute to greater global uncertainty and a possible loss of confidence, which could have a more substantial impact on global growth." Thus the ECB sees the Chinese slowdown having an impact on the Eurozone, with the economic recovery "expected to continue at a somewhat slower pace than previously expected, largely reflecting the slowdown in emerging market economies". Amid the pessimistic outlook for China, the latest Chinese GDP data was stronger than expected, showing annual growth of 6.9 per cent in the third quarter, beating expectations by 0.1 per cent. However, just four days following the release of these GDP figures, the People's Bank of China, China's central bank, moved to further support economic activity, by cutting interest rates for the sixth time in 2015. It also reduced reserve requirement ratios for lenders by 50 basis points, in the hope that these measures will ensure it can reach the 7 per cent target that has been set for economic growth.

However, the impact of any slowdown in China on the Eurozone and the UK is likely to be small, at least directly, with just 4.1 per cent of exports from the UK, and 6.4 per cent from the Eurozone going to China, well below commodity exporting countries such as Australia (33.7 per cent) and Chile (24.4 per cent) which will be more directly impacted. Further, the direct trade impact on London is likely to be minimal, as over three-quarters of London's exports are services; accounting for over half of total UK services exports and with only 2.1 per cent of total UK service exports then going to China. Instead the greater risk for London is due to any uncertainty created by a Chinese slowdown, and the impact this uncertainty has on world markets. In particular, if the increased risks of a hard landing in China are realised, with Chinese private debt levels now exceeding 200 per cent of GDP, a slowdown that leads to increased credit defaults could spread across global credit markets, which would be particularly felt here in the capital.

Despite a slowing global economy, the outlook for London remains positive

The current economic environment is a challenging one around the world. Deflation continues in the Eurozone, with prices falling 0.1 per cent over the year to September and has increased speculation that more quantitative easing may be required amid a softening economic outlook. Business sentiment in Japan has weakened according to the latest Tankan survey by the Bank of Japan, dropping by 3 points to 12 in September. Uncertainty continues to an extent over when the Federal Reserve will raise US interest rates, with a rate rise in 2015 more uncertain than previously expected after the Fed surprised markets in September by keeping rates on hold. However, in a statement following its October meeting the Fed raised market expectations of a rate rise in December. And market volatility has also seen hedge funds suffering their worst month since the global financial crisis in August losing $78 billion in value.

However despite the global economic uncertainty, the prospects for London continue to remain positive. London recently overtook New York as the world's leading financial centre according to the Z/Yen Global Financial Centres Index, also ahead of Hong Kong, Singapore and Tokyo. The People's Bank of China recently issued the first Chinese Treasury renminbi denominated bonds in London worth over 30 billion renminbi. This is the first overseas sovereign debt market to be opened by the country. The property market remains strong, with stamp duty collections across the UK topping pre recession levels in 2014/15 at £7.5 billion. While a significant amount of this revenue is likely to have been raised in the capital due to the strength of the London property market, this also highlights the housing affordability challenge London faces. London also continues to be a world leader for education, with four London universities included in the top 40 of the Times Higher Education ranking of the world's top 200 institutions.

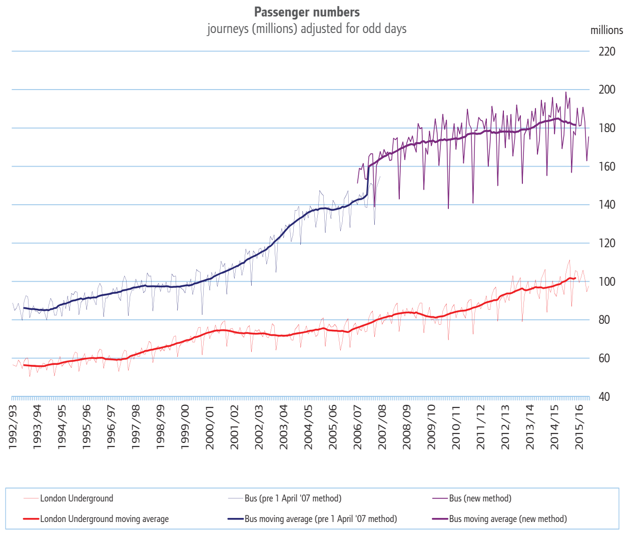
So while the world economy is currently facing greater risk and uncertainty than a few months ago, these risks for London are, arguably, not as prevalent as for some other countries/cities. Thus for instance the RBS regional growth tracker shows London to be leading the Great Britain economy with growth of 0.7 per cent in the second quarter of 2015, the fastest growth of all the regions. Employment levels in London are also at record levels, and while the pace of UK growth may have slowed in the latest quarter, growth in the UK services industries continues to remain strong. These conditions are likely to continue to support economic activity in London in the coming months.

Economic indicators

Increase in average of passenger journey numbers

- The most recent 28-day period covered 23 August 2015 – 19 September 2015. Adjusted for odd days, London's Underground and buses had 273.0 million passenger journeys; 175.4 million by bus and 97.6 million by Underground.
- The 12-month moving average of passengers increased to 283.3 million from 283.1 million in the previous period. The moving average for buses was 181.6 million. The moving average for the Underground was 101.7 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: October 2015
Next release: November 2015



Source: Transport for London

Constant average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys was unchanged (0.8%), in comparison to the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to -1.3% from -1.1% in the previous period.
- The moving average annual rate of growth in Underground passenger journeys increased to 4.7% from 4.5% the previous period.

Latest release: October 2015
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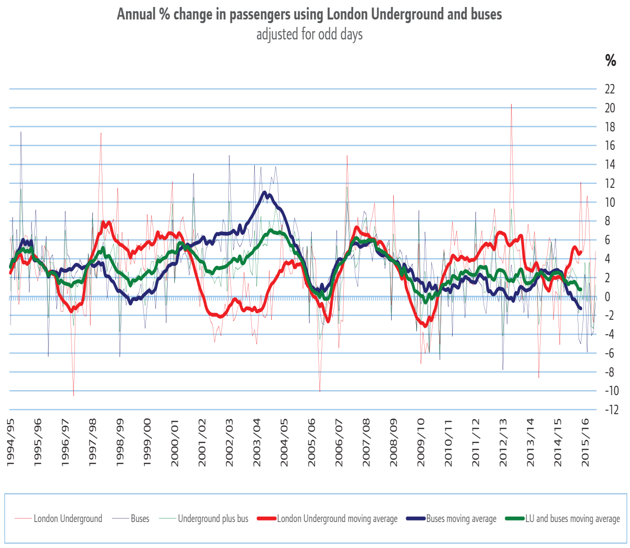
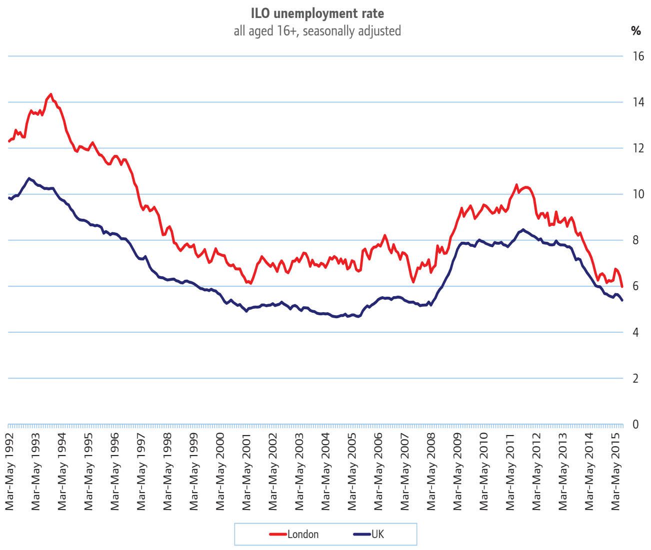


Source: Transport for London

ILO unemployment decreases in London and the UK

- The ILO unemployment rate in London stood at 6.0% in the quarter to August 2015, compared to 6.7% in the quarter to May 2015. In the UK, the unemployment rate was 5.4% in the quarter to August 2015, compared to 5.6% for the quarter to May
- There were 276,000 seasonally adjusted unemployed in London in the quarter to August 2015, a decrease of 33,000 from the quarter to May 2015. There were 1,774,000 seasonally adjusted unemployed in the UK in the quarter to August 2015, a decrease of 79,000 from the quarter to May 2015
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: October 2015
Next release: November 2015

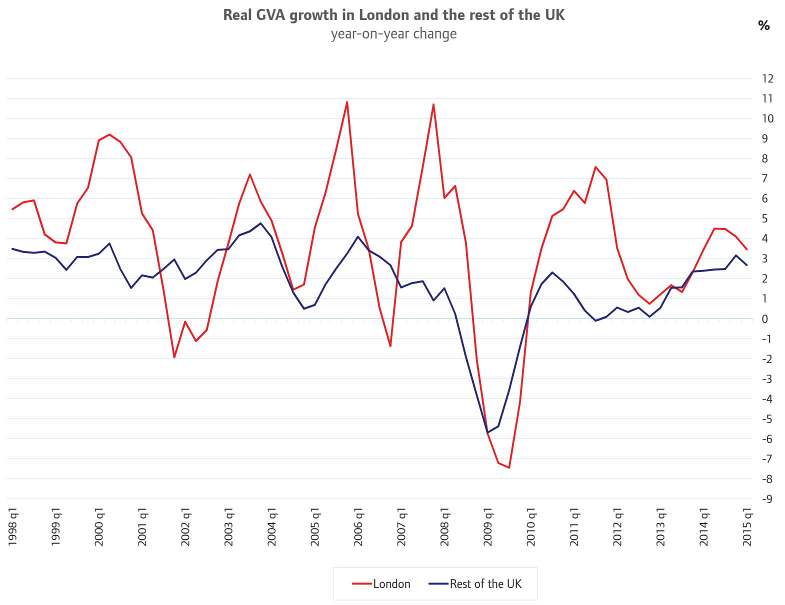


Source: Claimant Count, Jobcentre Plus

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 rest of the UK decreased to 2.7% in Q1 2015 from an upwardly revised 3.2% in Q4 2014.
- In Q1 2015, London's annual output growth was higher than in the rest of the UK as a whole.

Latest release: September 2015
Next release: December 2015

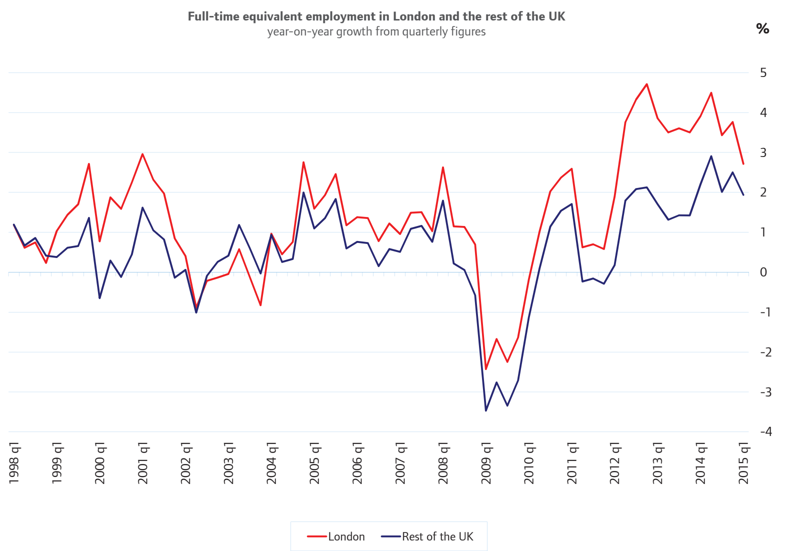


Source: Experian Economics

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 rest of the UK decreased to 1.9% in Q1 2015 from 2.5% 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

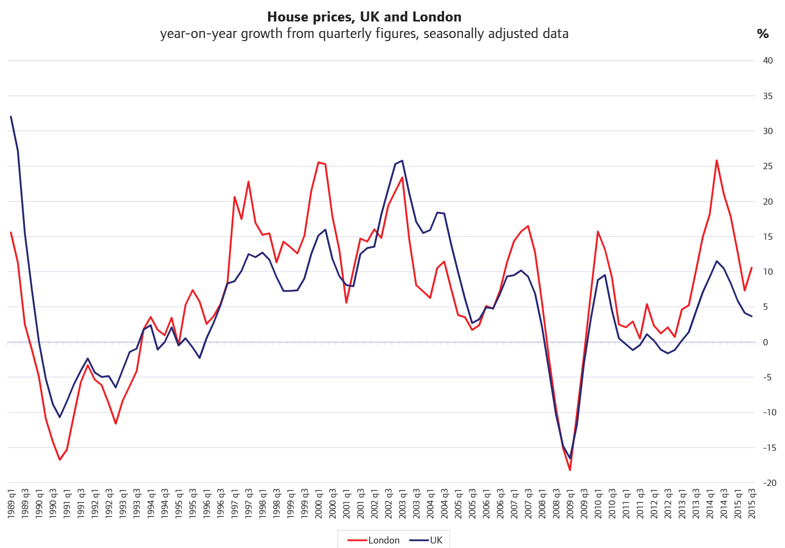


Source: Experian Economics

Annual house price inflation higher in London than in the UK

- House prices, as measured by Nationwide, were higher in Q3 2015 than in Q3 2014 for London and the UK.
- Annual house price inflation in London was 10.6% in Q3 2015, up from 7.3% in Q2 2015.
- Annual house price inflation in the UK was 3.7% in Q3 2015, down from 4.1% in Q2 2015.

Latest release: October 2015
Next release: January 2016

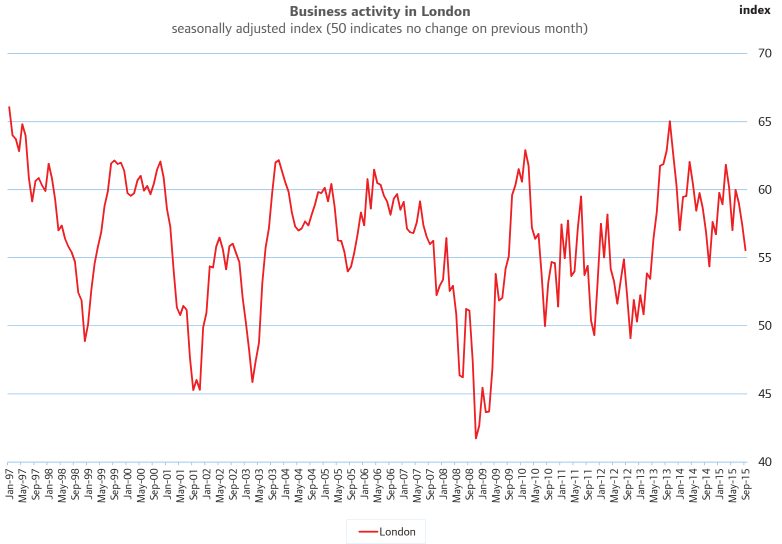


Source: Nationwide house price index

London's business activity continues to increase

- Firms in London increased their output of goods and services in September 2015.
- The Purchasing Managers' Index (PMI) of business activity recorded 55.6 in September 2015, down from 57.4 in August 2015.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: October 2015
Next release: November 2015

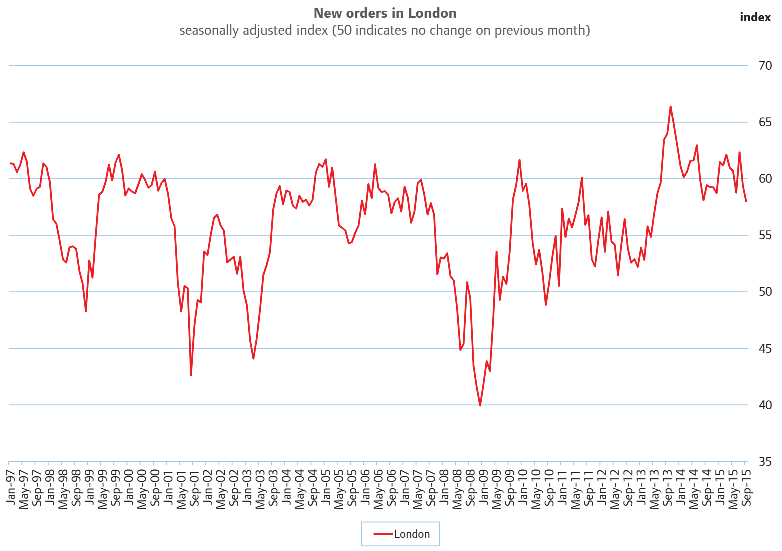


Source: Markit Economics

New orders in London rising

- September 2015 saw an increase in new orders for London firms.
- The PMI for new orders recorded 58.0 in September 2015 compared to 59.4 in August 2015.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: October 2015
Next release: November 2015

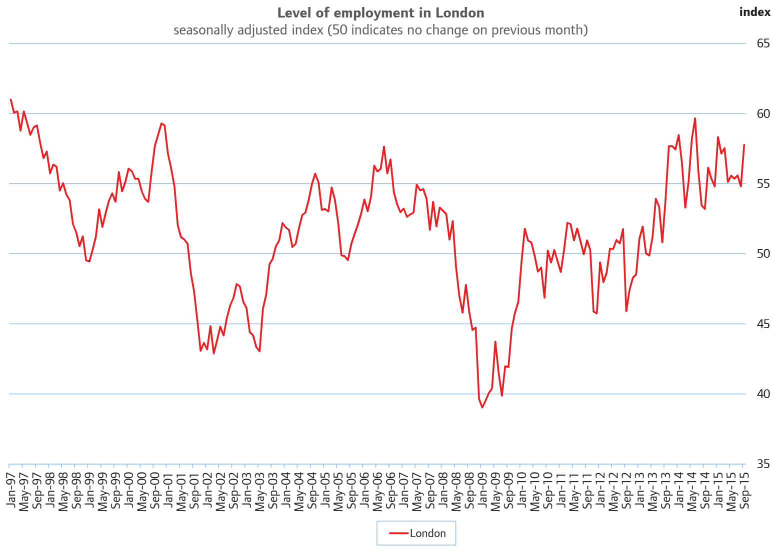


Source: Markit Economics

Businesses report higher employment in September

- The PMI shows that the level of employment in London firms increased in September 2015.
- The PMI for the level of employment was 57.8 in September 2015 compared to 54.8 in August 2015.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: October 2015
Next release: November 2015

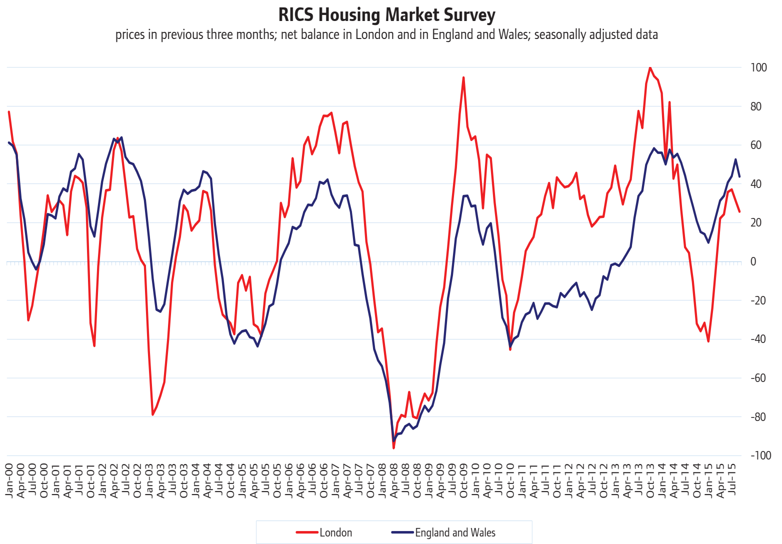


Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS Residential Market Survey shows a positive net balance of 26 for London house prices over the three months to September 2015.
- Surveyors reported a positive net house price balance of 44 for England and Wales over the three months to September 2015.
- London's net house price balance is lower than that of England and Wales.

Latest release: October 2015
Next release: November 2015

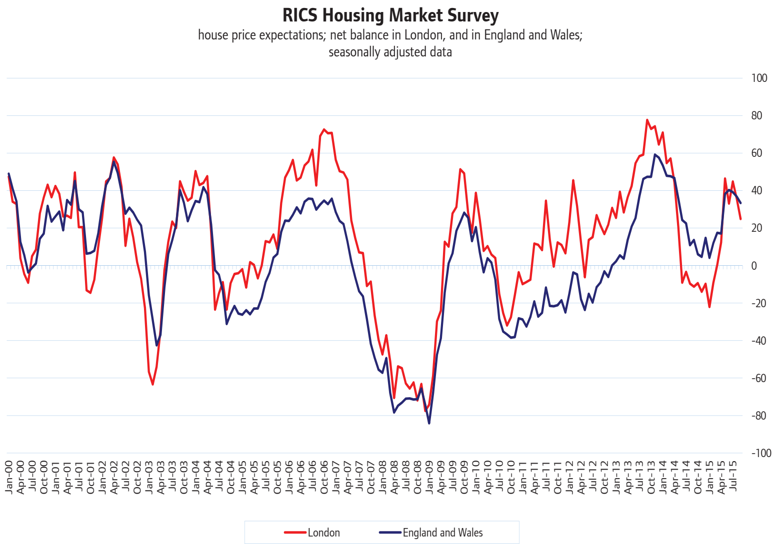


Source: Royal Institution of Chartered Surveyors

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 25 in September 2015.
- For England and Wales, the net house price expectations balance was 33 in September 2015.

Latest release: October 2015
Next release: November 2015

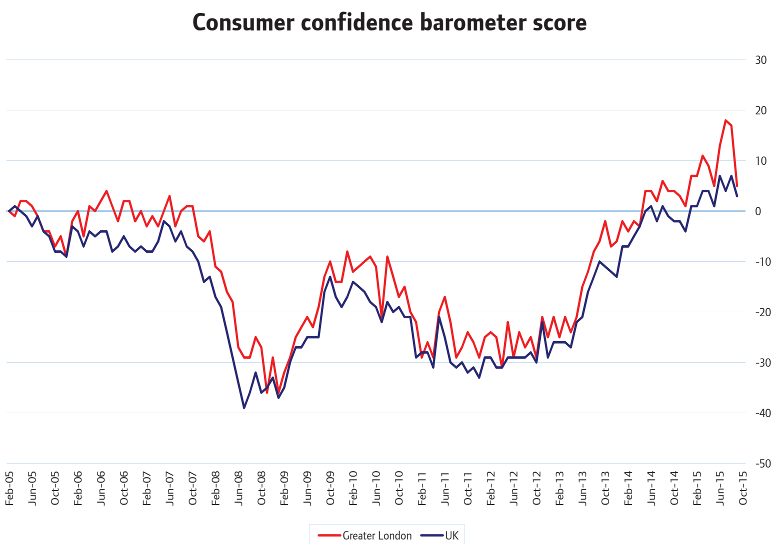


Source: Royal Institution of Chartered Surveyors

Consumer confidence 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 5 in September 2015, down from 17 in August 2015.
- For the UK the consumer confidence score stood at 3 in September 2015, down from 7 in August 2015.

Latest release: September 2015
Next release: October 2015



Source: GfK NOP on behalf of the European Commission

Analysis of London's exports over time

By Milja Keijonen,
Economist

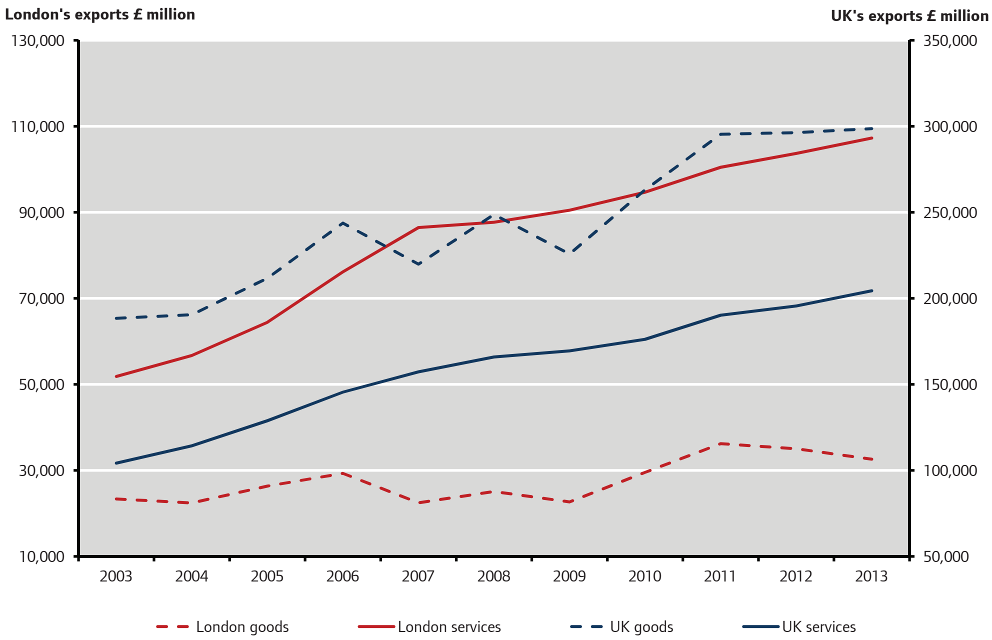
Analysis of London's exports is currently limited by the data available, with official data for London only being available for the export of goods, with no data available for the export of services at a regional level. Given that service industries comprise 91 per cent of the London economy, and production just 9 per cent, GLA Economics recently undertook a project to estimate London's export of services[1].

Evidence from GLA Economics research suggests that over the last decade London's exports grew strongly (in nominal terms) driven by services, which account for over 70 per cent of London's total exports. Further, while the EU remains the key export market for London's goods exports, the US is the single most important trading partner for the capital, for both goods and service exports. It should be noted that these estimates are preliminary, based on the limited data that are available. GLA Economics is working with the ONS and other data users to produce more robust regional estimates of service exports for London and other regions.

GLA Economics estimates that in 2013 London's total exports were around £139.9 billion, up from £64.7 billion in 2003 (Figure A1)[2].

Figure A1: London and UK exports (£ million), 2003-2013

Source: Trade in goods from HMRC; UK service exports from The Pink Book 2014, ONS; London Business Survey, GLA; and GLA Economics modelling



This increase was mainly driven by a rise in the value of service exports, which more than doubled between 2003 and 2013; up from around £51.9 billion in 2003 to around £107.3 billion in 2013. Over this period services increased its

1 Keijonen, M., August 2015, Working Paper 69: An analysis of London's exports, GLA Economics.

2 These figures are reported in nominal terms and have not been adjusted for inflation.

share of total exports from 69 per cent in 2003 to 77 per cent in 2013. The value of goods exports also increased over the period but not by as much; in 2013 the value of London's goods exports totalled around £32.6 billion, a 40 per cent increase from 2003. Goods exports decreased from 31 per cent of total exports in 2003 to 23 per cent in 2013.

London's goods exports accounted for around 11 per cent of total UK goods exports in 2013, whilst London's service exports made up over half (52 per cent) of the UK's service exports.

Looking at London's service exports by sector, this analysis suggests that finance related services are the most prominent services exported. In 2013 monetary finance exports were worth around £24.9 billion in nominal terms, compared to around £10.6 billion in 2003 (Table A1). Monetary finance activities can include fees and commissions on foreign exchange dealing, spread earnings on transactions in foreign exchange, securities and derivatives. The second largest service export sector was personal travel which was worth around £11.0 billion in 2013. Personal travel is predominantly tourists visiting London but also includes services for people visiting friends and relatives in the capital, and generally spending by people visiting London for education and health reasons.

In the run up to the financial crisis, fund management and securities exports grew strongly with these service exports growing by an annualised rate of 31 per cent in 2006 and 34 per cent in 2007 before declining over a three year period. In 2013 the sector accounted for around 8 per cent of London's total service exports, compared to around 17 per cent in 2007.

Table A1: London's service exports by sector, 2003-2013, £ million

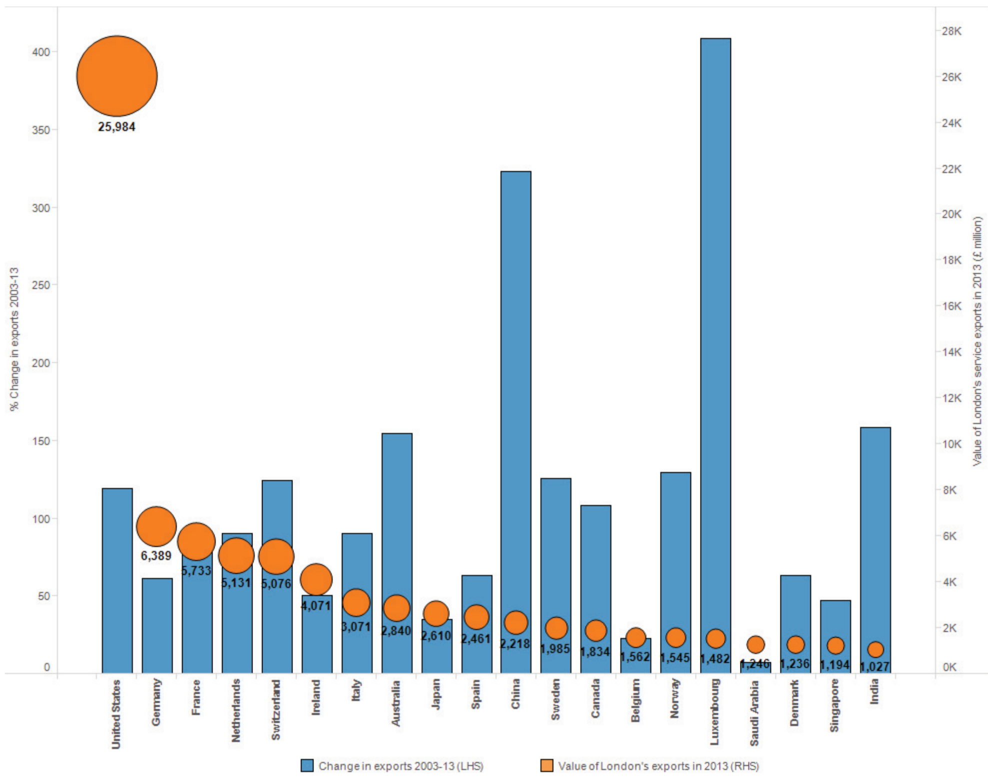
Source: UK service exports from The Pink Book 2014, ONS; London Business Survey, GLA; and GLA Economics modelling

London's service exports (£ million)	2003	% of total services exports	2013	% of total services exports
Monetary finance	10.6	20%	24.9	23%
Personal Travel	5.0	10%	11.0	10%
Business management and management consulting	2.6	5%	9.0	8%
Fund management and securities	6.0	12%	8.5	8%
Other finance	2.9	6%	8.2	8%
Air transport	3.9	8%	7.8	7%
Unaccounted services	3.6	7%	7.2	7%
Other business services	3.6	7%	5.9	5%
Computer & information services	2.4	5%	4.0	4%
Film, television and audio	1.2	2%	3.5	3%
Business Travel	1.9	4%	3.2	3%
Insurance	1.0	2%	2.5	2%

In addition to the analysis of the size of London's exports GLA Economics also looked at where London's exports go to. Information on the destination of goods exports is available from HMRC whilst data on where service exports go to are limited to the UK level data. Individual country analysis suggests that the US is the largest single country of destination for London's goods exports with around £3.88 billion worth of goods shipped there in 2013. Additional GLA Economics analysis suggests (based on the UK's service export destinations) that, similarly to goods exports, the US is also the most significant service export destination for London followed by Germany and France (Figure A2). Based on these estimates London exported around £26.0 billion worth of services to the US in 2013, with exports to Germany and France totalling around £6.4 billion and £5.7 billion respectively. Looking at London's service exports over time by destination, service exports to the US more than doubled between 2003 and 2013 (119 per cent), whilst service export growth to Germany and France was more muted (61 per cent and 80 per cent respectively).

Figure A2: London's exports of service by destination, 2003-2013, £ million

Source: United Kingdom Balance of Payments – The Pink Book 2014, GLA Economics modelling



More information on the research findings and the methodology that we used to estimate London's exports can be found in Working Paper 69: An analysis of London's exports published in August.

Additional information

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
BRES	Business Register and Employment Survey
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CLG	Communities and Local Government
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
IMF	International Monetary Fund
LCCI	London Chamber of Commerce and Industry
LET	London's Economy Today
MPC	Monetary Policy Committee
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers
RICS	Royal Institution of Chartered Surveyors

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About GLA Economics
GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

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