GLAECONOMICS

London's Economy Today

Issue 180 | August 2017

In this issue

LET data to Datastore

The LET presence on Datastore aims to create more interaction and a greater personal focus for London's Economy Today while also allowing for the incorporation of feedback and views from the readership. http://data.london.gov.uk/gla-economics/let/

Bank of England nudges down UK growth forecast for this year

By **Emma Christie**, Economist, **Gordon Douglass,** Supervisory Economist and **Mark Wingham**, Economist

The Bank of England published its latest Inflation Report in August. In the Report the Bank nudged down its central projection for GDP growth for this year to 1.7 per cent, down from the 1.9 per cent it forecast in May. For 2018, it forecast 1.6 per cent growth, down from 1.7 per cent forecast in May.

In its latest forecast the Bank however remained relatively calm on the prospects for Consumer Price Index (CPI) inflation with it expected "to peak at around 3% in October". CPI inflation has been higher this year than that seen in the previous year or so (see Figure 1) although data from the Office for National Statistics (ONS) showed that it stayed steady at 2.6 per cent in July (unchanged from June). However, of concern for rail passengers due to its impact on regulated rail fares, Retail Price Index (RPI) inflation stood at 3.6 per cent in July, which was the highest July rate since 2011. It is of concern because train operators can increase regulated rail fares in the following January by as much as the RPI rate for July.

Latest news...

London's creative industries

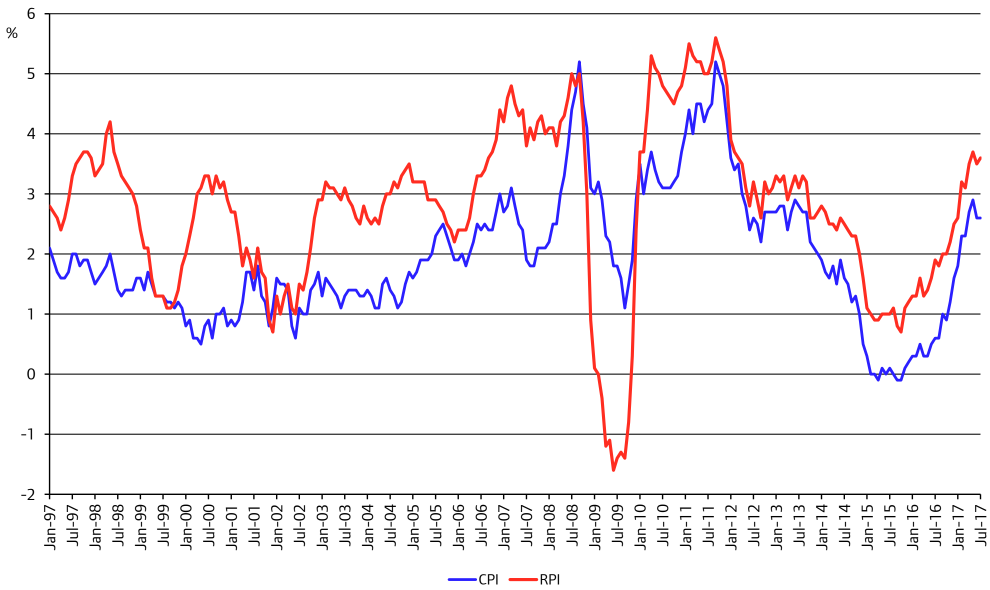
London's creative industries represent a significant part of the capital's economy. In 2015, GVA of the creative industries in London was estimated at £42.0 billion, accounting for an estimated 11.1 per cent of London's total GVA, and for just under half (47.4 per cent) of the UK creative industries total.

Download the publication.

Figure 1: CPI and RPI inflation in the UK

Last Data Point: July 2017

Source: ONS



Several commentators have observed that the general uptick in inflation seen in 2017 is likely to put pressure on households real (ie, inflation adjusted) wages. ONS data published in August showed that "real average weekly earnings fell by 0.5% in the 3 months to June 2017, both excluding and including bonuses as consumer price inflation continued to outpace growth in wages". Meanwhile, some surveys expect UK wage growth to remain subdued over the coming year with a survey from the Chartered Institute of Personnel and Development, also published in August, predicting wages will rise by 1 per cent over the coming year. Although another survey – this time by IHS Markit for the Recruitment and Employment Confederation – found pay rates for permanent and temporary staff were rising due to difficulties in finding staff.

In other concerns about the economy, Sir Charlie Bean – a former Bank of England deputy governor who now leads macroeconomic forecasting at the Office for Budget Responsibility – warned that consumers who continued to spend as wages have fallen could face a "Wile E. Coyote" moment when this catches up with them. He further observed that if householders reigned back their spending this could lead to potentially "quite a sharp slowdown", with him adding that, "reasonably modest changes in household spending have big effects". Still, Bank of England deputy governor Ben Broadbent observed in August that the Bank was not too worried about household debt as "the level of consumer credit is less compared to incomes than it was during the (financial) crisis". Although he added that UK interest rates may go up more in the future than the market currently expects adding there is a "trade off between stabilising inflation and keeping the economy going".

Mixed picture on UK economic indicators

Other official data published in August also paints a mixed picture on the UK economy. For example, ONS data showed that car production in the UK fell by 6.7 per cent between May and June and in the three months to June was down 5.8 per cent which the ONS observed "is the largest 3-month on 3-month fall since April 2009". This not only points to weaker manufacturing activity, but could also point to weaker demand for cars which is sometimes a bellwether for consumer confidence.

Meanwhile, estimates of UK productivity also remain discouraging with the ONS flash estimate for productivity published in August showing that "output per hour – the … ONS's main measure of labour productivity – fell by 0.1% in Quarter 2 (April to June) 2017. This compares with a fall of 0.5% in Quarter 1 (January to March) 2017 ... as a result, labour productivity remains at around the same level as its pre-downturn peak".

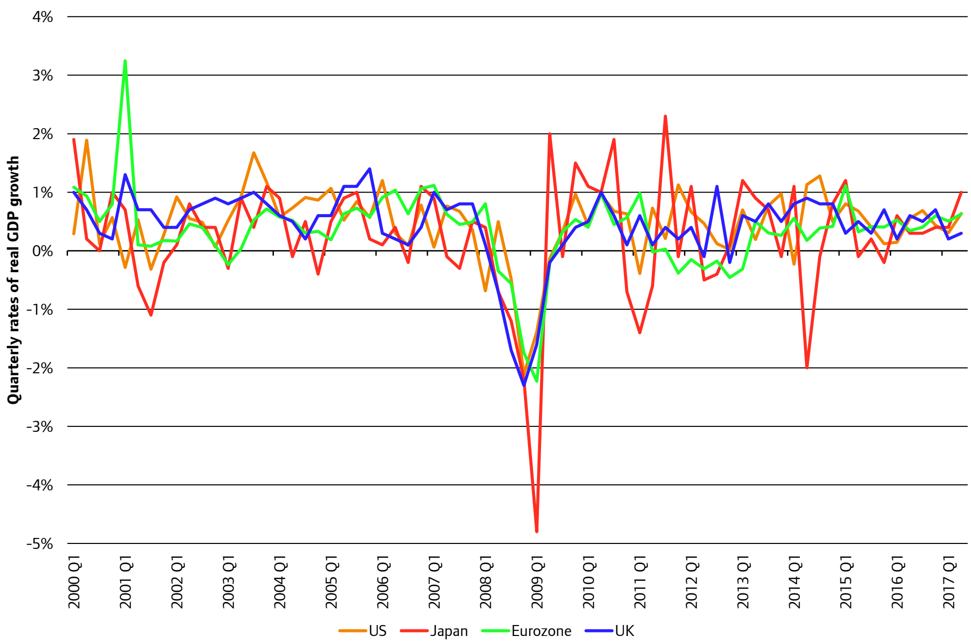
However, in more optimistic news, ONS data on the labour market showed several key UK indicators either hitting record lows (unemployment and inactivity) or highs (employment) in the second quarter of 2017. The ONS thus noted that "the UK unemployment rate fell to 4.4% in the 3 months to June 2017 – the lowest it has been since 1975" and "the inactivity rate fell to a new record low of 21.3%". They added that "the employment rate reached a new record high of 75.1%".

Economic growth picks up in a number of countries

The international economic environment was, however, quite upbeat at the end of July and into August with several countries publishing quite strong estimates of economic growth for the second quarter of 2017 (see Figure 2). For example, in the US, economic growth picked up in Q2 2017 to an annualised rate of 3.0 per cent (the equivalent of 0.7 per cent on a quarterly basis), compared to an annualised growth rate of 1.2 per cent seen in Q1 2017. Although this increase was strongly driven by consumer spending, real wage growth in the US remains sluggish meaning that there are concerns that this impetus may weaken in coming quarters. However, other countries also showed continued growth with the Japanese economy growing by an annualised rate of 4.0 per cent in the three months to June (the equivalent of 1 per cent on a quarterly basis). This was higher than market expectations and the sixth consecutive quarter of economic growth – Japan's longest unbroken growth period in a decade.

Figure 2: GDP quarter on quarter growth rates in selected countries, 2000 Q1 to 2017 Q2

Source: OECD



The economic news coming out of the Eurozone has also been more positive of late. For instance, the Spanish economy grew 0.9 per cent in Q2 2017 which means that it is now back to the size it was prior to the credit crunch. Similarly, although slowing slightly, Germany saw continuing growth of 0.6 per cent in Q2 2017, down slightly from the 0.7 per cent seen in Q1 2017. Meanwhile, for the Eurozone as a whole, growth stood at 0.6 per cent in Q2 up slightly from the 0.5 per cent seen in Q1. Unemployment has also been falling in the Eurozone recently – though it remains at a relatively high level – with Eurostat figures showing it standing at 9.1 in July, its lowest level since February 2009.

Despite this generally robust picture, some warnings have however been raised for the global economy. Ken Rogoff, the IMF's former chief economist, observed in August that interest rate rises pose a risk to the world economy due to the global rise in personal and corporate debt. "If something was to happen that pushes interest rates up, we could see a lot of soft spots - places where there is high debt - start to unravel", he said. Also, a recent report by the IMF has warned that Chinese credit growth is on a "dangerous trajectory with increasing risks of a disruptive adjustment and/or a marked growth slowdown". They therefore argue that "decisive policy action is needed to deflate the credit boom smoothly".

London's labour market remains strong

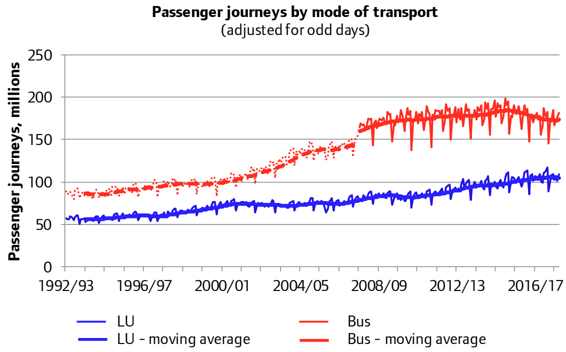
More locally in London ONS data for the three months to June showed that "the largest increase in the employment rate estimates compared with the previous period (January to March 2017) was for London and Scotland, both at 1.1 percentage points". This puts London's employment rate at 74.4 per cent the highest employment rate since the series began in 1992, and also an increase of 1.0 percentage points on the year. Meanwhile, London's ILO unemployment rate in the three months to June 2017 was 5.5 per cent. This was down 0.6 percentage points on the previous quarter and down 0.4 percentage points on the previous year.

The continued robustness of London's economy is also supported by wider survey evidence which shows continued growth in the capital. So, for instance, in terms of the commercial property market Knight Frank's Q2 2017 Central London Quarterly observed that "following last year's referendum, the consensus view in the Central London leasing market was effectively: demand will fall off but tight supply should act as a counter-balance". However, "one year later, the market has surprised us. Demand is unexceptional but critically it has not tanked". Adding that although office take-up has shown "hardly a spectacular performance, … it is far better than one would have imagined a year ago" and in terms of some of the more specialist markets "the tech firms and flexible office operators appear to have shrugged off Brexit, and show no signs of losing momentum". However, uncertainty around the Brexit process remains, with some upheavals happening such as the recent closing of bids to host the currently London based European Banking Authority and European Medicines Agency post Brexit. Still, the situation in the capital heading in to the final few months of the year remains somewhat stout for London's economy.

Economic indicators

Slight increase in 12-month moving average of passengers

- In the 28-day period between 25 June and 22 July, and adjusting for odd days, there were 290.4 million passenger journeys, up from 277.2 million last period. This consisted of 109 million Tube and 181.4 million bus journeys.
- The 12-month moving average rose slightly to 278.3 million total passenger journeys. The moving average in London Underground journeys remained at 105.1, while the moving average for bus passengers journeys rose to 173.3 million during the last period.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

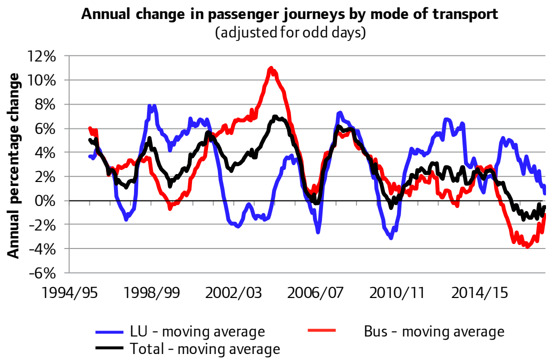


Source: Transport for London

Latest release: August 2017
Next release: September 2017

Moving average annual rate of growth in tube passenger journeys continues slowdown

- At 0.6 per cent, the moving average annual rate of growth in Tube passenger journeys was down on the previous period (1.2 per cent).
- The moving average annual rate of change was once again negative for bus journeys, down 1.2 per cent, but up from negative 1.6 per cent in the previous period.
- Overall, total passenger journeys fell 0.5 per cent on average, following a 0.5 per cent decline in the previous period also.

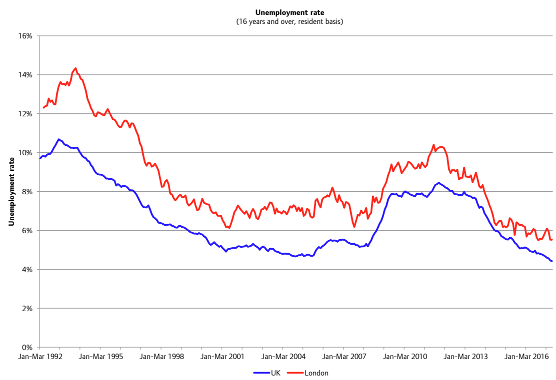


Source: Transport for London

Latest release: August 2017
Next release: September 2017

London's unemployment rate remains at historic low

- There were 272,000 unemployed people living in London and aged 16 years and over during the three months to June 2017. That was down from 297,000 reported during the three months to March 2017.
- Consequently, London's unemployment rate fell to 5.5 per cent – one of the lowest readings since data collection began in 1992.
- London's unemployment rate remains higher than the UK, which registered 4.4 per cent in the three months to June (down from 4.6 per cent in the three months to March).



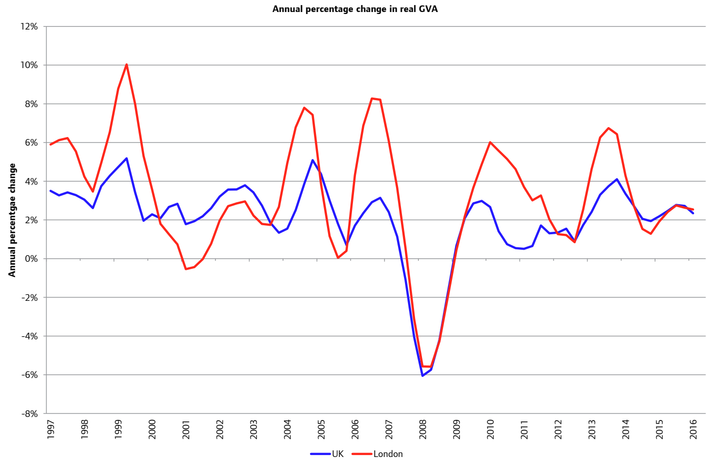
Source: ONS Labour Force Survey

Latest release: August 2017
Next release: September 2017

Annual output growth in London higher than the UK as a whole

- London's annual growth in output slowed marginally to 2.5 per cent in Q1 2017, from a downwardly revised 2.6 per cent in Q4 2016.
- Annual output growth in the UK decreased to 2.3 per cent in Q1 2017, from 2.7 in Q4 2016, meaning that London's output is now higher than for the UK as a whole for the first time since Q1 2015.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: July 2017
Next release: October 2017

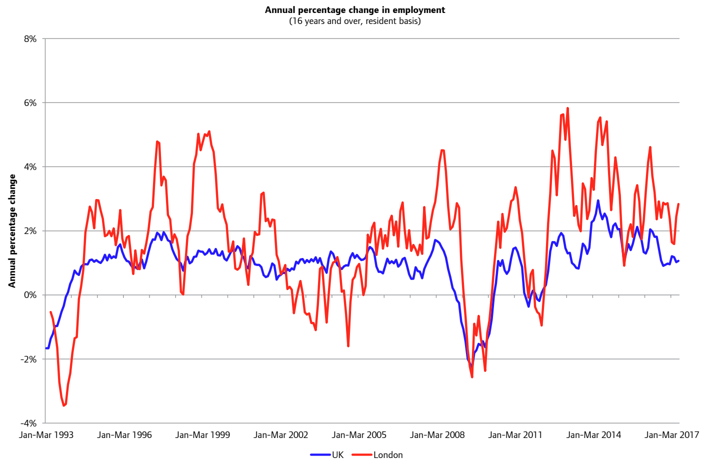


Source: GLA Economics and ONS

Employment growth in London gathers pace

- The number of London residents aged 16 years and over and who were in employment was 4.64 million during the three months to June 2017.
- The annual rate of growth has increased to 2.8 per cent, up from 2.1 per cent in the three months to March.
- The rate of employment growth in London remains faster than that for the UK as a whole (1.1 per cent).

Latest release: August 2017
Next release: September 2017

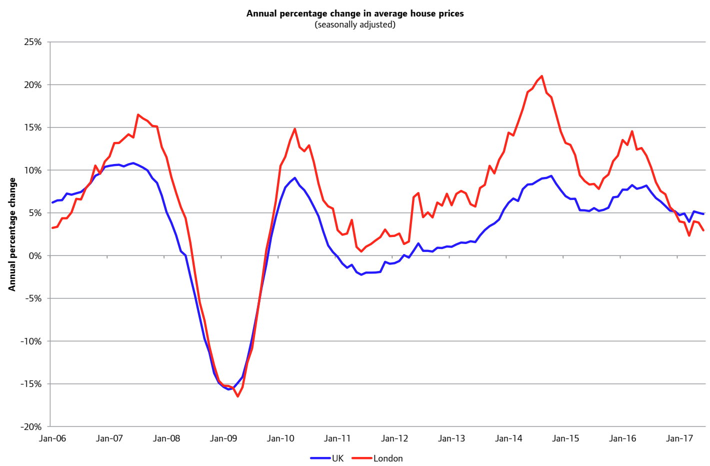


Source: Labour Force Survey - ONS

London house price growth slows further

- The average house price in London was £480,800 in June 2017. That was more than double the UK average of £220,600.
- London house prices grew just 3.0 per cent year-on-year, compared to 11.7 per cent in June 2016.
- The UK saw a stronger annual increase in house prices, with a rate of growth of 4.9 per cent in June 2017.

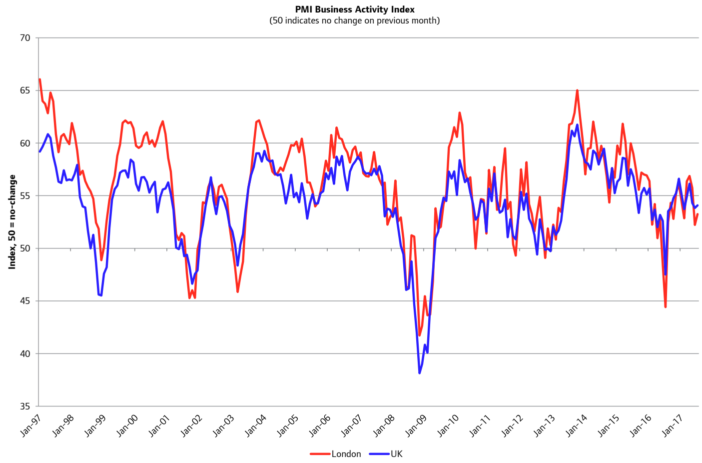
Latest release: August 2017
Next release: September 2017



Source: Land Registry and ONS

Business activity levels continue to rise

- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in that variable, while readings below indicate a decrease.
- At 53.2, the Business Activity Index suggested that London firms continued to experience a rise in output during July, and at a stronger rate than was reported in June (52.2).
- Output also increased at a stronger rate across the UK, with the index rising from 53.8 to 54.1.

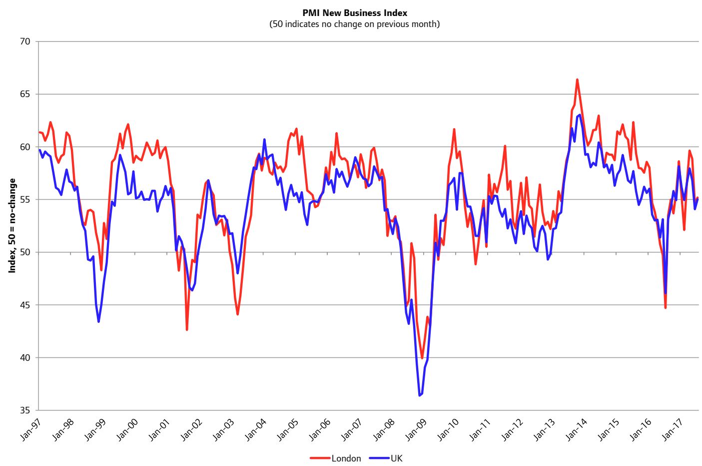


Source: IHS Markit

Latest release: August 2017
Next release: September 2017

Pace of new business growth picks up

- At 55.2 in July, up from 54.6 in June, the New Business Index pointed to a stronger rise in new orders.
- Similar trends were observed for the UK, where the index pointed to a solid increase in new business (55.0 in July).
- An index reading above 50.0 indicates an increase in new orders from the previous month.

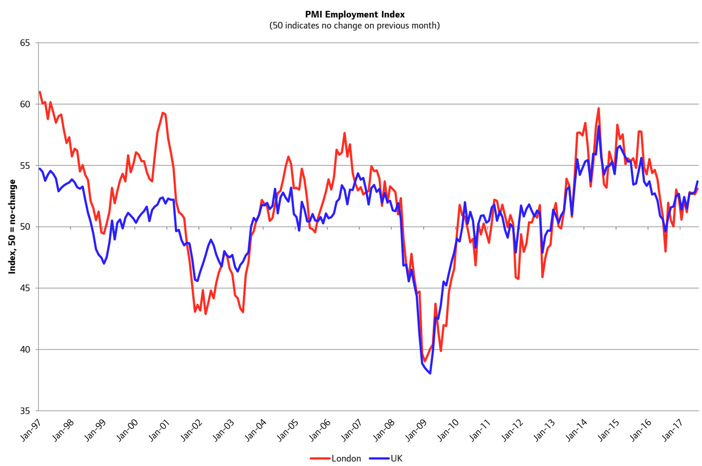


Source: IHS Markit

Latest release: August 2017
Next release: September 2017

PMI signals fastest rise in employment in 15 months

- The PMI Employment Index shows the monthly change in employment at private sector firms. Readings above 50.0 suggests and increase, whereas a reading below indicates a decrease in employment from the previous month.
- At 53.1, London firms reported an increase in employment for the ninth consecutive month in July. Moreover, up from 52.7 in June, the rate of job creation was the fastest since April 2016.
- The rate of employment growth also strengthened across the UK as a whole, reaching its fastest pace in one-and-a-half years (53.7).



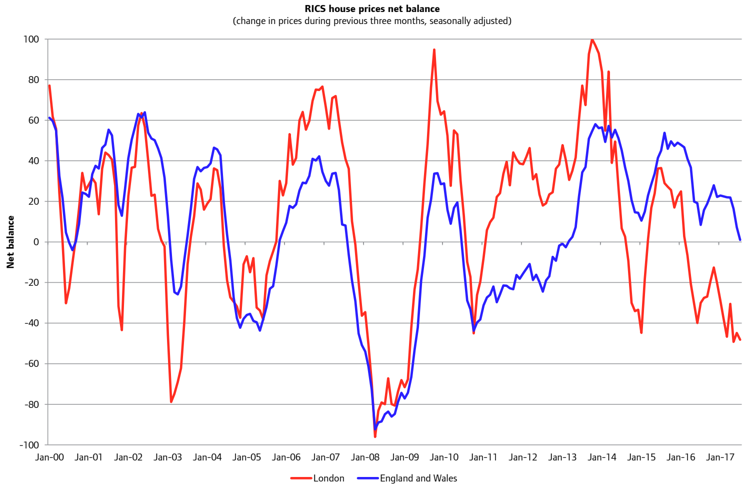
Source: IHS Markit

Latest release: August 2017
Next release: September 2017

Surveyors report London house prices continue to fall

- Most property surveyors reported that London's house prices continued to fall in the three months to July 2017.
- The net balance (-48) was only marginally better than the eight-year low recorded in May (-49).
- In contrast, most surveyors reported that house prices across England and Wales increased, though the net balance of +1 was the lowest since March 2013.

Latest release: August 2017
Next release: September 2017

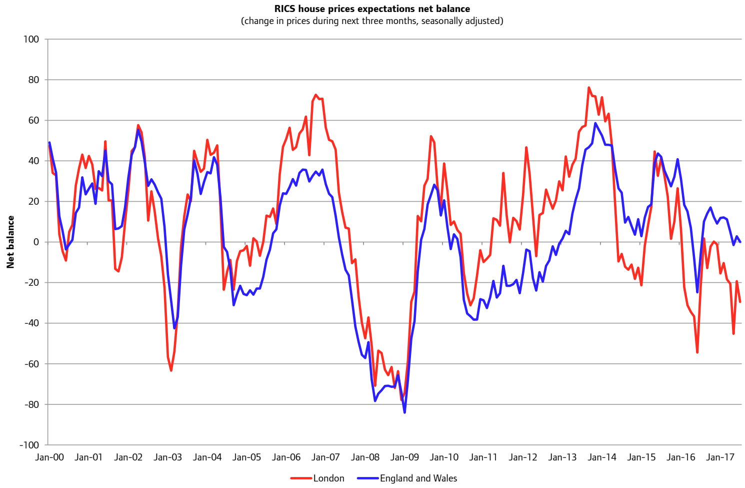


Source: Royal Institution of Chartered Surveyors

Sentiment on London house prices remains negative

- House price expectations for London remained negative in July 2017. At -30, down from -19 in June, it was the second-lowest in 13 months.
- Meanwhile, property surveyors on average, expect no change in house prices across England and Wales, reporting a score of 0.
- London, the South East, East Anglia and the North were the only regions to report negative house price expectations in July.

Latest release: August 2017
Next release: September 2017

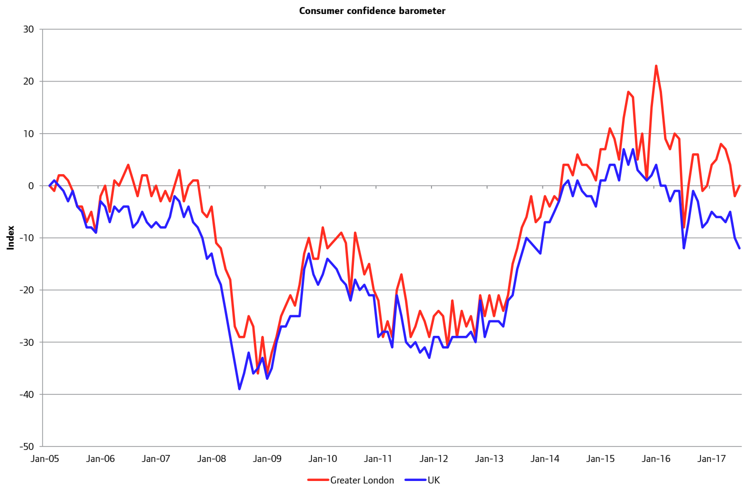


Source: Royal Institution of Chartered Surveyors

Londoners are neutral over their economic futures

- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- In July 2017, consumers in London were neither pessimistic or optimistic about the future as signalled by the consumer confidence index registering at 0.
- In contrast, consumers had negative expectations across the UK as a whole. At -12, the index was the most negative since July 2016.

Latest release: July 2017
Next release: August 2017



Source: GfK NOP on behalf of the European Commission

Updated long-run employment projections for London

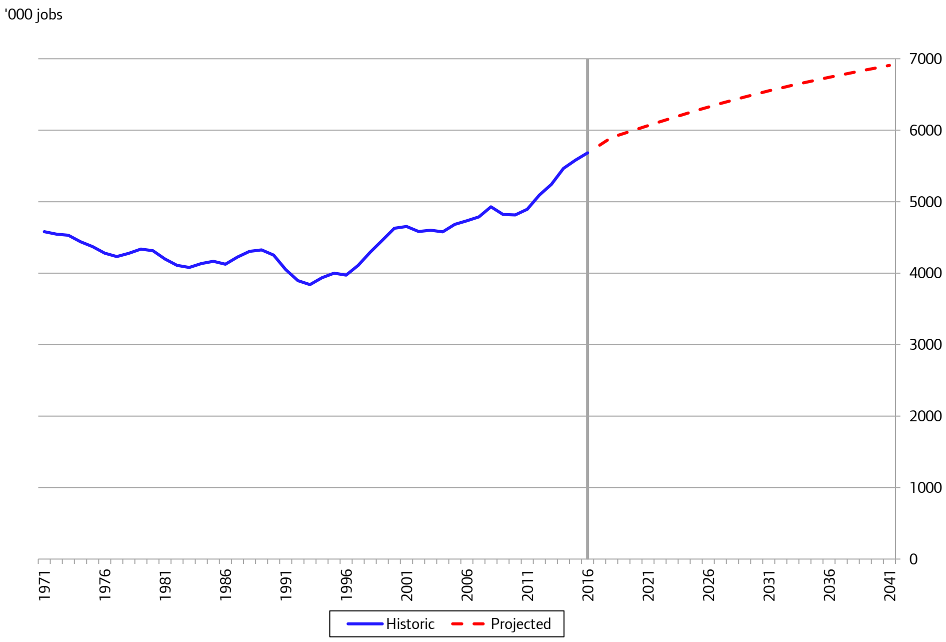
By **Mike Hope,**
Economist

In August GLA Economics published its latest employment projections for London. The projections use updated employment and GVA data to project the number of jobs in London broken down by sector and at the borough level.

The central projection estimates that jobs in London will grow from 2016 at an annual average rate of 0.78 per cent a year, equivalent to 49,000 jobs, to reach 6.907 million in 2041 (see Figure A1).

Figure A1: Historic and projected employment in London (thousands), 1971-2041

Source: GLA Economics



Similarly to the last set of projections, jobs in the professional, real estate, scientific and technical sector is expected to grow strongly, accounting for over a third of the total increase expected in London to 2041. Jobs in this sector include management consultancy, accounting, legal, real estate, advertising and architecture amongst other areas. Strong employment growth is also expected in the administrative and support services (temporary employees, cleaning, office administration and private security for example), accommodation and food services (hotels and restaurants for example), information and communication sectors (computer programming and consultancy, film and TV, publishing and telecommunications for example), education and health sectors. The six sectors account for nearly three fifths of the expected total London increase in jobs to 2041.

The borough projections take into consideration trends in jobs growth, and expected employment site developments. Boroughs with areas within the Central Activities Zone (CAZ)[1] account for 35 per cent of the annual projected growth in jobs, or 16,900 jobs per year. The annual growth rate in jobs, however, is almost identical with that for London as a whole at 0.77 per cent a year. It is differences between boroughs which is more pronounced whether for those with an area in the CAZ, or for all boroughs in London. For example, in central London Kensington and Chelsea is one of the London boroughs with relatively low growth in jobs (both in terms of absolute numbers and growth rate), while Tower Hamlets has the strongest growth in absolute terms of all London boroughs. Still the employment projections estimate that there will be jobs growth in all boroughs.

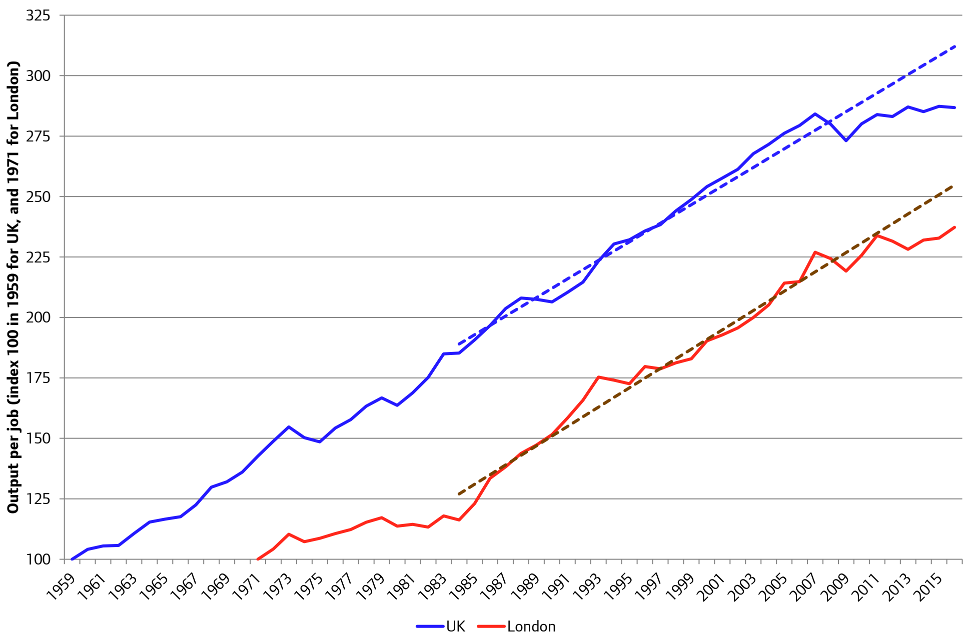
As with previous iterations, the methodology used to produce the projections relies on historic productivity (output divided by employment). However, recently, productivity growth has significantly diverted from trend.

In the five years since 2011 alone, employment has grown by 16.1 per cent, which equates to an annual average growth rate of 3.0 per cent or 158,000 jobs per year. This contrasts starkly to a total growth of 6.9 per cent, or an annual average growth rate of 0.2 per cent or 7,900 jobs per year, over the 40-year history from 1971 to 2011. At the same time, however, in the five years since 2011 output in London has grown by an average annual rate of 3.0 per cent, which compares to the estimated 2.3 per cent per annum experienced between 1971 and 2011.

As a result of the exceptionally strong jobs growth compared to output growth, London (and the UK as a whole) has seen productivity growth stall. This is shown in Figure A2 which looks at productivity in London and the UK over the long run and over a number of economic cycles. The recent trend in productivity has been puzzling many respected organisations and economists with much research going into understanding the factors that may lie behind the puzzle.

Figure A2: Productivity in London and the UK over the long run

Source: ONS and GLA Economics



1 The CAZ covers portions of the London boroughs of Camden, Hackney, Islington, Kensington and Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth, and Westminster, as well as the total area of the City of London

In response to the persistence of the recent productivity trend the Office for Budget Responsibility (OBR) has been revising downwards its GDP growth forecasts for the rest of this decade to an average of 2.1 per cent a year, and 2.0 per cent in 2021. This is consistent with what the OBR estimates for the UK's long-term output potential. GLA Economics forecasts in the medium term average London GVA growth of around 2.5 per cent a year to 2018, consistent with the historic trend for growth of the London economy to be faster than the national trend. These projections take output growth after 2018 as declining at an exponential rate towards 2.0 per cent. As with the OBR this is a lower output growth rate than previous projections.

It should be noted that the implications of different productivity trends on GLA Economics' employment projections are considered in the paper. This is done by considering a number of alternative employment projection scenarios, as well as an alternative methodology. Whilst these scenarios provide a means of sensitivity testing the central scenario, GLA Economics will continue to monitor the situation and review its methodology in the light of available information.

For more information on the latest set of employment projections please see: Historic jobs data and the projections are on London Datastore; while this report and other GLA Economics' publications can be found on our publications page.

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.

ILO unemployment
The International Labour Organization (ILO) measure of unemployment assesses the number of jobless people who want to work, are available to work and are actively seeking employment.

Residence-based employment
Employment measures the number of people in work rather than the total number of jobs (as people may have more than one job). It consists of employees, self-employed as well as unpaid family workers and those on government supported training and employment programmes. The measure included here is residence-based.

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 2017/18 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2017.

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 2017/18 there are twelve 28-day periods, and one 29-day period. Period 1 started on 1 April 2017.

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

GLA Economics
City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922
Fax 020 7983 4674
Email glaeconomics@london.gov.uk
Internet www.london.gov.uk

ISSN 1740-9136 (print) ISSN 1740-9195 (online) ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

Subscribe
Subscribe online at https://www.london.gov.uk/what-we-do/research-and-analysis/join-our-mailing-list-research-and-analysis

Disclaimer
GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

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.

MAYOR OF LONDON