

# London's Economy Today

Issue 82 | June 2009

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## Pound rises slightly on the back of initial recovery hopes

By **Gordon Douglass**, Economist

The pound has rebounded against the dollar by around 20 per cent since its recent low of below \$1.40 in January 2009, with gains of around 10 per cent seen since the beginning of May (see Figure 1). The recovery reflects a more optimistic view of the UK economy by currency traders as well as a belief that the global economy is likely to pick up by the end of the year which has encouraged a move out of the traditional safe haven US dollar. Sterling has also recently strengthened against the Euro but still remains significantly below the levels seen in 2007 and there remain concerns about the UK economy, such as the size of future government debt.

## Latest news...



### ● Economic impact on the London and UK economy of an earned regularisation of irregular migrants to the UK

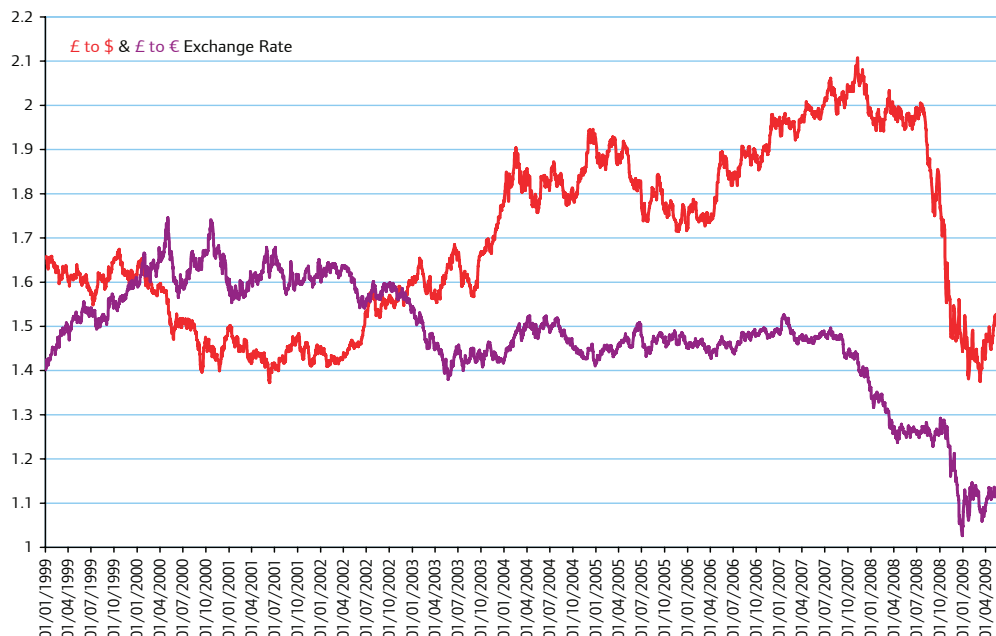
In 2007, the UK provided a home to an estimated 618,000 irregular migrants – of these 442,000 live in London. GLA Economics commissioned the London School of Economics to research the potential economic impact of allowing those with an irregular status to become regularised based on two criteria – residency in the UK of at least 5 years and no serious criminal record.

Visit [www.london.gov.uk/mayor/economic\\_unit](http://www.london.gov.uk/mayor/economic_unit) to download this publication.

**Figure 1: £ to \$ and £ to € exchange rates**

Last data point is  
24/06/09

Source: EcoWin



## Financial sector restructuring continues

The Bank of England announced on 8 June that it would extend its asset purchase facility to enable the purchase of high quality short-term debt from companies. It is hoped that the move will aid in the unfreezing of the credit market, which has seen companies struggle to raise finance. The CBI's latest Access to Finance Survey also showed that the financial market continued to be constrained with access to financing remaining a serious concern for businesses. However the decline in credit conditions was found to have continued to slow over the past three months, with the situation expected to stabilise in the coming months. Ian McCafferty, CBI Chief Economic Adviser, observed that "credit availability is still a concern, but the severity of the situation is easing compared with a few months ago. Big companies who were encountering serious problems getting credit at the start of the year are still finding it difficult, but they expect that the supply of existing credit will get slightly easier over the next few months".

The West Bromwich Building Society announced that it had reached an agreement to convert £182.5 million of debt into capital on 12 June, a semi demutualization of the society. This should help it in its restructuring following the announcement of a pre tax loss of £48.8 million. Meanwhile in further signs of the continuing restructuring of the banking industry Lloyds banking group announced on 9 June that it would be closing all Cheltenham and Gloucester branches and reorganising its loan and mortgage arms with a combined loss of about 1600 jobs. Lloyds will also repay £2.3 billion in bailout funds following the sale of shares in a rights issue, whilst on 17 June 10 US banks started to repay their government loans with \$68 billion of the \$700 billion in bail-out money repaid. It was also announced on 17 June that the US government plans to significantly overhaul bank regulation with a proposal for the Federal Reserve to receive the power to oversee financial companies whose failure could endanger the banking system including possibly large private equity and hedge fund groups. Big banks will also be required to put aside more capital to curb excessive risk taking, and an agency to protect consumer interests and regulate mortgage and credit cards will be set up.

## GM enters chapter 11 bankruptcy protection

The restructuring of the global car industry continued with General Motors (GM) entering bankruptcy protection on 1 June, making it the biggest failure of an industrial company in US history. The US government is expected to take a 60 per cent stake in the restructured company as well as providing it with another \$30 billion. Meanwhile, Chrysler and Fiat completed their strategic partnership on 10 June, which will see Fiat taking a 20 per cent stake in the restructured company (which could expand to 35 per cent if certain targets are met) when it leaves bankruptcy protection.

## Oil prices have jumped again

Oil prices have recently risen sharply on the back of hopes for a global recovery and on the weakening of the dollar (see Figure 2). Oil prices have doubled since their recent low in December 2008 to around \$70 per barrel. Concerns have been raised that the rise in the oil price may hinder any recovery in the world's economy, with Michael Lewis, head of commodities research at Deutsche Bank in London saying "rising commodities prices are a tax on consumers just when income growth and employment is weak". In a sign of the severity of the recent global economic downturn research published by BP showed that global oil consumption declined by 0.6 per cent in 2008, the first decline since 1993 and the biggest drop since 1982.

**Figure 2: Brent crude oil price (US \$ per barrel)**  
Last data point is 24/06/09

Source: FT



## London remains the most attractive city for inward investment in Europe

Ernst & Young published their 7th annual Country Attractiveness Survey on 4 June and found that "the UK retained its position as the most attractive destination for inward investment in Europe in 2008". It was also discovered that London "retained its position as the most attractive city for inward investment in Europe in 2008 for the 7th year in a row" with it securing 262 projects. However, it was noted that the economic downturn led to a 14 per cent decline in investment compared to 2007, which ended a period of growth seen over the previous four years. When compared "to its closest European city rivals, the capital received a relatively high number of projects, with Paris coming in second with 222 projects and Madrid third on 80".

## **Commercial property market in the City remains weak**

The City Agents Quarterly Office Demand Survey found that in Q1 2009 “the amount of available space continued to rise in the City”. However “indicators in the city office market suggest that the sharp falls in enquiries, deals and rents recorded in the final quarter of 2008 have subsided, and the situation stabilised at these lower levels in the first quarter of this year”. The Money into Property report from the consultancy DTZ found that although rents in the City are expected to fall by a further 14 per cent over the next two years, after already falling by 31 per cent since the peak in 2007, the prime City of London office market was the only real estate hub in the world that currently offers attractive returns. It also expected that the West End will see rent falls of 20 per cent in the next two years after already falling by 23 per cent since the 2007 peak.

## **Evidence of the recession moderating**

A number of economic statistics released in June have indicated an easing in the economic woe compared to that seen at the turn of the New Year. The UK Business Confidence Monitor Report for Q2 2009 for the Institute of Chartered Accountants in England and Wales (ICAEW), undertaken during the period 28 January to 7 May 2009, found confidence in the UK economy “stands at its highest level since the collapse of Lehman Brothers in September 2008” and that “there are signs that the freeze in the financial markets is starting to thaw”. For London it found the confidence index “remains in negative territory and below the national average, as well as below the levels seen before the Lehman Brothers collapse in September 2008”. However, most other economic surveys and indicators suggest that the London economy is still performing better than the rest of the UK. UK manufacturing has very recently faced an improving situation. However, with the unemployment rate continuing to rise in both the UK and London and with declining retail sales in May it is far too early to claim that all economic data shows the start of an economic recovery like some in the media have suggested. Even when the London and UK economies do officially exit recession the recoveries are likely to be bumpy and slow, with unemployment rising for some time afterwards. Private sector balance sheets need to be strengthened, Government finances are in a parlous state, banks’ ability to finance a sustained recovery remains impaired by low levels of equity capital and at some point the huge monetary stimulus that has been injected into the UK economy will have to be withdrawn. Tough times therefore still lie ahead in line with GLA Economics’ latest London forecast as published in London’s Economic Outlook: Spring 2009.

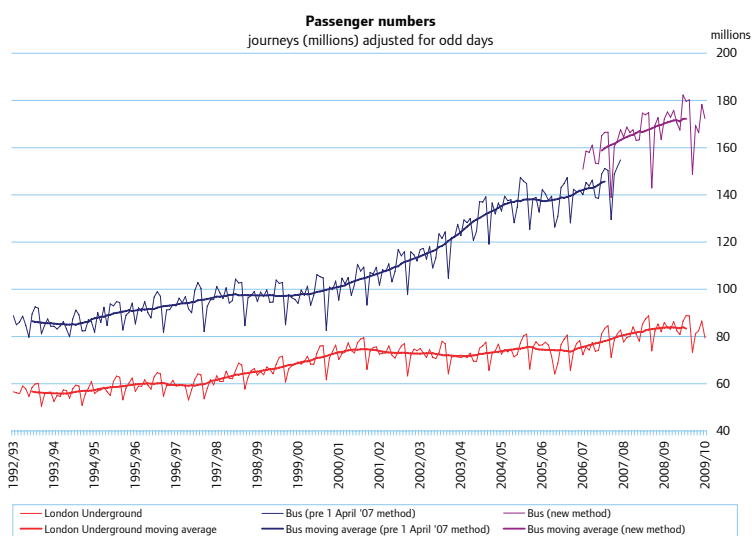
# Economic indicators

## Decrease in moving average of passenger numbers

- The most recent 32-day period is from 1 April 2009 to 2 May 2009. Adjusted for odd days, London's Underground and buses had 251.7 million passenger journeys; 172.4 million by bus and 79.4 million by Underground.
- The moving average of passengers every period decreased to 255.6 million from an upwardly revised 256.1 million in the previous period. The moving average for buses was 172.2 million. The moving average for the Underground was 83.3 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: June 2009

Next release: July 2009

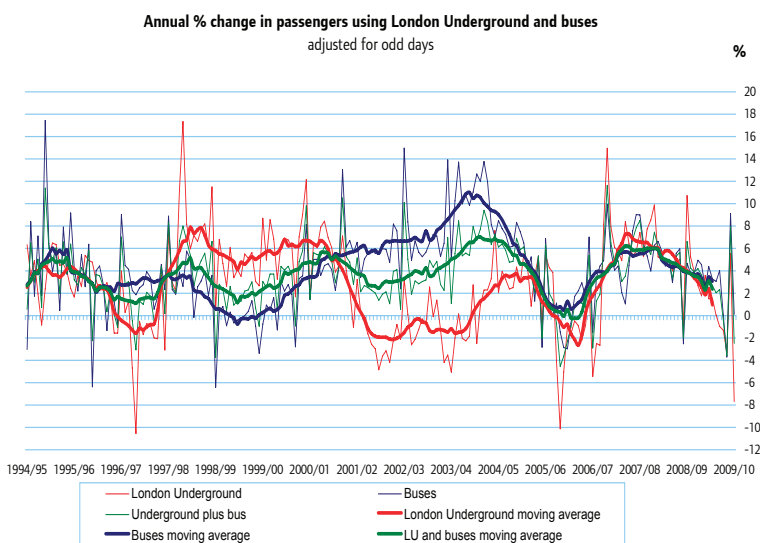


## Decrease in average annual growth rate of passengers

- The moving average annual rate of growth in passenger journeys decreased to 2.4% from an upwardly revised 3.1% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers decreased to 3.1% from 3.4% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 1.0% from an upwardly revised 2.4% in the previous period.

Latest release: June 2009

Next release: July 2009

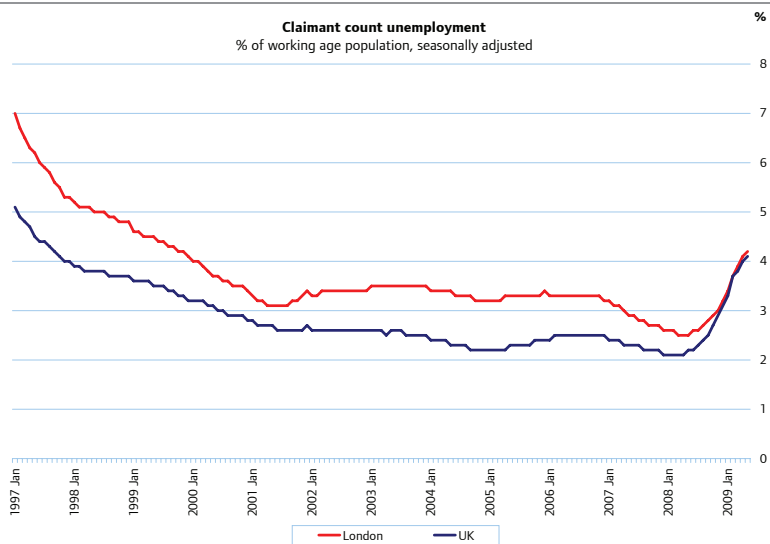


## Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in May 2009.
- There were 211,500 seasonally adjusted unemployment claimants in London in May 2009 compared with 205,400 in April.
- There were 1,544,800 seasonally adjusted unemployment claimants in the UK in May 2009 compared with 1,505,500 in April.

Latest release: June 2009

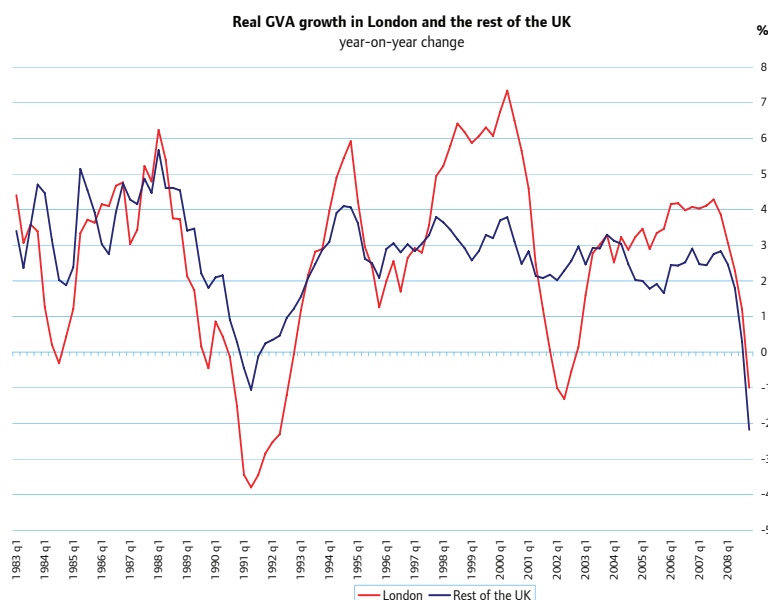
Next release: July 2009



## Annual output growth less negative in London than in the rest of the UK

- London's annual growth in output decreased to -1.0% in Q4 2008 from a downwardly revised 1.2% in Q3 2008.
- In the rest of the UK, annual growth in output decreased to -2.2% in Q4 2008 from an upwardly revised 0.3% in Q3 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

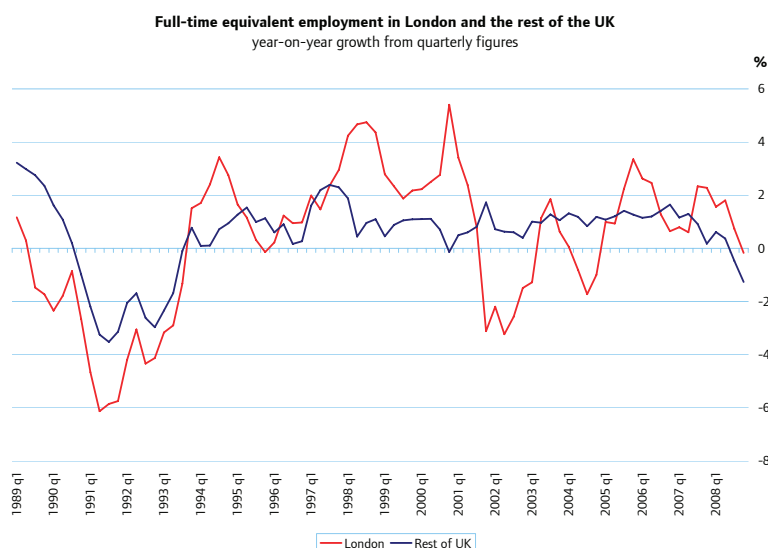
Latest release: May 2009  
Next release: August 2009



## London's annual employment growth less negative in London than in the rest of the UK

- London's annual employment growth decreased to -0.2% in Q4 2008 from a downwardly revised 0.7% in Q3 2008.
- Annual employment growth in the rest of the UK decreased to -1.3% in Q4 2008 from a downwardly revised -0.5% in Q3 2008.
- There have been revisions to previous growth rates to reflect the availability of new data.

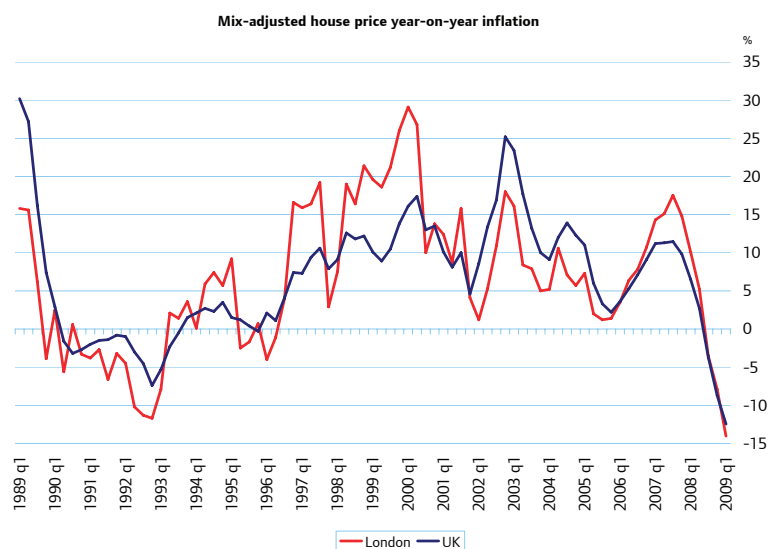
Latest release: May 2009  
Next release: August 2009



## Falling house prices

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q1 2009.
- The DCLG reported a fall in annual house prices in both London and the UK in Q1 2009.
- Annual house price inflation in London decreased to -14.0% in Q1 2009 from -7.9% in Q4 2008. Annual house price inflation in the UK decreased to -12.5% in Q1 2009 from -8.7% in Q4 2008.

Latest release: May 2009  
Next release: August 2009

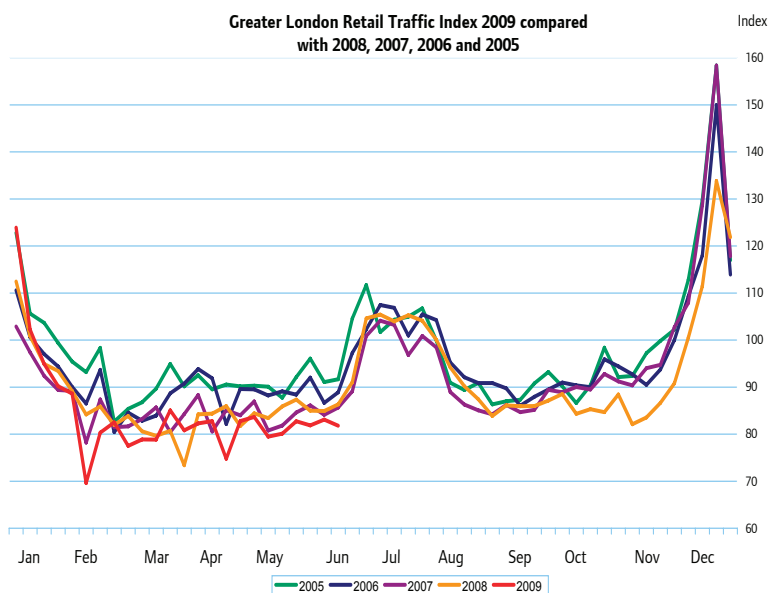


## Synovate Retail Traffic Index below 2008 levels

- The Synovate Retail Traffic Index of shoppers in London was 81.8 in the first full week of June compared to 83.1 in the previous week.
- The index has been below 2008 levels for the majority of 2009.
- Synovate's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-June 2009

Next release: Weekly



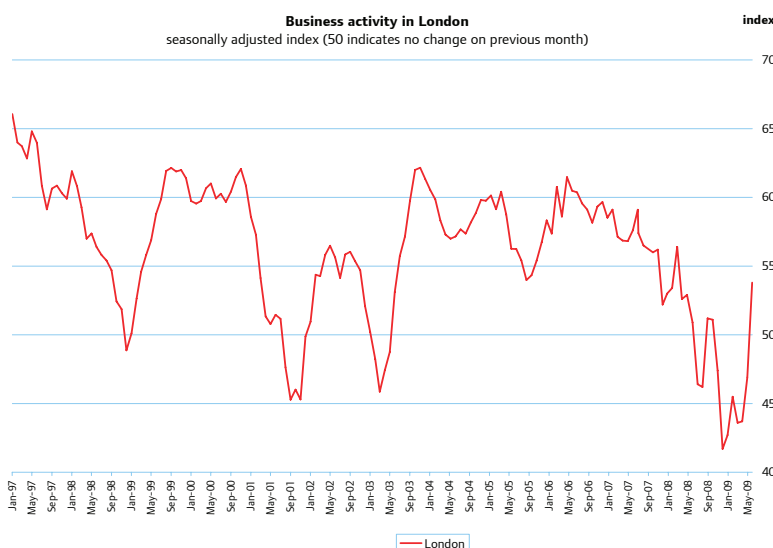
Source: Synovate

## London's business activity increases

- London firms increased their output of goods and services in May 2009.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.8 in May compared to 46.9 in April.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: June 2009

Next release: July 2009



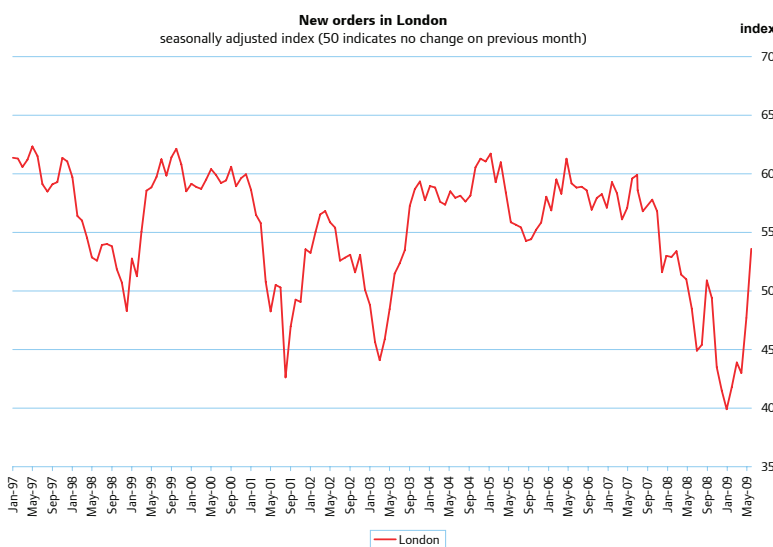
Source: RBS/Markit Economics

## New orders in London rises

- May 2009 saw a rise in new orders for London firms.
- The PMI for new orders recorded 53.6 in May compared to 47.7 in April.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: June 2009

Next release: July 2009



Source: RBS/Markit Economics

## London employment remains weak

- The PMI shows that the level of employment in London firms decreased in May 2009.
- The PMI for the level of employment was 43.7 in May compared to 40.4 in April.
- A rate of below 50 on the index indicates a decrease in the level of employment from the previous month.

Latest release: June 2009  
Next release: July 2009

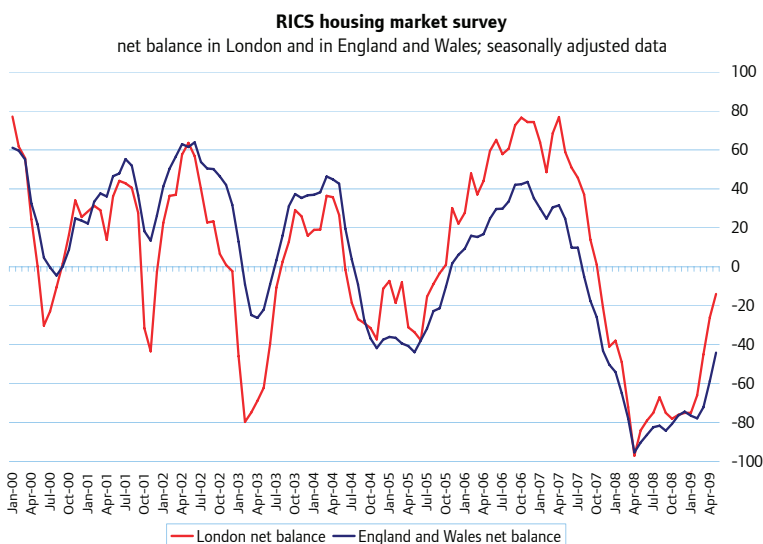


Source: RBS/Markit Economics

## Surveyors report that house prices are falling in London and in England and Wales

- The RICS survey shows a negative net balance of -14 for London house prices over the past three months to May 2009. This net balance is up from -26 in April 2009.
- Surveyors reported a negative net house price balance for England and Wales of -44 over the past three months to May 2009, up from -59 in April 2009.
- London's net house price balance is above that of England and Wales.

Latest release: June 2009  
Next release: July 2009

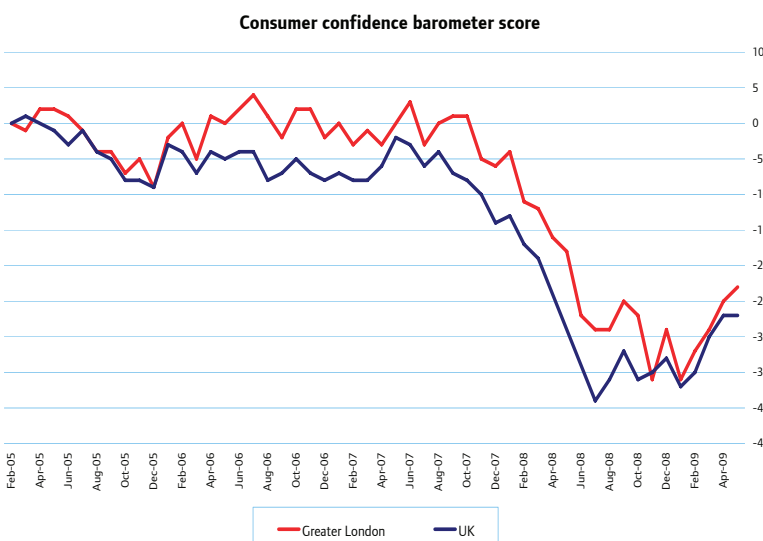


Source: Royal Institution of Chartered Surveyors

## Consumer confidence less negative 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 increased to -23 in May from -25 in April.
- For the UK the consumer confidence score was unchanged at -27 in May.

Latest release: May 2009  
Next release: June 2009



Source: GfK NOP on behalf of the European Commission



## 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>GDP/GVA growth</b>	Experian Business Strategies on 020 7630 5959
<b>Tourism – overseas visitors</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
<b>Tourism – domestic visitors</b>	<a href="http://www.visitlondon.com">www.visitlondon.com</a>
<b>London airports</b>	<a href="http://www.caa.co.uk">www.caa.co.uk</a>
<b>Business activity</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<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.

### 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 2009/10 there are eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April.

### 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 2009/10 there are eleven 28-day periods, one 25-day period and one 32-day period. Period 1 started on 1 April.

## Acronyms

<b>ABI</b>	Annual Business Inquiry	<b>GVA</b>	Gross value added
<b>BAA</b>	British Airports Authority	<b>ILO</b>	International Labour Organisation
<b>BCC</b>	British Chamber of Commerce	<b>IMF</b>	International Monetary Fund
<b>BITOA</b>	British Incoming Tour Operators Association	<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>DCLG</b>	Department for Communities and Local Government	<b>ONS</b>	Office for National Statistics
<b>EBS</b>	Experian Business Strategies	<b>PMI</b>	Purchasing Managers' Index
<b>GDP</b>	Gross domestic product	<b>PWC</b>	PricewaterhouseCoopers
		<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.

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