

London's Economic Outlook: Spring 2011
The GLA's medium-term planning projections



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1. Executive summary

GLA Economics' eighteenth London forecastⁱ suggests that:

- London's Gross Value Added (GVA) growth rate should be 2.0 per cent in 2011. Growth should increase to 2.6 per cent in 2012 and 2.9 per cent in 2013.
- London is likely to see a rise in employment in 2011, 2012 and 2013.
- London household income and spending will both probably increase over the forecast period.

Table 1.1 summarises this report's forecasts and provides an average of independent forecasts.

Table 1.1: Summary of forecasts

Annual growth rates (per cent)	2010	2011	2012	2013
London GVA (constant 2006 £ billion)	2.7	2.0	2.6	2.9
<i>Consensus (average of independent forecasts)</i>		2.3	2.7	2.8
London civilian workforce jobs	-0.3	0.1	0.7	0.8
<i>Consensus (average of independent forecasts)</i>		0.1	0.6	0.9
London household spending (constant 2006 £ billion)	2.9	1.9	2.4	3.0
<i>Consensus (average of independent forecasts)</i>		2.6	2.7	3.1
London household income (constant 2006 £ billion)	-1.4	1.5	2.4	3.1
<i>Memo: Projected UK RPIⁱⁱ (Inflation rate)</i>	4.6	4.1	2.9	2.9
<i>Projected UK CPIⁱⁱⁱ (Inflation rate)</i>	3.3	3.3	1.8	2.0

Sources: GLA Economics' Spring 2011 forecast and consensus calculated by GLA Economics.

The most recent available evidence indicates that the London economy continues its post recession expansion. Even during the recent recession it seems that London just outperformed the rest of the UK, which was unlike previous recessions. Recent economic indicators continue to show a recovery in the London economy, with positive public transport usage and business surveys showing activity picking up. However, consumer confidence remains extremely weak with real wage growth being squeezed by inflation and higher taxes dampening consumption. Employment growth is expected over the next few years with increases in private sector employment outweighing public sector job losses. Unemployment however is unlikely to come down quickly. The Government's fiscal retrenchment is likely to dampen economic growth slightly in the short run but will rebuild market confidence in the country's finances and will help to provide longer run stability. Fiscal tightening also puts downward pressure on market interest rates, which should encourage private sector investment.

A large downside risk to the recovery remains the fragile nature of many developed countries public finances and the possibility of a worsening sovereign debt/financial crisis in the Eurozone that would trigger a huge fall in investor confidence. Sovereign debt defaults or even restructures would put great pressure on the still strained balance sheets of many banks. Inflation is likely to remain above the Bank of England's 2 per cent target until 2012 due to the rise in VAT in January 2011, sterling's past depreciation and increasing commodity prices. There is a risk that at some point the Bank of England will have to raise interest rates sharply and quickly but still the most likely interest rate path is one of gradual increases towards more normal levels over the next couple of years. Sterling continues to remain weak and this should provide support to the economy from import substitution and improved export competitiveness. This will continue to benefit London's tourism sector and encourage inward foreign investment. Overall this recovery will be led by private sector investment and trade rather than by public sector and household consumption. This rebalancing of the economy is required but will not be an easy one for consumers.

2. Introduction

The spring 2011 edition of *London's Economic Outlook* (LEO) is GLA Economics' eighteenth London forecast. The forecasts are issued every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economies with analysis of important events, trends and risks to short and medium-term growth (Section 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Section 4). In this document, 'consensus forecast' refers to the average of the four independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Section 5).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. GLA Economics' forecast is based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)
- Experian Economics (EE)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely but these are not shown here. The low and high forecasts combine the lowest and highest forecasts respectively taken from each year separately and which, may therefore, come from different forecasters. High and low estimates therefore may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is most *likely* to happen, not what will *definitely* happen.

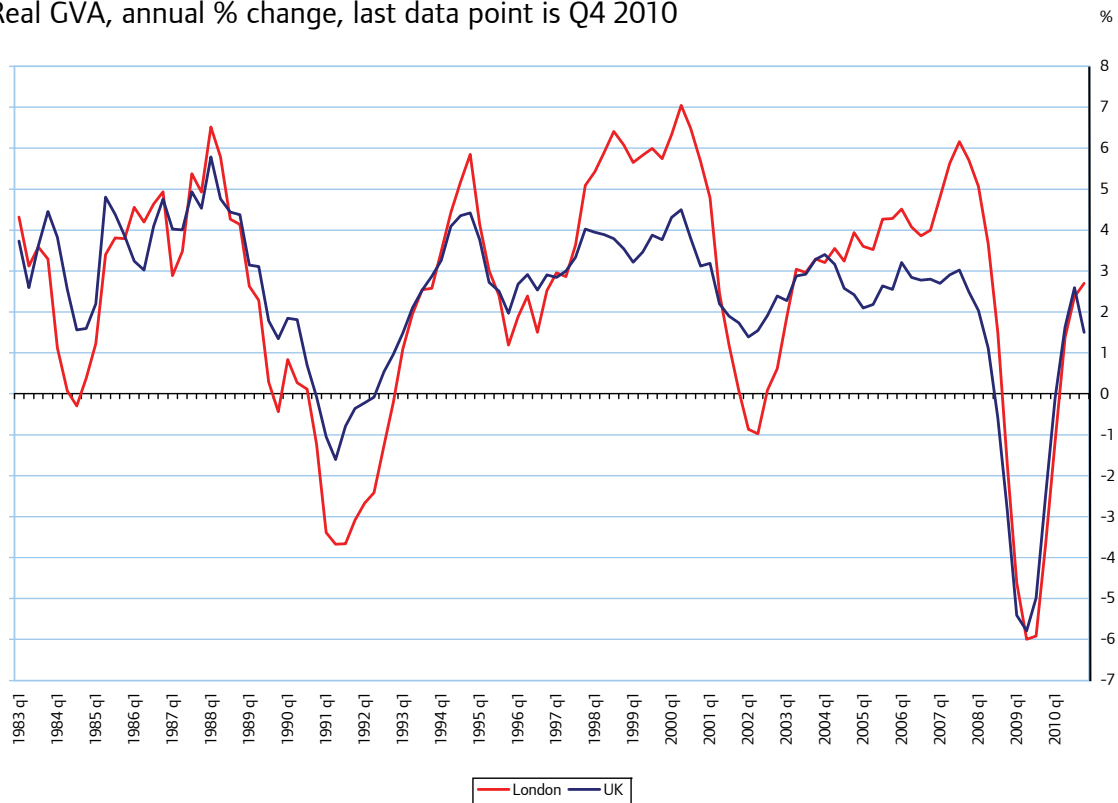
3. Economic background: Recovery faces a challenging few years

This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

London's annual growth in output increased to 2.7 per cent in the fourth quarter of 2010 compared to 1.5 per cent in the UK. London's economic recovery continued at the end of last year and indicators suggest that the London economy experienced growth at the beginning of 2011.

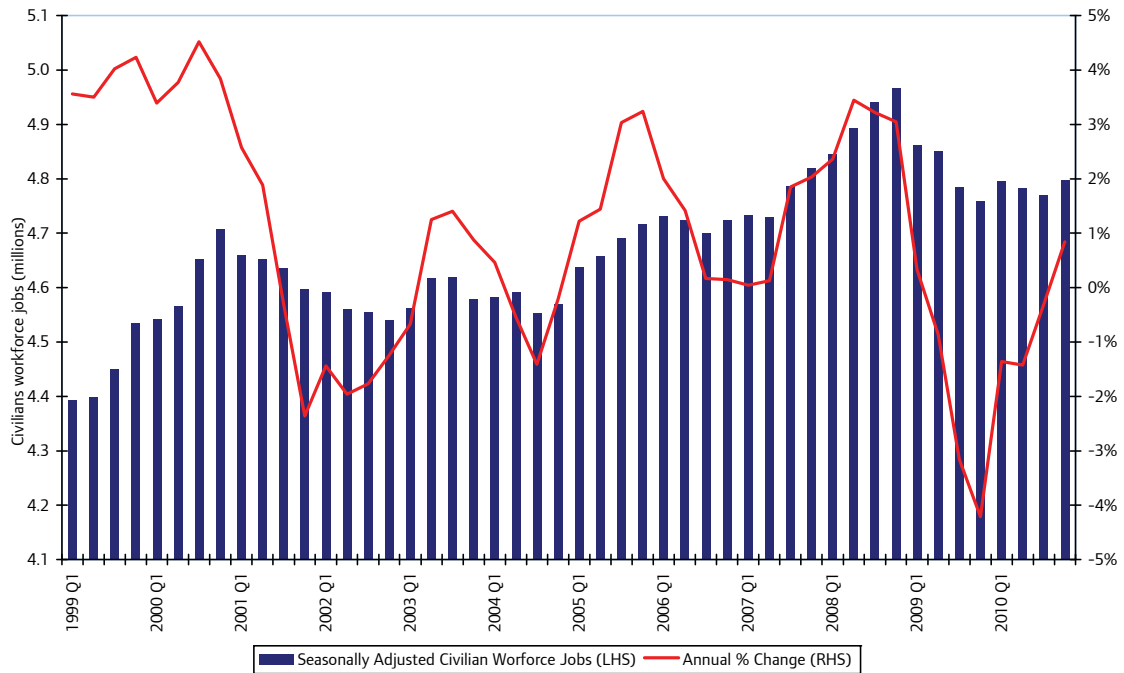
Figure 3.1: Output growth – London and UK
Real GVA, annual % change, last data point is Q4 2010



Source: Experian Economics

Annual employment growth in London turned positive in the fourth quarter of 2010 at 0.8 per cent. Employment growth had been negative since the second quarter of 2009 before Q4 2010. The total number of workforce jobs in London was nearly 4.8 million in Q4 2010 (see Figure 3.2).

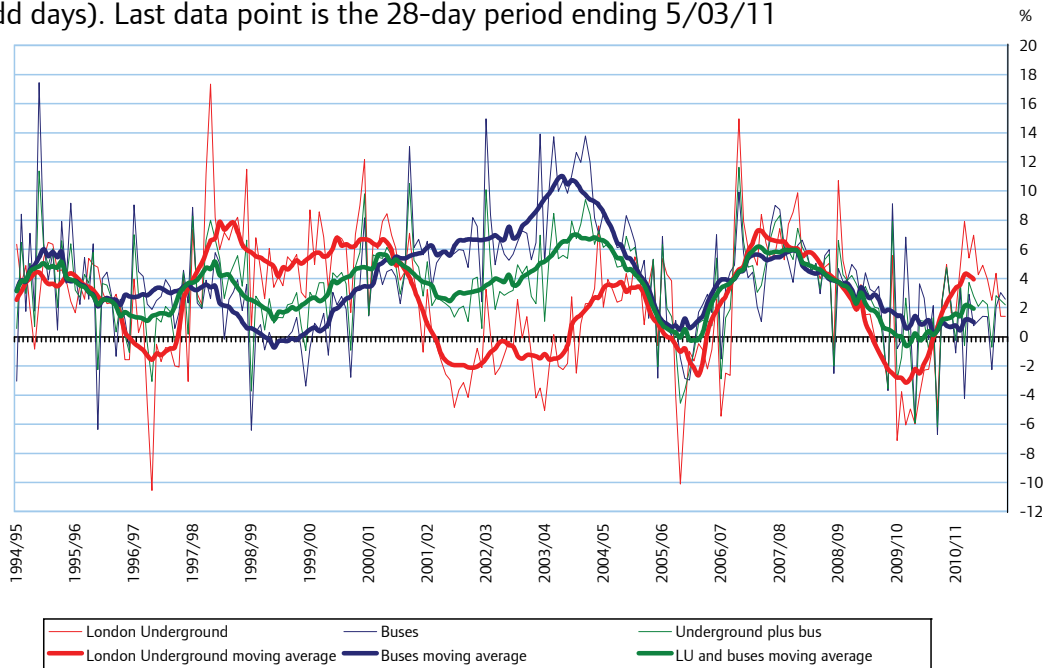
Figure 3.2: London civilian workforce jobs
Level and annual % change, last data point is Q4 2010



Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows that there is positive annual growth in both the moving average of bus travel and underground usage. Underground usage has picked up quite a bit since the end of the recession.

Figure 3.3: London public transport usage
Annual % change in passengers using London Underground and buses (adjusted for odd days). Last data point is the 28-day period ending 5/03/11

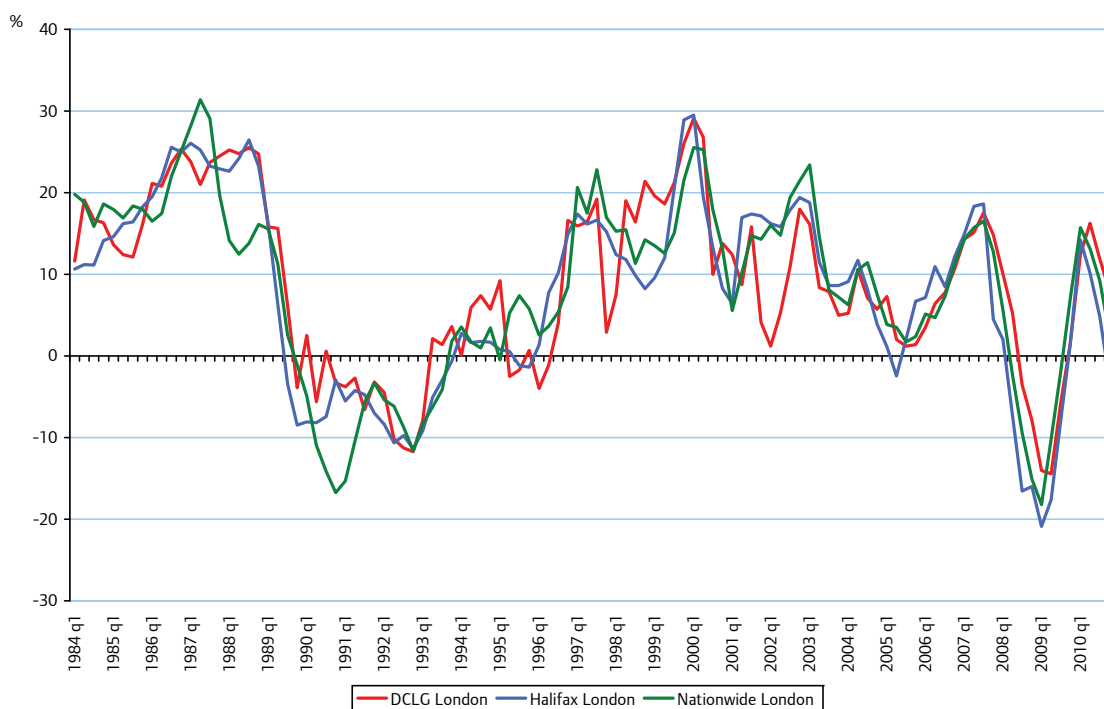


Source: Transport for London

Annual house price inflation slowed in the second half of 2007 and turned negative in 2008. However, in London the housing market made a recovery in the second half of 2009, which continued into the first half of 2010. Since then there has been a marked cooling in the London housing market though it has so far remained more robust than the overall UK housing market^{iv}. Annual house price inflation in London as measured by the Nationwide and the DCLG was still positive at the end of 2010, however as measured by the Halifax house price index it had again turned negative (see Figure 3.4).

Figure 3.4 House price inflation in London

Annual % change, last data point is Q4 2010



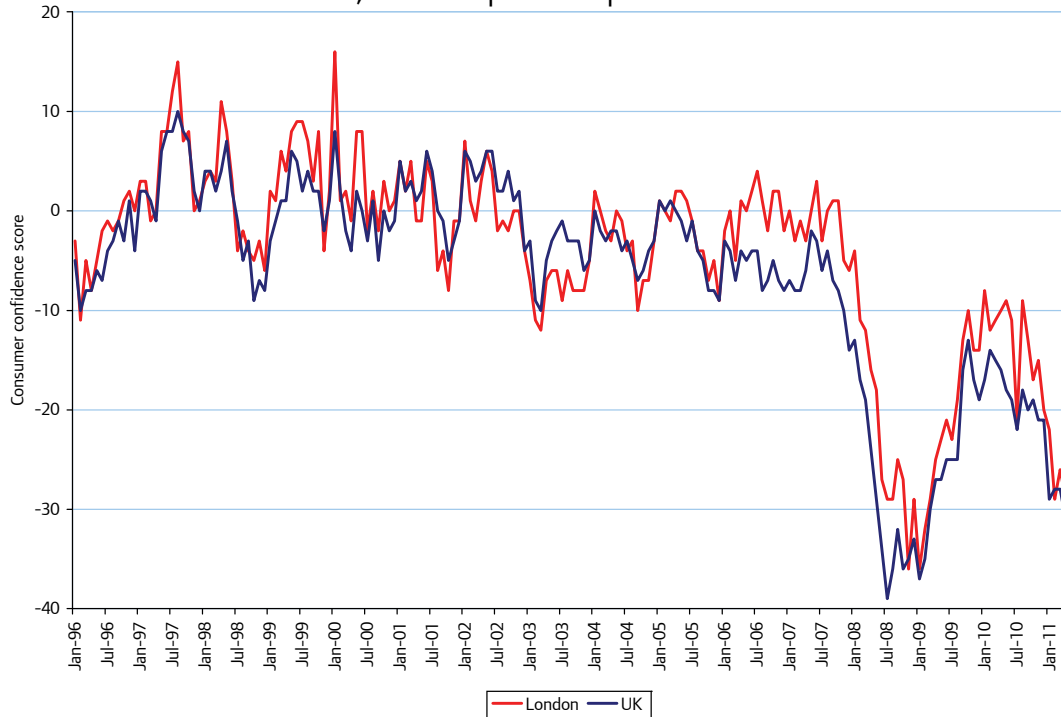
Sources: DCLG, Halifax house price index, Nationwide

Central London's commercial property market continued to recover at the end of 2010. Knight Frank's 'Central London Quarterly' showed that take-up levels in Central London rose "to 4.5m sq ft in the final quarter of 2010, the highest since mid-2007" due to "a resurgent financial sector (driving) strong leasing activity". The Central London investment market also "continued to gather strength as positive forecasts for the occupational market fuelled investors' appetite. Prime yields remained under pressure as supply failed to meet demand"^v.

GfK NOP's regional consumer confidence index (Figure 3.5) shows that consumer confidence has deteriorated in London since summer 2010 and is now at a similar level as the UK as a whole. The index 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.

Figure 3.5: GfK NOP's regional consumer confidence index

Consumer confidence score, last data point is April 2011



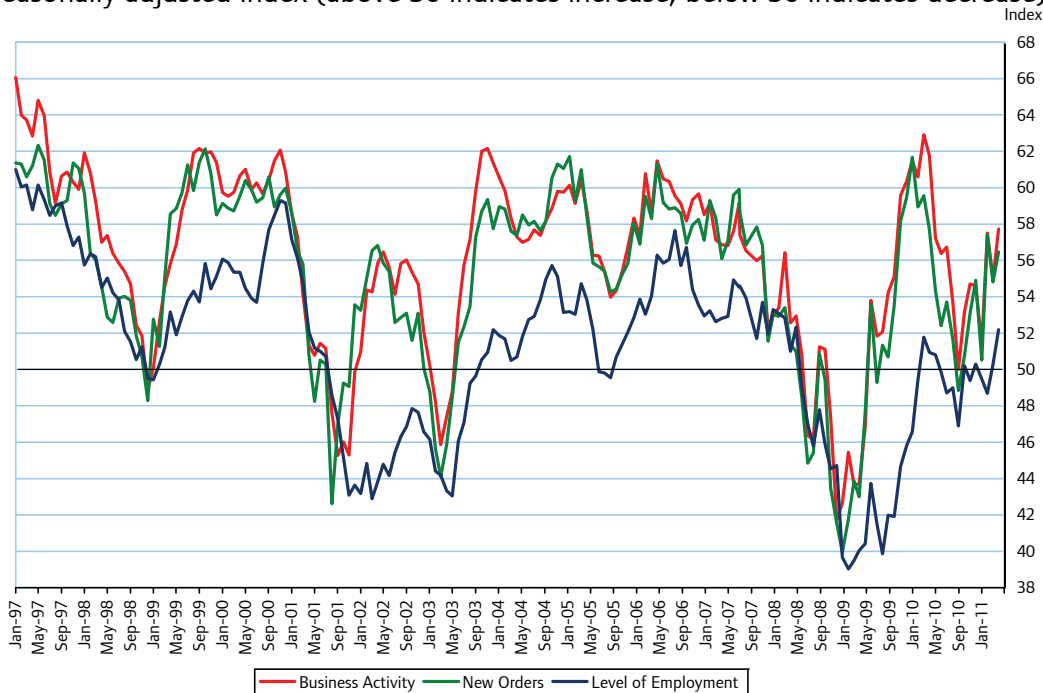
Sources: GfK NOP on behalf of the European Commission

Business survey results indicate that business activity has been expanding since May 2009 (apart from August 2010 when it was stable). Employment in London firms picked up in March 2011 and new orders are also rising (see Figure 3.6).

Figure 3.6: Recent survey evidence on London's economic climate

Purchasing Manager's Index (PMI) survey, last data point March 2011

Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Markit Economics

3.2 The UK economy

The UK economy exited its first recession (defined as two or more consecutive quarters of declining output) since the early 1990s in Q4 2009. Output declined again in Q4 2010 but grew by 0.5 per cent in Q1 2011. However, in the first quarter of 2011 GDP was still 4.0 per cent below its pre recession peak. The IMF forecasts that the UK economy will grow by 1.7 per cent in 2011 and by 2.3 per cent in 2012^{vi}, whilst the OECD forecasts growth of 1.5 per cent in 2011 and 2.0 per cent in 2012^{vii}.

Table 3.1: HM Treasury and consensus forecasts for the UK economy

Annual % change, unless otherwise indicated

	Average of Independent Forecasters		Budget March 2011	
	2011	2012	2011	2012
GDP growth (per cent)	1.7	2.1	1.7	2.5
Claimant unemployment (mn)	1.54	1.51	1.54	1.53
Current account (£bn)	-30.5	-26.1	-41	-34
PSNB (2011-12, 2012-13: £bn)	120.9	97.2	122	101

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, April 2011.

Office for Budget Responsibility, Economic and fiscal outlook, March 2011.

As can be seen in Table 3.2 annual growth in most UK sectors was still negative in Q1 2010, but by Q1 2011 all bar one sector was experiencing positive annual growth, with manufacturing performing particularly well. However, the continued overall strength of the recovery in 2011 is expected to be modest.

Table 3.2: Recent growth in broad industrial sectors of UK economy

Annual % change

Industrial sectors	2009	2010				2011
	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry, and fishing	-5.5%	-5.7%	-0.9%	0.8%	1.9%	4.4%
Mining & quarrying inc oil & gas extraction	-8.4%	-6.1%	-6.9%	-4.4%	-8.1%	-7.1%
Manufacturing	-5.6%	1.4%	3.2%	4.7%	5.0%	4.8%
Electricity gas and water supply	-5.4%	1.4%	1.9%	0.5%	7.2%	0.2%
Construction	-6.7%	-2.1%	7.5%	10.1%	8.6%	3.5%
Distribution, hotels and catering	1.8%	2.0%	3.1%	3.0%	0.6%	1.4%
Transport, storage and communication	-3.4%	-1.0%	-0.3%	0.9%	-1.2%	1.5%
Business services and finance	-4.1%	-1.3%	1.1%	2.6%	0.9%	1.5%
Government and other services	1.2%	1.1%	1.3%	1.4%	1.2%	1.4%

Source: Office for National Statistics (as of end-April 2011)

Table 3.3 shows that household annual spending began to expand again in Q1 2010 but only at a modest pace. Investment fell heavily during the recession, but annual growth resumed in Q2 2010 and its pick-up is supporting the overall recovery. Meanwhile government expenditure is now expected to fall due to the spending cuts up to 2015/16.

Table 3.3: UK domestic expenditure growth

Annual % change

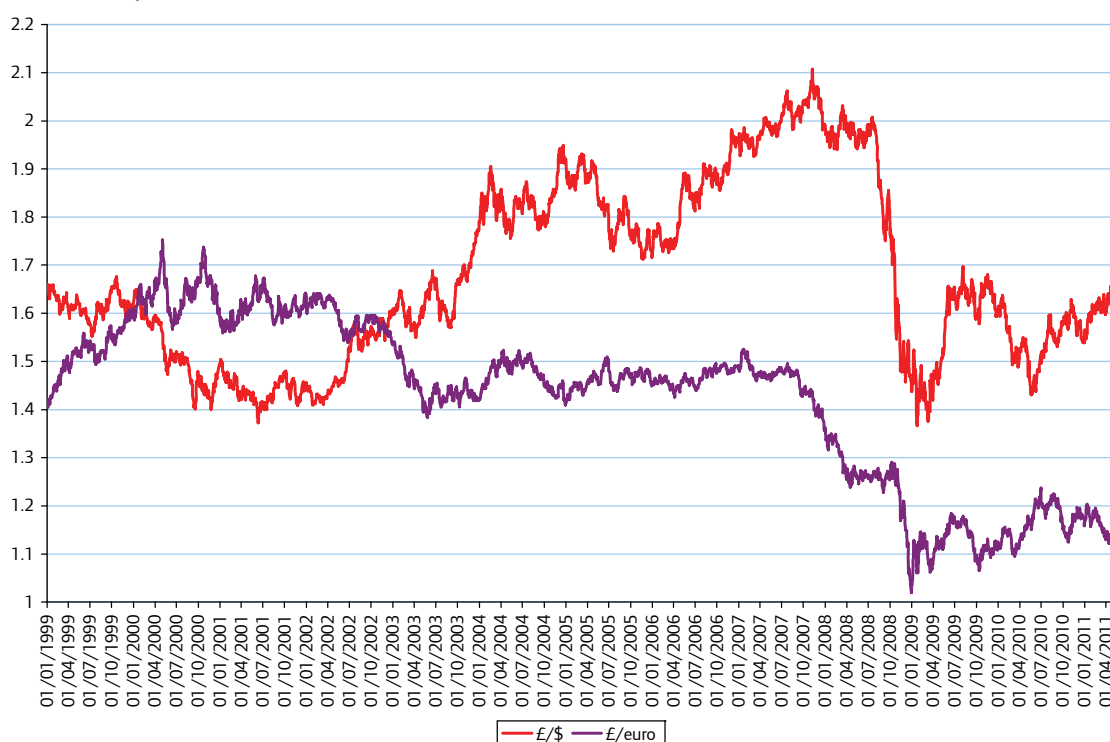
Expenditure	2009		2010			
	Q3	Q4	Q1	Q2	Q3	Q4
Households	-3.6%	-1.1%	0.2%	1.5%	1.4%	0.2%
Non-profit institutions	0.1%	2.3%	-5.0%	-4.5%	-6.5%	-7.9%
General Government	0.7%	-0.4%	0.9%	0.9%	0.6%	0.6%
Gross fixed capital formation	-14.6%	-14.2%	-2.1%	2.6%	6.2%	5.8%

Source: Office for National Statistics (as of end-April 2011)

Sterling continues to remain relatively weak against the dollar compared to the heights it reached in 2007 (see Figure 3.7). However, it has strengthened somewhat against the dollar so far in 2011. Meanwhile against the Euro sterling remains weak which should support exporters.

Figure 3.7: £ to \$ and £ to euro exchange rates

Last data point is 10/05/11



Source: EcoWin

Sterling's depreciation from the heights seen during 1998 to 2007 is further illustrated by its effective exchange rate index (EERI)^{viii} (see Figure 3.8). There was a fall of roughly 30 per cent from its peak in early 2007 up to January 2009. Since then sterling has fluctuated a bit but continues to remain weak. The large depreciation of sterling in 2008 should provide some support to the UK economy due to import substitution as well as increasing the competitiveness of the UK's exports. UK exporters should also be helped by the continuing global economic recovery, especially in emerging market economies, such as China and India.

Figure 3.8: Sterling EERI rate

Last data point is 10/05/11



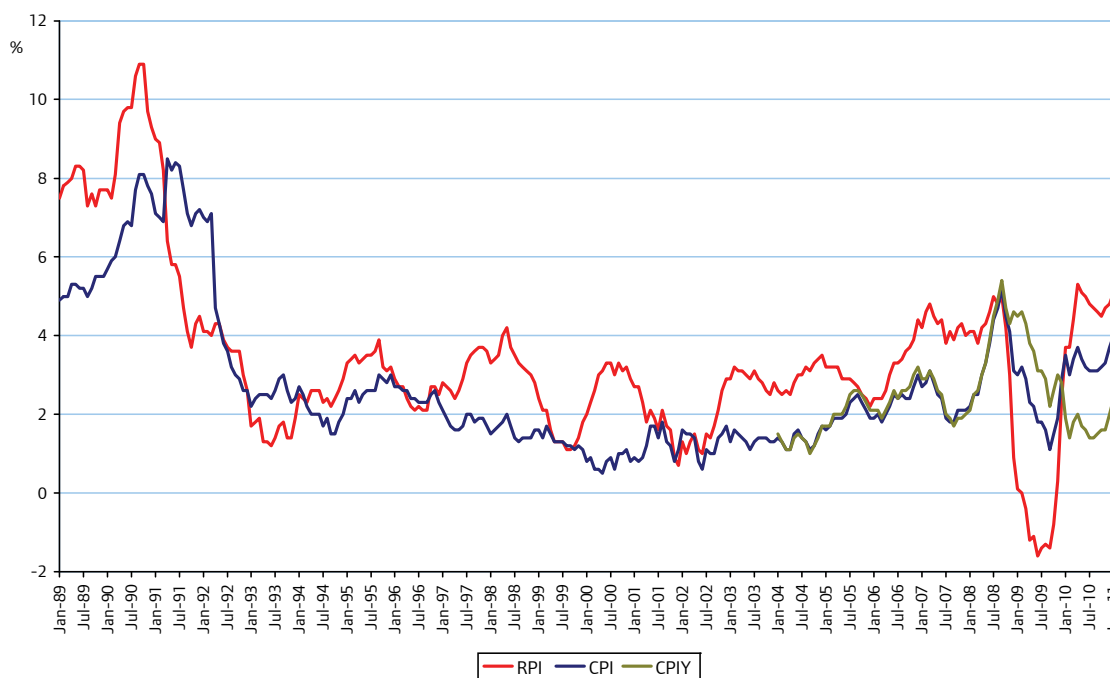
Source: Bank of England

Box 3.1: UK inflation set to remain above the 2 per cent target until 2012

Since December 2009 UK Consumer Price Index (CPI) annual inflation has been above the government's 2 per cent symmetrical inflation target. Since January 2010 it has been more than 1 per cent above the target and has thus necessitated the Governor of the Bank of England, Mervyn King, to write a number of explanatory letters to the Chancellor of the Exchequer. Retail Price Index (RPI) annual inflation has also been elevated since 2010 (see Figure 3.9) compared to 1993-2006. Above target inflation is expected to continue throughout 2011 with CPI inflation forecast to stand at 3.8 per cent in the fourth quarter of 2011^{ix}.

Figure 3.9: UK annual inflation rates

Last data point is March 2011

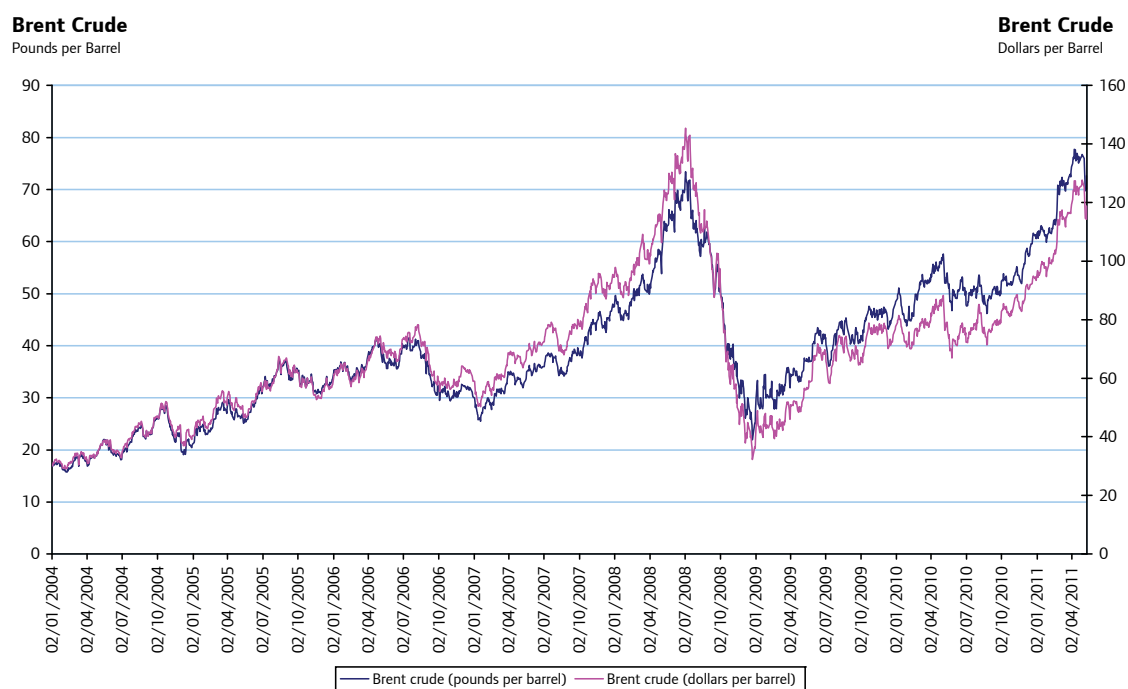


Source: Office for National Statistics

Above target inflation has been attributed to a number of factors including high commodity and fuel prices (exacerbated by recent troubles in the Middle East and North Africa), the lingering effects of the 2008 depreciation of sterling, and recently the additional rise in VAT to 20 per cent at the beginning of 2011. Highlighting the impact of indirect tax rises on CPI inflation is CPIY inflation which excludes price changes due to indirect tax changes. This measure of inflation stood at just 2.5 per cent in March 2011. A major inflationary impulse has been provided by the rise in the oil price (see Figure 3.10), which has been further elevated due to concerns about political instability in the Middle East and North Africa. In the case of the UK this has also been boosted by the decline in sterling against the dollar since 2007, which has seen the oil price in pounds per barrel hit record levels in 2011. If oil prices were to remain high due to strong demand from emerging market economies such as China, global political risks and supply constraints this would have long-term inflationary impacts on the UK and would also dampen the global economic recovery.

Figure 3.10: Brent crude oil price (pounds per barrel (left hand axis) and dollars per barrel (right hand axis))

Last data point is 10/05/11



Source: Bank of England/FT

UK inflation is expected to rise further before falling back in 2012. In his February explanatory letter to the Chancellor regarding why inflation was more than 1 per cent above target the Governor of the Bank of England, Mervyn King, stated that “inflation is likely to continue to pick up to somewhere between 4 per cent and 5 per cent over the next few months, appreciably higher than when I last wrote to you”. However, the Governor did note that “under the assumption that (the) bank rate increases in line with market expectations” and as temporary effects wane “inflation will fall back so that it is about as likely to be above the target as below it two to three years ahead”. A concern however would be if inflation expectations began to rise on the back of the current above target inflation. This could lead to permanently higher inflation in the long run, but so far there is little evidence that medium term inflation expectations have been dislodged to a higher level or that pay settlements have increased significantly to mitigate the negative impact inflation is having on real wages.

3.3 The world economy

In April the IMF forecast that the world economy would expand by 4.4 per cent in 2011^x, with growth of 4.5 per cent forecast for 2012. Developed economies are forecast to continue their recovery with the US economy projected to grow at 2.8 per cent in 2011 and then by 2.9 per cent in 2012^{xi}. The Eurozone economy is forecast to grow by 1.6 per cent in 2011 and by 1.8 per cent in 2012^{xii}, both upward revisions on the IMF’s previous forecast. Growth in emerging and developing economies is expected to be 6.5 per cent in both 2011 and 2012^{xiii}.

The IMF observes that private demand is now driving the world recovery but it notes that “the recovery, however, remains unbalanced. In most advanced economies, output is still far below potential. Unemployment is high, and low growth implies that it will remain so for many years to come. The source of low growth can be traced to both pre-crisis excesses and crisis wounds”^{xiv}. Developed economies should increase “clarity on banks’ balance sheet exposures and ready recapitalization plans if needed; smart fiscal consolidation that is neither too fast, which could kill growth, nor too slow, which would kill credibility; the redesign of financial regulation and supervision; and, especially in Europe, an increased focus on reforms to increase potential growth”^{xv}. However for emerging market economies it observes two policy responses are needed to avoid their economies overheating “first, to rely on a combination of fiscal consolidation and higher interest rates to maintain output at potential and, second, to use macroprudential tools—including, where needed, capital controls—to avoid increases in systemic risk stemming from inflows. Countries are often tempted to resist the exchange rate appreciation that is likely to come with higher interest rates and higher inflows. But appreciation increases real income, is part of the desirable adjustment, and should not be resisted”^{xvi}.

The **US** economy continued its recovery at the beginning of 2011 with it expanding by an annualised rate of 1.8 per cent in the first quarter of 2011^{xvii}. US inflation has though begun to pick up on the back of rising food and fuel prices with it hitting 2.7 per cent in March 2011, up from 2.1 per cent a month earlier^{xviii}. US unemployment remains high and was 9 per cent in April. Concerns remain that the recovery in jobs may be weaker than after previous recessions^{xix}. The April 2011 Beige Book from the Federal Reserve reported that “economic activity generally continued to improve since the last report”, however “higher commodity costs were widely reported to be putting increasing pressures on prices”^{xx}. Interest rates continue to remain extremely low at a target rate of between 0 and 0.25 per cent. Concerns are mounting over the size of the US Governments’ debt and deficit^{xxi}.

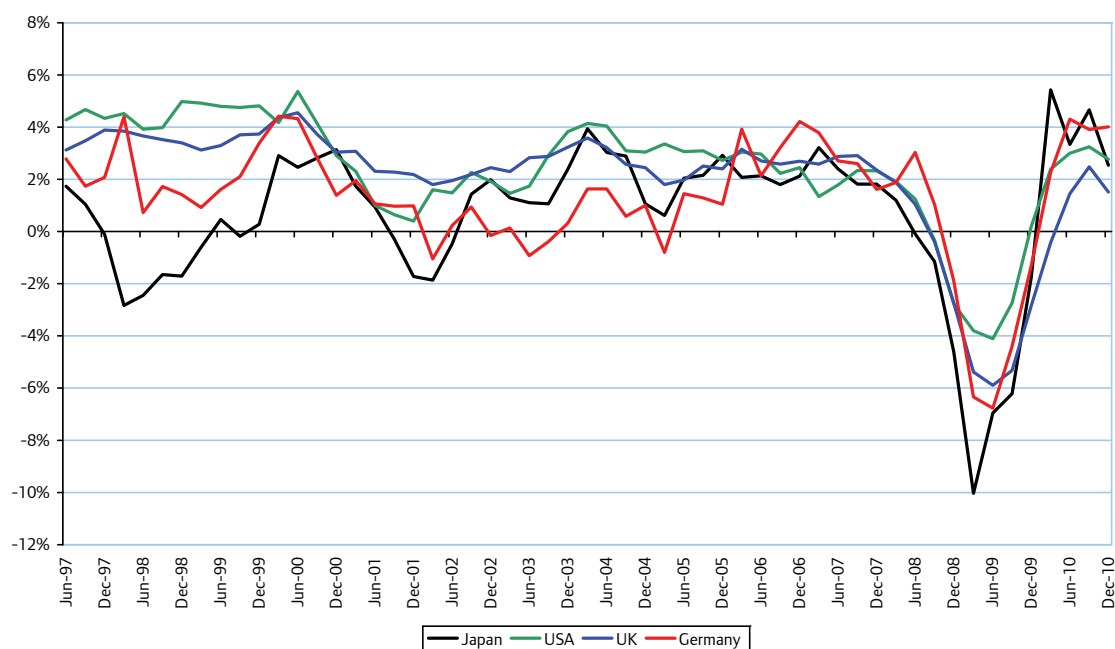
The **Eurozone** economy grew modestly in the fourth quarter of 2010^{xxii}, with output increasing by 0.3 per cent after also increasing by 0.3 per cent in the third quarter of 2010. The European Commission forecasts that growth will be 1.6 per cent in 2011^{xxiii}. Growth remains varied (two-speed) throughout the member states of the Eurozone with Germany and France performing strongly while ‘peripheral’ countries struggle. Greece’s economy for example contracted by –1.4 per cent in the fourth quarter of 2010 after contracting by –1.7 per cent in the third quarter of 2010. Eurozone inflation hit 2.7 per cent in March 2011, up from 2.4 per cent in February^{xxiv} leading the European Central Bank (ECB) to raise interest rates to 1.25 per cent on 7 April after keeping them on hold at 1 per cent for nearly two years^{xxv}. The sovereign debt position and the public finances of a number of members of the Eurozone especially Greece, Ireland, Portugal and Spain (see Box 3.2) has the potential to lead to a world financial crisis centred in the Eurozone and Europe’s banking system.

Japan’s economy shrunk by 1.2 per cent in the fourth quarter of 2010^{xxvi} and the aftermath of the earthquake and tsunami of 11 March along with the crisis at the Fukushima Daiichi power plant are likely to significantly dampen output in the first half

of 2011. Results from the Bank of Japan's Tankan survey of manufacturing sentiment carried out after the earthquake showed an expectation that conditions will worsen in the second quarter of 2011^{xxvii}. Analysis of the economic impact of previous disasters indicates that the effects may be limited to the short term^{xxviii}. However the impact on the supply of electricity (including power cuts) due to the loss of the Fukushima plant could be more longer term^{xxix}. In April the IMF forecast that Japanese output will rise by only 1.4 per cent (a downward revision) in 2011 and then by 2.1 per cent in 2012 (an upward revision)^{xxx}.

Figure 3.11: GDP growth in selected industrialised countries

Real GDP, annual % change, last data point is Q4 2010.



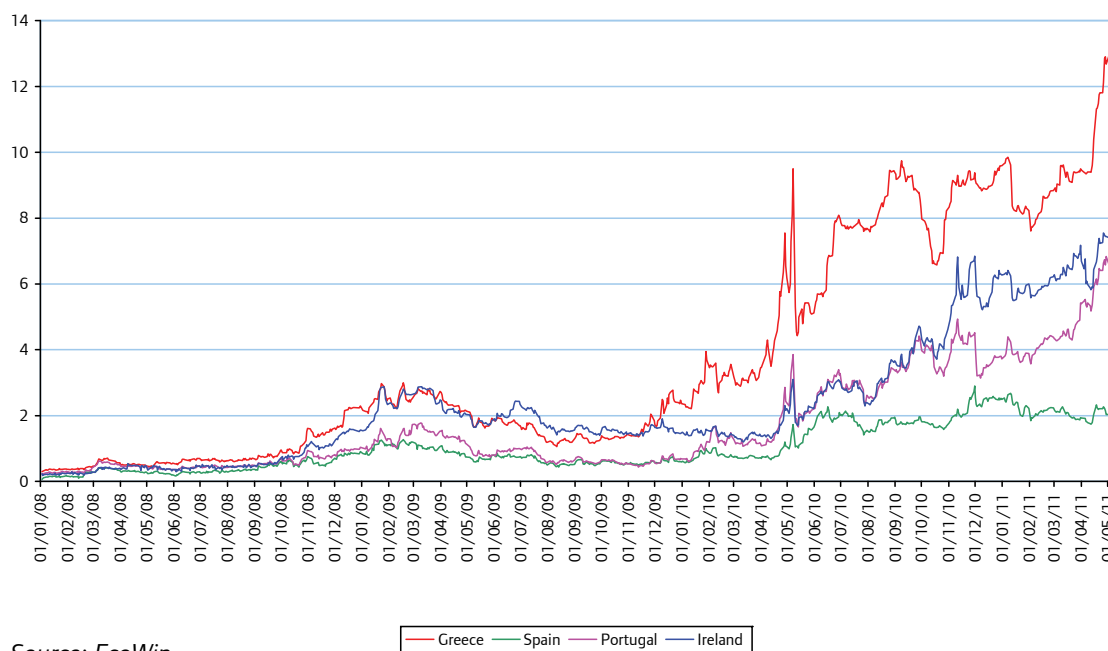
Source: Ecowin

Box 3.2: Sovereign debt crisis escalating in the Eurozone

Problems regarding Eurozone sovereign debt first surfaced at the end of 2009 with the discovery that the Greek budget deficit was markedly higher than had been previously thought. This led to concerns about the government finances of a number of 'peripheral' Eurozone economies. This caused the interest rate spread of their government debt against German government debt to rise markedly in the first half of 2010 reaching an initial crescendo in May 2010 (see Figure 3.12). The difference between the interest rate paid on German government bonds and other Eurozone countries' government bonds reflects the degree of risk in holding that country's government bonds compared to a German government bond. The German Government is considered the 'safest' Eurozone Government to borrow. The May 2010 crisis resulted in the setting up of a temporary financial stabilisation facility supported by Eurozone members and the bailing out of Greece.

Figure 3.12: Ten-year government bond spreads over German bonds, percentage points

Last data point: 10/05/2011



Source: EcoWin

The Eurozone sovereign debt crisis has escalated since May 2010 rather than being contained and has spread to other countries. Ireland required a bailout at the end of 2010 and Portugal announced it would need financial assistance from the EU and IMF in April 2011. The risk now is that the contagion spreads to Spain which is a far bigger economy and would have a greater negative impact on the European banking system.

Ireland's problems originated in the long boom of its economy and the lending bubble that this inflated, which was financed by domestic and international banks. When the bubble burst with the financial crisis of 2008 a crisis ensued for Irish banks that was resolved by a generous government bailout. However the size of this bailout had disastrous consequences for the Irish budget deficit which saw Irish national debt increase by nearly 25 per cent in 2010^{xxxii}. The size of this deficit was perceived to be unsustainable with debt rating agencies downgrading Irish government debt in the final months of 2010.

In response to this situation there was a request from Ireland for financial assistance that was agreed to by European finance ministers on 21 November. The UK agreed to provide a bilateral loan of £3.25 billion in addition to its contribution to the EU and IMF component of the package due to the strong linkages between the two economies. After international financial assistance the Irish government unveiled a further austerity budget on 7 December 2010. The budget announced amongst other measures the introduction of a new income tax system, rises in fuel duties, a VAT increase and reductions in both the minimum wage and child benefit^{xxxiii}. Doubts have arisen though as to whether the current bailout of Ireland's banking system has been sufficient with stress testing of the banks in March 2011 indicating that they could need an additional €24 billion in capital^{xxxiii}, which would bring the total cost of the bailout of the Irish banking system to around €70 billion since 2008^{xxxiv}. This may require Ireland to ask for additional funding from Eurozone nations.

The Eurozone sovereign debt crisis then moved onto Portugal. On 6 April its interim Prime Minister, Jose Socrates, announced that the country would seek financial aid from the EU and the IMF. The size of the aid package is expected to be around €80 billion^{xxxv}. The request for financial assistance came after the borrowing costs of Portugal compared with those of Germany soared^{xxxvi} after the resignation of the government when its austerity measures were defeated in parliament. Any agreement on a bailout is likely to see Portugal having to introduce stringent budget cuts.

The Eurozone sovereign debt crises have led to a concerted effort by European politicians to strengthen the stability mechanisms available to the Eurozone members. Thus, on 14 February Eurozone finance ministers agreed to set up a permanent €500 billion bailout fund to be called the European Stability Mechanism that will replace the current temporary €440 billion rescue system. The fund will be able to lend all of the money it has under its control, with it being part of a "comprehensive package" of measures that European leaders hope will resolve the Eurozone sovereign debt crisis^{xxxvii}. However, with the possibility of contagion spreading to Spain and the likelihood of a sovereign debt restructure or default (especially from Greece) increasing, the crisis seems set to continue and potentially worsen. A full blown Eurozone sovereign debt crisis that involved Spain and included a default or restructure by at least one country should not be ruled out. The impact this would have on London and the UK would be negative from slower growth in our Eurozone trading partners and from the linkages our banking system has with Eurozone nations (including those that may need to restructure their sovereign debt) and with the Eurozone banking system as a whole.

3.4 Emerging market economies

China's economy grew by 10.3 per cent in 2010^{xxxviii} with it then experiencing growth of 9.7 per cent compared with the same period a year earlier in the first quarter of 2011^{xxxix}. Meanwhile inflation picked up with consumer prices rising by 5.4 per cent in March compared to a year earlier^{xl}. The IMF is forecasting that the Chinese economy will grow by 9.6 per cent in 2011 and by 9.5 per cent in 2012^{xli}, whilst the Asian Development Bank (ADB) forecasts Chinese growth of 9.6 per cent in 2011 and 9.2 per cent in 2012^{xlii}. **India's** economy is expected to grow by 8.6 per cent in the year to March 2011^{xliii}. However inflation is a worry, with it hitting 8.9 per cent in the year to March 2011 and the IMF has warned that the country's 'boom-like dynamics' should not be allowed to get out of control^{xliv}. The IMF forecasts Indian growth will be 8.2 per cent in 2011 and 7.8 per cent in 2012^{xlv}, whilst the ADB forecasts growth of 8.2 per cent in 2011 and 8.8 per cent in 2012^{xlvi}. After growing by 4.0 per cent in 2010^{xlvii} **Russia's** economy is forecast by the IMF to grow by 4.8 per cent in 2011 and by 4.5 per cent in 2012^{xlviii}.

3.5 Risks to the world economy

Downside risks to the world economic outlook have eased since 2009 but threats remain from high commodity prices (especially oil) and escalating sovereign debt problems (especially in 'peripheral' Eurozone nations and in the longer term even the US). Most economies around the world grew in 2010 and many emerging market economies grew robustly. Since the Autumn 2007 London's Economic Outlook (LEO), the global credit crunch has been highlighted by GLA Economics as a downside risk and risks associated with the continued fallout from the credit crunch and financial crisis such as sovereign debt problems still linger. In addition there is concern that the US recovery will be weaker than following previous recessions leading to continued high levels of unemployment^{xlix}. This could act as a break to the overall global recovery. Although the recent Japanese earthquake and tsunami disaster is likely to have short term negative impacts on Japan's growth the overall impact on the world's economy is expected to be muted. The monetary policies of most central banks in the developed world remain extremely accommodating providing support to the global economy but also leading to the expansion of potential bubbles in some asset classes and commodities (such as oil and gold). At some point monetary policy will need to be tightened to more normal levels by the likes of the Bank of England and the US Federal Reserve and the ECB has already begun this process.

A major risk to the world economy is the continued weak fiscal position of many governments in the developed world, although the UK has implemented policies to improve its own situation. Fiscal retrenchment is likely to affect many countries over the coming years and although required for long run stability is likely to dampen economic growth in the short run. However, if countries can avoid a sovereign debt crisis (like the one faced by Greece, Ireland and Portugal) the retrenchment can be managed over a time period that will allow private sector growth to pick up at least some of the slack in demand. Global inflationary pressures from high fuel prices, partially in response to political instability in the Middle East and North Africa but also from robust growth in emerging market economies will dampen real household expenditure growth. There also exists a real danger that the global recovery may become even more unbalanced with emerging economies, especially China and India growing very quickly whilst the developed economies recover sluggishly. Further exchange rate flexibility would help ease these imbalances but are unlikely in the near term. The global financial system still remains vulnerable from fragile banks and fiscal problems in developed economies. Weakening economic conditions would amplify this vulnerability and the potential for adverse feedback loops between sovereign debt problems, fragile banking systems and feeble economic recoveries remain.

3.6 Conclusion

London's economy is expected to continue its recovery over 2011-13 with employment rising moderately. The pace of economic growth is likely to pick up in 2012 and 2013 compared with 2011. With above target inflation, tax rises and low wage growth consumers will be under financial pressure over the next year or so. Private sector investment and trade will drive the economy forward as a rebalancing takes place that will put it on a firmer footing.

4. Review of independent forecasts

What the forecasts provide

In Chapter 5, GLA Economics' forecast of four economic indicators is provided: workforce employment, real output, private consumption (household expenditure) and household income in London. In this chapter the consensus view on the first three of these indicators is summarised, drawing on forecasts from outside (independent) organisations.¹ Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for all historic data in the following tables and charts is EE.

Additionally, both the consensus and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

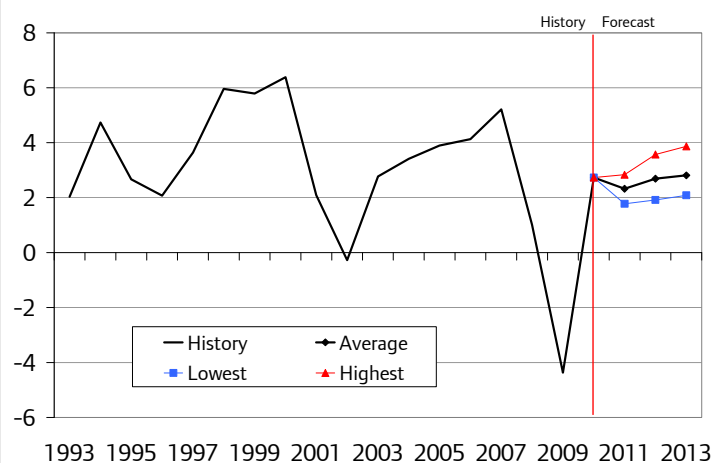
- manufacturing
- construction
- transport and communications
- distribution, hotels and catering
- finance and business services
- other (mainly public) services.

Output

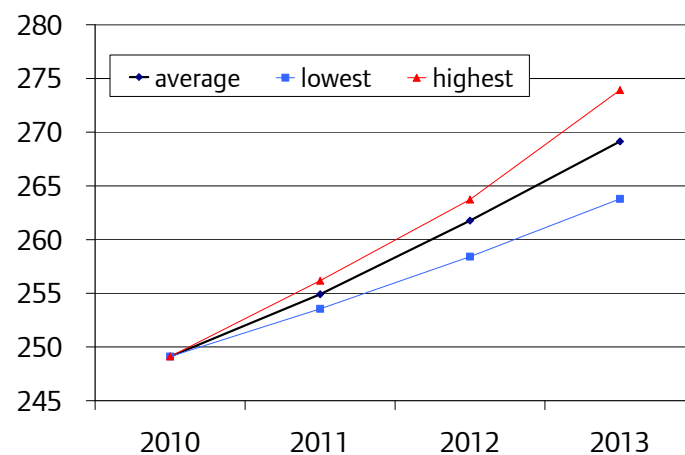
(London GVA, constant prices (base year 2006), £ billion)

The consensus (mean average view) is for real output growth to remain positive in 2011 and to reach 2.8 per cent in 2013.

Annual growth (per cent)



Level (constant year 2006, £ billion)



Annual growth (per cent)			
	2011	2012	2013
Average	2.3	2.7	2.8
Lowest	1.8	1.9	2.1
Highest	2.8	3.6	3.9

Level (constant year 2006, £ billion)			
	2011	2012	2013
Average	255	262	269
Lowest	254	258	264
Highest	256	264	274

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
4.7	2.7	2.1	3.6	6.0	5.8	6.4	2.1	-0.3	2.8	3.4	3.9	4.1	5.2	1.0	-4.4	2.7

History: Level (constant year 2006, £ billion)

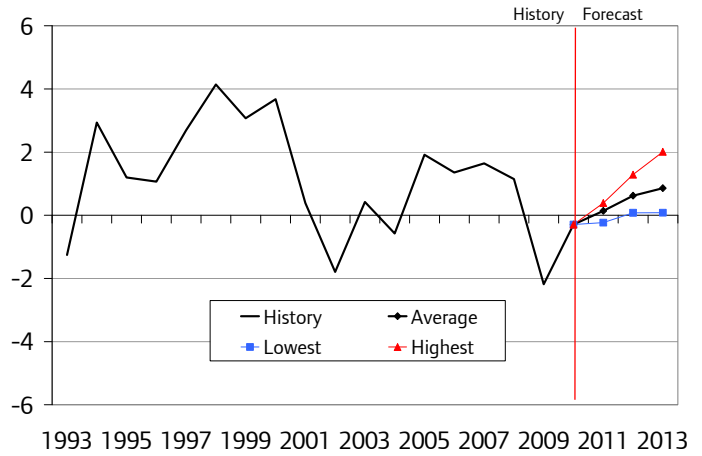
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
157.4	161.6	164.9	170.9	181.1	191.6	203.8	208.1	207.5	213.3	220.5	229.1	238.6	251.0	253.6	242.5	249.1

Employment

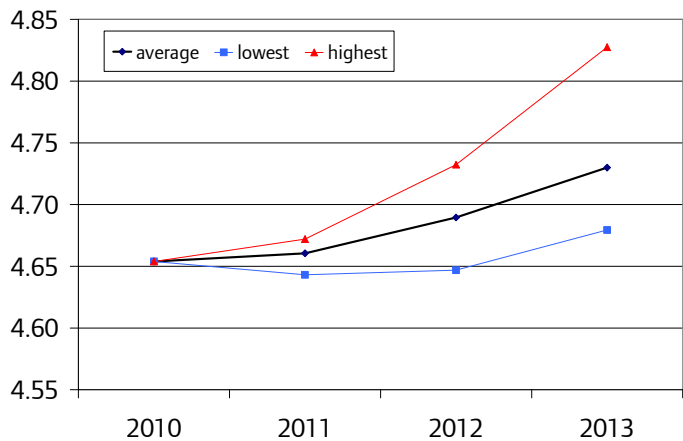
(London workforce jobs)

The consensus view is for the number of workplace jobs to increase by 0.1 per cent in 2011, and then grow by 0.6 per cent in 2012 and 0.9 per cent in 2013.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)			
	2011	2012	2013
Average	0.1	0.6	0.9
Lowest	-0.2	0.1	0.1
Highest	0.4	1.3	2.0

Level (millions)			
	2011	2012	2013
Average	4.66	4.69	4.73
Lowest	4.64	4.65	4.68
Highest	4.67	4.73	4.83

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2.9	1.2	1.1	2.7	4.1	3.1	3.7	0.4	-1.8	0.4	-0.6	1.9	1.4	1.6	1.1	-2.2	-0.3

History: Level (millions)

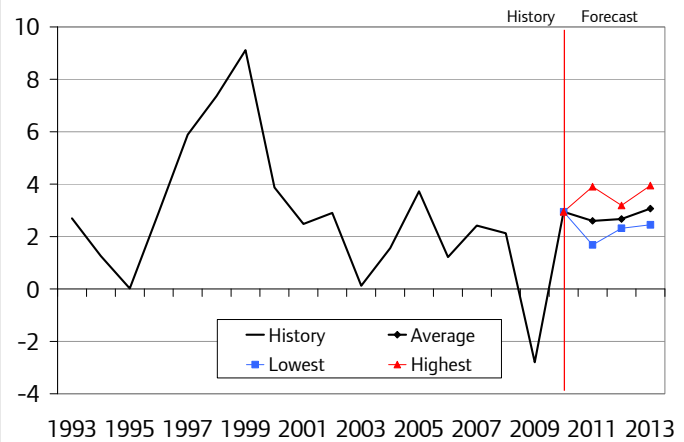
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.91	3.95	3.99	4.10	4.27	4.40	4.56	4.58	4.50	4.52	4.49	4.58	4.64	4.72	4.77	4.67	4.65

Household expenditure

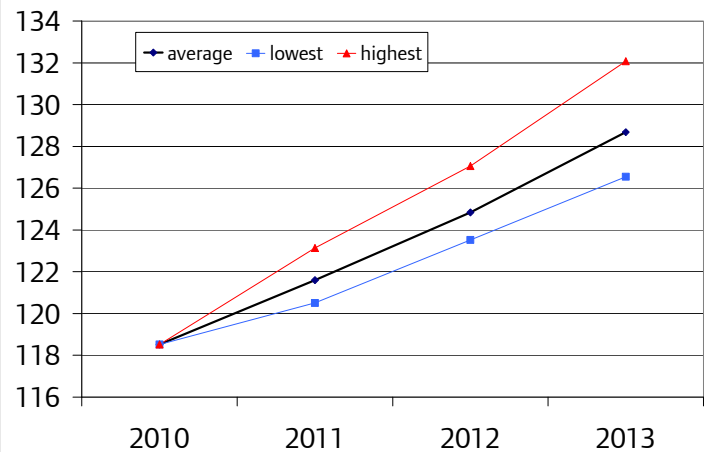
(London household spending, constant year 2006, £ billion)

The consensus view is for positive household expenditure growth to continue in 2011 at 2.6 per cent, increasing to 3.1 per cent by 2013.

Annual growth (per cent)



Level (constant year 2006 £ billion)



Annual growth (per cent)			
	2011	2012	2013
Average	2.6	2.7	3.1
Lowest	1.7	2.3	2.4
Highest	3.9	3.2	3.9

Level (constant year 2006, £ billion)			
	2011	2012	2013
Average	122	125	129
Lowest	121	124	127
Highest	123	127	132

History: Annual growth (per cent)

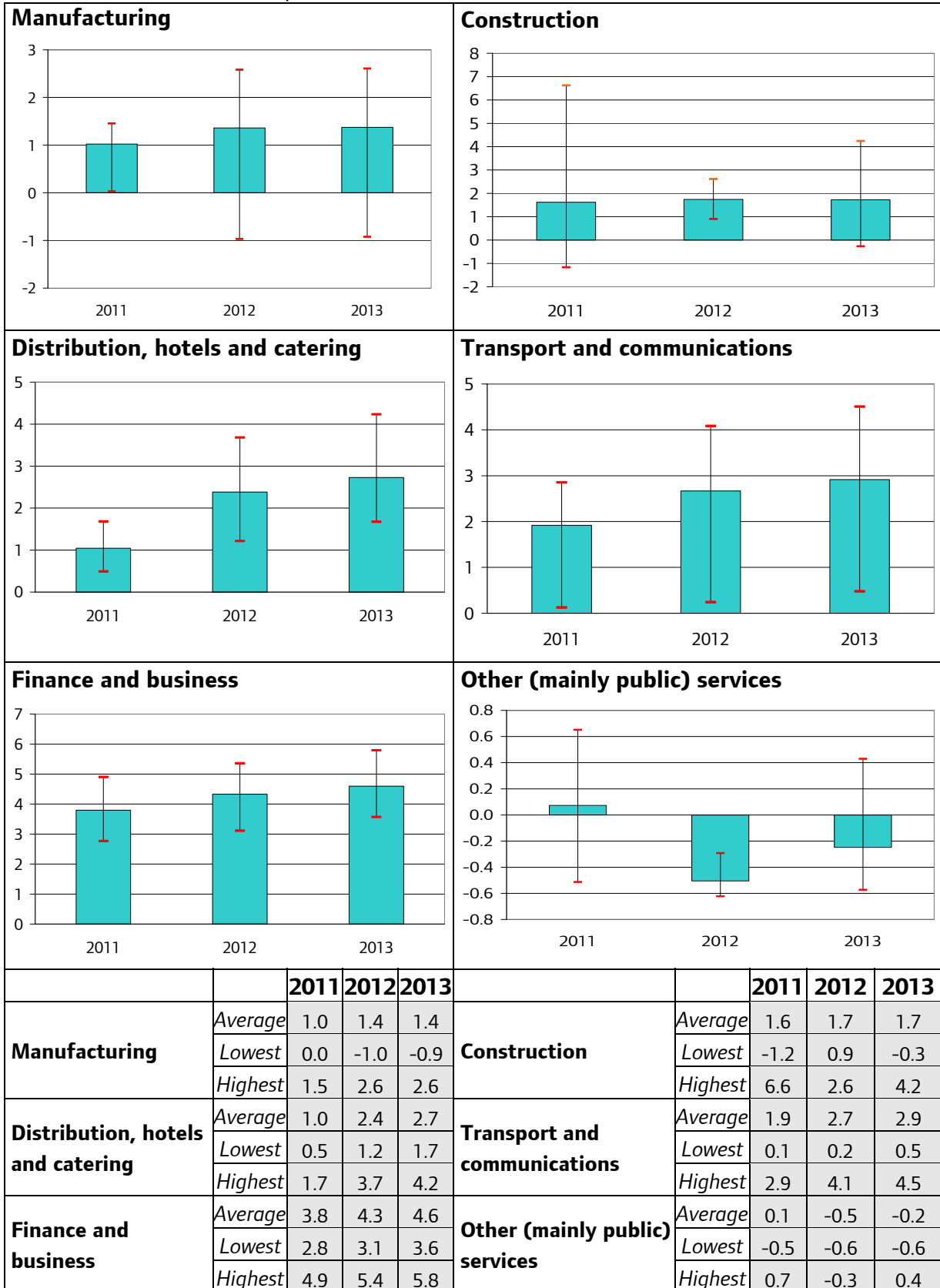
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.3	0.0	2.9	5.9	7.4	9.1	3.9	2.5	2.9	0.1	1.6	3.7	1.2	2.4	2.1	-2.8	2.9

History: Level (constant year 2006, £ billion)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
75.8	75.8	78.1	82.7	88.7	96.8	100.6	103.1	106.1	106.2	107.8	111.9	113.2	116.0	118.4	115.1	118.5

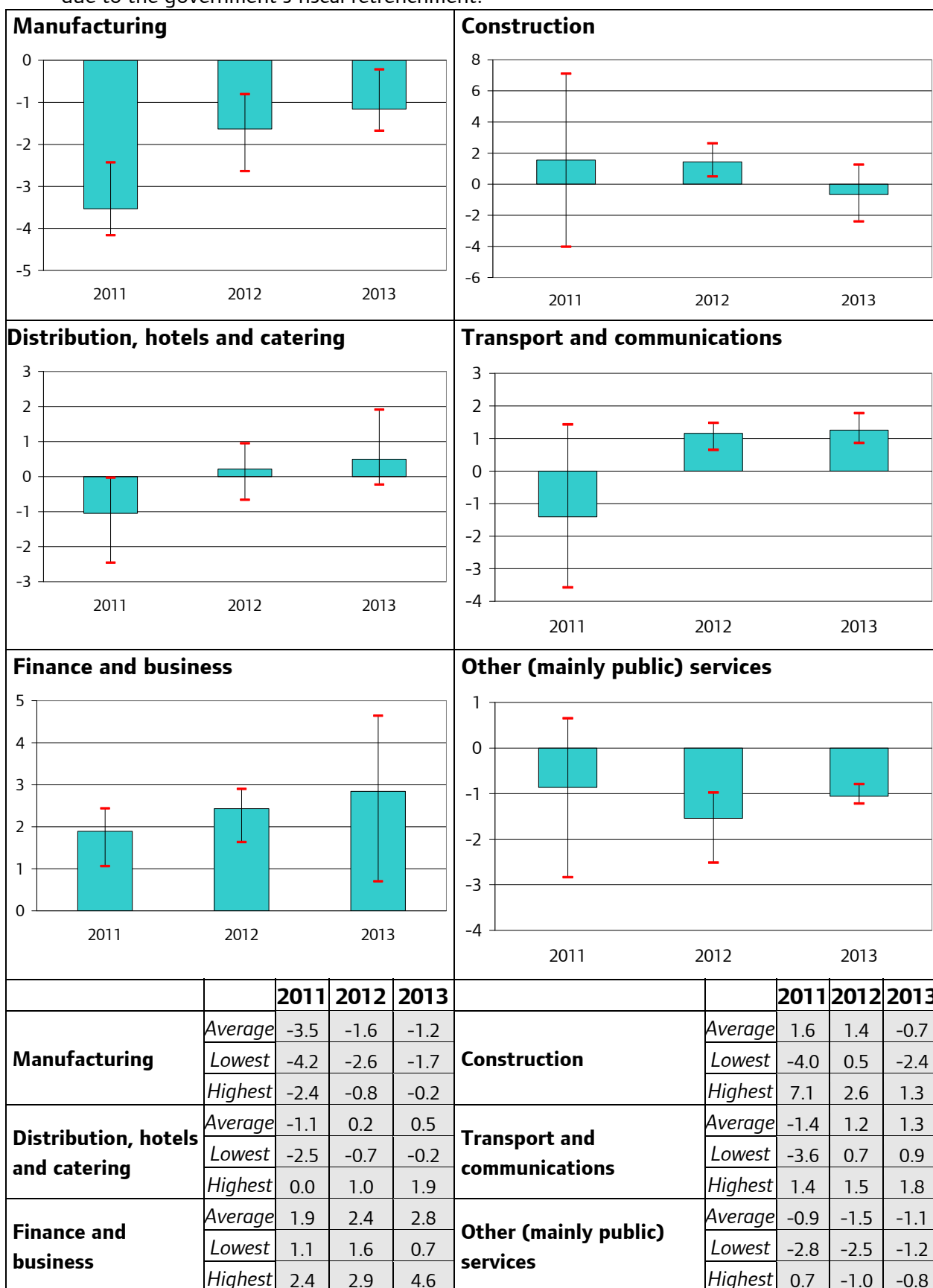
Output growth by sector (per cent annual change)

It is expected that there will be positive growth as the recovery continues in all sectors, except for the other (mainly public) services sector in 2012 and 2013 due to the fiscal retrenchment to cut the public sector deficit.



Employment growth by sector (per cent annual change)

Forecasted employment growth generally recovers slowly between 2011 and 2013. However other (mainly public) services employment is expected to fall during 2011-13 due to the government's fiscal retrenchment.



5. The GLA Economics forecast

It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points. For business planning (for example the likely course of revenue) estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections provide these estimates. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for all historic data in the following tables and charts is EE.

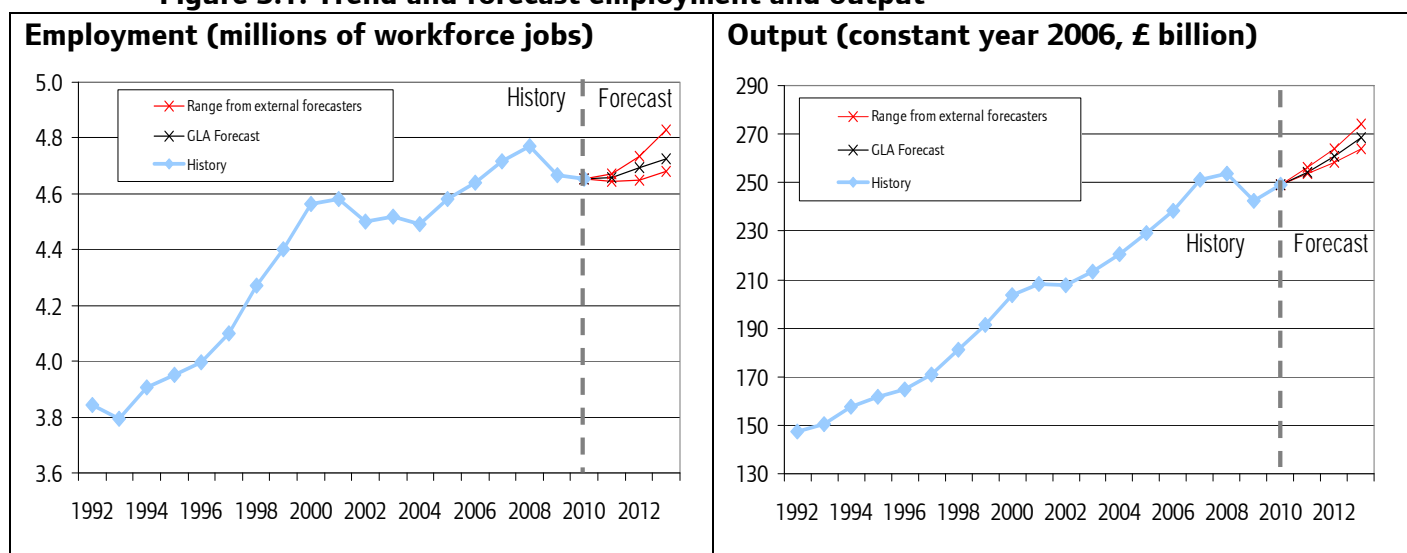
5.1 Results

Following the resumption of positive growth in 2010 output is expected to continue to rise between 2011 and 2013. Employment growth is also forecast to be positive between 2011 and 2013.

Household spending is expected to continue to grow between 2011 and 2013.

Household income growth is also expected to be positive over the forecast period.

Figure 5.1: Trend and forecast employment and output



Source: EE for historic data and GLA Economics' calculations for forecast

Table 5.1: Forecast and historical growth rates

Annual % change

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GVA	3.9	4.1	5.2	1.0	-4.4	2.7	2.0	2.6	2.9
Workforce jobs	1.9	1.4	1.6	1.1	-2.2	-0.3	0.1	0.7	0.8
Household spending	3.7	1.2	2.4	2.1	-2.8	2.9	1.9	2.4	3.0
Household income	3.1	2.8	1.5	1.8	1.1	-1.4	1.5	2.4	3.1

Table 5.2: Forecast and historical levels

(constant year 2006, £ billion except jobs)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GVA	229.1	238.6	251.0	253.6	242.5	249.1	254.1	260.8	268.5
Workforce jobs (millions)	4.58	4.64	4.72	4.77	4.67	4.65	4.66	4.69	4.73
Household spending	111.9	113.2	116.0	118.4	115.1	118.5	120.7	123.6	127.3
Household income	129.5	133.1	135.1	137.6	139.0	137.2	139.3	142.6	146.9

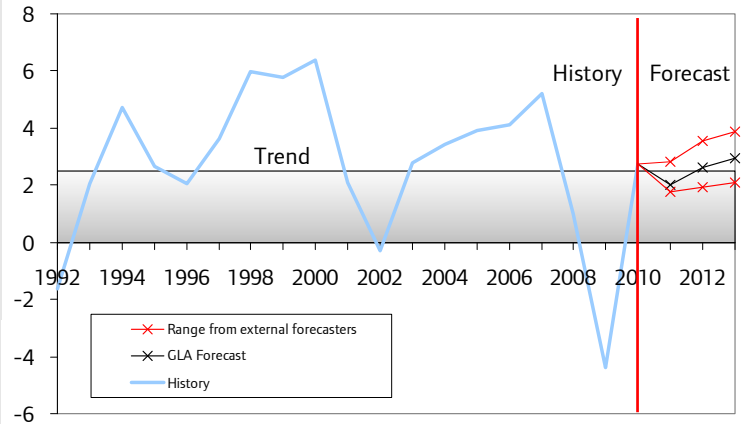
Output

(London GVA, constant year 2006, £ billion)

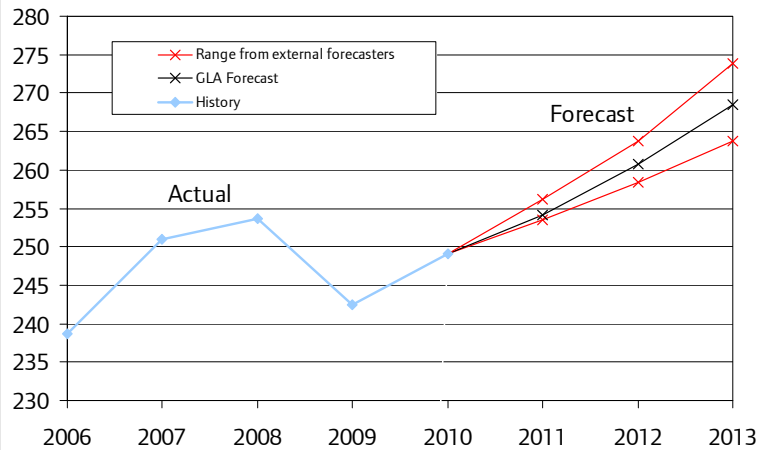
London's real GVA is forecast to grow at a moderate rate between 2011 and 2013. Forecast growth rates are 2.0 per cent in 2011, 2.6 per cent in 2012, and 2.9 per cent in 2013.

The GLA Economics' forecast is similar to the consensus average forecast throughout 2011-13.

Annual growth (per cent)



Level (constant year 2006, £ billion)



Growth (annual per cent)				
	2010	2011	2012	2013
GLA	2.7	2.0	2.6	2.9
Consensus		2.3	2.7	2.8

Level (constant year 2006, £ billion)				
	2010	2011	2012	2013
GLA	249	254	261	268
Consensus		255	262	269

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
4.7	2.7	2.1	3.6	6.0	5.8	6.4	2.1	-0.3	2.8	3.4	3.9	4.1	5.2	1.0	-4.4	2.7

History: Level (constant year 2006, £ billion)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
157.4	161.6	164.9	170.9	181.1	191.6	203.8	208.1	207.5	213.3	220.5	229.1	238.6	251.0	253.6	242.5	249.1

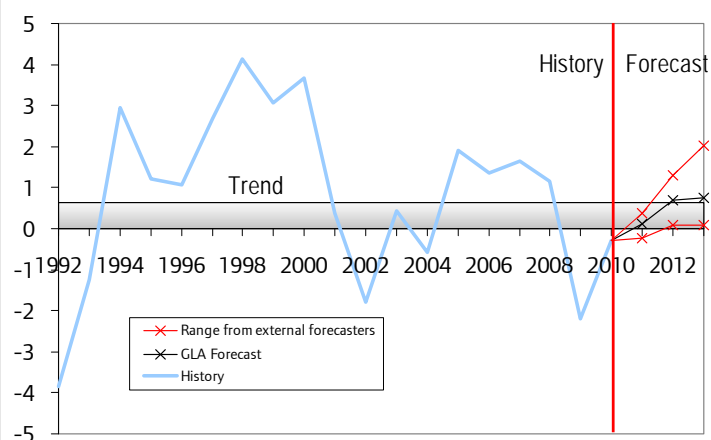
Employment

(London workforce jobs)

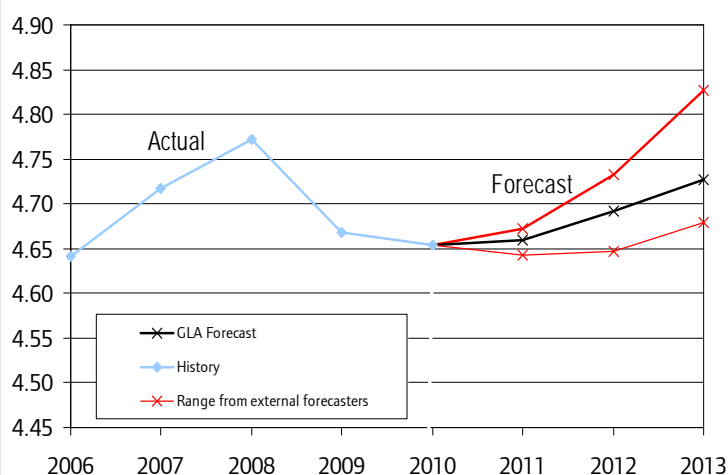
London's employment is forecast to rise throughout the forecast period.

GLA Economics' forecast for employment growth is similar to the consensus average throughout 2011-2013.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)				
	2010	2011	2012	2013
GLA	-0.3	0.1	0.7	0.8
Consensus		0.1	0.6	0.9

Level (millions of workforce jobs)				
	2010	2011	2012	2013
GLA	4.65	4.66	4.69	4.73
Consensus		4.66	4.69	4.73

History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2.9	1.2	1.1	2.7	4.1	3.1	3.7	0.4	-1.8	0.4	-0.6	1.9	1.4	1.6	1.1	-2.2	-0.3

History: Level (millions)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.91	3.95	3.99	4.10	4.27	4.40	4.56	4.58	4.50	4.52	4.49	4.58	4.64	4.72	4.77	4.67	4.65

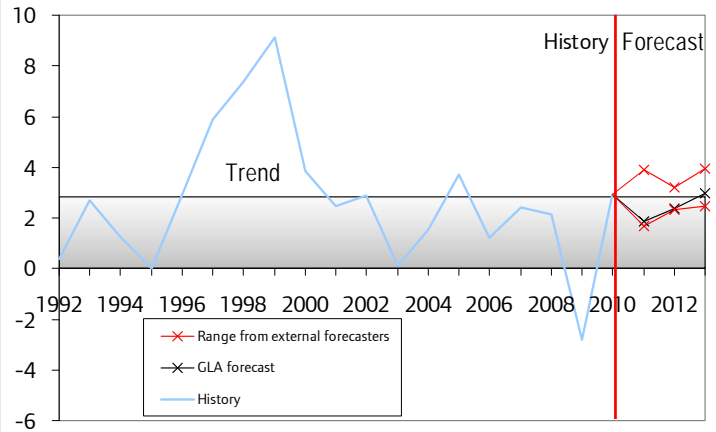
Household expenditure

(London household spending, constant year 2006, £ billion)

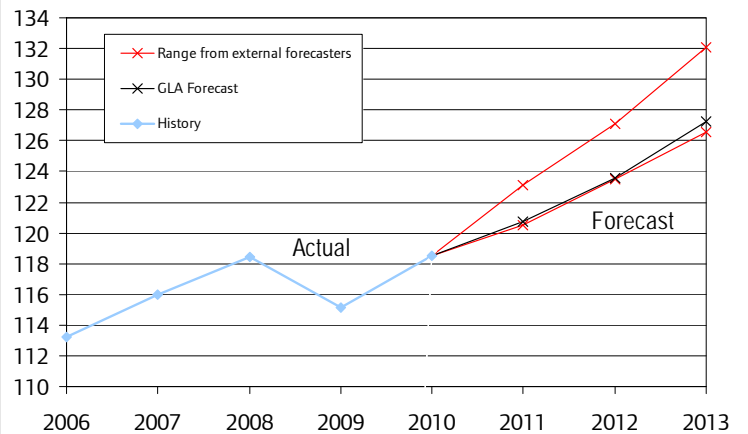
Growth in London's household spending is forecast to remain positive over the forecast period.

GLA Economics' household spending growth forecast is slightly lower than the consensus average throughout 2011-2013.

Annual growth (per cent)



Level (constant year 2006, £ billion)



Growth (annual per cent)				
	2010	2011	2012	2013
GLA	2.9	1.9	2.4	3.0
Consensus		2.6	2.7	3.1

Level (constant year 2006, £ billion)				
	2010	2011	2012	2013
GLA	119	121	124	127
Consensus		122	125	129

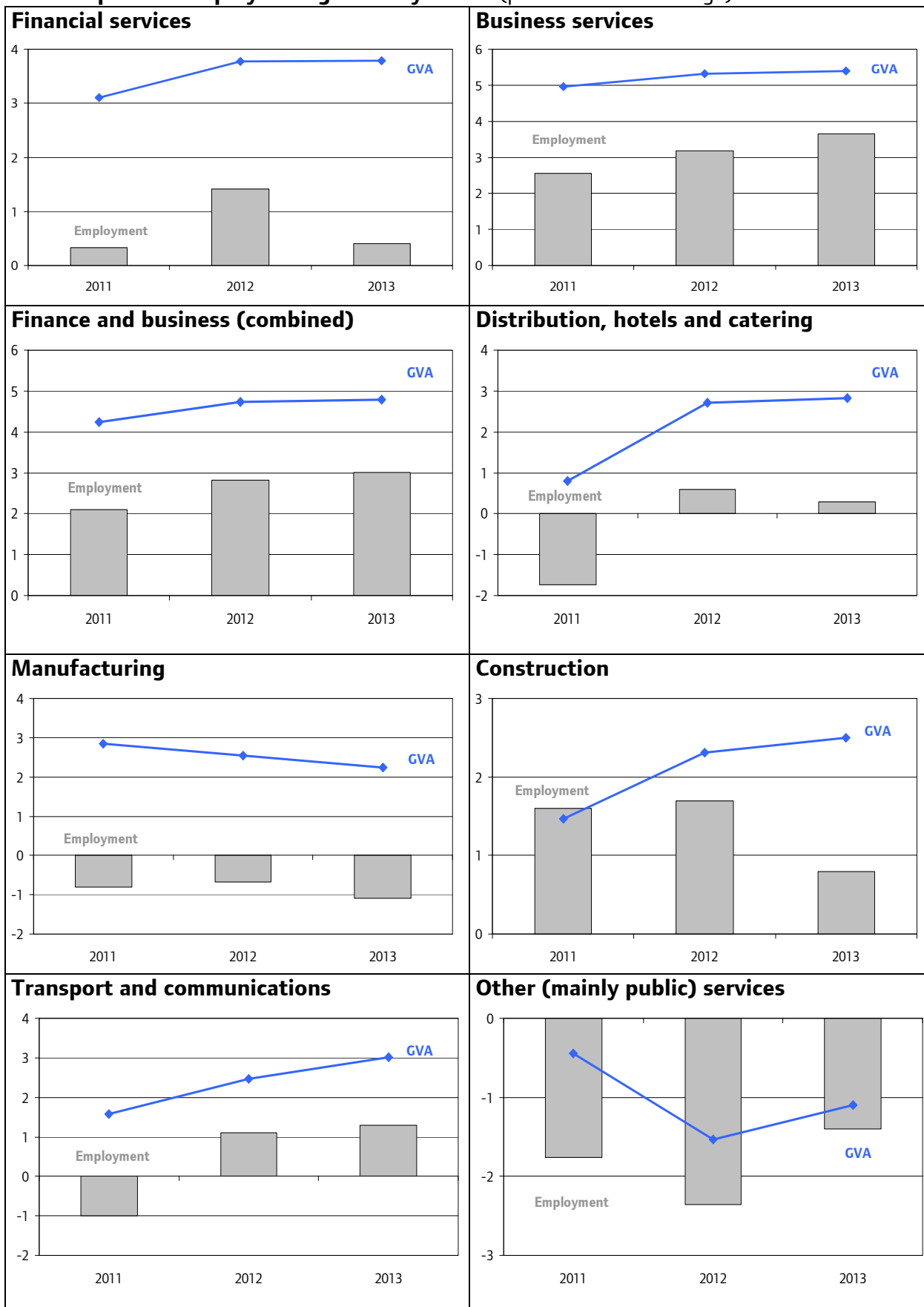
History: Annual growth (per cent)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.3	0.0	2.9	5.9	7.4	9.1	3.9	2.5	2.9	0.1	1.6	3.7	1.2	2.4	2.1	-2.8	2.9

History: Level (constant year 2006, £ billion)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
75.8	75.8	78.1	82.7	88.7	96.8	100.6	103.1	106.1	106.2	107.8	111.9	113.2	116.0	118.4	115.1	118.5

Output and employment growth by sector (per cent annual change)



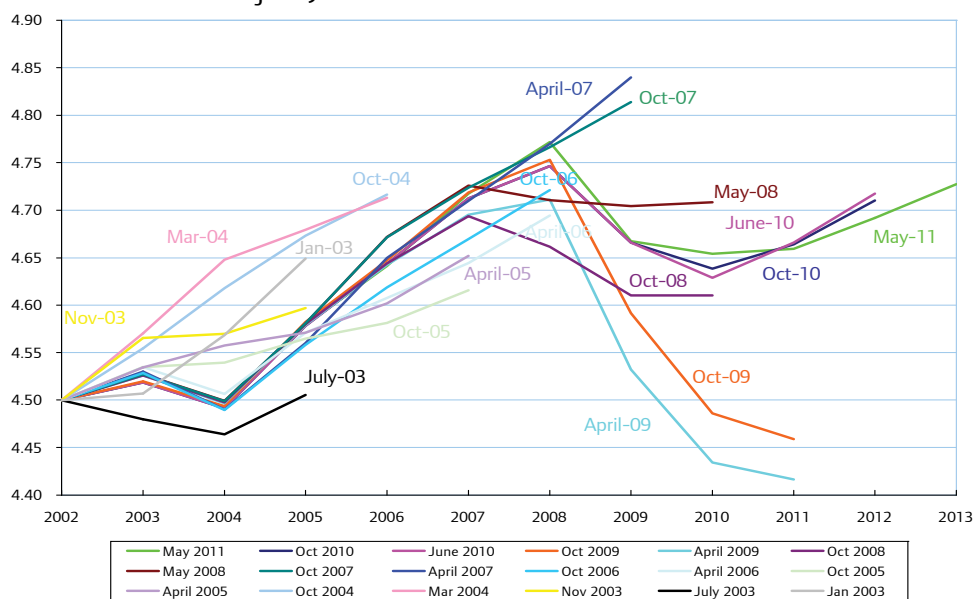
Output and employment growth by sector (per cent annual change)

	2011	2012	2013
Financial services			
Output	3.1	3.8	3.8
Employment	0.3	1.4	0.4
Business services			
Output	5.0	5.3	5.4
Employment	2.6	3.2	3.6
Financial and business services combined			
Output	4.2	4.7	4.8
Employment	2.1	2.8	3.0
Distribution, hotels and catering			
Output	0.8	2.7	2.8
Employment	-1.7	0.6	0.3
Transport and communications			
Output	1.6	2.5	3.0
Employment	-1.0	1.1	1.3
Other (mainly public) services			
Output	-0.4	-1.5	-1.1
Employment	-1.8	-2.4	-1.4
Manufacturing			
Output	2.8	2.5	2.2
Employment	-0.8	-0.7	-1.1
Construction			
Output	1.5	2.3	2.5
Employment	1.6	1.7	0.8
(Memo: non-manufacturing)			
Output	2.0	2.6	3.0
Employment	0.2	0.8	0.8

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparison in Figures 5.2 and 5.3. The most recent forecast for London's workforce jobs growth and output growth is slightly lower than the Autumn 2010 forecast.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(millions of workforce jobs)



Source: Various London's Economic Outlooks

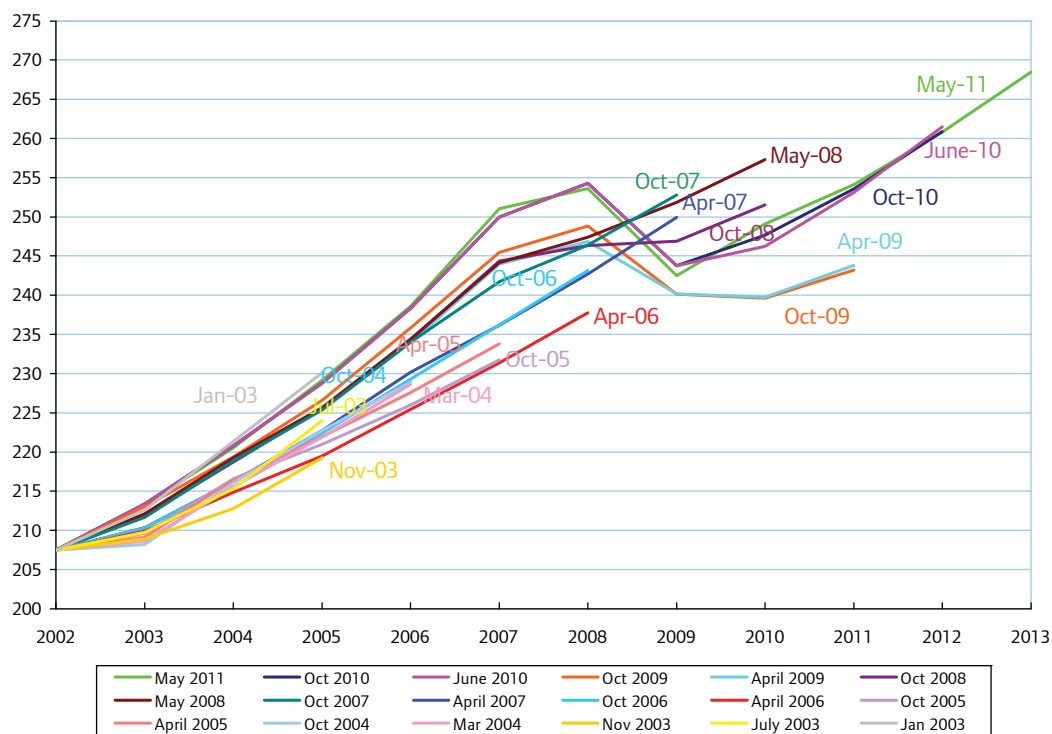
Table 5.3: Comparisons with previous published forecasts

(London workforce jobs, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
May 2011	0.4%	-0.6%	1.9%	1.4%	1.6%	1.1%	-2.2%	-0.3%	0.1%	0.7%	0.8%
Oct 2010								-0.6%	0.6%	1.0%	
June 2010								-0.8%	0.8%	1.1%	
Oct 2009							-3.4%	-2.3%	-0.6%		
April 2009							-3.8%	-2.2%	-0.4%		
Oct 2008						-0.7%	-1.1%	0.0%			
May 2008						-0.3%	-0.1%	0.1%			
Oct 2007					1.2%	0.9%	1.0%				
April 2007					1.2%	1.4%	1.5%				
Oct 2006				1.3%	1.1%	1.1%					
April 2006				0.8%	0.8%	1.1%					
Oct 2005			0.6%	0.4%	0.8%						
April 2005			0.3%	0.7%	1.1%						
Oct 2004		1.4%	1.2%	0.9%							
Mar 2004		1.7%	0.7%	0.7%							
Nov 2003	1.5%	0.1%	0.6%								
July 2003	-0.5%	-0.4%	0.9%								
Jan 2003	0.2%	1.4%	1.8%								

Figure 5.3: Output – latest forecast compared with previous forecasts

(constant year 2006, £ billion)



Source: Various London's Economic Outlooks

Table 5.4: Comparisons with previous published forecasts

(London GVA, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
May 2011	2.8%	3.4%	3.9%	4.1%	5.2%	1.0%	-4.4%	2.7%	2.0%	2.6%	2.9%
Oct 2010								1.6%	2.4%	2.9%	
June 2010								1.0%	2.8%	3.3%	
Oct 2009							-3.5%	-0.2%	1.5%		
April 2009							-2.7%	-0.2%	1.7%		
Oct 2008						0.8%	0.2%	1.9%			
May 2008						1.3%	1.8%	2.2%			
Oct 2007					3.3%	2.0%	2.6%				
April 2007					2.6%	2.8%	3.0%				
Oct 2006				3.1%	3.0%	3.0%					
April 2006				2.7%	2.6%	2.8%					
Oct 2005			2.0%	2.3%	2.6%						
April 2005			2.6%	2.5%	2.7%						
Oct 2004		3.8%	3.1%	2.7%							
Mar 2004		3.3%	2.9%	3.0%							
Nov 2003	0.7%	1.9%	3.0%								
July 2003	1.1%	2.6%	4.1%								
Jan 2003	2.4%	4.1%	4.0%								

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report, as far as is compatible with the individual definitions applied by the forecasters, 'employment' refers to 'workforce employment' as defined in, *Labour Market Trends. London's Economic Outlook: December 2003* and *The GLA's Workforce Employment Series* provides a more detailed explanation of this term.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). Some forecasters still estimate GDP, which differs slightly from GVA. Imputed rental income from the ownership of property is included in some cases but not in others. GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

Estimates of nominal regional GVA are available up to 2009 from the ONS. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price deflators, although the ONS has produced regional price indexes for the year 2004ⁱⁱ. Most regional forecasters supply their own estimates of London's real GVA. The real London GVA figures used in this GLA Economics' forecast are supplied by EE.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases the expenditure of non-profit organisations is included and in other cases it is not.

Appendix B: Glossary of acronyms

ABI	Annual Business Inquiry
bn	Billion
BRC	British Retail Consortium
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CIPS	The Chartered Institute of Purchasing and Supply
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
FSA	Financial Services Authority
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HM Treasury	Her Majesty's Treasury
IFS	The Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
mn	Million
MPC	Monetary Policy Committee
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RPIX	Retail Price Index (excluding mortgage interest payments)
RPI	Retail Price Index
TfL	Transport for London

Appendix C: Bibliography

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Footnotes

- ⁱ The forecast is based on an in-house model built by Volterra Consulting Limited.
- ⁱⁱ RPI = Retail price index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, February 2011 of the UK RPI inflation rate are reported.
- ⁱⁱⁱ CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, February 2011 of the UK CPI inflation rate are reported. Since December 2003 the Bank of England's symmetrical inflation target has been annual CPI inflation at two per cent.
- ^{iv} Royal Institution of Chartered Surveyors, 'Strong regional variation in UK housing market', 8 March 2011.
- ^v Knight Frank, Central London Quarterly, Quarter 4 2010.
- ^{vi} The IMF, 'World Economic Outlook: Tensions from the Two-Speed Recovery', April 2011.
- ^{vii} OECD, 'Economic surveys: United Kingdom', March 2011.
- ^{viii} The Sterling Effective Exchange Rate Index measures the overall change in the trade-weighted exchange value of sterling. It is designed to measure changes in the price competitiveness of traded goods and services and so the weights reflect trade flows in goods and services.
- ^{ix} From the average of independent forecasts provided by HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, No. 288 April 2011.
- ^x The IMF, 'World Economic Outlook: Tensions from the Two-Speed Recovery', April 2011.
- ^{xi} Ibid.
- ^{xii} Ibid.
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- ^{xliii} Ibid.
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- ^{xlviii} Ibid.
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- ^l Most forecasters do not yet provide forecasts of household income.

ⁱⁱ Fenwick D and Wingfield D, 2005, Relative Regional Consumer Price Levels in 2004, Economic Trends No. 615, ONS, February 2005.

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Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

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اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

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Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.