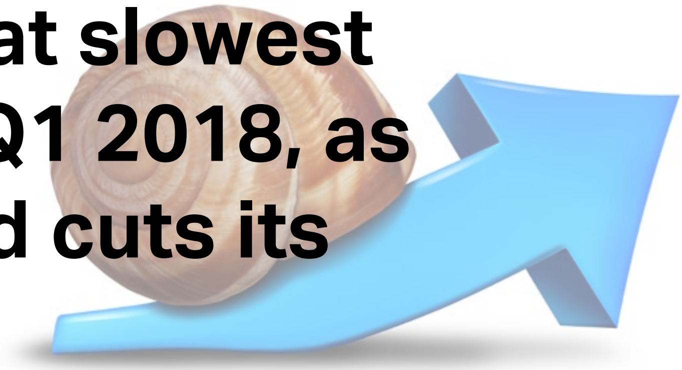
GLAECONOMICS

London's Economy Today

Issue 189 | May 2018

UK economy grew at slowest rate since 2012 in Q1 2018, as the Bank of England cuts its forecast for 2018



By **Gordon Douglass**, Supervisory Economist, and **Eduardo Orellana**, Economist

The second estimate of GDP was published on 25 May by the Office for National Statistics (ONS) and showed that the UK economy grew at a quarterly rate of 0.1% in Q1 2018. This is the slowest quarterly growth rate since Q4 2012. It also compares poorly to the rate of expansion of 0.4% recorded for Q4 2017. On a year-on-year basis, the rate of growth fell to 1.2% in Q1 2018, lower than the 1.4% rate seen in Q4 2017 and the weakest yearly expansion since Q2 2012.

Commenting on the output numbers, the ONS observed that "Construction output declined sharply in Quarter 1 2018 [down 2.7%], while growth in services and manufacturing also slowed". They further observed that despite the poor weather in the first quarter of the year "the overall impact of adverse weather conditions on output in Quarter 1 2018 is relatively small".

The services industries were the largest contributor to output growth, increasing by 0.3% in Q1 2018, although the ONS noted that service sector growth has been weak since 2017 "reflecting a weakening in consumer-focused industries, such as retail trade". Still within this sector, the Business services and finance sector (a particularly important sector for London's economy) continued to grow, increasing by 0.4% in Q1.

Also in this issue

Datastore

The main economic indicators for London are available to download from the London Datastore.

The weakness in the UK economy has been reflected in the May Inflation Report from the Bank of England where it reduced its central forecast for UK economic growth in 2018 from 1.75% to 1.4%. However, the Bank stated in its Report that despite a period of weakness at the start of this year, UK GDP forecasts between 2019 and 2021 remain generally unchanged at around 1.75% per year. On the one hand, this modest growth in the medium-term will be based on "robust world activity [which] continues to support UK exports, with the past depreciation of the sterling exchange rate also providing a continued boost to net trade, which contributes positively to growth over the next three years. That in turn supports UK business investment, helping to offset the drag from uncertainty around the United Kingdom's future trading arrangements". However, on the other hand, a number of risks remain for the British economy: as noted Brexit uncertainty persists, household spending growth is also expected to be subdued over the forecast period due to the muted recovery in real income growth, and latest data show no signs of an imminent improvement in labour productivity growth.

The ONS flash estimate (which is subject to future revisions) for UK labour productivity published on 15 May shows that output per hour – the main measure of labour productivity – fell by 0.5% in Q1 2018. This compares negatively with the growth of 0.7% seen in Q4 2017. As shown by Figure 1 (which also shows previous flash estimates as an indicator for possible revisions to this estimate), UK labour productivity growth has been weak since the financial crisis started in Q1 2008. This phenomenon is commonly referred to as the 'productivity puzzle'. Looking at this latest poor performance the ONS noted that "the reduction in productivity in Quarter 1 2018 was a result of an increase in total hours worked outpacing growth in GVA". Productivity is an important economic indicator as it shows the efficiency of the productive model of the economy and the latest data has dampened earlier hopes of the beginning of a recovery.

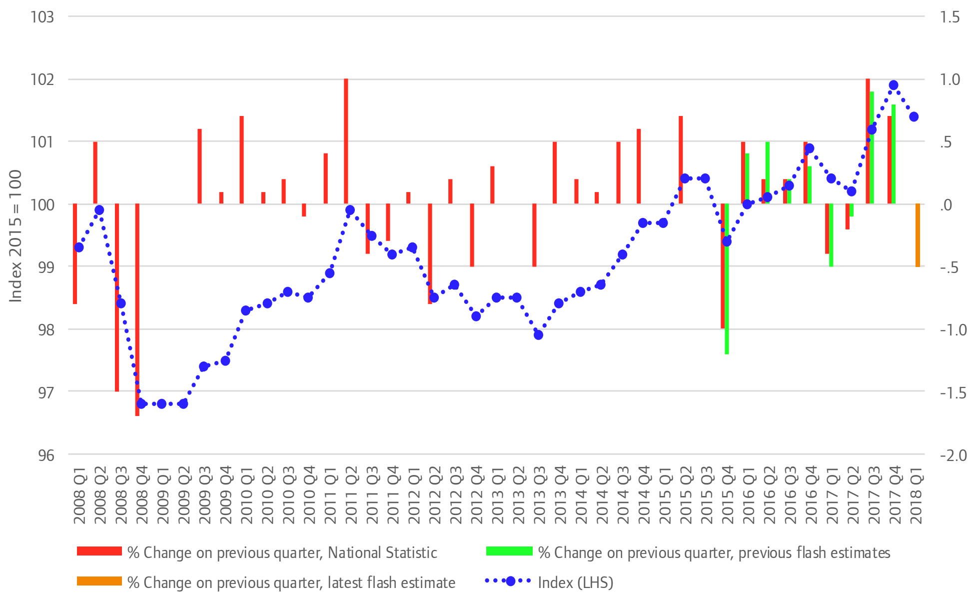


Figure 1: Percentage change on previous quarter and index of UK output per hour. Seasonally adjusted. Q1 2008 – Q1 2018

Source: ONS - UK productivity flash estimate

UK inflation approaches target while the Bank rate remains at 0.5%

Prior to the disappointing Q1 2018 GDP figures there had been some expectation of the Bank of England raising its base rate especially as inflation has remained above target for some time. However, ONS data published in May showed that Consumer Prices Index (CPI) inflation was 2.4% in April 2018, down from 2.5% in March 2018. UK CPI inflation has remained above the Bank of England's 2% central symmetrical monetary policy target since February 2017 but the latest data represents the closest rate to the target since March 2017 (see Figure 2). This continues the downward trend that has been seen since the start of the year. Also, the ONS preferred measure of inflation, CPIH, fell to 2.2% in April from 2.3% in March. In looking at this slight drop in inflation the ONS explained that, "the largest downward contribution to the change in the rate came from air fares, which were influenced by the timing of Easter" while "rising prices for motor fuels produced the largest, partially offsetting, upward effect".

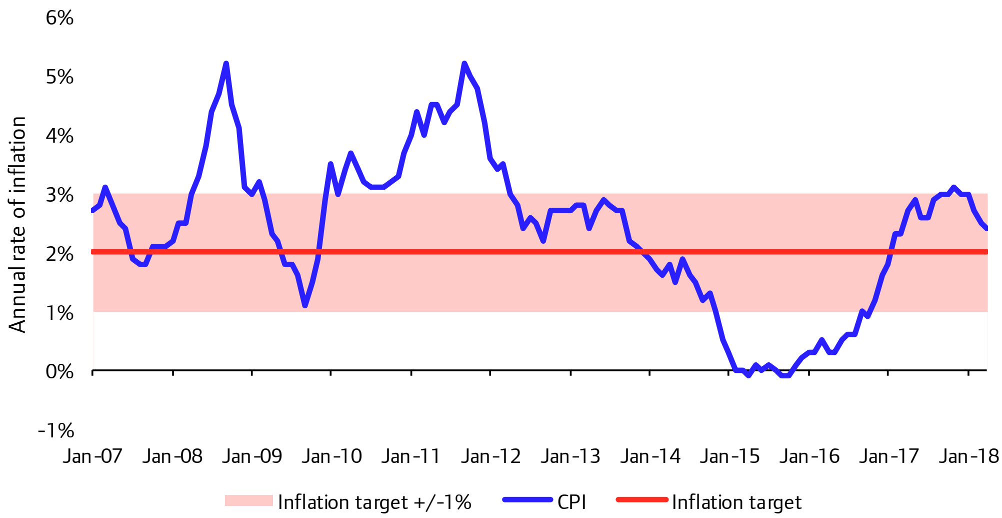


Figure 2: Annual rates of inflation for the UK (January 2007 - April 2018)

Source: ONS

Looking at these recent falls the Bank of England admitted in its most recent Inflation Report that "inflation has fallen back more rapidly than expected three months ago. It now seems likely that pass-through of the past depreciation of sterling to import prices is somewhat smaller than previously thought". In this context of contained inflation close to the monetary policy target along with a lower forecast for economic growth for this year, the Monetary Policy Committee (MPC), which is the Bank's body in charge of the UK monetary policy decisions, decided in May to maintain the Bank rate, at 0.5%. In November 2017, the MPC raised the Bank rate for the first time since July 2007 by only 0.25 percentage points although speculation of future rises continues. However, against this the Governor of the Bank of England, Mark Carney, noted in May that "a sharper Brexit could put monetary policy on a different path". With him adding that "if the transition were disorderly, or the end state agreement materially worse than the average potential outcome, then the MPC could once again be confronted by a trade-off between the speed with which it returns inflation to target and the support policy provides to jobs and activity".

Looking at London, the price level in the capital (which could differ significantly from the national average picture) is difficult to measure with no timely ONS statistics being available. However, as already mentioned in the March 2018 LET, the ONS published in March relative regional consumer price levels for 2016 showing that "prices in London were on average 7.0% higher compared with the UK average price level". Still with regards to housing prices, an important prices reference for the region, the annual growth rate was -0.8% in March, down from -0.1% in February, as measured by Land Registry/ONS data implying the most negative house price rate since September 2009.

Eurozone economic growth slows

Looking at the international economy, the picture for economic growth during the first quarter of the year was generally stronger than here in the UK. The Eurozone shows continued growth, with data from Eurostat showing the Zone’s economy grew by 0.4% in the first quarter of 2018. GDP in the Eurozone thus stood 2.5% higher in Q1 2018 than a year earlier. However, this quarterly growth was slower than the 0.7% quarterly growth seen in Q2, Q3 and Q4 2017. There was also a wide variety of growth in the Eurozone with Germany and France seeing their growth slow to 0.3% in Q1 2018 down from 0.6% and 0.7% respectively in Q4 2017, while Spain saw its economy grow by 0.7% in Q1 2018 unchanged from Q4 2017.

The US also saw its economy continue to grow strongly albeit slightly more slowly than in the previous quarter with its economy growing by a faster than expected quarterly rate of 0.6% in Q1 2018 compared to 0.7% in Q4 2017. However, Japan saw its longest uninterrupted period of economic growth since 1989 come to end in Q1 2018 when its economy contracted by 0.2% on the quarter. This was the first contraction in its economic growth since Q4 2015.

Against this relatively optimistic picture worries remain about the prospect of a trade war between the US and China despite some talk of a deal between the two countries in May. This trade dispute is also worrying EU governments with their temporary exemption from the proposed US tariffs on steel production due to end on 1 June. The threat of US sanctions against Iran has also seen the price of oil rise in the past month with Brent Crude prices temporarily breaking above $80 a barrel in May for the first time since November 2014. Higher oil prices are likely to add both inflationary pressures and a drag to global growth if these persist, especially if combined with further moves towards protectionism around the globe.

London businesses report a pickup in business sentiment

Although hardly booming, economic sentiment in London remains generally resilient against a backdrop of slower UK growth. As an example, the recently published CBI/CBRE London Business Survey found that "almost a quarter of firms (22%) are feeling more optimistic for future economic prospects than six months ago", with them noting "while this figure remains low, it is still the most positive firms have felt since 2015". Also, "25% feel more optimistic about their business prospects over the next six months". In terms of business worries they noted that "the United Kingdom's future relationship with the European Union has been a top concern for businesses for the past five consecutive surveys, and so unsurprisingly most firms (61%) have developed a contingency plan or propose to develop one in the future". Beyond this they also observed that "the cost and availability of homes continue to negatively impact businesses' ability to recruit and retain staff, particularly at entry (66%) and mid-managerial level staff (59%)". Looking at other surveys, the latest PMI data for London (which is shown in detail in the indicators section of this publication) reports continued growth in business activity, new orders and employment for London firms. Official employment numbers also remain buoyant in London, with data published by the ONS in May showing that in the three months to March 2018 employment stood at 75.2% in the capital. This is up 0.7 percentage points on the quarter, and 1.9 percentage points on the year. Looking at the UK its employment rate was slightly higher than London's at 75.6%, up on the quarter (by 0.4 percentage points) and year (by 0.8 percentage points). Still, the employment rate is at a record high in both London (since 1992 when this data series began) and the UK (since 1971 when the national data series begins).

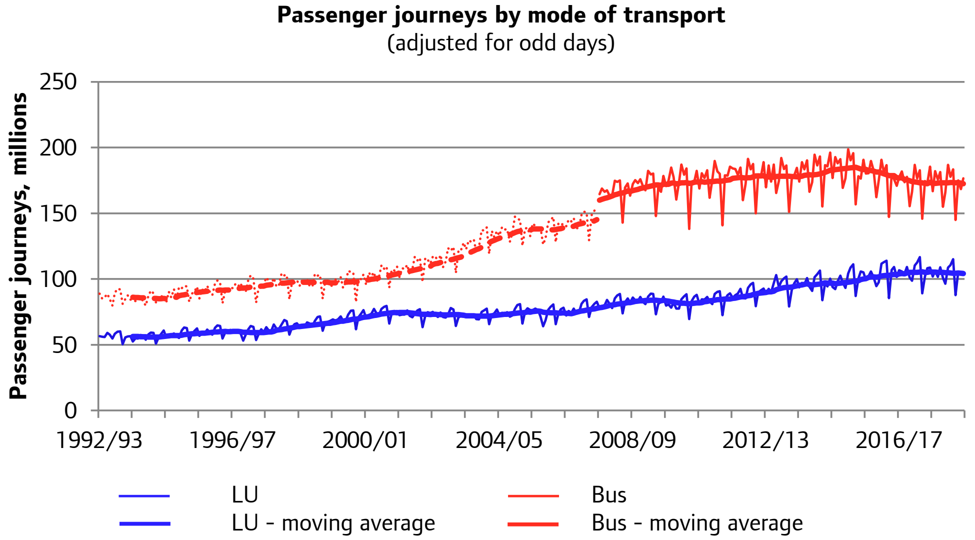
Other signs of strength in London's economy includes the central London office market. Thus, Knight Franks Q1 2018 Central London Quarterly found that "occupier take-up of Central London office space has now registered above average levels for six consecutive quarters". Although it did note that "uncertainty over the economy continues to weigh upon both occupiers and landlords. Despite the tightening supply and thinning pipeline, rents have remained static in most markets". Still, looking forward growth in both employment and output in London is expected to continue but at perhaps a subdued rate. This is shown in our latest forecast for London which forecasts growth in output in the capital of 1.6% this year, 1.9% in 2019 and 2.2% in 2020.

Economic indicators

TfL passenger journeys grow

- A total of 281.8 million passenger journeys were registered between 5 March and 1 April 2018, 8.3 million more than the previous period accounting for odd days. The whole increase was due to a growth in bus journeys. 105.3 million of the total journeys were Underground journeys and 176.5 million were bus journeys.
- The moving average in the total number of passenger journeys decreased from 277.4 million to 276.6 million.
- 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).

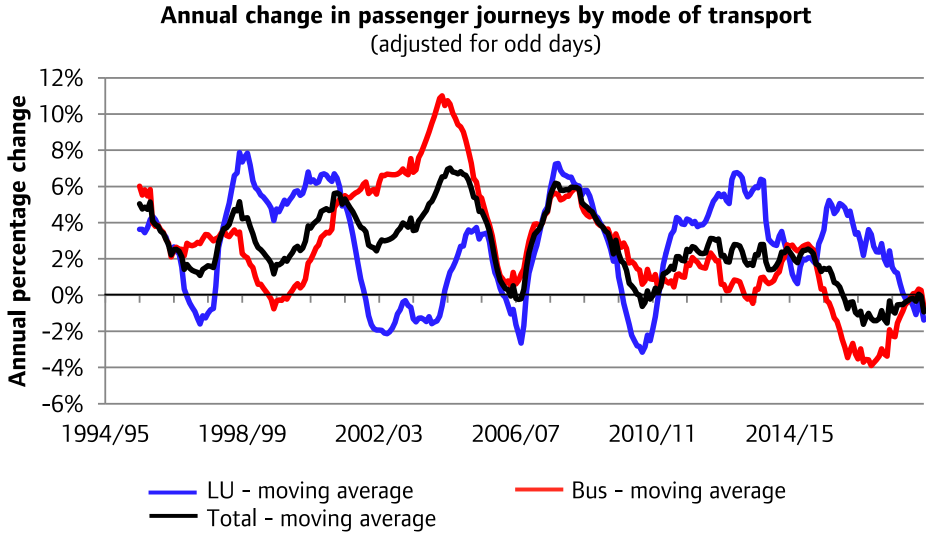
Source: Transport for London
Latest release: May 2018, Next release: June 2018



The annual growth rate in passenger journeys turns more negative

- The moving average annual growth rate in the total number of passenger journeys fell from -0.1% to -0.9%.
- The moving average annual growth rate of bus journeys decreased from 0.3% to -0.6%.
- The moving average of Tube passenger journeys decreased from -0.6% to -1.4%.

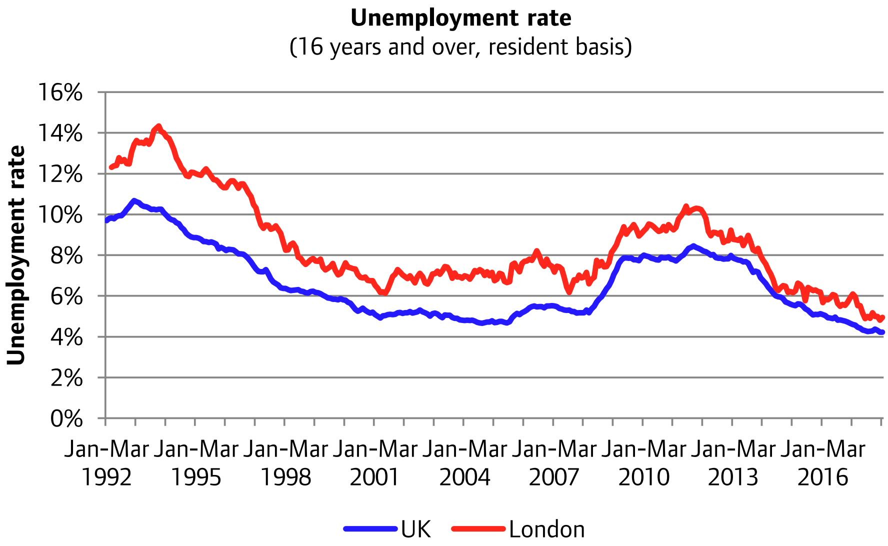
Source: Transport for London
Latest release: May 2018, Next release: June 2018



London's unemployment nears a record low

- 246,689 residents over 16-year-old were unemployed in London for the first quarter 2018; 865 persons more than the last quarter 2017.
- Nevertheless, the unemployment rate in London decreased to 4.9% from 5.0% in the fourth quarter of the previous year, reaching one of its lowest historical rates since the register of data started in Q1 1992.
- The UK's unemployment rate stood at 4.2% in Q1 2018 (a joint historic low), down from the 4.4% in Q4 2017.

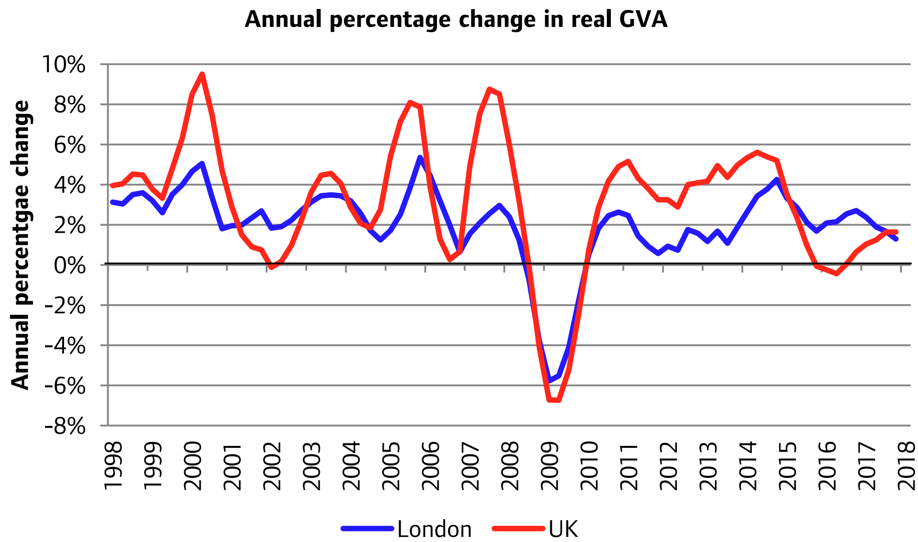
Source: ONS Labour Force Survey
Latest release: May 2018, Next release: June 2018



London's annual output growth remained at 1.6%

- London's annual GVA growth was 1.6% in Q4 2017 - the same rate as in Q3, and the joint highest level since Q2 2015.
- In the UK, the downward trend from Q4 2016 has continued. Output growth was 1.3% annually in Q4 2017 - 0.4 percentage points lower than the previous quarter, and representing the weakest expansion in four years.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Source: ONS and GLA Economics
Latest release: April 2018, Next release: July 2018

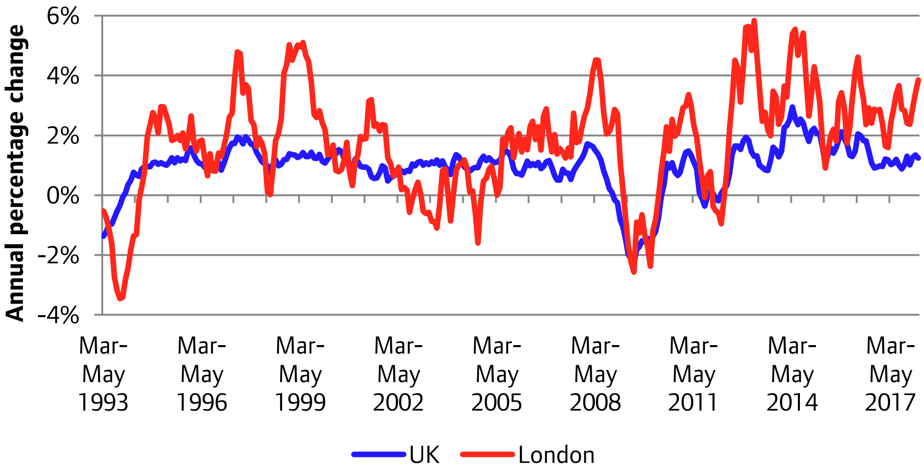


Employment grew by an annual rate of 3.8% in London

- Over 4.74 million residents over 16 years old were employed in London during the first quarter of 2018.
- The rate of annual employment growth for the capital was 3.8% for the period, compared to the 2.4% registered for Q4 2017.
- During the same period January - March 2018, the UK grew annually at a rate of 1.2%, 0.2 percentage points up from the previous three-month period.

Source: ONS Labour Force Survey
Latest release: May 2018, Next release: June 2018

Annual percentage change in employment
(16 years and over, resident basis)

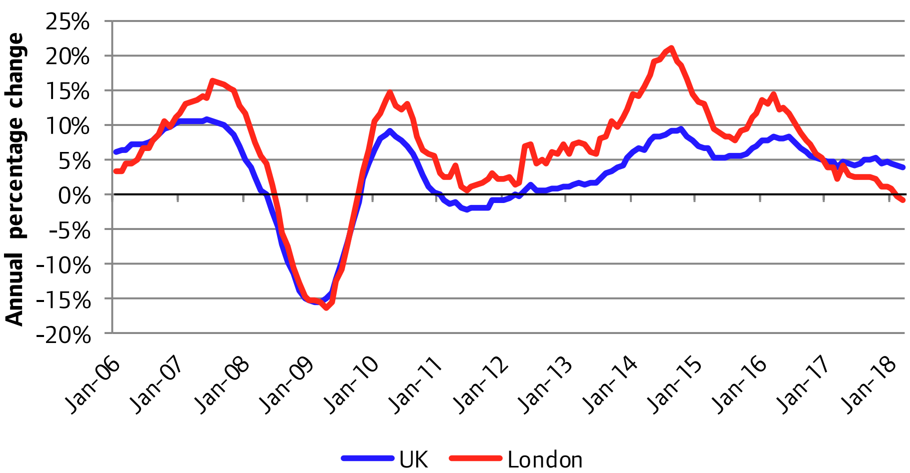


Contraction in London house prices intensifies

- In March, the average house price in London was £475,900 while for the UK the average was only £224,671.
- The annual growth rate in house prices in London was -0.8% in March, down from -0.1% in February, giving the most negative rate since September 2009.
- For the UK, house prices grew 0.3 percentage points slower in March (3.9% year-on-year) compared to February and the downward trend started in January 2018 continues.

Source: Land Registry and ONS
Latest release: May 2018, Next release: June 2018

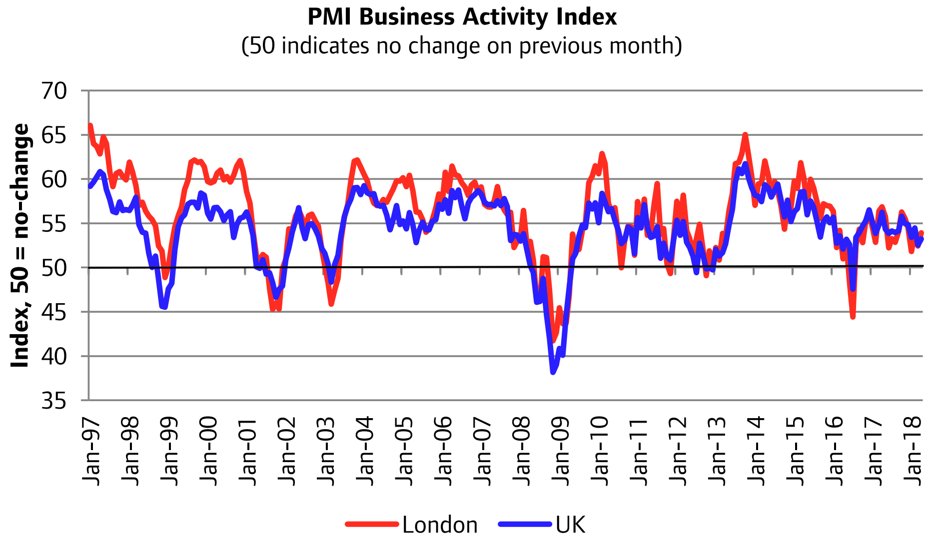
Annual percentage change in average house prices
(seasonally adjusted)



Solid growth in London business activity in April

- 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.
- Business activity growth at London private firms was 53.9 in April, higher than March (52.4).
- The UK index also increased from 52.5 in March to 53.2 in April.

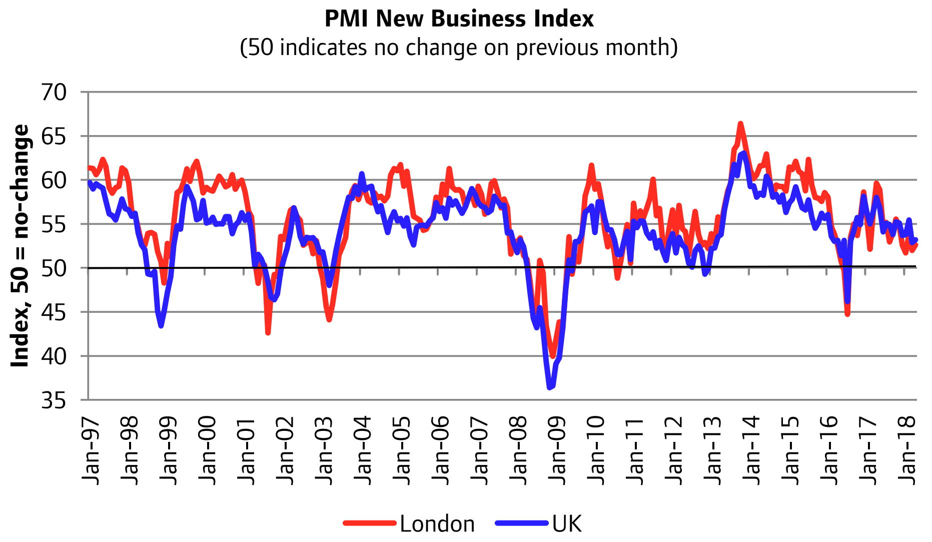
Source: IHS Markit
Latest release: May 2018, Next release: June 2018



Growth continues in new business in London

- The PMI New Business Index was 52.6 in London in April, slightly up from March (52.0).
- UK firms reported an index of 53.2 in April, also higher than compared to the 52.9 seen in March.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Source: IHS Markit
Latest release: May 2018, Next release: June 2018

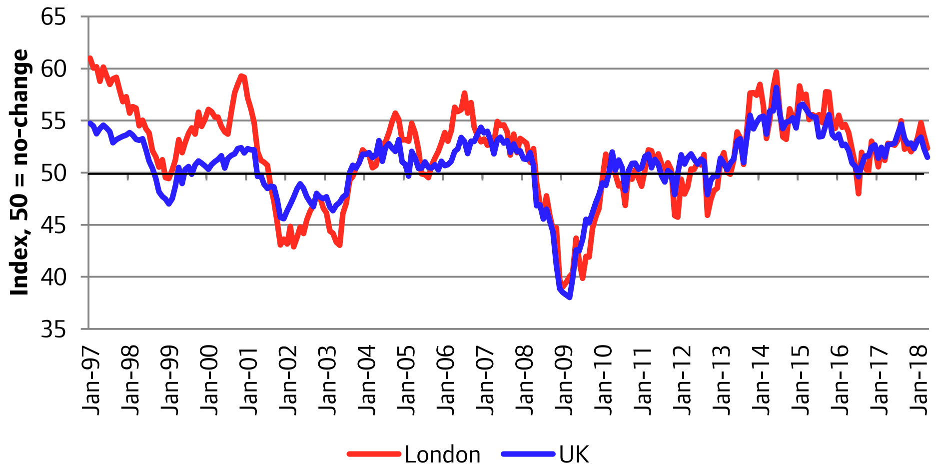


Employment growth in London continues but at a slower rate

- The PMI Employment Index shows the monthly change in employment at private sector firms. Readings above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.
- The Employment Index for London was 52.3 in April, lower than in March (53.6)
- The employment levels also increased at a slower rate across the UK in April (51.5) compared to the previous month (52.3).

Source: IHS Markit
Latest release: May 2018, Next release: June 2018

PMI Employment Index
(50 indicates no change on previous month)

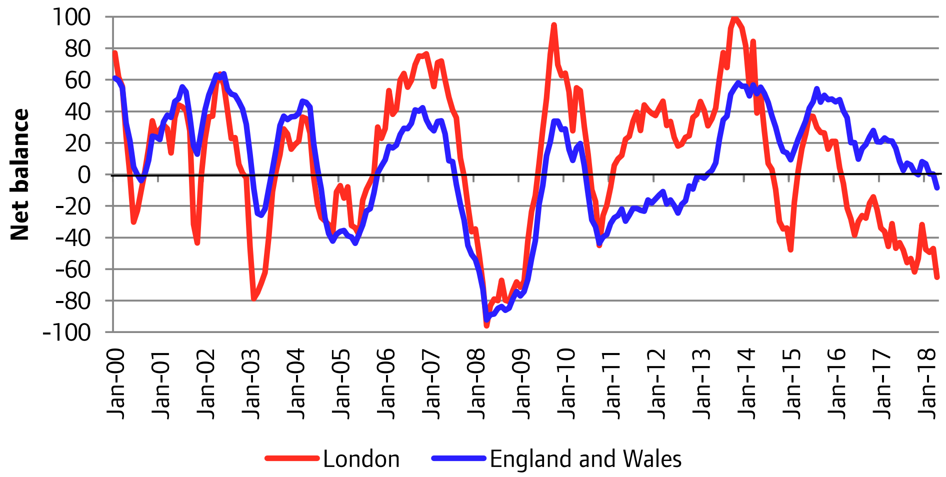


Most property surveyors reported a contraction in London´s house prices

- During the period February-April, the net balance of property surveyors decreased down to -65, the most negative figure in nine years.
- The RICS house prices net balance index for England and Wales decreased from 0 to -8 for the same period, reaching the lowest level since November 2012.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

Source: Royal Institution of Chartered Surveyors
Latest release: May 2018, Next release: June 2018

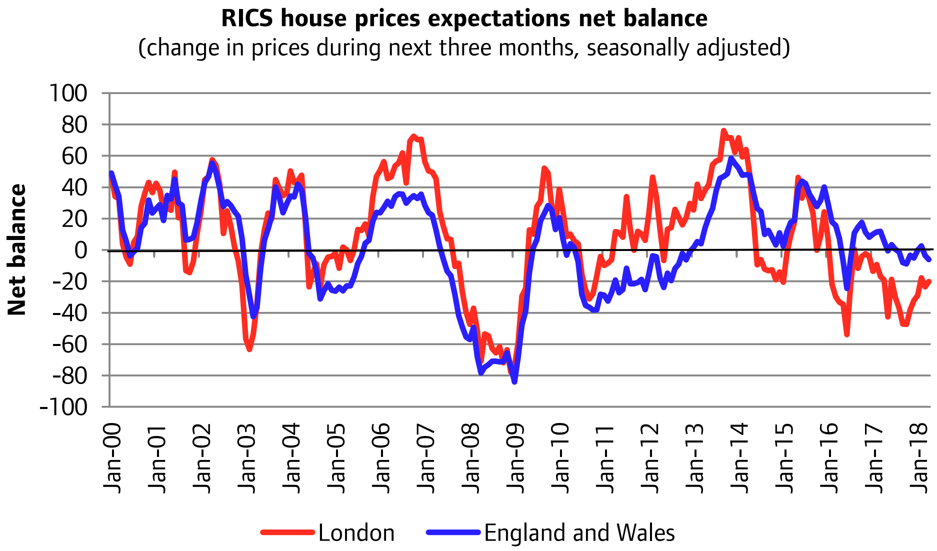
RICS house prices net balance
(change in prices during next three months, seasonally adjusted)



House prices expectations in London remain negative

- Most surveyors continue to have negative expectations for the next three months for house prices in London. The RICS index was -20 in April, very similar to March (-23).
- London remains the region with the most negative expectations for house prices.
- Still sentiment in England and Wales was more negative in April (-6), down from -3 in March.

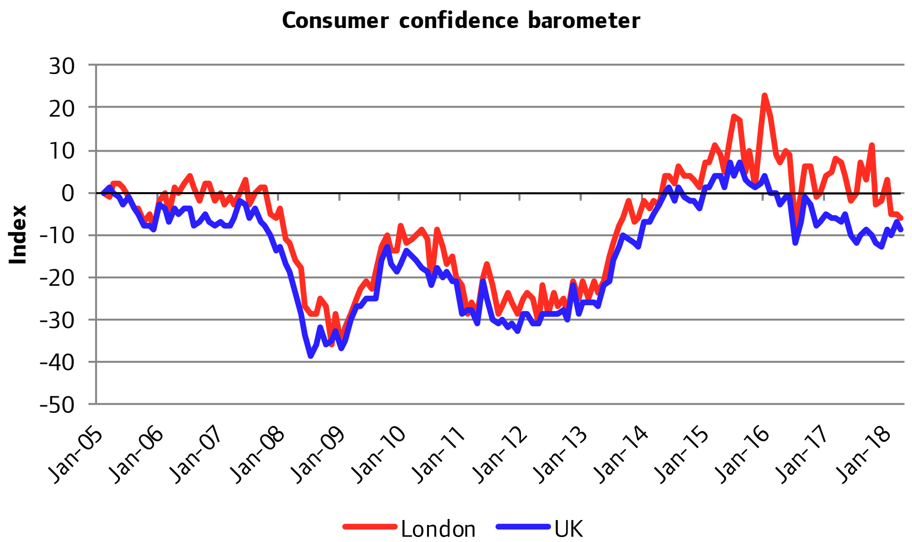
Source: Royal Institution of Chartered Surveyors
Latest release: May 2018, Next release: June 2018



Consumer confidence continues to decrease in London

- 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.
- The consumer confidence index in London was negative (-6) in April, broadly unchanged from March and Feb (-5)
- Sentiment was also negative for the UK (-9) in April, and more negative when compared to March (-7). The UK index has remained negative since April 2016.

Source: GfK NOP on behalf of the European Commission
Latest release: April 2018, Next release: May 2018



An update on London's architecture sector

By **Mark Wingham**, Economist

Last year, GLA Economics published research looking at the economic contribution of London's Architecture sector for the first time. This formed part of our wider work looking at the creative industries.

We have since updated our analysis on London's Architecture sector while also taking a further look at the socio-economic characteristics of those working in the industry. This supplement highlights some of the findings from this research.

London's Architecture sector is growing against most indicators

The number of workplaces – i.e. the actual place of work rather than a business in its entirety – in London's Architecture sector has been growing. It has gone up from 3,905 workplaces in 2015 to 4,515 in 2017. More than a quarter (26.7%) of all architectural workplaces in the UK were in the capital.

In terms of gross value added (GVA)[1] – a measure of economic activity useful for characterising the size of a sector – London's Architecture sector produced £1.9bn, in constant 2015 prices, of output in 2016. That was up from £1.1bn on 2009 suggesting that the sector has grown on average by 7.7% per annum in real terms. That was a faster rate of growth than the creative industries (7.3%) and the London economy (3.2%) as a whole.

The Architecture sector represented 0.5% of the London economy in 2016 and was broadly in line with the size of the Postal and courier activities (£1.8bn) and Motor trades (£2bn) sectors in 2016 as shown in Figure A1. It was also bigger than the Manufacture of food products (not including beverages), Gambling and betting activities and Residential care activities. And it was only slightly smaller in relative terms than the Accommodation and Civil Engineering industries.

1 This uses the balanced estimates of GVA produced by the Office for National Statistics. These are experimental statistics meaning that it is subject to revision.

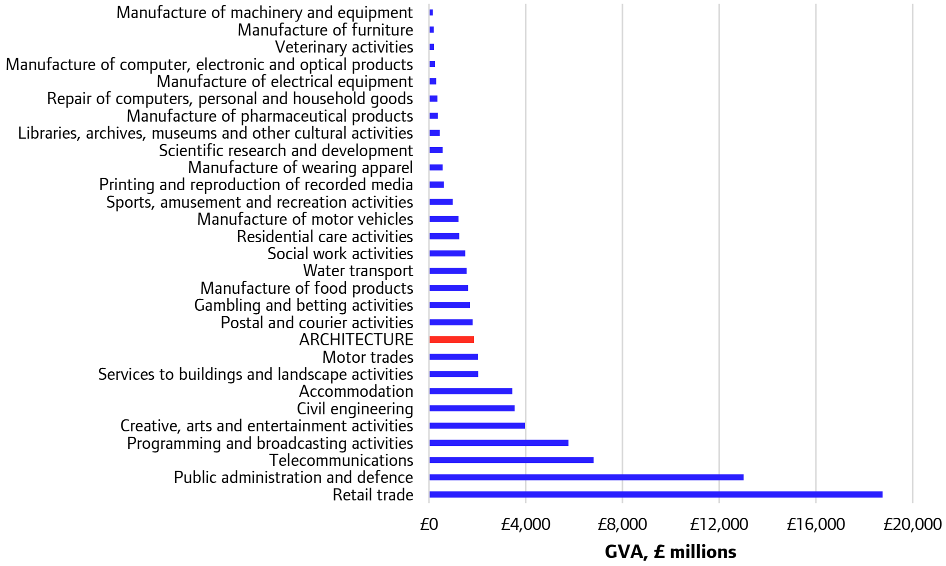


Figure A1: GVA for selected sectors in London during 2016, constant 2015 prices, £ millions

Source: ONS Regional GVA balanced estimates

Meanwhile, the number of jobs in London's Architecture sector was 27,600 in 2016. While there are year-on-year fluctuations, the general trend has been one of decline (Figure A2). For example, previously the number of jobs stood at 34,100 and 29,500 respectively in 2010 and 2011.

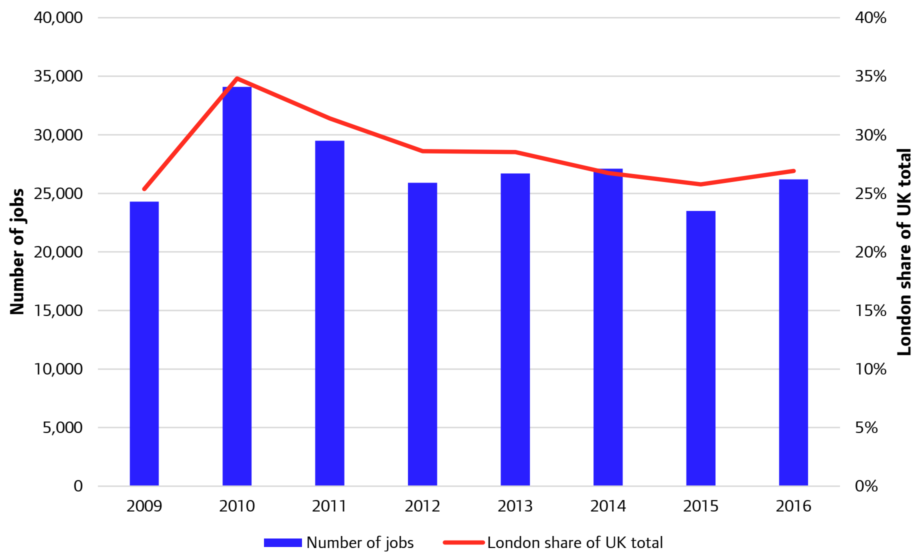


Figure A2: Number of jobs in London's Architecture sector since 2009

Source: ONS Annual Population Survey

A more detailed look at the characteristics of the workforce

Looking at the characteristics of the people working in London's Architecture sector in greater detail, around half (46.6%) of the jobs were taken by women in 2016. That is much improved from a low of 23.3% in 2011. Meanwhile, the workforce is relatively young with 42.4% of jobholders aged 16-34 and a further 44.9% aged 35-54 in 2016.

Other characteristics can be analysed but, given the issue of small samples, it requires a different methodology. For example, instead of looking at a single year (i.e. 2016), it looks at the average over several years (i.e. 2014 to 2016). It also looks at a wider sector definition – that is, in addition to Architecture, the definition also includes Engineering activities.

Given this, London's Architecture and engineering activities sector is less ethnically diverse than the all-sector average. Approximately 16% ± 5% of jobs were taken by people who were black, Asian or any other minority ethnic (BAME) in this sector compared with a London average for all occupations of 31% ± 1% between 2014 and 2016. Linked to this, the Architecture and engineering activities sector had proportionally fewer jobholders (12% ± 4%) reporting a non-Christian religion[2] than the London average (19% ± 1%). In contrast, there were no statistical differences for the proportion of jobholders who were disabled[3] (9% ± 3% versus 10% ± 0%) or had a non-UK nationality (21% ± 5% versus 24% ± 1%) between the Architecture and engineering activities sector and the London all-sector average (Figure A3).

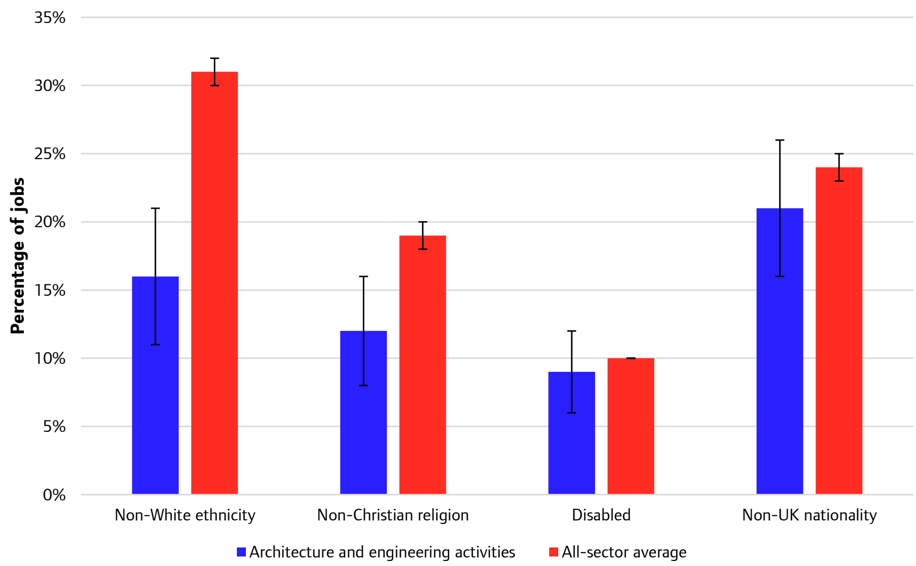


Figure A3: Characteristics of jobholders in London between 2014 and 2016

Source: ONS Annual Population Survey

In terms of pay, the median hourly wage in London's Architecture sector was £18.33 per hour (± £1.65) in 2017. That compared with £16.74 (± £2.75) in 2008, though this difference was not statistically significant after accounting for survey measurement errors. Moreover, while there is typically no statistical difference in median wages for men and women, there nonetheless seems to have been a closure of the gender pay gap over the years. For example, men and women previously earnt £19.28 (± £4.24) and £14.33 (± £2.46) respectively in 2008, but these were £18.47 (± £2.51) and £17.84 (± £3.18) by 2017.

Other ways Architecture makes an economic contribution

So far, the Architecture sector has been measured against economic indicators like GVA and jobs. However, the industry also makes an economic contribution in terms of attracting visitors, maintaining the status of London as a key higher education destination and contributing to London's exports.

One-in-six (16.5%) undergraduates and one-in-three (34.7%) postgraduates studying Architecture, building and planning in the UK did so in the capital during the 2015-16 academic year. Moreover, around 2.8% of domestic overnight and 4.2% of domestic day trips to London involved some activities relating to architecture. Based on several simplifying assumptions, this could mean that architecture-related tourism contributes to around £400m of London's GVA and London's architecture firms are likely to play a role in this by contributing to preserve, restore and enhance the city's architectural heritage. Furthermore, the UK exported £439m of Architectural services in 2016 and this has grown nominally on average by 4.3% per annum since 2013.

Further information about London's Architecture sector can be found in GLA Economics Working Paper 93. This and our other Working Papers and Current Issues Notes can be found on our publications page.

2 Does not include atheists.
3 In line with the Equalities Act 2010.

Our latest publications

We publish regularly on the state of London's economy, providing the latest economic data for London and interpret how this may affect policy. This includes analysis of recent developments in London's economy and forecasts for the next couple of years.

We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

We analyse recent developments in London's labour market, by sector and borough.

View all the GLA Economics publications on our website.

Regional, sub-regional and local GVA estimates for London, 1997-2016
The main points from Current Issues Note 57:

In 2016, London's total nominal GVA (as measured by GVA (I)) was just under £396 billion (up 4.4 per cent on 2015). This represented 22.7 per cent of the UK's total GVA (I) in 2016, up from 22.5 per cent in 2015 and 18.5 per cent when going even further back to 1997.

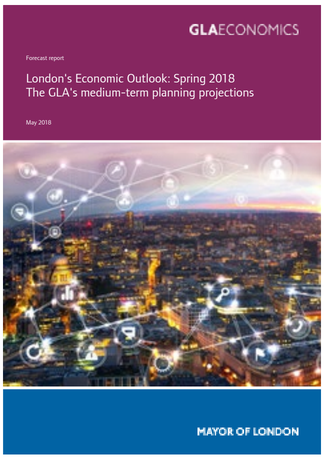
London had the highest GVA (I) per head in the UK at £45,046 in 2016, 69.4 per cent higher than average UK GVA (I) per head which was £26,584.

Download the full publication.

Demand for childcare in London - drivers and projections
Working Paper 94 identifies the drivers of formal childcare demand and provides London-level projections of formal childcare demand.

- In the period since 2004 there has been strong growth in the use of both any and formal childcare, and a fall in the use of informal childcare both in London and nationally.
- Childcare is less affordable in London, and this situation may have worsened. This may be a deterrent to some mothers taking up part-time work.

Download the full publication.



London's Economic Outlook
Our latest London forecast published in May 2018 suggests that:

- London's Gross Value Added (GVA) growth rate is forecast to be 1.6% in 2018. The growth rate is expected to rise slightly to 1.9% in 2019, before reaching 2.2% in 2020.
- London is forecast to see increases in the number of workforce jobs in 2018, 2019 and 2020.
- London's household income and spending are both forecast to increase over the next three years, albeit at a relatively slow rate.

Download the full publication.

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MAYOR OF LONDON