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UK GDP flat at the end of 2019

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and **Eduardo Orellana**, Economist

In February the Office for National Statistics (ONS) published their first estimate of Q4 2019 UK GDP. This showed that UK output did not grow in the last three months of the year, down from the 0.5% growth seen in Q3 2019 (Figure 1). Compared to the same quarter in 2018 GDP was 1.1% higher. Over the whole of 2019 the economy grew by 1.4%. This was only a marginal increase on the 1.3% growth seen in 2018, which was the lowest growth rate of any year in the 2010s.

Looking at the GDP data in more detail the ONS observed that the Services sector and Construction contributed to GDP growth in Q4, although Services sector growth stood at only 0.1% - the weakest growth since mid-2016. Growth in these sectors was offset by a decline in the Production sector, which saw output fall by 0.8% (mainly driven by a continuing fall in Manufacturing output).

In more positive news for the economy the ONS published data in February on average weekly wages in Great Britain for the three months to December 2019. This showed that after adjusting for inflation, pay finally passed its pre-financial crisis peak. However, the data continues to show that pay including bonuses remains below its pre-crisis peak and that pay growth has moderated in recent months.

Also in this issue

Datastore

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

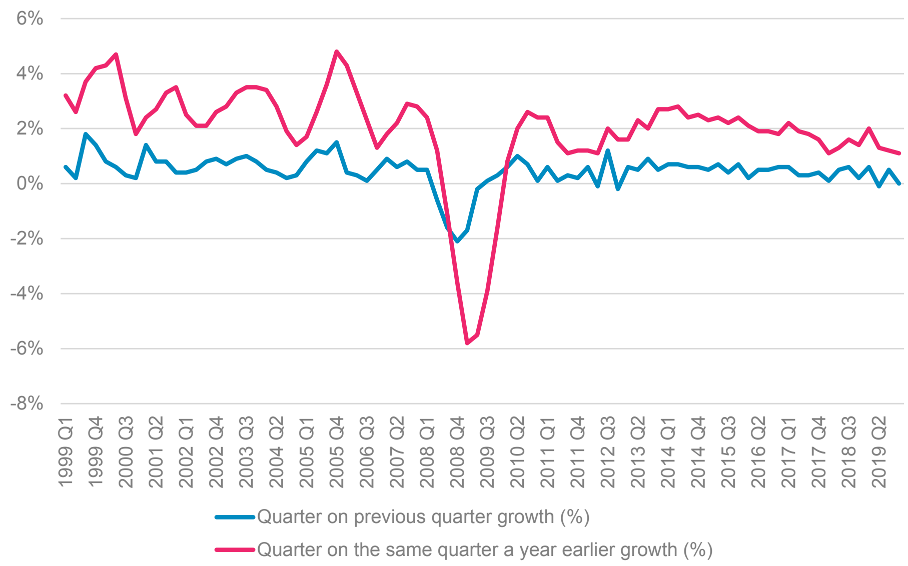
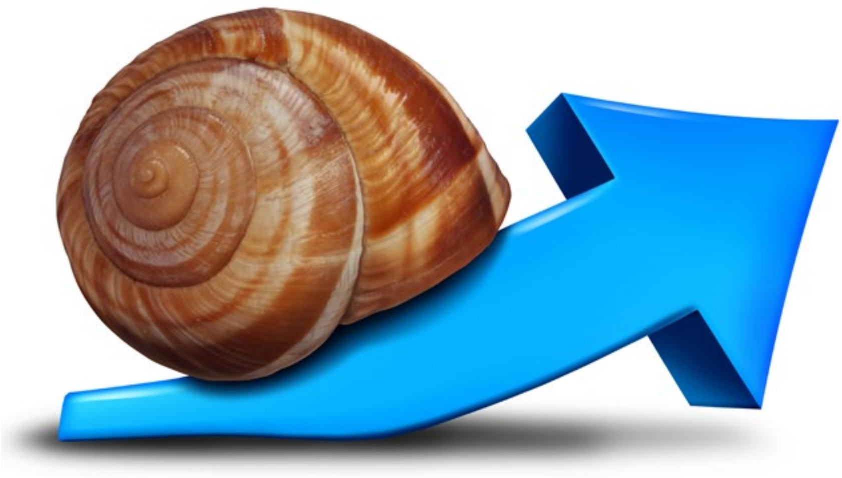


Figure 1: UK quarter on quarter and quarter on same quarter a year earlier GDP growth Q1 1999 to Q4 2019

Source: ONS

UK productivity growth expected to remain slow



New research from the University of Sussex and Loughborough University has found that productivity growth in the ten years following the financial crisis "is nearly double the previous worst productivity shortfall ten years after the start of a downturn". They added that "on this criterion the slowdown is unprecedented in the past 250 years".

Looking forward the Bank of England published their latest forecasts for the UK economy in their Monetary Policy Report at the end of January. In this they reduced their assumptions about long-term productivity growth in the UK. They now think that productivity growth over their forecast period will average around 0.5% a year, similar to the 0.4% seen over the last decade, but lower than the 1% previously expected.

Given the weak expected growth in productivity and the already tight labour market the Bank thinks the UK economy will only grow at an average of 1.1% over the next three years. This is significantly below the stated goal of the previous Chancellor of the Exchequer, Sajid Javid, of raising growth to 2.8% per year on average. If growth is slower in the long term than previously expected this may limit the new Chancellor Rishi Sunak's room for manoeuvre on spending and taxes in the upcoming Budget.

The Bank also noted the slow growth at the end of 2019 and expects growth to stand at just 0.2% for the first quarter of 2020. Still for the coming year or so the Bank thinks that the easing of global trade tensions, a stabilisation in the global economy, and better business survey results supports their "forecast of a near-term recovery in growth". And regarding interest rate rises, the Monetary Policy Committee (MPC) observed that if the economy behaved as it forecast then "some modest tightening of policy may be needed to maintain inflation sustainably at target".

UK and EU set out trade deal negotiation positions

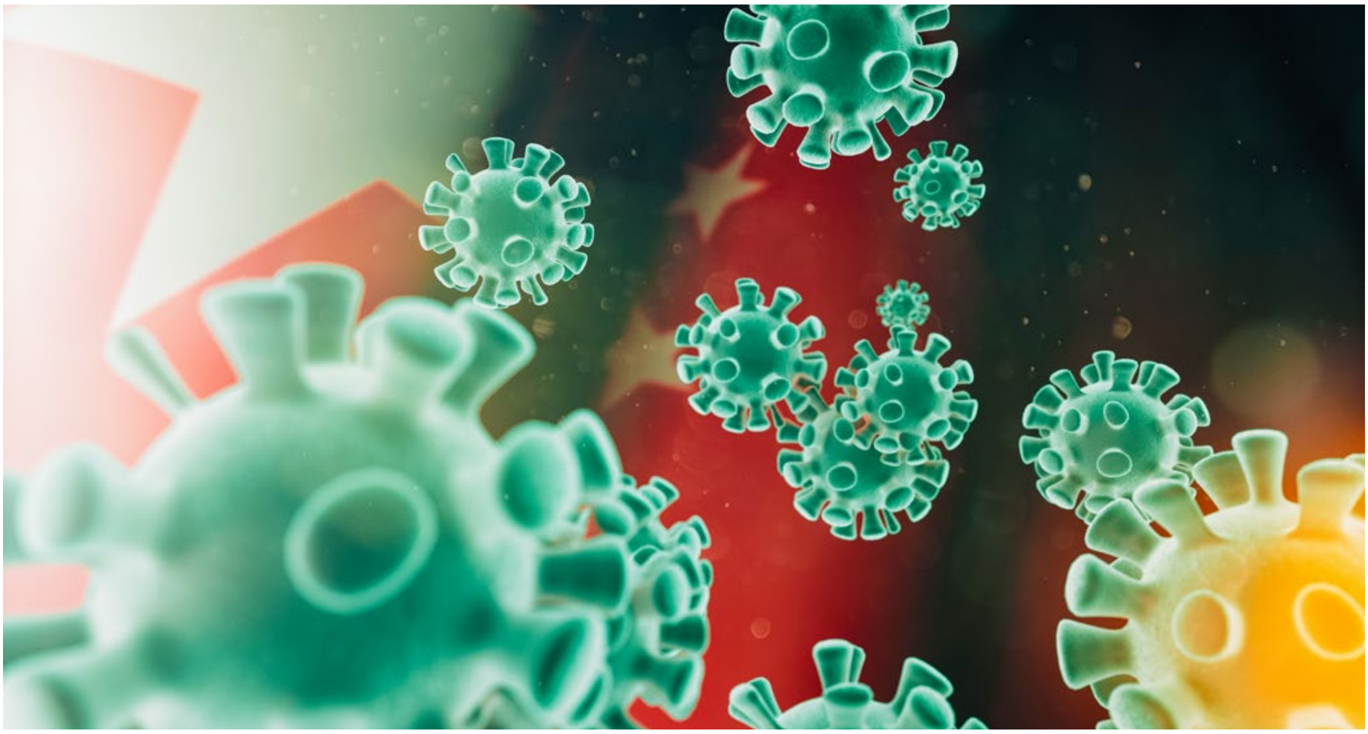
Following the withdrawal of the UK from the EU on the night of 31 January, both sides have been outlining some of their negotiating positions ahead of the start of talks in March. The UK foreign secretary Dominic Raab has stated that the UK will "not be aligning with EU rules" in any trade deal, while in a speech in February the Prime Minister, Boris Johnson, stated "we want a comprehensive free trade agreement similar to Canada's". He also stated that he did not want a role for the European Court of Justice (ECJ) in settling future disputes. The pound reacted by falling against both the euro and dollar following the speech on increased worries about the possibility of no trade deal being struck.

In response to Mr Johnson's speech Michel Barnier, the EU's chief negotiator on all things Brexit related, said that "the UK answer will be fundamental to the level of ambition of our future relationship and the UK must know this". The draft negotiating mandate from the EU published in February wants the UK to maintain EU state-aid rules, and rules on the environment and labour market. In exchange the EU is willing to offer the UK a quota and tariff-free trade deal for goods. The EU further said its deal would cover services. However, it also wants the ECJ to settle future trade disputes between the two and for a fishing agreement on a similar basis to the current one.

From these opening positions there remains a number of areas of uncertainty around future trading arrangements. One area of particular concern to London and also the UK economy surrounds Financial services. In relation to this Michel Barnier has stated that there should be "no illusions on this issue; there will be no general, global or permanent equivalence on Financial services".

In February the Government also announced details of their proposed new migration regime, for after the end of the current transition period which is due to finish on 31 December 2020. This migration regime will require migrants to collect 70 points, 50 of which must cover speaking English, having a job offer from an approved sponsor and having a job above a "skills threshold". To gain the remaining 20 points migrants can either earn at least £25,600, have a PhD in a relevant field to their job offer and earn above at least £23,040, have a PhD in a STEM subject relevant to the job or have a job offer in "a shortage occupation".

Coronavirus may dampen the Chinese economy



The coronavirus outbreak in China has so far had limited influence on the global economy beyond stock market falls, but there have been concerns that as it continues its economic bearing could increase. In particular, its effect on Chinese production and therefore China's exports and wider global supply chains could cause delays and disruption that may dampen short-term global growth. Looking at the impact on the Chinese economy in more depth, Deutsche Bank thinks that Chinese growth could be 1.5% lower in Q1 2020 compared to Q1 2019 due to the disruption caused by the virus.

Other countries in East Asia have been responding to the impact the virus may have on their economies as well. Singapore has unveiled a S$6.4 billion stimulus package for its economy, while the President of South Korea, Moon Jae-in, has said that they will take all possible measures to support the economy, adding that given the current seriousness of the situation "we need to take emergency steps in this time of emergency".

Beyond this Japan had a poor end to 2019 with its economy contracting by 6.3% on an annualised basis in Q4 2019, its fastest pace of shrinkage in six years. A contraction had been expected after a rise in the consumption tax in the autumn, but the scale of the contraction was much larger than the annualised 3.7% that forecasters had been expecting. Still in more positive news for the global economic outlook there was a further easing in trade tensions between China and the US this month when China announced that it plans to halve tariffs on over 1,700 goods that it imports from the US.

Closer to home the Eurozone economy showed very little growth at the end of last year according to the flash estimate of the Zone's Q4 2019 growth rate from Eurostat. This data showed that the Eurozone economy only grew by 0.1% at the end of last year, down from the 0.3% growth seen in Q3 2019. There was also a wide variation in growth within the Zone with France and Italy seeing their output fall by 0.1% and 0.3% respectively and Germany seeing 0.0% growth, whereas Spain saw its economy grow by 0.5% in Q4 2019.

Looking forward there are concerns about the impact of the coronavirus outbreak in Italy on its economy with Ignazio Visco, the governor of the Bank of Italy, saying that the health crisis could take 0.2 percentage points off this year's growth.

London productivity over 30% above the UK average

In February the ONS published regional productivity statistics for the UK for 2018. These statistics again showed that London was the most productive area of the UK with output per hour worked standing 31.6% above the UK average (Figure 2). The only other UK area with productivity above the UK average was the South East where output per hour worked was 9.1% above the average in 2018. However, for growth in productivity, London, although its productivity rose, saw slower growth than other areas of the UK in 2018, with Scotland (2.3%), the East Midlands (2.1%), the South East (1.7%), the West Midlands (1.6%), and the East of England (0.6%) seeing faster growth in output per hour worked in 2018 than London (0.5%).

The Industrial Strategy Council has been looking at regional productivity differences in the UK and published a report on it this month. This highlighted "three key explanations" for regional differences:

- "Place-based fundamentals: Geography, local culture, governance and infrastructure are important factors determining the economic activities of a region…;
- "Agglomeration: Places attract clusters of economic activity which become self-sustaining…;
- "Sorting: Workers, especially highly-skilled workers, also choose to cluster…".

Based on this they argued that it would be beneficial to "introduce a new degree of continuity into UK regional policy to ensure a strategic approach to achieving long-term economic goals", to "seek to foster local growth strategies that are robust to the different narratives" they have outlined, and to "keep the spotlight on places whose productivity levels and growth rates are well below the national average".

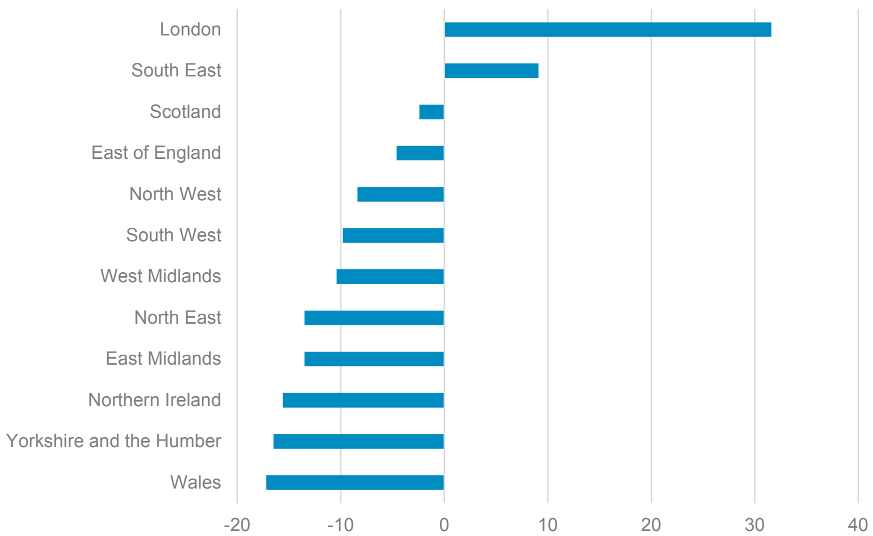


Figure 2: Output per hour by NUTS 1 region relative to the UK average, 2018 (%)

Source: ONS

London was the fastest growing area of the UK in Q2 2019

A number of other statistics of interest to London were published by the ONS in February. In its latest estimate of regional quarterly GDP growth, it found that in Q2 2019 London was the fastest growing area of the UK with GDP increasing by 1.0%, whereas the West Midlands and North West of England had the lowest growth standing at -1.6%. Of the UK nations both England and Scotland saw GDP fall by 0.1% and 0.2% respectively, while Northern Ireland and Wales grew by 0.3% and 0.4% respectively.

Besides output the labour market picture in London has remained resilient, with ONS data showing that London's 16-64 employment rate stood at 75.5% in the three months to December, up by 0.9 percentage points on the previous quarter and 0.7 percentage points up on the year. For the UK as a whole the employment rate rose by 0.6 percentage points on the previous year, reaching 76.5%. At the same time the unemployment rate (the number of unemployed people as a percentage of the labour force) in the capital was near its lowest ever level at 4.3%, 0.3 percentage points down on the previous quarter and 0.2 percentage points down on the year. The UK unemployment rate was estimated at 3.8%, 0.1 percentage points down on the quarter and 0.2 percentage points down on the year.

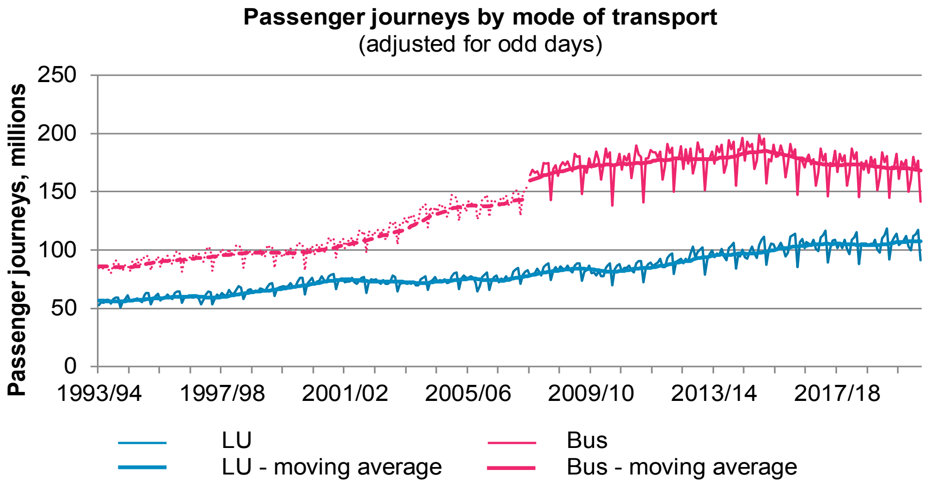
In other news the Government confirmed in February that construction of HS2 would go ahead, with a number of London-based construction projects to follow from this announcement. In conclusion, it would appear that London's economy continues to perform well against a continuing backdrop of economic uncertainty which could dominate the news in the coming few months.

Economic indicators

Both bus and underground passenger journeys fell in the latest period

- A total of 232.6 million passenger journeys were registered between 8 December 2019 and 4 January 2020, 61.8 million less than the previous period. This large decline is a normal pattern during the Christmas period, where the number of passenger journeys usually reaches its minimum for the year. Bus journeys decreased by 35.5 million and Underground journeys by 26.3 million. 91.2 million of all journeys were Underground journeys while 141.4 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys reduced from 276.3m to 276.0m.
- 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).

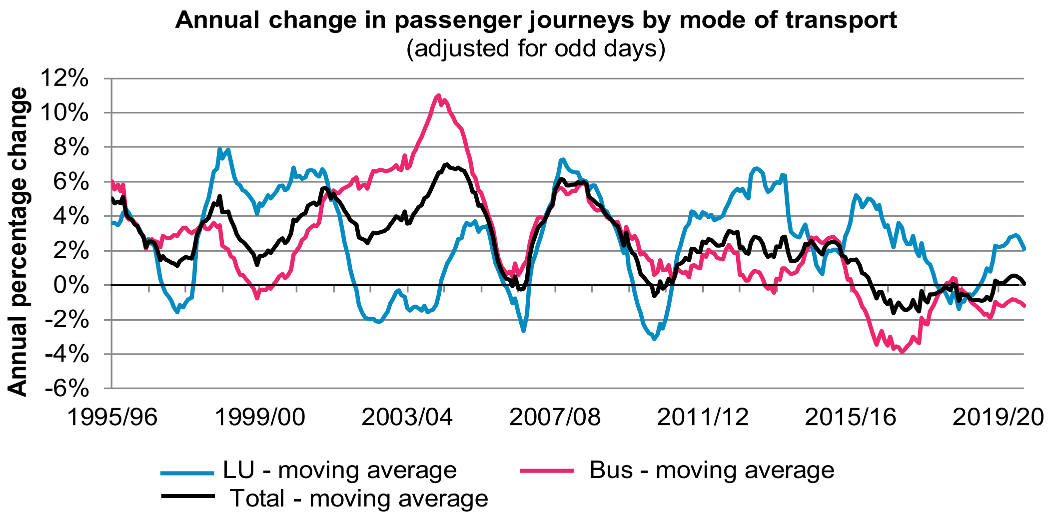
Source: Transport for London
Latest release: February 2020, Next release: March 2020



The moving average annual change in passenger journeys fell to 0.1% in the period between 8 December 2019 and 4 January 2020

- The moving average annual growth rate in the total number of passenger journeys decreased from 0.3% to 0.1%.
- The moving average annual growth rate of bus journeys fell from -1.0% to -1.2%.
- The moving average of Underground passenger journeys went down from 2.5% to 2.1% in the last period.

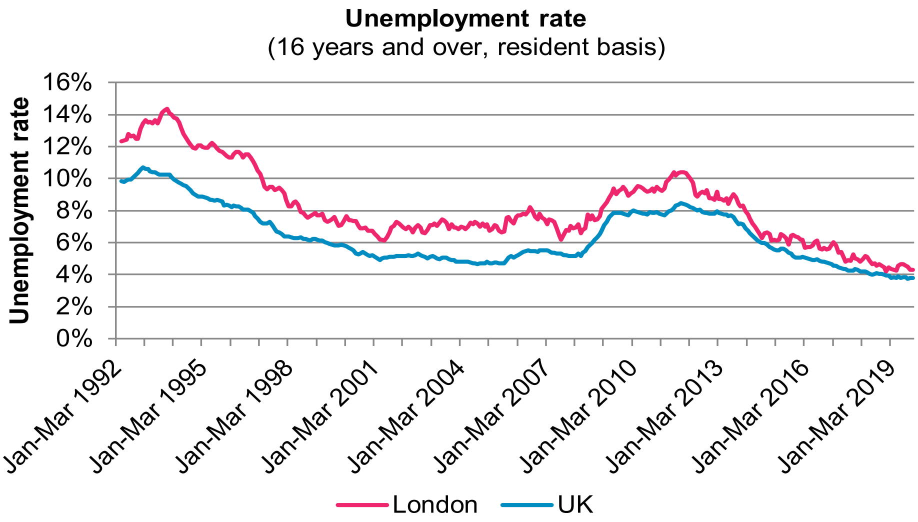
Source: Transport for London
Latest release: February 2020, Next release: March 2020



In Q4 2019, both London and UK unemployment rates were at or near historic lows

- Around 212,800 residents 16 years and over were unemployed in London in the last quarter of the year 2019.
- The unemployment rate in London was 4.3% in that period, 0.2 percentage points lower than in Q3 2019.
- The UK's unemployment rate stayed at the historic record low of 3.8% in Q4 2019.

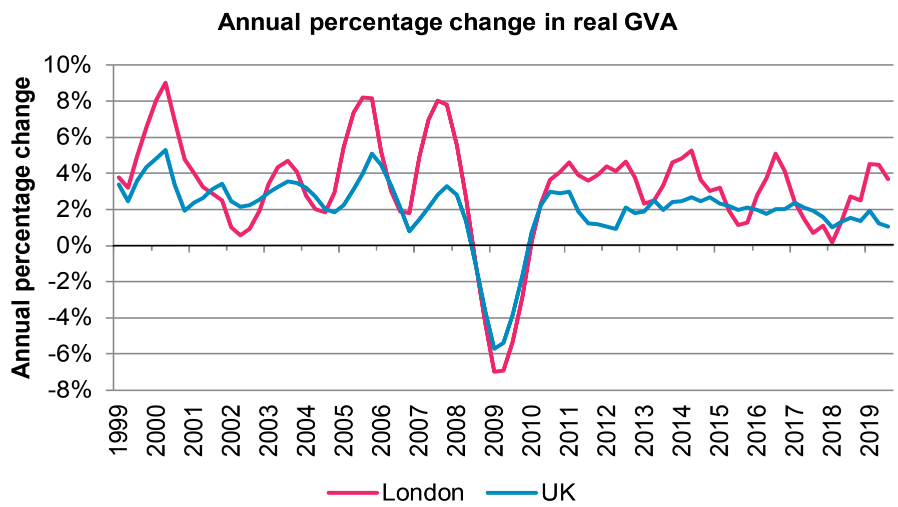
Source: ONS Labour Force Survey
Latest release: February 2020, Next release: March 2020



London's economy grew by 3.7% in the year in the third quarter of 2019

- London's annual real GVA growth fell from 4.5% in both Q1 and Q2 2019 to 3.7% in the third quarter of the year based on GLA Economics estimates. This is the highest rate for the third quarter in the last three years.
- In the UK, output annual growth for Q3 2019 registered the lowest rate since Q1 2018 (1.0%), and was 0.2 percentage points down from the previous quarter.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the most recent quarter have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS which does not publish quarterly estimates for London´s real GVA prior to 2013.

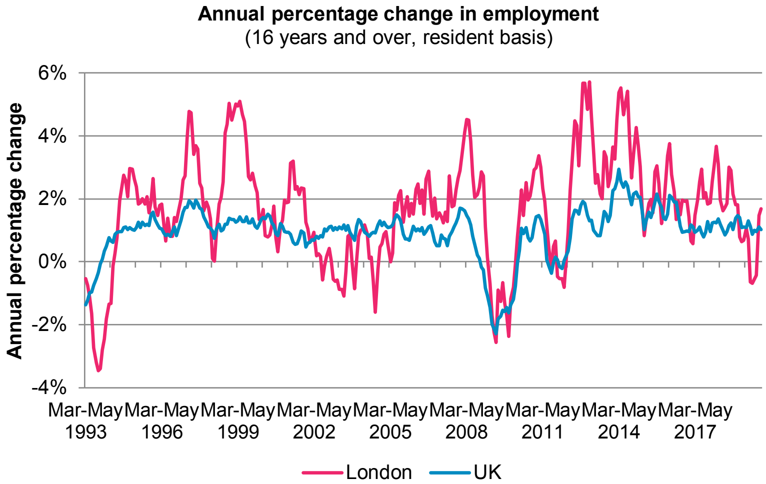
Source: ONS and GLA Economics calculations
Latest release: February 2020, Next release: April 2020



London's annual employment growth rate rebounded in Q4 2019

- Around 4.75 million London residents over 16 years old were in employment during the last quarter of 2019.
- The rate of annual employment growth in the capital was 1.7% in that period, a surge from Q3 2019 (-0.6%) and the highest rate in one year. Some of the volatility in the London series may be a consequence of survey sampling processes, rather than be an accurate reflection of actual trends.
- In the last quarter of the year, the UK employment rate grew annually at a rate of 1.0%, the same increase as in Q3 2019.

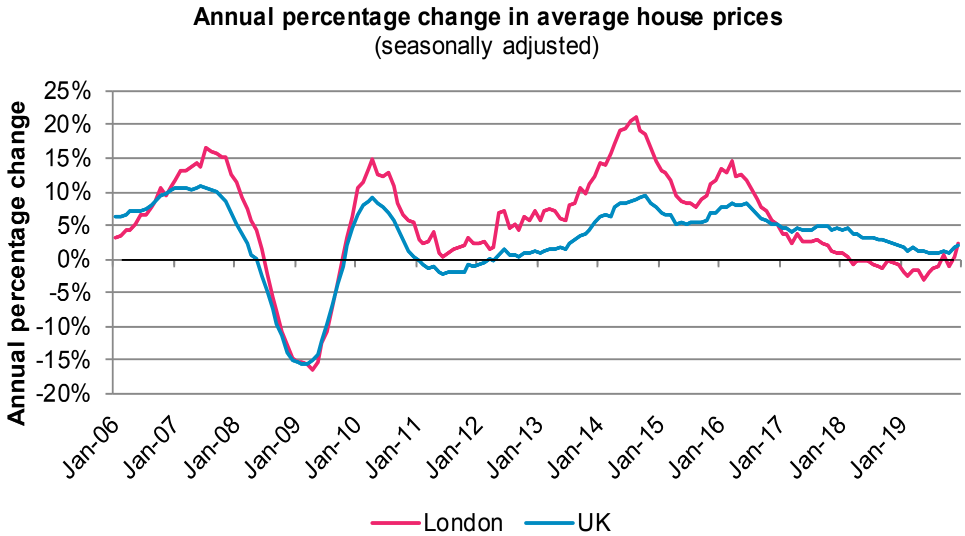
Source: ONS Labour Force Survey
Latest release: February 2020, Next release: March 2020



London house prices increased by 2.2% in annual terms last December

- In December 2019, the average house price in London was £483,842 while for the UK it was £232,866.
- The annual growth rate in average house prices in London was to 2.2% in December 2019, compared with 0.4% in November. This is the largest monthly growth rate in house prices year-on-year since October 2017.
- Similarly, average house prices in the UK rose by 2.1% in annual terms last December. This was 0.4 percentage points higher compared to the previous month and the largest increase in the rate in one year.

Source: Land Registry and ONS
Latest release: February 2020, Next release: March 2020

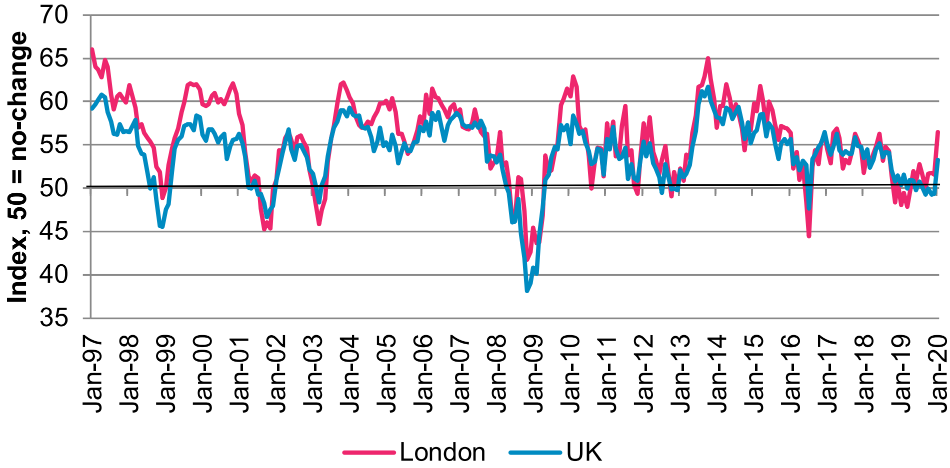


London business activity recovers strongly

- Business activity index at London private firms rose significantly in January 2020 to 56.5, up from 51.6 in December 2019. This represents the highest level of this index since April 2017.
- The UK index turned positive (53.3) in January 2020 after five months of decline in business activity.
- 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 activity on average across firms, while readings below indicate a decrease.

Source: IHS Markit
Latest release: February 2020, Next release: March 2020

PMI Business Activity Index
(50 indicates no change on previous month)

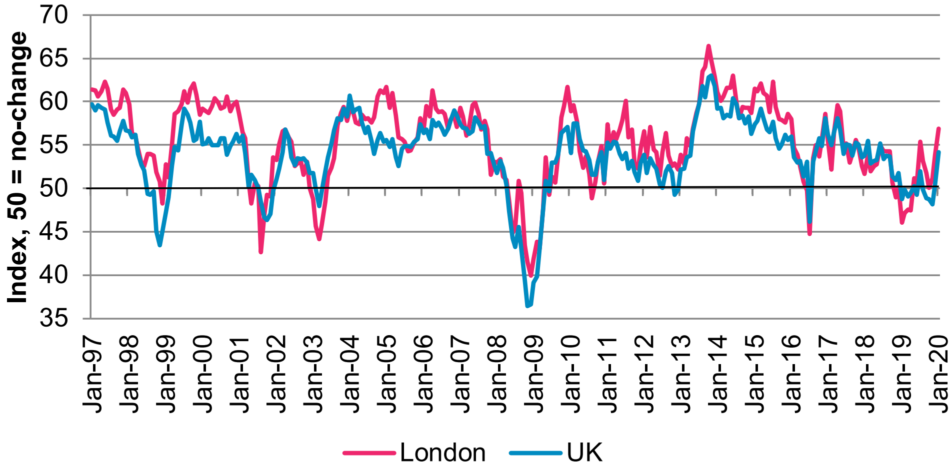


New business activity in London was strong in January 2020

- The PMI New Business Index was 56.9 in London last January, up from 53.8 in December 2019. This represents the highest level of the index since May 2017.
- For the UK, the level of this index in January 2020 was 54.1 – up from 50.5 in December 2019 - its highest level since June 2018.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Source: IHS Markit
Latest release: February 2020, Next release: March 2020

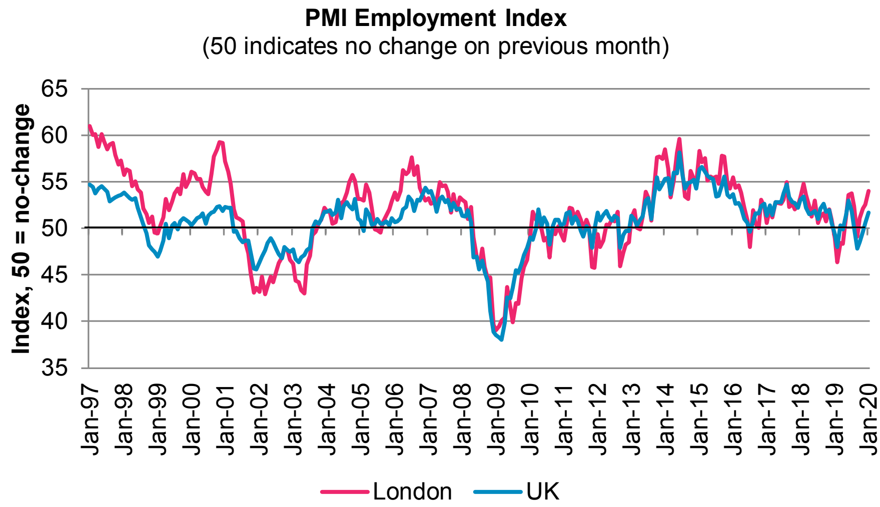
PMI New Business Index
(50 indicates no change on previous month)



Employment increased across the majority of London private sector firms last January

- The Employment Index for London was 54.0 in January 2020, up from 52.6 in December 2019.
- The index also improved for the UK in January 2020 (51.7), up from 50.6 in the previous month.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment. Readings above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.

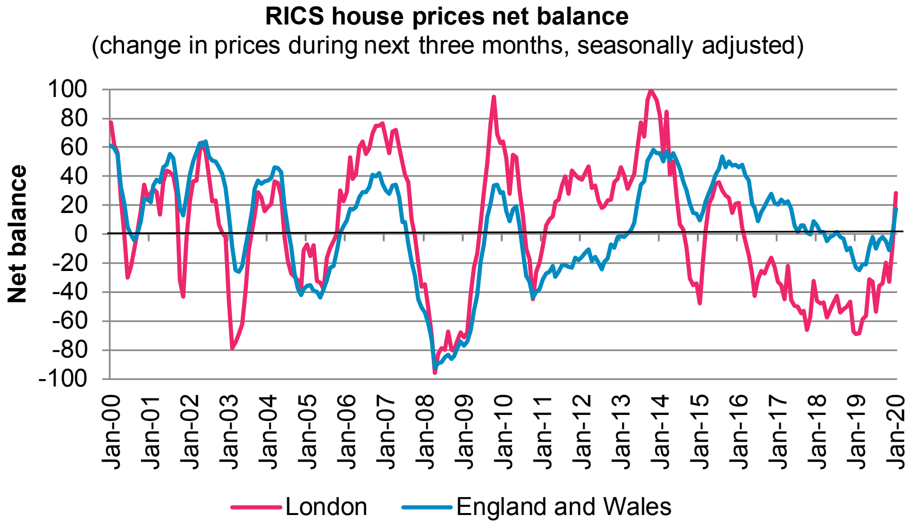
Source: IHS Markit
Latest release: February 2020, Next release: March 2020



Property surveyors reported the first positive net balance in house prices since February 2016

- In the three months to January 2020, the net balance of property surveyors reporting a rise in house prices was 28 up from -8 in December 2019. This was the highest level of the index since August 2015 and its first positive figure since February 2016.
- For England and Wales, the RICS house prices net balance index also increased from 0 in the period October-December 2019 to 17 in the period November 2019-January 2020.
- The net balance index measures the proportion of respondents reporting a rise in prices minus a decline.

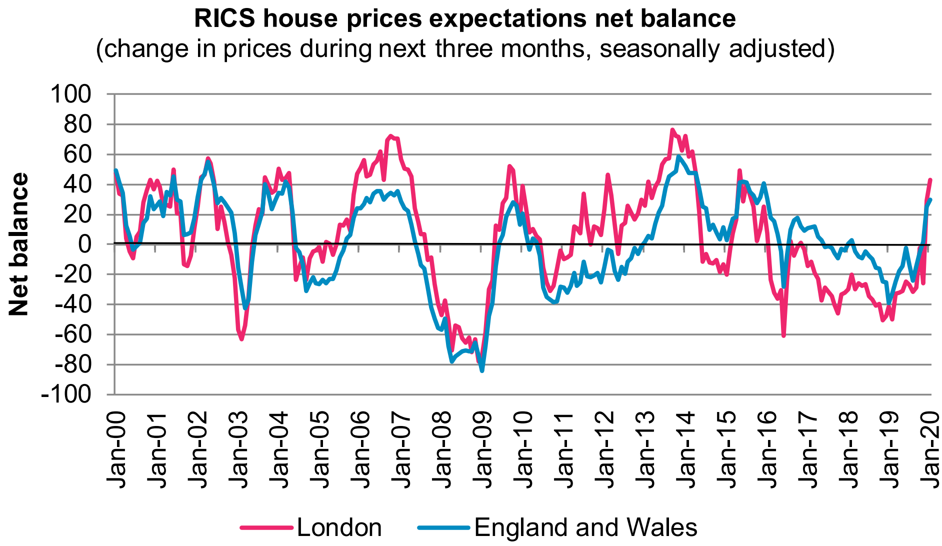
Source: Royal Institution of Chartered Surveyors
Latest release: February 2020, Next release: March 2020



House prices expectations in London in January 2020 are the highest since May 2015

- In the three months to January 2020, surveyors reported the largest expectation of increases in London housing prices (43) since May 2015. This index was 29 in the previous period.
- London index was higher than the index for England and Wales in January.
- Sentiment in England and Wales was positive in January 2020 (30) – the highest level in four years - up from 25 in December 2019.

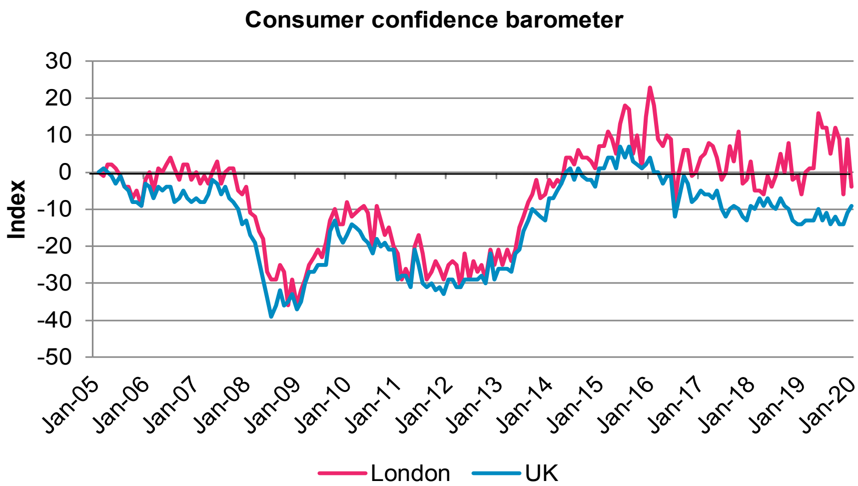
Source: Royal Institution of Chartered Surveyors
Latest release: February 2020, Next release: March 2020



Consumer confidence in London was negative in January 2020

- The consumer confidence index remains quite volatile in London. This index was -4 in January 2020, down from 9 in December 2019.
- Sentiment for the UK remained negative in January (-9) but slightly less than it was in December (-11). The UK has not shown a positive index score since January 2016.
- 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.

Source: GfK NOP on behalf of the European Commission
Latest release: January 2020, Next release: February 2020



Local authority spending in London since 2009/10

By **Spencer Thompson**, Principal Social Policy Analyst

Local authorities across England, including London, have experienced a highly challenging funding environment at a time of fiscal tightening over the last decade, having to make difficult decisions about reducing spending while meeting their statutory commitments.

This article focuses on London's local authority spending on public services[1]. It discusses why there has been such a steep decline in spending and describes the difficult choices that local authorities in London have had to make to manage their spending.

London's local authorities, which include London boroughs as well as the GLA, spent around £26bn delivering public services in 2018/19. The largest areas of spending included education, accounting for £7.6bn, adult social care (£3.4bn), police services (£3.4bn), highways and transport (£2.6bn) and childrens' services (£1.9bn).

Compared to other English local authorities, London spends relatively more on police services, housing services and highways and transport, reflecting London's urban context and devolved powers around transport.

In order to assess how public services spending by London local authorities has changed since 2009/10, an adjustment is required for those areas of spending where responsibility has changed between central and local government[2].

Measured on a real per capita basis, gross spending on public services by local authorities fell by 30% in London between 2009/10 and 2018/19, compared to 20% in the rest of England.

1 As distinct from other areas of local authority spending, such as capital investment.

2 This adjustment involves removing public health and education. Local government was given responsibility, and additional budget, for public health in 2013/14. Similarly, the Free Schools and Academies programmes mean many schools are now funded directly by central government, rather than local authorities.

The reason why London has experienced a greater fall in spending than elsewhere is related to local government revenue, which has similarly fallen by more in the capital. A paper by the Institute for Fiscal Studies points to three principle drivers of this divergence:

- London boroughs are more reliant on grant-funded revenue streams from central government, such as the Revenue Support Grant, that have seen greater cuts.
- There has been a reduction in funding to the GLA for transport subsidies
- London boroughs have not decided to raise Council Tax by as much as councils in other regions of England[3]

Figure A1 illustrates the areas of public services that have been relatively protected from spending reductions, and those that have experienced more sizable cuts.

Local government in London have reduced spending on planning, culture, highways and transport the most. Spending on planning has fallen by 50% in real per capita terms, culture by 49% and highways and transport by 46%.

Social care (adult and child) and housing services have been relatively protected: while overall spending has fallen by 30%, social care has seen a spending reduction of 11%, and housing services by 14%.

Environment and fire services have been cut by around a quarter, and police services by 30%, in line with the overall reduction in spending.

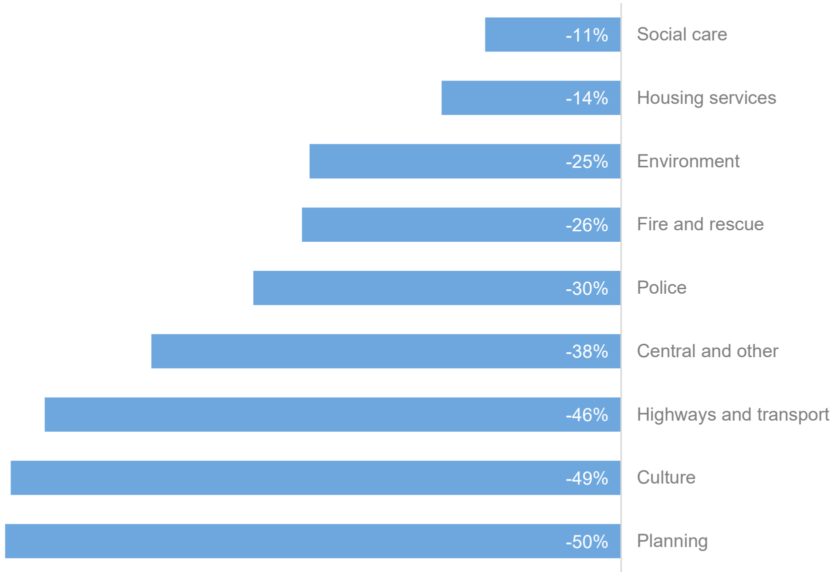


Figure A1: Change in local authority gross service spending in London, 2009/10 - 2018/19 (per person, 2018/19 prices)

Source: MHCLG (2020) Local authority revenue expenditure and financing England: RSX

Even within the areas of spending that have been relatively protected, local authorities have had to cut spending on some services. The rest of this article looks in detail at social care and housing services to illustrate this.

Childrens' services

Local authorities provide a range of childrens' services. They are required to provide statutory services aimed at a relatively small, higher-need group of children. Statutory services include services for disabled children, as well as child protection services and services for looked-after children. Statutory childrens' services accounted for over three quarters of local authority spending on childrens' services.

They also provide non-statutory universal and targeted services, such as school counselling & youth services, which support the child and youth population in general or are targeted at groups deemed to be at risk.

3 IFS (2019), 'English local government funding: trends and challenges in 2019 and beyond'.

Figure A2 shows how spending by London's local authorities on different areas of childrens' services changed between 2010/11 and 2018/19, in real terms and per head of the 0-17 population.

It shows that local authorities have given relative protection to the statutory end of childrens' services. Spending on looked-after children and family support services have only fallen by 3%, and safeguarding services by 9%.

Other areas of childrens' services have seen sizable spending reductions. London boroughs spent 70% less on services for young people in 2018/19 than they did in 2010/11. They have reduced spending on Sure Start Centres by two-thirds, and on youth justice services by almost half.

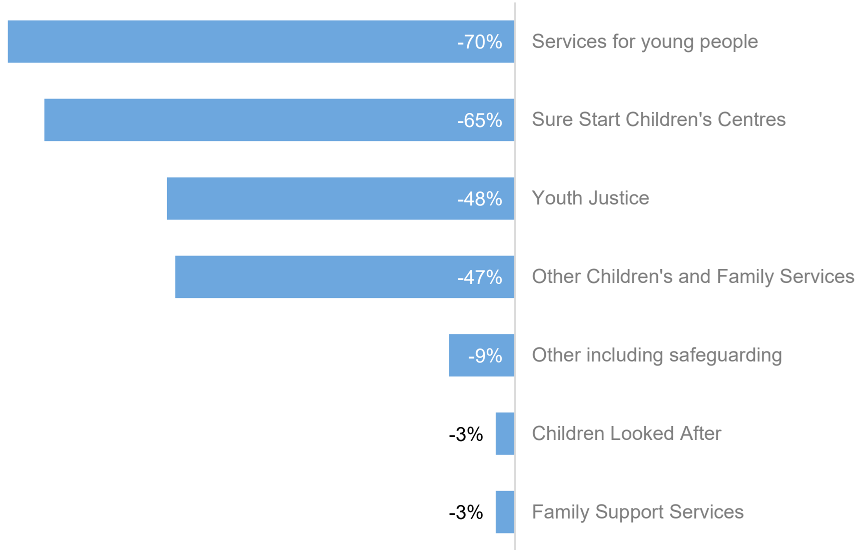


Figure A2: Change in London local authority gross children's social care spending, 2010/11 - 2018/19 (per 0-17 population, 2018/19 prices)

Source: DfE (2019) LA and school expenditure

Adult social care

Adult social care supports working-age and older adults with physical, cognitive or age-related conditions in carrying out personal care or domestic routines. People who need help with social care are usually assessed by their local authority social services team to identify what their care needs are, whether they have to pay for their care, and if so, how much.

In 2018/19, around 39% of local authority adult social care spending could be attributed to working-age adults, and 36% to those aged 65 or over. They also spent a small amount, 2% of the total, on social support, including substance misuse, carer and asylum seeker support services. The remainder was spent on administering the adult social care system, and includes assessment and review, information, early intervention and commissioning.

Between 2010/11 and 2018/19, adult social care spending on older adults fell by 22% per head of the 65+ population in real terms. Adult social care spending on working-age adults fell by 19% per head of the disabled 18-64 population (Figure A3).

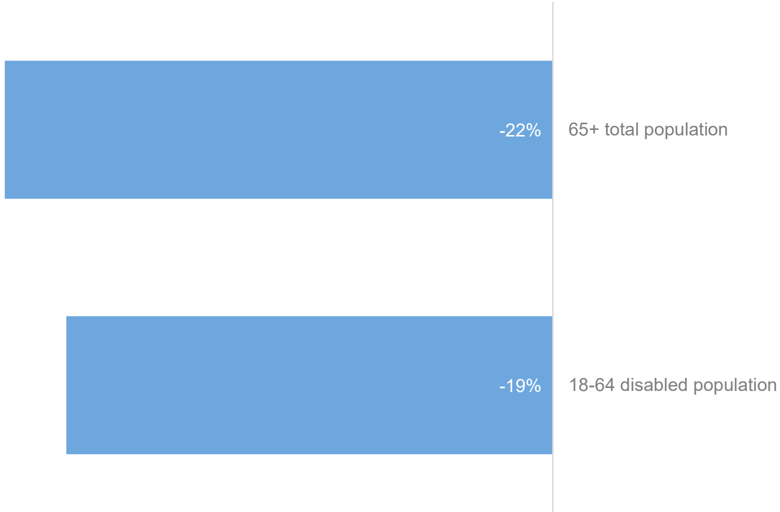


Figure A3: Change in London local authority gross adult social care spending, 2010/11 - 2018/19 (per person, 2018/19 prices)

Source: MHCLG (2020) Local authority revenue expenditure and financing England: RO3

Housing services

The bulk of London's local authority spending on housing services is accounted for by homelessness-related spending.

Local authorities have several duties in relation to homelessness. The local authority is required to secure housing for applicants that meet eligibility criteria. Spending on temporary accommodation in order to discharge this duty accounted for 57% of London local authorities' spend on housing services in 2018/19.

Local authorities are also required to produce homelessness strategies to prevent homelessness in their area and have a wider duty around preventing homelessness. Their statutory responsibilities here have changed in recent years. In 2018/19 spending on homelessness prevention, support and administration accounted for 14% of total housing services spend by local authorities.

Local authorities also provide a range of other housing services. Some of these areas of spending, such as the Supporting People budget, are also relevant to homelessness.

Between 2009/10 and 2018/19, spending on temporary accommodation by local authorities in London rose by 38% in real terms. Spending on wider homelessness administration and services rose 30% and spending on other areas of housing services fell by 45% (Figure A4). Similar to childrens' services, it is likely that a rising caseload and cost of fulfilling statutory duties around homelessness has resulted in spending reductions in other areas.

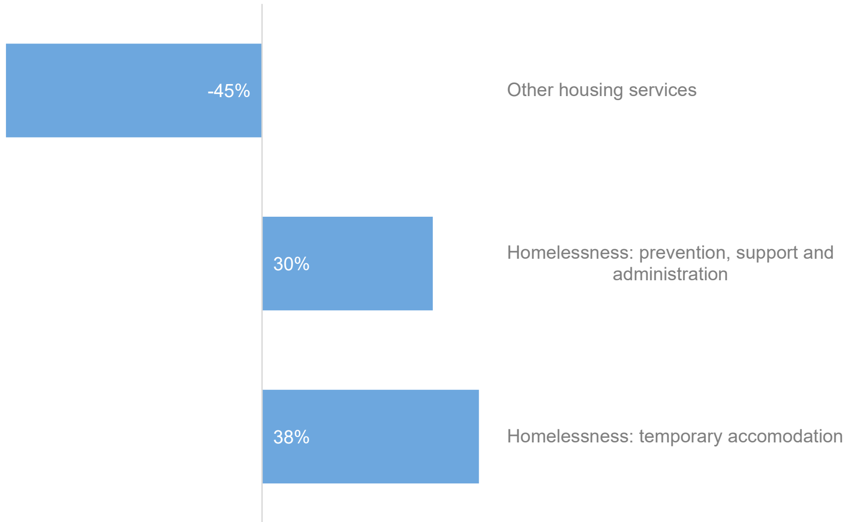


Figure A4: Change in London local authority gross housing services spending, 2009/10 - 2018/19 (2018/19 prices)

Source: MHCLG (2020) Local authority revenue expenditure and financing England: RO4

Conclusion

Local authorities in London have had to find greater savings in services spending than in elsewhere in England at a time of fiscal tightening. Because of statutory responsibilities in some areas, such as childrens' social care and homelessness, they have had to offer relative protection to these services at the expense of more universal, non-statutory services that they provide. This has resulted in services such as planning, culture, and youth services undergoing considerable reductions in spending.

It is important to recognise that the scale of spending reductions have varied considerably between London boroughs. It is also important to note that local authority services sit alongside other public services provided to Londoners, such as the National Health Service and Jobcentre Plus, that have also experienced spending challenges in recent years. At the same time, changes to the personal tax and welfare system are also negatively affecting many households in London, particularly poorer households[4]. This may be having an impact on local authority services, such as homelessness[5].

4 GLA (2019), 'Cumulative impact assessment of welfare reform in London'.
5 GLA (2019), 'Impact of welfare reform on homelessness in London'.

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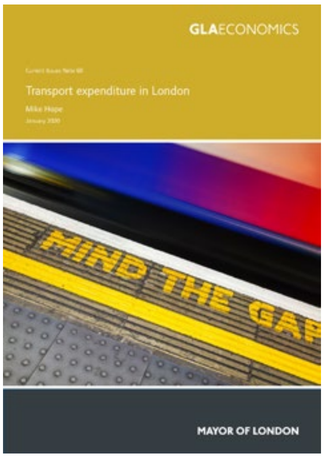

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the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

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