GLAECONOMICS

London's Economy Today

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Brexit delayed

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On 12 March the House of Commons again voted against the withdrawal agreement that the UK Government had negotiated with the EU. The agreement was defeated by 149 votes. This led to a series of widely reported events in Parliament and in Brussels over the past couple of weeks with EU leaders having agreed to an extension of the Article 50 process until 22 May 2019, provided the Withdrawal Agreement was approved by the House of Commons. In the case of no agreement an extension until 12 April 2019 was agreed under the expectation that the UK would indicate a way forward before this date. The UK now finds itself still with little certainty about the Brexit process.

The Government also announced in March temporary tariff reduction plans for the possibility of a 'no deal' Brexit. In this the Government plans to temporarily reduce tariffs on 87% of imports by value. This compares to the 80% of imports by value that are currently tariff free. The proposals would see 82% of imports by value from the EU being tariff free rather than the 100% at present while 92% of imports by value from the rest of the world would be tariff free, up from 56% currently. However, tariffs on some goods would remain including on agricultural products and on some imported cars.

Also in this issue

Datastore

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

In response to all this a number of organisations representing business expressed frustration with the ongoing uncertainty with Carolyn Fairbairn, the director-general of the CBI, saying business were looking on with "a sense of absolute horror". While looking at the possibility of 'no-deal' she observed that "it's bad enough for large companies, which have prepared contingency plans. They are at least ready with plans to implement post Brexit — lost jobs and factory closures". Adding that "a bigger worry is the 80 per cent that are smaller and simply don't have the resources to plan up front. The shock they will face is severe". Along with Frances O'Grady head of the TUC she sent a joint letter to the Government stating that "our country is facing a national emergency. Decisions of recent days have caused the risk of no deal to soar. Firms and communities across the UK are not ready for this outcome. The shock to our economy would be felt by generations to come".

Economic sentiment also seems to be weak with the European Commission's monthly economic sentiment indicator of confidence among consumers and the industry, services, construction and retail sectors for the UK dropping to its lowest level since 2013. Growth also remains sluggish with GDP increasing by 0.2% in the three months to January 2019. The subdued state of the economy was further shown by the latest Bank of England Agents' summary of business conditions which found that "a further softening in activity over the past few months compared with a year ago". The summary also found that "growth in consumer demand slowed a little further, especially for major household purchases", while "a majority of contacts in the Agents' Brexit survey said they were making contingency plans in case of a 'no deal' Brexit". However, the UK labour market remains strong with unemployment, as measured by the ILO measure, standing at 3.9% in the three months to January 2019. This is the lowest rate since November 1974 to January 1975. Unemployment in London was also low standing at 4.2% in the three months to January, the lowest estimate since comparable records began in 1992.

OBR produces subdued forecasts for UK economic growth

In the midst of the votes on Brexit the Chancellor of the Exchequer, Philip Hammond, delivered the Spring Statement on 13 March. In this he argued that a disorderly Brexit would lead to a significant blow to economic activity in the short run, while if there was an agreement to leave there would be £26.6 billion available to support the economy. The Chancellor also delivered the latest economic forecast from the Office for Budget Responsibility (OBR) in which they downgraded their forecast for GDP growth this year to 1.2% compared to the 1.6% forecast at the Budget in October 2018, (Figure 1). Growth is then forecast to rise to 1.4% in 2020 (unchanged on the October forecast) and then 1.6% per annum in 2021-23 (an improvement of 0.1 percentage points for 2021 and 2022 compared to the October forecast).

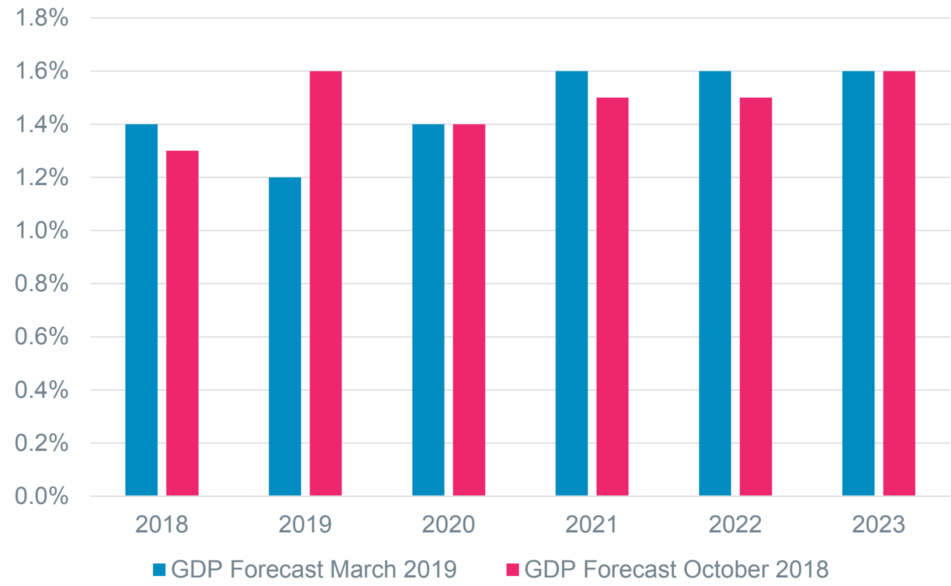


Figure 1: The OBR's forecasts for UK GDP growth, October 2018 and March 2019 (%)

Source: OBR

The OBR nevertheless forecasts that UK public sector net borrowing would be lower than forecast at the time of the Budget. It is now expected to be £22.8 billion in 2018-19, down from £25.5 billion forecast in October, (Figure 2). It is then forecast to rise to £29.3 billion in 2019-20 (down from £31.8 billion in October), before falling to £13.5 billion by 2023-24 (down from £19.8 billion in October). Public sector net debt is forecast to decline from 84.7% of GDP in 2017-18 to 73.0% in 2023-24.

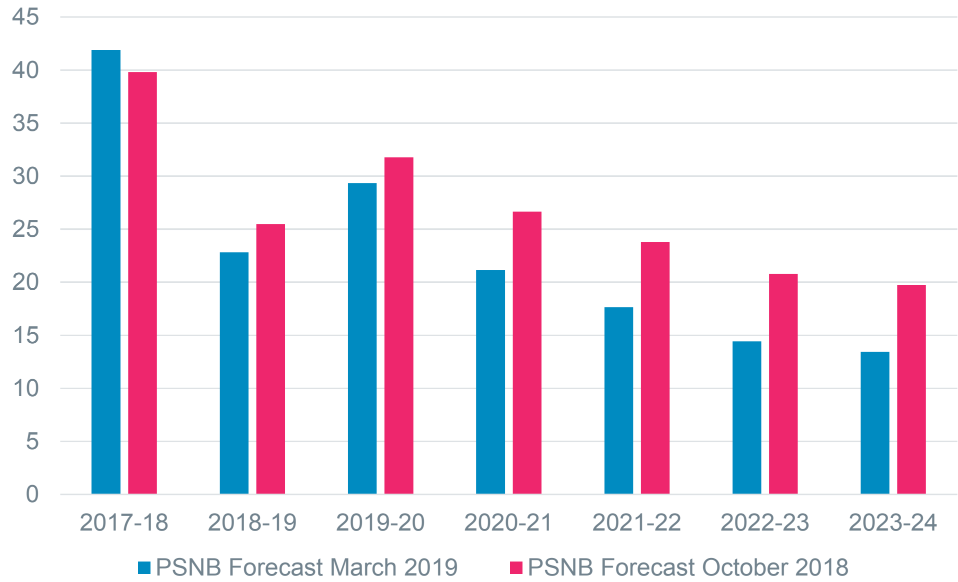


Figure 2:The OBR's forecasts for UK public sector net borrowing, October 2018 and March 2019 (£ billion)

Source: OBR

Other announcements that are particularly relevant for the economy in the Spring Statement included:

- that the government will hold a Spending Review which will conclude alongside the Budget. This will set departmental budgets, including three-year budgets for resource spending, if an EU exit deal is agreed;
- £717 million from the Housing Infrastructure Fund to unlock up to 37,000 homes at sites including Old Oak Common, the Oxford-Cambridge Arc and Cheshire, in particular £250 million will be given to the Old Oak and Park Royal Development Corporation (OPDC) to assemble land, design and build roads and provide utilities infrastructure;
- the exempting of PhD-level occupations from the cap on high-skilled visas from this autumn;
- a review of the latest international evidence on the impact of minimum wages, to inform future National Living Wage policy after 2020.

Mounting evidence of a global economic slowdown

Internationally the economic environment continues to be fragile with economic data pointing to a slowdown in a number of countries. This is clearly seen in the slowing of China's economy with its government setting a target for growth of between 6-6.5% in 2019, down from the target of 6.5% growth set in the previous two years. It also aims to deliver nearly 2 trillion yuan (£227 billion) of tax cuts to stimulate the economy. Elsewhere Turkey's economy fell in to recession in Q4 2018 with the Turkish Statistical Institute saying output fell by 2.4% in Q4 2018 compared with a year earlier. This follows a drop by 1.6% in Q3 2018. There are also continuing signs of a slowdown in the US, with its economy adding just 20,000 jobs in February. This is well below the 180,000 expected by commentators and represents the lowest rate of monthly jobs creation since September 2017, which saw the impact of Hurricanes Harvey and Irma. The US Federal Reserve also decided in March to keep US interest rates at a range between 2.25%-2.5%, with the Fed's chair saying that "it may be some time before the outlook for jobs and inflation calls clearly for a change in policy". This compares to the four interest rate rises the Fed undertook in 2018.

Concerns also remain around the state of the Eurozone's economy with the OECD significantly reducing its forecast in March for economic growth in 2019 and 2020 to just 1% this year and 1.2% in 2020, down from 1.8% and 1.6% respectively in its November forecasts. The OECD was particularly gloomy about Germany (where it expects growth of 0.7% in 2019 and 1.1% in 2020) and Italy (where it expects the economy to shrink by 0.2% in 2019 and grow by just 0.5% in 2020). For comparison its forecast for the UK also saw downgrades, with forecast growth of 0.8% this year (down 0.6 percentage points on November) and 0.9% in 2020 (down 0.2 percentage points).

London remains in second place in the Global Financial Centres Index

The latest version of the Global Financial Centres Index from Z/Yen Partners and the China Development Institute saw London seven points behind New York, and remaining in second place in the index's evaluation of future competitiveness and rankings of global financial centres. This is the second edition of this index in a row in which the capital has been behind New York in the rankings, with the size of the gap between the two cities widening slightly. Behind New York and London, Hong Kong was in third place in the index followed by Singapore and Shanghai.

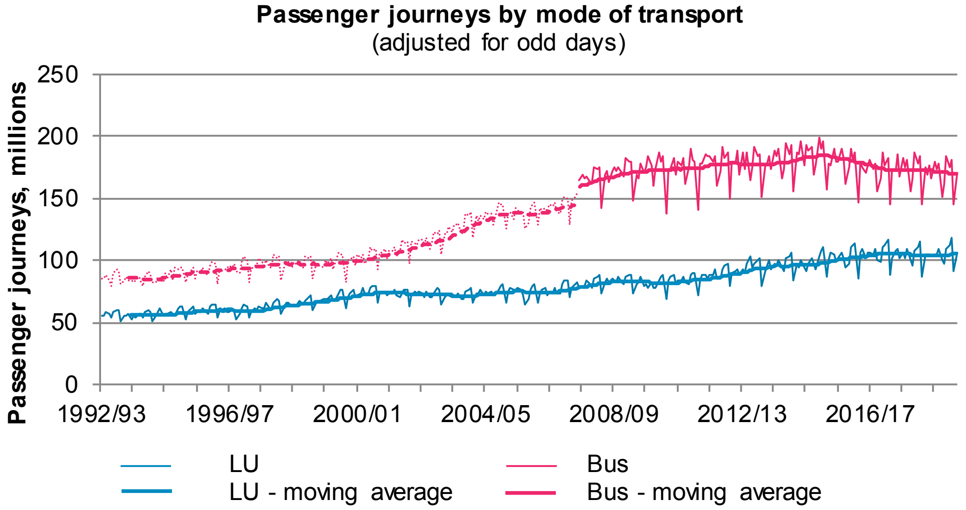
London's economic environment also continues to be challenging. Notwithstanding jobs growth, other economic indicators continued to move in the opposite direction. Thus, house prices have been generally stagnant or falling since the start of 2018 and have now declined by more than £7,000 on average, while consumer confidence and business indicators have been generally weak since the referendum (see the economic indicators section of this publication). Still, despite these challenges any positive improvement in uncertainty around the UK's post Brexit trading environment should provide some uplift to the economy, although against this must be set the slowing international economic picture.

Economic indicators

TfL passenger journeys increased by 41.2 million during last period after the usual fall at Christmas

- There was a total of 278.0 million passenger journeys between 6th January and 2nd February, 41.2 million more than the Christmas period. Both Underground and Bus journeys were higher - by 14.8 million and 26.4 million, respectively - 106.7 million of the total journeys were Underground journeys and 171.3 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys went down to 275.6 million from 275.8 million in the previous period.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

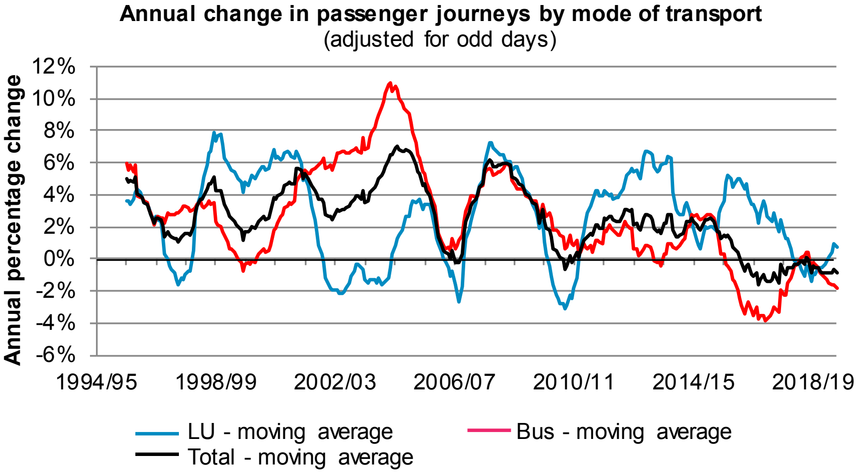
Source: Transport for London
Latest release: March 2019, Next release: April 2019



The moving average of the annual change in passenger journeys has been negative for the last twelve periods

- The moving average annual growth rate in the total number of passenger journeys was -0.9%, 0.2 percentage points lower than the same rate in the previous period.
- The moving average annual growth rate of Bus journeys decreased from -1.6% to -1.8%.
- In contrast, the moving average of Underground passenger journeys was positive, although it also declined from 0.9% to 0.7%.

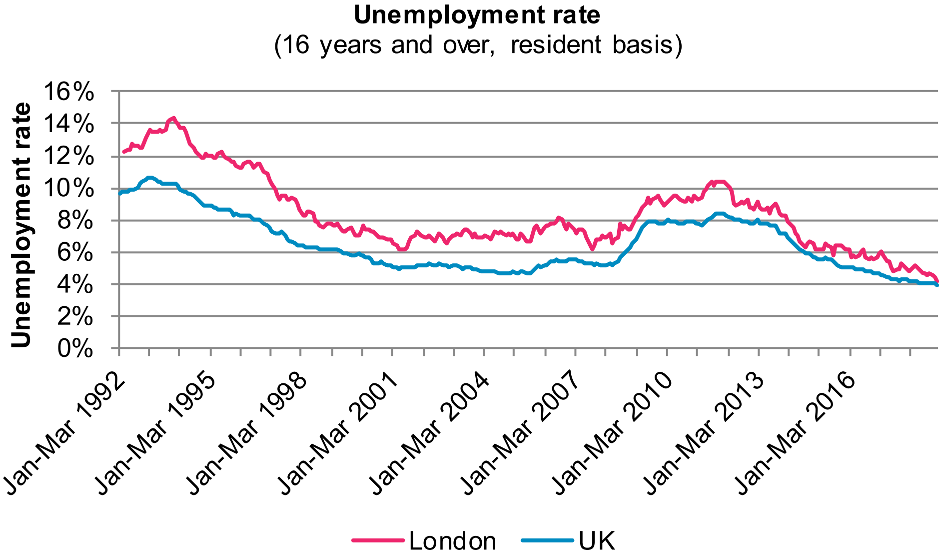
Source: Transport for London
Latest release: March 2019, Next release: April 2019



Both London and UK unemployment rates remain at historic lows

- 206,600 residents 16 years and over were unemployed in London for the three-month period November 2018-January 2019.
- The unemployment rate in London was 4.2% in that period, the lowest rate since this data set began and down from the rate of 5.0% a year earlier.
- Meanwhile, the UK's unemployment rate reached 3.9% in the three-month period November 2018-January 2019, also representing a record low for the series and 0.4 percentage points on a year earlier.

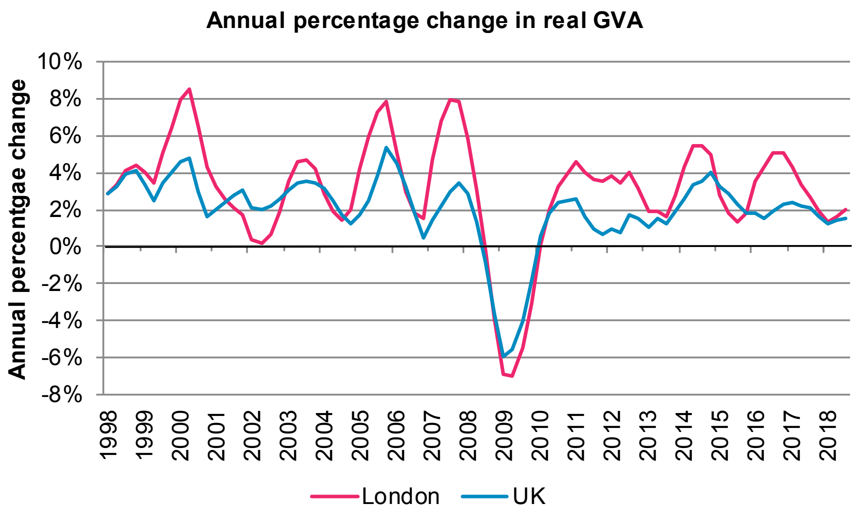
Source: ONS Labour Force Survey
Latest release: March 2019, Next release: April 2019



London's annual output growth was 2.0% in Q3 2018

- London's annual GVA growth rose to 2.0% during the third quarter of 2018, the highest rate since Q3 2017.
- In the UK, annual output growth was 1.5% in Q3 2018, 0.1 percentage points higher than the previous quarter but still representing one of the weakest rates of annual growth in the last five 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 calculations
Latest release: January 2019, Next release: April 2019

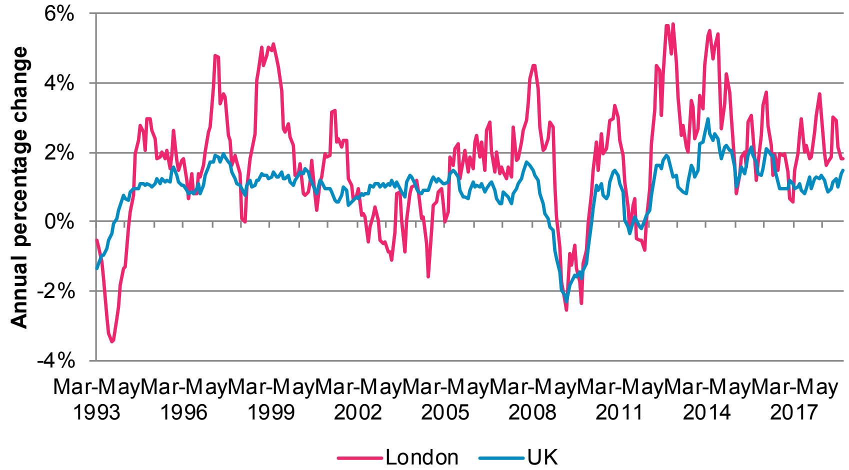


Annual growth in employment in London was 1.8% in the last period

- More than 4.7 million residents over 16 years old were employed in London during the three-month period November 2018-January 2019.
- The rate of annual employment growth for the capital reduced from 2.9% in August-October 2018 to 1.8% in the period November 2018-January 2019.
- For the same period, the UK employment rate grew at an annual rate of 1.5%, 0.3 percentage points higher than the previous three months.

Source: ONS Labour Force Survey
Latest release: March 2019, Next release: April 2019

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

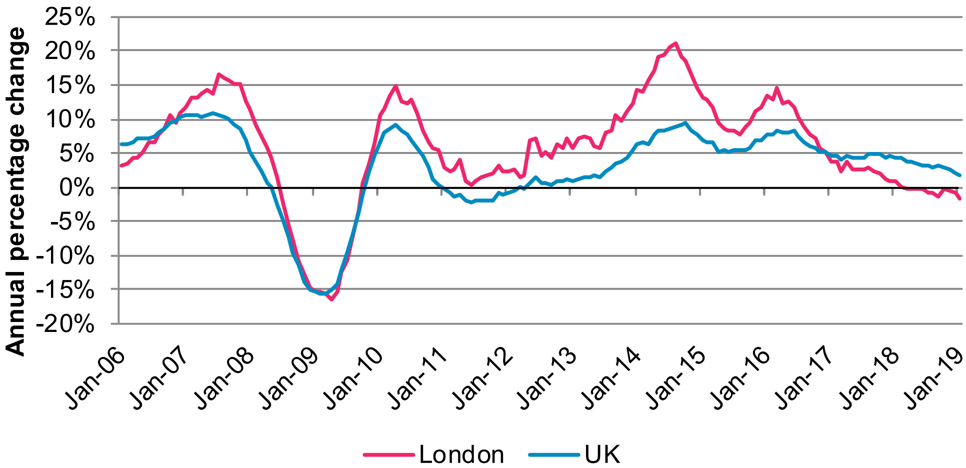


Contraction in average house prices in London deepens

- In January 2019, the average house price in London was £471,622, more than twice the UK average (£227,841).
- The annual growth rate in average house prices in London was -1.6% in the year to January, the largest fall since September 2009. London house prices started the current downward trend in February 2018, and have fallen 1.5% since that date.
- By contrast, average house prices in the UK grew by 1.7% in the year to January 2019 although the rate of growth has been slowing, and was 0.4 percentage points slower than in December.

Source: Land Registry and ONS
Latest release: March 2019, Next release: April 2019

Annual percentage change in average house prices
(seasonally adjusted)

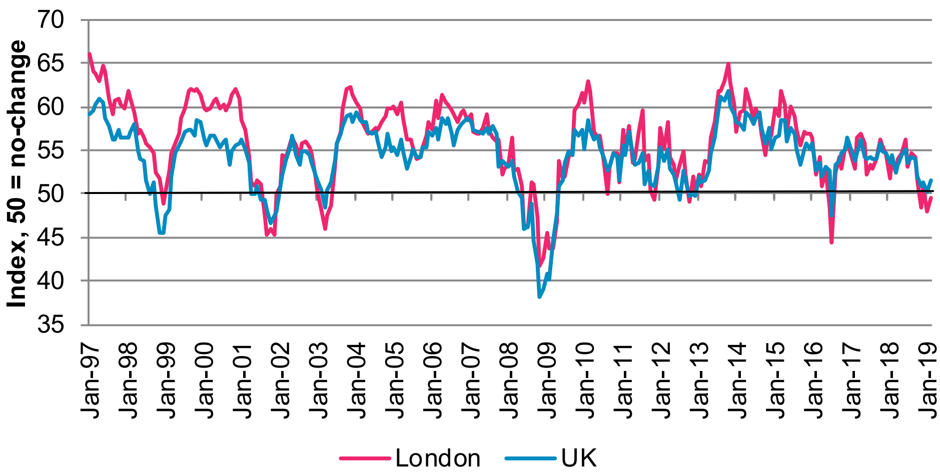


London business activity may have fallen in February as it did in January

- 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.
- The business activity index for London private firms was 49.4 in February although this was up from 48.0 in January.
- The UK index increased from 50.3 in January to 51.5 in February.

Source: IHS Markit
Latest release: March 2019, Next release: April 2019

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

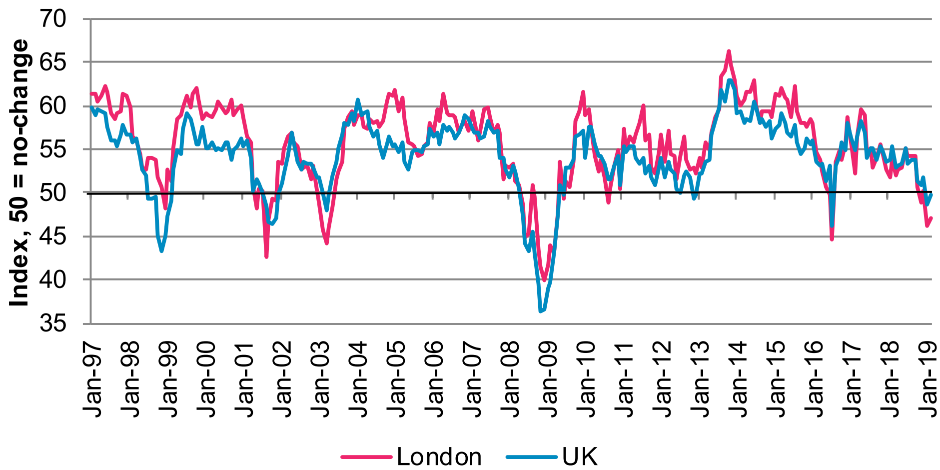


New business in London is likely to have declined in February

- The PMI New Business Index was 47.1 in London in February, up from January (46.1) which represented the lowest level since July 2016.
- For the UK, the index went also up to 49.8 in February from 48.7 in January.
- An index reading above 50.0 indicates an increase in new orders from the previous month, while a reading below 50.0 indicates a decline in new orders on average across firms.

Source: IHS Markit
Latest release: March 2019, Next release: April 2019

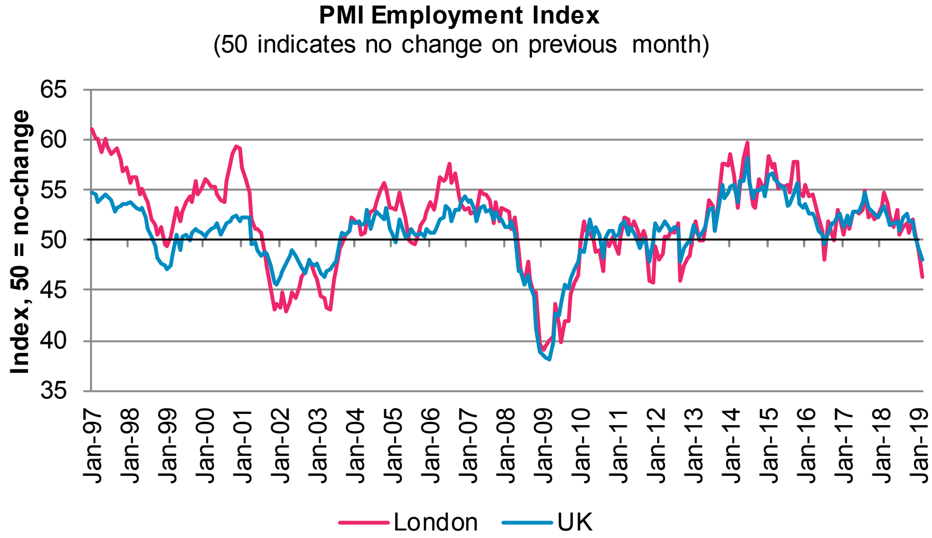
PMI New Business Index
(50 indicates no change on previous month)



Employment index for private sector firms in London declined in February

- 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.
- The Employment Index for London was 46.4 in February, down from 48.9 in January and represented the lowest level of this index since September 2012.
- The index also decreased for the UK in February to 48.0 from 49.3 in the previous month.

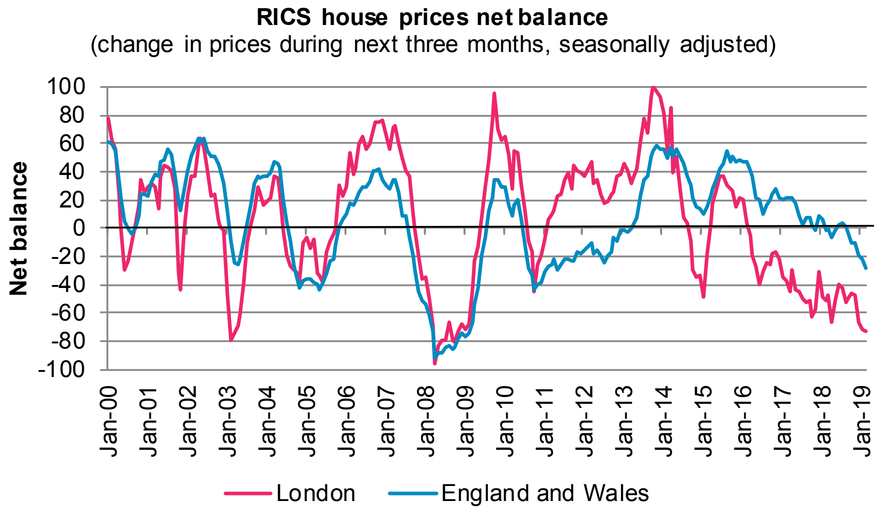
Source: IHS Markit
Latest release: March 2019, Next release: April 2019



Proportion of surveyors reporting falling London house prices continues to rise

- In the three months to February 2019, the net balance of property surveyors reporting house prices rises fell slightly from -72 in January to -73 in February. The index has now been negative since the three-month period to February 2016, and has been falling for the last four months.
- For England and Wales, the RICS house prices net balance index also fell from -22 in January to -28 for the three months to February 2019.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

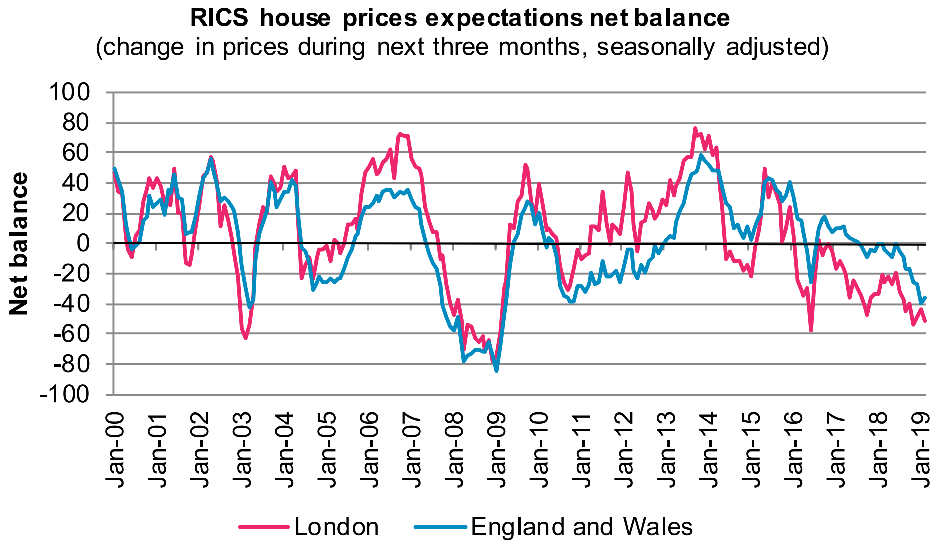
Source: Royal Institution of Chartered Surveyors
Latest release: March 2019, Next release: April 2019



A majority of surveyors in London expect house prices to fall further

- In February, most surveyors had negative expectations for the next three months for house prices in London. The RICS index was -52 for this month, down from -44 in January. Expectations have been negative since August 2016.
- London remains the region with the most negative expectations for house prices.
- Sentiment in England and Wales was slightly less negative in February (-36) compared to January (-40) which represented the most negative figure since March 2009.

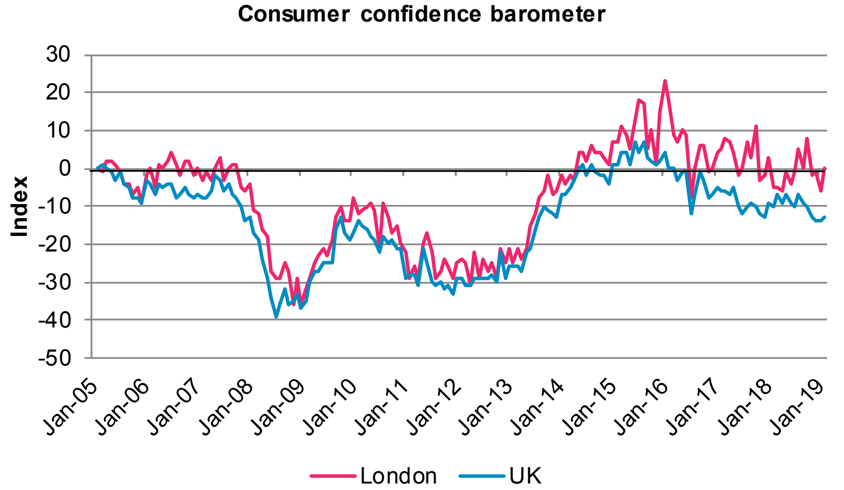
Source: Royal Institution of Chartered Surveyors
Latest release: March 2019, Next release: April 2019



Consumer confidence in London was zero in February

- 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 on average; a score below zero indicates negative sentiment.
- The consumer confidence index in London was 0 in February 2019, up from -6 in January.
- Sentiment was negative for the UK in February (-13), a similar value as in January (-14). The UK has not shown a positive index score in three years.

Source: GfK NOP on behalf of the European Commission
Latest release: February 2019, Next release: March 2019



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.

London's Economic Outlook

Our latest London forecast published in November 2018 suggests that:

- London's Gross Value Added (GVA) growth rate is forecast to be 1.9% in 2018. The growth rate is expected to slow slightly to 1.6% in 2019, before reaching 1.9% 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.

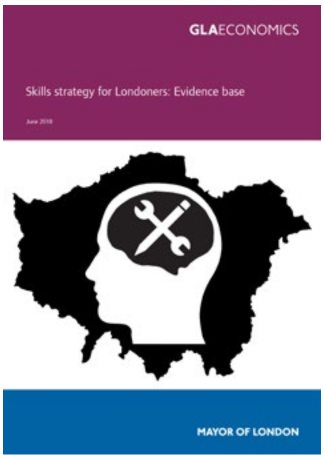
Download the full publication.

London at night: An evidence base for a 24-hour city

This report brings together a range of research and data on London at night. It reveals that, between 6pm and 6am, the city is buzzing with social, cultural and economic activity.

- A third of everyone working in London works at night – that is 1.6 million people.
- Cost is the main barrier to enjoying culture and leisure activities at night. This is the case across all income groups of Londoners. Over a third of Londoners say it is too expensive to go out at night.

Download the full publication.



Skills strategy for Londoners, Evidence base

This skills strategy evidence base supports the Mayor's skills strategy, 'Skills for Londoners'. It covers the demand for and supply of skills, inequalities in skills, employer training, and the training and education system.

- Nationally, spending on adult education has fallen since 2010 which is reflected in lower participation. Between 2012/13 and 2016/17 the number of adult Londoners (age 19+) participating in classroom-based further education fell 41%, although the number of adult apprenticeships increased by 9% in this period.

Download the full publication.

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

MAYOR OF LONDON