GLAECONOMICS

London's Economy Today

Issue 208 | December 2019

Pound and shares rise on the election result before falling back

By **Mike Hope**, Economist, and **Eduardo Orellana**, Economist

The Conservative party won a large majority of seats in the 12 December general election. Following this the Prime Minister Boris Johnson is expected to push his Brexit deal through Parliament, possibly before Christmas. Right after the election outcome, Sterling gained around 2% against major currencies on hopes that the Tories big majority would finally remove Brexit-related uncertainty over UK's economy in the coming months. Similarly, on the stock market the FTSE 100 share index rose by 1.5% in part as a result of investors trusting Boris Johnson's promise to take the UK out of the EU by January 31, which was repeated again by him on the morning of 13 December.

Following the passing of the withdrawal deal there is expected to be a transition period lasting to the end of next year during which the Government aims to negotiate a new trade relationship with the EU. However, in the week following the election sterling fell back on the news the Government was planning to implement legislation blocking any extension of the transition period.

Also in this issue

Datastore

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

Quarterly growth in the UK falls to zero

Beyond the election, the UK economy remains weak. A worsening economic picture is seen in the continued decline in the UK GDP growth rate. The Office for National Statistics (ONS) estimates that UK GDP growth was zero in the three months to October (Figure 1). An ONS spokesperson said, "there were increases across the services sector, offset by falls in manufacturing with factories continuing the weak performance seen since April."

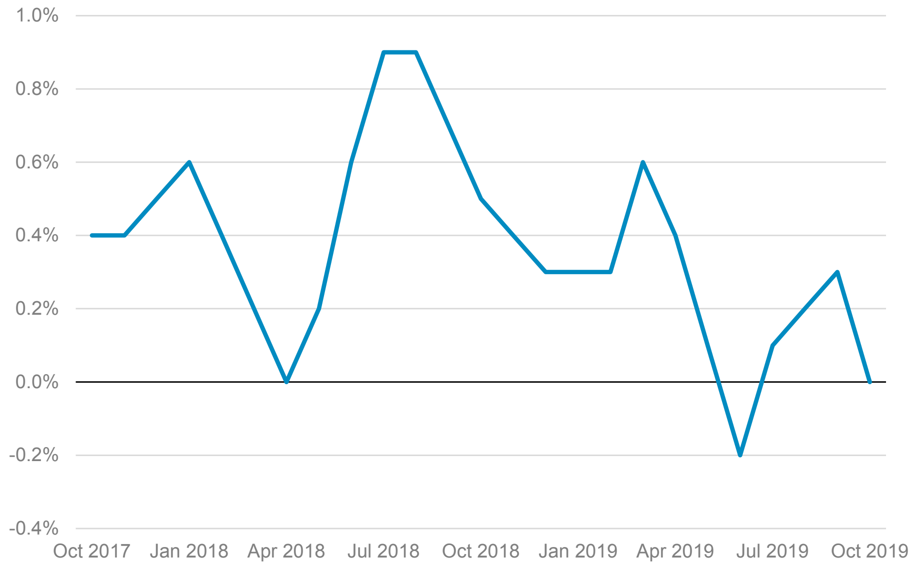


Figure 1: Quarter-on-quarter UK GDP growth rate by month, October 2017 to October 2019

Source: ONS monthly GDP estimates

Indeed, IHS Markit in its latest Purchasing Managers' Index for manufacturing reports a further deterioration for that sector. Rob Dobson, a Director at IHS Markit attributes this to a number of factors, "downturns in output and new orders continued amid a renewed contraction in exports. The pace of job losses also hit a seven-year high as firms sought to reduce overheads in the face of falling sales. Destocking at manufacturers and their clients following the latest Brexit delay was a major contributor to the weakness experienced by the sector".

In contrast, the IHS Markit indicators of business activity by region report that London is doing better than the other regions and nations of the UK. This may be, in part, because the service sector accounts for 80% of the capital's output.

Growth for London expected to remain weak

This month's LET supplement presents the latest GLA Economics forecast for the London economy which suggests that the GVA growth rate will be 1.8% in 2019, slowing to 1.1% in 2020, before picking up to 1.8% in 2021.

Looking at the UK and in line with recent outturn data, real GDP growth is now expected to slow to 1.3% this year - the weakest outturn since 2009 – according to the latest economic forecast from British Chambers of Commerce (BCC). This was a downwards revision and was primarily based on a weaker outlook for business investment, net trade, and consumer spending. Commenting on the forecast, Suren Thiru, Head of Economics at the BCC, observed that "downside risks to the UK's economic outlook remain concerningly high. Worsening global trends and uncertainty over the course of Brexit present real dangers for the UK economy". For 2020 the BCC forecasts continued weak growth with GDP expected to expand by 1.0% before returning to 1.3% growth in 2021.

All major economic institutions (national and international) broadly concur with the BCC forecasts for this year, projecting a real GDP annual growth rate in the range of 1.2% to 1.4% for 2019 (Figure 2).

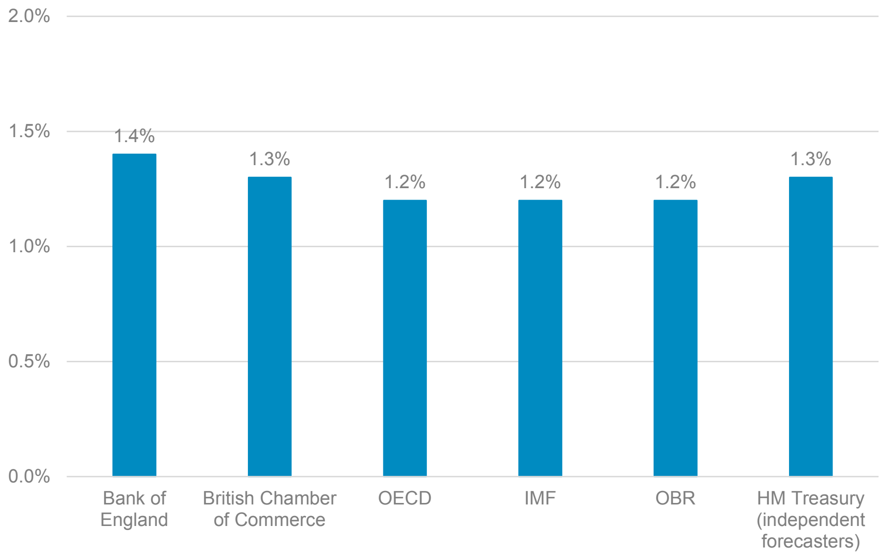


Figure 2: Forecasted UK's real GDP growth rate for 2019

Source: GLA Economics based on BoE, BCC, OECD, IMF, OBR and HM Treasury data

Protectionism becomes more entrenched, a year before the end of Brexit transition

Global trade developments have not been encouraging over the last month. There has been a number of announcements which will limit the movement of goods and services around the world. The Chinese government has ordered all government offices and public bodies to remove foreign computer equipment and software within three years. While this would appear a challenging target, it marks a shift from openness to self-sufficiency. The companies which will lose out most are likely to be American, namely HP, Dell and Microsoft. It appears to be a riposte to the trade blockade placed on Chinese companies such as ZTE, Huawei, Megvii, and Sugon by the US.

This is at a time when China's exports are falling. They were down 1.1% in November from a year earlier, with exports to the US down by 23%. Although on 13 December US and Chinese officials did announce that they had agreed the first phase of a trade deal.

Still, in a potential blow to the world trading order the US is exercising a veto to block the appointment of two judges to the appellate body of the World Trade Organization (WTO). This will mean that the dispute settlement system of the WTO will not be able to operate. The EU has proposed an ad hoc temporary version of the appellate body while the full version is in abeyance. It is not clear how successful this will be, although Norway and Canada have agreed to these arrangements.

If the UK does not reach a trading agreement with the EU by the end of 2020, WTO trade rules would currently be the default rules to govern its trade with the block, so the lack of a functional dispute settlement system with the WTO would add to the concerns associated with this scenario. At the same time, according to reports in the media a new customs arrangement for Northern Ireland as part of the current UK-EU Brexit deal may not be ready by the end of the transition period. Some newspapers quote a Whitehall document as saying, “delivery of the required infrastructure, associated systems, and staffing to implement the requirements of the protocol by December 2020 represents a major strategic, political and operational challenge”.

Recent analysis by the International Monetary Fund (IMF) finds that the trade exposure of the United Kingdom to European countries and vice versa is sizeable, as Figure 3 indicates. This implies that a further escalation of global trade tensions combined with the uncertainty on the future trade agreement between the EU and the UK could significantly deepen the current weakness in the UK’s manufacturing industry and other related sectors.

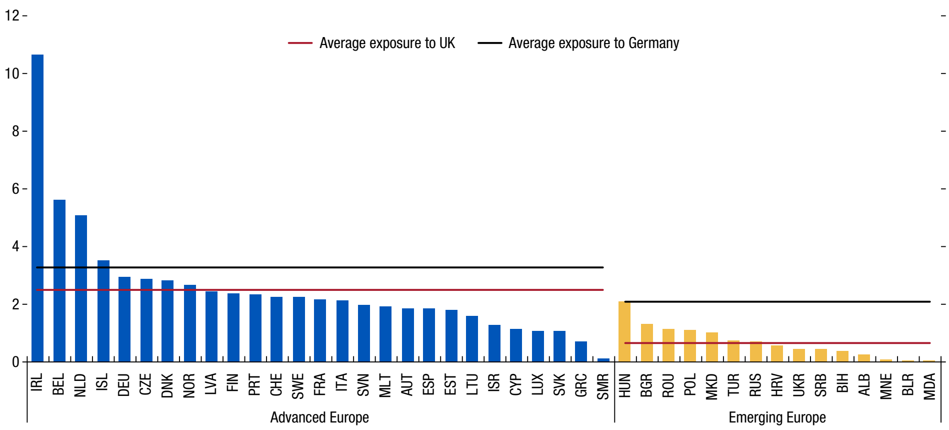


Figure 3: Trade exposure to the UK by European country (% of GDP)

Source: IMF, Regional Economic Outlook – Europe, November 2019

Meanwhile, a recent OECD study on trade in counterfeit products and the UK economy highlights that the negative impact of global counterfeiting and piracy on the UK economy is increasing. Negative effects of imports of fake goods in the UK are damaging sales, consumers, jobs and government revenues more than ever before according to this report. The authors calculate the total volume of forgone sales for UK wholesalers and retailers due to counterfeit and pirated products was £9.2 billion in 2016 (this is equivalent to 2.7% of total sales in the UK wholesale and retail sector). Job losses for this reason totalled almost 86,300 (more than 1.4% of full-time employees in the UK) and lowered revenues for the UK government - from value-added tax (VAT), corporate income tax (CIT), personal income tax and social security contributions – reached £3.1 billion in the same year 2016.

Consumer confidence becomes negative in London

As part of the LET indicators, GLA Economics tracks consumer confidence in London and the UK. Sentiment in London has remained positive over almost every month since January 2016, until this month. The UK by contrast has not had a positive score since January 2016. Sentiment across other parts of the UK has been negative for over a year, and November is the first month since January 2018 that all regions and nations of the UK suffered negative confidence (Figure 4).

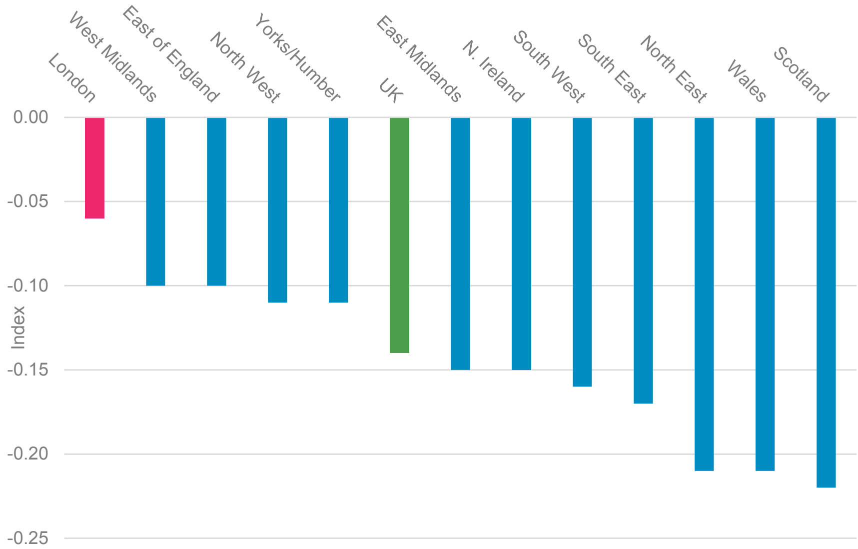


Figure 4: Consumer confidence, regions and nations of the UK, November 2019

Source: GfK

Despite this the London labour market remains very healthy, with the employment rate at 74.8%, and the unemployment rate at 4.5% in the three months to October (Figure 5).

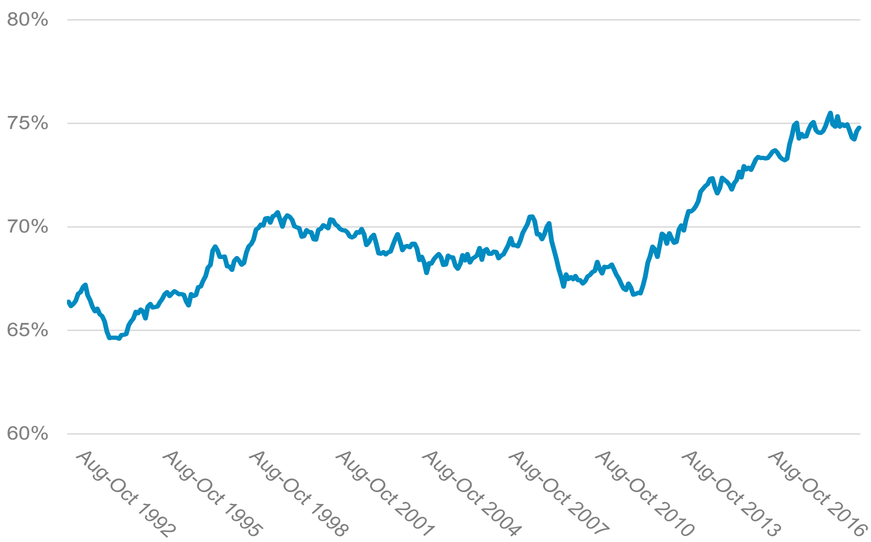


Figure 5: 16-64 employment rate, London residents, 1992 to 2019

Source: ONS, LFS

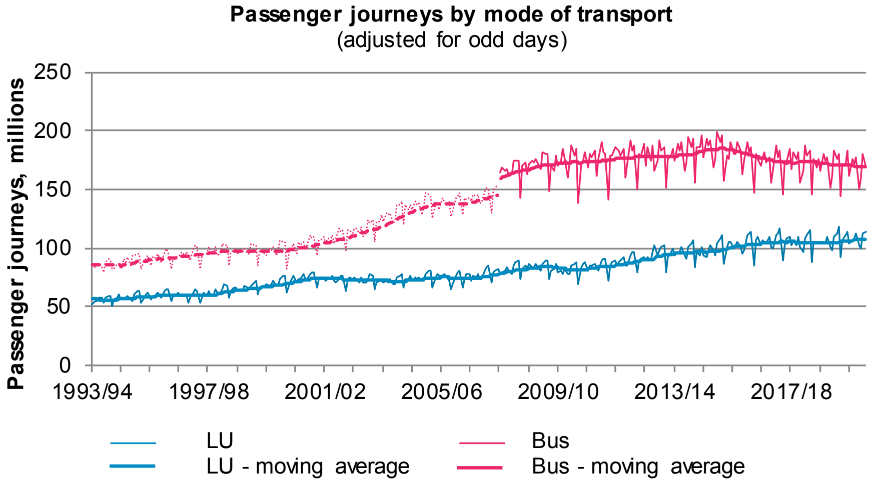
Looking forward we expect jobs growth to continue into the coming year, however at a subdued rate; more details of this can be found in the supplement to this publication. Further monitoring of what is likely to be a challenging start to the new year will be reported in future issues of this and our other publications which can be found on our publications page.

Economic indicators

Bus passenger journeys fell by 10.5 million in the latest period due to seasonal effects

- A total of 282.7 million passenger journeys were registered between 13 October and 7 November, 9.5 million less than the previous period. This result is largely seasonal and happens every year in this period. Bus journeys decreased by 10.5 million while Underground journeys increased by one million. 113.3 million of the total journeys were Underground journeys and 169.4 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys reduced from 277.0 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).

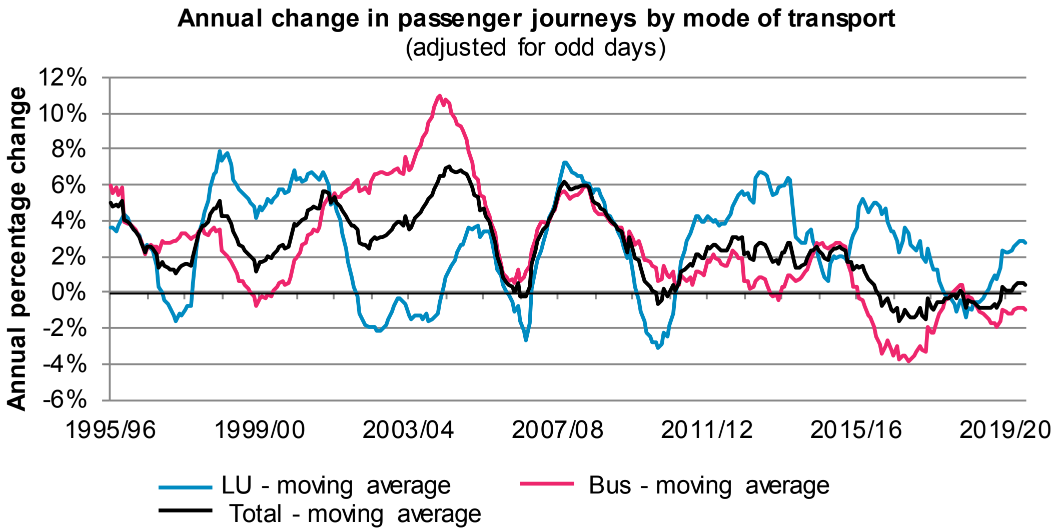
Source: Transport for London
Latest release: December 2019, Next release: January 2020



The moving average annual change in passenger journeys slowed slightly in the last period

- The moving average annual growth rate in the total number of passenger journeys reduced slightly from 0.6% to 0.5%.
- The moving average annual growth rate of bus journeys fell to -1.0% from -0.9% in the previous period.
- Similarly, the moving average of Underground passenger journeys went down from 2.9% to 2.8%.

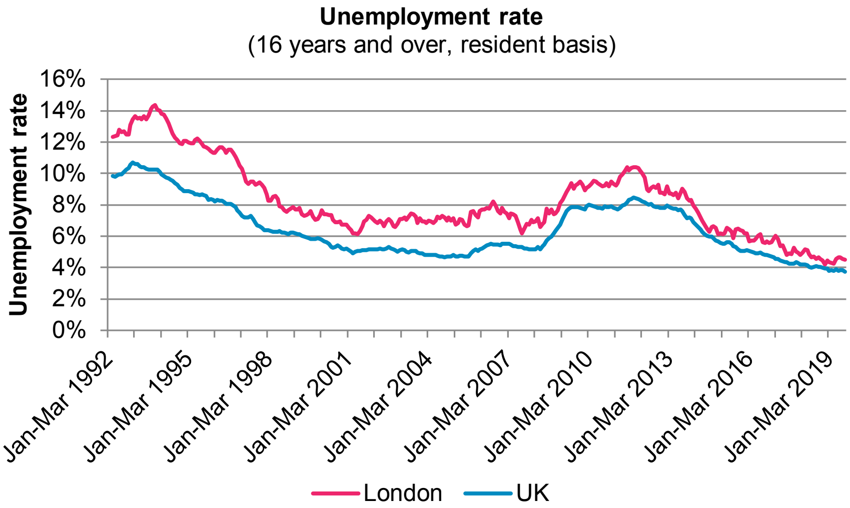
Source: Transport for London
Latest release: December 2019, Next release: January 2020



London and UK unemployment rates remained at around historic low levels in the three months to October 2019

- 221,300 residents 16 years and over were unemployed in London for the three-month period Aug-Oct 2019.
- The unemployment rate in London was 4.5% in that period, 0.1 percentage points lower than in the period May-July 2019.
- The UK's unemployment rate stayed at the historic record low of 3.8% in the three months to October.

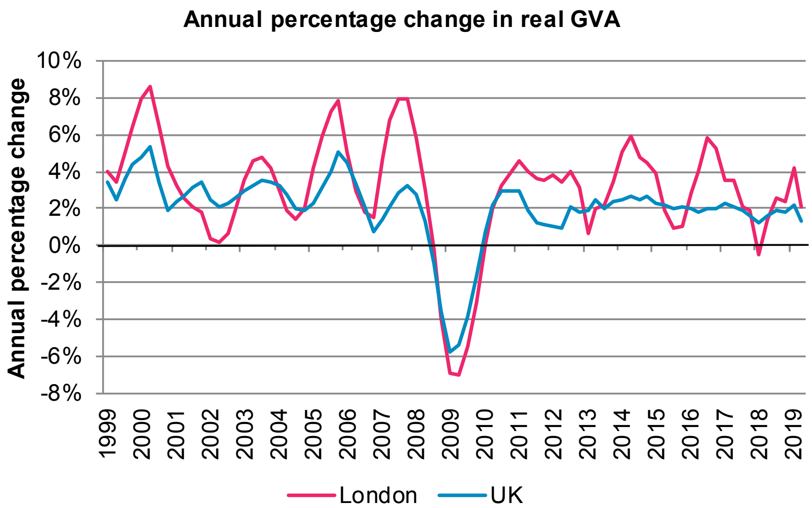
Source: ONS Labour Force Survey
Latest release: December 2019, Next release: January 2020



London's economy grew by 2.1% in the year to the second quarter of 2019

- London's annual real GVA growth fell from 4.2% in Q1 2019 to 2.1% in the second quarter of the year based on GLA Economics forecasts. This was the lowest rate in one year but still compares strongly with the growth rate registered for the whole of 2018 (1.5%).
- In the UK, output annual growth for Q2 2019 was 1.4%, 0.8 percentage points down from the previous quarter and 0.7 percentage points lower than London's rate in the second quarter of the year.
- The GVA estimate for the most recent quarter for London has been produced by GLA Economics. Previous estimates are outturn data from the ONS.

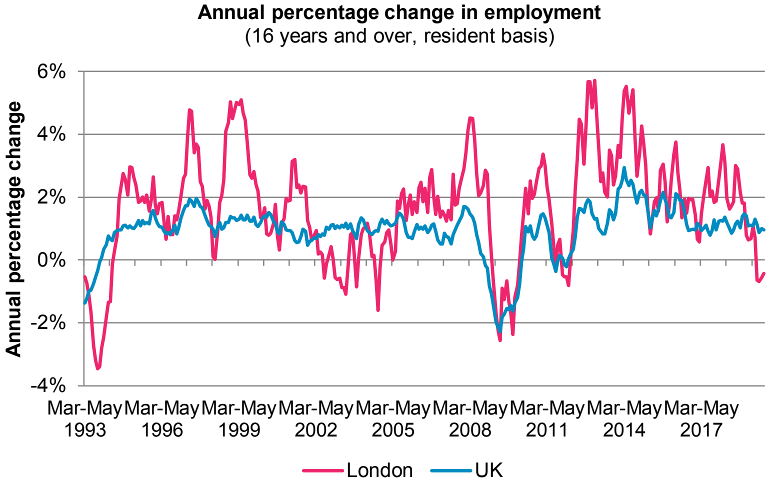
Source: ONS and GLA Economics calculations
Latest release: October 2019, Next release: January 2020



London's annual employment growth rate was negative in the period August-October 2019

- Around 4.69 million residents over 16 years old were employed in London during the three-month period August-October 2019.
- The rate of annual employment growth in the capital was slightly less negative rising from -0.6% in May-July 2019 to -0.4% in August-October 2019, this represents the first two consecutive periods with negative rates since Q1 2012.
- For the period May-July 2019, the UK employment rate grew annually at a rate of 1.0%, 0.1 percentage points below the previous three-month periods rate.

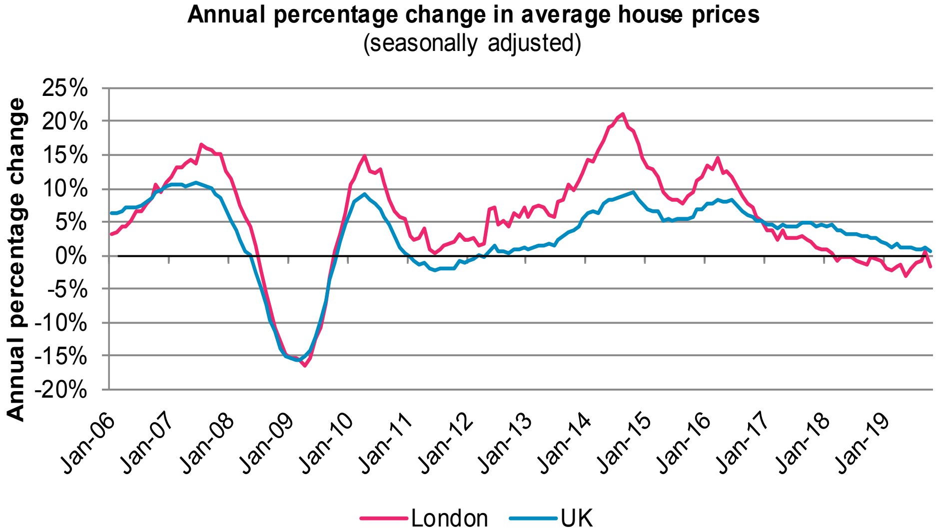
Source: ONS Labour Force Survey
Latest release: December 2019, Next release: January 2020



The downward trend in house prices in London resumes

- In October 2019, the average house price in London was £470,639 while for the UK it was £229,892.
- The annual growth rate in average house prices in London was -1.6% in October, compared with 0.8% in September. London prices have been falling in year-on-year terms since March 2018, with the only exception of September 2019. The cumulative fall since February 2018 is now 1.9%.
- Average house prices in the UK continued to rise but only by 0.7% in annual terms in October. This was 0.6 percentage points below the previous month and the lowest rate since September 2012.

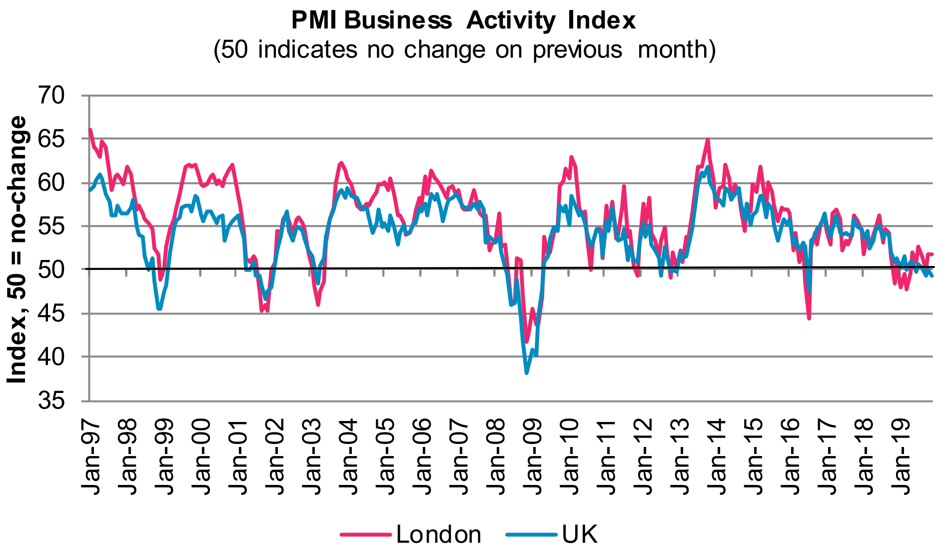
Source: Land Registry and ONS
Latest release: December 2019, Next release: January 2020



London business activity increased slightly in November

- 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.
- Business activity growth at London private firms was weak at 51.8 in November, broadly unchanged from 51.7 in October.
- The UK index worsened slightly from 50.0 in October to 49.3 in November.

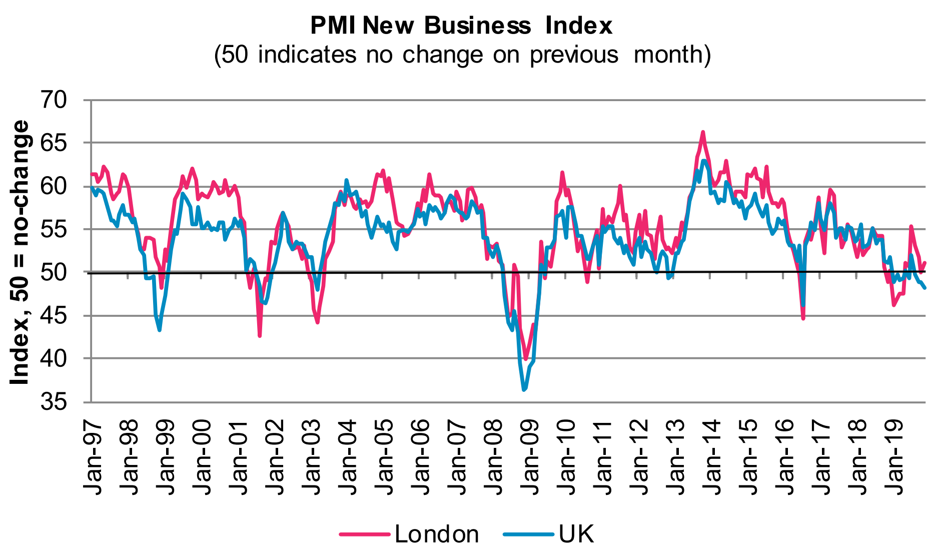
Source: IHS Markit
Latest release: December 2019, Next release: January 2020



New business activity in London improved in November

- The PMI New Business Index was 51.2 in London in November, up from 50.1 in October.
- For the UK, the negative feeling by private firms deepened to 48.2 in November, reaching its lowest level since July 2016.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

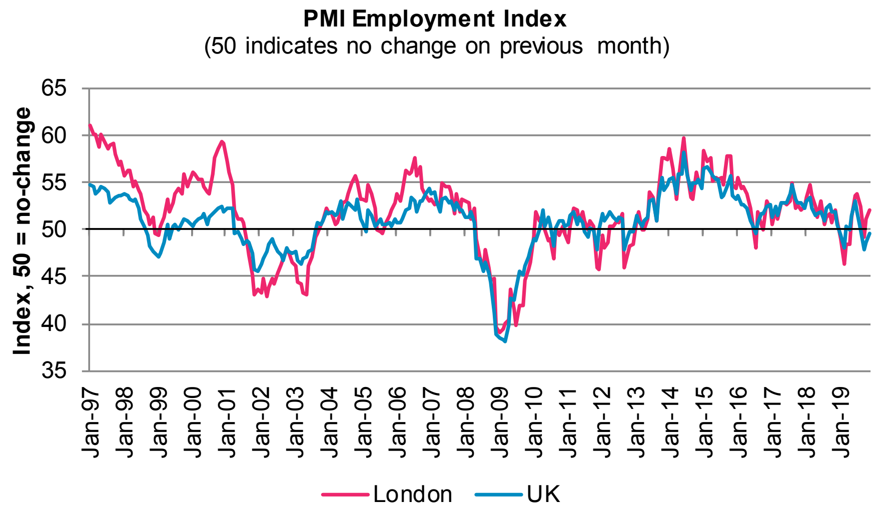
Source: IHS Markit
Latest release: December 2019, Next release: January 2020



Employment increased across the majority of London private sector firms in November

- 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 52.1 in November, up from 51.1 in October.
- The index also improved for the UK in November - reaching 49.6 from 48.5 in the previous month – although it still represents a net decrease in hiring firms

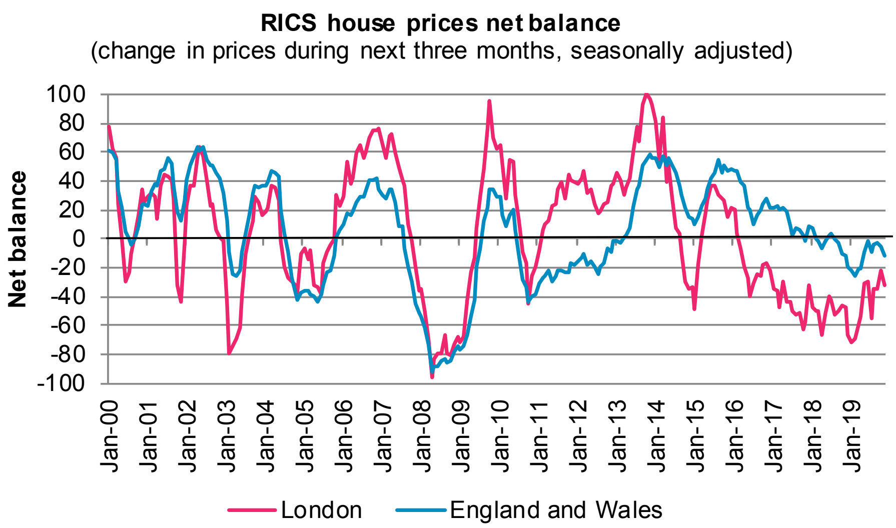
Source: IHS Markit
Latest release: December 2019, Next release: January 2020



More property surveyors report a fall in London house prices

- In the three months to November 2019, the net balance of property surveyors reporting house price increases fell from -23 in October to -33 in November. The index has been negative since the three-month period to Feb 2016.
- For England and Wales, the RICS house prices net balance index also reduced from -6 in October to -12 for the three months to November 2019.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

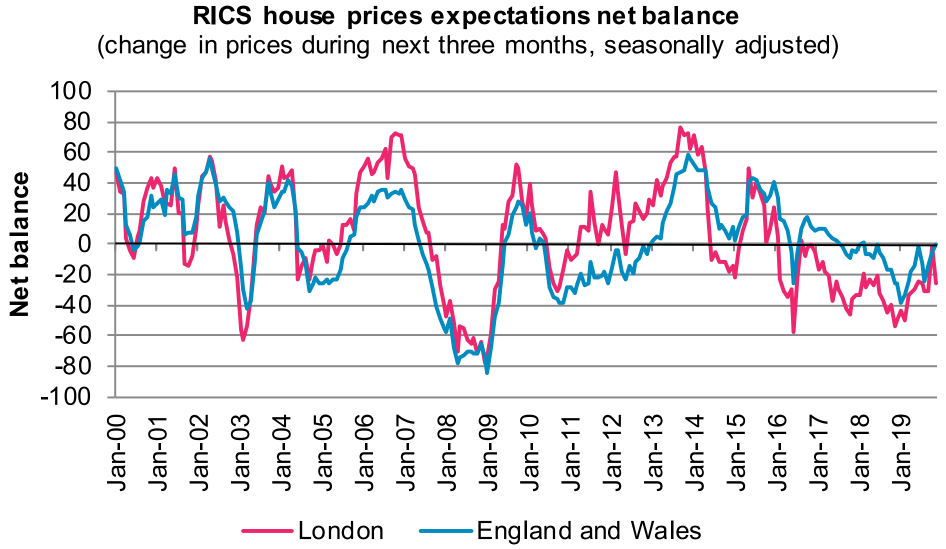
Source: Royal Institution of Chartered Surveyors
Latest release: December 2019, Next release: January 2020



House prices expectations in London drop

- In November, most surveyors were pessimistic about their expectations for the next three months for house prices in London. The RICS index was -26 for this month, down from -1 in October.
- As usual, London was the region with the most negative expectations for house prices last month.
- Sentiment in England and Wales was neutral in November (0) up from -6 in October. This was the first non-negative month since February 2018.

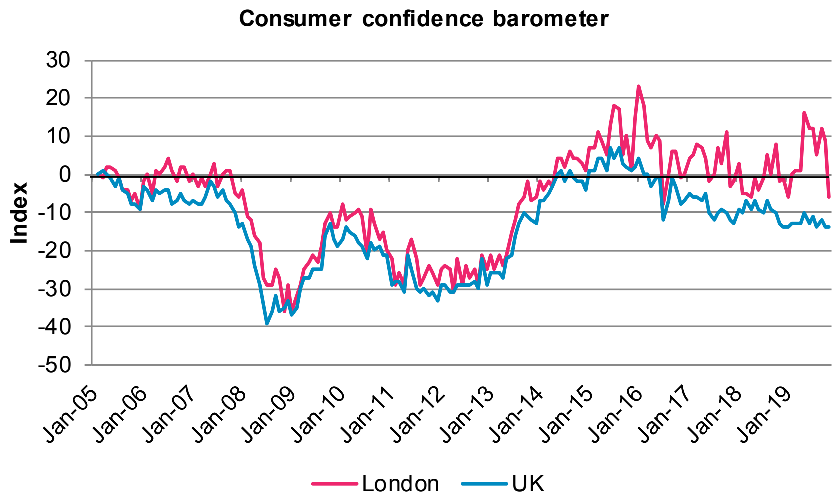
Source: Royal Institution of Chartered Surveyors
Latest release: December 2019, Next release: January 2020



Consumer confidence in London turned negative in November

- 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 -6 in November, down from 9 in October. This index had remained non-negative since January this year.
- Sentiment for the UK remained as negative in November (-14) as it was in October. The UK has not shown a positive index score since January 2016.

Source: GfK NOP on behalf of the European Commission
Latest release: November 2019, Next release: December 2019



GLA Economics forecasts slow growth for London in the coming year in our latest London forecast

By **Gordon Douglass**, Supervisory Economist

Over the past half a year or so a number of London's Economy Today editorials have discussed the evidence for a slowdown in the UK and London's economy. GLA Economics has examined the contribution of Brexit to this slowdown in a recent supplement to this publication and research report. The effects of Brexit are likely to continue, and this has not been helped by a slowing down in the global economy. This supplement sets out GLA Economics' latest economic forecasts for London which has recently been published. This uses our bespoke and newly updated forecasting model to estimate London's economic output (as measured by gross value added or GVA), workforce jobs[1], household income and household spending up to 2021. It should however be noted that these forecasts are also conditioned on the assumption of a smooth Brexit and transition process.

Thus at the headline level, we forecast:

- London's economy is expected to have grown by 1.8% in 2019 in real terms (i.e. after accounting for inflation). This rate of real GVA growth is then expected to slow in 2020 to 1.1%, before picking up to 1.8% in 2021.
- The number of jobs is expected to have increased 1.5% in 2019. We then expect the rate of employment growth to slow markedly to 0.1% in 2020 before rebounding back to 0.7% in 2021.
- Household income and spending are expected to also grow at a modest rate over the three-year forecast period after accounting for inflation. That said, the rates of growth are expected to be below historical averages.

Putting these forecasts in the context of historic growth rates (see Figures A1 and A2), we can see that the forecasted growth of output and employment are more subdued than previous years. This can be partly linked to the continued uncertainty caused by the UK's decision to leave the European Union (EU) even though the forecasts assume a smooth transition period. For example, business surveys like the Purchasing Managers' Index (PMI) show a downward trend in the confidence of managers on the economic situation since the second half of 2017 and was particularly weak towards the end of 2019. These business surveys suggest that the uncertainty caused by Brexit might have dampened business activity, business investment and employment - among other business decisions – in recent years.

1 This is separate from our labour market projections which estimates the number of jobs by sector and borough to 2041.

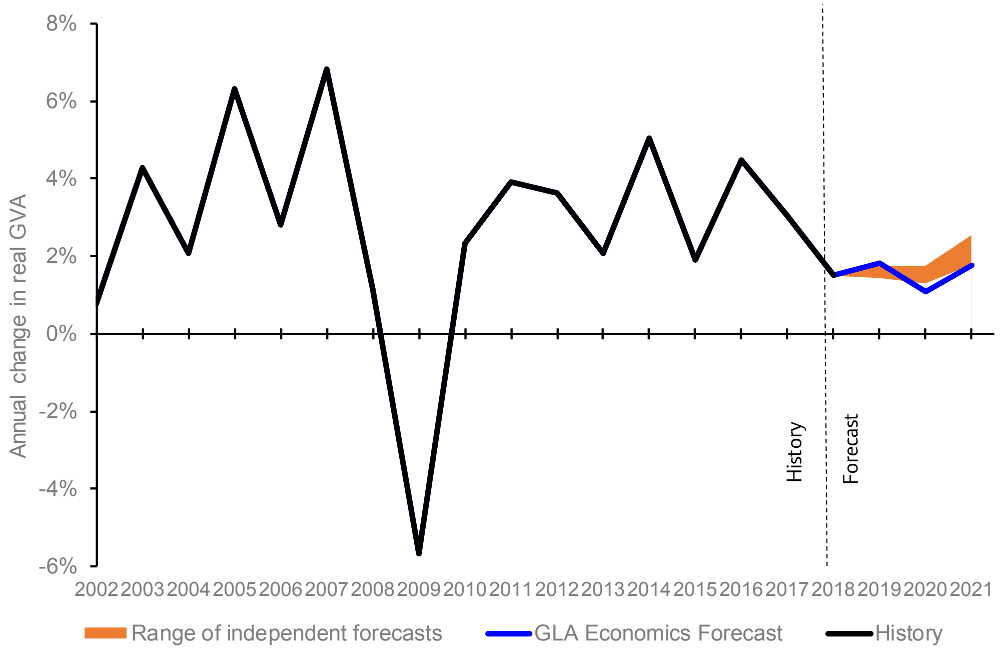


Figure A1: Forecasts of London's GVA, constant prices

Source: GLA Economics

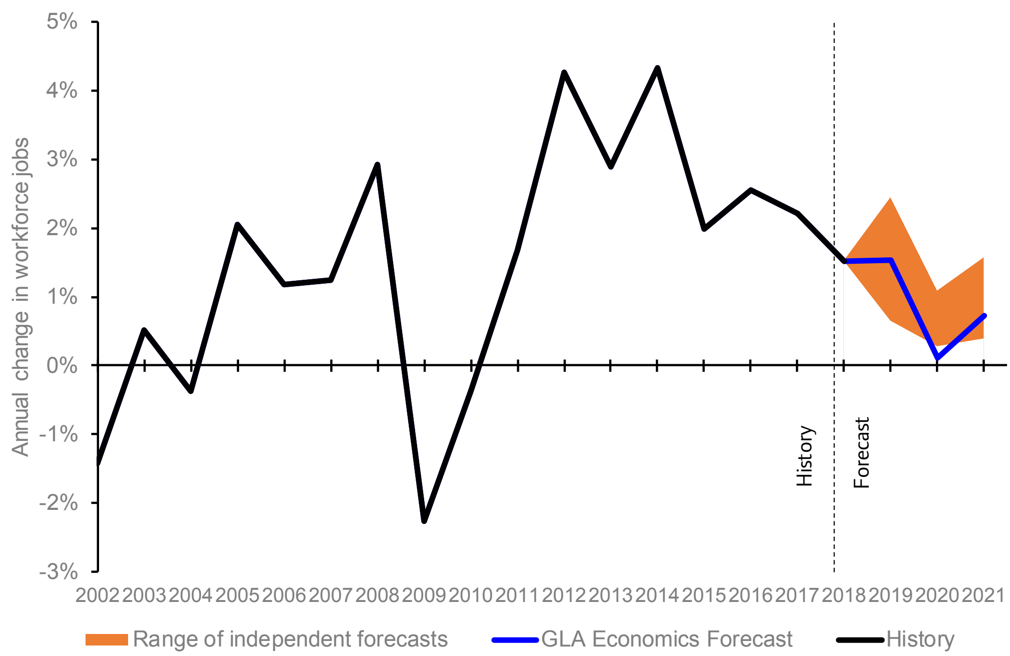


Figure A2: Forecasts of London's workforce jobs

Source: GLA Economics

We can also compare our forecasts for London with those from independent and external organisations[2]. Our forecasts are generally within the range of independent forecasters for the three-year forecast period although perhaps on the lower side (Figure A1 and A2). Generally, the external forecast shows a similar underlying trend of subdued GVA growth and relatively slow jobs growth.

Our forecasts are also available by broad industry group. We expect some of the fastest overall rates of output growth to be in the Financial and business services industry between 2019 and 2021 (Figure A3). Other sectors of London's economy are also expected to experience growth but at a slower rate such as Other (public & private) services (Figure A4) or Construction (Figure A5). On the contrary, the Manufacturing sector (Figure A6) is expected to see declines in both 2020 and 2021 according to our forecasts.

2 This includes Cambridge Econometrics, Cebr, Experian Economics and Oxford Economics.

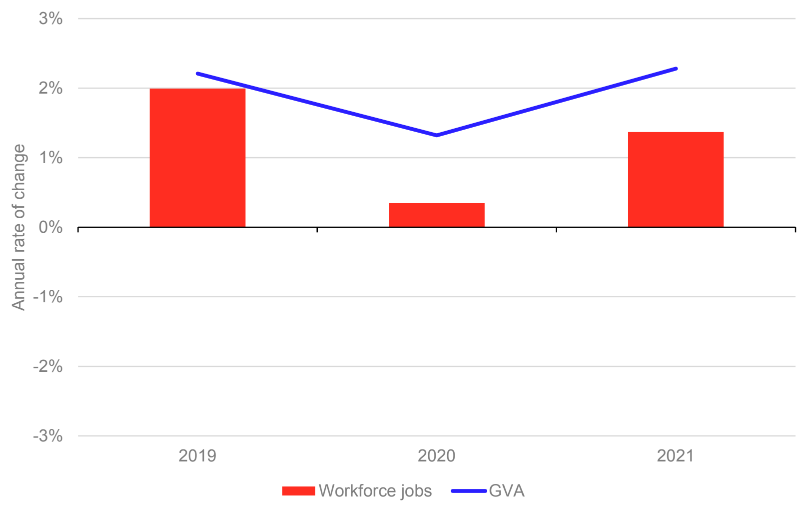


Figure A3: Financial and business services real output and employment growth (% annual changes)

Source: GLA Economics

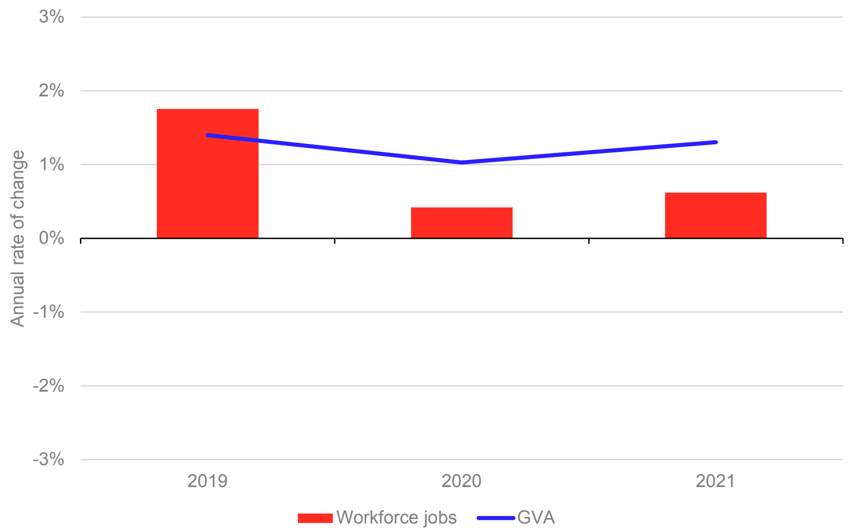


Figure A4: Other (public & private) services real output and employment growth (% annual changes)

Source: GLA Economics

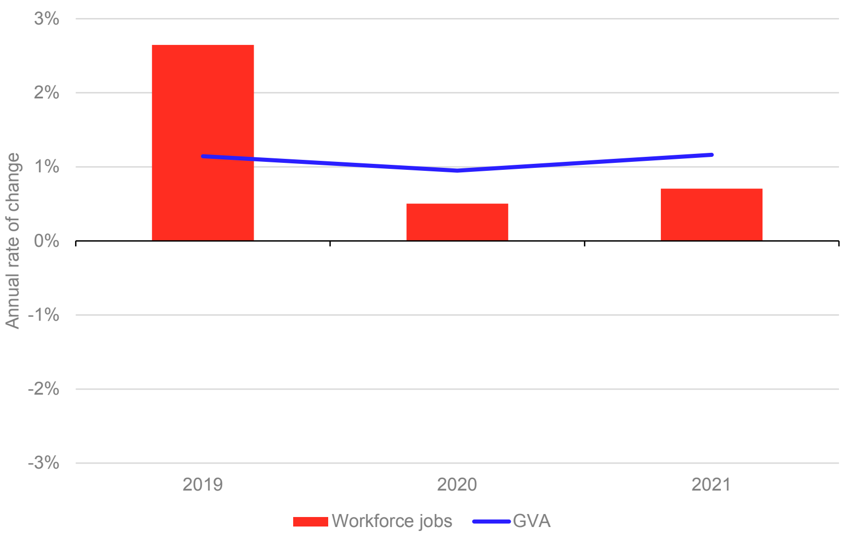


Figure A5: Construction (% annual changes)

Source: GLA Economics

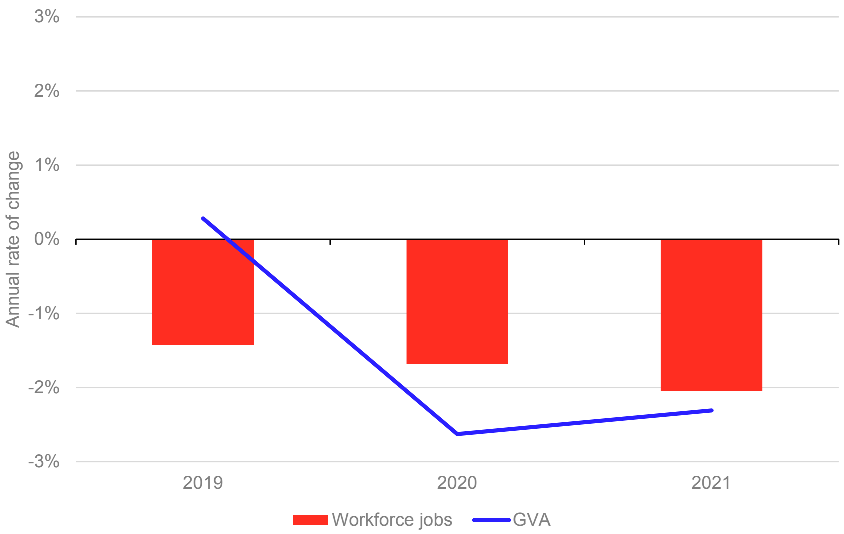


Figure A6: Manufacturing real output and employment growth (% annual changes)

Source: GLA Economics

However, there are risks to our forecasts. Several of these risks relate to the ongoing uncertainty around the economic impact of the Brexit process. For instance, what the future trading relationship between the UK and EU will look like and whether there is any long-term reputational damage to the UK. Unfortunately, it is not yet possible to fully understand these Brexit impacts, though things should hopefully become clearer as 2020 progresses. Other risks include the increasing protectionist measures that a number of countries and in particular the US are undertaking. So there is evidence that the US/China 'Trade War' is already having a negative impact on global trade and, consequently, reducing global growth prospects. The permanent subdued productivity growth both in London and the UK and the increasing pressure on central government spending are also some concerns to consider in the short to medium term. Altogether, these risks mean that there is some degree of uncertainty over our economic forecasts for London. The actual figures may be better or worse than those presented here. They nonetheless represent our best estimates based on currently available information. Given this, we constantly monitor and report on new information and how they can affect our forecasts in our monthly economic overview – London's Economy Today – and in our working papers and current issues notes. These can be downloaded from our publications webpage.

For more information about our economic forecasts, please see London's Economic Outlook: Autumn 2019. Our next set of forecasts for London's economy will be in Q2 2020.

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: Autumn 2019
GLA Economics’ 35th London forecast suggests that:

- London’s GVA growth rate is forecast to be 1.8% in 2019. The growth rate is expected to decrease to 1.1% in 2020, before increasing to 1.8% in 2021.
- London is forecast to see increases in the number of workforce jobs in 2019, 2020 and 2021.
- London’s household income and spending are both forecast to increase over the next three years.

Download the full publication.

Productivity trends in London
The ‘Productivity trends in London’ report looks at the reasons for the capital’s high overall level of productivity and the factors behind the sharp slowdown in productivity growth in the post-financial crisis period.

Download the full publication.

Productivity levers in London
The ‘Productivity levers in London’ report summarises the findings of a rapid literature review on the effectiveness of policy levers to enhance productivity at a regional level, with a particular focus on levers which can be influenced by the public sector and on UK (and where possibly, London) evidence.

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