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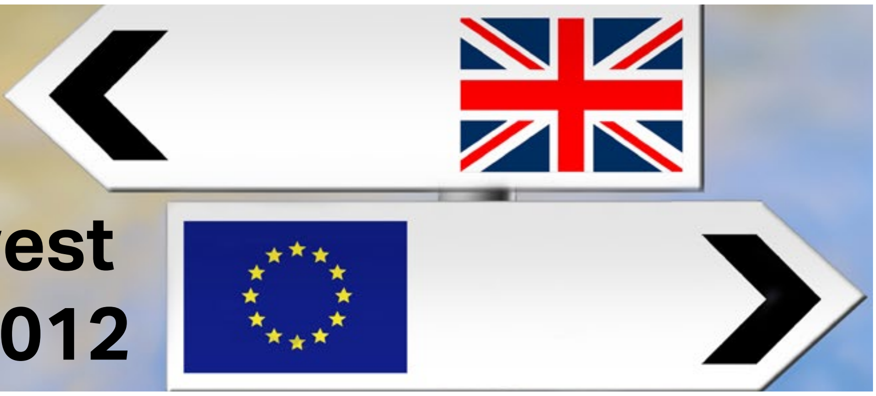
EU net migration drops to lowest level since 2012



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

Data published by the Office for National Statistics (ONS) at the end of November showed that in the year ending (YE) June 2018 the overall number of EU citizens coming to the UK continues to add to the population as 74,000 more EU citizens came to the UK than left.

This was the lowest estimate for EU net migration since 2012. In more detail the number of EU citizens who came to the UK was 219,000 in YE June 2018. This was lower than levels seen in 2015 and 2016 but higher than in the years up to 2014. The number leaving the UK has remained broadly stable over the last year but rose gradually since YE September 2015. Despite these trends in EU migration, non-EU net migration was the highest since 2004, with 248,000 more non-EU citizens arriving than leaving the UK and at a similar level to that seen in 2011. In total around 273,000 more people came to the UK than left in the YE June 2018, so long-term net migration has continued to add to the UK population (Figure 1).

Also published were migration numbers for London for the YE December 2017 (although without the EU non-EU breakdown provided at the national level). These found that net international migration to London stood at +70,000 in the year to December 2017, this was up 19,000 from the YE December 2016. In more detail over this period there were 168,000 international migrants into the capital (up 12,000 on the previous year) and 98,000 out-migrants (down 8,000).

Also in this issue

Datastore

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

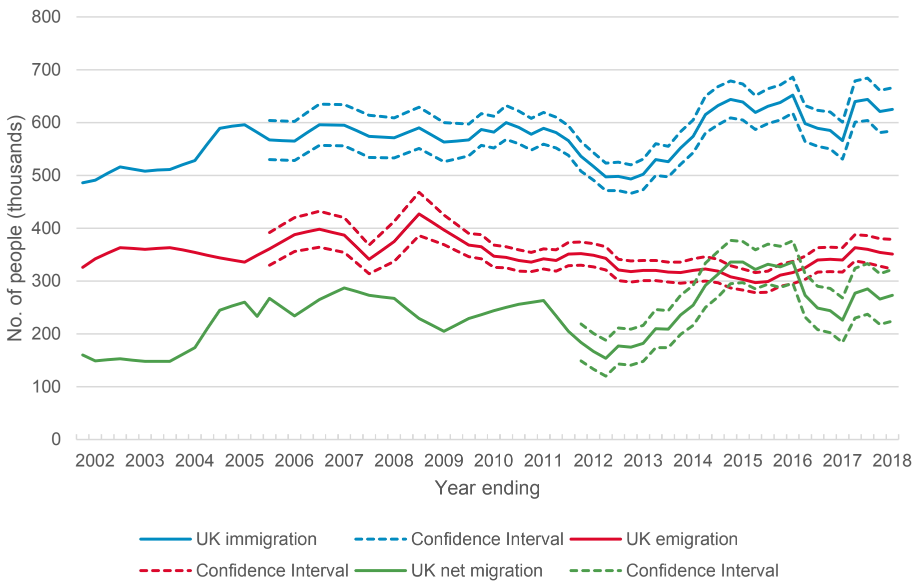


Figure 1: UK Long-Term International Migration, 2002 to 2018 (with 95% confidence intervals)

Source: Long-Term International Migration estimates, ONS

Parliamentary vote on the Brexit deal postponed

Although it had been expected that a vote on the Withdrawal Agreement that had been negotiated between the EU and UK and published in November would take place this month the vote was postponed. This was because it had become clear that it was likely that the Government would face defeat in a Common's vote. In particular, objections arose from some MPs due to the Northern Ireland backstop part of the deal where "a single customs territory between the [EU] and the United Kingdom" will come into effect if no solution to the border issue is agreed by the end of 2020. The Government then entered another round of talks with European partners on how to address these concerns. It has now been confirmed that a vote on the Withdrawal Agreement will take place in the week beginning 14 January.

Uncertainty about what, if any, Brexit deal will occur led to continued volatility on the currency markets with the pound hitting nearly two-year lows against the dollar in December (Figure 2). The pound thus dropped 1.3% against the dollar on 10 December when the vote was postponed and fell further after the confidence vote in the Prime Minister on 12 December with it trading at levels not seen since April 2017.

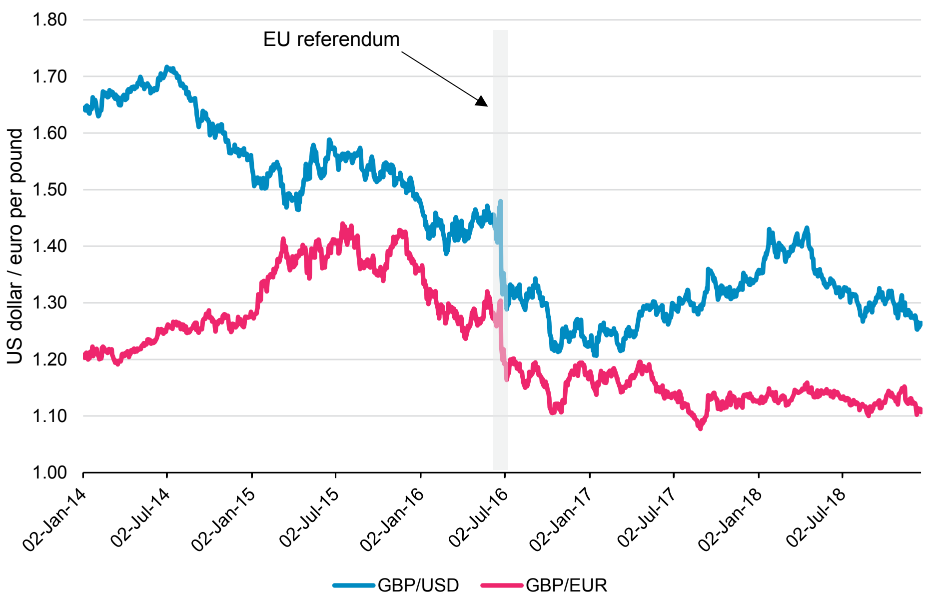


Figure 2: The recent drop in sterling against the US dollar and euro exchange rates

Last data point is 19 December 2018

Source: Bank of England

In their latest Financial Stability Report the Financial Policy Committee (FPC) of the Bank of England stated that they have "reviewed a disorderly Brexit scenario, with no deal and no transition period, that leads to a severe economic shock. Based on a comparison of this scenario with the Bank's stress test scenarios, the FPC judges that the UK banking system is strong enough to continue to serve UK households and businesses even in the event of a disorderly Brexit". However, looking at the preparedness of London businesses for the effects of Brexit, a new poll from the London Chamber of Commerce and Industry found that 75% of London businesses have not made any provisions yet in preparation for the effects of Brexit. Other findings from the poll were that 63% of surveyed London businesses believed their business would not be directly affected by Brexit while 37% thought they would be. And 41% of surveyed London businesses believe that their company's business relationship with the EU will remain the same after Brexit, with 32% saying it will worsen and 6% saying it will improve.

Pay awards pick up

Looking at recent economic data at the Great Britain level nominal pay growth (both regular and total pay) increased in the latest data published by the ONS. Thus, in the three months to October 2018, regular pay increased 3.3% on the previous year – the annual growth rate for regular pay has not been this high in 10 years. However in real terms (i.e. adjusting for inflation) annual pay growth in Great Britain was still only 1% in the latest data. On this basis, average weekly earnings are still below pre-recession levels.

The latest measure of GDP from the ONS showed a bit of weakening in the three months to October 2018 according to data that was published in December. Thus, UK GDP grew by 0.4% in those months. Commenting on these figures Head of National Accounts at the ONS, Rob Kent-Smith, said "GDP growth slowed going into the autumn after a strong summer, with a softening in services sector growth mainly due to a fall in car sales. This was offset by a strong showing from IT and accountancy". With him adding that "manufacturing saw no growth at all in the latest three months, mainly due to a decline in the often-erratic pharmaceutical industry. Construction, while slowing slightly, continued its recent solid performance with growth in housebuilding and infrastructure".

UK productivity gap may be narrower than previously thought

One persistent concern about the state of the UK economy has been that productivity in the UK, as measured by output per hour worked, has lagged behind a number of competitor countries. However, new research from the OECD published in December indicated that although this gap remains it may not have been as large as previously thought (Figure 3). This was due to how different countries measured hours worked. Thus, the ONS makes few adjustments to self-reported hours worked, while in France for example adjustments are done for holidays, sick leave, strikes and work in the illegal economy. Producing numbers using a comparable methodology therefore leads to a productivity gap of around 10% with France rather than around 20% without any adjustment.

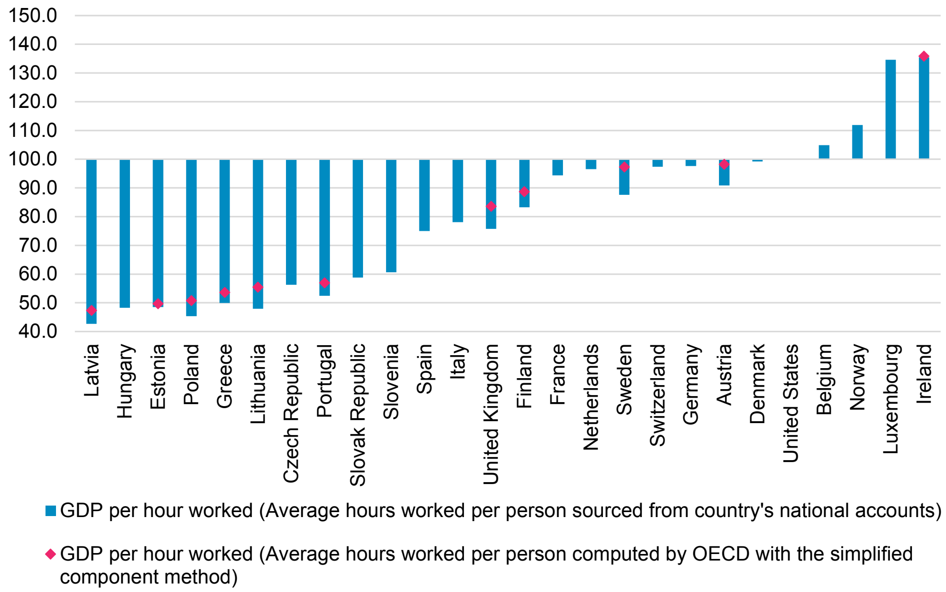


Figure 3: Estimated labour productivity gaps, selected OECD countries, 2016

Source: OECD (2018) 'International productivity gaps: Are labour input measures comparable?' via ONS. Note: Gaps in GDP per hour worked as measured using average hours worked from official national accounts and from the OECD LFS based simplified component method, United States = 100

London's economy accounted for over 23% of the UK economy in 2017

In December the ONS published new estimates of the size of London's economy, although only up to 2017. This data showed London's output (as measured by Gross Value Added (GVA) as measured by the balanced approach) was £431.16 billion in 2017, a 3% increase in real terms compared with 2016. London accounted for 23.7% of all UK GVA in 2017 compared to 19.5% in 1998. London's economy was also the biggest of any UK nation (excluding England) or region in 2017, with it being followed by the South East at £267.13 billion and North West at £173.61 billion. While compared to other capital city regions in the UK London was over 13 times larger than the next largest capital region of Edinburgh and SE Scotland City Region (£32.3 billion). Looking in more detail at the sectors of London's economy the largest contribution to London's output in 2017 came from Real estate activities at 16.1% of GVA. This was followed by Financial and insurance activities at 14.8%, Professional, scientific and technical activities at 12.1% and Information and communication which contributed 11.3% of London's GVA in 2017.

Looking more recently uncertainty around the future of Brexit appears to be having an ongoing impact on certain parts of the economy. In their latest survey of surveyors, the Royal Institution of Chartered Surveyors (RICS) found that most of them expect house prices to fall in both England and Wales as well as in London. Commenting on these findings their chief economist Simon Rubinsohn said that "it is evident from the feedback to the latest RICS survey that the ongoing uncertainties surrounding how the Brexit process plays out is taking its toll on the housing market". He went on to say that he could not recall a previous survey when a single issue had been highlighted by so many contributors.

Still workforce jobs data for London that was published by the ONS in December showed continued strength in other parts of London's economy. The data thus showed that there were 5.98 million jobs in London in September 2018 (a new high), up 12,000 on the quarter and 82,000 on the year. The number of jobs in London grew 1.4% on the year; this was above the rate for the UK overall (0.5%), but slightly below the long-term average annual growth rate for London (1.9%). Despite these positive labour market numbers, the amount of uncertainty for London's economy going into the new year remains at elevated levels due to the continued lack of certainty around Brexit. Despite this in our latest forecast we expect London's output to continue to grow with forecast growth in 2019 of 1.6% before it picks up to 1.9% in 2020.

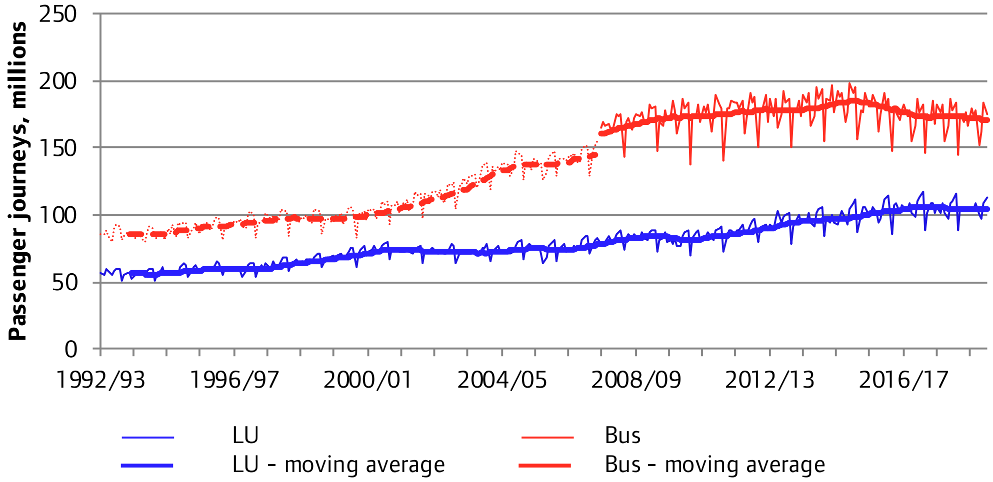
Economic indicators

TfL passenger journeys decreased by 5.2 million in the latest period

- A total of 287.5 million passenger journeys were registered between 4 October and 31 October, 5.2 million less than the previous period. This fall is mainly the result of a decrease by 8.7 million in Bus journeys, while Underground journeys rose by 3.5 million. 112.7 million of the total journeys were Underground journeys and 174.9 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys fell from 275.5 million to 275.4 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 2018, Next release: January 2019

Passenger journeys by mode of transport
(adjusted for odd days)

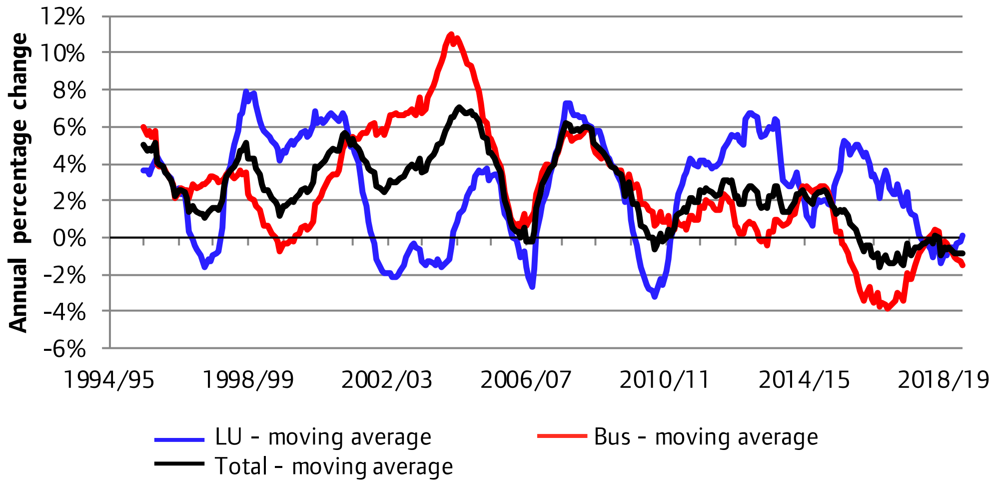


The annual change in passenger journeys remains negative

- The moving average annual growth rate in the total number of passenger journeys remained unchanged at -0.9% for the fourth consecutive period.
- The moving average annual growth rate of bus journeys fell to -1.5% down from -1.3% in the previous period.
- The moving average of Underground passenger journeys increased from -0.2% to 0.2%.

Source: Transport for London
Latest release: December 2018, Next release: January 2019

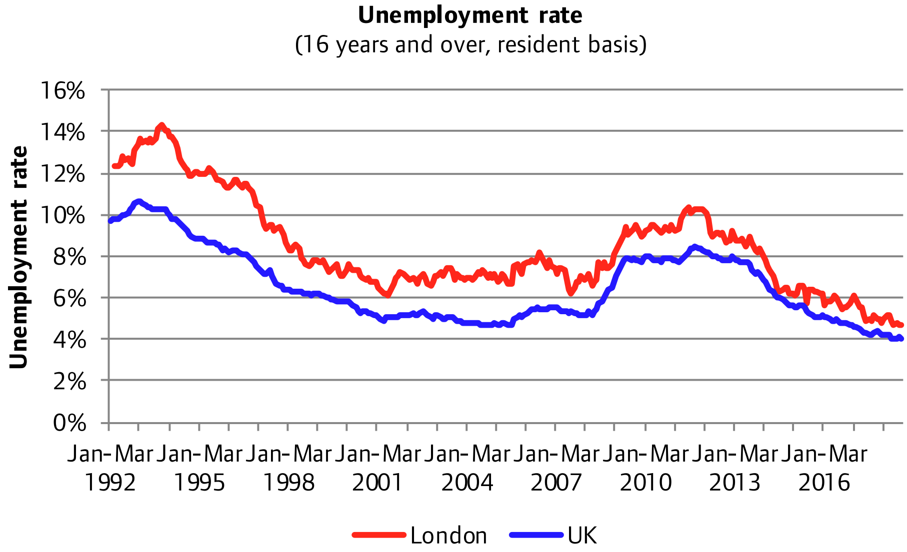
Annual change in passenger journeys by mode of transport
(adjusted for odd days)



London and UK unemployment rates remain at near record lows

- 236,500 residents 16 years and over were unemployed in London for the three-month period August-October 2018.
- The unemployment rate in London was 4.7% in that period, the same rate as in the previous quarter of May-July 2018.
- Meanwhile, the UK's unemployment rate remained at a low of 4.1% in the three months to October, but this was up slightly from the 4.0% seen in the three months to July.

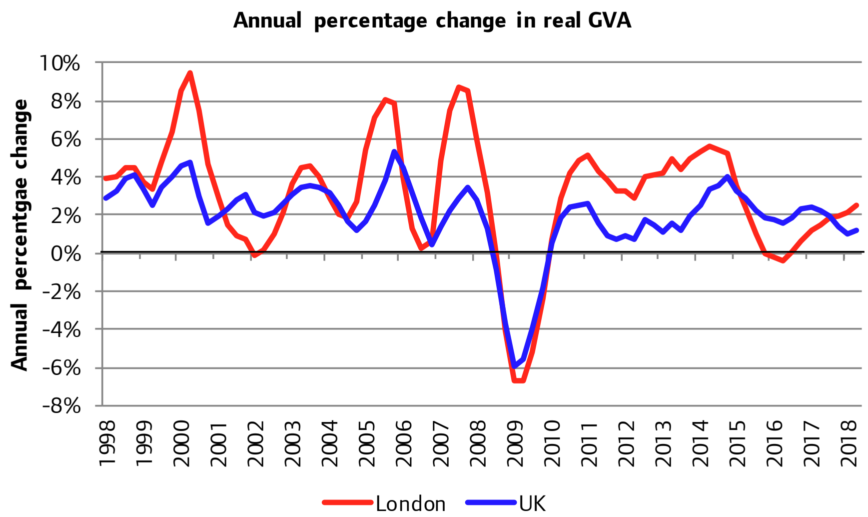
Source: ONS Labour Force Survey
Latest release: December 2018, Next release: January 2019



London's annual output growth reached 2.6% in Q2 2018, the highest rate in three years

- London's annual GVA growth increased to 2.6% during the second quarter of 2018, the highest rate since Q1 2015 and the eighth consecutive increase of the rate.
- In the UK, the downward trend from Q1 2017 stopped. Output growth was 1.2% annually in Q2 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.

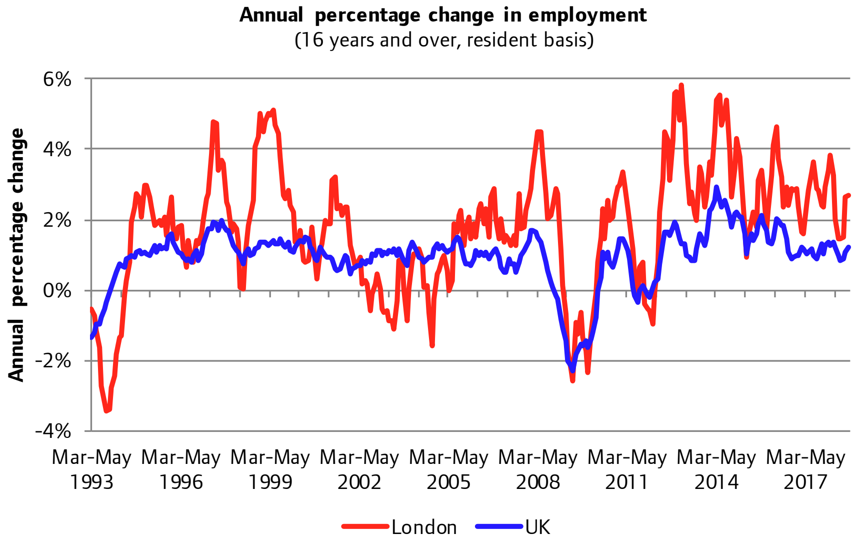
Source: ONS and GLA Economics
Latest release: October 2018, Next release: January 2019



Annual growth in employment in London continues

- Around 4.78 million residents over 16 years old were employed in London during the three-month period August-October 2018.
- The rate of annual employment growth for the capital increased by 1.3 percentage points from 1.4% in May-July 2018 to 2.7% in August-October 2018.
- For the same period, the UK employment rate grew at an annual rate of 1.2%, 0.4 percentage points higher than the previous quarter.

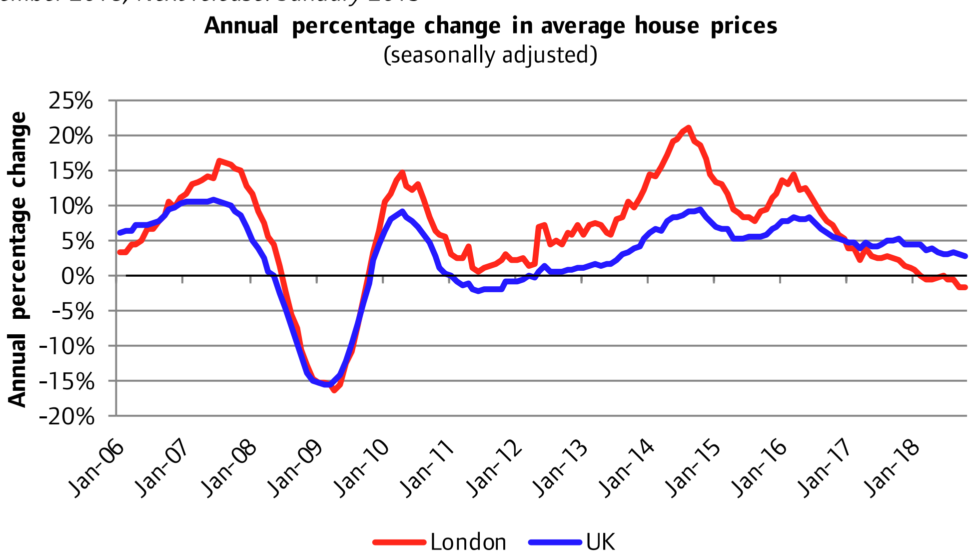
Source: ONS Labour Force Survey
Latest release: December 2018, Next release: January 2019



Contraction in average house prices in London continues

- In October 2018, the average house price in London stood at £472,173, while for the UK the average increased to £228,795.
- The annual growth rate in average house prices in London was -1.7% in the year to October, very similar compared with the -1.8% seen in the year to September. London house prices have been contracting since March 2018.
- By contrast, average house prices in the UK grew by 2.7% in the year to October 2018, 0.4 percentage points slower than in September.

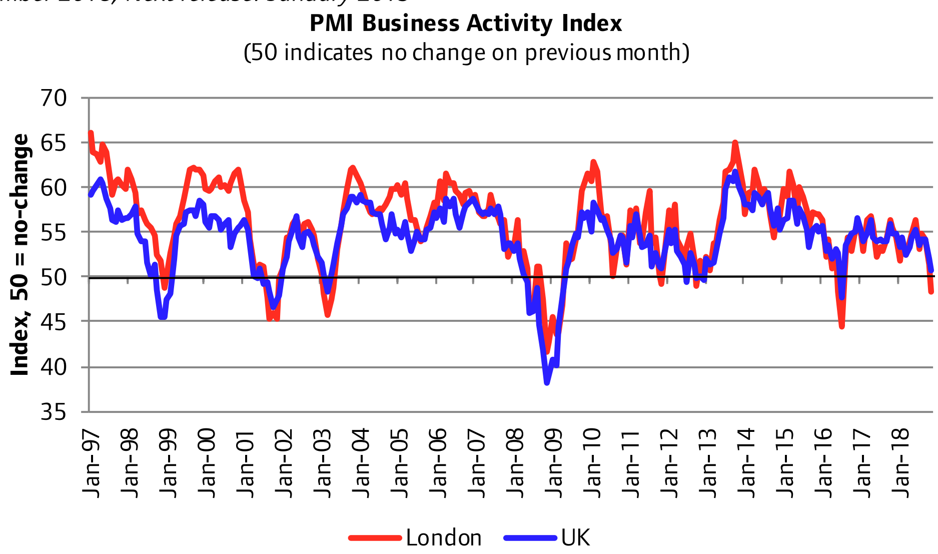
Source: Land Registry and ONS
Latest release: December 2018, Next release: January 2019



London business activity decreased in November after 28 months of increases

- 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 48.3 in November, down from 51.5 in October. This implies the first fall in business activity since July 2016.
- The UK index also decreased from 52.1 in October to 50.7 in November but still remained above 50.0.

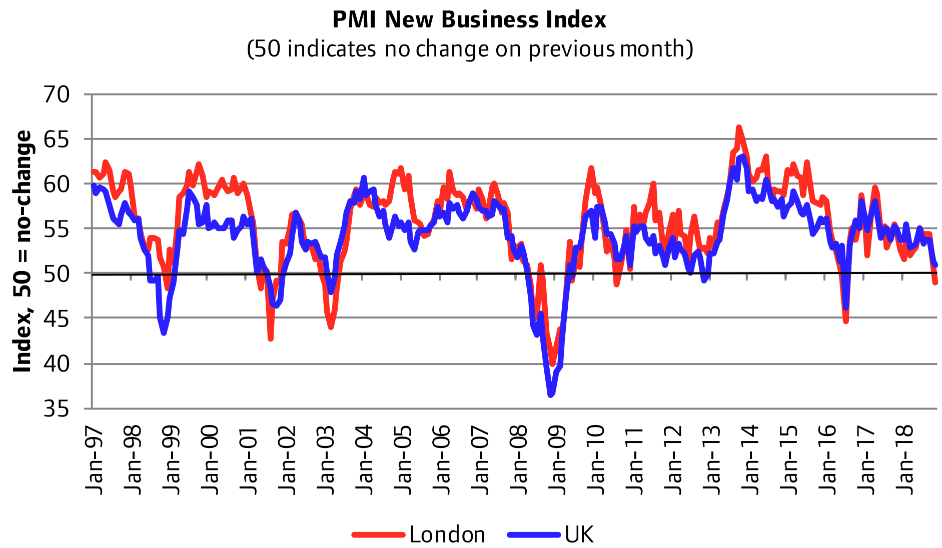
Source: IHS Markit
Latest release: December 2018, Next release: January 2019



New business index in London fell in November after rising for 28 months

- The PMI New Business Index was 48.9 in London in November, the lowest level since July 2016, down from 50.7 in October.
- For the UK, it also dropped but only to 51.0 in November, from 51.4 in October.
- 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.

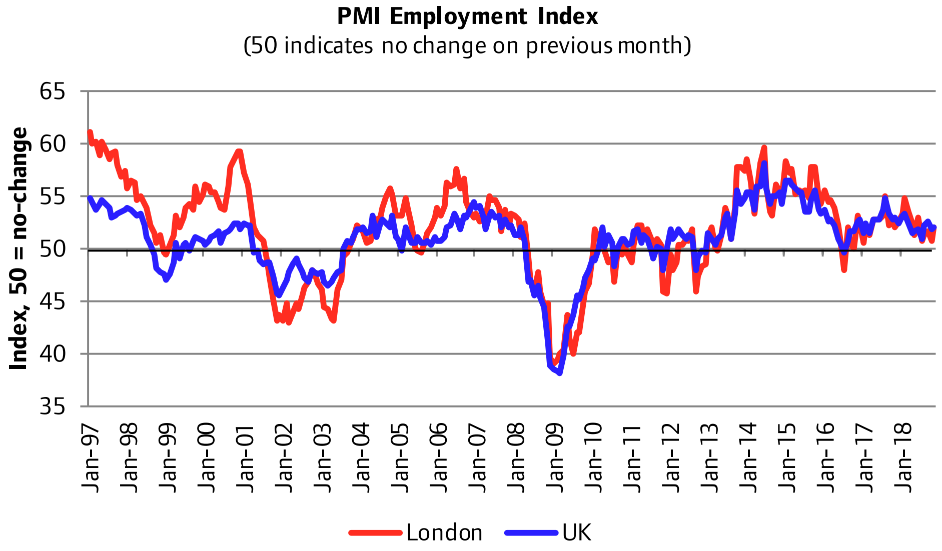
Source: IHS Markit
Latest release: December 2018, Next release: January 2019



Employment for private sector firms in London grew 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 52.0 in November, up from 50.8 in October.
- The index also increased for the UK in November to 52.0 from 51.8 in the previous month.

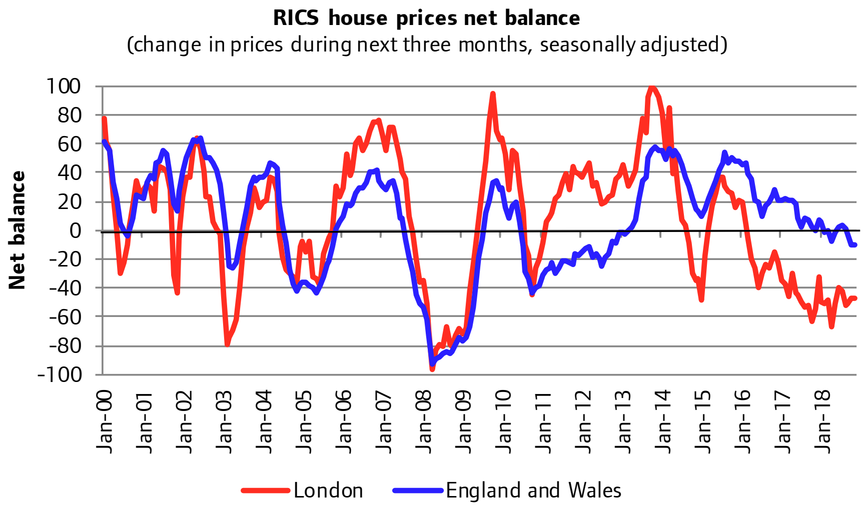
Source: IHS Markit
Latest release: December 2018, Next release: January 2019



London house prices to continue falling according to most property surveyors

- In the three months to November 2018, the net balance of property surveyors reporting house price increases remained unchanged compared to October at -47. The index has now been negative since the three-month period to February 2016.
- For England and Wales, the RICS house prices net balance index fell from -10 in October to -11 for the three months to November 2018.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

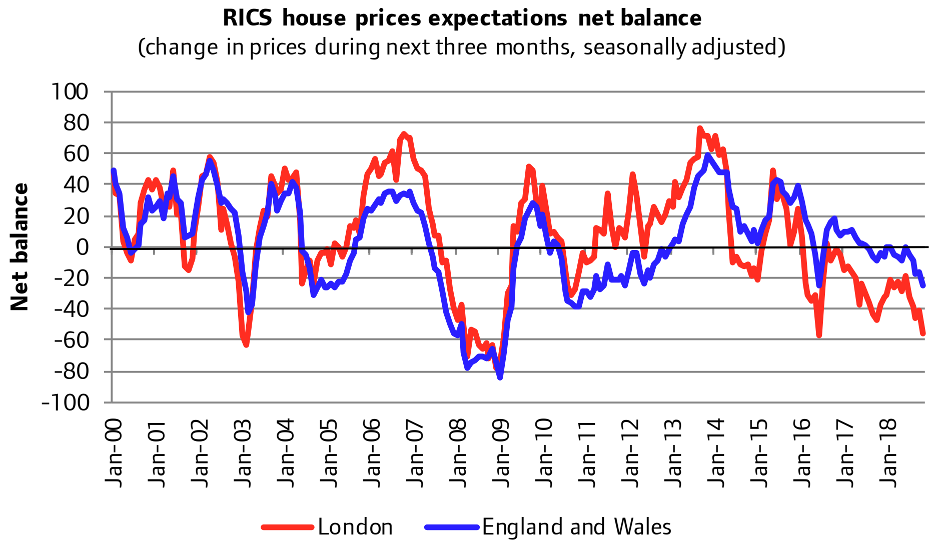
Source: Royal Institution of Chartered Surveyors
Latest release: December 2018, Next release: January 2019



House prices expectations continue to be negative

- In November, most surveyors continued to have negative expectations for the next three months for house prices in London. The RICS index was -56 for this month, down from -41 in October.
- London remains the region with the most negative expectations for house prices.
- Sentiment in England and Wales was also more negative in November (-25) down from -16 in October.

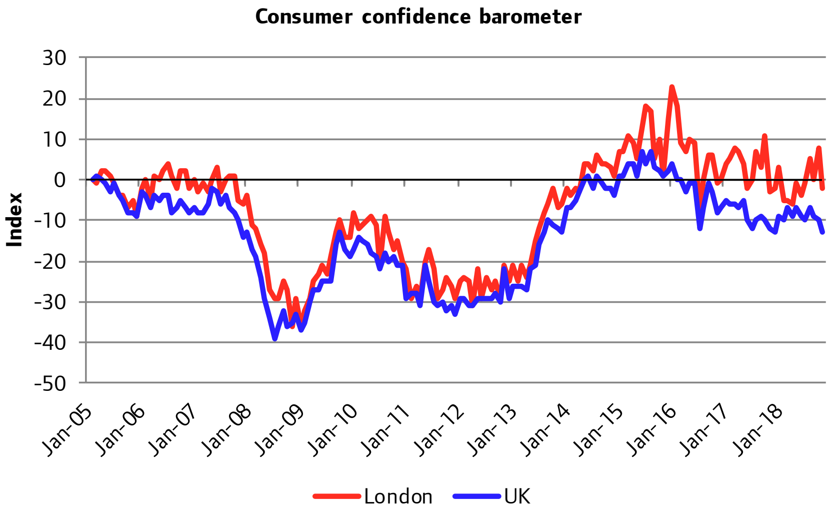
Source: Royal Institution of Chartered Surveyors
Latest release: December 2018, Next release: January 2019



Consumer confidence in London was slightly 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 -2 in November, down from 8 in October.
- Sentiment was also negative for the UK in November (-13), experiencing a decline compared to October (-10). The UK has not shown a positive index score since January 2016.

Source: GfK NOP on behalf of the European Commission
Latest release: November 2018, Next release: December 2018



Ten years since the beginning of the world financial crisis

By Eduardo Orellana, Economist

2018 was the 10-year anniversary of the Lehman Brothers collapse. This supplement collects and analyses the main developments that took place from the collapse in September 2008 onwards which led to the deepest global financial - and eventually economic - crisis in the last 80 years, with a special focus on the UK and London economies.

The origin of the financial turbulences

Ten years later it is widely accepted by academia and public opinion that the onset of the global 'Great Recession' (2008-2010) took place with the unexpected bankruptcy of the fourth largest investment bank in the US - Lehman Brothers - in September 2008[1]. Although there is no doubt that the fall of this financial institution caused the biggest panic in the world financial market seen in decades, the consensus of opinion still remains unclear as to whether this event could have been effectively forecasted in advance or not.

Looking at the causes of the crisis recent evidence suggests that the boom in the US subprime housing market - where complex banking products such as securities backed up by mortgages and collateralised debt could be resold infinitely among investors around the world - had already started from 1995[2]. Boosted by President Clinton's policies[3] aiming at granting mortgages to "as many citizens as possible", both solvent and insolvent buyers began to have access to mortgages in the US. At the beginning of the 21st Century, US banks started to create and sell financial products linked to those mortgages around the world – known as mortgage-backed securities – and, consequently, international investors started to fill their portfolios with these financial products. The risk associated with these new products was not fully understood by the international markets, even when the probability of paying off the mortgage was low. As a result of this combination of factors, in the years leading up to the crisis, the US commercial banks had lowered their client's solvency requirements in order to sell more mortgages, investment banks and particular investors had hugely increased their exposure to the risky subprime markets, and US households mortgage-related debt had soared by 45% between 2004 and 2006. The 'success' of the subprime products in those years was such that as time progressed banks started to find it harder to value and update correctly its own risk position to this market, creating an unmeasurable level of risk in the global financial system. In this context, the Federal Reserve's decision to raise interest rates by 425 basis points between 2004 and 2006

1 Fernald, J. G. (2015). 'Productivity and Potential Output before, during, and after the Great Recession'. NBER Macroeconomics Annual 2014 29 (1): 1–51.
2 Agarwal, S. et al. (2015). 'Mort¬gage Refinancing, Consumer Spending, and Competition: Evidence from the Home Affordable Refinancing Program'. NBER Working Paper 21512, National Bureau of Economic Research.
3 Marsico, R. D. (2006). 'The 2004-2005 Amendments to the Community Reinvestment Act Regulations: For Communities One Step Forward and Three Steps Back'. Clearinghouse Review, Vol. 39, p. 534, 2006.

to control consumer inflation in combination with a "low introductory interest rates system" in thousands of US mortgages led inevitably to increasing levels of default of the insolvent and already highly-indebted subprime borrowers.

The first major sign of the impending crisis took place in April 2007 when the real-estate investment company New Century Financial collapsed as a result of its elevated non-performing mortgages. But the financial distortions were not limited to the US since global investors had been reselling 'toxic assets' over the world for years. Some banks effectively managed to absorb the hit. Others, such as Germany's IKB, collapsed in the summer of 2007. In March 2008, JP Morgan acquired the insolvent investment bank Bear Sterns with US Federal Reserve support. In August 2008, France's BNP Paribas decided to freeze withdrawals from a trio of funds linked to subprime mortgages. And in September 2018, days before the Lehman Brothers bankruptcy, the US government decided to take over the mortgage giants Fannie Mae and Freddie Mac, authorised the Merrill Lynch acquisition by Bank of America, and guaranteed exceptional credit lines to the big international insurance company AIG.

In the UK, the adverse effects of the US subprime markets exposure and the global financial instability on the local financial system first became publicly evident in the summer of 2007. Northern Rock – which had become the fourth largest commercial bank by share of lending - faced the first severe liquidity crisis in the country due to its dependency on short-term loans from the financial markets - loans that dried up after the sub-prime crisis. Acting as a lender of last resort, the Bank of England provided the bank with enough liquidity to solve its money shortage but this event had already led to panic among depositors, resulting in the first bank run in the UK for 150 years. As a result, Northern Rock was finally bought by the Government in February 2008. However, further runs on British banks occurred. In September 2008, it was announced that HBOS, Britain's sixth-biggest bank and largest mortgage provider, would merge with Lloyds TSB, itself the fifth-biggest bank in Britain. Alliance & Leicester was acquired by Santander UK in October 2008. And the systemically important RBS was also rescued by the Government through an emergency credit line in October 2008, along with other smaller banks.

The economic consequences

Following a first wave of public sector reactive interventions (2007-2008)[4] to urgently avoid the contagion effect created by the Northern Rock bank run and other financial stress and rescue the most vulnerable financial institutions, the UK authorities announced a historic package of measures (2008-2013)[5] aimed at strengthening the solvency, the resilience, and the overall security of the UK´s financial sector in the long term:

- Bank deposits would be fully guaranteed up to a limit of £85,000 through the Financial Services Compensation Scheme (FSCS) -up from £35,000 before the crisis.
- A new resolution framework would allow banks to fail in an orderly manner or be rescued by its shareholders assuming losses (bail-in).
- The Financial Services Authority (FSA) – the at the time single regulator of the UK´s financial sector- was split into two new regulatory bodies with concrete responsibilities: the Prudential Regulation Authority of the Bank of England (PRA) -macroprudential supervision- and the Financial Conduct Authority (FCA) -conduct regulation. Besides, this the Bank of England's Financial Policy Committee was created to identify risks and make sure that the financial system keeps resilient enough even in economically bad times; it can do this by giving recommendations on a 'comply or explain' basis to the PRA and FCA.
- Special focus on the supervision of shadow banking by the Bank of England.

4 Four types of public interventions were essentially employed during those years: 1) Bank of England providing urgent liquidity into the financial system; 2) UK's government approving mergers and acquisitions of smaller insolvent institutions; 3) Bank nationalisations; 4) Bank recapitalisations.

5 All these measures remain still in force.

- Bank capital requirements and bank solvency ratios would increase.
- Bank liquidity requirements and leverage ratio would become more restrictive. These measures add up to stronger global regulatory standards on bank capital adequacy and liquidity -including a new countercyclical capital buffer- set through the new Basel III framework in December 2010[6].
- The Financial Stability Board (FSB) would create a framework for identifying Systemically Important Financial Institutions (SIFIs).
- New rules were approved to balance banks short-term and long-term funding.

Similar measures were taken in the US and European financial systems. Whereas this new framework seemed indispensable to strengthen the UK's financial system and prevent another financial crisis, the bank crisis, the low liquidity, the global uncertainty, and the persistent decline in the bank lending growth rate - from 10.2% in August 2007 to 0.6% in December 2010 – had already led the UK's economy to its deepest recession (Q2 2008 – Q2 2009) since the Second World War. As Figure A1 shows, the 2008-09 recession not only represented the largest fall in output in 80 years but also took 22 quarters of cumulative GDP growth to return to the pre-crisis GDP levels. This compares to 12 and 14 quarters in the 1990-1991 and 1980-1981 recessions, respectively.

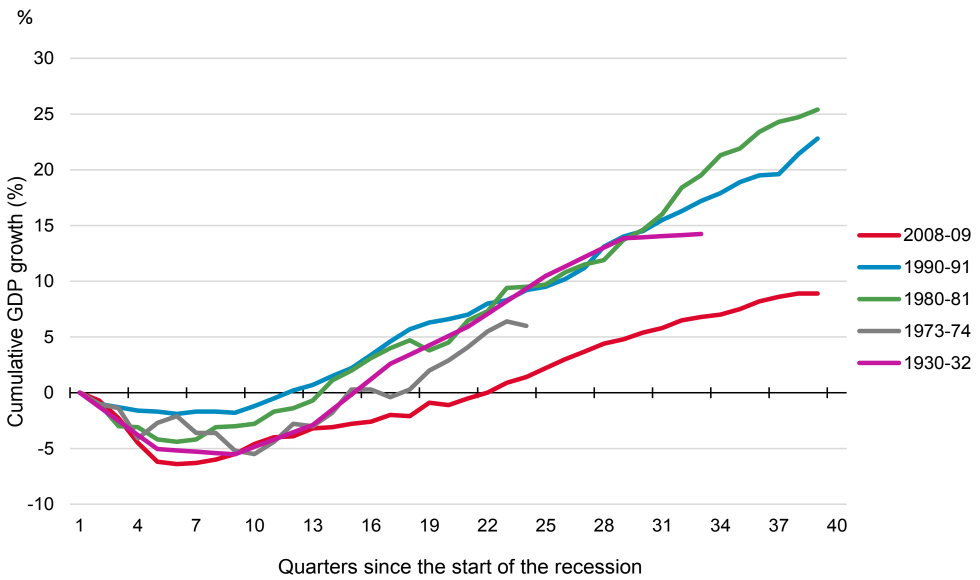


Figure A1: Comparison of recoveries from recessions since the 1920's, UK's GDP

Source: GLA Economics based on ONS and IFS data. Series stop when a new recession or WW2 begins

From the international perspective, most of the main advanced economies were also hit hard by the global financial recession between mid-2008 and early-2010 although the evidence suggests that countries with stronger pre-crisis fiscal, financial and regulatory positions experienced smaller bank crisis' and output losses in the aftermath[7]. Looking at the annualised quarter-on-quarter GDP growth rates, the UK's output seems to have performed generally in line with the EU advanced economies on average during those years but worse than the US in both impact and duration (Figure A2). Some European countries like France had a less severe recession than the UK - British real GDP growth rate was -0.3% in 2008 and -4.2% in 2009 - but others like Germany or Italy experienced a larger fall in GDP. Besides, the Eurozone experienced a second important economic recession in 2012 and 2013[8] when the UK was already growing at 1.4% and 2.0% respectively annually, although the Eurozone crisis also dampened UK growth. In terms of duration, the UK's 2008-09 recession lasted very similarly to the ones in the other major economies in the EU.

6 See: BIS - Basel III: A global regulatory framework for more resilient banks and banking systems.
7 IMF (2018), 'World Economic Outlook' October 2018.
8 This second crisis was originated by a large negative shock in the public debt secondary markets. For more detail see: Stracca, L. (2013). 'The global effects of the Euro debt crisis'. European Central Bank Working Paper Series 1573, August 2013.

While the big picture in terms of output seems generally analogous, the UK’s labour market performed clearly better than comparable European economies -and even the US- during the financial crisis. The country’s unemployment rate rose for four consecutive years from 5.3% in 2007 to a peak of 8.1% in 2011 but, for example, the US registered a larger increase for the same period - from 4.6% to 8.9% - and the Eurozone’s unemployment rate soared up to 12% in 2013 - from 7.1% in 2008.

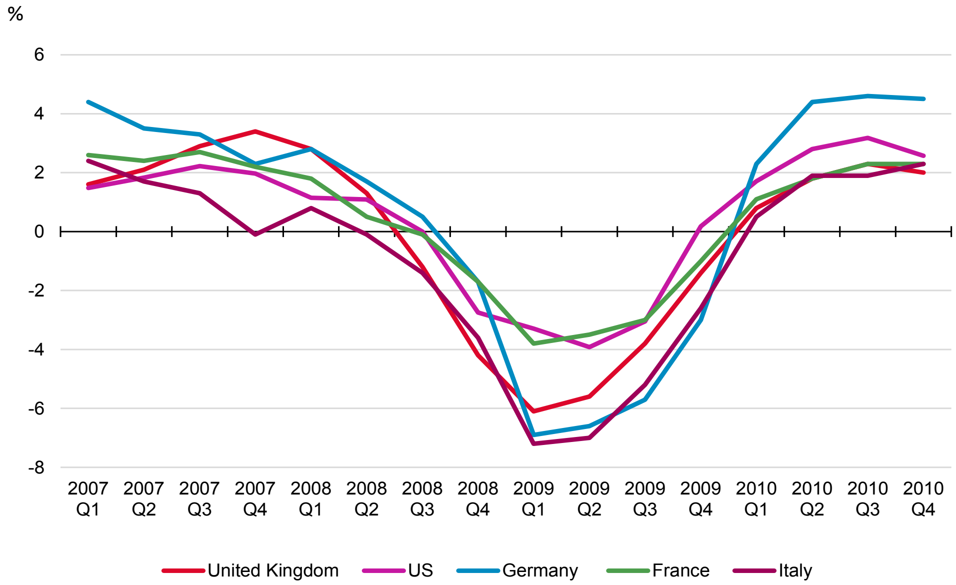


Figure A2: International comparison of the GDP growth rate during the 2008-09 crisis

Source: GLA Economics based on Eurostat data. Rates shown are annualised q-o-q rates

Comparing London to the UK as a whole during the years 2008 and 2009 (Figure A3), London performed worse than the whole country in terms of output growth for most of the quarters of the crisis. This fact corroborates the historical evidence which shows that London tends to grow generally more than the UK in good times but also grows less than the UK during downturns[9]. The explanation could be the different sectorial composition of the economy between London and the rest of the country[10] as well as its important exposure to international trade -especially through service exports[11]. By contrast, London’s unemployment rate rose slightly less than the UK rate during the crisis, although from a higher level and reached a 12-year high of 9.3% in Q4 2009.

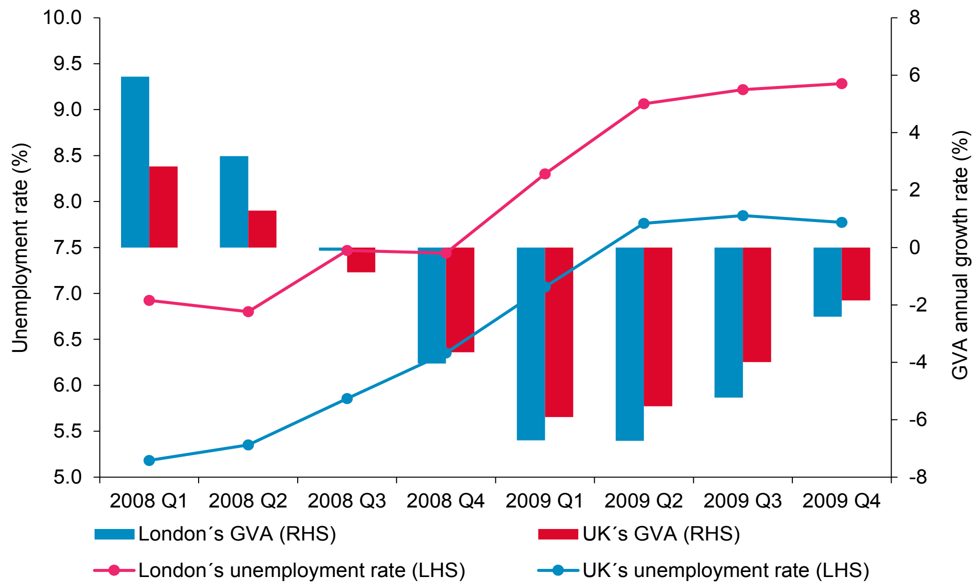


Figure A3: London and UK GVA annual growth rates and unemployment rates 2008-09

Source: GLA Economics based on ONS and GLA Economics data

9 See: Hope, M. & Orellana, E. (2018). ‘London’s Economy Today’, Issue 194. GLA Economics, October 2018.

10 See: Orellana, E. (2018). ‘Regional, sub-regional and local gross value added estimates for London, 1997-2016’. GLA Economics Current Issues Note 57 May 2018.

11 See: Christie, E. (2017). ‘An analysis of London’s exports’. GLA Economics Working Paper Note 91, November 2017.

Given the generalised and prolonged economic recession, from 2009 the public authorities in the UK, the US, and the Eurozone employed a range of exceptional monetary and fiscal measures to support their economies. These measures complemented the interventions and new regulations created to strengthen the financial system and mentioned above in this text. In the UK, the main public sector fiscal and monetary measures included:

- Between 2008 and 2010, the UK government's fiscal rules were abandoned as an exceptional measure to stimulate the depressed economy. Thus, the structural deficit as a share of GDP rose from 2.9% in 2006-07 to 7.8% in 2009-10, while public net debt soared from 34.4% to 64.3% of GDP in the same period. From 2010 onwards - under the new Conservative and Liberal Democrat coalition government - a period of "fiscal austerity" began to reduce the deficit. This saw the introduction of a new framework of government fiscal rules, the introduction of new tax measures and especially a number of cuts in public spending items, some of which are still in force today. The overall share of public expenditure as a percentage of GDP reduced from 44.9% in 2010 to 40.5% in 2015 (it is currently 38.5%) while by the same year the structural deficit had also fallen to 4.3% of GDP. Expenditure cuts were particularly deep in unprotected departmental budgets (while expenditure on the NHS and on foreign aid was ringfenced). London's local government has also been significantly affected by budget cuts, implying that total public expenditure per head in the capital has remained practically frozen in nominal terms between 2010 and 2016 at around £12,700. The IFS director – Paul Johnson - declared in March 2018 that "the government has done well to get the deficit under control during the period up to 2013/14 since spending came down without big political consequences or things falling apart. But, in a whole range of areas (health system, social care, prisons,…) that is no longer true. We are really beginning to feel the cost of austerity".
- Interest rates were cut from 5.0% in September 2008 to 0.5% in March 2009 - their lowest level in over 300 years – and remained extremely low until November 2017 when rates began to rise again.
- In November 2008, the Government announced a range of schemes to support SMEs in the UK. For example, a guarantee of 75% of any bank loan given to an SME or up to £200 million of total venture capital investment in fast-growing SMEs.
- A temporary cut in the rate of VAT from 17.5% to 15% from 1 December 2008 until 31 December 2009 was implemented to improve private consumption.
- On March 2009, the Bank of England (BoE) announced the start of a "Quantitative Easing" (QE) programme given that interest rates could not be easily further lowered to additionally boost the economy. With this unconventional monetary policy, the BoE expanded the money supply and liquidity in the economy through the purchase of millions of government bonds. By doing this, yields on those bonds drop and this should push down on the interest rates offered on loans (mortgages or business loans) because rates on government bonds tend to affect other interest rates in the economy. As a result, households and businesses should be able to borrow money cheaper, which encourages spending. The initial level of QE was set at £75 billion but this has been increased on several occasions to a total of £435 billion.

As a result of the combined public interventions and a healthier international context, the UK's economic dynamic changed from a GDP contraction of -4.2% in 2009 to 1.7% growth the year after and kept a similar modest growth on average in the following years. London's recovery from the recession was even more solid than the UK, growing by 3.2% in 2010 from a decline of -5.3% in 2009.

Ten years later…

According to Tom Hoenig, vice-chair of the US Federal Deposit Insurance Corporation, "the global financial industry is in better shape than it was 10 years ago. It is less leveraged and we're lending more safely". Following this argument, the BoE in a recent report on the 10th anniversary of the financial crisis[12] affirms that 1) capital requirements on large banks are now ten times higher than before the crisis; 2) banks are now less dependent on short-term wholesale market funding; 3) toxic assets of shadow banking no longer represent a financial stability risk and have shrunk by 40% since 2007; 4) complexity in derivatives markets has been reduced; 5) UK banks will separate their consumer banking services from their investment and international banking activities in January 2019; and 6) the UK now has a comprehensive and effective bank resolution regime stating that if a bank fails, the shareholders and creditors of the failed bank bear its losses, and that the taxpayer is not called upon to bear the costs.

However, a general caution remains. In its latest Global Financial Stability Report[13], the IMF admits that "although the global banking system is stronger than before the global financial crisis, it is still exposed to highly indebted borrowers, as well as to opaque and illiquid assets and foreign currency rollover risks". In this line, the BoE Governor, Mark Carney, sees China, where the total debt-to-GDP ratio has climbed above 300%, as "the biggest risk to financial stability" today. But the reality is that the median global government debt-GDP ratio has increased worldwide from 36% to 52% in this decade. This is seen as being a consequence of ultra-low interest rates and an abundance of cheap money flowing into the markets thanks to extremely expansive monetary policies. At the same time, investors are aggressively seeking high yields in a context of low interest rates, artificially pushing up the value of a range of investments and making potential asset bubbles more likely to happen. The UK's housing market, particularly in the south-east of England, might be considered as an example of this.

At the national level, the UK's public debt is now double its pre-crisis level relative to the size of the economy and GDP has been growing only slowly by historic standards over this decade. The IFS warns[14] that the UK's GDP is just 11% higher today than it was at its pre-crisis peak in 2007 meaning that it is 16%, or £300 billion, smaller than it would have been if it had followed the pre-crisis trend. While, GDP per capita is

12 Bank of England (2018), 'The financial crisis – ten years on'.
13 See: IMF – Global Financial Stability Report October 2018.
14 Cribb, J. & Johnson, P. (2018). '10 years on – have we recovered from the financial crisis?'. IFS September 2018.

£5,900 lower than it might have been based on these IFS calculations. The IFS observe that "this remarkably poor performance has been driven in part by the initial fall in output but more importantly by dreadful productivity performance since 2008".

The overall analysis of London's economy in the last decade suggests that London has recovered more strongly than the rest of the country since 2010, even despite the larger output contraction during the crisis as already shown in Figure A3. Since 2010, London's economy has grown 3.3% on average while the UK has done it at 2.0%. However, these rates are still – ten years later- far from their pre-crisis trends which were 4.1% and 2.8% for London and the UK, respectively (see Figure A4).

Figure A4: Average GVA (B) growth rates for London and the UK (1998-2017)

Source: GLA Economics based on ONS data. GVA (B) -balanced approach- is the new and improved measure of regional output created by the ONS. It obtained the National Statistics status in November 2018

The main explanation for this under performance can be found in the behaviour of labour productivity for both London and the UK, which has remained practically flat since 2008[15]. GLA Economics will continue to investigate the "productivity puzzle" in the months ahead, with this research being published online.

15 For more detail on the London's productivity puzzle see: GLA (2018), 'London´s Economy Today', Supplement, p.13, July.

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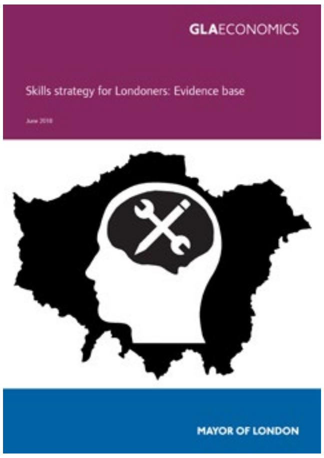

Skills strategy for Londoners, Evidence base
This skills strategy evidence base supports the Mayor's skills strategy, 'Skills for Londoners'. It covers the demand for and supply of skills, inequalities in skills, employer training, and the training and education system.

- 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.

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London's Economy Today is published towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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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.

MAYOR OF LONDON