GLAECONOMICS

London's Economy Today

Issue 201 | May 2019

UK growth picks up at the start of 2019

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UK economic growth picked up a bit in the first three months of the year according to new data published by the Office for National Statistics (ONS). In the three months to March 2019 GDP grew by 0.5% according to the first estimate of GDP, compared to growth of just 0.2% in Q4 2018 (Figure 1). When compared to a year earlier UK GDP increased by 1.8% in Q1 2019 compared to 1.4% yearly growth in Q4 2018.

This growth rate came against a backdrop of economic uncertainty at the start of the year as highlighted by a number of gloomy business and consumer confidence surveys. However, the ONS observed that "the strength in quarterly growth is in part due to the low December 2018 monthly growth in the base period, which makes the current period look stronger in comparison. Having fallen by 0.3% in December 2018, there was offsetting strength in January 2019 as output increased by 0.5%, followed by a further increase of 0.2% in February 2019. Real GDP growth is estimated to have contracted by 0.1% in March 2019".

Also in this issue

Datastore

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

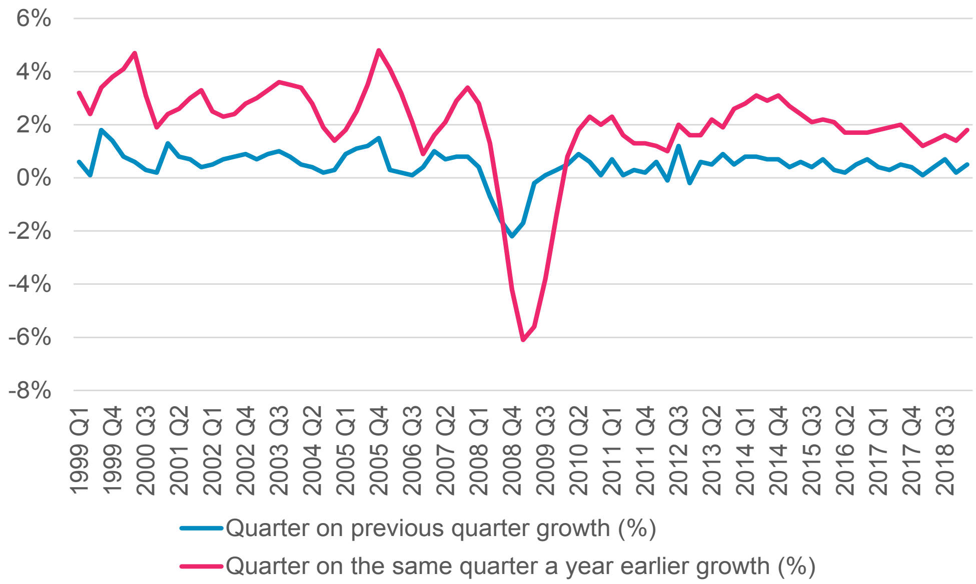


Figure 1: UK quarter on quarter and quarter on same quarter a year earlier GDP growth Q1 1999 to Q1 2019

Source: Office for National Statistics

Bank of England slightly improves UK growth forecast

May also saw the publication of the latest Inflation Report from the Bank of England. In it the Bank slightly upgraded its forecast for UK GDP growth this year with it now forecasting growth of 1.5% for 2019 compared to a forecast of 1.2% in the previous Report which was published in February. For 2020 the Bank now forecasts growth of 1.6% (up 0.1 percentage points on February) and for 2021 growth of 2.1% (up 0.2 percentage points). The Bank did however observe that "UK data could be unusually volatile in the near term, due to shifting expectations about Brexit in financial markets and among households and businesses". They also noted that GDP growth in Q1 2019 could in part reflect "a larger-than-expected boost from companies in the United Kingdom and the European Union building stocks ahead of recent Brexit deadlines. That boost is expected to be temporary, however, and quarterly growth is expected to slow to around 0.2% in Q2. Smoothing through those developments, the underlying pace of GDP growth appears to be slightly stronger than previously anticipated, but marginally below potential. That subdued pace reflects the impact of the slowdown in global growth and ongoing Brexit uncertainties. The latter is having a particularly pronounced impact on business investment, which has been falling for a year".

A couple of international organisations also published economic forecasts for a number of countries including the UK in May. The European Commission published their Spring 2019 Economic Forecast for the EU, Eurozone and member states in which they forecast that the UK would grow by 1.3% in both 2019 and 2020. For comparison they forecast growth of 1.4% for the other combined 27 EU states in 2019 and 1.7% growth in 2020, while the Eurozone is forecast growth of 1.2% this year and 1.5% in 2020. The OECD has also realised its latest forecast with it expecting the UK economy to grow by 1.22% in 2019 and 0.98% in 2020.

Continued evidence of Brexit led uncertainty

New evidence showing the economic consequences of the current uncertainty from the ongoing Brexit process came to light this month. Thus, British Steel, the UK's second-largest steel producer, was placed into compulsory liquidation in May after failing to gain emergency funding from its shareholders and the government. About 5,000 jobs are directly at risk and 20,000 more in the supply chain are considered endangered. The main reason given by the company for its difficulties was falling orders from European customers who argued uncertainty around tariffs on steel after Brexit affected their ordering.

The current extent of uncertainty over Brexit and its impact on the national economy can be observed through the persistent weakness of sterling. After a slow appreciation of the currency during January and February this year, as a result of speculation of an UK interest rate rise, this gain has somewhat dissipated since April. With the agreement in early April of a further extension to the UK's article 50 process until 31 October 2019, this prolonged the current uncertainty on Brexit. The Bank of England has observed that interest rate rises depend "significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the EU and the United Kingdom; whether the transition to them is abrupt or smooth and how households, businesses and financial markets respond". These developments led sterling to depreciate during the past couple of months so the US dollar and Euro exchange rates have returned to around their average post-referendum levels - $1.27 and €1.14, respectively.

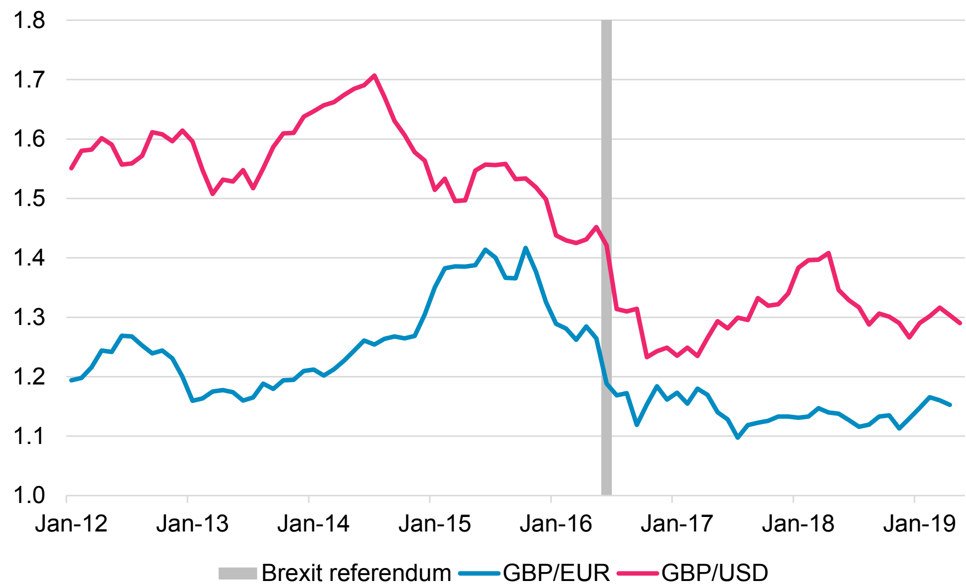


Figure 2: GBP/USD and GBP/EUR exchange rates
Last data point May 2019

Source: GLA Economics based on Bank of England data

Global growth likely to be mediocre as the US/China trade war rumbles on

Internationally the economic picture is mixed. Although there remains evidence of strong growth in a lot of countries some indicators, forecasts and commentary from a few international organisations indicate a slowdown could still be brewing. For example, the OECD has stated that the momentum in global growth "has weakened markedly and growth is set to remain subpar as trade tensions persist. Trade and investment have slowed sharply, especially in Europe and Asia. Business and consumer confidence have faltered, with manufacturing production contracting". Global growth is "projected to slow to only 3.2% this year before edging up to 3.4% in 2020, well below the growth rates seen over the past three decades, or even in 2017-18". They further warned that "the mediocre growth outlook is conditional on no escalation of trade tensions, which cut across the Americas, Asia and Europe. Simulations…show that renewed tensions between the United States and China could shave more than 0.6% from global GDP over two to three years". However, trade tensions continue between the US and China with the US doubling tariffs on $20 billion of imports from China in May. China responded by saying it will raise tariffs on $60 billion of imports from the US on 1 June.

London house prices have been falling for over a year

Official house price statistics published by the ONS in May continue to show a downward trend in London. A slowdown in house price growth started in April 2016 and turned into house price contractions in 2018. As highlighted in the indicators section of this publication, London property prices fell 1.9% on the year in March 2019, which is the second largest drop since September 2009 – with the largest drop registered in February 2019. The ONS data indicates that London's average house price has now fallen by 2.6% since March 2018 (when the annual rate of growth turned negative after nine years of growth).

This evolution of house prices in London does not correspond to the behaviour of house prices in the country as a whole which have registered a cumulative increase of 1.2% during the same period.

The ONS also highlights that London registered the lowest annual growth in the country in March - as it has been doing continuously during this year so far. Most property surveyors also continue to have negative expectations for house price growth according to the survey of surveyors from the Royal Institution of Chartered Surveyors (RICS). This has remained negative in London since September 2016, with a particularly negative intensity in the period right after the Brexit referendum and now. This might indicate that Brexit uncertainty has particularly affected London, with some buyers putting such a major purchase on hold. Either way, despite the recent contractions the average price of a house in London remains at more than double the UK average. London house prices growth and house prices expectations are presented in Figure 3.

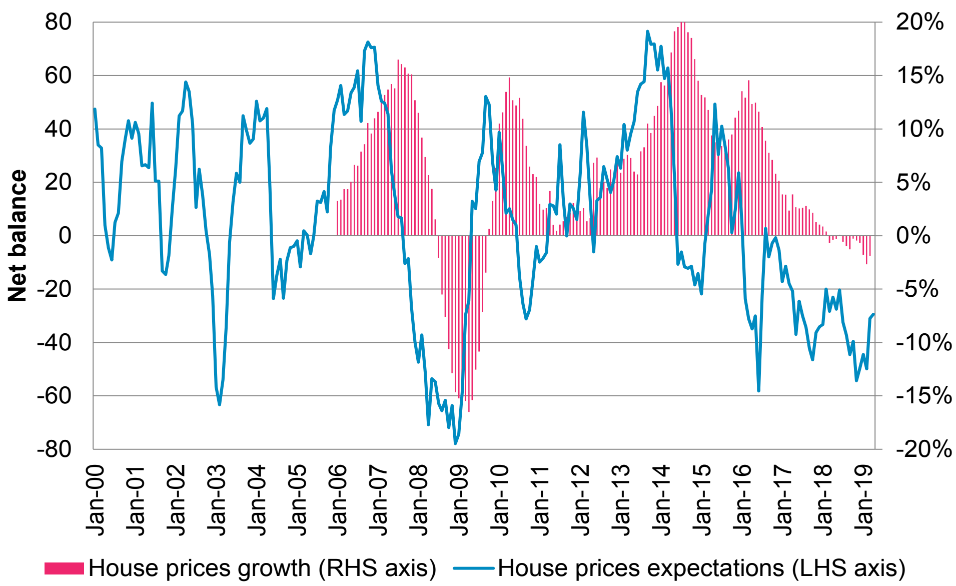


Figure 3: London annual percentage change in average house prices and London three month ahead house prices expectations net balance, seasonally adjusted

Last data points: House prices March 2019, House price expectations April 2019

Source: GLA Economics based on ONS and RICS data

According to the latest Central London Quarterly report from Knight Frank the central London office property market continues to see take-up growth despite being somewhat subdued in Q1 2019, with "take-up … just 4% down on the Q1 long-term average, showing signs that occupiers are 'getting on with life'".

More broadly, while a number of pieces of research published in 2019 have indicated business investment into the UK has been damaged by Brexit-related uncertainty, London has continued to remain an attractive business environment. Thus, a report published by the Centre for London in May showed that London has been the top-ranked destination city globally for foreign direct investment into headquarters (measured by number of projects) without interruption since 2003. Besides, London and the Wider South East host 55% of the world's largest 500 companies' European headquarters and attract a fifth of all foreign direct investment into headquarters projects in Western Europe. Large companies argue that the most influential element in this location decision is access to talent in London, while taxation and business regulation are also important.

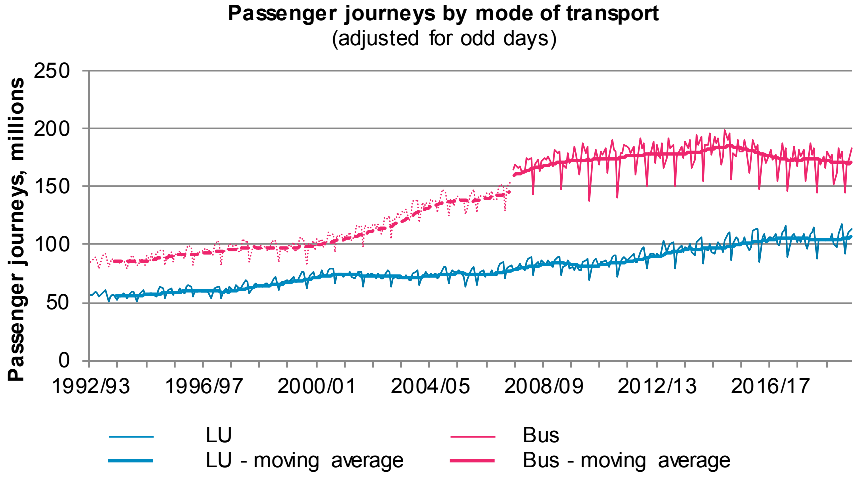
To summarise, and as shown in the indicators section of this publication, although London faces a period of high uncertainty which is impacting on its economy most evidence would indicate a continued expansion of the economy.

Economic indicators

TfL passenger journeys increased in the last period

- A total of 296.3 million passenger journeys were registered between 3 May and 31 May 2019; 14.3 million more than the previous period accounting for odd days. 113.6 million of these journeys were Underground journeys and 182.7 million were bus journeys.
- The 12-month-moving average in the total number of passenger journeys increased from 276.1 million to 277.2 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

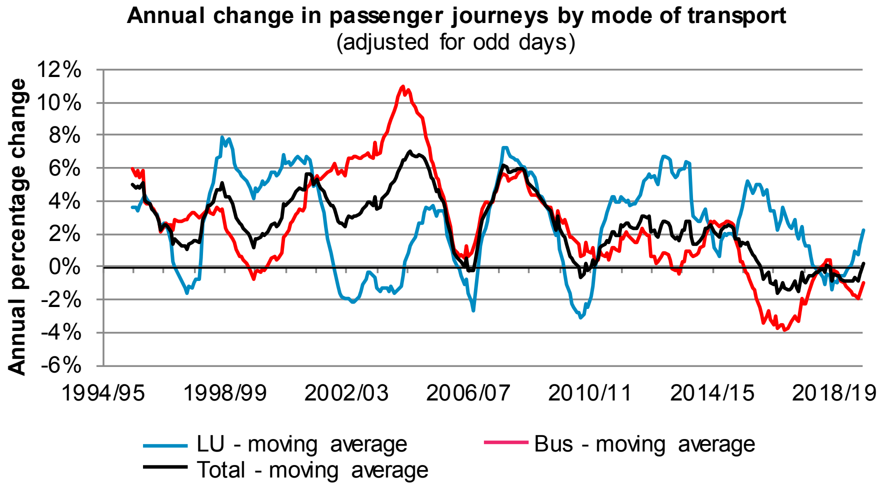
Source: Transport for London
Latest release: May 2019, Next release: June 2019



Annual growth rate (measured by moving average) in the total number of passenger journeys turned positive after declining for 15 periods

- The moving average annual growth rate in the total number of passenger journeys changed from -0.5% to 0.2% in May 2019 after 15 periods of negative growth.
- This change was mainly the result of the moving average annual growth rate of Tube journeys going up from 1.4% to 2.2%.
- The moving average rate of Bus passenger journeys remained negative but increased from -1.6% to -0.9%.

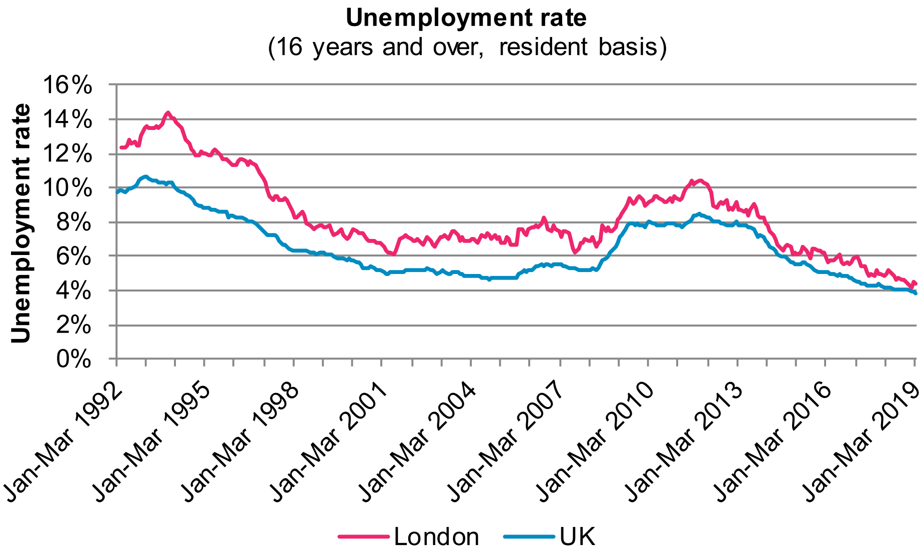
Source: Transport for London
Latest release: May 2019, Next release: June 2019



London's unemployment at lowest rate since the series began

- 214,018 residents over 16-year-old were unemployed in London in the first quarter 2019; 3,644 persons less than in Q4 2018.
- The unemployment rate in London decreased to 4.4% in Q1 2019 from 4.5% in the last quarter of 2018, thus reaching the lowest historical quarterly rate since the register of data started in Q1 1992.
- The UK's unemployment rate also reached a historic low of 3.8%, down from 4.0% in Q4 2018.

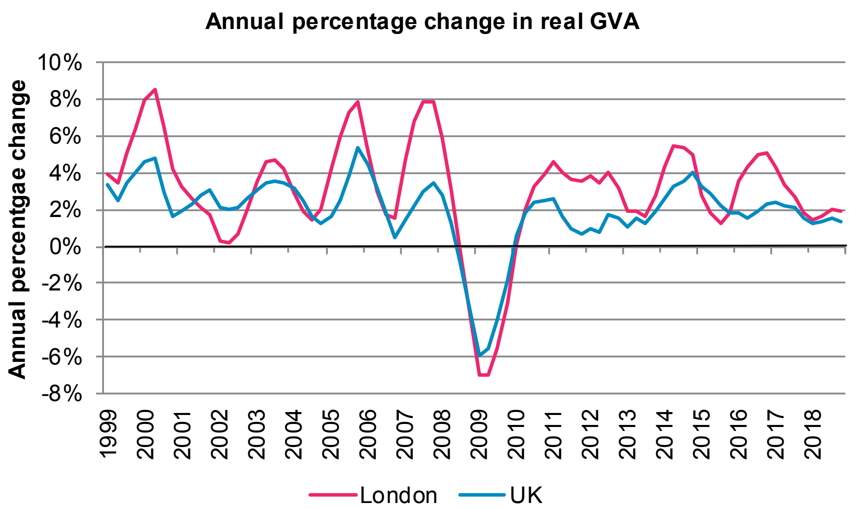
Source: ONS Labour Force Survey
Latest release: May 2019, Next release: June 2019



London's annual output growth was 1.9% in Q4 2018

- London's annual GVA growth stood at 1.9% during the fourth quarter of 2018, down slightly on the 2.0% annual rate seen in Q3 2018.
- In the UK, annual output growth was 1.4% in Q4 2018, 0.2 percentage points lower than the previous quarter and 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.

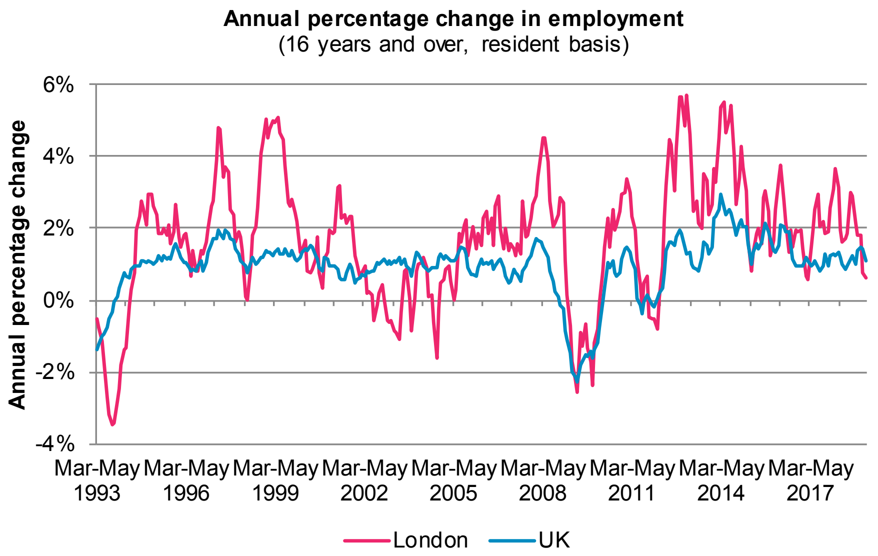
Source: ONS and GLA Economics calculations
Latest release: April 2019, Next release: July 2019



Employment grew annually by 0.6% in Q1 2019 in London

- Over 4.68 million residents over 16 years old were employed in London in the first quarter of the year.
- The rate of annual employment growth for the capital was 0.6% for the period, 1.2 percentage points down from Q4 2018 and 3.1 percentage points lower compared to the first quarter of 2018.
- During the same period, the UK employment grew at an annual rate of 1.1%, 0.3 percentage points down from the last quarter of 2018.

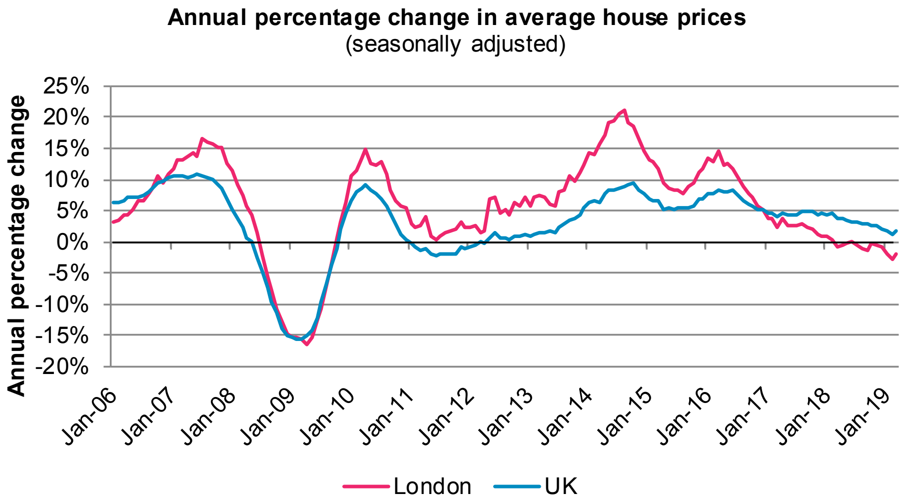
Source: ONS Labour Force Survey
Latest release: May 2019, Next release: June 2019



In March 2019, the London average house price had fallen 1.9% on the year

- The average house price in London was £467,371, while for the UK, the average was £228,128.
- The annual growth rate in house prices in London was -1.9% in March, 0.8 percentage points higher than February. This was the thirteenth consecutive fall in prices year-on-year, with the exception of June 2018, which has not happened since the economic crisis (2008-2009).
- For the UK, house prices grew by 1.7% year-on-year in March, 0.6 percentage points faster than February.

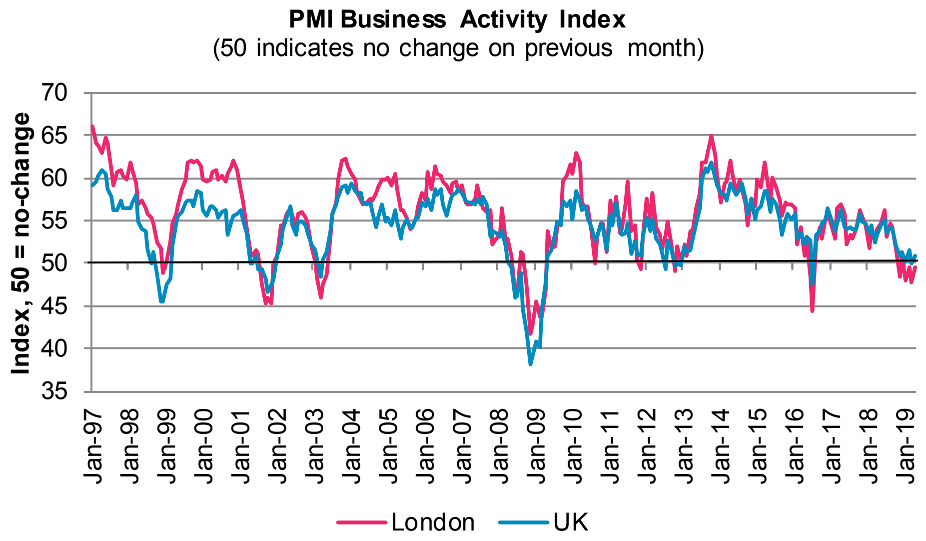
Source: Land Registry and ONS
Latest release: May 2019, Next release: June 2019



Continued weakness in London business activity April

- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in that variable, while readings below indicate a decrease.
- Business activity at London private firms was less weak in April (49.6) than in March (47.8) but has been below 50.0 for four consecutive months.
- The UK index increased slightly from 50.0 in March to 50.9 in April.

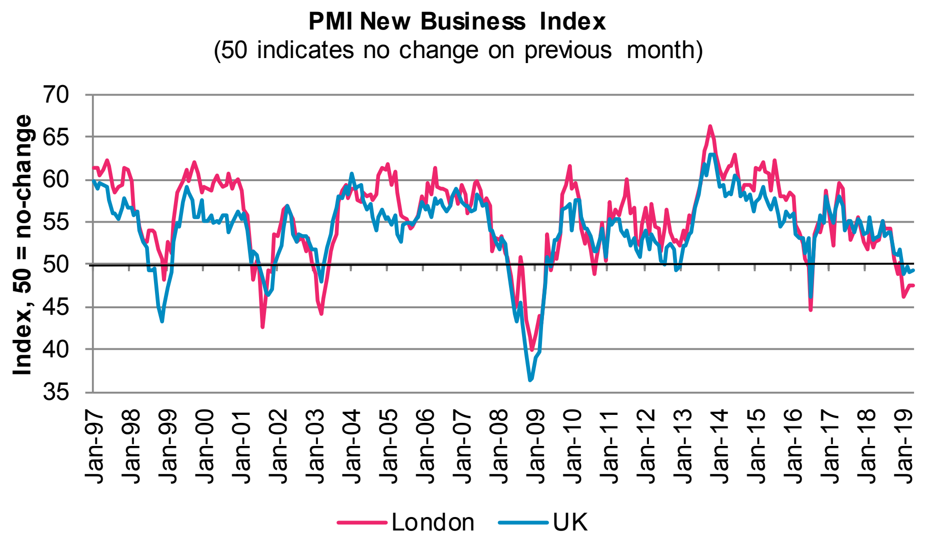
Source: IHS Markit
Latest release: May 2019, Next release: June 2019



New business Index in London also decreased in April

- The PMI New Business Index was 47.5 in London in April, very similar to March (47.6) but still below 50.0 as it has been for all of this year up to date.
- UK firms reported an index of 49.4 in April, compared to 49.1 in March.
- An index reading above 50.0 indicates an increase in new orders from the previous month for the majority of firms surveyed.

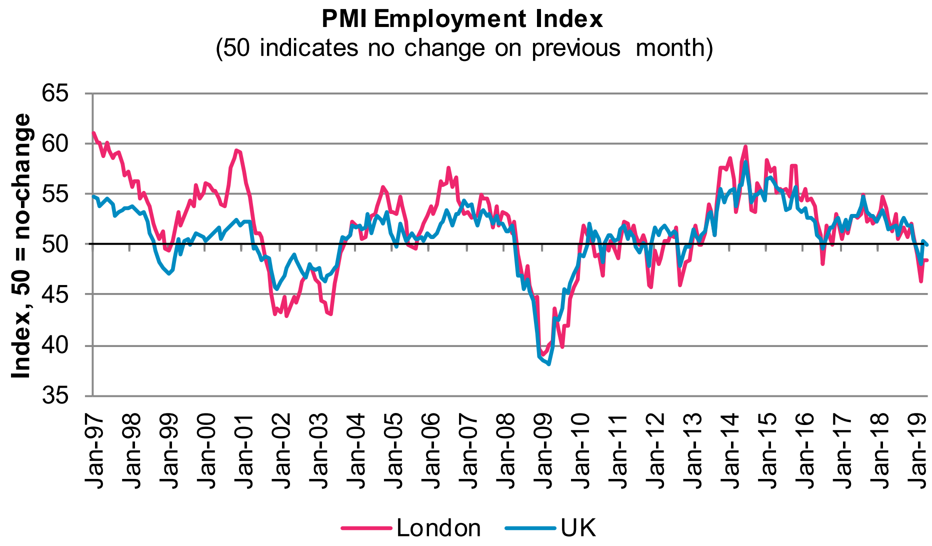
Source: IHS Markit
Latest release: May 2019, Next release: June 2019



London private sector firms report a continued contraction in employment opportunities in April

- The PMI Employment Index shows the monthly change in employment at private sector firms. Readings above 50.0 indicates over half of surveyed firms have increased employment, whereas a reading below 50.0 indicates a decrease in employment on average across firms from the previous month.
- The Employment Index for London was 48.3 in April, almost unchanged from March (48.4) but continuing the pattern since January to be below 50.0.
- Employment opportunities have also decreased across the UK in April (49.9) compared to March (50.3).

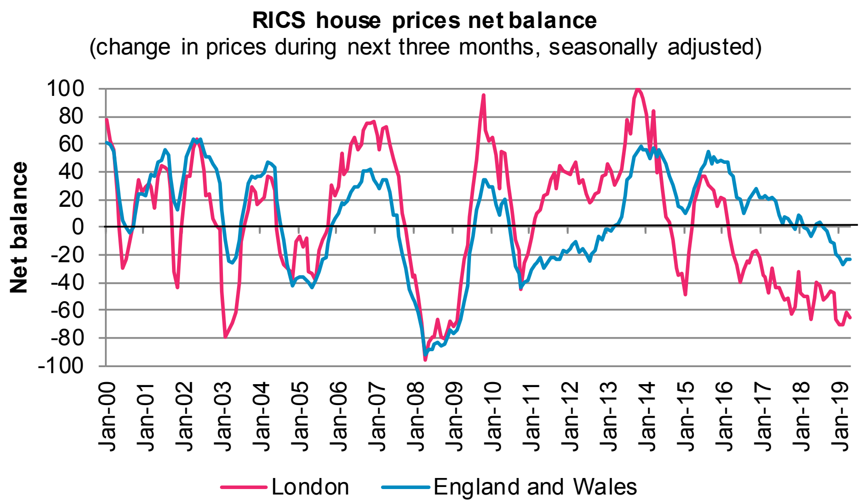
Source: IHS Markit
Latest release: May 2019, Next release: June 2019



Fall in London's house prices continues according to most property surveyors

- Most surveyors reported a fall in London house prices in the three months to April. The RICS index was -66 in April compared to -62 for the three months to January.
- The RICS house prices net balance index for England and Wales remained at -23.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

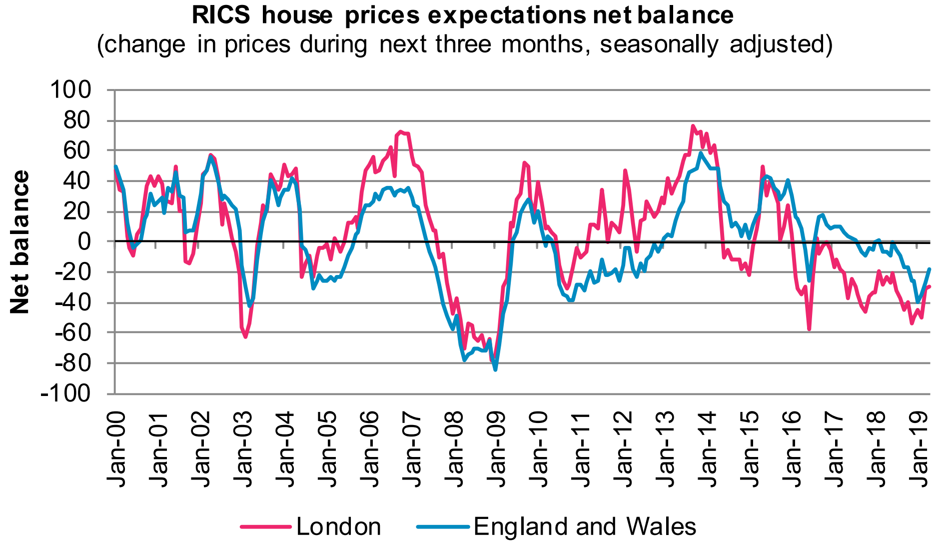
Source: Royal Institution of Chartered Surveyors
Latest release: May 2019, Next release: June 2019



House prices expectations in London keep being negative

- Most surveyors continued to have negative expectations for the next three months for house prices in London. The RICS index was -29 in April, in March it was -31. This index has remained negative since September 2016.
- London remains the region with the most negative expectations for house prices.
- Sentiment in England and Wales was also negative in April (-18).

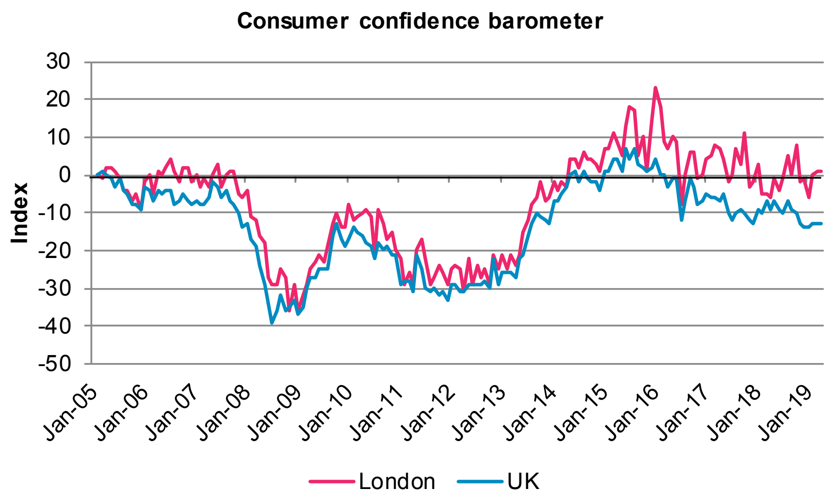
Source: Royal Institution of Chartered Surveyors
Latest release: May 2019, Next release: June 2019



Consumer confidence remained almost neutral in London

- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- The consumer confidence index in London was slightly positive (1) in April, the same level as in March.
- Sentiment also remained at the same level for the UK (-13) compared to the previous two months, with the index having remained negative since April 2016.

Source: GfK NOP on behalf of the European Commission
Latest release: April 2019, Next release: June 2019



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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.

The London input-output tables

This Working Paper (97) shows the first set of published input-output tables for London, and is an important step towards economic accounts for the city:

- The London economy mirrors the UK in terms of the contribution of components of income, expenditure and production to output.
- Unlike the UK a small number of sectors account for much of London's output. These are mainly export-oriented sectors, and with other sectors which enable the movement of people and goods support a trade surplus with the EU, and the rest of the world

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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.

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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.

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May 2019

ISSN 1740-9136 (print) ISSN 1740-9195 (online) ISSN 1740-9144 (email)

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.

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