GLAECONOMICS

London's Economy Today

Issue 209 | January 2020

Brexit to occur tomorrow night

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

Following the passing of the EU withdrawal agreement the UK will leave the EU at 11pm GMT on 31 January. There will follow a transition period which is scheduled to expire at the end of the year. During this time the UK and the EU aim to negotiate the future trading relationship between themselves. However, Ursula von der Leyen, the new EU commission president, has noted that it is "basically impossible" to negotiate a full future deal in the time left given the need to also ratify that deal. Any extension to the transition period would need to be requested by 1 July, but the Government has said it does not want an extension.

One particularly important area of negotiation for London is in Financial services. Ms von der Leyen thinks that "all will change" in this relationship. In an interview with the Financial Times, the Chancellor of the Exchequer, Sajid Javid, said he wanted Financial services to trade with the EU on "outcome-based" equivalence of rules. He also stated, in relation to the UK staying in step with EU rules, "there will not be alignment, we will not be a ruletaker, we will not be in the single market and we will not be in the customs union — and we will do this

Also in this issue

Datastore

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

by the end of the year". Commenting on this the Director-General of the CBI, Carolyn Fairbairn, said "for some firms, divergence brings value, but for many others, alignment supports jobs and competitiveness — particularly in some of the most deprived regions of the UK".

The Migration Advisory Committee (MAC), which had been tasked by the Government to look into a points-based migration (PBS) system, published its recommendations on a post-Brexit migration regime in January. It recommended a mixed system where those with a job offer would need to meet a minimum salary threshold. And if the Government wants to introduce a PBS it should be for those coming to the UK without a prearranged job. Other recommendations included that "there should be a separate pilot visa for 'remote' areas of the UK, part of which could be lower salary thresholds for migrants into those areas. This should only be done with a full evaluation to understand its effectiveness and impacts". And that "occupations on the Shortage Occupation List should not have lower salary thresholds".

Beyond Brexit negotiations, the Chancellor has also addressed some spending ambitions ahead of the March Budget. He indicated he would spend money on skills and could back infrastructure projects outside of London even if they did not produce as much "bang for the buck" as those in the capital.

UK economy contracts in November

New data published by the Office for National Statistics (ONS) in January showed that the UK economy contracted in November, with monthly GDP falling by 0.3% after growing by 0.1% in October (Figure 1). The ONS noted that this was "driven by falls in both services and production".

Monthly data can be quite volatile, however over the three months to November the UK economy only grew by 0.1%. Rob Kent-Smith - The Head of GDP at the ONS - observed that growth in construction was dragged back by "weakening services and another lacklustre performance from manufacturing". He added "long term, the economy continues to slow", as growth compared with the same period last year stood at its lowest level since early 2012.

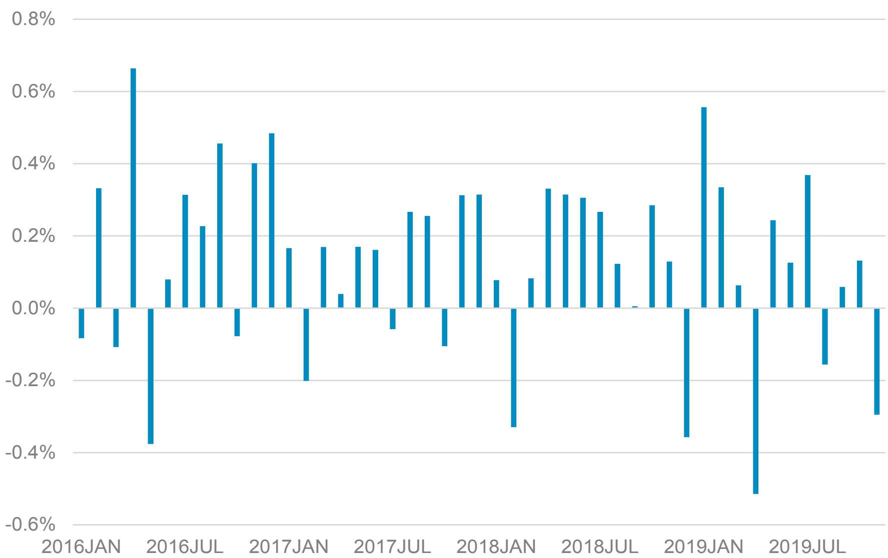


Figure 1: Month-on-month UK GDP growth (%)

Source: ONS

In other signs of the weakness of the UK economy the British Retail Consortium (BRC) said that total retail sales fell by 0.1% in 2019, the first annual decline since 1995. These figures do not, however, include online sales which account for around a fifth of the UK market. Still, Helen Dickinson, the chief executive of the BRC observed that "while it is not 100% of retailers in the country, some businesses that aren't included will also be compensated by those that have gone bust". ONS data further painted a weak picture for retail sales with sales decreasing by 1.0% in the three months to December compared to the previous three months. December saw sales falling by 0.6% when compared with the previous month and was the fifth consecutive month of no growth.

Beyond retail the British Chambers of Commerce's Quarterly Economic Survey which was published recently found "protracted weakness across most indicators of economic health in the final quarter of 2019". In particular, it found that service sector indicators had worsened and are below their historic average and that manufacturers planning to invest in plant and machinery was at an eight-year low.

Given the weakness in the UK economy at the moment, speculation was mounting as to whether the Bank of England would cut interest rates. However, it did not change them on 30 January, with the Monetary Policy Committee (MPC) vote at seven to two in favour of keeping rates on hold. Speculation of a rate cut was boosted by UK inflation data which remains low. Consumer Price Index (CPI) inflation fell to 1.3% in December 2019 down from 1.5% in November and was at its lowest level for three years (Figure 2).

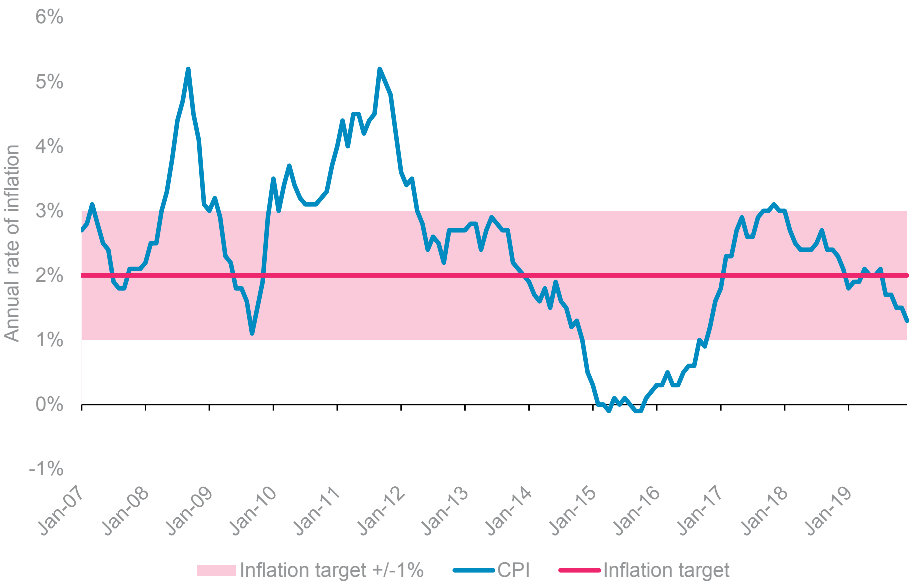


Figure 2: Annual rates of inflation for the UK (January 2007 - December 2019)

Source: ONS

A number of members of the Bank's MPC have also indicated that they could envisage cutting rates in the future. For example, Silvana Tenreyro, an external MPC member recently said that "if uncertainty over the future trading arrangement or subdued global growth continue to weigh on demand, then my inclination is towards voting for a cut in Bank rate in the near term".

Global growth forecasts remain low

The international economic outlook also remains weak despite the recent easing of trade tensions between the US and China. Thus, the World Bank in their latest Global Economic Prospects forecast expects global growth to be only slightly higher this year than last, forecasting growth of 2.5% in 2020 compared to 2.4% in 2019. The World Bank also raised concerns about the build-up of debt in emerging economies observing that "the increase in debt in these economies has already been larger, faster, and more broad-based than in any of the previous three waves".

The IMF (who measure global growth differently than the World Bank) in their latest forecast update also expects relatively slow global growth with it rising from 2.9% in 2019 to 3.3% and 3.4% in 2020 and 2021 respectively (downward revisions on their October forecast of 0.1 percentage points for 2019 and 2020 and 0.2 percentage points for 2021). Forecasts for the UK, although subdued by historic standards, remained unchanged with the IMF expecting growth of 1.4% in 2019 and 1.5% in 2021 (Figure 3). Still they are a bit more optimistic than they were in October for the global economy observing that "early signs of stabilization could persist and eventually reinforce the link between still-resilient consumer spending and improved business spending".

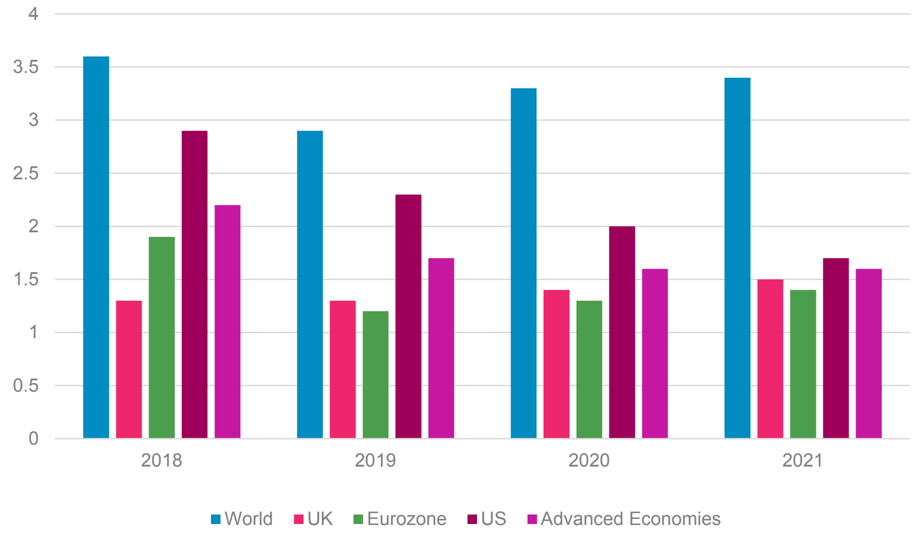


Figure 3: Historic, estimated and project growth rates for selected countries and country groupings

Source: IMF, World Economic Outlook Update, January 2020

January also saw the release of economic data looking at the end of 2019 from several countries, which was generally subdued. In Germany the Federal Statistical Office (Destatis) confirmed the poor growth seen recently with it calculating that the economy only grew by 0.6% in 2019 - the slowest rate seen since 2013. China also continued to slow in 2019, with official statistics indicating its economy grew by 6.1% over the year, the slowest rate in 29 years.

Despite this there was some positive international economic news in January with an easing in the trade tensions between the US and China. The countries signed an agreement where China pledged to boost imports from the US by over $200 billion compared to 2017 levels and tackle counterfeiting, while the US agreed to halve some of their tariffs on Chinese exports. Stock markets responded relatively positively to the deal with the Dow Jones closing above 29,000 for the first time on 15 January.

London's economic data remains mixed

In the capital the end of 2019 saw a mixed economic picture. So, for example, the Q4 2019 Capital 500 London Quarterly Economic Survey from the London Chamber of Commerce and Industry showed "both domestic and export demand slowing". On investment the picture was more mixed with large London firms seeing a rise in the proportion undertaking capital investment to its highest level since Q3 2015, whereas micro firms saw no change.

The labour market picture in London was quite buoyant with the latest labour market figures from the ONS showing that London's employment rate hit a record high (since the series began in 1992) in the three months to November. London's 16-64 employment rate was 75.6%, up by 1.4 percentage points on the previous quarter and 0.7 percentage points up on the year. For the UK as a whole the employment rate rose by 0.6 percentage points on the previous year, also reaching a record high of 76.3% (since records began in 1971). At the same time the capital's unemployment rate (the number of unemployed people as a percentage of the labour force) fell to 4.3%, 0.3 percentage points down on both the previous quarter and year. For the UK the unemployment rate was estimated at 3.8%, unchanged on the quarter but down 0.2 percentage points on the year.

As indicated in this month's LET supplement, one of the future challenges for London is around infrastructure investment. This was also highlighted by data published by the Office of Rail and Road in January which showed that in the year 2018/19 Waterloo station remained the busiest UK train station, with London stations taking all other top 10 spots except for Birmingham New Street (moving above Euston to take 5th place).

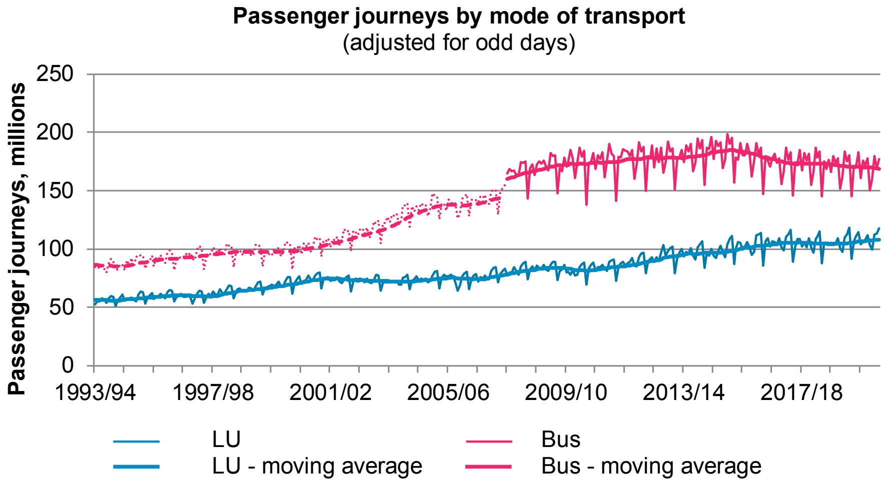
Overall the new year begins much like 2019 ended with the capital facing a number of economic challenges but still showing signs of resilience in its growth.

Economic indicators

Both bus and underground passenger journeys rose in the latest period

- A total of 294.3 million passenger journeys were registered between 8 November and 5 December, 11.5 million more than the previous period. Bus journeys increased by 7.3 million and Underground journeys by 4.3 million. 117.5 million of all journeys were Underground journeys – the largest number since the corresponding period in 2018/19 - while 176.7 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys reduced from 276.6 million to 276.3 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).

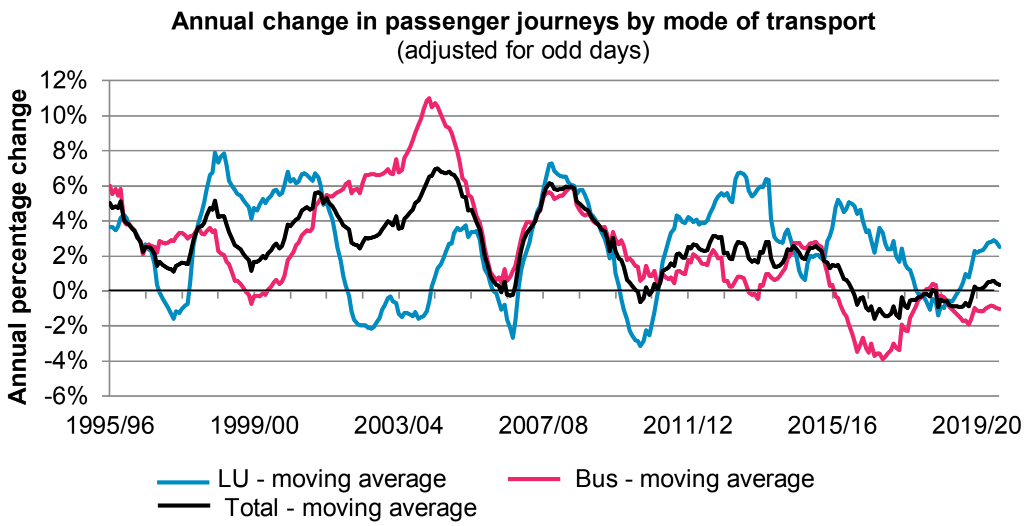
Source: Transport for London
Latest release: January 2020, Next release: February 2020



The moving average annual change in passenger journeys fell in the period between 8 November and 5 December

- The moving average annual growth rate in the total number of passenger journeys decreased from 0.5% to 0.3%.
- The moving average annual growth rate of bus journeys stayed at -1.0%.
- The moving average of Underground passenger journeys went down from 2.8% to 2.5% in the last period.

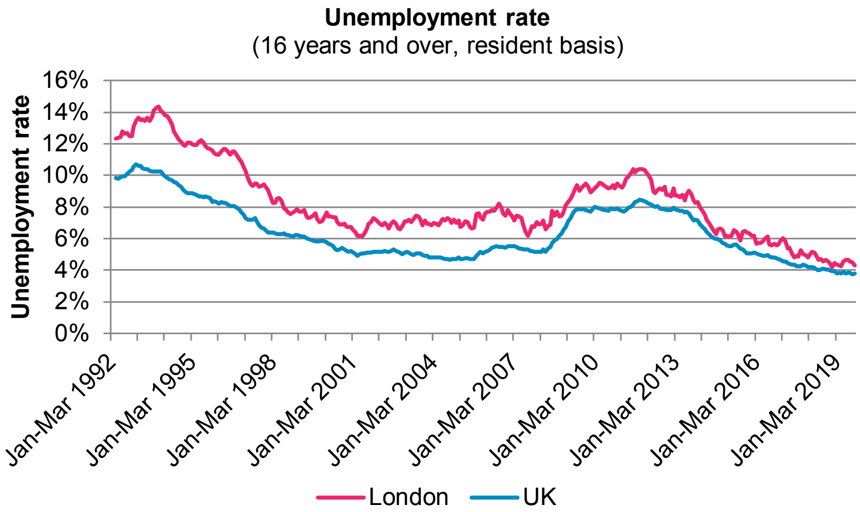
Source: Transport for London
Latest release: January 2020, Next release: February 2020



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

- Around 214,000 residents 16 years and over were unemployed in London for the three-month period September-November 2019.
- The unemployment rate in London was 4.3% in that period, 0.3 percentage points lower than in the last period.
- The UK's unemployment rate stayed at the historic record low of 3.8% in the three months to November.

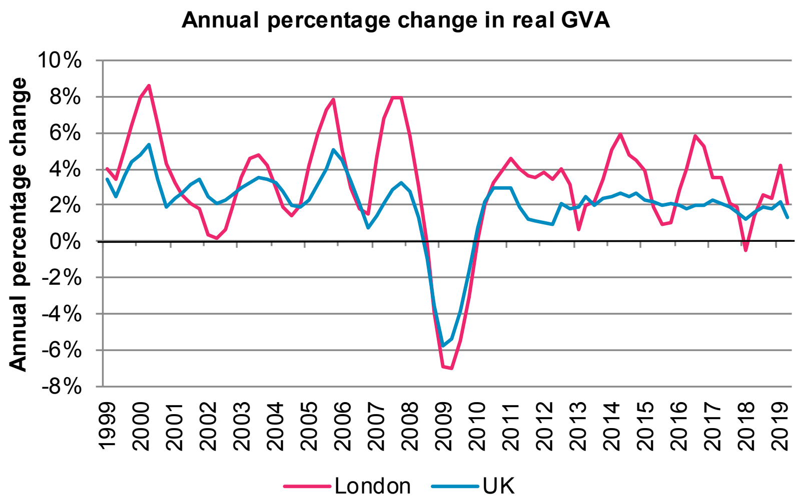
Source: ONS Labour Force Survey
Latest release: January 2020, Next release: February 2020



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 estimates. This was the lowest quarterly rate in the last year but equals the average growth registered in the capital for year 2018.
- 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.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the most recent quarter have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS as this institution has not published quarterly estimates for London´s real GVA prior 2013.

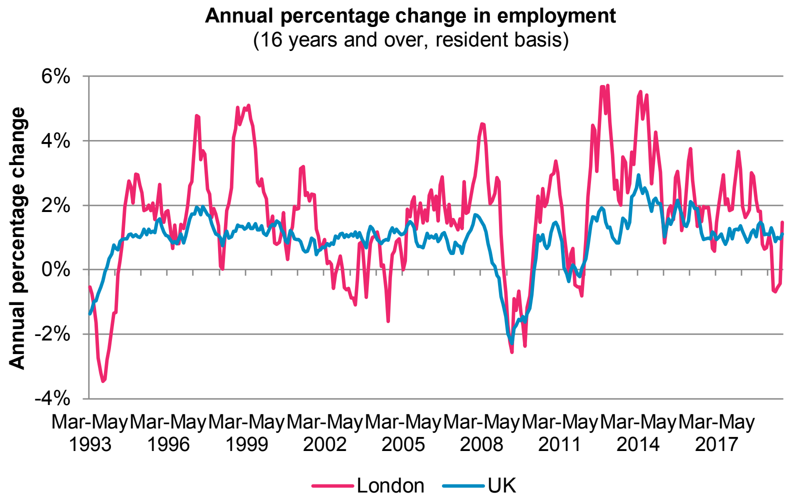
Source: ONS and GLA Economics calculations
Latest release: October 2019, Next release: February 2020



London's annual employment growth rate rebounded in the period September-November 2019

- Around 4.75 million residents over 16 years old were employed in London during the three-month period September-November 2019.
- The rate of annual employment growth in the capital was 1.5% in that period, a remarkable surge from the June-August 2019 rate (-0.7%) and the highest rate since the three months to January 2019. This result may, in part, be a consequence of the sampling methodology adopted by the ONS and may not reflect actual developments.
- For the period September-November 2019, the UK employment rate grew annually at a rate of 1.1%, 0.2 percentage points above the previous three-month period rate.

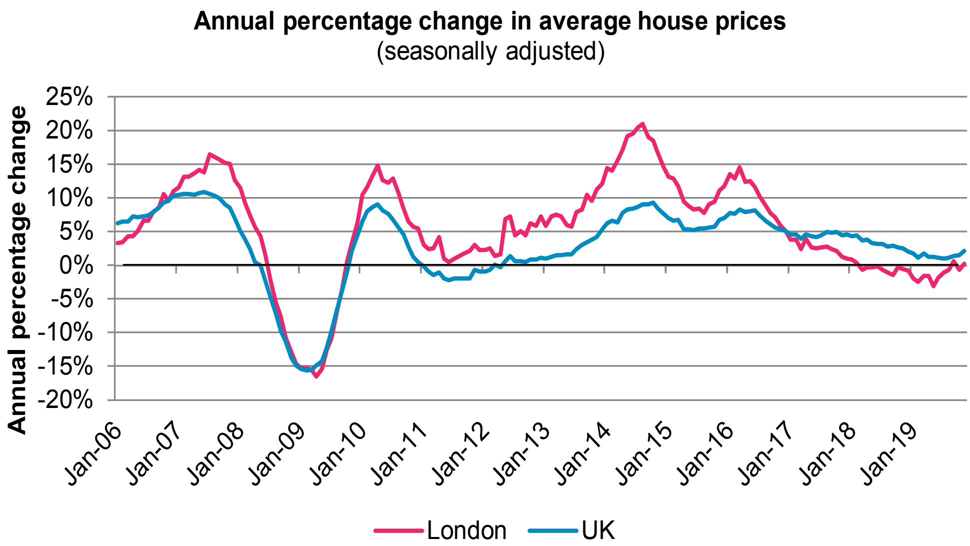
Source: ONS Labour Force Survey
Latest release: January 2020, Next release: February 2020



London house prices increased slightly last November

- In November 2019, the average house price in London was £476,161 while for the UK it was £233,089.
- The annual growth rate in average house prices in London was 0.2% in November, compared with -0.7% in October. London prices had been following a downward trend since February 2018, with prices in November remaining 0.8% below that point.
- Average house prices in the UK rose notably (2.2%) in annual terms last November. This was 0.7 percentage points higher compared to the previous month and the highest rate in one year.

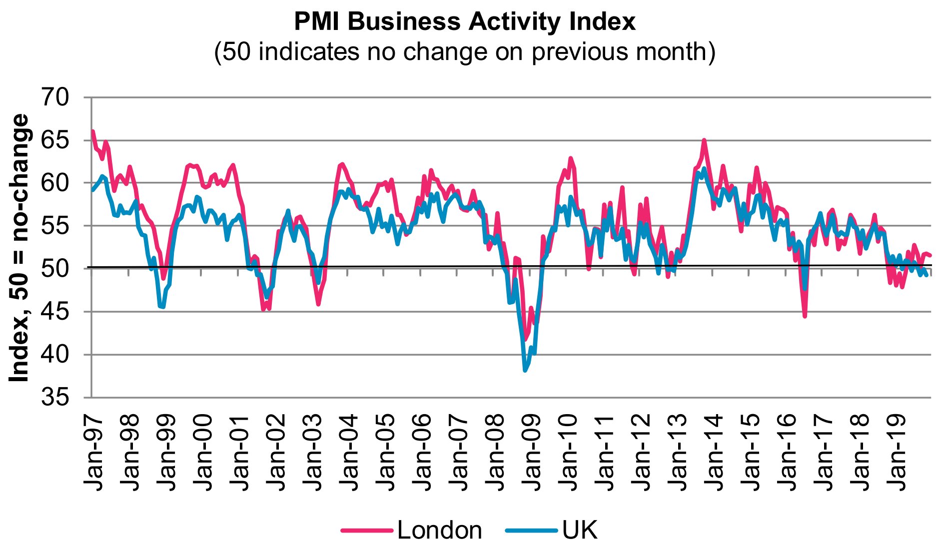
Source: Land Registry and ONS
Latest release: January 2020, Next release: February 2020



London business activity remained positive last December

- Business activity growth at London private firms was positive but weak at 51.6 in December 2019, slightly down from 51.8 in November.
- The UK index indicated a decline, standing at 49.3 in December 2019.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in activity on average across firms, while readings below indicate a decrease.

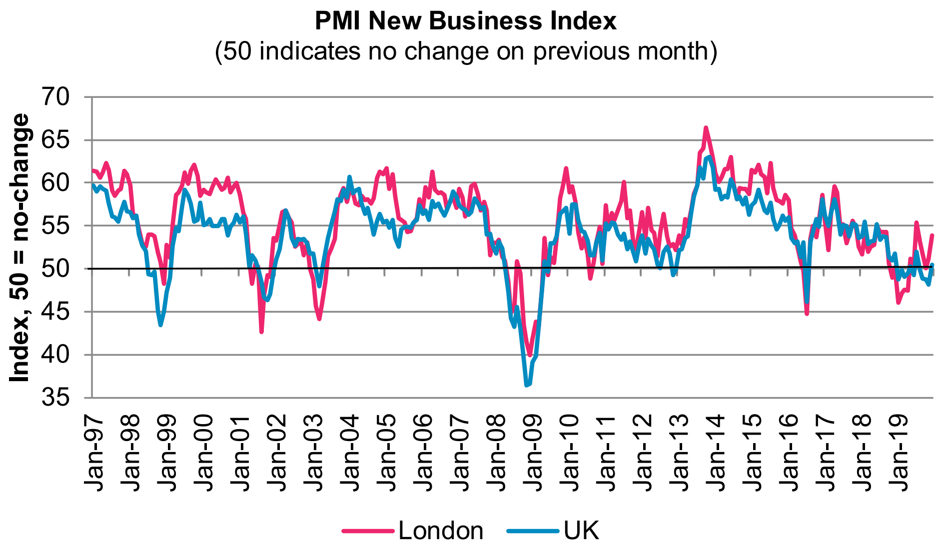
Source: IHS Markit
Latest release: January 2020, Next release: February 2020



New business activity in London improved in December 2019

- The PMI New Business Index was 53.8 in London last December, up from 51.2 in November.
- For the UK, the negative sentiment of private firms came to an end in December (50.5) after four consecutive months below 50.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

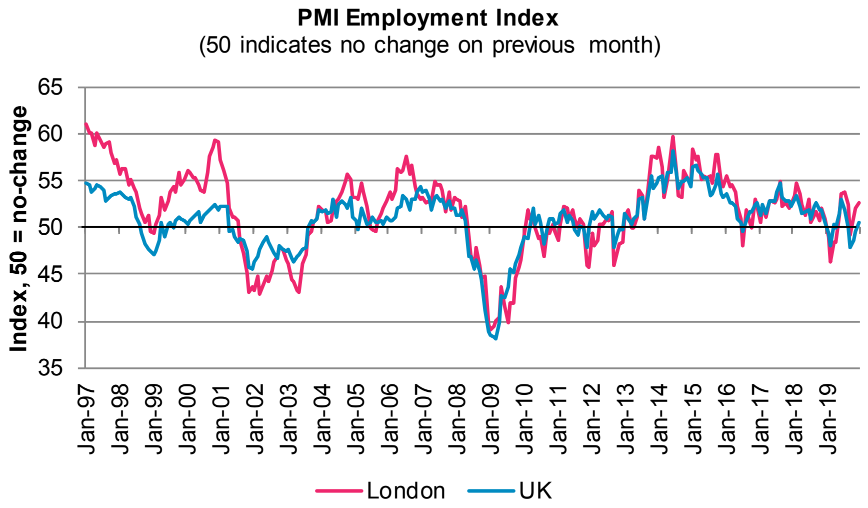
Source: IHS Markit
Latest release: January 2020, Next release: February 2020



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

- The Employment Index for London was 52.6 in December, up from 52.1 in November.
- The index also improved for the UK in December, reaching 50.6 after three consecutive months below 50.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment. Readings above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.

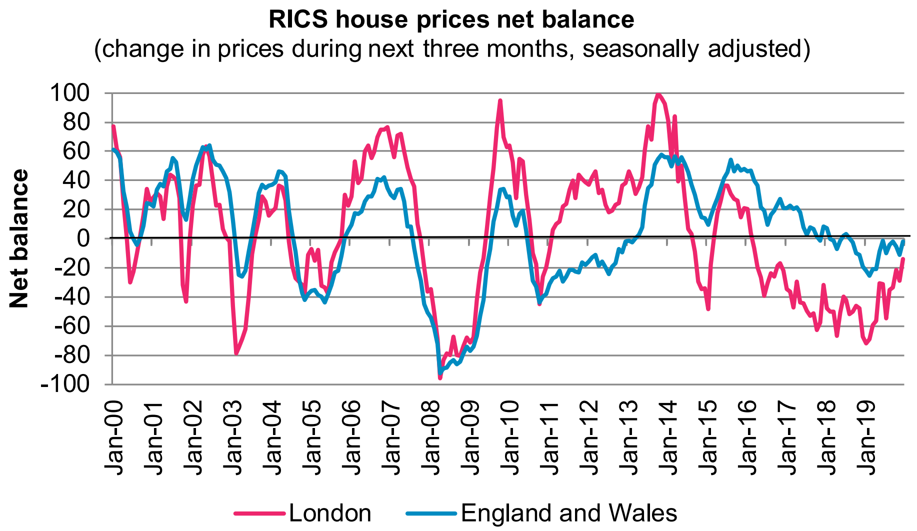
Source: IHS Markit
Latest release: January 2020, Next release: February 2020



Property surveyors reported a fall in London house prices

- In the three months to December 2019, the net balance of property surveyors reporting house price falls reduced from -29 in November to -14 in December. This index has been negative since the three-month period to February 2016.
- For England and Wales, the RICS house prices net balance index also increased from -11 in the period September-November 2019 to -2 in the period October-December 2019.
- The net balance index measures the proportion of respondents reporting a rise in prices minus a decline.

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

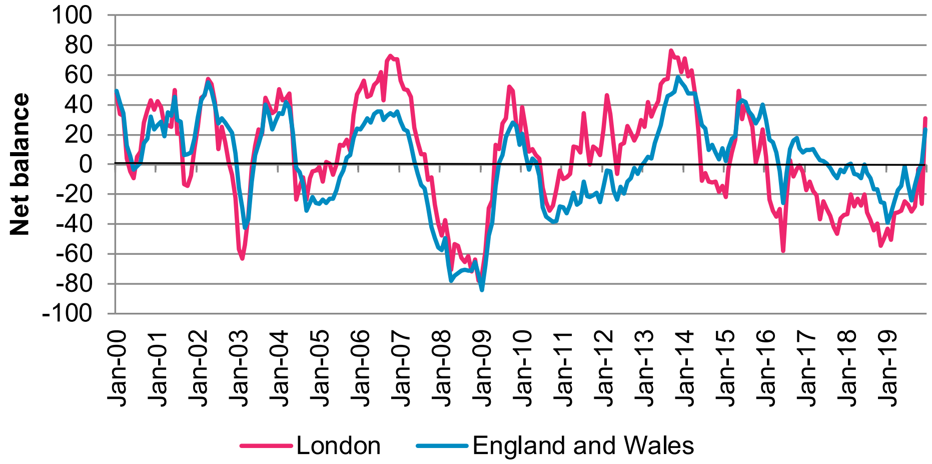


House prices expectations in London improved in December for first time since August 2016

- In the three months to December 2019, surveyors reported the largest number expecting an increase in London house prices (31) since August 2015. It was the first net expected increase since August 2016.
- It is only the third month since March 2014 that the London index has been higher than the index for England and Wales.
- Sentiment in England and Wales was very positive in December (23) up from 1 in November. The last two months have registered the first non-negative results since February 2018.

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

RICS house prices expectations net balance
(change in prices during next three months, seasonally adjusted)

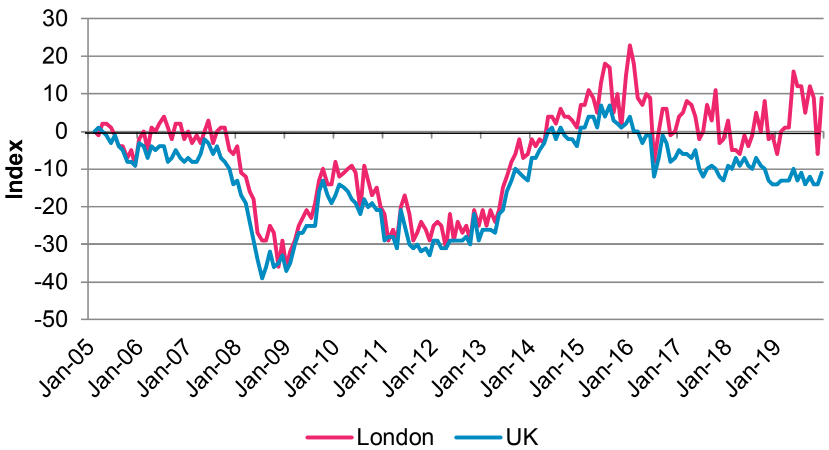


Consumer confidence in London was positive last December

- The consumer confidence index in London was 9 in December 2019, up from -6 in November.
- Sentiment for the UK remained negative in December (-11) but less than it was in November (-14). The UK has not shown a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK NOP on behalf of the European Commission
Latest release: December 2019, Next release: January 2020

Consumer confidence barometer



Transport expenditure in London

By **Mike Hope**, Economist

1 Overview

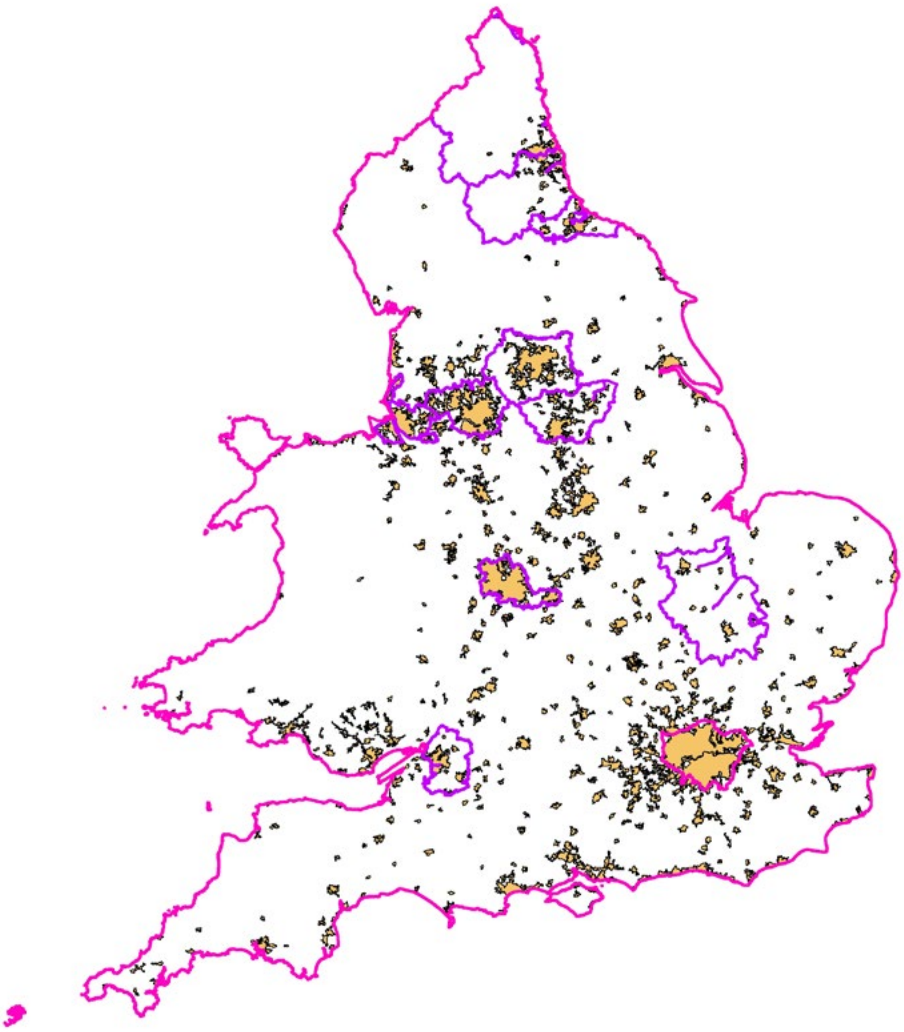
This month GLA Economics published Transport expenditure in London. The paper complements London and the UK – a declaration of interdependence in making the case for investment in London. This supplement spells out the arguments for transport investment made in the paper. It considers the demand for transport services, the rationale for investment, and the level of investment, who funds it and who pays.

2 London's size and geography

London's size and geography are unique compared with other UK cities and regions. It is the only UK region which is entirely an urban area, and the city spills out over its administrative boundaries, (Map A1). In 2011 (the year of the latest Census), the Built-Up Area of London had a population of 9.8 million while the administrative area had a population of 8.2 million. Its population by either measure is greater than that of the other large metropolitan areas, Greater Manchester, the West Midlands, and West Yorkshire, combined.

London's transport system supports large numbers of commuters and visitors as well as residents. In 2017, the usual daytime population of London had 2 million more people than its usual resident population of 8.8 million people. Indeed, London is more reliant on its catchment population outside the city for workers than other large English metropolitan areas. Around 58% of London workers live in London compared with 68% for the West Midlands, and around 80% for Greater Manchester and West Yorkshire.

This translates into unique transport needs. Rail is the travel mode of choice. 63% of rail journeys in Britain are at least in part in London, coming to 0.9 billion journeys in 2017/18. This is without counting the 1.4 billion journeys on London Underground in the same year.



Map A1: Built-Up Areas and Combined Authorities in England and Wales, 2011

Source: GLA Economics calculations of ONS Census data

3 London's reliance on public transport (and therefore on public investment)

London's geography means that it is much more reliant on public transport (especially rail transport) than the rest of the UK. Some 58% of all journeys on public transport in Britain are at least in part in London, (Table A1).

	London	Great Britain	London's share
Bus	2,225	4,844	46%
Underground	1,357	1,370	99%
Rail	927	1,475	63%
Light rail and trams	149	275	54%
Total	4,657	7,963	58%

Table A1: All journeys on public transport, London and Great Britain, 2017/18, millions

Source: GLA Economics calculations of Department for Transport and Transport for London data

This reliance has been increasing over time. The share of public transport use in journeys has increased from 29% to 43% between 1995 and 2017, an increase in journeys of 6.4 million, from 6.9 million to 13.5 million. There is no corresponding shift in the rest of England, where it is much less common to use public transport.

Public transport expenditure in London is needed, cost-effective, and proportionate to the size of the economy:

- Congestion in the capital is worse than other UK cities. In the morning peak a significant proportion of passenger journeys in London are made in crowded conditions:
  - 70% of London Underground journeys;
  - 41% of National Rail journeys;
  - 42% of Docklands Light Railway journeys; and,
  - 59% of Tram journeys

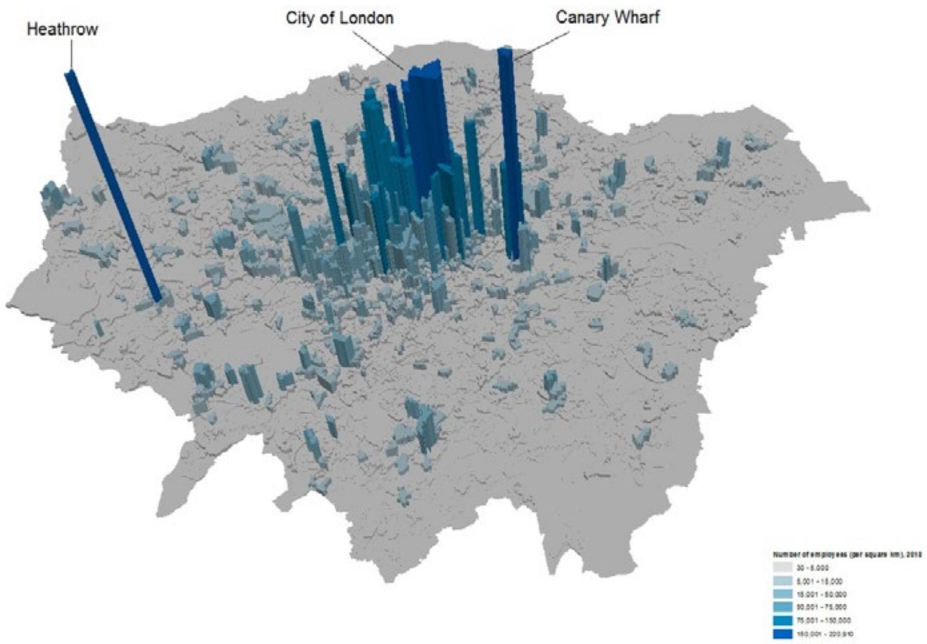
- Public sector expenditure per rail passenger journey in London was around £8 in 2017/18. That was below the GB average of around £12 and was only higher than the other regions of the Wider South East.
- Public sector transport expenditure in London in 2017/18 was 2.1% of economic output. While this is higher than the UK average of 1.8% it is less than for the North West, Wales and Scotland.

4 Investment in London is not at the expense of elsewhere

The National Infrastructure Commission has concluded that within the fiscal remit that HM Treasury has set for gross public investment in economic infrastructure (between 1.0-1.2% of GDP for each year from 2020 to 2050) there is scope for meeting the needs of London while meeting the claims of other parts of the country for significant transport investment.

Transport projects generate additional tax revenues, and London raises more in tax than it receives, so there is a flowback to the rest of the UK. Modern cities become successful through the achievement of agglomeration economies to support specialisation in the provision of services. These areas are associated with higher productivity, which in turn generates tax flowbacks. Improved transport infrastructure can maintain the virtuous cycle of increasing the available labour supply to generate well paid jobs, and the higher output can encourage trade to the benefit of other areas. This is important for London which is a global business capital, and attracts investment, skills and visitors from all over the world[1].

In London there are very high concentrations of jobs (in excess of 150,000 per square km) in the centre of the city and by Heathrow airport, (Map A2).



Map A2: Employee jobs per square kilometre, London, 2017

Source: ONS, BRES

1 See GLA Economics, Developing the evidence base for London's Local Industrial Strategy for more information

5 London contributes directly to its transport projects

Crossrail is a new railway, including a 26-mile tunnelled section beneath central London, and will be known as the Elizabeth Line once in operation. Some 55% (or £9.9 billion) of the £17.8 billion cost of Crossrail at July 2019[2] will be met by London funding sources, (Figure A1).

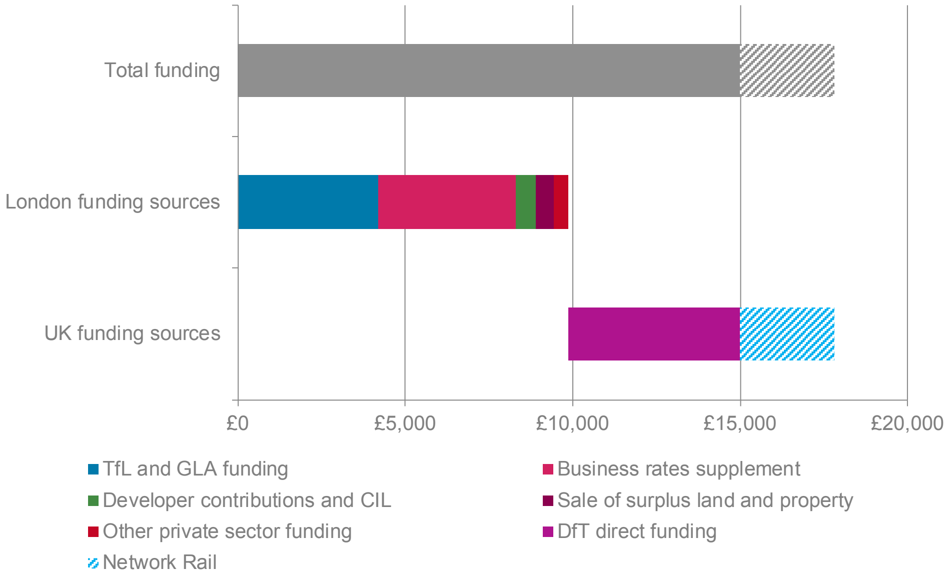


Figure A1: Sources of Crossrail funding, £million

Source: Crossrail

Note: TfL and GLA funding includes loans from DfT

It is also the case that the share of transport expenditure borne locally is likely to increase in the future. The Northern Line Extension to Battersea is being funded by the GLA by taking out a £1 billion loan. Transport for London receives no grant from central government[3]. As a consequence, funding has fallen by £1 billion a year from 2016/17 and is £3.3 billion lower than it was in 2010/11 in cash terms.

6 Current funding mechanisms are insufficient to meet London's needs

The GLA commissioned consultants Arup in 2018 to model the level of investment needed in London's infrastructure over the London Plan period to 2041[4]. In the transport sector, the total required investment over the period was estimated to be approximately £445 billion in 2018 prices. The consultants compared these costs with projected levels of funding to estimate a public-sector funding gap of £32 billion over the period[5].

The clear conclusion of this analysis was that current funding mechanisms are insufficient to pay for London's long-term transport infrastructure needs. Even with efficiency measures new funding mechanisms will need to be considered. Fiscal devolution provides one means to do this. In 2017, GLA Economics published a series of papers on the options for greater Fiscal devolution for London.

7 Next steps

GLA Economics will continue to monitor transport developments. While, other analysis on London's economy can be found on our publications page.

2 By November 2019 it was concluded the cost could reach £18.25 billion, although there was no decision on where the additional funding might be found, see Crossrail Delay: Line will not open until 2021 as costs increase - BBC News

3 Excluding one off or exceptional payments such as funding for Crossrail or London Overground

4 See The London Plan | London City Hall

5 See Funding London's infrastructure requirements | London City Hall

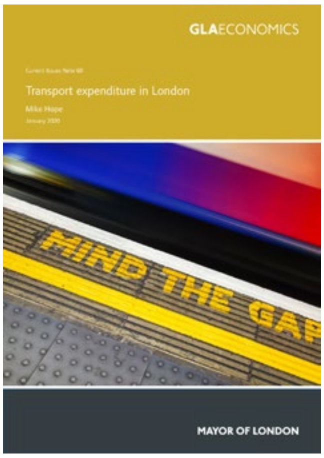
Our latest publications

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.



Transport expenditure in London
This current issues note looks at the case for continuing transport expenditure in London.

London spills over its administrative boundaries, and there are 2 million more people in it every day than its 8.8 million residents. The city relies on public transport, and so public investment – 58% of all journeys on public transport in Britain are at least in part in London. People make far more use of public transport than elsewhere in the country, and increasingly so.

Download the full publication.

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.

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