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In this issue

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IMF raises global growth forecasts

By **Mark Wingham,** Economist, **Gordon Douglass,** Supervisory Economist, and **Emma Christie,** Economist

The International Monetary Fund (IMF) published its biannual World Economic Outlook on 18 April. Christine Lagarde, the IMF's Managing Director, recently said that the global economic recovery has gained momentum – while advanced economies have improved partly driven by resurgence in manufacturing, developing countries have benefited from higher commodity prices. The IMF forecasted that the world economy would grow 3.5 per cent in 2017 and 3.6 per cent in 2018, both up from the 3.1 per cent seen in 2016 (see Figure 1). Specifically for the UK, growth was revised up from the January 2017 update to 2 per cent in 2017 (up 0.5 percentage points) and 1.5 per cent in 2018 (up 0.1 percentage points).

Supporting a view of stronger global growth, preliminary data suggests that China's economy grew 6.9 per cent year-on-year in Q1 2017. That was the fastest rate in six quarters and was largely supported by government infrastructure spending and demand for property.

Latest news...

Closing time: London's Public Houses

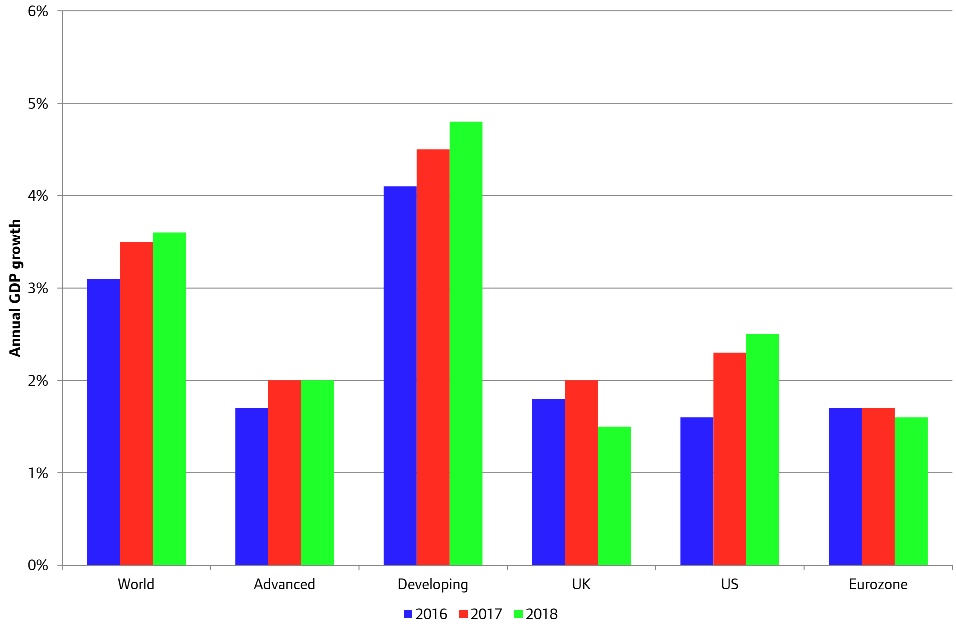
This work looks at what's been happening to the number of pubs, and employment therein, in London.

- The number of pubs and bars in London has fallen by 25 per cent over the past 15 years, from 4,835 in 2001 to 3,615 in 2016. This is a net loss of 81 pubs per year.
- However, over the same period, employment in London pubs increased by 8.7 per cent, from 42,600 in 2001 to 46,300 in 2016. This is a net gain of 247 jobs per year.

Download the full publication for more facts and analysis.

Figure 1: IMF forecasts of GDP growth for selected countries and regions (April 2017)

Source: IMF World Economic Outlook April 2017



Elsewhere, in the US, real GDP growth in Q4 2016 was revised up from an annualised rate of 1.9 per cent to 2.1 per cent. This upward revision partly reflected higher personal consumption and an increase in private inventory investment. Nonetheless, the revised rate of growth was slower than that registered in Q3 (3.5 per cent). This revision did not alter the average for 2016 as a whole (1.6 per cent), however, which was its joint-lowest since the 2008-09 recession.

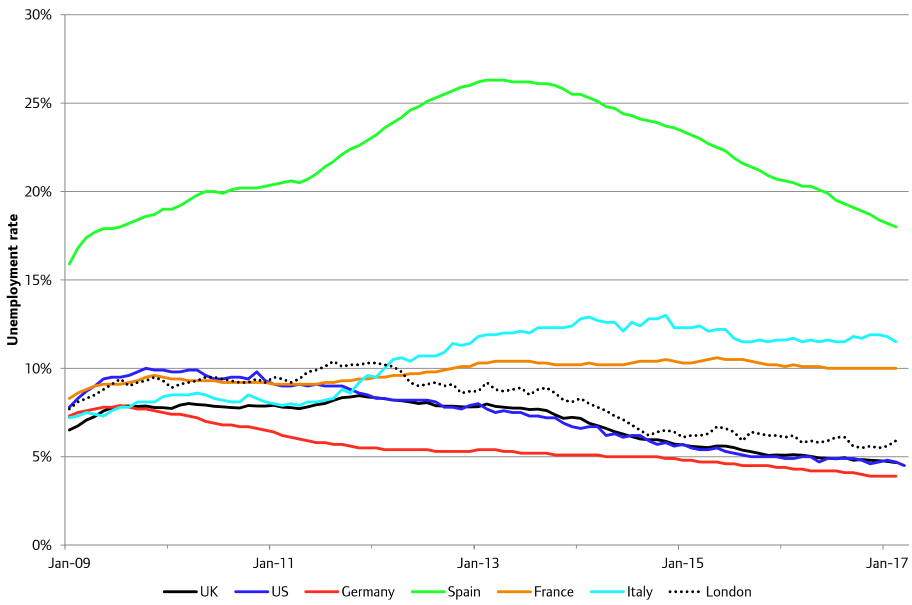
More positive news came from the unemployment rate. At 4.5 per cent in March, the US unemployment rate was at its lowest since May 2007. Still, the Federal Reserve (Fed) estimates that the long-run normal rate of unemployment is between 4.5 to 5 per cent, suggesting that the US is close to ‘full employment’. While this could encourage the Fed to raise interest rates – something that they said they would do several times this year – the US inflation rate slowed from 2.7 per cent to 2.4 per cent in March. This is the first time the inflation rate has fallen in 13 months with it falling by the largest amount since January 2015. Altogether, this means the next rate hike might not be for a couple of months yet.

The unemployment rate also fell within the Eurozone in February. At 9.5 per cent, down 0.1 percentage points from January, it was the lowest rate since May 2009. However, this masked quite different levels for individual countries (see Figure 2). While Germany’s unemployment rate remained at the record-low of 3.9 per cent in February, France remained stuck at 10 per cent and Spain and Italy saw slight falls to 18 per cent and 11.5 per cent respectively. Elsewhere, the Eurozone inflation rate fell from its near four-year high of 2 per cent to 1.5 per cent in March.

Meanwhile, the UK’s unemployment rate was 4.7 per cent in the three months to February – it’s lowest since 1975. However, at 5.9 per cent, up from 5.6 per cent in the three months to November 2016, London’s unemployment rate was higher than the UK average.

Figure 2: Headline unemployment rates for selected countries

Note: UK and London data refers to the 'three months to' a particular month.
Source: ONS Labour Force Survey, Eurostat Labour Force Survey, US BLS Current Population Survey



Early indications point to slower growth in the UK

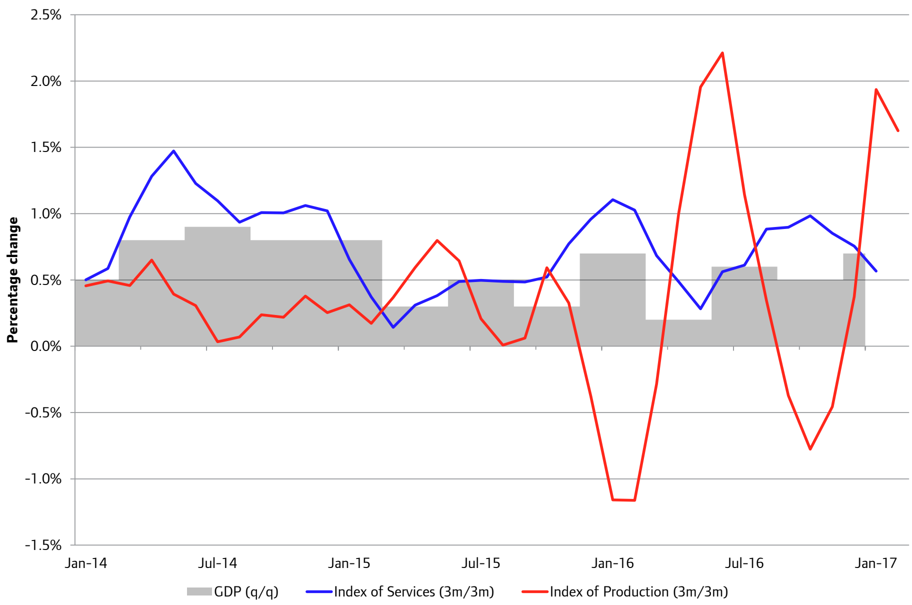
The first estimate of the UK's economic growth during Q1 2017 will be published on 28 April. Previously, the estimate for Q4 2016 was 0.7 per cent quarter-on-quarter growth (or approximately 2.8 per cent on an annualised basis). However, early indications suggest that growth in early 2017 could be slightly slower. Indeed forecasts for 2017 as a whole by the Bank of England and the Office for Budget Responsibility are lower than for 2016.

For example, UK PMI surveys show monthly trends in business conditions in the private sector. While staying above the 50.0 no-change mark, the average index reading (composite of the manufacturing and services sectors only) for Q1 2017 was 54.6 and lower than 55.6 recorded for Q4 2016. This could suggest that the rate of growth slowed at the start of the year. Similarly, the 12-month moving average in the GfK's headline indicator measuring consumer confidence in the UK was -5.3 and was the lowest reading since August 2014. However, other surveys like the British Chambers of Commerce Quarterly Economic Survey suggested that businesses grew at a solid pace in Q1 2017, with a net balance of +20 per cent of manufacturers and +22 per cent of service firms (both up from +15 per cent in Q4 2016) reporting improved domestic sales.

In addition, latest official data of economic activity that feed into the GDP estimate have shown weaker trends recently (see Figure 3). For instance, the rate of growth in the output of production industries on a three-month on three-month basis (to remove volatility in the monthly data) slowed from 1.9 per cent in January to 1.6 per cent in February. Moreover, for the much larger services sector, the three-month on three-month change in activity was 0.6 per cent in January (the latest estimate), down from 0.8 per cent in December 2016.

Figure 3: Indices of services and production for the UK

Source: ONS Index of Services, ONS Index of Production, ONS GDP estimates



One of the strongest sources of recent GDP growth has been private consumption, particularly that undertaken by households. Recent data from the Office for National Statistics (ONS) suggested that this was partly financed by households dipping into their savings as growth in spending exceeded that for disposable income. For instance, the household saving ratio – calculated as final consumption expenditure divided by total available resources – continued to fall during Q4 2016, down to an all-time low of 3.3 per cent. Consequently, this has led some to question whether the strong growth in consumer spending (and its large contribution to GDP) can continue.

This would seem to be consistent with news from the British Retail Consortium that suggested retail sales, excluding food, fell 0.8 per cent in the three months to March compared with a year earlier. That was the largest decline for nearly six years. This would also be consistent with data from the ONS showing weakening real wage growth. The latest labour market statistics from the ONS showed that average weekly earnings (including bonuses) across the UK were 2.3 per cent higher than a year earlier in the three months to February. However, after adjusting for inflation, the rate of growth was just 0.1 per cent – its slowest rate since September 2014.

EU sets out negotiation stance on Brexit

The Government officially triggered the process of leaving the European Union on 29 March. Within the Article 50 letter, the Prime Minister suggested that the terms of a future relationship (in terms of both economic and security cooperation) between the EU and the UK could and should be agreed alongside the terms for withdrawal. However, the European Council later published draft guidelines which questioned the likelihood of this outcome by suggesting that any discussion on the future relationship can only commence once "sufficient progress" has been made on the withdrawal.

The draft EU guidelines also suggested that the UK should pay a single financial settlement to cover its remaining obligations; that the single market should remain a single entity; and that there should be no competitive advantage stemming from any future trade deal. These draft guidelines are yet to be finalised and a special meeting has been called on 29 April for the remaining EU 27 member states to adopt their final position.

In anticipation of the UK's exit from the EU and the potential loss of 'passporting' rights, Lloyd's of London announced plans to create a subsidiary in Belgium. However, it is envisioned that "fewer than 100" people would work at this new subsidiary. Meanwhile, reports suggest that Lloyds Banking Group would similarly set up a subsidiary in Berlin to retain an EU presence. However, the City of London Corporation recently argued that there could be other ways to access the EU market besides opening EU subsidiaries. This includes setting up joint UK and EU regulatory bodies and agreeing to common standards.

While the future economic relationship between the UK and EU is open for discussion, the IMF, the World Bank and the World Trade Organisation (WTO) published a report setting out the case for free trade. They argued that free trade has helped to drive economic growth in both advanced and developing countries, but sometimes leaves certain individuals and communities behind. Furthermore, they argued that recent suggestions of protectionism – such as those proposed by the US President – risked acting like a dampener on trade, productivity and income growth. One of President Trump's suggestions was a tariff of goods imported from China though, following a recent summit, the two countries have agreed to a new 100-day plan for trade talks. Reports suggest that China has offered concessions, such as better access to its financial sector, to assist with these discussions.

Mixed signs in London's property market

In signs of continued confidence in the London property market the annual London Tall Building Survey showed that a record 26 skyscrapers with 20 or more floors were completed in London in 2016 and another 455 are in the pipeline. Of this, 24 of the completed towers in 2016 and 420 in the pipeline were residential. This could potentially add around 100,000 homes (based on several simplifying assumptions).

While that could potentially help alleviate some of the pressure on London's housing supply, latest data from Land Registry showed that the average house price in London was £477,300 in February, more than double the England average. That said, London's house prices increased 3.7 per cent over the year which was the slowest rate of growth in almost five years. In addition, property surveyors responding to the RICS Residential Market Survey expected London's house prices to increase over the next 12 months, but the level of positive sentiment was the lowest across all 12 UK regions.

In a move that may alleviate some congestion in London, Transport Secretary Chris Grayling recently announced the route of a new road tunnel under the Thames Estuary. The project is estimated to cost between £4.3 billion and £5.9 billion and will link the M25 near North Ockendon to the A2 near Shorne close to where the M2 begins. This tunnel is in addition to the London river crossings proposed by the Mayor and Transport for London.

On other transport related news, the Mayor recently announced plans to introduce an Ultra-Low Emission Zone from April 2019 to help combat air pollution in London. Under the proposals, the most-polluting vehicles – petrol and diesel vehicles that do not meet Euro 4 and 6 standards respectively, except black taxis – will have to pay a daily charge for driving within central London (on top of the existing congestion charge). This would eventually be expanded to cover more vehicles and a larger area of Greater London from 2020/21.

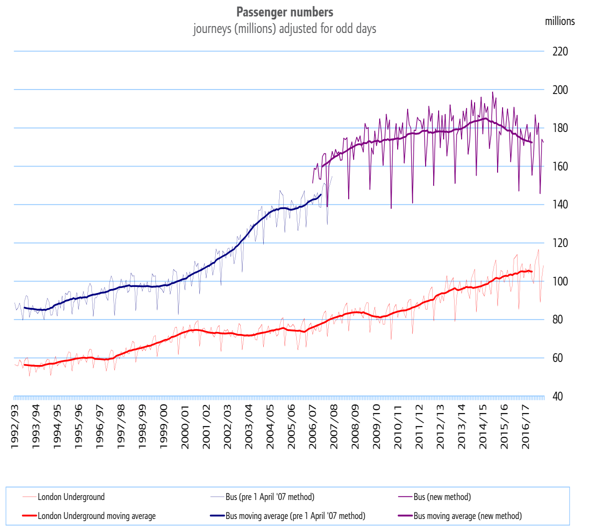
Overall, despite the potential slowdown in the UK economy and the Brexit uncertainties discussed above, London remains on a solid footing. The London PMI rose to a 14-month high of 56.4 in March suggesting a faster rate of growth in business activity. In addition, the Federation of Small Businesses (FSB) reported that confidence among London small firms has risen to its highest level in over a year during Q1 2017. Further metrics on London's economy are discussed in the following indicators section.

Economic indicators

The 12-month moving average of passenger journeys continues its downward path

- After adjusting for odd days, there were a total of 280.8 million passenger journeys during the latest 28-day period which covered 5 February to 4 March 2017. This consisted of 108.3 million London Underground and 172.6 million bus passengers.
- The 12-month moving average of passenger journeys continued its downward trajectory, falling to 227.5 million passengers. On average over the past year, there were 105.1 million London Underground and 172.4 million bus passengers.
- 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).

Latest release: April 2017
Next release: May 2017

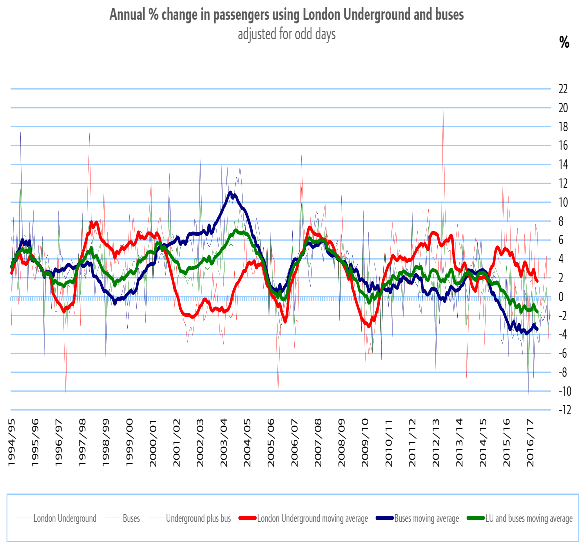


Source: Transport for London

Slowest average annual rate of growth in London Underground passengers for over two years

- At -3.4 per cent, the moving average annual rate of change in bus passenger journey numbers remained negative during the latest period.
- For London Underground passengers, the moving average annual rate of growth slowed from 2.0 per cent to 1.7 per cent – its weakest rate in over two years.
- Overall, the moving average annual rate of change in total passenger journeys remained negative at -1.6 per cent (down from -1.4 per cent).

Latest release: April 2017
Next release: May 2017



Source: Transport for London

Slight pick-up in London's unemployment

- The number of people who were unemployed in London (using the ILO definition) was 282,000 in the three months to February 2017. Despite having picked up from the three months to November 2016 (266,000 people), the figure remains low by historic standards.
- Similarly, while the unemployment rate increased during the three months to February 2017 (up 0.3 percentage points to 5.9 per cent), it was one of the lowest since data collection began in 1992.
- For the UK as a whole, there were 1.60 million people unemployed in the three months to February 2017, giving an unemployment rate of 4.7 per cent.

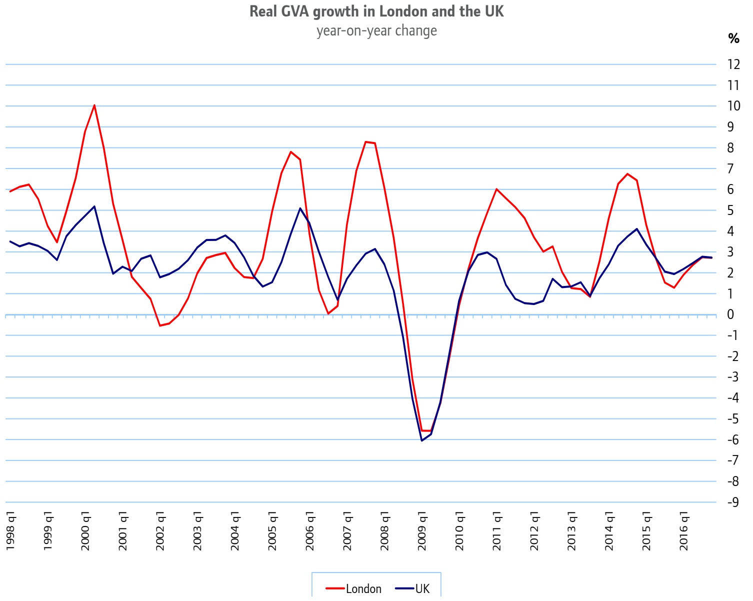
Latest release: April 2017
Next release: May 2017

Source: Labour Force Survey – ONS

Annual output growth holds steady in London in Q4 2016

- London's annual growth in output remained at 2.7 per cent in Q4 2016.
- Annual output growth in the UK decreased to 2.7 per cent in Q4 2016 from 2.8 per cent in Q3 2016. In Q4 2016, London's annual output growth was equal to the UK as a whole.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: April 2017
Next release: July 2017

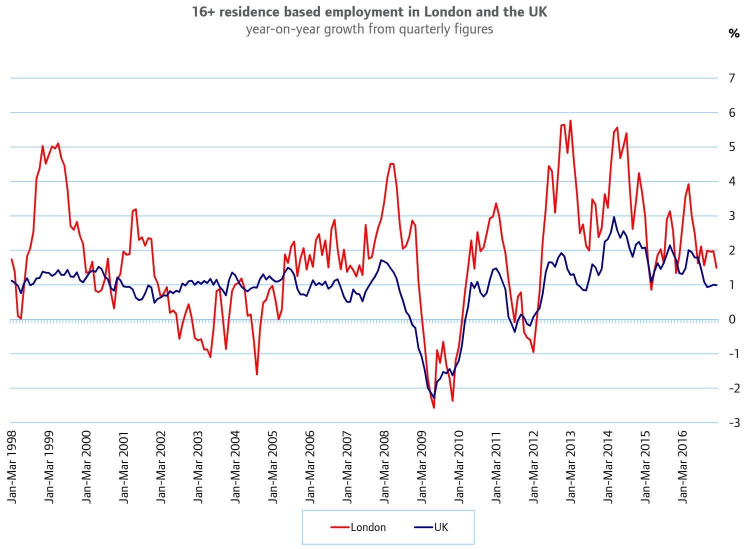


Source: GLA Economics and ONS

London saw a faster rate of employment growth than the UK

- There were 4.50 million London residents (aged 16 years and over) in employment during the three months to February 2017. This was up 66,000 when compared with the three months to February 2016.
- The number of people in work grew by 1.5 per cent on an annual basis during the three months to February 2017.
- The rate of growth in London was one-and-a-half times as fast as that for the UK as a whole (1.0 per cent). Overall, 31.84 million people were in employment across the UK during the three months to February 2017.

Latest release: April 2017
Next release: May 2017

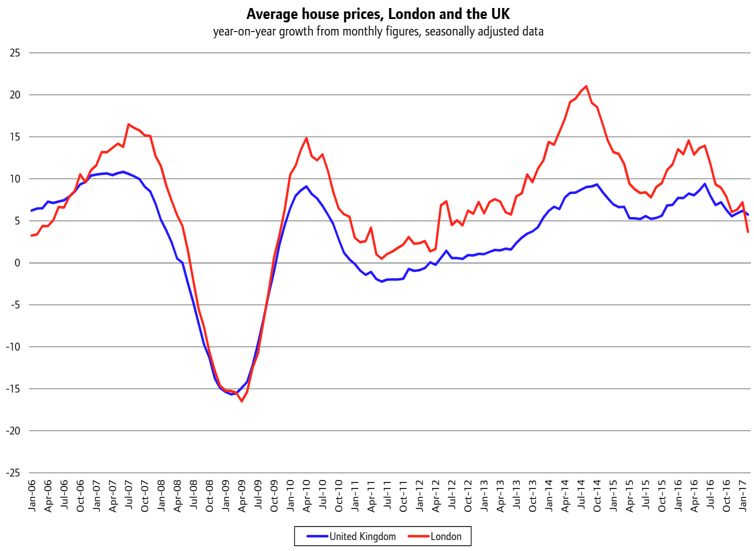


Source: Labour Force Survey – ONS

House prices in London grow at slowest rate since April 2012

- London's house prices fell in February 2017 according to data collected by the Land Registry. The average price was £477,294, down from £490,264 in January.
- Annual house price inflation was 3.7 per cent in February, which was much slower than those recorded a year earlier (12.9 per cent).
- Meanwhile, average house prices across the UK as a whole was £218,180 which was 5.7 per cent higher than in February 2016.

Latest release: April 2017
Next release: May 2017

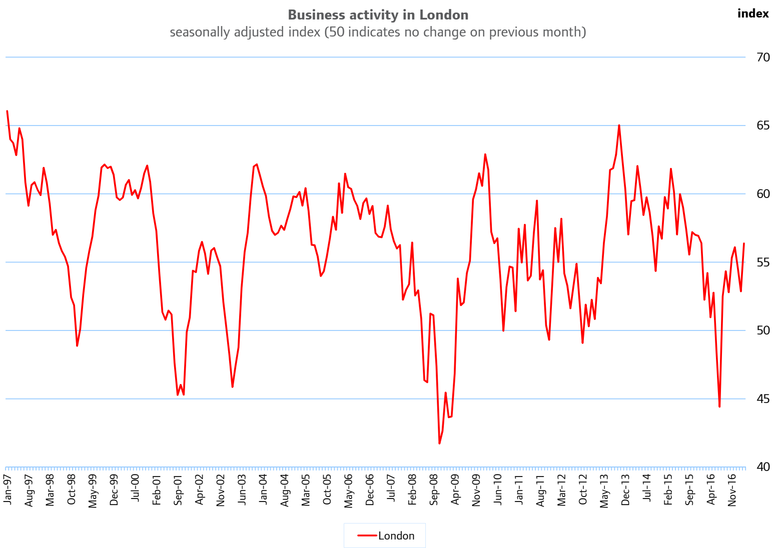


Source: Land Registry and ONS

London businesses report fastest growth in output since January 2016

- 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.
- In March 2017, London businesses reported an increase in business activity for the eighth consecutive month. At 56.4 (up from 52.9 in February), the rate of growth was the strongest since January 2016.
- The UK as a whole registered a PMI score of 54.9.

Latest release: April 2017
Next release: May 2017

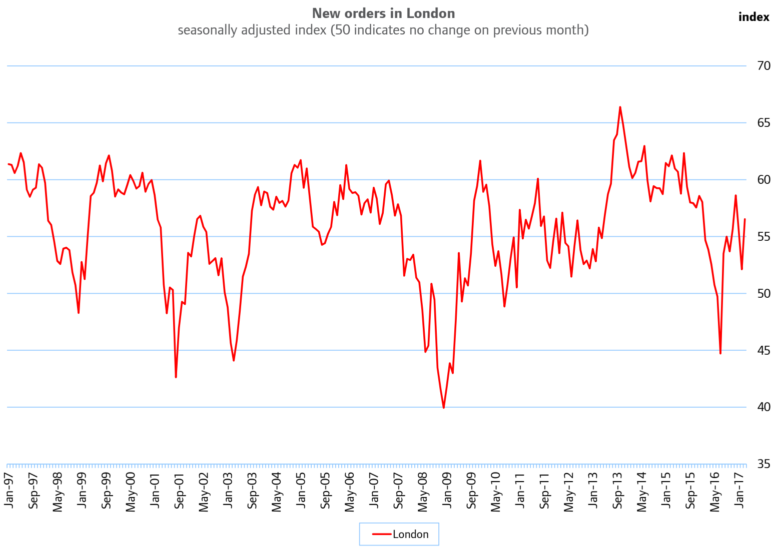


Source: IHS Markit

New business at London firms increased at fastest pace so far this year

- London firms reported a further increase in new business in March 2017. Rising to 56.5 (up from 52.1 in February 2017), the New Business Index registered the highest grow so far in 2017.
- London's index reading was also broadly on par with the UK average of 56.4.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Latest release: April 2017
Next release: May 2017

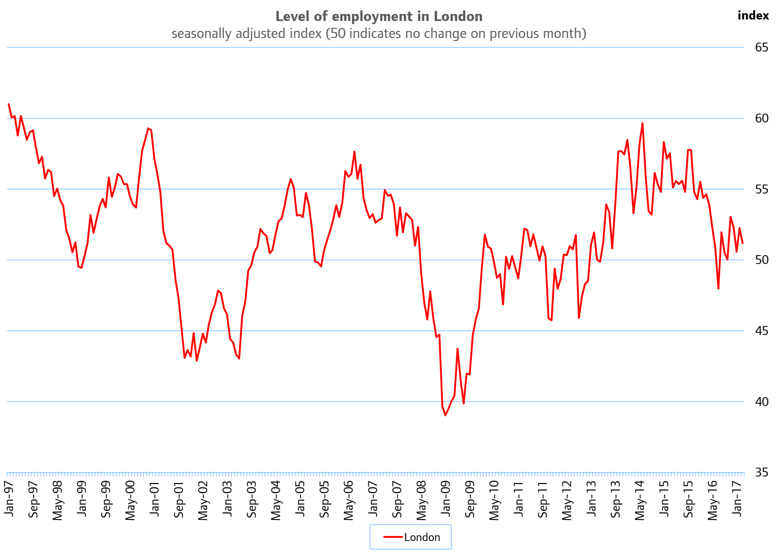


Source: IHS Markit

Businesses report an increase in employment for the fifth consecutive month

- The PMI Employment Index shows the monthly change in employment at private sector firms. A reading above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.
- The Employment Index for London registered 51.2 in March 2017 – broadly on par with the UK average of 51.5.
- However, London's index reading was down slightly on February 2017 (52.2) suggesting a slower rate of employment growth.

Latest release: April 2017
Next release: May 2017

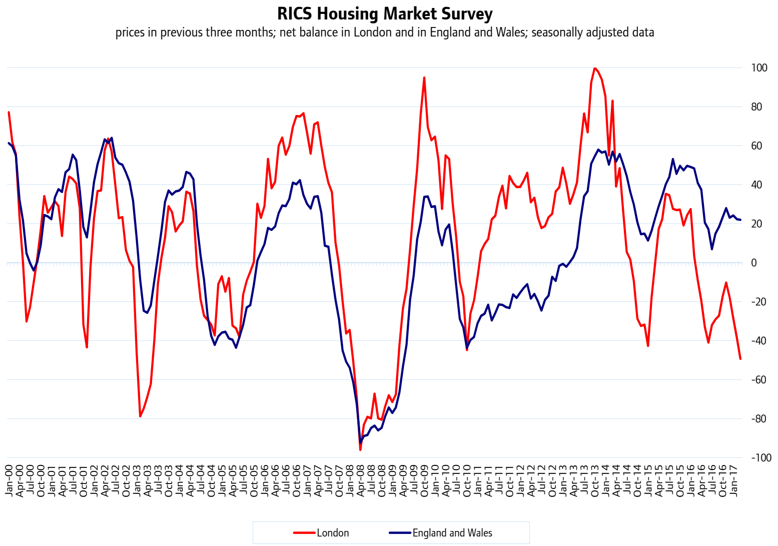


Source: IHS Markit

Surveyors report largest fall in London's house prices since 2009

- The RICS Residential Market Survey suggested that house prices in London continued to fall during the three months to March 2017. At -49, down from -39, the net balance has now been negative for over a year and was the lowest (ie, most negative) since February 2009.
- In comparison, house prices remained stable across England and Wales as a whole as indicated by a positive net balance of +22 (unchanged from February).

Latest release: April 2017
Next release: May 2017

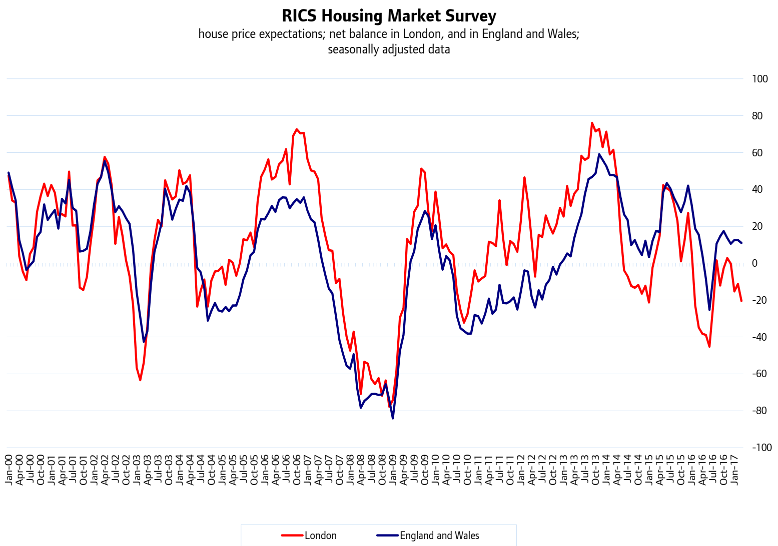


Source: Royal Institution of Chartered Surveyors

Surveyors expect London's house prices to fall further over the next three months

- Surveyors expected a further decline in London's house prices between April and June 2017, with the net balance falling to -20.
- The net house price expectations balance has been negative in nine out of the past 12 months.
- Respondents to the RICS Residential Market Survey were more optimistic about house prices across England and Wales as a whole, with the net balance at +11.

Latest release: April 2017
Next release: May 2017

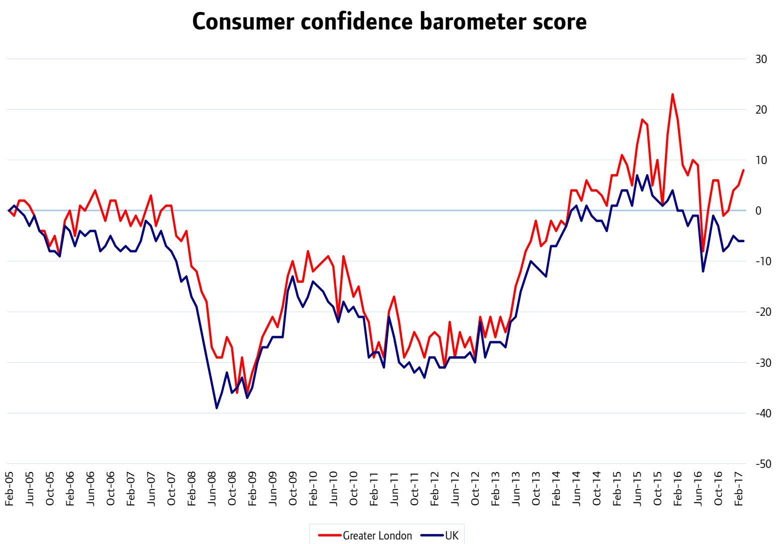


Source: Royal Institution of Chartered Surveyors

London consumers remained optimistic in March

- The GfK index of consumer confidence reflects people's views on their financial position and the generational economic over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- Consumer confidence in Greater London remained positive for the third month running in March 2017. At +8, this was up from the +5 recorded in February.
- In contrast, the consumer confidence score remained negative for the UK as a whole (stable at -6) as has been the case in each month since April 2016.

Latest release: March 2017
Next release: April 2017



Source: GfK NOP on behalf of the European Commission

Projections of demand and supply for visitor accommodation in London to 2050

By Brian Smith,
Economist

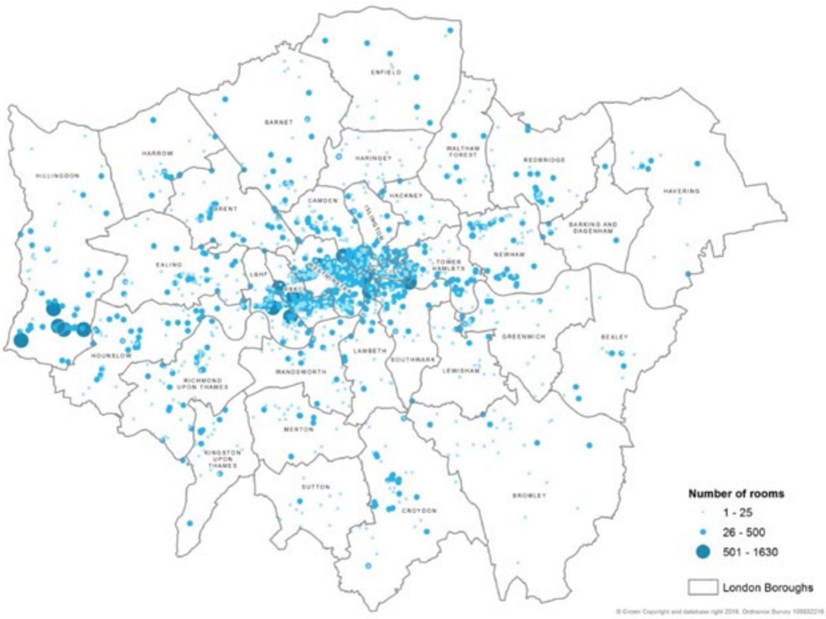
Tourism is an important sector for London's economy. London is the second most visited city in the world, with 31.5 million overnight visitors (international and domestic) in 2015. As the supply of visitor accommodation is important to London's tourism sector, the London Plan has traditionally set a 'benchmark target' for the provision of serviced accommodation (ie, rooms in hotels, hostels, B&Bs and guest houses where services such as catering and cleaning are provided to guests). In order to understand the future need for visitor accommodation, GLA Economics was asked to update its previous analysis on the demand and supply of serviced visitor accommodation to inform the target for the next London Plan. This supplement outlines the modelling undertaken to develop these new projections.

Existing stock of serviced accommodation

To inform the research, the AMPM database of hotel accommodation was used, which enabled the development of a consistent long-run time series of the stock of visitor accommodation in the capital. The AMPM database shows that in 2015, there were 145,737 total serviced rooms in the capital. Map A1 shows the distribution of serviced accommodation across London with most of London's serviced rooms located in central London, and over a quarter of rooms located in the borough of Westminster alone.

Map A1: Distribution of room supply by London Borough, December 2015

Source: AMPM Database, GLA Economics analysis



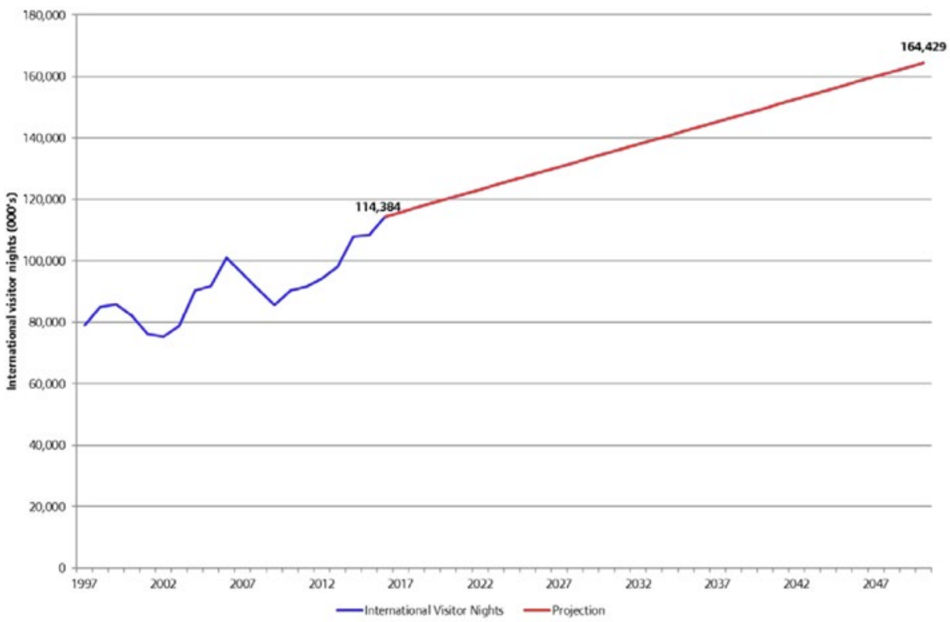
However, more recently development has been taking place in other parts of London, with Southwark, the City of London, and Newham adding the most rooms to the supply between 2011 and 2015. This is part of a longer-term trend where other London boroughs, beyond the boroughs of Westminster and Kensington and Chelsea, have been accounting for an increasing share of serviced accommodation in London. Indeed, Westminster and Kensington and Chelsea's share of all serviced rooms in London fell from over three-fifths in 1971 to under two-fifths in 2015 (despite the absolute number of rooms growing in the two boroughs over this time period). Over the same time period the share of serviced rooms located in outer London grew from 15 per cent to 23 per cent – with around half of the increase over that time period attributable to the boroughs of Hounslow and Hillingdon.

Demand-side projections

To estimate the future demand for serviced accommodation in London, international and domestic tourism were treated separately. For international tourism, the expected future demand for visitor accommodation made use of the Department for Transport forecasts for the number of air arrivals in the capital, originally developed for the Airports Commission as part of their review on the potential options for airport development in the South East. This information was combined with information on the total number of visitors that visited the capital over time in order to project forward visitor numbers. Figure A1 illustrates the projections for international visitor nights in London over time.

Figure A1: International visitor night projections to 2050, London

Source: International Passenger Survey, GLA Economics analysis



A separate model to project domestic tourism nights is based on population projections for the rest of the UK. When combined with the international visitor nights projection, the total visitor nights in the capital is projected to reach 196.4 million in 2041 and 215.2 million in 2050.

Based on the long-run relationship between visitor nights and room nights, this projects that over the London Plan timescale of 2041, a net additional 58,140 rooms would need to be added to meet demand, equating to 2,236 rooms per annum. Assuming that 0.4 per cent of rooms are closed each year, then 77,019 additional rooms will need to be added to the stock to meet the projected need by 2041. This is equivalent to 2,962 new serviced accommodation rooms opening each year.

It should be noted that the estimates are sensitive to a range of factors (outlined in the report), including assumptions used around airport expansion options, future economic projections, and trends in international tourism such as average nights per visits. In addition, other trends could impact on the future demand for serviced accommodation; for example, a recent trend in tourism has been the growth of non-serviced accommodation, like Airbnb.

This supplement has provided an overview of the approaches GLA Economics has used in developing its new projections for visitor accommodation. For more information, the report can be found on the publications page.

Additional information

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs
Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

ILO unemployment
The International Labour Organization (ILO) measure of unemployment assesses the number of jobless people who want to work, are available to work and are actively seeking employment.

Residence-based employment
Employment measures the number of people in work rather than the total number of jobs (as people may have more than one job). It consists of employees, self-employed as well as unpaid family workers and those on government supported training and employment programmes. The measure included here is residence-based.

Gross domestic product (GDP)
A measure of the total economic activity in the economy.

Gross value added (GVA)
Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

Tube ridership
Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

Bus ridership
Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

Acronyms

BCC	British Chamber of Commerce
BRES	Business Register and Employment Survey
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CLG	Communities and Local Government
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
IMF	International Monetary Fund
LCCI	London Chamber of Commerce and Industry
LET	London's Economy Today
MPC	Monetary Policy Committee
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers
RICS	Royal Institution of Chartered Surveyors

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

MAYOR OF LONDON