GLAECONOMICS

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In this issue

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http://data.london.gov.uk/gla-economics/let/

UK GDP grows modestly in Q2 2017

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

New data published by the Office for National Statistics (ONS) in July revealed that economic growth continued in the second quarter of 2017. The preliminary estimates of GDP showed that economic growth stood at 0.3 per cent for the quarter, up from the 0.2 per cent growth seen in the first quarter of 2017 (see Figure 1). GDP was 1.7 per cent higher in the second quarter of 2017 compared to the same period a year earlier. Commenting on the source of growth in the GDP numbers the ONS observed that "UK economic growth in Quarter 2 2017 was driven by the services sector, while production and construction acted as a drag".

Output in services increased by 0.5 per cent, up from 0.1 per cent growth in the previous quarter. Within services, business services and finance – a particularly important industry for London – grew by 0.4 per cent in Q2 2017 after growing by 0.5 per cent in the previous quarter. The ONS observed that "the largest contributors to growth in services were retail trade, which improved after a fall in the first quarter, and film production and distribution". All other major sectors of the economy, apart from agriculture which grew by 0.6 per cent on the previous quarter, saw declines in output in Q2 2017. Thus production output declined by 0.4 per cent

Latest news...

Transport expenditure in London

Current Issues Note 54 sets out the rationale for investing in transport infrastructure and presents data on the current and planned levels of transport expenditure, with an emphasis on London.

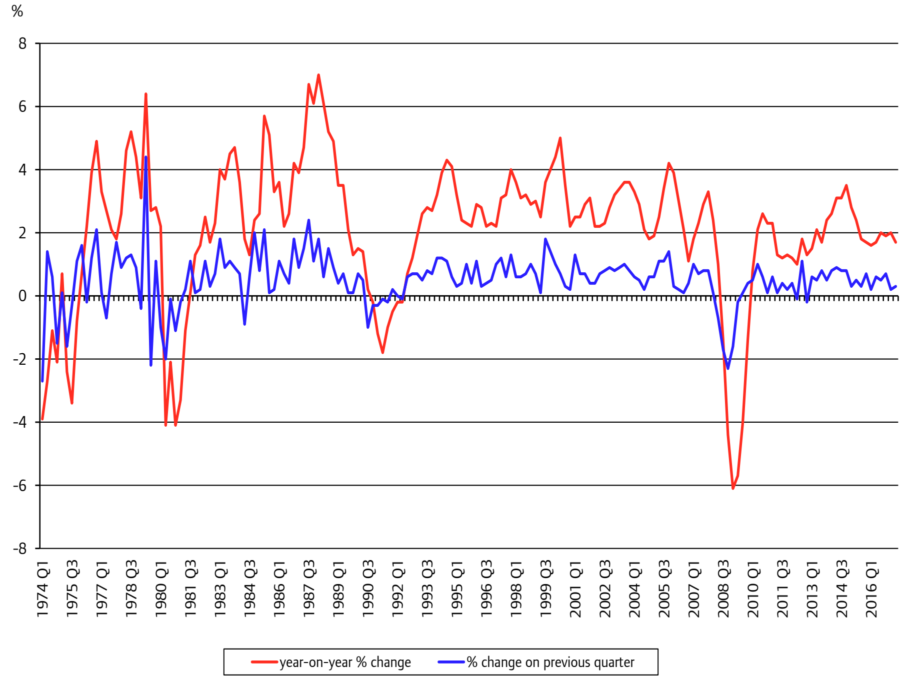
Public sector spending on transport is increasingly being funded directly by London taxpayers – something not captured in the expenditure data. For example, more than half of the cost of Crossrail 1 is funded directly by London businesses and Londoners.

Download the publication.

in the second quarter of 2017 (and within that manufacturing decreased by 0.5 per cent), while output in construction fell by 0.9 per cent.

Figure 1: UK GDP growth
Last data point Q2 2017

Source: ONS



Labour market shows improvement, but real earnings concerns persist

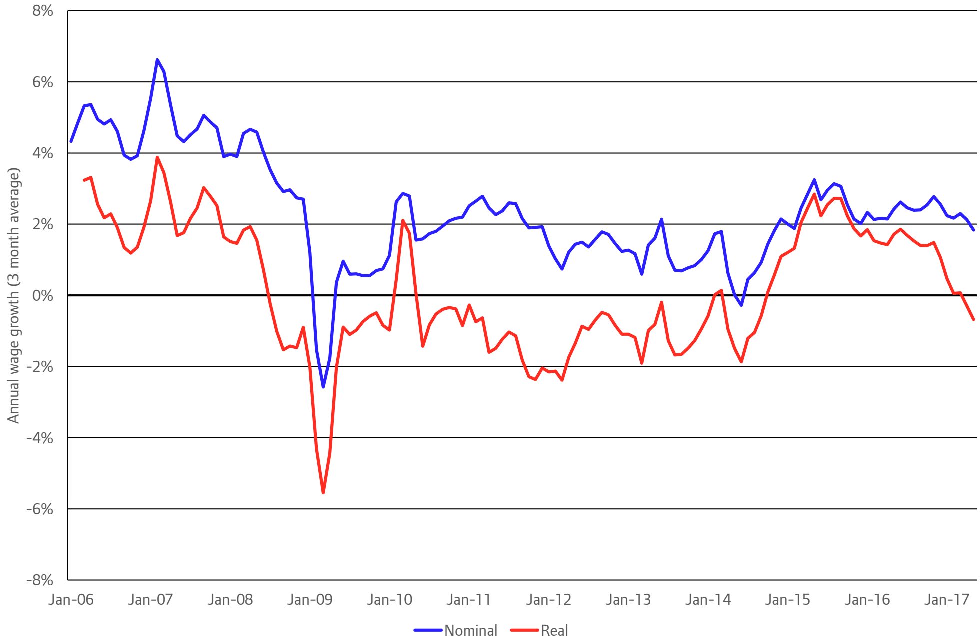
The continued economic growth set out in the headline GDP figures was also seen in the UK labour market which showed further improvement with the unemployment rate (at 4.5 per cent) down to its lowest level since 1975 and the employment rate (at 74.9 per cent) reaching a new record-high (according to the latest data from the ONS which covers the March to May 2017 period).

London's labour market was also upbeat. The employment rate in the capital rose to 74.0 per cent in the three months to May 2017 and, while technically 0.9 percentage points lower than the UK reading, this difference was not statistically significant after accounting for sampling variability. Similarly, London's unemployment rate fell to 5.5 per cent – the lowest level since data collection began in 1992 – though this is statistically significantly higher than the UK average.

However, real wage growth is a cause for concern, as it continues to fall across the UK (see Figure 2). During the three months to May, average weekly earnings including bonuses increased 1.8 per cent year-on-year in nominal (inflation unadjusted) terms which was the slowest pace for two-and-a-half years. Meanwhile, consumer price inflation was much higher at 2.9 per cent in May, though this eased slightly to 2.6 per cent in June mainly due to a drop in petrol and diesel prices. Consequently, adjusted for inflation, average weekly earnings (including bonuses) fell 0.7 per cent in the three months to May 2017. To provide some context, average weekly earnings in constant (inflation adjusted) prices increased 1.7 per cent a year earlier.

Figure 2: Average weekly earnings growth for the UK in both nominal and real prices

Source: ONS Labour Force Survey



The issue with falling real earnings is the effect it could have on consumer spending and, consequently, economic growth. Already the ONS reported that real household disposable income on a per head basis declined 2 per cent year-on-year in the first quarter of 2017, which was the largest decline since the end of 2011. Given this concern several economic forecasts suggest that GDP growth for the UK will be slower in the short-term. For example, PwC's UK Economic Outlook report, which was published in July, suggested that economic growth could slow from 1.8 per cent in 2016 to around 1.5 per cent in 2017 and 1.4 per cent in 2018. The IMF has also downgraded its forecast for UK GDP growth for 2017 in its World Economic Outlook: Update, published in July. It now forecasts growth of 1.7 per cent this year (down 0.3 per cent from its April forecast) with growth of 1.5 per cent forecast for 2018 (no change on its April forecast).

Linked to the labour market, the long-awaited report into modern working practices (the 'Taylor Review') was published on 11 July. Some of the recommendations the Review put forward included ensuring workers do not get stuck on the National Living Wage and that the Government should avoid increasing the cost of employing a person. Perhaps most importantly was the recommendation of a national strategy with the objective of 'good work for all'. This involves ensuring the basic principles of work – that is, rights, responsibilities, training, taxation and working conditions among others – apply to all forms of employment. This includes 'gig economy' workers who should instead be classified as dependent contractors and receive extra benefits. The national strategy also means that the 'cash-in-hand economy' – which Taylor argues is often untaxed and worth up to £6 billion a year – would be treated the same as other forms of work, especially in terms of taxation.

Government fails the OBR's new fiscal 'stress test'

In other news, the Office for Budget Responsibility (OBR) published its first Fiscal Risks report on 13 July. This identified a number of risks relating to the macroeconomy, financial sector, tax revenue, public spending and national debt. It also carried out a fiscal 'stress test' on the Government – a similar type of test that the Bank of England subjects to financial institutions – and showed that the fiscal effects of an economic shock would be "severe" and that the Government would miss its fiscal targets by "wide margins". Moreover, the OBR argues that economic crises are highly likely over a 50-year horizon and so "the public finances need to be managed prudently during more favourable times to ensure that when these shocks do crystallise they do not put the public finances onto an unsustainable path".

The Financial Policy Committee (FPC) of the Bank of England has also published its latest Financial Stability Report on 27 June. While the overall risk to the financial system is judged to be 'normal', the FPC warned that lenders may be placing too much emphasis on the recent good performance of loans where borrowers have been keeping up with repayments. The FPC further highlighted the strong growth in consumer credit, which has grown at a pace of 10.3 per cent in the 12 months to April 2017, much faster than household incomes – with particular strong growth seen in car finance.

Warning signs over debt in some emerging economies

Internationally, the Bank for International Settlements, an organisation representing 60 central banks around the world, has recently highlighted that there are several medium-term risks to future global economic growth. One of these is around high levels of private debt and house prices that could suggest possible financial distress in the future, particularly for emerging economies such as China and Thailand.

Still the latest data coming out of China suggests that its economy grew 6.9 per cent on an annualised basis in the second quarter of 2017. That was on par with the rate of growth reported in the first quarter, and above the government's target of 6.5 per cent for 2017 as a whole. Some commentators have suggested that this above-target growth could slow in the coming quarters as the effects of government policies to reorient the economy and to reduce financial risk kick in.

Elsewhere, growth forecasts for the US have been downgraded a touch. Thus the IMF has cut their forecasts for economic growth in the US citing uncertainty around government policies. It now expects growth of 2.1 per cent in both 2017 and 2018, down from 2.3 per cent and 2.5 per cent respectively. Despite the downgrade by the IMF, the Federal Reserve chair, Janet Yellen, reported that the US economy is gaining strength. For example, non-farm payrolls increased at an above-average rate and the unemployment rate was little-changed from its near 16-year low in June. As such, Yellen expected interest rates to rise further over the coming years, though it is likely to remain historically low in the longer term. And in the Eurozone there was good news from Greece where its Debt Management Agency announced plans to sell five-year government bonds. This is the first sale of Greek government bonds since 2014, when it briefly re-entered the markets, and is seen as an important marker for Greece as it tries to move beyond the bailouts.

Brexit concerns in London business survey but large increase in the number of visitors to London

Closer to home, the London Chamber of Commerce and Industry and London Councils published in July the first results of a new annual London business survey of over 1,000 firms – the London Business 1000. In it, firms cited lowering transport costs and improving the availability and affordability of housing as the top two ways of making recruitment easier and improving staff retention in London. It also indicated that half of the survey respondents had some non-UK staff, particularly large businesses and those based in central and west London. Given this, 36 per cent of respondents thought that Brexit would have a negative impact on recruitment over the next 12 months. Moreover, two-in-five firms (42 per cent) thought that Brexit would have a negative effect on future business growth, though 29 per cent thought there would be no impact and 12 per cent thought the impact would be positive.

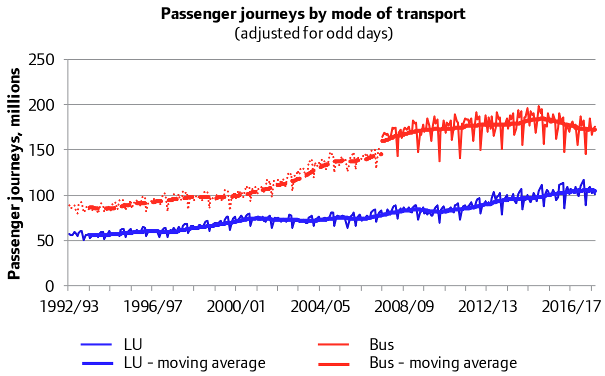
There is some evidence that the depreciation of sterling has led to a boost in tourism numbers to the UK and London. ONS data looking at the number of international visitors to the UK showed that there were 8.3 million international visitors to the UK in the first quarter of 2017, up 9.9 per cent from a year earlier. Of this, 4.5 million people or 54 per cent of all visitors to the UK came to London specifically. That was up from 3.9 million a year earlier – an annual increase of 15.6 per cent. In other London related news, Google announced that it would build a cloud computing centre in London which should speed up data processing times in the region.

Overall, London's economy is performing relatively well and most indicators suggest continued growth will occur throughout 2017. However, there are some clear headwinds. For example, while the capital's labour market is performing strongly, the pressure on real earnings could act as a drag on consumer spending and economic activity more generally in the short term.

12-month moving average of passenger numbers picks up

- In the 28-day period between 28 May and 24 June, and adjusting for odd days, there were 277.1 million passenger journeys, up from 288.1 million last period. This consisted of 101.6 million Tube and 175.5 million bus journeys.
- The 12-month moving average rose slightly to 278.0 million total passenger journeys. The moving average in London Underground fell slightly (105.1 million), while the moving average for bus passengers rose (173.0 million) during the last period.
- 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: July 2017
Next release: August 2017

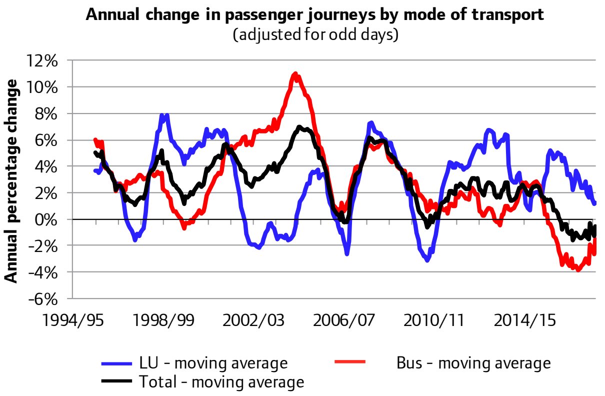


Source: Transport for London

Moving average annual rate of growth in tube passenger journeys remains constant

- At 1.2 per cent, the moving average annual rate of growth in Tube passenger journeys was unchanged on the previous period.
- The moving average annual rate of change was once again negative for bus journeys, down 1.6 per cent, but up from negative 2.3 per cent the previous period.
- Overall, total passenger journeys fell 0.5 per cent on average, up from a 1.0 per cent decline in the previous period.

Latest release: July 2017
Next release: August 2017

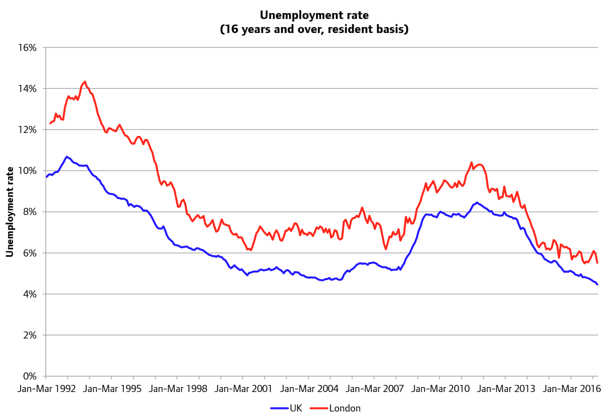


Source: Transport for London

London's unemployment rate falls to historic low

- There were 270,500 unemployed people living in London and aged 16 years and over during the three months to May 2017. That was down from 286,100 reported during the three months to February 2017.
- London's unemployment rate consequently fell from 5.9 per cent to 5.5 per cent – one of the lowest readings since data collection began in 1992.
- London's unemployment rate remains higher than the UK; the UK unemployment rate was down slightly from 4.7 per cent to 4.5 per cent in the three months to May.

Latest release: July 2017
Next release: August 2017

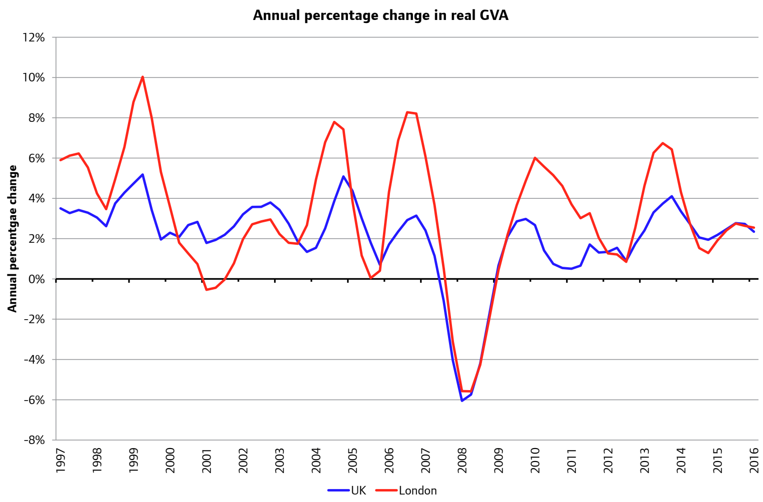


Source: Labour Force Survey - ONS

Annual output growth in London higher than the UK as a whole

- London's annual growth in output slowed marginally to 2.5 per cent in Q1 2017, from a downwardly revised 2.6 per cent in Q4 2016.
- Annual output growth in the UK decreased to 2.3 per cent in Q1 2017, from 2.7 in Q4 2016, meaning that London's output is now higher than for the UK as a whole for the first time since Q1 2015.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: July 2017
Next release: October 2017

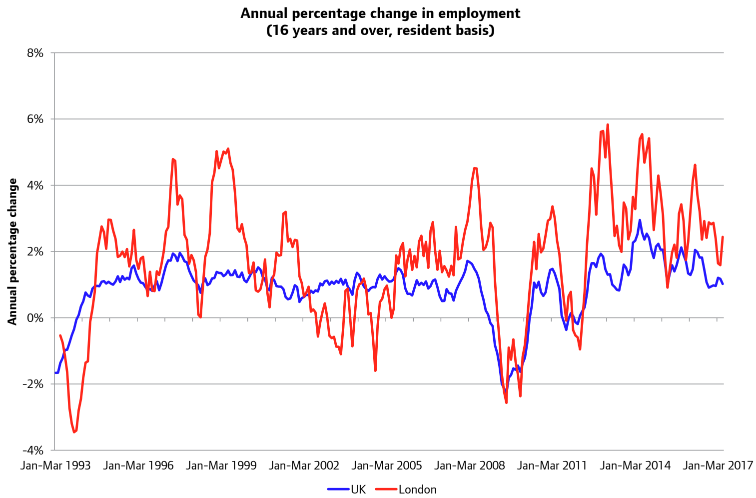


Source: GLA Economics and ONS

Employment growth in London remains stable

- The number of London residents aged 16 years and over and who were in employment was 4.627 million during the three months to May 2017.
- The annual rate of growth remains stable, at 2.4 per cent – the same as in the three months to February.
- The rate of employment growth in London remains faster than that for the UK as a whole (1.0 per cent).

Latest release: July 2017
Next release: August 2017

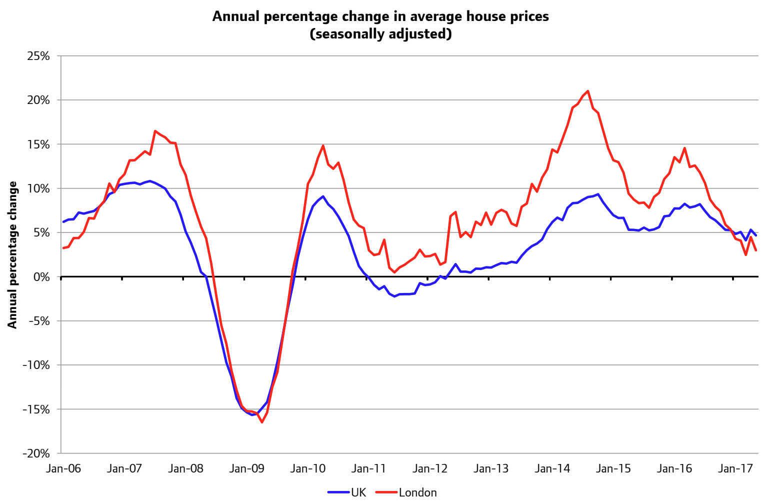


Source: Labour Force Survey – ONS

London house price growth slows

- The average house price in London was £480,400 in May 2017. That was more than double the UK average of £218,800.
- London house prices grew just 3.0 per cent year-on-year, compared to 4.5 per cent in April, and 12.6 per cent in May 2016.
- The UK saw a stronger annual increase in house prices, with the rate of growth of 4.7 per cent in May 2017.

Latest release: July 2017
Next release: August 2017

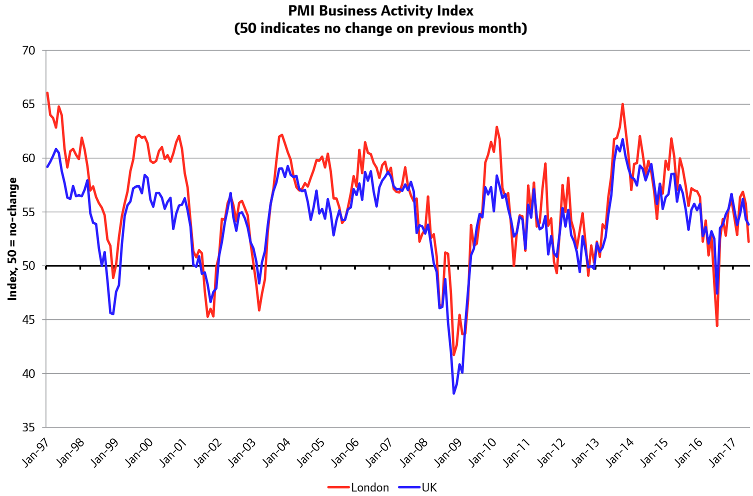


Source: Land Registry and ONS

Business activity levels continue to rise but at lowest rate in 11 months

- 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.
- At 52.2, the Business Activity Index suggested that London firms continued to experience a rise in output during June. However, down from 55.7 in May, the rate of growth slowed to is weakest pace in almost a year.
- Business activity also increased at a weaker rate across the UK, with the index falling from 54.3 to 53.8.

Latest release: July 2017
Next release: August 2017

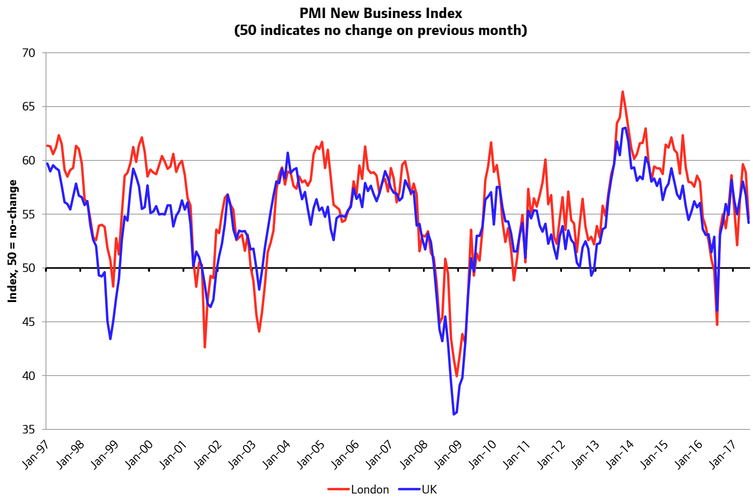


Source: IHS Markit

New business growth continues, but at a slower pace

- Although down from May (58.9), the New Business Index pointed to a further rise in new business in London in June (54.6).
- Similar trends were observed for the UK, where the index pointed to an increase in new business (54.2) in June, albeit at a slower pace than in May (56.8).
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Latest release: July 2017
Next release: August 2017

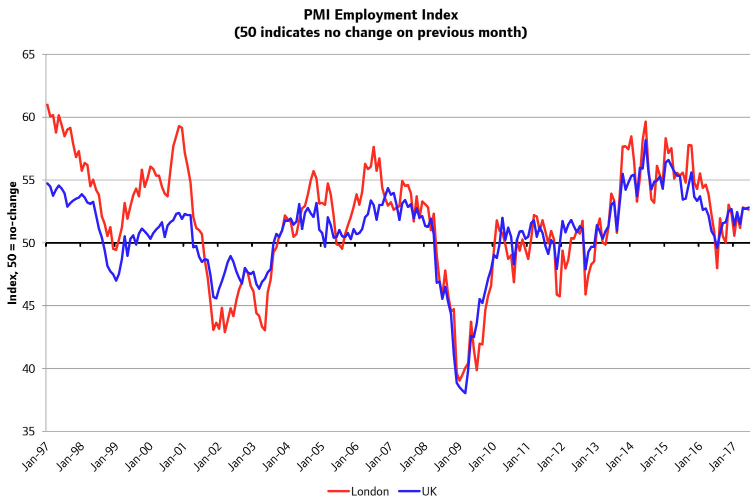


Source: IHS Markit

London businesses report constant rise in employment

- The PMI Employment Index shows the monthly change in employment at private sector firms. Readings above 50.0 suggests and increase, whereas a reading below indicates a decrease in employment from the previous month.
- At 52.7, London firms reported an increase in employment for the eighth consecutive month in June, though the rate of job creation was unchanged from May (52.7).
- London saw a broadly similar rate of employment growth as the UK average (52.8)

Latest release: July 2017
Next release: August 2017

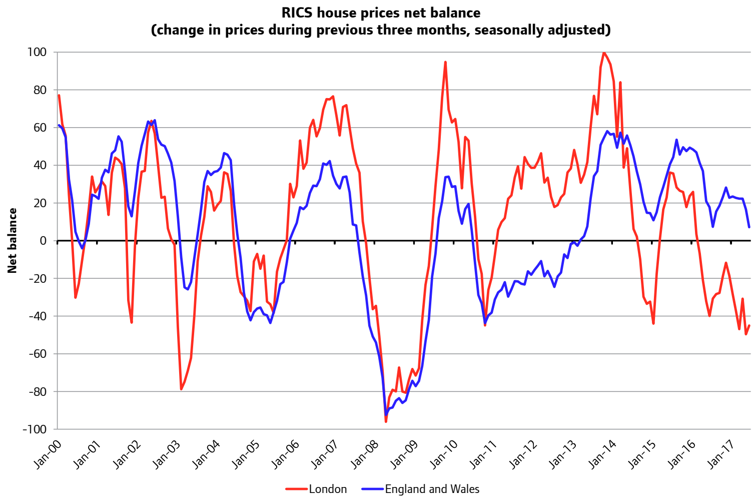


Source: IHS Markit

Most surveyors report London house prices continue to fall

- Most surveyors reported that London's house prices continued to fall in the three months to June 2017.
- The net balance in June was -45 which, though quite negative still, was an improvement on the -50 seen in May.
- In contrast, most surveyors reported that house prices across England and Wales increased, though the net balance of +7 was the lowest in almost a year.

Latest release: July 2017
Next release: August 2017

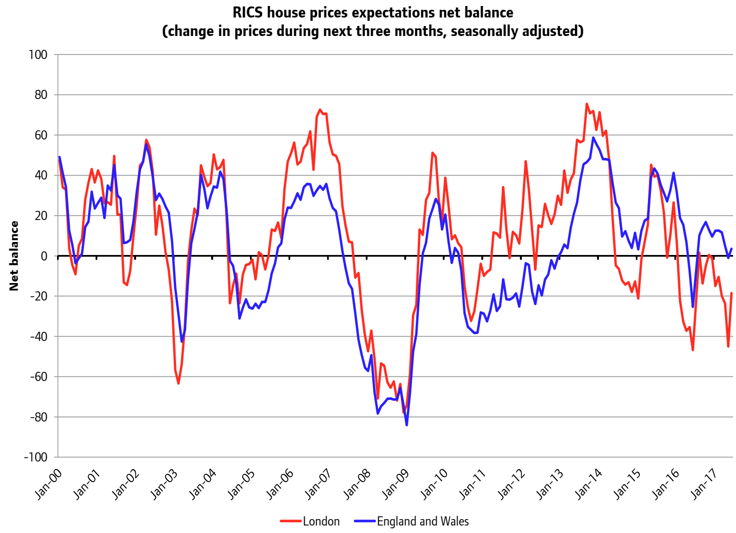


Source: Royal Institution of Chartered Surveyors

Sentiment on London house prices remains negative

- House price expectations for London remained negative in June 2017 (-18), although this was much higher than May's 13-month low (-45).
- Meanwhile, property surveyors on average expect house prices across England and Wales to increase over the next three months with a score of +4.
- London and the South East were the only regions to report negative house price expectations in June.

Latest release: July 2017
Next release: August 2017

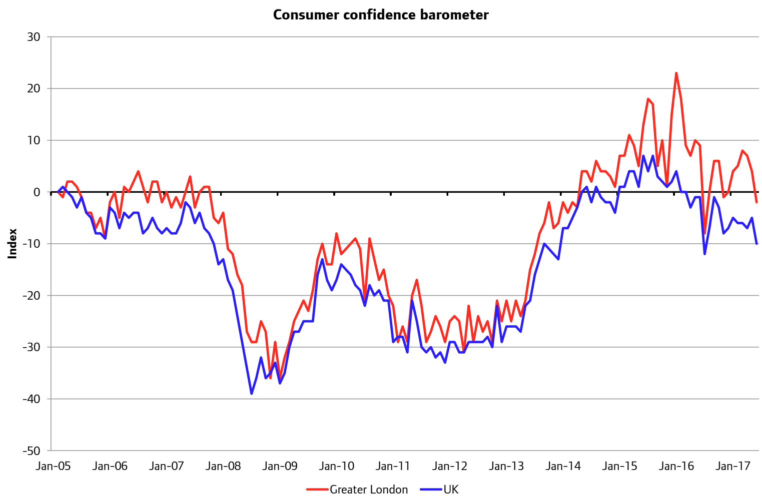


Source: Royal Institution of Chartered Surveyors

Londoners consumers pessimistic for first time since November 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.
- In June 2017, consumers in London showed pessimism about the future. At -2, this is the first time the consumer confidence index has been negative since November 2016.
- At -10, the index reading for the UK has been negative in every month since April 2016, and was the most negative since March 2016.

Latest release: June 2017
Next release: July 2017



Source: GfK NOP on behalf of the European Commission

By **Christopher Rocks,** Economist

Since 1998 the Department for Culture Media and Sport (DCMS) has grouped together sub-sectors as wide ranging as visual arts, advertising and computer services to classify and measure the 'creative industries'. These sub-groups are described as:

'those industries which have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property'[1].

At GLA Economics we have regularly adopted the DCMS definition to analyse the creative industries at a London level. In a recently published report[2], we revisit a variety of official statistics to provide our latest understanding of the sector in terms of output, employment, and productivity. This article summarises some of the key findings.

The creative industries are an increasingly significant part of the London economy – led by IT, software and computer services

In 2015 the output (as measured by Gross Value Added (GVA)) of the creative industries in London was estimated at £42.0 billion. This accounted for 11.1 per cent of total GVA in London, and for just under half (47.4 per cent) of the sector's output nationally.

Indeed, the sector has become increasingly important to the London economy in recent years. Since 2009 the GVA of London's creative industries increased by 38.2 per cent in nominal terms, compared to 30.6 per cent growth across all sectors of the capital's economy – with evidence suggesting that the clustering of creative businesses and workers is key to the sector's performance[3].

Like in the rest of the UK, IT, software and computer service accounts for the largest share of London's creative industries output – contributing 38.0 per cent of the sector's GVA in 2015, and for over half of its growth since 2009. At the other end of the scale, Crafts contributes the least to measured GVA, followed by Museums, galleries and libraries[4] (see Table A1).

1 Department for Culture, Media & Sport, April 2001, 'Creative Industries Mapping Documents 2001'.

2 The analysis contained within the report uses DCMS definitions for the creative industries and the wider creative economy. Broadly speaking, the creative economy consists of three main groups, the first two of which make up the creative industries:
- Job and industry are both creative;
- Industry is creative but job is not creative (or unknown);
- Job is creative but industry is not creative (or unknown)

The creative industries groups are defined as follows: Advertising and marketing; Architecture; Crafts; Design: Product, graphic and fashion design; Film, TV, video, radio and photography; IT, software and computer services; Publishing; Museums, galleries and libraries; Music, performing and visual arts.

3 NESTA, July 2016, 'The Geography of Creativity in the UK'.

4 Note, some caution should be taken with these GVA estimates. The value of output may be underestimated in sub-groups with a high proportion of small-scale economic activity or where services are provided free at the point of use (i.e. publicly-funded activities).

Table A1: GVA for the creative industries groups, London and Rest of the UK, 2015

Source: GLA Economics calculations

Creative Industries Group	London GVA (£m)	Rest of the UK GVA (£m)	London proportion of total UK GVA
Advertising and Marketing	4,146	5,389	43.5%
Architecture	1,671	2,272	42.4%
Crafts	82	172	32.3%
Design: product, graphic and fashion design	1,215	1,650	42.4%
Film, TV, video, radio and photography	8,592	8,780	49.5%
IT, software and computer services	15,953	19,573	44.9%
Publishing	5,679	4,813	54.1%
Museums, galleries and libraries	502	1,306	27.8%
Music, performing and visual arts	4,173	2,648	61.2%
Total	**42,014**	**46,602**	**47.4%**

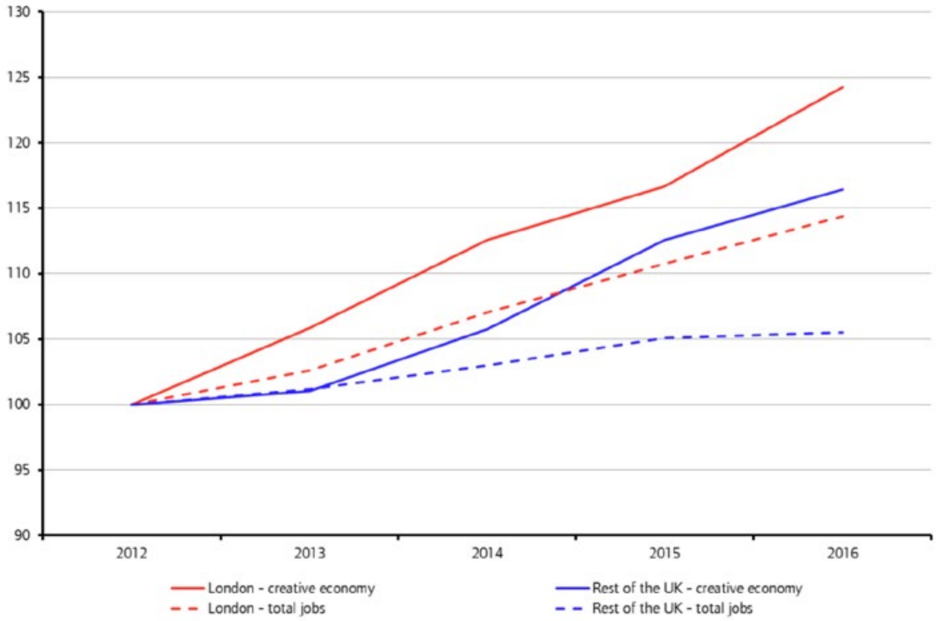
Across London's creative economy, employment is up by over a quarter since 2012

Turning to jobs, London's creative industries also make up a considerable share of the capital's employment. There were 622,600 jobs in London's creative industries in 2016 – 11.9 per cent of all jobs in the capital, compared to 4.9 per cent in the rest of the UK.

Using the wider definition of the sector – which includes creative jobs outside of the creative industries – there were 882,900 jobs in London's creative economy. Again, this follows strong growth, with employment up by almost a quarter (24.2 per cent) since 2012 (see Figure A1). This was a significantly higher rate of jobs growth than for London as whole (14.4 per cent) or for the sector in the rest of the UK (16.5 per cent).

Figure A1: Change in creative economy employment and total employment, London and the Rest of the UK, 2012-2016 – Index 2012 = 100

Source: GLA Economics calculations based on ONS Annual Population Survey (APS), 2012-2016



The fastest growing area of London's creative economy employment since 2012 has been Advertising and marketing. Between 2012 and 2016 the number of jobs in the sub-group rose by 41.7 per cent; this was closely followed by Music, performing and visual arts (+40.5 per cent) and IT, software and computer services (+37.2 per cent).

Jobs in the creative industries tend to be well-paid and highly productive

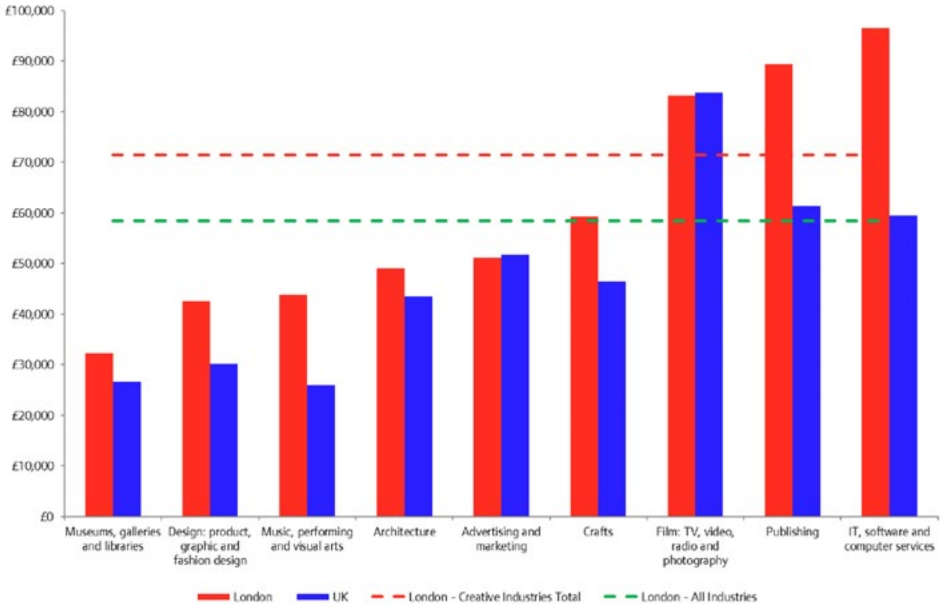
At £20.38 per hour, gross median hourly pay for 'creative' employees was almost a third higher than for those working outside the creative economy in 2016. This reflects the sector's occupational structure – with the vast majority of jobs found in higher-paid occupational groups. At the same time, just over 1 in 4 creative economy jobs are held by self-employed workers (27.8 per cent, compared to 16.8 per cent in the non-creative economy), and these are not covered in the analysis of earnings.

In-line with higher employee pay, London's creative industries are also highly productive[5]. Based on GLA Economics analysis, it is estimated that the GVA per workforce job in London's creative industries was equal to £71,400 in 2015. This was 22.2 per cent higher than the average across all sectors of the London economy, and 35.5 per cent higher than for the creative industries in the UK as a whole.

However, there is significant variation in productivity across the creative sub-groups. The more productive parts of London's creative industries tend to be in knowledge-intensive and tradable activities. As Figure A2 shows, GVA per workforce job is particularly high in three sub groups: Film, TV, video, radio and photography (£83,200); Publishing (£89,400); and IT, software and computer services (£96,600). Less productive sub-groups are more likely to focus on domestic markets and be more labour intensive[6].

Figure A2: GVA per workforce job for the creative industries, London and UK, 2015

Source: GLA Economics calculations



This report and other GLA Economics analysis can be downloaded from our publications website.

5 Note, while this is a widely-recognised measure of labour productivity, it does not fully account for differences in working patterns in different sectors, such as the mix of part-time and full-time workers.

6 Arts Council England, February 2015, 'The Economic Impact of Museums in England'.

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 2017/18 there are twelve 28-day periods and one 29-day period. Period 1 started on 1 April 2017.

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 2017/18 there are twelve 28-day periods, and one 29-day period. Period 1 started on 1 April 2017.

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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MAYOR OF LONDON