



OXFORD  
ECONOMICS

# London Prospects Forum November 2009

## UK and London – on the road to recovery?

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Oxford Economics



OXFORD ECONOMICS

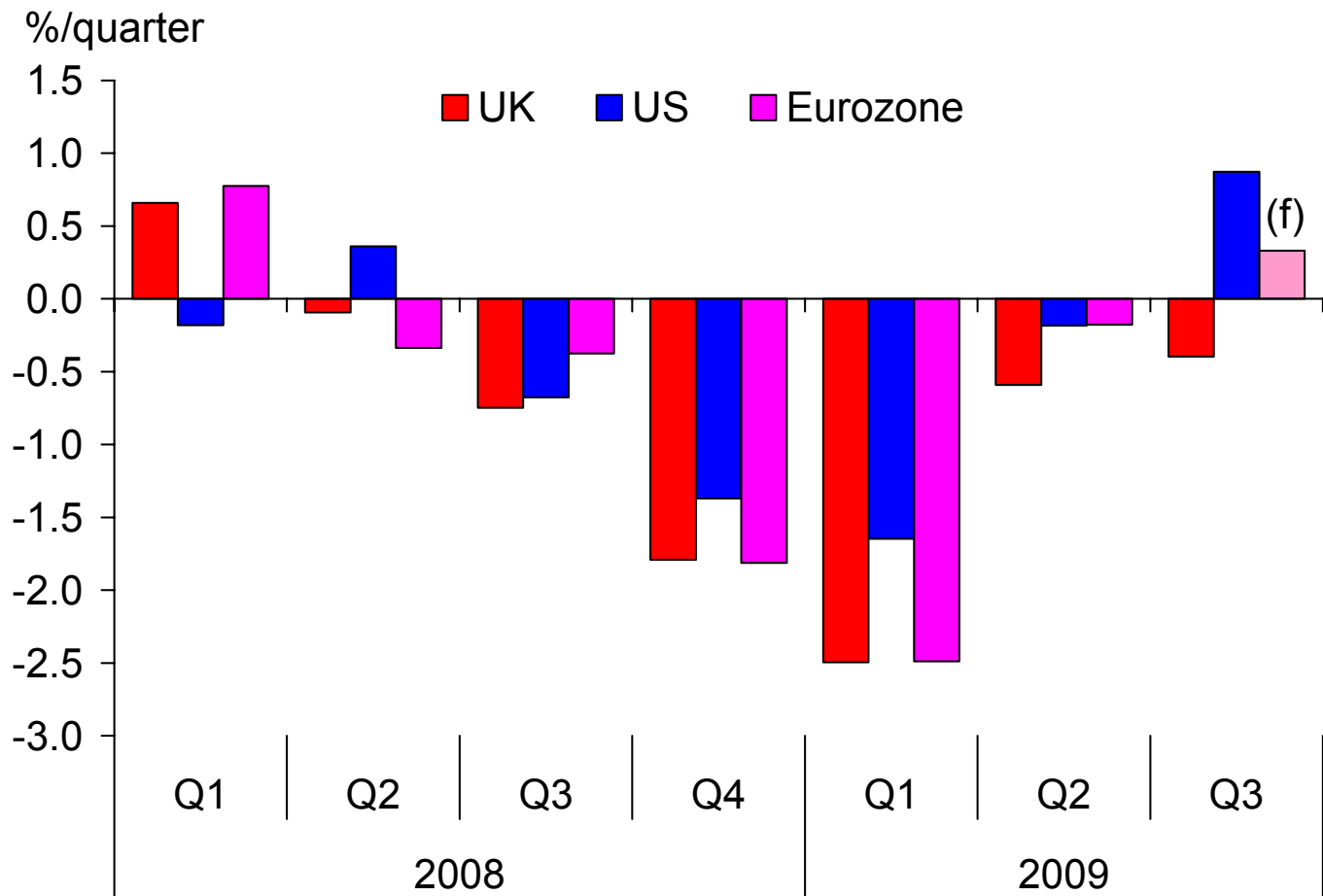
# Two pitfalls of economic forecasting

(as summarised by Sir Paul McCartney, 1965)

- 1) “Yesterday, all my troubles seemed so far away...”
- 2) “Now it looks as though they’re here to stay”

# UK still in recession?

## World: GDP

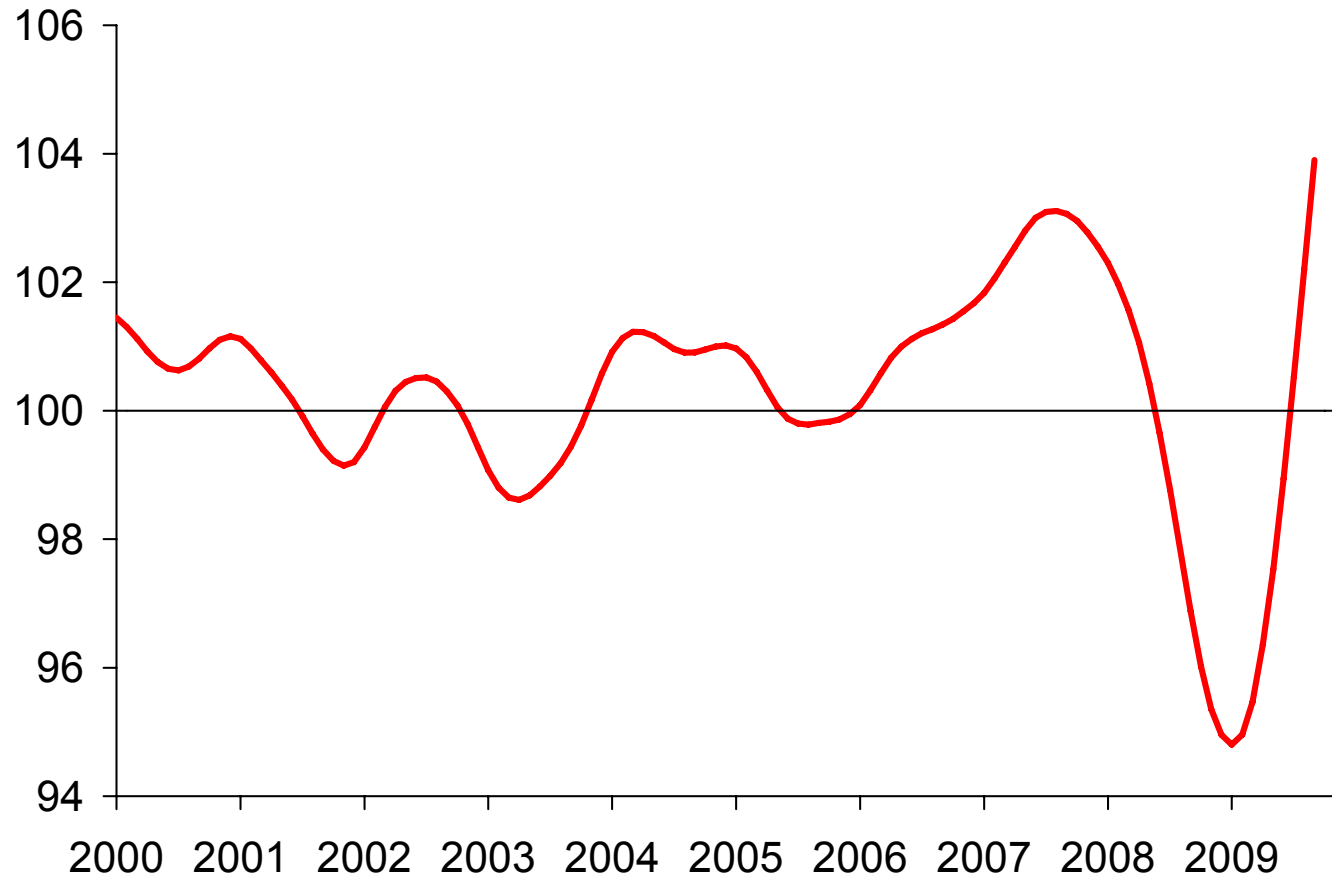


Source : Haver Analytics

# We believe the recovery is under way

## UK: OECD Composite Leading Indicator

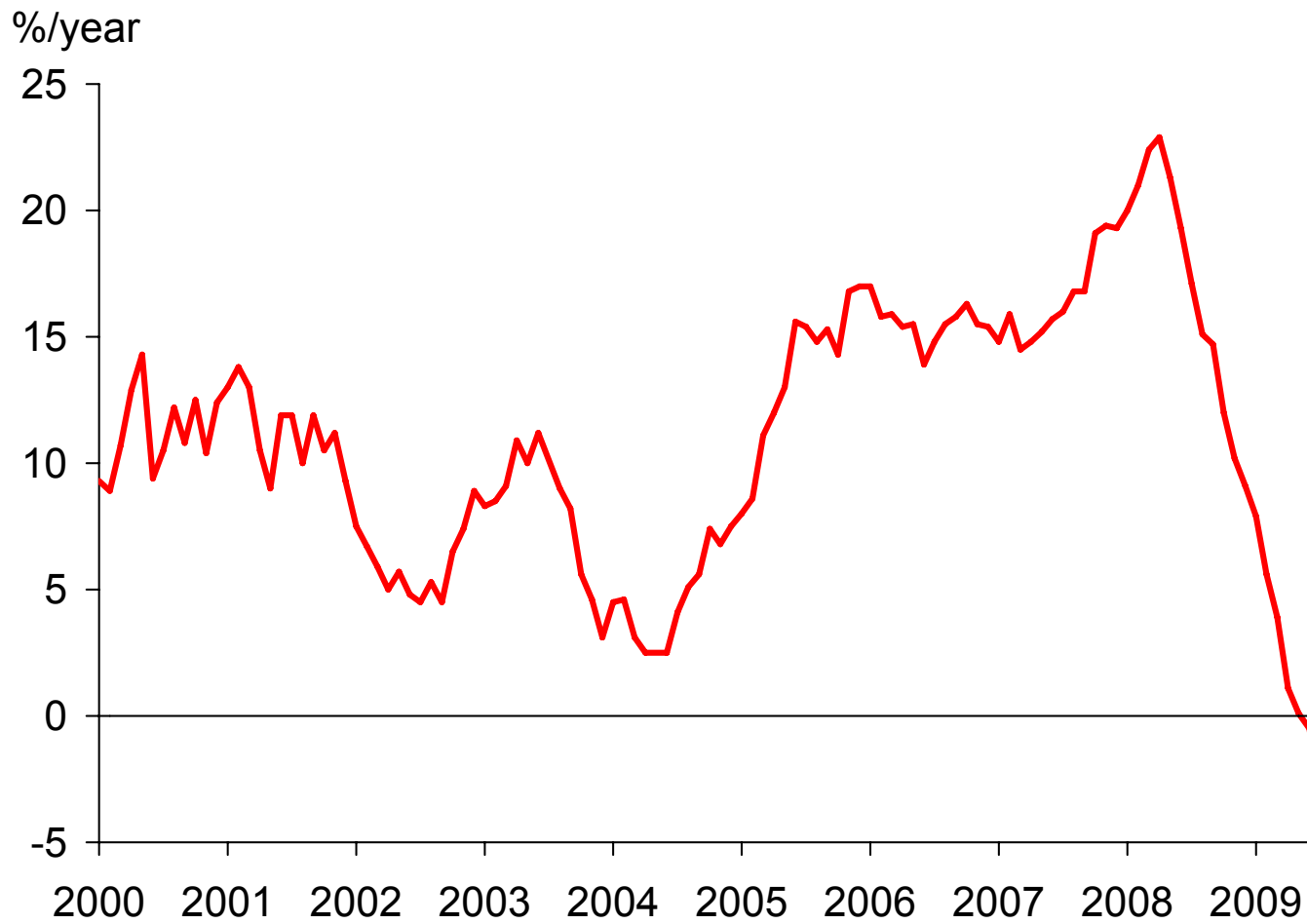
100=long term average



Source : Haver Analytics

# But credit scarce for businesses...

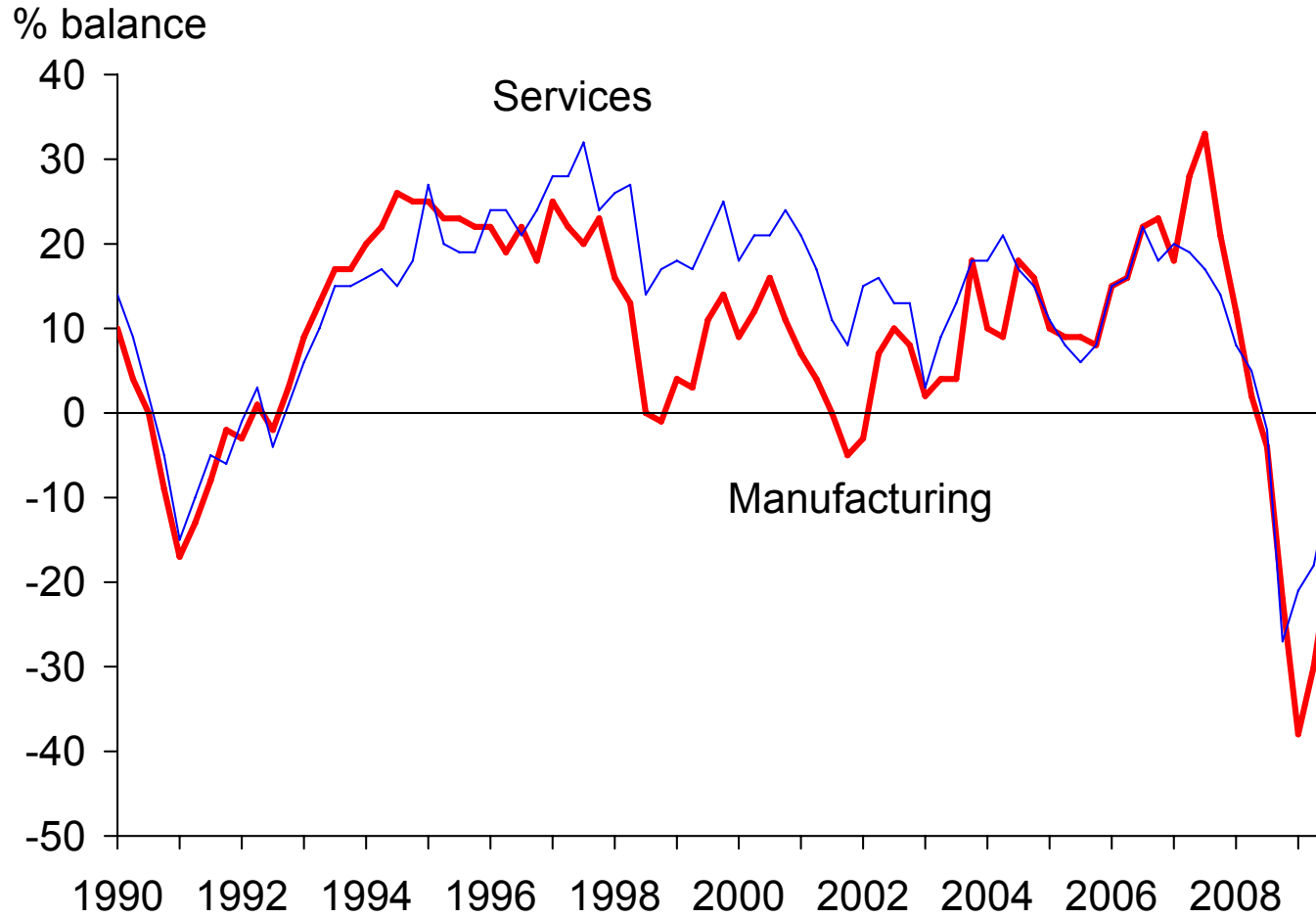
## UK: MFI lending to UK PNFCs



Source : Bank of England

# ...and investment is suffering from uncertainty

## UK: Investment intentions

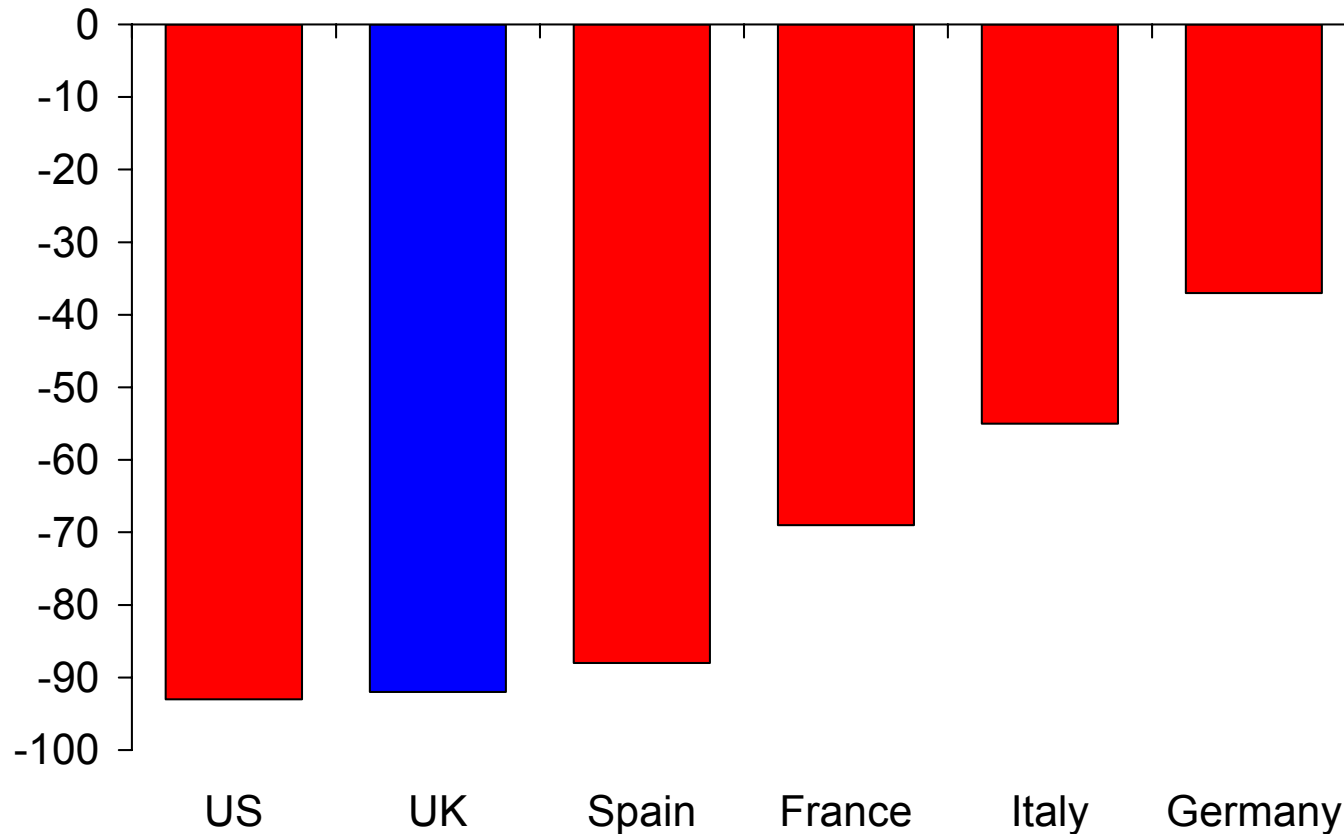


Source : BCC

# Household correction has some way to go

## Fall in household wealth (% of GDP)

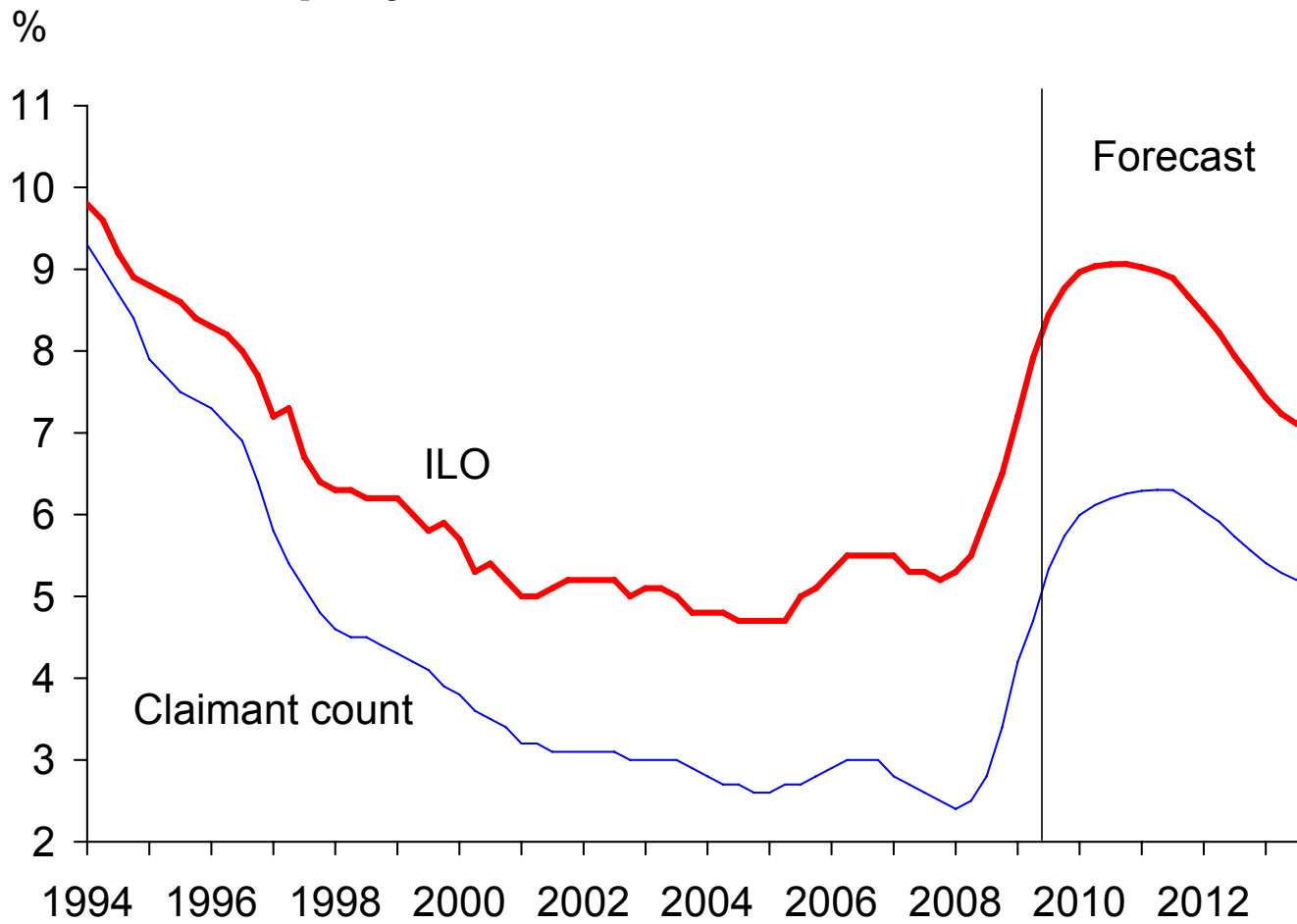
% of GDP



Source : Oxford Economics

# ...and unemployment will rise into 2010

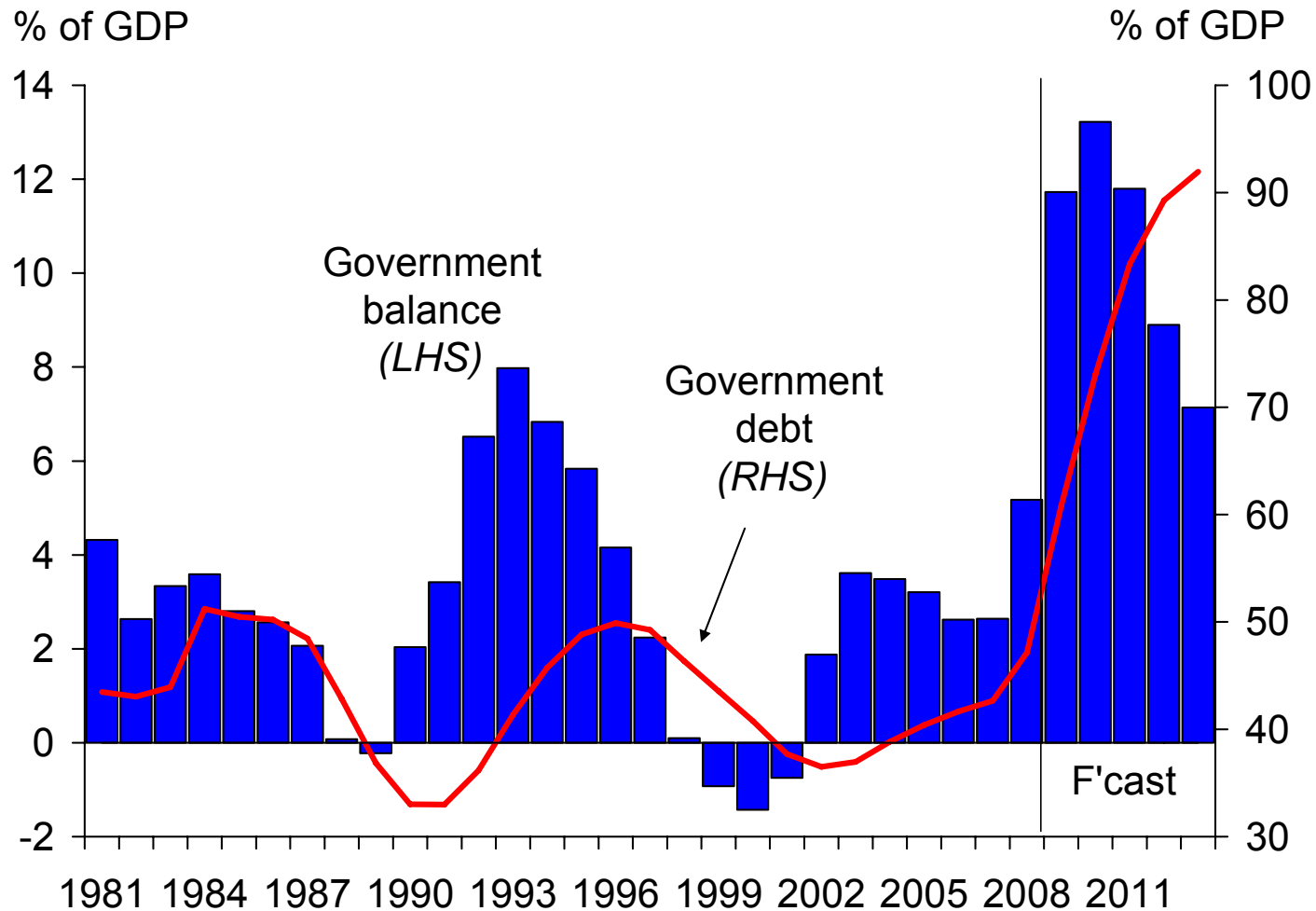
## UK: Unemployment



Source: Oxford Economics

# Fiscal deficit will continue to climb...

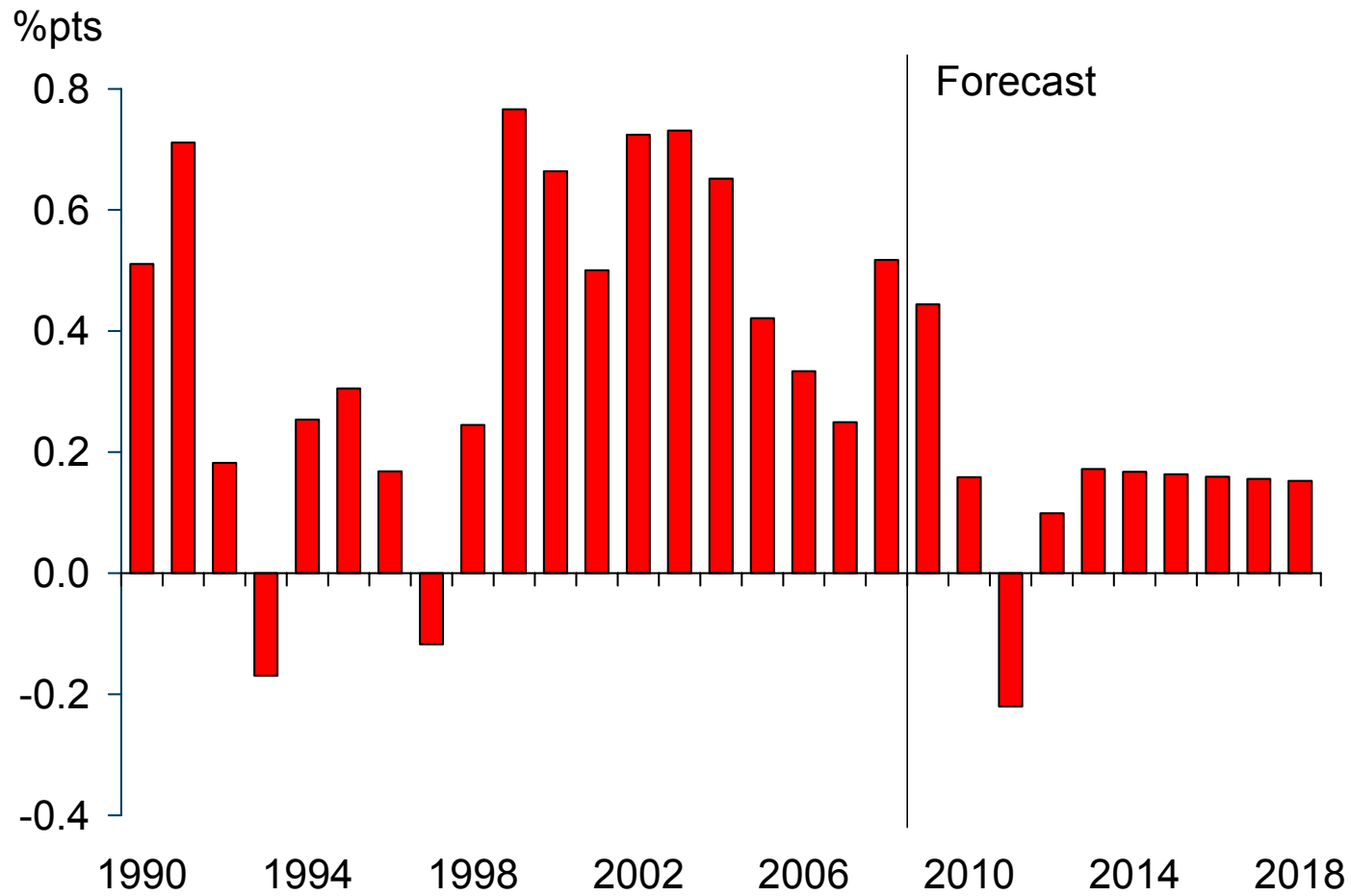
## UK: Maastricht indicators



Source: Oxford Economics

# ...so public support must soon be withdrawn

## UK: Cont. of govt. spending to GDP growth



Source : Oxford Economics

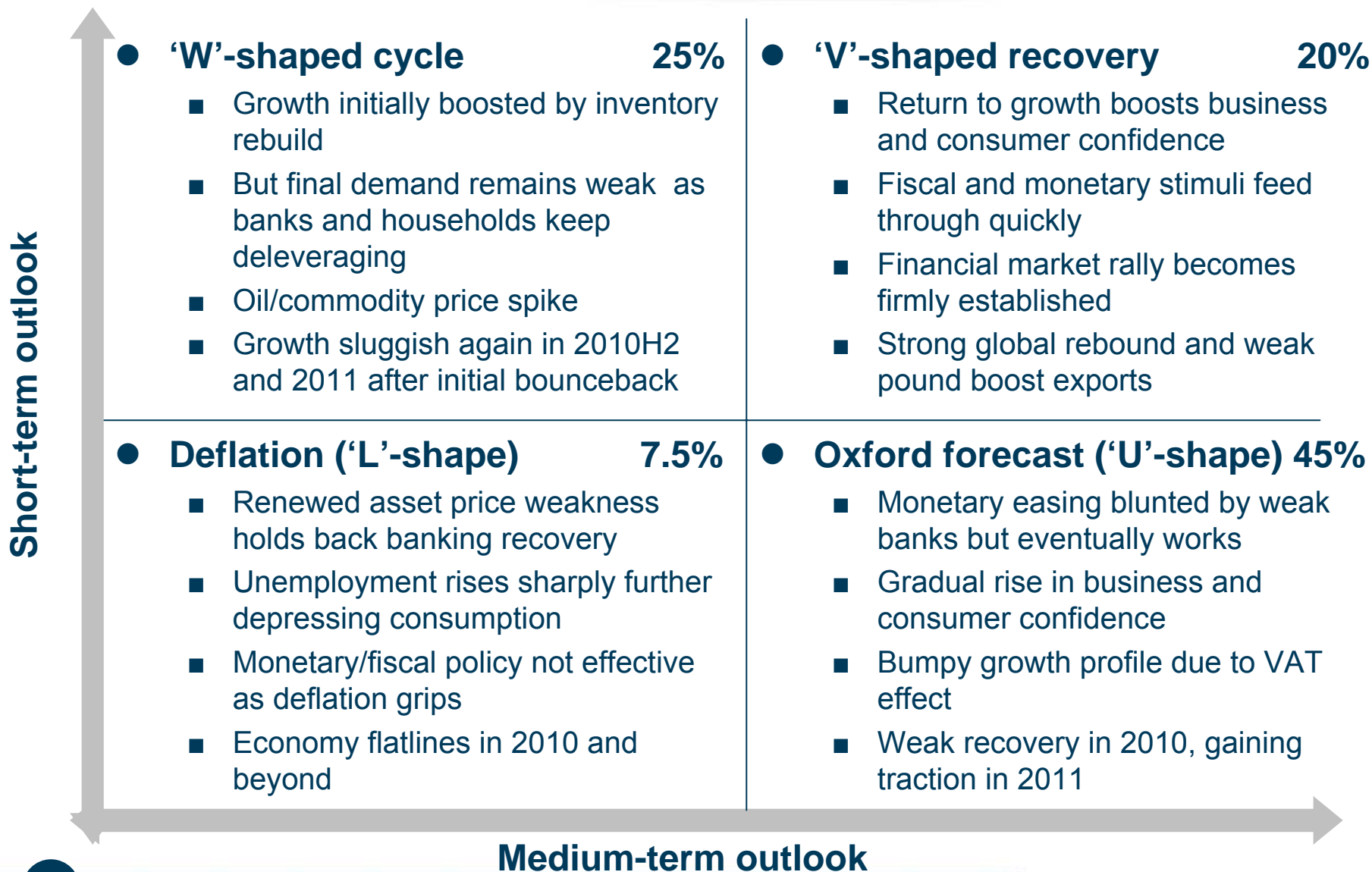
# UK forecast

## *Forecast for UK*

(Annual percentage changes unless specified)

	2008	2009	2010	2011	2012	2013
<b>Domestic Demand</b>	0.1	-5.2	0.2	1.4	2.4	3.0
<b>Private Consumption</b>	0.9	-3.1	-0.5	1.5	2.8	3.6
<b>Fixed Investment</b>	-3.3	-15.2	-3.1	1.4	4.4	4.9
<b>Stockbuilding (% of GDP)</b>	0.1	-1.0	-0.2	0.3	0.2	0.1
<b>Government Consumption</b>	2.5	2.1	0.7	-1.0	0.5	0.8
<b>Exports of Goods and Services</b>	1.0	-10.4	2.7	6.3	7.9	6.2
<b>Imports of Goods and Services</b>	-0.8	-12.6	0.8	3.4	5.4	5.0
<b>GDP</b>	0.6	-4.4	0.7	2.2	3.1	3.4
<b>Industrial Production</b>	-3.1	-9.9	0.5	2.4	2.9	2.3
<b>CPI</b>	3.6	2.0	1.3	1.1	1.4	1.7
<b>Current Balance (% of GDP)</b>	-1.6	-2.3	-1.9	-1.1	-0.5	-0.2
<b>Government Budget (% of GDP)</b>	-5.2	-11.7	-13.1	-11.6	-9.2	-7.4
<b>Short-Term Interest Rates (%)</b>	5.49	1.20	0.60	1.24	2.24	3.24
<b>Long-Term Interest Rates (%)</b>	4.59	3.64	4.08	4.90	5.17	5.20
<b>Exchange Rate (US\$ per £)</b>	1.85	1.56	1.69	1.75	1.77	1.73
<b>Exchange Rate (Euro per £)</b>	1.26	1.12	1.16	1.25	1.33	1.35

# Risks to the economic outlook



# Industrial regions feel the pain

Change in employees in employment, last 12 months, last quarter

	(Jun 08 - Jun 09)		(Mar 09 - Jun 09)	
	000's	%	000's	%
South East	-93	-2.5	3	0.1
London	-107	-2.6	-25	-0.6
East	-56	-2.3	-8	-0.3
South West	-38	-1.7	1	0.1
West Midlands	-101	-4.3	-13	-0.6
East Midlands	-70	-3.7	-5	-0.3
Yorkshire & Humber	-74	-3.3	-8	-0.4
North West	-57	-1.9	-9	-0.3
North East	-18	-1.7	-7	-0.7
Wales	-33	-2.9	6	0.6
Scotland	-58	-2.4	-15	-0.6
Northern Ireland	-25	-3.5	-6	-0.9
United Kingdom	-729	-2.7	-86	-0.3

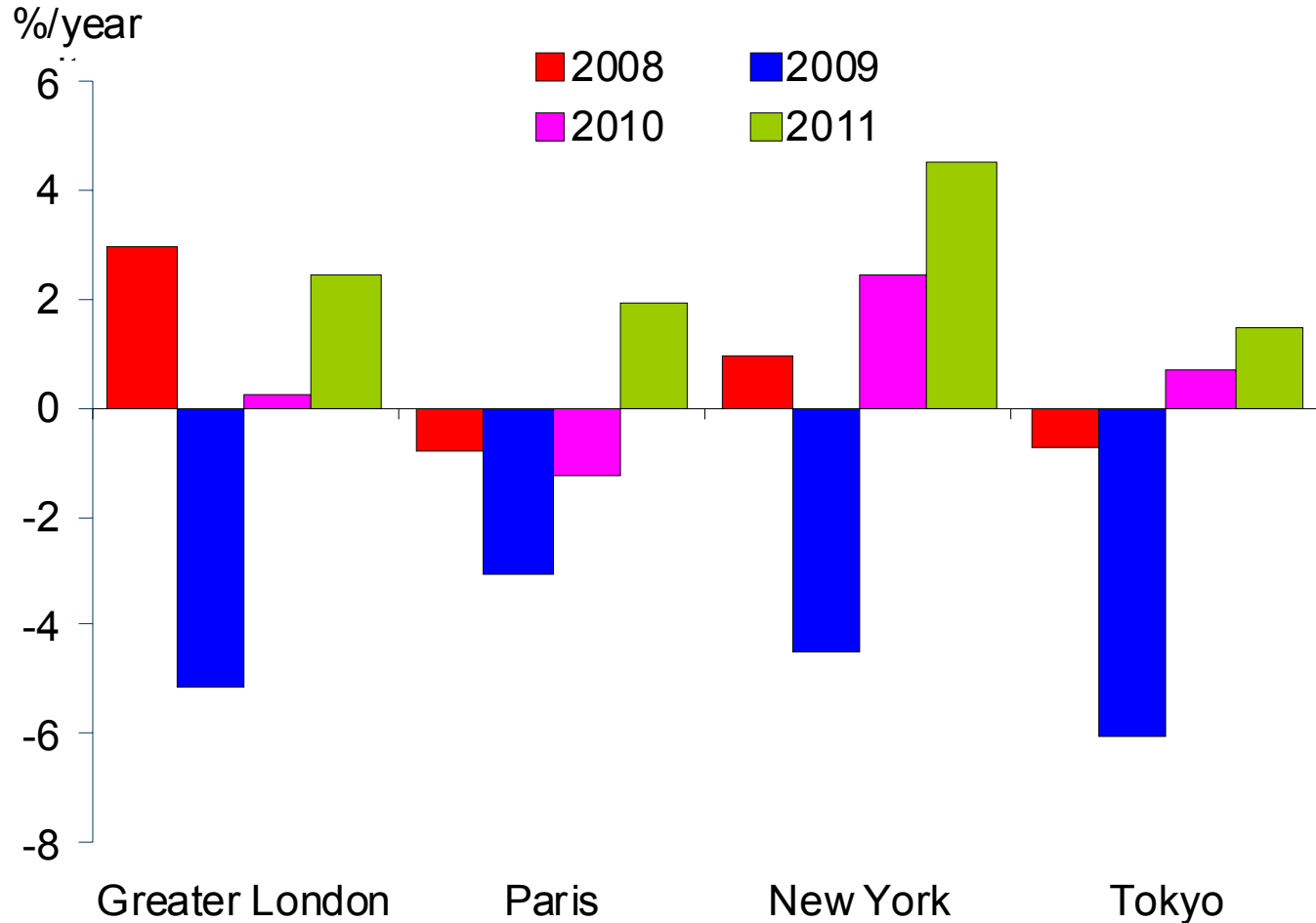
# London underperforming in short term...

<i>GVA growth</i> (% average growth)				
	2008	2009	2010	2011-19
<b>South East</b>	1.2	-4.8	0.5	3.0
<b>London</b>	3.0	-5.1	0.2	3.7
<b>East</b>	0.2	-3.5	0.7	3.2
<b>South West</b>	1.2	-4.4	1.0	2.9
<b>West Midlands</b>	0.3	-5.4	1.3	2.7
<b>East Midlands</b>	-1.5	-4.2	1.2	2.7
<b>Yorkshire &amp; Humber</b>	-0.3	-4.6	1.5	2.5
<b>North West</b>	0.2	-4.0	1.4	2.6
<b>North East</b>	-0.4	-4.3	1.1	2.4
<b>Wales</b>	-0.8	-4.7	1.4	2.4
<b>Scotland</b>	1.9	-4.2	0.8	2.5
<b>Northern Ireland</b>	0.8	-4.3	1.3	2.6
<b>United Kingdom</b>	0.9	-4.6	0.9	2.9

Source: Oxford Economics

# ...and facing some challenges in medium term...

## GDP in global financial centres

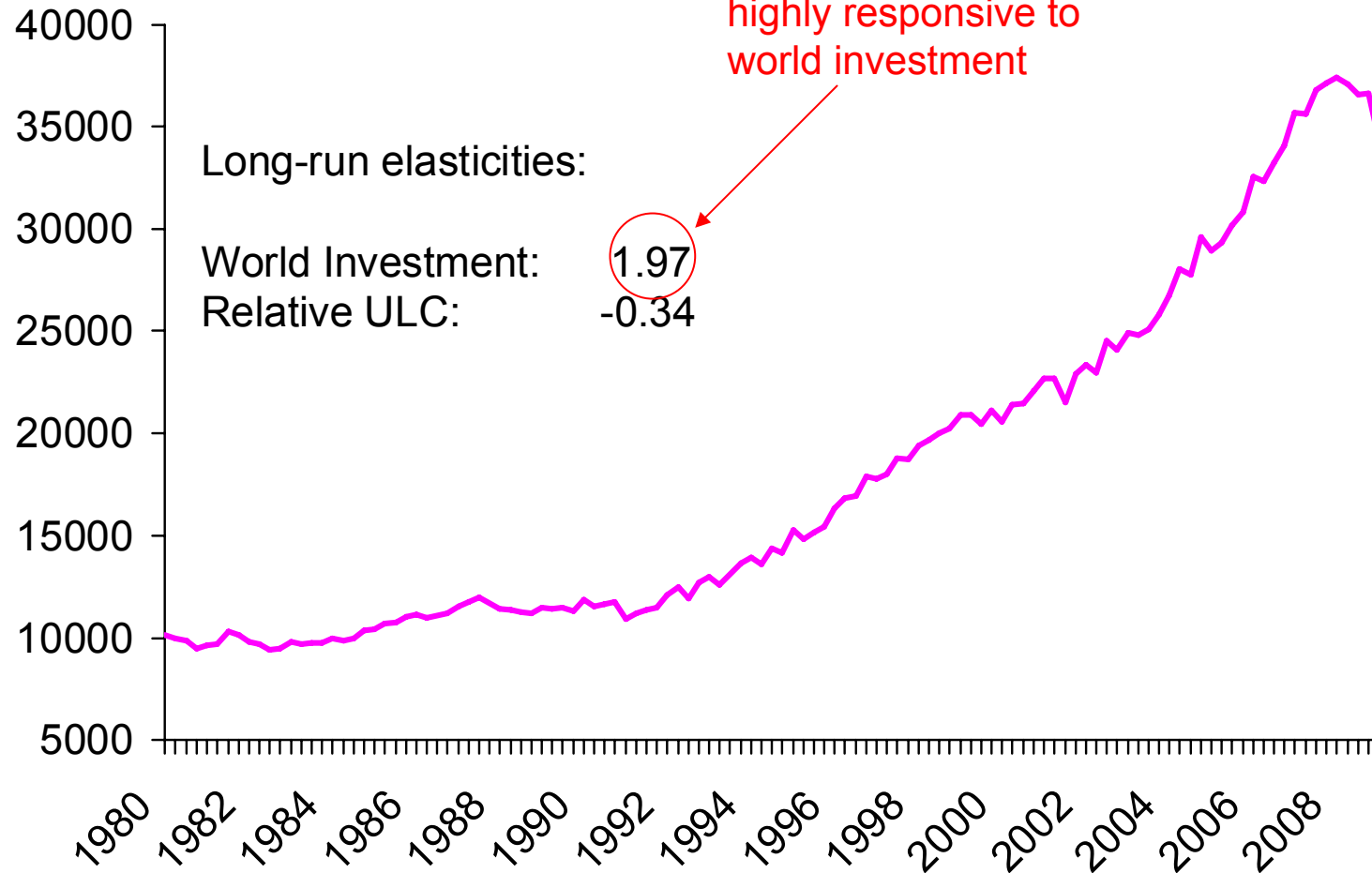


Source : Oxford Economics

# But return to export growth will help drive financial and business services growth

## Exports of Services

£m, 2005 pr



Source : Oxford Economics/Haver Analytics

# Conclusions

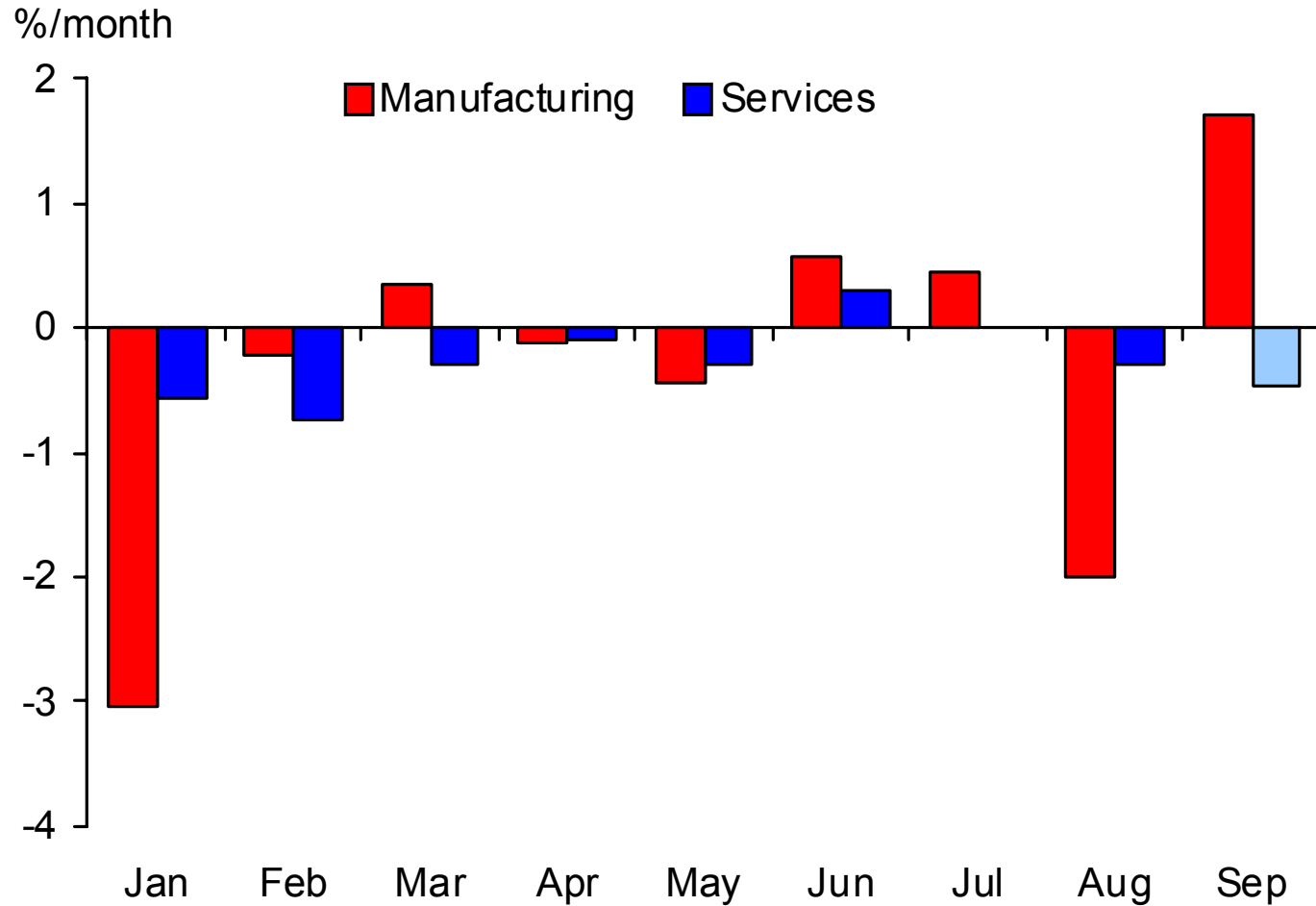
- The UK recovery has lagged its competitors
- Some bounce in the economy still likely to be happening in 2009H2 (first estimate of Q3GDP likely to be revised up)
- But much of the bounce is due to short-term factors and, with private demand remaining very weak, growth is likely to dip in 2010H1
- Cautious recovery, with most people reluctant to over-spend...
- ...including Her Majesty's Government
- Leaving us dependent upon investment & exports and hence world recovery
- Nevertheless, wrong to assume a weak economy is here to stay, and private services are likely to lead the way in providing new jobs as recovery becomes established

# Appendix:

## Additional data

# ...but was September really that bad?

## UK: Monthly output estimates

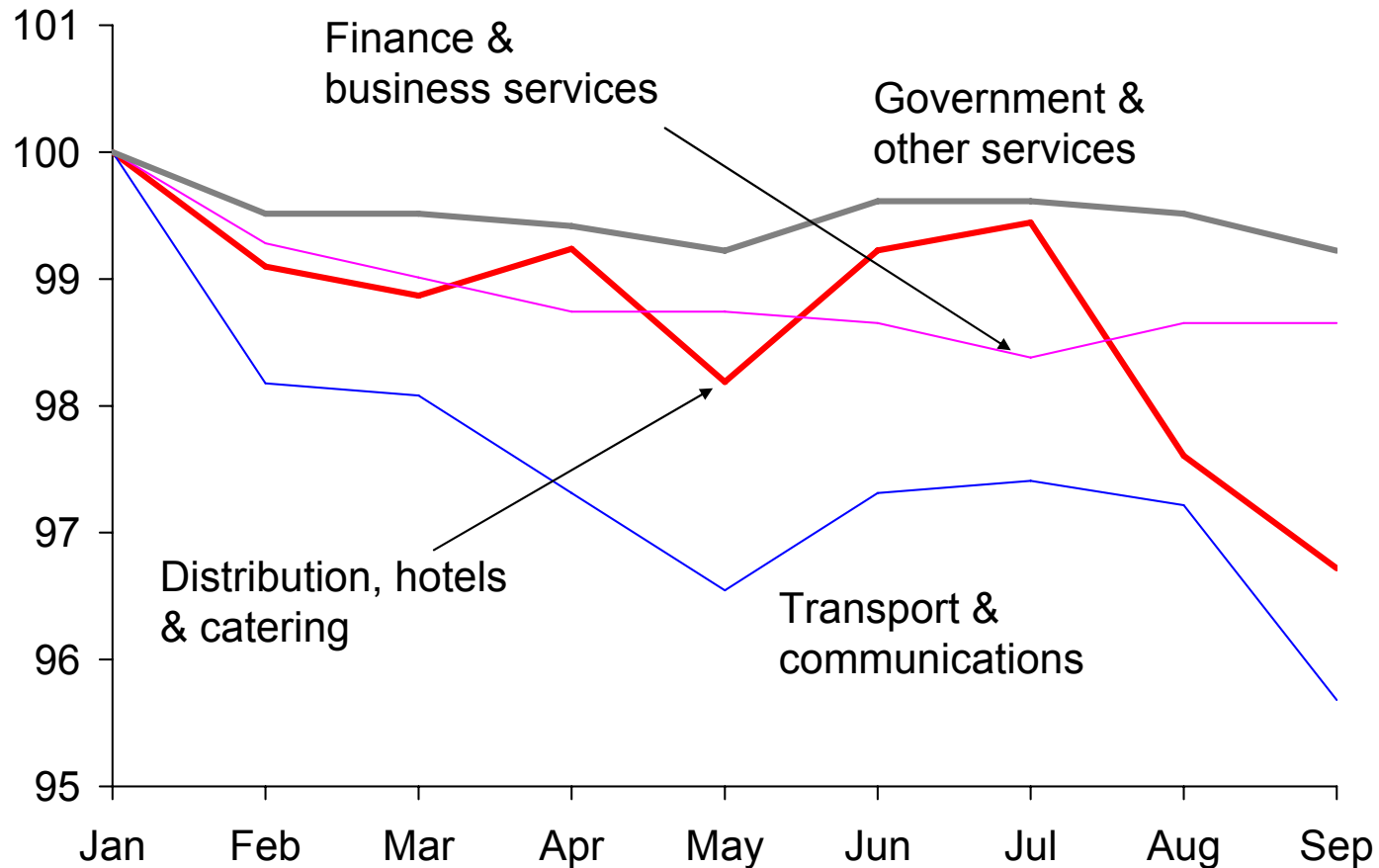


Source : Oxford Economics/Haver Analytics

# Services weakness doesn't tally with....

## UK: Services output

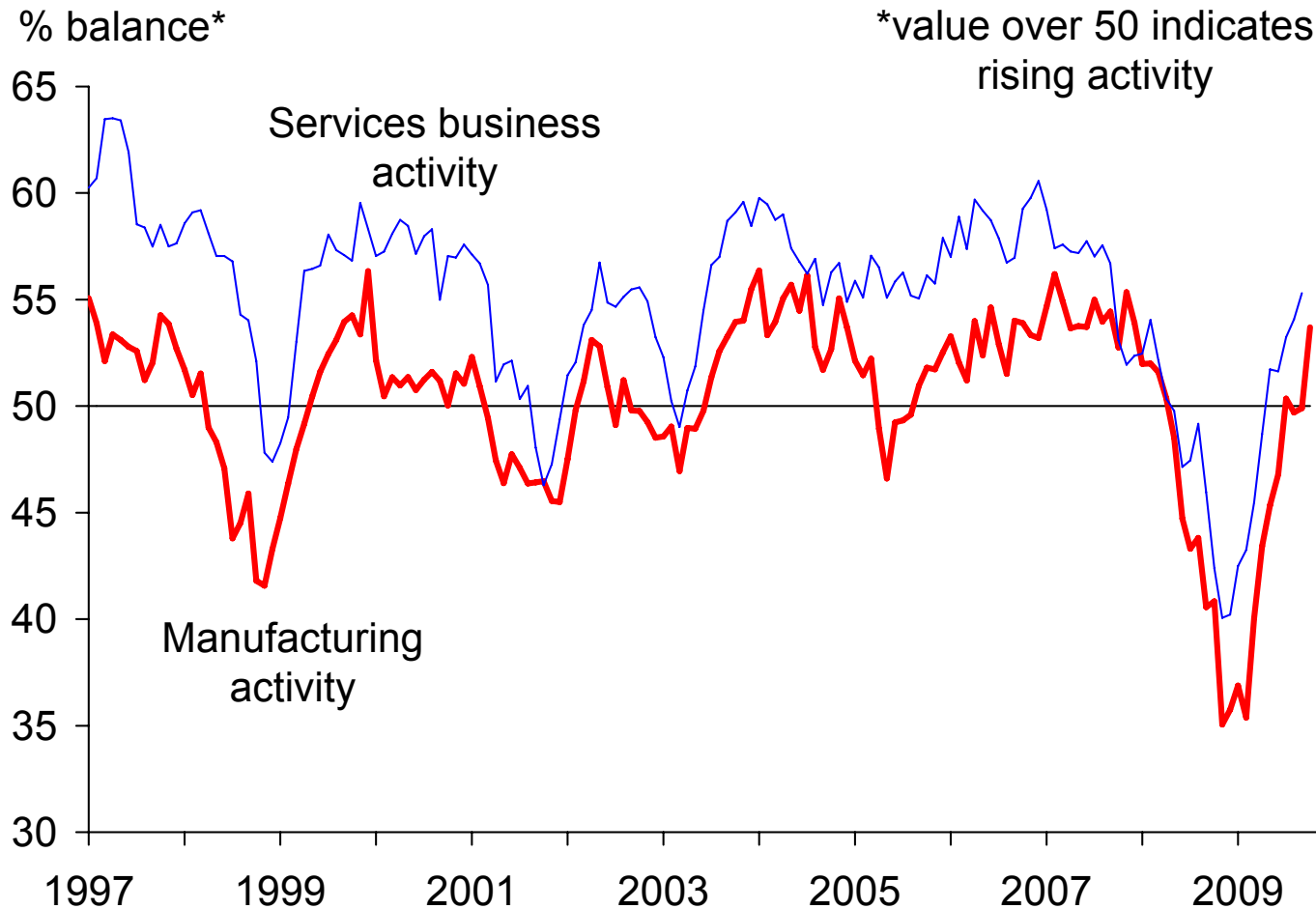
Jan 2009=100



Source : Oxford Economics/Haver Analytics

# ...strong rebound in survey data...

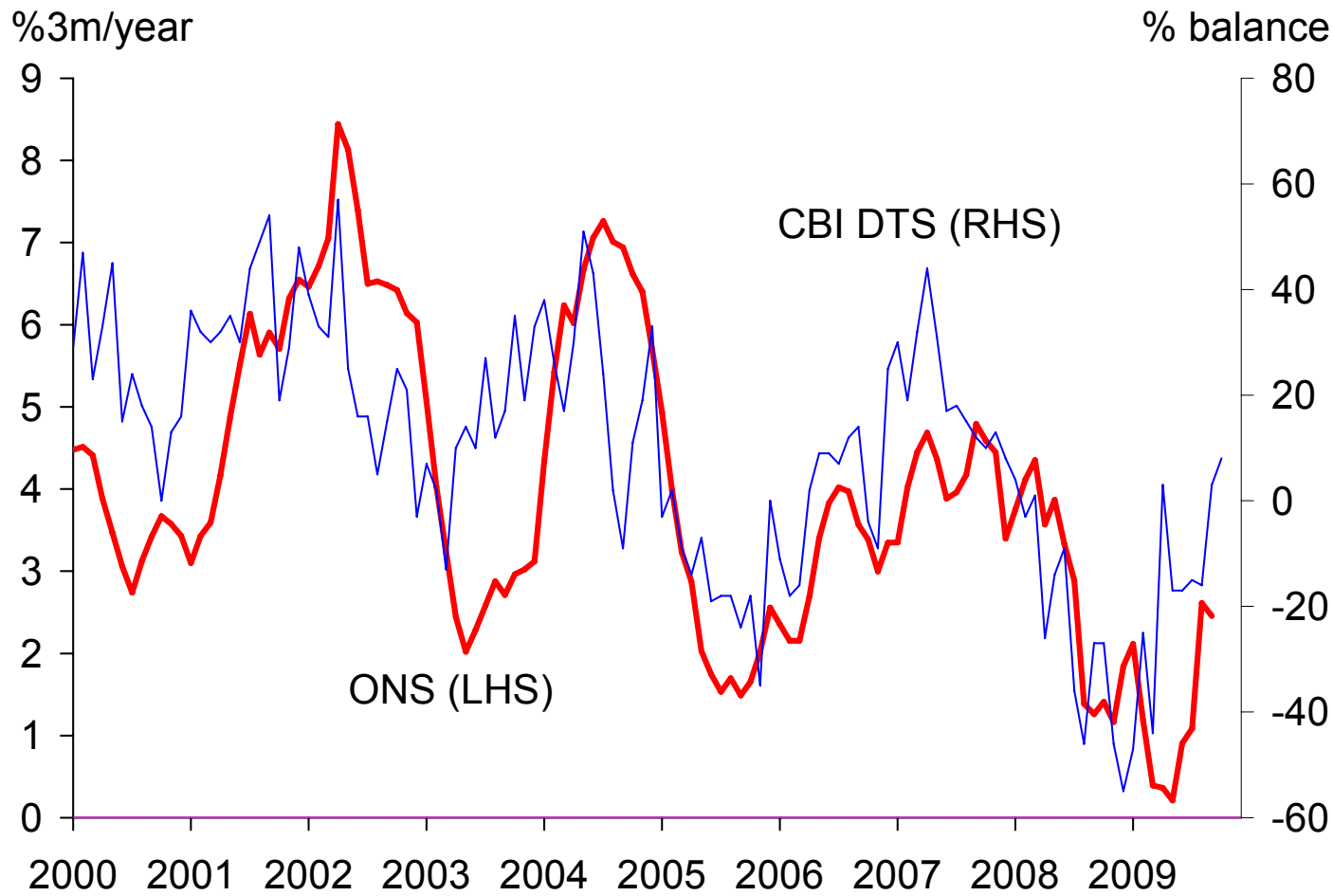
## UK: Purchasing managers survey



Source: Haver Analytics/Markit

# ... and firm retail sales figures...

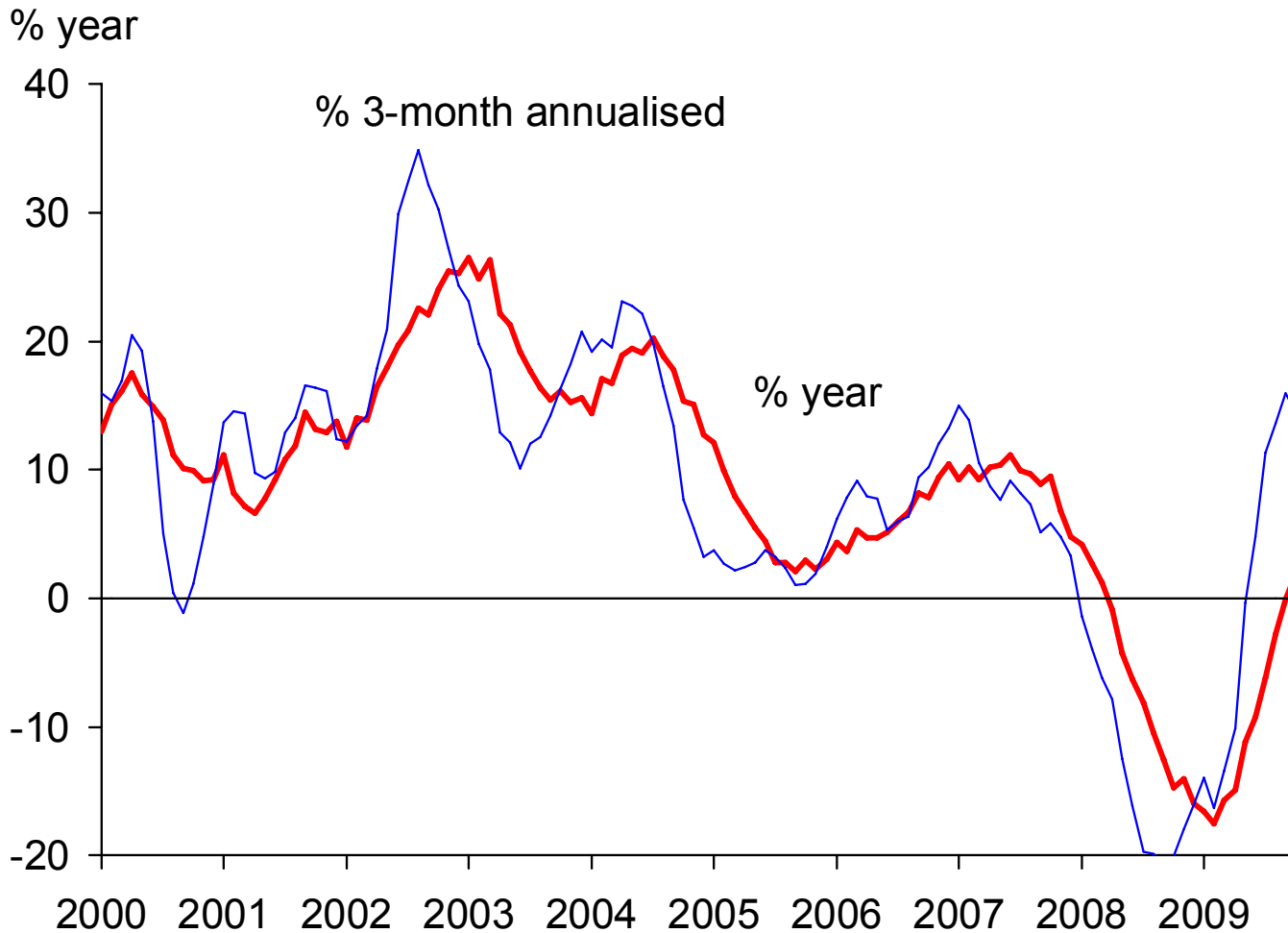
## UK: Retail sales volumes



Source : Oxford Economics/Haver Analytics

# ...while house prices have surged recently

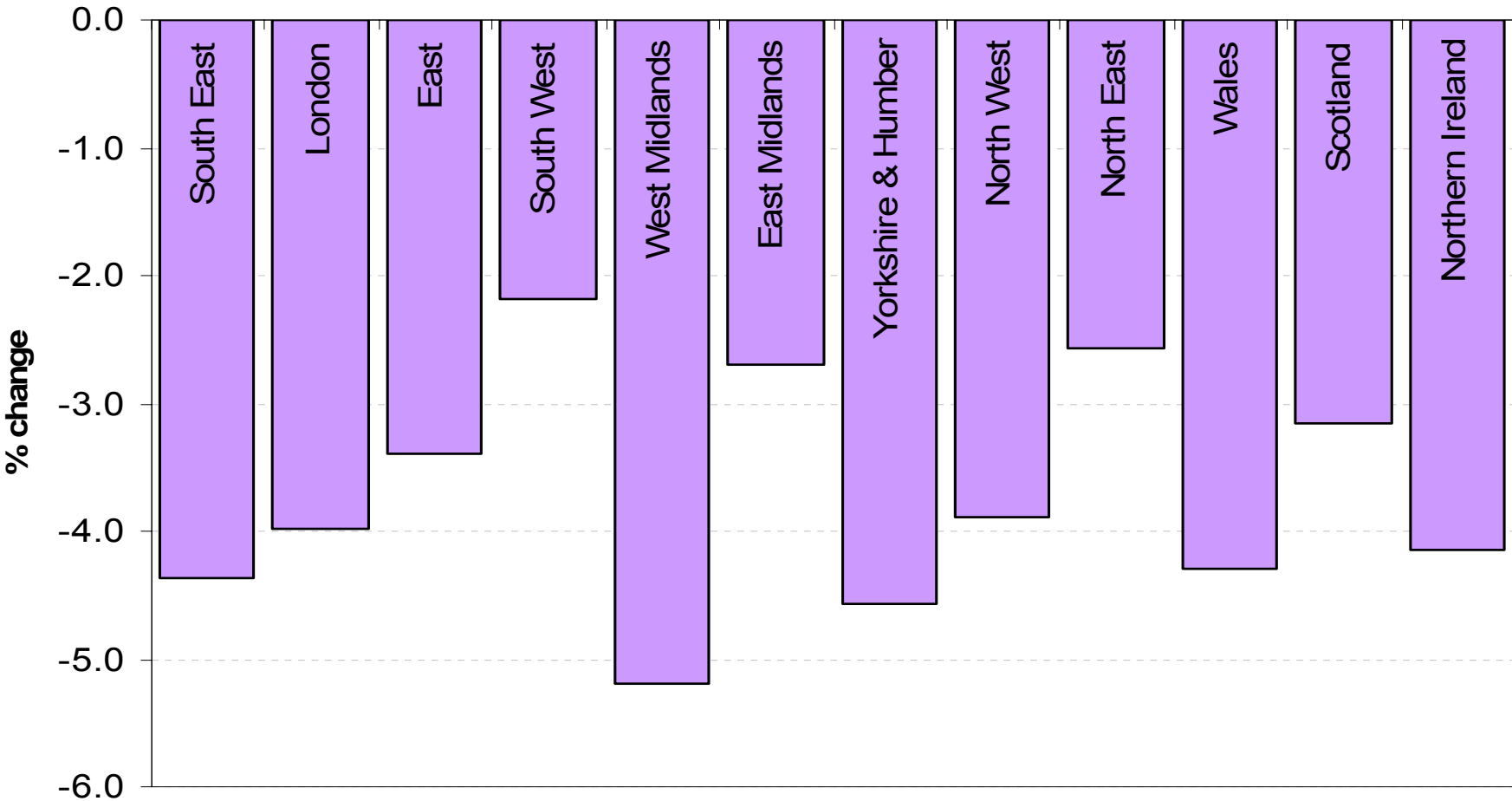
## UK: Nationwide house price index



Source: Haver Analytics

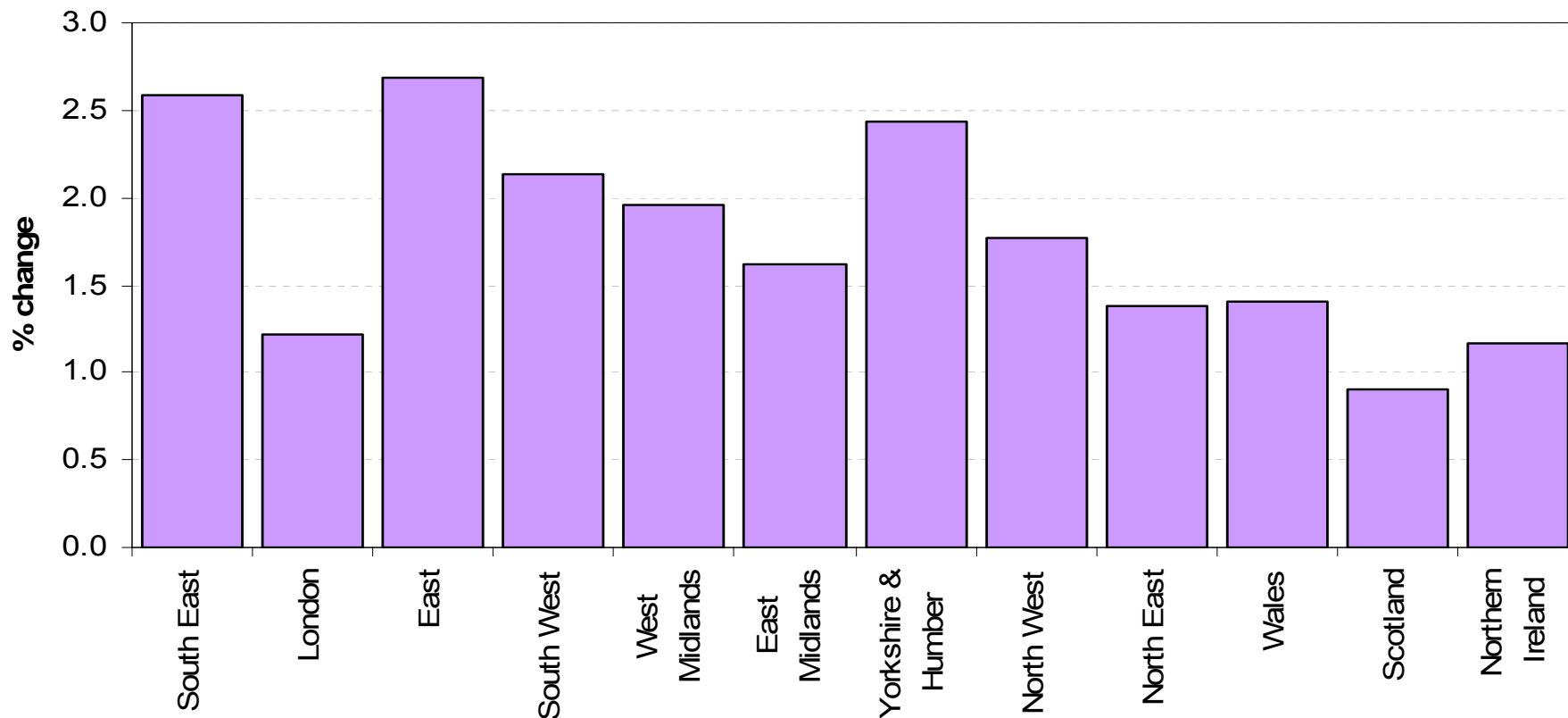
# The end of the private service sector's glorious run

Employee growth in private services, Jun 08 – Jun 09



# Public services still creating – for now!

Employee growth in public services,  
Jun 08 – Jun 09



# Familiar industrial picture but still frightening scale

Employee jobs growth in manufacturing,  
Jun 08 – Jun 09

