

LSE Works: Spatial Economics Research Centre and LSE London

How did London Get Away With it? The Recession and the North-South Divide

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How did London get away with it?: The recession and the north-south divide

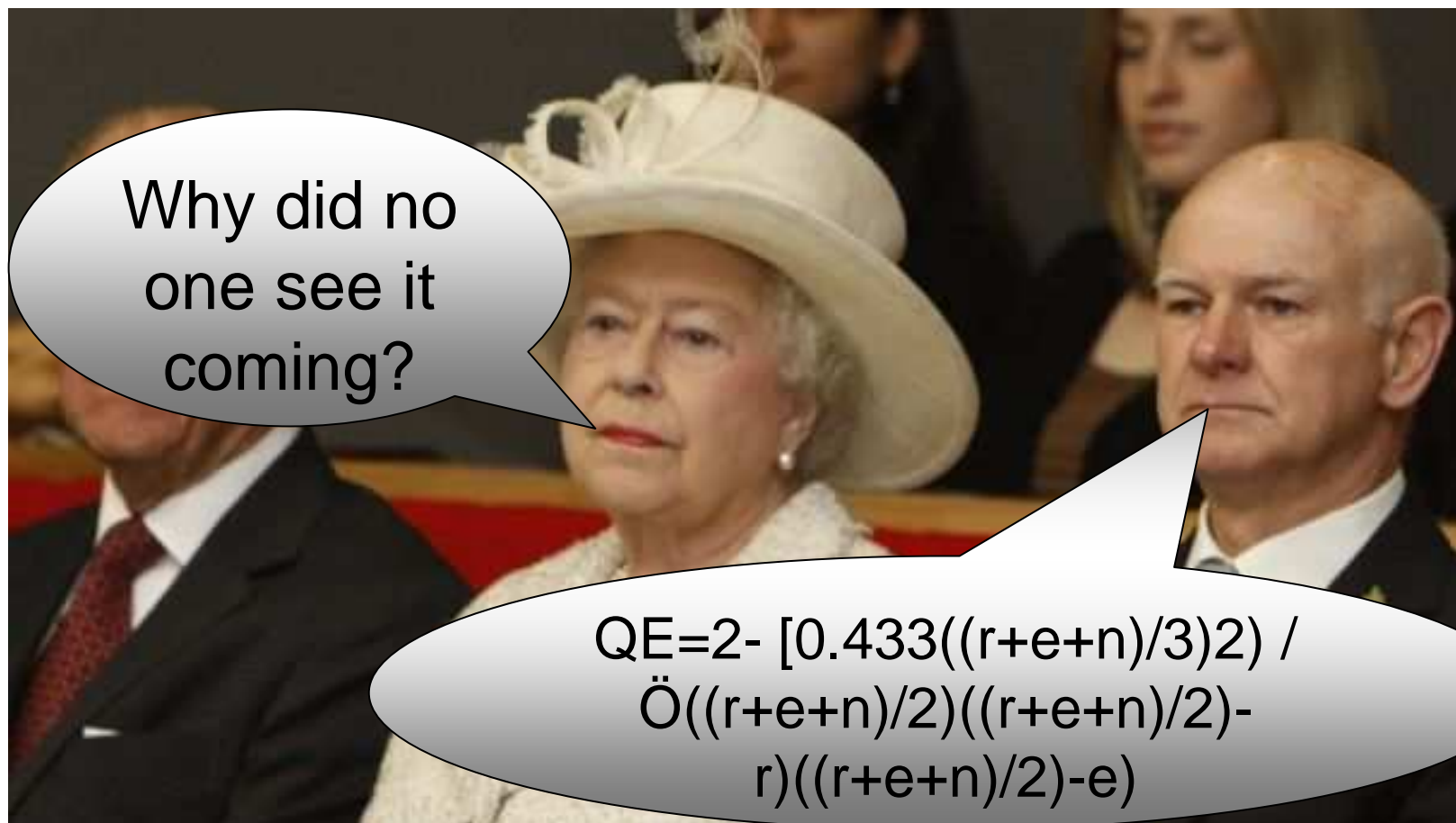
Henry G. Overman

LSE Works 20th January 2011



London won't get away with it

Why did no one see it coming?



Why did no
one see it
coming?

$$QE=2- [0.433((r+e+n)/3)^2 / \ddot{O}((r+e+n)/2)((r+e+n)/2)-r)((r+e+n)/2)-e)$$

CREDIT CRUNCH WILL SQUEEZE LONDON

The dark underbelly of London's boom

'Tough year' for London tourism

This time round we are all in it together

It's grim down south

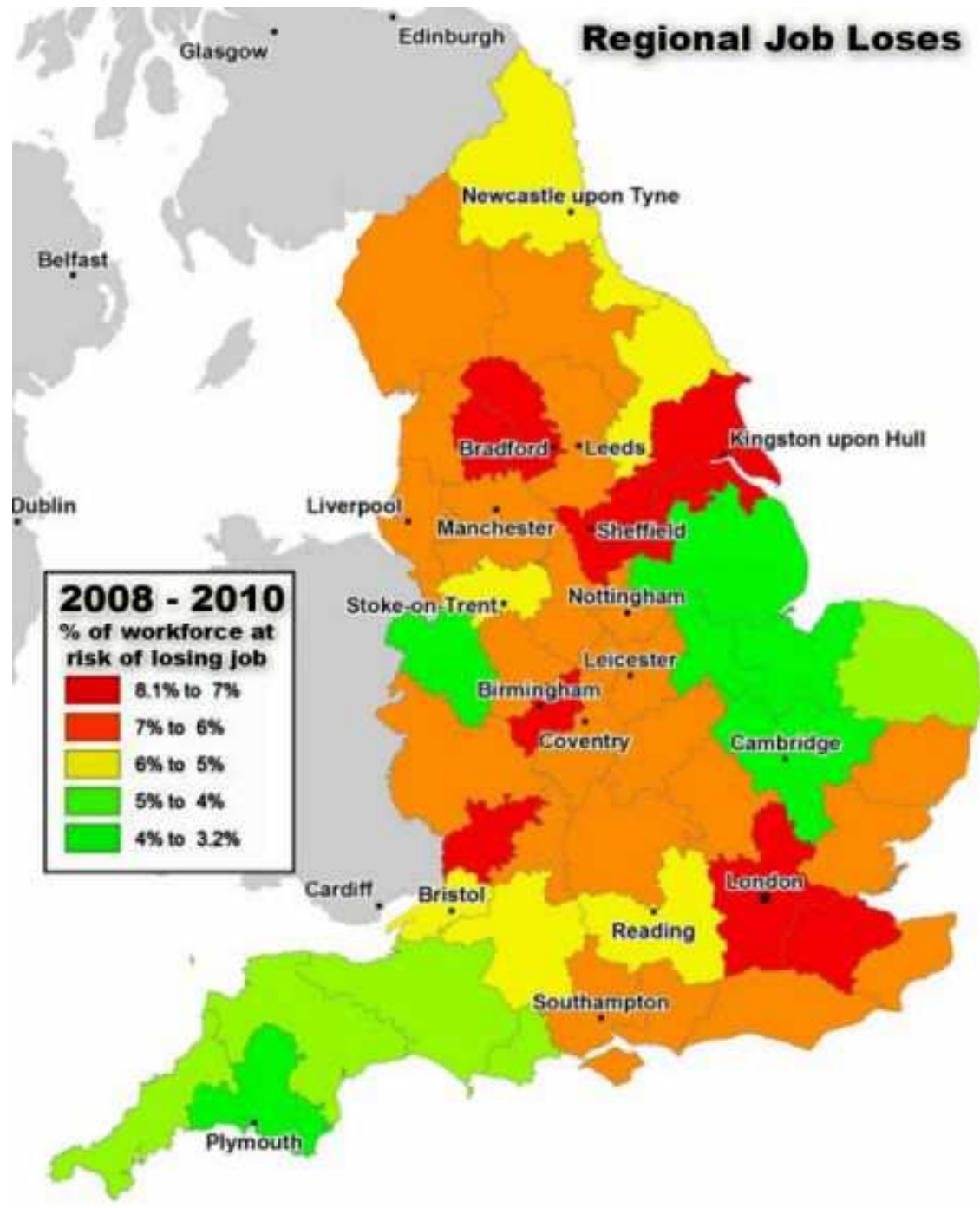
Recession Britain: Grim down south

London 'worst hit in a recession'

Corby best placed to ride out recession

City groups set to advise Darling

**Daily Mail:
The recession
map of England:
London and
South-East to
lose one in 12
jobs over next 18
months**



Overall, if these two [credit crunch and commodity prices] shocks lead to [...] recession, the impact on output and employment levels in London can be expected to be disproportionately strong.

Professor Ian Gordon, LSE

The immediate effects of the recession are being felt most heavily in Greater London, which has had a disproportionate share of jobs in financial services, construction and retail over the last decade. But it's not necessarily 'Grim Down South'

Centre for Cities

In the 1980s slump, the North suffered; in the 1990s downturn, the Home Counties; this time, the misery may be more evenly spread geographically [...]. It will probably be the most "white collar" recession in history.

The Independent, Oct 2008

Conventional wisdom suggests that recessions tend to spread misery around. If this is true, we might expect the "north-south divide" to narrow over the coming months, particularly if sectors over represented in the south (e.g. financial services) are especially hard hit.

Prof H. G. Overman, LSE

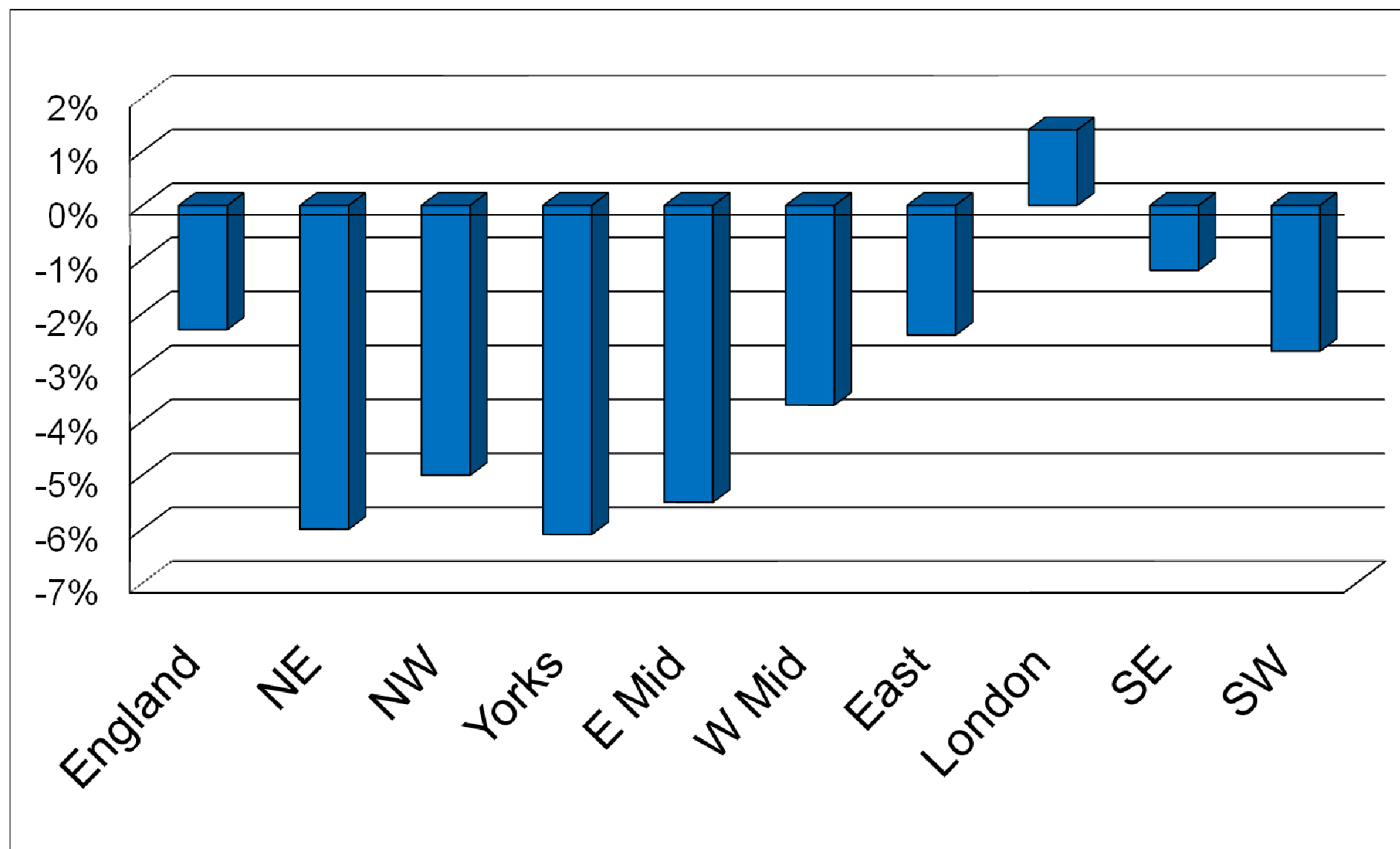
Did London get away with it?

The labour market and GDP

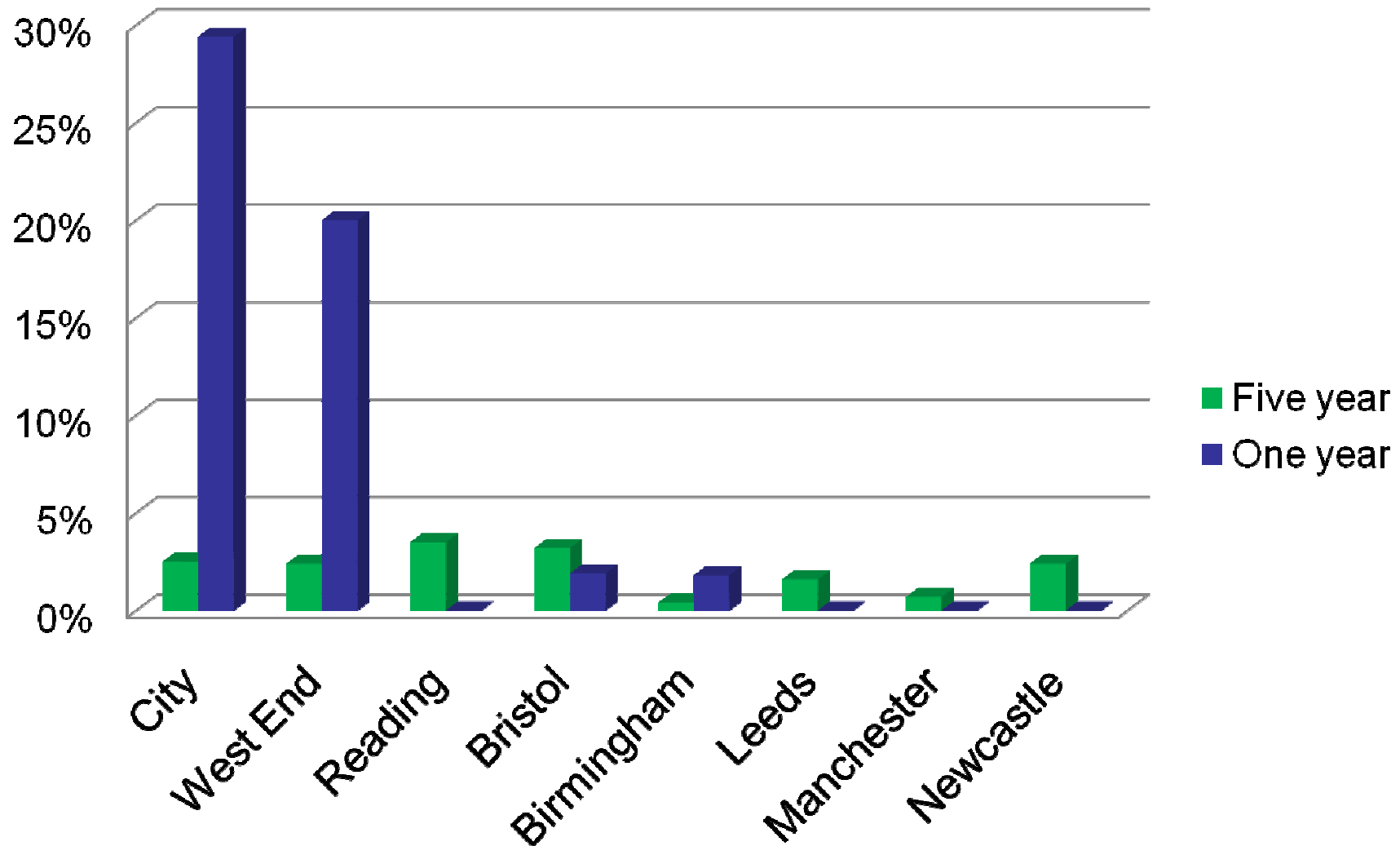
| | London | UK |
|------------------------------|--------|-------|
| Peak-to-trough change output | 5.3% | 6.2% |
| % point change claimant rate | 1.7 | 2.2 |
| Change in employee jobs | -2.6% | -3.9% |

Source GLA economics

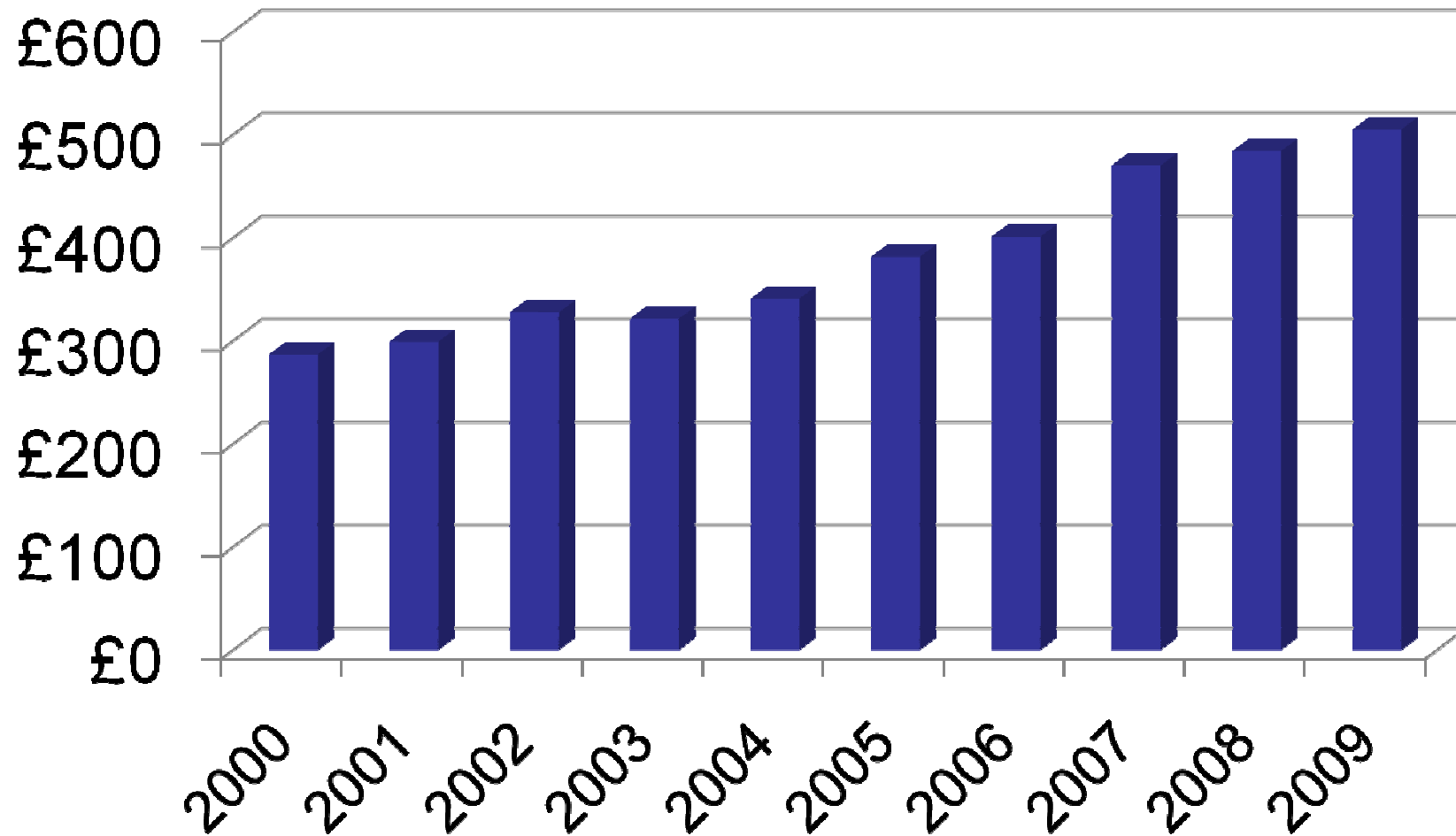
% Change House Prices Q1 08 to Q3 10



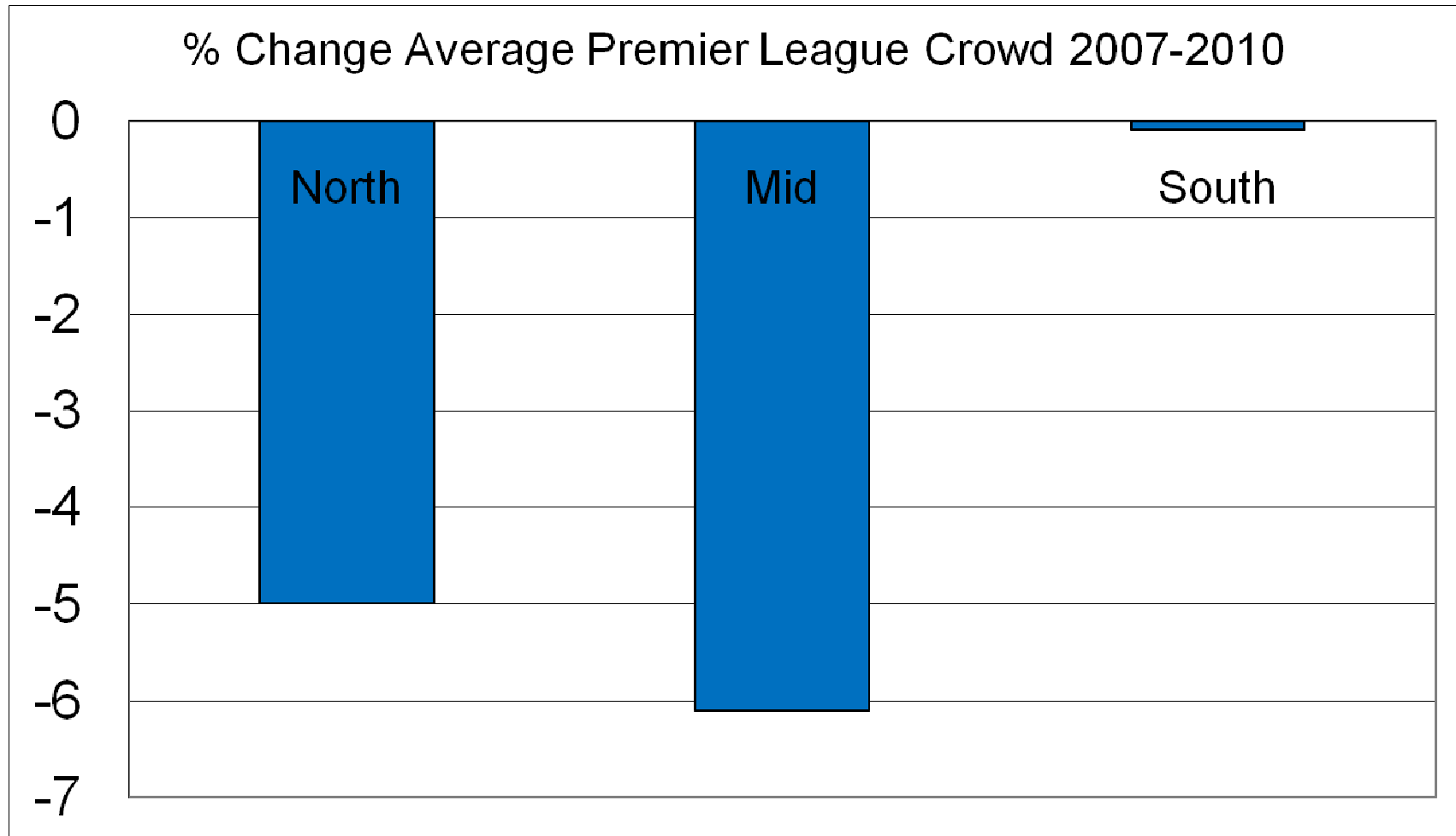
% Change Prime Office Rents (Sept10)



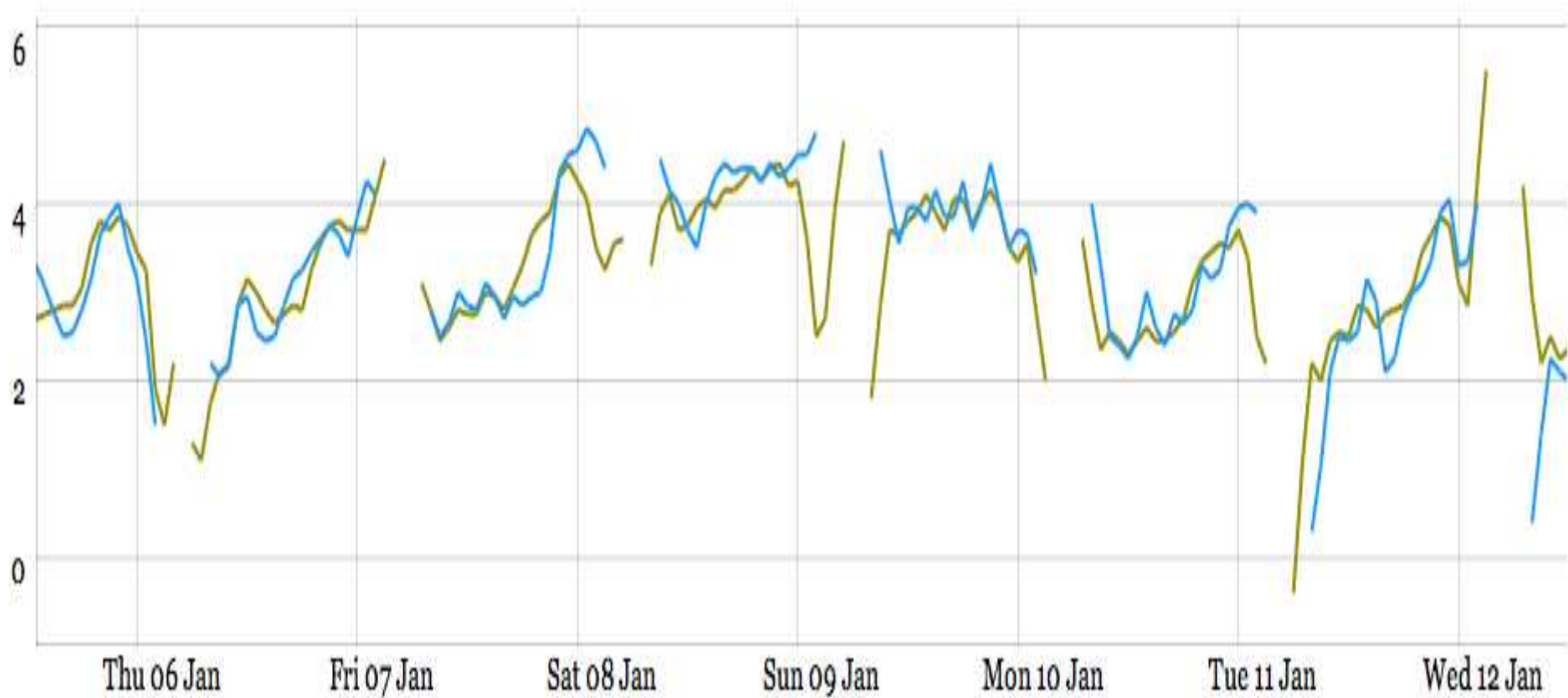
Theatre box office (£m)



“Stand up if you’ve got a job”



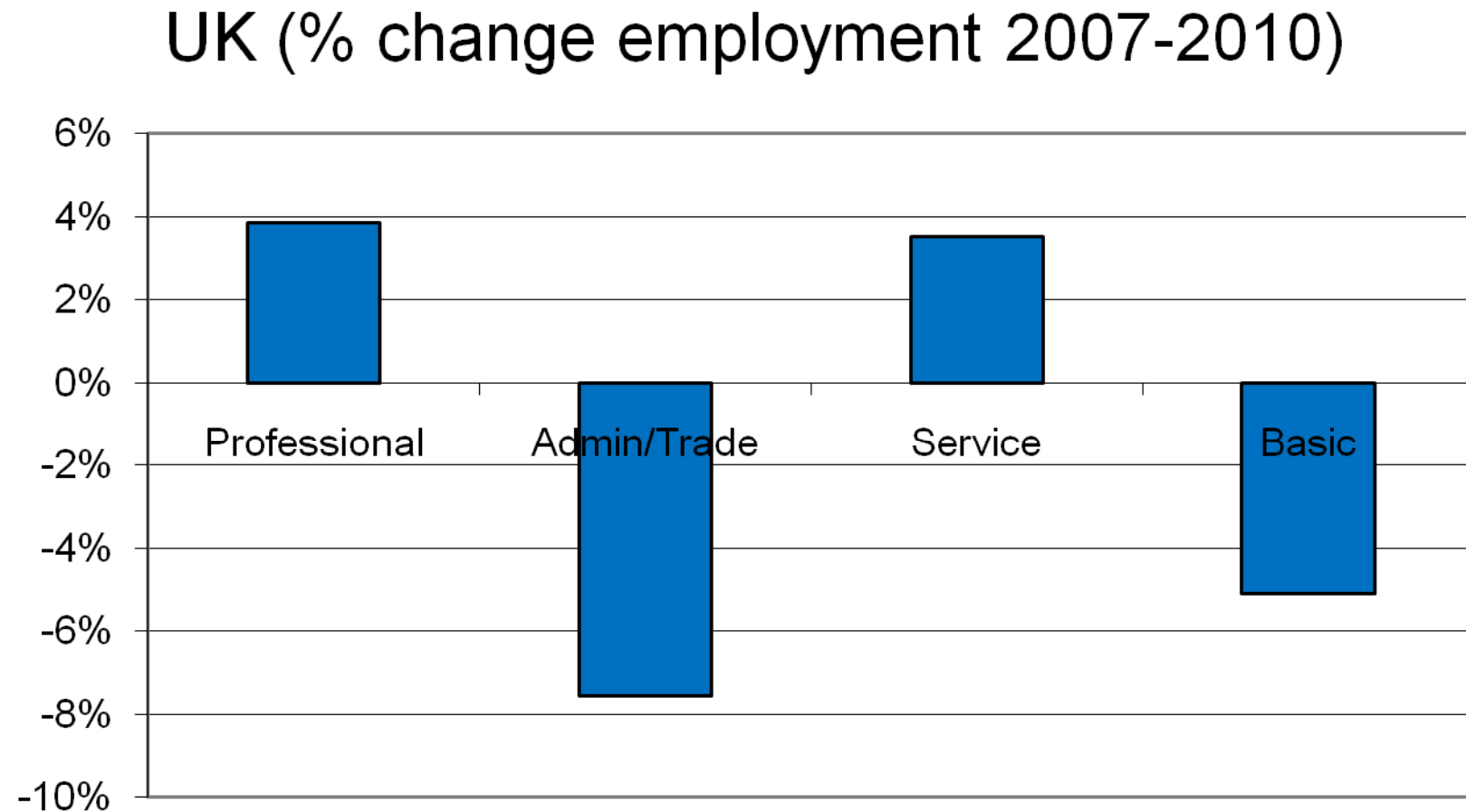
Mappiness (London Blues?)



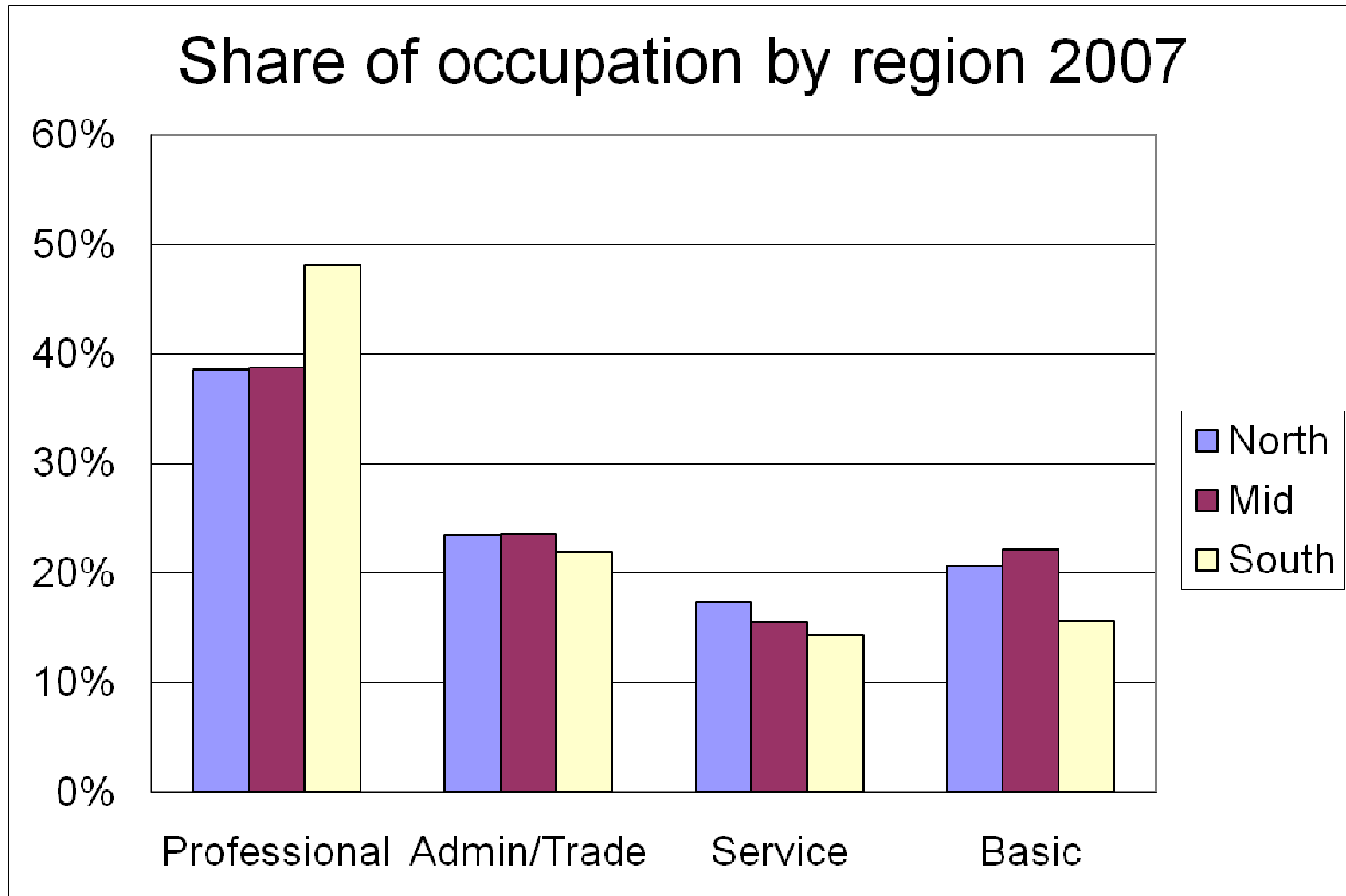
How did London
get away with it?

(Not) A middle class
recession?

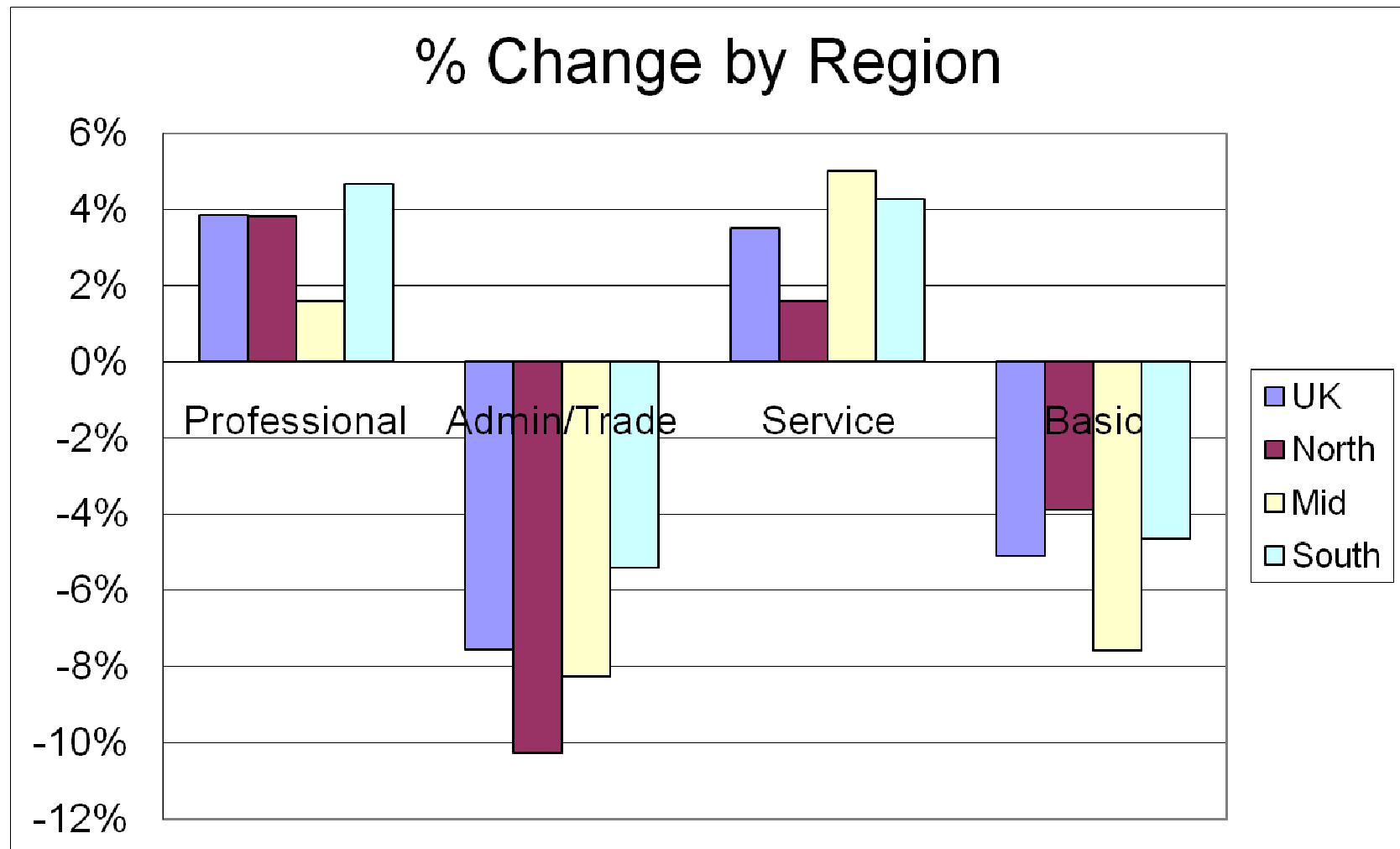
The middle class and their “help”



Where the middle class live

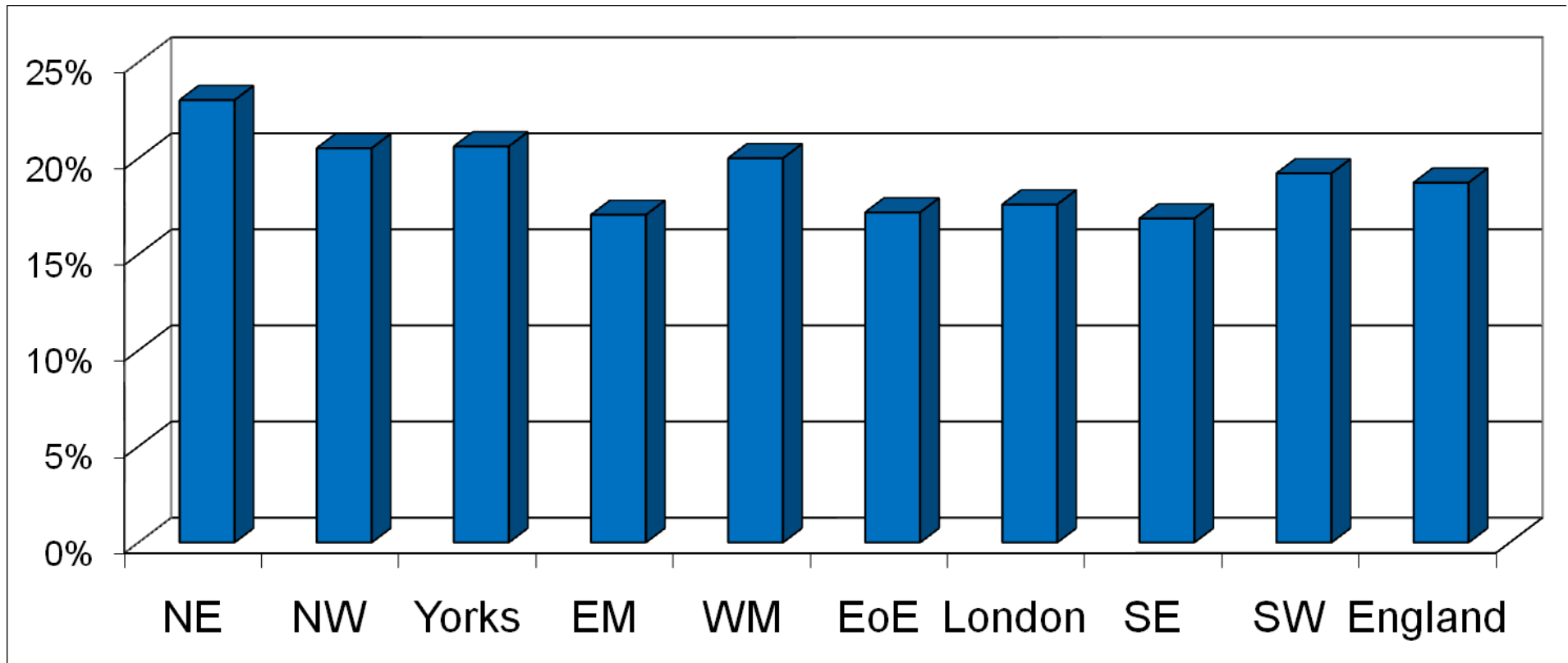


London's (working) poor didn't get away with it



Socialist republic of London?

Shares of public sector employment 2007



Change in public sector employment

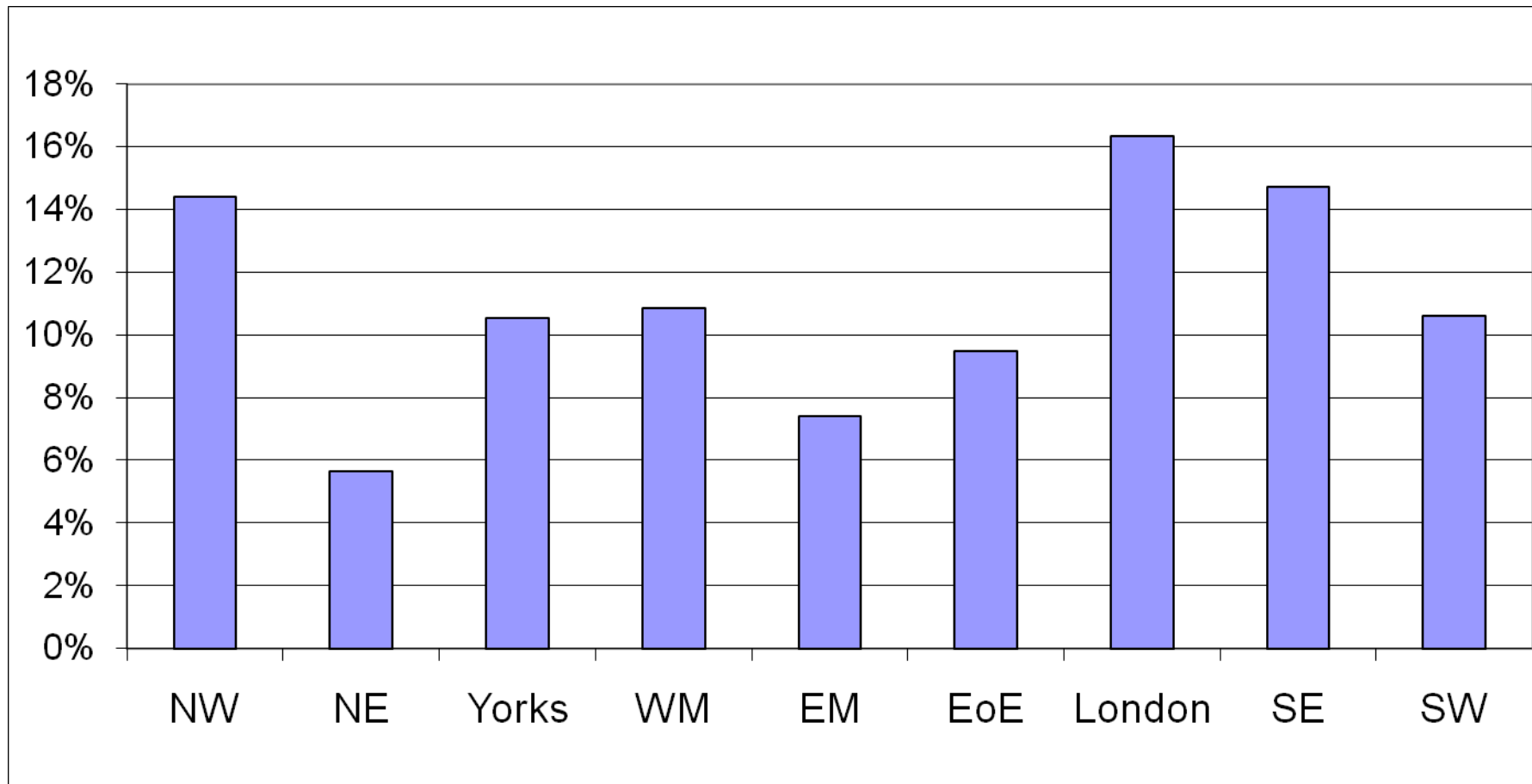


Greedy bankers and bail outs?

(Direct) cost of the bailout

- August 2010 financial intervention increased net borrowing £111.6bn
- Govt ~70% RBS = £18bn
- Govt >40% Lloyds Group = £20bn
- Value Northern Rock not estimated
- Asset Protection Scheme at least E[£5 bn]

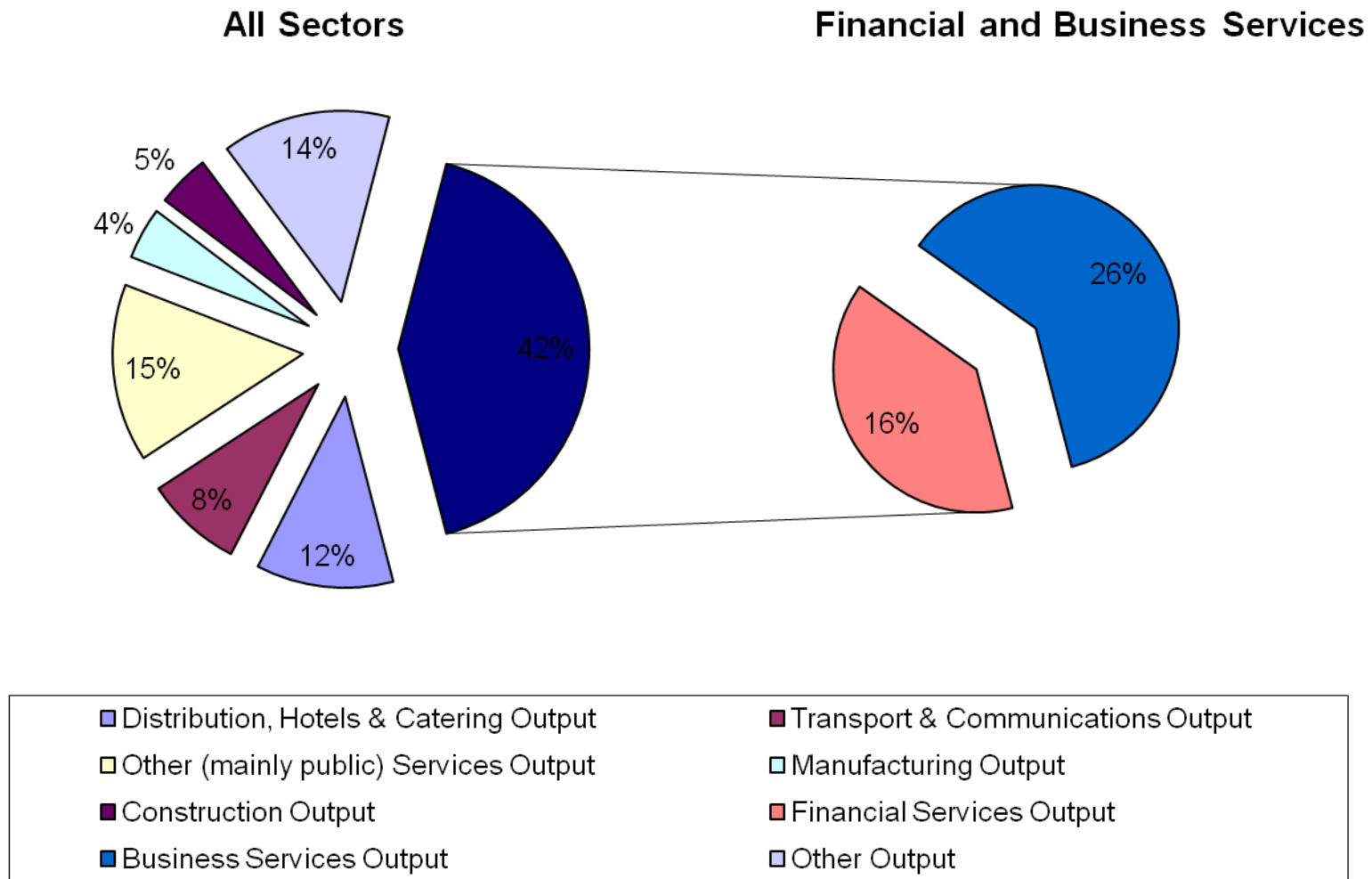
Share of bail out jobs



The Bail-out Valued as Subsidy

- Haldane (2010) value *reduced cost of borrowing*
 - Diff in credit ratings ‘support’ v’s ‘standalone’
- Implied (extra) subsidies are:
 - £11bn (2007), £59bn (2008), £107bn (2009)
 - 93% to Big 5 (the ‘too big to fail’)
- Half of gross surplus in (financial intermediation) sector goes to labour
- Relevant workers concentrated in London

FBS GVA as % London total



Doing the maths

- In 2008 London GVA was £265bn.
- So potentially very large impact
- 16% of 265bn GVA = £42.4bn
- Smaller than £59bn subsidy ...

Digging holes



10,000



2,000

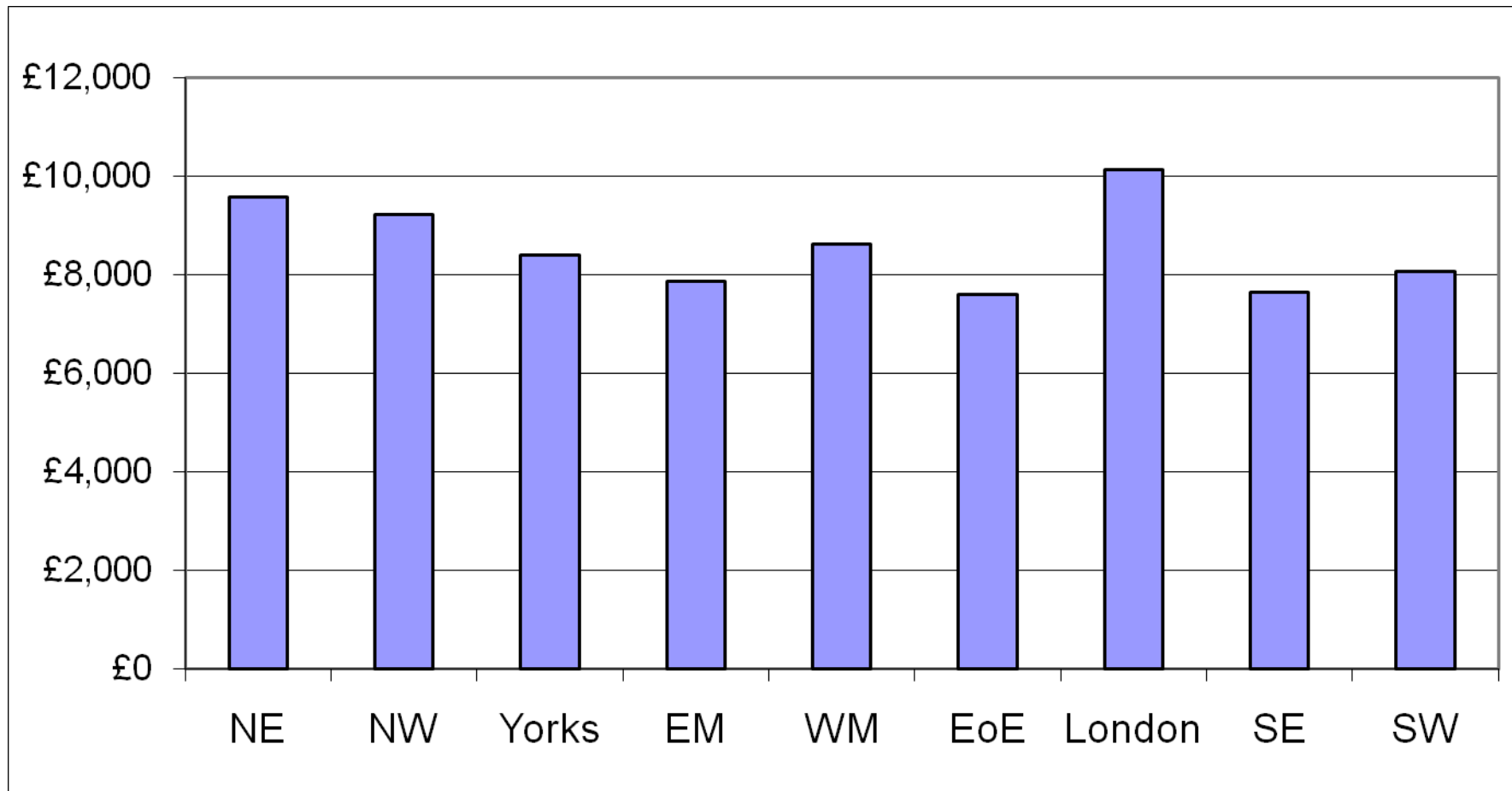
What got hit, where?

Changes sectoral employment 2007-10

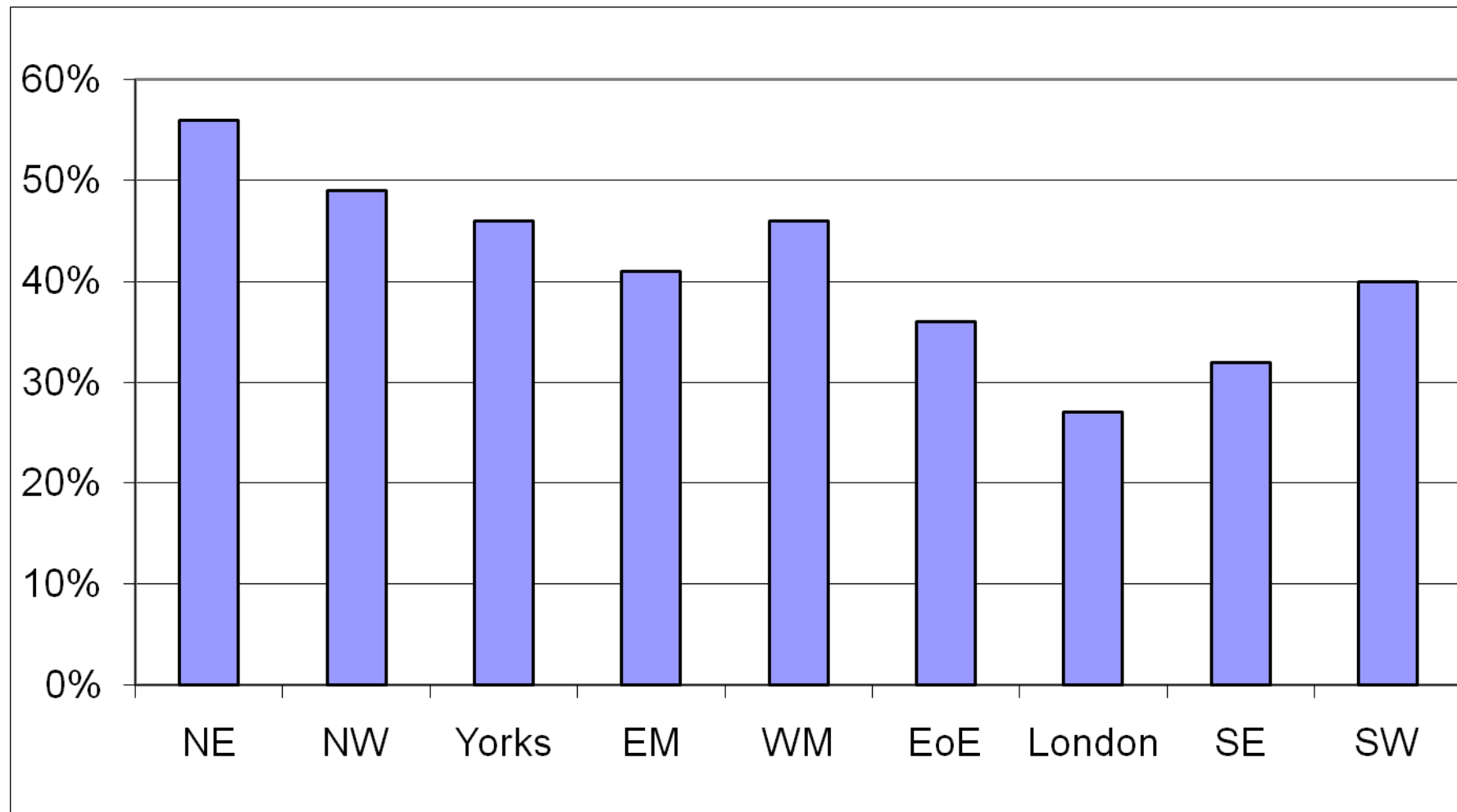
| | Share 07 | Change | Share 07 | Change |
|---------|----------|--------|----------|--------|
| Manuf | 11% | -10% | 3.4% | -27% |
| Const | 7.6% | -16% | 5.2% | -8% |
| Accom | 6.2% | -17% | 6.5% | -11% |
| Finance | 3.2% | -10% | 7.2% | 5% |
| Prof | 5.7% | -7% | 11.6% | 9% |
| Admin | 7.0% | -6% | 10.6% | -13% |

Fiscal and Monetary Policy:
Gordon (not George?)
to the rescue?

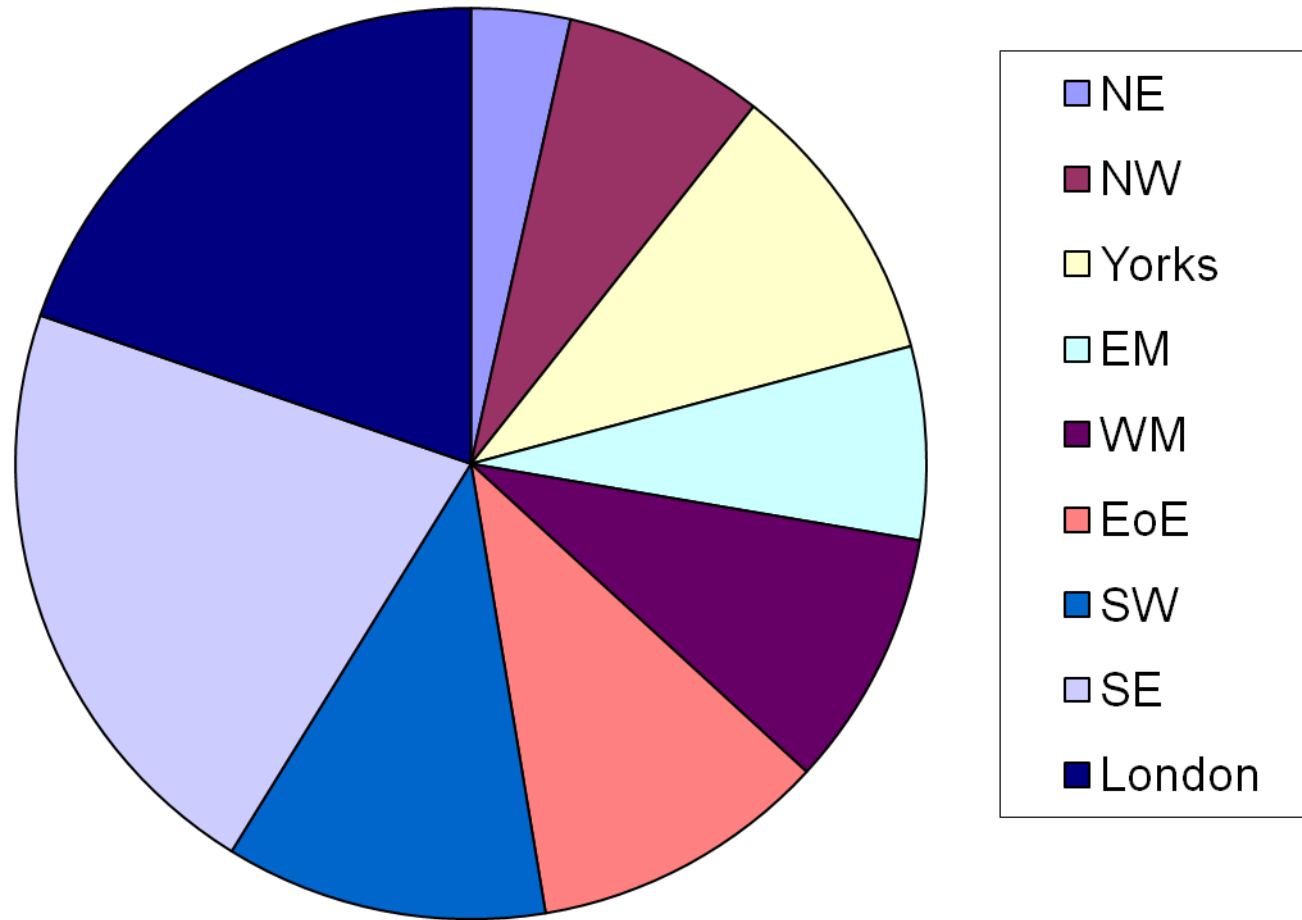
Expenditure per Head (2009)



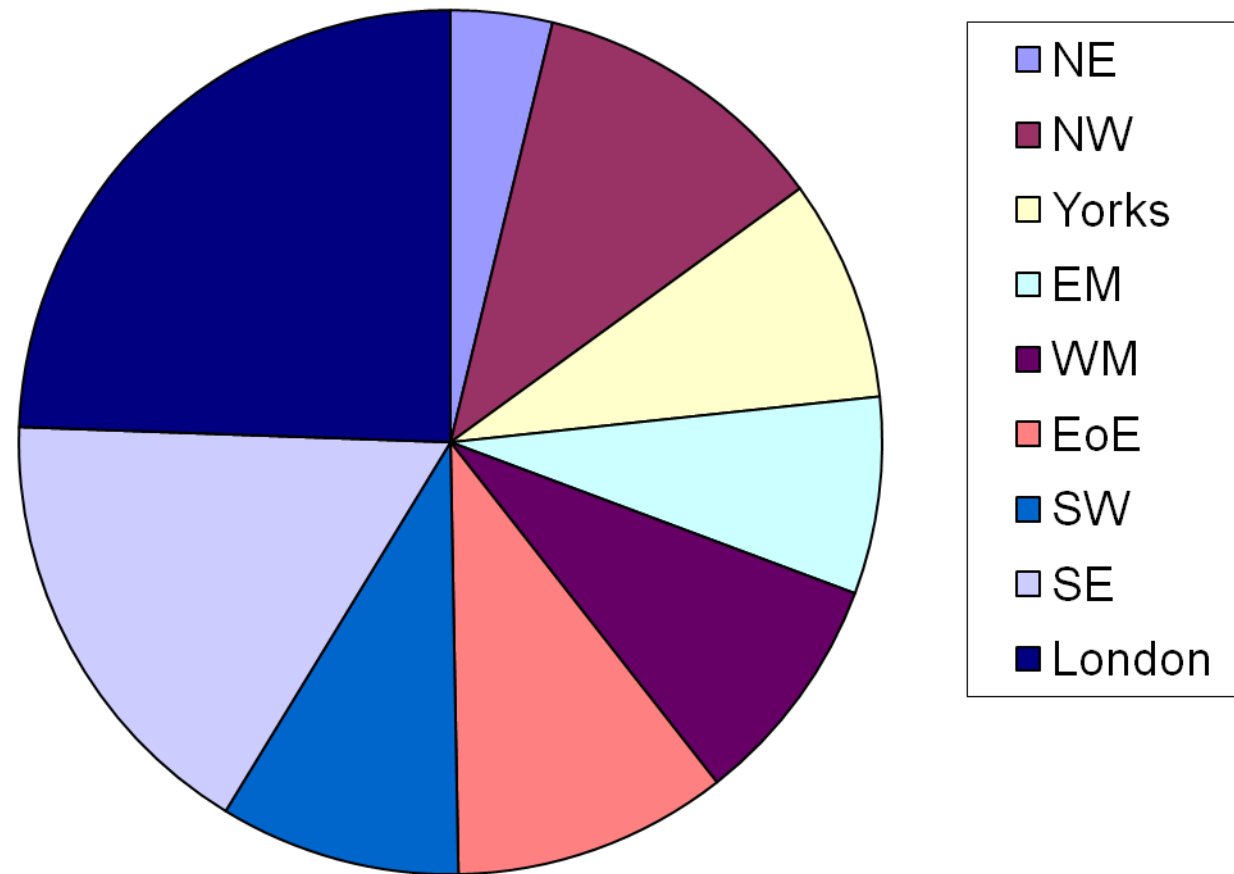
Expenditure as % GVA (2008)



£20bn less mortgage payments



Regional shares GVA



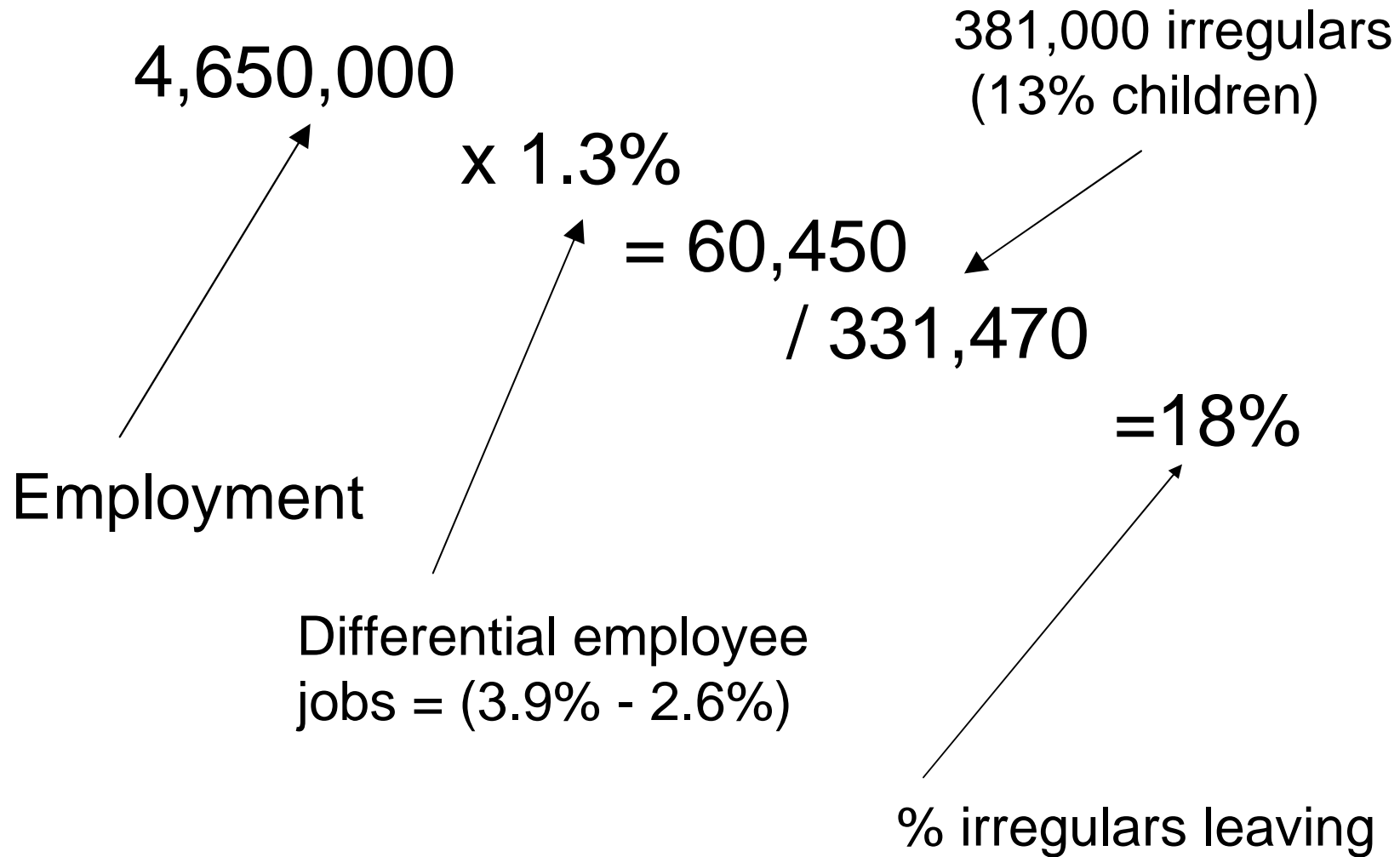
Rats, Immigrants and Fat Cats



the Rat Race
ADVENTURE

- Hours worked dropped
 - 2% in London
 - 0% elsewhere
- Enough to explain the 1.3% differential in change in employee jobs
- Real wages probably fell more in London
- Doesn't explain GVA figures

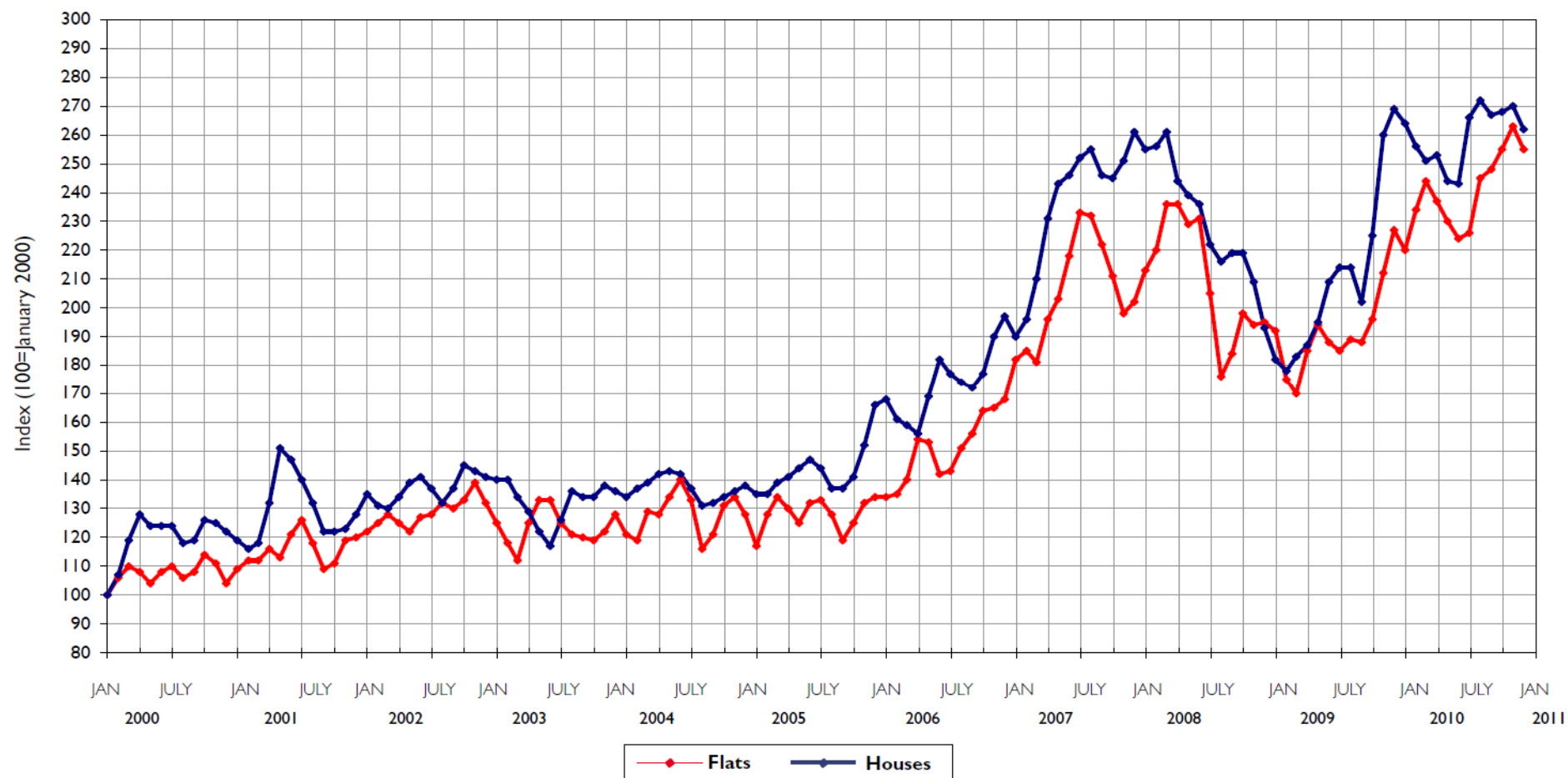
(Illegal) Immigrant London?



The very wealthy

- Times rich list (top 1,000)
 - 2008-09 down £155bn
 - 2009-10 up £77bn
- Prices
 - Fine wines and Beluga caviar down 8% 2008/09, up 24.1% over the past year
 - 0.6% increase private jets, chauffeur service, and exclusive hotels in St Tropez.
 - 5.6% fall for goods and services [full-time housekeeper, Westminster School fees, Botox and rental house Kensington & Chelsea.]

Prime Central London Property Graph



© John D Wood & Co. January 2011

Did London get away
with it?(Redux)

Threats?

- Public sector employment and civil service head count?
 - Mitigated by small employment shares
- Banker's bonuses and regulation

How London got away with it

(No) middle class recession

- London did get away with it
- How did London get away with it?
 - Not a middle class recession
 - Middle class over-represented GSE
 - GSE middle class did better than elsewhere

Why did London get away with it?

- Minor factors
 - Public sector, fiscal, monetary policy, non-doms, migrants
- Major factors
 - Bail out?
 - Consolidation in banking sector?
 - A wide & more flexible labour market?
 - Most able in London?

Some Londoners didn't get away with it

- London's poor didn't get away with it
 - Capital projects (inc. Olympics)
 - Employment
 - Housing (including benefit reform)

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