



Recession, Recovery and Cuts - What does London need?

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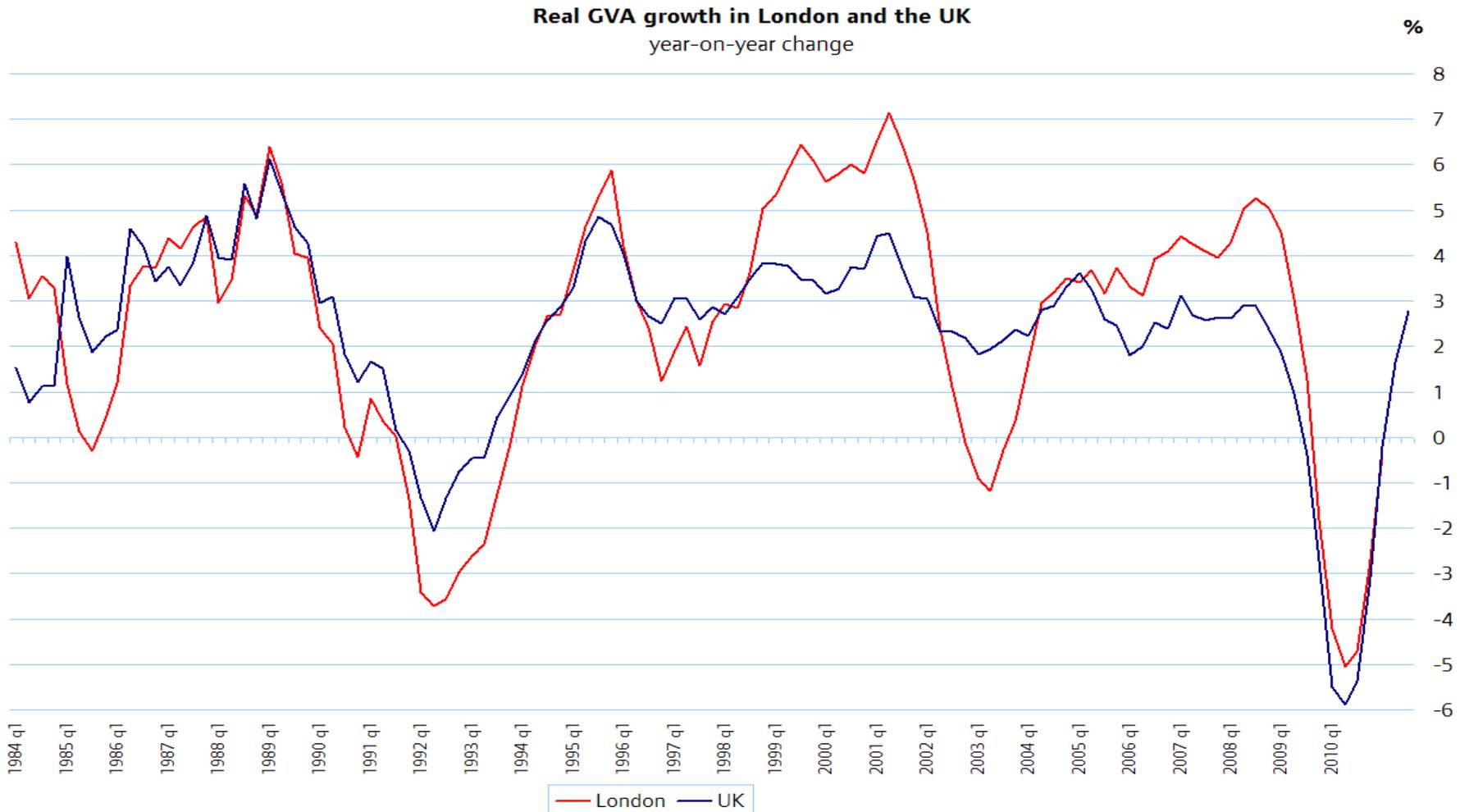
Recession, Recovery and Cuts

- Both banks and public spending are under attack
- Banks are accused of creating crisis
- Public spending has also generated structural deficits
- Which matters more?
- How is London's economy most likely to evolve?



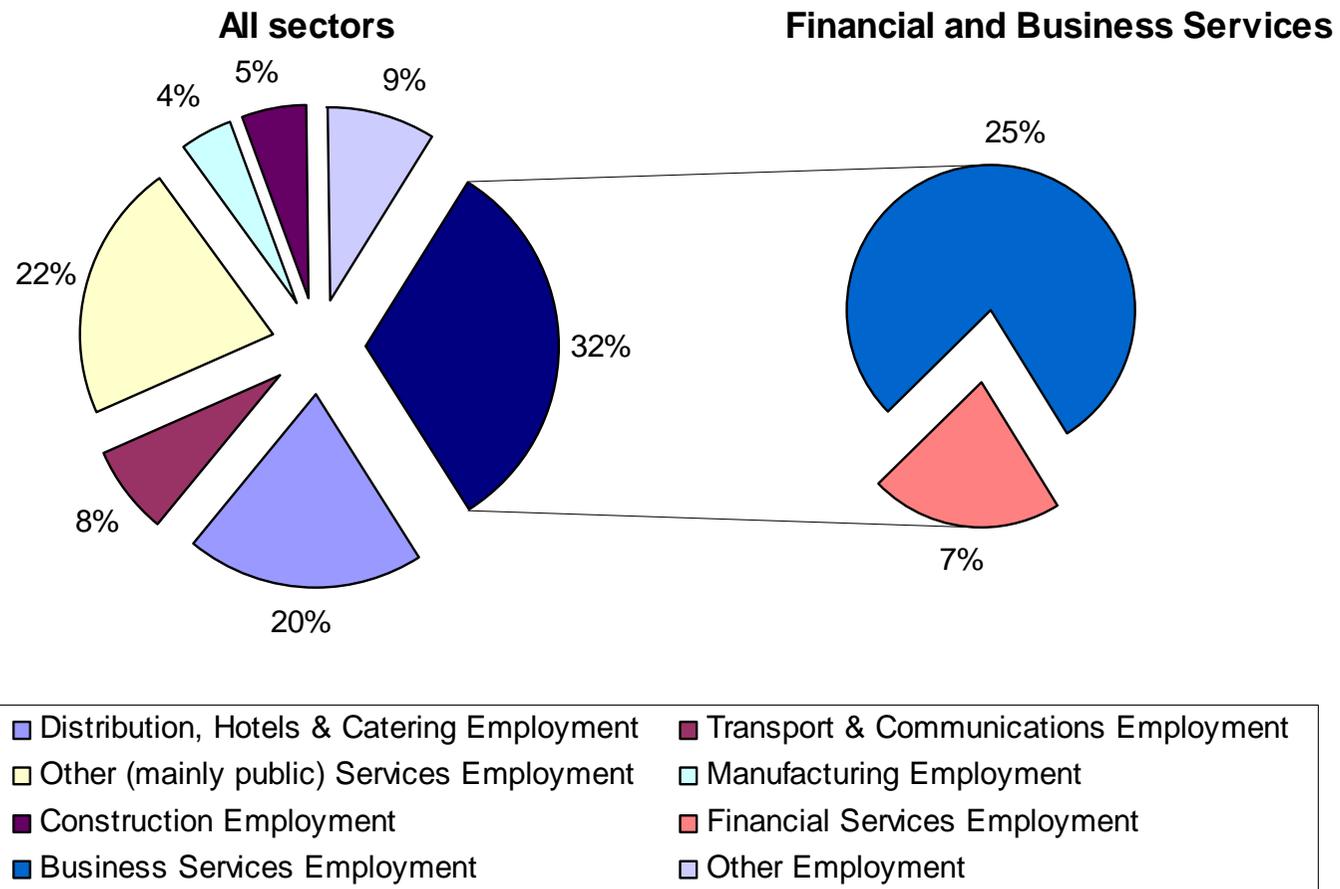


London's output has declined significantly



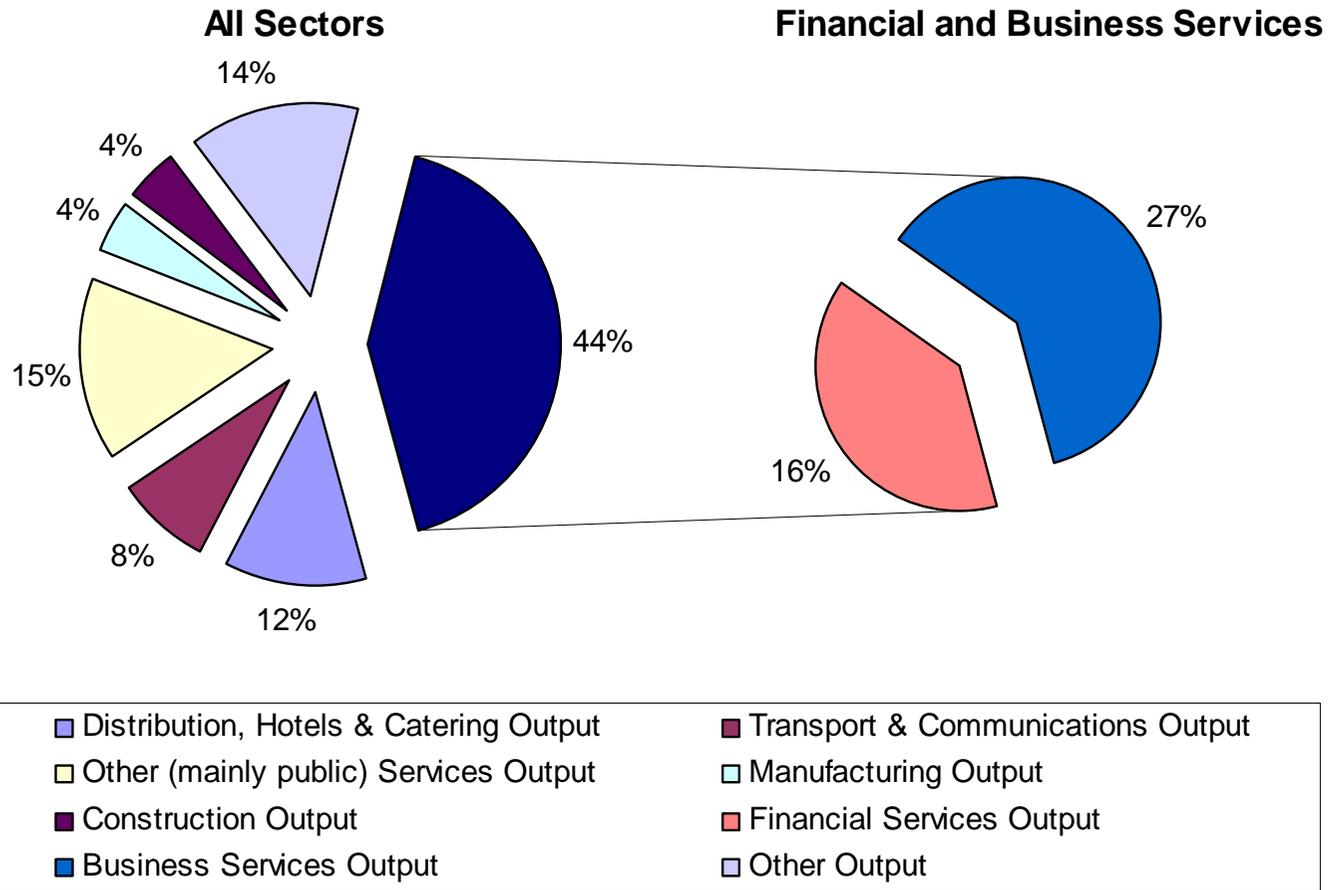
London: Experian Economics (to Q1)

FBS employment as a per cent of total employment in London in 2009



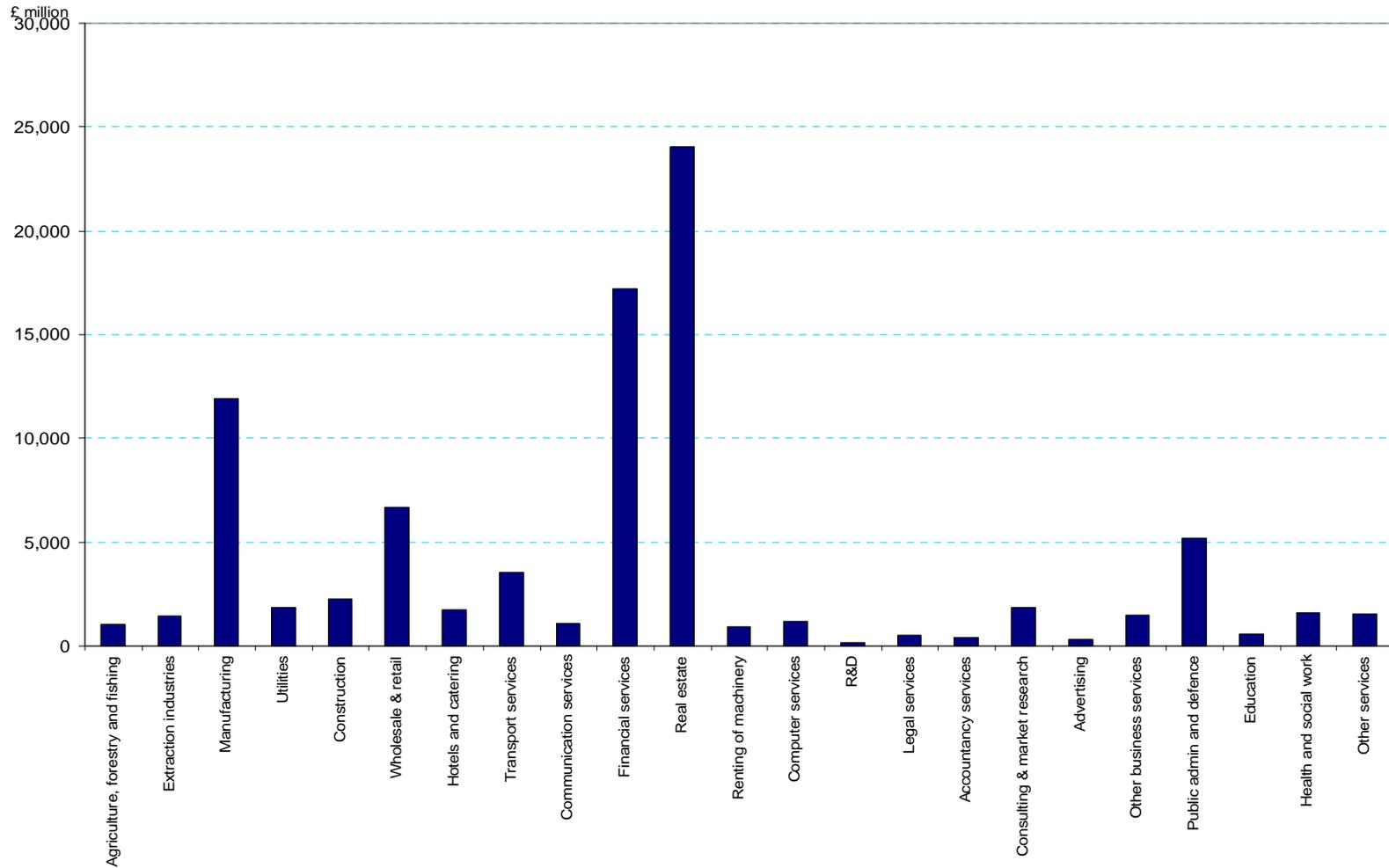
Source: Experian Economics

FBS output as a per cent of total output in London in 2009



Source: Experian Economics

I/O figures on purchases of other sectors from financial services in the UK



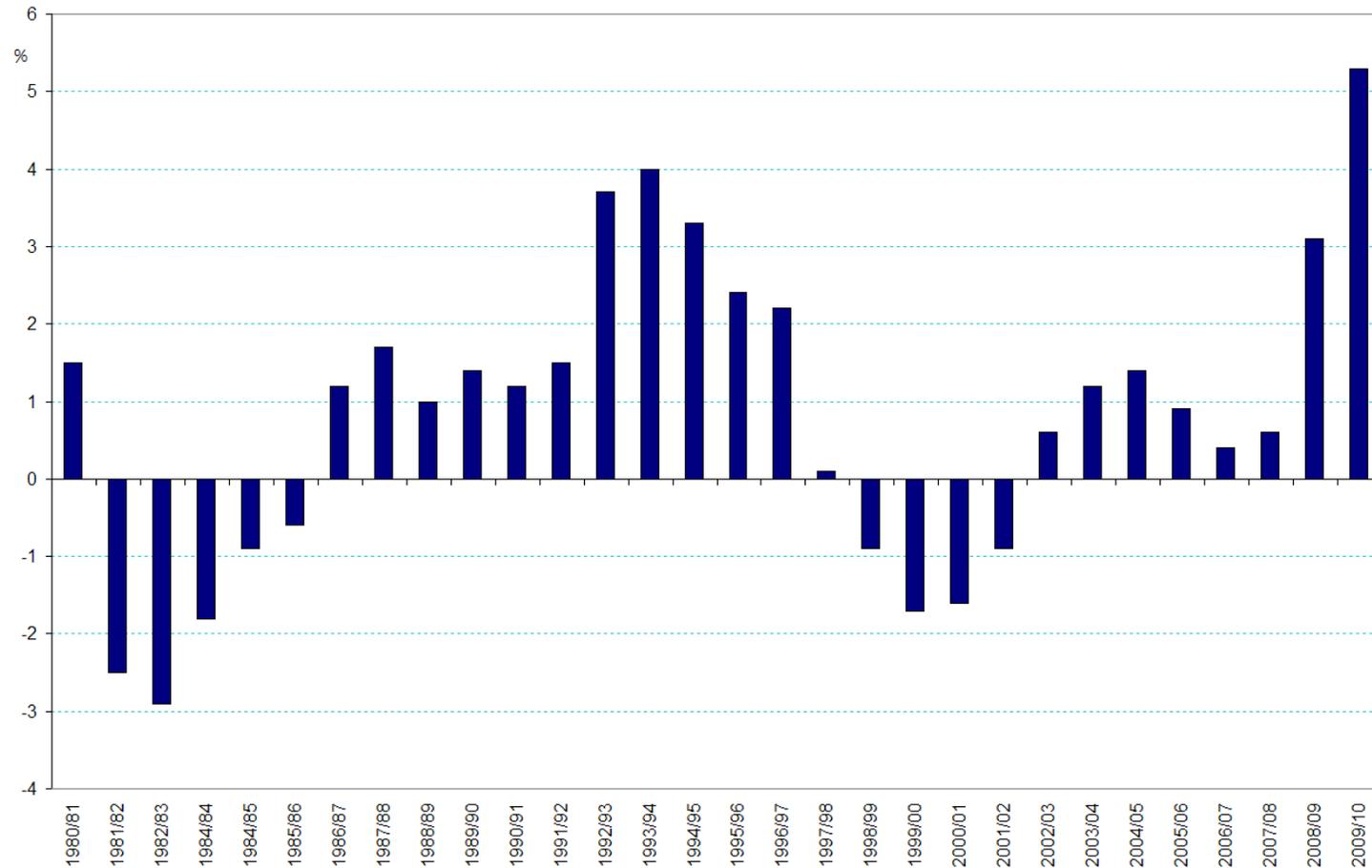
Source: ONS

The financial sector bailout



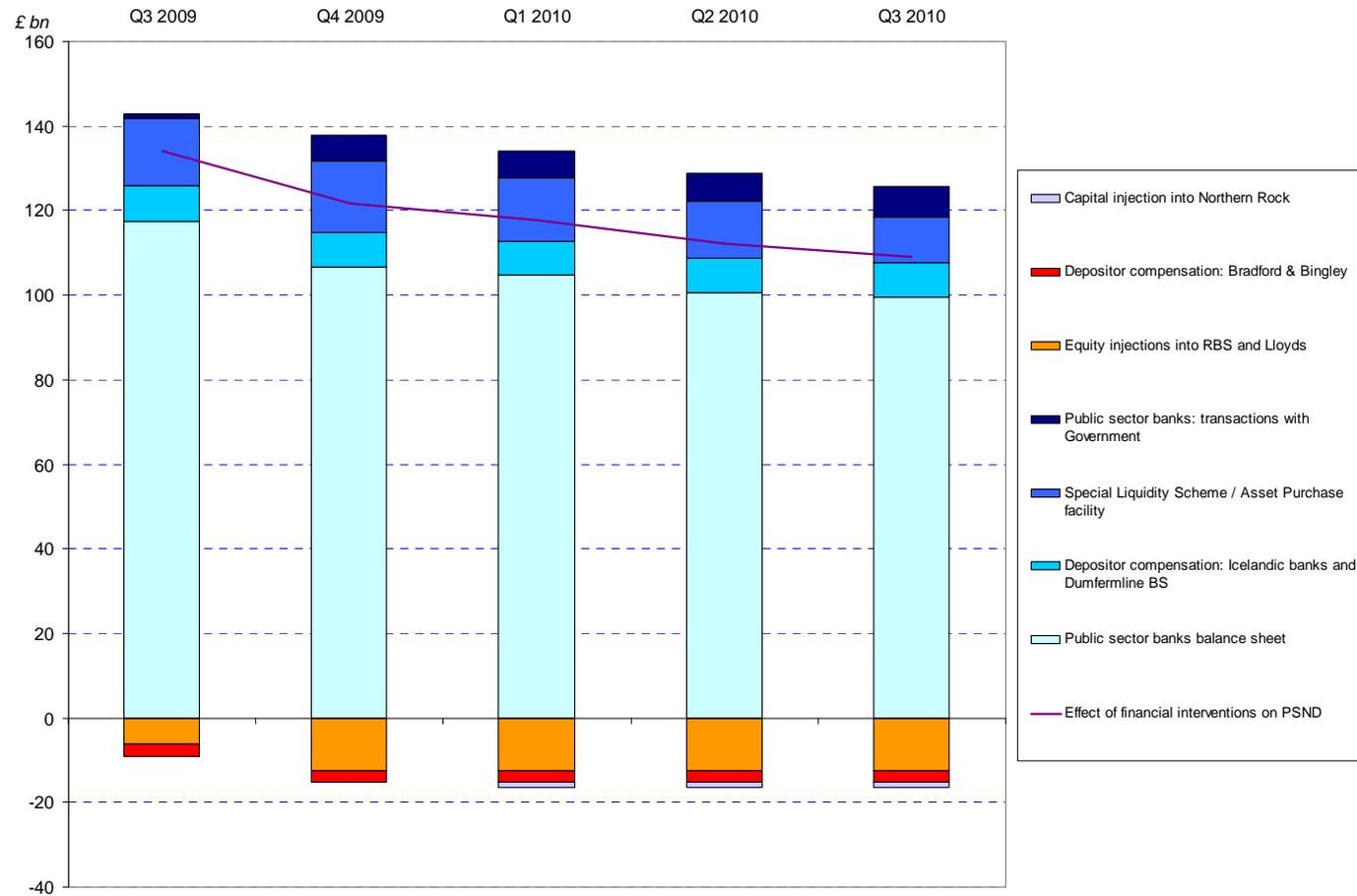
- As of September 2010 the total effect of the financial intervention on net debt was £109.1 billion
- However, £99.5 billion of bank balance sheets had been transferred onto the national debt.
- If we examine public sector net debt excluding the temporary interventions then net debt increased by:
 - £12.4 billion due to the equity injection in Lloyds and RBS
 - £1.4 billion due to the capital injection into Northern Rock
 - £2.7 billion due to depositor compensation related to Royal Bank of Scotland

The structural component of the budget deficit (as a proportion of GDP)



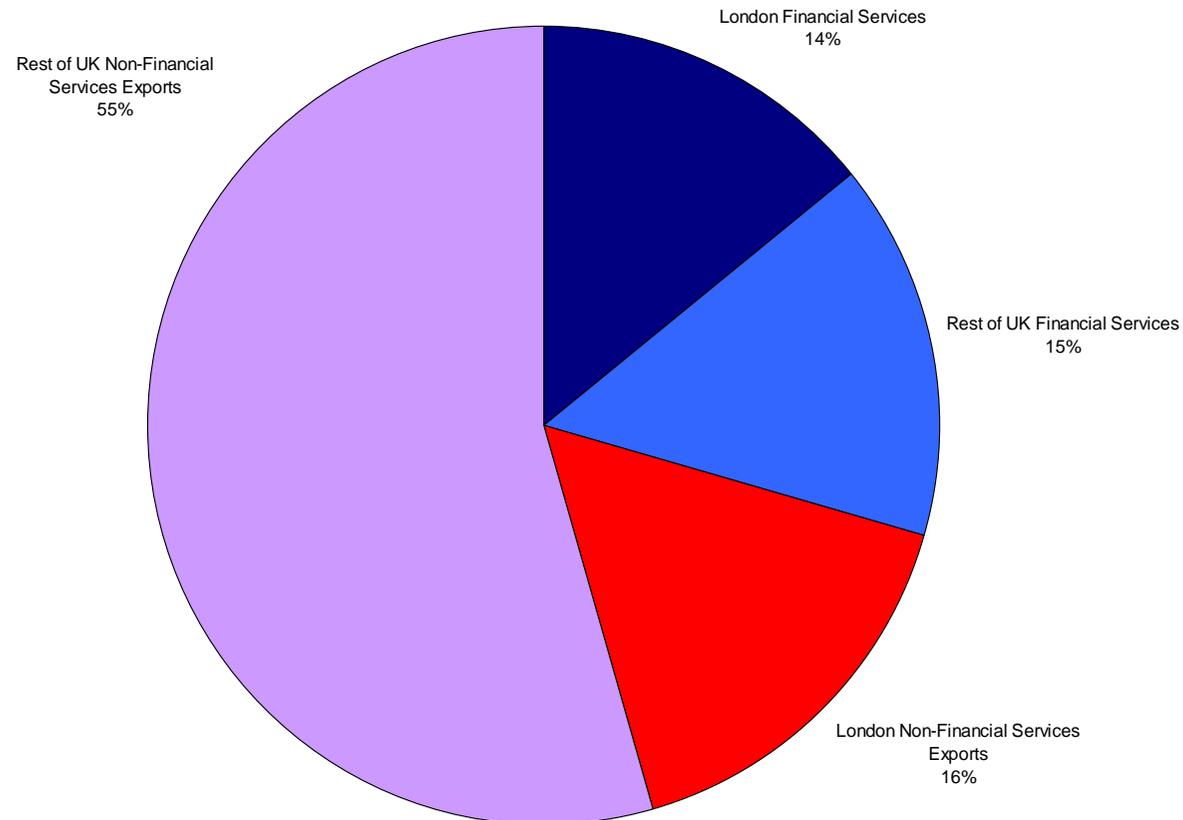
Source: HM Treasury, Public Sector Finances Databank

The financial sector bailout continued



Source: ONS

The split in exports of Services in the UK between financial and non-financial services and between London and the rest of the UK



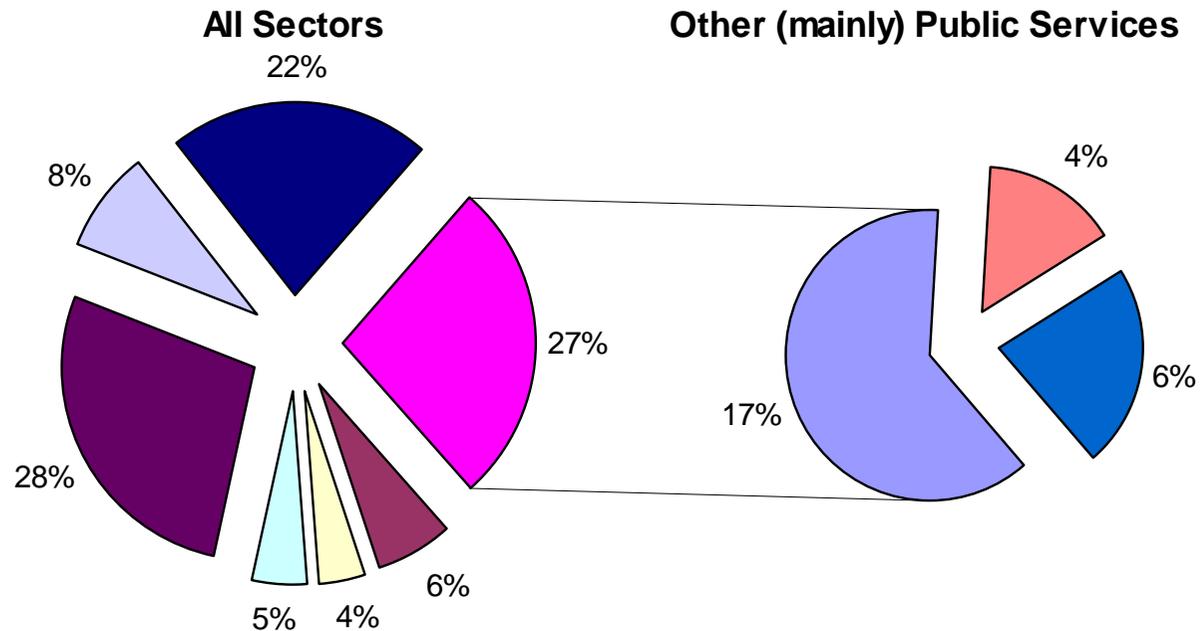
Source: Pink Book 2010 & GLA Economics Evidence Base

The financial sector bailout



- At the end of August 2010 the effect of the financial intervention on net borrowing was £111.6billion
- The value of the Government's nearly 70% stake in RBS stands at over £18billion
- The value of the Government's over 40% stake in Lloyds Group stands at nearly £20billion
- The value of the Government's 100% stake in Northern Rock has yet to be estimated
- The Asset Protection Agency's central expectation is that there will be a net benefit to the taxpayer of at least £5 billion from the

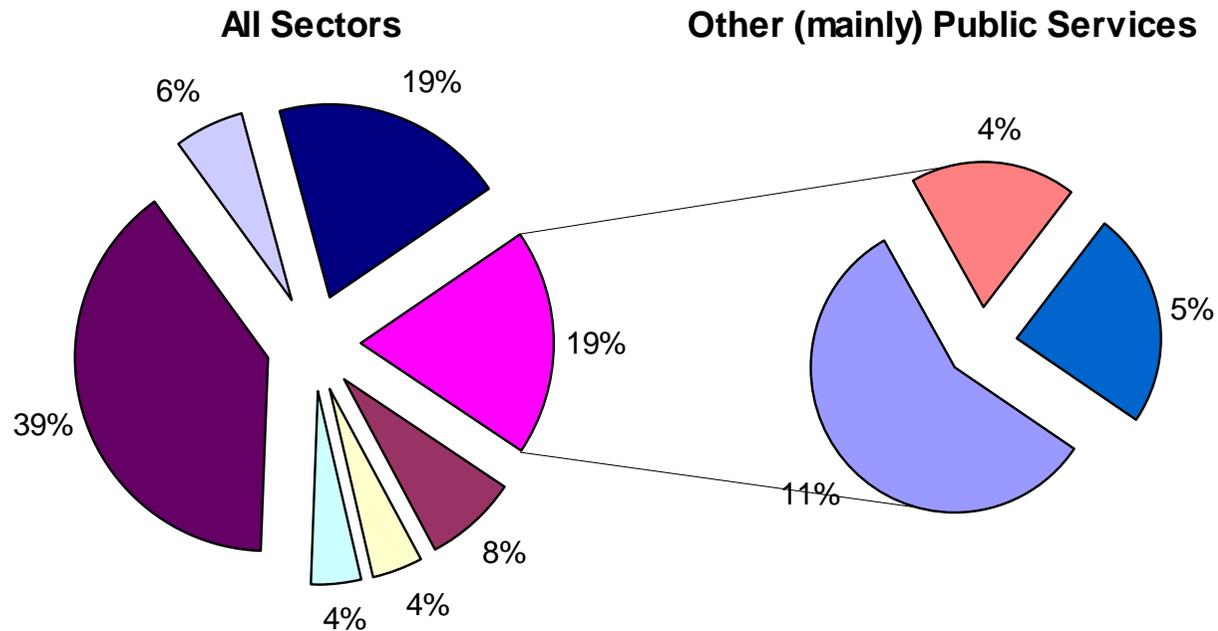
Public Service employment as a per cent of total employment in London in 2009



- Distribution, Hotels & Catering Employment
- Transport & Communications Employment
- Manufacturing Employment
- Construction Employment
- Financial & Business Services Employment
- Public Administration & Defence Employment
- Education Employment
- Health Employment
- Other Employment

Source: Experian Economics

Public Service output as a per cent of total output in London in 2009



- Distribution, Hotels & Catering output
- Manufacturing output
- Financial & Business Services Output
- Education Output
- Other output
- Transport & Communications output
- Construction output
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- Health Output

Source: Experian Economics

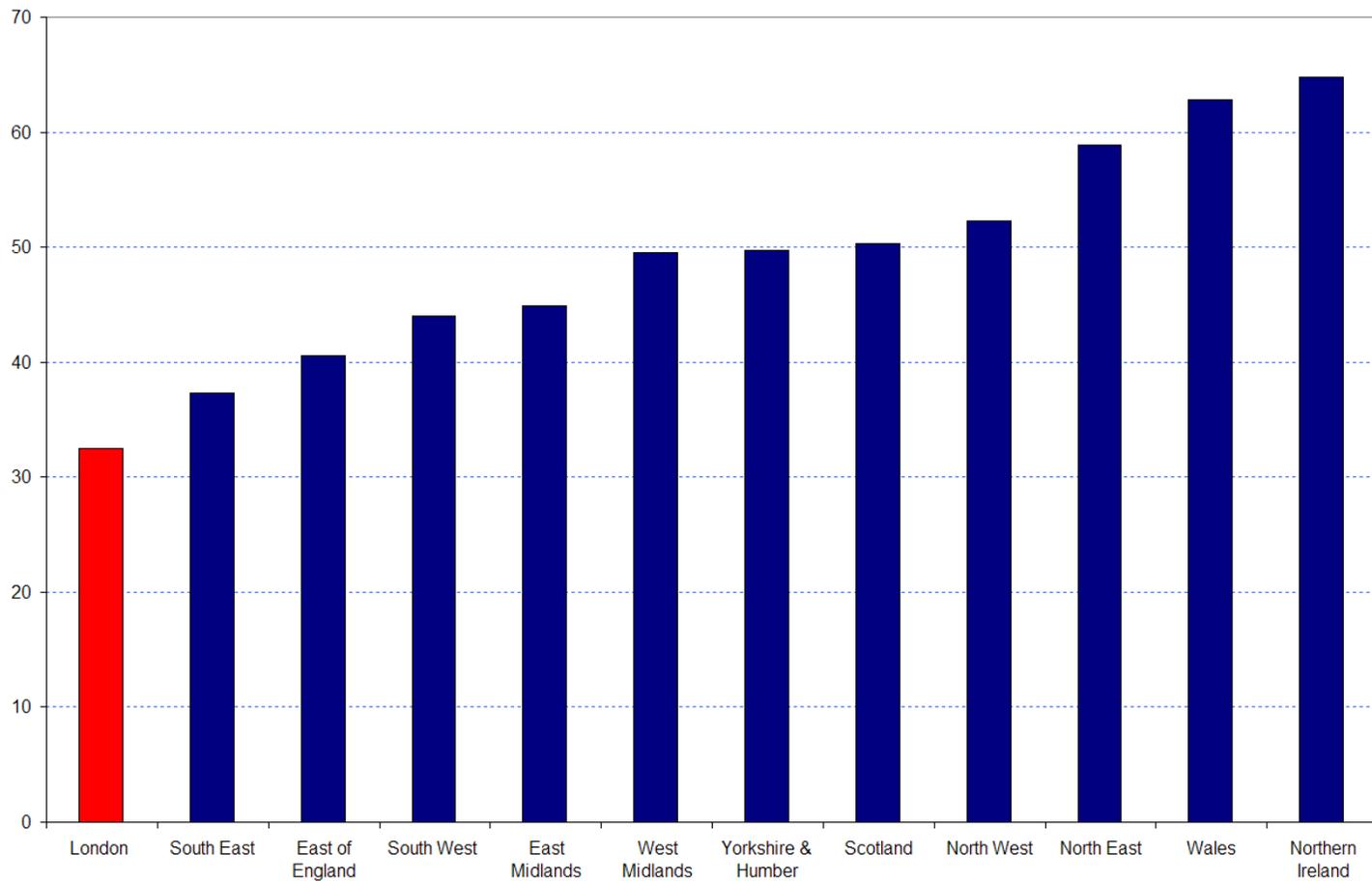
Public sector employment as a per cent of total employed workforce (2008)



| Government Office Region | Per cent |
|--------------------------|-------------|
| North East | 32.2 |
| North West | 28.2 |
| Yorkshire and The Humber | 28.5 |
| East Midlands | 26.6 |
| West Midlands | 26.9 |
| East | 25.2 |
| London | 22.2 |
| South East | 25.4 |
| South West | 28.5 |
| Wales | 32.9 |
| Scotland | 30.0 |
| Total | 26.9 |

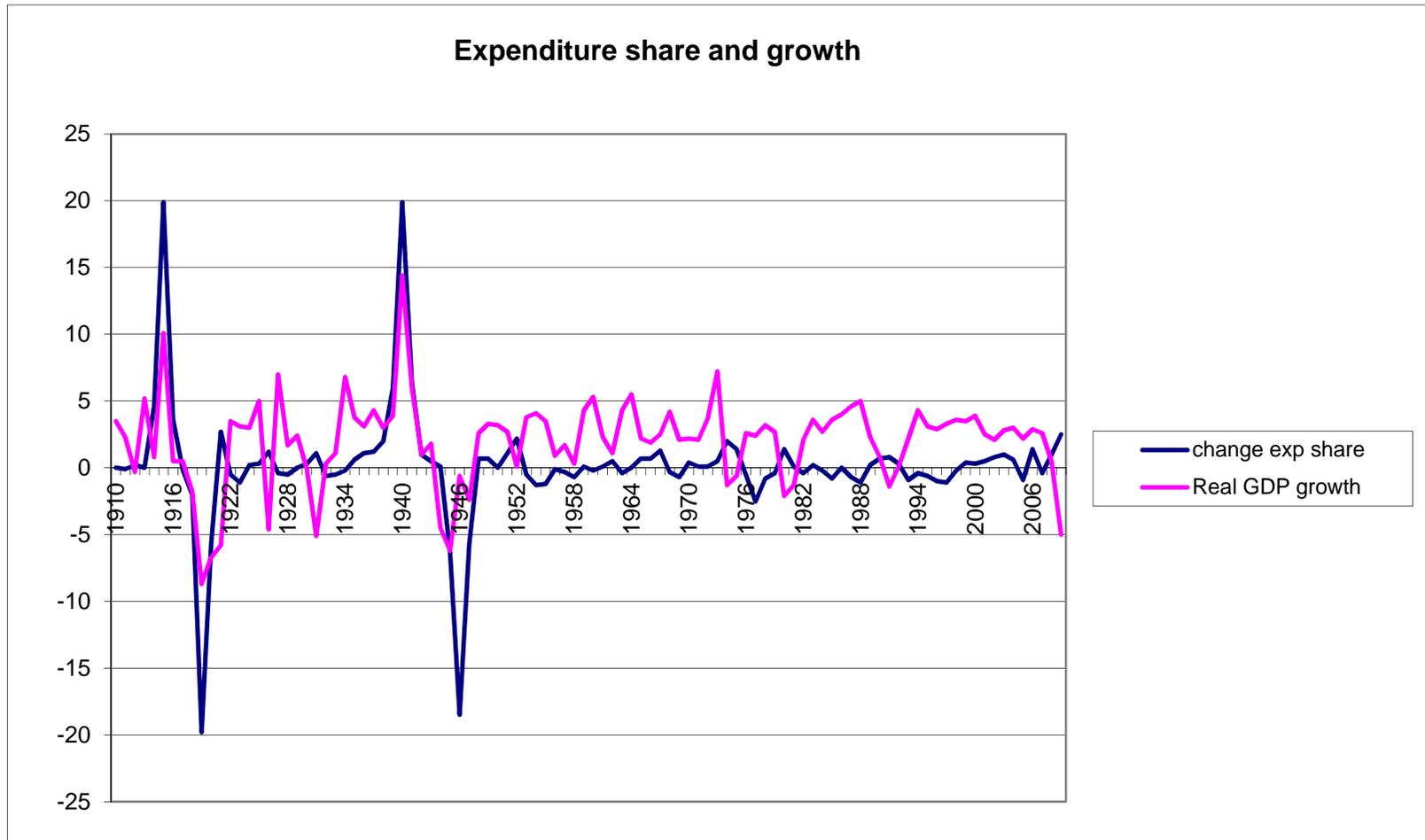
Source: ONS, Annual Business Inquiry

Public sector expenditure per region as a share of GDP (2008/09)

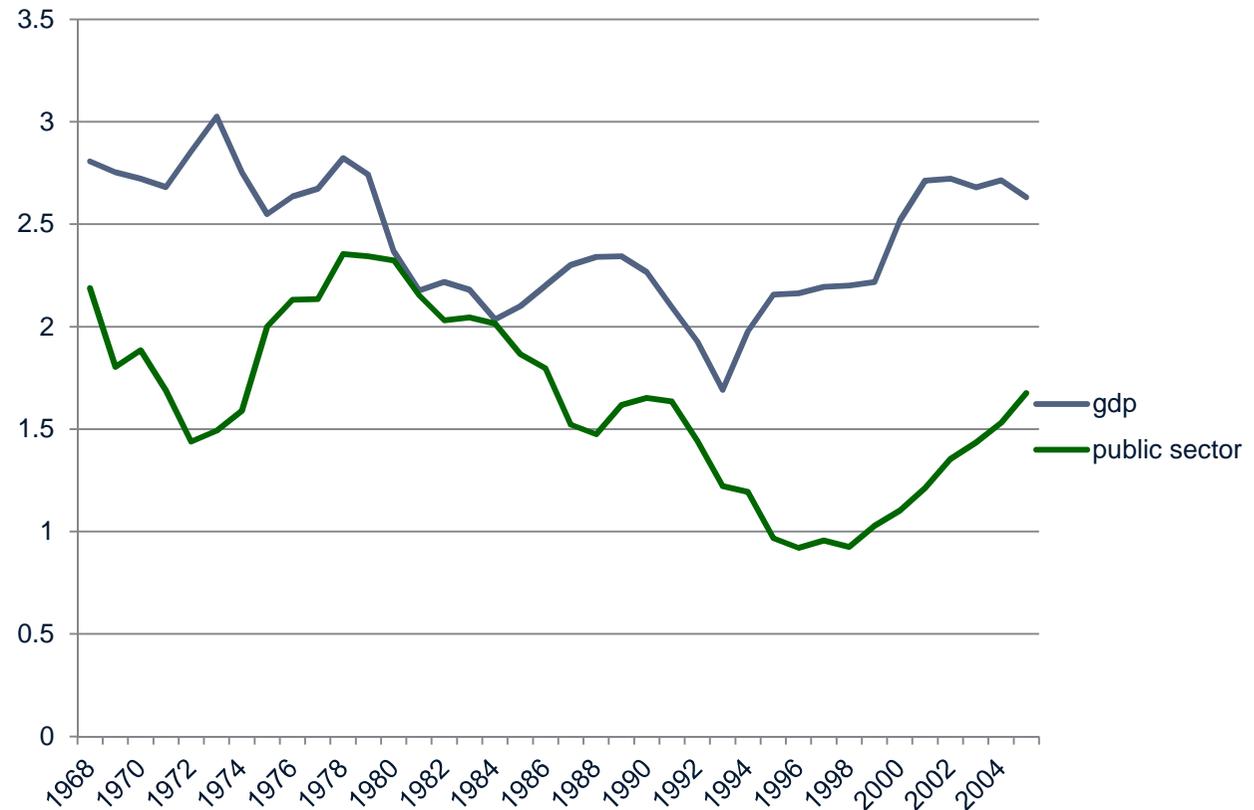


Source: CEBR

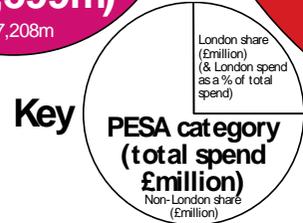
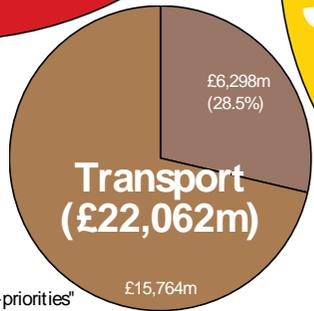
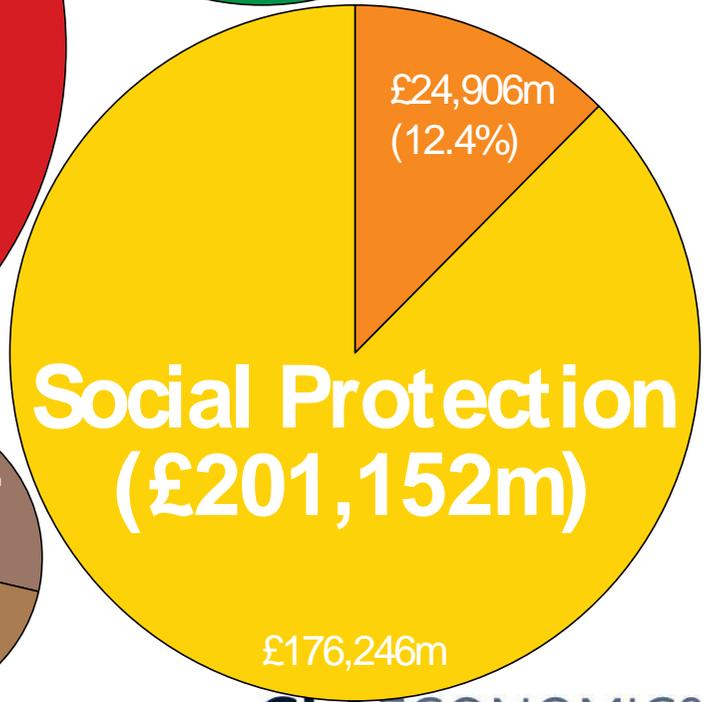
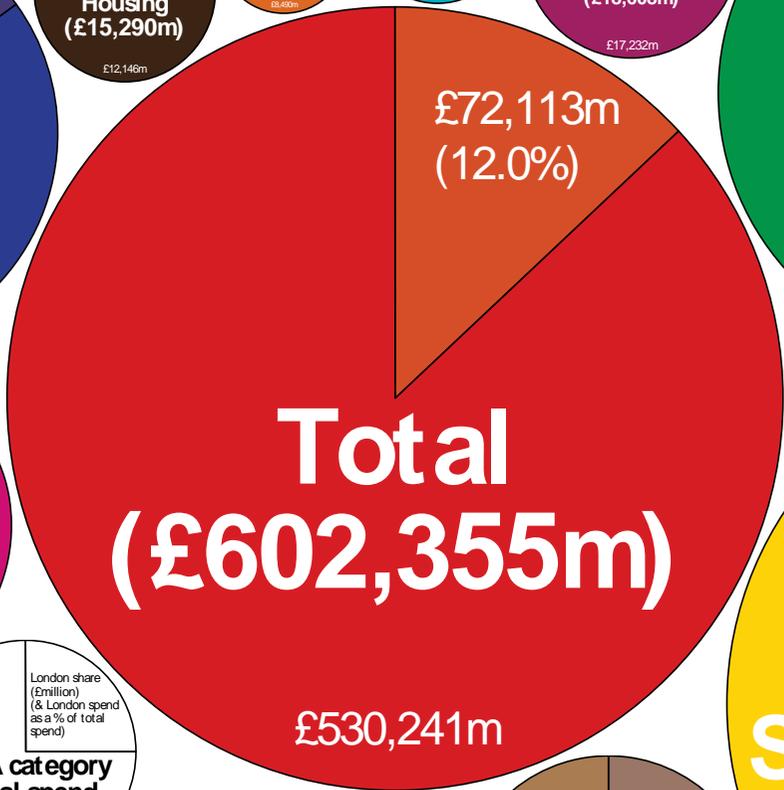
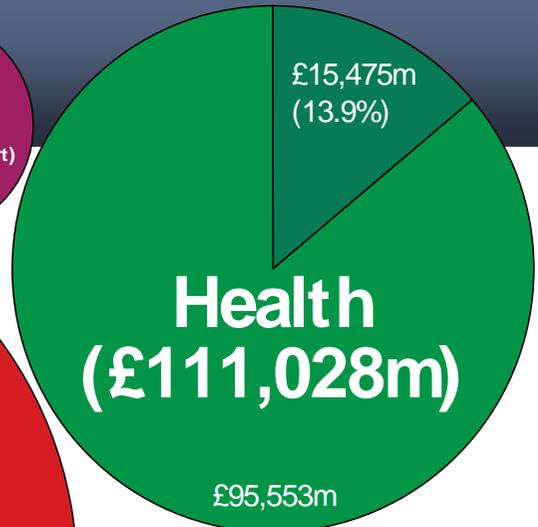
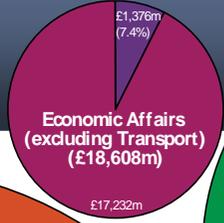
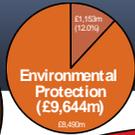
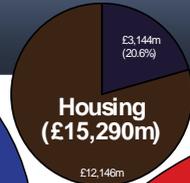
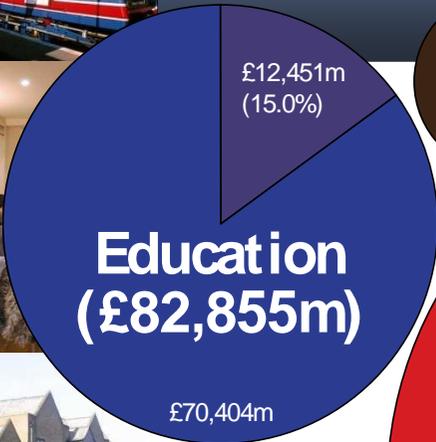
Change in share of public sector and growth



Rolling average growth and public sector



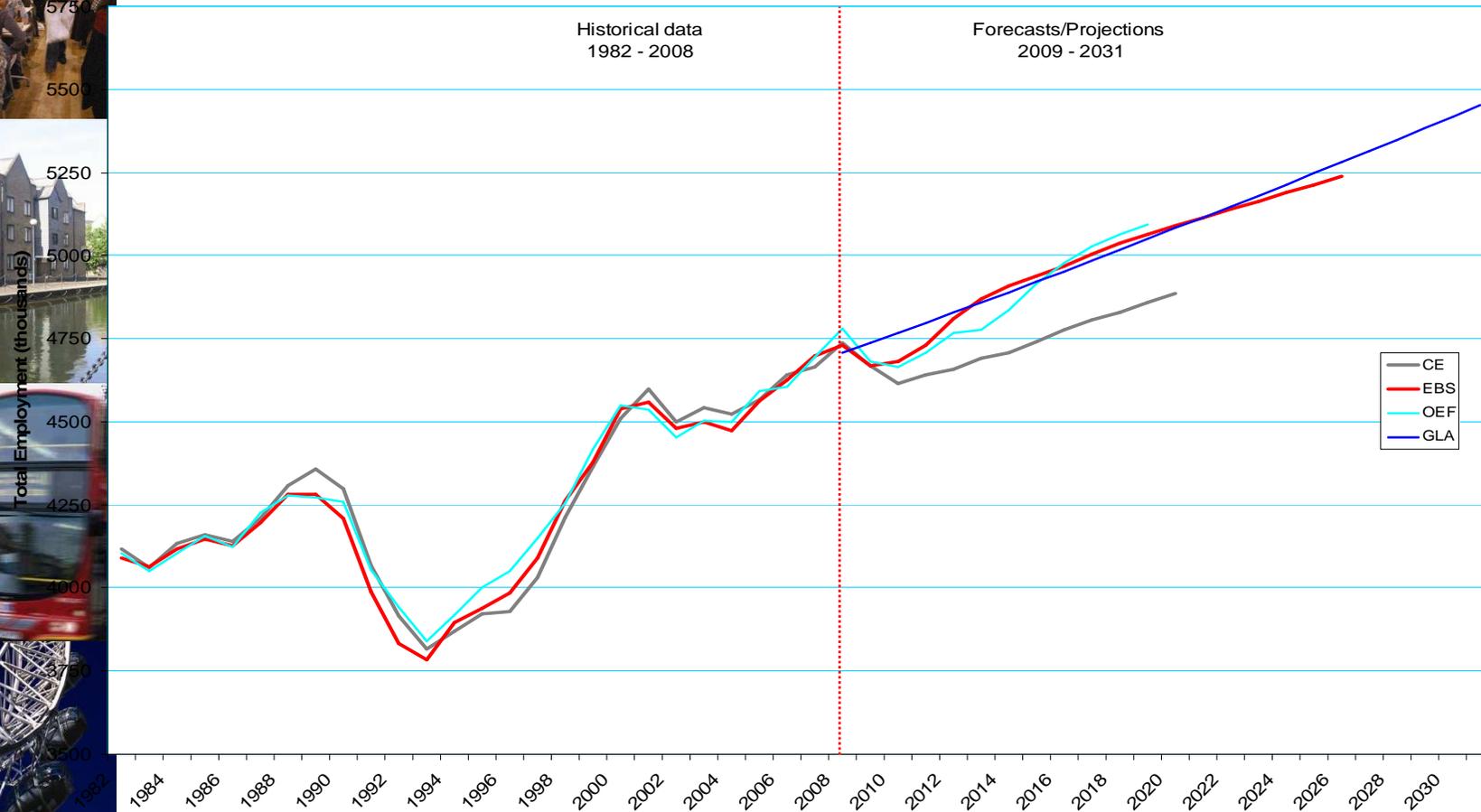
Public expenditure on main services, (2008/ 09)



Circle size indicative of total spend
 Public Expenditure Statistical Analyses (PESA) categories are based on the UN Classification of the Functions of Government as detailed at <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4&Lg=1>
 Environmental Protection and Total data taken from from the PESA Country & Regional Analysis http://www.hm-treasury.gov.uk/pepub_country_regional_analysis.htm
 London data from Public Spending Priorities in London <http://www.london.gov.uk/who-runs-london/mayor/publications/business-and-economy/public-spending-priorities>

Employment Growth Projections

Employment forecasts for London by various forecasters and the GLA's long-run employment projection to 2031



© GLA Economics based on information from EBS, CE and OE

Risks

- Bank finances and regulation
- Delivery of new models of public services
- Innovation and confidence

