

# London's Economy Today



Issue 22 | June 2004

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## Interest rates rise again as economy gathers pace

by Christopher Lewis, Senior Economist

**At its meeting on 10 June 2004, the Bank of England's Monetary Policy Committee (MPC) raised interest rates by a quarter of a percentage point to 4.5%. In explaining its decision the MPC mentioned a continuing global economic recovery alongside UK output growth remaining around, or above, trend.**

With a tightening labour market, rising cost pressures and buoyant housing market combined with household and public sector spending that have grown strongly, the MPC decided to make the first back-to-back increase in interest rates since January and February of 2000 (see Chart 1, page 2). UK inflation (measured by the consumer price index) reached its highest level in over a year at 1.5% in May (from 1.2% in April), but still remains below the Bank of England's 2% target.

The London economy probably has more potential to grow before causing inflationary pressures than the Bank of England believes is the case for the UK economy as a whole. London's growth rate, although accelerating, is still below the UK rate and significantly below the South East, which also had a shallower downturn. London's unemployment rate also remains persistently above the UK average and London's house price growth, despite remaining robust, is significantly below that of the UK as a whole and especially the north of the country. Employment growth in London is slightly above that of the UK. However, this needs to be set against the previous falls, whereas the rest of the UK only experienced

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## Latest news...

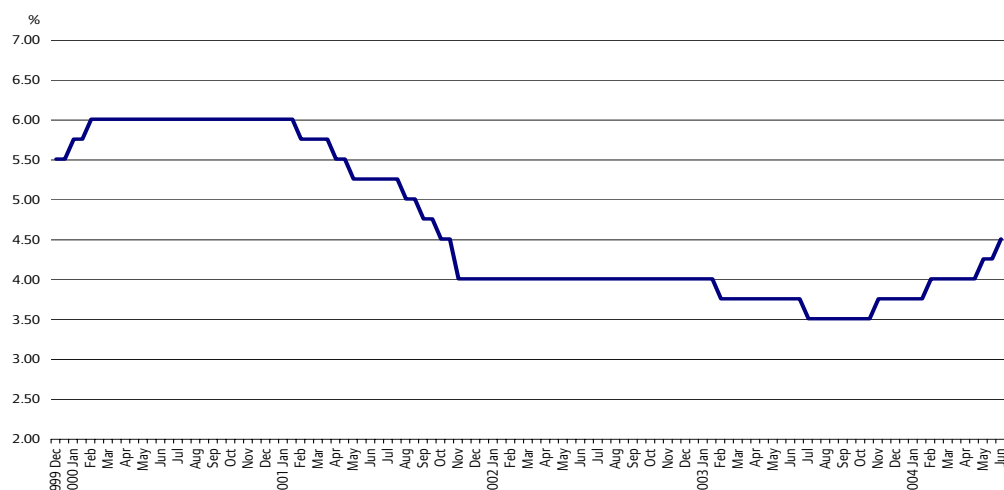
**Mark your diaries.** GLA Economics invites you to attend their forthcoming half-day seminar:

**Bridging the Gap – Infrastructure investment, accessibility and the London economy.** The Seminar will examine how we can understand the linkages between infrastructure investment and London's economy and how this affects the ways we evaluate infrastructure spending in cities. Speakers include GLA Economics' Bridget Rosewell and Christopher Lewis and private industry speakers Paul Buchanan (Colin Buchanan and Partners) and Paul Ormerod (Volterra Consulting).

There is no charge to attend the seminar which will be held on Tuesday 6 July 2004 from 9am – 1:30pm at City Hall. RSVP by Friday 25 June 2004 to [glaeconomics@london.gov.uk](mailto:glaeconomics@london.gov.uk) or phone 020 7983 4922.

**Chart 1. Bank of England's Repo Rate**

Source: Bank of England



Overall, the UK economy has continued to recover with especially strong growth in the consumer sector of the economy. Despite increases in interest rates since November consumer confidence remains high and house price growth is currently robust. Official figures show that retail sales are rising and mortgage borrowing reached record levels in April. According to the Bank of England, UK consumers now owe just short of £1 trillion. The Office of National Statistics' figures showed that manufacturing output grew by a stronger than expected 0.9% in April (the first increase for three months and the fastest rate since 2002) after falling by 0.3% in March.

Survey data also suggests that the near term outlook for the economy is healthy. One Confederation of British Industry (CBI) survey showed that retail sales were growing at their fastest pace for over two years, with the footwear and leisure sector enjoying its best year-on-year sector growth since April 1990. Another CBI survey confirmed that UK manufacturing now seems to be recovering with output expectations at their strongest level since May 1999. According to the Engineering Employers' Federation, manufacturing output and orders are growing at their fastest rate in more than seven years.

### London's accountants feel confident

Confidence in the London economy seems to be increasing. A report from the Institute of Chartered Accountants has shown that London's accountants are more confident about business prospects than fellow accountants in the rest of the country. New orders and business activity in London remains encouraging. The Purchasing Managers' Index (PMI) measure of new orders for London firms continues to expand strongly and rose to 58.5 in May from 57.4 in April. The PMI measure of business activity in London (at 57.0 in May) was also significantly above 50, which is the level consistent with stable activity. Additionally, there has been a small recovery in tube passenger numbers and the average rate of growth in bus passenger numbers remains strong. The prospects of an upturn in office rents in the City of London, however, are mixed. The level of inquiries has picked up but moderate growth is unlikely to be seen until 2005 at the earliest.

### OPEC increase output quotas and oil prices fall back slightly

On 3 June OPEC announced it would increase its oil output quotas (from 23.5mbpd) by 2mbpd on 1 July, followed by a further rise of 0.5mbpd on 1 August. This new quota only legitimises existing output, but the higher quota gives OPEC the scope to increase production further. The quota increase alongside the news that OPEC was actually producing above this new production ceiling in May has helped to ease oil prices back to levels last seen in April. Oil prices have fallen back around 10% from their closing highs on 1 June. OPEC will meet again on 21 July to review the oil market and if prices by then have reversed the recent fall they may even temporarily suspend their quota

system altogether.

### **The international economic environment**

The impact of higher oil prices in 2004 compared with the last few years is starting to have a small but still negative impact on parts of the international economy, especially in eurozone countries. Consumer inflation in the eurozone rose to 2.5% in May, from 2% in April, and the European Commission said high oil prices would reduce annual eurozone GDP growth by 0.2%. This is bad news for the current economic recovery in the eurozone, which is still modest and largely export led. Domestic demand, retail sales, investment, business confidence and consumer confidence are all still weak and German unemployment rose for a fourth month in a row in May.

Positive industrial output data alongside falling unemployment however have reinforced hopes of a sustained recovery in Japan, the world's second biggest economy. Real growth in the first quarter of 2004 has been revised up to 1.5%. There is also some evidence that the export led recovery, due to a large degree by booming export demand from China, is now feeding through to the rest of the Japanese economy.

US output and employment also continues to make a strong recovery. Surveys suggest that industrial production rose in May with some respondents saying that order backlogs were building up for the first time in several years. Car sales also surprisingly picked up in May despite the high oil price, but consumer confidence declined and many believe this is due to higher energy prices. Core consumer price inflation, which excludes volatile food and energy prices, increased by 0.2% in May and at an annual rate of 1.7%. Despite this relatively low core inflation rate the Federal Reserve is still expected to tighten monetary policy.

### **Conclusion**

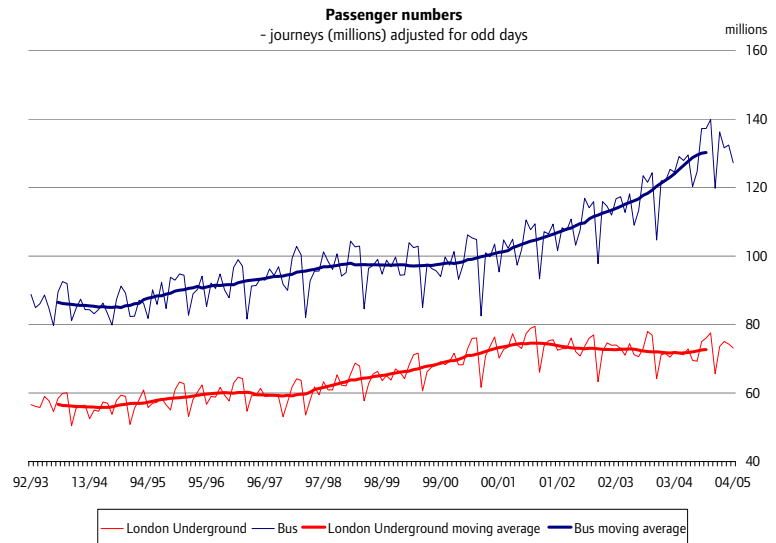
Healthy growth over the summer continues to be the most likely outcome for the London, UK and world economies. The increase in UK interest rates should be seen against this positive economic backdrop and at 4.5% they are still low by historic standards. However, they may well continue to rise faster and to a higher level than was previously expected if the economy continues to grow strongly. Oil prices have fallen back from their peak at the beginning of June so if this trend continues the negative impact that high oil prices exert on the world economy will be relatively small. However, any major disruptions to the world's oil supply from terrorist activity would be a significant risk to the strengthening world economy.

## Passenger numbers grows

- The sustained growth in the number of passenger journeys is continuing.
- In the most recent period there were more than 127 million bus journeys in London. This is lower than the peak a few months ago but is in line with the overall trend.
- The London Underground had over 73 million passenger journeys in the most recent period. This reflects a gradual upturn in the number of tube passengers.

Latest release: 02/06/04

Next release: July 2004



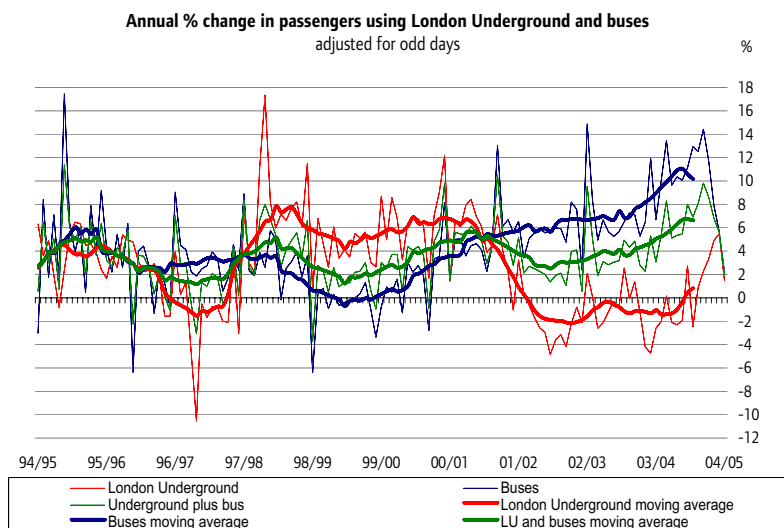
Source: Transport for London

## Tube decline reversed

- The rate of growth in total passenger journeys has decreased in the most recent periods.
- The slowdown in the rate of growth is attributable to bus journeys in which the average annual rate of growth decreased slightly to 10% but remains at high levels.
- There is a small recovery in Underground passenger numbers. The average annual rate of growth is now around 0.8% and so reversing the decline of recent years.

Latest release: 02/06/04

Next release: July 2004



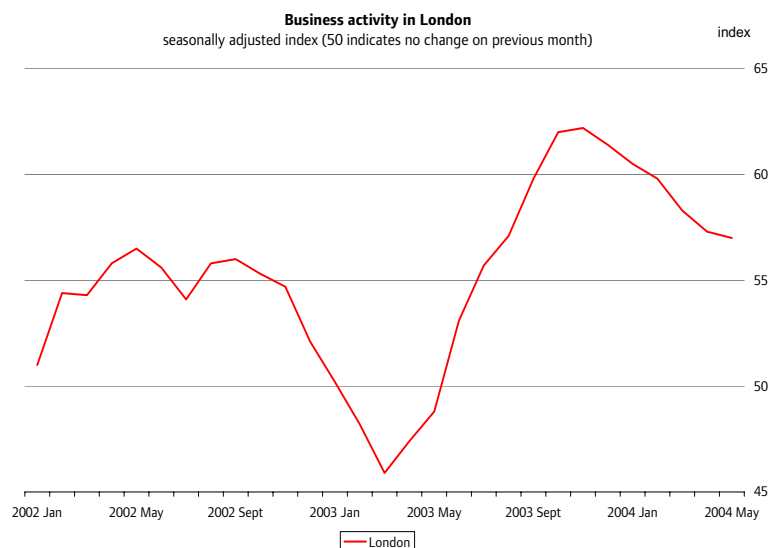
Source: Transport for London

## Business activity in London continues to expand

- London firms continued to expand output in goods and services in May but the rate of growth declined slightly.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.0 in May 2004 (down 0.2 points from April but still higher than 50 which indicates no change).

Latest release: 14/06/04

Next release: July 2004



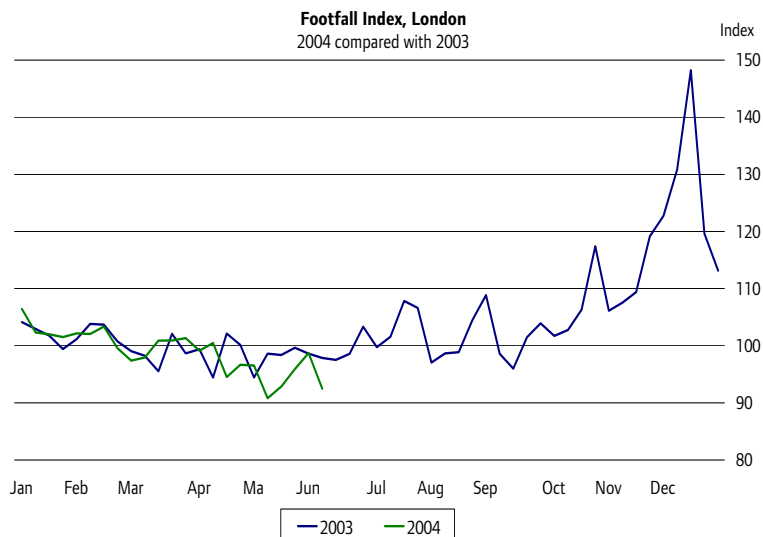
Source: PMI/Royal Bank of Scotland

## Dip in number of shoppers

- The FootFall index rose from mid-May, but dipped again at the beginning of June, just after the bank holiday weekend.
- The current level of the index is below the level of the same time last year.
- The FootFall index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: 07/06/04

Next release: every week



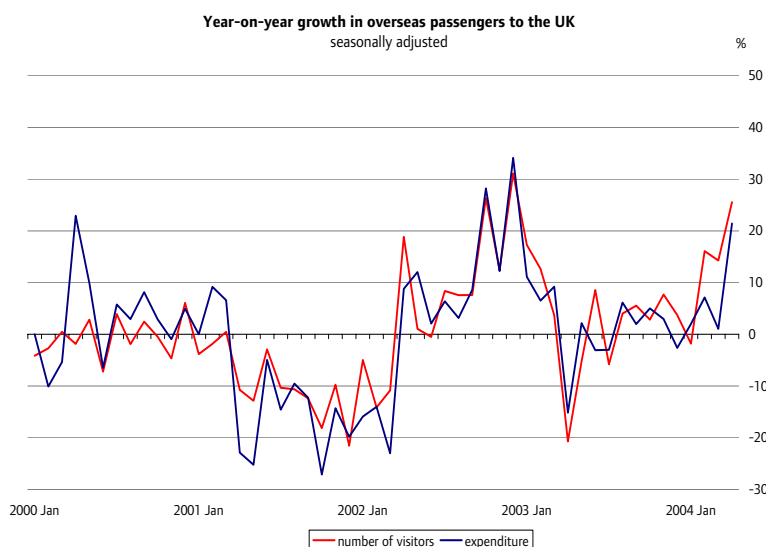
Source: FootFall Limited

## Tourism numbers grow

- The number of overseas visitors to the UK was 26% higher in April 2004 than April 2003. This was the highest annual rate of growth since December 2002.
- Expenditure by overseas visitors recovered strongly, growing by 21% between April 2003 and April 2004, also the strongest growth since December 2002.

Latest release: 09/06/04

Next release: 07/07/04



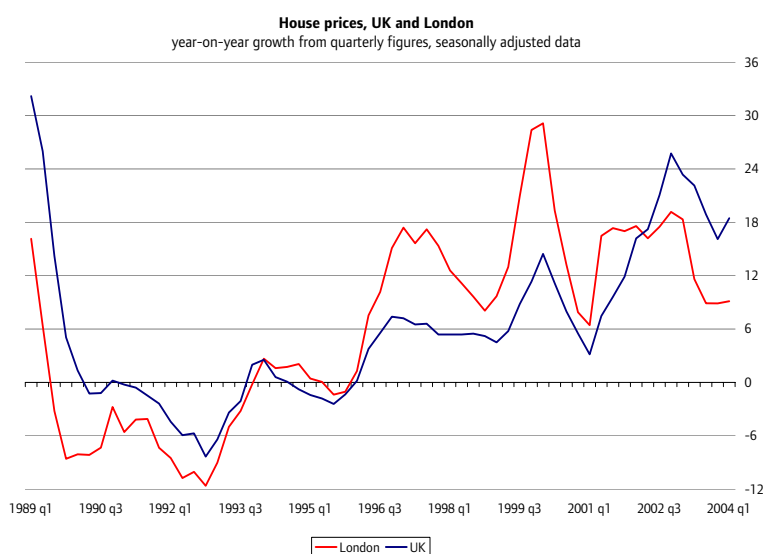
Source: Office of National Statistics

## Continued growth in UK housing market

- New figures from the HBoS house price index show an increase in UK house price inflation in Q1 2004 to 18.5%.
- This followed a slowdown in house price growth rates over the previous few quarters.
- London's house price inflation on this measure was 9%, little changed from the previous quarter, but half the rate for the UK.

Latest release: 02/04/04

Next release: July 2004



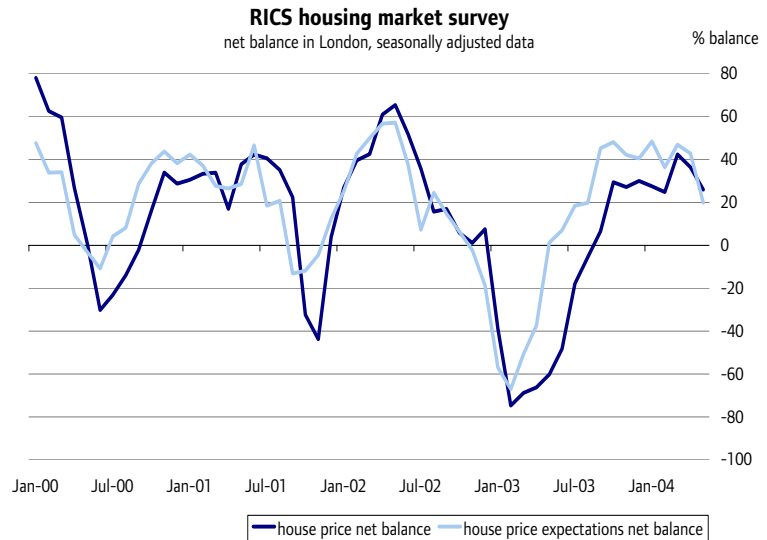
Source: HBoS

## London house price expectations less strong

- The RICS survey shows house price growth remains robust in London but is less strong than it was earlier in the year.
- Expectations of house price growth fell in May 2004 to +19% from +42% in April.
- Although both the reported and expected house price balances are lower than in recent months, they are still relatively strong.

*Latest release: May 2004*

*Next release: July 2004*



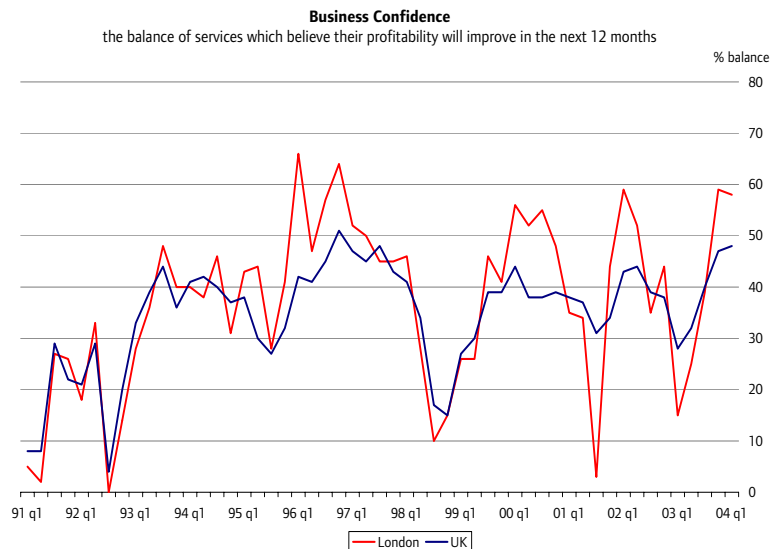
*Source: RICS*

## Business confidence high

- The survey from the Chamber of Commerce shows business confidence remains high in London.
- The balance of businesses in services that believe profitability will increase over the next 12 months is 58%.
- London businesses in services are more confident of increasing profitability than across the UK as a whole (+48%).

*Latest release: 15/04/04*

*Next release: July 2004*



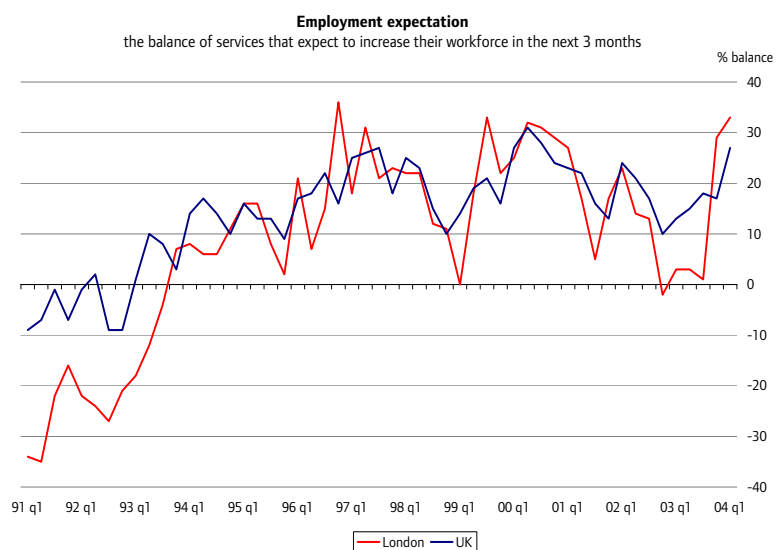
*Source: British Chamber of Commerce*

## Employment confidence increases

- Business confidence in terms of employment growth is increasing in London. The balance of businesses in services that expect to increase the size of their workforce over the next 3 months is +33%.
- London businesses in services are more confident of increasing employment than the balance across the UK as a whole (+27%).

*Latest release: 15/04/04*

*Next release: July 2004*



*Source: British Chamber of Commerce*

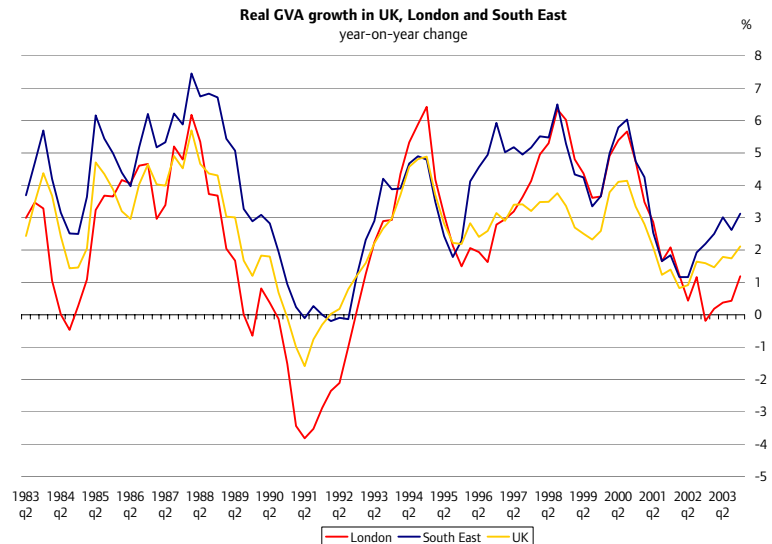


## Recovery in economic growth

- London's annual growth in output recovered in the final quarter of 2003 to 1.2%.
- London's growth rate is slower than its neighbouring regions. The South East region's annual growth is over 3%.

Latest release: May 2004

Next release June-July 2004

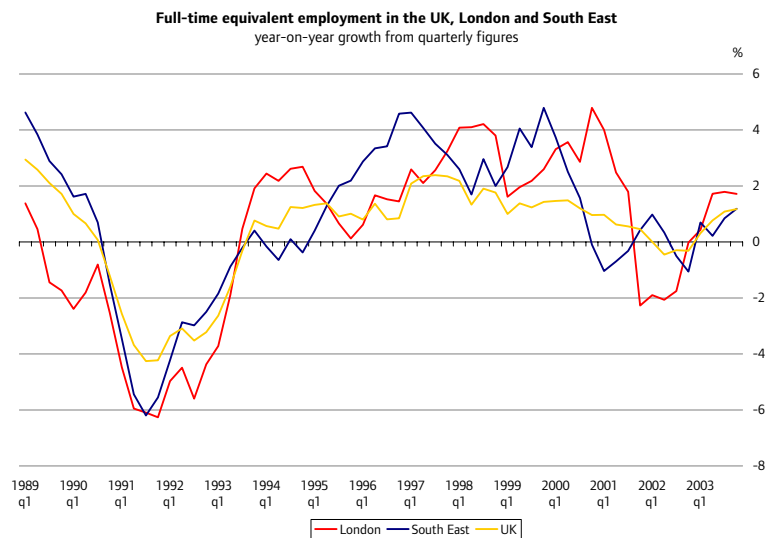


## Employment growth stronger in London

- London's year-on-year employment growth stood at 1.7% in the final quarter of 2003, sustaining the rate for much of 2003.
- London's employment growth performed more strongly than the UK's 1.2%.
- London is also increasing jobs at a faster annual rate than its neighbouring South East region.

Latest release: May 2004

Next release June-July 2004

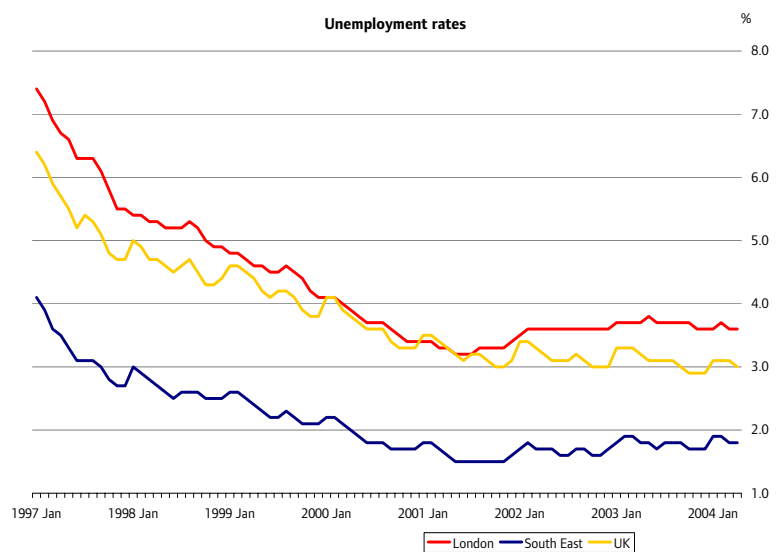


## Unemployment rate remains low

- London's claimant count unemployment rate has remained at historically low levels of around 3.5% for 4 years.
- Even so, London's claimant rate of unemployment is persistently above the UK average of around 3%.
- London's neighbouring South East region has a lower claimant unemployment rate of 1.8%.

Latest release: 12/05/04

Next release June 2004



by Margarethe Theseira,  
Damian Walne and  
Matthew Waite

## **GLA Economics has a number of projects and studies planned for the rest of 2004. Below is an overview of three forthcoming studies – gender pay differences, the construction industry and the retail sector.**

### **London's lost potential – are women workers worse off?**

There has been a lot of media coverage recently stating that the gender pay gap has increased by 5% over the past 13 months to stand at 24%<sup>1</sup>. For every £1 that a male earns a female earns 76p. There are several possible explanations for this such as differences in education levels; the types of jobs men and women do; and levels of seniority within different industries, not to mention sexual discrimination. GLA Economics is conducting a study to analyse gender pay differences in London. The final report will consider what can be explained by the unique character of London-based jobs and London's population and will also consider what remains 'unexplained'.

Most research analysing female participation in the labour market is at a national level rather than a regional level. GLA Economics is specifically researching women and the London economy. This will identify gaps in the existing literature and then work towards filling these gaps to enable better-informed policy making by the Greater London Authority group.

London women are less likely to be working than women nationally. Of working aged women in the UK, 72.7% have a paid job of some form; in London this is only 67.6%<sup>2</sup>. While London women who do not have children are about as equally as likely to be employed as elsewhere in the UK, this is not the case for women with children. Nationally about 65% of women with children get some kind of wage – in London this is only 53%. Where London women have children under the age of five, their employment rate drops still further to only 42%. These worrying figures need further analysis to try and understand their cause.

Our research will analyse data from the Annual Business Inquiry, New Earnings Survey, Annual Labour Force Survey and the Census to draw together a comprehensive understanding of how women are participating in London's unique economy. Demographic issues will be investigated including how many working aged women there are, when they are having children and whether they choose to remain single. We intend to provide a comprehensive overview of the economic activity rates for women using the latest available data and look at the number of women who are working full-time or part-time by a range of characteristics including age, ethnicity and disability.

London's economic structure will be analysed to determine how it has changed over time, which industrial sectors are growing and what opportunities these sectors will offer women in the future. We will also be providing an estimate of the loss to London's economy from the under-representation of women.

#### **(Footnotes)**

<sup>1</sup> Daily Telegraph 01/06/04 p2

<sup>2</sup> Source of data Annual Labour Force Survey 2002/03



Occupational quotients will be calculated to determine which occupations and industries have a female concentration or lack of female workers. This will include looking at differences in wages for the most common jobs for males and females in London. As evidence shows a lack of women at board level and in senior management positions in the UK, our research will determine the extent of this under-representation within London.

Female-owned businesses will be analysed to identify any differences with male-owned businesses. Finally, we will conduct qualitative research to determine what London women see as barriers and opportunities to their working lives. A policy and legislation review will set the context for this research. The first report is planned for November 2004.

### **Building up London – Construction in the capital**

GLA Economics is researching London's construction industry. The project's steering group has been established and includes representatives from the Greater London Authority, London Development Agency and the Department of Trade and Industry. The study aims to look at London's construction industry and consider how it can meet the needs of London's expanding economy and population.

The core objectives of the study include:

- Establishing appropriate definitions of the construction industry. Construction is a complex sector and must be considered as a range of complementary sub-sectors that come together to complete buildings and civil engineering projects.
- Developing the context of national construction activity today and its historical trends. Almost half of construction activity is repairs and maintenance rather than new buildings. Up to a quarter of all spending on new construction today is from the public sector with spending on schools, healthcare and transport infrastructure. The industry is historically highly sensitive to changes in the overall economy.
- Understanding the nature of construction in London and identifying if this differs from the rest of the UK. The scale and scope of construction in London is likely to be different from that nationally. London's recent economic and population growth has placed greater demands on the industry.
- Establishing how the UK construction industry compares with other countries. International comparisons of construction are difficult, often because of the varied nature of buildings and housing. However, the productivity of construction in the UK is widely believed to be poorer than that in the USA or France.
- Understanding the pattern of construction businesses in London. The role of small and large firms will be considered. An understanding of the nature of employment in the industry will be developed with specific consideration given to self-employment, different occupations and skills, and the composition of jobs by gender and ethnicity.
- Anticipating London's likely future demand for construction. London's population is projected to increase from 7.6 million to 8.1 million people by 2016 creating greater demands for housing and infrastructure. London has a

series of major projects such as Heathrow Terminal 5 and continuing physical regeneration in Canary Wharf, King's Cross and the Paddington Basin. There are also potential new projects such as Crossrail or a successful Olympic bid.

The study will consider the implications and the role of policy for London in meeting its construction needs. The potential shortfalls in resources, the number of businesses, and construction employment and skills will be identified.

### **Bread, milk, eggs and the economy – Understanding retail**

GLA Economics is helping inform retail policy makers by conducting a study into this key London sector. A project steering group has been set up which includes representatives from the London Retail Consortium, London First, New West End Company, Skillsmart, the Office of the Deputy Prime Minister (ODPM), Transport for London and the London Development Agency. The study will provide data and analysis to help the Greater London Authority and those working on retail issues in London better understand:

- How London's retail economy works.
- The economic contribution retail makes.
- How effective competition in London's retail sector can be encouraged to create greater choice, increased productivity and lower prices.
- Whether there is a need for distinctive policy approaches to deal with the issues facing West End retailers.
- The employment potential retailing has for particular labour market groups.
- How the congestion charge has impacted on London's retailers.
- How the planning regime affects London's retailers (including a consideration of all benefits and costs).
- How retailing might contribute to the regeneration of areas in London.
- The transport implications of retail in London.
- What future changes (eg the internet) are likely to impact on retail.

One of the study's main tasks will be to investigate London's various retail markets. This understanding is necessary if the issues relevant to various retailers are to be effectively considered. For instance, not all of the issues relevant to a newsagent in West Wickham are likely to be relevant to Versace in New Bond Street – but both are members of the retail sector.

In investigating the retail sector, the study will use a range of information and data sources including previous Competition Commission reports; Mintel, Keynote and other retail sector market reports; the Family Expenditure Survey (for information on how London consumers spend their income); the Annual Business Inquiry (for data on the number of retail businesses, retail employment and its geographic location); the New Earnings Survey and the Labour Force Survey (for data on retail and the labour market); and town centre statistics from the ODPM. As a specific focus of the study will be on London's small retailers, alternative means of gathering information relevant to these retailers are being investigated.

As the study progresses, a number of relatively short reports on specific areas (eg retail and the London labour market, grocery retailing) will be produced for consideration by the steering group. These papers will be distributed to other interested parties to check our understanding of the issues. The project's main output will be a report that will provide policymakers with the data and analysis to make effective decisions regarding London's retail sector.

## Data sources

<b>Tube and bus ridership</b>	Transport for London on 020 7941 4500
<b>GDP/GVA growth</b>	Experian Business Strategies on 020 7630 5959
<b>Tourism – overseas visitors</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
<b>Tourism – domestic visitors</b>	<a href="http://www.visitlondon.com">www.visitlondon.com</a>
<b>London airports</b>	<a href="http://www.caa.co.uk">www.caa.co.uk</a>
<b>Business activity</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<b>Employment</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<b>London FootFall</b>	<a href="http://www.footfall.com">www.footfall.com</a>
<b>Office space demand</b>	<a href="http://www.cbhillierparker.com">www.cbhillierparker.com</a>
<b>House prices</b>	<a href="http://www.nationwide.co.uk/hpi/">www.nationwide.co.uk/hpi/</a>
<b>Unemployment rates</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>

## 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.

### Claimant count rate

Unemployment rate based on the number of people claiming unemployment benefits.

### Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

### FootFall Index

Measures the average number of people passing through London shopping centres on a weekly basis. This index is positively correlated with UK retail spending so it can provide an indication of consumer spending in London.

### 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.

### ILO unemployment rate

The International Labour Organisation's calculation of the number of people out of work.

### 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 – twelve 28-day periods and one 29-day period. Period 1 starts at the beginning of the financial year rather than the calendar year.

# Acronyms

<b>ABI</b>	Annual Business Inquiry	<b>IMF</b>	International Monetary Fund
<b>BAA</b>	British Airports Authority	<b>LCCI</b>	London Chamber of Commerce and Industry
<b>BCC</b>	British Chamber of Commerce	<b>LET</b>	London's Economy Today
<b>BITOA</b>	British Incoming Tour Operators Association	<b>MPC</b>	Monetary Policy Committee
<b>CAA</b>	Civil Aviation Authority	<b>ODPM</b>	Office of the Deputy Prime Minister
<b>CBI</b>	Confederation of British Industry	<b>ONS</b>	Office of National Statistics
<b>EBS</b>	Experian Business Strategies	<b>PMI</b>	Purchasing Managers' Index
<b>GDP</b>	Gross domestic product	<b>PWC</b>	PricewaterhouseCoopers
<b>GVA</b>	Gross value added	<b>RICS</b>	Royal Institute of Chartered Surveyors
<b>ILO</b>	International Labour Organisation		

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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.

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