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London's Economy Today



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The London economy

Turning the Corner?

By Bridget Rosewell

Indicators for the London economy continue to provide some contradictory messages, but it is possible to tease out an underlying picture which shows that recession is still a fairly distant and probably receding possibility.

The issue for London centres on the travel and tourism industry, at least as far as the short term is concerned, and on behaviour of consumer further out. The Chancellor's Budget has made no dent in this since the changes that he announced make very little difference except at levels of the finer detail.

Use of the transport system

One element of the contradiction is provided by the figures for Tube ridership, measured by the number of passengers in London Underground. This is generally a reliable indicator of the economic performance of the London economy and is published with very little lag. The latest data indicates that the number of passengers in London Underground dropped by 1.0 per cent in February, potentially suggesting a downturn in the London economy.

However, the closure of the Central line during February has distorted this measure, since other transport modes in London reported increases in the number of passengers and their revenues in the same period. In addition to this, the congestion charge was also introduced in this period which seems to have had a short term effect on all transport uses. So only a small proportion of the fall might be attributed to the economy.

Tourism

On the other hand, some parts of the tourism industry are reporting serious difficulties. Air travel has now been hit by the declaration of war, by fears of Severe acute respiratory syndrome (SARS), and the high oil price (though the last of these has now dropped back).

Airport arrivals have plunged into negative territory this month, even though arrivals were up on the previous month. Anecdotal evidence from hoteliers suggests that tourist numbers have been badly affected too, with declines in business of around 10-15 per cent. Similar falls are reported by visitor attractions. However, it will be some time before we have the up to date statistics for - the latest published indicators are for the end of last year and showed a mild recovery. However, any decline now taking place will be from a low base.

Consumers

Although consumer confidence is down, many of the underlying indicators are still healthy. Unemployment is low, and employment has shown some signs of renewed growth. House prices are still moving ahead, though commentators are suggesting that time to sale has increased substantially. Even though prices are likely to stabilise shortly, this does not suggest any significant fall is in prospect. Interest rates remain low and are not likely to increase any time soon. Although current sales are showing falls on last year in March, much of this may be attributed to the late Easter in 2003.

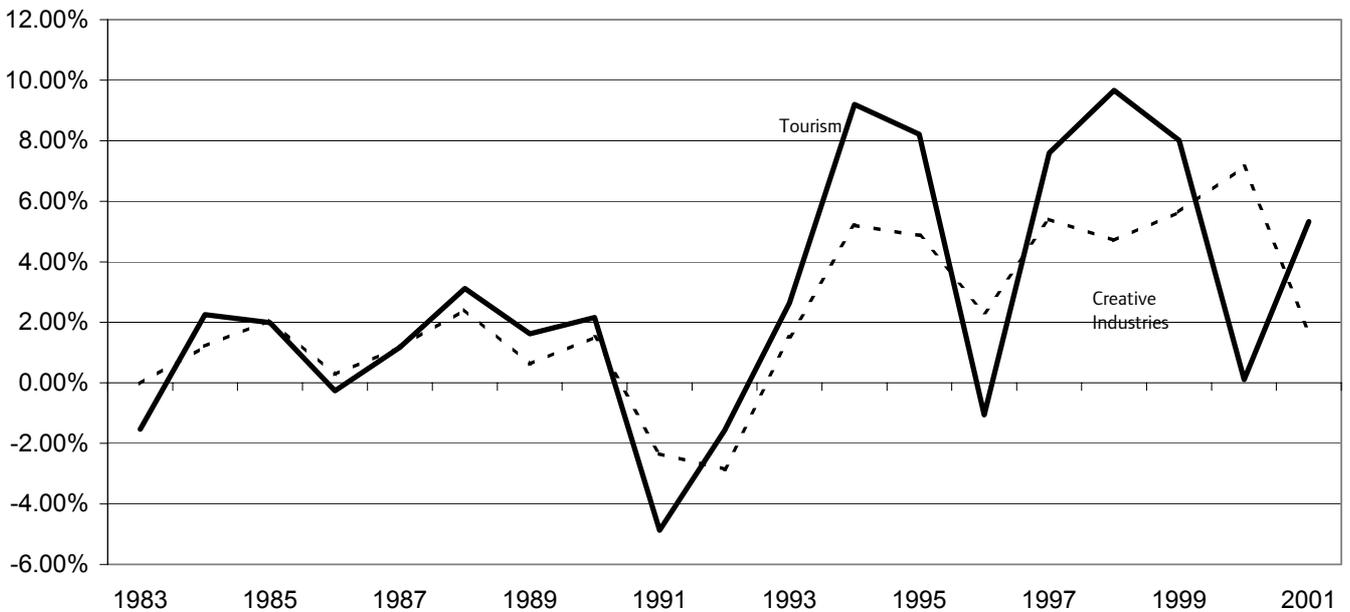
However, retailers in London are particularly affected, especially in the central area, by any drop in visitor numbers. Visitors, or a lack of them, also impact on the creative and cultural industries.

A comparison

The worry of a slowdown in the number of tourists is compounded by the strong contribution that tourism and creative industries have been making to London over recent years. The chart shows some estimates for these sectors over the last twenty years. It is based on detailed employment estimates and their allocation to tourism and creative industries. This is done using sector by sector data.¹

They indicate that, subsequent to the recovery from the recession of the early 1990s, the average growth rate of both sectors has increased, though tourism in particular is quite volatile. Damage to these sectors is now much more significant than before the previous recession.

Tourism and creative industries employment (year-on-year percentage change)



Source: EBS, ABI and GLA Economics

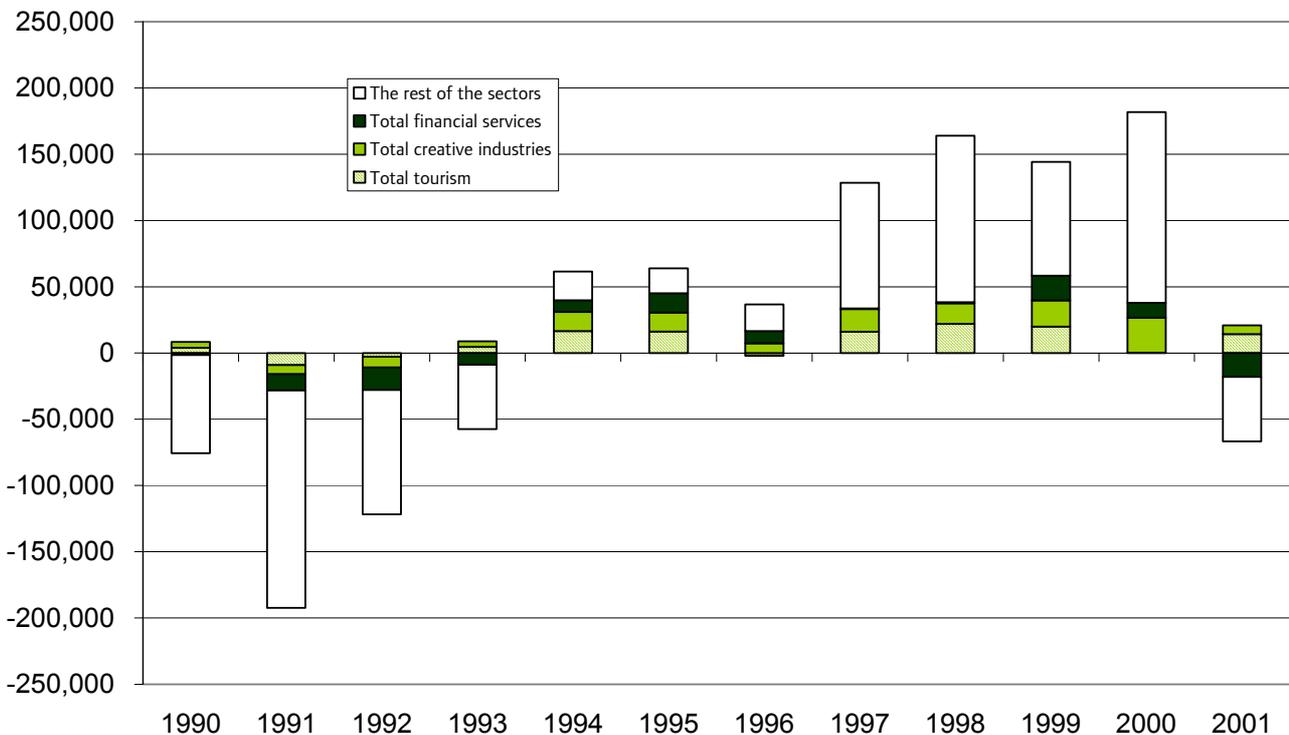
¹ The definitions used are those used in official publications. Allocation has been done at the most detailed level possible but some sub-sectoral allocation has had to be made on the basis of the detail from 2000. The most recent detailed data available is for 2001.

The second chart looks at this in a different way by examining the contribution to the total change in employment year by year. For example in 1997, 1998 and 1999, these two sectors contributed between 20 per cent and 30 per cent of employment growth. In comparison, financial services only made a significant contribution in 1999. Neither sector saw a loss of employment in 2001, though financial services did see a reduction. Initial estimates to the end of 2002 suggest total employment went on falling to the third quarter but stabilised in

the final one. A detailed sectoral allocation is not yet possible for 2002.

The vulnerability of these sectors could constrain recovery of the whole economy if falling visitor numbers produce significant bankruptcies. However, if tourism is able to recover fairly rapidly, then this will buttress the underlying domestic growth which is beginning to resume and will help to maintain consumer confidence and spending.

London employment change (year-on-year, absolute) for various sectors



Source: EBS, ABI and GLA Economics

Economic indicators

Source: TfL

Latest release: 01/04/03

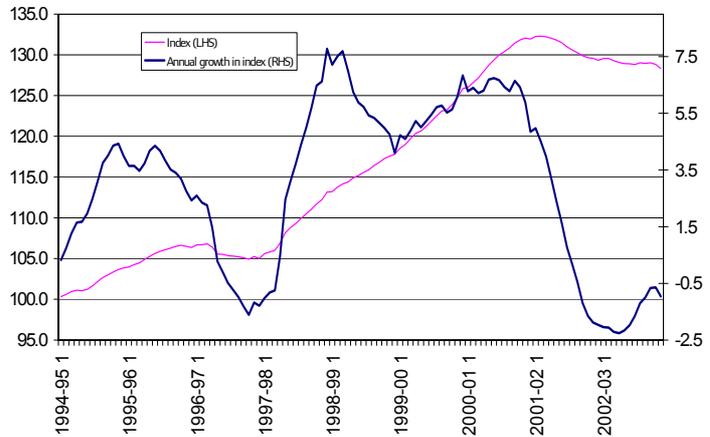
Next release: 29/04/03

- The index of number of passengers in London Underground declined by 0.4 per cent in period 12 (from 2nd February to 1st March 2003) from the previous period (5th January to 1st February).
- Also the annual growth of the number of passengers in London Underground slowed down in period 12, having been rising continuously since its trough in period 4.
- However, the closure of the Central line during February will have distorted this measurement. So this is a blip in the data, rather than an indication of a downturn in London's economy.

London Underground passenger numbers

Moving average index, 1993/94=100

% year-on-year growth



Source: TfL

Source: ONS

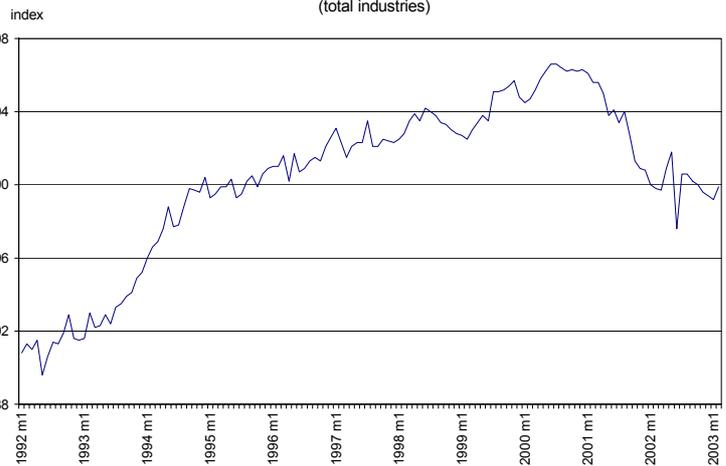
Latest release: 07/04/03

Next release: 09/05/03

- The UK output in all industries recovered in February from the previous month, increasing by 0.7 per cent between these months. This represents the first positive monthly growth since September of last year.
- This rise in the overall UK index was mainly driven by increases in production in the manufacturing industries and in electricity, gas and water supply industries.
- Manufacturing output rose by 0.3 per cent from January to February, and nine of thirteen sub-sectors showed small increases in production.

Index of production

(total industries)



Source: ONS

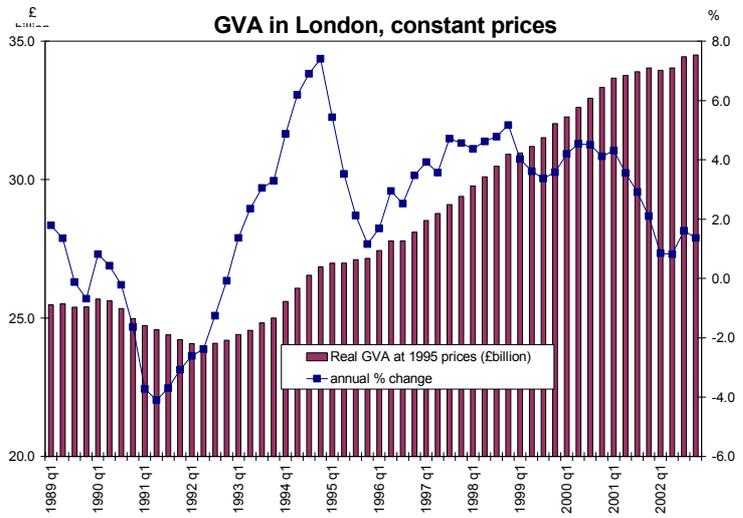
Source: EBS

Latest release: 10/04/03

Next release: not known

- The latest estimate for real GVA in London in Q4 of the last year indicates that the London economy grew 0.2 per cent from the previous quarter.
- This is a slightly slower quarterly rate than 0.3 per cent recorded when London's economy started to slowdown in the second half of 2001.
- The weak increase in output between the third and last quarters of 2002 caused the annual rate in GVA to decline from 1.6 per cent in Q3 to 1.4 per cent in 2002 Q4.

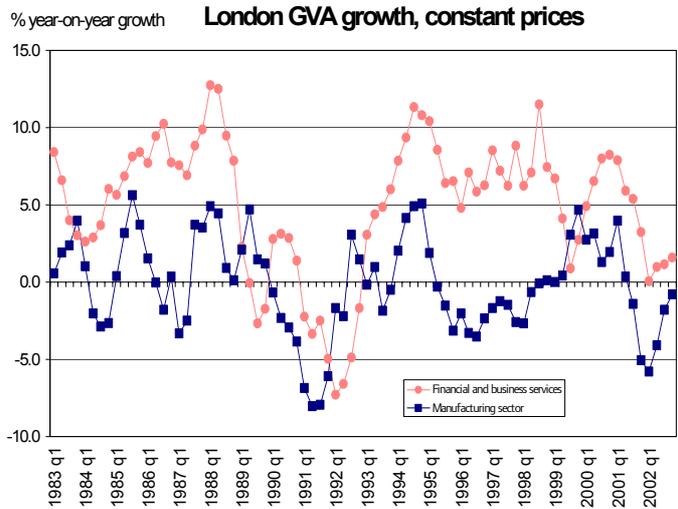
GVA in London, constant prices



Source: Experian Business Strategies

Source: EBS
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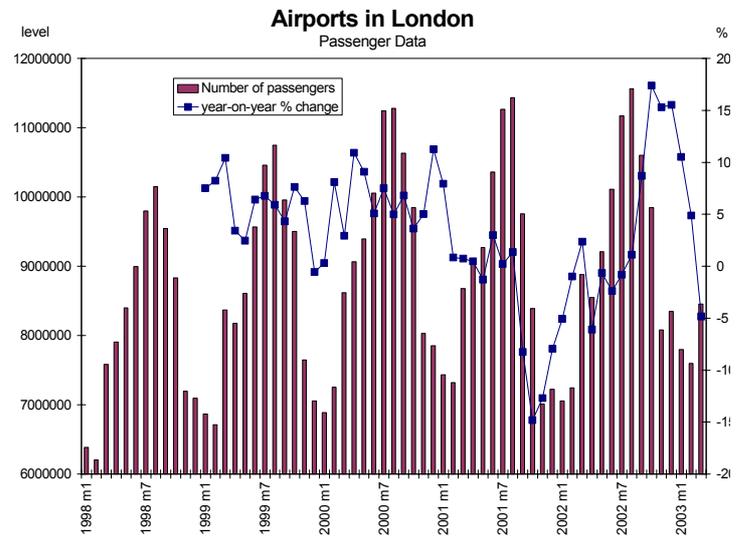
- A breakdown of the real GVA in London by industry indicates that the manufacturing sector continued to register negative growth in Q4 2002. However, manufacturing output has not deteriorated further.
- On the positive side, the financial and business services sector grew by 1.6 per cent in the last quarter of 2002 from the previous quarter.
- This was the strongest year-on-year output growth compared to the rest of the quarters in 2002.



Source: Experian Business Strategies

Source: CAA
 Latest release: 10/04/03
 Next release: not known

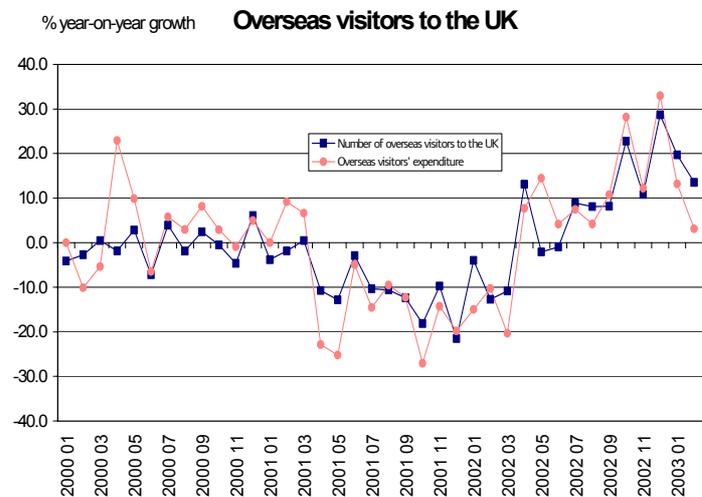
- Provisional figures for the number of passengers in airports in London recovered during March this year, having been weakening since October of 2002.
- The number of passengers using airports in London rose by 11.3 per cent from February. However, given the much higher number of passengers in March 2002 in relation to March this year, this pushed down the annual rate to negative territory. But, the total number of passengers in London's airports over total passengers in UK airports rose to 68 per cent in March from 58 per cent in February.



Source: Civil Aviation Authority

Source: ONS
 Latest release: 8/04/03
 Next release: 9/05/03

- Tourism activity in the UK weakened in February. Between January and February the number of overseas visitors to the UK fell 9 per cent. Nevertheless, the number of overseas visitors to the UK was still 13 per cent above the numbers of visitors coming from abroad in February 2002.
- Overseas visitors' expenditure has been slowing down markedly since December 2002. However, revenues generated from tourists visiting from abroad to the UK are still much higher than those recorded in the aftermath of September 11.

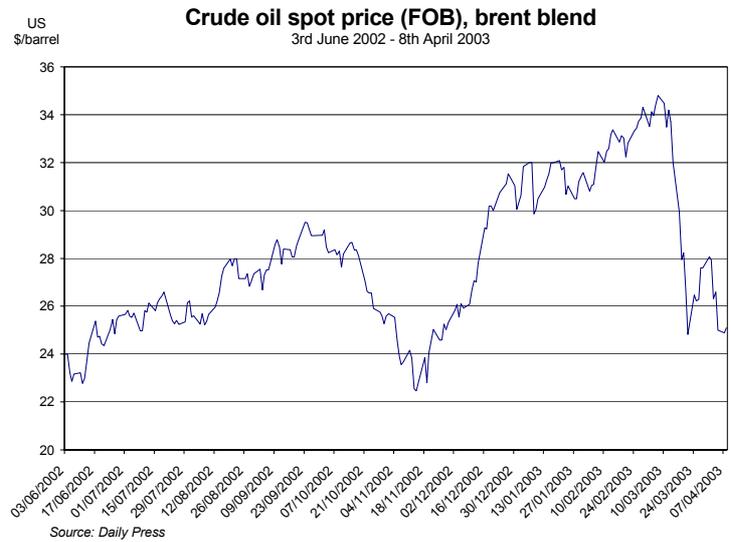


Source: ONS



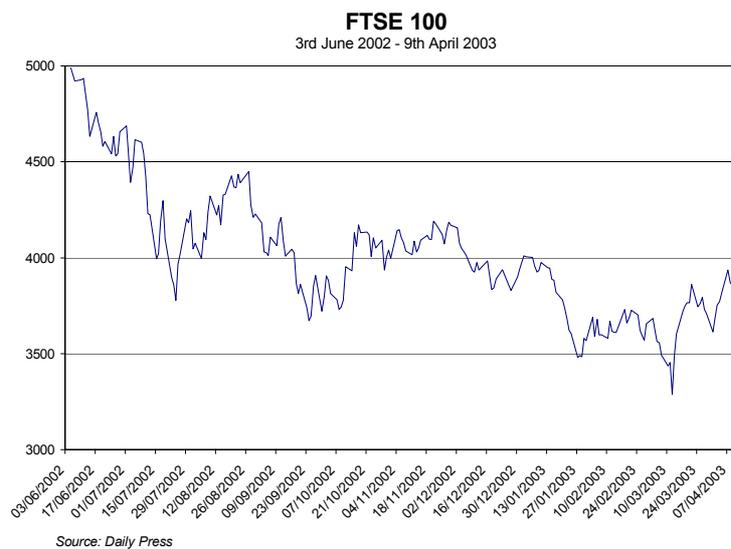
Source: Daily Press
Released: Daily

- Daily Brent crude oil prices have been volatile in the past 30 days, surrounding the pre-War period and when the War in Iraq actually started.
- Crude oil prices rose sharply in the first week of March, reaching almost \$35 per barrel in the pre-War period. Then, prices fell back to levels of \$25 in anticipation to the announcement that the War in Iraq was starting on 19 March.
- Currently, oil prices are at levels when the War was announced, suggesting that investors feel more confident about progress made by US in Iraq.



Source: Financial Times
Released: Daily

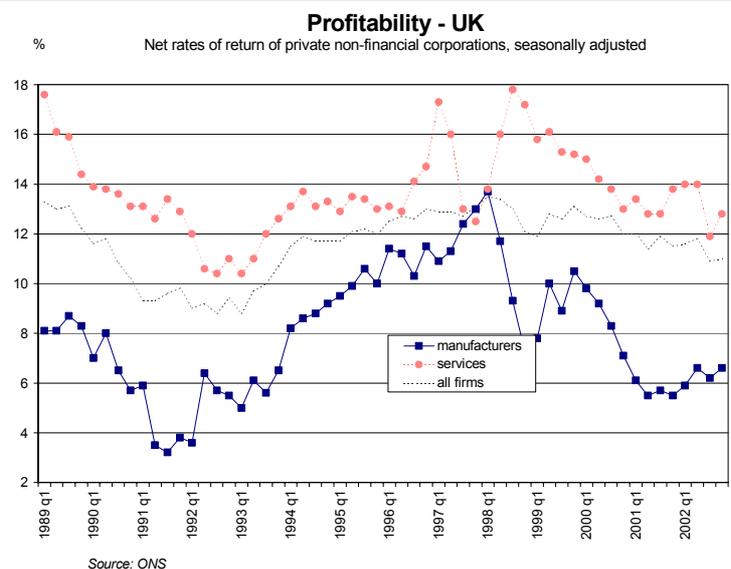
- UK equity prices continued to oscillate during the whole of March and early April. Having followed a downward trend in the first 10 days of March, the FTSE index reversed its trend subsequently to reach the 3,861 points on 9 April.
- Since its most recent trough, the FTSE index of shares has gained 17.5 per cent of the lost ground between 12 Mar and 9 April 2003.
- Nevertheless, the uncertainty about the global economic recovery still plays an important role in keeping equity prices at low levels at the moment.



Source: ONS

Latest release: 08/04/03
Next release: 02/07/03

- Companies in manufacturing and services sectors experienced improvements in their net rates of return in 2003 Q1 from the previous three months.
- This caused profitability of UK companies to edge up slightly to 11 per cent in the first quarter of this year from 10.9 per cent in 2002 Q4.
- Firms in the services sector continued to be more profitable than companies in the manufacturing sector. They also exhibited higher increases in profitability compared to those firms in the manufacturing sector in 2003 Q1.



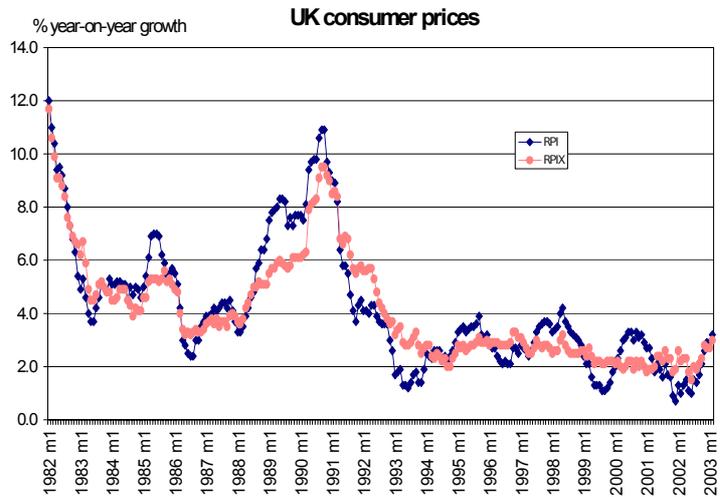
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Source: ONS

Latest release: 18/03/03

Next release: 15/04/03

- There are signs of more inflationary pressures in the UK economy in February than in the past few months.
- The retail price index (RPI) grew by 3.2 per cent in February and the RPIX (which excludes mortgage interest payments) increased by 3 per cent from the previous month, above the Bank of England's target of 2.5 per cent.
- Main contributors to a higher inflation were increases in vegetable seasonal products due to shortages in supply; clothes and footwear; and fuel prices (due to increases in heating oil costs).



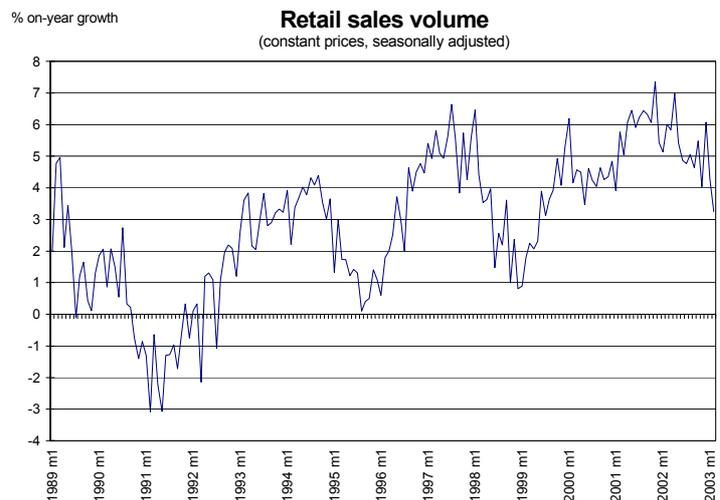
Source: ONS

Source: ONS

Latest release: 20/03/03

Next release: 20/04/03

- UK retail sales volume fell by 0.1 per cent in February compared to the previous month.
- The annual growth in retail sales has slowed markedly in February, the slowest growth rate since 1999. However, retail sales have still risen 3.2 per cent compared to a year ago.
- The good feel factor of consumers was clouded in February by fears of a negative economic outlook as result of the war in Iraq. Therefore, consumers were more cautious on spending in February than in the past months.



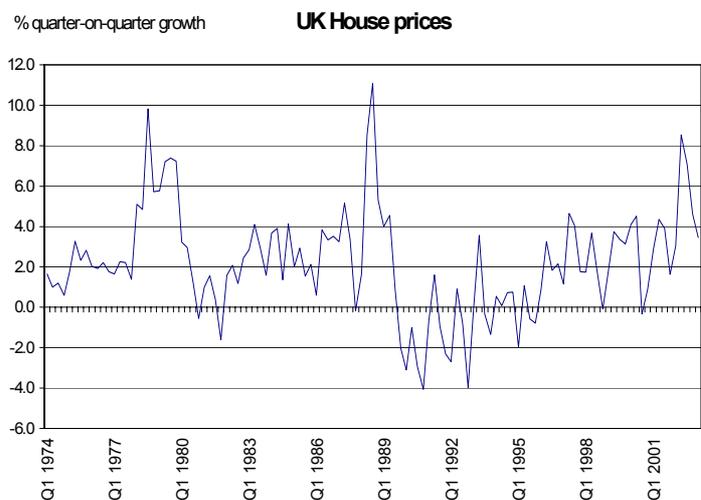
Source: ONS

Source: Nationwide

Latest release: 03/04/03

Next release: 03/05/03

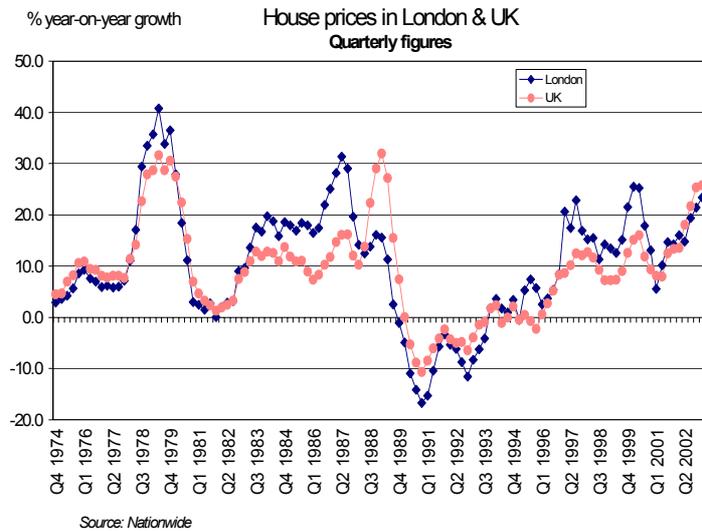
- UK housing market was more buoyant in March than in the previous month. House prices increased by 1.9 per cent in March compared to 0.4 per cent in February, (not included in this chart), based on the Nationwide index.
- Despite this recent upsurge in house prices, growth has moderated from the previous months. The quarter-on-quarter growth in UK house prices in 2003 Q1 was 3.4 per cent compared to 4.6 and 7.1 per cent in the last two quarters of 2002.



Source: Nationwide

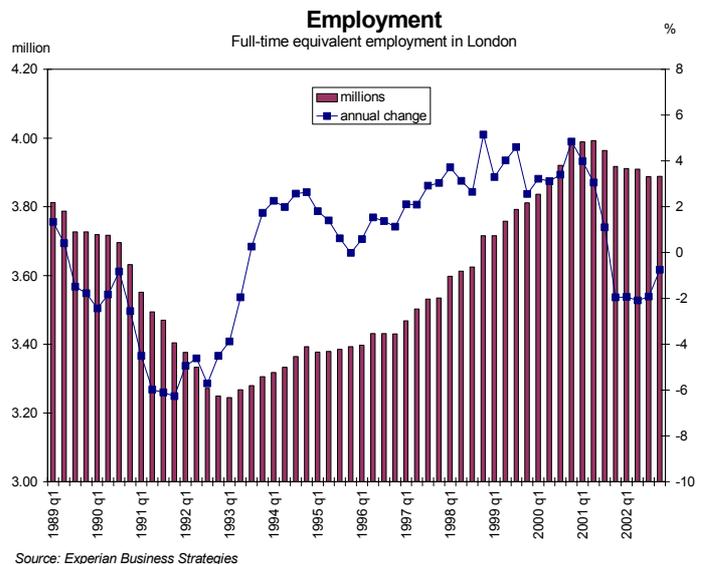
Source: Nationwide
 Latest release: 10/04/03
 Next release: not known

- At a regional level, London's house prices grew at the same quarterly rate as the UK in Q1 2003. The quarterly growth in house prices in London and in the rest of the UK was 3.4 per cent (not included in the chart).
- Low unemployment rates and low interest rates have helped to keep annual house prices inflation rates high during the first quarter of 2003 in London and in the UK at 23.4 and 25.8 per cent in this cycle. This compares with an annual inflation rate of 30 per cent registered at the last peak in 1989.



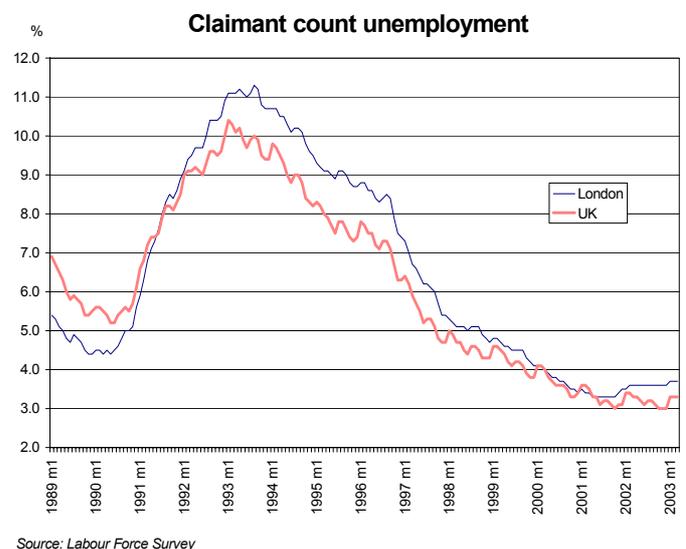
Source: EBS
 Latest release: 10/04/03
 Next release: not known

- Most recent estimate for the total full-time equivalent employment in London indicates that the labour market in the capital did not suffer any job losses between Q3 2002 and the last quarter of last year.
- That is, there were 3.9 million full-time equivalent jobs in Q4, unchanged from the previous quarter last year.
- Although full-time equivalent jobs have not recovered from their peak level of 2000, there are no signs of a downturn as many commentators have remarked.



Source: Labour Force Survey
 Latest release: 16/04/03
 Next release: 14/05/03

- The UK and London labour markets remained unchanged in March from the previous month. Unemployment rates in UK and London, adjusted by the population figures in the Census of 2001, were 3.1 per cent and 3.7 per cent in March.
- The City of London recorded the lowest unemployment rate in March, measured as the proportion of claimant count over residence working age, at 1.7 per cent compared with the highest unemployment of 6.4 per cent in Tower Hamlets and Hackney.



Supplement 1

Contribution of open green spaces to London's economy

By Adarsh Varma

'The importance of pedestrian public places cannot be measured, but most other things in life cannot be measured either: friendship; beauty; love and loyalty are examples. Parks and other pedestrian places are essential to a city's happiness.' – Enrique Peñalosa, Mayor of Bogota, Columbia, 'Great Parks/Great Cities' Conference: July 2001.

- A green environment for London means better health and quality of life for residents, ensuring sustainable use of housing supply, jobs and infrastructure.
- The 2002 annual London Survey, an opinion poll of 1,400 Londoners commissioned by the Mayor's consultation team, showed that:
 - 72 per cent of Londoners agree that London is a city that is good for parks, open spaces and community recreation facilities and activities
 - 40 per cent agreed that London is a green city
- Two-thirds of London's land area is occupied by green spaces and water[†].

Description of green spaces

Green spaces play a vital role in the lives of Londoners by promoting healthy living, providing a source of education, preserving heritage and culture, providing recreation and tourism, and promoting environmental sustainability and community development.

Map 1. Green spaces in London

Source: GLA Biodiversity Strategy
© Crown copyright. All rights reserved. Greater London Authority 100032379 (2003)

The four main categories of green spaces are shown in map 1. The Sites of Metropolitan Importance includes the best sites in London. About 140 Metropolitan sites

have been identified, with a total area of nearly 16,000 hectares (10 per cent of London's land area). The Sites of Borough Importance are divided into two grades on the basis of their quality, but all are important in the borough context. There are about 310 Borough Grade I sites and 460 Borough Grade II sites identified to date, with a total area of about 12,000 hectares (almost 8 per cent of London's land area). The Sites of Local Importance are open green spaces, which provide people with access to nature close to home. About 460 Local sites have been identified, totaling 1,700 hectares (just over 1 per cent of London's land area). In total, over 1,300 Sites of Importance for Nature Conservation have been identified, covering nearly 19 per cent of London².

A sample of aerial photographs of Greater London, which was analysed by the London Ecology Unit in 1992, suggested that 'parks' cover 8 per cent (12,500ha) of London's total land area. 'Sports pitches' cover approximately 3 per cent (4,700 ha) of the total land area, 'grounds of schools and

[†] Connecting with London's nature - The Mayor's Draft Biodiversity Strategy.

² Connecting with London's nature - The Mayor's Draft Biodiversity Strategy.

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other institutions' 1.5 per cent (2,400 ha) and 'common green spaces around flats' a further 1.1 per cent (1,700 ha).

Economic benefits of green spaces

Employment value

In the UK, local authorities manage and maintain 27,000 parks and green spaces, at an annual revenue cost of at least £630 million³. The cost of maintaining the Royal Parks (including grant in aid from the Department of Culture, Media and Sport and income generated by the Royal Parks Agency) was £31 million in 2000/01 and £48 million in 2001/02⁴. The money spent by local authorities managing and maintaining the stocks of parks and green space, makes a substantial contribution to local economies. The Corporation of London manages 4,251 hectares of parks and green spaces, another 2,025 hectares is managed by The Royal Parks Agency followed by Lee Valley Regional Park managing 4,049 hectares of green and open space. The 32 London boroughs manage around 18,000 hectares of local parks and open spaces.

The Lantra⁵ report *The Land Based Sector Work Force Development Plan (2001-02)* identified approximately 50,000 employees within the Greater London region working in the land-based industries, employed by 12,000 businesses. The employees range from those directly employed by local authorities, Corporation of London, Royal Parks to Environmental Conservationists, groundsmen, production horticulturists and retail horticulturists.

Health

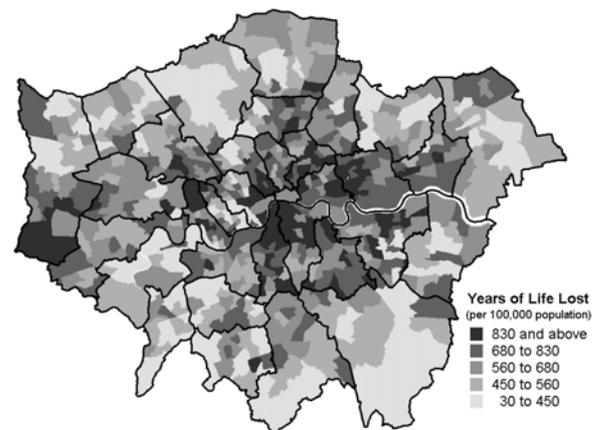
Green spaces make a positive contribution to health by reducing the ill effects of pollution. Regular exposure to green spaces reduces stress and accelerates recovery and exercise and play in parks reduces the incidence of obesity and other health problems like heart attacks, diabetes and Alzheimer's.

Stressful lifestyles, poor air quality and lack of open green spaces in urban areas are the main reasons for chronic illnesses ranging from asthma and bronchitis to depression and obesity. Clinical evidence suggests

that green spaces have positive linkages between stress reduction and obesity⁶. In the UK, obesity and inactivity costs the National Health Service (NHS) £0.5 billion annually and a further £2 billion in lost productivity to the economy⁷. The growing use of General Practitioner (GP) referral schemes, if complemented with affordable and easy access to good quality green spaces, can significantly reduce this cost.

The chance of dying before reaching the age of 65 is almost twice as high in the most deprived areas of London as in the least. Relating Map 2 to that of green spaces shows that the quality of health is low in boroughs such as Newham, Tower Hamlets, Southwark, Lambeth and Lewisham which are predominantly deficient in green spaces. The normal population in the South Eastern region of UK is healthier than that in urban areas in terms of birth weight and mortality⁸.

Map 2. Health quality indicator



Source: ONS, HoLP
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Business attraction and urban regeneration

The variety of attractive parks and open spaces contributes substantially to London's image and may have an important role in encouraging inward investment⁹. Corporate CEOs rate quality of life as

³ Rural Development Commission (1997)

⁴ Julia Frayne, The Royal Parks Agency

⁵ <http://www.lantra.co.uk>

⁶ Your Parks - Urban Parks Forum

⁷ The Help for Health Trust (1999)

⁸ South East and London (2002)

⁹ 'Connecting with London's nature' The Mayor's Draft Biodiversity Strategy para.3.21

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an important factor in locating a business. The presence of a Regional Park makes the Lee Valley a desirable location for industry due to an attractive image. The net expenditure on total services ranging from park operations to sports and leisure management has increased from £10.1 million in 1999/00 to nearly 10.9 million in 2000/01¹⁰.

On the other hand, Mile End Park in the London Borough of Tower Hamlets has used the £2 million received from the Single Regeneration Budget (SRB) in schemes such as ranger training, work with drug users in the park and horticultural therapy¹¹. It has also contributed significantly to the local economy by attracting new retail units and generating additional customers for local shops¹².

'Trees for London' state that 'Trees are like a wealth indicator in London – the more prosperous the area, the more trees you will see'. On the other hand provision of open space in London is not evenly distributed. Areas where open space is lacking are also likely to suffer from social deprivation, poor air quality and high crime¹³. One can also say that deprived areas have emerged in areas lacking in green spaces.

Culture and Tourism

Parks and green spaces in London are important sites of cultural and recreational activities such as boating, musical entertainment, bowls, carnivals, craft shows and numerous other types of events. The larger events generate a considerable amount of revenue for the local economy.

Tourism is a major contributor to London's economy. The Lee Valley Park for example attracts some four million visitors a year. Green spaces are the most visible attraction and their quality is vital to increase or maintain visitor numbers to the city.

The proportion of total revenue yield from catering and other leisure activities accruing to the Royal Parks Agency was nearly £2 million in 2001/02. The agency earns another £1.3 million from cultural events like concerts and open-air theatres catering to anything

¹⁰ Lee Valley Park, Annual Performance Report 2000-2001

¹¹Scrutiny of Green Spaces in London: Green Spaces Investigative Committee. GLA 2001. London Assembly

¹² Your Parks-Urban Parks Forum

¹³ London Wildlife Trust

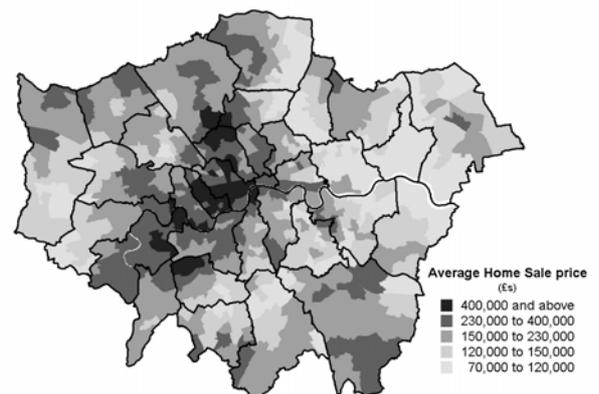
between 17,000 and 100,000 people¹⁴. Evaluating the effects of tourism and entertainment expenditure at leading UK parks and historic gardens suggests a local economic impact of approximately £300 million per annum¹⁵.

Property value

Parks and green spaces directly add to value of nearby properties, which in turn generate additional property tax revenue. In London the best urban parks and green spaces are often surrounded by expensive and desirable properties.

This can be illustrated by the high house prices in some wards (Map 3) with more open and green spaces especially in boroughs like Richmond, Merton, Enfield and Bromley.

Map 3. Average Home Sale Price (£s) in Wards 2001



Source: ONS

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Figures from the Office of the Deputy Prime Minister show that, between 1997 and 2000, 492 acres of green belt land in London, 1,380 acres in East Anglia and 2,768 acres in the South East were turned over to housing. This suggests that 44,000 houses have been built in the region during this period and, on average, 8 per cent of all land that has been developed for housing was on the green belt¹⁶.

¹⁴ Julia Frayne, The Royal Parks Agency

¹⁵ Environment, Transport and Regional Affairs - Twentieth Report, (2001) pt.52

¹⁶ The Times, 28th of November 2002, p.4

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Environment

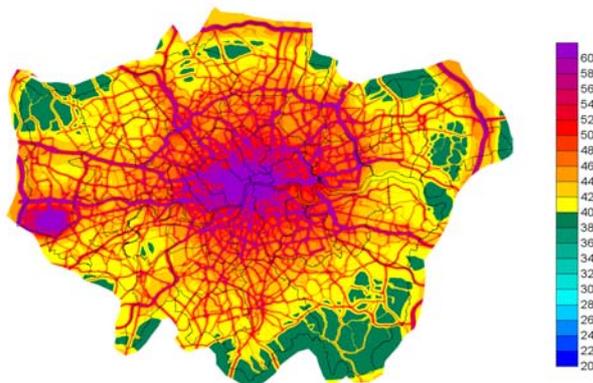
Cities are generally hotter, more susceptible to smog and have lower oxygen levels compared with rural areas. Green spaces contributes to air pollution reduction in London by reducing building heating and cooling costs, by providing cycle and pedestrian routes, and thereby reducing car dependency, by absorbing carbon dioxide and producing oxygen¹⁷.

Map 4. Modelled 1999 daily mean PM₁₀ concentrations, in number of days above the national objective level of 50 microgrammes per cubic metre



Source: OS data © Crown copyright. All rights reserved. Greater London Authority 100032379 (2002)

Map 5. Modelled 1999 annual mean NO₂ concentrations in microgrammes per cubic metre¹⁸



Source: OS data © Crown copyright. All rights reserved. Greater London Authority 100032379 (2002)

In Maps 4 and 5, central London, the main travel hubs, airports, interchanges and congested routes show high levels of Nitrous oxide (NO₂) and Particulate matter (PM₁₀) concentrations.

Developing green spaces, for example by planting trees, can improve the air quality in urban areas of high economic activity. It has been estimated that the aggregate carbon sequestration value for woodland in the south-east of England including London lies within the range £240 and £500 million¹⁹.

Urban green spaces in London also save significant costs of flood prevention by providing sustainable drainage systems and recharging ground water supplies.

The Landscape Heritage Trust quoted a report by PriceWaterhouseCoopers, which argued that the value of urban parks can be calculated in financial terms and that this value 'is likely to be in the region of over £5,000 million per annum'²⁰.

Managing green spaces

Local authority expenditure on parks has declined from £638 million in 1990/91 to £538 million in 1999²¹. Green spaces and parks have also suffered from low political support and neglect by local authorities as they are not statutory functions. Ineffective planning policies have led to low budgets for managing and maintaining existing green spaces. The New Opportunities Fund (NOF) and the Heritage Lottery Fund (HLF) offer capital funding for parks and green spaces in London. The HLF has awarded £32.9 million for 47 public park projects in London ranging from £5,000 for a management plan to £6.9 million for the regeneration of Battersea Park²².

¹⁸ Above 40 microgrammes per cubic metre indicates exceedance of 2005 objective.

¹⁹ Willis et. al (2003) The Social and Environmental Benefits of Forests in Great Britain. Report to Forestry Commission, Edinburgh.

²⁰ Twentieth Report of the Select Committee on Environment, Transport and Regional Affairs, Session 1998-99, Town and Country Parks, HC 477, paras. 52

²¹ Twentieth Report of the Select Committee on Environment, Transport and Regional Affairs, Session 1998-99, Town and Country Parks, HC 477, paras. 78-81

²² Scrutiny of Green Spaces in London: Green Spaces Investigative Committee. GLA 2001. London Assembly

¹⁷ Your Parks – Urban Parks Forum

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Green spaces in London face significant threats, which undermine their usefulness. Lack of proper facilities, concerns about dog fouling, increased incidence of crime and anti-social behaviour, vandalism, graffiti, litter and dilapidation discourage use and thus reduce the benefit to the public. Green spaces and parks have also suffered from low political support and tend to be neglected by local authorities, as they are not statutory facilities. Ineffective planning policies have led to a low budget allocation to manage and maintaining existing green spaces.

Moreover, increasing demand for residential space in London and thus provision of basic services (such as health and transport) has led to an erosion of green spaces. There is thus a trade-off between protecting and enhancing London's green spaces at the same time as addressing the need for affordable housing.

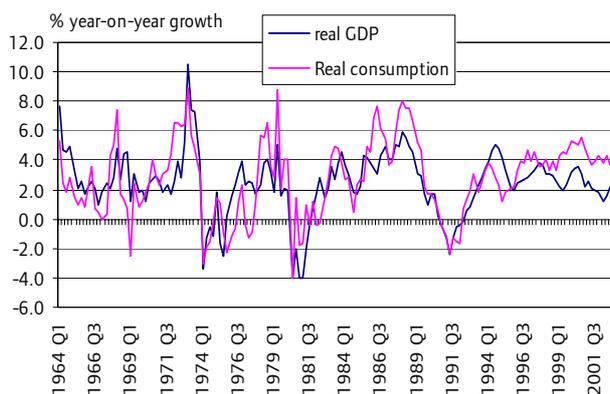
Supplement 2

Why are Londoners spending more than the average Briton?*By Leticia Veruete-McKay*

- In 2002 UK household expenditure consumption generated two-thirds of the UK Gross Domestic Product (GDP). Since 1996 UK real consumption has been rising faster than the rest of the UK economy.
- Transport, housing and recreation and culture are the expenditure items on which UK households spent most in 2002. These items also contributed most to UK GDP in the last year.
- At the end of the 1990s, household expenditure consumption in London contributed 15 per cent to total UK GDP. Households in London are spending 38 per cent more than households in the UK in 2001/02. This has been clearly due to higher incomes and wealth prevailing in London, but also to differences in age structure and higher borrowing.

National view

In 2002 UK household consumption generated 68 per cent of UK Gross Domestic Product (GDP). Chart 1 depicts the evolution of UK household consumption over three business cycles.

Chart 1. UK consumption and GDP

Source: National Accounts, ONS

During the 1979 and 1989 booms, consumption expenditure by households grew strongly at nine per cent and around eight per cent respectively. By contrast, annual rates in consumption were negative during the bust periods in 1974 and 1990

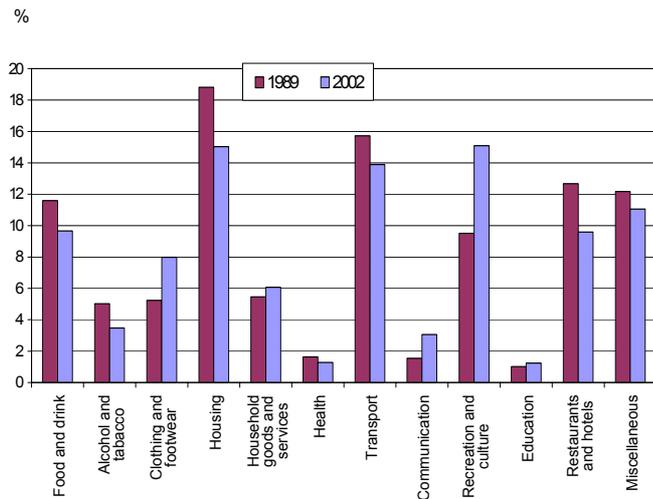
when consumption plummeted from their peaks, recording -3.0 per cent and -2.0 per cent. From 1992 the economy recovered and so did consumption. Since 1999 household consumption has experienced strong annual growth of more than 4.5 per cent (even close to 5.0 per cent), but consumption slowed down in the second half of 2001. Through 2002 household consumption has been growing by around 3.8 per cent and in the last quarter household consumption grew by 3.6 per cent from the previous year.

There have been several points in time that consumption has grown more strongly than the rest of the UK economy. Notably, the growth in consumer spending has outpaced UK output growth since 1996 as occurred in the mid and late 1980s. Furthermore, in the past two years household final consumption expenditure has been the main engine of output growth in the UK.

If consumers are spending more in goods and services this increases demand for these products. This in turn promotes more production of these products in the economy. Therefore, it is relevant to identify on which items of expenditure households are spending most of their total consumption.

Chart 2 shows the shares that each of the twelve main categories of spending contributed to the total household final consumption expenditure in 1989 and 2002.

Chart 2. Shares of each items of spending in total consumption



Source: National Accounts, ONS

The recreation and culture category includes goods such as newspapers, books, audiovisuals, TVs, package holidays and gardening among other products. This expenditure item took the highest share of UK household spending in 2002, (15.1 per cent). It has become more relevant than in the last boom in 1989. Much spending on housing, which does not include buying residential property, is also important contributing 15 per cent to the total UK consumption, followed by transport with 13.9 per cent.

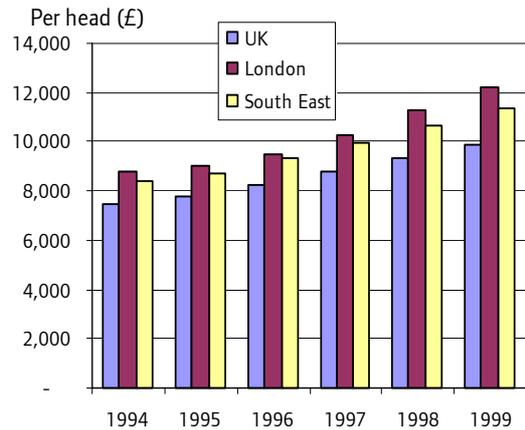
Expenditure in recreation and culture goods generated 10.3 per cent of UK GDP in 2002. Similarly, housing contributed 10.3 per cent of output in the UK and transport 9.5 per cent in the last year.

Regional view

Individual consumption expenditure in London was 24 per cent higher than the UK average in 1999, the most recent year for which estimates are available. Chart 3 indicates that not only has individual consumption per head in London been

higher than the UK and south-east over time, but it has also been rising at a faster rate than the South east and UK. This is particularly evident from 1997.

Chart 3. Consumption by regions



Source: Regional Accounts, ONS

The most recent data from the Family Spending Survey for the period 2001/02 provides evidence that Londoners spent 25 per cent more than the rest of the UK in 2001/02.²³ This survey also indicates that average disposable income in London was around 36 per cent higher than in the UK, with average weekly disposable income of £611 in London and £451 in the UK.

What are the main determinants driving these differences in consumer spending patterns between London and the UK? To answer this question it is necessary to explain the main factors affecting household consumption.

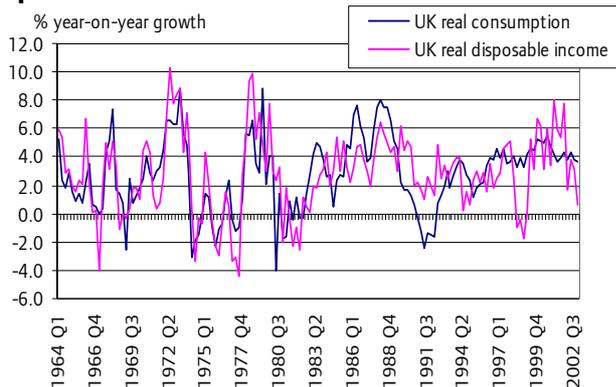
²³ The Family Spending Survey was published by ONS for the first time in January 2003. This replaces the Family Expenditure Survey and the National Food Survey.

Underlying factors of spending

The standard theory of consumption explains that households plan their spending based on their income received. In the long run, consumers cannot spend more than they earn over a specific period. However in the short term, households can either use their savings or borrow to increase their spending.

There is a clear positive relationship between income and consumption over time, see chart 5. That is, as income increases consumers are able to spend more. Conversely, in periods where income levels have declined consumers have reduced their expenditure.

Chart 4. UK real consumption and real disposable income

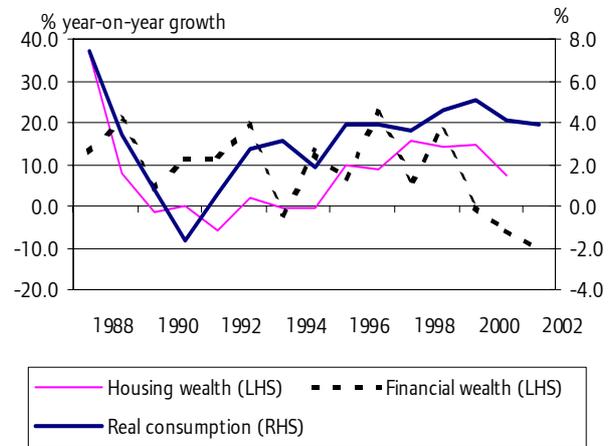


Source: National Accounts, ONS

Higher incomes allow households to consume more, but also provide them with opportunities for saving more than households with lower income levels. The accumulation of savings over time builds households' wealth, which can be held on different types of assets such as deposits in bank; bonds; equity and shares held directly or indirectly in pension funds and in residential property.

Households can run down their financial and housing assets, selling them to be able to spend more. Equally, households would spend more if they were to experience revaluations in their equities and/or in the value of the property held, increasing their total wealth.

Chart 5. UK real consumption, housing and financial wealth



Source: National Accounts, ONS

Chart 5 shows the sharp cutback in household consumption in the early 1990s, as the economy entered into recession. Financial wealth was eroded but housing wealth declined more sharply. Financial wealth has been weakening since 1998 but more markedly from 2001, mainly due to equity price falls, which are a main component of households' financial assets. However, consumption has remained firm aided by the surge in housing wealth in the second half of 2001, given the buoyancy in the UK housing market in this period. Moreover, it is expected that housing wealth has grown faster in 2002 compared to 2001, since last year annual UK house prices inflation was 20 per cent.

Age structure of the population also determines consumers' spending patterns. The life cycle theory suggests that young and retired people are likely to save less (that is consume more) than middle aged households.²⁴ Young people might have few commitments and equally anticipate higher future income, allowing them to spend more in the present. Retired people are at the end of their working life and some already own their homes. So, they do not need to save as much for buying a home or big items as they did when they were middle aged. Recently, however there is evidence that many people in this age group are saving more

²⁴ "Debt Financial Fragility and Systemic Risk by E. Philip Davis, 1992.

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of than in the 1970s given that their pensions are not enough to cover their living expenses.²⁵

Interest rates and availability of credit will also influence the level of spending by consumers. Cuts in interest rates will encourage present consumption relative to savings. In the past 18 months, low interest rates have motivated households to borrow. Currently, total UK household debt- to-income stands at a record level of 120 per cent and this has partly underpinned the buoyancy in consumer spending.

Tullio Jappelli and Marco Pagano (1994) have found in their study that liquidity constraints on credit (inability to borrow as much as desired) can deter household consumption, because consumers have to save before they consume.²⁶ If households are constrained by how much they can borrow and their income is limited, consumers will not be able to spend as much as if they were not constrained.

Consumer confidence, a good feel factor, can provide incentives to consume more. If households feel optimistic that they will have a high and stable income in the future, consumers are more likely to spend more at present because they feel less of a need to save as precaution against a possible shortfall in their income in the future.

Explaining differences in spending between London and UK

Factors such as interest rates and consumer confidence are relatively similar in both the UK and London. Currently, consumer confidence in the UK and London has deteriorated because consumers feel pessimistic about the economic outlook due to the war in Iraq.

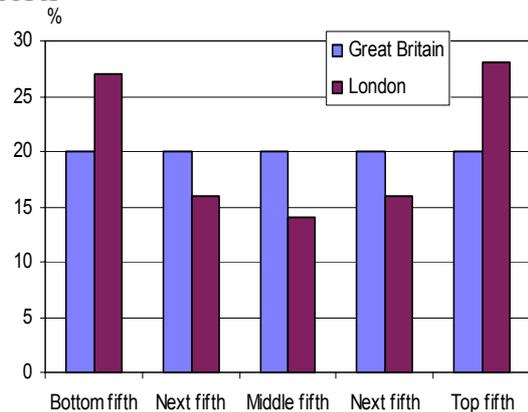
Nevertheless, in terms of income, wealth, age structure and liquidity constraints, there appear to be marked differences between London and the UK. These differences provide evidence for explaining why households in London are spending more than households in the UK.

²⁵ Banks, Blundell and Tanner, 1998, "Is there a retirement savings puzzle?", *American Economic Review*, vol. 88, pp. 769-88.

²⁶ "Saving, Growth, and Liquidity Constraints", *Quarterly Journal of Economics*, February 1994, pp. 83-109.

As discussed before, disposable income is higher in London than the UK as a whole, but also there is a much higher proportion of households at the highest quintile group of incomes in London, 27 per cent compared to 20 per cent in Great Britain, as Chart 6 illustrates.

Chart 6. Income distribution, after housing costs



Source: Department of Work and Pensions

It is possible that aggregate spending in London is higher than in Great Britain because more expenditure (due to higher incomes) is done by a larger proportion of the wealthiest households in London in relation to those households in Great Britain.

Although there is no official data available on wealth in London, it is likely that housing wealth is higher in London than in the UK. According to Nationwide regional figures for 2002, London experienced an annual growth in house prices of almost 24 per cent compared to 20 per cent in the UK.

Equally, data from the Family Resources Survey indicates that a marginally higher percentage of households in London have stocks and shares, suggesting that financial wealth is slightly higher in London than Great Britain.

Table 1. Types of households' savings in 2000-01 (percentage of household)

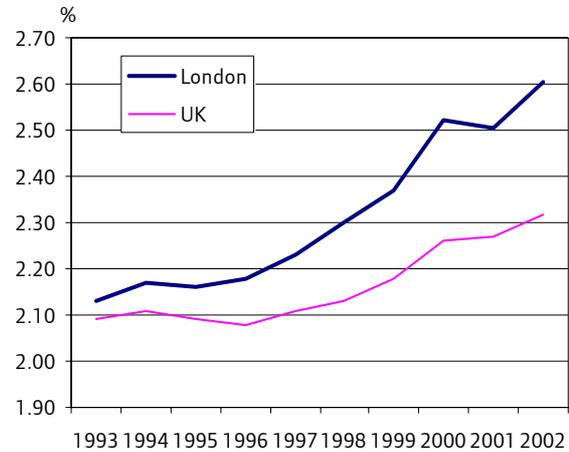
Type of account	London	GB
Current Account	86	86
Gilts	1	1
Stocks and shares	26	25

Source: Family Resources Survey, Department for Work and Pensions

The different age structure in London in comparison to England is about to play a significant role in explaining the higher spending in London than in England. According to the Census 2001, 48 per cent of people in Inner London are people aged between 20 and 44 and 39 per cent in Outer London. These figures compared with 35 per cent in England. So, given that a high proportion of young people living in London, these individuals might contribute to substantial spending.

Finally, one measure of the availability of consumer credit is the loan-to-income ratio. Higher ratios indicate that consumers can borrow a larger fraction of funds in relation to their incomes. Chart 7 depicts average advance to house purchase over income. This is used as proxy for consumer credit given that the biggest component of household debt is in mortgages. The fact that mortgage loan-to-income ratios are higher in London than in the UK suggests that Londoners have built higher debts than the rest of households in the UK. More borrowing by Londoners might have helped them to spend more on goods and services than an average Briton.

Chart 7. Loan-to-income ratios



Source: Council of Mortgage Lenders (CML)

Data Sources

Tube Usage	Further information contact Transport for London on 020 7941 4500
FTSE 100 Index	Further information see www.ft.com or the daily Financial Times
Brent Crude oil	Further information see www.ft.com or the daily Financial Times
Office Space Demand	Further information see www.cbhillierparker.com
House Prices	Nationwide house price data from www.nationwide.co.uk/hpi/ Land Registry data from http://www.landreg.gov.uk
Consumer Confidence	Further information see www.martinhamblin.co.uk
Average earnings	Data available from www.statistics.gov.uk
Retail Price Index	Data available from www.statistics.gov.uk
MEW	Data available from www.bankofengland.co.uk
Retail Sales	Data available from www.statistics.gov.uk/rsi
Unemployment rates	Data available from www.statistics.gov.uk
GDP/GVA Growth	Data available from Experian Business Strategies on 020 7630 5959
Balance of Trade	Data available from www.statistics.gov.uk
Index of Production	Data available from www.statistics.gov.uk
Manufacturing Expectations	Further information see www.cbi.org.uk
Services Sector	Data available from www.cips.org
Profitability	Data available from www.statistics.gov.uk
Tourism - Overseas Visitors	Data available from www.statistics.gov.uk
Tourism - Domestic Visitors	Data available from www.londontouristboard.com
London Airports	Data available from www.caa.co.uk

Abbreviations

BCC	British Chamber of Commerce
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
FTSE 100	Financial Times Stock Exchange 100 index of stocks traded on the London Stock Exchange
GDP	Gross Domestic Product
GVA	Gross Value Added
ILO	International Labour Organisation
LCC	London Chamber of Commerce
MEW	Mortgage Equity Withdrawal
ONS	Office of National Statistics
RPI	Retail Price Index
CIPS	The Chartered Institute of Purchasing and Supply
EBS	Experian Business Strategies
CML	Council of Mortgage Lenders
IPS	International Passengers Survey

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3	Public sector finance and recession
4	The risk of recession in London
5	Emerging trends in employment in London, 2000-2001
6	Recent developments in UK and London's business investment
7	Response to claims that congestion charging is holding back London's economic recovery
	Transport trends for London
8	Contribution of open green spaces to London's economy
	Why are Londoners spending more than the average Briton?

GLA Economics

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London's Economy Today is published on the GLA website on the third Tuesday in every month. It seeks to provide an overview of the current state of the London economy, publishing a changing selection of the most relevant and up-to-date data available. It will track cyclical economic conditions to ensure that they are not moving outside the parameters of the underlying assumptions of the GLA and central government.

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Nếu bạn muốn bản sao của tài liệu này bằng
ngôn ngữ của bạn, hãy gọi điện theo số hoặc
liên lạc với địa chỉ dưới đây.

Greek

Αν θα θέλατε ένα αντίγραφο του
παρόντος εγγράφου στη γλώσσα
σας, παρακαλώ να τηλεφωνήσετε
στον αριθμό ή να επικοινωνήσετε
στην παρακάτω διεύθυνση.

Turkish

Bize telefon ederek ya da yukarıdaki
adrese başvurarak bu belgenin
Türkçe'sini isteyebilirsiniz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ
ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫੋਨ ਕਰੋ ਜਾਂ ਹੇਠ
ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज़ की प्रति अपनी भाषा में चाहते हैं,
तो कृपया निम्नलिखित नम्बर पर फोन करें अथवा दिये
गये पता पर सम्पर्क करें।

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি
(কপি) চান, তা হলে নীচের ফোন নম্বরে
বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے
ہیں، تو براہ کرم نیچے دیئے گئے نمبر پر فون کریں
یا دیئے گئے پتے پر رابطہ قائم کریں۔

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London SE1 2AA

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