

London's Economy Today



Issue 46 | June 2006

In this issue

Global stock market nervousness.....	1
Latest news.....	1
Economic Indicators...	5
Barker Review of Land Use Planning.....	9

Global stock market nervousness

By Christopher Lewis, Senior Economist

Earlier this year the Government asked Kate Barker to conduct an independent review of land use planning in England, which is currently on-going. This is an extremely important issue for the capital where for example new transport infrastructure is required to aid agglomeration benefits in central London. This months supplement 'The Barker Review of Land Use Planning', by Richard Prothero, provides an overview of the terms of reference of the review and highlights concerns regarding the present length and cost of Planning Inquiries.

The central London office market picked up at the beginning of the year. A tightening in market conditions including falling vacancy rates has led to an increase in rents, especially in the West End. In the City, development intentions and actual starts have been stimulated by the expectation of continued rental growth. Firm rental growth and pre-letting is expected by many during the rest of 2006. Growth in enquiries has been driven by banking and other financial services. The Savills Commercial Development PMI index for May showed that commercial property development in London accelerated at its fastest rate for just over two years. Ernst and Young's European Investment Monitor also provided positive news for the capital's economy with London extending its lead as the prime destination for foreign investment in Europe in 2005. London attracts more new projects than any other European city (Paris was second and Moscow third) and accounts for almost

GLAECONOMICS

Latest news...

● GLA Economics is holding its seminar about 'Worklessness' on Wednesday 28 June 2006. There are still places available, so to register or for further information, please email glaeconomics@london.gov.uk.

Get your copies of GLA Economics' latest publications:

- Retail in London: Working paper J: The impact of planning on competition and productivity
- Retail in London: Working Paper I: Service and delivery issues
- Why distance doesn't die: Agglomeration and its benefits

For your copies of the above publications, visit www.london.gov.uk/mayor/economic_unit/ or call +44 (0)20 7983 4922.

one-third of foreign direct investment (FDI) into the UK. The number of new foreign investments into the capital increased by over 15 per cent last year.

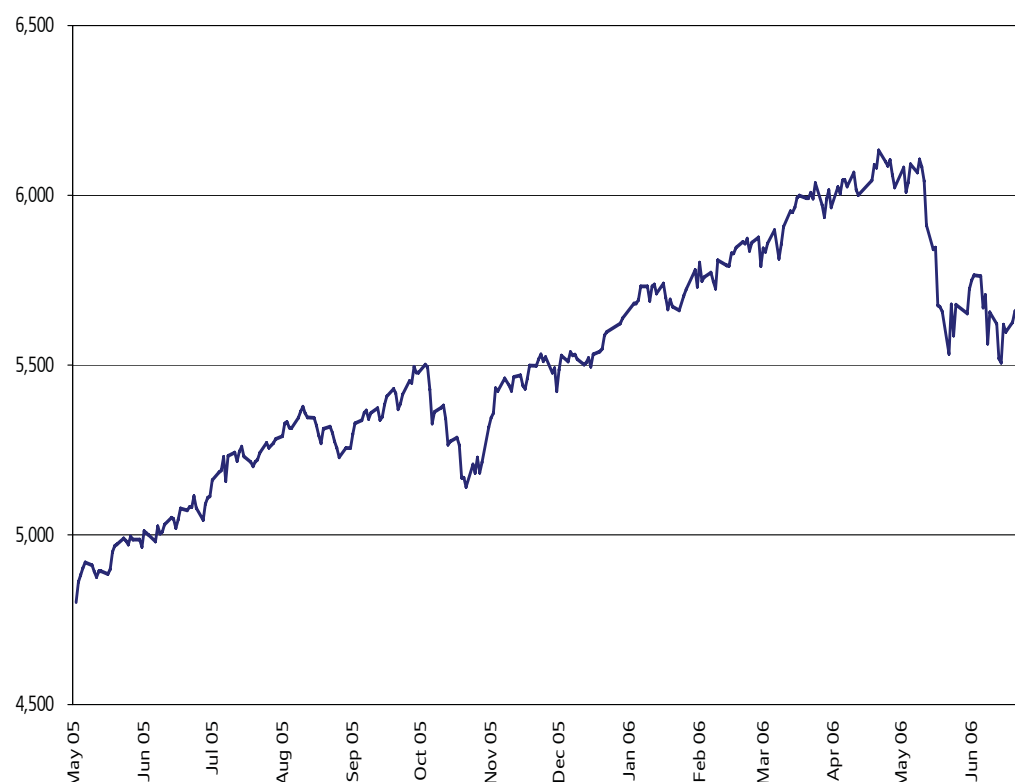
London's economy continues to grow and is currently outperforming other regions in the UK. In May, the Purchasing Managers' Index (PMI) measures of seasonally adjusted business activity and the level of employment for London were above that of all other regions. Meanwhile, the new orders index was the second highest among all the regions. All three indices for London are well above 50, which is the level consistent with no change on the previous month. The rates of expansion remain sharp, though they did ease slightly in May. The latest ICAEW/Orange Confidence Monitor of accountancy and finance professionals saw confidence in the capital in Q2 2006 at its highest level since Q4 2004 and placed London as the most confident of all regions. The survey results also showed that sales, export and employment growth in the capital are expected to be above the national average over the next year.

UK stock market remains jittery

Along with other global stock markets the FTSE 100 has seen volatile trading during the last month. Stock market weakness has been caused by concerns that interest rates across the world will need to keep rising to tackle inflationary pressures. Uncertainty over how high US interest rates will go and the timing of when they will stop rising has especially created great nervousness to world equity prices. However, despite recent falls the previous rapid increase in the FTSE 100 to multi-year highs means that the index is still well above the level seen this time last year (see Figure 1 below). The realisation that recent stock market levels were not sustainable for now, coupled with monetary policy tightening in many countries, has injected some jitters into the stock market that look set to continue. Meanwhile, news concerning the UK labour market is mixed, with employment at an all-time high but unemployment increasing and job vacancies falling. Despite inflation rising since March on the back of higher utility bills, regular pay pressures remain muted at the moment.

Figure 1. FTSE 100

Source: FT.com



After a very strong start to the year there are initial signs that UK housing market activity may be beginning to calm down. In May, seasonally adjusted UK house prices, as measured by the Nationwide and Halifax rose slightly by 0.2 per cent and 0.1 per cent respectively. Despite the small monthly increase, annual house price inflation on the Halifax measure is at its highest since March 2005. The Halifax index shows house prices in the three months to May 9.1 per cent higher than a year earlier compared with an 8.0 per cent annual rate in the three months to April. Meanwhile, the Nationwide recorded annual house price inflation of 4.7 per cent in May compared with 4.8 per cent in April. Overall, the housing market currently remains firm without booming. House purchase mortgage approvals are above their long-term average but have begun to moderate. Speculation of future interest rate rises by the Bank of England over the next year along with recent increases in longer term fixed mortgage rates may well dampen house price growth in the second half of 2006. Despite the possibility of higher interest rates retail sales sustained their spring upturn in May. For the three months ending in May the annual growth rates of both the value of retail sales and the seasonally adjusted volume of retail sales were at their fastest since January 2005. The World Cup has provided a boost with sales of large-screen televisions especially strong.

World Cup supports German recovery

German consumer confidence is improving, which is important for the economy's continuing recovery. GfK's consumer sentiment index has risen to its highest level since 2001 and its index measuring consumers' willingness to spend has surged to an all-time high since records began in 1980. Consumer sentiment has probably been buoyed in the short run by Germany hosting the World Cup. Construction orders resulting from the World Cup have also helped in making the construction industry optimistic about its future over the next year for the first time since 1992. The OECD believes that after years of subdued growth and weak demand Germany may now be in a position to enjoy a robust recovery. However, for a sustained expansion, Germany still needs to push ahead with labour market reforms and reign in state spending. Despite falling in May the unemployment rate is still very high at 11 per cent. The German recovery also faces coping with rising interest rates. The European Central Bank (ECB) raised interest rates again to 2.75 per cent on 8 June and further increases are expected this year.

Recent US economic indicators suggest that the US economy may be starting to cool with industrial production falling in May. The service sector continues to grow strongly but the Institute for Supply Management's services index suggests that service growth eased slightly in May. US consumer confidence has also fallen back from four year highs partly due to concerns over oil prices and a survey has found that 75 per cent of US consumers are curbing their spending due to rising fuel costs. US job growth has also slowed down but unemployment still remains low and fell in May to 4.6 per cent. Despite the softening in the pace of overall US economic activity consumer price inflation has risen making the Federal Reserve's future interest rate decisions extremely difficult.

Japan's economy continues to improve with industrial production rising and the labour market sustaining its pick-up. However, worries that US consumer spending is weakening are putting pressure on the share prices of Japanese

exporters. During the month the Nikkei index fell to levels last seen in 2005. The booming Chinese economy is still being driven by export and investment growth but retail sales have also picked-up. In May, China reported a record monthly trade surplus of \$13 billion.

Oil prices remain high with Iran warning that oil shipments from the Gulf region could be disrupted if the on-going standoff over its nuclear programme with the US escalates. Iran has the world's second largest proven oil reserves after Saudi Arabia. Demand for oil is expected to increase in the US over the summer driving period, which is also helping to support prices. However, healthy US oil stocks and hope that the death of the leader of al-Qaeda in Iraq will reduce targeted terrorism on that country's oil infrastructure has provided a counterbalance to upward pressure on prices.

Rising world interest rates causing financial market turbulence

The global economy is still performing strongly. However, oil prices remain high and inflationary pressures show little sign of easing. To prevent a rise in long-term inflation expectations central banks are tightening monetary policy. Currently financial markets are unclear about when interest rates will stop increasing and how high they will finally reach. This uncertainty over the future path of world interest rates alongside concern with the sustainability of global trade, savings and investment imbalances has caused the recent volatility in world equity prices, which have fallen over the last couple of months. A rebalancing of global demand is desirable, but the way ahead may not be smooth. The risk to the world economy is if imbalances are reduced suddenly and disruptively rather than in a gradual manner.

Long-term interest rates have risen slightly from the historically low levels seen earlier this year, which has added downward pressure to stock markets. Recent stock market jitters though need to be put in the context of their rapid increase over the last couple of years and marks a correction to overheated equity prices. Overall, the global economy is growing extremely strongly with recoveries in Japan and Germany, and China steaming ahead. Current uncertainties may well lead to a moderation in world growth and choppier economic waters ahead than have been seen in recent years. However, prospects for the world economy remain firm and London's economy is currently outperforming the rest of the UK.

Economic indicators

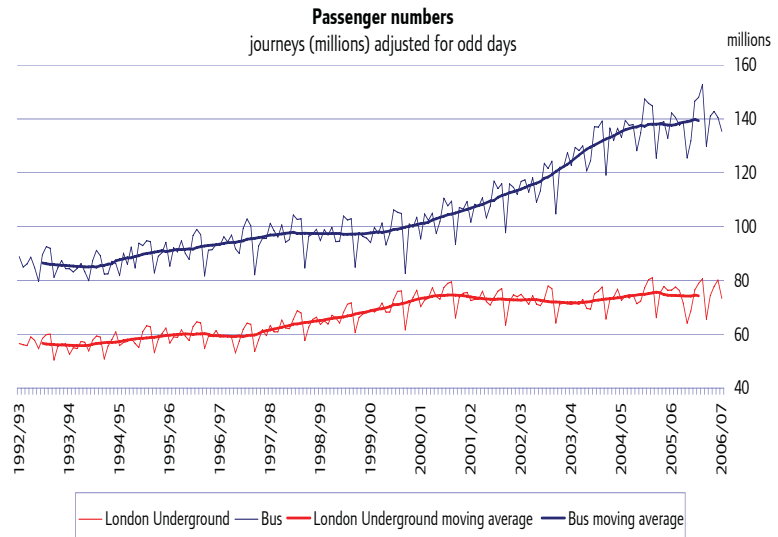
5

Small decrease in the moving average of passenger numbers

- The most recent period had 29 days (from 1 April to 29 April). For this period London's public transport had 214.0 million passenger journeys; 138.1 million by bus and 75.9 million by Underground.
- The moving average decreased to 213.6 million from 214.4 million passengers every period.
- The moving average for buses was 139.3 million passenger journeys. The moving average for the Underground was 74.3 million.

Latest release: June 2006

Next release: July 2006



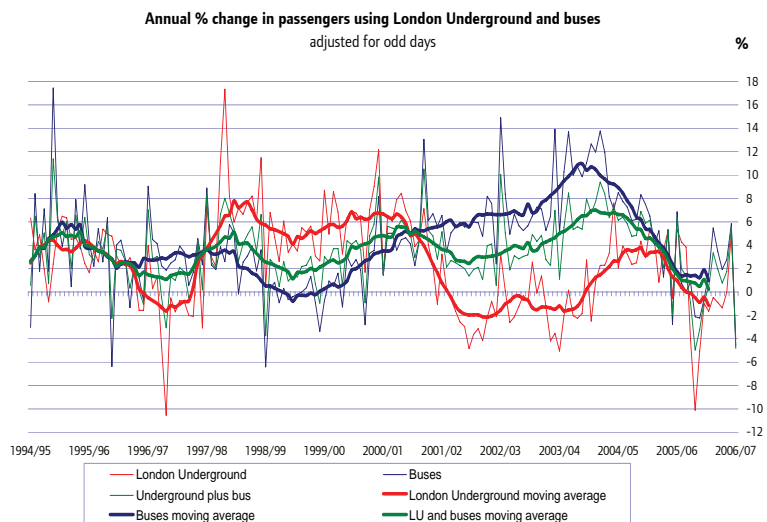
Source: Transport for London

Decrease in the annual growth rate of passenger journeys

- The moving average annual rate of growth in passenger journeys decreased to 0.2% from 1.1% in the previous period.
- The moving average annual rate of growth in bus journey numbers decreased to 1.0% from 1.9% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -1.2% from -0.4% in the previous period.

Latest release: June 2006

Next release: July 2006



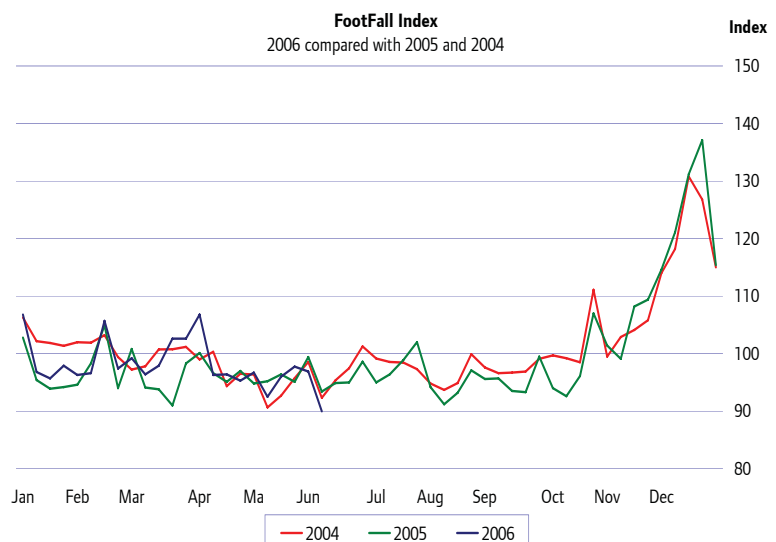
Source: Transport for London

Footfall Index showing similar trends as in 2004 and 2005

- The Footfall Index of shoppers in London was 90.0 in the first week of June compared to 96.9 in the last week of May.
- The Footfall Index in May and the beginning of June followed a similar trend as in the same period in 2004 and 2005.
- The Footfall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-June

Next release: every week



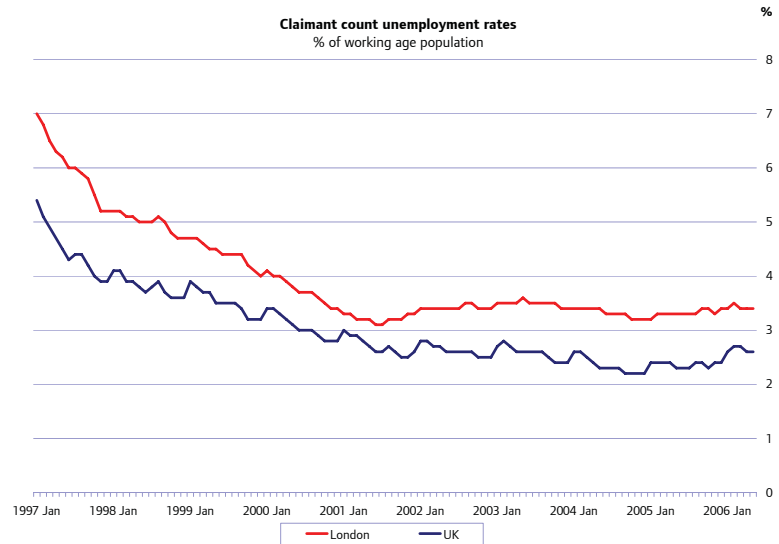
Source: FootFall Limited

Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseeker's Allowance) in London was 3.4% in May 2006.
- There were 169,500 unemployment claimants in London in May 2006 compared with 164,400 in May 2005.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: June 2006

Next release: July 2006

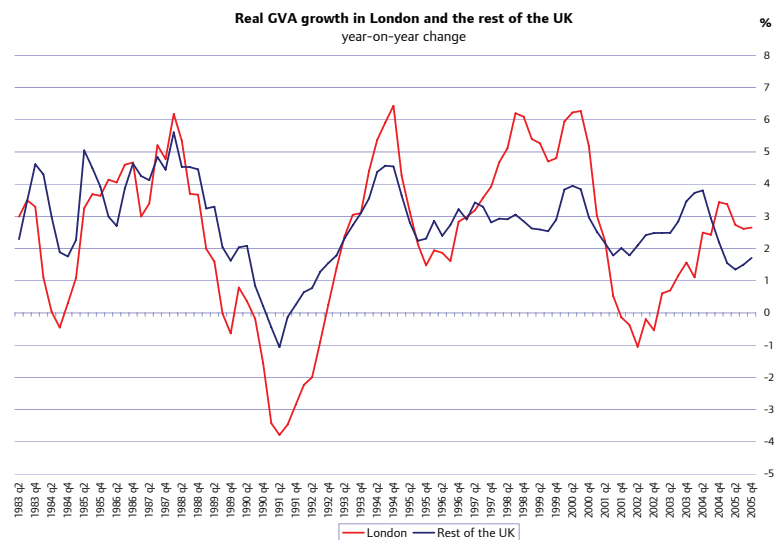


London continues to grow faster than the rest of the UK

- London's annual growth in output was 2.6% in Q4 2005, unchanged from Q3 2005.
- The annual growth in output for the rest of the UK was 1.7% in Q4 2005, up from 1.5% in Q3 2005.
- London's annual output growth was higher than the growth experienced in the rest of the UK in Q4 2005.

Latest release: May 2006

Next release: August 2006

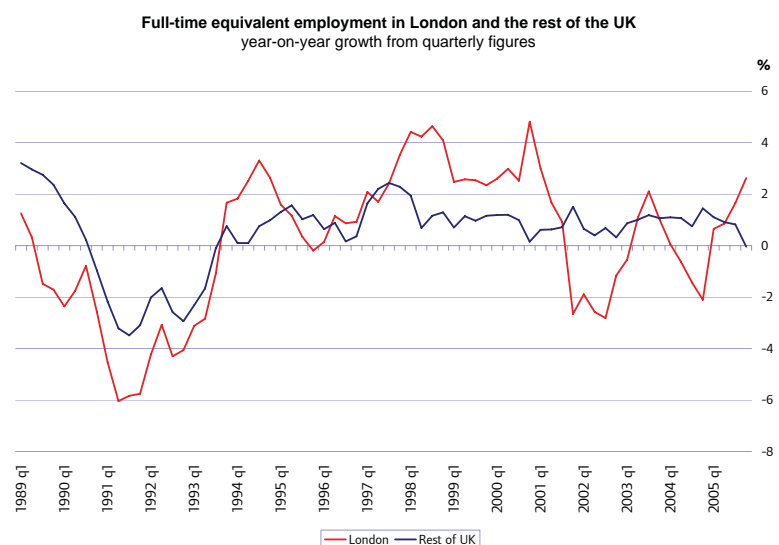


London's annual employment growth rate quickens

- London's year-on-year employment growth increased to 2.6% in Q4 2005 from 1.7% in Q3 2005.
- Annual employment growth in the rest of the UK decreased to 0.0% in Q4 2005 from 0.8% in Q3 2005.
- London's annual employment growth rate has quickened whereas annual employment growth in the rest of the UK has fallen further.

Latest release: May 2006

Next release: August 2006

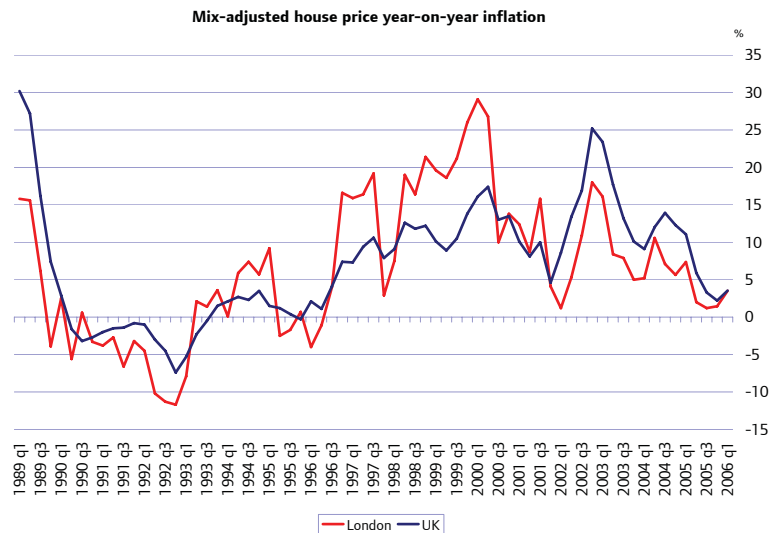


Annual house price growth picks up

- The ODPM house price index is an official measure of house prices. It is available up to Q1 2006.
- Annual house price growth in London increased to 3.5% in Q1 2006 from 1.4% in Q4 2005.
- Annual house price growth for the UK also increased to 3.5% in Q1 2006 from 2.2% in Q4 2005.

Latest release: June 2006

Next release: September 2006

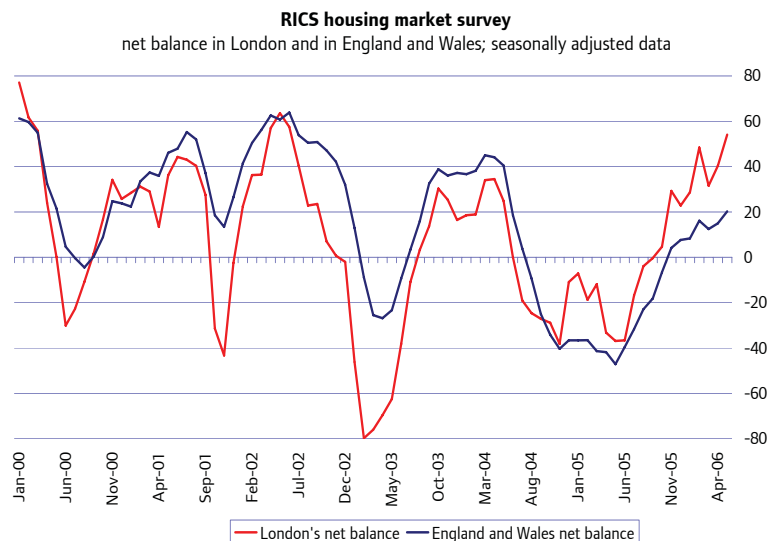


Surveyors reporting higher house prices

- The RICS survey shows a positive net balance of 54 for London house prices over the past three months up to May 2006. This net balance shows an increase from 40 reported in April.
- Surveyors also reported a positive house price net balance for England and Wales of 20 in May 2006, up from 15 in April.
- London's net balance for house prices remains above that of England and Wales.

Latest release: June 2006

Next release: July 2006

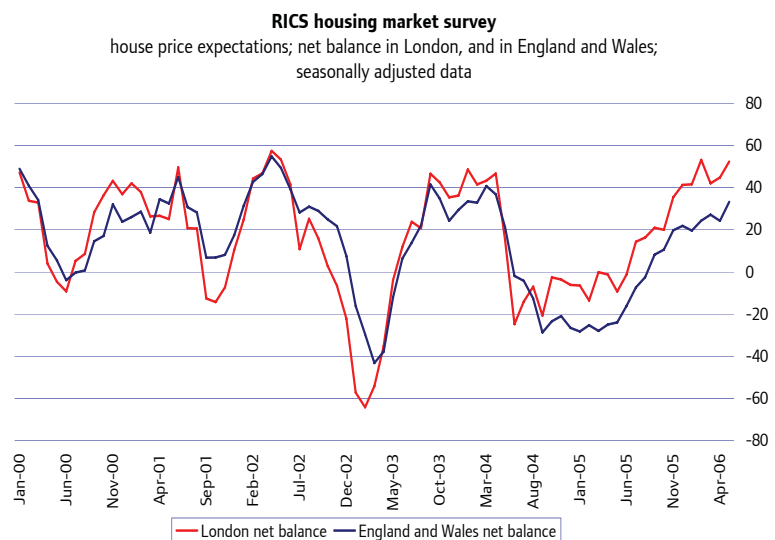


Surveyors continue to expect house prices to rise

- The RICS survey shows that surveyors expect house prices to increase over the next 3 months in London and in England and Wales.
- The net expectations balance in London was 52 in May, up from a balance of 45 in April.
- For England and Wales, the net expectations balance was 33 in May, up from 24 in April.

Latest release: June 2006

Next release: July 2006

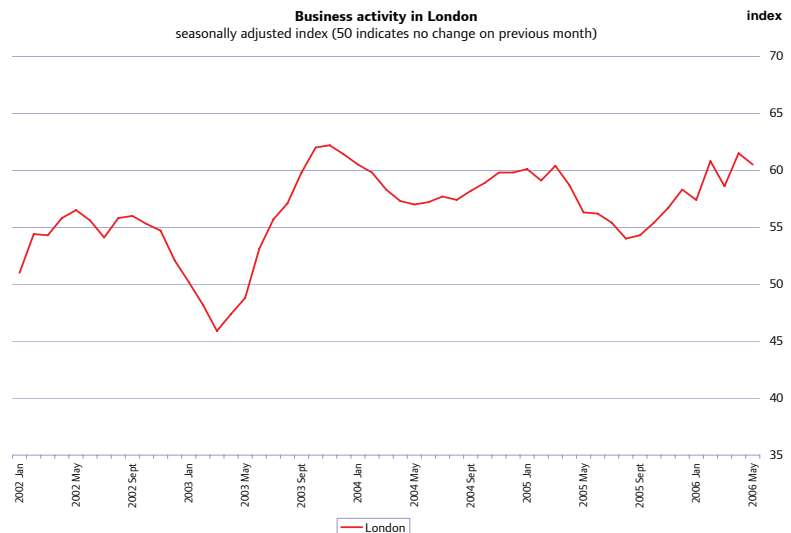


Business activity in London still growing strong

- London firms continued to expand their output of goods and services in May 2006.
- The Purchasing Managers' Index (PMI) of business activity was 60.5 in May compared to 61.5 in April.
- A rate above 50 on the index indicates an increase in business activity from the previous month. The PMI for business activity has been above 50 since June 2003.

Latest release: June 2006

Next release: July 2006



Source: PMI/The Royal Bank of Scotland

Employment in London continues to expand

- London firms continued to increase their level of employment in May 2006.
- The PMI for the level of employment was 55.9 in May compared to 56.3 in April.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month. The PMI for the level of employment has been above 50 for nine successive months.

Latest release: June 2006

Next release: July 2006



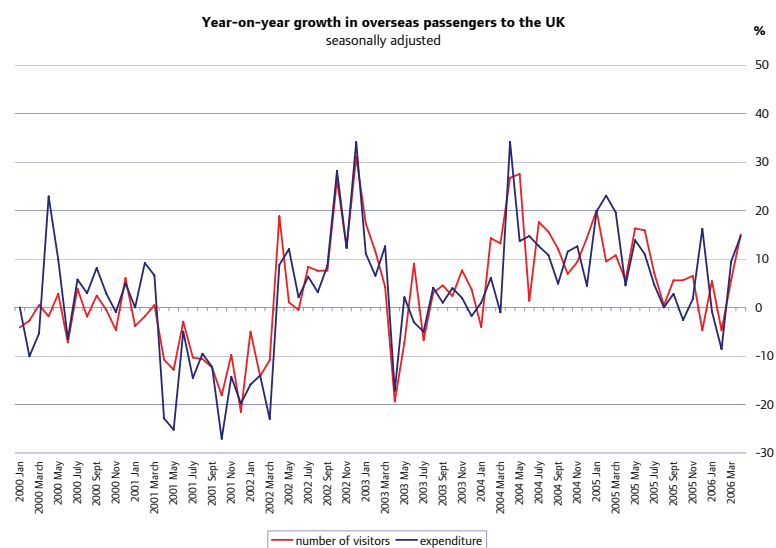
Source: PMI/The Royal Bank of Scotland

Faster annual growth in tourism activity

- April 2006 saw continued annual growth in overseas visitor numbers to the UK and their expenditure in the UK. Up to half of overseas visitors to the UK spend time in London.
- The annual growth rate of overseas visitors to the UK was 15.1% in April, up from 5.7% in March.
- The year-on-year growth in expenditure by overseas visitors in the UK was 14.8% in April, an increase from 9.5% in March.

Latest release: June 2006

Next release: July 2006



Source: Office for National Statistics

Barker Review of Land Use Planning

Richard Prothero
Economist

9

Introduction

In early 2006, the Chancellor and the Deputy Prime Minister invited Kate Barker, a member of the Bank of England's Monetary Policy Committee, to conduct an independent review of land use planning in England.

The terms of reference of the review are to consider how, in the context of globalisation and building on the reforms already put in place in England, planning policy and procedures can better deliver economic growth and prosperity alongside other sustainable development goals.

In particular, the review is seeking to assess:

- ways of further improving the efficiency and speed of the system
- ways of increasing the flexibility, transparency and predictability that enterprise requires
- the relationship between planning and productivity, and how the outcomes of the planning system can better deliver its sustainable economic objectives
- the relationship between economic and other sustainable development goals in the delivery of sustainable communities.

The review is ongoing with an analytical interim report scheduled for early summer, and a final report setting out recommendations due around the end of 2006.

GLA Economics responded to the call for evidence during March. Our response sought to highlight the importance of market mechanisms in the operation of a successful economy and to review land use planning in this context. It is important for the planning process to understand and harness the competitive process, using it to discover what the best outcomes are, since these are not known a priori.

Improving land use planning

The main view put forward in GLA Economics' response is that the planning system is not sufficiently responsive to economic conditions. It does not at present provide a framework within which the economic consequences of decisions are identified and weighed and the costs and benefits of particular courses of action can be assessed against each other. One key reason is that it does not have any economic pricing mechanisms in place to ensure an efficient allocation of land space between competing end uses or even to guide planners in their allocation decisions.

Secondly, the planning system can act as a barrier to entry in some sectors where it impedes the optimum levels of entry and exit for firms within an industry. Generally, high rates of entry and exit for firms are vital to maintaining competition and increasing productivity in an industry and it is therefore crucial that flexibility be built into the land use planning system and that there is not

too rigid an application of, for example, test for need and sequential tests. It is also vital that companies are not able to play the system in such a way as to allow acquisition of monopoly positions within the planning process, for example through land banks.

A third area of concern relates to the delay involved in some planning applications. Excessive delays in consideration of planning applications leads to significant economic losses as land and resources remain unused, and the potential benefits of investment are foregone for the period of time of the delay. For large developments in general, delays in the decision making process can mean that some planning applications can take up to 12 to 18 months to reach a conclusion, with the possibility of this timeframe being more than doubled if a proposal is called-in by the Secretary of State or is subject to appeal. For major infrastructure projects, such as the Thames Gateway Bridge, the need to go to Public Inquiry can extend this delay, and the resultant economic costs, significantly.

Indeed, the length and cost of Planning Inquiries for major projects are a key area of concern. This largely arises from the fact that the costs and benefits of the Inquiry process are never considered. For example, the scope of an Inquiry is often drawn quite generally and objectors have no need to establish any status beyond their willingness to provide a proof of evidence and turn up. The net result is that Planning Inquiries are swallowing significant amounts of time and money, causing delays and making the process increasingly difficult for those without specialist knowledge or resources. We suspect this is hard to justify in economic terms, and that it is in everyone's interests for the process to be streamlined.

Providing benefits through agglomeration

There are, however, benefits of planning in terms of providing economic growth, and one is its potential to aid agglomeration economies through providing transport infrastructure. Agglomeration economies exist where firms benefit from locating in close proximity to each other through economies of scale and network effects leading to higher productivity. Central London is a key example of an agglomeration economy. One way that planning can help promote agglomeration economies in urban areas is by helping limit congestion (which the process of agglomeration will be increasing). This benefit could be termed the management of infrastructure and a positive example would be investment in transport infrastructure in a congested location to encourage further development and agglomeration benefits at that location.

The biggest single benefit the planning system could bring to London's growth over the coming decade is therefore to ensure a smooth and successful implementation of Crossrail. This would increase transport capacity into the most successful agglomeration areas of Central London allowing these areas to expand further bringing additional high-productivity jobs to the UK economy.

Data sources

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

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

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

Past features

Issue

- 23 The Spending Review reviewed
- 24 How well do cities perform? The answer - it depends?
Buses: Bringing benefit to town centres - Challenging the myths to bring business and people together
- 25 Casino Royale - Economic effects of casino development in London following the proposed gambling bill
- 26 Atoms and DNA: Revising London's Economy - Changes to estimated GVA and employment growth in London
- 27 They're coming back! The recovery in London's tourism industry
Nappies and 'power suits': Childcare issues for London employers
- 28 The 2004 Pre-Budget Report reviewed
- 29 London at work: Trends in London's employee jobs
- 30 London's Economic Development Strategy Launched
- 31 Skilled labour availability and crime are top concerns in London Annual Business Survey
- 32 Laying foundations: Introducing research into London's construction industry
- 33 A snapshot of GLA Economics' work
- 34 A Time to Skill: Skills in London's economy
- 35 London - England's most environmentally-effective region?
- 36 Reluctant Retailers? The link between retail and regeneration
- 37 Cities are changing. So must we. The Dynamic City conference.
- 38 Climate Change: Threat or opportunity for London?
- 39 Creative data for London
- 40 Assessing the Pre-Budget report
- 41 Two-thirds of new jobs to be filled by women
Capital jobs - Changes in London's employee jobs in 2004
- 42 A Snap of the Snapshot
- 43 Ready for Retail - GLA Economics' work in the retail sector
- 44 Women, ethnicity and part-time work in London's labour market
- 45 The London living wage in 2006

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4137

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

© Greater London Authority
June 2006

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a changing selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group and central government.

Subscribe

Subscribe online at http://www.london.gov.uk/mayor/economic_unit

Disclaimer

GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London, the London Development Agency and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

Other formats

For a summary of this document in your language, or a large print, Braille, disc, sign language video or audio tape version, please contact us at the address below:

Public Liaison Unit

Greater London Authority

City Hall

The Queen's Walk

London SE1 2AA

Tel 020 7983 4100

Minicom 020 7983 4458

www.london.gov.uk

Please provide your name, postal address and state the publication and format you require.

About GLA Economics

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.

GLA Economics is funded by



MAYOR OF LONDON