

London's Economy Today



Issue 42 | February 2006

In this issue

London's growth supported by buoyant business services and favourable financial markets.....	1
Latest news.....	1
Economic indicators.....	5
A Snap of the Snapshot..	9

London's growth supported by buoyant business services and favourable financial markets

Christopher Lewis
Senior Economist, GLA Economics

The Mayor of London's Economic Development Strategy (EDS) is for the whole of London, covering the activities of all stakeholders in the capital's economy. The EDS highlighted thirteen key objectives under the four investment themes of places and infrastructure, people, knowledge and enterprise, and marketing and promotion. This month's supplement *A Snap of the Snapshot* by Patricia Seex looks at the London Economic Development Snapshot, which was published on 8 February. The Snapshot is a regular, six-monthly report that aims to identify and review the capital's progress against the strategic priorities of the EDS.

GLAECONOMICS

Latest news...

The presentations from GLA Economics' most recent seminar, *Pounds, Transport and Pence*, are now available online. The seminar explored the relationship between transport and London's economy.

Get your copies of GLA Economics' two newest reports:

- Construction: Laying the Foundations
- Retail in London: Working Paper D – Retail and Leisure

For your copies: www.london.gov.uk/mayor/economic_unit, glaeconomics@london.gov.uk
or +44 (0)20 7983 4922.

The London economy continues to grow and perform well compared to other regions in the UK. In January, the Purchasing Managers' Index (PMI) measures of seasonally adjusted business activity, new orders and the level of employment all remained above the national average and showed expansion. The seasonally adjusted business activity and new orders indices for London are still well above 50, which is the level consistent with no change on the previous month. Meanwhile the seasonally adjusted employment index has now risen every month since August and at 53.9 is higher than in any other region.

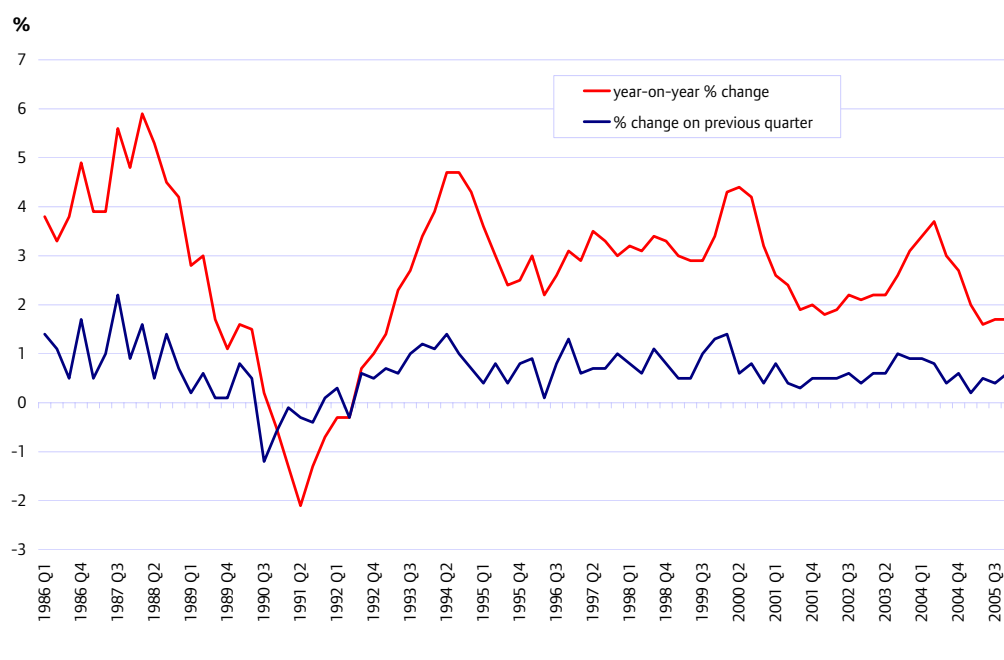
The latest International Financial Services London's City Indicators Bulletin was extremely positive and along with trends in forward looking indicators points to continuing growth in the capital's financial markets during 2006. A surge in trading activity on London's foreign exchanges last year extended the City of London's lead as the world's pre-eminent centre for currency dealing. Average daily turnover during October was over 30 per cent up on a year earlier. London's role as a world city was also highlighted by a survey by the Cranfield School of Management for Think London that showed that 98 per cent of foreign executives in the capital felt that they had developed a better understanding of global business since being here.

UK economic growth driven by the service sector

The UK economy picked up slightly at the end of last year growing by 0.6 per cent in the fourth quarter (Q4) 2005 compared with 0.4 per cent in Q3 2005 (see Figure 1). However, for the whole of 2005, GDP increased by only 1.8 per cent, the weakest growth since 1992. The two main parts of the economy continue to head in different directions. The service sector grew by 0.9 per cent in Q4, its best performance for one-and-a-half years while industrial production, which is in recession, fell by a further 0.8 per cent. In 2005 the service sector grew by 2.6 per cent, whereas industrial production decreased by 1.7 per cent. Within the service sector the business services and finance sector continues to grow robustly at 1.1 per cent in Q4 2005 its quickest rate for two years. This is good news for the London economy where this sector plays a more important role than in other regions. Within business services, the largest contribution to growth in Q4 2005 was from 'other business activities' (which includes accountancy, legal activities and management consultancy) and computer services. For the whole of 2005, the business services and finance sector grew at a healthy 3.4 per cent.

Figure 1: UK GDP growth

Source: Office for National Statistics



Within the UK housing market, mortgage approvals have picked up and there is steady annual house price growth. In January, seasonally adjusted house prices, as measured by the Nationwide rose by 1.4 per cent (the strongest monthly rate since July 2004) whereas the Halifax index fell by 0.4 per cent. The Nationwide annual rate of house price inflation increased from three per cent in December to 4.4 per cent in January, the highest annual rate since May 2005. The Halifax index shows house prices in the three months to January, 5.1 per cent higher than a year earlier (the same annual increase as in the three months to December 2005). Meanwhile, in December, the number of seasonally adjusted mortgage approvals to fund house purchases was at its highest level since May 2004.

Overall, the UK economy shows signs of improvement but longer-term potential problems remain. The Bank of England is concerned that the underlying rate of productivity growth has slowed. Sustained high oil prices and sharply increased gas prices have driven up energy and raw material costs for manufacturers who continue to struggle in the face of growing overseas competition. This has been a factor, alongside increased payments by companies into their in-house pension funds, why UK business investment growth has remained sluggish. The recent weakness of productivity and business investment is worrying as it could have a negative effect on the future potential supply capacity of the UK economy.

Oil prices remain high on geopolitical tensions

Oil prices are still high as the standoff between Iran and the West over its nuclear programme shows few signs of ending and as armed groups in Nigeria warn that they plan to continue attacks against national oil installations. The oil market is concerned that Iran will use its position as a major oil producer

as a political weapon, by limiting its oil exports, if the crisis over its nuclear programme escalates.

Despite high oil prices there are initial signs that Germany's economy is continuing its gradual recovery this year. Consumer sentiment has picked up and German companies are currently more confident about their prospects over the next six months than at any time since 1994. However, unemployment rose in January and retail sales fell in December. Japan's economy continues to recover steadily with unemployment falling further, consumer confidence improving and manufacturers more upbeat about their outlook than at any time since 1998. On the 31 January the Federal Reserve once again raised interest rates (the fourteenth such increase since June 2004) to 4.5 per cent at Alan Greenspan's last meeting as Chairman. The Federal Reserve believes that the expansion in US activity remains solid and that US interest rates may have to be raised further in the future. The US unemployment rate (4.7 per cent) has now fallen to a four-and-a-half year low.

Low long-term interest rates supporting economic activity

The world economy has been extremely resilient despite high oil prices and large US budget and current account deficits. Serious imbalances remain, which have the potential to derail the global economy. In addition if the fall in long-term real interest rates around the world was reversed and they rose to something closer to their long-run average, asset prices and consumption could be dramatically hit. Despite potential future problems the global economy remains healthy for now. China's growth continues apace driven by exports and investment. However, there is overcapacity in some industries and domestic consumer spending remains relatively weak due to a very high savings rate of nearly fifty per cent. The UK economy strengthened over the last few months of 2005 and on the back of a continuing successful financial and business services sector the London economy is performing well.

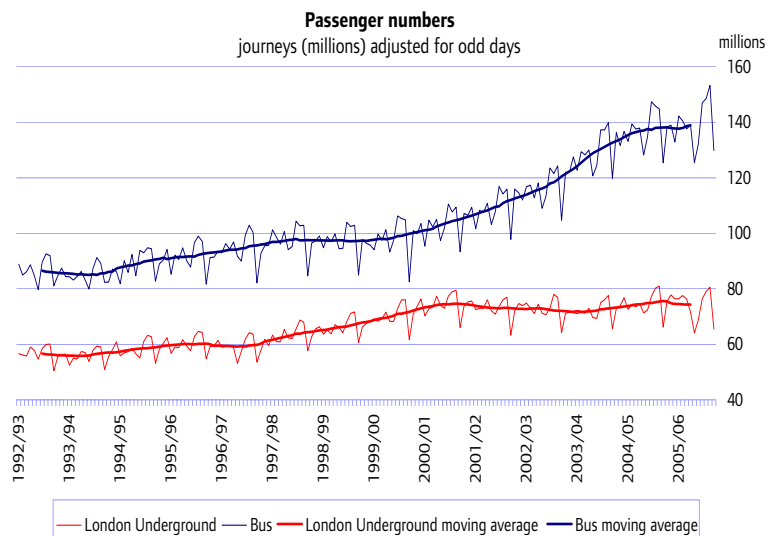
Economic indicators

Steady increase in moving average of passenger numbers

- The most recent 28-day period is from 11 December to 7 January 2006. London's public transport had 195.3 million passenger journeys; 129.8 million by bus and 65.5 million by Underground.
- The moving average increased further to 213.2 million passengers every period. The average for buses was 138.9 million passenger journeys. The average for the Underground was 74.3 million.

Latest release: February 2006

Next release: March 2006



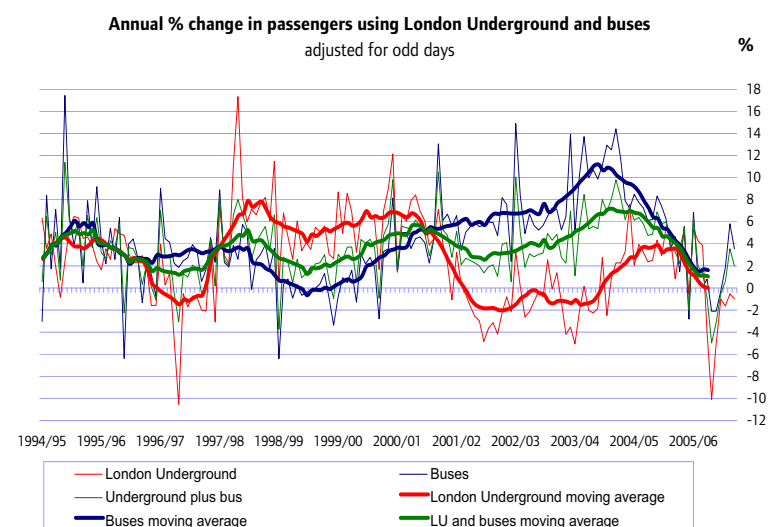
Source: Transport for London

Passenger journeys' annual growth rate remains slow

- The moving average annual rate of growth in passenger journeys decreased slightly to 0.9%.
- The moving average annual rate of growth in bus journey numbers decreased slightly to 1.5%, from 1.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers was -0.1% down from zero in the previous period.

Latest release: February 2006

Next release: March 2006



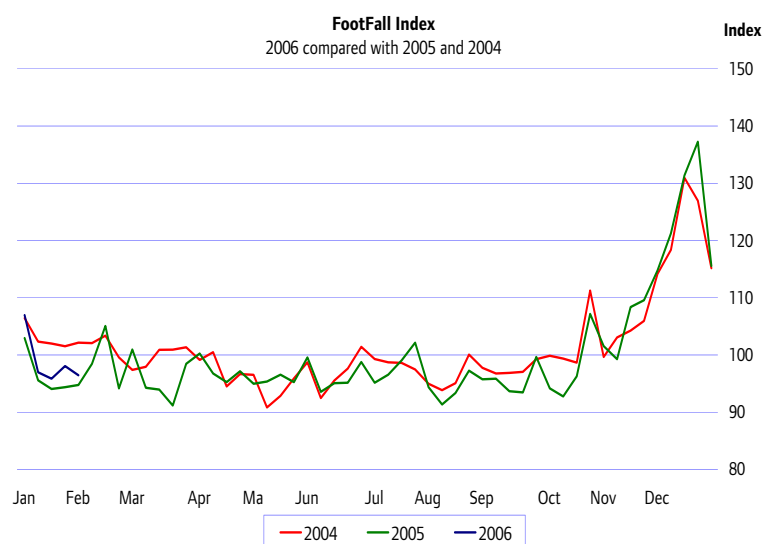
Source: Transport for London

Early 2006 shopper numbers above 2005 levels

- The Footfall Index of shoppers in London was 96.3 in the last week of January.
- Since the start of 2006, the number of shoppers has been above the level in 2005 during the same period.
- The FootFall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: End-January 2006

Next release: every week



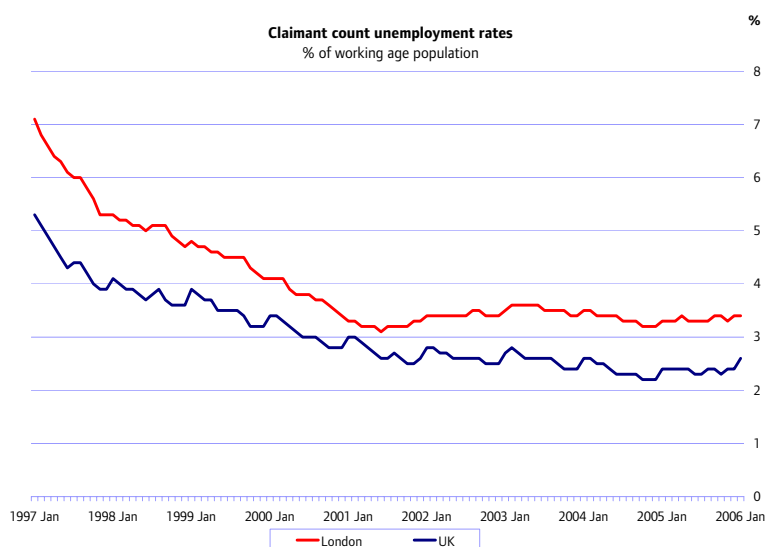
Source: FootFall Limited

Claimant count unemployment

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London was stable in January 2006.
- There were 169,000 unemployment claimants in London in January 2006 compared with 160,100 in January 2005.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: February 2006

Next release: March 2006

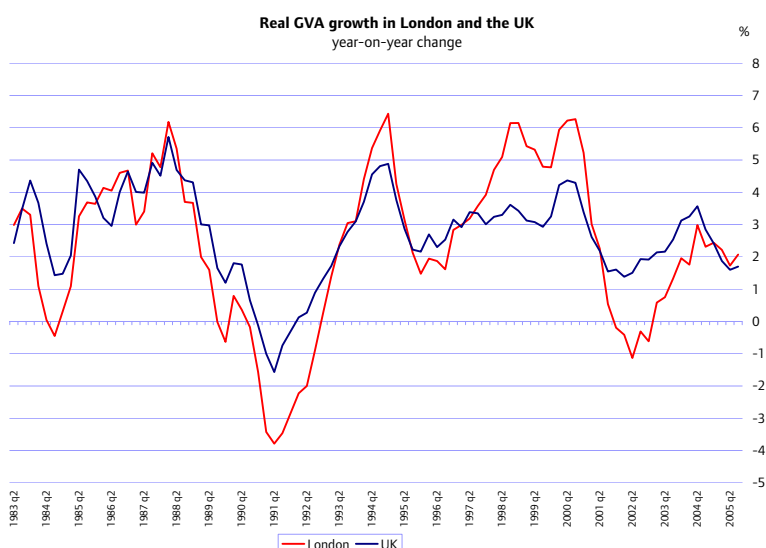


London's economy growing faster than the UK's

- London's annual growth in output was 2.1% in Q3 2005, up from a revised 1.7% in Q2 2005.
- The UK's annual growth in output was 1.7% in Q3 2005, up from a revised 1.6% in Q2 2005.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2006

Next release: May 2006

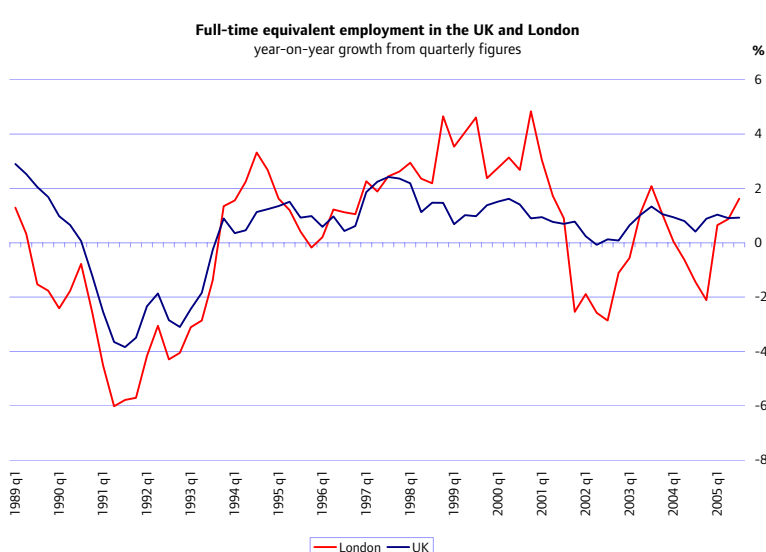


Employment growth in London stronger than in the UK

- London's year-on-year employment growth recovered further to 1.6% in Q3 2005 compared to revised growth of 0.9% in Q2 2005.
- Annual employment growth in the UK as a whole was stable at 0.9% in Q3 2005.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2006

Next release: May 2006

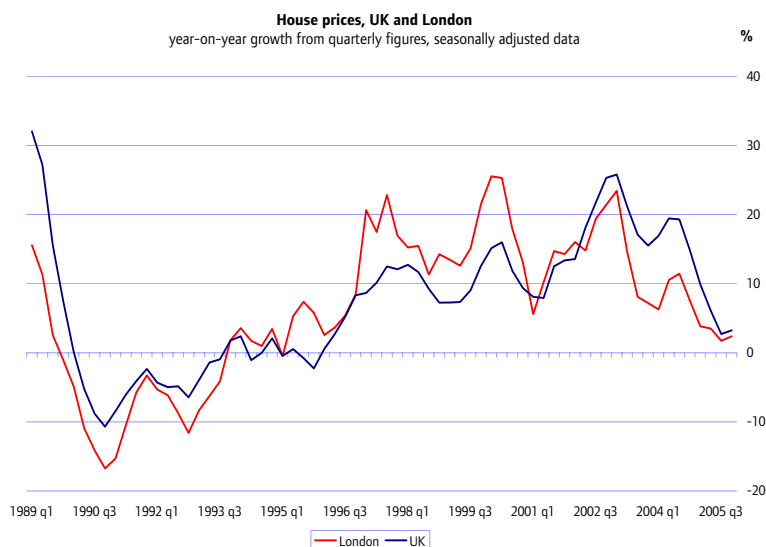


Small recovery in the rate of house price growth

- Nationwide provides an index of house prices derived from their lending data. This is available up to Q4 2005 and shows a small recovery in London and across the UK.
- Annual house price growth in London increased to 2.4% in Q4 2005 from 1.7% in Q3.
- Annual house price growth remained higher for the UK and increased from 2.7% in Q3 2005 to 3.2% in Q4.

Latest release: February 2006

Next release: May 2006



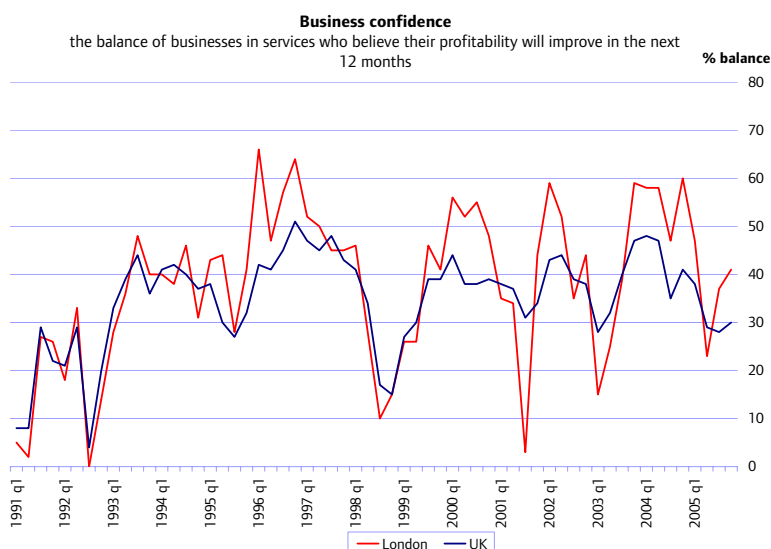
Source: Nationwide

Expectations of profitability remain higher in London than for the UK

- The British Chamber of Commerce's January Quarterly Economic Survey (QES) shows that London's service sector expects their profitability to improve.
- The net balance of businesses in services in London expecting to increase profitability over the next 12 months was 41% in Q4 2005.
- The net balance of UK businesses in services expecting increased profitability over the next 12 months was 30% in Q4 2005.

Latest release: January 2006

Next release: May 2006



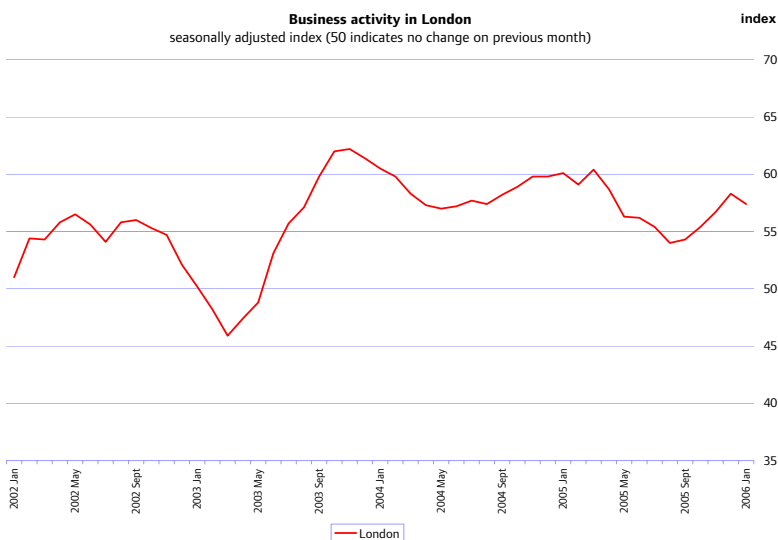
Source: British Chamber of Commerce, Quarterly Economic Survey

Business activity still expanding in London

- London firms continued to expand their output of goods and services in January 2006.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.4 in January 2006, slightly lower than 58.3 in December 2005.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: February 2006

Next release: March 2006



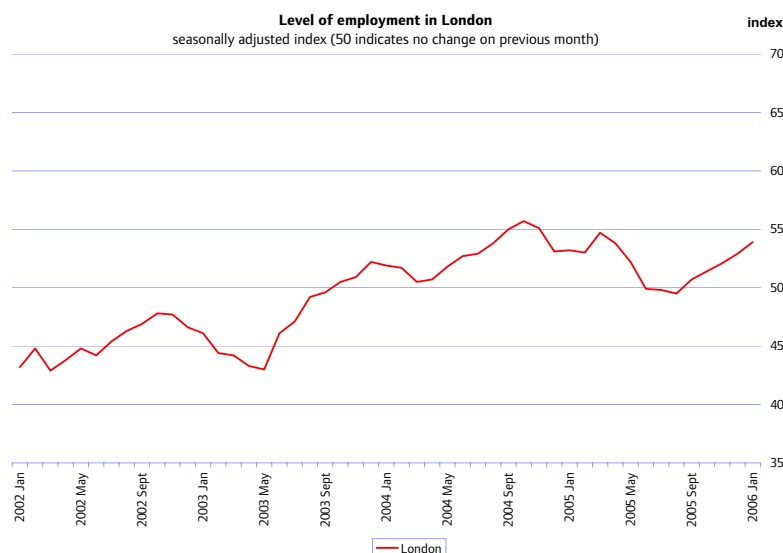
Source: PMI/The Royal Bank of Scotland

Steady increase in London employment

- London firms continue to increase their level of employment. The PMI for the level of employment was 53.9 in January 2006.
- The PMI shows that the employment level in London firms has increased for the past five months.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: February 2006

Next release: March 2006



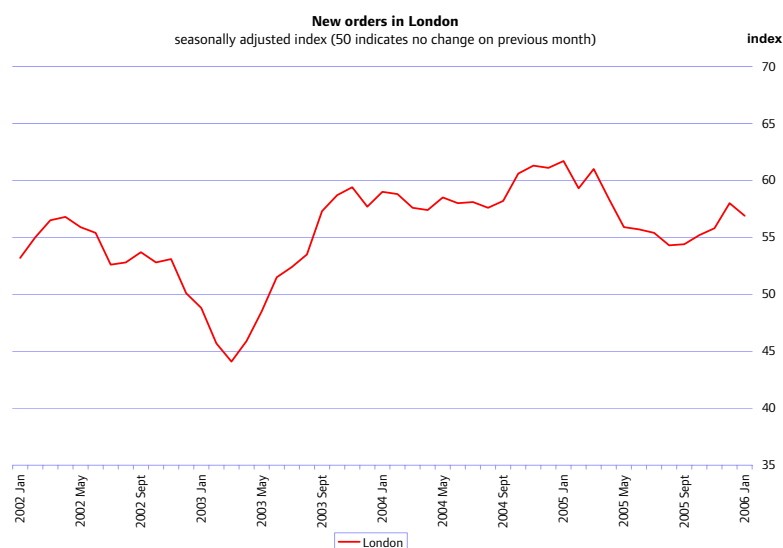
Source: PMI/The Royal Bank of Scotland

Growth in new orders slows slightly

- New orders for London firms continued to rise in January.
- The PMI for new orders recorded 56.9 in January 2006, a small decrease from 58.0 in December 2005.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: February 2006

Next release: March 2006



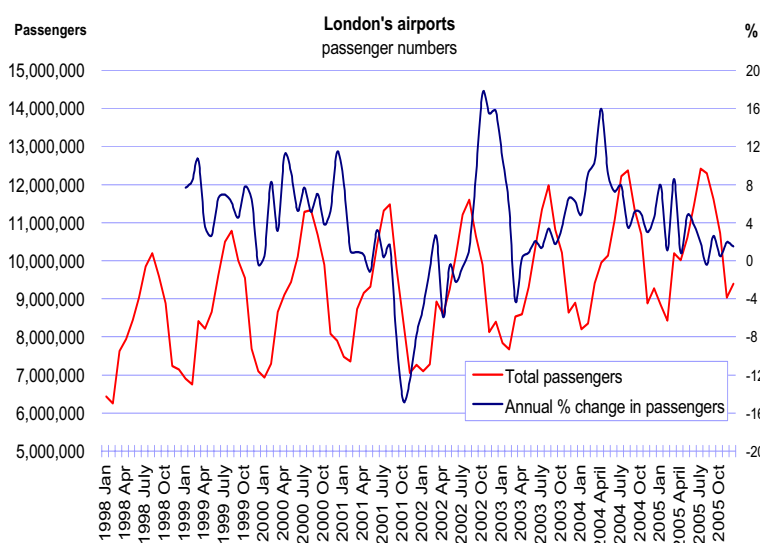
Source: PMI/The Royal Bank of Scotland

Slow annual growth in airport passenger numbers

- 9.35 million passengers travelled through London's airports in December 2005.
- The number of passengers using London's airports increased by 1.3% from December 2004 to December 2005.
- International travel through London's airports has continued to grow slowly year-on-year over the past four months.

Latest release: February 2006

Next release: March 2006



Source: Civil Aviation Authority

A Snap of the Snapshot

Patricia Seex
Economist, GLA Economics

The London Development Agency (LDA) has recently published its second *London Economic Development Snapshot* report. Produced in conjunction with GLA Economics, it is the second in a series of six-monthly reports which gives a snapshot of the progress made in delivering the objectives set out in the Mayor of London's Economic Development Strategy (EDS), *Sustaining Success*. The aim of the Snapshot is to:

- Identify and review London's progress against the strategic priorities of the EDS.
- Provide a basis on which to review the priorities for London's economic development.
- Act as a catalyst for directing economic development activities in London.

The report finds that overall London's performance against EDS objectives is mixed. Some indicators continue to show London performing favourably. However since the first Snapshot some indicators have worsened, with the full impact of the July terrorist attacks not yet known.

Employment rate remains the biggest hurdle

The Snapshot highlights that London's employment rate (that is the proportion of the working age population living in London that are in employment) has fallen to 5.4 percentage points below that for the UK as a whole. At 69.4 per cent, the employment rate in London is now the lowest of any region. Moreover, within London there are particular groups and geographic areas where the employment rate sits significantly below that for London as a whole. For example, the employment rate among Black, Asian and minority ethnic (BAME) groups has consistently been around 17 percentage points below that of white ethnic groups over the past decade.

Figure 1: Working age employment rates (four quarter average)

Source: Labour Force Survey

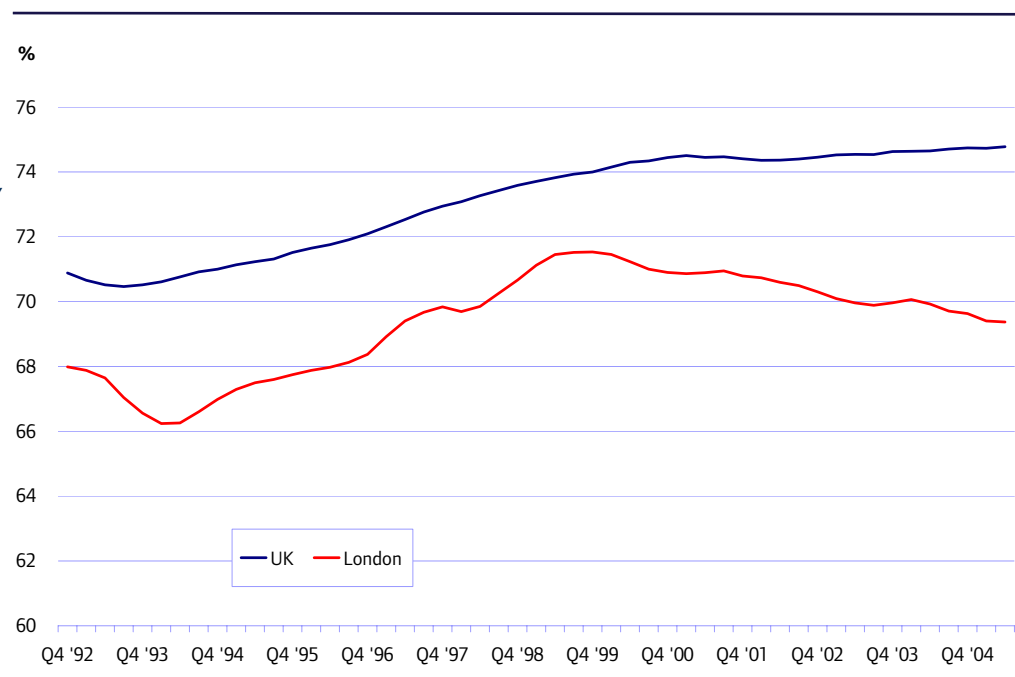


Figure 2: Employment rates of white and non-white ethnic groups (four quarter average)

Source: Labour Force Survey



Downturn in net VAT registrations suggested difficult business conditions in 2004

The Snapshot highlights that London's net business start-up rate fell below zero to -0.2 per cent (meaning more businesses were closed than were started) in 2004 for the first time since 1993. London's net business start-up rate has typically been more volatile than that for the UK. However, over the economic cycle to date (1997 - 2004) the average net business start-up rate was 2.1 per cent in London, compared to 1.4 per cent for the UK as a whole. The fact that in 2004 more businesses in London were closed than were started, together with a very low net start up rate for the UK as a whole, just above zero at 0.1 per cent, suggests difficult business conditions. Given the past path of the net start-up rate, and the volatility of the London rate, it is reasonable to assume that as economic conditions improve so London's net start-up rate will improve, probably outperforming the UK net start-up rate.

Figure 3: Annual net change in the number of VAT registrations and deregistrations as a proportion of the stock of all VAT registered businesses

Source: Inter-Departmental Business Register



London remains top European city for business

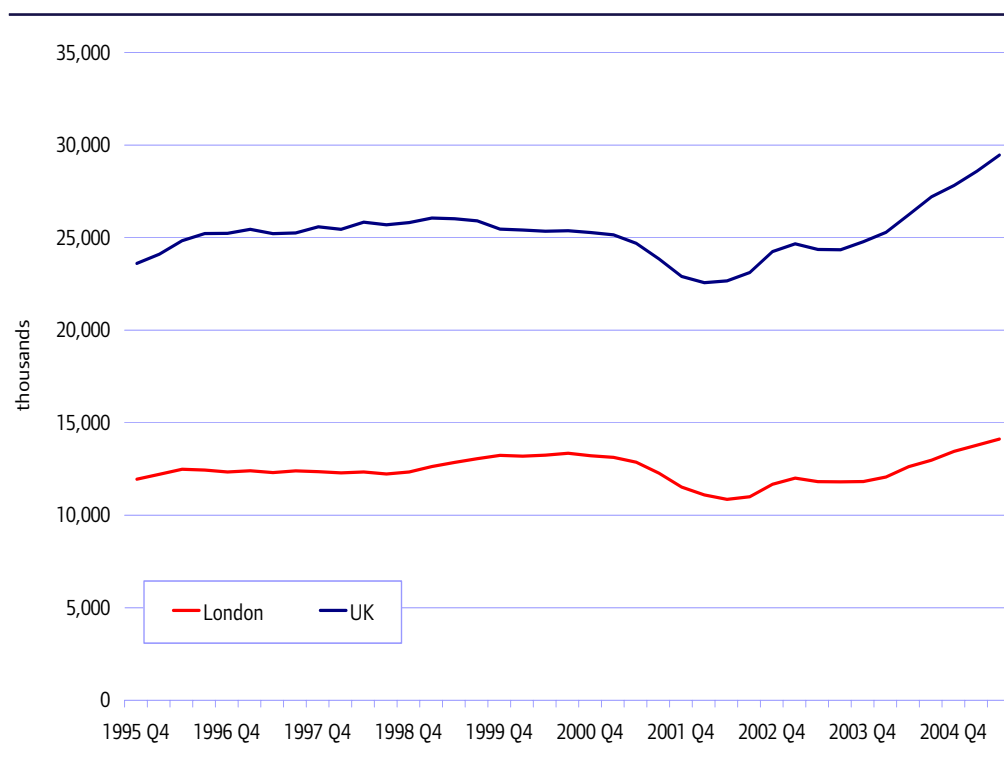
One of the objectives of the Mayor's EDS is to maintain London's position as a key enterprise and trading location. The Snapshot report shows that London continues to be the top European city to locate a business, according to the European Cities Monitor. London has also consolidated its lead over Paris, Frankfurt and Brussels, with a rise in its weighted score compared to 2004. London has maintained its position as the best city in terms of availability of staff, ease of access to markets, languages spoken, transport links and the quality of telecommunications.

Overseas visitor growth and spending continuing to grow prior to 7 July

Another of the Mayor's EDS objectives is to maintain and develop London as a visitor destination. The Snapshot shows that to the end of June 2005, the number of international visitors to London had grown positively (on a year-on-year basis) for seven consecutive quarters – the longest period of sustained visitor growth to the capital since the mid 1990s. Comparing the year to June 2005 with the same period a year earlier, trips made by international visitors to London increased by 11.9 per cent; for the UK the increase was 12.3 per cent. It is too early to assess the impact of the terrorist attacks completely. Whilst both tourism and the central London retail sector experienced sharp declines in the immediate period following the 7 July terrorist attack, available evidence suggests a sizeable recovery since then.

Figure 4: Trips made by international visitors

Source: *International Passenger Survey*



Olympic win will contribute to infrastructure and boost marketing and promotion

Finally, data outlined in the Snapshot suggests that London's successful bid to stage the Olympic Games and Paralympic Games in 2012 will act as a catalyst for regeneration in the Lower Lea Valley and for investment in London's infrastructure. Hosting the Olympics and the associated development work has been identified as one factor influencing business location decisions. Moreover, tourism to London is expected to increase over the long-term as a result of London 2012.

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

- 21 World City, World Knowledge: The economic contribution of London's higher education sector
- 22 Looking ahead: Gender, construction and retail
- 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

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
February 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