

## **A Review of Independent Forecasts**

June 2003



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## Introduction

This is the second GLA Economics review of independent forecasts for London prepared by the main forecasting organisations. It serves three purposes

- to provide a basis for a short term consensus forecast
- to understand the alternative views of the forecasting bodies
- to provide background information for GLA Economics' own forecast.

Accurate short-term forecasts are difficult to produce. In general, errors on a forecast are such that it is impossible even to be sure whether the sign of a change is reliable.

For this reason, and because of uncertainty about model design, errors in estimation, exogenous shocks and inherent complexity, bodies such as the Bank of England prepare ranges of possible outcomes. These have probabilities attached. The range depends on assumptions made, model simulations and indeed the models used.

This review shows the range of the most likely outcomes which different forecasting organisations predict. Each may also prepare scenarios they consider less likely, which are not shown here.

This review of independent forecasts reports the average, worst-case (low) and best-case (high) short-term (three-year) forecasts for workforce employment, real output, and consumer (household) spending in London. It also breaks down the employment and output forecasts into three broad sectors: production, finance and business services, and other services.

Cumulatively, the low and high forecasts combine the worst or best growth forecasts taken from each year separately, and which may therefore come from different forecasters. Thus they may not represent the view of any one forecaster. Unless there are specific reasons not to, the worst-case forecasts should be considered an indicator of the risk on the downside and the best-case forecasts as an indicator of the risk on the upside.

Table 1.1 applies the average, low and high growth rates to the ONS first release estimate of workforce jobs in London for 2002. Although forecasters supply differing estimates of employment even for past years, their divergence is small (no more than 160,000 jobs between the lowest and highest year 2002 estimate) and so these may be taken as forecasts of the actual number of London jobs, benchmarked to the official figure for 2002.

**Table 1.1 Average, low and high predictions of London's employment**

<b>Total employment (millions of workforce jobs)</b>			
	<b>average</b>	<b>lowest</b>	<b>highest</b>
2002	4.50	4.50	4.50
2003	4.48	4.38	4.56
2004	4.50	4.38	4.60
2005	4.54	4.38	4.66

### The forecasts

Forecasts are supplied for the main macroeconomic aggregates on the basis of forecasts from five organisations:

- Cambridge Econometrics (CE)
- the Centre for Economic and Business Research (CEBR)
- Experian Business Strategies (EBS)
- the London Economy Research Project forecast (LERP), produced by the National Institute for Economic Research (NIESR) and published by the London Chamber of Commerce and Industry
- Oxford Economic Forecasting (OEF).

Unfortunately, most forecasting organisations do not produce sub-national economic forecasts. At national level, in contrast, the May 2003 edition of HM Treasury's *Survey Forecasts for the UK economy: A comparison of independent forecasts* (Treasury May 2003) covers 42 organisations.

There are no authoritative estimates of output in London, and forecasting organisations adopt slightly varying definitions of employment. As a result, forecasts differ not just because they predict different outcomes for the economy but because their estimates of the basic data are not the same. For example, the lowest reported value of London's output for year 2002 is £119 billion and the highest is £137 billion. Note also that not all forecasters have adopted the European System of Accounts 95 (ESA95) recommendation to report output as Gross Value Added (GVA), and the term 'output' in this report refers to a mix of measures.

For this reason, two formats are used to present the forecasts. Section 1 reports annual growth of employment, output and consumer expenditure. The history over the previous business cycle is also reported for comparison. Section 2 reports the cumulative growth of the same variables, indexed to the year 2002. This provides a common basis to compare the reports, abstracting from the statistical differences which arise only because the forecasters adopt different definitions.

In sections 3 and 4, the two principal indicators – output and employment – are disaggregated into three broad sectors – production (construction, manufacturing and utilities), financial and business services, and other services. In this report 'other services' means all service sectors not included in financial and business services.

In sections 1 and 2, all forecasters' estimates were used except for the year 2005, for which NIESR did not supply growth estimates. Data for sections 3 and 4 were not supplied by NIESR or CEBR.

## Forecasts of what?

Forecasting organisations use varying definitions of the regional indicators they supply. It is not therefore always possible to assign a completely consistent meaning to the terms used. For this reason, except for employment where the definitions are reasonably consistent, we have avoided presenting the absolute magnitudes supplied by the forecasters.

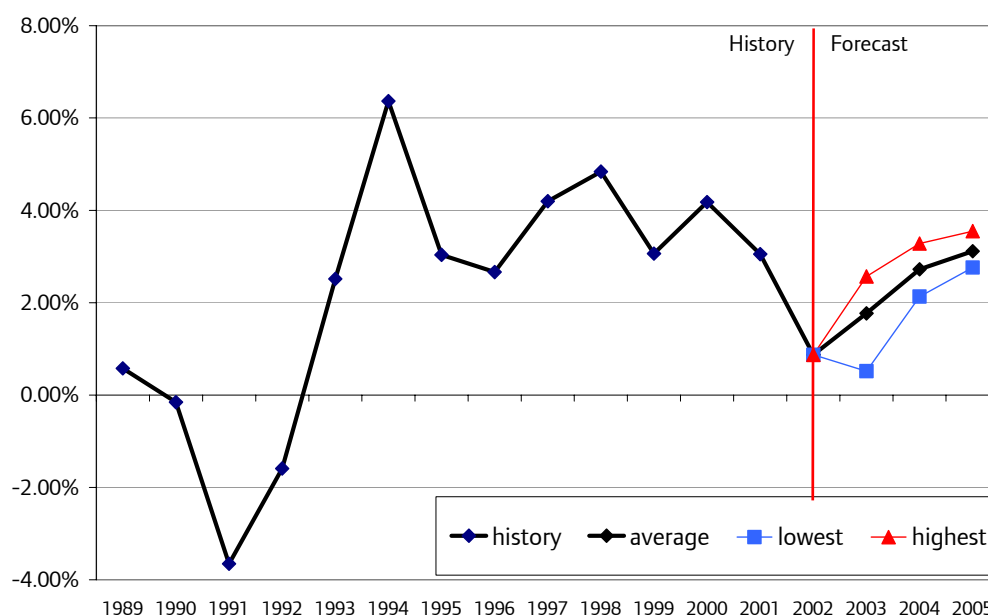
Throughout this report, 'employment' refers to 'workforce employment' as defined in *Labour Market Trends*. Consumption refers to private or household consumption; in some cases the expenditure of non-profit organisations is included and in some, it is not. Output refers in some cases to Gross Domestic Product (GDP) and in some cases to Gross Value Added (GVA). Imputed rental income from the ownership of property is in some case included, and some not.

'Production industries' and 'finance and business services' have their conventional meaning, and 'other services' refers to everything else except agriculture and extraction.

Estimates of London's past output have been revised since the last consensus forecast and the historical growth rates reported below reflect these revisions.

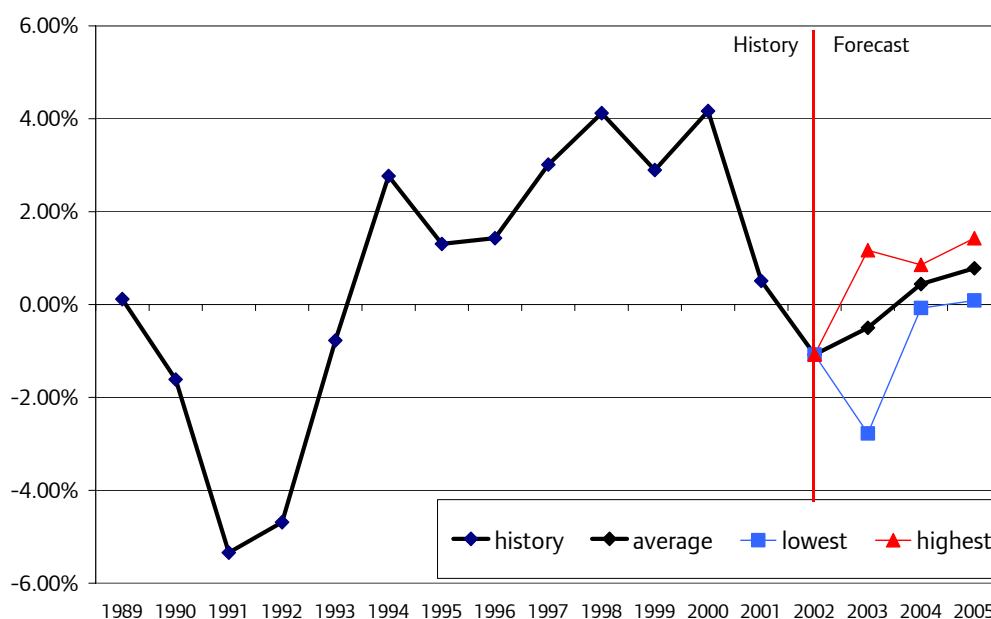
## 1. Employment, output and consumption growth

**Chart 1.1 Annual growth in London's output**

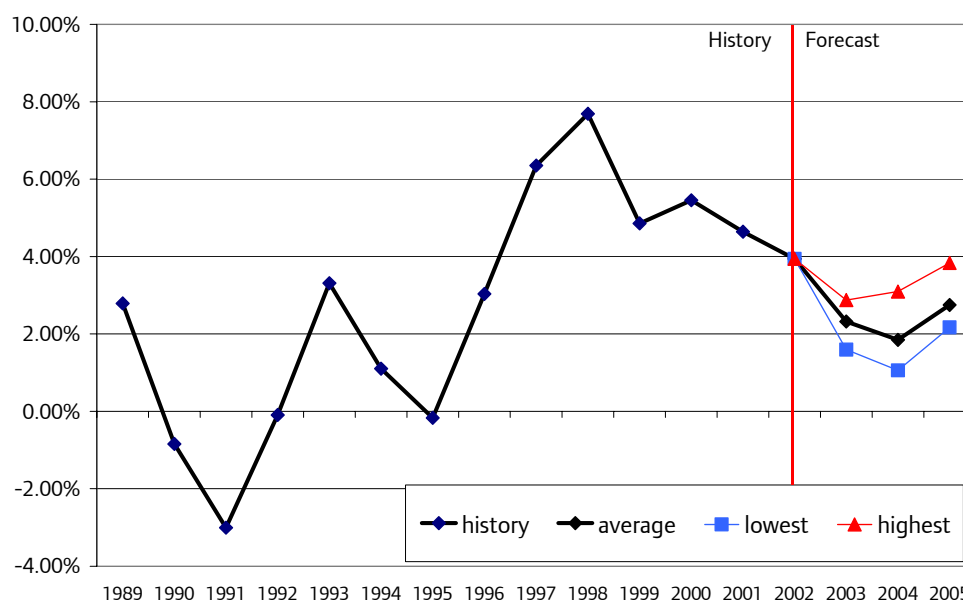


The average forecast is that output growth will rise in 2003, although the lowest foresees one more year of falling growth. All forecasters agree that output growth will rise in 2004 and continue rising, consistent with a cyclical economic upturn. By 2004, at 3.1 per cent, the average will exceed the trend growth rates, although it will be below recent growth peaks.

**Chart 1.2 Annual growth in London's employment**



The consensus is that after a continued slight decline in employment (– 0.5 per cent) in 2002 employment growth will become positive although small (0.4 per cent) in 2004. For 2003 there is a spread of forecasts with a low of –2.8 per cent and a high of 1.2 per cent. Thereafter, forecasts converge on a slow recovery with growth rates still below 1 per cent by 2005.

**Chart 1.3 Annual growth in consumer (household) expenditure in London**

The consensus is that consumer expenditure will register two further years of declining growth in 2003 and will only begin to grow faster in 2005 when it will reach 2.9 per cent in 2005. Low and high central risk forecasts diverge most sharply from the average in 2004, with a low of 1.6 per cent and a high of 3.0 per cent.

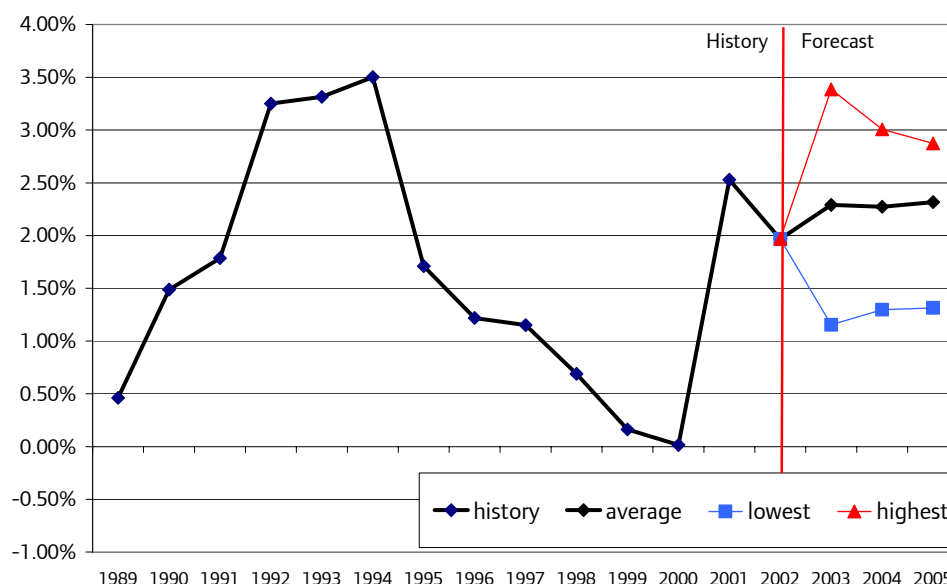
**Chart 1.4 Annual productivity growth in London**

Chart 1.4 records the rates of change in productivity implicit in the suppliers' forecasts for output and for employment and so is an indicator of output per worker. The relatively high rate of productivity growth expected is consistent with the consensus view that output will rise significantly faster than employment, in contrast with the recent past, when employment growth tended to keep pace with output growth.

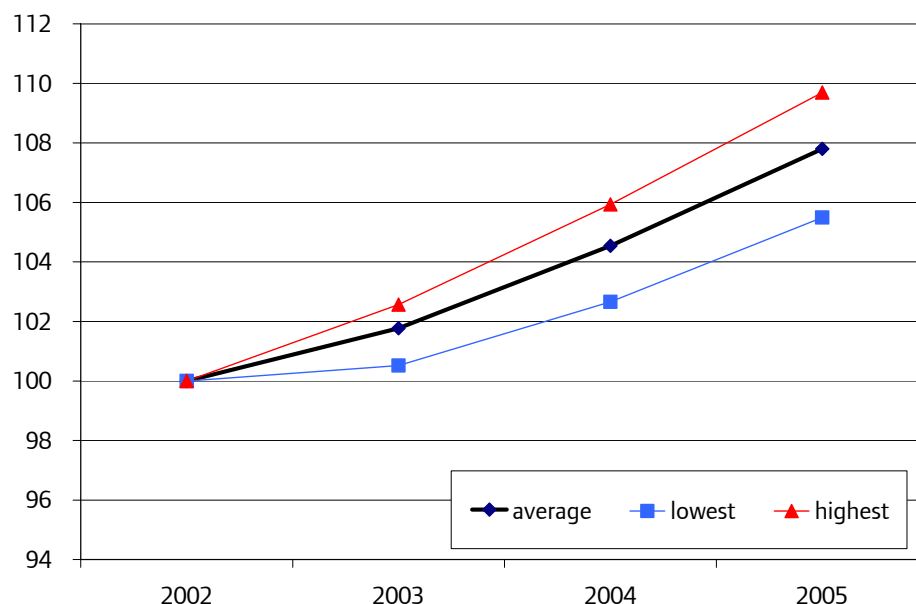
Implied productivity was calculated separately for each forecaster before deriving the average, highest and lowest forecasts.



## 2. Main indicators

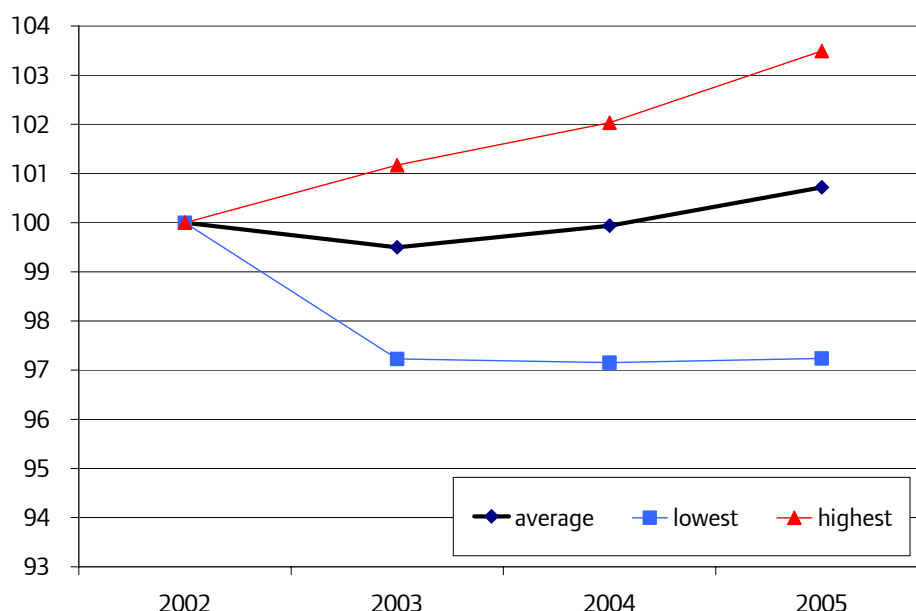
indexed to the year 2002=100

**Chart 2.1 Output**

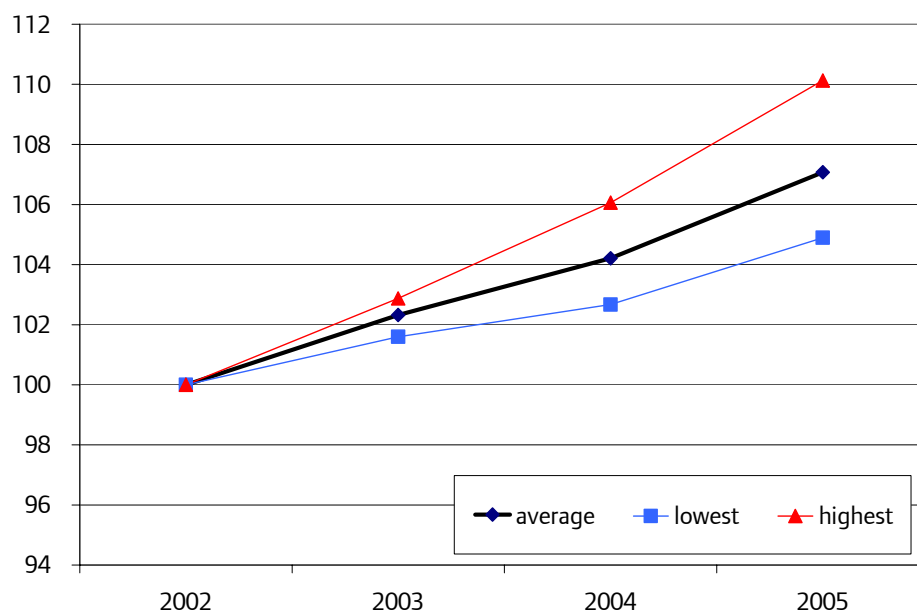


Growth is always positive for the average, low and high forecasts, rising each year to bring the average cumulative three-year growth to 7.8 per cent, with a low forecast of 5.5 per cent and a high of 9.7 per cent.

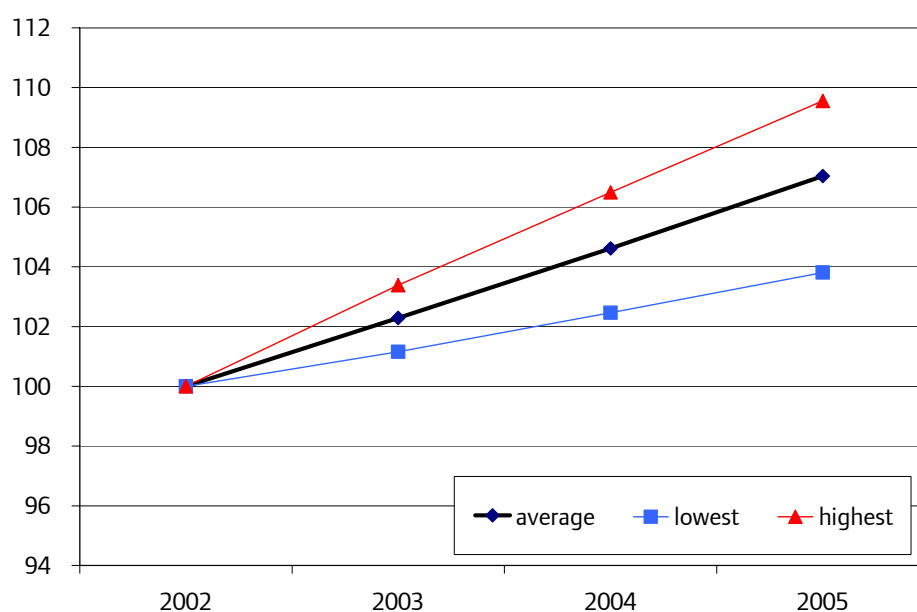
**Chart 2.2 Employment**



The average forecast is for slight negative growth in 2003 followed by slowly rising and positive growth, which leads to a three-year cumulative growth of just 0.7 per cent. The low forecast is considerably more pessimistic, predicting a 2.8 per cent cumulative decline, while the high forecast predicts 3.5 per cent cumulative growth.

**Chart 2.3 Consumer spending**

Positive although declining growth translates into a 7.1 per cent cumulative growth over three years, with a low forecast of 4.9 per cent and a high of 10.1 per cent.

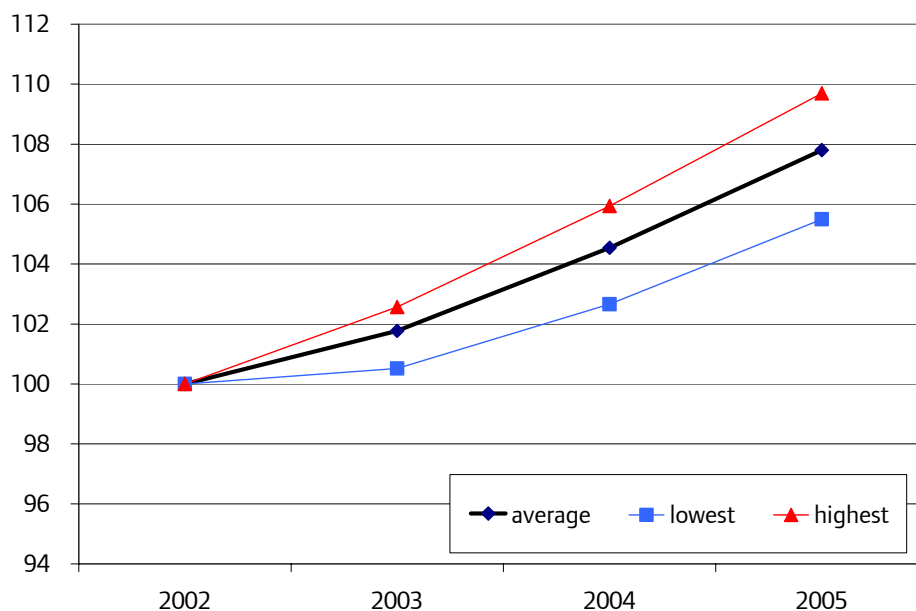
**Chart 2.4 Productivity**

The relatively high growth of output compared with employment leads to relatively high productivity growth, with an average of 7.0 per cent cumulative over the three years to 2005, a low of 3.8 per cent and a high of 9.6 per cent.

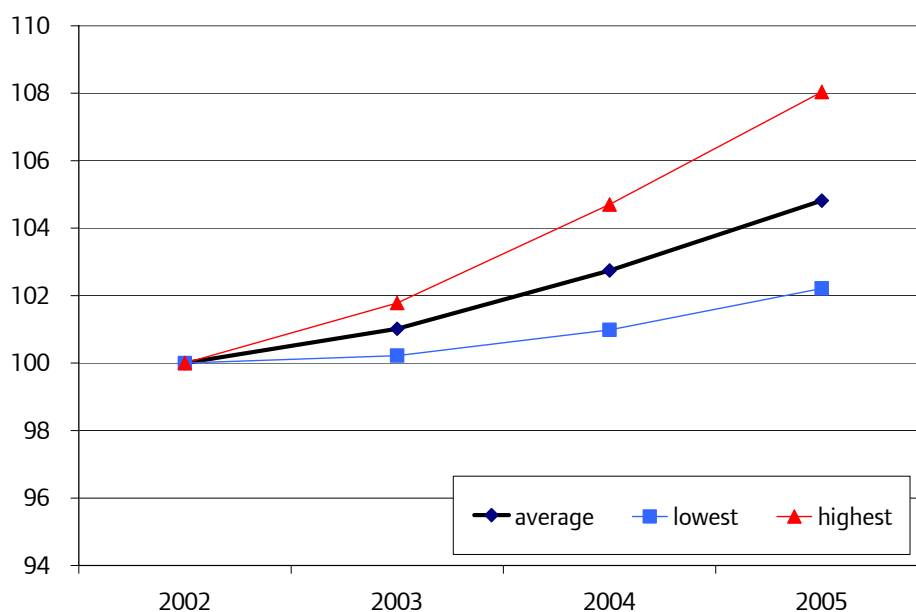
### 3. Output growth by sector (2002=100)

**Chart 3.1 Total output**

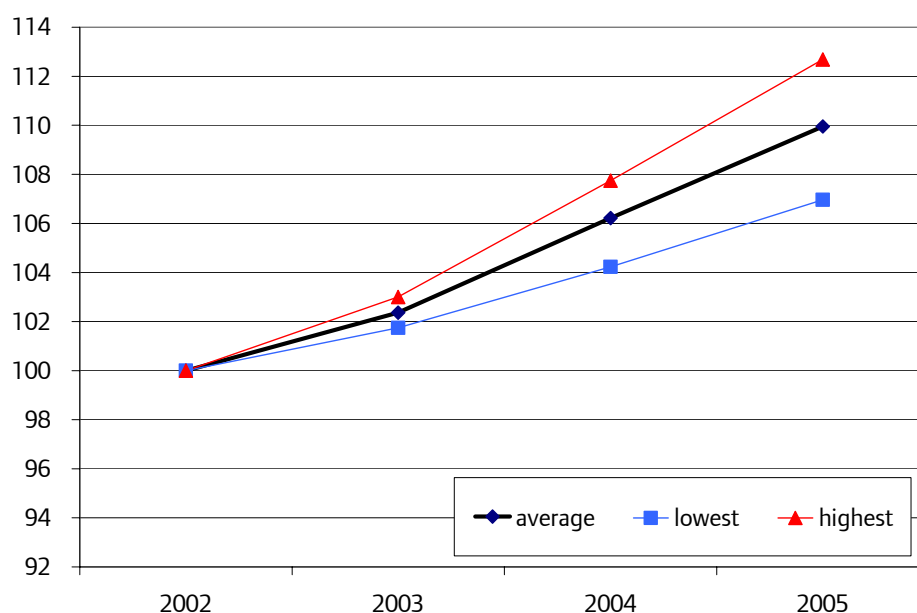
(Chart 2.1 repeated for reference)



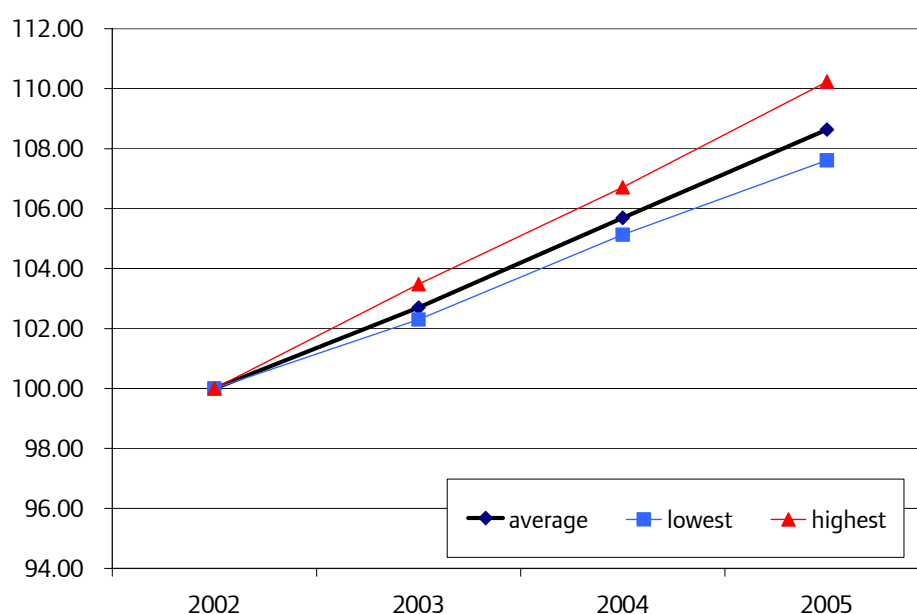
**Chart 3.2 Production industries**



Output growth in three broad sectors is forecast, with the lowest growth in the production industries. These show a cumulative average of 4.8 per cent growth, a low of 2.2 per cent and a high of 8.0 per cent.

**Chart 3.3 Finance and business services**

The fastest growth is forecast for finance and business, with an average of 10.0 per cent, a low of 7.0 per cent and a high of 12.7 per cent.

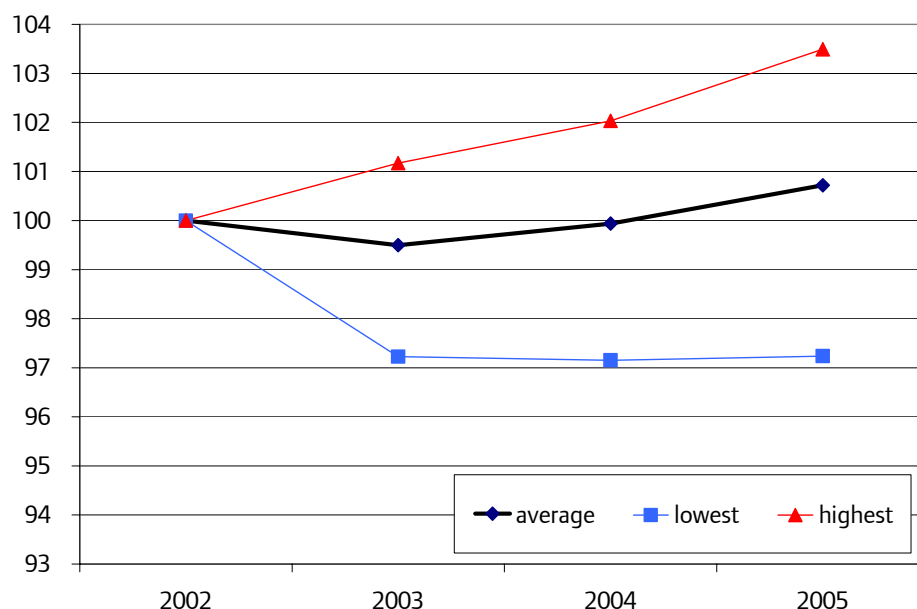
**Chart 3.4 Other services**

Strong growth in other services is expressed in an average cumulative growth of 8.8 per cent, a low of 7.6 per cent and a high of 10.2 per cent.

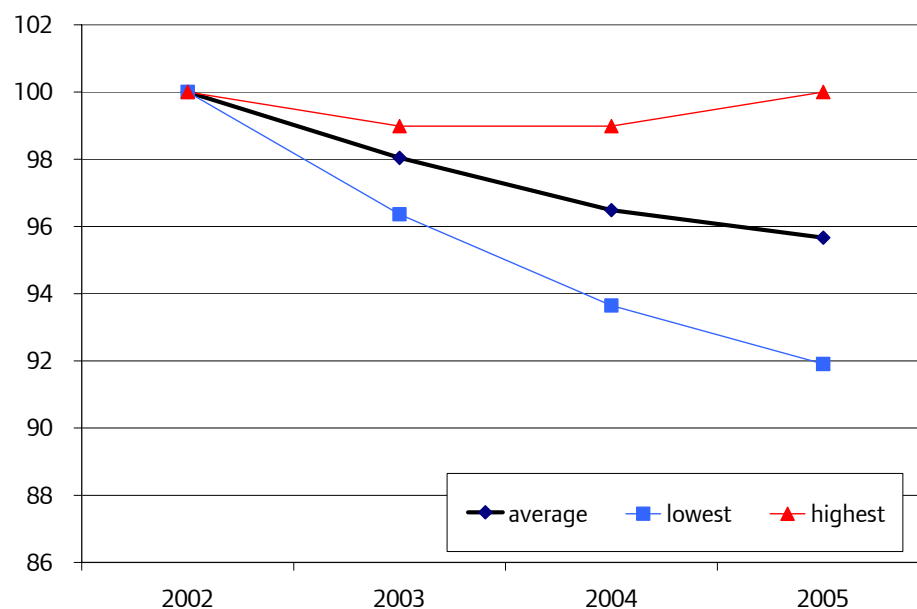
## 4. Employment by sector (2002=100)

**Chart 4.1 Total employment**

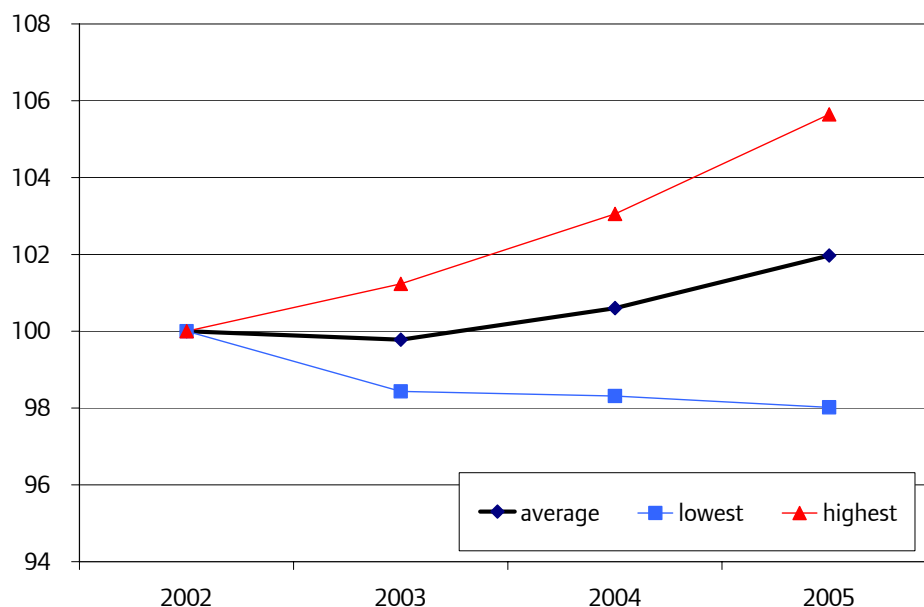
(Chart 2.2 repeated for reference)



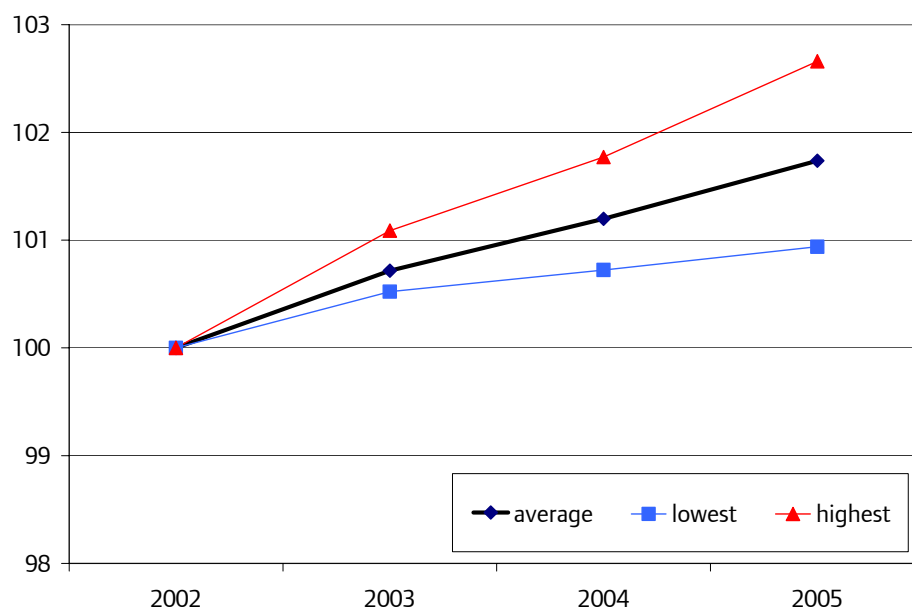
**Chart 4.2 Production industries**



Employment in the production industries is expected to decline although the high forecast envisages a return by 2005 to the levels of 2002. The average forecast decline is 4.3 per cent and the low outcome is for a cumulative decline of 8.0 per cent.

**Chart 4.3 Finance and business**

The forecasters present a mixed picture of employment prospects in the finance and business sector. The average forecast is a cumulative growth of 2.0 per cent but the lowest is for a cumulative decline of 2.0 per cent. The high forecast is for a cumulative growth of 5.6 per cent.

**Chart 4.4 Other services**

The most consistently optimistic picture is for other services where all forecasters agree on steady but slow growth, with a cumulative average of 1.7 per cent, a low of 0.9 per cent and a high of 2.7 per cent.

## Appendix 1. Tables

Table A1 Growth rates

Output				
	history	average	lowest	highest
1989	0.58%			
1990	-0.15%			
1991	-3.65%			
1992	-1.59%			
1993	2.52%			
1994	6.37%			
1995	3.04%			
1996	2.66%			
1997	4.20%			
1998	4.84%			
1999	3.06%			
2000	4.18%			
2001	3.05%			
2002	0.87%	0.87%	0.87%	0.87%
2003		1.77%	0.52%	2.57%
2004		2.72%	2.13%	3.28%
2005		3.12%	2.76%	3.55%

Employment				
	history	average	lowest	highest
1989	0.12%			
1990	-1.62%			
1991	-5.34%			
1992	-4.69%			
1993	-0.77%			
1994	2.77%			
1995	1.31%			
1996	1.43%			
1997	3.01%			
1998	4.12%			
1999	2.90%			
2000	4.17%			
2001	0.51%			
2002	-1.08%	-1.08%	-1.08%	-1.08%
2003		-0.50%	-2.77%	1.17%
2004		0.44%	-0.07%	0.86%
2005		0.78%	0.09%	1.43%

Consumer Spending				
	history	average	lowest	highest
1989	2.79%			
1990	-0.84%			
1991	-3.01%			
1992	-0.09%			
1993	3.31%			
1994	1.10%			
1995	-0.17%			
1996	3.04%			
1997	6.35%			
1998	7.69%			
1999	4.86%			
2000	5.45%			
2001	4.64%			
2002	3.94%	3.94%	3.94%	3.94%
2003		2.32%	1.60%	2.88%
2004		1.85%	1.06%	3.10%
2005		2.75%	2.17%	3.84%

Productivity				
	history	average	lowest	highest
1989	0.46%			
1990	1.49%			
1991	1.79%			
1992	3.25%			
1993	3.32%			
1994	3.50%			
1995	1.71%			
1996	1.22%			
1997	1.15%			
1998	0.69%			
1999	0.16%			
2000	0.01%			
2001	2.53%			
2002	1.97%	1.97%	1.97%	1.97%
2003		2.29%	1.15%	3.39%
2004		2.27%	1.30%	3.01%
2005		2.32%	1.31%	2.87%

Table A2: GDP, Employment and spending totals

Output			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	101.8	100.5	102.6
2004	104.5	102.7	105.9
2005	107.8	105.5	109.7

Employment			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	99.5	97.2	101.2
2004	99.9	97.2	102.0
2005	100.7	97.2	103.5

Consumer spending			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	102.3	101.6	102.9
2004	104.2	102.7	106.1
2005	107.1	104.9	110.1

Productivity			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	102.3	101.2	103.4
2004	104.6	102.5	106.5
2005	107.0	103.8	109.6

Output of the production industries			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	101.0	100.2	101.8
2004	102.7	101.0	104.7
2005	104.8	102.2	108.0

Employment in the production industries			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	98.0	96.4	99.0
2004	96.5	93.6	99.0
2005	95.7	91.9	100.0

Output of finance and business services			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	102.4	101.7	103.0
2004	106.2	104.2	107.7
2005	110.0	107.0	112.7

Employment in finance and business services			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	99.8	98.4	101.2
2004	100.6	98.3	103.1
2005	102.0	98.0	105.6

Output of other services			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	102.7	102.3	103.5
2004	105.7	105.1	106.7
2005	108.6	107.6	110.2

Employment in other services			
	average	lowest	highest
2002	100.0	100.0	100.0
2003	100.7	100.5	101.1
2004	101.2	100.7	101.8
2005	101.7	100.9	102.7



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### 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

### Vietnamese

Tiếng Việt  
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.

### Bengali

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

### Greek

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

### 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 پتہ پر رابطہ قائم کریں۔

### Turkish

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

### Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، الرجاء  
الاتصال برقم الهاتف أو الكتابة الى العنوان

### 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:

### Gujarati

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જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર  
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