

Medium-term Economic Planning Projections

January 2003



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Introduction

The medium term projections contained in this report are the first of a regular series that will appear at six-monthly intervals. They are the output of a forecast prepared by Experian Business Strategies (EBS) for GLA Economics which apply to London the Treasury's medium-term projections for UK output and household consumption, and the GLA's long-term trend projections for employment and population. They will form the basis of medium-term planning decisions by GLA functional bodies. In this document, the term 'forecast' should be taken throughout to refer to these medium-term planning projections.

The horizon is three years, to 2005, at a London level only. Principal projections are for employment, output (Gross Value Added – GVA) and household demand. Additional derived indicators such as productivity are available or can be calculated from the values supplied in this report.

The projections, together with recent historical data, are compared with the long-term projections underlying the London Plan (GLA 2001a) to offer an initial assessment of the depth of the current cyclic downturn.

London and the UK are entering a period of substantial uncertainty with the imminent likelihood of a Middle East War and with considerable turbulence on world markets; the possibility of further threat to stability has to be taken into account. GLA Economics has therefore commissioned an impact study of the range of possible effects of a Middle East War, which will shortly be published separately from this study.

Assumptions and methods – a summary

The basic determinants of the projections about which assumptions must be made are the medium-term growth rate of UK non-manufacturing and manufacturing output (GVA), the medium-term growth rate of household consumption, and the long-term growth rate of London's population and the long-term growth rates of the workforce.

The labour-supply assumptions are derived from the long-term population and workforce projections of the London Plan, with population levels adjusted for the results of the 2001 census, and workforce levels adjusted for the latest ONS revisions available at the time of forecast preparation.

The forecast then constrains EBS's standard UK forecast by applying the UK growth assumptions of the Treasury medium-term view which were issued with the pre-budget report for 2002, except for the year 2003 where GLA Economics considered the Treasury's own forecast growth rate of 2.8 per cent over-optimistic. For that year the forecast applies the more prudent rate of 2.4 per cent given, in the Treasury's December 2002 review of independent forecasts, as the average of forecasts made in the previous three months.

The forecast therefore combines the Treasury's medium-term output projections with the GLA's long-term population and employment projections, applies to it an analysis of the current circumstances of the UK, London and world economy and so translates into a medium-term projection the planning assumptions of the two principal agencies whose decisions impact London, based on the most current knowledge available of the state of the economy.

Projection and forecast

It is necessary to distinguish carefully between the GLA's trend projections, which underlie the London Plan, and the forecast, that is, its medium-term planning projections.

The two bases of the London Plan are the authoritative projections of population provided by the GLA's demographic analysis, and of employment derived from Volterra Consulting's analysis of long-term trends in

productivity (GLA 2001b) which are in turn based on the Treasury's planning assumptions for UK output growth that were extant when the Plan was prepared.

Trend projections do not incorporate cyclic variations and constitute estimates of jobs and output at comparable points in the cycle. Their actual course will vary around this trend but, since the starting point of the trend projections is very close to the peak of the last cycle, will for most of the cycle lie below it, rising to meet it at the comparable point of the next cycle.

Trend projections are essential for planning to provide capacity, such as office space, housing, and transport, to accommodate the needs of the economy, throughout, and above all at the peak, of the cycle and not just at its low points. For business planning – for example in deciding the timing of investments and the likely course of revenue – estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections provide these.

The deviation of forecast from projection, combined with new data acquired since the London Plan was drawn up, provides an indicator of the extent and depth of the downturn. In the upswing it will equally provide an indicator of exceptional demand.

The forecast, as well as the new data, also provides a basis for assessing the likelihood that the projections themselves are revealed to be too high or too low, insofar as it projects new short-term trends into the immediate future and assists in making judgements about whether the perpetuation of these short-term trends would call the projections into question.

As time progresses and more data becomes available, it becomes possible to identify whether underlying trends are continuing or whether new trends are setting in. Thus whilst the forecast is calibrated to the GLA's employment projections for 2010, it provides early warnings of significant deviations from these projections because it takes into account the most recent data, and incorporates the latest estimates of UK growth rates.

Detailed assumptions for the UK

UK output

Table 1 reproduces forecasts from four sources for ready comparison: the GLA's UK assumptions, the Treasury's pre-budget forecast (2002a), the 'consensus' forecast from the Treasury's (2002b and c) reviews of independent forecasts, and EBS's most recent forecast (2003) which is based on EBS's own economic assumptions.

In constraining the EBS forecast to the Treasury's projections, non-manufacturing and manufacturing industries are distinguished, because of the relevance of this distinction to London and because finer distinctions are not available from the Treasury sources used to derive the GLA's UK assumptions. EBS itself makes further distinctions among the non-manufacturing industries which are reproduced for information. GVA growth for five broad sectors (manufacturing; distribution, hotels and catering; transport and communications; and other (mainly public) services) are provided in Table 1

Table 1 UK assumptions adopted in the London forecast

Annual percent growth		2000	2001	2002	2003	2004	2005
GVA	GLA	3.1	1.7	1.4	2.4	3.2	2.9
	EBS	3.1	1.7	1.4	2.4	2.4	2.4
	Consensus	3.1	1.7	1.3	2.4	2.7	2.4
	Treasury	3.1	1.7	1.2	2.8	3.2	2.9
Manufacturing Output	GLA	2.0	-2.3	-3.8	1.5	2.5	2.0
	EBS	2.0	-2.3	-3.8	0.8	1.4	1.7
	Consensus	2.0	-2.3	-3.9	1.6		
	Treasury	2.0	-2.3	-4.0	2.0	2.5	2.0
Non-Manufacturing Output	GLA	3.3	2.7	2.7	2.6	3.3	3.1
	EBS	3.3	2.7	2.7	2.8	2.7	2.6
Household Consumption	GLA	5.2	3.8	3.6	2.5	3.1	3.2
	EBS	5.2	3.8	3.6	2.2	2.4	2.7
	Consensus	5.2	3.8	3.6	2.5		
	Treasury	5.2	3.8	3.5	2.4		
Employment (workforce jobs)	GLA	1.4	0.7	0.1	0.1	0.5	0.9
	EBS	1.4	0.7	0.1	0.2	0.2	0.2
	Consensus	1.4	0.7	0.1	0.1		
Memo: Output of Distribution, Hotels and Catering	GLA	2.2	2.3	4.1	1.9	3.2	3.2
	EBS	2.2	2.3	4.1	2.0	2.1	2.3
Memo: Output of Transport and Communications	GLA	8.9	4.3	0.4	3.6	5.0	4.6
	EBS	8.9	4.3	0.4	3.9	4.2	4.0
Memo: Output of Financial and Business Services	GLA	5.4	5.7	3.0	2.1	4.5	4.7
	EBS	5.4	5.7	3.0	2.3	3.7	4.0
Memo: Output Other (Mainly Public) Services	GLA	1.9	2.3	2.4	1.9	3.1	2.4
	EBS	1.9	2.3	2.4	2.2	2.6	1.9

Notes

- a) Figures in bold are those that were applied by the GLA as constraints in preparing the EBS forecast.
- b) The Treasury and consensus do not provide GVA forecasts. The figures used here are inferred from the GDP forecasts.
- c) Figures for 2002 are estimates
- d) Memo items are supplied for information but do not directly affect the forecast

The GLA's UK assumptions are drawn from two Treasury sources. From 2004 and 2005 we adopt the pre-budget forecast assumption. For 2003 the Treasury envisages growth of 2.8 per cent which we felt did not correspond to observed 2002 trends. We therefore adopted the lower consensus growth rate of 2.4 per cent.

Beyond what is shown in the table, to calibrate the forecast to the expected 2010 outcome of trend growth beyond the Treasury forecast horizon of 2005, GLA Economics employed the Treasury's average of long-term economic forecasts from 2005-2009 and beyond that, EBS's forecast UK growth rates.

GLA Economics produces a regular review of independent forecasts for London (2002), which may be used as an additional basis for comparison.

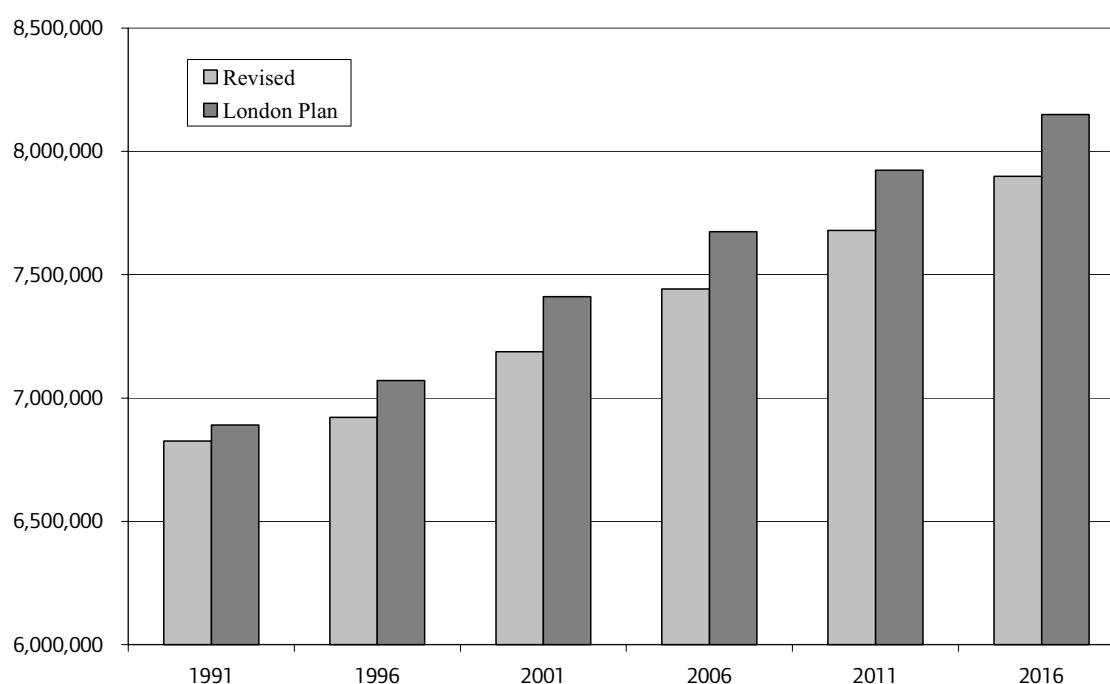
Population

Table 2 and Chart 1 reproduce the GLA's demographic projections (GLA 2003) which have been revised in the light of the preliminary 2001 census results. The growth rates in these projections, which are the basis of the London Plan, remain substantially unaffected by Census 2001 absolute downward revision of estimates of London's population. The total growth between 2001 and 2016 was originally estimated at 738,300 and has now been revised to 711,100, a downward revision of 27,200

Table 2 GLA Demographic projections, revised for 2001 census

	London Plan	Revised
1991	6,825,598	6,889,951
1996	6,921,520	7,071,251
2001	7,188,006	7,410,754
2006	7,441,538	7,674,473
2011	7,679,348	7,922,656
2016	7,899,063	8,149,147

Chart 1 Forecast population; original London plan and revisions since Census 2001



Results

Table 3 carries forecast employment growth rates of employee jobs for London, commuting, output (GVA) total and for five broad sectors, and for household spending.

Table 3 Forecast growth rates (Constant 1995 prices £ billions)

		2000	2001	2002	2003	2004	2005
GVA	GLA	4.5	2.6	1.0	2.4	4.1	4.0
	EBS	4.5	2.6	1.0	2.4	2.8	2.8
Financial and Business Services Output	GLA	6.7	5.8	1.1	1.2	4.7	5.3
	EBS	6.7	5.8	1.1	1.3	3.4	4.0
Distribution, Hotels and Catering Output	GLA	5.1	-0.1	3.0	1.7	3.6	3.3
	EBS	5.1	-0.1	3.0	1.6	1.8	1.8
Transport and Communications Output	GLA	6.8	4.4	-0.3	4.1	5.8	5.2
	EBS	6.8	4.4	-0.3	4.1	4.7	4.3
Other (Mainly Public) Services Output	GLA	3.0	1.4	2.1	1.9	3.9	3.0
	EBS	3.0	1.4	2.1	2.4	3.3	2.4
Manufacturing Output	GLA	2.1	-0.9	-3.3	1.5	3.7	2.7
	EBS	2.1	-0.9	-3.3	-0.1	0.2	0.2
Household Spending	GLA	5.9	4.1	3.3	2.2	3.0	3.4
	EBS	5.9	4.1	3.2	2.1	2.3	2.9
Civilian Workforce Jobs (millions)	GLA	4.3	1.5	-0.3	0.2	1.4	1.8
	EBS	4.3	1.5	-0.3	0.1	0.5	0.6

Table 4 gives absolute levels for these variables.

Table 4 Forecast absolute figures (Constant 1995 prices £ billions except for jobs)

		2000	2001	2002	2003	2004	2005
GVA	GLA	130.7	134.1	135.5	138.8	144.6	150.3
	EBS	130.7	134.1	135.5	138.8	142.6	146.7
Financial and Business Services Output	GLA	53.6	56.7	57.3	58.1	60.8	64.0
	EBS	53.6	56.7	57.3	58.1	60.1	62.5
Distribution, Hotels and Catering Output	GLA	18.6	18.6	19.2	19.5	20.2	20.8
	EBS	18.6	18.6	19.2	19.5	19.8	20.1
Transport and Communications Output	GLA	18.7	19.5	19.4	20.2	21.4	22.5
	EBS	18.7	19.5	19.4	20.2	21.2	22.1
Other (Mainly Public) Services Output	GLA	28.2	28.6	29.2	29.8	30.9	31.8
	EBS	28.2	28.6	29.2	29.9	30.9	31.6
Manufacturing Output	GLA	11.0	10.9	10.6	10.7	11.1	11.4
	EBS	11.0	10.9	10.6	10.6	10.6	10.6
Household Spending	GLA	79.1	82.3	85.1	87.0	89.6	92.6
	EBS	79.1	82.3	84.9	86.7	88.8	91.4
Civilian Workforce Jobs (million)	GLA	4.5	4.6	4.6	4.6	4.7	4.7

Charts 2 and 3 illustrate growth in the main variables (output and employment).

Chart 2 Forecast job growth

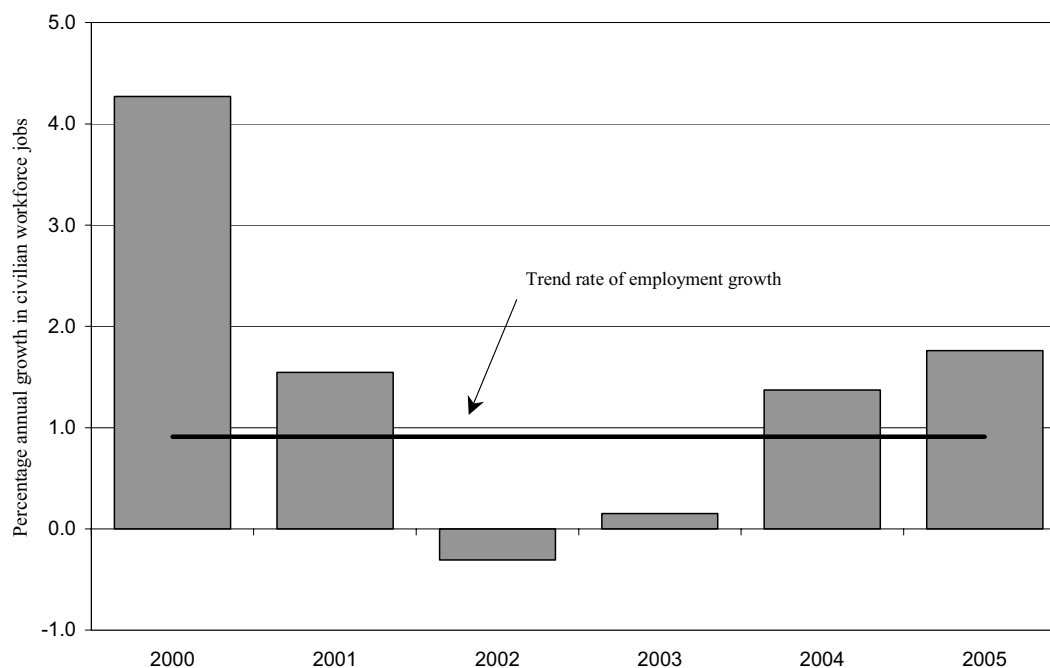


Chart 3 Forecast GVA growth

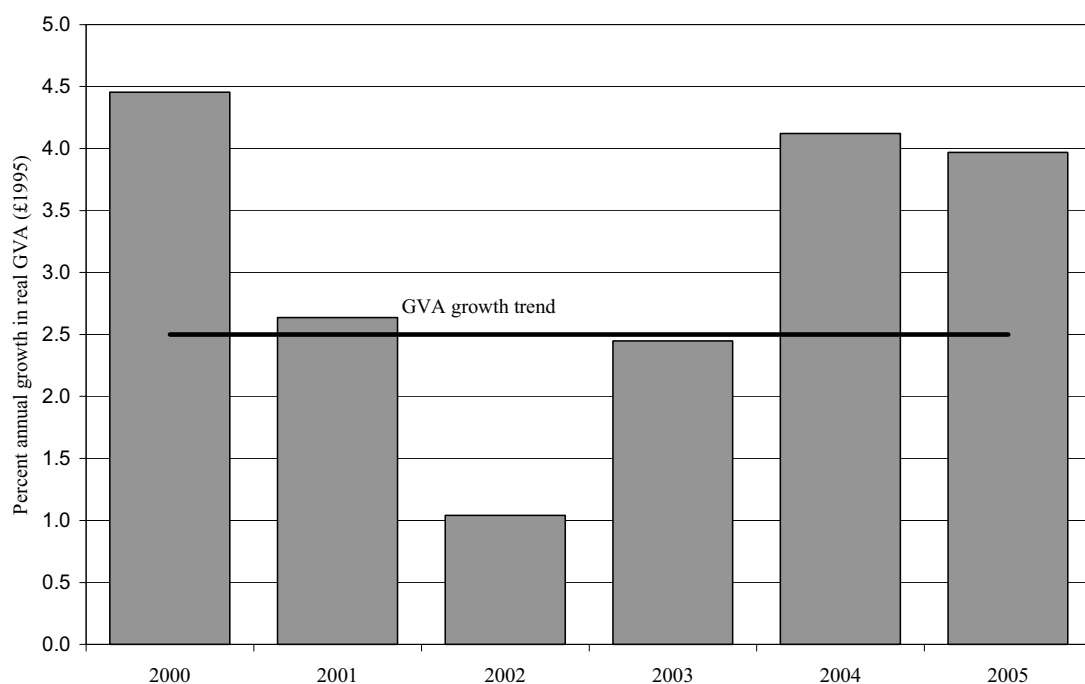
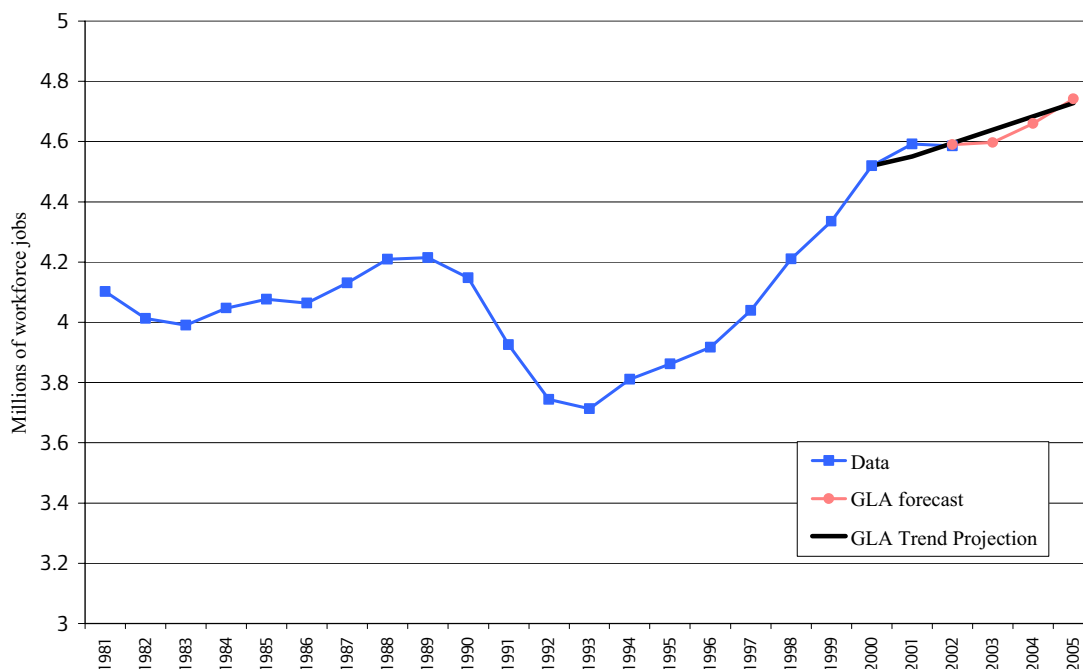


Chart 4 compares forecast overall employment with historic data and with the trend projection.

Chart 4 Historic and forecast workforce jobs

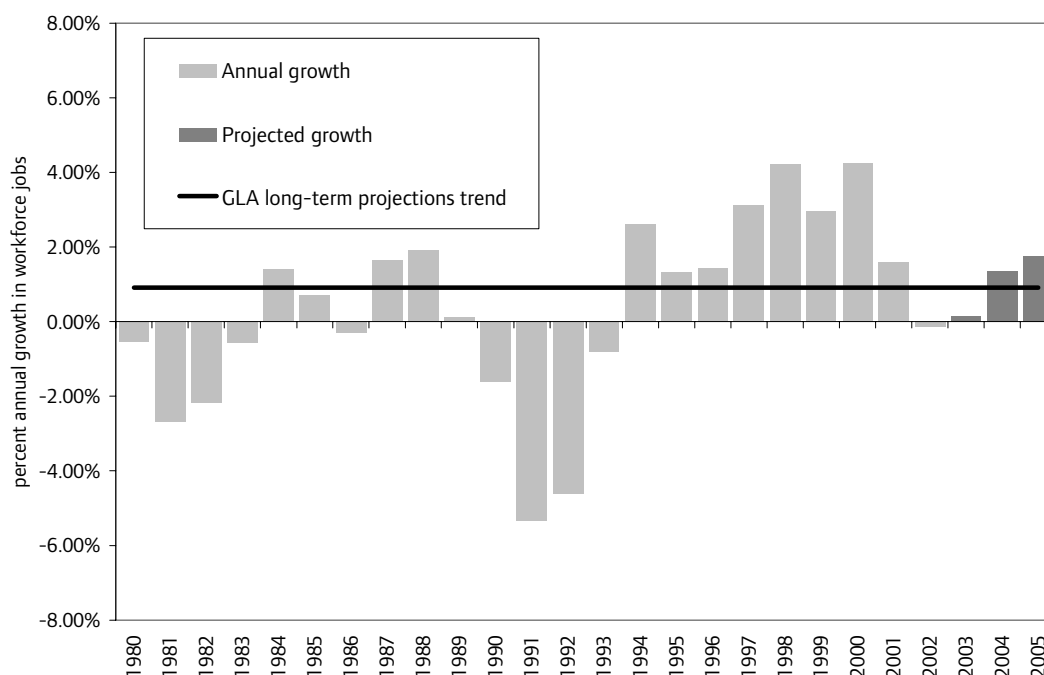


Note: employment projections were originally calculated, for the London plan, on the basis of estimates for 2000 employment. Since that time, data for 2000 has been published and is therefore part of the historical record. The trend line above has been re-based to the revised 2000 employment figure.

In line with the consensus view for the UK economy, the forecast suggests that the present downturn will bottom out in 2003. GVA growth was 1 percent below trend in 2002, will be slightly below trend in 2003 and will rise 1.6% above the trend in 2004. Employment growth will be 0.8 percent below trend in 2003 and will rise above trend by 2004.

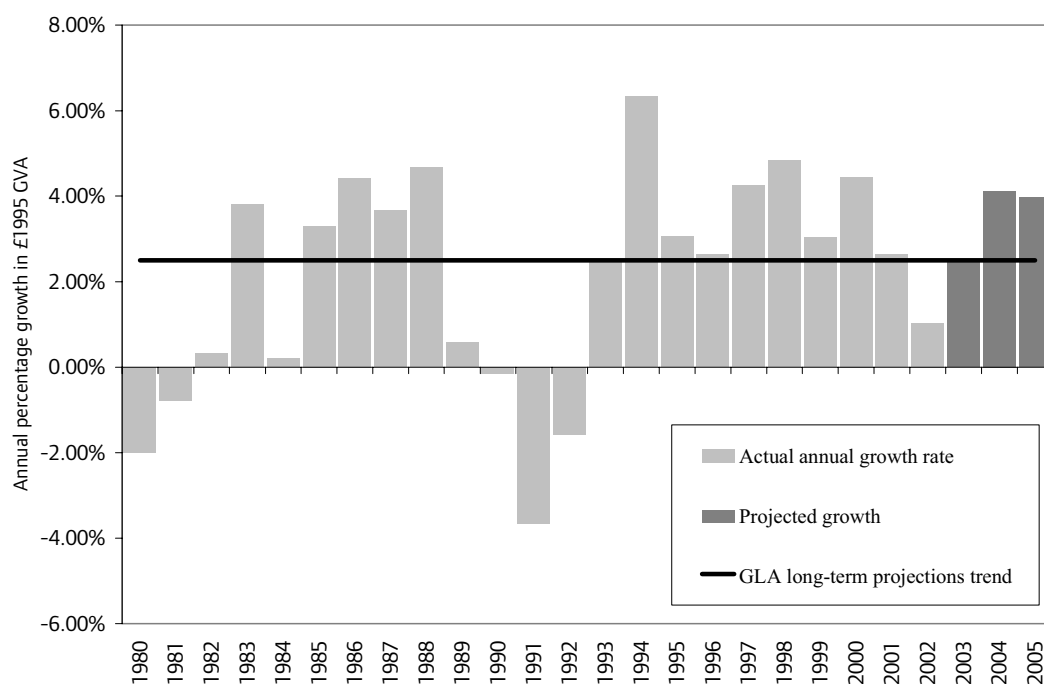
As a standard of comparison, Chart 5 shows the annual growth rates throughout the last two business cycles, compared with the historical trend growth rate from peak to peak 1979-2001 and 1989-2001. Both showed four years of negative growth, the troughs being -2.7 per cent in 1981 and -5.4 per cent in 1991.

Chart 5 Job growth rates and trends in the two previous cycles



Observed employment would have to depart significantly farther from trend than these previous worst cases to support the conclusion that London is departing from the GLA's projections when cyclic variation is taken into account.

Chart 6 GVA growth rates and trends in the two previous cycles



Explanation of terms and some sources

Employment: In this report unless otherwise stated 'employment' means *Civilian Workforce Jobs* as defined below.

There are two ways of looking at employment: the number of people with jobs, or the number of jobs. The two concepts represent different things as a person can have more than one job.

There are also two ways of looking at the location of a given job: *workplace* employment estimates the number of people working at a given location, and who therefore travel to that location; *residential* employment estimates the number of people who have a job and live in a given location.

The number of people with jobs is measured by the *Labour Force Survey* (LFS) and includes people aged 16 or over who did paid work (as an employee or self-employed), those who had a job that they were temporarily away from, those on government-supported training and employment programmes, and those doing unpaid family work. Although the Labour Force Survey does provide information about workplace employment, it is chiefly used as a source of information on residential employment. The exception is self-employment for which it is assumed that the place of work and place of residence are the same.

The number of workplace jobs, usually termed *employee jobs*, is measured by the *Annual Business Enquiry* and the *Short-term Employment Survey*.

Workforce jobs represent the sum of: employee jobs, self-employment jobs from the LFS, those in HM Forces, and government-supported trainees. Vacant jobs are not included. *Civilian* workforce jobs, the most usual measure of workforce jobs, exclude those in the HM forces (who number around 14,000 in London).

As part of the forecast EBS also supply the GLA with estimates of 'ILO Employment' being the denominator in the ILO unemployment figures. This is the same as LFS residential employment. They also supply *Full-Time Equivalent* (FTE) employment, defined as the sum of full-time jobs, 40 per cent of part-time jobs, and self-employment. Finally, employment forecasts are available broken down by gender, part-time/full-time, and age-group.

Output: regional output is reported, in line with the European standard termed ESA95, as Gross Value Added (GVA). This is identical to what is sometimes termed Gross Domestic Product (GDP) at basic prices, and has replaced the term GDP at factor cost in the European Accounts system. It is the total net product, measured at market prices, less taxes on output levied at the point of production and plus subsidies levied at the point of production.

For forecast purposes the most important variable is real output, corrected for inflation, and this is estimated throughout this report at constant 1995 prices.

All growth rates refer to real GVA growth rates.

Estimates of nominal regional GVA are available for a limited number of years (up to 1999) from the Office of National Statistics. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price indices. Most regional forecasters therefore supply their own estimates of London's GDP. The London GVA figures used to estimate the forecast, and the forecasts themselves, use estimates supplied by EBS which coincide with that of the ONS for the year 1995. In this year the nominal and real figures are the same apart from a minor adjustment to reflect ONS's revisions to estimated UK GVA in 1995.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

References

EBS= Experian Business Strategies

GLA = Greater London Authority

DMAG = Data Management and Analysis Group

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Treasury (2002a) *Pre-budget forecast*, 27 November 2002 Table 9

(2002b) *Forecasts for the UK Economy: a comparison of independent forecasts December*

(2000c) *Long term average of independent forecasts* November 2002

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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.

Greek

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

Turkish

Bu broşürü Türkçe olarak edinmek
için lütfen aşağıdaki numaraya
telefon edin ya da adrese başvurun.

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 پتہ پر رابطہ قائم کریں۔

Arabic

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

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં
જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર
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