

Medium-term Economic Planning Projections

July 2003



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for London**

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AGENCY

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Introduction

The GLA's latest medium-term economic planning projections are the second of a regular series that appears at six-monthly intervals. The projections are taken from a forecast prepared for GLA Economics by Experian Business Strategies (EBS).

This forecast forms the basis of medium-term planning decisions made by the GLA group. In considering the forecasts¹ below, it should be remembered that all economic forecasts merely represent the forecaster's view as to the most likely future path of the economy, and as such are inherently uncertain.

The horizon is three years to 2005, at a London level only. Principal projections are for employment, output (Gross Value Added – GVA) and household spending. Output projections are broken down further into five broad sectors:

- Financial and business services
- Distribution, hotels and catering
- Transport and communications
- Other (mainly public) services
- Manufacturing

Additional derived indicators such as productivity are available or can be calculated from the values supplied in this report.

The charts published here compare these latest projections with recent historical data, with the GLA's January 2003 forecast and with the GLA's long-term projections, which form an input into the forecasting process. The tables also compare the employment and GVA forecasts with GLA Economics' most recent review of independent forecasts for London (GLA 2003).

Assumptions and methods – a summary

This forecast combines the GLA's long-term trend projections for employment and population with medium-term assumptions about the growth of the UK economy derived from two sources: the Treasury's own UK forecast (HM Treasury 2003a) and the Treasury's review of independent forecasts of the UK economy (HM Treasury 2003b).

The GLA's long-term projections for London are those underlying the draft London Plan as set out in *Planning for London's Growth* (GLA 2001). The UK assumptions comprise the medium-term growth rates of UK total and manufacturing output (GVA), and the medium-term growth rate of household spending. Growth rates for these three quantities are taken directly from the external Treasury sources mentioned above. UK growth rates, consistent with the overall GVA growth, are derived for the five broad sectors listed above. This procedure is adopted because the Treasury and consensus sources referred only to forecast total and manufacturing output.

¹ In this report, the term 'forecast', unless otherwise specified, refers to these medium-term planning projections.

Growth rates for the five sectors, and for household spending, are inputted into the EBS model of the UK and regional economies. The EBS model is constrained for the year 2010 to London-based employment projections derived from the long-term growth rate of London's population and the workforce. These long-term population and workforce projections are published in the draft London Plan. Population levels are adjusted for the 2001 census results and workforce levels are adjusted for the latest Office for National Statistics (ONS) revisions available at the time of forecast preparation. Employment is assumed to vary cyclically, returning to trend in 2010.

Projection and forecast

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

The draft London Plan is based on population projections provided by the GLA's demographic analysis and employment derived from Volterra Consulting's analysis of long-term trends in productivity (Volterra Consulting 2001). Volterra's employment projections are in turn based on the Treasury's assumptions for UK output growth that were current when the draft London Plan was prepared.

Trend projections, by definition, do not incorporate cyclical variations and constitute estimates of jobs and output at comparable points in the cycle. The actual course of output and employment will vary around this trend. However, as the starting point of the trend projections is very close to the peak of the last cycle, output and employment will lie below trend for most of the cycle and rise to meet it at the projected 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 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 estimates.

The deviation of the forecast from the trend projection, combined with new data acquired since the draft London Plan was drawn up, provides an indicator of the extent and depth of any downturn. Equally, in an upswing it will provide an indicator of excess demand.

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

As time progresses and more data become available, it becomes possible to identify whether underlying trends are continuing or whether new trends are setting in. While 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

Tables 1a and 1b reproduce the basic assumptions that are fed into the forecast. Table 1a reproduces the UK assumptions that have been fed directly from external sources into the GLA forecast. Table 1b reproduces those assumptions which were derived from the assumptions in Table 1a and then form a further input to the GLA forecast.

The GLA's January 2003 forecast adopted the Treasury's assumptions for 2004 and 2005 but took a more pessimistic view of output in 2003 than the Treasury. Instead it adopted the consensus growth figure for UK output, taken from the Treasury's own reviews of independent forecasts (HM Treasury 2002b). Most forecasters have since revised their UK growth projections downwards and GLA Economics has taken a more cautious view of the UK economy, adopting this time the consensus growth figures for 2003 and 2004, and the Treasury growth projection for 2005. The Treasury forecast for 2004 growth, of 3 to 3½ per cent, is especially optimistic when compared with the median consensus of 2.6 per cent.² Given sub-trend growth in 2002 and 2003, it is not unreasonable to forecast that the economy is able to grow at an above trend growth rate of 3.3 per cent in 2005 without generating inflationary pressures. The growth in consumption is slowing. Investment is unlikely to rebound strongly, given prevailing levels of corporate debt and company pension fund shortfalls. Weak world growth is holding back exports. Thus the continuing strength of public spending growth is a key factor supporting short-term UK growth prospects.

Table 1a: Assumptions taken directly from external sources

Annual UK growth rates (per cent)

		2002	2003	2004	2005
GVA	GLA	1.3	1.9	2.6	3.3
	Consensus	1.3	1.9	2.6	2.6
	Treasury	1.3	2.3	3.3	3.3
Manufacturing output	GLA	-4.0	0.0	2.2	2.0
	Consensus	-4.0	0.0	2.2	#N/A
	Treasury	-4.0	0.5	2.5	2.0
Household consumption	GLA	3.8	2.5	2.2	2.8
	Consensus	3.8	2.5	2.7	#N/A
	Treasury	3.8	2.9	2.7	2.8

² EBS estimates that UK GDP growth in 2004 of 2.5 per cent is equivalent to real GVA growth of 2.6 per cent. The GLA's forecasts, and their assumptions, are in terms of GVA.

Table 1b: Derived assumptions

Annual UK growth rates (per cent)

	2002	2003	2004	2005
Distribution, hotels and catering	4.0	1.6	1.6	3.5
Transport and communications	1.5	2.4	3.4	5.1
Financial and business services	3.5	2.7	3.4	5.0
Other (mainly public) services	2.7	2.5	2.6	2.9

Beyond what is shown in Tables 1a and 1b, to calibrate the forecast to the expected 2010 outcome of trend growth beyond the Treasury forecast horizon of 2005, GLA Economics employed the average of long-term economic forecasts for 2005-07 from the Treasury's review of independent forecasts (HM Treasury 2003b), and beyond that, EBS's forecast UK growth rates.

Results

Table 2 gives forecast growth rates for London civilian workforce jobs, output (GVA) in aggregate and for five broad sectors, and for household spending. To illustrate the uncertainty of forecasting the GLA forecast is compared against the range of forecasts for London produced by outside independent forecasters (GLA 2003b). In general, the GLA forecasts lie within this range. The exceptions are job growth in 2004 which is below the bottom end of this range, and output growth in 2005 which is above the top end of this range. Table 3 gives absolute levels for these variables. Charts 1 and 2 illustrate growth in the main variables (output and employment). Charts 3 and 4 compare historic data with forecast employment and GVA growth respectively. Chart 5 provides the same comparison for absolute employment. In all the above the trend is also shown for comparison.

Charts 6, 7, 8 and 9 show how the present forecast compares with the January 2003 forecasts of GVA (GLA 2003a) and employment and finally Charts 10, 11 and 12 give the UK assumptions used in preparing the forecast.

The forecast is now more cautious for 2003 and 2004, reflecting the slower than previously anticipated recovery of the world and UK economies. In the January 2003 forecast, the UK economy was expected to grow by 2.4 per cent in 2003 and by 3.2 per cent in 2004, whereas now we assume UK growth in these years of 1.9 per cent and 2.6 per cent respectively. Although London's GVA growth is expected to rise approximately to its trend rate in 2004, employment is forecast to remain more or less stable at around 4.5 million, with slight declines until 2005. With a growing population some rise in unemployment rates is expected between now and 2005.

Strong growth is expected to return to financial and business services, with 5.4 per cent output growth in 2005. Output growth rates in transport and communications are forecast to increase to 6.0 per cent in 2005. Output growth in distribution, hotels and catering is anticipated to stay weak in both 2003 and 2004 before picking up to 3.0 per cent in 2005. This short-term

weakness partly reflects the expectation that tourism related expenditures in London will remain weak until economic and geopolitical uncertainties dissipate. However, it represents a much smaller fall than in the early 1990s when GVA growth for this sector fell by -7.0 per cent in 1991, and remained at or below zero for four consecutive years.

Manufacturing, which declined by 3.2 per cent in 2002, is forecast to bottom out, registering relatively slow growth of 0.8 per cent, 2.2 per cent and 1.5 per cent per year in 2003 through to 2005.

An important limitation of these sectoral forecasts is that its difficult to know how reliable they are likely to be. Official sectoral output data for London from the ONS is only available up to 1998. After that output data has to be estimated by our data suppliers EBS. Furthermore, the ONS data is for output in current, rather than constant prices, so even for periods before 1998 real output has to be constructed by estimating the level of inflation in London. On current timescales ONS sectoral output figures for London for 2005 would not be available until 2010. This is a long time to wait in order to be able to compare forecasts with actual outturns. We anticipate that timeliness of regional statistics will improve between now and then as a result of the Allsopp review into regional and other statistical needs.

Table 2: Forecast growth rates

Annual London growth rates (per cent)

	2000	2001	2002	2003	2004	2005
GVA	4.2	3.1	0.9	1.1	2.6	4.1
GVA – independent forecaster's range				0.5–2.6	2.1–3.3	2.8–3.6
Civilian workforce jobs	4.2	0.5	-1.1	-0.5	-0.4	0.9
Jobs – independent forecaster's range				-2.8–1.2	-0.1–0.9	0.1–1.4
Sector breakdown of output						
<i>Financial and business services</i>	7.3	5.7	1.1	1.1	2.7	5.4
<i>Distribution, hotels and catering</i>	2.2	2.1	3.8	-0.2	0.4	3.0
<i>Transport and communications</i>	6.8	3.8	-1.7	0.1	3.6	6.0
<i>Other (mainly public) services</i>	2.2	2.4	2.6	2.1	2.7	3.3
<i>Manufacturing</i>	1.8	-1.6	-3.2	0.8	2.2	1.5
Household spending	5.5	4.8	4.0	1.4	1.5	2.6

Table 3: Forecast absolute figures

£1995 billion except for jobs

	2000	2001	2002	2003	2004	2005
GVA	130.3	134.3	135.5	136.9	140.6	146.3
Civilian workforce jobs	4.52	4.54	4.49	4.47	4.45	4.50
Sector breakdown of output						
<i>Financial and business services</i>	53.9	57.0	57.7	58.3	59.9	63.7
<i>Distribution, hotels and catering</i>	18.1	18.5	19.2	19.1	19.2	19.8
<i>Transport and communications</i>	18.7	19.4	19.0	19.1	19.8	20.9
<i>Other (mainly public) services</i>	28.0	28.6	29.4	30.0	30.8	31.8
<i>Manufacturing</i>	11.0	10.9	10.5	10.6	10.8	11.0
Household spending	78.7	82.5	85.8	87.0	88.3	90.7

This forecast is also more cautious than the London consensus forecasts. The consensus foresees job growth in 2003 and 2004 of –0.5 and +0.4 per cent respectively compared with GLA forecasts of –0.5 per cent and –0.4 per cent in 2003 and 2004, and GVA growth of 1.8 and 2.7 per cent in 2003 and 2004 compared with the GLA predictions of 1.1 and 2.6 per cent in 2004 and 2005.

Nevertheless, as Charts 3 and 4 show, the recent slowdown is not nearly as severe as that of the early 1990s. At that time there were four years of negative job growth with a low point of –5.4 per cent in 1991 and three years of negative output growth. In contrast, GVA growth has remained positive throughout the recent slowdown and in 2002 there was only a 1.1 per cent decline in employment.

Implicit in this forecast are relatively high rates of productivity growth for 2004 (3.0 per cent) and 2005 (3.2 per cent) as GVA growth rises while employment growth is sluggish. This is consistent with London's last experience of an economic downturn and upswing. Productivity growth fell to zero early in the downswing in 1989 and rose through the upswing, reaching 3.7 per cent in 1994. In addition, while employment in London fell substantially in the early 1990s it has not done so in the current economic slowdown. This suggests that London's employers are hoarding labour in anticipation of an upturn. Growth is expected to rise initially without corresponding growth in employment.

The incentive to hoard labour probably reflects fears of being unable to recruit in an already tight labour market, when the upswing resumes. An alternative to this explanation of labour hoarding is that employment has fallen by less so far because the slowdown in output has been modest – certainly compared to the experience of the early 1990s. If true, this would suggest that employment might rise by more than the GLA forecast. This possibility provides a significant upside risk to the GLA employment forecasts for 2003 and 2004.

Charts

Chart 1: Forecast job growth

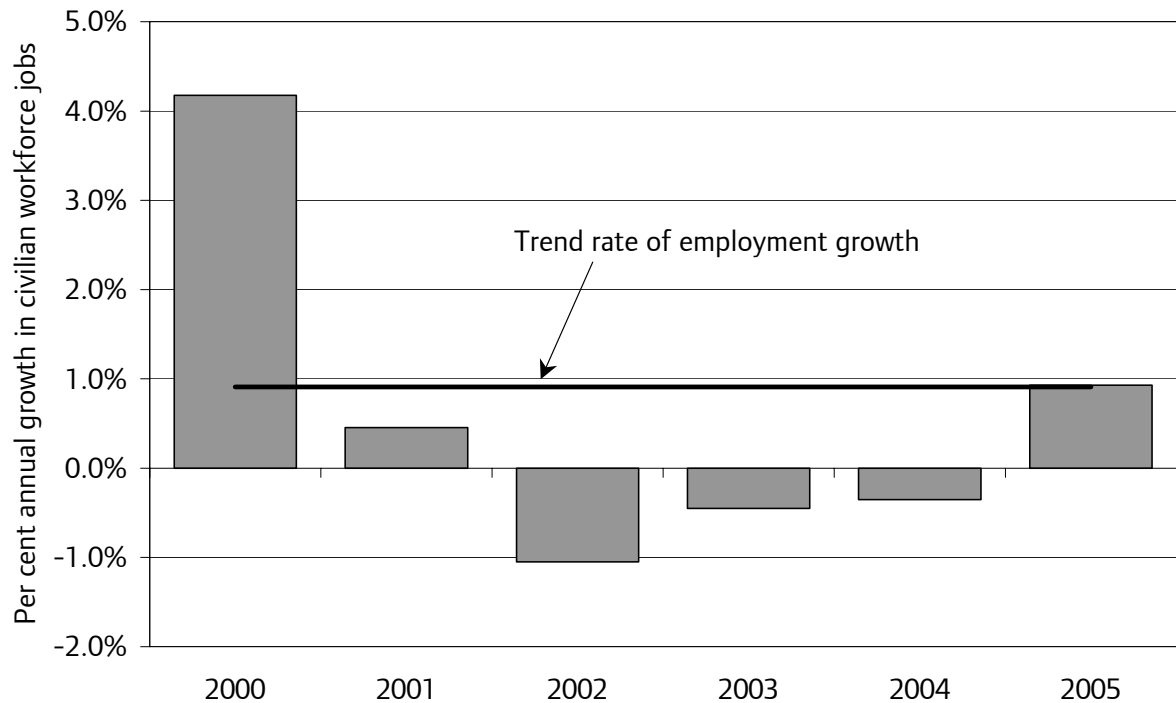


Chart 2: Forecast GVA growth

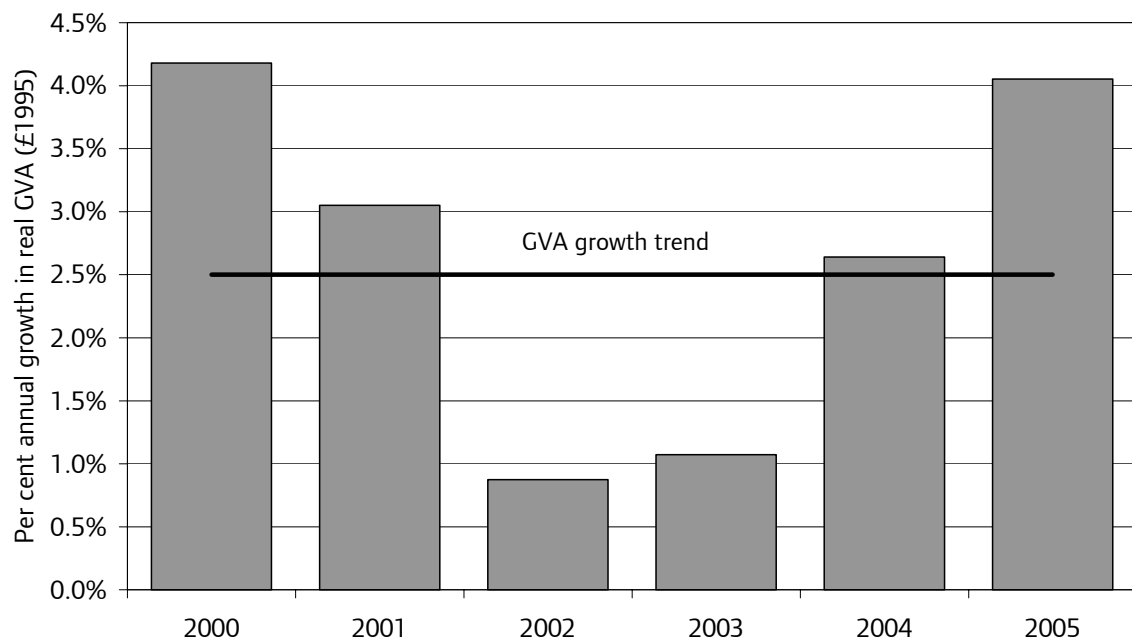


Chart 3: Job growth rates and trends in the two previous cycles

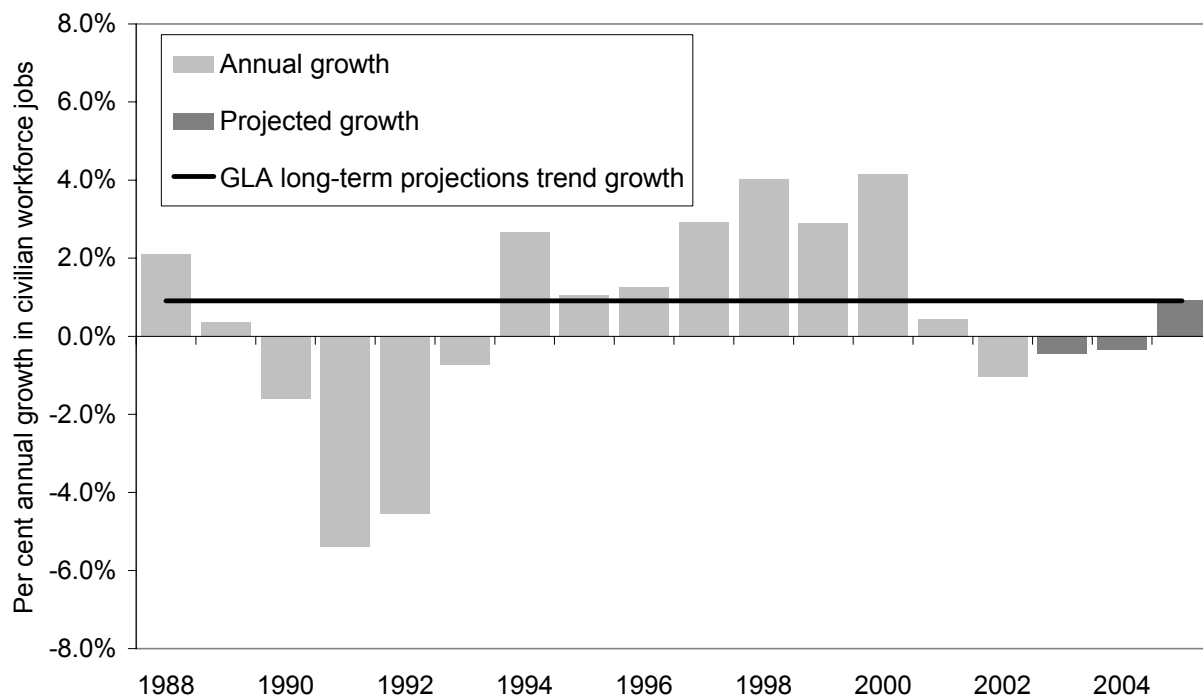


Chart 4: GVA growth rates and trends in the two previous cycles

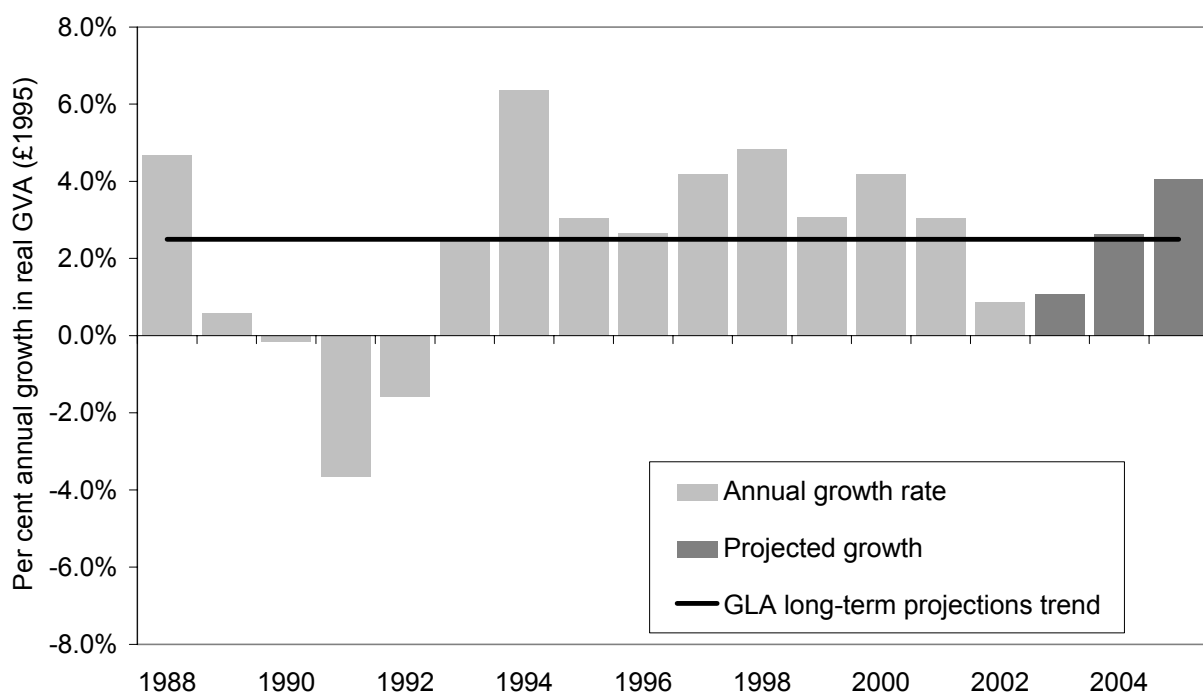
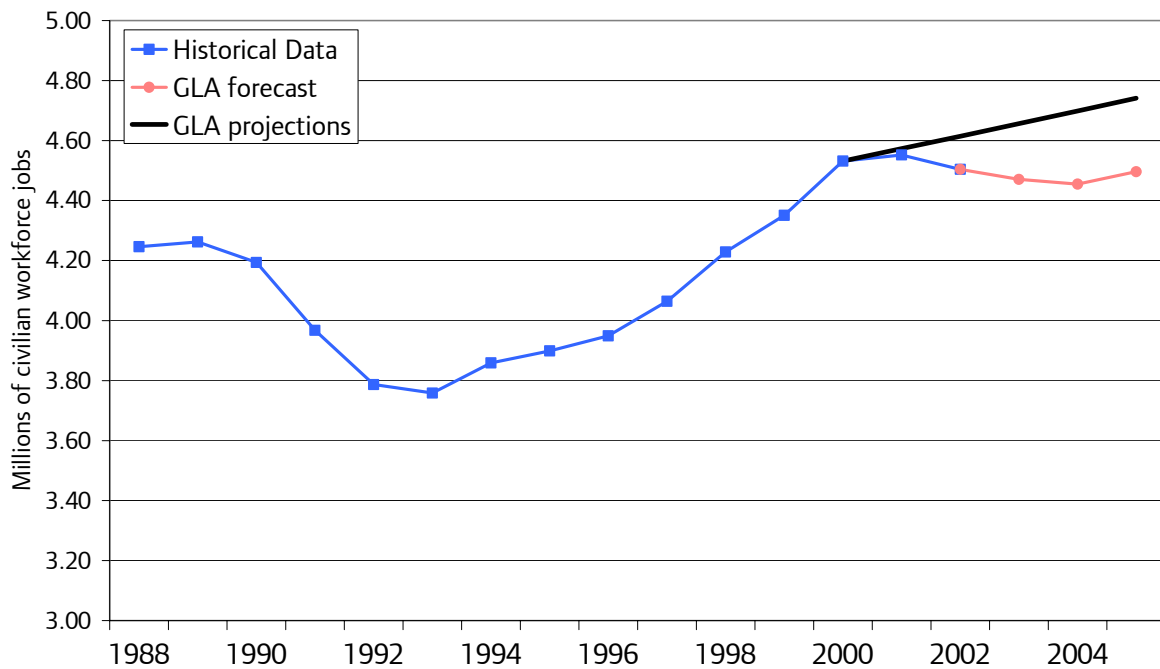


Chart 5: Historic and forecast workforce jobs



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

Chart 6: Employment forecast for July 2003 compared with January 2003

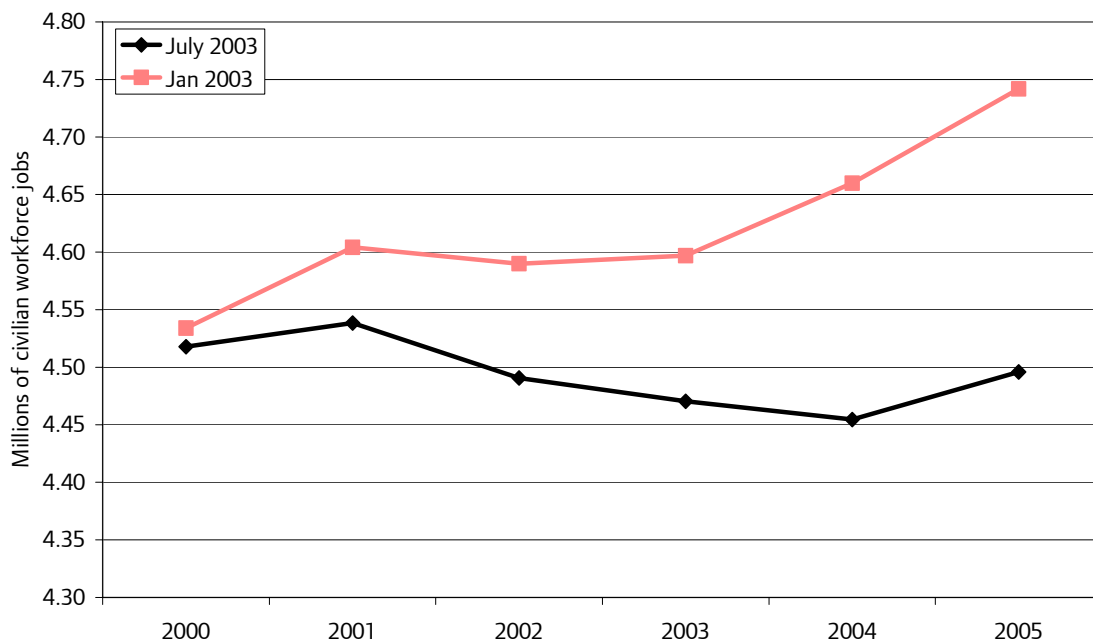


Chart 7: GVA forecast for July 2003 compared with January 2003

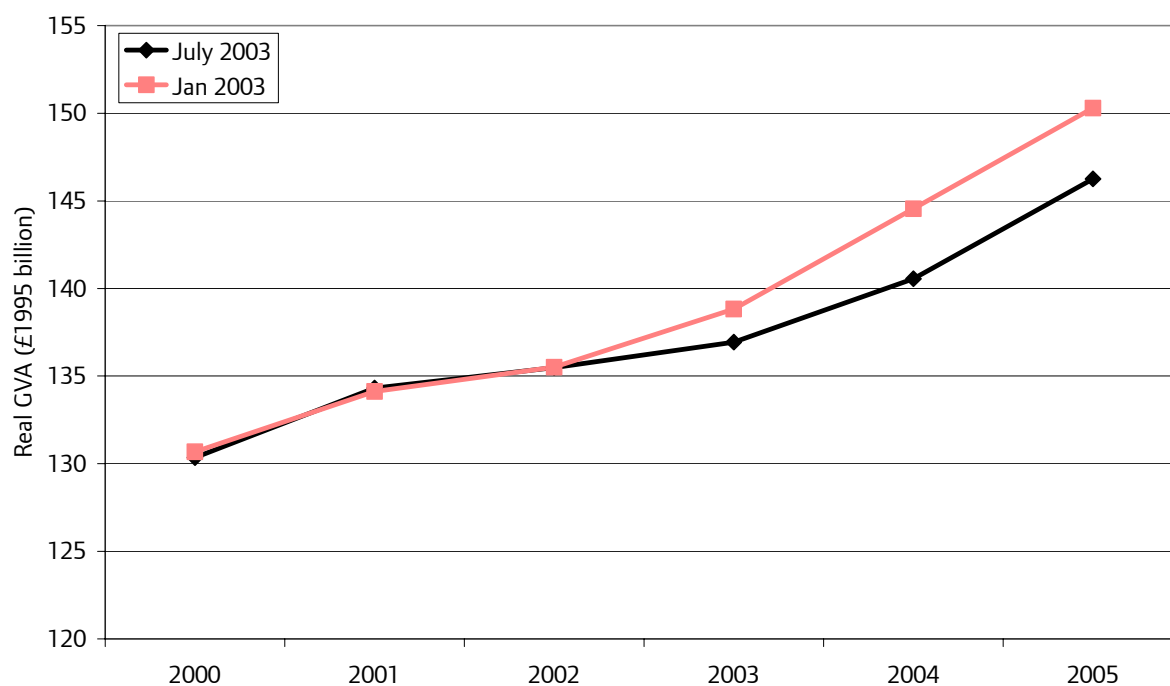


Chart 8: Employment growth forecast for July 2003 compared with January 2003

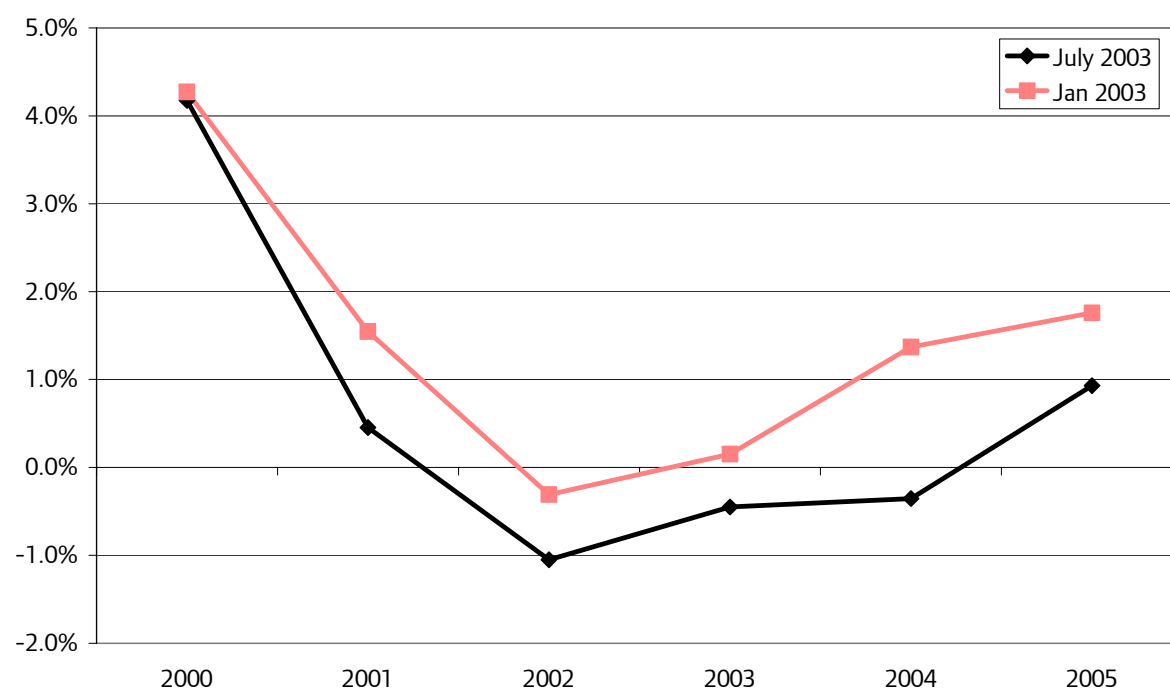


Chart 9: GVA growth forecast for July 2003 compared with January 2003

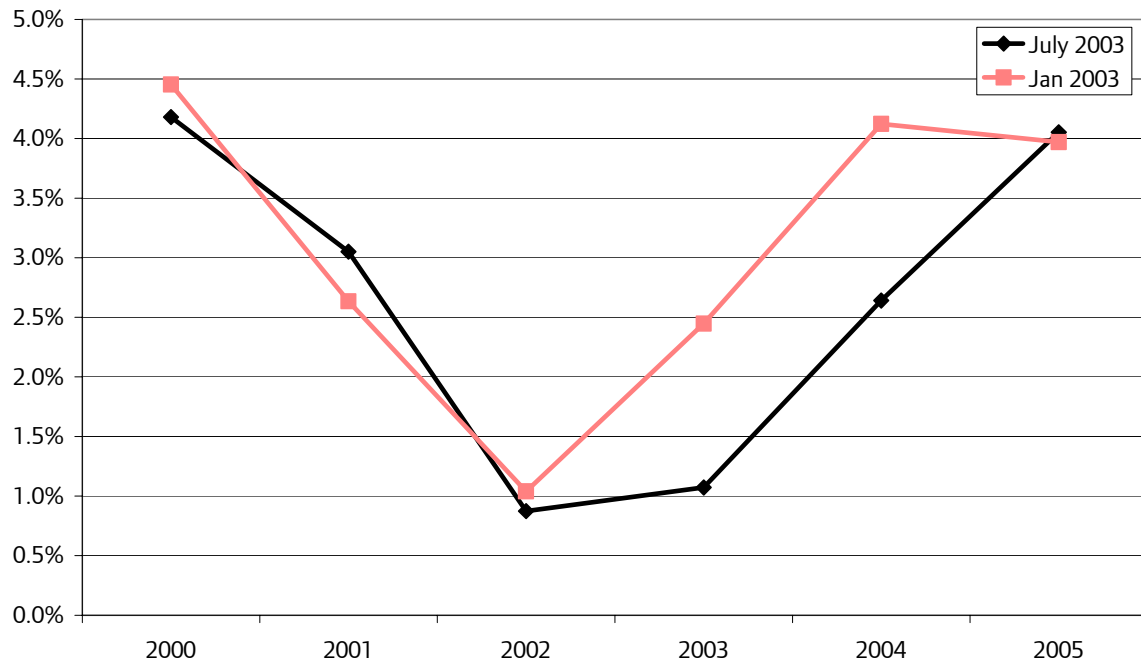


Chart 10: Source of the GLA's UK GVA growth assumptions

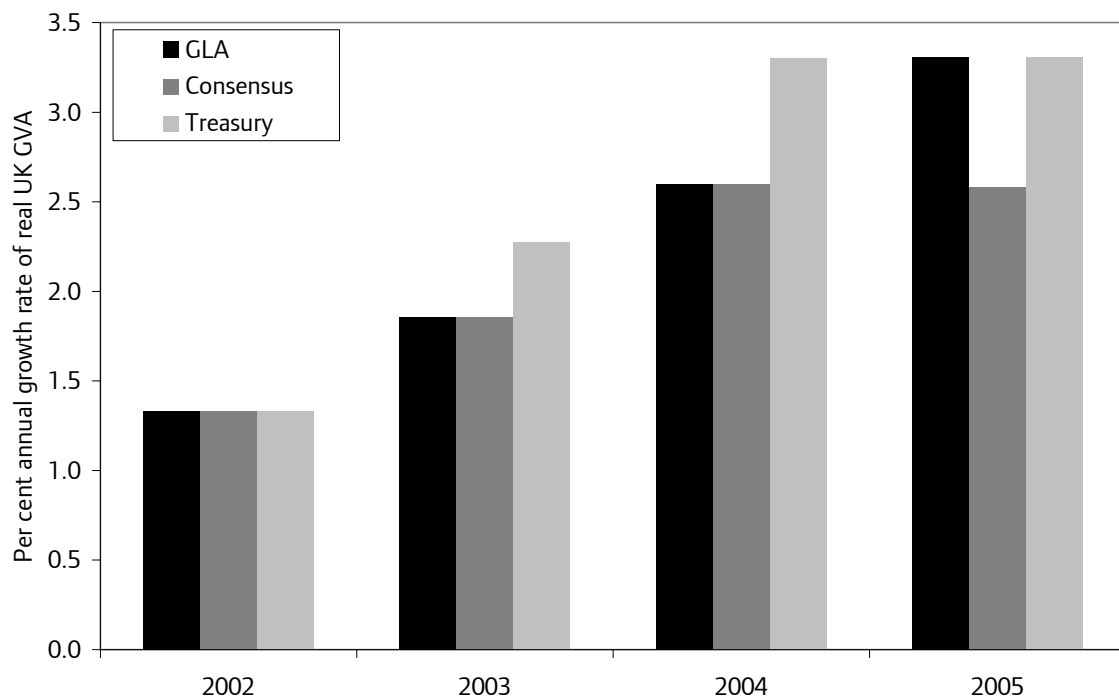


Chart 11: Source of the GLA's UK manufacturing growth assumptions

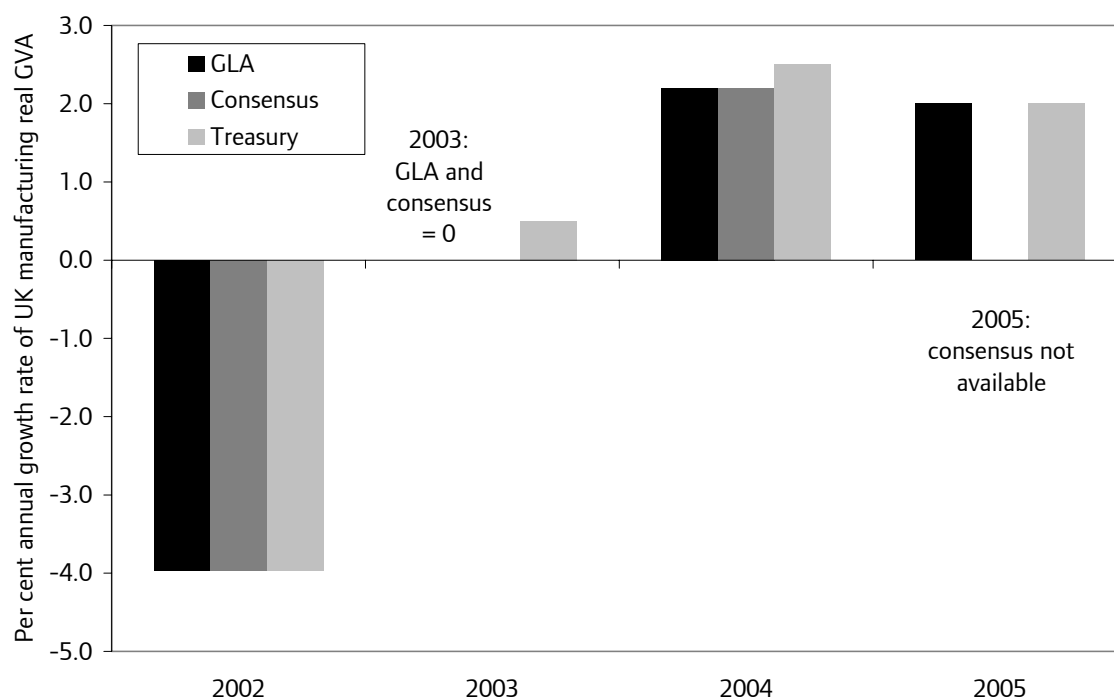
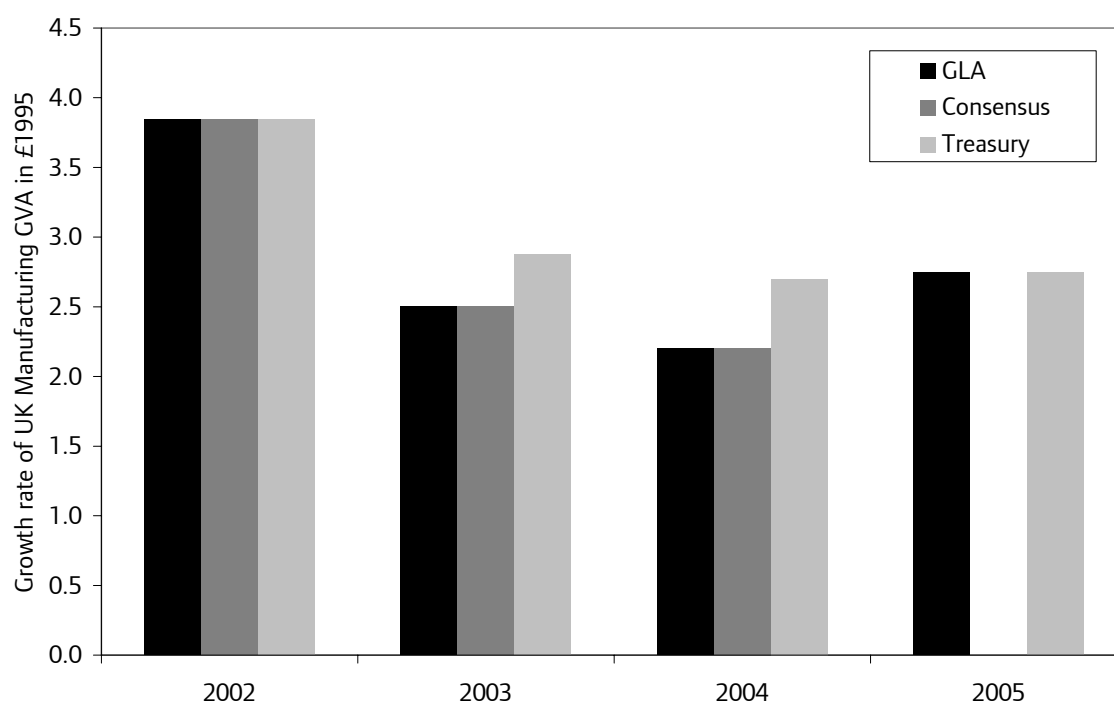


Chart 12: Source of the GLA's assumptions on household spending growth



Appendix 1: 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 travel to that location; *residential* employment estimates the number of people who have a job and live in a given location.

The number of workplace jobs, usually 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 Labour Force Survey (LFS), people in HM Forces and government-supported trainees. Vacant jobs are not included. *Civilian* workforce jobs, the most common measure of workforce jobs, excludes people in HM forces (who number around 14,000 in London).

The number of people with jobs is measured by the LFS and includes people aged 16 or over who did paid work (as an employee or self-employed), people who had a job they were temporarily away from, people on government-supported training and employment programmes, and people 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 the place of work and place of residence are assumed to be the same.

As part of the forecast, EBS also supplies the GLA with estimates of ILO Employment –the denominator in the ILO unemployment figures. This is the same as LFS residential employment. EBS also supplies 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 as Gross Value Added (GVA) in line with the European standard ESA95. This has replaced 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. It is identical to Gross Domestic Product (GDP) at basic prices. However because GDP at factor cost is still used as the basis for Treasury forecasts and reviews, minor differences between GVA and GDP growth rates can occur, as indicated in footnote 2 of this report.

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

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 ONS. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price indices. Most regional forecasters 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 those of the ONS for 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.

Appendix 2: Acronyms

EBS	Experian Business Strategies
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
ILO	International Labour Organisation
LFS	Labour Force Survey
ONS	Office for National Statistics

Appendix 3: References

GLA 2001, *Planning for London's Growth*, GLA, London

GLA 2002, *Review of independent forecasts*, GLA, London

GLA 2003a, *January 2003 Medium-term Planning Projections*, GLA, London

GLA 2003b, *Review of independent forecasts*, GLA, London

HM Treasury 2002a, *Pre-budget Report, Annex A: The economy*, HM Treasury, London

HM Treasury 2002b, *Forecasts for the UK Economy: a comparison of independent forecasts, November 2002*, HM Treasury, London

HM Treasury 2003a, *Budget Report 2003, Chapter B: The economy*, HM Treasury, London

HM Treasury 2003b, *Forecasts for the UK Economy: a comparison of independent forecasts, May 2003*, HM Treasury, London

HM Treasury 2003c, *Forecasts for the UK Economy: a comparison of independent forecasts, June 2003*, HM Treasury, London

Volterra Consulting 2001, 'The Economic and Social Structures of London and the South East', *Working Paper 2*, GLA, London

For a list of acronyms see Appendix 2.

Other formats and languages

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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

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