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London's Economy Today is published by email and on www.london.gov.uk on the third Tuesday in 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 and central government.

Going up, or going down?

by Duncan Melville

The last month has seen much speculation about whether the UK economy is about to turn down again. In London, these fears have perhaps been heightened by concerns about particular weakness in the London labour market, and claims that retailing in central London has been especially affected by the introduction of the congestion charge.

With regard to this second issue, we feel the negative impact of the congestion charge has been overplayed. The first of this month's supplements concludes that the general economic slowdown, the fall off in overseas tourists and the closure of the Central Line have been much more significant influences on retailing activity in central London than the congestion charge. Our second supplement looks at recent forecasts of the London economy, which suggest London is set for a modest and gradual economic expansion as opposed to a downturn. This is also the conclusion of our review of recent economic data.

Output set to continue growing

Much concern has been expressed over the revised GDP numbers for the first quarter of 2003 released in late June, which revised growth down from 0.2 per cent in the quarter to just 0.1 per cent. Some have suggested that this heralds the start of a downturn in the UK economy. It has also been noted that industrial production in the three months to May was down by 0.4 per cent on the previous three months. However, this view fails to take into the account the continued expansion in the service sector, which grew by 0.4 per cent in both the first quarter of 2003 and in April according to the Office for National Statistics's experimental index of services. In addition, the Chartered Institute of Purchasing and Supply's survey indicates that service sector activity picked up in the second quarter of this year.

While the first quarter of this year was undoubtedly weak this was at least in part due to the pre-Iraq war uncertainties which we might expect to now be unwinding. Consistent with this, the National Institute for Economic and Social Research (NIESR) estimates that GDP in the UK grew by 0.4 per cent in the second quarter of 2003. This NIESR indicator has been an accurate predictor of the actual outturn of output growth in recent quarters. There may also be signs of this unwinding in the hard-pressed tourism sector. Seasonally adjusted monthly figures for overseas visitors and earnings registered positive increases for the first time this year in May 2003. In addition, the British Incoming Tour Operators Association (BITOA) reported that visitor arrivals in May 2003 were up by 2.4 per cent compared to May 2002.

But one month's tourism related statistics are not conclusive, especially when we are getting anecdotal reports that London's hotels are often only filling their rooms through discounting. So does an assessment of the prospects for consumption, investment, and exports suggest that the UK and London economies are set for a continued expansion?

Consumption has slowed but is not about to slump

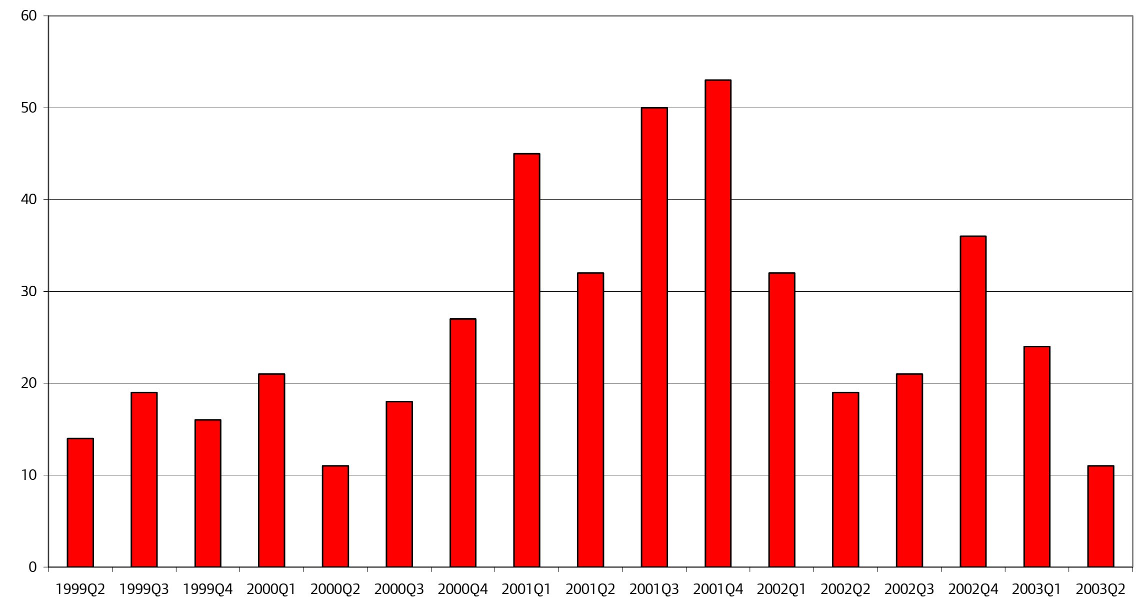
Consumption growth in the UK has slowed from 5.1 per cent in the year to the first quarter of 2002 to 3.9 per cent in the year to the first quarter of this year. Consistent with this, annual UK retail sales growth has nearly halved from 6.1per cent in the three months to May 2002 to 3.3 per cent in the three months to May 2003. For London, the FootFall index measuring the number of visitors to retail centres appeared to be broadly flat year on year for June and this is disappointing given that retailing in June 2002 suffered as a result of the Jubilee Bank Holidays, late half term and the World Cup.

Going forward, we might expect that weakness in the housing market, especially in London, might lead to further reductions in consumption growth. On both the Nationwide and Halifax measures, house prices in London actually fell by around ½ to 1 per cent in the first quarter of this year and the Royal Institution of Chartered Surveyors's housing market survey suggests that London's house prices continued to fall in April and May of this year. However house prices are unlikely to turn down sharply. Key factors behind rising house prices in London have been an increasing number of households and a rising population, and both of these factors will continue to support house prices over the next few years.

Additionally, the latest household borrowing data show that unsecured lending, including the use of credit cards, has remained healthy. With by historical standards continuing low unemployment, and consumer confidence and consumers views of their financial situation improving, consumption growth is unlikely to slow sharply.

Investment to pick up gradually
Recently revised figures have revealed that recent business investment numbers have not been as bad as was previously thought. Business investment was originally thought to have fallen by 10 per cent last year. Now the latest estimates are that it contracted by 6 per cent in 2002, and recorded positive quarterly growth in both the last quarter of last year and the first quarter of this year. UK corporate profitability improved in the first quarter of this year to its highest level since 2000, a positive sign for investment prospects. In addition, figures from Ernst and Young have recently shown that profit warnings for London's companies have fallen significantly in the first half of this year and now stand at levels last seen in 2000 (Chart 1).

Chart 1: Number of profit warnings by London companies

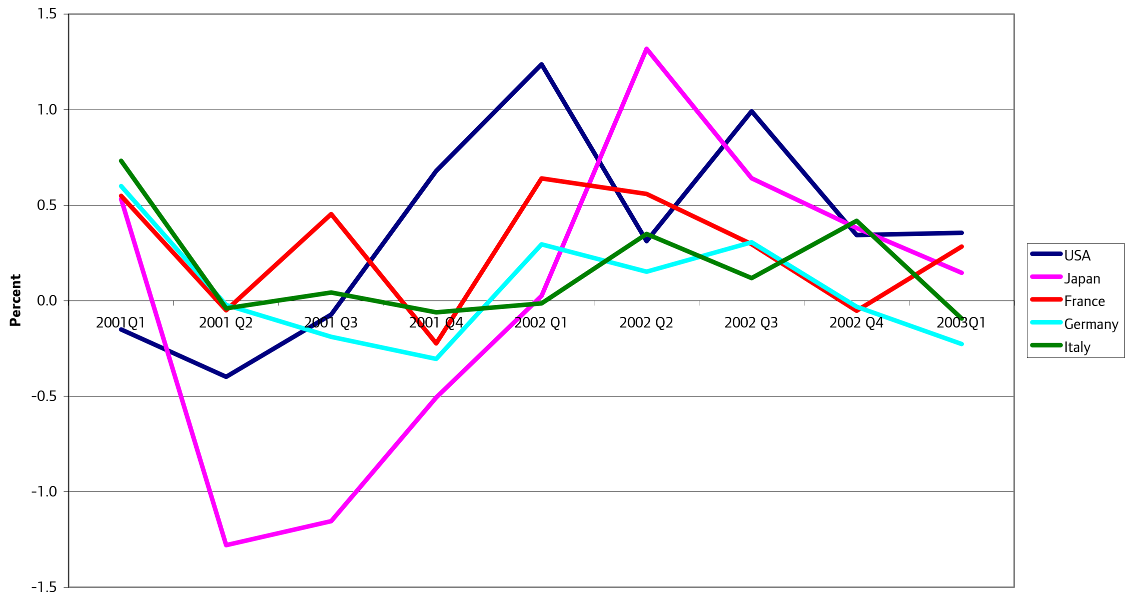


Source: Ernst and Young

This all points to an upturn in investment, but this improvement is likely to be modest. With most commentators expecting only a modest economic pick up businesses may be more likely to put additional profits into paying off corporate debts or rebuilding balances on company pension funds than expanding investment.

Exports prospects
Similarly, near term UK export growth is unlikely to be strong given the limited strength of world demand. The international environment is one of slow growth. As Chart 2 indicates growth in the major world economies appears to be slowing.

Chart 2: World quarterly growth



Source: OECD

The European Commissioner for Economic and Monetary Affairs Pedro Solbes recently announced that it was now unlikely that the EuroArea would grow by the 1.0 per cent forecast by the Commission in April, which was itself a downgrade from the previous prediction of 1.8 per cent. He now expects growth of just 0.7 per cent. In the US, the unemployment rate rose much more than had been expected to reach 6.4 per cent in June – the highest level for nine years. Additionally, chairman of the US Federal Reserve Alan Greenspan in his six monthly statement to the US Congress announced that the Fed was cutting its forecast for US economic growth in 2003 by ¾ of a percentage point to 2 ½ to 2 ¾ per cent despite the recent cut in US interest rates to their lowest level for 45 years. More optimistically, Japanese business confidence in the second quarter of 2003 showed optimism at its highest level for two years. Even so the Japanese economy is generally expected to grow by less than 1 per cent this year.

A gradual recovery

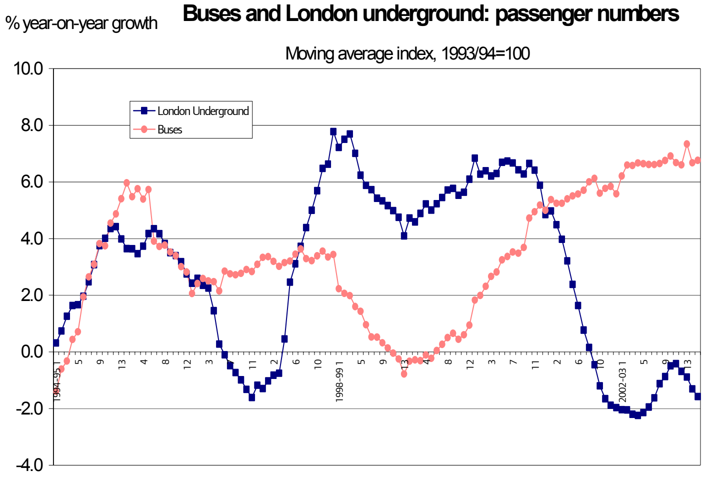
All in all, the outlook for the UK and London economies is likely to be one of continued but unspectacular growth. A downturn seems improbable, especially given the expected large boost to public expenditure this year. But with household consumption growth slowing, investment picking up only slowly and exports facing a difficult world environment, it is difficult to argue with the new Governor of the Bank of England Mervyn King who recently said, 'It's realistic to assume that there will now be a slow, modest, tentative, gradual recovery'.

Economic indicators

Tube use declines, bus use rises

Source: TfL
Latest release: 24/06/03
Next release: 27/07/03

- The number of London underground passengers dropped almost 2 per cent in period 2 of 2003-04 (27 April-24 May) from the previous year. This decline was affected by the limited service on the Central line and the late Easter this year.
- On the other hand, since the introduction of the congestion charge annual growth in the number of bus passenger has been strong at 7 per cent.

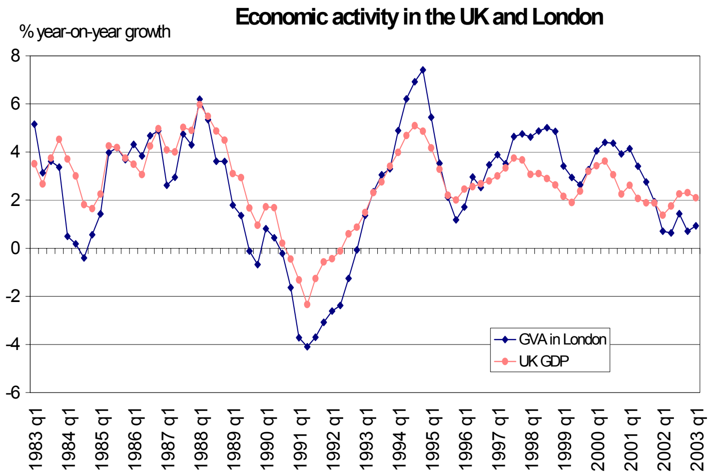


Source: Transport for London

Economic activity slows

Source: EBS and ONS
Latest release: 27/06/03
Next release: 25/07/03

- Latest official figures for UK GDP indicate quarterly output growth was just 0.1 per cent in the first quarter of 2003.
- Most recent estimates for GVA indicate a slowdown in the London economy. The annual GVA rate was 0.7 per cent in the fourth quarter of 2002 but up to 0.9 per cent in the first quarter of 2003.

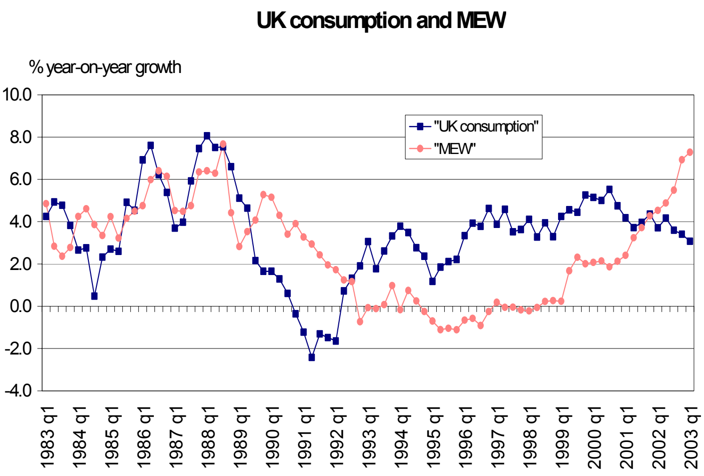


Source: ONS and EBS

MEW rises strongly

Source: ONS
Latest release: 27/06/03
Next release: 25/07/03

- Mortgage equity withdrawal (MEW) is the amount of secured lending not reinvested on housing. When the value of a house increases, homeowners can release this borrowing by remortgaging. Additional funds can be used to pay off other debts, invest in financial assets and/or spending on goods and services.
- Despite MEW reaching almost record levels in the first quarter of 2003, consumption spending has eased further in the same quarter.

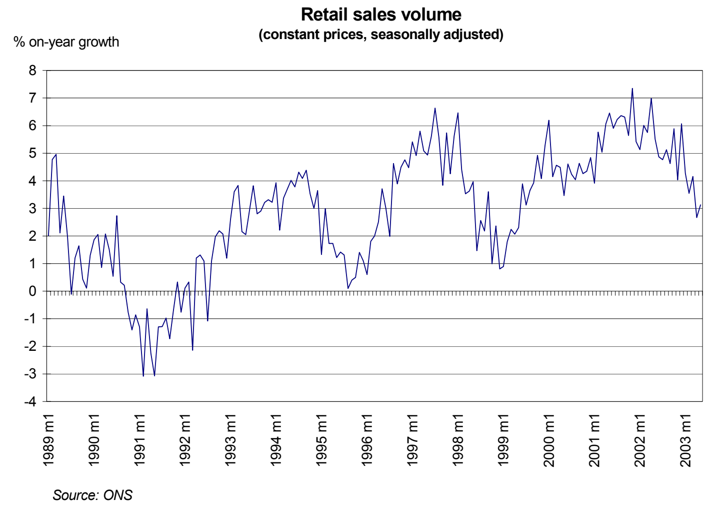


Source: ONS and Bank of England

Retail sales decline

Source: ONS
Latest release: 19/06/03
Next release: 24/07/03

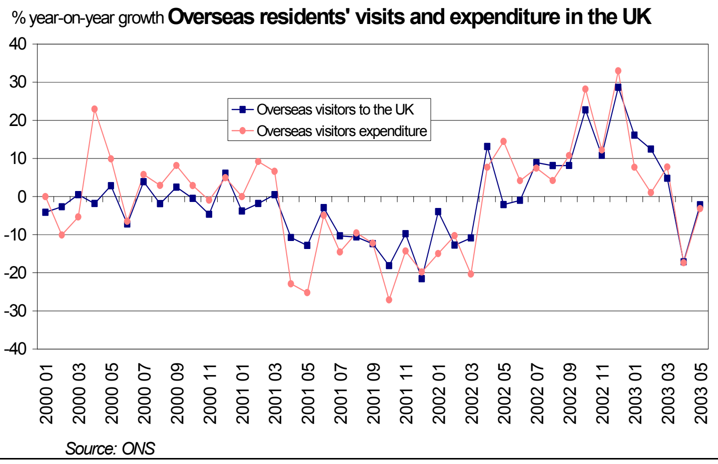
- UK retail sales declined slightly by 0.1 per cent in May from the previous month, the first monthly drop in sales since January. The volume of retail sales is up 3.1 per cent compared to May 2002, and annual growth in retail sales is on a declining trend.
- Consumer confidence has increased slightly since the end of the Iraq war, but sentiment is still cautious. Moreover, slow household income growth has restrained retail sales.



Overseas visitors up slightly

Source: ONS
Latest release: 4/07/03
Next release: 8/08/03

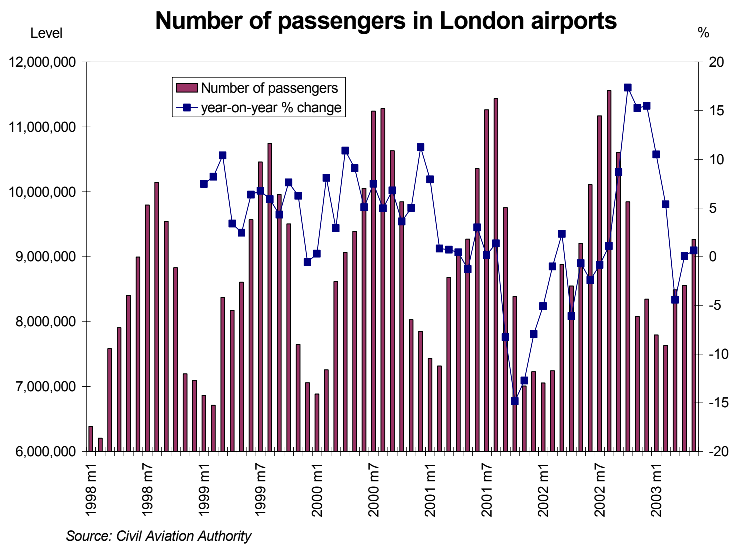
- Following four successive months of low UK tourism activity, the number of overseas visitors to the UK rose slightly in May.
- However, the number has not recovered to the levels seen in January 2003.
- Anecdotal evidence indicates fewer British tourists coming to Central London. In particular, hotels have been affected by a drop in room occupancy by overseas visitors and businesspeople.



More passengers through London airports

Source: CAA
Latest release: mid-July 2003
Next release: August 2003

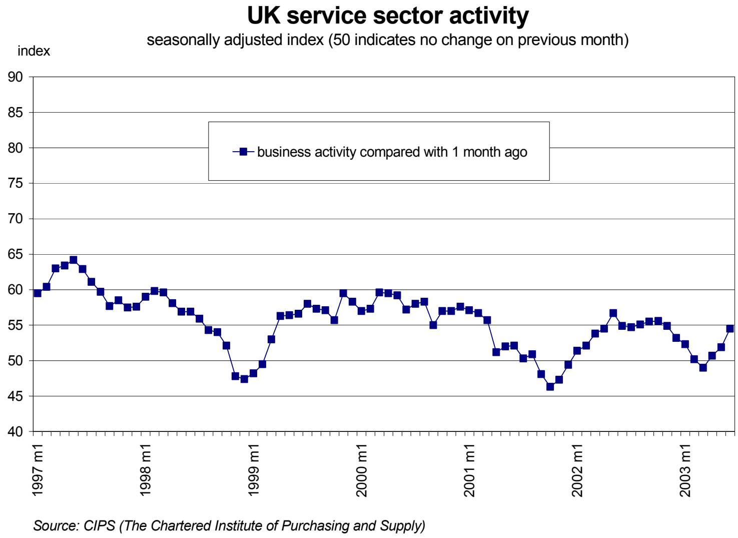
- The number of passengers using London airports recovered since the end of war in Iraq.
- The number of passengers rose 0.6 per cent in May from the previous year, after recording negative annual growth in March.
- Passenger numbers at London airports in June (not shown in the chart) have increased further, reaching 10.13 million passengers. This level is comparable to pre-September 11 levels.



UK services sector activity recovers

Source: CIPS
Latest release: early July 2003
Next release: early August 2003

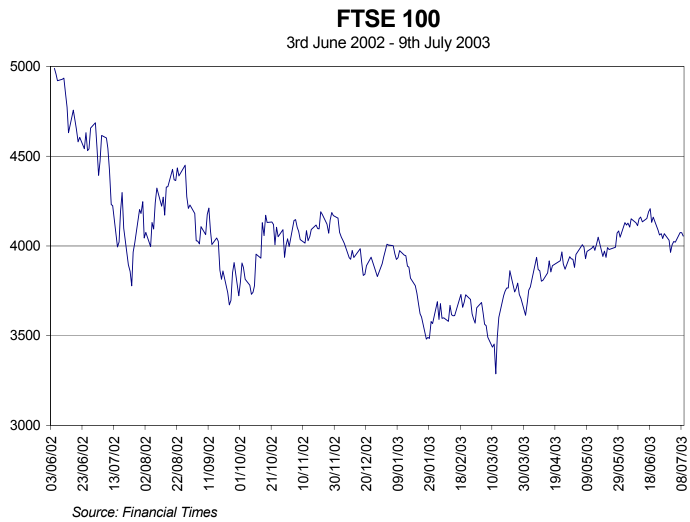
- Business activity in UK services recovered further in June. The index of UK service sector activity rose to 54.5 in June, indicating an increase in business activity from the previous month.
- This index has bottomed out, suggesting that the service sector is facing better economic prospects following the dip during war in Iraq.



UK equity market

Source: Financial Times
Released: Daily

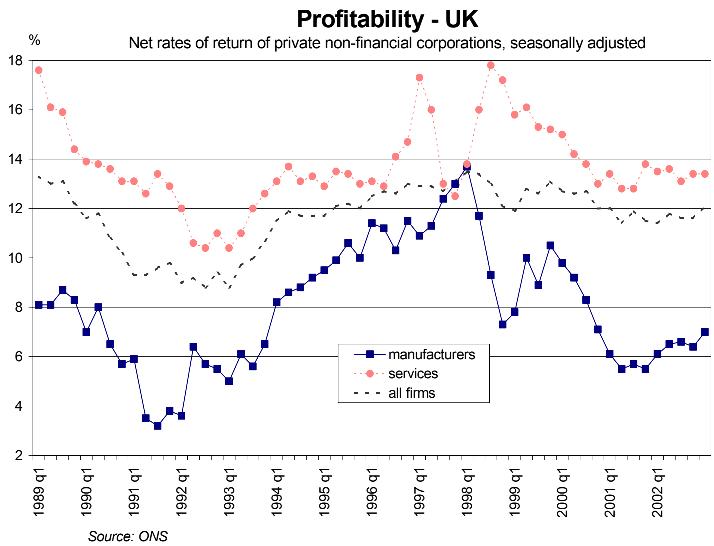
- Although the FTSE 100 index rose in the first two weeks of July, equity prices have not come back to the levels seen in early June.
- The FTSE 100 index dropped 0.6 per cent since our last monthly report (from 4 June until 15 July), despite the cut in interest rats on 10 July. This suggests that economic prospects are not recovering as quickly as thought following the end of war in Iraq.
- On 15 July FTSE 100 reached 4,102 level (not shown in chart).



UK corporate profitability rises

Source: ONS
Latest release: 02/07/03
Next release: 02/10/03

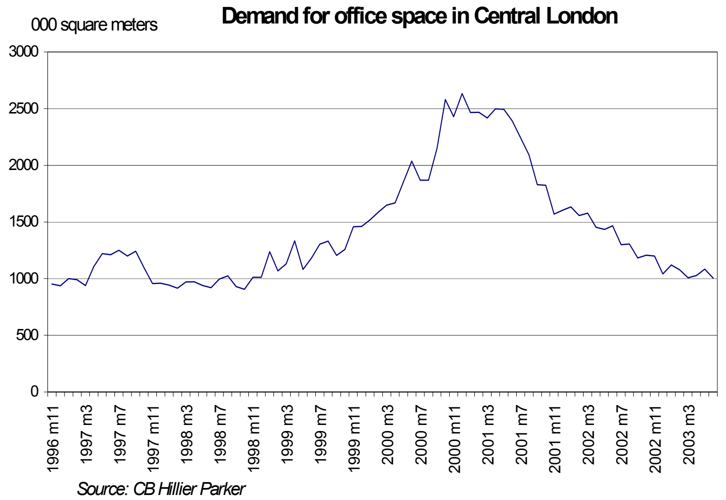
- The net rate of return by private non-financial corporations was 12.1 per cent in the first quarter of 2003, up from 11.6 per cent in the last quarter of 2002.
- This represents a recovery in corporate profitability in the first quarter, the highest net rate of return since the second half of 2000.
- The recovery in UK corporate sector profitability was mainly due to the rebound in profitability in the UK manufacturing sector and oil companies (due to high pre-war oil prices).



Demand for office space down

Source: CB Hiller Parker
Latest release: July2003
Next release: August 2003

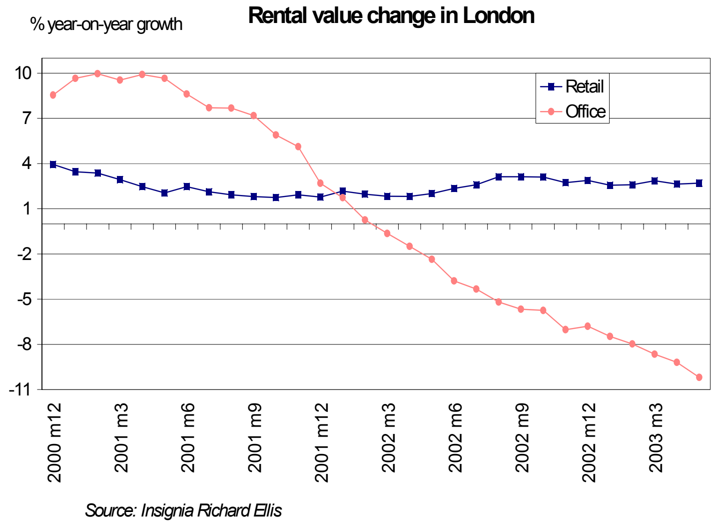
- Demand for office space in Central London rose in May for the second consecutive month, before declining in June.
- Cheap rentals for companies are probably helping to support demand for office space, but demand remains subdued compared to 2000.
- Relatively weak demand for office space indicates that many potential occupiers are still cautious about the prospects for recovery in the UK and London economies.



Rental growth in London

Source: Insignia Richard Ellis
Latest release: July 2003
Next release: August 2003

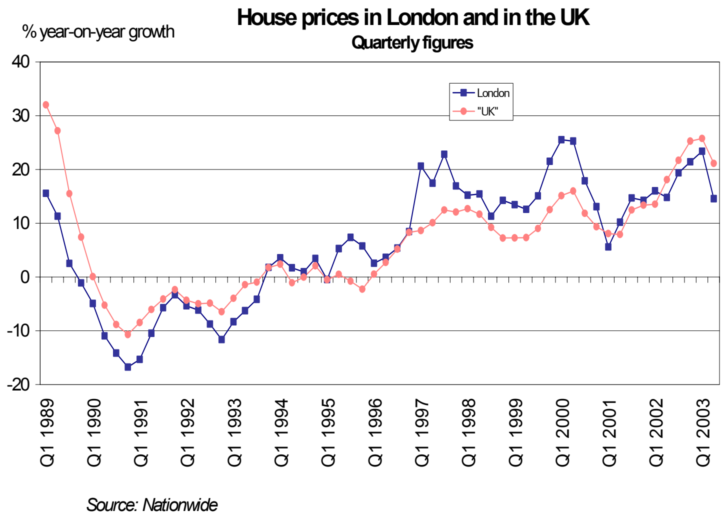
- Additional availability of office space in London and a subdued demand for office space in the past months has caused office rents to drop further in May.
- The annual growth of offices rents continued its downward trend. Since February 2002, rents have been falling (negative annual growth rates). In May, rents were 10 per cent down on the year before.
- In contrast, annual growth in retail rents remained stable, improving slightly in May compared to April.



Housing market cools down

Source: Nationwide
Latest release: early July 2003
Next release: early August 2003

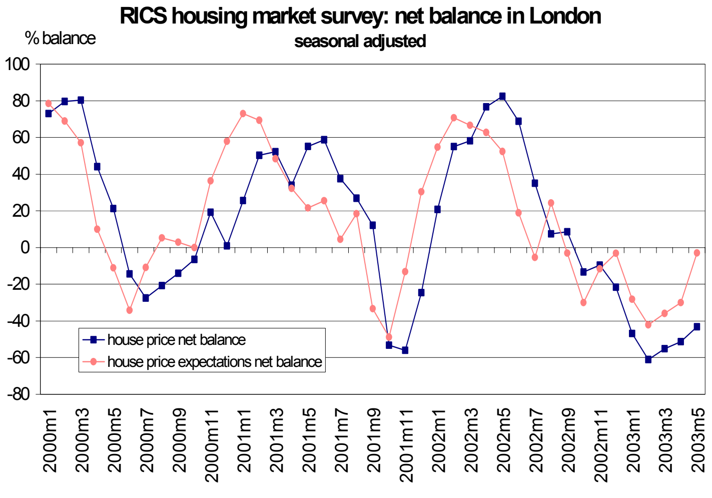
- Month-on-month house price growth rates have slowed in the UK over the past four months. This has pushed down the annual inflation rate to 21 per cent in the second quarter of 2003 from 26 per cent in the first quarter.
- London is experiencing a sharper decline in house prices than the rest of the UK. Annual house price inflation dropped to 15 per cent in the second quarter of 2003 from 23 per cent in the first quarter. This slowdown reflects significant increases in council taxes, pressures from National Insurance contributions and a reduction in bonuses.



Monthly house prices in London

Source: RICS
Latest release: 17/06/03
Next release: mid July 2003

- The net balance measures the difference in the proportion of surveyors reporting house prices increases and decreases in the last three months.
- The net balance in May indicates that a higher proportion of surveyors are reporting decreases in London house prices in the last three months. However, more surveyors are confident that house prices in London will pick up in the next three months compared to the past six months.

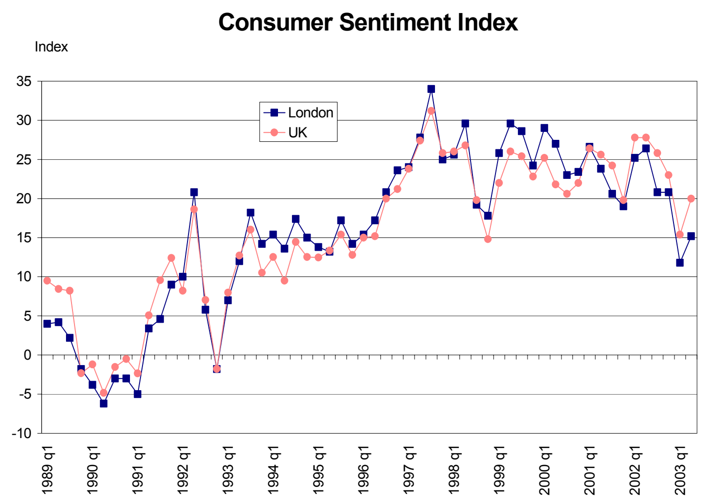


Source: RICS

Consumer confidence

Source: Martin Hamblin GfK
Latest release: July 2003
Next release: not known

- The UK aggregate consumer confidence index rose one point to –2 in June from –3 in May (not shown in the chart). This indicates households remain cautious about spending.
- Data on consumer confidence in London is only available on a quarterly basis. Latest figures suggest consumers in London were feeling more optimistic in the previous four quarters than in the first quarter of 2003.
- Nevertheless, Londoners continued to be more cautious than British households about the economic prospects in general.

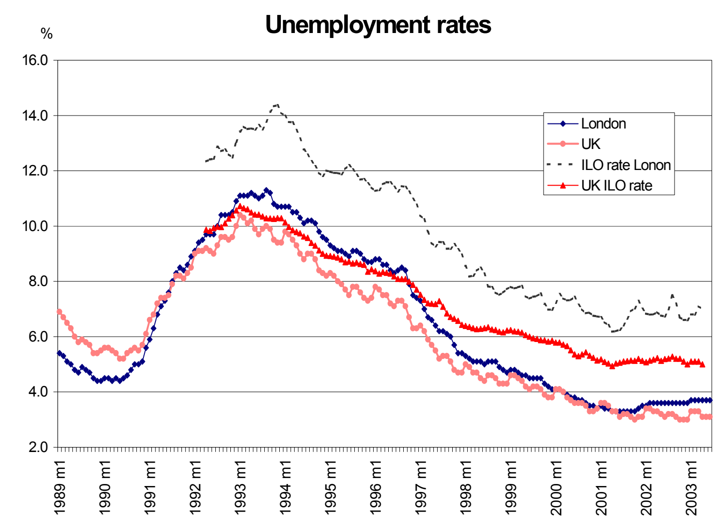


Source: Martin Hamblin GfK

Labour markets remain stable

Source: Jobcentre Plus administrative system
Latest release: 16/07/03
Next release: 13/08/03

- UK and London labour markets showed continued stability in June from the previous month. The claimant unemployment rate remained at 3.1 and 3.7 per cent in June for the UK and London respectively.
- The UK ILO unemployment rate was unchanged at 5.0 per cent in March-May 2003 from February- April, but rose for London by 0.2 percentage points to 7.0 per cent over the same period.
- The UK civilian workforce employment level was up 89,000 in May compared to a year earlier. London workforce employment rose by 29,000 in May 2003 from a year ago, reaching 4.5 million.



Source: Labour Force Survey and Jobcentre Plus administrative centre

The causes of recent poor retail sales performance in central London
by Alon Carmel

- Congestion charging is being blamed in some quarters for poor retail sales in central London. Analysis here demonstrates that, in reality, any fall in sales in central London pre-dated the introduction of the congestion charge.
- The introduction of the charge had no effect on the reported level of shopper numbers and, since the beginning of May numbers in central London have been recovering.
- The charge is likely to have had a number of small positive and negative impacts on retail demand in central London. These cannot be fully quantified, but an assessment of negative impacts suggests this is negligible in overall terms compared to other factors affecting London retail demand.
- The effects of the general economic slowdown, the fall in tourist numbers and the closure of the Central Line are all likely to be much more important determinants of the retail climate than congestion charging.
- A full evaluation of the business impacts of congestion charging, which will need to include benefits as well as costs, must wait until Transport for London publish authoritative data and analysis in their six and twelve-month monitoring reports.

Recent media reports have suggested that congestion charging has reduced retail demand in the congestion charging zone. Indeed, a London Chamber of Commerce and Industry (LCCI) survey suggested retailers considered congestion charging the primary cause of disappointing sales. Around 75 per cent of the respondents experienced declining sales, of which 48 per cent blamed congestion charging[1]. Other business organisations report a more positive assessment of the congestion charge, for example London First reported that the scheme had a positive impact for 22 per cent of businesses, no impact for 69 per cent and a negative impact for only 9 per cent[2].

When we examine the wider economic context, businesses across the UK – not just within the congestion charging zone – are experiencing economic hardship for which the global and UK slowdown is the most likely main cause. Although it does appear that central London experienced a bigger fall in retail demand than London as a whole, this decline occurred **before** the introduction of the congestion charge and the difference has been disappearing over the last two months. It should also be noted that the congestion charging zone excludes several significant central shopping districts such as Knightsbridge and High Street Kensington.

Preliminary analysis suggests that the effects of a) the general economic downturn, b) the decrease in overseas visitors and c) the closure of the Central Line, are the most significant reasons for any decline in central London retailing. This paper concludes that the congestion charge had only a minimal impact.

Congestion has a significant negative impact on the operation of businesses. Transport for London has estimated that congestion costs business in London around £2 billion a year. Following the introduction of the charge the reduction in traffic and congestion within the congestion charging zone has been significant, with congestion falling by 32 per cent. The benefits for business have not yet been quantified. However, the overall costs of congestion on business operations will inevitably decrease with time. Research suggests that decreased traffic and congestion may attract shoppers back into town centres by improving the retail environment[3].

1. Patterns of falling retailing?

No official figures exist for retail sales in London, let alone central London. However, the FootFall Index (measuring numbers of visitors to retail areas) suggest that the levels of people going shopping have recently been lower in central London than in the rest of London, or across the UK as a whole. Chart 1 shows the FootFall indices for the Congestion Charging Zone, the UK and for London (put in a common base for ease of

[1] LCCI Press Release 26/6/03 Major study on impact of congestion charging shows 'substantial and negative' effects on retailers

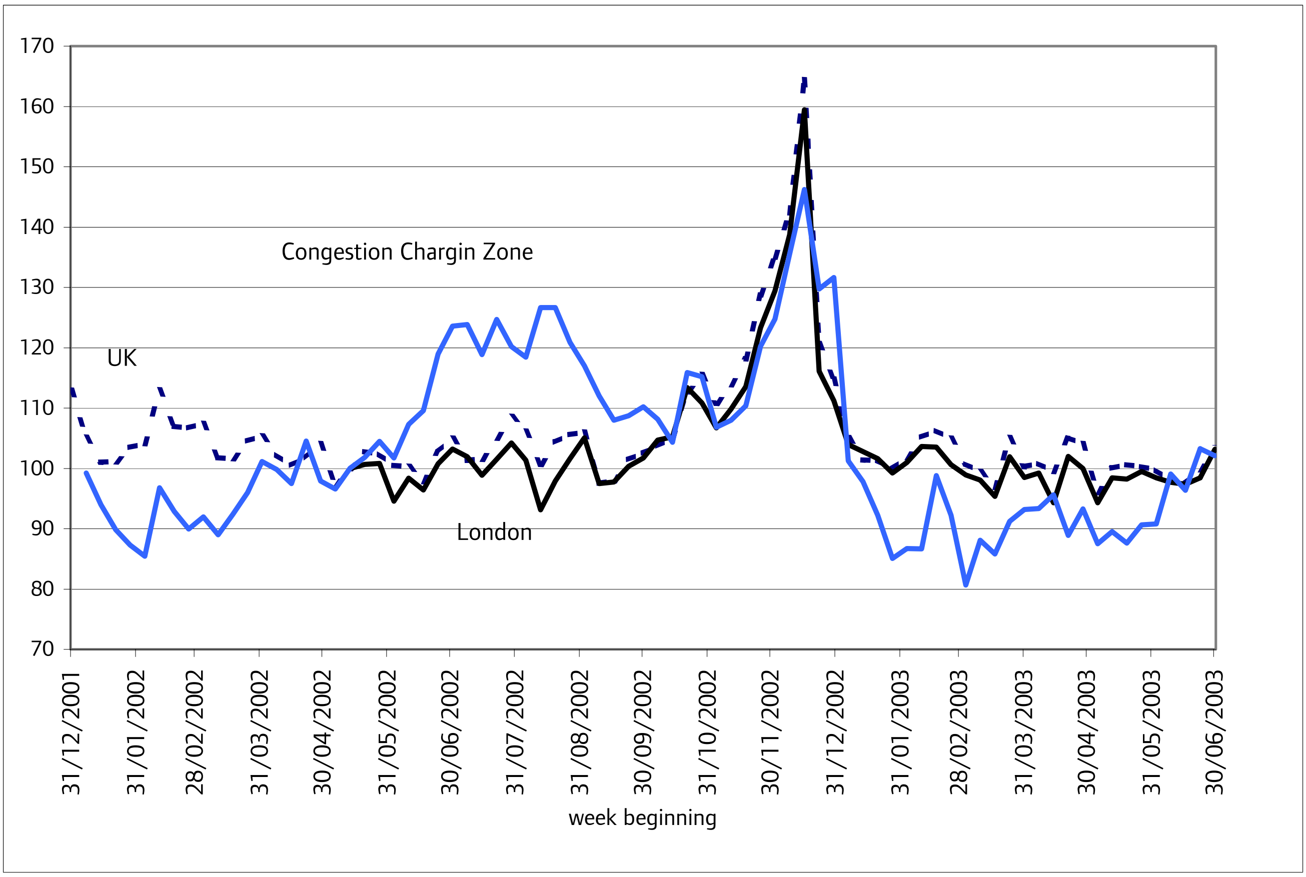
[2] eg London First Press Release 23/5/03 Three months on – continued strong business support for congestion charging

[3] Whitehead, Tim (2002) 'Road user charging and business performance: identifying the process of economic change', *Transport Policy* 9 (2002)

comparison – the spike represents the pre-Christmas shopping surge).

The London and UK indices seem to follow similar trends. The Congestion Charging Zone index is more volatile. Analysis of the pattern of divergence between the Congestion Charging Zone index and the others reveals three things. Firstly, the Congestion Charging Zone index dropped sharply below the other indices at the end of January – before the introduction of congestion charging on the 17 February. Secondly, the drops in early 2003 might just be seasonal – we see the same divergence between the Congestion Charging Zone index and the UK index in January to May 2002. The drops may also be connected to the aftershocks of September 11 in 2002 and to the fall in visitor numbers in March-May 2003 due to the Iraq war. Thirdly, the timing of the divergence – the Congestion Charging Zone index dropping in January 2003 and seeming to recover in June 2003 is highly correlated with the period when the Central Line was out of service or operating on a limited timetable. The Central Line closed on 25 January 2003 and became fully operational on a full timetable on the 2 June 2003.

Chart 1: FootFall Indices
(week 20 2002=100)



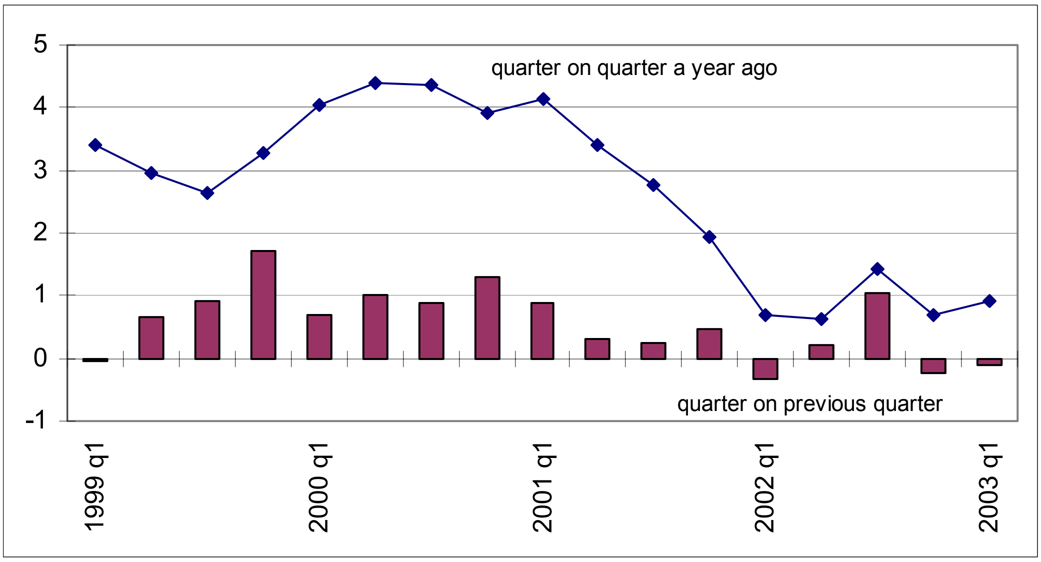
Source: FootFall Ltd. and GLA Economics

2. The effects of the general economic slowdown

The UK economy has been slowing since the second quarter of 2000 although it has so far avoided a sharp downturn similar to that experienced in the early 1990s. UK growth in the year to the first quarter of 2003 was just 2.1 per cent, down from annual growth rates of over 3 per cent in 2000.

London's economy has also been slowing down markedly. Chart 2 shows that in the last quarter of 2002 and the first quarter of 2003 London's economy actually contracted slightly. Clearly the general economic climate is not good for business, and it is to be expected that in such a climate retail businesses will be affected too.

Chart 2: London GVA growth
(1995 prices)



Source: Experian Business Strategies

Quantifying the effect of the general downturn is difficult because of the lack of official estimates of retail spending in central London and the effect of slowing economic activity on this spending. However, a study by the Centre for Advanced Spatial Analysis (CASA) and URBED for the Office of the Deputy Prime Minister (ODPM) on retail cores in London found that retail sales in Central London totalled around £11 billion in 2000, or an average of £0.9 billion per month (though there will be seasonal variations)[4].

Retail sales growth for the UK averaged around 3-4 per cent in the first five months of 2003 compared with 6 per cent for the first five months of 2002, ie a loss of around 2 per cent[5]. If retail spending growth in London is assumed to have fallen by the same proportion this would result in spending in central London being £18 million lower as a consequence of the economic slowdown. This is a UK wide phenomenon and so it cannot in any way result from congestion charging.

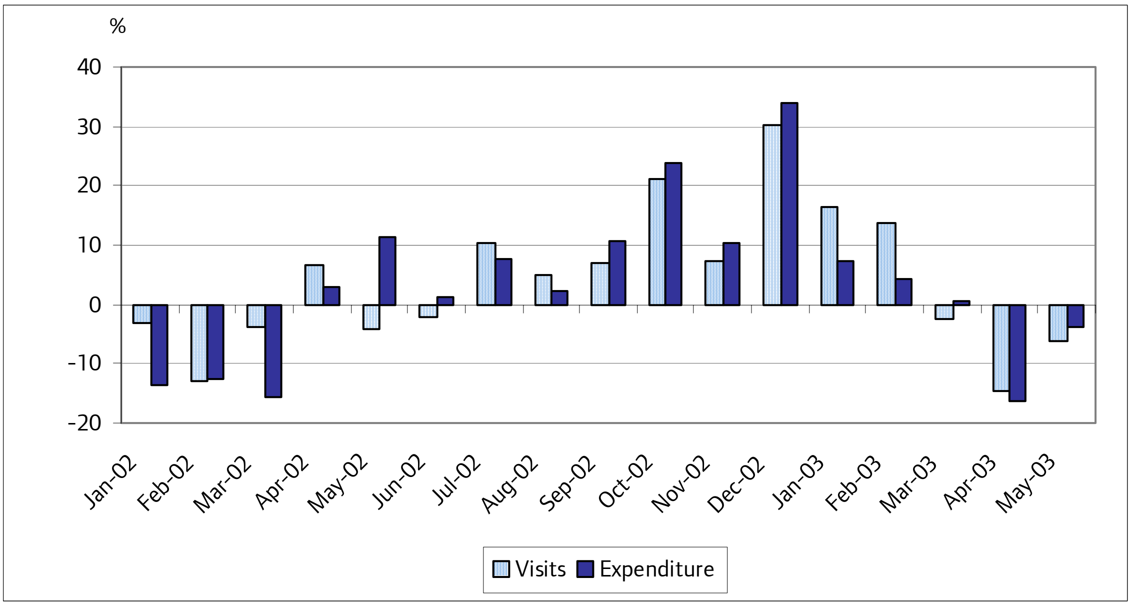
3. A drop in overseas visitors

Overseas visitors are extremely important for retailers in central London. In 2001, expenditure by overseas visitors to the UK was £11.3 billion. Around £3 billion was spent on shopping (ie shopping expenditure was around 26 per cent of total spend)[6]. The total spend for London in 2002 was around £5.9 billion. Although overseas visitors to London might be expected to spend more than the average for the UK on shopping, a cautious assumption is that the proportion spent on shopping is the same. If so, then overseas visitors to London spent around £1.5 billion on shopping in London in 2001, or around £125 million a month (disregarding seasonal variations). It seems reasonable to assume that the majority of this was spent in central London since this is the area to which overseas tourists are generally attracted.

[4] www.casa.ucl.ac.towncentres/cd
[5] GLA Economics calculations based on ONS Retail Sales Index

[6] BTA Tourism Intelligence Quarterly 2002

Chart 3: Overseas visits and expenditure to UK
(growth, month compared to same month previous year)



Source: Office of National Statistics

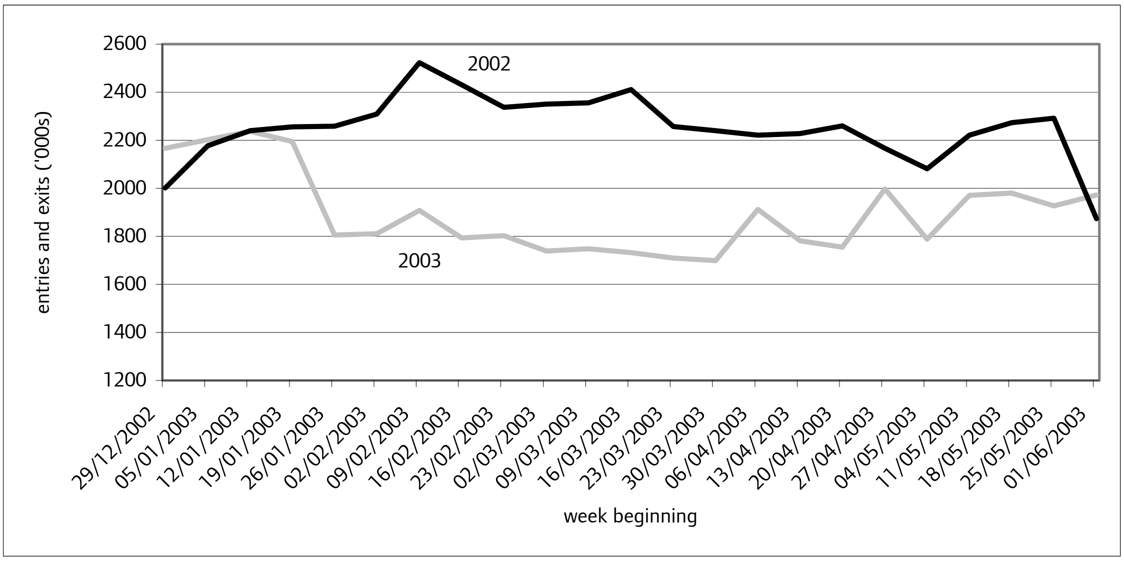
Recent figures from the ONS (Chart 3) shows that the number of overseas visitors to the UK dropped dramatically during March, April and May compared with last year. The falls in April (15 per cent in visits, 16 per cent in expenditure) are as bad as the falls in spring 2002 following the attacks of September 11. Between March and May the average monthly loss of overseas visitor spending was 6.5 per cent. If overseas visitors to London spent around £125 million a month on shopping, then a loss of 6.5 per cent represents over £8 million a month. This is most likely an underestimate as overseas visitors to London might be expected to be particularly deterred by the threat of terrorism and they are also likely to spend above the national average on shopping.

There is probably also a more general differential effect on the central London retail sector from heightened fears of terrorism following the start of the war in Iraq. This may have lead to some UK based shoppers deciding to shop locally in preference to central London. However, no estimates have been made of the scale of this effect.

5. Closure of the Central Line

The closure of the Central Line on 25 January 2003 due to the Chancery Lane derailment has had a large effect on the number of people visiting the central London shopping district around Oxford Street. Chart 4 shows the entries and exits through three Central Line stations (Oxford Circus, Tottenham Court Road and Bond Street) in 2003 compared with 2002. The chart shows that the difference averaged around 450,000 per week during the closure of the Central Line, ie around 1.8 million people per month.

Chart 4: Key Central Line Stations entries and exits
(Oxford Circus, Tottenham Court Road and Bond Street)



Source: London Underground and GLA Economics

Of course, not all the people who stopped coming through these stations were shoppers. According to London Underground's Rolling Origin and Destination Survey (RODS) from 2001, around 18 per cent of people passing through Oxford Circus, 19 per cent through Tottenham Court Road and 21 per cent through Bond Street were shopping. If a figure of 18 per cent is used then around 320,000 shoppers per month would cease to use these stations during the closure of the Central Line.

Not all the shoppers displaced by the closure of the Central Line would stop travelling to central London, but instead use other means of transport, eg other Underground lines, buses, cars, or bicycles. However, choosing three central underground stations closely associated with retail centres which can also be reached via other underground lines (Bakerloo, Victoria, Northern and Jubilee) means that the analysis should capture most of those shoppers displaced onto the rest of the network. So we can be reasonably sure that the number of potentially displaced shoppers is not grossly overstated. Shoppers displaced onto buses, cars and other modes cannot be measured, but it is reasonable to assume that this is a small number. Even if we assume that the shoppers displaced onto alternative modes is around 20 per cent, this will still leave us with around 250,000 shoppers per month displaced out of central London by the closure of the Central Line.

A study of town centres for TfL in 2000 found that the average expenditure per trip in town centres was £39 for shoppers arriving by car, £27 for those arriving by train or underground and £24 for bus users[7]. This means that the spending effect of 250,000 tube-borne shoppers displaced from central London is around £7 million per month

6. The potential impact of congestion charging

The congestion charging scheme will have both positive and negative impacts on the retail sector of central London. Associated improvements in public transport will – once they come on stream – attract more shoppers to this area. Reductions in traffic and congestion encourage shoppers and retail spend. However, previous car borne shoppers that do not transfer modes or change their time of journeys will still shop, but do so outside the zone.

The proportion of people that go shopping in central London by car is likely to be very small. Transport for London's cordon surveys have shown a reduction in cars entering the charging zone during charging hours – from 195,000 in Spring 2002 before charging to 135,000 in Spring 2003 after charging. Of the 60,000 daily reduction, most are switching to other modes (tube, buses, taxis, scooters and bicycles) or diverting around the zone; but a small number – approximately 2,000-4,000 inbound car movements – are judged to be deterred trips, ie trips with a destination inside the

[7] TfL (2000), Town centres survey

congestion charging zone that are no longer taking place during the charging period[8].

Some part of these journeys will be temporally displaced onto other times, ie evenings and weekends, when the congestion charge does not apply. The rest will be geographically displaced, ie will stop entering the zone. Since no information yet exists on what proportion will be temporally as opposed to geographically displaced, the most neutral assumption is that around half will be temporally and half geographically displaced. So, around 1,000-2,000 net car journeys might be displaced per day from the congestion charging zone to other areas within London. This represents 1,500-3,000 travellers on the assumption of around 1.5 people on average per car trip.

The London Annual Travel Survey (LATS) 2001 reveals that around 5 per cent of weekday car journeys in central London are for the purpose of shopping. If we adopt the LATS figure of 5 per cent and apply it to the 1,500-3,000 people journeys per day previously undertaken by car that are discouraged by congestion charging we can estimate that approximately 75-150 net shopping journeys within the zone might be discouraged each day by congestion charging.

This might be understating the problem since shopping journeys are non-essential and therefore likely to be more elastic. Nonetheless, it is unlikely that 100 per cent of the deterred journeys are shopping journeys as there are other non-essential journeys with high elasticities (eg entertainment, sport, leisure, personal business). So let us assume that between 5 per cent and 50 per cent of the deterred journeys were shopping journeys. In a month this will amount to around 1,500-30,000 car trips (based on 22 days per month with congestion charging).

Using the average spend per trip figures from the TfL's Town centre survey, this translates into approximately £100,000 to £1 million, which is an order of magnitude smaller than estimate effects of the general economic slowdown, the fall off in tourist numbers and the closure of the Central Line.

Conclusion

The final verdict on the economic impacts of congestion charging must wait until better data is available on the actual performance of retail and other businesses in the charging zone compared to the rest of the country. However, initial indications are that any difficulties being experienced by retailers in central London this Spring are not due to the Charge.

In analysing the causes of these difficulties it is crucial to remember the wider economic context. Businesses across the UK are suffering at present, and the retail sector is particularly hard hit. Hence, if retailers in central London are feeling the pinch it is likely that one major cause is the same as for retailers across the country.

There is evidence to suggest that retailers in central London are affected to a greater extent than in the rest of the UK. The factors most likely to explain this divergence are the decline in overseas tourists and the displacement of shoppers by the Central Line's closure. The estimates of these effects are an order of magnitude bigger than any potential congestion charging effect.

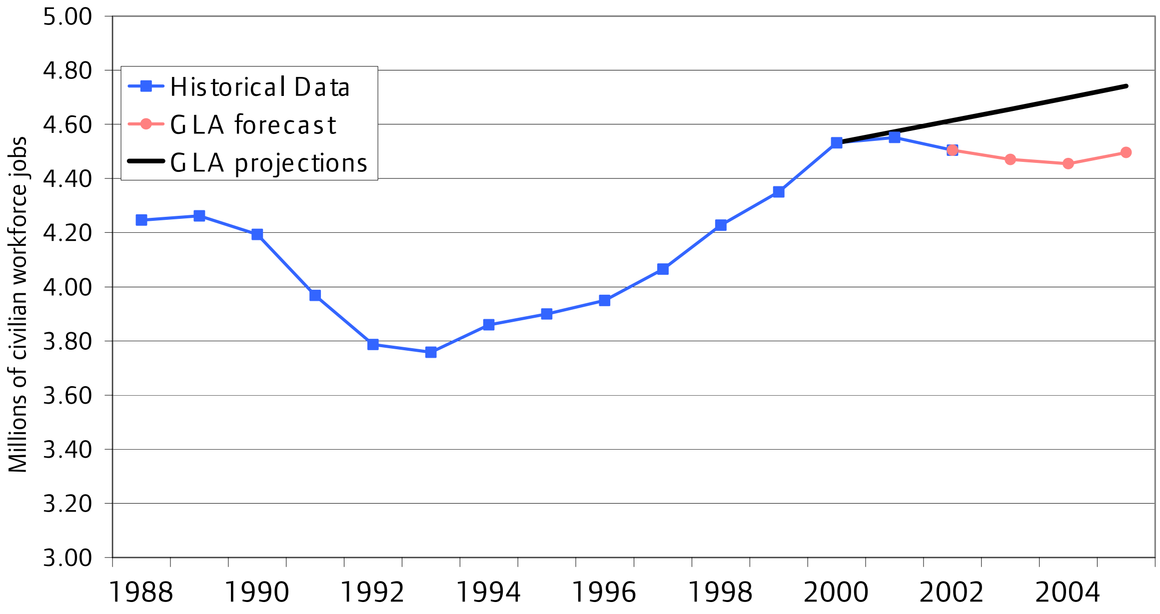
[8] TfL

The latest forecasts for the London economy
by Alan Freeman

Introduction
The GLA's second London economic forecast was published today.[9] Key points are:

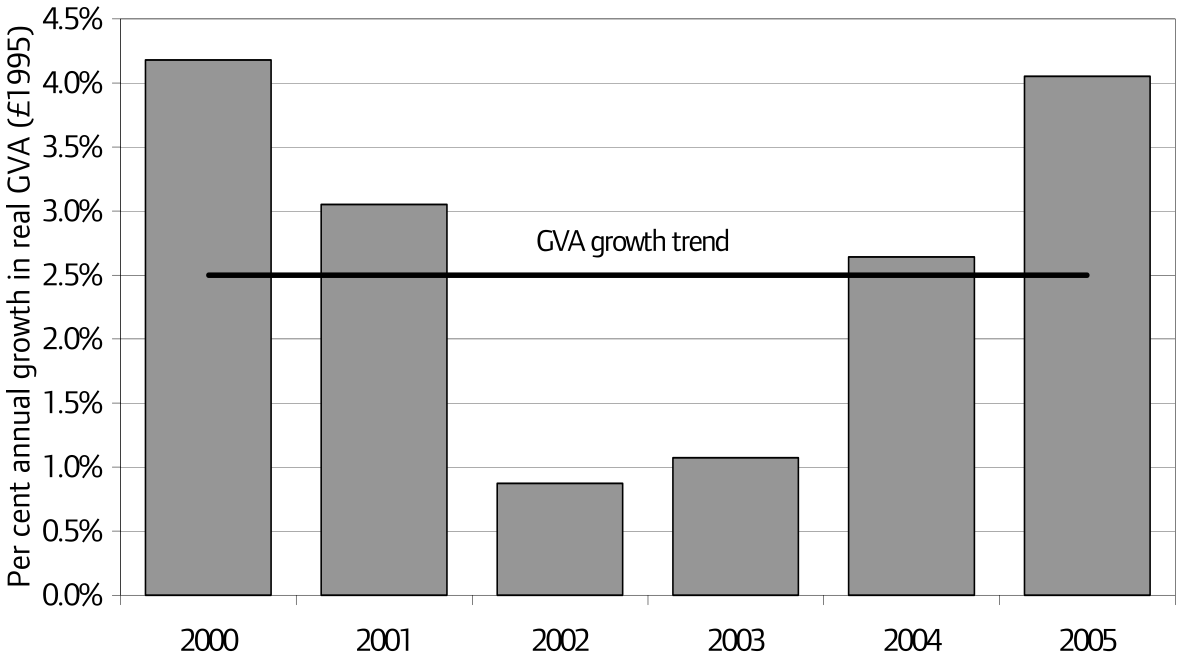
- London's economy has turned the corner, but recovery is expected to take longer than previously anticipated.
- Employment is expected to remain broadly stable at around 4.5 million between now and 2005 (Chart 1) but output will continue growing.
- Growth is likely to stay below trend for the second year in 2003, rising in 2004 and rising again in 2005 to an above-trend rate.
- The recent downturn should be considerably shallower than the severe recession of 1989-92 in which 500,000 jobs were lost.
- However, the downturn is expected to last longer than foreseen in the GLA's January 2003 forecast, which anticipated positive growth in employment from this year.
- The forecast concludes that London's strong service sector growth is set to continue, especially in finance and business services, and also in transport and communications.

Chart 1: London's jobs



[9] *The Greater London Authority July 2003 medium-term economic planning projections*, GLA Economics report, July 2003

Chart 2: Forecast GVA growth



Jobs and output

Output growth is expected to remain positive but below trend at 1.1 per cent in 2003, rising just above trend to 2.6 per cent next year (Chart 2). Two years of sub-trend growth in 2002 and 2003 should pave the way for above-trend growth without inflation, with a strong surge in 2005 to growth of 4.1 per cent.

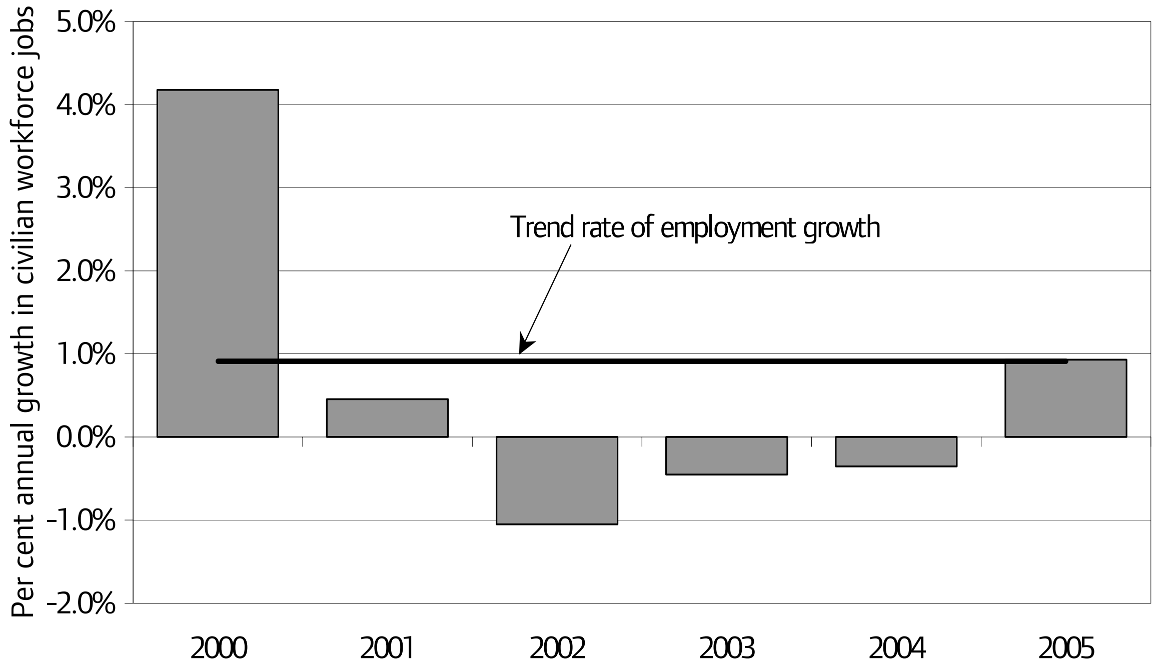
In this projection, this output growth is not expected to lead to an immediate growth in jobs because employers have been hoarding labour which they will be able to employ more intensively to supply the additional output. This cushioned London against high job losses during the recent downturn, but as output rises in the upturn, the same effect is expected to dampen employment growth. An upside risk to the forecast is that employment picks up more quickly.

The labour market is basically stable with growth in employment just dipping below zero in 2003 and 2004, and with positive growth in 2005 (Chart 3). Only 47,000 London jobs were lost in 2002 and this rate of decline is expected to lessen, with a further 23,000 jobs lost in 2003 and 4,000 in 2004, offset in 2005 by job gains of 42,000. As a consequence of population growth, unemployment will probably rise through to 2005.

Structural shifts towards the service industries that have dominated London's changing economy, above all the strong growth in finance and business, are expected to continue with 5.4 per cent output growth in 2005. Transport and communications is forecast to grow by 6.0 per cent.

Manufacturing, which saw a 3.2 per cent decline in 2002, is forecast to bottom out, registering slow growth of 0.8 per cent, 2.2 per cent and 1.5 per cent per year in 2003 through 2005. The depressive effects of the Iraq war and the world economy show up most clearly in an expected zero growth for distribution, hotels and catering in 2003 followed by growth of only 0.8 per cent in 2004. A stronger bounceback is expected in 2005 when growth of 3.2 per cent is predicted.

Chart 3: Forecast job growth



How does it compare?
This forecast is more cautious than the GLA's January 2003 forecast. It anticipates a longer process of upturn as a result of slower growth in the UK and world economies.

In the GLA's January forecast, the UK economy was expected to grow by 2.4 per cent in 2004 and 3.2 per cent in 2005. Now we assume UK GDP growth in these years of 1.9 per cent and 2.5 per cent respectively.

Moreover data revisions for 2001 and 2002 have shown that growth in these years was lower than previously thought.

This forecast is also more cautious for 2003 than the London consensus, which predicted year 2003 job growth of 0.4 per cent compared with the GLA's -0.5 per cent.

GVA growth in the consensus, at 1.8 per cent, is also higher than the GLA's prediction of 1.1 per cent.[10]

The forecast envisions a return, by 2005, to the situation seen throughout the second part of the 1990s when the growth of London's jobs and output outpaced that of the UK. In 2005, London growth of 4.0 per cent is expected to outstrip UK growth of 3.3 per cent.

Box 1: The forecast – what it is and where you can find it
This is the GLA's second forecast. The forecast appears every six months and offer GLA Economics' likely view on the medium-term outlook for London's economy. It uses the EBS regional model to provide London projections consistent with a UK view.

The GLA forecast is used as the basis for planning decisions made by the GLA group.

The forecast will alternate with the consensus forecast in which GLA Economics reviews the forecasts for London supplied by independent providers.

You can find it on the GLA internet at http://www.london.gov.uk/mayor/economic_unit/index.jsp.

Printed copies are also available: Email glaeconomics@london.gov.uk or call 020 7983 4922.

[10] *Review of Independent Forecasts,* GLA Economics, July 2003

Most significantly, in line with what has happened so far, there is no indication of a downturn on the scale of the early nineties, as Chart 1 shows.

The early nineties saw three years of declining output and the loss of 500,000 jobs, which were not restored until 1998. In contrast, growth is now expected to stay positive throughout the forecast period, with a total loss of no more than 77,000 jobs, most of which will be recouped by 2005.

Box 2: How the forecast works
The GLA's 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 and the Treasury's review of independent forecasts of the UK economy (the consensus forecast). Employment is assumed to vary cyclically, returning to trend in 2010. The national and international contexts determine the short-run forecast deviation of London's employment and output from the long-term trend

This ensures that the GLA group's medium-term plans are consistent with its long-term strategies. The forecast also offers a check on the validity of the long-term projections; if these were unsupported by actual output and employment, this would show up in the form of improbably large deviations from trend. Table 1 shows how the UK output assumptions adopted by the GLA are related to those of the Treasury and its review of independent forecasters.

Table 1: Assumptions about UK annual GVA growth rates

	2002	2003	2004	2005
GLA	**1.3**	**1.9**	**2.6**	**3.3**
Consensus	**1.3**	**1.9**	**2.6**	2.6
Treasury	1.3	2.2	3.3	**3.3**

Data sources

Tube Ridership	Further information: contact Transport for London on 020 7941 4500
FTSE 100 Index	Further information: see www.ft.com or the daily Financial Times
Brent Crude oil	Further information: see www.ft.com or the daily Financial Times
Office Space Demand	Further information: see www.cbhillierparker.com
House Prices	Nationwide house price data from www.nationwide.co.uk/hpi/ Land Registry data from http://www.landreg.gov.uk Royal Institute of Chartered Surveyors
Consumer Confidence	Further information: see www.martinhamblin.co.uk
Average earnings	Data available from www.statistics.gov.uk
Retail Price Index	Data available from www.statistics.gov.uk
MEW	Data available from www.bankofengland.co.uk
Retail Sales	Data available from www.statistics.gov.uk/rsi
Unemployment rates	Data available from www.statistics.gov.uk
GDP/GVA Growth	Data available from Experian Business Strategies on 020 7630 5959
Balance of Trade	Data available from www.statistics.gov.uk
Index of Production	Data available from www.statistics.gov.uk
Manufacturing Expectations	Further information see www.cbi.org.uk
Services Sector	Data available from www.cips.org
Profitability	Data available from www.statistics.gov.uk
Tourism - Overseas Visitors	Data available from www.statistics.gov.uk
Tourism - Domestic Visitors	Data available from www.londontouristboard.com
London Airports	Data available from www.caa.co.uk
New orders	Data available from **www.rbs.co.uk/pmireports**

Abbreviations

BAA	British Airways Authority
CC	British Chamber of Commerce
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CIPS	The Chartered Institute of Purchasing and Supply
CML	Council of Mortgage Lenders
EBS	Experian Business Strategies
EMU	Economic and Monetary Union
FTSE 100	Financial Times Stock Exchange 100 index of stocks traded on the London Stock Exchange
GDP	Gross Domestic Product
GVA	Gross Value Added
ILO	International Labour Organisation
IPS	International Passengers Survey
LCC	London Chamber of Commerce
MEW	Mortgage Equity Withdrawal
ONS	Office of National Statistics
PMI	Purchasing Managers Index
RICS	Royal Institute of Chartered Surveyors
RPI	Retail Price Index

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5	Emerging trends in employment in London, 2000-2001
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	Transport trends for London
8	Contribution of open green spaces to London's economy
	Why are Londoners spending more than the average Briton?
9	Tourism and the London Economy
10	The UK and Economic and Monetary Union

GLA Economics welcomes a new Senior Economist

Christopher Lewis joins GLA Economics from London Economics where he was a senior economic consultant. Previously, Christopher worked as an economist at the Bank of England and in the Government Economic Service (GES) at the Health and Safety Executive (HSE). At the Bank of England he co-authored reports on the financing of small firms. Christopher's experience also includes surveillance work covering the economies of various emerging market countries as well as the UK. Christopher has an MA in Economics from the University of Kansas, US.

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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 ফোন্ 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 اِس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہِ کرم نیچے دیئے گئے نمبر پر فون کریں یا دیئے گئے پتے 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 او الكتابة الى العنوان

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઇતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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