

London's Economy Today



Issue 15 | November 2003

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Up, up and away?

by Duncan Melville

Last month's major economic event was the Bank of England's decision to raise interest rates by a ¼ of a percentage point to 3¾%. The Bank's Monetary Policy Committee (MPC) cited the failure of household spending and the housing market to slow by as much as it had previously expected as reasons behind its decision. So it is timely that this month's supplement looks at retailing in London – a sector that has been only too pleased to take all that money off UK consumers.

The global recovery is strengthening

The MPC also noted that the 'global economic recovery appears to be gathering momentum'. This is especially so in the United States. Third-quarter growth in the US was 1.7% (or 7.2% on an annualised basis, which is how the Americans report it). This rate has been recorded only once before in the last 15 years. US private sector investment increased by 3.3% in the third quarter, the strongest quarterly rise for more than five years. In October alone, US employment rose by 126,000 and this job growth augurs well for future consumption growth. While it is difficult to believe the US will continue to grow at such a high rate in coming quarters, tax cuts and very low interest rates are likely to keep the US economy growing at a healthy pace.

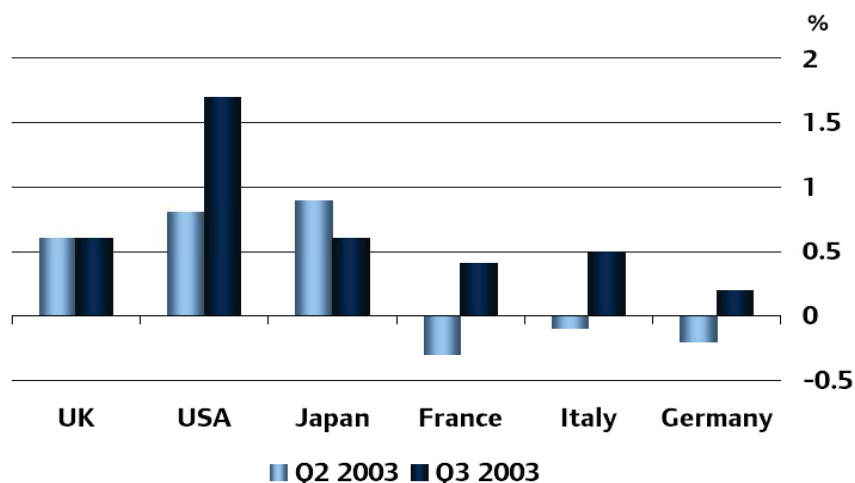
There are finally signs of movement in the Euro Area too. France, Germany and Italy all recorded positive growth in the third quarter of this year, a welcome reversal

GLAECONOMICS

Latest news...

● **Introducing a new-look LET:** *London's Economy Today* has a new format and a new publishing date, following feedback from a recent readership survey. Keep an eye out for it on the third Thursday of each month, and email your comments to glaeconomics@london.gov.uk ● **Working Paper 5: Submission to the Allsopp Review:** Better measures of regional output are the focus of the GLA's submission to the Government's review of statistical requirements for monetary and economic policymaking. The working paper can be found on the GLA Economics internet pages. ● **New Senior Economist:** GLA Economics welcomes Matthew Waite from the Competition Commission.

Chart 1. Quarterly GDP growth
Source: OECD



of the negative growth they all recorded in the second quarter (Chart 1). More forward-looking indicators such as Euro-wide consumer and business confidence have strengthened, and German business confidence has now been rising for six months. Finally, Japan recorded its seventh consecutive quarter of positive economic growth.

UK growth pause is over

The first estimate of UK GDP growth in the third quarter showed an increase of 0.6%, the same as the second quarter of this year. This suggests the growth pause seen by the UK in the first quarter of this year is over. Retail sales growth in the three months to September was also strong at 1.2%, well up on early 2003. In response to this economic momentum, the Bank of England increased the base rate to 3¾%. The financial markets now expect the base rate to reach 5% by early 2005. However, some economists have suggested that high levels of personal debt may make consumer expenditure particularly responsive to changes in interest rates so the base rate only has to rise to around 4% to cool the economy down.

What impact would increased interest rates have? The Nationwide Building Society calculated that the average homeowner currently spends around 27% of their take-home pay on mortgage payments. This proportion would rise to 29% with a base rate of 4% and 32% with a base rate of 5%. In the early 1990s, this proportion reached 38%.

So while higher interest rates will dampen the housing market and consumer spending (which is what higher interest rates are meant to do after all) they will not lead to anything approaching an early 1990s style housing market slump. The crash of the early 1990s resulted from a combination of interest rates above 10% and high levels of unemployment. Today unemployment rates in London and the UK are well below early 1990s levels and the base rate, even at 5%, would still be low by historic standards.

London is benefiting from this more benign economic environment

London's economy is also showing signs of improvement. Between mid-September and mid-October, the number of passengers on the tube was up by 3% on a year before, the first positive annual increase since late

May to late June. For most of this year, annual growth in tube passengers has been negative while the number of bus passengers has been growing strongly. This suggests people have been switching from the tube to buses. However, between September and October, the number of bus passengers also continued to grow strongly, suggesting that total transport trips in London – and consequently economic activity – have been increasing significantly in this time. Consistent with this, the Purchasing Managers Index (PMI) measure of business activity in London has increased rapidly in recent months, reaching 62 in October – well above 50, which is the level consistent with stable business activity.

The London tourism sector also appeared to continue its recovery from the difficulties encountered in early 2003. In the three months to September, overseas visitors to the UK increased by 6% on the previous three months. Over the same period, overseas visitor spending was up 10%. Passenger numbers at London's three major airports (Gatwick, Heathrow and Stansted) were up by 1.7% in September 2003 on September 2002. The British Incoming Tour Operators Association reported an annual increase in arrivals of 3.5% in September 2003, with forward bookings up by 1.7%.

This improvement in the London economy appears to be feeding through into the labour market. The number of Londoners in work increased by 37,000 between April–June and July–September this year.

The recovery is strengthening

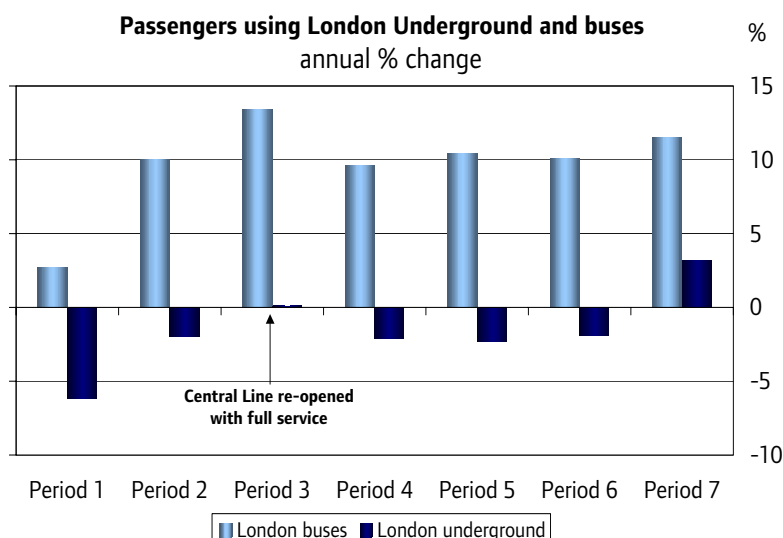
The economic recovery, both globally and in the UK, appears to be gaining momentum. Growth in the US is particularly strong and continental Europe finally appears to be showing signs of economic expansion with positive growth in Germany, France and Italy in the third quarter of this year. London's economy is also moving ahead in this improved economic environment, with a rapid increase in business activity.

Tube passengers increase

- Passenger numbers on the tube increased this month for the first time since the Central Line returned to full service. Tube ridership increased by 3.2% in period 7 (14 September to 11 October) compared with the previous year.
- Bus use continued to increase sharply, up by 11.5% on the previous year.
- This continued strong annual growth in tube and bus use reinforces the positive outlook for London's economy.

Latest release: 12/11/03

Next release: December 2003



Source: Transport for London

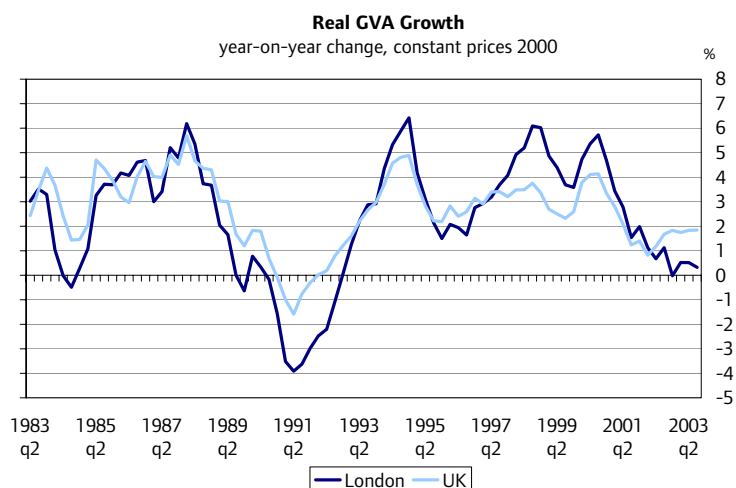
Slow but steady growth for London

- London's economy continued to show slow, but positive annual growth in Q3. Estimates show the UK economy recovered more in Q3 compared to London.
- The Latest ONS figures for Q3 indicate that UK GDP grew by 0.6% from the previous quarter. Annual GDP growth stands at 1.9% in Q3, just down from 2.0% in Q2.

Note: The most recent EBS estimates for London GVA include changes due to the adoption of chain linking and rebasing the UK figures to 2000 prices

Latest release: 30/09/03

Next release: 24/10/03



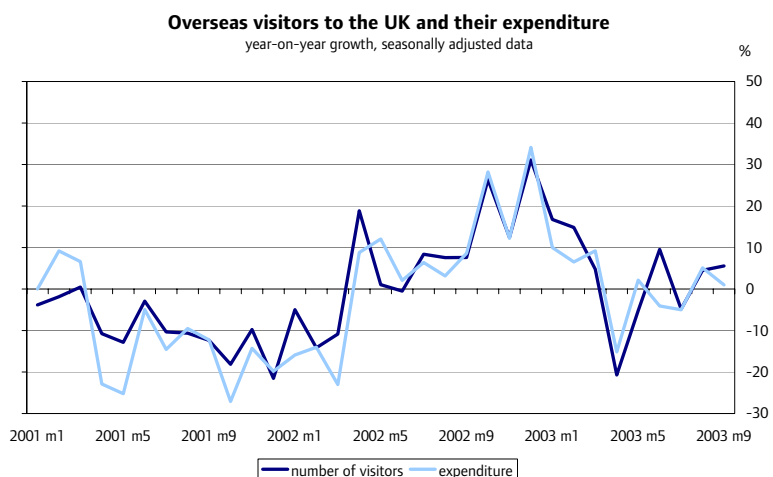
Source: ONS and EBS

More overseas visitors

- Tourism continued to recover in September, with more people from overseas visiting the UK.
- The number of overseas visitors increased by 0.5% from August, the third successive monthly increase. However, growth has not yet recovered to levels seen earlier this year.
- The amount spent by overseas visitors in the UK declined in September by 0.9%, but annual growth remains positive.

Latest release: 6/11/03

Next release: 5/12/03



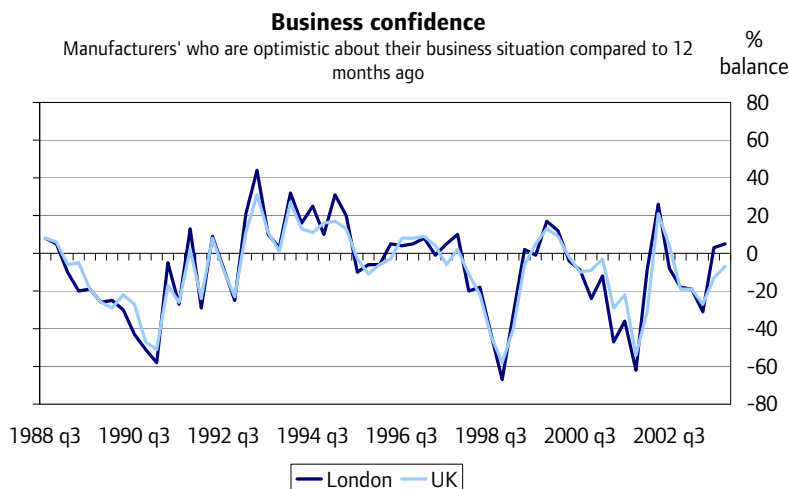
Source: ONS

Greater business confidence

- London received a boost in business confidence among manufacturers in Q3.
- The balance of manufacturers reporting their situation as optimistic, compared to those that are not, was positive for the first time since the end of 2001.
- Across the UK, manufacturers continue to feel more pessimistic than optimistic. They also remain less optimistic about their business situation than their London counterparts.

Latest release: 11/11/03

Next release: February 2004



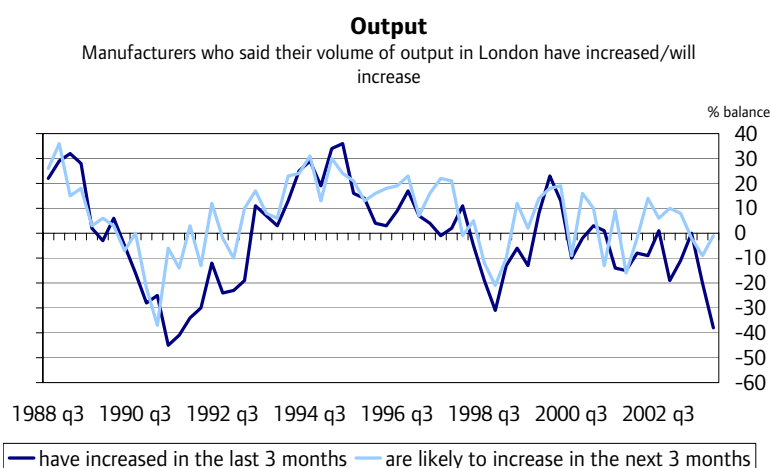
Source: CBI/Regional Trends

Mixed views for London manufacturers

- The latest CBI/Regional Trend survey indicates that manufacturers are more optimistic about the next three months than they have been recently.
- However, the backward looking output indicator shows a mixed picture, particularly among London manufacturers. The number of manufacturers that did not expand output in the past three months outnumbered those that increased output.

Latest release: 11/11/03

Next release: February 2004



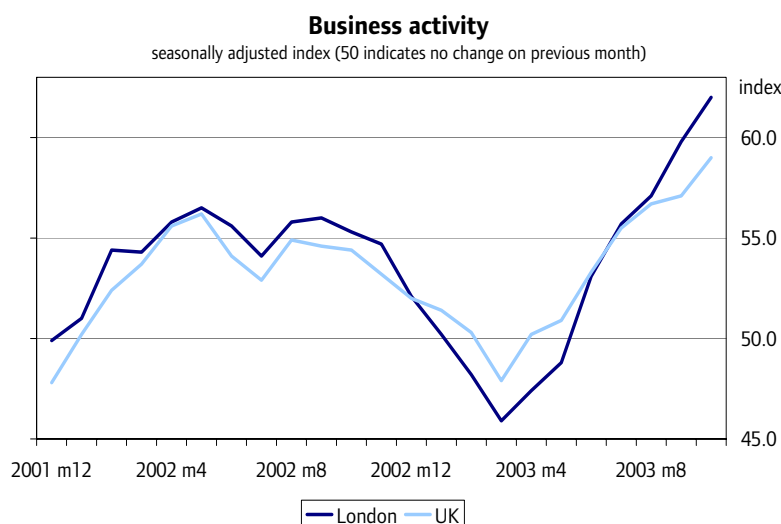
Source: CBI/Regional Trends

Business activity

- The Purchasing Managers Index (PMI) business survey data supports the improving outlook for London's economy. Business activity continued to increase in October, especially in London.
- This is the first time since June that the index has reached 62, which is well above 50 which indicates stable activity.
- Furthermore, London companies increased their business activity significantly more than UK companies in the past three months.

Latest release: 10/11/03

Next release: 8/12/03

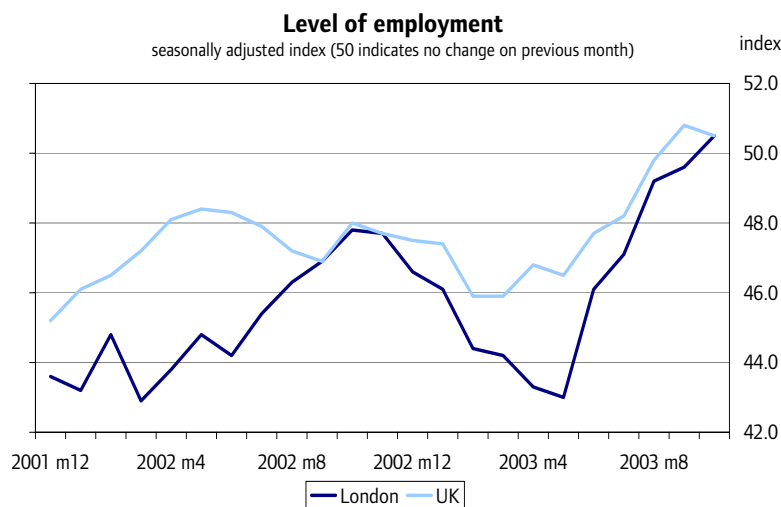


Source: PMI/Royal Bank of Scotland

Employment expands

- In recent months, improved business sentiment has helped UK companies to expand employment. This is the first time since 2001 that this index is above 50, indicating increased employment.
- Following the war in Iraq, this index has been increasing strongly for London companies, who started expanding their workforces in October.

Latest release: 10/11/03
Next release: 8/12/03

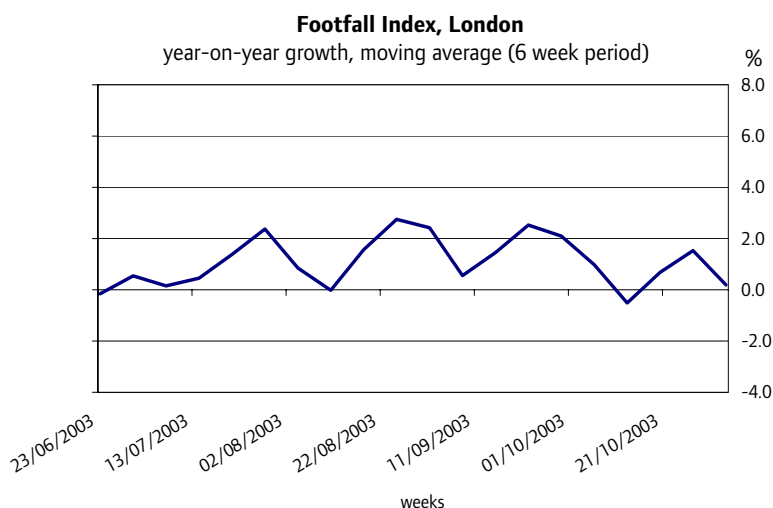


Source: PMI/Royal Bank of Scotland

FootFall slows but is still higher than last year

- The FootFall Index slowed in the past three weeks, which may suggest retail expenditure in London has slowed down.
- However, the number of potential shoppers in London in early November remains above figures seen in the first week of November in 2002.
- The growth in consumer spending is expected to slow once the effect of the increase in interest rates starts to feed through.

Latest release: first week of November 2003
Next release: mid-November

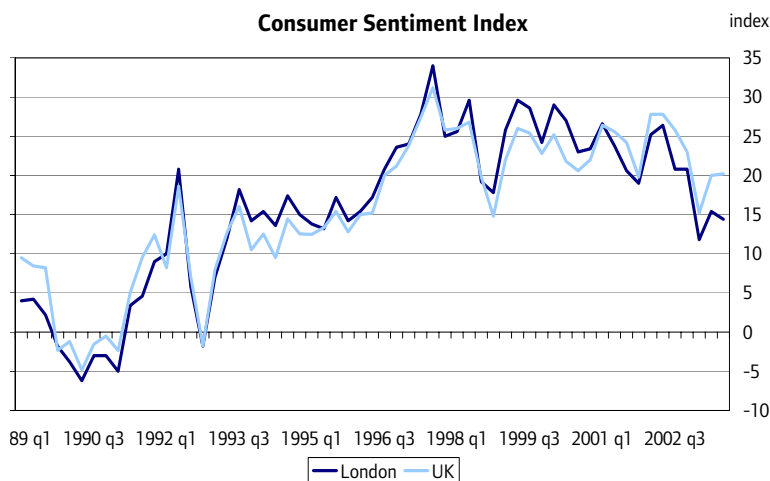


Source: FootFall Limited

Consumer confidence slows

- Consumer confidence in London weakened further in Q3 compared with the previous quarter. While consumer confidence has been deteriorating since the beginning of this year, the balance remains positive.
- UK consumer confidence has rebounded recently. Moreover, UK consumers are more optimistic than Londoners.
- Londoners feel more pessimistic about their future financial position in Q3 compared to Q2 (not shown in this chart).

Latest release: 15/10/03
Next release: January 2004



Source: Martin Hamblin GfK

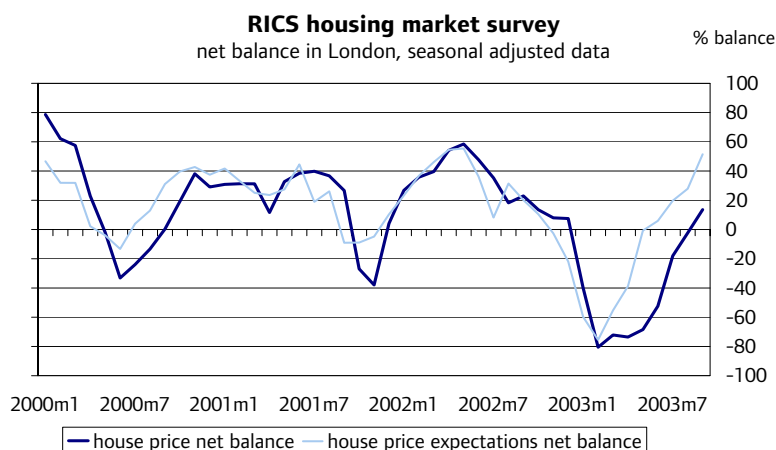
London house prices

- The London housing market showed a firm recovery in October. For the second month, the net balance in house prices was positive – more surveyors reported increases rather than decreases in prices. Moreover, the net balance more than doubled from 14% to 38% between September and October.
- Surveyors believe this recovery will continue in the next three months. The net balance of price expectations increased in October, though less rapidly than in past months.

Note: these balances came out before the interest rate increase on 6 November.

Latest release: 18/11/03

Next release: 16/12/03



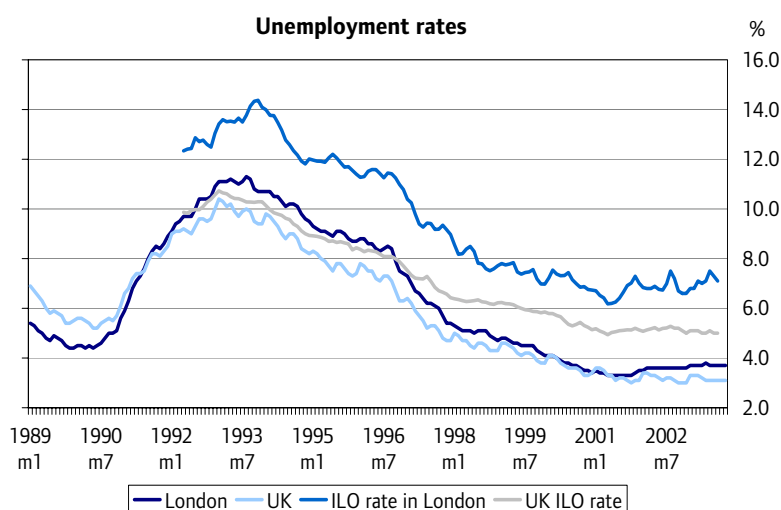
Source: RICS

Stable labour markets

- Labour markets remained stable in the UK and London in October. The UK and London claimant count rates were unchanged at 3.1 and 3.7% respectively from September.
- The UK ILO unemployment rate stayed at 5%. The London ILO unemployment rate was down 0.2 percentage points to 7.1% compared to the previous three months.

Latest release: 12/11/03

Next release: 17/12/03



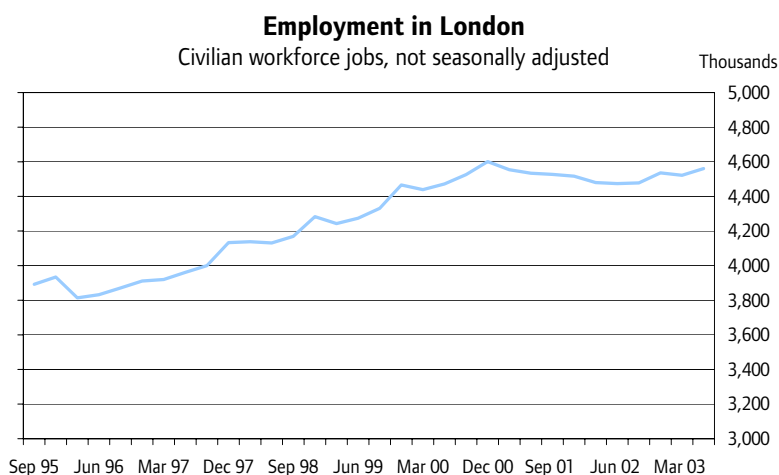
Source: ONS

Jobs in London

- Total employment in London rose by 88,000 in June from the previous year, to 4.561 million. This figure is only available every quarter, so it has not been updated since the last issue.
- Of all UK regions, London experienced the highest annual growth in employment in June. More than two-thirds of the new jobs went to men.

Latest release: 12/11/03

Next release: January 2004



Source: ONS

Retail employment in London

by Damian Walne

- The retail sector is evolving with increased consolidation, competition and choices for consumers.
- London's retail sector has 380,000 employee jobs and represents a tenth of the capital's jobs
- The composition of retail in London is similar to elsewhere in Britain, but contains slightly more clothing and department stores and fewer supermarkets.
- Retail is projected to continue to grow in London but at a relatively slow rate. However, the nature of retail employment is changing.

GLA Economics is starting a major research project into London's retail sector in early 2004, recognising and understanding the importance of the sector in the economy of London. This supplement provides some initial findings by looking at employment in London's retail sector. It also complements recent research into sectors such as leisure, manufacturing and the creative industries.

The context for retail

In October, the British Retail Consortium launched the new London Retail Consortium, to communicate the nature and importance of London's retail sector and to represent the views of London's retailers on issues such as transport, tourism, planning and policing.¹

The Department of Trade and Industry recently sponsored a report by the Institute for Retail Studies to provide a competitive analysis of Britain's retail sector.² The report identifies retail as one of the country's major economic sectors with national retail sales of £220 billion and three million employees in over 300,000 shops. Retail also has social dimension – it directly affects most of the population every day and serves local people in their local areas. As a result, the quality of retail has both economic and social importance.

Long-term structural trends have favoured the growth of retail. As prosperity and income grows, consumers can spend more on goods and leisure. However, retail is changing visibly, and the drivers of this change are:

- economic trends, with increased concentration of the retail market among fewer major companies
- social and demographic change, as consumers require a wider range of choice in products and service
- technological progress, with innovation in products and process
- political choices for land-use planning and transport.

London's retail must compete and develop in the context of these changes. This supplement explores past performance and emerging trends of retail jobs in London and how they differ from the rest of Britain.

London's retail sector

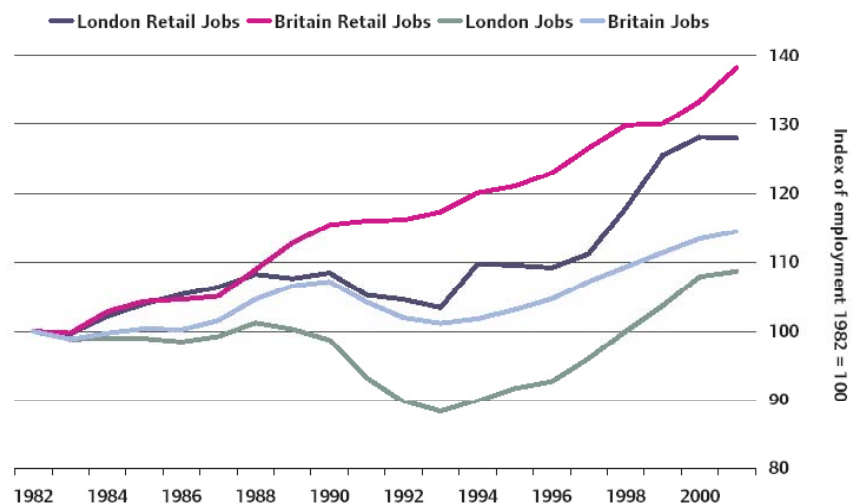
In 2001, London had 380,000 retail jobs, 9.5% of London's 4 million employee jobs, and 13.5% of all retail jobs in Britain. In London, retail employs more people than financial services, transport or manufacturing.

London has experienced sustained growth in retail employment. In 1982, there were around 290,000 employees, increasing by almost 30% by 2001. The number of jobs increased steadily throughout the 1980s, followed by a small contraction in the recession years of 1991 to 1993 and then high growth rates since the mid 1990s.

The pattern of London's retail jobs compares favourably with the London economy as a whole. Over 1982 to 2001, employment in London increased by 9%. Retail's total share of employee jobs has risen but has generally remained in the range of 8.0 to 9.5% of total employment. However, the pace of retail jobs growth has been slower in London than across Britain. Over 1982 to 2001, retail jobs grew 38% in Britain while London's share of the nation's retail jobs has fallen slightly.

Chart 1: The growth of retail, 1982-2001

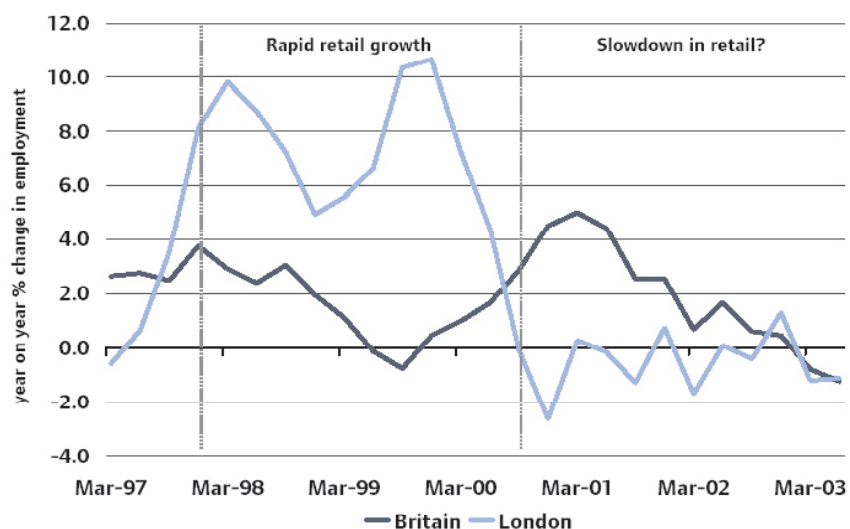
Source: Experian Business Strategies



The most recent short-term data indicates what has been happening over the past few years. Between mid-1997 and mid-2000, retail employment in London grew at a rapid rate, peaking at almost 11% annual growth in the latter half of 1999. Since 2000, growth has slowed markedly and has hovered around zero change. This reflects a slowdown in the rate of growth of consumer spending in London.

Chart 2: Recent trends in retail

Source: ONS Short-term Employer Survey



Is London's retail different?

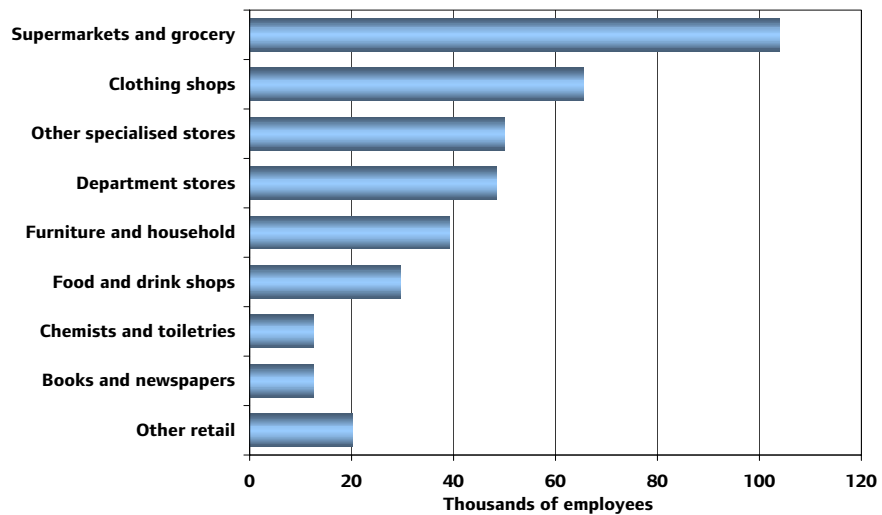
GLA Economics research into sectors such as manufacturing³ and leisure⁴ has shown that their characteristics in London are very different from Britain as a whole in terms of their sub-sectors and the occupations of their employees. This is not the case for retail where the pattern in London largely mirrors the rest of the country.

Retail in London is dispersed across a number of activities. The largest is non-specialised food stores, such as supermarkets and grocery stores, which have over 100,000 jobs. This is almost 27% of all London's retail jobs. Across Britain supermarkets and grocery stores provide 33% of retail jobs.

The second largest retail activity is clothes shops, which have 66,000 jobs or 17% of London's retail jobs compared to 14% nationally. Similarly, non-specialist non-food stores, such as department stores, are highly represented in London with 48,000 jobs or almost 13% of retail jobs compared to 11% nationally. Among other retail groups, the share of employment is similar to the national share – in London specialist stores provide 55,000 jobs, furniture and household goods provide 39,000 jobs, and food and drink shops provide 30,000 jobs.

Chart 3: What does London's retail look like?

Source: ONS Annual Business Inquiry



The occupational structure of retail in London is also similar to retail nationally. The largest group by far is sales and customer service occupations with 43% of all retail jobs, compared to 45% of retail jobs nationally. Arguably, London has a role as a centre for the administration of retail companies. The combined share of managerial and secretarial occupations is 28% of retail employment compared to 25% nationally.

Chart 4. How London's retail is different from the rest of Britain

Source: ONS Annual Business Inquiry, Labour Force Survey



However, the composition of retail employment is very different in terms of the share of male or female jobs and part-time or full-time jobs. In London, most retail jobs are full time and men are more likely to work in retail in London than in other parts of Britain. The share of retail jobs taken by women working part-time is 31% in London. This contrasts with the share for Britain where 44% of retail jobs are women working part time. Over 29% of retail jobs in London are men working full time, compared with 23% across Britain.

The average gross wage for retail sales assistants in London is £6.70 per hour, higher than the national average for retail sales assistants of £6.20.⁵ This 8% pay differential in retail is considerably lower than the overall pay differential between London and the rest of the country. For some retail occupations, such as shelf fillers, research shows that the average wage is less in London than nationally.⁶

The future for London's retail

In London in recent years there has been a rising share of retail jobs in supermarkets and a notably diminishing share in department stores, chemists and bookshops. Moreover, the recent growth in retail employment has mostly generated jobs for men, many working full time. This questions many of the established perceptions of retail as a sector consisting of part-time jobs taken mostly by women.

This shows that retail in London is a sector where the nature of employment is changing. The shift towards male full-time employment may be partly because of overall lower employment rates among women in London,

The employment projections developed for the Mayor's London Plan anticipate total retail employment in London will grow by 2.5% between 2001 and 2016.⁷ This is slower than the projected overall jobs growth of more than 14%. Retail should continue to represent about 8% of London's jobs over the next decade.

The retail sector has an important role to play in meeting the challenges of London's growing and increasingly diverse workforce. Retail is particularly strong in generating entry-level positions for people returning to or entering employment,⁸ but it also requires an increasing range of managerial and professional skills.

¹ British Retail Consortium (October 2003), *Action for retail in London – launch of the LRC*, www.brc.org.uk

² Department of Trade and Industry, Institute for Retail Studies (January 2003), *Competitive Analysis of Retail Sector in the UK*, www.dti.gov.uk/sectors_retail.html

³ GLA Economics (September 2003), *London's Economy Today Issue13*, www.london.gov.uk/mayor/economic_unit/index.jsp

⁴ GLA Economics (due December 2003), *Spending Time: London's Leisure Economy*, www.london.gov.uk/mayor/economic_unit/index.jsp

⁵ ONS New Earnings Survey (2003), www.nomisweb.co.uk

⁶ Income Data Services (January 2003), IDS Report 872, Regional Pay

⁷ Mayor of London (2002), *Planning for London's Growth: Statistical basis for the London Plan*, www.london.gov.uk/mayor/economic_unit/glaepublications.jsp

⁸ Dickens, Gregg and Wadsworth (ed) (2003), *The Labour Market Under New Labour*, Gregg and Wadsworth, *Labour market prospects of less skilled workers*.

Data sources

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

Acronyms

BAA	British Airports Authority
BCC	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

Past supplements

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Glossary

Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count rate

Unemployment rate based on the number of people claiming unemployment benefits.

FootFall Index

Measures the average number of people passing through London shopping centres on a weekly basis. This index is positively correlated with UK retail spending so it can provide an indication of consumer spending in London.

Gross domestic product (GDP)

A measure of the total economic activity in the economy

Gross value added (GVA)

Used in the estimation of the GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

ILO unemployment rate

The International Labour Organisation measure based on the number of people out of work.

Tube ridership

Measures the number of passengers on London Underground.

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