

**GLA**ECONOMICS

# London's Economy Today

Issue 1

September 2002



**MAYOR OF LONDON**

**LONDON**  
DEVELOPMENT  
AGENCY

# London's Economy Today: Edition 1

Bridget Rosewell – Consultant Chief Economist

- Though business surveys suggest a belief that recovery is still around the corner, trends in economic data show the worst may yet be to come
- The prospect of war with Iraq is unsettling markets and will produce a further drop in tourist numbers, which have only just recovered from September 11th falls
- The risk of a more serious downturn in the London economy in 2003 has increased in recent months, but we do not believe that it is the central forecast, which is for continued expansion at a low rate

## Mixed signals in a falling market

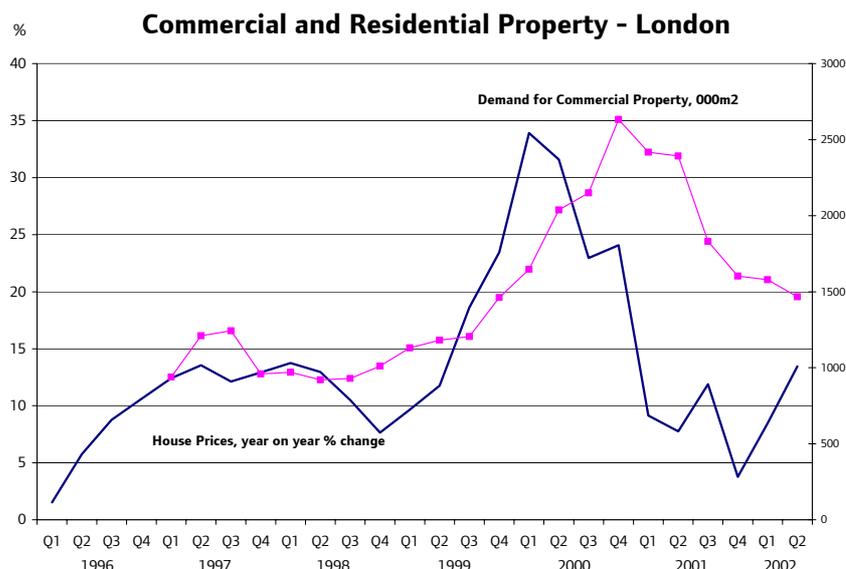
The mix of signals in this uncertain time is well exemplified by the property market. House price inflation, which fell back in the 18 months to mid 2001 has recently accelerated again and currently stands at 13%. On the other hand, the commercial property market has weakened from mid 2000, with rents slackening and demand falling back to the levels of the end of 1999. These differences partly reflect the sectoral position in London, where the City has seen substantial cutbacks as stock markets have fallen and merger and acquisition activity has been cut back.

## Business activity weak but not collapsing

Even so, there is no sign of business collapse.

Tube ridership is slightly down after several years of steady rise but the changes are very small. Tourism has recovered from the downturn after September 11th.

Expectations are reasonably good – both the CBI Survey and the British Chambers of Commerce are still showing optimism about future growth. However, investment expectations are still very weak and getting weaker.



Source: Land Registry & CB Hillier Parker

## Consumers are at the heart of the matter

It is consumer activity that has kept the UK and the London economy going, propelling house prices upwards and keeping shops busy. Whether this will continue is very uncertain, especially when combined with worries about the effect of a possible war on tourism spending. Anecdotal evidence shows that rental costs on houses are already weakening and this may feed through into house prices as well, while High Street spending has wobbled somewhat as well.

Nonetheless, with unemployment low and earnings growth low but steady, there seems to be no reason to expect a significant downturn in the consumer sector unless there is a marked loss of confidence.

## So what next?

Our forecast is for a weak end to 2002 and a slow 2003. In both cases, growth is likely to be under the long run trend. We will remain alert to signs of weakness and to their consequences for unemployment, while recognising that cyclical downturns do not undermine the long term strength of the London economy.

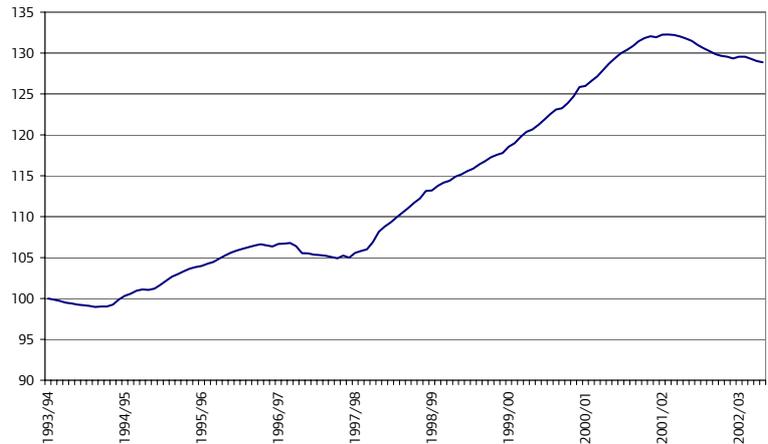
### Tube Usage

Source: Transport for London  
 Latest Release: Tue 17 Sep 2002  
 Next Release: Tue 15 Oct 2002

- Actual passenger journeys have fallen for the four-week period to 17<sup>th</sup> August 2002 in line with the usual summer seasonal trend
- The moving average index trend shown here compensates for seasonal variations and has been broadly stable for the past 6 periods
- The underlying trend in tube usage provides one of the most immediate indicators of the state of the London economy

### London Underground Passenger Journeys

Moving Average Index (Period 1 1993/94 = 100)\*



Source: Transport for London \* The year is subdivided into 13 periods - period 1 commences around the beginning of April

### Office Space Demand

Source: CB Hillier Parker  
 Latest Release: Mon 16 Sep 2002  
 Next Release: Mon 14 Oct 2002

- Demand for Central London office space has been in decline since a peak in December 2000
- The latest data shows that demand fell rather sharply in July 2002
- The 11.4 per cent fall in July represented the fastest single monthly fall since November 2001

### Demand for Central London Office Space



Source: CB Hillier Parker

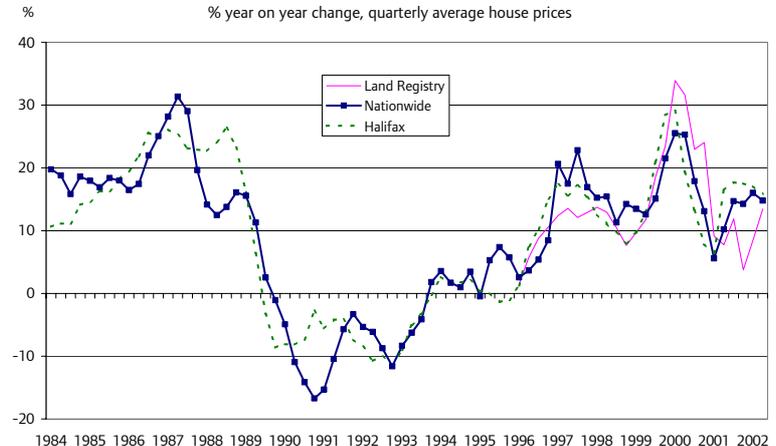
### House Prices

Source: Land Registry, Nationwide, and Halifax  
 Release dates: Various

- House price inflation accelerated during the course of the 1990s reaching a peak in Q1 2000
- Since then growth rates have moderated significantly
- The latest indications from the three sources quoted here, suggest that London house prices are still increasing rapidly, with growth in Q2 2002 somewhere between 13.4 and 15.8 per cent

### House Prices - London

% year on year change, quarterly average house prices

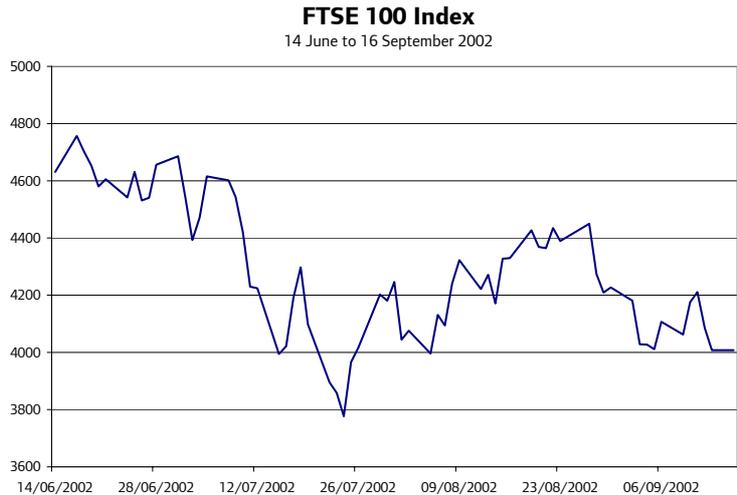


Source: Land Registry, Nationwide, Halifax

### FTSE 100 Index

Source: Financial Times  
 Latest Release: Tue 17 Sep 2002  
 Next Release: Wed 18 Sep 2002

- The FTSE 100 has not yet dipped below the 4,000 mark in September, but the market continues to be volatile
- The FTSE 100 fell to a low on 24 July, but the subsequent recovery peaked on 27 August and the trend since has been mostly downward
- In the United States the S&P 500 index has followed a very similar trend over recent months



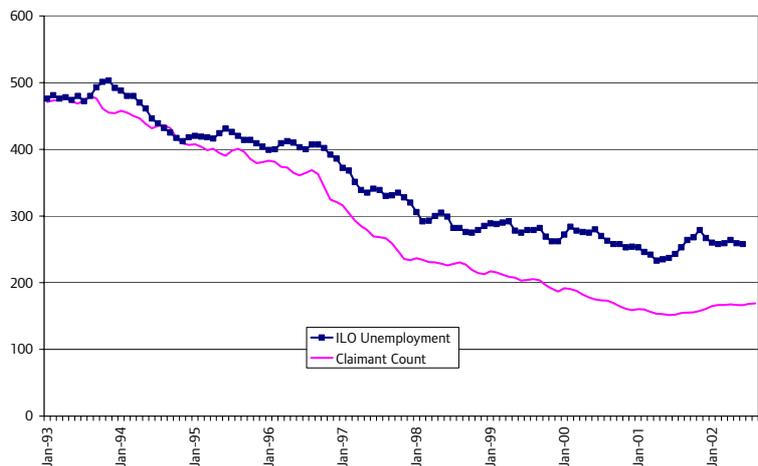
Source: Financial Times

### Unemployment

Source: Labour Force Survey, ONS  
 Latest Release: Wed 11 Sep 2002  
 Next Release: Wed 16 Oct 2002

- London ILO unemployment (the internationally agreed measure) remains broadly stable, continuing the trend of 2002
- The London ILO unemployment rate stands at 6.7 per cent compared to 5.2 per cent for the UK as a whole
- The London claimant count, the monthly count of those claiming unemployment-related benefits, shows a very modest increase in August, continuing the drift upwards

Unemployment and Claimant Count - London



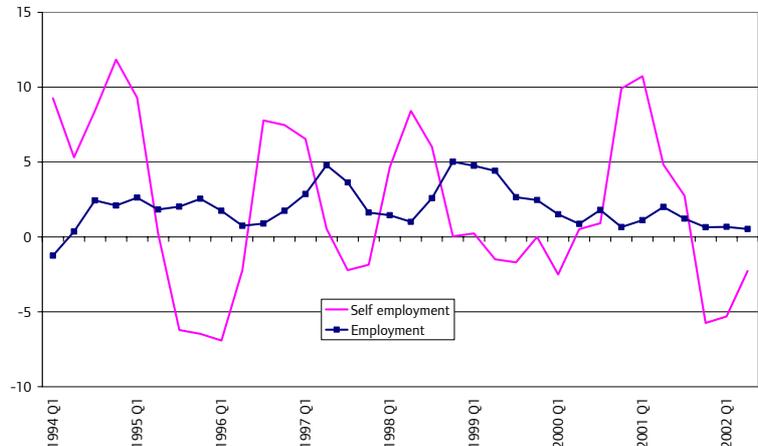
Source: ONS, Labour Force Survey

### Employment

Source: Labour Force Survey, ONS  
 Latest Release: Wed 11 Sep 2002  
 Next Release: Wed 16 Oct 2002

- Employment in London for the second quarter of 2002 stood at 3.57 million
- Employment growth over the past three quarters has been very steady, as has the employment rate
- Self-employment is currently falling, though in general it is liable to fluctuate considerably – in Q2 2002 it stood at 481,000

Employment and Self-Employment - London  
 % year on year change, employed and self-employed

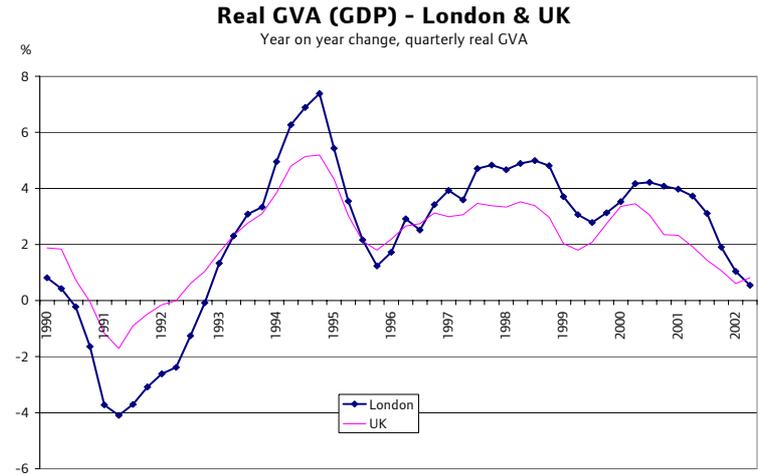


Source: ONS, Labour Force Survey

### GDP/GVA Growth

Source: Experian Business Strategies  
 Latest Release: Tue 17 Sep 2002  
 Next Release: Tue 19 Nov 2002

- For the eighth consecutive quarter London's real GVA growth has slowed compared to the same quarter in the previous year
- Since 1996 London GVA growth has exceeded the UK average, in 2002 London growth has fallen marginally behind
- Estimates Q2 2002 suggest that London GVA (Gross Value Added) mounted a modest revival compared to a slight decline in Q1 2002

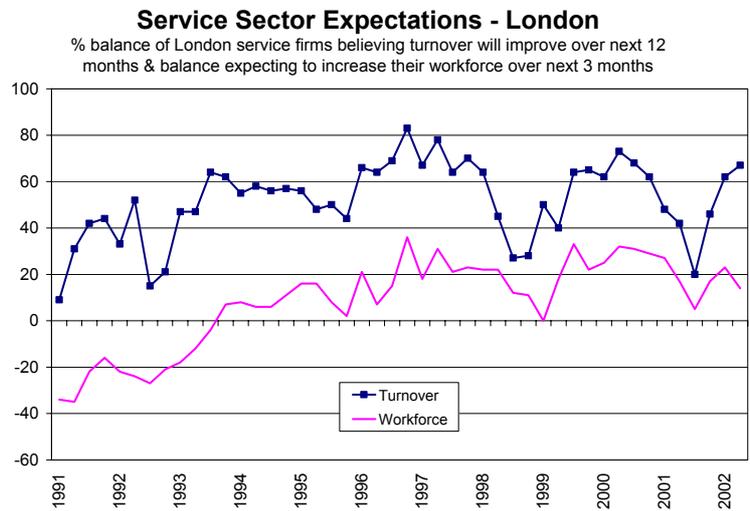


Source: Experian Business Strategies

### Service Sector Expectations

Source: BCC Survey  
 Latest Release: Thu 18 Jul 2002  
 Next Release: Fri 18 Oct 2002

- London's service sector firms are highly optimistic about their turnover prospects over the next 12 months
- In the second quarter of 2002, a balance of 67% of service sector firms believed their turnover will improve over the next 12 months
- These firms are rather less optimistic about workforce prospects for the coming 3 months, with a balance of only 14% expecting to increase their workforce, fewer than in Q1 2002

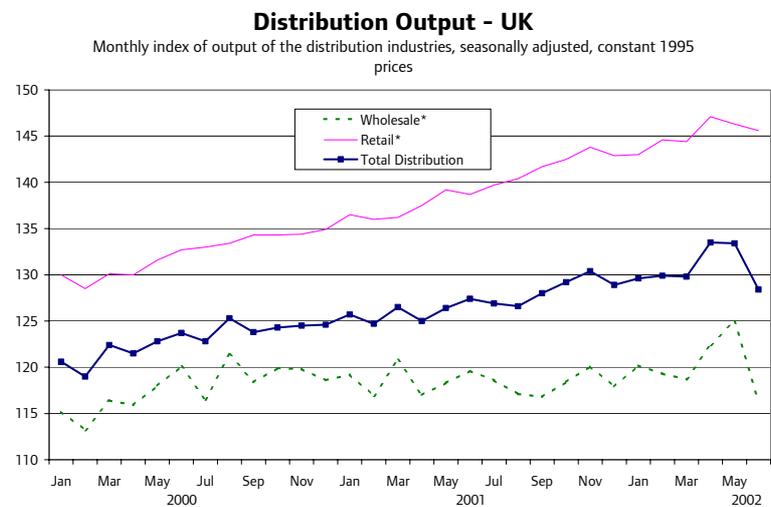


Source: British Chamber of Commerce Survey

### Distribution Output

Source: ONS  
 Latest Release: Tue 30 Jul 2002  
 Next Release: Sep 2002

- Output of the distribution industries increased in the second quarter of 2002 by 1.6 per cent compared with the previous quarter and by 4.4 per cent on the same period in 2001
- The monthly index of distribution fell significantly in June, although some caution should be applied as the Jubilee bank holidays may have had some affect on seasonal adjustment
- The fall was due largely to wholesale output, though the retail index also fell



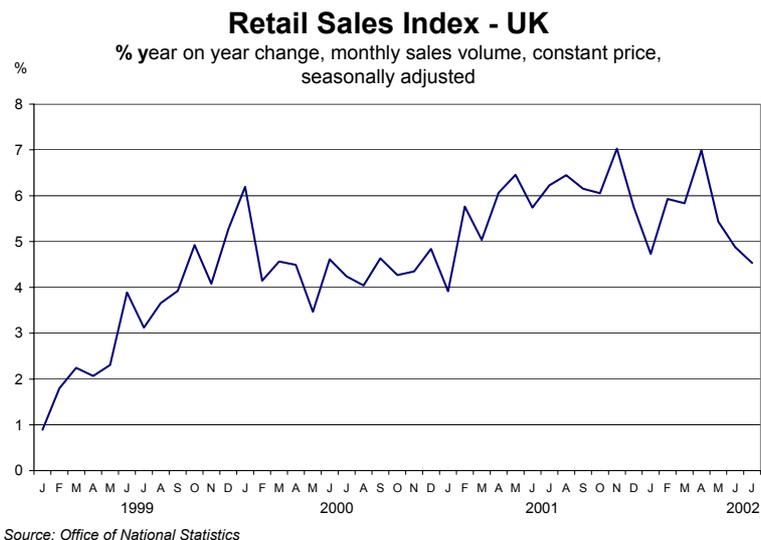
Source: Office of National Statistics

\* excluding motor trades

### Retail Sales

Source: ONS  
 Latest Release: Thu 22 Aug 2002  
 Next Release: Thu 19 Sep 2002

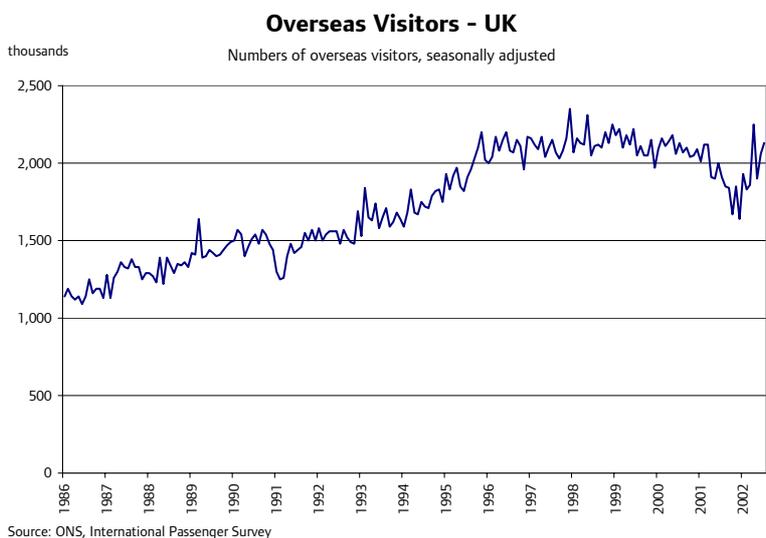
- Retail sales growth has slowed over the past year and may be set to slow further - the next official data on 19 September will be awaited with interest
- July's retail sales volume figures showed a return to moderate growth after 2 months of falling sales, with an increase of 0.3% on June and a 4.5% increase on July 2001
- The latest CBI Distributive Trades Survey suggested retail spending growth in August slowed sharply, the BRC Sales Monitor was not so bleak



### Tourism – Overseas Visitors

Source: International Passenger Survey  
 Latest Release: Fri 6 Sep 2002  
 Next Release: Wed 9 Oct 2002

- In the 3 months to July 2002, compared with the previous 3 months, seasonally adjusted overseas visitor numbers to the UK increased by 2 per cent to 6.1 million
- In July alone there were 2.1 million overseas visitors, resulting in overseas earnings of £980 million
- Overseas visitors have picked up significantly over the course of the past year, having reached a low in February not seen since February 1995.



### London Airports

Source: Civil Aviation Authority  
 Latest Release: Mon 16 Sep 2002  
 Next Release: Mon 14 Oct 2002

- London airport passenger numbers fell significantly following the events of September 11 2001 and have not yet recovered
- There were 10.1 million terminal passengers in June 2002, an increase on May, but following the usual seasonal pattern
- The number of passengers in June 2002 was 2.4 per cent lower than June 2001

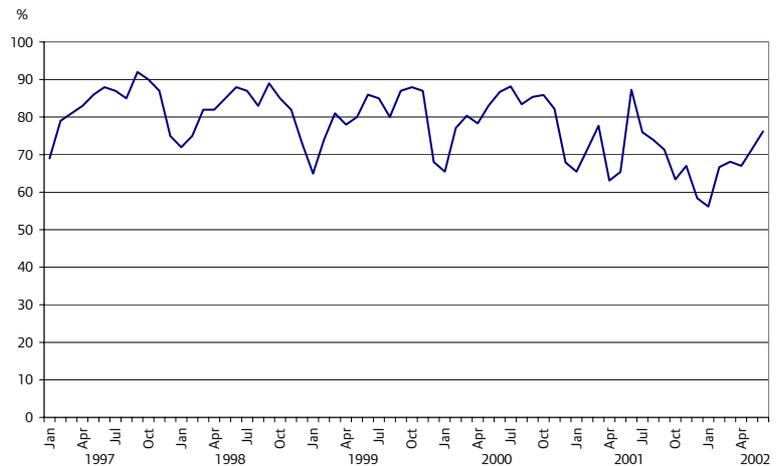


## Tourism – Hotel Room Occupancy

Source: UK Occupancy Survey  
 Latest Release: Aug 2002  
 Next Release: Sep 2002

- September 11 2001 had a significant effect upon hotel room occupancy in London
- The usual seasonal pattern of occupancy was disrupted in 2001 and the situation has not recovered in 2002
- Room occupancy stood at 76% in June 2002, compared to 87% in June 2001

Hotel Room Occupancy - London



Source: UK Occupancy Survey

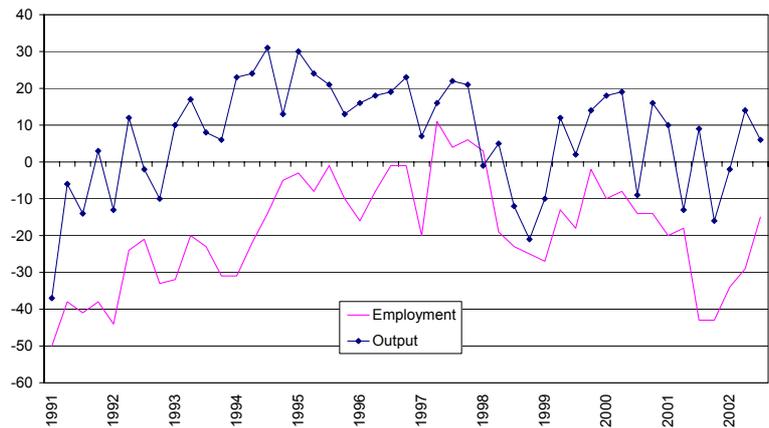
## Manufacturing Expectations

Source: CBI Regional Trends Survey  
 Latest Release: Tue 6 Aug 2002  
 Next Release: Tue 12 Nov 2002

- London manufacturers are generally much less pessimistic in the third quarter of 2002 than they were in the final quarter of 2001
- London manufacturers remain more positive than negative about the prospects of output growth
- However, they are still pessimistic about employment growth with a balance of -15% expecting employment levels to increase over the next 4 months

Manufacturing Expectations - London

% balance of manufacturers that say employment levels in London will increase in the next 4 months



Source: CBI/Regional Trends Survey

## Index of Production

Source: ONS  
 Latest Release: Fri 6 Sep 2002  
 Next Release: Mon 7 Oct 2002

- UK manufacturing output recovered somewhat in July following a sharp drop in June, largely attributed to firm closures over the Jubilee
- The index of production is at the same level it was at in April 2002, and December 2001
- Manufacturing output rose by 4.9 per cent in July, but in the three months to July 2002, fell by 1.0 per cent compared with the previous three months

Index of Production: UK

1995 = 100

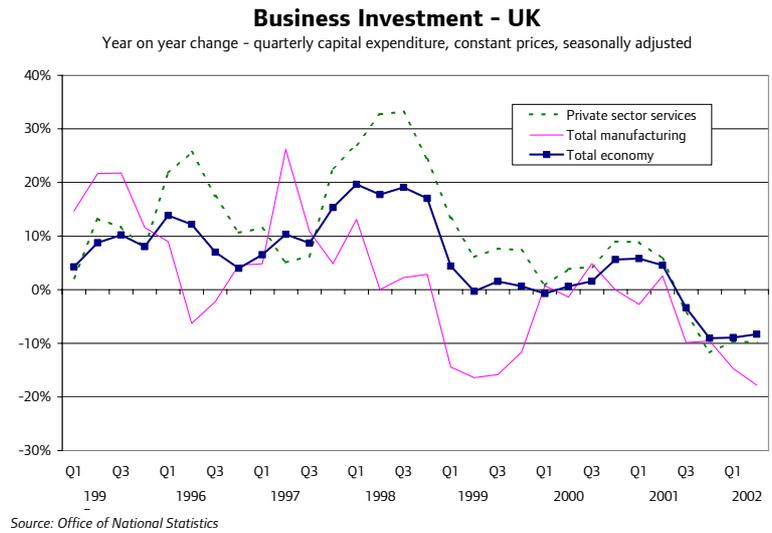


Source: Office of National Statistics

### Investment

Source: ONS  
 Latest Release: Thu 22 Aug 2002  
 Next Release: Thu 26 Sep 2002

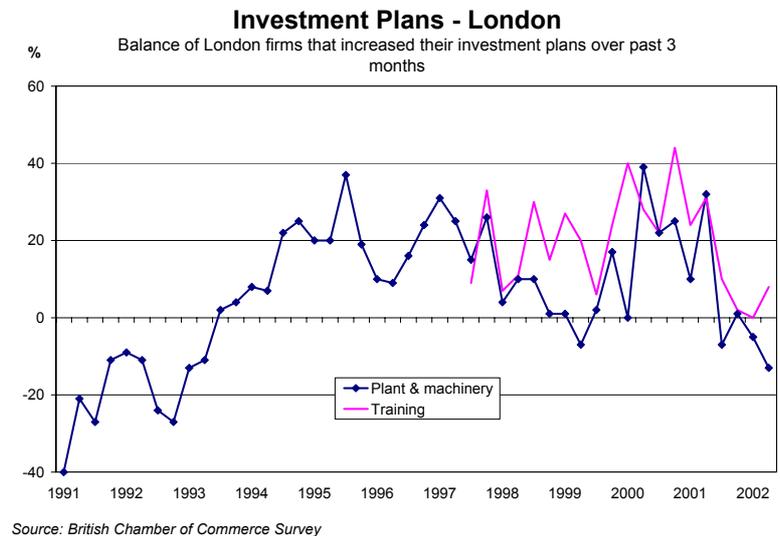
- Provisional results for the second quarter of 2002 suggest that total business investment has risen marginally for the first time since the fourth quarter of 2000
- If we compare this with the situation a year ago, then business investment is 8.3 per cent lower than the second quarter of 2001
- Manufacturing investment continues to fall steeply, and is now estimated to be 17.8 per cent lower than Q2 2001



### Investment Plans

Source: BCC Survey  
 Latest Release: Thu 18 Jul 2002  
 Next Release: Fri 18 Oct 2002

- Evidence from the British Chambers of Commerce Survey shows that the balance of London firms that increased their investment plans in plant and machinery over the past 3 months has fallen further
- A more optimistic sign however is that there has been a slight recovery in the proportion of firms that increased their investment plans in terms of training



## Data Sources

Tube Usage	Further information contact Transport for London on 020 7941 4500
Office Space Demand	Further information see <a href="http://www.cbhillierparker.com">www.cbhillierparker.com</a>
House Prices	Nationwide house price data available from <a href="http://www.nationwide.co.uk/hpi/">www.nationwide.co.uk/hpi/</a>
FTSE 100 Index	Further information see <a href="http://www.ft.com">www.ft.com</a>
Unemployment	LFS data available from <a href="http://www.nomisweb.co.uk">www.nomisweb.co.uk</a>
Employment	LFS data available from <a href="http://www.nomisweb.co.uk">www.nomisweb.co.uk</a>
GDP/GVA Growth	Data available from Experian Business Strategies on 020 7630 5959
Service Sector Expectations	Further information on BCC Survey data see <a href="http://www.chamberonline.co.uk">www.chamberonline.co.uk</a>
Index of Distribution	Data available from <a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
Retail Sales	Data available from <a href="http://www.statistics.gov.uk/rsi">www.statistics.gov.uk/rsi</a>
Tourism - Overseas Visitors	Further information contact London Tourist Board on 020 7932 2051
London Airports	Data available from <a href="http://www.caa.co.uk">www.caa.co.uk</a>
Tourism - Room Occupancy	Further information contact London Tourist Board on 020 7932 2051
Manufacturing Expectations	Further information see <a href="http://www.cbi.org.uk">www.cbi.org.uk</a>
Index of Production	Data available from <a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
Investment	Data available from <a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
Investment Plans	Further information on BCC Survey data see <a href="http://www.chamberonline.co.uk">www.chamberonline.co.uk</a>

## Abbreviations

CBI	Confederation of British Industry
BCC	British Chambers of Commerce
BRC	British Retail Consortium
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
ONS	Office of National Statistics
S&P 500	Standard & Poor basket of 500 widely held stocks traded on the New York Stock Exchange

## GLA Economics

The Mayor of London established GLA Economics in May 2002 to provide a firm statistical, factual and forecasting basis for policy decision-making by the GLA and its functional bodies.

If you have any comments or require any further information regarding this publication please contact:

Ian Harris

GLA Economics, 7<sup>th</sup> Floor, City Hall, The Queen's Walk, London SE1 2AA

Tel: 020 7983 4678 Email: [ian.harris@london.gov.uk](mailto:ian.harris@london.gov.uk)

# London's Economy Today: Supplement

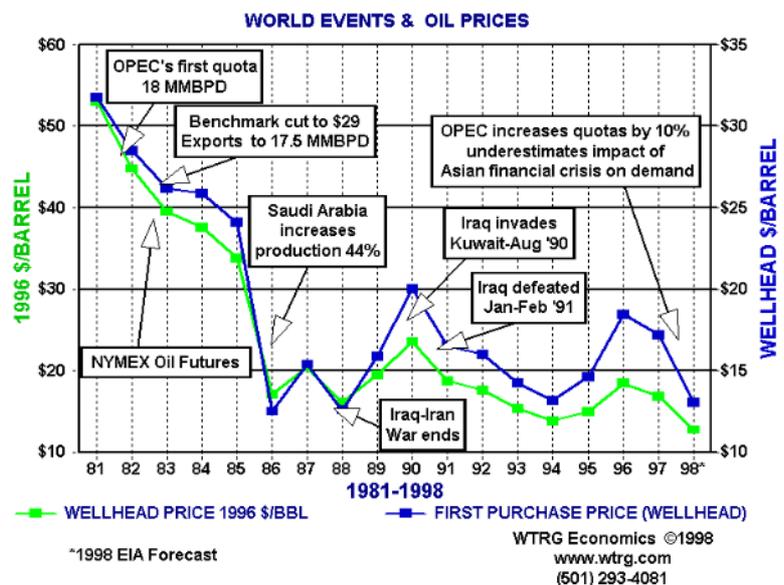
## A Future Gulf War – the potential economic impact on London

### Summary

- The 1991 Gulf War had a bigger effect on London than on the rest of the UK or the global economy
- This was largely because of a 30% fall in US visitor numbers - total tourist spend fell by the equivalent of 1% of London's GDP
- Recovery was slow and US visitor numbers took 3-4 years to regain previous levels
- These effects compounded the cyclical downturn that started in 1990 in which high interest rates also had a severe effect on the London economy, with GDP falling by 3.5% and 40,000 service sector jobs being lost.
- The present global economy is already in a downturn which started at the end of 2000, and US tourists are nervous as a result of the events of September 11th
- The 25% fall in US tourist numbers that occurred in October 2001 has not been reversed – though non-US tourism has been buoyant; partly the result of the industry's response in the form of cheaper hotels and flights and effective promotion. However sentiment could change rapidly.
- In the event of another conflict tourism will again be hit – and London suffer disproportionately. This is in addition to indirect economic consequences of the war.
- Depending on the nature and duration of the crisis, general recovery could be faster than in the 90s but tourism and London would lag the field.
- A short-term crisis will not change the long-term outlook for the industry - which remains set fair - but it further underlines the urgent need for a co-ordinated strategic approach to the future of London's tourist business. The Mayor intends to launch his new initiative on tourism "Visit London" on Friday 20th September.

### The impact of the first Gulf War was limited by several factors:

- The crisis was short-lived – only six months from the invasion of Kuwait in August 1990 to the final cease-fire; Desert Storm itself lasted only 6 weeks
- The war had widespread political support including that of most of the Arab world
- The campaign was successful with limited allied casualties
- Business and consumer confidence held up well and financial markets remained robust – the long bull market of the 90s began at around this time.
- The cost of the war – around \$70 billion, largely funded by Middle Eastern oil producers – had a positive impact on global GDP.
- The impact on oil prices was limited; the world economy was already in recession, oil production and strategic stocks were high.

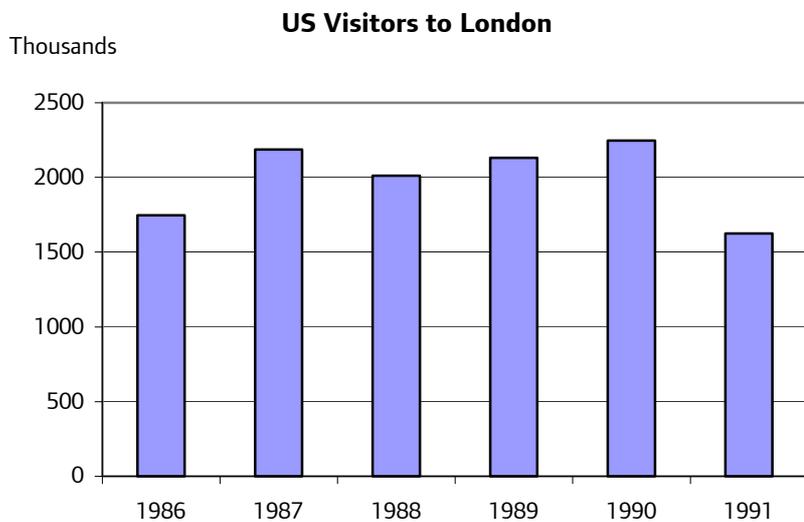


The chart on this page shows how oil prices rose to an average of only \$20 a barrel in 1990 and fell away to around \$16 the following year.

**But US tourism and London were hit hard**

During the 1991 Gulf War US tourist numbers fell very sharply in the belief that the world had suddenly become a more dangerous place. This had an immediate and severe impact on the London tourist economy, which remains very dependent on US visitors. These account for roughly 20% of the overseas visitor spend and bring in some \$4 billion a year. The chart below shows the 30% fall in US visitors to London in 1991 - following the upward trend of the 80s.

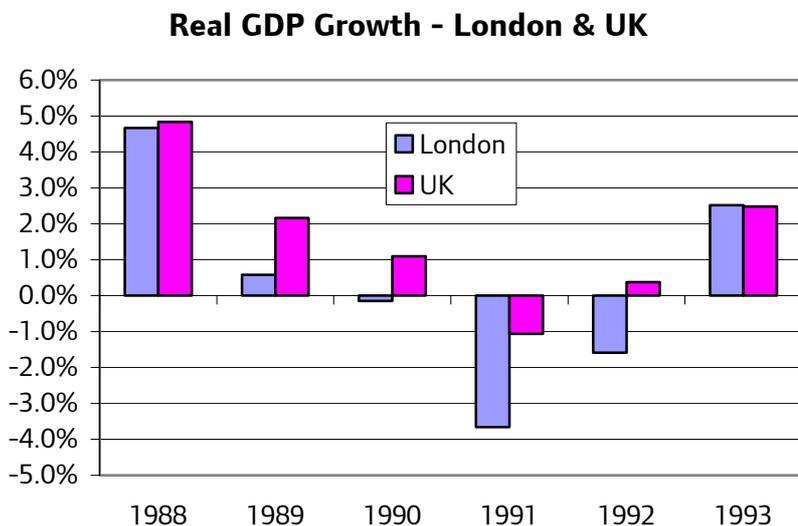
After taking account of exchange rate effects (the dollar was weak during the early 90s) and negative GDP growth, it is clear that the fall in numbers was to a very large extent a direct effect of the Gulf war.



US tourist spending directly supports slightly over 2% of London's economic activity directly and rather more when secondary impacts are taken account of. The decline in US visitors reduced London's GDP directly by £0.8bn, a fall of at least 0.5% in the first year alone; causing particular damage to revenue and employment in the worst affected sectors including airlines, London's airports, theatres and restaurants.

The chart here shows how London's GDP fell by 5% in 1990 – largely for cyclical reasons - compared with growth of 0.5% in the UK as a whole; employment fell dramatically through the year; unemployment rose by almost 100,000 and some 40,000 service sector jobs were lost.

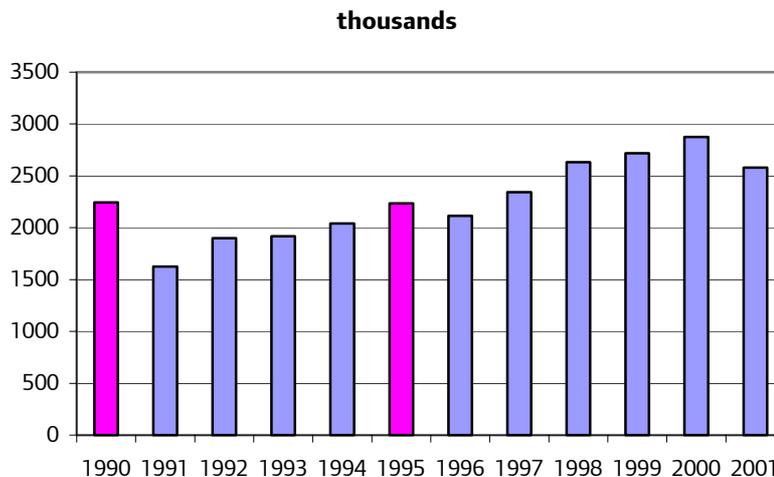
There is a widespread belief in the industry that the confidence of US tourists took a long time to recover and indeed numbers only regained their earlier levels 5 years later as the Chart overleaf shows. London's economy continued to under-perform that of the rest of the UK over the following three years.



### Will history repeat itself?

On the face of it, another Gulf War might be expected to have a similar impact on London's economy. This would mean that a loss of around £1 billion to the London economy. But the precise figure may be modified by the already existing drop in US tourist numbers - which are already well down as a result of September 11th. This would continue the currently difficult state of the London tourist sector. Because economic conditions are different, it is probable that more traditional transmission mechanisms operating via oil prices, confidence and a general global slow-down might come into play.

### US Visitors to London



Depending on the duration and nature of the crisis, the impact on London's economy might be expected to be less distinctive – and possibly less long-lived – even though it could be just as serious as in 1990.

The key variables are not, however, economic but political, military and psychological.

- Another Gulf war may only have limited support worldwide (and domestically) creating military as well as political risks.
- An unpopular war could be highly damaging to US consumer and business confidence, which are already fragile.
- The reaction of volatile financial markets is essentially unpredictable and could turn sharply in either direction.
- Global oil demand remains weak but stocks are low and any major threat to Middle Eastern supply capacity could provoke a sharp hike in oil prices.
- A military reverse or an extended and bloody campaign would clearly exacerbate all of these problems – as would major terrorist attacks provoked by the war.

With a general downturn, most sectors of the London economy would be adversely affected – though probably no more than the rest of the UK. Since economic activity in London is expected to grow by less than 2% this year and employment to rise only marginally, a loss of a further 0.5% of GDP could set up interactions which might push London into recession.

The tourism sector would again be hit harder than most; with demand slackening across the board (business, domestic and other non-US foreign segments would also be impacted – though probably by less). Given the already fragile state of confidence following September 11th US tourist numbers could well fall sharply – though less than the 30% of 1990. Sectors such as airlines, already facing crisis, could be pushed to the edge.

Although US tourism has already dropped back as a result of earlier attacks, our estimates suggest that further weakening in the event of another Gulf conflict, combined with losses in domestic markets, could lead to a similar scale of reduction in economic activity – that is in the region of £1 billion.

***This year's tourist market***

London tourism this year has continued to be adversely affected by the slow-down in global growth, by the events of September 11th, and by the continuing strength of sterling against the euro (though the latter has been offset to some extent by a favourable £/\$ rate).

The current state of the market is hard to assess precisely. Indicators such as hotel occupancy suggest that demand is running at around the same levels as last year but remains substantially down on 2000. September 11th led to an immediate and sharp fall in US tourist numbers of around 25% though growth elsewhere— in part the result of increases in non-US tourists attracted by lower airfares, cheaper hotel prices and various high profile promotions – has largely offset the fall. Overall demand was as a result back to pre-September 11th levels within a matter of months.

Data for July on passenger movements at London's major airports, suggest that long-haul numbers remain sharply lower than last year with Gatwick and Heathrow down 10% and 5% respectively. Short haul flights from Stansted are much higher than last year suggesting that non-US demand is holding up well and that low cost flights are encouraging inward as well as outbound tourism. Overall passenger numbers are 2% down on last year and the mix has clearly changed.

Putting all of these figures together confirms that overall numbers of tourists during the summer were running at around or possibly slightly above last year's levels - with domestic, business and non-US tourism fairly robust and US numbers still down. Anecdotal evidence - bookings for concerts, theatres and other major attractions are well down – suggest that concerns over safety increased in the run-up to the anniversary of September 11th and are having a corresponding impact on visitor numbers and spend.

**Greater London Authority**

City Hall

The Queen's Walk

London SE1 2AA

**[www.london.gov.uk](http://www.london.gov.uk)**

Enquiries **020 7983 4100**

Minicom **020 7983 4458**