London′s Economy Today



Issue 25 | September 2004

In this issue

GLAECONOMICS

Oil prices remain high and risk moderating global growth

by Christopher Lewis

The financial services sector plays a key role in London's economy with international markets often being vital to expansion. A review by International Financial Services, London (ISFL) of financial services net exports showed a rise to £17.26bn in 2003 from £17.20bn in 2002. The largest sub-sector increase of 46% came from Fund Managers, which had net exports of £1.2bn in 2003. According to IFSL annual statistics the UK's invisibles surplus totalled £26.9bn in 2003, which was down 6% on 2002 but nearly 50% higher than in 2001. The UK's surplus on trade in financial services is the largest in the world.

After a recovery from the lows in spring 2003 the main global markets have shown weakness and unsteadiness during much of 2004. From mid-August the FTSE 100 has picked up slightly and mid-September has just seen year highs, but it is far too early to say whether these signs of recovery will continue. The risk of weakening global markets still remains with its potential negative impact on the City of London. Therefore, despite initial signs that a slowdown in consumer spending and the housing market may well follow a benign path the London economy could still see abrupt changes from any dramatic falls in world stock markets.

Latest news...

- **New Publication -** GLA Economics has published *Working Paper 10: GLA Economics submission to the Treasury and DTI consultation on productivity indicators.* To view the document, please visit www.london.gov.uk/mayor/economic_unit and click on the GLA Economics Publications link.

- **Economist - 4 month fixed term or secondment opportunity -** GLA Economics is seeking an economist to lead on our environmental economics research. For further details and to download an application form please visit www.london.gov.uk/jobs.jsp

London's economy improving

With the financial and business services sectors growing steadily the overall picture of the London economy still shows one of improvement. In August, the Purchasing Managers Index (PMI) measures of business activity and new orders for London firms continued to expand strongly at 57.4 and 57.6 respectively (these numbers are significantly above 50, which is the level consistent with no change on the previous month). The positive average annual rate of growth in tube passenger numbers has been sustained and the average rate of growth in bus passenger numbers though declining remains strong. A recovery in office rents in the City of London also seem likely with Hammerson's Chief Executive predicting that they will rise in 2005.

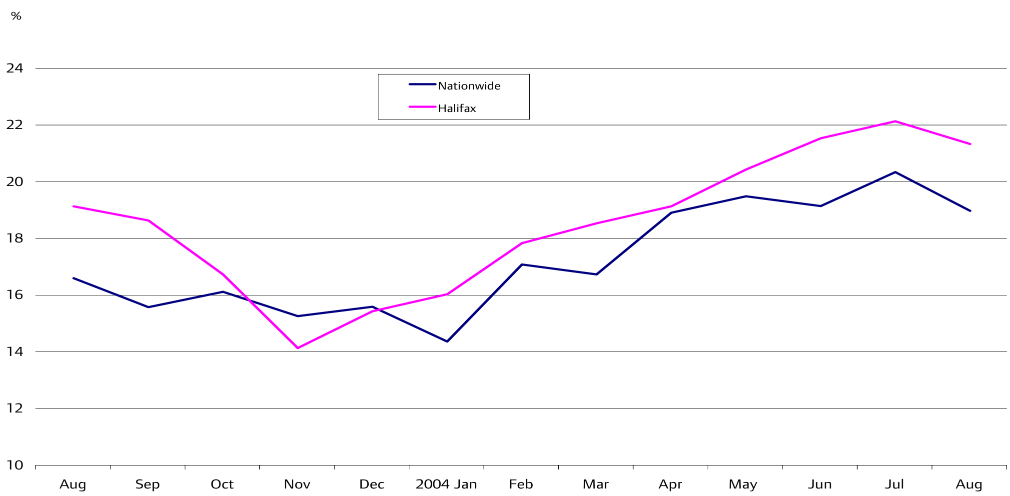
Initial signs of a gentle slowdown in UK consumer spending

According to the latest British Retail Consortium and CBI retail surveys increasing interest rates and the cool summer weather have taken their toll on UK retail sales. Despite remaining just positive the sales performance declined sharply in the CBI survey and was the slowest since March 2003. Official figures for August were stronger than the survey evidence had suggested with the seasonally adjusted volume of retail sales 0.6% higher than for July and 6.5% higher than a year ago. However, this data does provide evidence of a slowdown in the underlying growth rate with the seasonally adjusted volume of retail sales in the three months ending August (at 1.4%) the slowest such growth since the three months ending September 2003.

Bank of England data showed that the growth in personal debt slowed in July to £10.4bn from £11.2bn in June. If this slowdown continues it will have a dampening effect on both consumer spending and the housing market. Already, underlying mortgage lending figures from the British Bankers' Association have weakened – rising by their lowest amount since June 2002 in August. The Nationwide index of UK house prices rose by only 0.1% during August reducing the annual growth rate to 18.9% from 20.3%, while the Halifax house price index fell by 0.6% reducing the annual growth rate to 21.3% from 22.1% (see Chart 1). The average rate of house price growth for both indices over the last three months has now moderated, but not slumped. The FT house price index rose by 0.8% in August reducing the annual growth rate to 15.9% from 17.4%. Expectations are that house price inflation will continue to slow over the remainder of 2004 and during 2005.

Chart 1. Annual house price growth

Source: Halifax and Nationwide



All measures of UK unemployment continue to fall and job vacancies are up compared with a year ago. Claimant count unemployment of 830,200 in August was at its lowest level since July 1975. Overall, survey evidence from firms also suggests that the UK economy remains generally healthy. The CBI's monthly industrial trends survey found that firms are still optimistic and expect to increase output over the next three months. A survey by the Engineering Employers' Federation showed that manufacturers' new orders rose to a nine-year high in the three months to September. However, official data for industrial production fell in July for the second month in a row. This was the first back-to-back decline in nearly two years and the annual rate of growth is now only 0.1%. Service sector survey data has been mixed. The Chartered Institute of Purchasing and Supply's latest survey found that the service sector strengthened in August with the employment component of the index reaching its highest level since March 2001. This was contradicted by weak results from a CBI survey which showed that service sector confidence has dipped during the third quarter as costs rise at their fastest pace since 2001.

Global economic recovery slightly weaker than expected

The news over the past month continues to show a global economic recovery, but one that remains slightly weaker than many have expected. Survey data suggested that global manufacturing activity cooled in August, but remained positive. The US Institute for Supply Management Index indicated that US manufacturing production remained at high levels but decelerated sharply in August. Both retail sales and the University of Michigan consumer sentiment index also fell in August. However, US employment growth did pick-up slightly and the unemployment rate fell to 5.4%, its lowest level in nearly three years. Alan Greenspan, Chairman of the Federal Reserve, believes that after a summer soft patch US economic growth has regained some traction. The risk to the world economy from any abrupt unwinding of the US current account deficit has, if anything, increased further with the second quarter deficit rising to $166.2bn from $147.2bn in the first quarter.

Official data from Japan has recently been worse than expected, though capital spending has strengthened. In July, Japanese household spending fell for a third straight month, industrial production failed to increase for the second consecutive month and machinery orders fell. GDP growth for the second quarter has also been revised downwards. Oil prices are continuing to dampen the optimism about the strength of the eurozone's economic recovery. The Reuters Eurozone purchasing managers index fell to a five month low in August with output growth slowing particularly in Germany. German professional investor confidence has also fallen to its lowest level for more than a year.

Oil prices at around $40 still remain high due to global oil demand growth at its fastest for over 20 years and concerns about the potential for further supply disruptions in key oil producing countries, such as Russia and Iraq. Total world oil production is now around 99% of estimated capacity, which means there is little spare capacity if a major supply disruption occurs. These factors are all placing upward pressure on oil prices and making them highly sensitive to any global development that could reduce output, such as Hurricane Ivan in the Gulf of Mexico. In a signal that they want to lower the current high oil price OPEC have announced an increase of 1mbpd in their production quota to 27mbpd.

However, this will not actually increase the world supply of oil as OPEC are already producing around 27.5-28mbpd.

Recovery uneven as oil prices remain high

Recovery in the world economy has been uneven over the last month and the eurozone area continues to fail to act as an engine for global growth. This has led Gordon Brown, the Chancellor of the Exchequer, to write that 'domestic demand in the eurozone has all but stalled…..With slower growth than the US and UK expected for the eurozone next year, global imbalances will continue to be a challenge. The eurozone has grown by 3 per cent or more in just one of the last ten years, while the US has averaged more than 3 per cent. Only by rejecting the old trade-bloc Europe – inward-looking, inflexible and sclerotic – and wholeheartedly embracing a global Europe – reforming, flexible, outward-looking and competitive – will the EU respond to the new challenges of globalisation.'

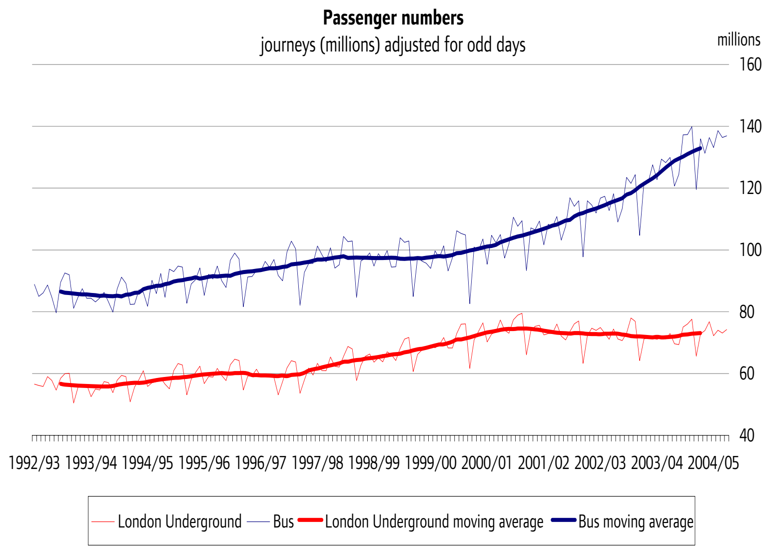
With the Energy Information Administration, the statistical arm of the US energy department, predicting that oil prices will remain above $40 until the middle of 2005 the global economy although still recovering is not expected to boom. The potential negative impact of high oil prices has been highlighted by the President of the European Central Bank (ECB) who has said that they would raise interest rates forcibly if the increase in oil prices created inflationary problems. Any such action by the ECB could dampen eurozone growth significantly. Within this world environment the UK and London economies are likely to experience a gentle slowdown in growth during 2005.

Economic indicators

Average passenger numbers continue to grow

- In the most recent 28-day period, London's public transport had 211 million passenger journeys, 137 million by bus and 74 million by Underground.
- The moving average shows an increase to 206 million passengers every period. The average for buses has risen to 133 million passenger journeys each period and the average for the Underground remained around 73 million.

Latest release: 26/08/04
Next release: September 2004

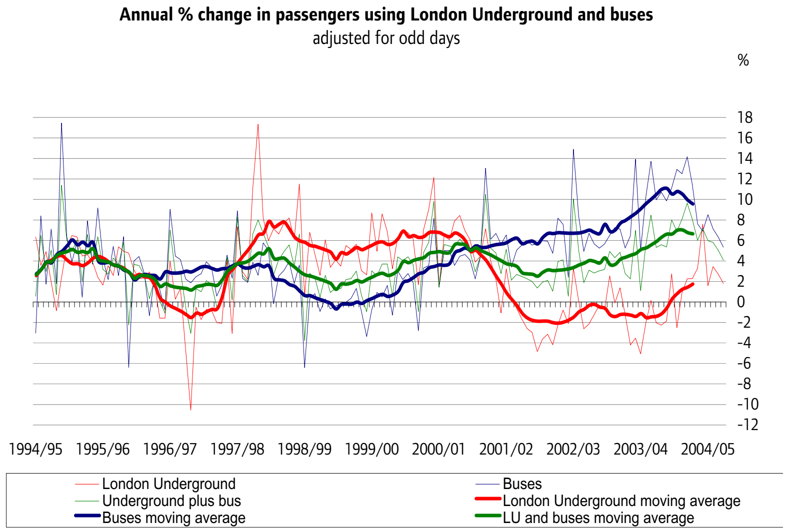


Source: Transport for London

Tube use continues to recover

- The average annual rate of growth in passenger journeys is 6.6%.
- The average annual rate of growth in the number of bus journeys at 9.5% is slightly below last period's figures.
- The recovery in Underground passenger numbers has been sustained. The average annual rate of growth is 1.7%, its fifth period of positive growth.

Latest release: 26/08/04
Next release: September 2004

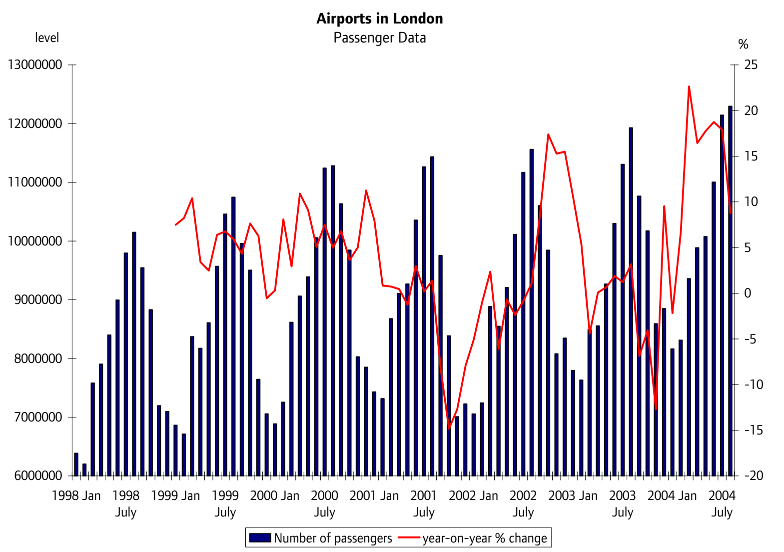


Source: Transport for London

Increase in passengers using London airports

- The number of passengers using London's airports continues to rise with 9% more passengers in August 2004 than in August 2003.
- Passenger numbers have continued increasing with more than 12 million passengers travelling through London's airports in August 2004, making it their busiest summer.

Latest release: September 2004
Next release: October 2004

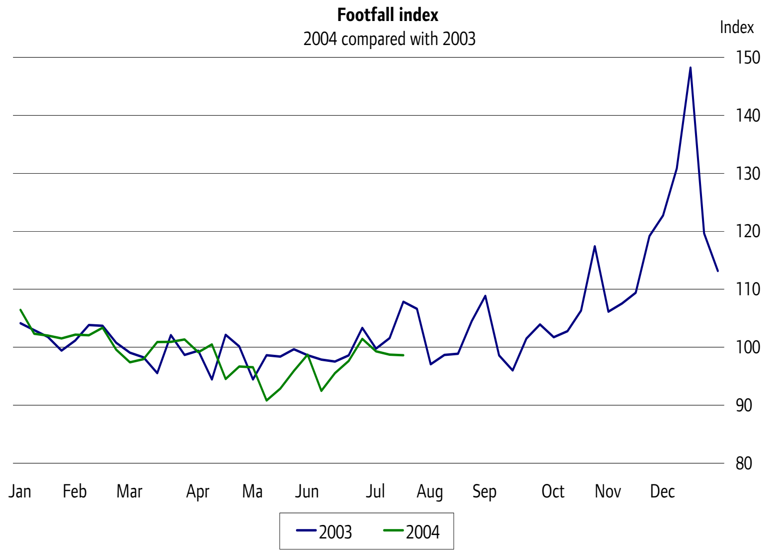


Source: Civil Aviation Authority

Fall in the number of shoppers

- The FootFall index continued to decline in August after a high in late June.
- The current level of the index is below the level of the same time last year, suggesting fewer numbers of shoppers this summer.
- The FootFall index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: 06/09/04
Next release: every week

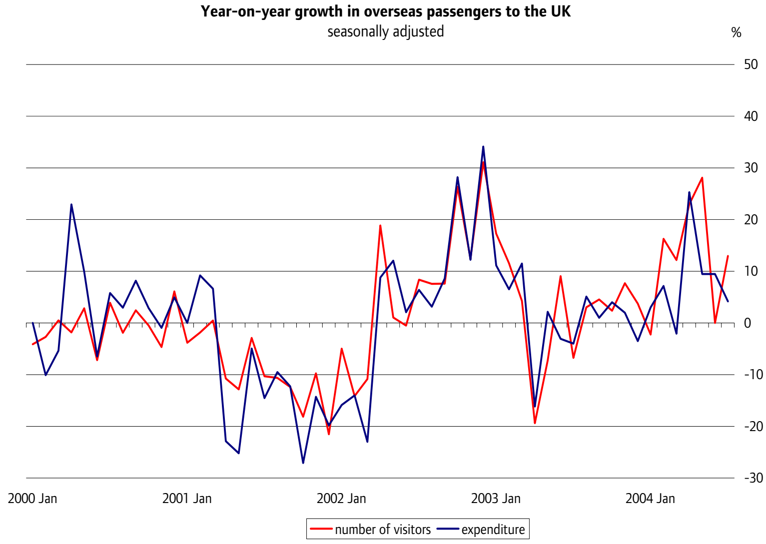


Source: FootFall Ltd

Promising summer for tourism

- There has been annual growth of 13% in overseas visitors to the UK from July 2003 to July 2004. This is a recovery from no annual growth in June.
- The annual growth in expenditure by overseas visitors was 4% in July.

Latest release: 08/09/04
Next release: October 2004

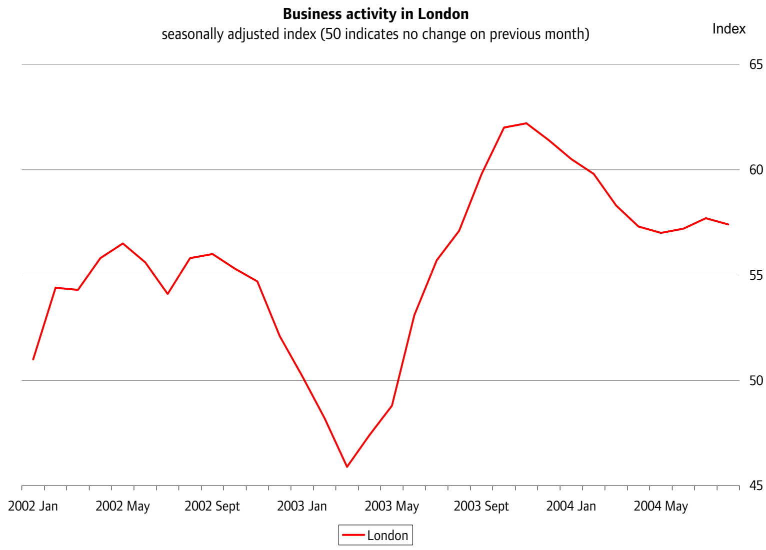


Source: ONS

Business activity in London remains strong

- London firms continued to expand their output of goods and services in August with the rate of growth remaining roughly steady.
- The PMI of business activity recorded 57.4 in August 2004. This compares to 57.1 recorded in August 2003.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: September 2004
Next release: October 2004

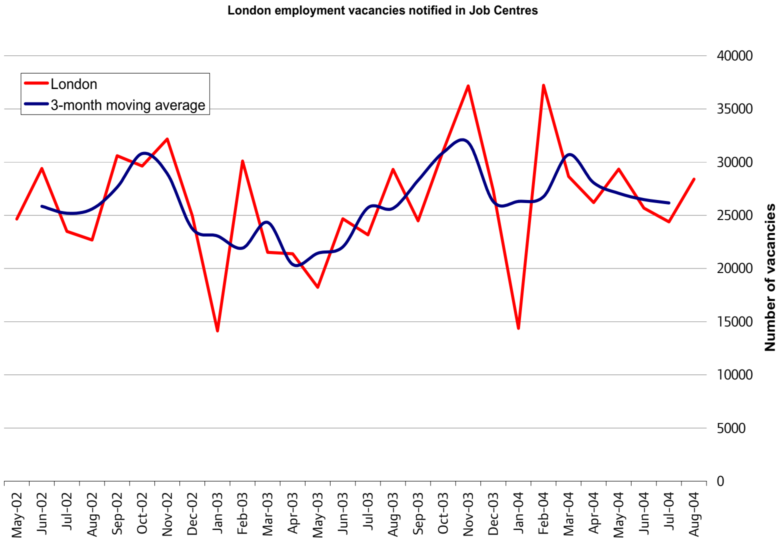


Source: PMI/Royal Bank of Scotland

Stability in the numbers of new job vacancies

- Job Centre Plus recorded over 28,000 notified vacancies in London in August 2004.
- This is 3% fewer vacancies than were notified in August 2003 but an increase in the number of vacancies notified in July 2004.

Latest release: August 2004
Next release: September 2004

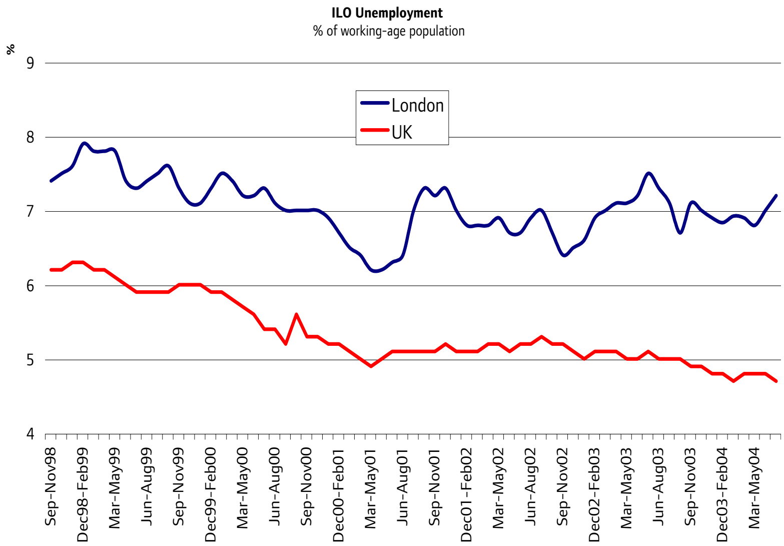


Source: Job Centre Plus, NOMIS

ILO Unemployment edges upwards in London

- The ILO measure of unemployment, people looking for work though not necessarily claiming benefits, increased slightly in London in the May to July 2004 period.
- ILO unemployment in London was 7.2%, up from 6.9% in the February to April period, though down on a year earlier.
- ILO unemployment in London is higher than the rate of 4.7% for the UK as a whole.

Latest release: September 2004
Next release: October 2004

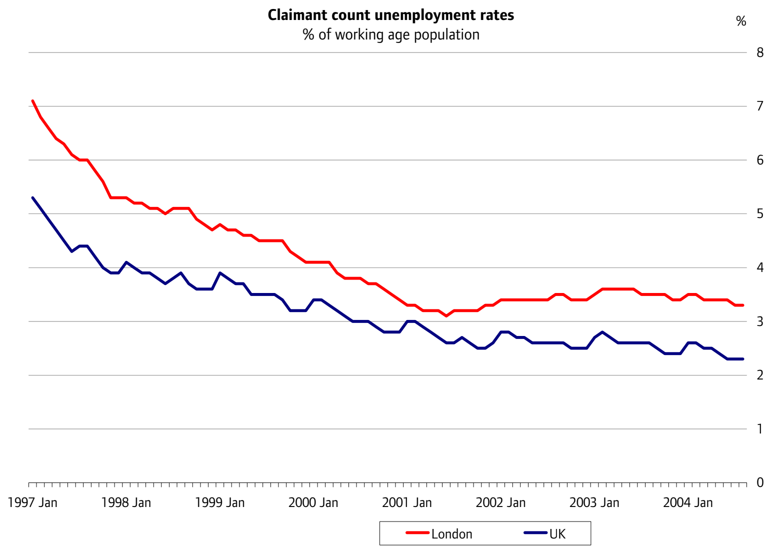


Source: ONS, Labour Force Survey

Claimant count unemployment rate remains low

- The rate of claimant count unemployment, people unemployed and claiming Job-seekers Allowance, remained stable in London at 3.3% in August.
- There were 163,000 unemployment claimants in London in August 2004, compared with 173,000 in August 2003.
- Claimant count unemployment in the UK remains below that of London's.

Latest release: September 2004
Next release: October 2004

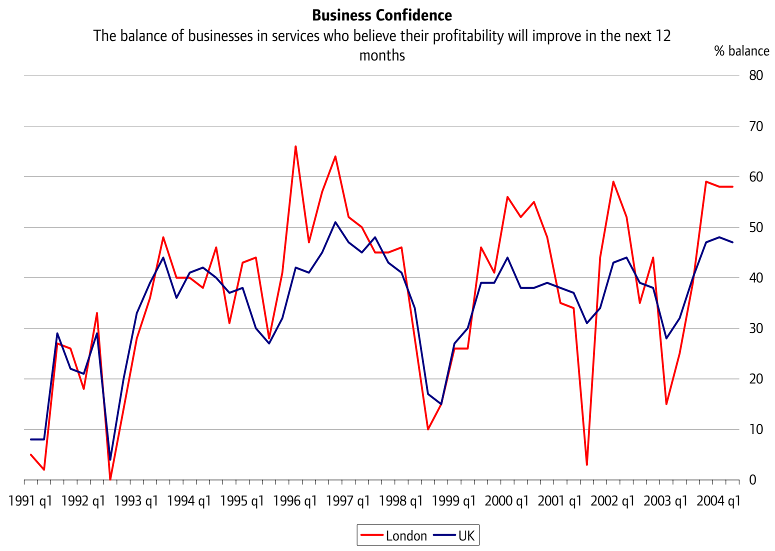


Source: Claimant count, NOMIS

London service businesses expect improving profitability

- The British Chamber of Commerce's Quarterly Economic Survey shows that London service businesses expect their profitability to improve.
- The net balance of businesses in services in London that expect to increase their profitability over the next 12 months was 58% in 2004 Q2.
- The net balance of businesses in services in the UK expecting increased profitability over the next 12 months was 47% in 2004 Q2.

Latest release: August 2004
Next release: November 2004

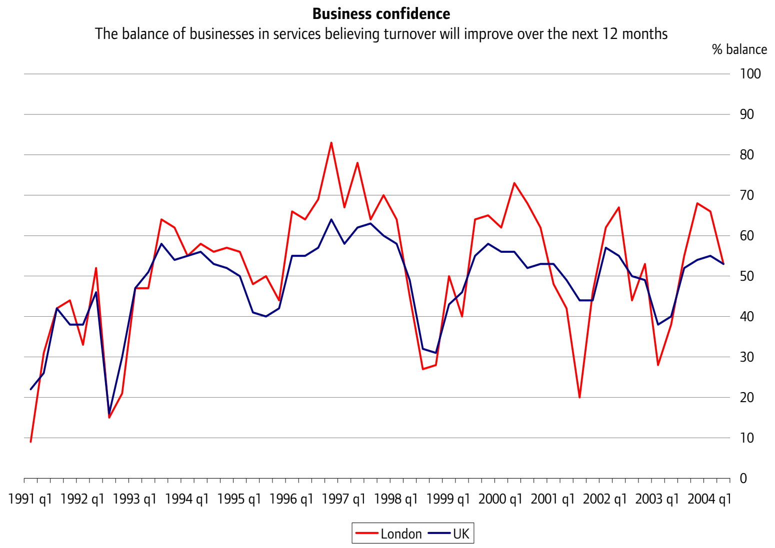


Source: British Chamber of Commerce, Quarterly Economic Survey

London service businesses still expect higher turnover

- The net balance of businesses in services in London that expect to increase their turnover over the next 12 months was 53% in 2004 Q2. This was the same figure as for the UK as a whole.
- The London net balance has fallen in the last couple of quarters and is no longer above the UK's net balance.

Latest release: August 2004
Next release: November 2004

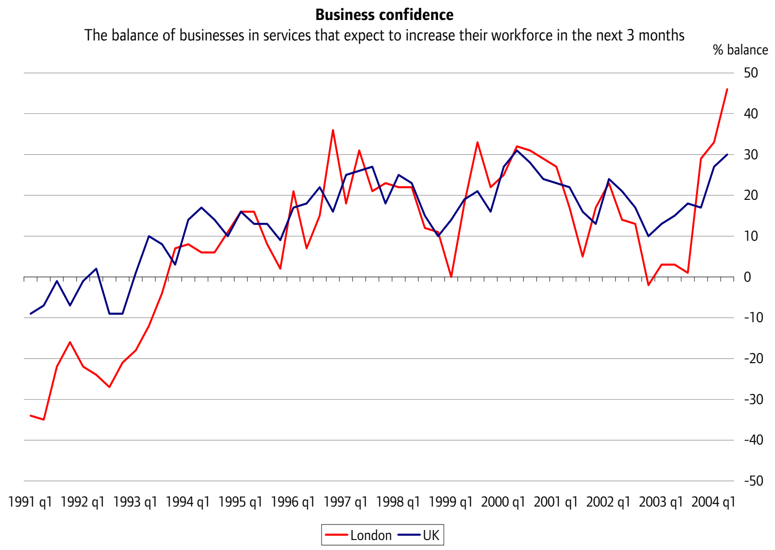


Source: British Chamber of Commerce, Quarterly Economic Survey

London service businesses expect to increase their workforce

- The net balance of businesses in services in London that expect to increase their workforce over the next 3 months increased to 46% in 2004 Q2. This is the highest net balance in recent times.
- The net balance of businesses in services in the UK that expect to increase their workforce over the next 3 months increased to 30% in 2004 Q2. Both the UK and London figures are very strong.

Latest release: August 2004
Next release: November 2004



Source: British Chamber of Commerce, Quarterly Economic Survey

Casino Royale

Economic effects of casino development in London following the proposed gambling bill

by Andrew Barry-Purssell

***Casino Royale* – David Niven's only outing as James Bond – was released in 1967. The legislation that still governs casinos was signed into law the next year. We are now faced with a new Bond, and with the prospect that the next parliamentary session should see introduction of a Gambling Bill. This will make major changes to the law governing all types of gambling in this country, seeking to update it to reflect changing public attitudes to gambling and deal with issues raised by new technology. It will create a new regulatory body – the Gambling Commission – and will introduce licensing for gaming on the internet and interactive TV for the first time. However, it is the proposals relating to casinos that have attracted the most attention.**

The Government proposes to remove the controls over location of casinos that currently limit them to certain parts of the country and to end the requirement that casinos operate as members' clubs, with a 24-hour waiting period between joining and playing. It is proposed that casinos will be able to offer betting and (except for the very smallest) bingo. The largest type proposed (termed 'regional casinos' by the Government) will be allowed up to 1,250 gaming machines, including up to 25 machines with no limit on the stake gambled or prize. It is proposed that there will be three, size-based categories of casino – 'small' (with a minimum area open to customers of 750 square metres and up to 80 gaming machines), 'large' (with a minimum customer area of 1,500 square metres and up to 150 machines) and 'regional' (minimum customer area of 5,000 square metres and up to 1,250 machines).

In London, casinos are currently only permitted in Westminster and Kensington and Chelsea. There are 24 of the country's 126 casinos here, employing around 3,000 people and receiving nearly three million visits yearly (23 per cent of the national total visits). Over £2 million is exchanged for chips (57 per cent of the national total).

GLA Economics' report *Spending Time – London's Leisure Economy* describes the economic and demographic drivers supporting development of the leisure sector in the capital – a growing population, more jobs, the highest average earnings in Britain, households spending about 25 per cent more on leisure than the UK average and continued success in attracting visitors. With this potential, and constrained supply, it is little surprise that casino operators are sensing opportunities in London after deregulation.

Clearly, casinos raise a number of land use planning, transport, policing and social policy issues. To make sure it was positioned to start identifying and dealing with them, the Mayor's Office has carried out some research to try to get an understanding of the likely market for new casinos, and how many there might be. This is, of course, very difficult to do with any precision. It cannot be known how many Londoners will want to gamble in casinos or how much they will spend, and given the distinctiveness of the pattern of gambling spending in the UK because of the National Lottery, overseas experience might be of limited value. The position in London might be affected by what happens in surrounding areas. As with any new market, there will presumably be a process of market consolidation which is hard to predict. At this stage, however, it is not a precise prediction that is needed, but an indication of the likely scale of the issue – is it something regional policymakers have to respond to?

Our work drew on published reports looking at the likely gambling market post-deregulation (particularly a study by Pion Economics, and a report by the Henley Centre commissioned by the British Amusement Catering Trades Association) and a series of discussions with casino operators (both those already represented in London, and those considering locating here). The first step was to work out how big the national casino market might be. This, of course, depends on how many people use casinos – the two reports suggest this will increase from the current 3 to 5 per cent of the adult population, to 7 per cent (Henley Centre) or 10 per cent (Pion) (by comparison, the US participation rate is 25 per cent). From this, the share of visits that might be attributable to London casinos could be worked out, taking two scenarios - that London has an equal share with the rest of the country and that it retains its current 23 per cent share. Taking the 2.8 million visits to existing London casinos into account, the average figure for new visitation following deregulation is 5.5 million – roughly double the current level.

The next stage was to work out how these visitor figures might translate into additional spending. Again, the research on spend per visit in the two published reports was drawn upon, and information from operators was also taken into account. A range of estimates resulted, from £100 million to £500 million. The average figure of £300 million was considered an acceptable estimate.

To use this figure to work out how many casinos London might see required a number of simplifying assumptions. The Henley Centre report and discussions with operators both suggest that the number and type of gaming machine available will be of central importance. As a result, it has been assumed that all the additional demand will be met by 'regional' casinos which will have the largest number of machines. The Henley Centre's estimate of the proportion of casino spending that would be on gaming machines after deregulation (increasing from 4 per cent of spending in casinos currently to 56 per cent) was used to work out how much of the additional spending was on machine games. Using Henley's figures for how many machines would be supported by particular levels of spending, it was possible to come up with a range of machine numbers, from 2,800 to 14,000, with 8,400 machines under the £300 million estimate.

On this basis, the result would be a range of between two and twelve 'regional' casinos. The central expenditure estimate would see seven to eight casinos, but it ought to be remembered that the spending estimates do not take account of visitors from outside London, so the figure might be nearer the upper part of the range. There are a number of caveats, however; it is quite possible that there will also be a number of 'large' casinos, perhaps in suburban centres and catering for local markets. There is also the possibility that some of the existing casinos may close. At this stage it is impossible to say how the market will develop, and whether all the new entrants will endure as the market consolidates.

We have also tried to look at the costs and benefits involved. On the plus side, there may be around 13,000 new jobs (assuming that each regional casino employs 1,500 staff, that there are five new 'large' casinos and that just over half the jobs in existing casinos survive). New casinos will represent major capital investment, and can provide support for regeneration objectives. The Treasury is doubtless eyeing up the potential tax revenue. On the negative side, it seems likely that there will be some increase in problem gambling – perhaps from the current level of 0.8 per cent to something of the order of 1.4%. There will also be issues arising from the additional traffic casinos will generate and the costs of licensing and enforcement.

This work is necessarily rather crude. Given the number of uncertainties involved, and the fact that Government policy was being developed while it was being carried out, it would have been possible to spend a lot of money to come up with results that might not be much more reliable. However, it is enough to answer the question posed: casinos after the Bill are likely to raise significant issues for London, and policies will need to be developed to deal with them. The GLA has started work on this, calling on expertise across the organisation, and from the London Development Agency, Metropolitan Police and Transport for London to make sure we are neither shaken, nor stirred.

Additional information

Data sources

Tube and bus ridership	Transport for London on 020 7941 4500
GDP/GVA growth	Experian Business Strategies on 020 7630 5959
Tourism – overseas visitors	www.statistics.gov.uk
Tourism – domestic visitors	www.visitlondon.com
London airports	www.caa.co.uk
Business activity	www.rbs.co.uk/pmireports
Employment	www.rbs.co.uk/pmireports
London FootFall	www.footfall.com
Office space demand	www.cbhillierparker.com
House prices	www.nationwide.co.uk/hpi/
Unemployment rates	www.statistics.gov.uk

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.

Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

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 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's calculation of the number of people out of work.

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year – twelve 28-day periods and one 29-day period. Period 1 starts at the beginning of the financial year rather than the calendar year.

Acronyms

ABI	Annual Business Inquiry
BAA	British Airports Authority
BCC	British Chamber of Commerce
BITOA	British Incoming Tour Operators Association
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
EBS	Experian Business Strategies
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
IMF	International Monetary Fund
LCCI	London Chamber of Commerce and Industry
LET	London's Economy Today
MPC	Monetary Policy Committee
ODPM	Office of the Deputy Prime Minister
ONS	Office of National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers
RICS	Royal Institute of Chartered Surveyors

Past features

Issue	
1-3	Topics available on request
4	The risk of recession in London
5	Emerging trends in employment in London, 2000/01
6	Recent developments in UK and London's business investment
7	Response to claims that congestion charging is holding back London's economic recovery
	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
11	The causes of recent poor retail sales performance in central London
12	The state of London's housing market and sub-markets
13	London's manufacturing today
	The past is changing
14	London's leisure economy
15	Retail employment in London
16	A Londoner's Guide to the Pre-Budget Report
17	London employee jobs – the latest trends
18	Congestion charging and retail – one year on
	New tourism and employment indicators
19	Budget 2004: An initial analysis
	Where do you live? London's housing submarkets
20	A focus on cities
21	World City, World Knowledge: The economic contribution of London's higher education sector
22	Looking ahead: Gender, construction and retail
23	The Spending Review reviewed
24	How well do cities perform? The answer - it depends?
	Buses: Bringing benefit to town centres - Challenging the myths to bring business and people together

GLA Economics
City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922 **Email** glaeconomics@london.gov.uk
Fax 020 7983 4137 **Internet** www.london.gov.uk

ISSN 1740-9136 (print) ISSN 1740-9195 (online) ISSN 1740-9144 (email)

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

Subscribe
Subscribe online at http://www.london.gov.uk/mayor/economic_unit

Disclaimer
GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London, the London Development Agency and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

Other formats

For a summary of this document in your language, or a large print, Braille, disc, sign language video or audio tape version, please contact us at the address below:

Public Liaison Unit
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

Tel **020 7983 4100**
Minicom **020 7983 4458**
www.london.gov.uk

Please provide your name, postal address and state the publication and format you require.

About GLA Economics
GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

GLA Economics is funded by

Transport for London

LONDON DEVELOPMENT AGENCY

MAYOR OF LONDON