London's Economy Today

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In this issue

GLAECONOMICS

The Bush Bounce and the Dollar Slide

Movements in the international economy

by Alon Carmel

Economist, GLA Economics

Economic and political news since last month has understandably been dominated by the US presidential elections. The policies of President Bush will have wide-reaching economic consequences. During his second term, George Bush will appoint Alan Greenspan's successor as chairman of the Federal Reserve. The chairman's policies on the US fiscal and current account deficits as well as the Federal Reserve's monetary policy will be key factors determining the global economic climate in which the UK and London economies operate.

GLA Economics recently published the autumn edition of *London's Economic Outlook*[1], the Greater London Authority's (GLA) medium-term economic forecasts. The outlook for London is for Gross Value Added (GVA) growth of 3.8 per cent in 2004 and 3.1 per cent in 2005 and for above trend growth in 2004 – 2006. Several economic indicators for London support this medium-term assessment.

(Footnote)

1 Visit www.london.gov.uk/mayor/economic_unit

Latest news...

- **Employment projections now available:** Which London sector will experience the greatest employment growth up until 2007? How many new jobs will be created in the capital between 2002 and 2016? Get the answers in *GLA Economics' Working Paper 11 – Working London. Employment projections for London by sector* (published November 2004). For your copy, visit www.london.gov.uk/mayor/economic_unit or contact glaeconomics@london.gov.uk or 020 7983 4922.

- **GLA Economics welcomes** two new economists to the team. Richard Prothero will be based in City Hall while Patricia Seex will be based at the London Development Agency.

The Purchasing Managers' Index (PMI) measure of business activity rose from 58.2 in September to 58.9 in October. This is significantly higher than 50, which would indicate no change in business activity, and suggests that London continues to grow. Passenger numbers on the Underground and bus networks continued to grow in October and November, signaling continued strong economic conditions. The tourism recovery appears to have materialised as discussed in this edition's supplement, *They're coming back*. UK figures for September show that overseas visits to the UK continue to grow; visits in the year to September were up two per cent and spending up eight per cent. Around half of all overseas tourists stay at least one night in London, so this should translate directly into continued tourism recovery for London.

It has not all been good news though. The London unemployment rate for the third quarter (Q3) 2004 remained broadly flat at 7.1 per cent, above the national rate.

A moderate bounce and an expected tightening

The emergence of a clear result in the US elections on Wednesday 3 November boosted many markets across the world. US financial markets gave President Bush a cautious endorsement, with the Dow Jones Industrial Average, the Nasdaq Composite and the S&P 500 all going up by more than one per cent the day after the elections when the result became clear. Markets have held on to most of those gains, buoyed by unexpectedly good job numbers in October when the US economy added 337,000 jobs. The interest rate rise to 2.0 per cent announced by the Federal Reserve on 10 November did not perturb investors as it had long been anticipated.

UK growth remains healthy. Official statistics reveals that UK Gross Domestic Product (GDP) grew at a robust annual rate of 3.0 per cent in Q3 2004. This is slightly lower than the first and second quarters of 2004 when GDP grew at 3.6 and 3.4 per cent respectively, but the Chancellor's Budget 2004 forecast of 3 to 3½ per cent growth during 2004 looks secure.

In contrast to the US Federal Reserve, the Monetary Policy Committee (MPC) of the Bank of England chose to keep interest rates steady at 4.75 per cent when they met on 4 November. Earlier in the year, the Bank had been widely expected to raise rates to 5.0 per cent in November. However, with the Consumer Price Index (CPI) still low at 1.2 per cent in October, below the 2.0 per cent target, high oil prices and capacity constraints still not producing much higher prices, the Bank chose not to go for another rise. Falling house price inflation and cooling retail spending were also mentioned in the MPC's minutes as influencing the decision.

There is uncertainty about future rate rises but they should not be ruled out. Unemployment fell again in Q3 2004 to 4.6 per cent, from 4.8 per cent in Q2. This is the lowest proportion and level since 1984, causing concerns about capacity constraints. Further, the Bank of England is projecting that inflation will pick up above the target of two per cent by 2007, though this does not look wholly plausible. Add to this the risk of continued high oil prices and clearly some would argue for further rate rises. Mervyn King, Governor of the Bank of England, said that 'where interest rates will go will depend on the economic data as they emerge over the coming months', indicating that the next rate movement could go either way.

However, the main risks to UK and London growth are subsiding. The domestic risks are dominated by house prices. Our central view (expressed in *London's Economic Outlook*) is that house prices will adjust gradually without major disruption to the economy in general. However, there remains a risk that the adjustment in house prices is less benign than expected. This would probably require that the overall economic environment takes a sudden turn for the worse such as a sharp rise in unemployment. Such a development seems unlikely at present. Therefore, the more significant risk is that the global recovery is derailed.

The main international risk is that the stuttering recoveries of the eurozone and Japan will grind to a halt. While the US and the UK have experienced continued strong growth in Q3 2004, the recovery in the eurozone and Japan may have faltered. Japan has grown by only 0.4 per cent in the last six months although this followed growth of 3.5 per cent in the previous two quarters and Japanese quarterly growth has been volatile of late. Eurozone growth was also disappointing at around 1.9 per cent in the third quarter of the same period last year ending the pick up in annual growth seen since early 2003. In Japan and Germany's case, the sluggish growth has been blamed on weak demand from export markets. This might be due to the weak dollar making Japanese and German exports expensive to the US or to oil prices dampening demand for imports generally. More fundamentally, the eurozone may currently be unable to sustain more rapid growth. Former Dutch Prime Minister Wim Kok delivered a progress report in November on the Lisbon Agenda that aims to make the European Union (EU) the world's most competitive economy by 2010. The verdict was that not enough had been done by all countries to reform their economies and several key targets were likely to be missed.

Where will the buck stop?

The dollar has lost 50 per cent of its value against the euro since 2001, and 15 per cent against a basket of the major currencies since its peak in 2002. There has long been fairly broad agreement that the dollar is overvalued, in effect being propped up by Asian central banks willing to bankroll the US's current account deficit which helps to keep American demand for imports high. The uncertainty has surrounded how far, how fast and when the dollar will fall. The adjustment seems already to have begun and a paper for the US National Bureau of Economic Research suggests that the dollar will fall by another 20 per cent in real trade-weighted terms even on a gradual adjustment[2].

America has a current account deficit of around six per cent of GDP and has net foreign liabilities of about 23 per cent. Many economists believe that this level of foreign indebtedness is not sustainable. A depreciation of the dollar will help to reduce the debt as the bulk of US debt is denominated in dollars. However to sustainably reduce its debt the US will need to reduce consumption and increase savings while allowing the dollar to depreciate.

Depreciating the dollar could be gradual as in the 1980s when the dollar's trade-weighted value declined by 40 per cent with few problems for the economy, or it could take a more troubling form such as the plunge in the 1970s precipitated by the collapse of the Bretton Woods system of fixed exchange rates. This will depend on how investors, in particular Asian central banks which hold $1.89 trillion in foreign reserves (mostly in dollars), view the situation and how much confidence they continue to have in the US economy. It will also depend on the Bush administration's fiscal policy. If the US continues to cut taxes and raise spending, the budget deficit will continue to grow and continue to put pressure on the dollar. The effects on the UK and Europe will mainly depend on whether the euro continues to absorb most of the change in the dollar or whether the depreciation is spread more evenly across other currencies. China's exchange rate is currently pegged against the dollar so it cannot absorb any of the depreciation. Japan has intervened once in the money markets to shore up the dollar and might do so again. There is a real risk therefore that the euro will end up absorbing most of the required dollar adjustment and this may trip up an already limping recovery.

Chart 1. The dollar and euro exchange rate

Source: Ecowin

(Footnote)
2 M Obstfeld and K Rogoff, The Unsustainable US Current Account Position Revisited, NBER working paper 10869, October 2004

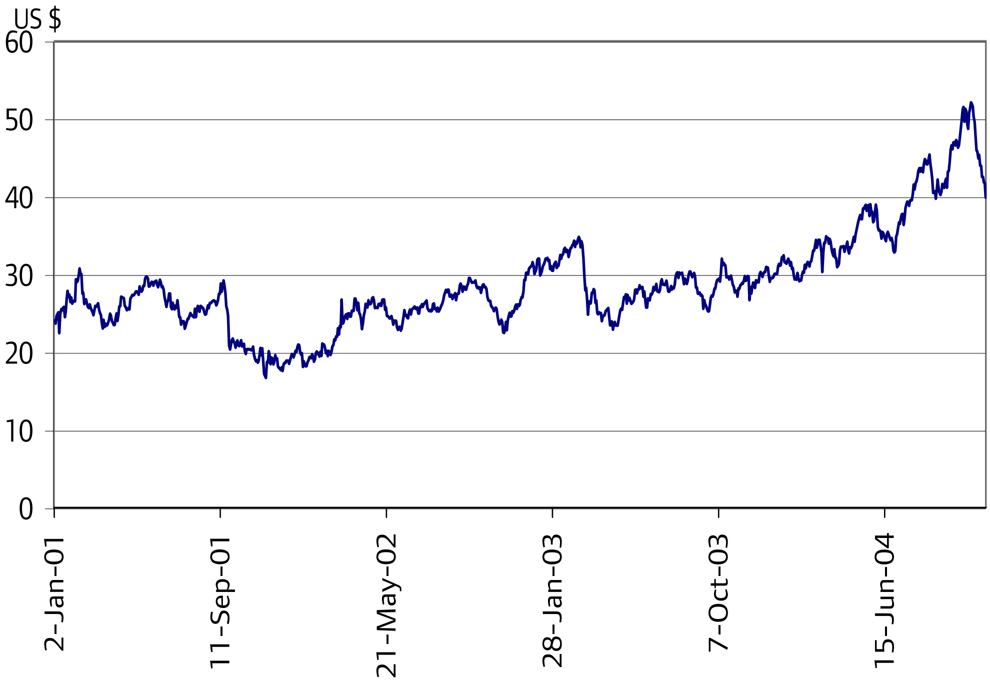
Oil prices

Oil prices have come down to around $40 a barrel from the highs of above $50 in October. However, it is still too soon to tell whether this will be sustained. The market has presumably been calmed by the end of uncertainty about who would be the next US president and by the replenishing of crude oil stocks that had been depleted by hurricane Ivan.

Moreover, though oil prices are still high, they are not as damaging as they were in the 1970s. In real terms, oil prices are only around 60 per cent of what they were in the 1970s, and western economies use much less oil per unit of output than they used to. Since oil prices are denominated in dollars, the weak dollar has partly offset the high oil price for currencies that have strengthened against the dollar. Furthermore, the UK is less likely than other countries to be significantly harmed by higher oil prices because it is still (just) a net exporter of oil. The National Institute of Economic and Social Research (NIESR) estimates that a permanent oil price increase of 20 per cent could reduce 2005 UK output by 0.2 per cent of GDP compared to 0.3 per cent in the eurozone and 0.6 per cent in the US with its relatively higher dependence on oil[3].

Chart 2. Oil prices (Brent Crude). Last data 15 November 2004.

Source: Financial Times



None of this changes the central expectation outlined in the autumn edition of *London's Economic Outlook*. Financial markets have exhibited growing confidence, oil prices have dropped down from earlier highs and UK interest rates are on hold. The outlook for the UK and London economies are for continued measured expansion with the major risk being a sharp fall in the dollar leading to a withdrawal of capital from America, a sudden fall in US asset markets and reduced US consumer spending.

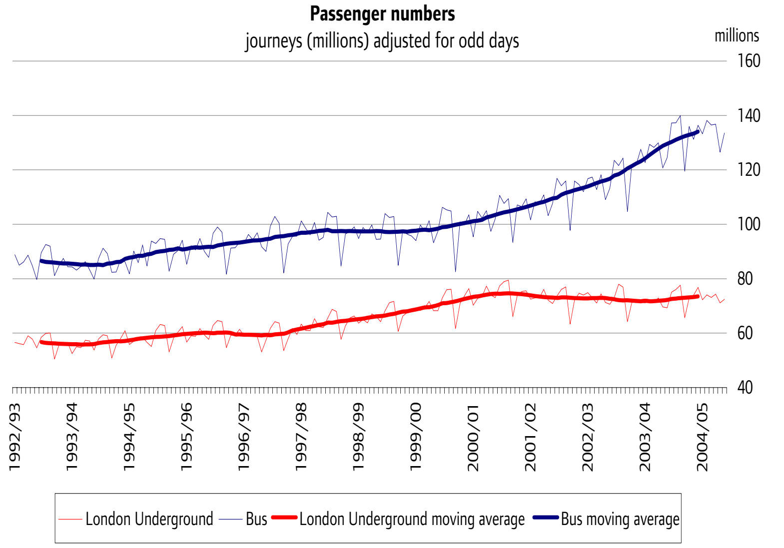
(Footnote)
3 R Barrell and O Pomerantz, Oil Prices and the World Economy, NIESR discussion paper no. 242, 2004

Economic indicators

Moving average passenger numbers continue to rise

- In the most recent 28-day period, London's public transport had 206 million passenger journeys; 134 million by bus and 72.5 million by tube.
- The moving average shows an increase to 207.5 million passengers every period, the highest recorded in these publications. The average for buses increased to 134 million passenger journeys each period and the average for the tube edged up to 73.5 million.

Latest release: October 2004
Next release: November 2004

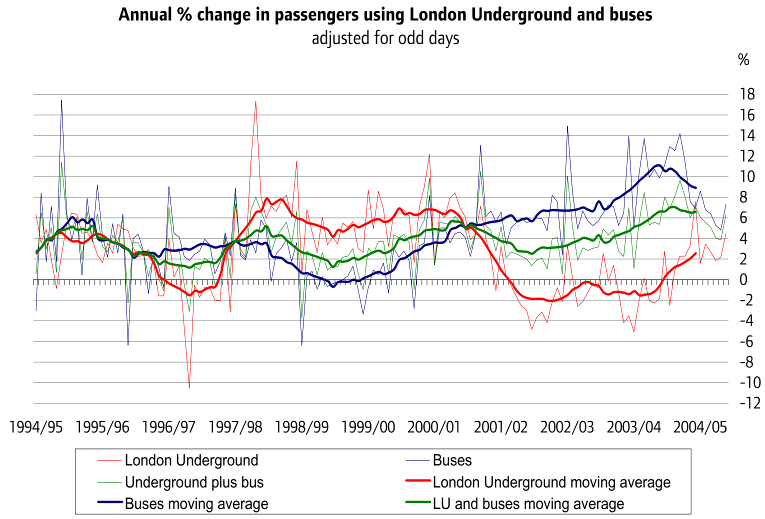


Source: Transport for London

Sustained growth on buses and the tube

- The average annual rate of growth in passenger journeys is 6.5%.
- The average annual rate of growth in the number of bus journeys is 8.8%, slightly below last period's figures.
- The recovery in Underground passenger numbers has been sustained. The average annual rate of growth increased to 2.5%.

Latest release: October 2004
Next release: November 2004

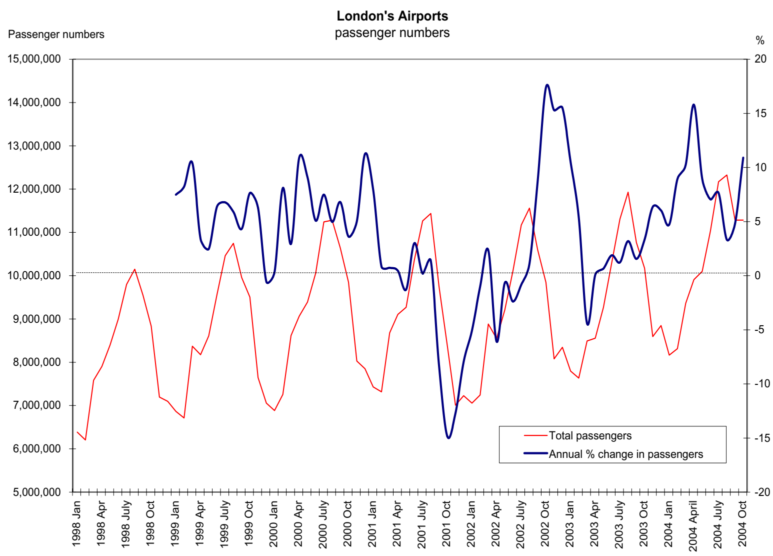


Source: Transport for London

Sustained rise in the number of air passengers

- Almost 11.3 million passengers travelled through London's airports in October.
- The number of passengers using London's airports increased by 10.9% from Oct 2003 - 2004 .
- Passenger numbers have continued to grow strongly throughout 2003.

Latest release: November 2004
Next release: December 2004



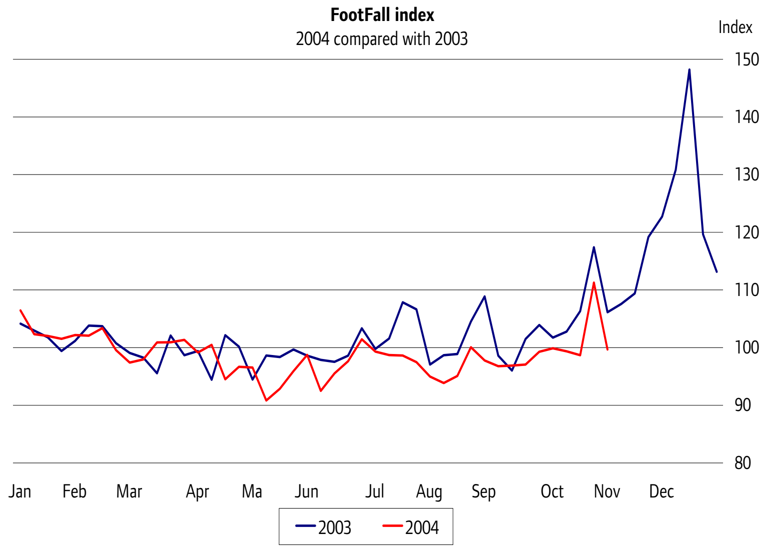
Source: Civil Aviation Authority

A busy shopping week at the end of October

- The FootFall index had a sharp increase in the final week of October, echoing a similar spike at the same time last year.
- However, the current level of the index remains below the level of last year, suggesting fewer numbers of shoppers this autumn.
- The index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: 01/10/04

Next release: every week



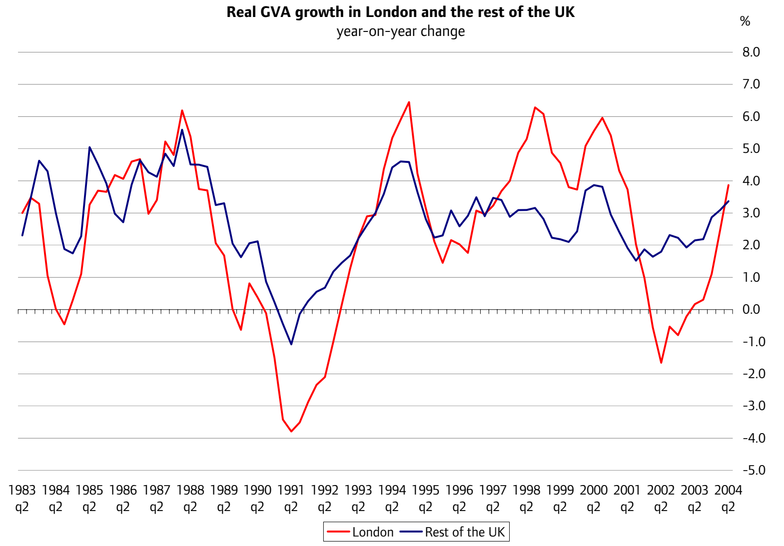
Source: FootFall Limited

Strong recovery in economic growth

- London's annual growth in output grew strongly by 3.9% in Q2 2004, up from annual growth of 2.5% in Q1.
- This represents a strong recovery in 2004 from the poorer growth rates of 2001 to 2003.
- London's GVA growth is now faster than the UK's, which continued to grow steadily from annual growth of 3.1% in Q1 2004 to 3.4% in Q2.

Latest release: September 2004

Next release: January 2005



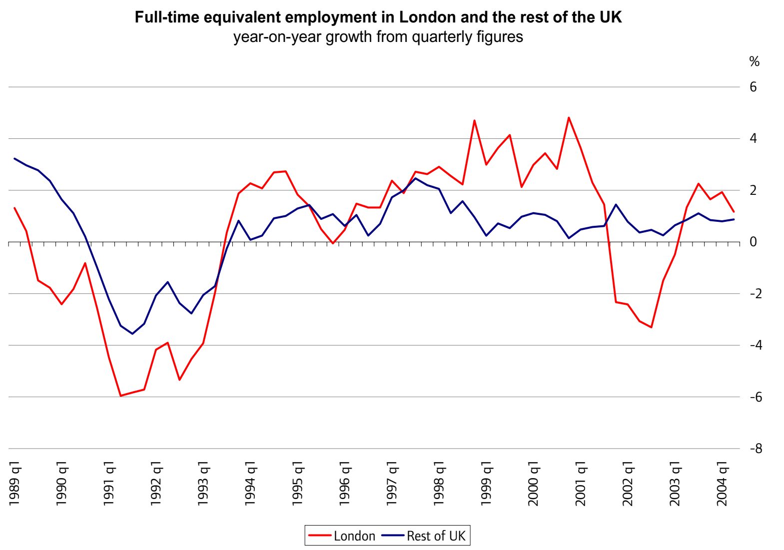
Source: Experian Business Strategies

Sustained employment growth in London and the rest of the UK

- London's year-on-year employment growth was 1.7% in Q1 2004 and reduced slightly to 1.2% in Q2 2004.
- This indicates a sustained recovery in the number of jobs in London since early 2003.
- London's employment growth for 2004 so far is faster than the UK's, which grew steadily at annual rates of 0.8% in Q1 and 0.9% in Q2.

Latest release: September 2004

Next release: January 2005

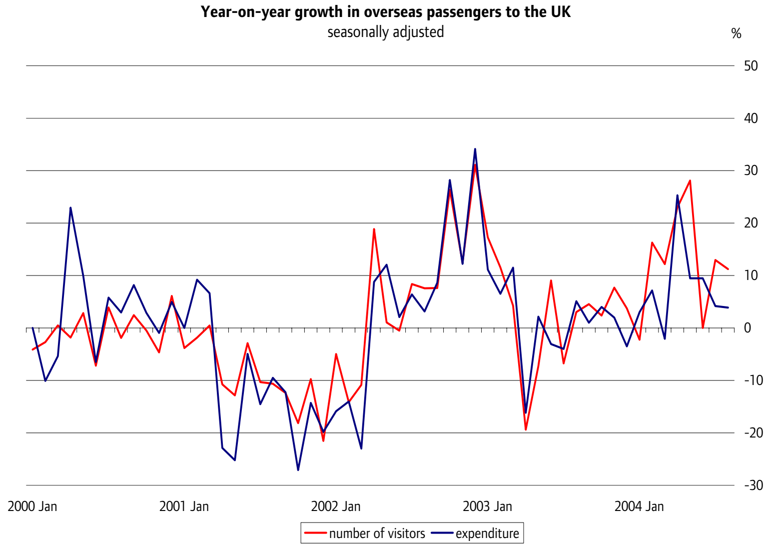


Source: Experian Business Strategies

More overseas visitors in the summer

- Summer 2004 showed growth on last year in overseas visitors to the UK and their spending. Up to half of overseas visitors spend time in London.
- The annual growth of overseas visitors to the UK was more than 11% higher in August 2004 than in August 2003 and 13% higher in July 2004 than July 2003.
- The year-on-year growth in expenditure by overseas visitors in the UK was around 4% over the summer of 2003 to the summer of 2004.

Latest release: 08/11/2004
Next release: 08/12/ 2004

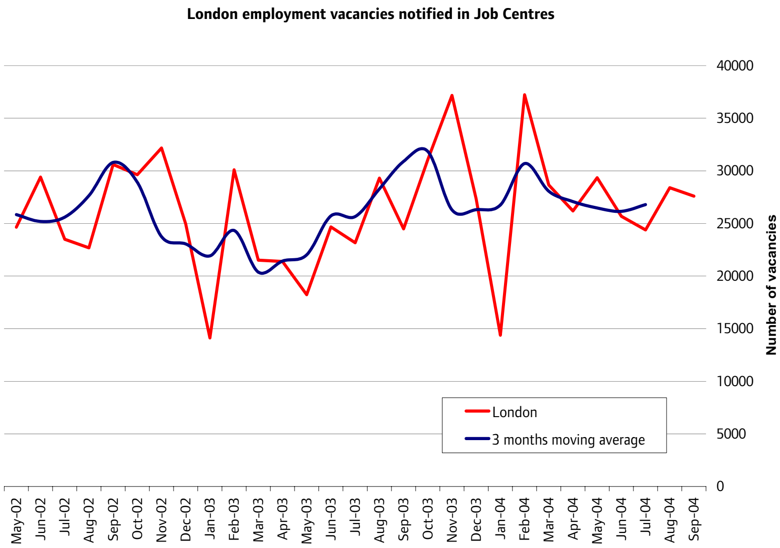


Source: ONS

London has more job vacancies than last year

- Jobcentre Plus recorded over 27,000 notified vacancies in London in September 2004.
- This was 13% more vacancies than September 2003 but less than number of vacancies notified in August 2004.

Latest release: November 2004
Next release: December 2004

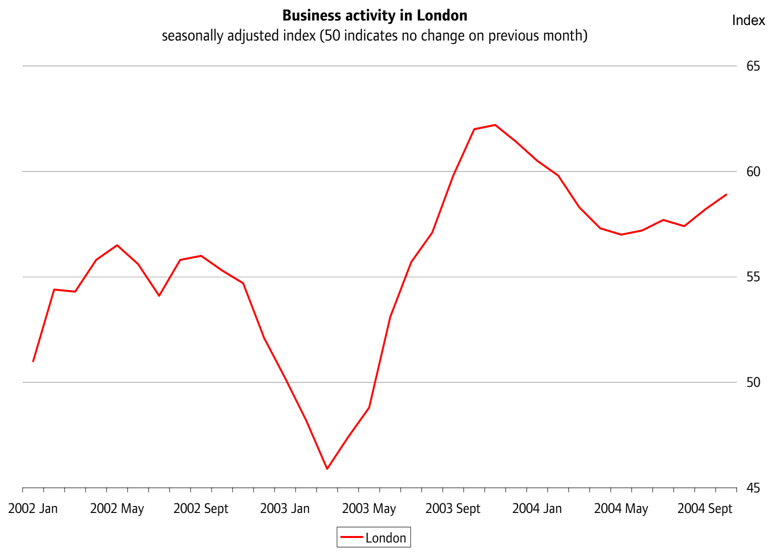


Source: Jobcentre Plus, Nomis

Business activity in London expands

- London firms continued to expand their output of goods and services in November with the rate of growth increasing slightly.
- The Purchasing Managers' Index (PMI) of business activity recorded 58.9 in October 2004, up from 58.2 in September 2004.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: November 2004
Next release: December 2004

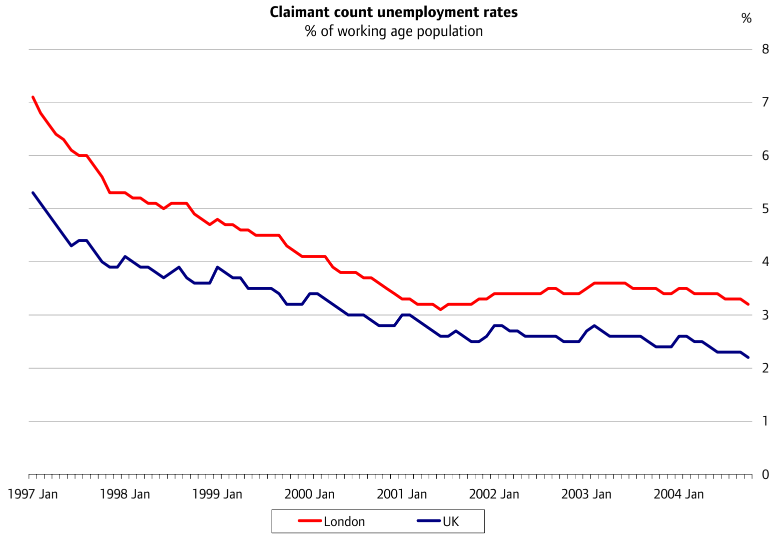


Source: PMI/The Royal Bank of Scotland

Claimant count unemployment still low

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, decreased to 3.2% in October.
- There were 159,200 unemployment claimants in London in October 2004, compared with 170,100 in September 2003.
- Claimant count unemployment rate in the UK remains below that of London.

Latest release: November 2004
Next release: December 2004

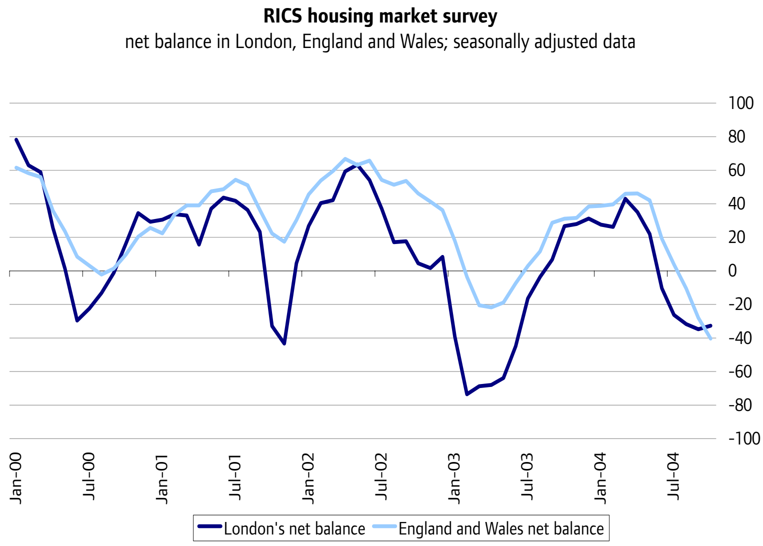


Source: Claimant Count, Nomis

Surveyors point to a slowdown in house prices

- The RICS survey shows that in recent months lower prices have been reported both in London and in the rest of England and Wales.
- In London, the net balance has been negative since June and fell to -33 in October from -35 in September.
- For England and Wales, the net balance turned negative in September and fell to -41 in October. This is slightly below the London figure.

Latest release: November 2004
Next release: December 2004

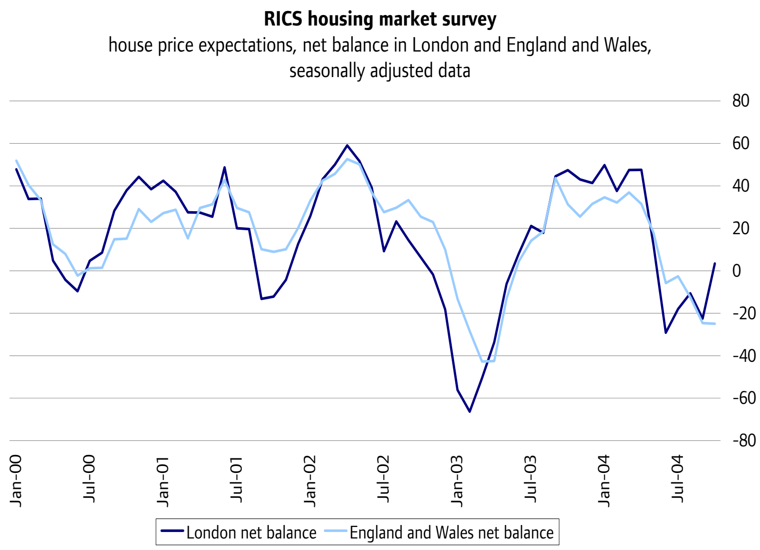


Source: Royal Institute of Chartered Surveyors

Expectations of the London housing market are negative

- A small majority of surveyors expect house price increases in London but not in the rest of England and Wales.
- In London, the net balance was negative since June but turned positive in October rising to plus 3.
- For England and Wales, the net balance turned negative in June and fell to -25 in September. Confidence in house prices recovered more in London than the rest of the country in October.

Latest release: November 2004
Next release: December 2004



Source: Royal Institute of Chartered Surveyors

They're coming back!

The recovery in London's tourism industry

by Alon Carmel
Economist, GLA Economics

War, terrorism and disease are not the easiest things to overcome. Yet, London's tourism industry has endured all three over the last few years and is now showing signs of recovery. The latest figures indicate that the industry is in its strongest position since before the crises (foot and mouth disease, 9/11 and the Iraq war) began in 2000. Tourists are again being lured by London's many treasures and attractions, spending £13.2 billion in the capital in 2002.

Snap shot – The industry at a glance

- The recoveries in overseas and domestic tourism since second quarter (Q2) 2003 added an estimated £770 million to London's economy, or around 10 per cent of London's Gross Domestic Product (GDP) growth during the same period.
- The recovery between Q2 2003 and Q2 2004 of London's most important tourist market, overseas tourism, added £500 million to the London economy.
- Domestic tourism data (only available to the end of 2003) showed that numbers declined in 2003 but spending increased by around £400 million.
- Visitors from Western Europe are leading the charge in recovery while North American tourist spending levels are at 85 per cent of their Q2 2000 levels.
- In terms of visits (not spending), overseas tourism has recovered to 96 per cent of its 2000 levels but domestic tourist visits have been on a downward trend since 2000 and were at 78 per cent of their 2000 levels in 2003.

Table 1 summarises the importance of tourism for London.

Table 1. The value of tourism for London

Source: IPS, UKTS, DCMS and Day Visitor Survey[1]

2002	Overseas visitors	Domestic	Day visitors	Total
Visits (millions)	11.6	16.1	169	27.7
Nights (millions)	75.4	35.4	-	110.8
Spending (£ millions)	5,788	2,818	4,600	13,200
Fares to London carriers (£ millions)				1,800
Total (£millions)				15,000
As % of London GVA				6-7%

(Footnote)
1 IPS = International Passenger Survey; UKTS = United Kingdom Tourism Survey; DCMS = Department for Culture, Media and Sport.

Visitors from afar

Chart 3 shows the recovery in overseas visitor spending in London and the UK. The decline in 2001 was largely due to the foot and mouth disease while the trough in Q4 2001 was mainly because of 9/11. The gradual recovery later in 2002 was reversed by the Iraq war in March 2003. However, starting in Q3 2003 overseas tourism spend has been recovering reaching 94 per cent of its Q2 2000 London level and 98 per cent of its Q2 2000 UK level.

Chart 3. A recovery in overseas visitor spending to UK and London

Source: IPS, ONS

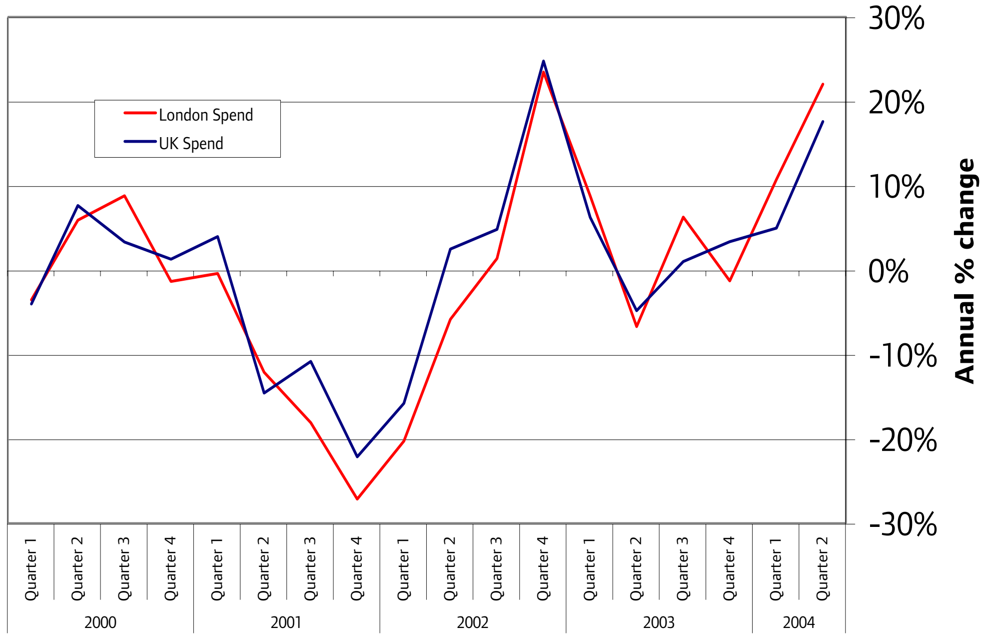


Chart 4 shows that the downturn was deeper in London than in the UK as a whole but that the recovery has brought tourist levels back to near their 2000 levels. UK visits are still actually higher than in 2000, while UK overseas tourist spend is at 98 per cent of year 2000 levels. London visits are at 96 per cent of 2000 levels and overseas tourist spend in London is at 94 percent of 2000 levels.

Chart 4. The recovery in levels (Q2 indexed to 1999)

Source: IPS, ONS

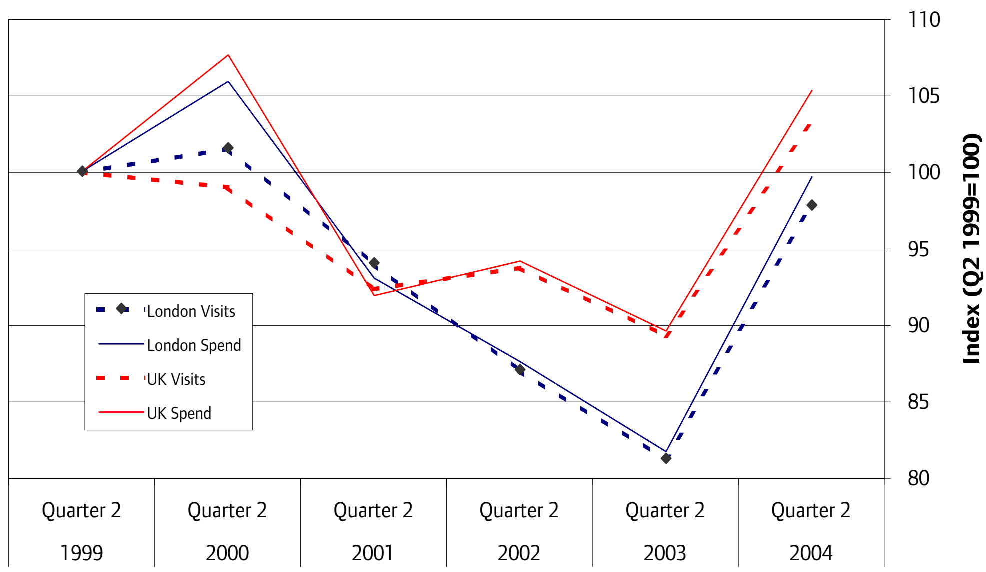
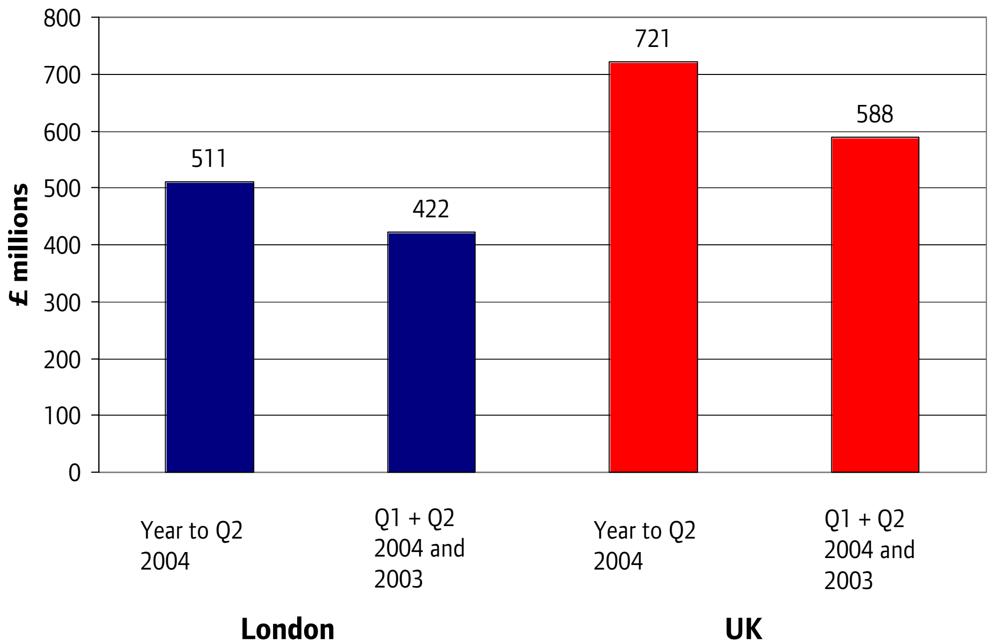


Chart 5 shows that the value of the recovery for London (taking the year to Q2 2004) is around £500 million.

Chart 5: The value[2] of the recovery in overseas visitors to London and UK

Source: IPS, ONS

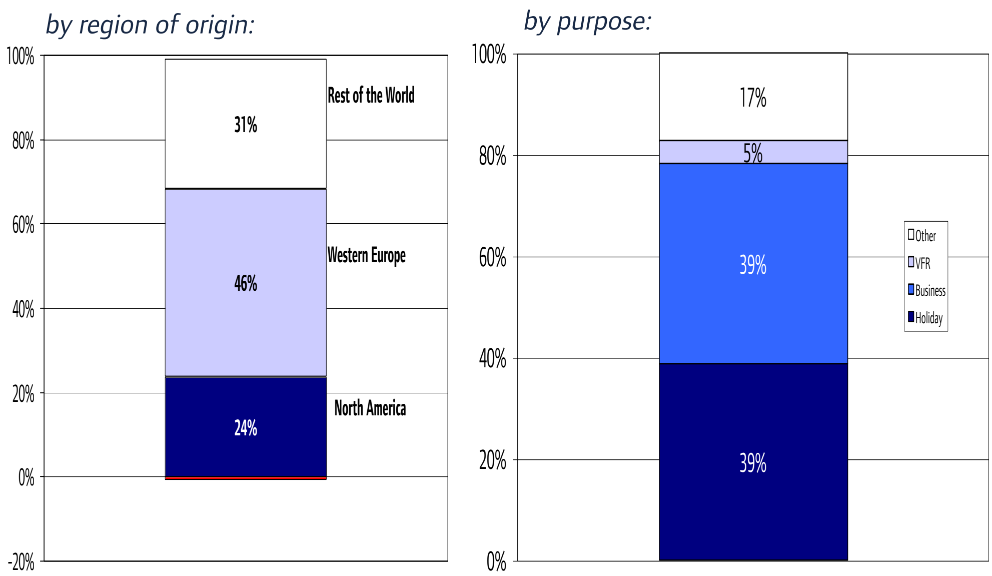


Western Europeans love London

Western Europeans were responsible for 46 per cent of the recovery in spending from overseas visitors between Q2 2003 and Q2 2004. This means that the levels of spending by Western Europeans are at 99 per cent of their 2000 levels. Tourists from the 'rest of the world' (including Eastern Europe, the Middle East and Asia) accounted for 31 per cent of the recovery and were back to 95 per cent of their 2000 levels. The recovery also came from North America with our cross-Atlantic friends spending levels at 85 per cent of their 2000 levels.

Chart 6: Recovery by 'region of origin' and 'purpose'

Source: IPS, ONS



(Footnote)
2 The value has been calculated by comparing the overseas tourist spend for the year to Q2 2004 with the year to Q2 2003. To illustrate the extent to which the recovery lies in the beginning of 2004 rather than the end of 2003, the first half of 2004 has been compared to the first half of 2003.

The most recent data shows that in Q2 2004 the number of visits are down but the number of nights are up compared to the same period in 2000. Overall spend per night has fallen compared to 2000, suggesting that the recovery has been achieved by attracting a lower-spending segment of the market.

Table 2. Nights, visits and expenditure

Source: IPS, ONS

% Change Q2 2000 - Q2 2004	Visits	Nights	Spend	Spend/Night
TOTAL WORLD	-3.7%	12.6%	-5.9%	-16.4%
North America	-18.3%	-24.2%	-15.2%	11.9%
Western Europe	2.8%	3.8%	-0.6%	-4.2%
Other Europe	17.6%	2.7%	10.8%	7.9%
Rest of the world	-2.2%	51.7%	-4.6%	-37.1%

Uncertainty over domestic tourism

While trips to London have continued on a downward trend, spending in London declined between 2000 and 2002 but then recovered in 2003 (increasing by 14 per cent from 2002 levels). It is not possible to say with confidence whether domestic tourism spending levels in London recovered to the levels before 2001, as there was a discontinuity in surveying methodology which led to the spike that can be seen for 2000 in Chart 7.

Chart 7. Domestic tourism spending in London and UK

Source: UKTS

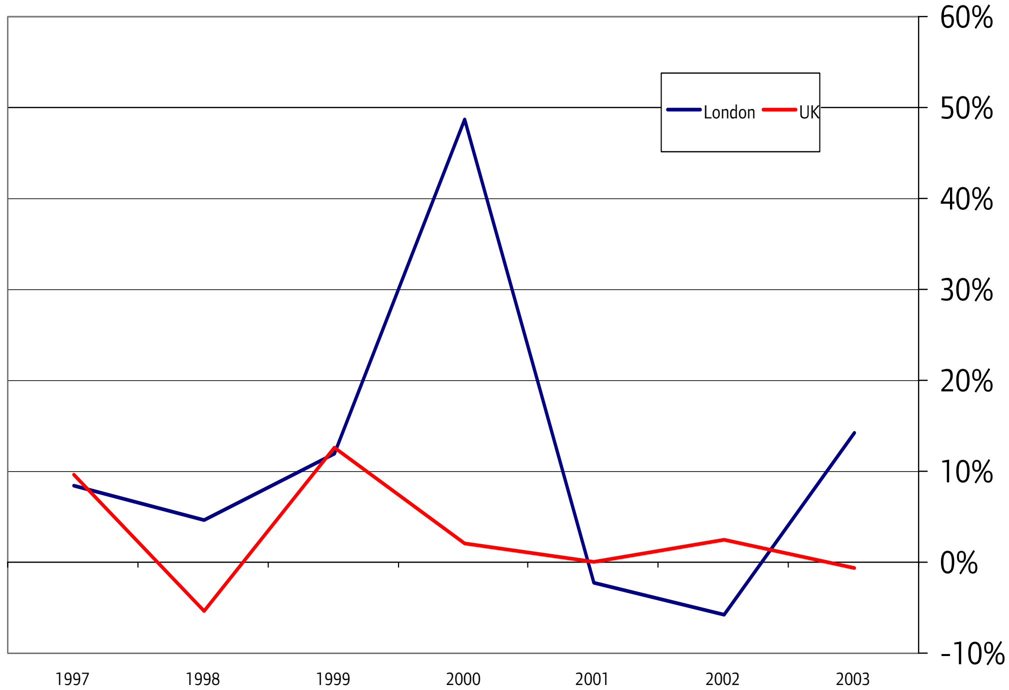


Chart 8 shows that while domestic tourism numbers declined steadily over the last few years, there was a significant recovery in spending in London in 2003. For the UK as a whole there was a drop in domestic tourist spending between 2002 and 2003. Chart 9 shows the value of the recovery in London and the fall in the UK.

Chart 8. Domestic toursim recovery

Source: UKTS

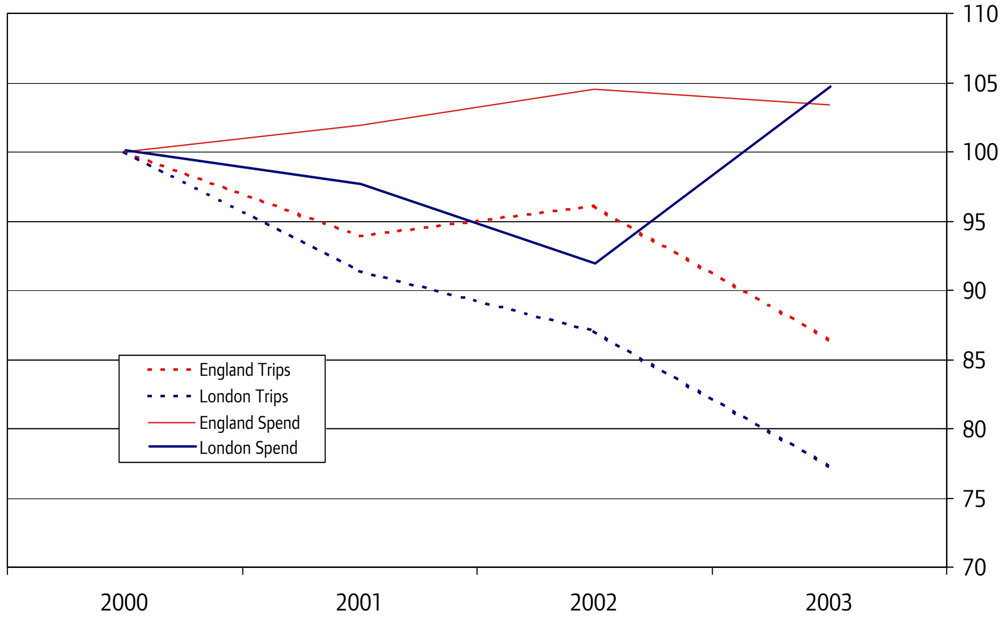


Chart 9. The value of London's 2003 recovery in domestic tourism

Source: UKTS

All aboard! Overseas and domestic spending combined

It is difficult to combine overseas and domestic tourism data to produce an overall picture of the recovery because:

- Overseas data is available quarterly, but domestic data is only available annually.
- Data from 2004 is not available for domestic tourism until 2005.

The fact that domestic tourism is only available in an annual format means that it is not possible to say when during 2003 the recovery in domestic tourism began. It is possible that the recoveries in domestic and overseas tourism began at different times since the drivers of these two markets are quite distinct.

To combine the effects of overseas and domestic spending requires some assumptions. By assuming that the recovery dates from Q3 2003 for both domestic and overseas tourism and that domestic tourism grows during 2004 by an average growth rate for 2002 and 2003, it is possible to estimate the contribution of the tourism recovery to London's Gross Value Added (GVA) growth.

The recovery in tourism contributed around £770 million between Q2 2003 and Q2 2004[3]. During the same period the London economy as a whole grew by about £7.5 billion (GLA Economics calculation[4]). So the tourism recovery accounted for around 10 per cent of London GVA growth in the year to Q2 2004. This is high compared to the tourism sector's proportion of the London economy which is around six to seven per cent (see Table 1).

Conclusion

Tourism in London has largely recovered from the shocks of foot and mouth disease, 9/11 and the Iraq war. The start of the overseas tourist recovery is dated from Q3 2003, although this is difficult to say with certainty due to the problems discussed earlier. The value of the recovery has been estimated at around £770 million (for the year to Q2 2004). This represents around 10 per cent of London's economic growth over the same period. The tourism sector's contribution to growth over this period has been higher than the sector's share of output.

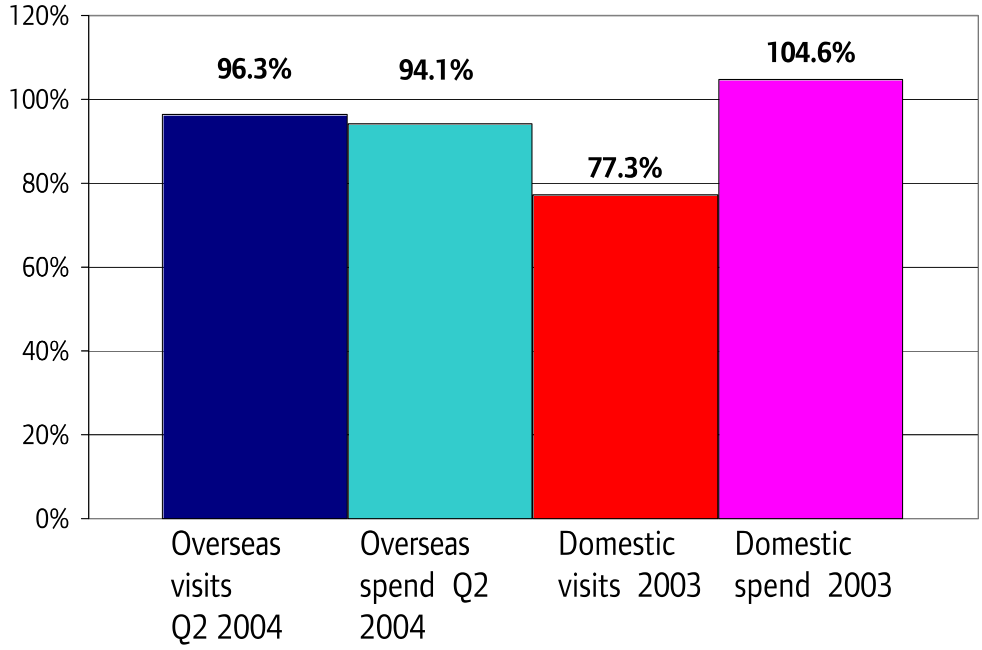
Chart 10 shows the extent to which tourism has recovered in London compared to pre-crises 2000. Domestic visits have been on a downward trend at least since

(Footnotes)
3 Domestic tourism spend was estimated by taking half of 2003 spend and half of 2004 spend. Since there is no data for 2004 this was estimated/forecast by assuming that spending would grow by an average of the growth rates in 2002 and 2003 (arithmetic mean of 3.5 per cent).
4 Estimates for GDP in current prices were calculated using the ONS 2002 figures as a base and uprating them with real GVA growth rates derived from EBS data and GDP deflators growth rates data from the ONS.

2000 but this is probably a longer-term trend for UK households to take their holidays abroad and not a unique problem for London (the same downward trend is observable for other UK regions and cities).

Chart 10. Latest London tourist data compared with 2000

Source: UKTS and IPS



Nappies and 'power suits'
Childcare issues for London employers

by James Sloan
Applied Economist,
London Development
Agency

For the 1.7 million parents living in London, the need to provide adequate care for their dependent children is a priority. These demands influence how a parent manages their time, whether it be arranging to pick-up children after school, staying at home to look after children or planning child-friendly activities during the summer holidays. As 1.1 million of these parents also have jobs (with an extra 100,000 parents commuting into London for work), these demands inevitably impact on employers.

The importance of these issues has grown with the increase in women's employment. Since 1981, London's under ten population has grown by 145,000, in contrast to the falls experienced by the nation as a whole. As a result, childcare in London has also expanded, especially with the implementation of the government's National Childcare Strategy. The total number of childcare places for under-eights has grown by around 24,500 or 14.3 per cent between 2003 and 2004. The number of providers also expanded by around 1,200 or eight per cent over the same period. These above average growth rates have been driven by London's expanding population, growing at a much faster rate than England as a whole.

However, despite this growth, the provision of full-time day nursery and childminder places has fallen behind England's average. In September 2004, the combined total of nursery and childminder places could accommodate 23.4 per cent of under-fives compared with 28.8 per cent in England as a whole.

London's high cost base means that despite this growth in provision, prices remain relatively high with the average place at a nursery for an under-two in inner London costing around £8,000[1] per year, which is £2,000 more than England's average. This difference is higher than the typical wage differential (Londoners on average earn 15-25 per cent more than England residents) and is particularly higher for Londoners in low skilled occupations. Moreover, this is still a significant outlay for a London resident on the average full-time salary of £31,400 a year[2].

(Footnotes)
1 Source: Daycare Trust and LDA calculations
2 New Earnings Survey, ONS, 2003

For employers helping to fill this gap, childcare support can produce significant benefits such as reduced absenteeism and increased staff productivity. Employer supported childcare is often a key element in achieving status as an employer of choice and extending an employer's presence and improving their position within the London labour market.

With London's under 10 population set to grow by a further 78,000 by 2021[3], issues surrounding childcare are likely to be of even greater importance to London businesses in the future.

The economics of employer supported childcare

Key to London's economic growth over the last ten years has been the ability of the region's labour market to satisfy the needs of the London business community. In 2003 for example, only 3.9 per cent of London employers had vacancies that were 'hard to fill', the smallest proportion in any English region and below the English average of 7.6 per cent[4]. A significant factor behind the high quality of London's labour supply is the region's migration flows. The continued influx of young graduates from outside of London and skilled labour from abroad is gradually offsetting the population outflows of older workers retiring or leaving. The remaining gaps in the job market are being filled through movements between jobs in London.

Among London businesses this relative efficiency has not bred complacency. The London Development Agency's (LDA) *2003 London Annual Business Survey* identifies that the single most important factor for the successful running of a London business is the availability of appropriately skilled labour. The lack of this factor is also identified as the most likely cause of poor performance, with the quality of a firm's workforce also being highly important to a London firm's competitiveness.

With the quality of labour critical for a business's success, it is rational for a firm to adopt a strategy that maximises both the depth of a firm's recruitment pool and the retention of its key staff while minimising absenteeism. With 52.3 per cent of London's 30-44 year old workforce providing dependent care to children under 16, employer supported childcare can often help achieve this strategy.

Expanding the recruitment pool

Data from the *2002 Labour Force Survey* shows that around eight per cent of London's working age population do not work due to family and household commitments. Initiatives such as employer supported childcare can both expand the recruitment pool to include much of this group (with the lack of affordable childcare being a key issue behind London's low female employment rates)

(Footnotes)
3 GLA Population Projections, 2004
4 National Employers Skills Survey, Learning and Skills Council, Sector Skills Development Agency, Department for Education and Skills, 2003

while also making the employer more attractive to the 438,000 parents in London employed as managers or in other high skilled professional occupations. These effects are evident from the experiences of Microsoft UK. As part of a drive to improve its image to possible job applicants, Microsoft developed workplace practices to support those with dependent children and other programs to improve the working lives of employees on the whole. These practices have led to a change in image for Microsoft from having to advertise jobs anonymously, to the company receiving around 2,000 unsolicited *curriculum vitaes* every month[5]. As the average childbearing age in London is 29 years and around 60 per cent of those aged 30-44 having dependent childcare needs, these issues are common to a sizeable chunk of London workers in senior roles.

Reducing absenteeism

People looking after dependent children and wanting a work life balance, often trade off the work they are able or willing to do. At any one time in London, around 10.6 per cent of employed parents with dependent children are not at work but are either on holiday or absent through sickness or other reasons (with childcare demands being a main reason in the 'other' category.). For those working in London without dependent children, 7.5 per cent are either on holiday or absent from work[6]. Dependent care needs are often a key factor behind impromptu absenteeism from work due to unanticipated situations, for example, a nursery or school being closed due to poor weather.

There are cost benefit analyses showing how a successful childcare solution can offset these losses. JP Morgan Chase in the US was estimated to have saved $1,520,000 from reducing absenteeism by running a backup childcare support centre. This saving outweighed the centre's $720,000 per annum running costs leading to an estimated return on investment of around $800,000, or 112 per cent[7].

Staff retention

As mentioned before, the retention of experienced staff is a key issue for London businesses. The main skills gap for most firms are 'job specific'[8] and a significant reason for parental workers leaving the last job are 'family or personal reasons'[9]. The provision of childcare support can act as an incentive for employees to stay, helping firms maintain firm-specific skills and reducing the risk of incurring a loss through employee turnover.

However, alongside these benefits, there are both problems and expenses for firms in providing childcare support, especially within London. The capital's high cost base means on site provision often requires significant capital investment. Benefits to employees, especially those in lower paid occupations, can be lower than elsewhere in the country as the in-work tax credit system is based on national

(Footnotes)
5 Expanding the quality and quantity of London childcare, LDA, 2004
6 Labour Force Survey, ONS, 2003
7 Bright Horizons Family Solutions, 1996
8 National Employers Skills Survey, Learning and Skills Council, Sector Skills Development Agency, Department for Education and Skills, 2003
9 Labour Force Survey, ONS, 2002

average costs[10]. Alongside this, there are difficulties measuring benefits such as productivity and morale, making the evaluation of initiatives difficult. However, with at least one in four workers within each of London's main industrial sectors providing care for at least one dependent child under 16, issues relating to childcare are common throughout London, whether it be on an assembly line at an east London manufacturing plant or among part-time workers of the central London hospitalities cluster. As a result, the portfolio of cost effective, 'tried and tested' childcare initiatives is large, with many examples of best practice outlined in the new LDA publication, *Expanding the quantity and quality of London's childcare, 2004*.

Issues on the horizon

With unemployment in the capital relatively low by historic standards and employment forecasts projecting sustained growth over the next few years[12], childcare issues are unlikely to disappear. However, despite these historically low unemployment levels, London has one of the lowest employment rates in the UK. Insufficient growth in London's labour supply could be a threat to its future economic development, while exclusion from the labour market contributes to London's exceptional rate of child poverty (38 per cent of all children). For women in London, having dependent children has a major impact on employment rates. The employment rate of women with dependent children in London is well below the UK average, while women without children are as likely to be employed in London as elsewhere. An improvement in childcare provision can assist in tapping this underused source of labour supply to the benefit of both London's parents and their prospective employers.

The LDA has been tasked with the implementation of much of the Mayor of London's Childcare Strategy. Part of this involves establishing an employer consultation group to advise on further interventions to develop London's childcare provision. With this issue of importance to many firms, interested employers are invited to contact the LDA and play a role in coordinating this development.

LDA Contact Details

Denise Freeland
Senior Childcare Manager
The London Development Agency
Devon house, 58-60 St Katherine's Way
London
E1W 1JX
Tel: 020 7954 4207
denisefreeland@lda.gov.uk
www.lda.gov.uk

(Footnotes)
10 Making Work Pay; GLA, LDA and Association of London Government; October 2003
11 Available at www.lda.gov.uk
12 London's Economic Outlook, GLA, Autumn 2004

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

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

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

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

Tel **020 7983 4100**
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