

London's Economy Today



Issue 30 | February 2005

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UK output expands for 50th consecutive quarter

Christopher Lewis

Senior Economist, GLA Economics

London is a successful world city, but with success also comes challenges such as providing the necessary investment to cope with the growing demand on the capital's transport system. The recently launched *Economic Development Strategy (EDS)* for London aims to support the capital's success as well as addressing its problems. It is a strategy for the whole of London, not just the London Development Agency (LDA) or the Greater London Authority (GLA) Group. This month's supplement, *London's Economic Development Strategy Launched*, by Matthew Waite provides a short overview of London's EDS. Additionally, an appendix has been included in this edition which is the London Economic Panel's January assessment of the London economy.

The London housing market has remained relatively flat since the first half of 2004. According to the Halifax, the differential between the average house price in

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Latest news...

GLA Economics have just released two key publications that have attracted significant media interest:

- 1) **Growing Together: London and the UK Economy** uses empirical evidence to demonstrate that the relationship between London and the rest of the UK is one of mutual dependency and mutual benefit.
- 2) **Time is Money: The economic cost of transport delays in Central London** estimates that the quantifiable economic cost of transport delays to Central London employees and businesses is £1,750 million per annum.

To view these reports, visit www.london.gov.uk/mayor/economic_unit, call 020 7983 4922 or email: glaeconomics@london.gov.uk.

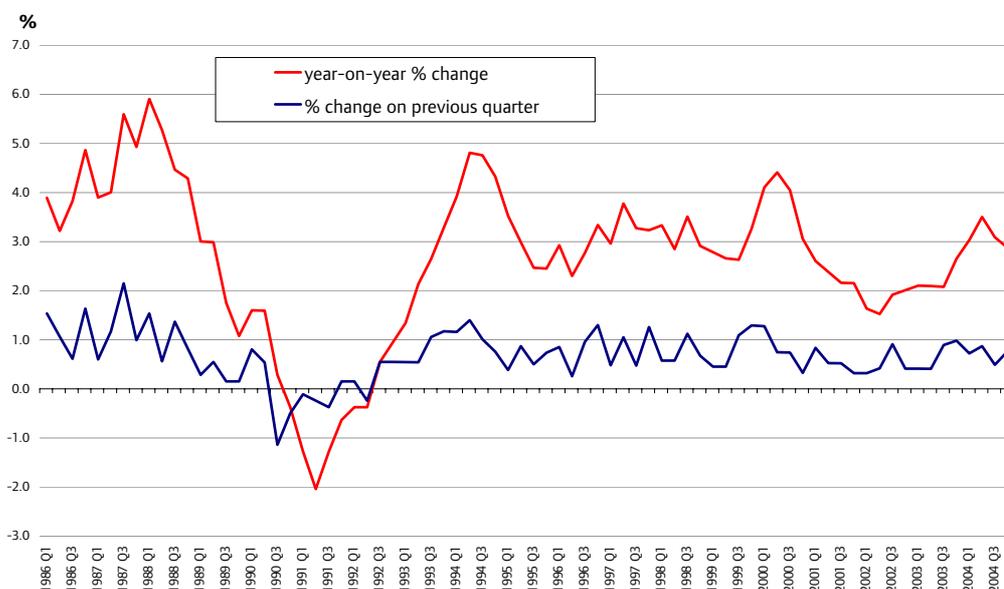
London and the UK in percentage terms has fallen to its lowest level for almost seven years. In the fourth quarter (Q4) of 2004 the average house price in London was 1.5 times higher than the national average compared to a peak of 1.9 times in Q3 2001. Overall, London's economy is still doing well. In January, the Purchasing Managers' Index's (PMI) measures of business activity and new orders for London firms continued to expand strongly. The seasonally adjusted business activity index rose to its highest level in 12 months and the seasonally adjusted new orders index rose to its highest reading since October 1999. The average annual rate of growth in tube passenger numbers is still positive while the average annual rate of growth in bus passenger numbers, though declining remains high compared to the previous ten years.

2004 – A good year for the UK economy

The UK economy grew at a healthy pace in the last quarter of 2004. As Figure 1 shows, Gross Domestic Product (GDP) rose by 0.7 per cent in Q4 compared with 0.5 per cent in Q3. Despite overall positive output growth for the 50th consecutive quarter, the production industries are in a technical recession as their output fell in both Q3 and Q4. However, the larger business services and finance sector grew by a rapid 1.5 per cent in Q4 after strong growth of 1.1 per cent in Q3, which is especially good news for the London economy. Accountants, stockbrokers and securities dealers have been doing particularly well. For 2004 as a whole the UK grew by an estimated 3.1 per cent, which is the best year since 2000 and compares to growth of 2.2 per cent in 2003.

Figure 1: UK GDP Growth

Source: Office for National Statistics



The strength of the UK economy and labour market is providing support to house prices. The UK housing market is actually showing signs of stabilising with the annual rate of house price growth slowing, while small monthly house price increases still occur. House prices as measured by the Nationwide and Halifax rose by 0.4 per cent and 0.8 per cent respectively in January, and seasonally adjusted average house prices are now at an all-time high. The Nationwide annual rate of house price inflation fell from 12.7 per cent in December to 12.6 per cent in January, while the Halifax measure fell from 15.1 per cent to 13.7 per cent, the lowest rate since December 2001. The decline in housing market activity since May is showing initial signs of levelling out with the Bank of England reporting a small rise in the number of loans approved for house purchases in December to a seasonally adjusted 83,000

(from November's nine-year low of 77,000) and the Royal Institute of Chartered Surveyors reporting a rise in newly agreed house sales in January for the first time since April 2004.

Strong US growth

For the whole of 2004, the US economy grew by 4.4 per cent, the best annual rate of expansion since 1999. US growth in 2004 was fuelled by consumer spending, which was supported by negative real interest rates. US consumer spending rose by 3.8 per cent in 2004, the fastest growth since 2000. However, US interest rates rose for the sixth time since June 2004 on 2 February to 2.5 per cent and are expected to continue to rise at a measured pace during 2005. The Federal Reserve's gentle removal of an accommodative loose monetary policy should dampen down consumer spending and steady economic growth. The US unemployment rate fell to 5.2 per cent in January, its lowest level since September 2001.

Prospects for the Eurozone economy in 2005 are weaker than that for the US or the UK. Unemployment in Germany continues to rise and the jobless rate has reached 12.1 per cent. According to the German Federal Labour Office, unemployment in January went above five million for the first time since the 1930s. Changes to the way the statistics are compiled partly explain the near 600,000 increase in the unemployment figures between December and January, but regardless of how unemployment is measured there is little prospect that it will fall markedly in 2005 with Germany only expected to grow by between 1-1.5 per cent.

London and the UK doing well, but most of Western Europe slow to reform

A study undertaken by the European Commission has highlighted that most European Union (EU) countries have failed to put in place policies aimed at making Europe the world's most competitive economy by 2010. In most EU countries the pace of economic reform has been too slow and only the UK, Finland, Belgium, Denmark, Ireland and the Netherlands have actually followed up policy recommendations from the 2000 Lisbon summit.

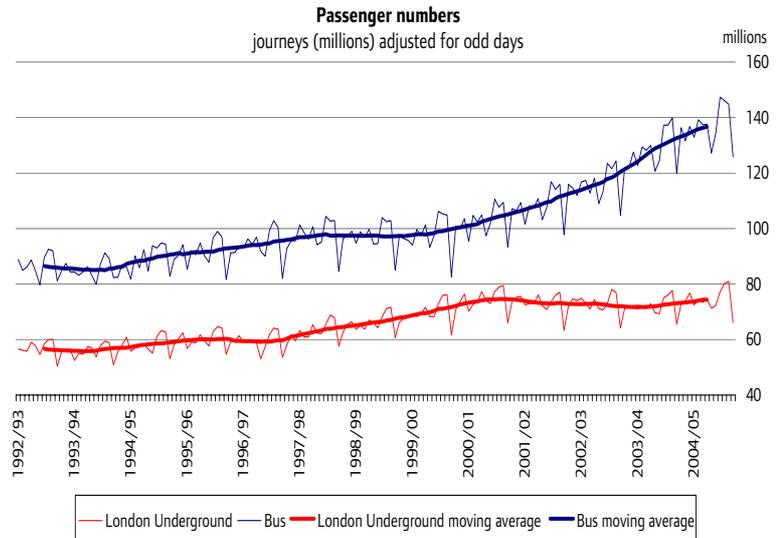
A downbeat picture for the Eurozone economy also comes from a PricewaterhouseCoopers survey of large companies across the globe. In general, large companies around the world seem optimistic, but firms in Western Europe (excluding the UK) are lacking confidence after years of slow growth. Worldwide, large companies see their greatest challenges coming not from terrorism but from over-regulation and high, volatile oil prices. Over the last month the price of Brent crude oil has stayed above \$40 per barrel and on occasions risen above \$45 per barrel. In the UK there was strong growth in the business services and finance sector, a sector that is very important to the London economy, throughout the second half of 2004. The financial markets have so far continued their recovery in 2005, which is especially good news for the London economy, with the FTSE 100 breaking through the 5,000-point barrier on 9 February 2005 for the first time since June 2002.

Economic indicators

Moving average of passenger numbers continues to grow

- In the most recent 28-day period, London's public transport had 192 million passenger journeys; 126 million by bus and 66 million by Underground. This period includes the Christmas holidays.
- The moving average shows an increase to over 211 million passengers every period. The average for buses increased to 136.7 million passenger journeys each period and the average for the Underground was 74.3 million.

Latest release: February 2005
Next release: March 2005

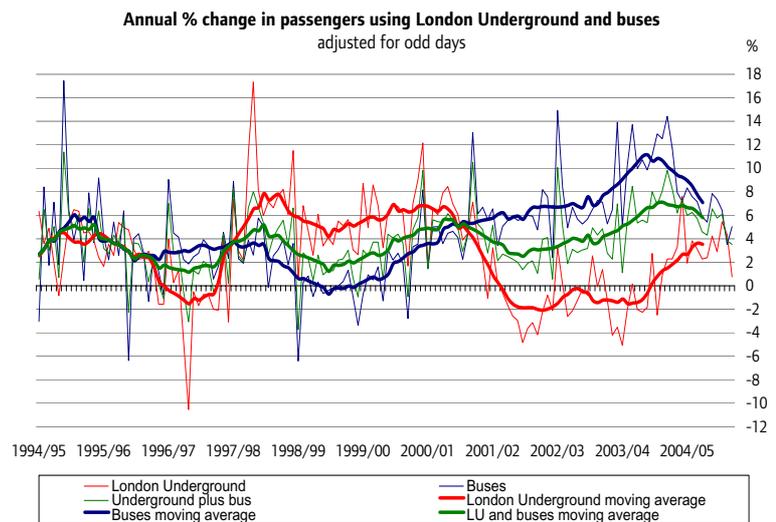


Source: Transport for London

Gentle slowdown in passenger journey growth

- The average annual rate of growth in passenger journeys is 5.7%.
- The average annual rate of growth in bus journey numbers has slowed but remains a strong 7%.
- The average annual rate of growth in Underground passenger journey numbers is 3.4%.

Latest release: February 2005
Next release: March 2005

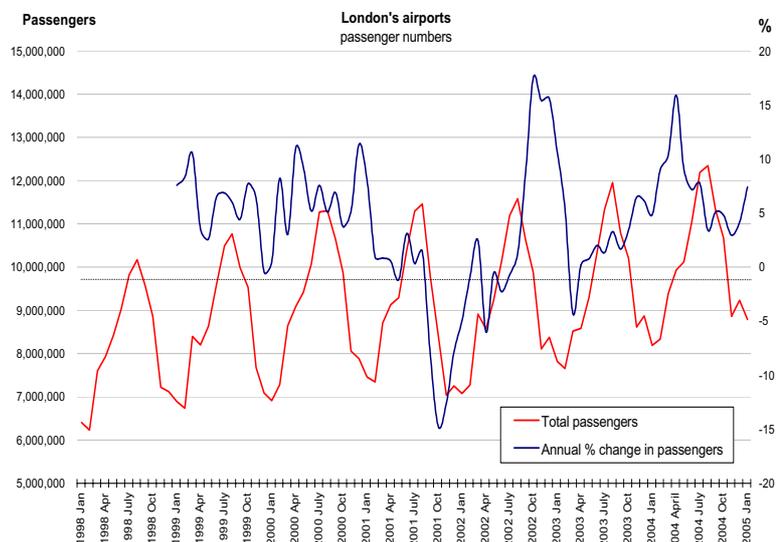


Source: Transport for London

Increase in annual airport passenger growth

- 8.7 million passengers travelled through London's airports in January.
- The number of passengers using London's airports increased by 7.3% from Jan 2004 to Jan 2005.
- International travel through London's airports has grown throughout this winter compared to the previous year.

Latest release: February 2005
Next release: March 2005



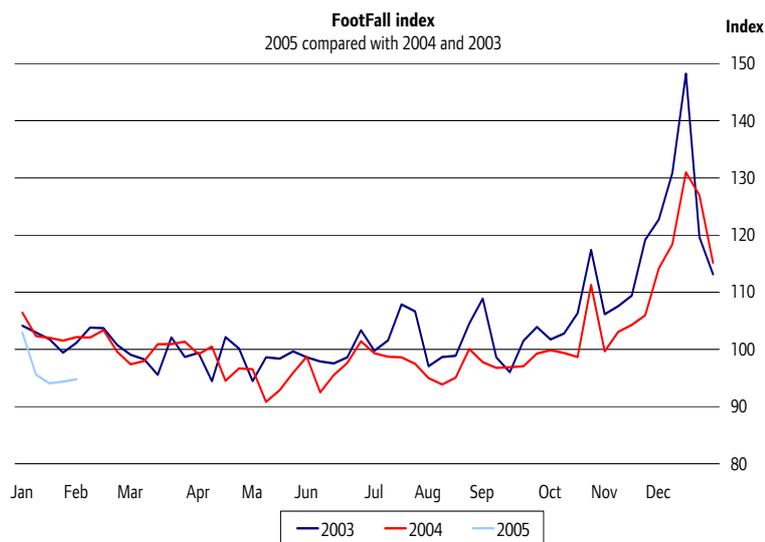
Source: Civil Aviation Authority

Lower shopping numbers in January

- The FootFall index began the New Year showing fewer shoppers in London than the early weeks of 2004 or 2003.
- The index has recovered a little since the middle weeks of January.
- The FootFall index measures the number of shoppers but does not necessarily reflect the level of spending.

Latest release: 31/01/05

Next release: every week



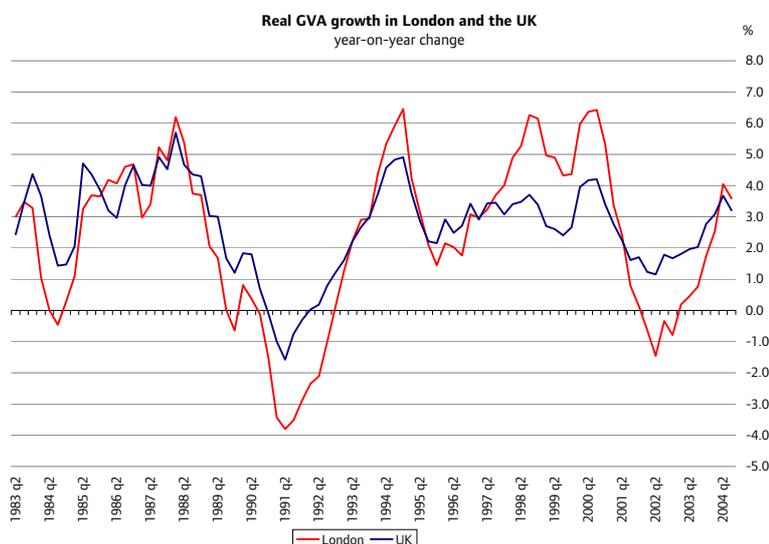
Source: FootFall Limited

Healthy rate of economic growth

- London's annual growth in output was 3.6% in 2004 Q3, down slightly from annual growth of 4% in Q2.
- This continued the robust recovery in 2004 from the poorer growth rates over 2001 to 2003.
- London's GVA growth remained higher than that for the UK as a whole.
- Experian Business Strategies made some revisions to the time series to reflect new data.

Latest release: February 2005

Next release: May 2005



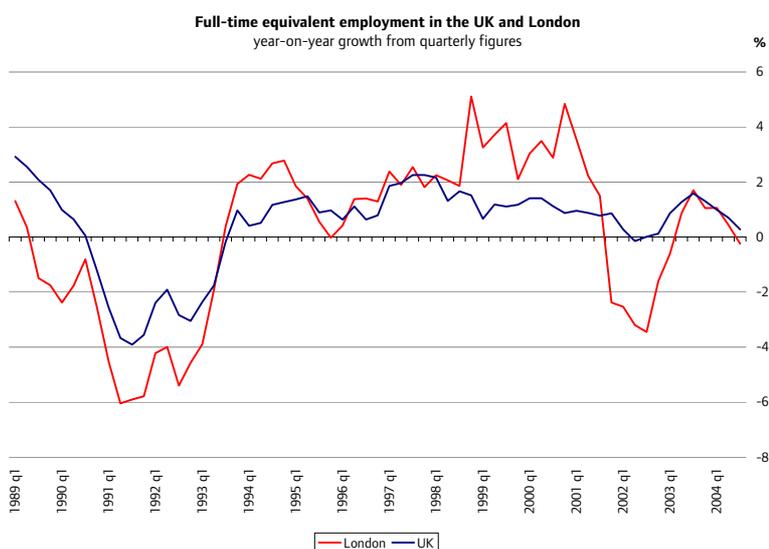
Source: Experian Business Strategies

Total employment relatively stable in UK and London

- London's year-on-year employment growth was minus 0.2% in 2004 Q3. This is less than the 0.4% growth recorded in 2004 Q2.
- Employment growth in the UK as a whole grew at 0.3% in 2004 Q3. This is a lower rate than in the previous quarters of 2004.
- Experian Business Strategies made some revisions to the time series to reflect new data.

Latest release: February 2005

Next release: May 2005



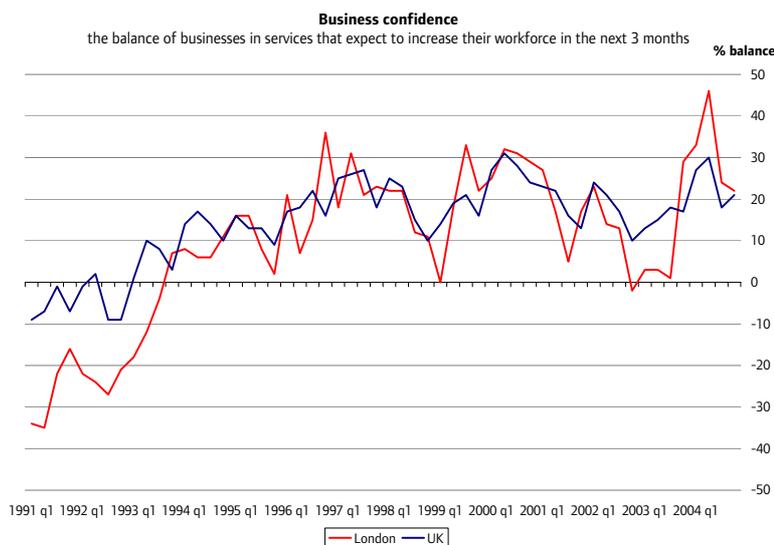
Source: Experian Business Strategies

London service businesses expect to increase their workforce

- The British Chamber of Commerce's Quarterly Economic Survey (QES) shows that London businesses in services expect to expand their workforce over the next 3 months.
- The net balance expecting to increase their workforce was 22% in 2004 Q4. Businesses were more confident of expansion throughout 2004 than in 2003.
- The net balance in the UK expecting to increase their workforce is similar to London at 21% in 2004 Q4.

Latest release: January 2004

Next release: April 2004



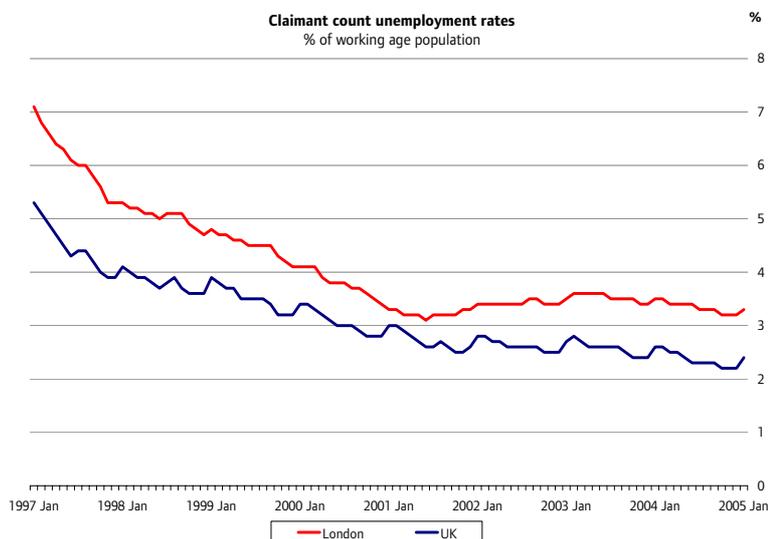
Source: British Chamber of Commerce, Quarterly Economic Survey

London's claimant count unemployment rate increases slightly

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London increased slightly to 3.3% in January 2005.
- There were 160,100 unemployment claimants in London in January 2005, comparing favourably with 169,400 in January 2004.
- Claimant count unemployment rate in the UK remains below that of London.

Latest release: February 2005

Next release: March 2005



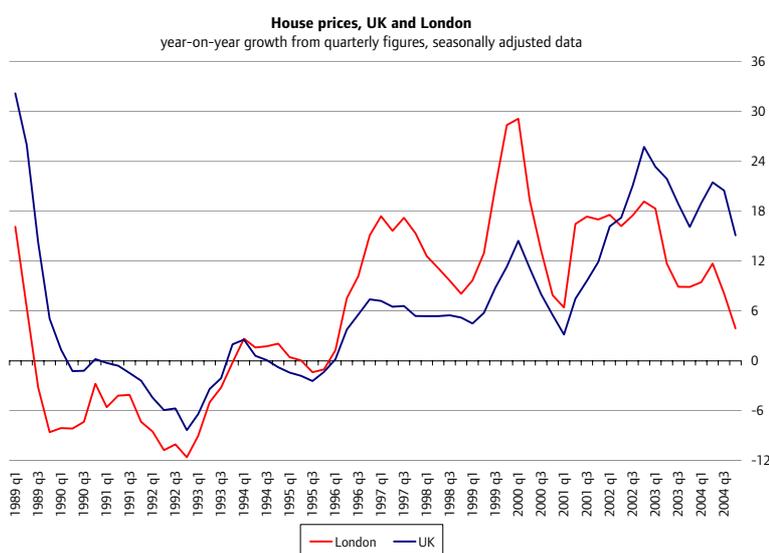
Source: Claimant Count, Nomis

London's housing market slowing but still growing

- House price growth, as calculated by Halifax Bank of Scotland, showed a slowdown in the rate of growth in 2004 Q4 in London and across the UK.
- Annual house price growth in London slowed to 3.9% in 2004 Q4 from 8.1% in Q3. This marks 9 full years (1996 Q1 to 2004 Q4) of sustained annual house price growth.
- Annual house price growth is currently higher for the UK but it also slowed in Q4 2004 to 15.1%.

Latest release: January 2005

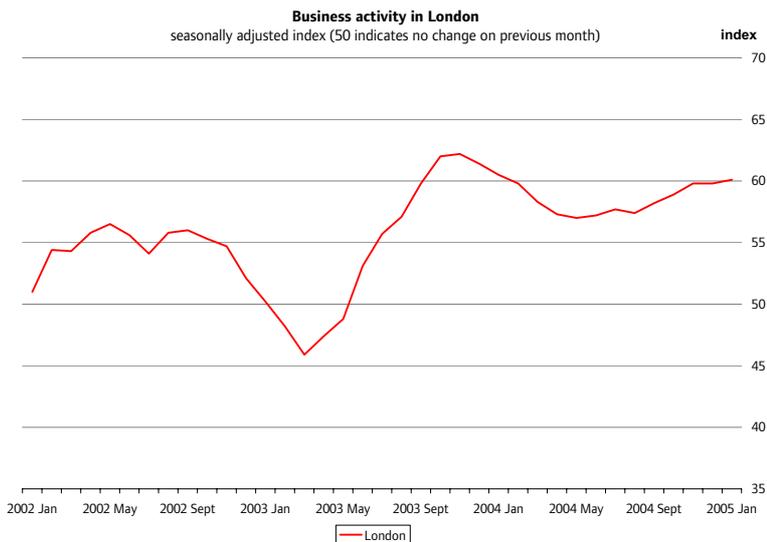
Next release: April 2005



Source: HBOS Housing

Business activity in London increases

- London firms continued to expand their output of goods and services in January 2005 with higher business activity than recent months.
- The Purchasing Managers' Index (PMI) of business activity recorded 60.1 in January 2005 compared to 59.8 in December 2004.
- A rate above 50 on the index indicates an increase in business activity from the previous month.



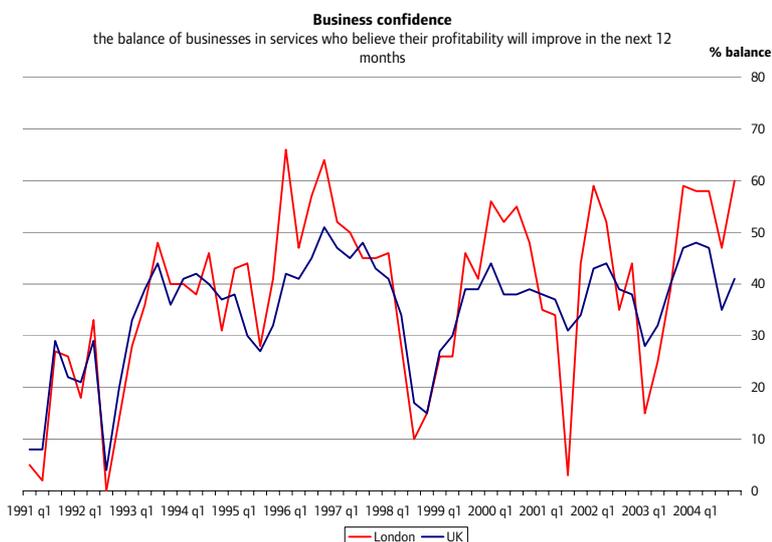
Latest release: February 2005

Next release: March 2005

Source: PMI/The Royal Bank of Scotland

Profitability expectations improve

- The British Chamber of Commerce's QES shows that London service businesses expect their profitability to improve.
- The net balance of businesses in services in London expecting to increase profitability over the next 12 months grew to 60% in 2004 Q4.
- The net balance of businesses in services in the UK expecting increased profitability over the next 12 months was 41% in 2004 Q4.



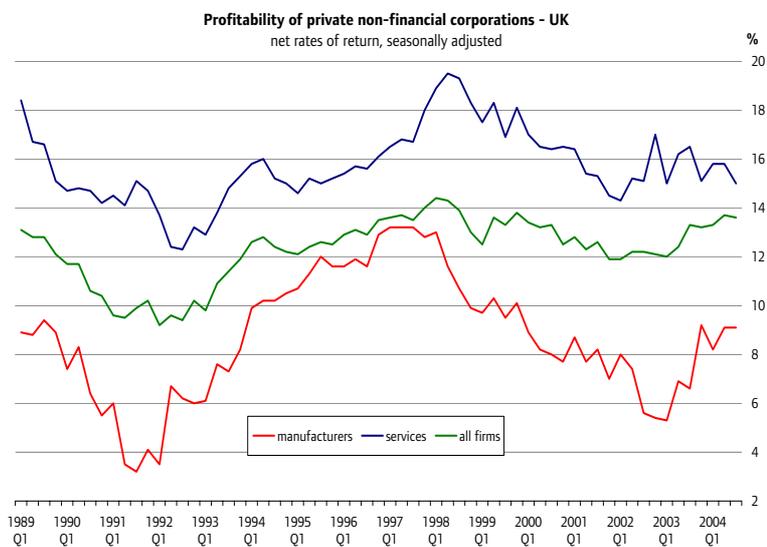
Latest release: January 2004

Next release: April 2004

Source: British Chamber of Commerce, Quarterly Economic Survey

UK corporate profitability

- Overall UK corporate profitability strengthened slightly through the first 3 quarters of 2004 compared to 2003. The net rate of return by private corporations was 13.6% in 2004 Q3.
- The net rate of return in services was 15% in 2004 Q3, falling a little from 2004 Q2.
- The net rate of return in UK manufacturing corporations is lower than for services at 9.1% in 2004 Q3.



Latest release: January 2005

Next release: April 2005

Source: Office for National Statistics

London's Economic Development Strategy Launched

by Matthew Waite
Senior Economist,
GLA Economics

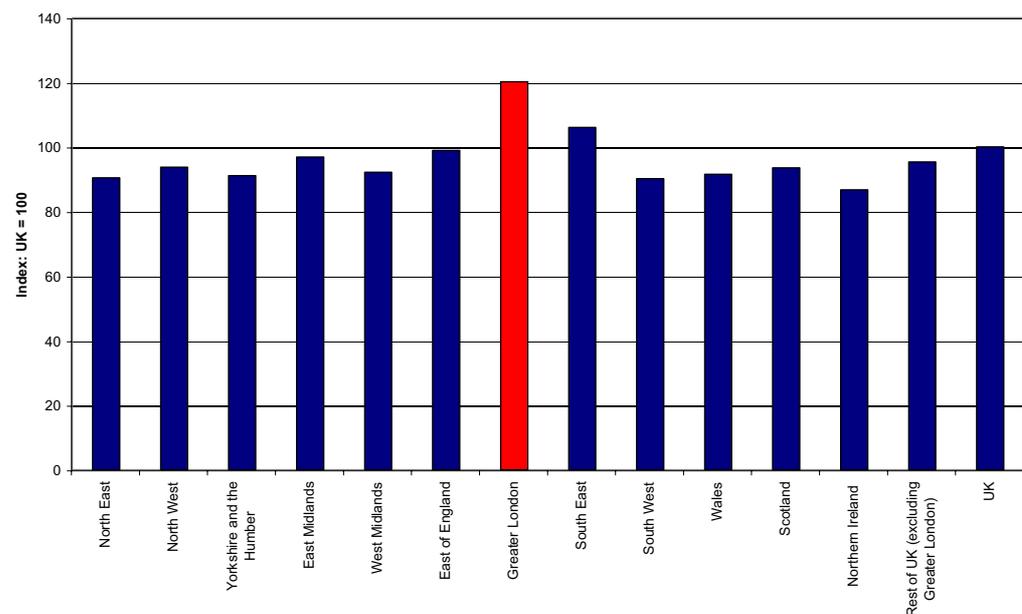
London's Economic Development Strategy (EDS) has been launched by the London Development Agency (LDA) on behalf of the Mayor of London. The strategy draws on a comprehensive evidence base about London's current economic performance to identify investment areas. As a Mayoral strategy, the EDS calls on all organisations with an interest in London's economy – public, private and voluntary – to work together to deliver the EDS' objectives.

London's strength

The analysis underpinning the EDS illustrates that London is a successful world city. London is Europe's greatest financial centre and has a world market share of more than 50 per cent of the international bonds and foreign equities markets. London is the European headquarters of choice for around a third of Fortune Global 500 companies – the highest for any European city – and London is perceived by businesses as having the best external transport links and qualified staff in Europe. The need for London to compete internationally, and its ability to do so, give it a highly productive economy with labour productivity around 20 per cent higher than the average for the UK as a whole, and higher for every sector except public administration and defence¹ (see Figures 2 and 3).

Figure 2: Labour productivity in the UK - Average productivity per worker, 2002 (workplace based)

Source: Office for National Statistics

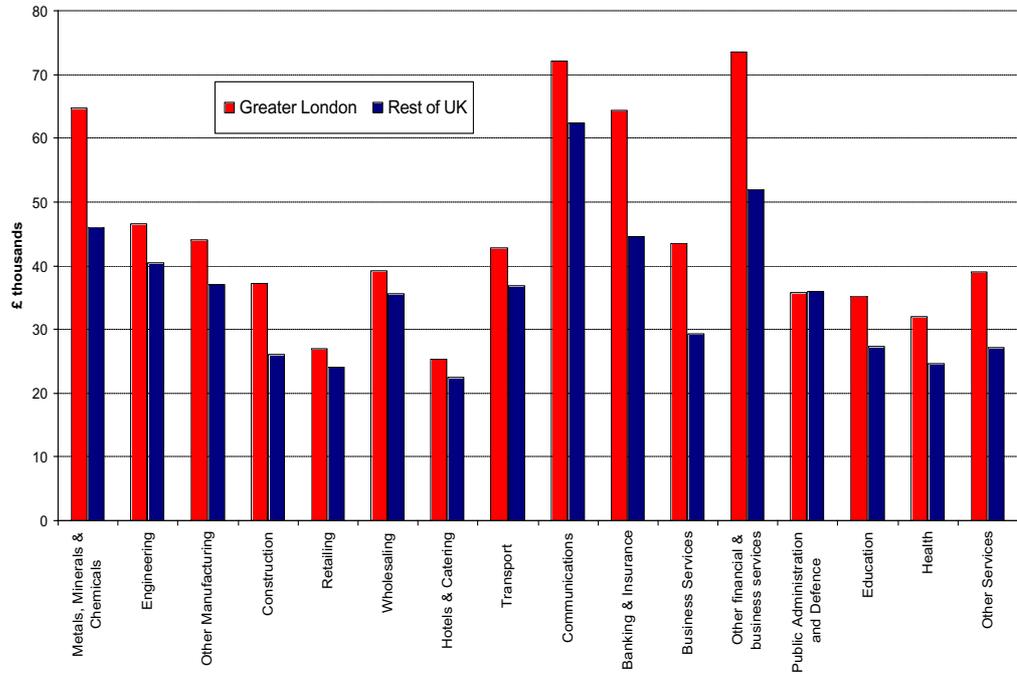


(Footnotes)

¹ It should be noted that measuring output and productivity by government bodies such as public administration and defence is extremely problematic.

Figure 3: Labour productivity by sector in London compared to the rest of the UK, 2003 (workplace based, constant 2000 prices)

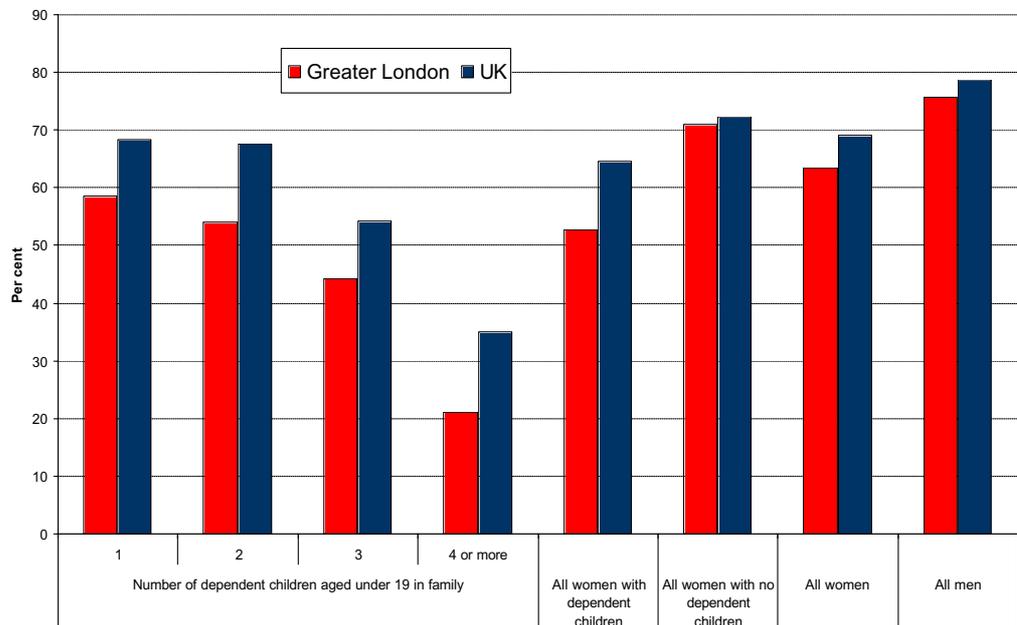
Source: Experian



This high productivity is aided by the physical closeness and density of firms in London; a situation that produces agglomeration benefits. However, this concentration of economic activity, despite its benefits, together with the expected expansion of population and jobs in London puts stress on the capital’s transport and other services as well as putting upward pressure on what is already a high-cost environment. These high costs make it difficult for firms and individuals to participate effectively in London’s economy. For example, high housing costs make it increasingly difficult for essential workers in the public and private sectors to live in London, and for people who depend on benefits to move into work. Moreover, not everyone or every place in London has benefited equally, or in some cases, benefited at all, from London’s success. London has a high level of child poverty together with concentrations of disadvantage. Compared to the UK as a whole, London has a relatively low employment rate; this is especially true for certain groups of people such as women with dependent children who face particular barriers in accessing employment opportunities (see Figure 4).

Figure 4: Employment rates of women with dependent children in London compared to UK, 2002

Source: Office for National Statistics - Labour Force Survey



The goal

The EDS aims to support London's success as well as addressing its problems in order to share the benefits of success more evenly across London and its residents. However, the EDS is clear that the public sector should only intervene when there is an identified need, for example where the market will not deliver or for social equity reasons, and when intervention is likely to be effective. It is also alert to the fact that there are a wide range of public agencies working on economic development and regeneration in London which can hinder one another if, as is frequently the case, objectives or targets are not shared. As a consequence, the strategy has been subject to an extensive consultation exercise involving all major stakeholders in London's economy and it is a strategy for the whole of London, not just the LDA or Greater London Authority (GLA) Group.

Investing in London

As a result of the analysis of the challenges outlined earlier and extensive consultation, the EDS focuses on four major investment themes:

- Places and infrastructure
- People
- Enterprise
- Marketing and promoting London

Under each investment area the strategy identifies a number of objectives to be achieved. These include supporting the delivery of the *London Plan*; tackling barriers to employment; reducing disparities in labour market outcomes between groups; addressing barriers to enterprise start-up, growth and competitiveness; and maintaining and developing London as a top international destination and principal UK gateway for visitors, tourism and investment.

Monitoring

In order to monitor the impact of the strategy, each objective is accompanied by an 'indicator of success' against which performance is to be measured. For example, an objective under the people investment theme is to 'tackle barriers to employment' and its indicator of success is to 'increase the overall employment rate for London over the economic cycle'. Every six months the LDA intends to publish an analysis of the indicators of success to highlight whether progress is being made against the EDS' objectives. This should help in identifying whether the actions taken by the various bodies involved in delivering the EDS are having the desired impact or whether actions should be altered to be more effective.

The emphasis is now on implementing the EDS which is set out in the action plan of the strategy and, as noted earlier, involves galvanising a range of public, private and voluntary sector bodies.

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

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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

© Greater London Authority
February 2005

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.

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Public Liaison Unit

Greater London Authority

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The Queen's Walk

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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



Appendix A: Number 11 casts a shadow over the London economy

Article submitted by
The London
Economic Panel



The views expressed in this article are those of the London Economic Panel. They are not necessarily the views of the Greater London Authority, the Mayor of London, the London Assembly or GLA Economics.

The London Economic Panel is a group of senior business leaders who meet twice a year to discuss London's economy. They represent a range of London's business sectors and provide up-to-date assessments of London's overall economic performance and make forecasts for the year ahead. Below is a summary of their January findings.

The London Economic Panel's latest assessment of London's economy is mixed, with areas of success and of concern.

One of the new factors emerging from the discussion was the shadow cast by number 11 Downing St over the London economy. Levels of public spending continue to run high with borrowing worryingly close to its limits, putting the Government under pressure to raise taxes. With a general election looming, early tax rises are unlikely, putting further pressure on the Treasury post election. These factors create general uncertainty about costs and the management of the economy over the coming year.

In particular, the panel was concerned that this could mean further postponing vital infrastructure projects such as Crossrail. All panel members were unanimous in their view that hosting the 2012 Olympic Games in London would be 'good for business'.

Commenting on proposed cutbacks of civil servant jobs in London, the group did not believe that these would have a material impact on the overall London economy provided the cutbacks were phased over ten years. However, the group was sceptical whether large scale redeployment of these jobs out of London would actually happen. They also commented that while high level productivity reviews were being undertaken by the Government, this had not fed through into behaviour at the local level within boroughs, where short-term budget pressures meant that productivity gains (including outsourcing) were not typically sought as a solution. Nonetheless, the panel agreed that the quality of local authority management had improved enormously in recent years.

In reviewing the economy, it was noted that Underground ridership was increasing. The panel had previously debated whether the substantial rise in bus ridership meant that the tube was no longer an effective economic indicator, however reviewing past data suggests it remains reliable and therefore a good indicator for 2005.

Tourism has recovered from its worst period post 9/11, but it is still 'jogging along'. It is now 'business as usual' for the tourism industry which would be boosted by the prospect of the Olympics in London in 2012. The emergence of the internet as a highly successful marketing channel has been highlighted as a trend by both the retail and advertising industries.

Sector reviews

Christmas was a difficult period for **retailers** but reflected the reality of modern retailing with negative inflation and tight margins. The future resilience of London retail is further challenged by the disproportionately high cost of living in London. The discrepancy between inner and outer London retail centres appears also to be increasing. It is essential that the public face of London in the centre is maintained and improved. The prospects of the Olympics and the forthcoming creation of Business Improvement Districts would be important stimuli for retaining the world status of central London. Furthermore, online trading has been astonishingly good as customers are becoming more comfortable with the medium.

The **commercial property sector** is seeing a definite pick up in the number of letting transactions and new enquiries for office space in both the West End and City of London office markets. Office rental levels are increasing in the West End, but still 'bumping along the bottom' in the City of London where vacancy rates are higher. Demand for retail property in central London is reasonably stable despite reports of mixed trading experiences from retailers. Construction costs continue to increase at around four per cent per annum.

The **business services sector** has seen a solid six months with strong demand, although pricing has still been under some pressure. Skilled people are in short supply and there is active marketing to recruit appropriately experienced people from overseas. This trend is likely to continue into 2005.

The **construction industry** is buoyant and experiencing a five year profit high. However, house builders are feeling the pinch as one-in-four people close to a deal pull out at the last minute. In 2004, the public sector was fuelling the construction industry, but projects will need to move quicker in 2005 if this is to continue. Clearly the Olympics in 2012 would be good news for the construction industry!

The **advertising sector** saw eight per cent growth in 2004, fuelled by high profile sporting events (Euro 2004 and the Olympics) and a strong upswing in web advertising. However, the final quarter of the year saw a dip as interest rate hikes bit into consumers' disposable income. Continued uncertainty surrounding the consumer economy suggest a 2005 of more modest growth at around four to five per cent. In structural terms, the industry continues to polarize between the big, consolidating global groups and small, independent, creative hot shops.

The market is consequently highly competitive and there has never been a better time for buying creativity in terms of value for money.

The **energy sector** is reinvesting significantly after its regulator, OFGEM, recognized the importance of protecting security and quality of supply, following serious supply hiccups in 2004. This means upward pressure on consumer prices for the time being with the regulator sanctioning a one per cent increase in the immediate future. EDF Energy is launching a new scheme to freeze prices for very low income families in an attempt to head off bad debt problems.

National Car Parks, a privately funded company, noticed that banks had been keen to lend more money and there was a feeling amongst the panel that the banking community is fighting for market share. On the contract car parking side, there is an increase in work for local authorities, who are concerned about their finances.

Notes:

For further information about the above review or the London Economic Panel, contact Charlotte Grant on 020 7665 1572 or Lucy Haynes on 020 7665 1427.

All representatives are members of business campaign group, London First. The full membership of the **London Economic Panel** is:

Sir Stuart Hampson, Chairman, John Lewis Partnership (Chair)
 Ms Helen Alexander, Chief Executive Officer, The Economist Group
 Sir Michael Bichard, Rector, University of the Arts London
 Sir Win Bischoff, Chairman, Citigroup Europe
 Ms Amanda Burton, Regional Chief Operating Officer, Clifford Chance
 Mr Alastair Camp, Managing Director, Medium Business and Agriculture, Barclays Bank Plc
 Sir William Castell, President and CEO, GE Healthcare
 Mr Colin Cohen, Director of Sales Operations, IBM UK Ltd
 Professor Sir Graeme Davies, Vice Chancellor, University of London
 Mr Vincent de Rivaz, Chief Executive, EDF Energy
 Mr Grant Duncan, Chief Executive, Publicis
 Mr Alan Froggatt, European Chief Executive, CB Richard Ellis
 Mr George Kessler CBE, Managing Director, Kesslers International
 Mr Ian Krieger, Senior Client Services Partner, Deloitte
 Mr Bob Macnaughton, Chief Executive Officer, NCP
 Mr Harvey McGrath, Chairman, Man Group Plc
 Dr Jonathan Michael, Chief Executive, Guys & St Thomas' Hospital Trust
 Mr Francis Salway, Chief Executive, Land Securities
 Mr Robert White, Chairman and Chief Executive, Mace