

London's Economy Today



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UK interest rates increased and further hikes possible

by Christopher Lewis, Senior Economist, GLA Economics

Despite being difficult to define and not fitting into traditional conceptions of an 'industry', tourism is very important to London's economy. Proportionately, London is more dependent on tourism, especially tourists from abroad, than the UK as a whole. Latest ONS data estimates that overseas residents' visits to the UK and their spending continues to grow. In Q2 2006, seasonally adjusted overseas visits rose above eight million, which was seven per cent higher than a year earlier and their seasonally adjusted expenditure rose by eight per cent compared with Q2 2005. Maintaining and developing the capital as a visitor destination is an important objective of the Mayor's Economic Development Strategy. This month's supplement 'A new Local Area Tourism Industry model for London', by Stephen King, is about a new model that will try and measure tourism in London more accurately, especially at the local level.

GLAECONOMICS

Latest news...

● **London and the International Economy – Trading with the World:** GLA Economics will be hosting this seminar on 7 September 2006 at the GLA, City Hall. Speakers from PwC and Standard Chartered Bank will join those from GLA Economics to explore how London continues to service the world, outlining the changing relationship between London and its new and old trading partners. Trends and impacts will be assessed as well as what all of this will mean for London's economy to 2026. For further information about this event please email glaeconomics@london.gov.uk

● **Retail in London:** A seminar to discuss retail in London, including issues such as policy and planning, regeneration, and service and delivery, will be held in October 2006. The seminar's focus is based on two years' research by GLA Economics. If you would like further information about this event please email glaeconomics@london.gov.uk

London is at the centre of world air travel highlighting its position as a global leisure and economic hub. Recent research by Ascend shows that over the past decade six of the top ten fastest growing long-haul routes go through London's major airports. The capital's status and international reputation as a major centre for hedge funds is also growing. London is the top centre in Europe for hedge funds and competes globally with New York. In 2005 the value of assets invested in City hedge funds increased by more than 25 per cent. Of all UK regions London has the highest share of employment in financial services.

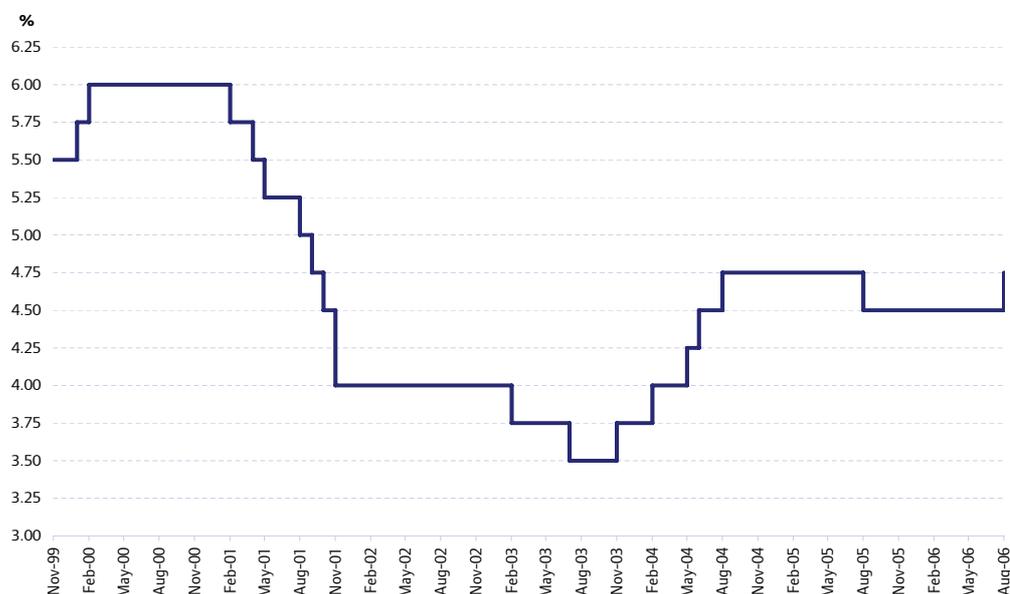
London's economy continues to perform better than the rest of the UK. In July, the Purchasing Managers' Index (PMI) measure of seasonally adjusted growth in the private sector workforce for London was once again the fastest amongst all regions. The business activity and new orders indices for the capital also remain well above their UK levels. The PMI shows that the rate of London's expansion is strong and the level of the employment index has reached its highest since December 2000.

Interest rates and insolvencies on the rise

At its meeting on 3 August, the Bank of England's Monetary Policy Committee (MPC) increased interest rates by a quarter of a percentage point to 4.75 per cent. This was the first change in interest rates since August last year and the first increase since August 2004 (see Figure 1). In explaining its decision the MPC mentioned the background of firm UK growth, limited spare capacity in the economy and inflation likely to remain above the Government's two per cent target for some while. Rising oil prices and utility bills in particular have led to above target inflation despite generally muted pay growth, though annual earnings growth did pick up in June. In response to rising energy prices, profit margins have been squeezed and companies have so far borne down on labour costs. Unemployment continues to increase but employment is at a record high. The rise in interest rates has led to a strengthening in sterling and will put further pressure on the UK consumer. Even before the interest rate increase, a record 26,000 people became insolvent in England and Wales during Q2 2006, a rise of nearly 70 per cent from Q2 2005.

Figure 1. Bank of England's Repo Rate

Source: Bank of England



With UK interest rates on the rise the housing market is expected to slow down during the remainder of the year. In July, seasonally adjusted UK house prices, as measured by the Nationwide and Halifax rose by 0.8 per cent and 0.2 per cent respectively. Annual house price inflation on the two measures is now converging. The Nationwide recorded annual house price inflation of 5.9 per cent in July, a rise from 5.0 per cent in June, whereas the Halifax measure shows that house prices in the three months to July were 8.8 per cent higher than a year earlier compared with a 9.4 per cent annual rate in the three months to June. Most measures of annual house price inflation currently show London growing faster than the UK as a whole. Affordability continues to deteriorate with fixed rate mortgage rates increasing since mid-April and variable rates now also increasing. Rising interest rates along with higher utility and council tax bills are likely to curtail housing demand. This should bring about an easing in annual house price growth by this winter.

German growth quickens but US growth slows

Germany's economy grew at its fastest rate for over five years in Q2 2006. Growth was boosted by higher domestic demand, especially investment. France's economic growth is also recovering. Like the Bank of England, the European Central Bank (ECB) also increased interest rates by 0.25 per cent (to three per cent) on 3 August. This was the fourth rise since December and with growth in the Eurozone picking up, further rate increases by the ECB are expected this year.

US economic growth slowed faster than expected in Q2 2006 as consumer spending weakened due to soaring energy costs and rising interest rates. The unemployment rate also rose for the first time this year in July to 4.8 per cent. Although the US economy remains strong it is expected to continue to slow in the second half of 2006 and into 2007. Despite still being concerned with inflationary pressures these were the main reasons why the Federal Reserve held interest rates stable in August after 17 consecutive increases.

Japan's economy is improving steadily helped by increasing retail sales. Inflation rose to 0.6 per cent in June and another sign that the Japanese economy is finally coming out of a lengthy deflationary period is that land prices rose for the first time in 14 years in 2005. China is also experiencing an expanding retail sector boosted by rising incomes. Year-on-year retail sales grew by nearly 14 per cent in July and many analysts predict consumer spending will rise further in the latter part of 2006. The World Bank has revised upwards its forecast of Chinese growth in 2006 to over ten per cent and in an effort to cool its booming economy China's central bank has raised interest rates for the second time this year.

In early August oil prices hit record highs as conflict raged in the Middle East and the largest oil field in the US was completely shut down. Since then, with a UN ceasefire and permission for around half the Alaskan oil field to be reopened, oil prices have fallen back slightly to their lowest level in nearly two months. However, oil prices still remain above \$70 per barrel.

Markets firm for now despite terrorist plots and tensions in the Middle East

The UK stock market has remained steady over the month in the aftermath of police disrupting a terrorist plot to detonate explosives on planes flying from the UK to the US. The initial large disruptions to flights from UK airports were also relatively short-lived so the impact on the economy is unlikely to be anything other than minor. A far greater impact on the UK economy will come from a further increase in interest rates, which now seems likely over the next year.

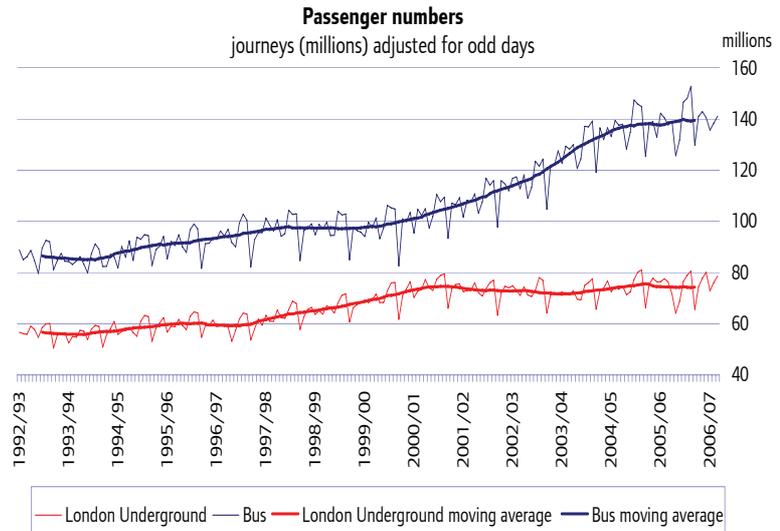
The capital's economy is still growing healthily and is doing well compared with the rest of the UK. The strongest performing sectors of the London economy this year have been business services, such as accountancy, and financial services. However, the openness of the capital's economy means that it remains exposed to possible shocks in the world economy, such as a sharper than expected downturn in the US economy or increasing geopolitical tensions causing a further surge in energy prices and impacting upon financial markets. World economic growth is expected to cool next year from its current robust pace as tighter monetary policy takes its toll and this will also impact upon London's economy.



Increase in the moving average of passenger numbers

- The most recent 28-day period is from 28 May to 24 June 2006. London's public transport had 214.8 million passenger journeys; 137.5 million by bus and 77.3 million by Underground.
- The moving average increased slightly to 213.8 million from 213.3 million passengers every period.
- The moving average for buses was 139.5 million passenger journeys. The moving average for the Underground was 74.3 million.

Latest release: August 2006
Next release: September 2006

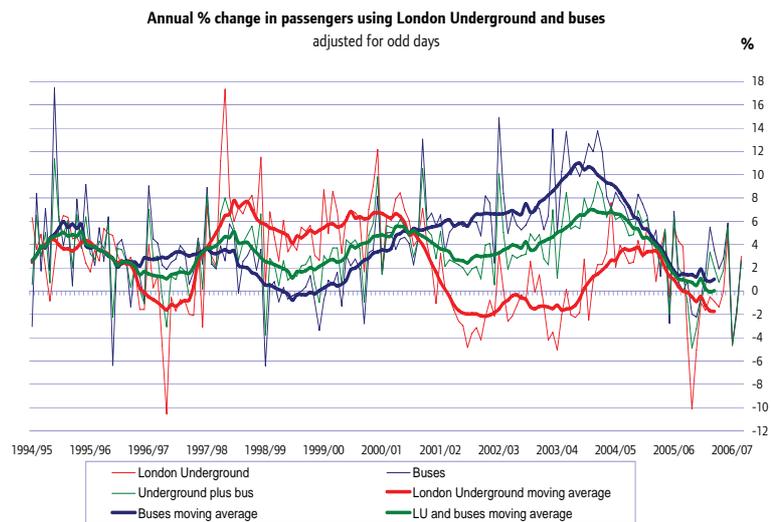


Source: Transport for London

Small pick up in annual growth rate of bus passenger journeys

- The moving average annual rate of growth in passenger journeys increased slightly to 0.0% from -0.1% in the previous period.
- The moving average annual rate of growth in bus journey numbers increased slightly to 1.0% from 0.8% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers remained stable at -1.7%.

Latest release: August 2006
Next release: September 2006

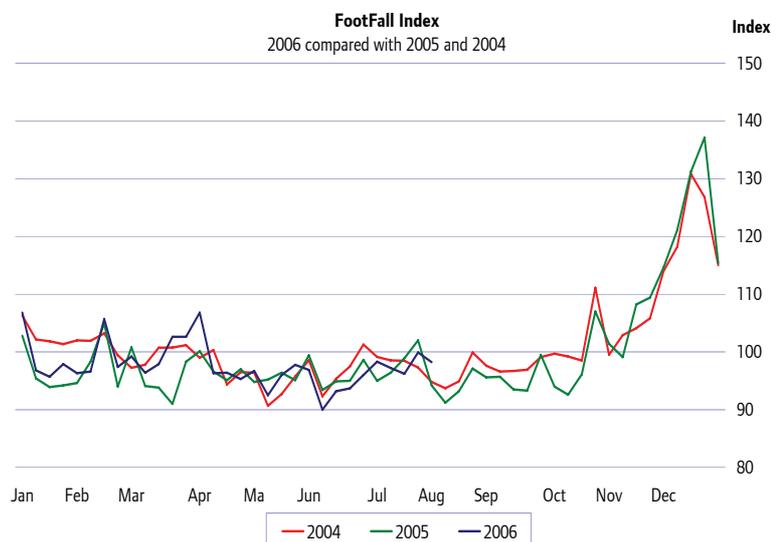


Source: Transport for London

Footfall Index following similar trends as in 2004 and 2005

- The Footfall Index of shoppers in London was 98.2 in the first week of August compared to 99.9 in the last week of July.
- The level of the index during July 2006 followed similar trends as in the same period in 2004 and 2005.
- The FootFall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-August
Next release: every week



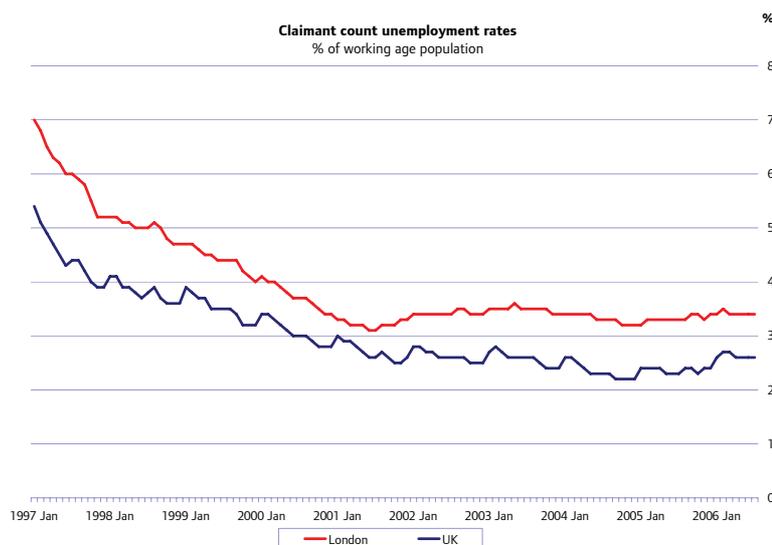
Source: Footfall Limited

Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseeker's Allowance) in London was 3.4% in July 2006.
- There were 169,300 unemployment claimants in London in July 2006 compared with 163,400 in July 2005.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: August 2006

Next release: September 2006

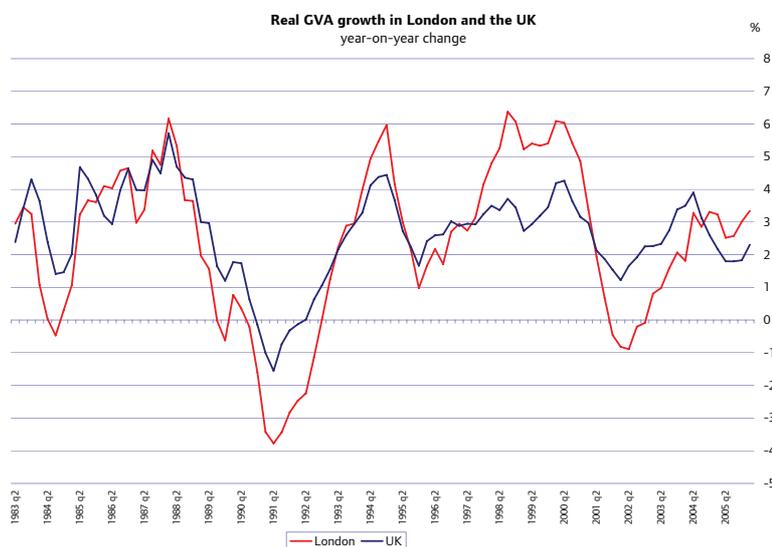


London continues to grow quicker than the UK

- London's annual growth in output increased to 3.3% in Q1 2006 from an upwardly revised 3.0% in Q4 2005.
- The UK's annual growth in output was 2.3% in Q1 2006, up from a revised 1.8% in Q4 2005. London has been growing at a faster annual rate than the UK since Q4 2004.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2006

Next release: November 2006

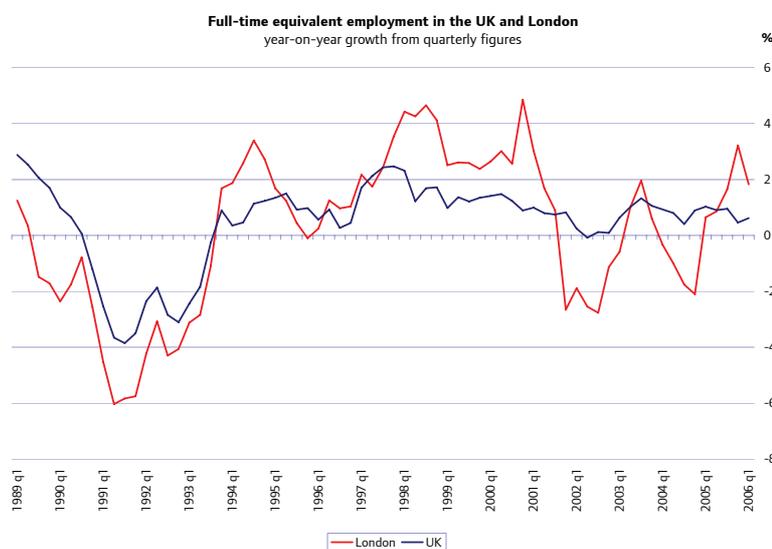


Employment growth in London remains strong

- London's annual employment growth was 1.8% in Q1 2006, down from upwardly revised annual employment growth of 3.2% in Q4 2005.
- Annual employment growth in the UK increased slightly to 0.6% in Q1 2006 compared to revised annual employment growth of 0.5% in Q4 2005. London's annual employment growth continues to be above that of the UK.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: August 2006

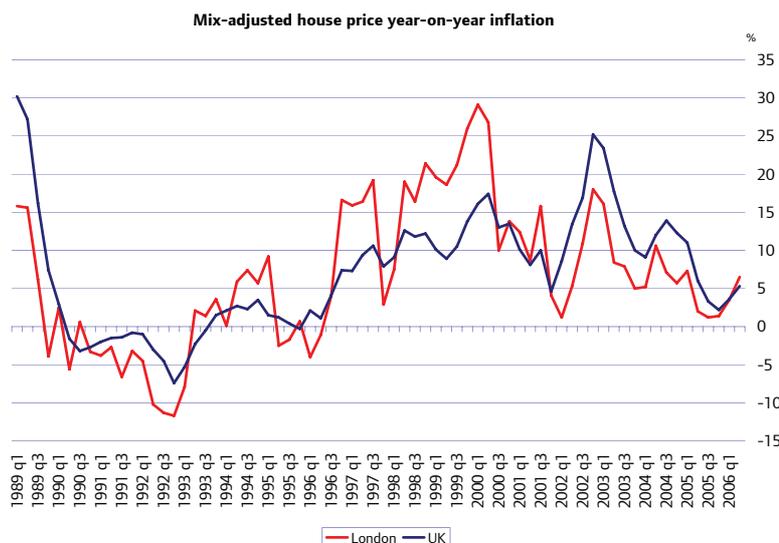
Next release: November 2006



Annual house price inflation increased in Q2 2006

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q2 2006.
- The DCLG reported an increase in annual house price inflation in London and the UK in Q2 2006.
- Annual house price inflation in London increased to 6.5% in Q2 2006 from 3.5% in Q1. Annual house price inflation in the UK increased to 5.3% in Q2 2006 from 3.6% in Q1.

Latest release: August 2006
Next release: November 2006

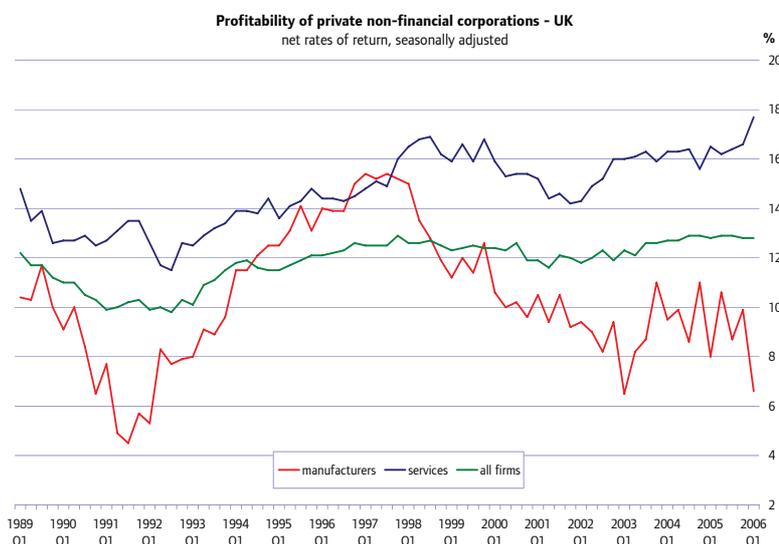


Source: Department for Communities and Local Government

Overall UK corporate profitability stable

- The net rate of return for all private non-financial corporations remained steady at 12.8% in Q1 2006.
- The manufacturing sector experienced declining profitability in Q1 2006. The net rate of return was 6.6%, down from 9.9% in the previous quarter.
- The service sector's net rate of return rose in Q1 2006 to 17.7%, up from 16.6% in the previous quarter.

Latest release: July 2006
Next release: October 2006

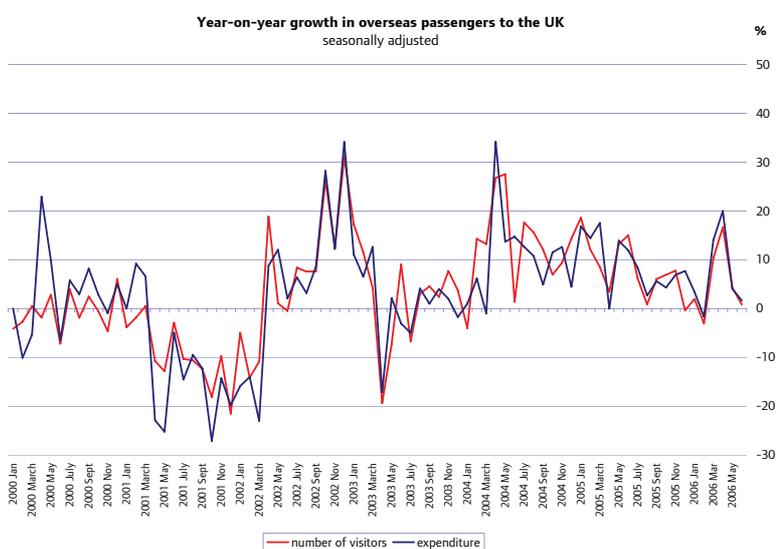


Source: Office for National Statistics

Continued annual growth in visitor numbers and their expenditure

- June 2006 saw slower annual growth in visitor numbers and their expenditure. Up to half of overseas visitors to the UK spend time in London.
- The annual growth rate of overseas visitors to the UK was 0.8% in June, down from 4.3% in May.
- The annual growth in expenditure by overseas visitors in the UK was 1.6% in June 2006, down from 4.1% in May.

Latest release: August 2006
Next release: September 2006



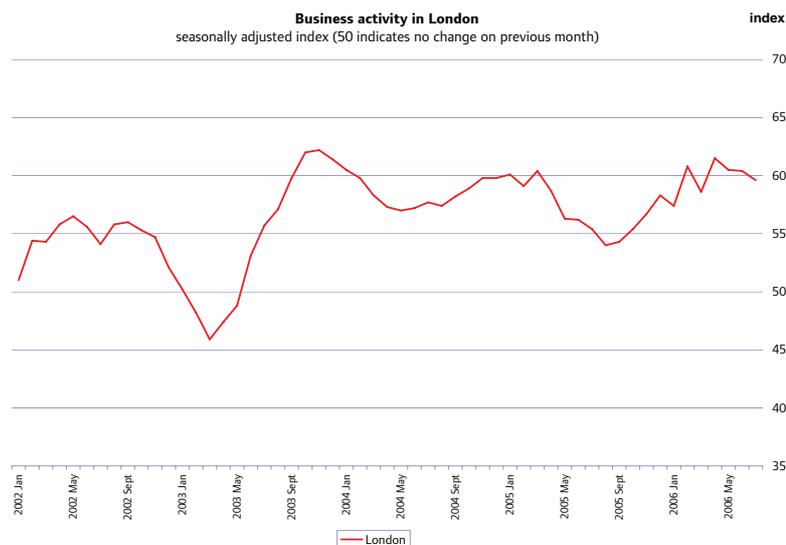
Source: Office for National Statistics

Expanding business activity in London

- The Purchasing Managers' Index (PMI) of business activity reported continued expansion in the output of goods and services in July 2006.
- The PMI of business activity recorded 59.6 in July, slightly down from 60.4 in June.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: August 2006

Next release: September 2006



Employment in London growing strongly

- London firms continued to increase their level of employment in July 2006.
- The PMI for the level of employment rose sharply to 57.6 in July from 56.1 in June.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: August 2006

Next release: September 2006

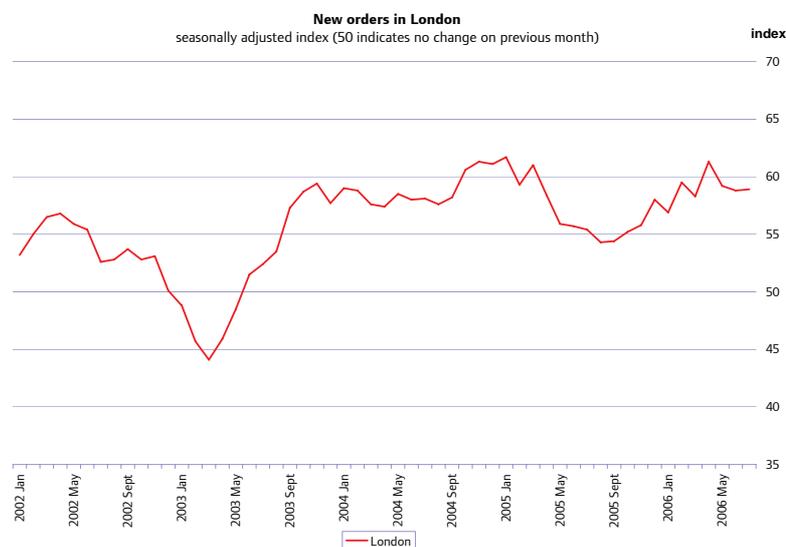


New orders in London still increasing

- July 2006 saw continued growth in new orders for London firms.
- The PMI for new orders recorded 58.9 in July 2006 compared to 58.8 in June.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: August 2006

Next release: September 2006



Stephen King,
International Economist

Tourism is of great importance to London's economy as a source of income and employment. However, due to the size and fragmented structure of the tourism sector, it has traditionally been difficult to measure – particularly at a local level.

This article introduces the new Local Area Tourism Impact (LATI) model. The model has been developed by Experian on behalf of the London Development Agency (LDA) as a tool to try to measure tourism more accurately, especially at the local level. Estimates from the LATI model will help to improve the evidence base for tourism policy and aid in measuring the success of the Mayor's London Tourism Vision 2006-16.¹

The methodology

In simple terms, the LATI model distributes official tourism data across the London boroughs. Official London data is taken from the three principal tourism surveys conducted in the UK: the International Passenger Survey (IPS); the UK Tourism Survey (UKTS); and the Great Britain Day Visits Survey (GBDVS).

Straightforward and transparent, the methodology of the LATI model is designed to produce estimates on an annual basis that are both *consistent* and *comparable* across boroughs, and with London level data from the national tourism surveys. Until the development of the LATI model, a number of boroughs commissioned separate pieces of tourism research, making both consistency and comparability a problem.

The LATI model should also prove a more cost effective way to produce tourism estimates for all areas of London when compared to individual boroughs paying for their own individual pieces of research.

Whilst the LATI model brings a number of important benefits, some limitations should be noted. These include the fact that the model produces estimates that are based on national data, so problems with data from the UK tourism surveys feed through to borough level estimates. Two of the national surveys on which the LATI model relies, the UKTS and GBDVS, have been particularly prone to inconsistencies in methodology and timing.² To this end, it is important for the LDA and other RDAs to help lobby for improvements in the national tourism surveys that would lead to greater reliability of regional statistics.

¹ The London Tourism Vision 2006-16 and associated Action Plan 2006-09 are available online at <http://www.lda.gov.uk/tourism>.

² Problems with UK tourism data are discussed in more detail in the following paper: Review of Tourism Statistics by Denis Allnut, Department for Culture, Media and Sport, June 2004.

The detail

Sharing out official London data – from the national tourism surveys – to borough level requires information on where different types of visitors are staying, where they are visiting, and their patterns of expenditure. All of this information is collected through one of two bespoke surveys. The first is a business survey of accommodation providers in London, and the second a consumer survey of UK residents about their visits to the capital.³

For the outer boroughs, in which there are relatively low levels of tourism, sample sizes from the business and consumer survey are often not high enough to be statistically robust. Therefore, outer boroughs are grouped together into so called ‘super boroughs’, for which valid data from the two surveys is available. Super borough results are subsequently broken down to borough level using information on tourism related employment.

Dissemination of results

LATI model estimates on spending, trips and visitor nights, along with figures on the share of employment in tourism related sectors,⁴ will be disseminated in borough specific reports. These reports also contain summary information on recent trends in UK and London tourism spending, and will be available shortly through the LDA website.



³ More information on the methodology of the two surveys conducted by Experian is available on request. Both surveys are to be run again in 2006, and from 2007 a new London Visitor Survey will supply information currently provided by the consumer survey.

⁴ Tourism related sectors are defined by the Department for Culture, Media and Sport at 5 digit SIC level. These sectors are listed in full at http://www.culture.gov.uk/Reference_library/Research/det/sic.htm.

Headline results

Table 1 summarises the first pan-London results from the LATI model. The model produces results for 2004, although data for day visits, which come from the GB Day Visits Survey, covers the March 2002 to March 2003 period.

Table 1. The volume and value of tourism for London

All figures in millions

Source: IPS, UKTS, GBDVS, Experian

Greater London	Overseas visitors	Domestic visitors	Day visitors	Total
Day visits (3+ hours)	-	-	130	130
Overnight visitors	13.4	12.8	-	26.2
Number of nights	90.2	29.7	-	120.0
Spending (£)	6,439	2,760	3,691	12,890

From Table 1 it can be calculated that London receives around 50 per cent of all tourism income from overseas visitors. Domestic visitors staying one or more nights contribute 21 per cent of all expenditure and day visitors 29 per cent.

Whilst individual borough results will be published on the LDA website shortly, the analysis shows that Westminster receives the most tourism income in London, followed by Kensington & Chelsea then Camden.

The estimate for total tourism expenditure in London is £12.9 billion, although it should be noted that this figure does not include any share of overseas fares to UK carriers.⁵ The nature of the LATI model ensures that tourism spend for the 33 London boroughs sum to the £12.9 billion total.

⁵ Overseas fares to UK carriers – often included in official national tourism statistics – are estimated from ONS balance of payments data and numbers of international passengers. Such fares are not included here since the LATI model seeks to estimate spending by visitors within the Greater London area, and is not primarily concerned with income from inbound passenger transport (accruing to UK airlines for example).

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

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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.

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