

# London's Economy Today



Issue 55 | March 2007

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GLAECONOMICS

## In spite of turbulence in global equity markets, London's economy remains firm

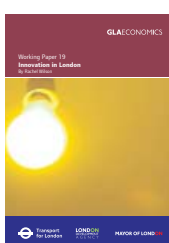
by Simon Kyte, Economist

**Events on equity markets over the past month have taken public focus away from some of the longer-term indicators for London and the UK's performance. The equity market 'wobble' was driven first from Shanghai, then from New York and then by concerns over portfolio inflows into Tokyo and their effect on the carry trade. In mid-March there was further turbulence, created by fears that delinquencies in the repayment of US sub-prime mortgages might spill over into the rest of the US economy. These added to the effect of recent contradictory data on US growth and home sales.**

However, the significance of this increased turbulence should not be overestimated and needs to be viewed in the context of strong equity market gains over the past few years. In fact, although China's stock market lost nine per cent of its value in one day, its value had more than doubled in the previous 12 months. Similarly the Dow Jones was coming off an all-time high and its value after the 'wobble' would still have been an all-time high. Economic fundamentals remain broadly supportive.

## Latest news...

● **UCL is offering a three year position as a GLA Economics Research Fellow in Urban Systems.** This role will work to develop land use transport modelling and enhance the use of GIS and spatial analysis within GLA Economics. For further information please contact Margarethe Theseira on tel: 020 7983 4198 or email: [margarethe.theseira@london.gov.uk](mailto:margarethe.theseira@london.gov.uk)



● **Working Paper 19: Innovation in London** highlights an apparent paradox between London's high rate of productivity, when compared with the rest of UK, and its relatively poor performance on some government measures of innovation. Visit [www.london.gov.uk/mayor/economic\\_unit](http://www.london.gov.uk/mayor/economic_unit) to download this publication. Alternatively please telephone +44 (0)20 7983 4922 or email [glaeconomics@london.gov.uk](mailto:glaeconomics@london.gov.uk) for a copy.

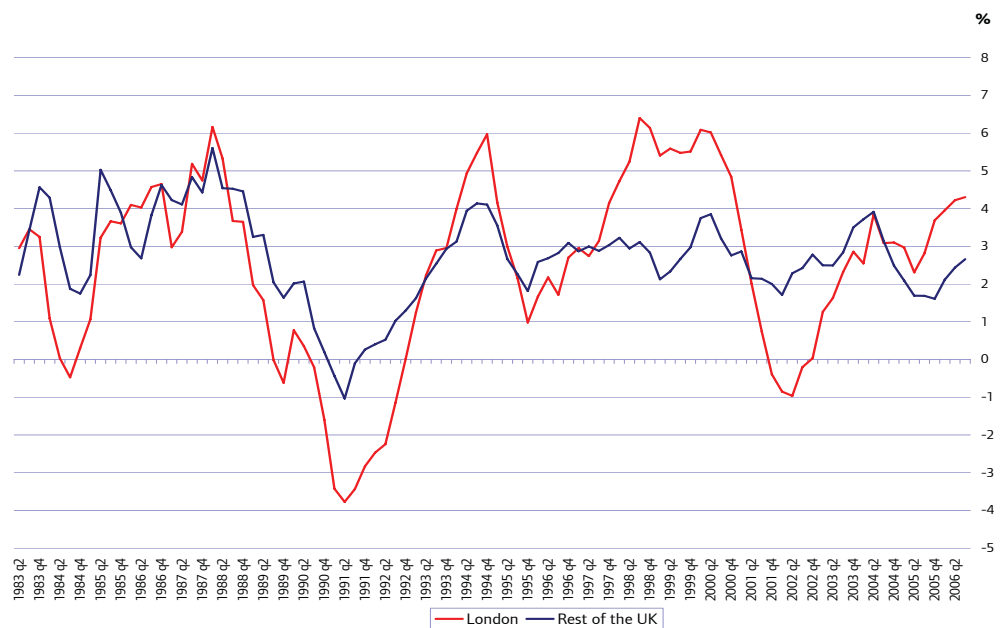
Furthermore, international financial markets seem to be favouring London. London has gained from diverting business from the over-regulated New York exchange, driving a healthy increase in global capital market competition. A McKinsey report<sup>1</sup> shows that it is London's relative lack of restrictive regulation that is giving it the edge. London has also solidified its claim to be the most popular destination for Chinese capital investment by being the first European city to sign an agreement to promote bilateral investment with China.

## The capital's output and employment growth remain robust

The capital's economy is performing very well, growing at an annual rate faster than the rest of the UK for the last eight available quarters of data. In the third quarter of 2006, output in London was up 4.3 per cent on the previous year<sup>2</sup>, compared to 4.2 per cent in the second quarter. Recent employment growth meanwhile has been firm. For the latest quarter available (Q3, 2006), London's performance is comparable with that of the rest of the UK at an annual growth rate of 1.1 per cent. However, official data from the Labour Force Survey for London for the three months ending in January 2007 indicate that little progress is being made on addressing London's relatively low employment rate.

**Figure 1. Real GVA growth in London and the rest of the UK**

*Source: Experian Business Strategies*



## Failing to invest in London's infrastructure risks public investment elsewhere

London's strong economic growth could be constrained by capacity issues unless necessary infrastructural investments are undertaken. As GLA Economics has consistently emphasised<sup>3</sup>, London's tax export means that the capital's continued growth finances public spending in other parts of the UK. Given that on average Londoners are wealthier, it is justified that they should make a net contribution to other parts of the UK. This tax export tends to be at its greatest when the capital's output growth is strong, as at present. If the Government fails to invest in public services in London that are currently underperforming – for example, by not financing Crossrail – it risks public services throughout our nation being affected significantly.

## National economy is also strong but facing difficult spending decisions

Whilst slightly less dynamic than the capital's economy, the UK outlook also appears to be very solid. Secured borrowing remains robust, manufacturing output has picked up and the balance of retailers reporting price increases on one year ago is at its highest since 2003. However, recent above-trend growth may raise concerns about limited spare capacity.

The International Monetary Fund (IMF) raised some cautionary notes about the direction of the UK economy, suggesting that the Chancellor should rein-in spending rather than continue on a course of fiscal expansion. It claimed that further increases in tax rates might detract from incentives to work. The Chancellor seems to have broadly heeded the IMF's advice in the Budget, reducing the real annual average growth in public expenditure to around two per cent for the period to 2011. Changes to corporate tax will be essentially neutral, offsetting the reduction in the main rate of Corporation Tax with a range of other changes - for example, to general plant and machinery capital allowances. Although there will be a net loss of Treasury revenue from the reform of personal taxation, this will be far less than the 'headline' tax cut as the reduction in the basic rate of income tax will be countered by the removal of the 10 per cent starting rate of income tax and the phased alignment of higher thresholds for income tax and national insurance.

Some recent surveys also highlight some negative trends, including a slowdown in the pace of growth in the UK service sector, which has underpinned recent UK employment growth. The Royal Bank of Scotland / Chartered Institute of Purchasing & Supply Index for the service sector in February fell to 57.4 from 59.2 in January<sup>4</sup>. Whilst the British Retail Consortium's latest data are strongly positive, official figures from ONS show annual, underlying growth in retail sales volume to be slowing in January.

## Housing market in London remains buoyant

Nationally, higher interest rates are taking their toll in terms of dampening buyer interest although the supply of properties coming onto the market remains low. Data sources are conflicting about whether price growth is slowing - in part depending on whether or not those data are based on completed sales. Although February figures from the Royal Institute of Chartered Surveyors show that there has been a fourth consecutive monthly fall in the balance of surveyors reporting house price increases, the net positive balance is still relatively high. However, annual house price inflation nationally can still be expected to moderate over the second half of 2007.

In London and the South East, house price inflation remains high. A report by estate agents, Hamptons International, shows that in London the stock of available housing is down by 50 per cent from last year, whilst buyer numbers have risen by 37 per cent. Data from the Department for Communities and Local Government indicate a 13.2 per cent increase in Greater London prices over 12 months compared to 10.9 per cent nationally.

## **Eurozone interest rates raised – so too are growth forecasts**

Growth in the three biggest Eurozone economies – Germany, France and Italy – all show a strengthening picture with a marked improvement in the net trade position of Germany. The President of the European Central Bank (ECB), Jean-Claude Trichet, stated that world economic growth is unlikely to be derailed by recent increased market turbulence. The ECB raised its main interest rate by 25 basis points to 3.75 per cent taking effect from 14th March, its highest rate in more than five years, and indicated that further increases were also likely. Seasonally-adjusted unemployment in Germany fell to its lowest level for nearly six years in February and the Institute for the World Economy in Kiel revised its forecasts for German growth in 2007 by 0.1 percentage points to 2.8 per cent. If that proves to be the case, German growth will be at its fastest since 2000 although the recent hike in the standard rate of VAT from 16 to 19 per cent has hit retail sales hard since the New Year.

## **China becomes the world's biggest car producer as its exports surge**

Beyond Europe, new data suggest that in 2006 China replaced the United States as the world's largest car manufacturing nation. In 1997 China produced scarcely one car for every 19 manufactured in the US. Now it is building 5.2 million a year compared with 4.4 million in the US.

## **Conclusion**

Even at its sharpest, the fall in the FTSE-100 index during February and March 2007 was only comparable to May 2006's falls triggered by the Bank of Japan raising interest rates from zero. On that occasion the index recovered all of its losses within five months. Following the falls of the last few weeks, the index is already off the lows seen in mid-March.

Employment and output growth in London continue to be robust. The IMF forecasts the UK to be the fastest growing of the G7 economies over 2007 although there are some signs of a slowing in services growth.

## **Footnotes**

1 Sustaining New York's and the US' Global Financial Services Leadership (2007)

2 Data source: Experian Business Strategies

3 Initially for The Case for London, the Mayor's submission to the Spending Review 2004 and subsequently in later working papers.

4 An index of 50 represents 'no change', so an index of 57.4 is still relatively strong. Care should be taken in the interpretation of the index as it is subject to a degree of volatility.

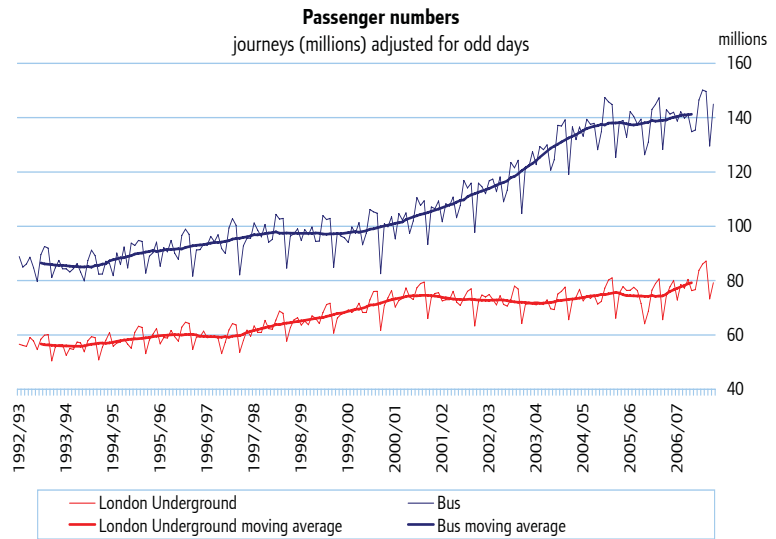
# Economic indicators

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## Moving average of passenger numbers still increasing

- The most recent 28-day period is from 7 January to 3 February 2007. London's public transport had 224.2 million passenger journeys; 145.0 million by bus and 79.2 million by Underground.
- The moving average increased to 220.4 million from 219.9 million passengers every period.
- The moving average for buses was 141.3 million. The moving average for the Underground was 79.2 million.

Latest release: March 2007  
Next release: April 2007

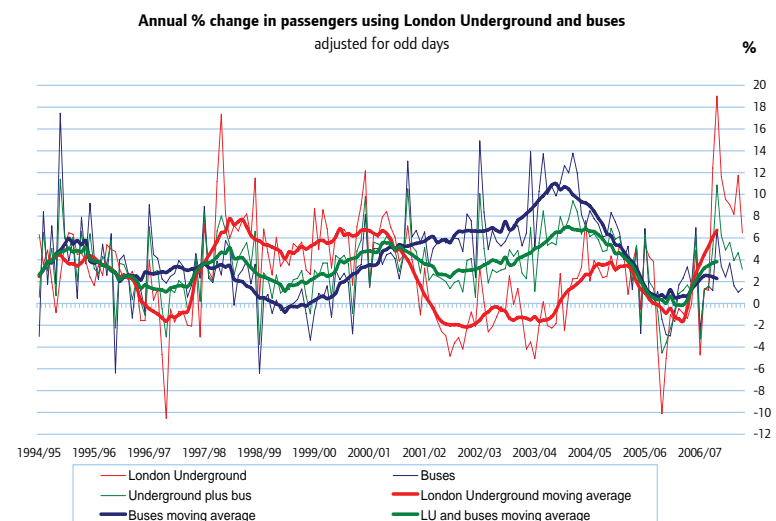


Source: Transport for London

## Rise in the average annual growth rate of passenger journeys

- The moving average annual rate of growth in passenger journeys increased to 3.8% from 3.7% in the previous period.
- The moving average annual rate of growth in bus journey numbers decreased slightly to 2.3% from 2.4% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 6.7% from 6.1% in the previous period.

Latest release: March 2007  
Next release: April 2007

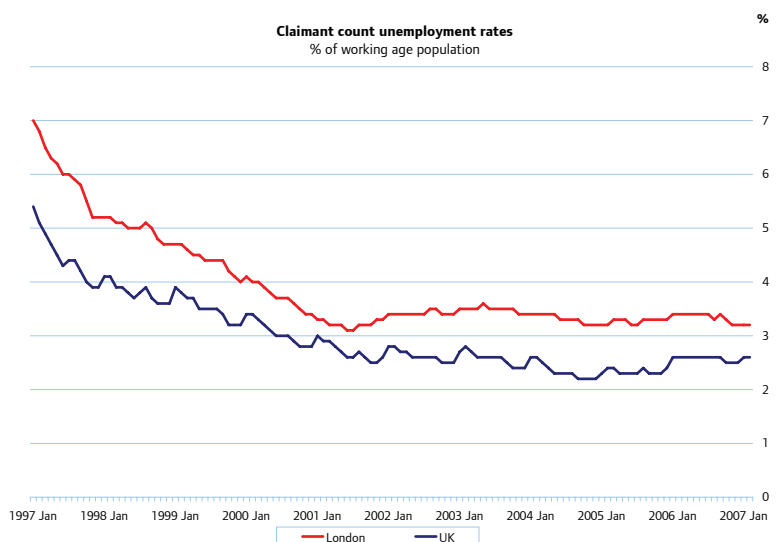


Source: Transport for London

## 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 3.2% in February 2007.
- There were 159,400 unemployment claimants in London in February 2007 compared with 171,200 in February 2006.
- The claimant count unemployment rate in the UK remains below that of London's

Latest release: March 2007  
Next release: April 2007



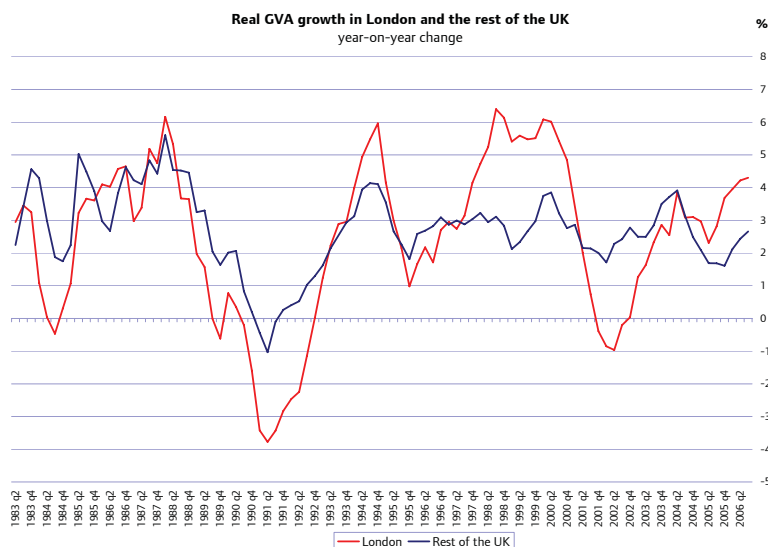
Source: Claimant Count, NOMIS

## London's annual growth rate quicker than the rest of the UK

- London's annual growth in output increased to 4.3% in Q3 2006 from 4.2% in Q2.
- The rest of the UK's annual growth in output was 2.7% in Q3 2006, up from 2.4% in Q2. London has been growing at a faster annual rate than the rest of the UK since Q4 2004.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2007

Next release: May 2007



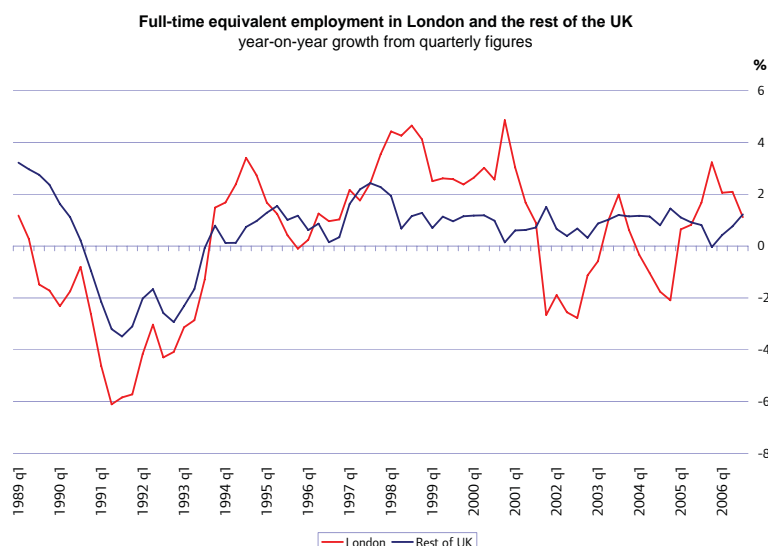
Source: Experian Business Strategies

## Firm annual employment growth in London and the rest of the UK

- London's annual employment growth was 1.1% in Q3 2006, a decrease from 2.1% in Q2.
- Annual employment growth in the rest of the UK increased to 1.2% in Q3 2006 from 0.8% in Q2.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2007

Next release: May 2007



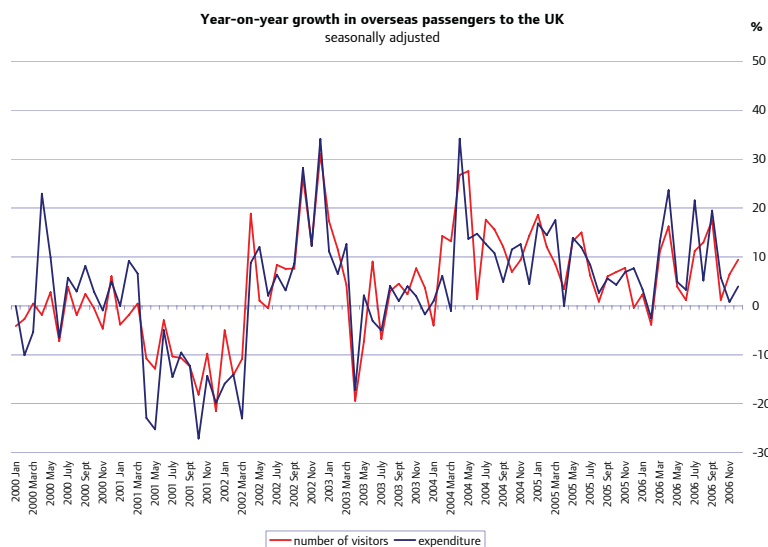
Source: Experian Business Strategies

## Faster annual growth in overseas visitor numbers and their expenditure

- There was annual growth in both overseas visitor numbers to the UK and their expenditure in the UK in December 2006. Up to half of overseas visitors to the UK spend time in London.
- The annual growth rate of overseas visitors to the UK was 9.4% in December, up from 6.4% in November.
- The annual growth in expenditure by overseas visitors in the UK was 4.0% in December, up from 0.8% in November.

Latest release: February 2007

Next release: April 2007



Source: Office for National Statistics

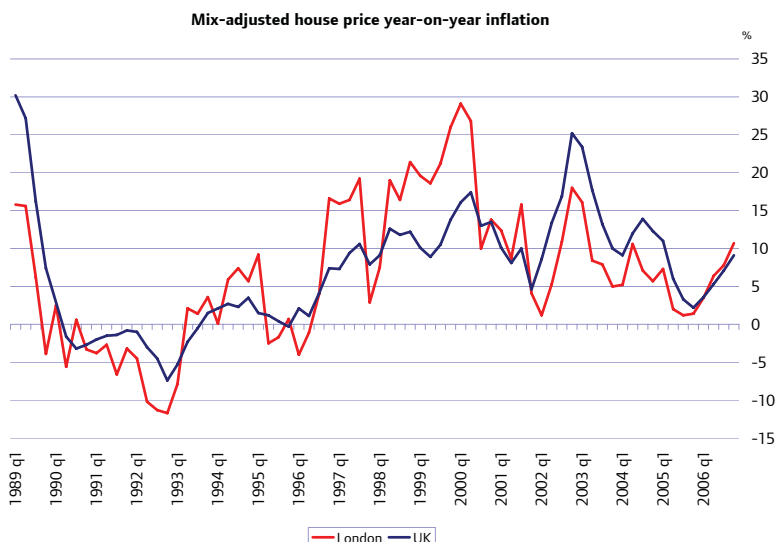


## Rising annual house price inflation

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q4 2006.
- The DCLG reported an increase in annual house price inflation in London and the UK in Q4 2006.
- Annual house price inflation in London increased to 10.7% in Q4 2006 from 7.8% in Q3. Annual house price inflation in the UK increased to 9.1% in Q4 2006 from 7.1% in Q3.

Latest release: February 2007

Next release: May 2007

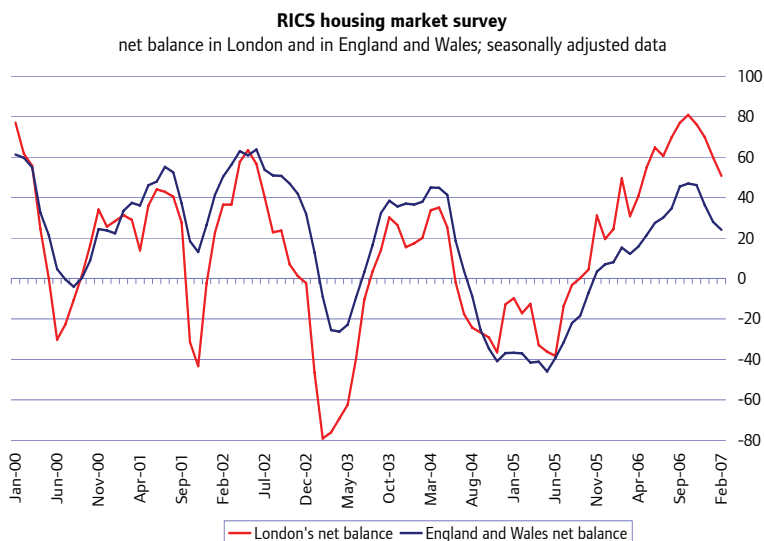


## Surveyors report higher house prices

- The RICS survey shows a positive net balance of 51 for London house prices over the past three months up to February 2007. This net balance shows a decrease from 60 reported in January.
- Surveyors also reported a positive house price net balance for England and Wales of 24 in February, down from 28 in January.
- London's net balance for house prices remains above that of England and Wales.

Latest release: March 2007

Next release: April 2007

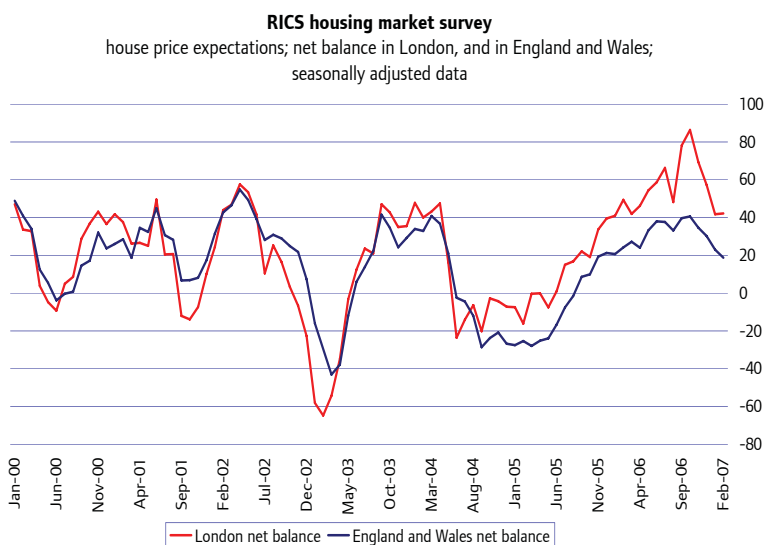


## Surveyors expect house prices to keep rising

- The RICS survey shows that surveyors expect house prices to increase over the next three months in London and in England and Wales.
- The net house price expectations balance in London was 42 in February, unchanged from January.
- For England and Wales, the net house price expectations balance was 19 in February, down from 23 in January.

Latest release: March 2007

Next release: April 2007

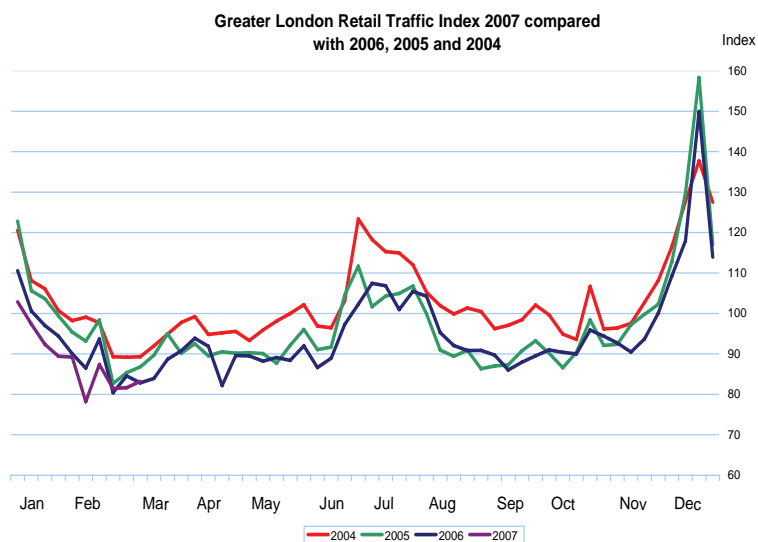


## SPSL Retail Traffic Index similar to last year

- The SPSL Retail Traffic Index of shoppers in London was 83.2 in the first week of March compared to 81.7 in the previous week.
- The index is now at similar levels to 2006 after being lower at the beginning of 2007.
- SPSL's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-March

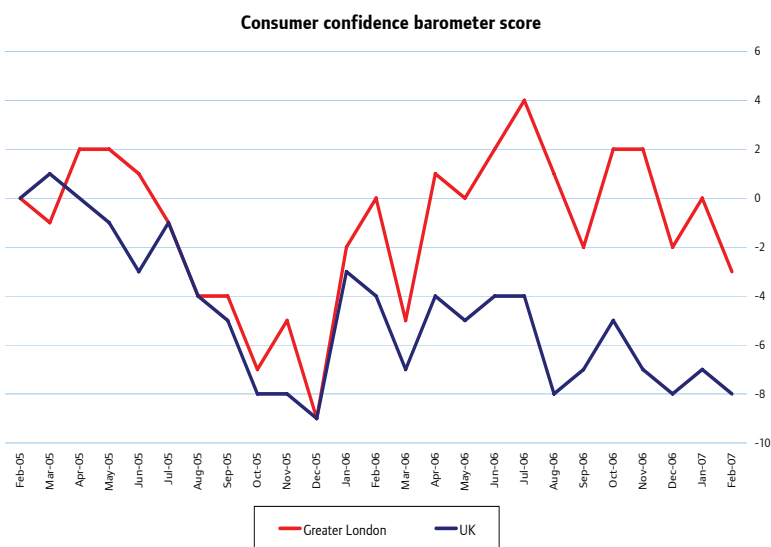
Next release: every week



Source: SPSL

## Weakening consumer confidence

- The GfK index of consumer confidence reflects peoples views on their financial position and the general economic situation over the past year and their expectations for the next 12 months (including whether now is a good time to make major purchases). A score above zero signifies a positive change in views.
- For Greater London the consumer confidence score dropped to -3 in February 2007 from 0 in January.
- For the UK the consumer confidence score decreased to -8 in February from -7 in January.



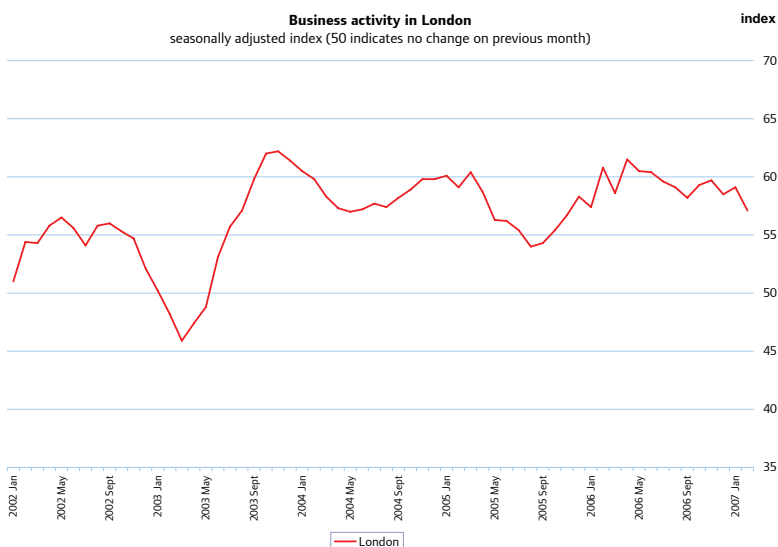
Source: GfK NOP on behalf of the European Commission

Latest release: February 2007

Next release: March 2007

## London's business activity continues to expand

- London's firms continued to expand their output of goods and services in February 2007.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.1 in February compared to 59.1 in January.
- A rate of above 50 on the index indicates an increase in business activity from the previous month. The PMI for business activity has been above 50 since June 2003.



Latest release: March 2007

Next release: April 2007

Source: PMI/The Royal Bank of Scotland



# How large is wage inequality in London?

Leticia Veruete-McKay,  
Economist

**London is a prosperous world city where some individuals earn the highest wages in the country, but also there are large areas of deprivation and poverty. We would expect, therefore, to observe a large gap between those at the top and the bottom of the earnings distribution.**

This supplement assesses the extent of wage inequality in London and how it compares with the UK. High wage inequality is undesirable because, the more unequal a society is, the less likely are disadvantaged individuals to move out of poverty.

## How do we measure wage inequality?

Wage inequality is commonly measured using the Gini coefficient<sup>1</sup> and/or the ratio of the 90th percentile wage over 10th percentile wage. This ratio compares the earnings of those workers at the top 10 per cent of the distribution with those at the bottom 10 per cent. This note looks only at the latter measure in London and the UK.<sup>2</sup>

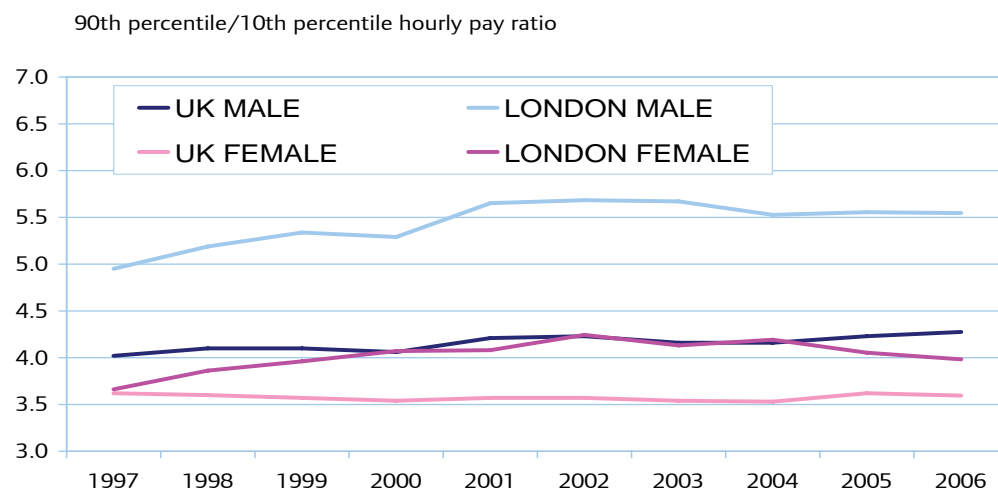
## Different points in the earnings distribution

Using data from the Annual Survey of Hours and Earnings (ASHE) for the period 1997-2006, we calculated the ratio of the 90th percentile to the 10th percentile by gender. In order to include commuters working in London in the analysis, we used wages on a workplace basis. Similar calculations were done for the UK as a whole. Wage inequality appears higher in London than in the UK over this period (see Figure 2).

Between 1997 and 2006, wage inequality increased among employees in London and the UK, except for UK female employees, where the extent of inequality stayed constant. Moreover, the wage distribution amongst male employees in London was the most unequal. Male employees in London at the top 10 per cent of the earnings distribution earned more than 5 times those at the bottom 10 per cent in 2006. Wage inequality amongst female employees in London has declined slightly since 2004.

**Figure 2: Wage inequality in London and the UK, 1997-2006**

Source: Annual Survey of Hours and Earnings (ASHE) various years



## Have disadvantaged groups kept up with the wage growth of median wages?

Disadvantaged individuals are obviously concentrated at the lower end of the earnings distribution. Therefore, from a social inclusion view point, it is important to pay particular attention to the lower end of the earnings distribution.

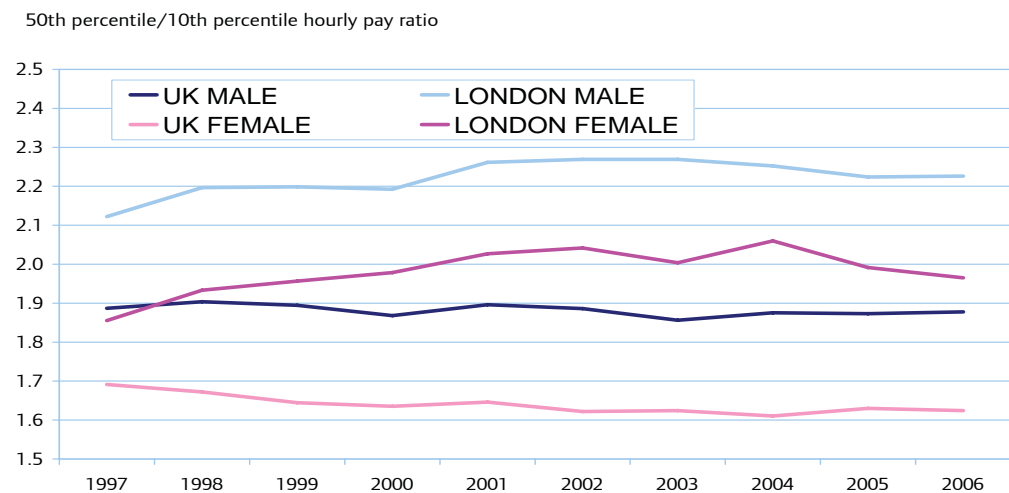
We can break down the ratio of the 90th and 10th percentiles into two parts. First, we compare higher and middle earners by looking at the ratio of the 90th percentile to the 50th percentile (or median). Second we can compare the middle and lower earners by considering the ratio of the 50th percentile to the 10th percentile.

When looking at the ratio of middle to lower earners, wage inequality remained relatively the same for men and declined for women in the UK over the period 1997-2006. In contrast in London, wage inequality between these groups, for both men and women, increased, (see Figure 3). This indicates that low paid earners in London have not kept up with the wage growth experienced by employees at the middle of the earnings distribution. More encouragingly, there are some signs that this ratio has declined since 2004 for London employees suggesting that the relative position of the lowest paid in London has started to improve.

London exhibits a greater degree of wage inequality than the UK as a whole, although there are some initial signs that this inequality may have started to reduce. These issues are explored in more detail in GLA Economics Current Issues Note 14: Patterns of low pay in London.

**Figure 3: The 50th percentile and 10th percentile hourly pay ratios in London and the UK**

Source: Annual Survey of Hours and Earnings (ASHE) various years



### Footnotes

1 The Gini coefficient is generally calculated from the shares of people at particular points in the distribution of interest (in our case earnings), to determine the extent of inequality in the distribution. When the Gini coefficient is equal to zero this reflects complete equality, and when it is equal to one it shows complete inequality.

2 See GLA Economics Current Issue Note 14: Patterns of low pay in London, which discusses these issues in more depth.

# Budget 2007: The implications for London

Duncan Melville,  
Deputy Chief Economist

**Gordon Brown clearly did not want his (expected) last Budget to be forgotten. He plumped for eye-catching cuts to income tax and corporation tax. But all was not as it might have seemed, as these headline tax cuts were offset by other revenue raising measures. He confirmed that the 2008-11 period covered by this year's Comprehensive Spending Review (CSR 2007) would be the tightest spending review for a decade. On London specifically, the Chancellor announced some welcome labour market measures and the Treasury published a second paper on the London labour market alongside the Budget Report.**

## Economic and Fiscal projections

The economic growth forecasts in the Budget are unchanged from his December 2006 Pre-Budget Report (PBR). The Treasury projections for this year and next are above the consensus amongst independent economic forecasters.

**Table 1: Summary of the Treasury and Consensus Economic Projections**

*Source: HM Treasury*

GDP Growth (%)	2007	2008	2009
PBR 2006	2¾ to 3¼	2½ to 3	2½ to 3
Budget 2007	2¾ to 3¼	2½ to 3	2½ to 3
Consensus	2.6	2.3	2.6

The Budget projections for public sector net borrowing (PSNB) – the standard measure of overall public borrowing – for this year are lower than those in the PBR. This is due a combination of better than expected tax revenues and lower than expected public investment spending.

**Table 2: Summary of the Treasury and Consensus Projections for Public Borrowing**

*Source: HM Treasury*

PSNB (£bn)	2006-07	2007-08	2008-09
PBR 2006	36.8	31.0	27.0
Budget 2007	35.0	34.0	30.0
Consensus	37.9	36.0	34.4

In contrast, the projections of public borrowing for 2007-08 and 2008-09 have been raised by around £3 billion in both years. This was largely due to a downward revision to the projected tax revenues from North Sea oil companies.

## Performance against the Fiscal Rules

The Chancellor has set out two key fiscal rules:

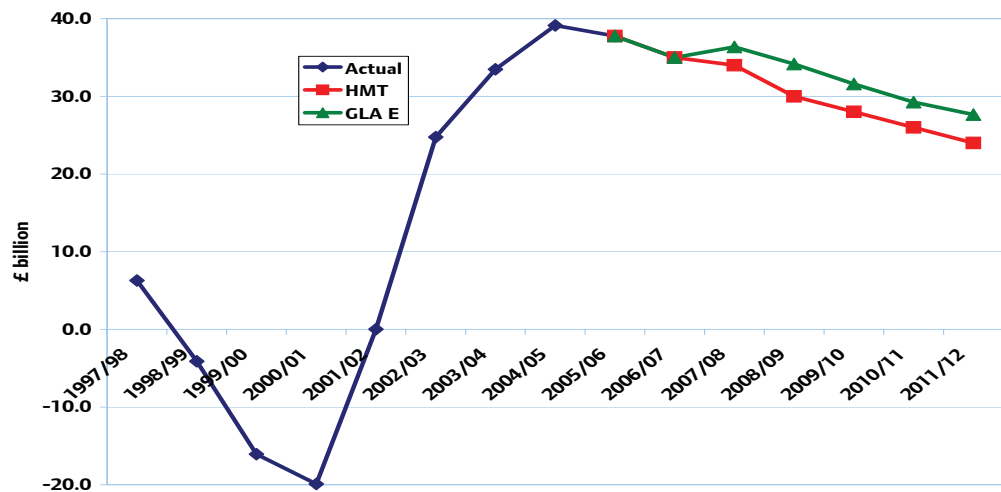
- *Golden Rule*: Over the economic cycle, the Government will borrow only to invest and not to fund current spending.
- *Sustainable Investment Rule*: Public sector net debt will be held over the economic cycle at a stable and prudent level, which the Chancellor has defined as below 40 per cent of GDP.

Since the Treasury believes that the current economic cycle started in 1997-98 and will end in this financial year it is clear that the Chancellor will meet his golden rule.

However our view is that the outlook for the golden rule from 2007-08 is much less sanguine than the Treasury's. In the five years 2007-08 to 2011-12 the PBR projects a cumulative surplus on the current budget of £27 billion; in contrast GLA Economics' projections are for a cumulative surplus of just £7.6 billion.

**Figure 4: Public Borrowing (PSNB)**

Source: HM Treasury,  
GLA Economics

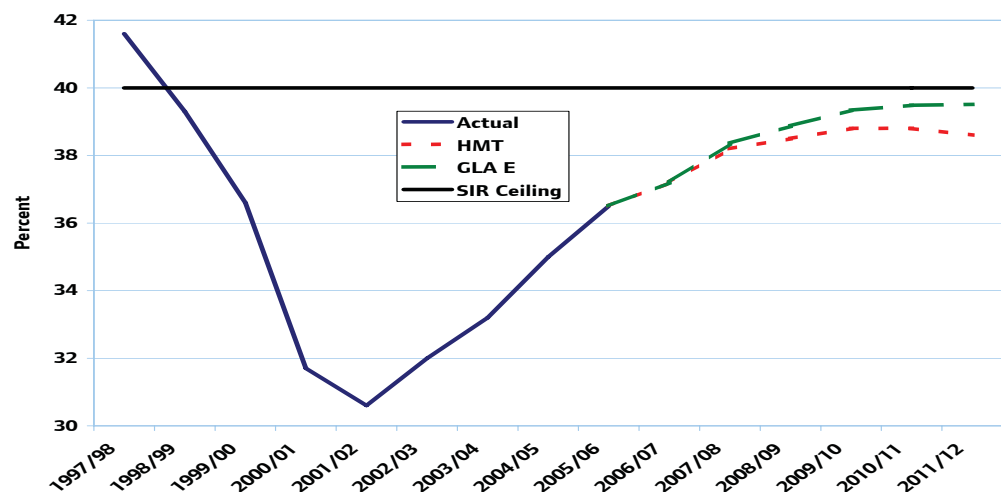


Our higher projections for overall public borrowing, see Figure 4, lead us to expect a larger increase in the stock of public debt required to fund this additional borrowing than the Treasury, see Figure 5.

The Treasury projections are for the debt to GDP ratio to stabilise at 38.8 per cent in 2010-11 and then fall slightly to 38.6 per cent in 2011-12 – thus staying below the 40 per cent ceiling set out in the sustainable investment rule.

**Figure 5: Public Sector Net Debt (% of GDP)**

Source: HM Treasury,  
GLA Economics



We anticipate that the debt to GDP ratio could reach 39.5 per cent in 2010-11 and 2012. Thus in contrast with our projections made at the time of the PBR we now anticipate that the Chancellor will continue to meet his sustainable investment rule, although with rather less scope for unexpected events than the Treasury.

## **Implications for CSR 2007**

The Chancellor confirmed that total public spending will rise by just two per cent a year on average in real terms (that is after taking account of inflation) over the three years covered by CSR 2007, 2008-11. This is half the four per cent average annual increase delivered by past spending reviews, covering 1999-2008. This implies some very tough choices and thus perhaps helps explain the Chancellor's decision to put off the announcement of the final public expenditure allocations from July to Autumn. The fiscal position described above always implied a tough outcome for public spending in CSR 2007, and even factors such as increased assets sales by 2011 of £18 billion, including £6 billion sales of student loan assets could not prevent this.

Within overall public spending, the Chancellor announced the CSR settlement for education spending in England. Over 2008-11, education spending in real terms will grow by 2.5 per cent on average a year. This rise is somewhat lower than had been expected in newspaper commentaries over the last week and is thus indicative of the tough choices ahead in CSR 2007.

## **Tax Reform**

The Chancellor caught everyone by surprise with his decision to cut the main corporation tax rate from 30 per cent to 28 per cent and the basic rate of income tax from 22 per cent to 20 per cent from April 2008. However along side these headline grabbing changes he introduced other changes that raised revenue.

On corporation tax these included reductions in the generosity of various capital allowances and a phased increase in the small companies rate of corporation tax. However, the introduction of a new annual 100 per cent allowance of £50,000 for investment should be of particular benefit to small businesses.

On personal taxation, these included the abolition of the 10 per cent starting rate of income tax on non-savings income, and the phased alignment of higher thresholds for income tax and national insurance contributions.

For some poorer working families increases in the generosity of working tax credits will offset increases in tax resulting from the abolition of the 10 per cent starting rate of income tax.

## The Environment

The Chancellor announced changes to vehicle excise duty (VED) to encourage lower green house gas emissions. He nearly doubled the top of rate of VED on the worst polluting cars over the next two years and cut it for relatively low emitting cars such as the Toyota Prius.

Other green measures included:

- encouragement of specialised mortgages for energy efficient upgrades to housing;
- exemption from stamp duty for zero carbon homes costing up to £500,000;
- increases in landfill and aggregates taxes from April 2008; and
- extension to 2010 of the fuel duty differential of 20p per litre on biofuels.

## Labour Market and Welfare Reform

Alongside the Budget, the Treasury published a second paper on the London labour market. A brief summary of this paper is attached (see Annex A). The paper calls for a strategic, London-wide approach, bringing together all levels of government and other partners to co-ordinate labour market policy in the capital. The paper concludes that the institutional arrangements best suited to support such a London-wide approach need to be considered.

The Budget included specific London labour market measures. It announced the continuation of the In Work Credit (IWC) available to lone parents who have been on welfare for more than 12 months for their first 12 months back in work. The IWC will continue to be available in its current pilot areas until June 2008, benefiting over 250,000 lone parents in the UK. Outside London, the IWC is £40 per week. The Budget announced that given the lower gains to work in London, the IWC will be paid at a higher rate of £60 a week in London.

The Budget also announced that the Government will trial short, work-focused approaches to provide training in English as a second or other language (ESOL) in the London Cities Strategy pathfinders for parents on benefits or tax credits. This is important as the Budget notes (quoting research from DMAG) that 40 per cent of London's workless parents have English as a second language.

Increases in the child element of the child tax credit were announced in the Budget. This gives the most help to the poorest children. In addition, the announced increased generosity of the working tax credit will encourage movements into work. Along with the changes to income tax and national insurance, the Treasury estimate that these changes will take 200,000 children out of poverty.



## Comment

The headline catching cuts to income and corporation tax rates in the Budget were countered by other revenue raising measures. This was a tax-reforming budget rather than a tax-cutting budget. The overall distributionary effects of the changes to personal taxation are not clear. The Institute for Fiscal Studies, the leading independent commentators on fiscal policy matters, noted that 'the losers [from the Budget changes] come from across the income distribution'. It does however seem clear that some low income households will be net losers given the abolition of the 10p starting rate on income tax.

It is clear that CSR 2007 will involve some very hard choices given public spending will grow by just two per cent in real terms on average per year between 2008 and 2011. The results of CSR 2007 will now be announced in the Autumn, thus the GLA will at least have an extra few months to engage with the Treasury and the rest of central government on behalf of London.

The package of green measures in the Budget, although welcome, was as in the PBR rather modest.

There were some welcome specific measures for London in the area of labour market policy, and the paper published alongside the Budget raised the possibility of institutional reform in London. This opens up the possibility of further devolution of powers in London alongside the new Employment and Skills Board for London, which is chaired by the Mayor.

The increases in generosity of tax credits to tackle child poverty are an important step towards the Government's target of halving child poverty by 2010. However, in future years these will have to be supplemented with other measures if the Government is to meet this target.

# Annex A: Summary of 'Employment Opportunity for all: Tackling worklessness in London'

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At just under 70 per cent, London's employment rate is lower than the national rate and lower than every other UK country and region. Household incomes are more unequal than in other regions, parental employment rates are low, and consequently child poverty rates are high.

After taking into account differences in population characteristics, Inner Londoners are 3.1 percentage points less likely to be in employment than people elsewhere in the UK. This can be referred to as a London 'place' problem. For low skilled workers the figure rises to 10.9 percentage points.

The document sets out policy recommendations to try to solve the London 'place' problem. There is a density of job opportunities in the centre. This draws people to the centre and inhibits job search in Outer London. Policy should attempt to reduce the congestion for low-skilled jobs in the centre by making it easier for people to get low skilled jobs in Outer London and the surrounding area. Better co-ordination between employment and other areas such as transport and housing is needed. An example of this could be subsidised transport for the low skilled.

Employment programmes are needed to make the low skilled more attractive to employers. This could be done by providing opportunities for low-skilled employees to gain more recognised skills. Also skills recognition needs to be improved particularly for those who gained skills overseas. English language training would also help to boost the skills of migrant workers. Addressing labour market discrimination could also aid progression in the labour market and therefore create entry-level opportunities for others.

Parental employment rates in London are low, in particular part-time employment rates for mothers. The Inner London 'place' problem accounts for a 14 percentage point difference for lone-mothers and 13 percentage points for mothers in couples. This shows that the problem is not simply London's particular population characteristics. Neither is the problem one of London specific industrial and occupational structure (the report quotes GLA Economics' analysis of part-time employment). The report concludes that problems with childcare are a key reason for the low employment rate amongst mothers. London has the lowest number of childcare places per 100 children of any region in England and the highest costs. Policy should attempt to bring the cost of childcare closer to the national average and increase supply. Higher in-work support would also help mothers who rely on paid childcare in order to work.

A strategic, London-wide approach, bringing together all levels of government and other partners, is important to co-ordinate policy in this area. The institutional arrangements best suited to support such a London wide approach now need to be considered.

## Data sources

<b>Tube and bus ridership</b>	Transport for London on 020 7941 4500
<b>GDP/GVA growth</b>	Experian Business Strategies on 020 7630 5959
<b>Tourism – overseas visitors</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
<b>Tourism – domestic visitors</b>	<a href="http://www.visitlondon.com">www.visitlondon.com</a>
<b>London airports</b>	<a href="http://www.caa.co.uk">www.caa.co.uk</a>
<b>Business activity</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<b>Employment</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<b>London FootFall</b>	<a href="http://www.footfall.com">www.footfall.com</a>
<b>House prices</b>	<a href="http://www.nationwide.co.uk/hpi/">www.nationwide.co.uk/hpi/</a>
<b>Unemployment rates</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>

## 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.

### 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

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

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