

GLAECONOMICS

London's Economy Today



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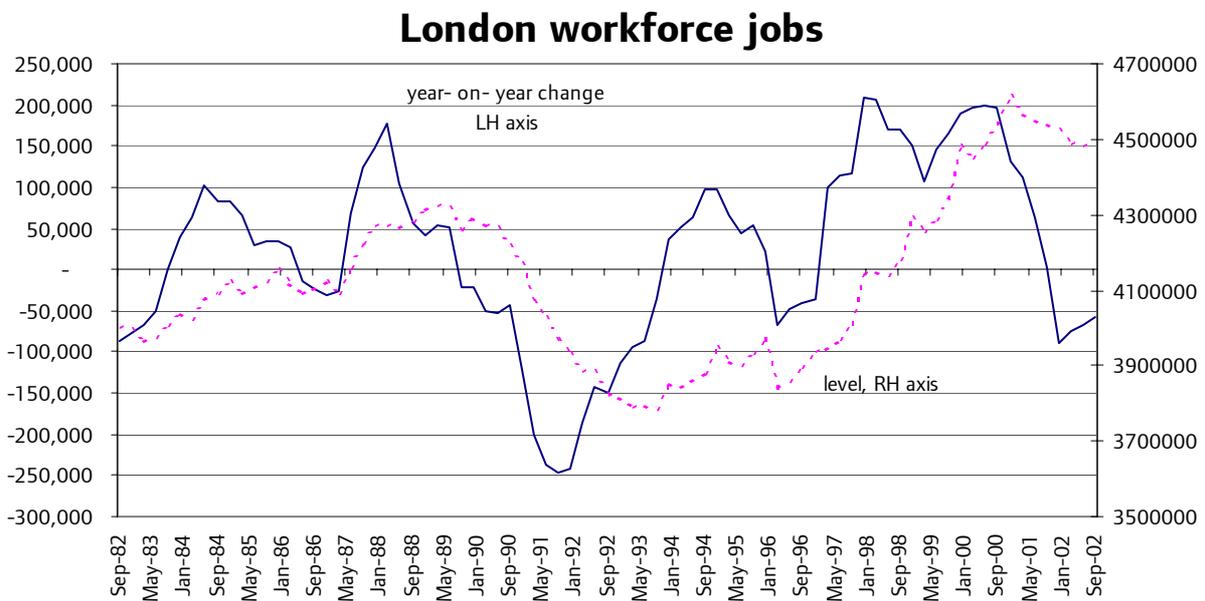
The London Economy by Bridget Rosewell

Turn off the panic button

- Employment estimates show that job numbers fell in London in 2001 – but evidence for 2002 suggests that losses have stabilised since then.
- Other indicators, such as unemployment and tube ridership, also suggest that the worst is over.
- However, gloom is being generated by weak retail sales over Christmas and signs of an end to the housing boom in London at least.
- This pessimism is overdone. The London economy is not about to collapse and indeed, unless there is some kind of crisis, recovery should be around the corner.

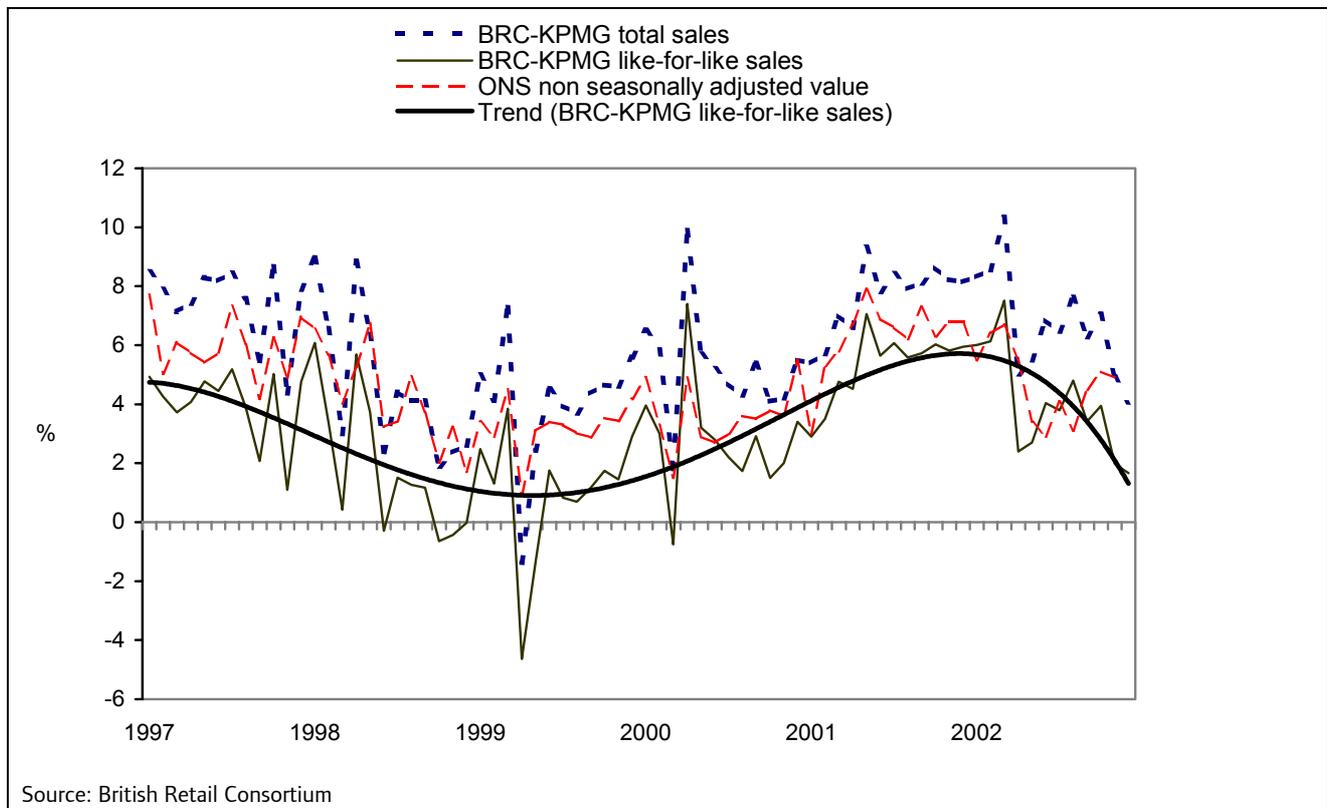
Recent headlines have been suggesting that the London economy is about to hit the rocks. From scare stories about negative equity to collapsing City employment, the focus has all been on the bad news. Interestingly, this is occurring just when some of the indicators are showing signs of an upturn, which just goes to show how hard it is to have a comprehensive picture.

For example, take employment. The latest detailed estimates of employment have just been produced showing how City employment has been falling, with a loss of 18,000 jobs in financial services alone and a fall of 46,000 in total. However, this figure is for the year of 2001 – detailed estimates for 2002 will not be available for at least another year. At the same time, the figure for 2001 has actually been revised up by more than 8,000.



Source: ONS

Retail sales year-on-year growth



Source: British Retail Consortium

Of course, what matters is what has happened in 2002. For this we do not have detailed estimates, but we do have some totals for London. These provide estimates up to September 2002 and they show that the fall in employment has stabilised during 2002. Indeed the year-on-year change has decelerated markedly.

This is not the only indicator to show that things may not be too bad after all. Unemployment has been flat through most of 2002, after rising in 2001, and tube ridership has also remained stable, with its falls occurring in 2001. So in the absence of some new crisis, it looks as if the economy of London is beginning to recover.

In which case, why all the doom and gloom? You do not have to look far for the reason. If the consumer stops shopping, the notorious double dip might be in prospect. Indicators for the Christmas period were fairly weak. The British Retail Consortium's latest Sales Monitor has published results showing that the Christmas period had growth in like-for-like sales of only 1.75 per cent, the lowest rate since August 2000. Though we do not know how this is reflected in London, it cannot

be good news for the main shopping district in the capital.

In addition, house prices are undoubtedly beginning to flatten. The Halifax is warning that negative equity may return, which prompted a big headline in the Evening Standard. But if we actually examine the data, it still shows increases and there is considerable quarterly volatility in house prices. It is hard to conclude from what we see that house prices are about to collapse.

Moreover, the City is depressed. There is talk of the negative bonus – in which at least you keep your job. This is the longest bear market in a generation, so it is no wonder that this affects both profit and mood. But the City is not all of London, and it is also capable of bouncing back as quickly as it got depressed. So we conclude that continued recovery in the economy as a whole is still a practicable proposition, at least so long as an international crisis does not overtake us.

Economic indicators

Source: TfL

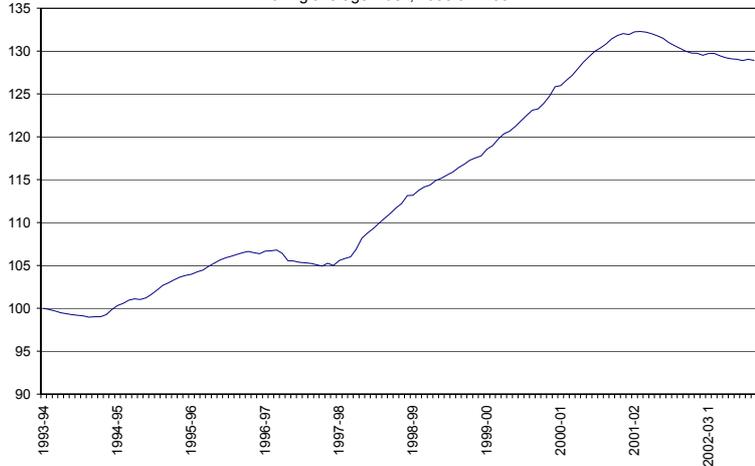
Latest release: 7/01/03

Next release: 04/02/03

- Actual London Underground passenger numbers are stabilising with no dramatic downturn.
- The moving average index declined marginally to 128.9 (until 7 December 2002) from 129.0 in the previous period.
- This index has proved to be a good indicator of economic performance in London, suggesting that the slowdown in London's economy has not deteriorated further since the Autumn of 2002.

London Underground passenger numbers

Moving average index, 1993/94=100



Source: Transport for London

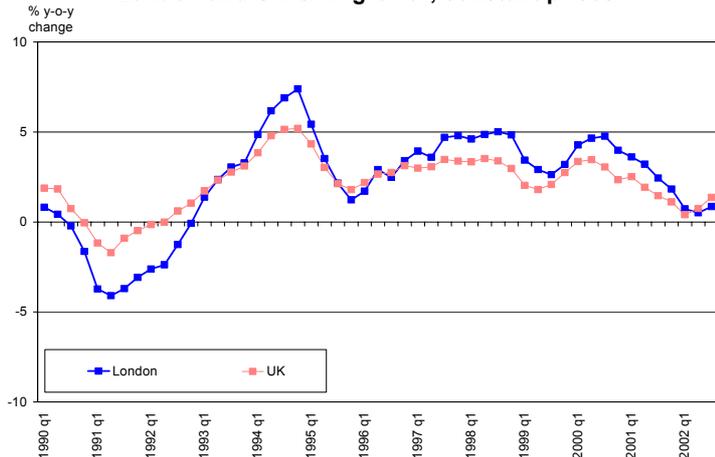
Source: Experian Business Strategies

Latest release: 5/12/02

Next release: Spring 2003

- These series have not been updated since the last report. ONS will publish regional GVA estimates during early Spring.
- London's GVA growth in Q3 rose by 0.9 per cent from previous quarter. This indicates a recovery since the slowdown took place in the second half of 2000.

London and UK GVA growth, constant prices



Source: Experian Business Strategies

Source: Civil Aviation Authority

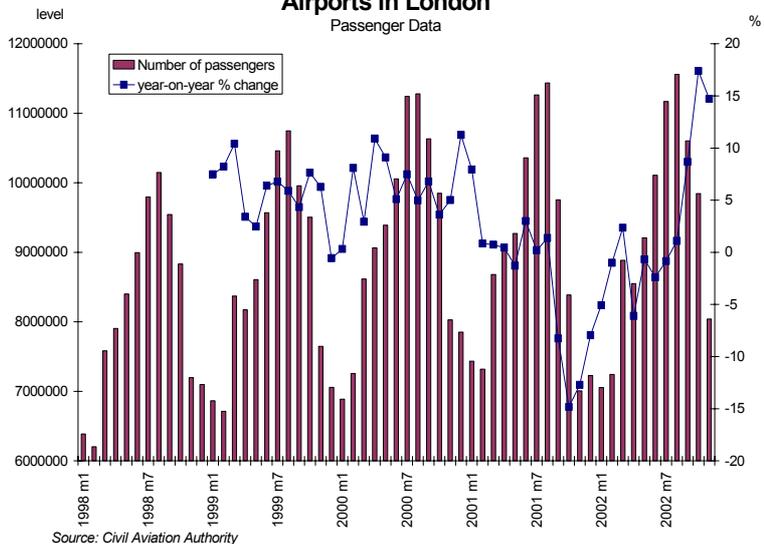
Latest release: 3/01/03

Next release: 10/02/03

- Airport traffic growth declined slightly in November from the previous month.
- However, the pace of its annual growth is still strong.
- The year-on-year growth in November was 14.7 per cent, the second highest annual rate since 1999.

Airports in London

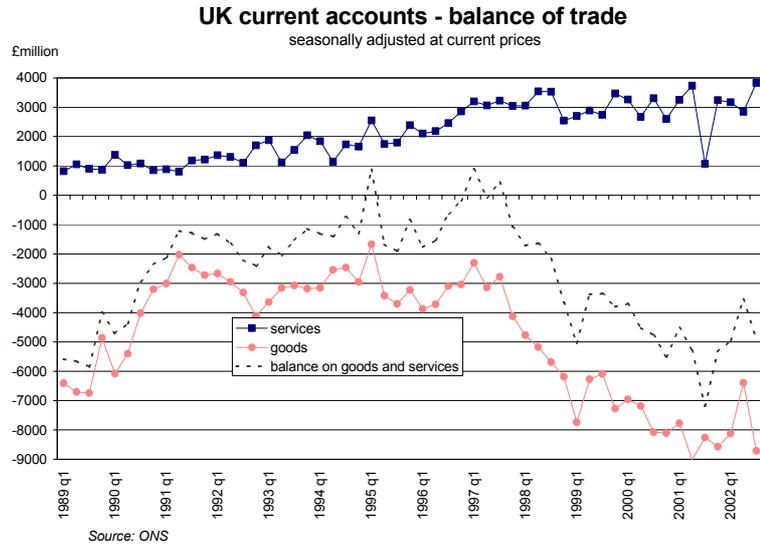
Passenger Data



Source: Civil Aviation Authority

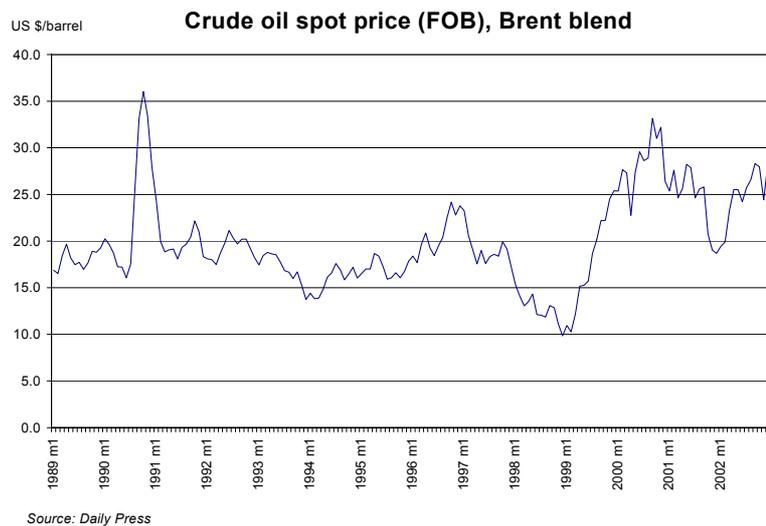
Source: ONS
 Latest release: 23/12/02
 Next release: not known

- The UK current account deficit is worse in Q3, despite an improvement in the last four quarters.
- This worsening was attributed mainly to the deterioration in the deficit in goods, where exports have fallen further with the continued strength in the pound in relation to the US dollar.
- By contrast, the surplus in services strengthened in the third quarter of 2002.



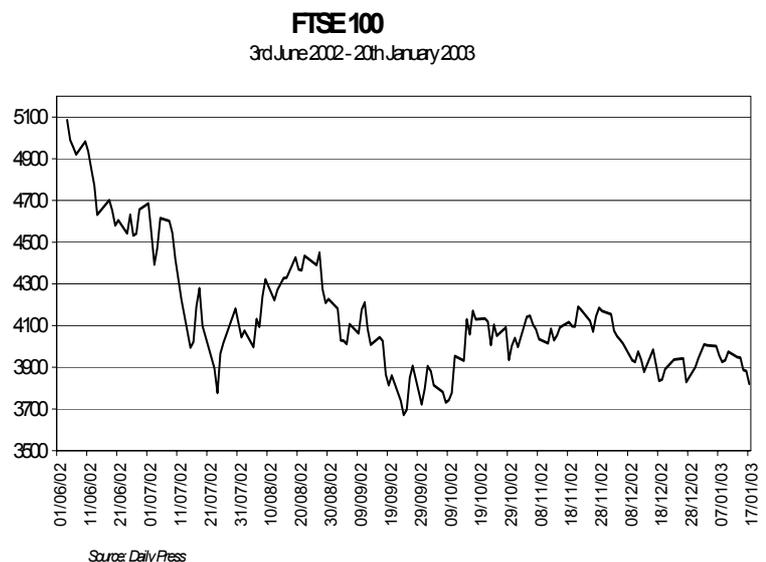
Source: Daily Press
 Released daily

- Brent crude oil price continued to rise and reached almost the \$US 29 level in December, above the OPEC target price of \$22-28 per barrel.
- Recent escalating fears of a war in Iraq and the national oil production strike in Venezuela have been main contributors to soaring prices.
- Uncertainty prevails about world oil production and the state of the global economy, but oil prices have not escalated above levels seen in the past Gulf War, that could exacerbate a downturn in the world economy.



Source: Daily Press
 Released daily

- UK equity prices remain volatile at present, due to perceptions of a slow recovery in the global economy and fears about a war in Iraq.
- The FTSE 100 index has been oscillating around the 4000 level since October 2002.
- Equity prices rallied in November, but lost ground again at the end of last year.

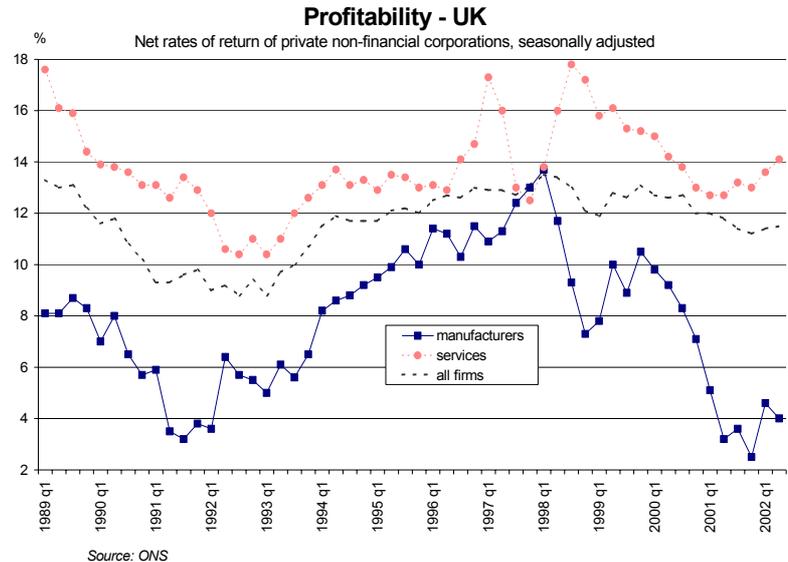


Source: ONS

Latest release: 07/01/03

Next release: 02/04/03

- Profitability of UK companies weakened in 2002 Q3, reflecting a weak global demand and falls in equity prices in the past months.
- The net rate of return by UK companies declined to 11.0 per cent from 11.7 per cent in Q2, as the net rates of return in both manufacturing and service sectors declined.
- Profitability reversed its upward trend seen in the past quarters, but current net rates of return for all companies are above those seen in the last recession.



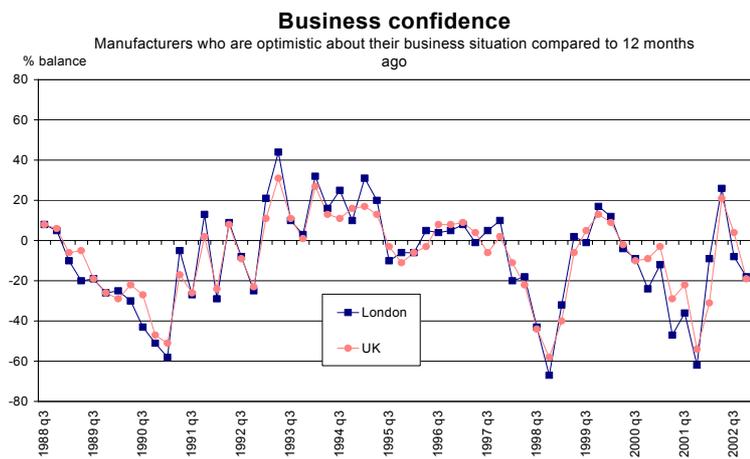
Source: ONS

Source: CBI/Regional Trends Survey

Latest release: 12/11/02

Next release: 01/02/03

- Business confidence deteriorated in 2002 Q3. More manufacturers are more pessimistic about their business situation compared to last year. The latest CBI survey recorded a balance of -20 per cent compared to 20 per cent in Q2 in UK.
- The balance for London was no worse than the UK as a whole.
- Current pessimism among manufacturers has not reached the gloomy sentiment of the beginning of the slowdown in 2001.



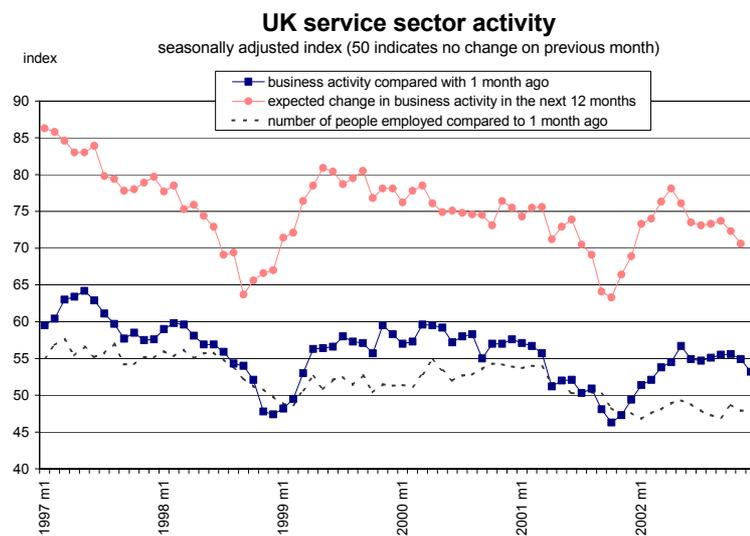
Source: CBI/Regional Trends Survey

Source: CIPS

Latest release: 6/01/03

Next release: 05/02/03

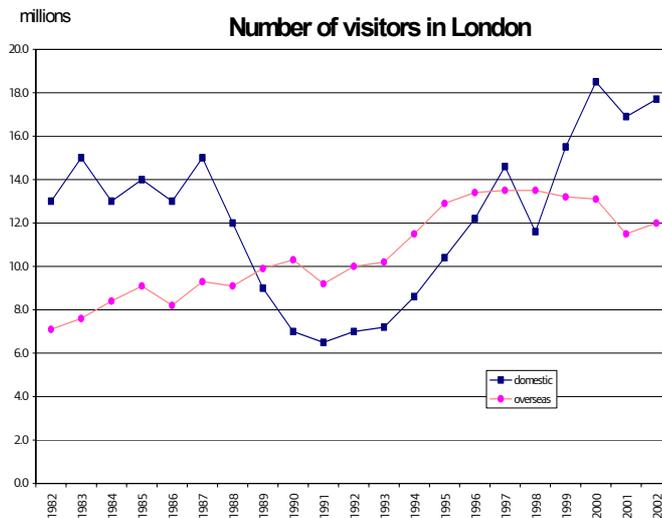
- The CIPS survey indicates that a solid expansion of activity levels within the UK service sector continued up to the end of 2002. But the rate of incoming new businesses growth has weakened.
- The services business activity index recorded 53.2 in December compared to 54.9 in the previous month. This stands above the no-change level of 50.0 for the past consecutive 12 months.
- The employment index indicates no change in the rate of workforce contraction.



Source: CIPS (The Chartered Institute of Purchasing and Supply)

Source: London Tourism Board
 Latest release: 16/01/03
 Next release: not known

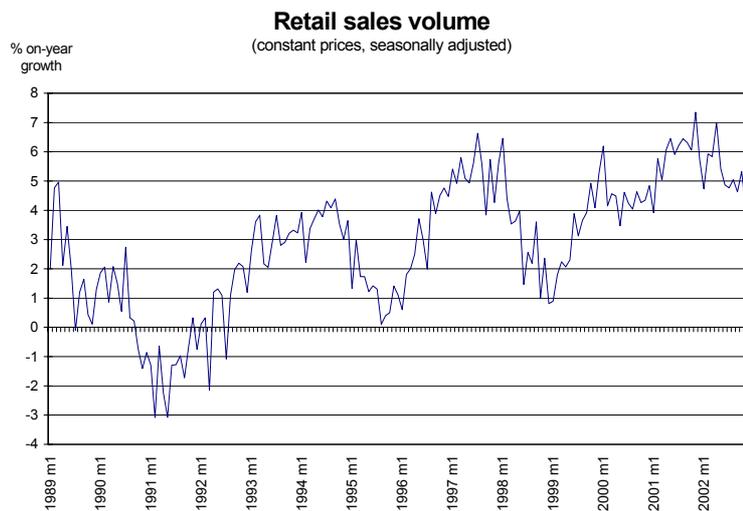
- Total number of visitors in London has recovered in 2002, (reaching 29.7 millions) after having suffered by the aftermath of September 11th.
- Domestic and overseas visitors to the capital grew by 4.7 per cent and 4.3 per cent in 2002 from previous year. For overseas visitors, this is the strongest annual growth experienced since 1996.
- Overseas visitors in London have outpaced domestic visitors since early 1990s, but this has been reversed from 1997.



Source: Tourism Board

Source: ONS
 Latest release: 19/12/02
 Next release: 23/01/03

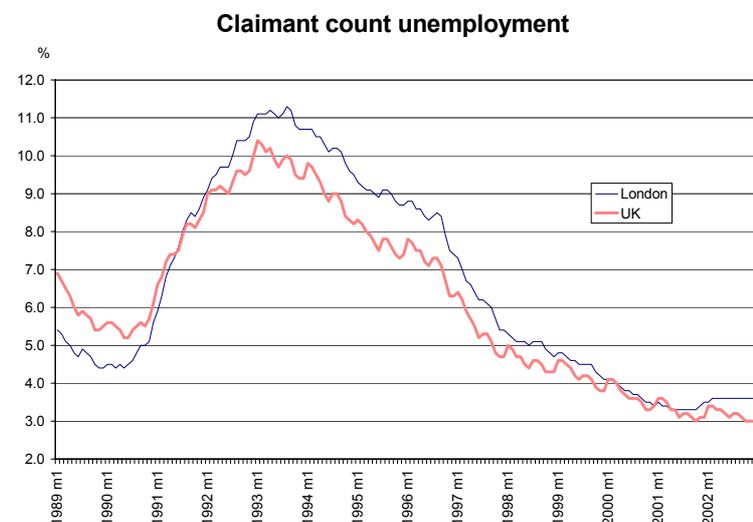
- UK retail sales growth slowed in November, as consumers were more cautious. Annual retail sales grew by 4.0 per cent compared to 5.0 per cent in October.
- Average annual growth is 3.2 per cent since 1989. Thus the current decline is considered moderate as November's growth remains above average. This reinforces the view that a soft landing is expected in consumer spending, rather than a slump, in the coming months.



Source: ONS

Source: Labour Force Survey
 Latest release: 15/01/03
 Next release: 12/02/03

- The labour market continues to be tight in London and the UK as a whole. Both claimant count unemployment rates were broadly stable in December.
- Most recent figures on population in London have been revised down. This has caused London claimant unemployment figures to be revised up, so it is not comparable with the unemployment rate figure in the UK.



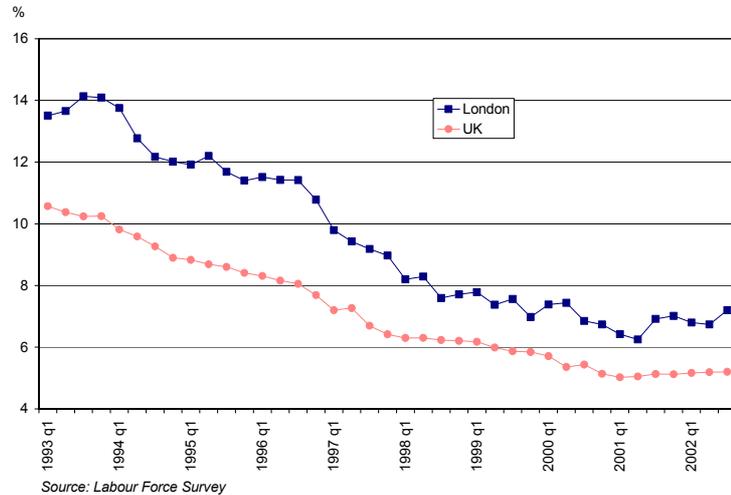
Source: Labour Force Survey



Source: Labour Force Survey
 Latest release: 15/01/03
 Next release: 12/02/03

- Similarly, the ILO unemployment rate for UK indicates stability in the labour market.
- The ILO unemployment rate in the UK continued to be unchanged at 5.2 per cent in Q3, for the second consecutive quarter.
- In London, the ILO unemployment rate edged up to 7.2 per cent from past months since August 2002. But it stands halfway from rates seen in the early 90s.

ILO unemployment rate

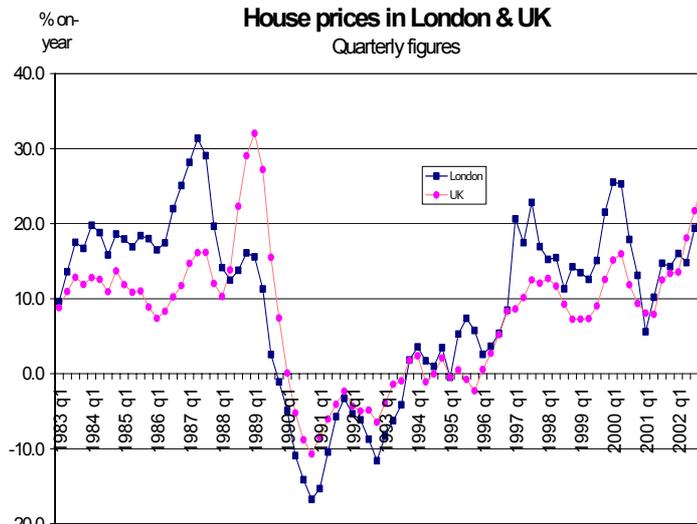


Source: Labour Force Survey

Source: Nationwide
 Latest release: 03/01/03
 Next release: not known

- Annual house price growth remains buoyant at the national level, recording 25.3 per cent in Q4. In London the annual growth was 21.4 per cent below the UK as a whole since early 2001.
- However, the quarter-on-quarter growth in house prices in London (not included in the chart) experienced a slowdown in the past three months, declining to 3.8 per cent in 2002 Q4 from 7.3 per cent in the previous quarter.

House prices in London & UK
 Quarterly figures

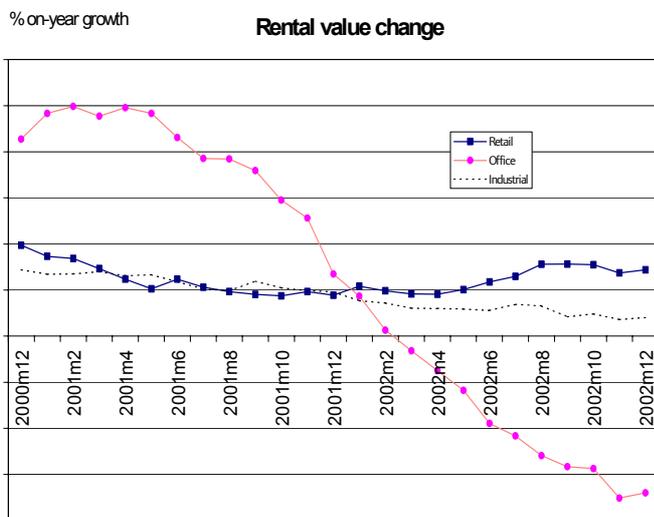


Source: Nationwide

Source: Insignia Richard Ellis
 Latest release: 6/01/03
 Next release: 5/02/03

- The further increase in the gap between availability of office space in London and take-up has pushed down rents in commercial property in the past months.
- Rents in the office sector continued their downward trend in December. The year-on-year growth in rental value remained negative, standing now at almost -7 per cent.
- In contrast, rental performance in the retail and industrial sectors show stability with positive annual growth.

Rental value change



Source: Insignia Richard Ellis

Emerging trends in employment in London, 2000-2001

by Damian Walne

- The Annual Business Inquiry (ABI) for 2000 has been revised. London had nearly 8,000 more jobs in 2000 than had previously been thought. Over 2000-2001, employment in London declined by 46,000 jobs. With over 4 million jobs in London, this is a fall of just 1.1 per cent.
- Job losses in London fell most notably in financial services which lost more than 18,000 jobs. The decline in manufacturing employment continued apace, while there was significant growth in other services such as the creative industries. The picture across London as a whole was mixed, but reflected falling employment in the east but growing employment in the west.
- The City of London had the sharpest decline in employment, losing 23,000 jobs, almost entirely in finance. In contrast, Tower Hamlets gained more than 9,000 jobs in finance. The employment decline in the City is partly through a relocation of jobs to other London boroughs.

Background to the ABI

The Annual Business Inquiry (ABI) measures employment by workplace. The new ABI was released in December 2002 and brought about two key developments:

- A revision of the employment result from 2000.
- The release of provisional employment results for 2001

Revisions for 2000

It had originally been thought that the total employment in London was 4.052 million employees in 2000. Following revisions this total changed to 4.06 million employees. Therefore the employment performance of London was stronger than had previously been believed. There were 8,000 more jobs added to the total, an increase of 0.2 per cent.

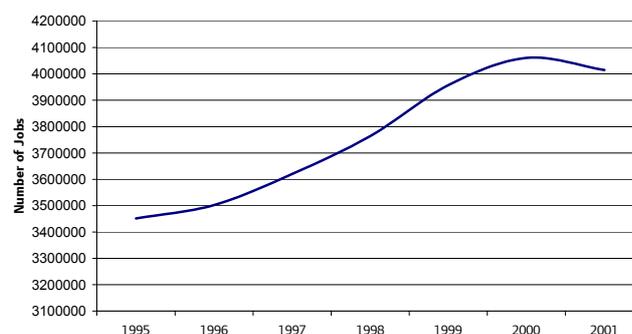
The revisions showed the provisional results for 2,000 underestimated employment across most of London's boroughs. The underestimates were most significant in Bexley, Bromley and Enfield. Employment was overestimated in the City of London.

The revisions showed the underestimates in the ABI were mostly in distribution, hotels and restaurants. Public services also employed more in 2,000 than had been initially thought.

New results for 2001

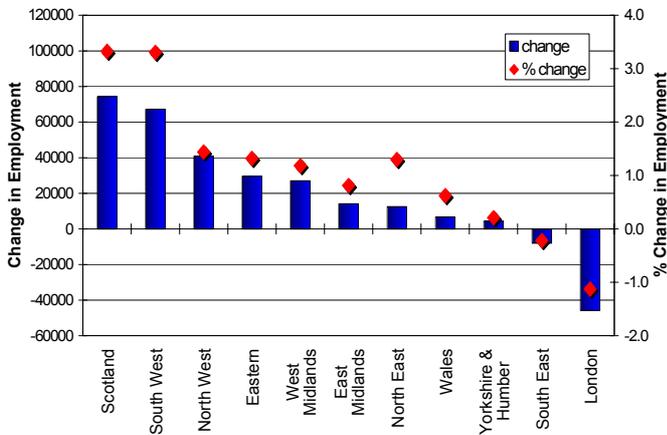
The provisional results for total employment in London for 2001 show there are 4.01 million employees. This is a fall of more than 46,000 jobs across London as a whole over 2000 to 2001. This is equivalent to a 1.1 per cent fall in total employment.

Total employee jobs in London



Source: Annual Business Inquiry

Regional employment change 2001-2002



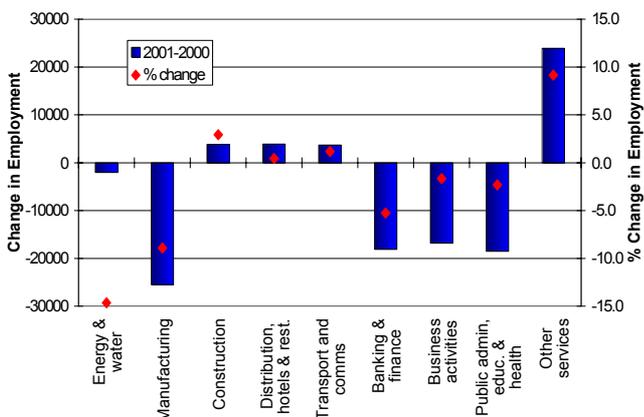
Source: Annual Business Inquiry

This is the first annual fall in total employment for several years. The fall in employment in London during 2001 takes place in the context of continuing improvements in employment elsewhere in the country. The South East was the only region other than London to record a decline in employment.

Change in employment by sectors

The changes in employment over 2000 to 2001 indicate developments in the sectoral composition of London's employment.

Change in broad sector employment in London 2001-2002



Source: Annual Business Inquiry

The largest job losses were concentrated in:

- *Banking, finance and insurance* – the sector lost over 18,000 jobs during the course of the year, a fall of more than 5 per cent.
- *Business activities* – the largest sector reduced by almost 17,000 jobs, a decline of under 2 per cent
- *Manufacturing* continued to contract with a reduction of over 25,000 jobs, down almost 9 per cent.
- *Public administration, education, and health* also recorded a fall of over 18,000 jobs, down over 2 per cent.

The job losses have been partially offset by increasing employment in other sectors, most notably in *other services* which surged by almost 24,000 jobs (+9 per cent).

Change in employment by sub-sectors

The ABI allows analysis beyond this broad sector level such that the change in employment at a smaller sub-sector level can be identified.

Banking, Finance, and Insurance

The 18,000 net job losses in the banking and financial sectors are clearly a substantial component of the changes in employment in London over 2000-2001.

There were 21,000 job losses in *Monetary Intermediation*. This captures all employment in banks and financial organisations in transfers and the trading of stock and shares. In short, in 2001 the downturn in the stock markets was making an impact on employment in the financial institutions.

This was partially offset by 3,000 jobs gained in other aspects of financial services, such as credit and insurance services.

Business activities

The decline in employment in business activities is spread widely with small losses in real estate activities, computing, and accounting.

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The largest losses have been in *labour recruitment* which lost over 11,000 jobs. This is a complex sub-sector which includes all employees who work for others, often temporarily, but whose wages are paid by a recruitment agency. Therefore, a small downturn in employment, is shown to disproportionately affect temporary employees although it not clear in which sectors these temporary employees are actually active.

Manufacturing

The job losses in manufacturing show a continuation of the downward trend in manufacturing employment. Importantly, this decline in employment is distributed across all aspects of manufacturing in London.

In London, a third of manufacturing jobs are in publishing and printing. However, this sub-sector has performed strongly in relation to other manufacturing industries in the capital.

Public administration, education, and health

In London, the number of jobs in public administration activities experienced a small decline. There was an accompanying fall in employment in law and order activities and a decline in the numbers of jobs in healthcare.

Other services

The most buoyant employment growth in London falls within the vaguely described Other services. In practice, this includes many of the creative sectors. Over 2000-2001:

- London gained a further 9,000 jobs in activities in radio and television and motion picture and video activities.
- London generated more than 7,000 jobs in sporting activities and other recreational activities.
- A further 4,500 jobs in 'other entertainment activities'.

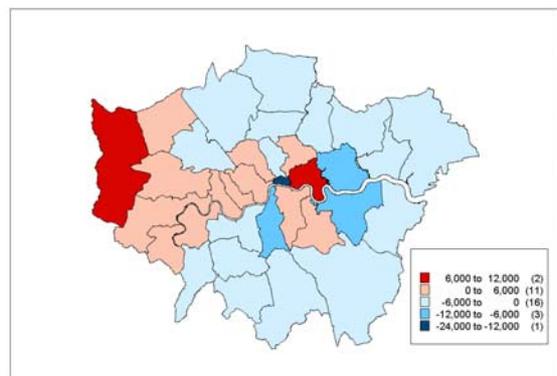
Change in employment by geography

London borough boundaries



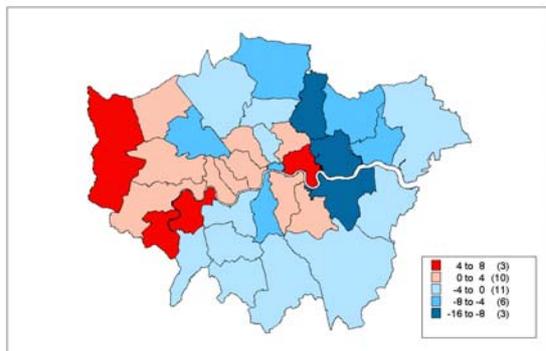
01	Barking and Dagenham	18	Hillingdon
02	Barnet	19	Hounslow
03	Bexley	20	Islington
04	Brent	21	Kensington and Chelsea
05	Bromley	22	Kingston upon Thames
06	Camden	23	Lambeth
07	City of London	24	Lewisham
08	City of Westminster	25	Merton
09	Croydon	26	Newham
10	Ealing	27	Redbridge
11	Enfield	28	Richmond upon Thames
12	Greenwich	29	Southwark
13	Hackney	30	Sutton
14	Hammersmith and Fulham	31	Tower Hamlets
15	Haringey	32	Waltham Forest
16	Harrow	33	Wandsworth
17	Havering		

Absolute change in employment by London borough 2001-2002



Source: Annual Business Inquiry

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Percentage change in employment by London borough 2001-2002

Source: Annual Business Inquiry

The overall pattern of employment change over 2000 to 2001 illustrates a slight but distinct shift from east to west in the geographical composition of employment.

Boroughs with decreasing employment

Twenty boroughs in London had declining employment over 2000-2001.

The largest single decline in employment is found within the City of London which in 2000-2001 lost over 23,000 jobs, some 7 per cent of its total 2000 employment of 330,000.

The boroughs of London with the steepest decreases in total employment over 2000-2001 are mostly in east London and central London. These are:

- Greenwich – losing some 11,000 jobs (-15 per cent)
- Newham – a decline of almost 7,500 jobs (-10 per cent)
- Lambeth – experienced a decline of almost 7,000 jobs (-6 per cent)

Boroughs with increasing employment

Thirteen boroughs in London had increasing employment. The boroughs with most significant employment growth are:

- Tower Hamlets – this had growth of over 10,000 jobs (+7 per cent)
- Hillingdon – gained a further 10,000 jobs (+7 per cent)
- Richmond – added another 5,000 jobs (+8 per cent)

There was also significant employment growth in the central London boroughs of Westminster, Camden, and Southwark, and the West London boroughs of Hounslow and Hammersmith and Fulham.

Key changes by sector and by geography

In bringing both the sector analysis of employment and the geographical analysis of employment in London together, some key changes in employment in London can be identified.

In *Banking, Finance and Insurance*, although the sector overall experienced significant job losses in 2001- a headline picture of decline is misleading. There is evidence of a shift in the location of financial services, with losses within the City and central London but some growth elsewhere.

- Within the City of London, over 24,000 jobs were lost in financial services
- In Westminster, there was a loss of almost 6,000 jobs in financial services
- In Tower Hamlets, more than 9,000 jobs were *created* in financial services.

The growth in Tower Hamlets reflects the emergence of Canary Wharf and the Docklands as key centres for financial services.

In *Business Activities*, the changes were relatively small – only in Greenwich has the sector had a substantial decline.

- In Greenwich, there was a loss of over 8,000 jobs in business services. Most of this can be sourced directly to loss of temporary jobs in 'Labour Recruitment' with the completion of the Millennium celebrations.
- Boroughs such as Hackney, Lambeth, and Wandsworth also lost several thousands of jobs in business services.

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- Westminster gained an additional 6,000 jobs in business services. There was also significant growth in boroughs such as Tower Hamlets, Camden, and Richmond.

of Westminster generated more than 5,000 new jobs in *Other services*.

The London Borough of Hillingdon continued to benefit from Heathrow Airport with more than 10,000 jobs in *transport and communications*, while the City

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Introducing new staff at GLA Economics

GLA Economics is pleased to announce the arrival of several new team members:

Margarethe Theseira has joined as knowledge manager. She was formerly a GIS consultant with experience in both the public and private sector. Margarethe will be developing systems for acquiring data and sourcing external research capability. She will be maintaining the unit data and disseminating information produced by the unit.

Leticia Veruete-McKay has joined as an economist. She was formerly a financial economist at the Bank of England. Leticia will be working on conjunctural analysis of London's economy and general macroeconomic developments in the UK.

Damian Walne has joined as an economist, following three years as an economic consultant with DTZ Piedad Consulting. Damian's specialist interests are in regional and local economic development, the drivers of economic growth and their impacts on poverty and deprivation. His key work in GLA Economics will be to work in development alongside the LDA.

Adarsh Varma has joined as an economist research assistant. He was previously working as a graduate teaching assistant at the University of Hull. His main interests lie in the use of economic instruments for environment and energy policy. Key work in GLA Economics is on the environmental impact of the London Plan.

Alon Carmel has also joined as an economist research assistant. He formerly worked as a humanitarian officer with Oxfam and as a human rights researcher in Jerusalem and as a journalist in Beijing. At GLA Economics, Alon will be concentrating on transport, tourism and regeneration issues.

Ravie Dulani has joined as a trainee economic statistician. Ravi is currently studying for a degree in Business Information Systems and Management at Middlesex University. At GLA Economics, Ravi collates and analyses a range of indicators to follow economic developments in the UK and London.

Data Sources

Tube Usage	Further information contact Transport for London on 020 7941 4500
FTSE 100 Index	Further information see www.ft.com or the daily Financial Times
Brent Crude oil	Further information see www.ft.com or the daily Financial Times
Office Space Demand	Further information see www.cbhillierparker.com
House Prices	Nationwide house price data from www.nationwide.co.uk/hpi/ Land Registry data from http://www.landreg.gov.uk
Consumer Confidence	Further information see www.martinhamblin.co.uk
Average earnings and RPI	Data available from www.statistics.gov.uk
MEW	Data available from www.bankofengland.co.uk
Retail Sales	Data available from www.statistics.gov.uk/rsi
Unemployment rates	Data available from www.statistics.gov.uk
GDP/GVA Growth	Data available from Experian Business Strategies on 020 7630 5959
Balance of Trade	Data available from www.statistics.gov.uk
Index of Production	Data available from www.statistics.gov.uk
Manufacturing Expectations	Further information see www.cbi.org.uk
Services Sector	Data available from www.cips.org
Profitability	Data available from www.statistics.gov.uk
Tourism - Overseas Visitors	Data available from www.statistics.gov.uk
Tourism- Domestic Visitors	Data available from www.londontouristboard.com
London Airports	Data available from www.caa.co.uk

Abbreviations

CBI	Confederation of British Industry
FTSE 100	Financial Times Stock Exchange 100 index of stocks traded on the London Stock Exchange
GDP	Gross Domestic Product
GVA	Gross Value Added
ILO	International Labour Organisation
MEW	Mortgage Equity Withdrawal
ONS	Office of National Statistics
RPI	Retail Price Index
CIPS	The Chartered Institute of Purchasing and Supply

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Other current publications on offer by GLA Economics:

- **Planning for London's Growth:** The statistical basis for the London Plan.
- **Creativity: London's Core Business:** Key figures on the sector where 525,000 Londoners work.

*Future publications will provide in-depth coverage of tourism, housing and retail.

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GLA Economics

This publication is produced by GLA Economics, which was established in May 2002 by the Mayor of London to provide a firm statistical, factual and forecasting basis for policy decision-making by the GLA and its functional bodies.

London's Economy Today is published on the GLA website on the third Tuesday in every month. It seeks to provide an overview of the current state of the London economy, publishing a changing selection of the most relevant and up-to-date data available. It will track cyclical economic conditions to ensure that they are not moving outside the parameters of the underlying assumptions of the GLA and central government.

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