

London's Economy Today



Issue 66 | February 2008

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Bank of England cuts interest rates despite rising inflation

by **Richard Davies**, Economist, GLA Economics

The Bank of England reduced interest rates by 0.25 per cent on 7 February to 5.25 per cent. One member of the Monetary Policy Committee even voted for a 0.5 per cent cut. With the UK economy expected to slow sharply this year further cuts are expected despite increasing inflationary pressures.

The ONS inflation figures for January 2008 show that CPI inflation rose slightly from 2.1 per cent to 2.2 per cent and RPI inflation rose from 4.0 per cent to 4.1 per cent. This was due to increases in petrol, transport and food prices and higher inflation is likely over the next few months when higher retail electricity and gas prices begin to feed through.

Rental demand up as housing market weakens

A consequence of lower demand for buying property has meant an increase in demand for rented accommodation. According to the UK Housing Review 2007/08, published by the Chartered Institute of Housing (CIH), increasing numbers of households are moving into private rented homes. Rental demand has increased because people are unable to afford to purchase property through high house

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Latest news...

- **Working Paper 28: Comparing locations – Grouping wards in London, the South East and East of England** analyses the changes in area and employment characteristics of wards in London, the South East and East of England.
- **Current Issues Note 20: The housing market and the economic climate** looks at why 2008 could prove to be a tough time for the UK and London housing markets with growth in prices expected to be subdued. There are potential risks to first time buyers, new developments and the buy-to-let sector.

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prices, increased mortgage costs, stricter lending criteria and the decrease in the availability of 100 per cent plus mortgages. Another factor helping to fuel rental demand is the sharp increase in population in London and the south-east, mainly from EU migrants. All of this has led to an increase in private rents, which has helped to strengthen the buy-to-let market. The latest Paragon UK Buy-To-Let Index revealed that yields increased from 6.0 per cent to 6.2 per cent in December 2007, the highest level since April 2006. Rents between December 2006 and December 2007 rose at their fastest level on record at 19.4 per cent. In London the percentage change year-on-year was 27.8 per cent, giving it the highest annual rental income in the UK at nearly £21,000.

City bonuses remain firm but recruitment is down

A recent survey of financial services employees, conducted by Morgan McKinley, claims that more than a third of City workers received higher bonuses than last year, while seventy per cent said that payouts either matched or exceeded their expectations. However, many firms are cautious towards recruitment because of the ongoing credit crunch and volatility in markets, with vacancies 20 per cent lower than this time last year. Also, financial services companies are expected to recruit almost 15 per cent fewer graduates this year in the wake of the credit crunch, with some placing a total freeze on graduate recruitment altogether.

General Electric Money relocates from the US to London

US conglomerate General Electric has decided to relocate the headquarters of its consumer financing business, GE Money, from Connecticut to London. This is a boost to London's status as a world city. GE Money currently employs 4,000 people in the UK and the move is not expected to create a substantial number of new jobs. However, there will be a limited number of senior executives joining the new Chief Executive, William Cary, in London.

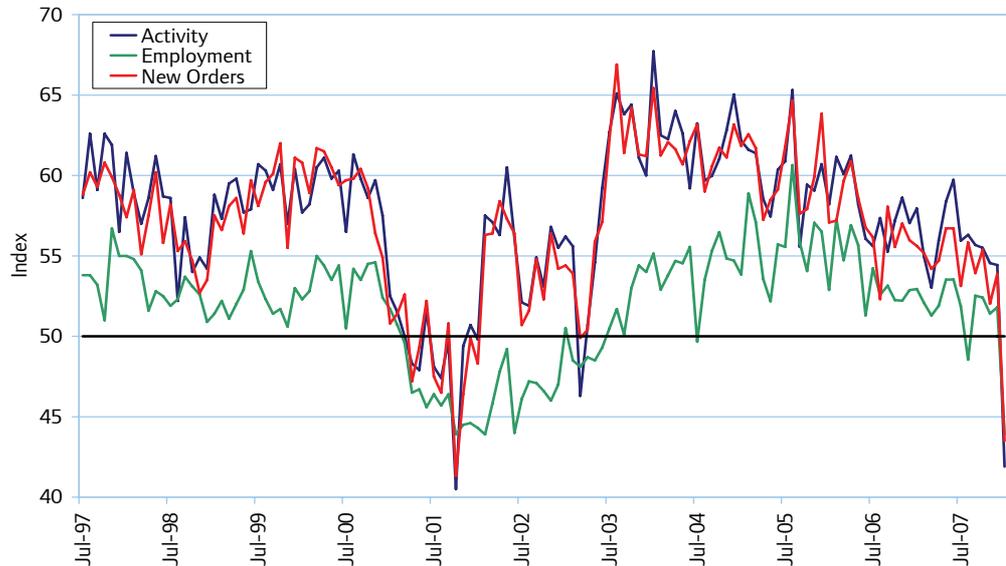
US economy continues to weaken

According to the Institute for Supply Management's (ISM) composite index, the US non-manufacturing sector actually contracted for the first time in five years in January 2008 stoking fears of a recession. The index was only 44.6 in January, where a reading above 50.0 indicates expansion while below 50.0 indicates contraction. ISM's measure of non-manufacturing business activity fell to 41.9 in January from 54.4 in December. Only utilities, professional services and educational services reported growth, while fourteen sub-sectors showed contraction. It is also worrying that two of the other measures by ISM were extremely weak, with the new orders index falling to 43.5 and the employment index falling to 43.9 (see Figure 1).

Confidence among US consumers has fallen to a 16-year low amidst fears of a recession and job cuts, according to the University of Michigan's index of consumer sentiment. The index fell to 69.6 in February from 78.4 in January. The accompanying report said the index had only been this low during past recessions. Concern about future developments in the labour market is a key factor with regard to future consumer confidence and consumption. Overall, the US economy lost 17,000 jobs in January, which was the first nationwide loss of jobs since August 2003.

Figure 1: US ISM Non-Manufacturing Index

Source: Institute for Supply Management



Economic slowdown for the global economy

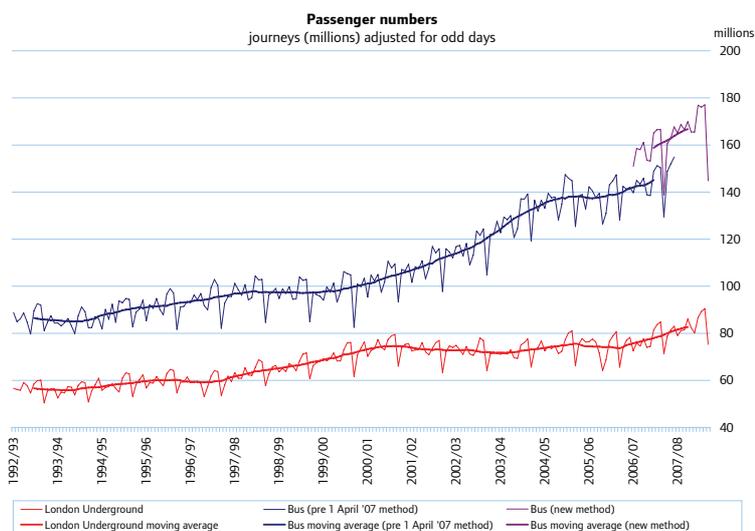
The IMF predicts that global economic growth will slow down from around 5 per cent to about 4 per cent in 2008. However, the rate of slow down will vary amongst different countries. Chinese growth is expected to remain robust but to fall to just below 10 per cent. It remains to be seen whether domestic Chinese consumption can make up for expected weaker export growth due to the slowing US economy. The Eurozone and UK will also be affected by a severe contraction in the US economy. Germany has been performing quite well over the past year on the back of export-led growth. The UK economy is expected to slow down to less than 2 per cent growth in 2008. London with its large exposure to financial services will probably be more adversely affected by the ongoing turmoil and credit crunch in financial markets than other UK regions. The housing market is also showing signs of stalling with no better than flat prices expected in London during 2008.

The main worries for most countries including the UK is falling output growth accompanied by a rise in inflation, mainly due to higher oil, energy and food prices. West Texas Intermediate oil has reached record nominal highs just above \$100 per barrel amidst fears of a cut in production by OPEC. There are also concerns over supplies from Nigeria and an ongoing row between Exxon Mobil and oil producing Venezuela. The extra costs in living expenses will decrease consumer's appetite for spending, which will lead to lower retail sales. In fact, in the UK, retail sales have only held up so far because of substantial discounting. Higher inflation will make it more difficult for central banks to dramatically cut interest rates further. A lot will depend on the economic situation in the US and whether the sharp slowdown there will turn into a full blown severe recession. Under these world economic conditions London's economy faces a slowdown in 2008 that has the potential to worsen next year.

Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 9 December 2007 to 5 January 2008. London's Underground and buses had 220.1 million passenger journeys; 144.8 million by bus and 75.3 million by Underground.
- The moving average increased to 249.4 million from 248.7 million passengers every period. The moving average for buses was 166.7 million. The moving average for the Underground was 82.7 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET edition 58 (June 2007).

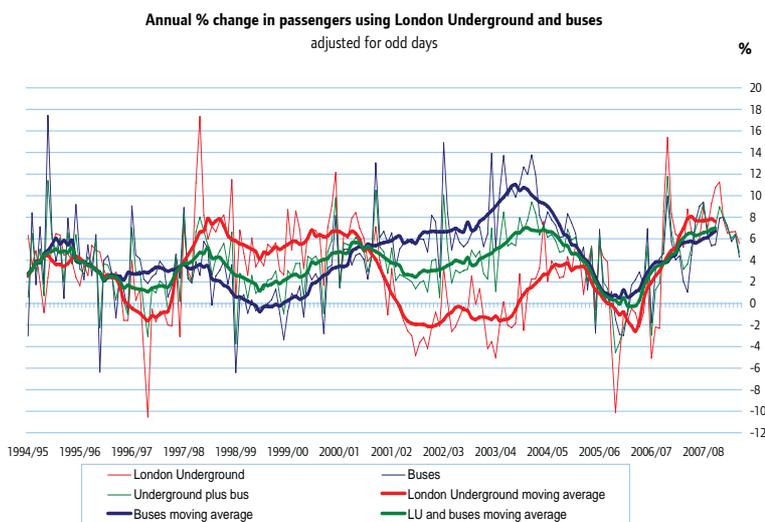


Source: Transport for London

Latest release: February 2008
Next release: March 2008

Average annual growth rate of passengers increases

- The moving average annual rate of growth in passenger journeys increased to 7.0% from 6.9% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 6.7% from 6.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 7.6% from 7.8% in the previous period.

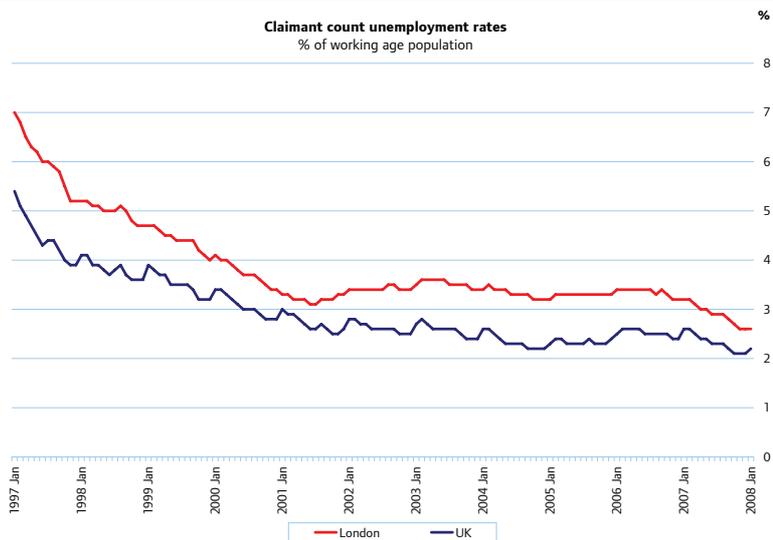


Source: Transport for London

Latest release: February 2008
Next release: March 2008

Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseekers' Allowance) in London was 2.6% in January 2008.
- There were 131,200 unemployment claimants in London in January 2008 compared with 159,800 in January 2007.
- The claimant count unemployment rate of the UK remains below that of London.



Source: Claimant Count, NOMIS

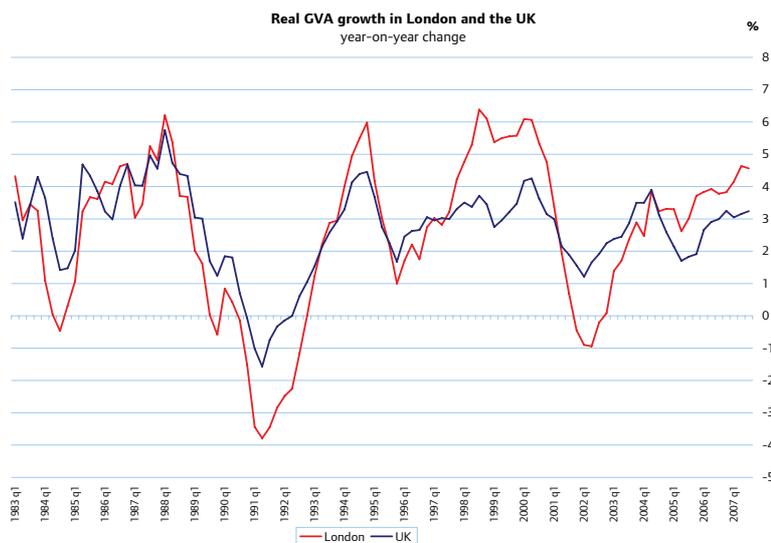
Latest release: February 2008
Next release: March 2008

Annual output growth in London still faster than the UK's

- London's annual growth in output remained the same in Q3 2007 as the upwardly revised 4.6% in Q2 2007.
- The UK's annual growth in output was 3.2% in Q3 2007, the same as the upwardly revised Q2 2007 growth rate. London has been growing at a faster annual rate than the UK since Q3 2004.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2008

Next release: May 2008

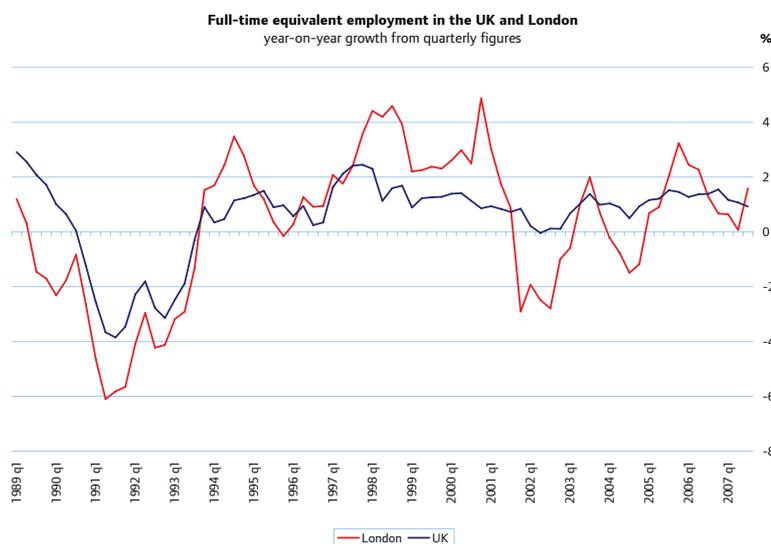


London's annual employment growth faster than the UK's

- London's annual employment growth increased to 1.6% in Q3 2007 from a downwardly revised 0.1% in Q2 2007.
- Annual employment growth in the UK decreased to 0.9% in Q3 2007 from an upwardly revised 1.1% in Q2 2007.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: February 2008

Next release: May 2008

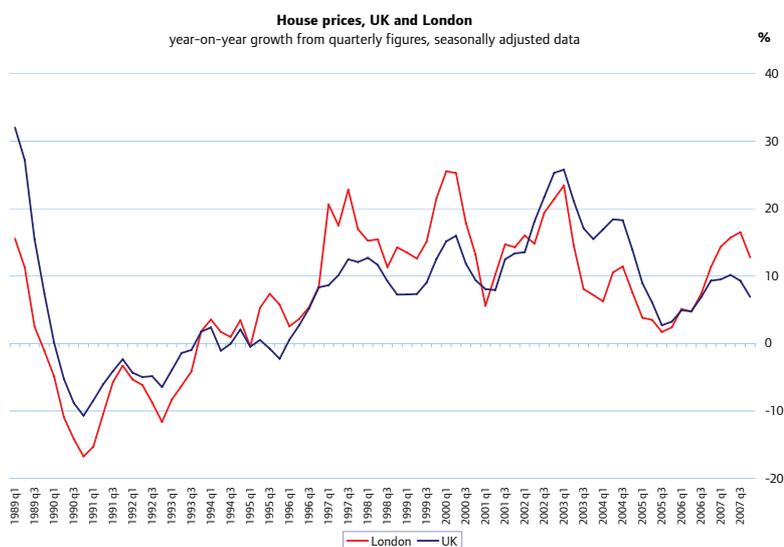


Annual house price inflation higher in London than the UK

- Nationwide reported stronger annual house price inflation for London than the UK in Q4 2007.
- Annual house price inflation in London was 12.8% in Q4 2007, down from 16.5% in Q3 2007.
- Annual house price inflation in the UK was 6.9% in Q4 2007, down from 9.3% in the previous quarter.

Latest release: January 2008

Next release: April 2008

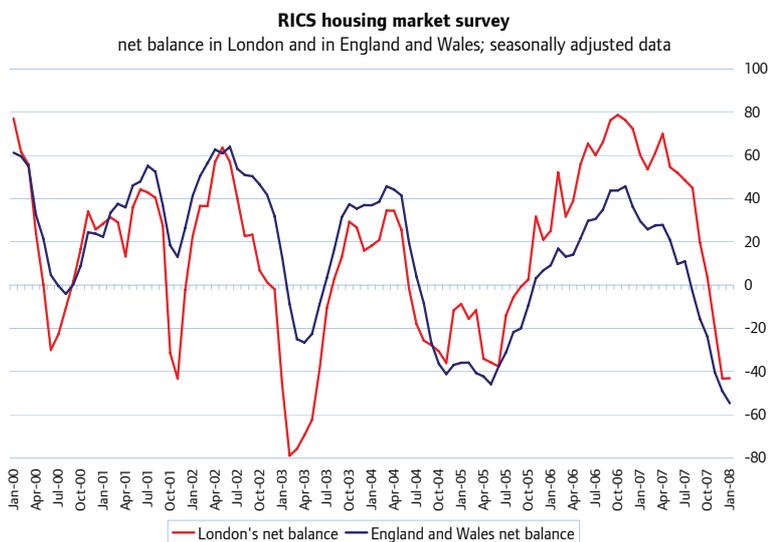


Surveyors report that house prices are falling in London and in England and Wales

- The RICS survey shows a negative net balance of -43 for London house prices over the past three months up to January 2008. This net balance is the same as in December 2007.
- Surveyors reported a negative house price net balance for England and Wales of -55 in January 2008, down from -49 in December 2007.
- London's net balance remains above that of England and Wales.

Latest release: February 2008

Next release: March 2008



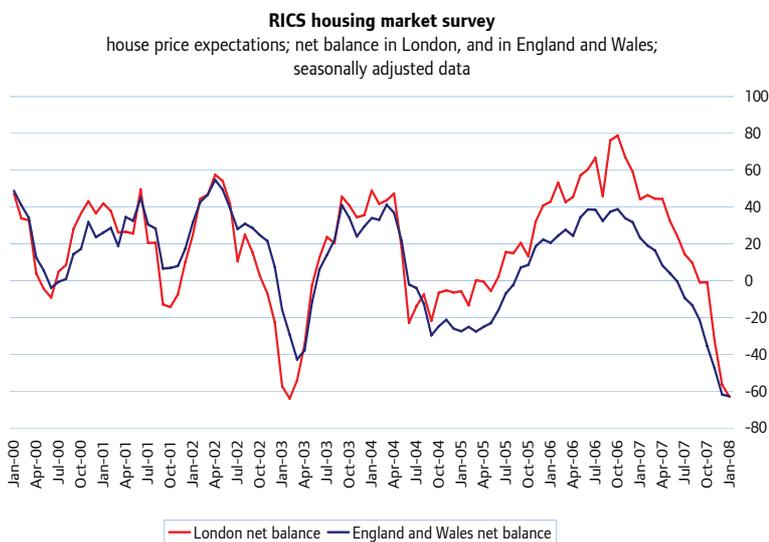
Source: Royal Institute of Chartered Surveyors

Surveyors expect house prices to fall in London and in England and Wales

- The RICS survey shows that surveyors expect house prices to decrease over the next three months in London and in England and Wales.
- The net house price expectations balance in London was -63 in January 2008, down from -57 in December 2007.
- For England and Wales, the net house price expectations balance was -63 in January 2008, down from -62 in December 2007.

Latest release: February 2008

Next release: March 2008



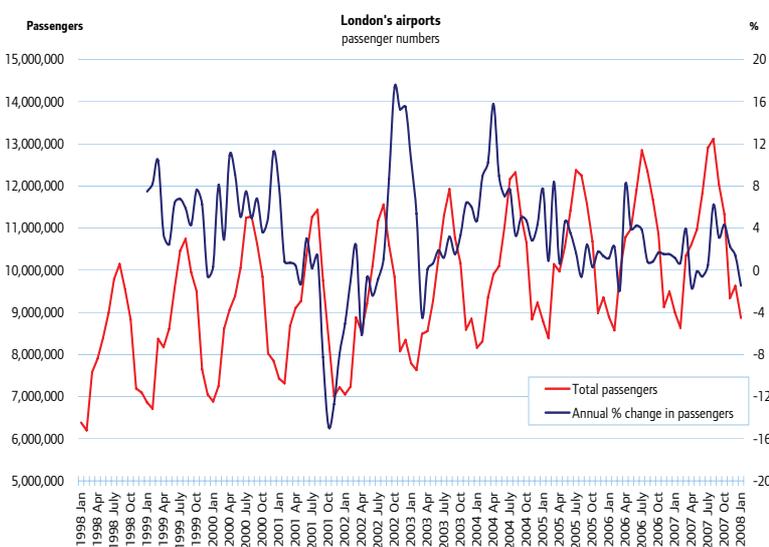
Source: Royal Institute of Chartered Surveyors

Fewer airport passengers in January compared to previous year

- 8.9 million passengers travelled through London's airports in January 2008.
- The number of passengers using London's airports decreased by -1.5 per cent from January 2007 to January 2008.
- The number of passengers using London's airports has fallen year-on-year for the first time since June 2007.

Latest release: February 2008

Next release: March 2008



Source: Civil Aviation Authority

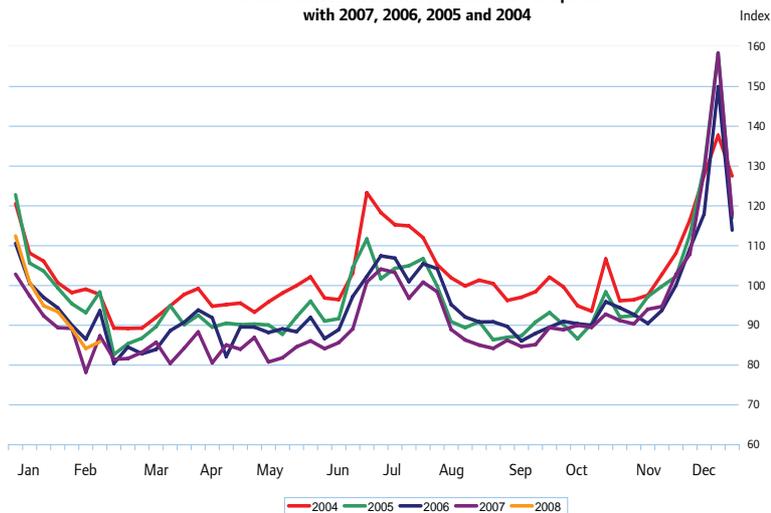
SPSL Retail Traffic generally higher in early 2008 than early 2007

- The SPSL Retail Traffic Index of shoppers in London was 85.9 in the second week of February compared to 84.2 in the previous week.
- In early 2008 the index has mostly been greater than early 2007 levels.
- SPSL's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: mid-February

Next release: weekly

Greater London Retail Traffic Index 2008 compared with 2007, 2006, 2005 and 2004



Source: SPSL

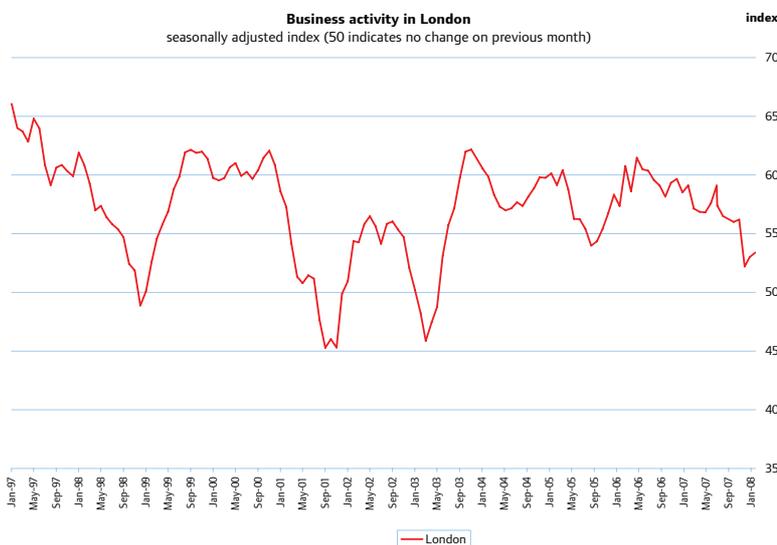
London's business activity still expanding

- London firms continued to expand their output of goods and services in January 2008.
- The Purchasing Managers' Index (PMI) of business activity recorded 53.4 in January 2008 compared to 53.0 in December 2007.
- 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: February 2007

Next release: March 2007

Business activity in London
seasonally adjusted index (50 indicates no change on previous month)



Source: The Royal Bank of Scotland/NTC Economics

New orders for London increasing slowly

- January 2008 saw growth in new orders for London firms.
- The PMI for new orders recorded 52.9 in January 2008 compared to 53.0 in December 2007.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: February 2008

Next release: March 2008

New orders in London
seasonally adjusted index (50 indicates no change on previous month)



Source: The Royal Bank of Scotland/NTC Economics

Women, employment and the gender pay gap

taken from *Women in London's Economy* Summary Report February 2008

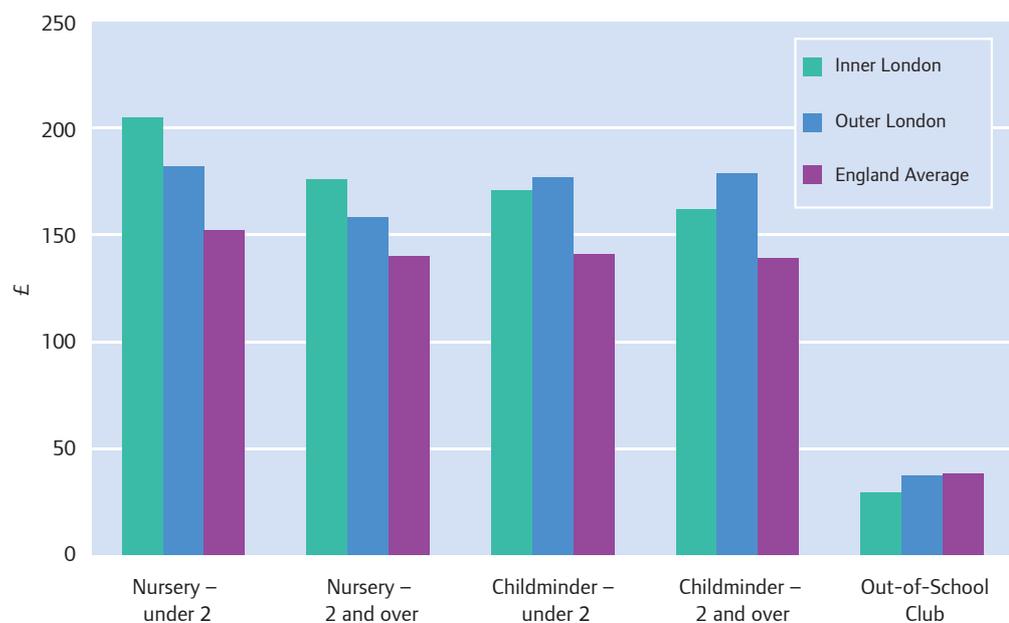
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Most households receive their main source of income from working. For most mothers, working requires the use of childcare. Childcare adds to the costs involved in working and for some mothers these costs outweigh the benefits. If this is the case, it doesn't make financial sense to work. Reflecting this, we see that mothers have lower employment rates than women without dependent children. This in turn lowers their household's income.

Mothers also consume childcare as a good in its own right because it allows them child-free time and it can directly benefit their child. This source of childcare demand is independent of any desire to work, though it inadvertently makes more time for working available. The highest childcare costs are generally found in London and the South East (Figure 2).

Figure 2: Average weekly childcare costs, 2007

Source: Daycare Trust Childcare Cost Survey 2007.



A number of factors influence a mother's employment decisions and her demand for childcare. For example, a higher wage encourages a mother to work by raising the benefits of working. It also influences her demand for childcare (for example, by raising the quality she can afford) independently of the impact on employment. Other relevant factors include the mother's personal characteristics and her family's characteristics, other sources of household income and childcare costs. In addition, the ease with which mothers can access work and childcare is an important issue affecting mothers' work and childcare decisions.

London households spend more on public transport each week (Figure 3), reflecting a combination of their greater reliance on public transport and longer commuting distances.

Mothers in London are less likely to work than mothers in the rest of the UK, and their childcare use patterns differ as well.

Figure 3: Weekly household expenditure on public transport, 2004–07

Source: TfL 2006, 'London Travel Report: 2006 data', Table T_1_7_1.



In particular, the city's higher childcare and transport costs, and its occupational mix, make the costs of working in London greater than the benefits for a larger proportion of women. Lone mothers and those with low skills are particularly disadvantaged.

Low paid women in London

Last year's report provided information on how many women in London earn below the living wage. Around 19 per cent of all London female employees are low paid compared to 12 per cent of male employees.

This year, we build upon these findings by drawing on recent research by the Living Wage Unit. They have quantified the impact of different factors on the likelihood of being low paid in London.

A Londoner's age, qualifications, ethnicity, occupation, employment sector, hours worked and the size of the workplace affect the likelihood of being low paid. In respect of most of these factors, women are more likely than men to be low paid. Women working in elementary occupations are 13 times more likely than female managers and senior professionals to be low paid (Figure 4).

Figure 4: Odds ratios of being low paid in London by occupation

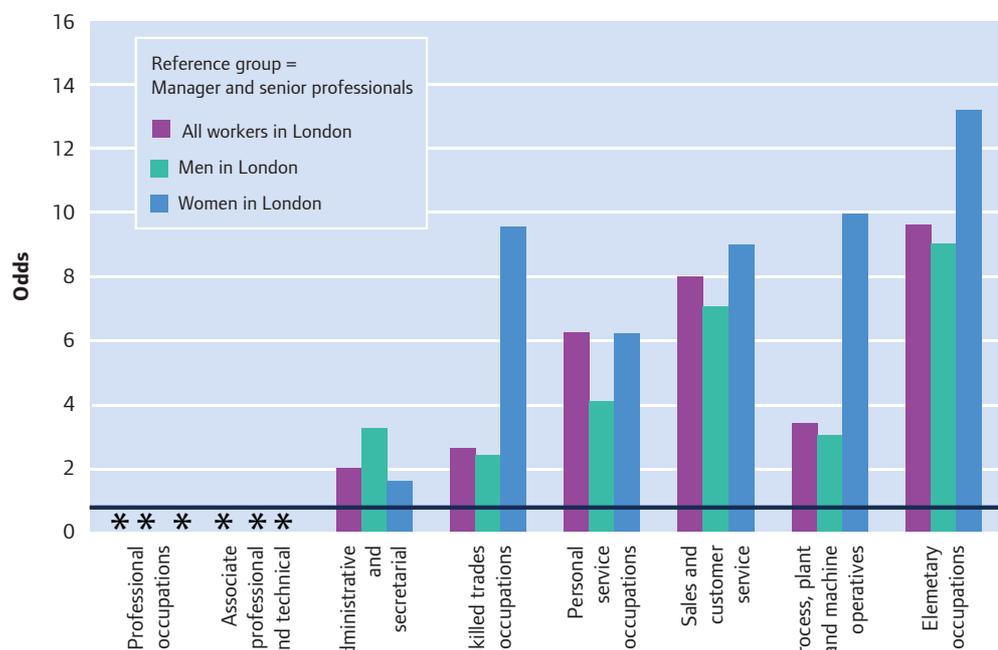
Source: GLA Economics' own calculations based on Annual Population Survey (APS) 2005

Notes: * indicates not statistically significant

Odds ratio of 1 is the reference group – managers and senior professionals.

Odds ratios greater than 1 indicate a higher likelihood of being low paid than the reference group.

The analysis is based on a sample of individuals who work in London. They may or may not reside in London.



However, there are exceptions. Working in the private sector, working part-time or working in a small workplace increases the chances of being low paid relative to working in the public sector, working full-time or working in a large workplace. In each case, the likelihood of being low paid is greater for men than for women.

The gender pay gap in 2007

The mean gender pay gap for full-time workers in London has not changed since last year. London still has a higher pay gap at 23 per cent than the UK as a whole (17 per cent).

Table 1 shows hourly wages by gender for full-time and part-time workers in London and the UK as a whole. In London the mean full-time female wage was £16.21 per hour and the full-time male wage was £21.05, yielding a gender pay gap of 23 per cent.

Table 1: Hourly pay (excluding overtime) and gender gap for males and females in London and UK

London	Female		Male	
	Full-time	Part-time	Full-time	Part-time
	£			
Mean	16.21	12.53	21.05	14.23
10th percentile	7.53	5.67	7.95	5.40
50th percentile	14.06	9.05	16.29	8.20
90th percentile	27.36	22.90	40.16	28.57
	90/10 ratio			
	3.6	4.0	5.1	5.3
UK	Females		Males	
	Full-time	Part-time	Full-time	Part-time
	£			
Mean	12.40	9.65	14.98	11.24
10th percentile	6.13	5.37	6.64	5.35
50th percentile	10.46	7.29	11.96	7.18
90th percentile	20.93	17.03	26.46	23.93
	90/10 ratio			
	3.4	3.2	4.0	4.5
Absolute gender pay ratio (female/male)	London		UK	
	Full-time	Part-time	Full-time	Part-time
Mean	77	88	83	86
50th percentile	86	110	87	102
90th percentile	68	80	79	71
Absolute part-time pay ratio (part-time/full-time)	London		UK	
	Female	Male	Female	Male
Mean	77	68	78	75
50th percentile	64	50	70	63
90th percentile	84	71	81	90

Among part-time workers, the mean gender pay gap is slightly smaller in London than in the UK as a whole (12 per cent compared to 14 per cent). At the median, women tend to earn more than men in both London and the UK overall, and the differential is more accentuated in the capital – women earn 10 per cent more in London, but only 2 per cent more in the UK as a whole.

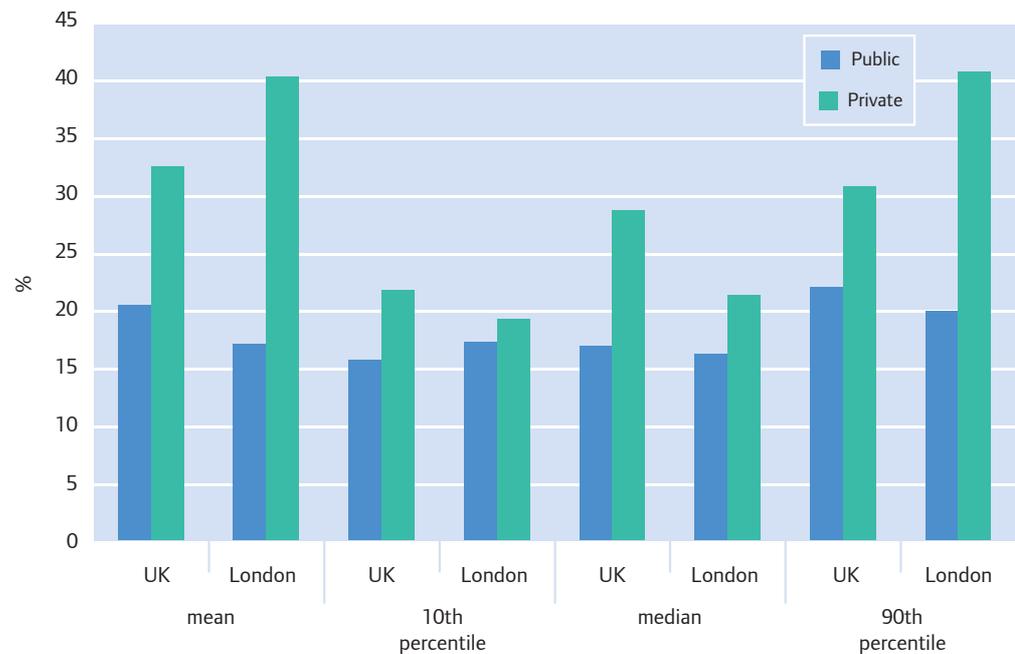
The gender pay gap gets wider as incomes increase. Male and female high income earners in London have a wider pay gap than in the rest of the UK. Low income earners in London have a relatively smaller pay gap than in the rest of the UK.

The gender pay gap is higher in the private sector than the public sector for full-time workers, but lower for part-time workers. Taking incentive pay into account widens the gender pay gap for full-time workers in both sectors. It shows, however, that women in the private sector earn more at higher income deciles than they would in the public sector.

Figure 5 shows the difference between men’s and women’s gross annual earnings for full-time workers. The highest income earners in the private sector experience a very large pay gap in London at just over 40 per cent – double that of the gap in the public sector.

Figure 5: Gender pay gaps in gross annual earnings, full-time workers in the public and private sector

Source: GLA Economics calculations based on ASHE 2007



The full report is available online at http://www.london.gov.uk/mayor/economic_unit/wile/index.jsp

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
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.

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

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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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