

London's Economy Today



Issue 31 | March 2005

In this issue

A 'no surprises' Budget amid signs of an election.....	1
Latest news.....	1
Economic indicators....	4
Skilled labour availability and crime are top concerns	8

A 'no surprises' Budget amid signs of an election

Alon Carmel
Economist

The Budget delivered this week by Chancellor Gordon Brown strengthened the expectation of an imminent General Election but packed few surprises. The Chancellor stuck to his predictions for UK economic growth of 3 to 3½ per cent in 2005 and 2½ to 3 per cent in 2006. These forecasts are significantly higher than the consensus of independent forecasters. *The Economist's* March survey of forecasters predicts growth for Britain of 2.5 per cent in 2005 and 2.4 per cent in 2006.

A balancing act Budget

It was, as the private sector had hoped, a fairly boring Budget full of relatively small numbers. There were no major new initiatives. There were no tax hikes – although several economists expect these to be necessary after the election. Nor were there any substantial cash giveaways. Pensioners and first time house buyers gained somewhat. However, the doubling of the stamp duty threshold to £120,000 is unlikely to have a major impact in London where the average price paid by first time buyers was around £250,000 in 2004 according to Nationwide.

GLAECONOMICS

Latest news...

You've read the report. Now hear the author!

GLA Economics are hosting a free seminar about their recently published report, *Growing Together: London and the UK Economy*. The report found that the UK will not prosper without a prosperous London and London will not prosper if the rest of the country's economic performance is not strong.

The event is being held on Tuesday 19 April 2005 at 9:30am - 11:00am in City Hall. RSVP by Thursday 14 April. For more information: glaeconomics@london.gov.uk, 020 7983 4922 or www.london.gov.uk/mayor/economic_unit.

Other Budget measures focussed on education and training, public sector efficiency and lowering the burden of regulation on businesses. The budget's recognition of the importance of investment in transport to maintain economic competitiveness is welcomed, though it was somewhat short on detail. All in all the Budget saw the Chancellor trying to strike a balance between his highly prized reputation for prudence and the need to provide some economic weapons in the battle during the expected upcoming election.

The public finances are tight. The Chancellor's Golden Rule for fiscal policy – to borrow only to invest over the economic cycle – will be met if growth and tax revenues turn out as the Chancellor predicts. However, the Chancellor's record on forecasting tax revenues is not as good as his record on forecasting growth. HM Treasury appears content to rely on fiscal drag¹ and more robust enforcement of tax collection to boost the tax take without raising tax rates. However, independent economists at the Institute for Fiscal Studies doubt whether this will be enough.

A significant part of recent growth has been funded from the public purse and if high growth is to continue it is essential that the private sector continues to revive. Recently released figures from the Office for National Statistics (ONS) show that public sector jobs have accounted for almost 50 per cent of job growth between 1997 and 2004. On the other hand business investment seems at long last to have picked up over the course of 2004 with provisional annual growth figures coming in at 5.3 per cent.

One of the risks to the Chancellor's growth forecasts is that the Bank of England does not seem to agree with the assessment that there is plenty of spare capacity in the economy. There is increasing evidence that the interest rate hikes over the course of 2004 have begun to rein in consumer expenditure. Retail sales have been disappointing in London as well as in the UK as a whole. The disappointment of retailers at Christmas is almost becoming an annual ritual, but this year shoppers have not made up for it by returning to the tills in January and February.

Figure 1 shows the slowdown in retail sales and also that a gap has opened up between the ONS's Retail Sales Index (RSI) and the British Retail Consortium (BRC)'s Retail Sales Monitor (RSM) since summer 2003. The BRC's RSM is measured on a like-for-like basis (excluding shop expansions and new shops). The gap opening up between the RSI and RSM suggests that retailers have recently had to expand their floor space just to maintain any growth in sales. More recent figures may provide some hope for retailers. The London FootFall Index for the weeks at the end of February and beginning of March appeared to show a recovery in shopper numbers to the same levels as in earlier years.

(Footnote)

¹ Fiscal drag is the tendency of revenue from taxation to rise as a share of GDP in a growing economy.

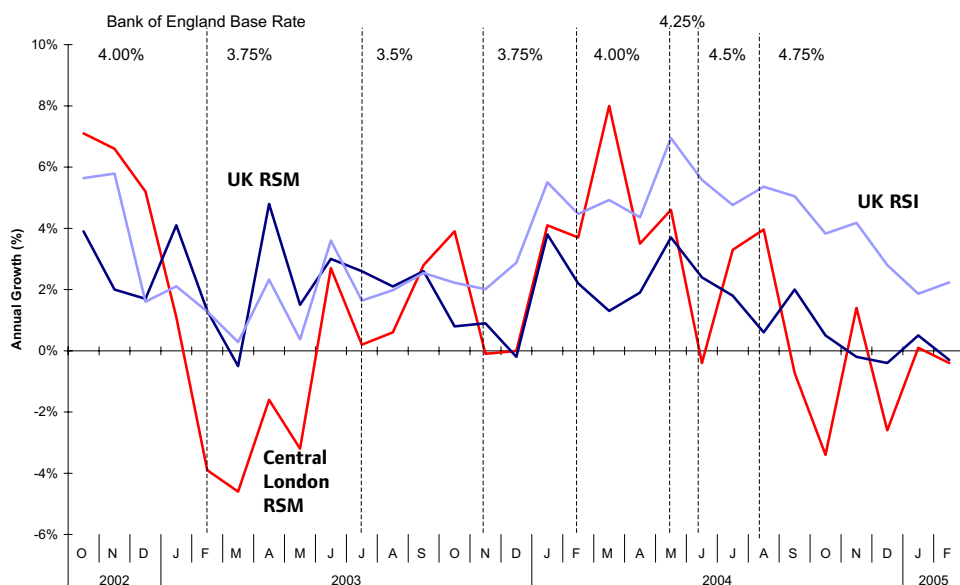
Figure 1: Different measures of retail sales

Source:

UK Retail Sales Monitor
- BRC/KPMG

London Retail Sales
Monitor - London Retail
Consortium

UK Retail Sales Index
- ONS



London's economy rolling along

London's economic indicators remain strong. Annual growth in the moving average index of bus and Underground journeys continued in February at a healthy 5.3 per cent a year. A continued slowdown in the housing market may exert a further drag on UK consumer expenditure, but it is not likely to have as big an impact in London, where the adjustment in house prices began earlier than the rest of the UK. While a significant net balance of members of the Royal Institute of Chartered Surveyors expect UK house prices to fall over the next three months, in London the negative net balance is smaller.

There is mixed news from the City of London with some banks announcing job cuts while in parts of business services there are reports of acute shortages of skilled staff. The recent tick up in the London claimant count unemployment level continued in February. Some analysts have suggested that February has seen a pickup in London's commercial property market. A study by Jones Lang LaSalle, the property consultants, reports that office rents in London have outperformed all other European cities in 2004 due to a late surge in activity in the last quarter.

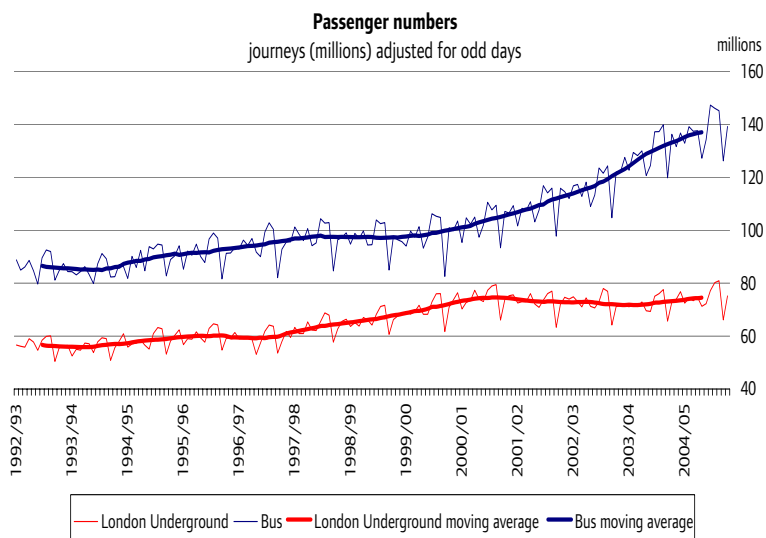
Economic indicators

4

Moving average of passenger numbers increases

- In the most recent 28-day period, London's public transport had 214 million passenger journeys; 139 million by bus and 75 million by Underground.
- The moving average shows an increase to over 211.5 million passengers every period. The average for buses increased to 137 million passenger journeys each period and the average for the Underground was 74.5 million.

Latest release: March 2005
Next release: April 2005

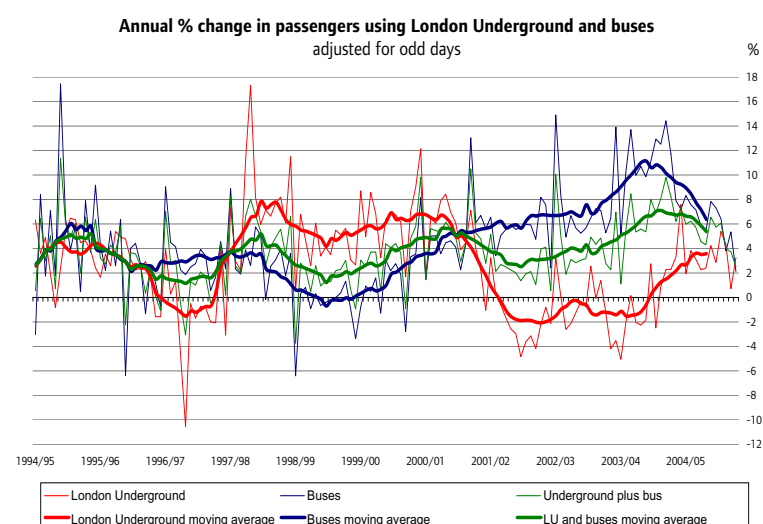


Source: Transport for London

Modest slowdown in passenger journeys' annual growth

- The average annual rate of growth in passenger journeys is 5.3%, slightly below the annual growth in the previous period of 5.7%.
- The average annual rate of growth in bus journey numbers has slowed but remains strong at 6.3%.
- The average annual rate of growth in Underground passenger journey numbers is 3.5%.

Latest release: March 2005
Next release: April 2005

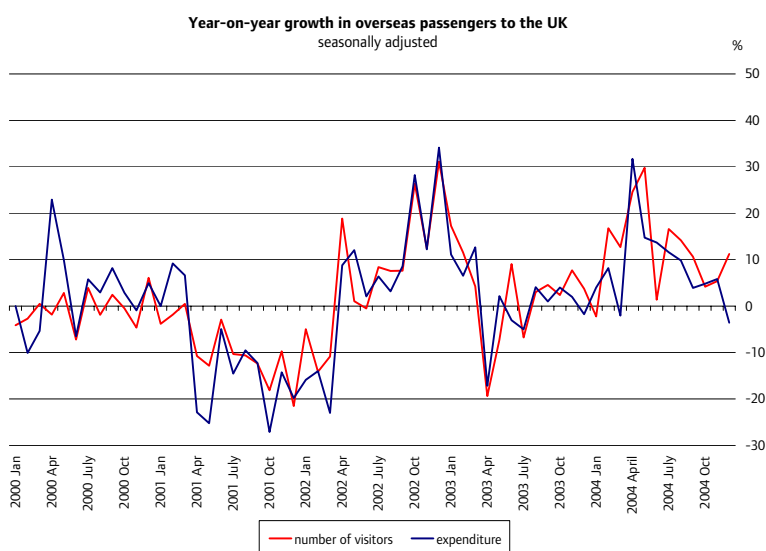


Source: Transport for London

Increase in overseas visitor numbers to the UK

- 2004 saw growth in overseas visitor numbers to the UK. Up to half of overseas visitors spend time in London.
- The annual growth of overseas visitors to the UK was 11.2% in December 2004.
- However, annual growth in expenditure by overseas visitors in the UK was -3.6% in December 2004.

Latest release: February 2005
Next release: April 2005



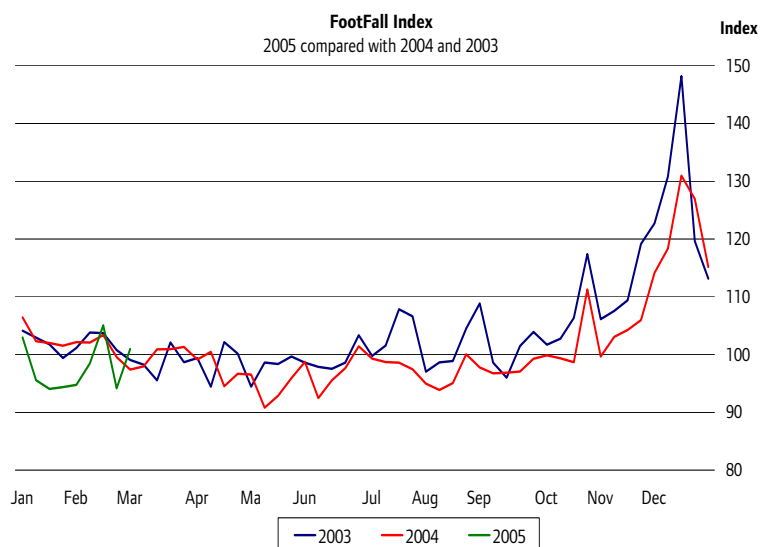
Source: ONS

Shopping numbers recovered in February

- The FootFall Index showed fewer shoppers in London in early 2005 than in early 2004 or 2003. However, despite the cold weather, February shopping numbers improved.
- The index recovered strongly in mid-February then declined somewhat, but latest shopping numbers are marginally higher than those of 2003 and 2004 in the same period.
- The FootFall Index measures the number of shoppers but does not necessarily reflect spending levels.

Latest release: 28/02/05

Next release: every week



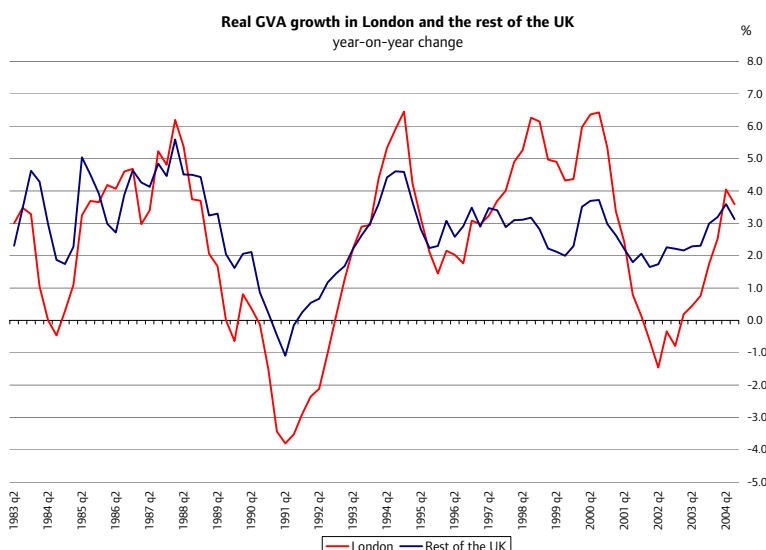
FootFall Limited

London's output grows faster than in the rest of the UK

- London's annual output growth was 3.6% in Q3 2004, down slightly from annual growth of 4% in Q2. However, this continued the robust recovery in 2004.
- Annual GVA growth in the rest of the UK was 3.1% in Q3 2004, down from 3.6% in Q2 2004.
- London's output growth remained higher than that for the rest of the UK in Q3 2004.

Latest release: February 2005

Next release: May 2005



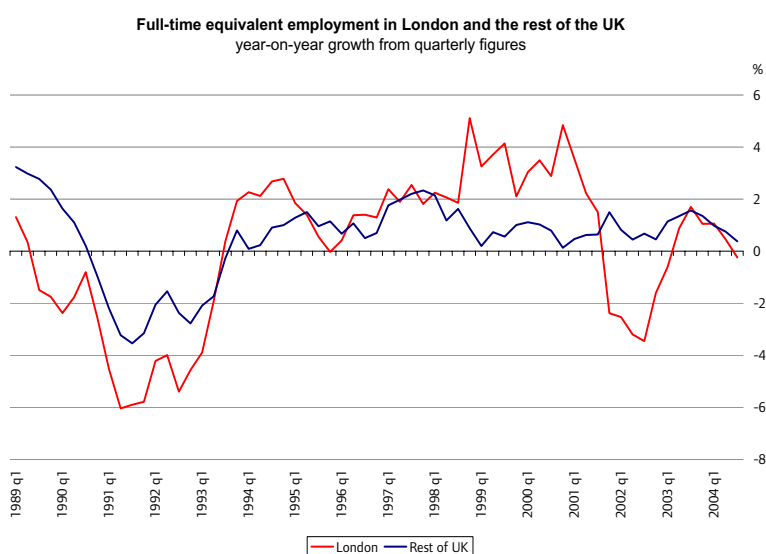
Source: Experian Business Strategies

Total employment relatively stable

- Employment in London fell slightly in Q3 2004 compared to the same quarter in the previous year.
- London's year-on-year employment growth was -0.2% in Q3 2004 compared to 0.4% in Q2 2004.
- Although annual employment growth in the rest of the UK was positive, it slowed to 0.4% in Q3 2004 from 0.7% in Q2.

Latest release: February 2004

Next release: May 2005



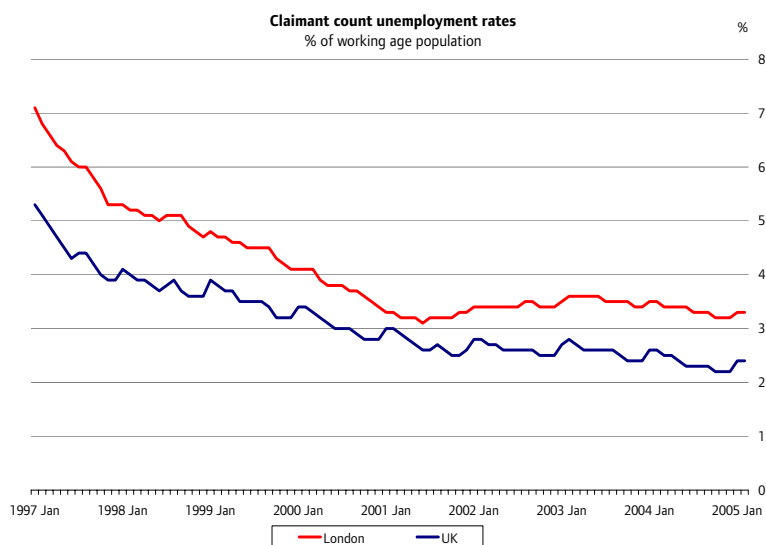
Source: Experian Business Strategies

Claimant count unemployment rate stable

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London remained at 3.3% in February 2005.
- There were almost 163,000 unemployment claimants in London in February 2005, compared with over 170,000 in February 2004.
- Claimant count unemployment rate in the UK remains below that of London.

Latest release: March 2005

Next release: April 2005

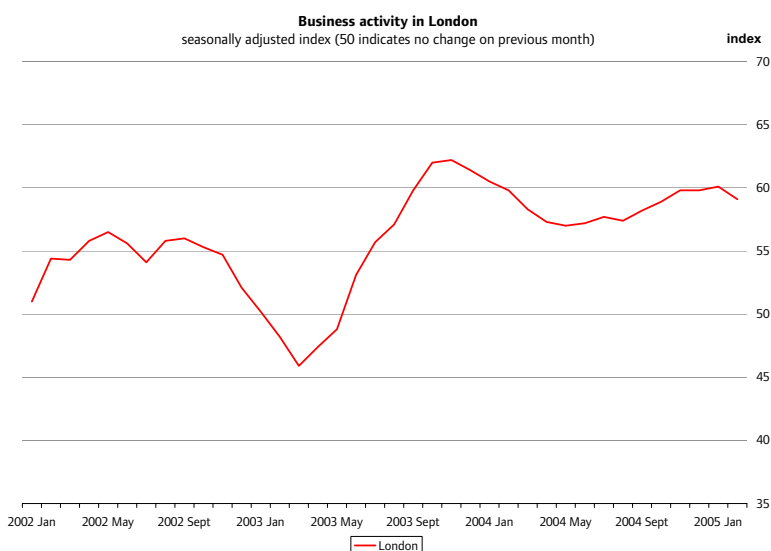


Strong business activity in London

- London firms continued to expand their output of goods and services in February 2005.
- The Purchasing Managers' Index (PMI) of business activity recorded 59.1 in February compared to 60.1 in January.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: March 2005

Next release: April 2005



Employment in London's private sector

- London firms have continued to increase employment levels in February. The PMI for the employment level was 53.0 in February compared to 53.2 in January.
- The PMI shows that the employment level at London firms has been increasing continuously since September 2003.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: March 2005

Next release: April 2005

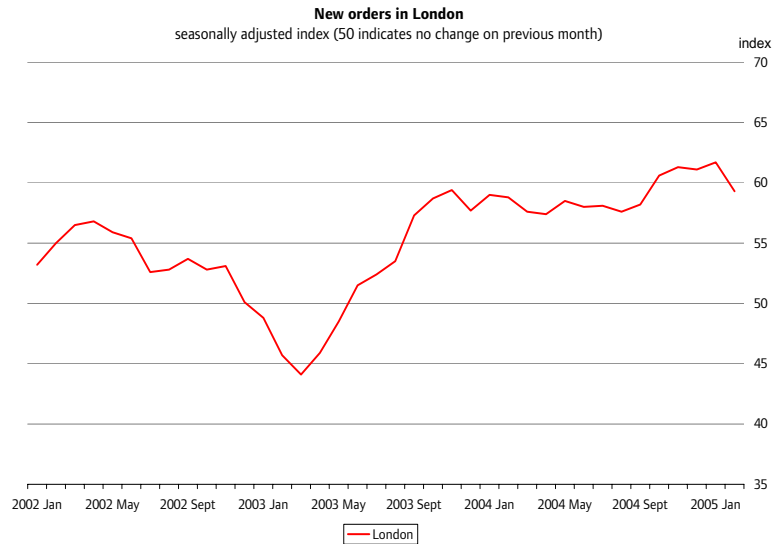


Continued growth in new orders

- New orders for London firms continued to increase in February 2005. The PMI for new orders recorded 59.3 in February compared to 61.7 in January.
- The volume of new orders to London private sector firms rose for the twenty-first consecutive month in February.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: March 2005

Next release: April 2005



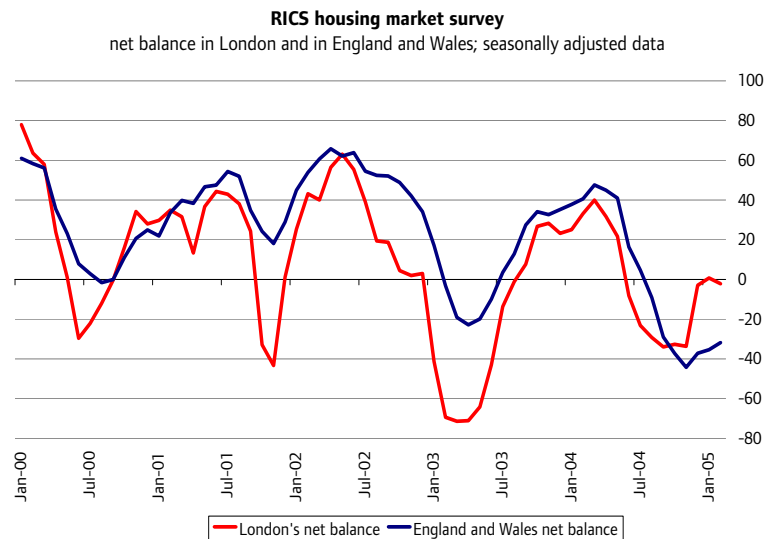
Source: PMI/The Royal Bank of Scotland

Surveyors reporting relatively stable prices in London

- The RICS survey shows house price stability in London. The net balance in London was just positive in January but turned slightly negative in February.
- In recent months, most surveyors have reported lower house prices in England and Wales. The net balance was -36 in January but recovered slightly to -32 in February.

Latest release: March 2005

Next release: April 2005



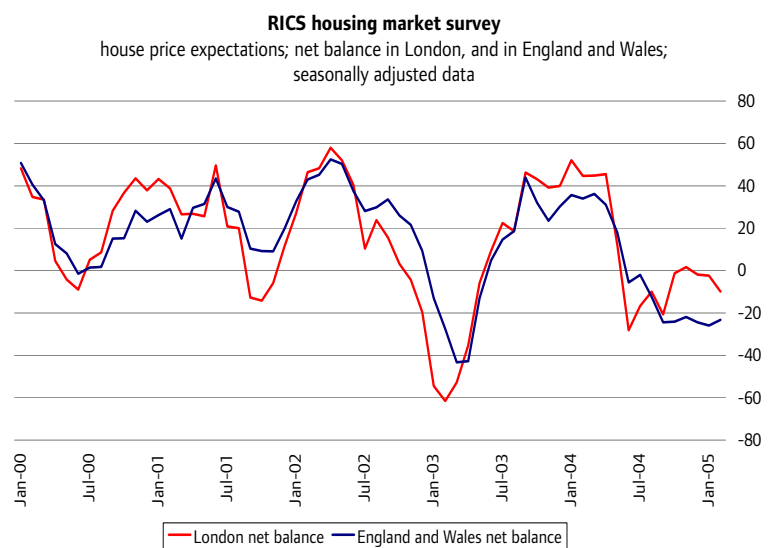
Source: Royal Institute of Chartered Surveyors

Surveyors expecting prices in the London housing market to fall

- The RICS survey shows that a small majority of surveyors expect house price decreases over the next 3 months in London.
- The net expectations balance in London fell to -10 in February.
- For England and Wales, the net expectations balance has been negative since summer 2004.

Latest release: March 2005

Next release: April 2005



Source: Royal Institute of Chartered Surveyors

Skilled labour availability and crime are top concerns in London Annual Business Survey

by Keith Blakemore
Economist

A survey of more than 4000 London businesses revealed that the availability of skilled labour; crime; and transport were seen as the most serious problems facing London firms. Finding skilled labour was more problematic in the construction; education, health and social work; and transport and communications sectors, and for medium-sized business. Black and minority ethnic-owned businesses generally had more problems than white-owned businesses.

The results

The London Annual Business Survey (LABS) asked businesses to score a range of factors from 1 (no problem) to 5 (very significant problem) based on how the factors affected the successful running of their businesses. Table 1 shows the results from the 2004 and 2003 surveys. The factors are ranked based on the percentage of businesses that classified a particular factor as

a significant or a very significant problem. Crime was included as one of the factors in 2004 but not in the 2003 survey.

Skilled labour

The availability of appropriately skilled employees was the most serious problem in both surveys with 25 per cent of businesses saying it was a significant or very significant problem in 2004. A separate question in LABS showed that the availability of appropriately skilled employees is seen as the most important factor for the successful running of businesses.

LABS at a glance

Name:	London Annual Business Survey 2004
Respondents:	4008 private sector London businesses, excluding the self-employed
Undertaken by:	London Development Agency and Business Link for London
Conducted:	September-October 2004
Topics:	87 questions covering: <ul style="list-style-type: none">• Business profile• Workforce• Turnover, profit and productivity• Investment and access to finance• Sales and purchasing• Effects of business environment (barriers and enablers)• Information technology and innovation• Research and collaboration• Business practices and advice• Management competencies

Table 1: Ranking of results - LABS 2004 v LABS 2003

Source: LABS

LABS 2004		LABS 2003	
1	Availability of appropriately skilled employees (25%)	1	Availability of appropriately skilled employees
2	Crime (24%)	2	Cost of current premises
3	Transport (22%)	3	Cost of labour
4	Cost of current premises (22%)	4	Size of current premises
5	Cost of labour (19%)	5	Transport
6	Access to finance (19%)	6	Availability of affordable housing
7	Size of current premises (16%)	7	Access to finance
8	Availability of affordable housing (16%)	8	Proximity to customers or clients
9	Proximity of other companies in the same sector (14%)	9	Proximity of other companies in the same sector
10	Proximity to customers or clients (12%)	10	Proximity to suppliers
11	Proximity to suppliers (9%)		

Crime

Crime, which was not included in the 2003 survey, comes in as the second most serious problem in the 2004 survey with 24 per cent saying it was a significant or very significant problem. There is however the question of whether this is *actual* crime or *fear* of crime affecting businesses. This is something that the 2005 survey should consider.

Closeness to customers

Proximity to customers or clients is not seen as a problem for many businesses in London. LABS however shows that proximity to customers or clients is seen as being important to the successful running of businesses. LABS therefore confirms that access to markets is a significant advantage of London as a business location.

Breaking down the results

The results can be broken down by different types of businesses. Figures 2 – 4 show the percentage of businesses which said that the availability of skilled employees, cost of current premises and access to finance were a problem broken down by sector, size of business and ethnicity of owners. This gives a more precise fix on where problems might lie. The sector breakdown (Figure 2) shows that the availability of skilled employees is a particular problem for the construction sector; education, health and social work sector; and the

transport and communications sector. The size breakdown (Figure 3) shows that these three problems generally decrease in severity with the increasing size of businesses although availability of appropriately skilled employees seems to be more of a problem for medium-sized businesses. The ethnicity breakdown (Figure 4) shows black and minority ethnic-owned businesses generally have more problems than white-owned businesses but there are also significant differences between ethnic groups with black-owned businesses appearing to experience more problems and having a particular problem with access to finance.

Figure 2: Problems of businesses in London - by sector. Percentage of businesses with a significant or very significant problem

Source: LABS 2004

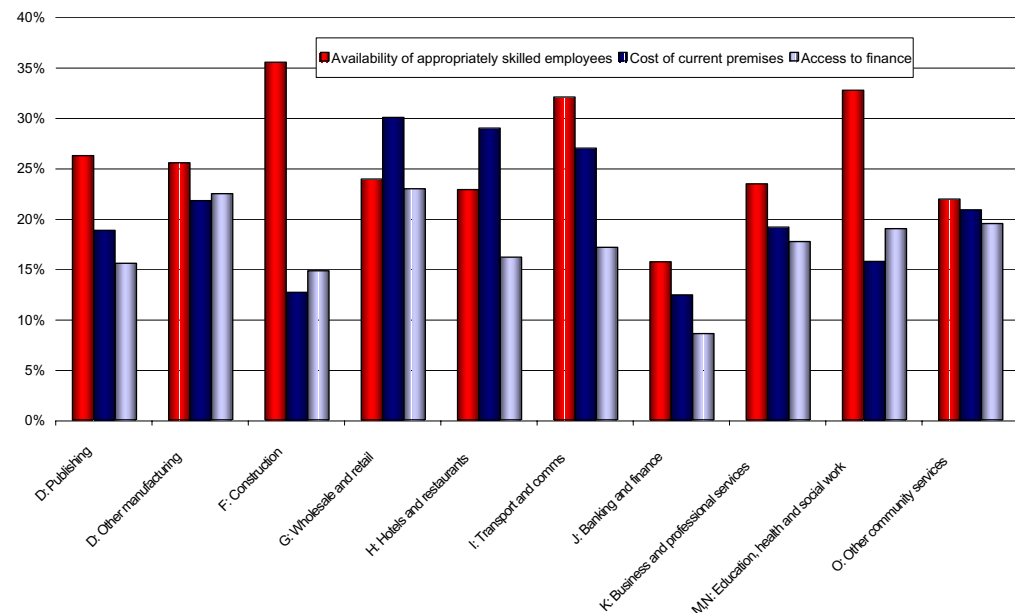


Figure 3: Problems of businesses in London - by size of business. Percentage of businesses with a significant or very significant problem

Source: LABS 2004

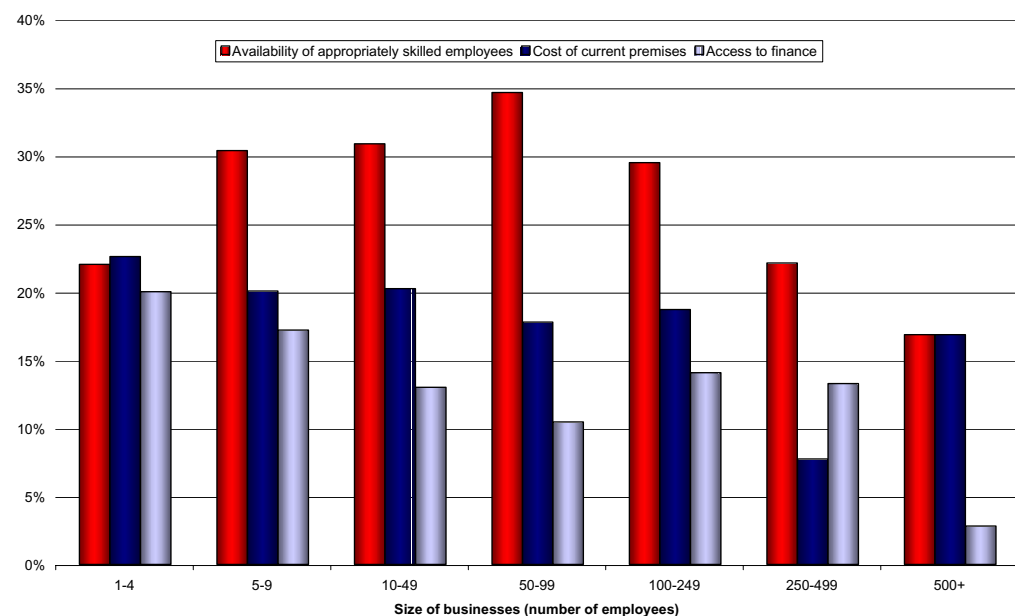
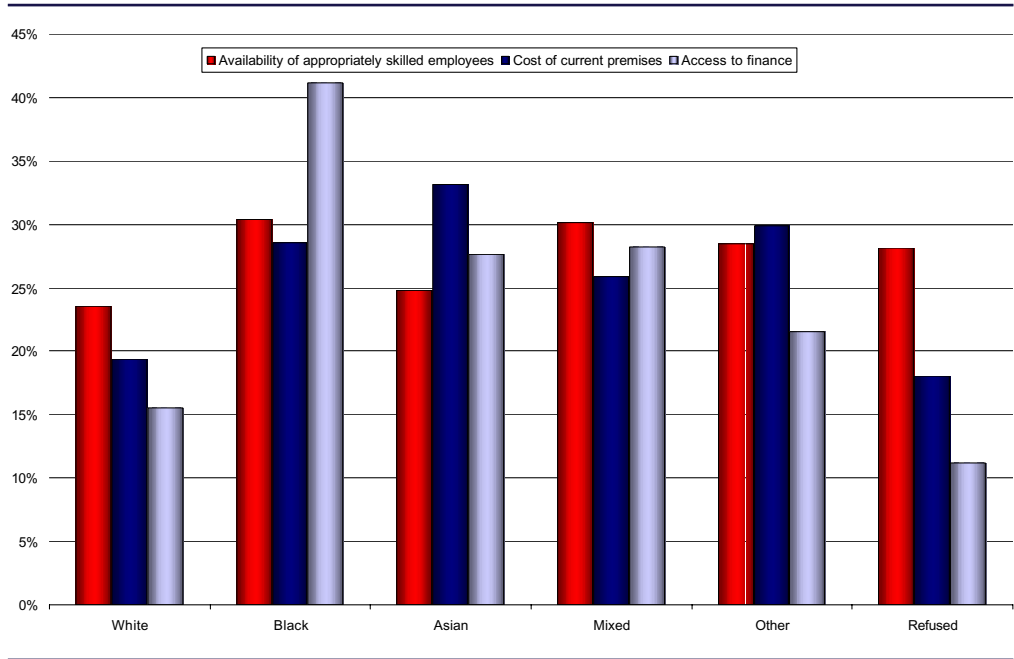


Figure 4: Problems of businesses in London - by ethnicity of owners.
Percentage of businesses with a significant or very significant problem

Source: LABS 2004



The future

LABS 2005 is already being set up and it is hoped that this will enable the LDA and other users of the survey to base their policies on an increasingly robust evidence base.

For further information:

Keith Blakemore
Economist
London Development Agency
Telephone: +44 (0)20 7954 4690
Email: KeithBlakemore@lda.gov.uk

Data sources

Tube and bus ridership	Transport for London on 020 7941 4500
GDP/GVA growth	Experian Business Strategies on 020 7630 5959
Tourism – overseas visitors	www.statistics.gov.uk
Tourism – domestic visitors	www.visitlondon.com
London airports	www.caa.co.uk
Business activity	www.rbs.co.uk/pmireports
Employment	www.rbs.co.uk/pmireports
London FootFall	www.footfall.com
Office space demand	www.cbhillierparker.com
House prices	www.nationwide.co.uk/hpi/
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count rate

Unemployment rate based on the number of people claiming unemployment benefits.

Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

FootFall Index

Measures the average number of people passing through London shopping centres on a weekly basis. This index is positively correlated with UK retail spending so it can provide an indication of consumer spending in London.

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

ILO unemployment rate

The International Labour Organisation's calculation of the number of people out of work.

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year – twelve 28-day periods and one 29-day period. Period 1 starts at the beginning of the financial year rather than the calendar year.

Acronyms

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

Past features

Issue

- 1-10 Topics available on request
- 11 The causes of recent poor retail sales performance in central London
- 12 The state of London's housing market and sub-markets
- 13 London's manufacturing today
The past is changing
- 14 London's leisure economy
- 15 Retail employment in London
- 16 A Londoner's Guide to the Pre-Budget Report
- 17 London employee jobs – the latest trends
- 18 Congestion charging and retail – one year on
New tourism and employment indicators
- 19 Budget 2004: An initial analysis
Where do you live? London's housing submarkets
- 20 A focus on cities
- 21 World City, World Knowledge: The economic contribution of London's higher education sector
- 22 Looking ahead: Gender, construction and retail
- 23 The Spending Review reviewed
- 24 How well do cities perform? The answer - it depends?
Buses: Bringing benefit to town centres - Challenging the myths to bring business and people together
- 25 Casino Royale - Economic effects of casino development in London following the proposed gambling bill
- 26 Atoms and DNA: Revising London's Economy - Changes to estimated GVA and employment growth in London
- 27 They're coming back! The recovery in London's tourism industry.
Nappies and 'power suits': Childcare issues for London employers
- 28 The 2004 Pre-Budget Report reviewed
- 29 London at work: Trends in London's employee jobs
- 30 London's Economic Development Strategy Launched

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4137

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

© Greater London Authority
March 2005

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a changing selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group and central government.

Subscribe

Subscribe online at http://www.london.gov.uk/mayor/economic_unit

Disclaimer

GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London, the London Development Agency and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

Other formats

For a summary of this document in your language, or a large print, Braille, disc, sign language video or audio tape version, please contact us at the address below:

Public Liaison Unit

Greater London Authority

City Hall

The Queen's Walk

London SE1 2AA

Tel 020 7983 4100

Minicom 020 7983 4458

www.london.gov.uk

Please provide your name, postal address and state the publication and format you require.

About GLA Economics

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

GLA Economics is funded by



MAYOR OF LONDON