

London's Economy Today



Issue 29 | January 2005

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Weaker retail sales over Christmas

by Christopher Lewis
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Exchange rate movements, especially fluctuations in the US dollar, have received a great deal of press attention over the last year. The importance of exchange rates to the London economy involves not only their value, but also the volume that is traded. A Bank of England survey indicated that London remains the largest world centre for foreign exchange trading, accounting for almost a third of the \$1.9 trillion-a-day industry.

Sterling's value is one factor that affects London's international competitiveness but the regulatory environment can often be even more important. A survey of 3,000 financial companies on the performance of the Financial Services Authority (FSA) criticised the FSA for over-zealous implementation of European Union directives and found that the cost of complying with FSA rules was the biggest single issue raised by firms.

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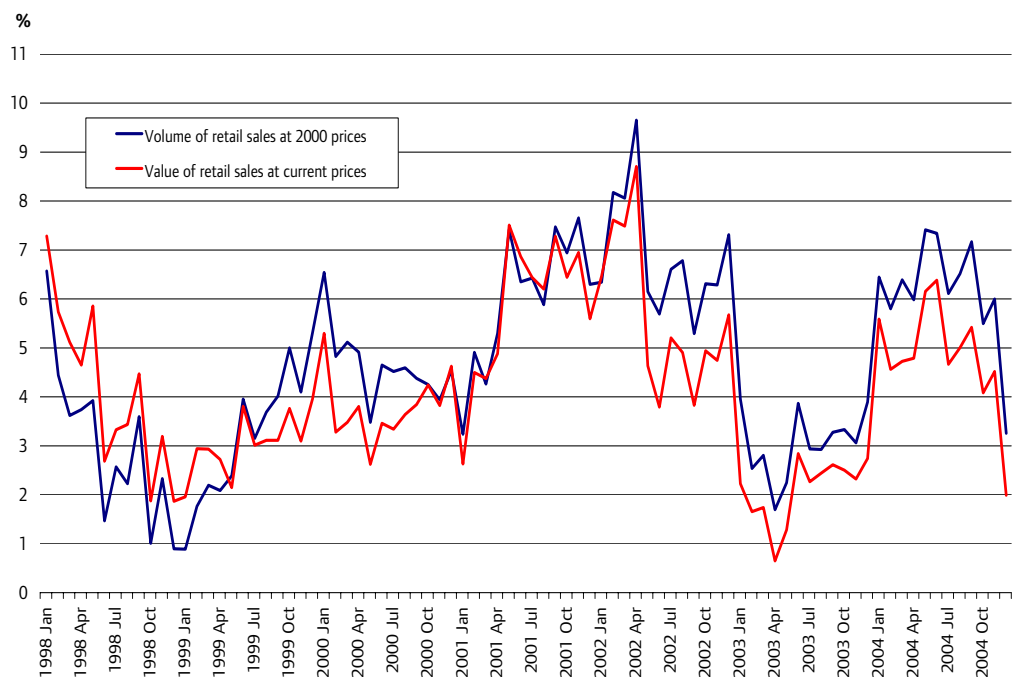
London's economy is still growing and performing well. In December, the Purchasing Managers Index (PMI) measure of new orders and business activity for London firms continued to expand strongly at 61.1 and 59.8 respectively (these numbers are significantly above 50, which is the level consistent with no change on the previous month). The positive average annual rate of growth in tube passenger numbers has continued to increase while the average rate of growth in bus passenger numbers, though still declining, remains relatively high.

UK consumer sector steady

Despite a reported shopping spree on Christmas Eve, official Office for National Statistics (ONS) data showed poor retail sales in December. The seasonally adjusted volume of UK retail sales fell in December by 1.0 per cent on the month. Annual growth slowed to 3.2 per cent compared with six per cent in November 2004 (see Figure 1). In addition, a downbeat British Retail Consortium survey had total sales in December as being 2.5 per cent higher than a year ago with like-for-like sales down 0.4 per cent. Considering a slightly longer timescale, it should be noted that the seasonally adjusted volume of retail sales in the three months from October to December 2004 was still slightly higher (by 0.3 per cent) than in the previous three months. However, this is the slowest period of three monthly growth since May 2003.

Figure 1: Seasonally adjusted UK retail sales growth (month-on-same-month last year)

Source: Office for National Statistics



Fears that the housing market would crash before Christmas failed to materialise. Instead UK house prices have continued their steady slowdown. House prices fell by 0.2 per cent in December, as measured by the Nationwide, but rose by 1.1 per cent in the Halifax index. The Nationwide annual rate of house price inflation fell from 15.0 per cent in November to 12.7 per cent in December, the lowest level for almost three years, while the Halifax measure fell from 16.8 per cent to 15.1 per cent. In 2004, regional house price growth was slowest in London at four to eight per cent with prices relatively flat over the second half of the year. Underpinning a slowing housing market and retail sector is the current strength of the UK labour market and low unemployment. Any negative shock to the labour market would therefore have

severe implications for the UK economy. With the current UK interest rate cycle seemingly at, or near, its peak the mechanism for such an internal shock looks highly unlikely in the short run, but unexpected external shocks (such as terrorist attacks) are always a possibility.

US dollar fell to all-time low against the Euro at end-2004

The dollar reached new lows against the Euro at the end of December and despite recovering slightly in early 2005, remains weak. The fall in the dollar over the final quarter of 2004 has, amongst other factors, helped the US economy perform strongly in recent months. US manufacturing activity is rising, job growth is steady and factory capacity in use is at its highest level since 2001. In December, consumer confidence as measured by the Conference Board Survey reached its highest for five months and official figures showed a 1.2 per cent increase in retail sales which supports reports of strong pre-Christmas sales by US retailers. Confidence that the US economy will continue to prosper in early 2005 is not matched by the prospects for both the Eurozone and Japan, where in both cases domestic demand remains relatively weak. Unemployment in Germany rose for the eleventh consecutive month in December making 2004's average jobless total the highest since 1990. In addition to the structural weaknesses in their domestic economies, the dollar's decline, by strengthening the Euro and Yen, has made European and Japanese exports more expensive in the US. The oil market has remained quite volatile over the last month and crude prices have risen to around \$45 per barrel again.

World growth to slow in 2005 but London to perform relatively well

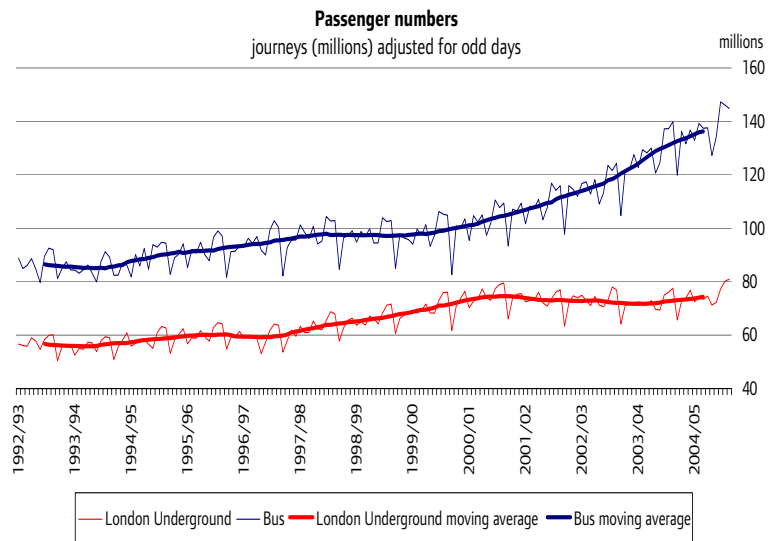
The world economy experienced an upturn in 2004 and global growth is expected to continue in 2005, but at a slower rate as higher interest rates in some major developed countries take effect. In the case of the US, interest rates are likely to continue to rise at a measured pace throughout 2005 from their current low level of 2.25 per cent. In the UK, 2004 third quarter (Q3) Gross Domestic Product (GDP) growth has been revised up to 0.5 per cent (from the previous estimate of 0.4 per cent) with the four-quarter growth rate at an above trend 3.1 per cent. Growth in business services and finance, a sector that is extremely important to the London economy, was an impressive 1.1 per cent in Q3. The strength of the business services and finance sector is expected to continue so despite the slowdown in the world and domestic economy in 2005, London should perform relatively well compared to other UK regions.

Passenger numbers' moving average continues to grow

- In the most recent 28-day period, London's public transport had 226 million passenger journeys; 144.8 million by bus and 81 million by tube.
- The moving average shows an increase to almost 211 million passengers every period, the highest recorded in these publications. The average for buses increased to 136.3 million passenger journeys each period and the average for the Underground was 74.3 million.

Latest release: January 2005

Next release: February 2005



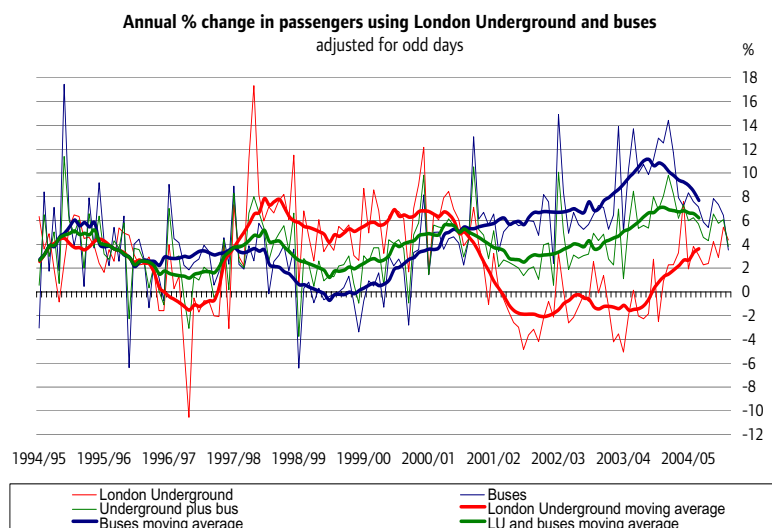
Source: Transport for London

Sustained growth on buses and the tube

- The average annual rate of growth in passenger journeys is 6.1%.
- The average annual rate of growth in bus journey numbers is 7.6%.
- The recovery in Underground passenger numbers was sustained. The average annual rate of growth increased to 3.6%.

Latest release: January 2005

Next release: February 2005



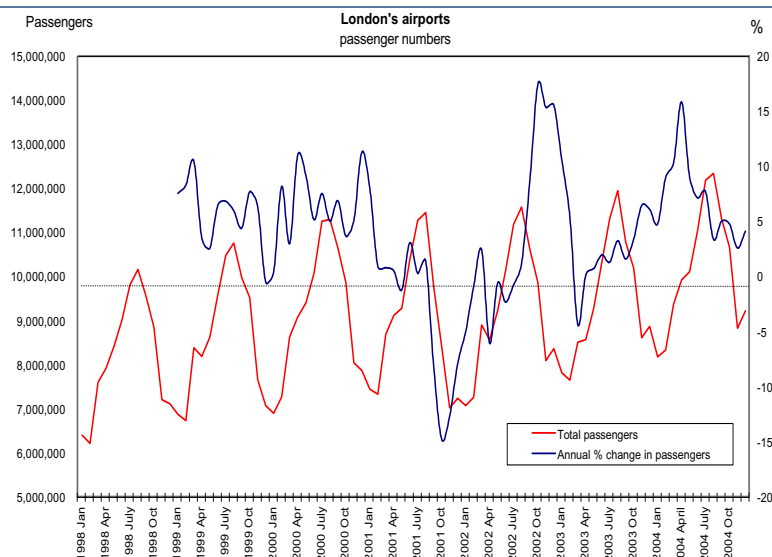
Source: Transport for London

More airport passenger numbers this winter

- 9.2 million passengers travelled through London's airports in December.
- The number of passengers using London's airports increased by 4% from Dec 2003 to Dec 2004 suggesting continued growth in international travel in the winter months.
- Passenger numbers continued to grow throughout the whole of 2004.

Latest release: January 2005

Next release: February 2005



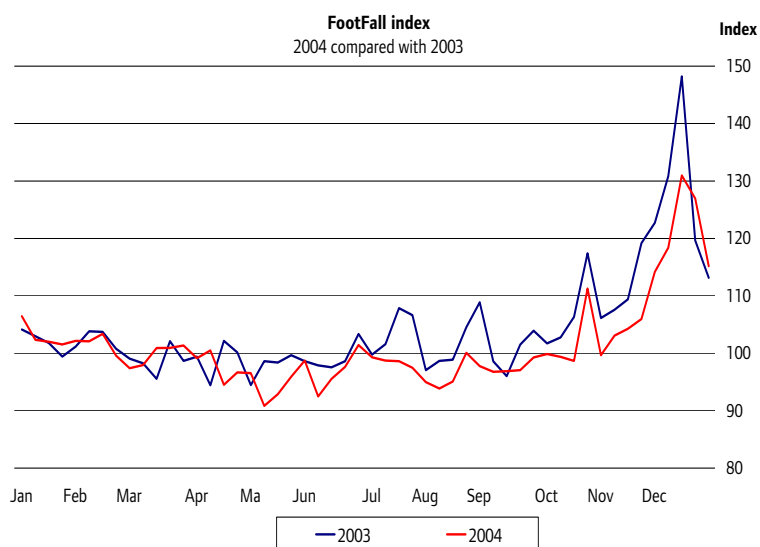
Source: Civil Aviation Authority

A slower start but strong finish to Christmas shopping

- The FootFall index had a sharp increase in December 2004 as Christmas shoppers came to London's stores.
- The early December index remained below last year's level, suggesting fewer shoppers. In the weeks directly before and after Christmas the index was just above that for 2003.
- The FootFall index measures the number of shoppers but does not necessarily reflect spending.

Latest release: 14/01/05

Next release: every week



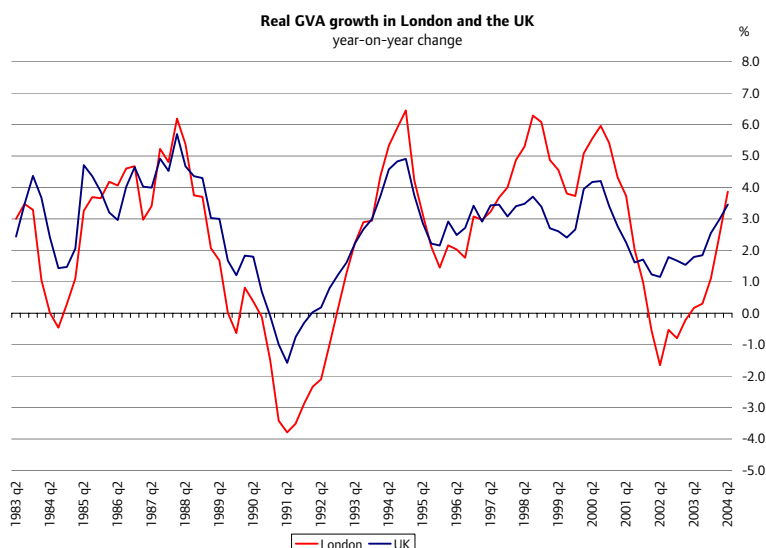
Source: FootFall Limited

Strong recovery in economic growth

- London's annual growth in output was a strong 3.9% in Q2 2004, up from annual growth of 2.5% in Q1.
- This represents a robust recovery in 2004 from the poorer growth rates over 2001 to 2003.
- London's GVA growth is now faster than that for the UK as a whole.

Latest release: September 2004

Next release: January 2005



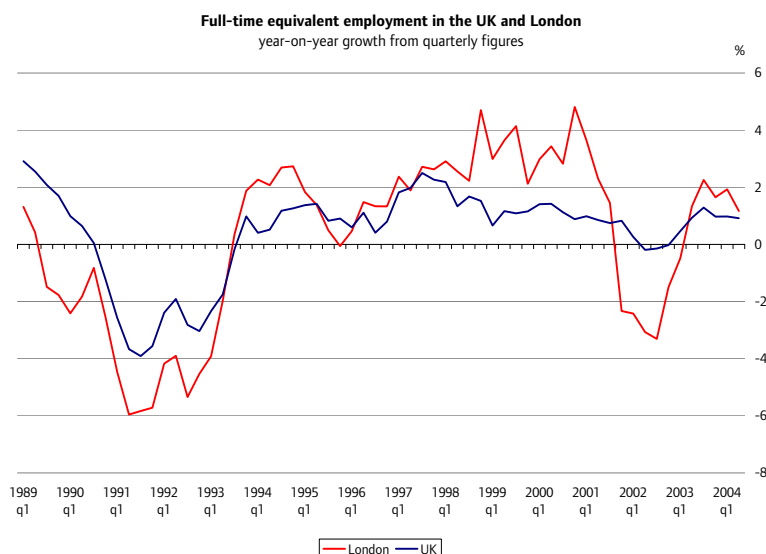
Source: Experian Business Strategies

Sustained employment growth

- London's year-on-year employment growth was 1.7% in Q1 2004 but reduced slightly to 1.2% in Q2 2004.
- London's employment growth has recently been faster than the UK as a whole, which grew at annual rates of 1% in Q1 and 0.9% in Q2.

Latest release: September 2004

Next release: January 2005



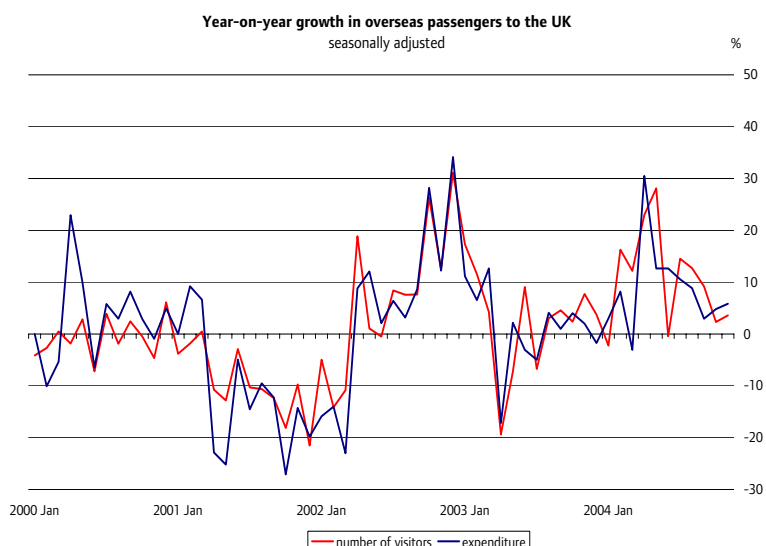
Source: Experian Business Strategies

More overseas visitors

- Autumn 2004 showed growth on last year in overseas visitor numbers to the UK and their spending. Up to half of overseas visitors spend time in London.
- The annual growth of overseas visitors to the UK was 3.6% in Nov 2004.
- The year-on-year growth in expenditure by overseas visitors in the UK was almost 6% in Nov 2004.
- ONS made revisions to monthly estimates in 2004 to reflect additional passenger data.

Latest release: January 2005

Next release: February 2005

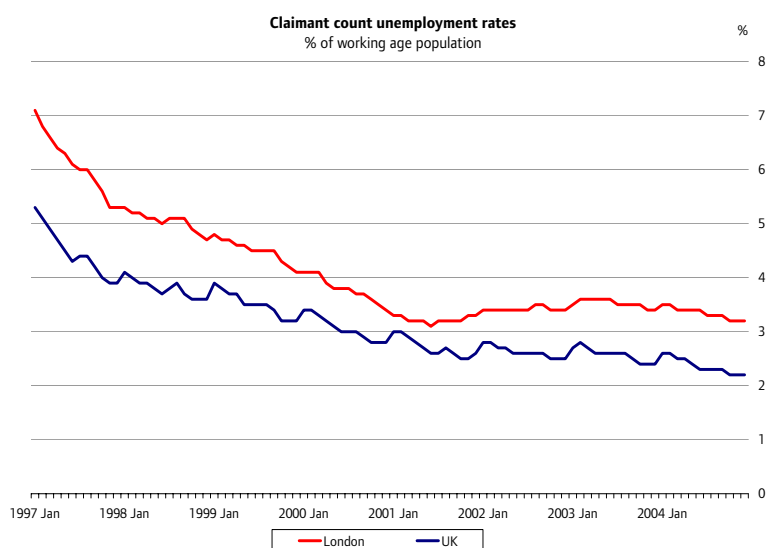


Claimant count unemployment still low

- London's rate of claimant count unemployment, people unemployed and claiming Jobseekers Allowance, has remained at 3.2% since October.
- There were 157,300 unemployment claimants in London in December 2004, compared with 167,200 in December 2003.
- The claimant count unemployment rate in the UK remains below that of London.

Latest release: January 2005

Next release: February 2005

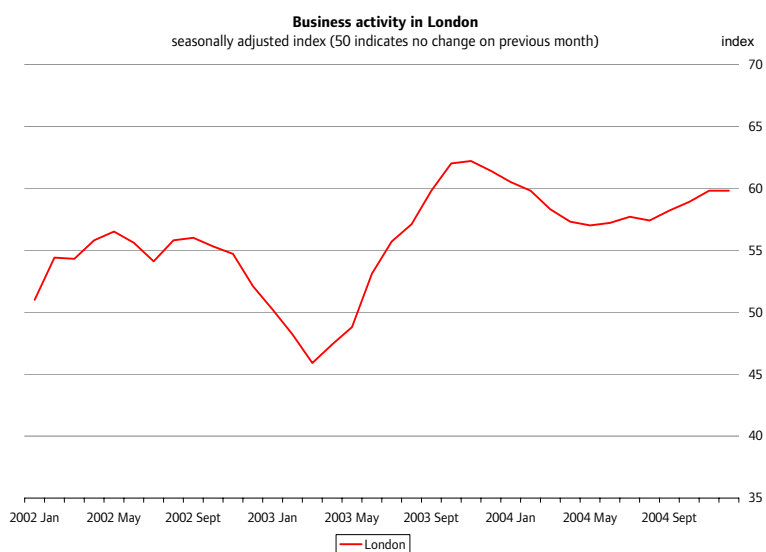


Business activity in London remains high

- London firms continued to expand their output of goods and services in December 2004, maintaining the same rate as November.
- The Purchasing Managers' Index (PMI) of business activity recorded 59.8 in December 2004. The index averaged 58.5 for the whole of 2004.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: January 2005

Next release: February 2005

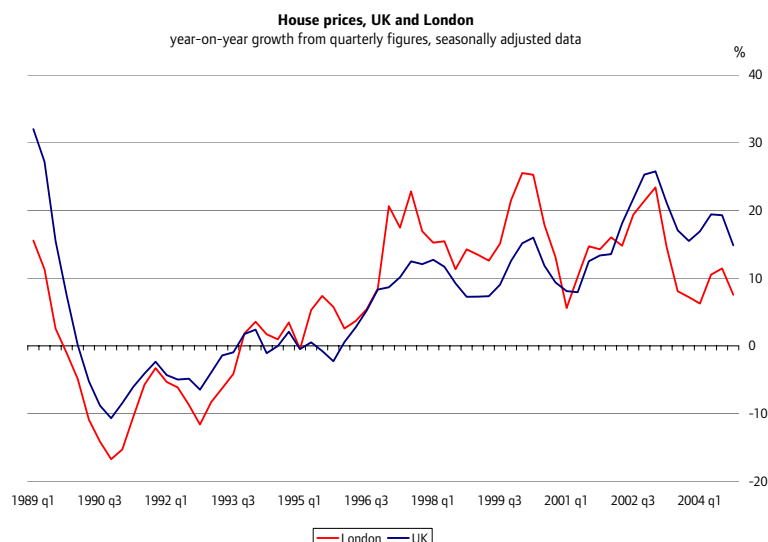


Slowdown in the rate of house price growth

- House price growth, as calculated by Nationwide, showed a slowdown in Q4 2004 in London and across the UK.
- Annual house price growth in London slowed to 7.6% in Q4 2004 from 11.4% in Q3.
- Annual house price growth remained higher for the UK but slowed from 19.3% in Q3 2004 to 14.8% in Q4 2004.

Latest release: January 2005

Next release: February 2005



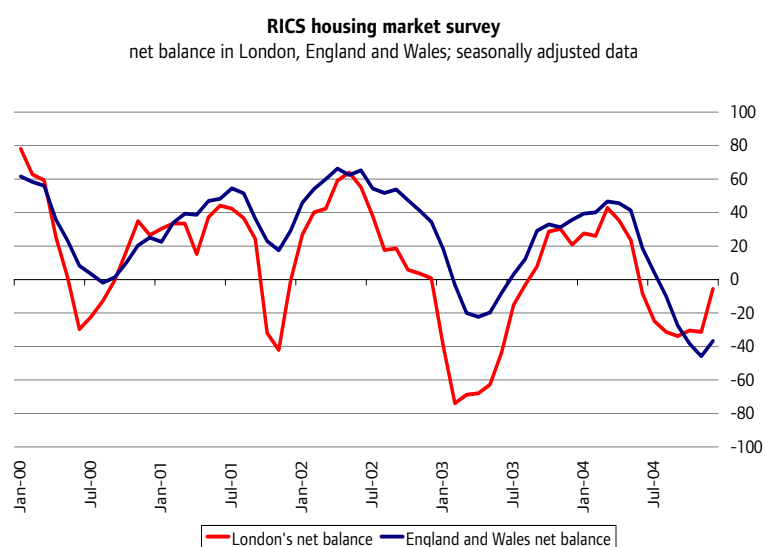
Source: Nationwide

Surveyors reporting lower prices in the housing market

- The RICS survey shows that in recent months most surveyors have reported lower house prices both in London and in England and Wales.
- In London, the net balance has been negative since June but recovered to only -6 in Dec from -32 in Nov.
- For England and Wales, the net balance fell to -46 in Nov but recovered a little to -37 in Dec. This is below the London figure.

Latest release: January 2005

Next release: February 2005



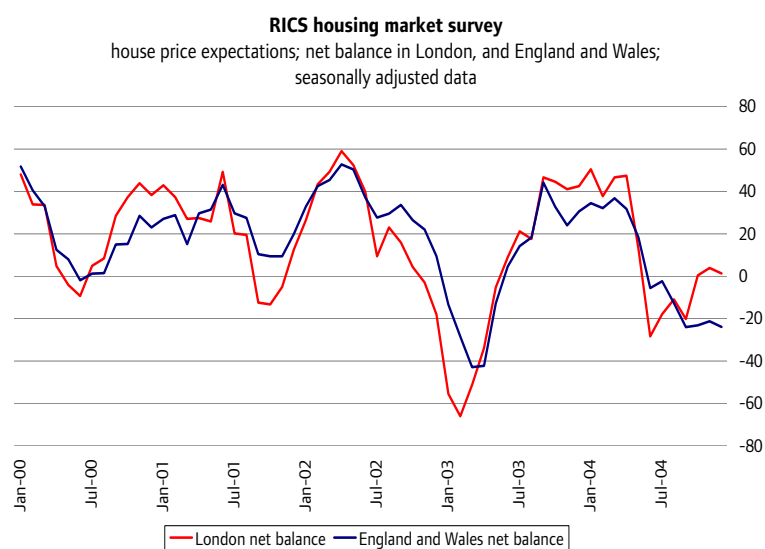
Source: Royal Institute of Chartered Surveyors

Surveyors not expecting house prices in London to fall

- The RICS survey shows that a small majority of surveyors expect house price increases over the next three months in London but not in England and Wales.
- In London, the net expectations balance was negative from Jun to Sep. This turned positive in Nov reaching +3, but dipped to +1 in Dec.
- For England and Wales, the net balance turned negative in June and was -24 in Dec.

Latest release: January 2005

Next release: February 2005



Source: Royal Institute of Chartered Surveyors

by Alan Freeman
Economist, GLA Economics

Broadly in line with expectations and on the basis of currently available data, London registered modest gains in workforce jobs in 2003 compared with 2002.

The principal measure of employee jobs by place of work is the Annual Business Inquiry (ABI). The latest ABI was released in December 2004 and provides a picture of employment for December 2003. This does not include self-employment and is therefore less than the total number of workforce jobs, which include the self-employed and is reported twice yearly in GLA Economics' *London's Economic Outlook*¹.

The ABI shows that London lost 25,000 employee jobs between the end of 2002 and the end of 2003. However, the Greater London Authority's (GLA) forecast suppliers, Experian Business Strategies (EBS), estimate that in 2002, 0.53 million people were self-employed which, when added to the 2002 employee jobs figure of 3.93 million, gives an estimate of workforce employment in that year of about 4.46 million. EBS estimate that in 2003 self-employment rose to 0.59 million, which when added to the ABI figure of 3.91 million employee jobs, brings workforce employment to 4.50 million; an increase of approximately 40,000 workforce jobs.

The main conclusions from the ABI are:

- Although employee jobs fell by 25,000 during 2002/03, this loss was substantially less than in the previous two years; 44,000 jobs were lost during 2000/01, and 84,000 during 2001/02.¹
- The decline in business service employee jobs has bottomed out, and the greatest loss was in other services, followed by manufacturing.
- Fourteen London boroughs posted job gains during 2002/03 compared with only seven during 2000/02. In contrast to the two previous years in which it suffered substantial job losses, the City of London saw only a small fall. The greatest declines were in Camden and Hackney.
- Three regions lost jobs during 2002/03: the West Midlands, London, and the South East. The South East lost the most jobs whereas in 2000/02 it gained jobs.

In December 2003, London had 3.91 million employee jobs, a loss of 25,000 jobs (0.6 per cent), compared with December 2002. This follows a fall of 84,000 jobs (2.1 per cent) over 2001/02 and 44,000 jobs over 2000/01. Therefore 154,000 jobs (3.7 per cent) have been lost since 2000, the last year of positive growth. The latest ABI also includes some small revisions to previously published estimates of employment for 2001 and 2002.

Table 1 shows total employee jobs for London and the UK and, for comparison, the estimates for London that were previously published in the ABI.

Table 1: Total year-end employee jobs

Source: ABI

	Millions of employee jobs			Growth (% per year)	
	London	UK	Last ABI for London	London	UK
1995	3.45	22.73	3.45	-	-
1996	3.50	23.14	3.50	1.5	1.8
1997	3.62	23.75	3.62	3.4	2.6
1998	3.76	24.35	3.76	4.0	2.6
1999	3.96	24.83	3.96	5.1	1.9
2000	4.06	25.23	4.06	2.6	1.6
2001	4.02	25.49	4.01	-1.1	1.0
2002	3.93	25.59	3.92	-2.1	0.4
2003	3.91	25.72	-	-0.6	0.5

Figure 2: Total year-end employee jobs in London

Source: ABI

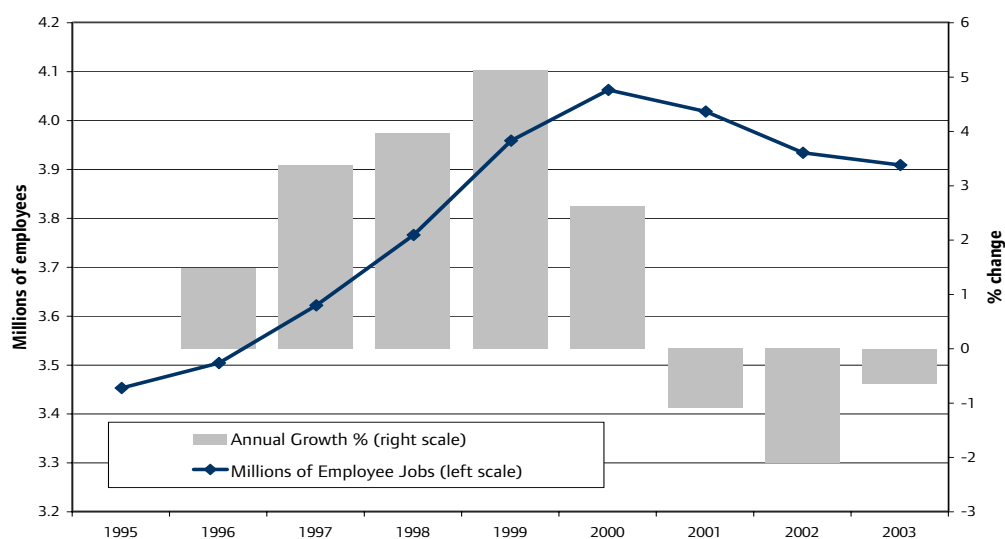


Table 2 shows how employment has changed in London's broad industrial sectors, and compares sectoral changes over 2002/03 to those over 2000/02.

Table 2: London jobs by broad industrial sector (thousands of employee jobs)

Source: ABI and GLA Economics

Sector	2000	2001	2002	2003	Change 02/03	% change 02/03	Change 00/02	% change 00/02
Primary	19	15	13	11	-1	-8.8	-6	-32.3
Manufacturing	282	261	236	224	-13	-5.3	-46	-16.3
Construction	134	137	135	126	-8	-6.2	0	0.3
Distribution, hotels & restaurants	888	893	895	891	-4	-0.4	7	0.8
Transport & communications	318	322	306	302	-4	-1.3	-12	-3.9
Business services (excl finance)	1,018	982	924	921	-3	-0.3	-94	-9.2
Finance	343	341	333	323	-10	-3.1	-9	-2.7
Public services	799	781	817	855	38	4.6	19	2.4
Other services	261	284	274	254	-20	-7.4	13	4.8
Total	4,061	4,017	3,932	3,907	-25	-0.6	-129	-3.2

Losses in business services seem to have bottomed out at 2,600 during 2002/03, compared with 94,700 between 2000 and 2002. Finance, defined as financial intermediation, lost 10,200 jobs over 2002/03 – more than the losses over the whole of 2000/02.

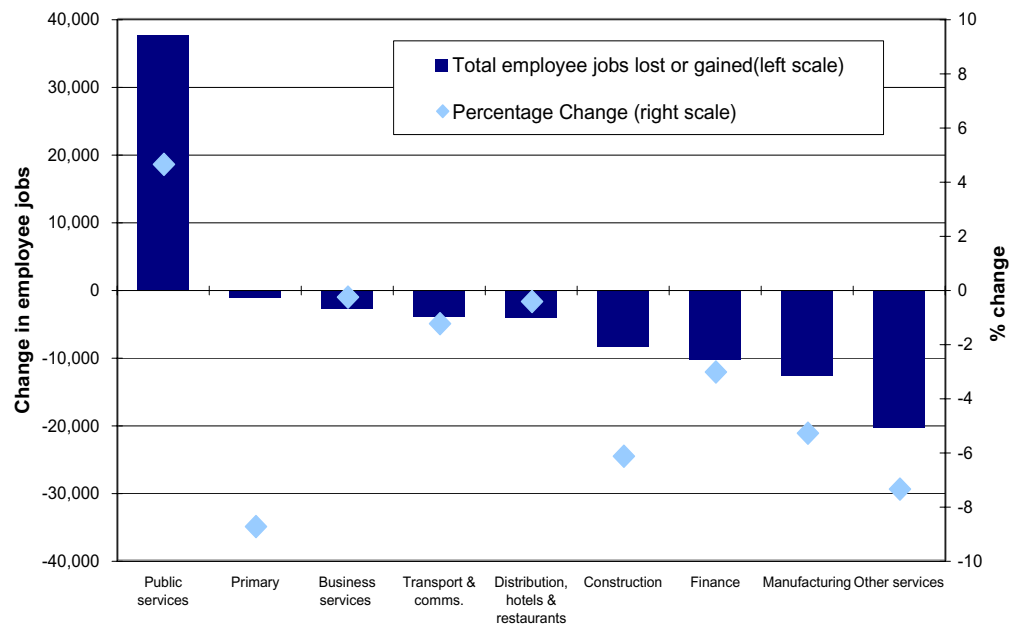
The largest job losses during 2002/03 were concentrated in:

- *Other services*, which lost 20,000 jobs, equivalent to four-fifths of London's net total job loss. The losses mainly fell in media activities.
- *Manufacturing*, which continued to contract losing 12,500 jobs. This is considerably less, however, than the 46,000 jobs lost between 2000 and 2002.

These job losses were offset to a large extent by increased employment in public services (including administration, education and health) which grew by 37,700 jobs during 2002/03.

Figure 3: Change in sector employment in London, 2002/03

Source: ABI and GLA Economics

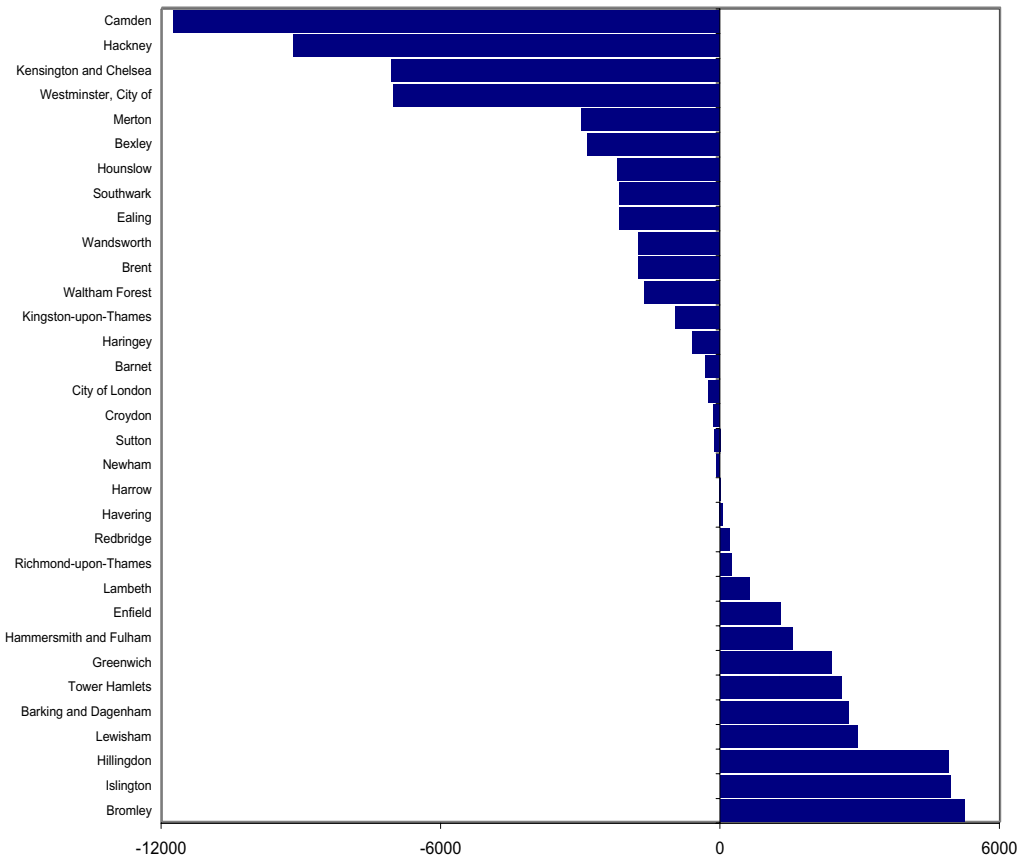


The picture in London's boroughs improved somewhat compared with 2000/02, during which only seven boroughs escaped employee job losses. Fourteen boroughs saw job growth during 2002/03: Bromley, Islington, Hillingdon, Lewisham, Barking and Dagenham, Tower Hamlets, Greenwich, Hammersmith and Fulham, Enfield, Lambeth, Richmond-upon-Thames, Redbridge, Havering, and Harrow. They added a total of 28,000 jobs between them.

Worst losses in 2002/03 were suffered by Westminster (7,000), Kensington and Chelsea (7,100), Hackney (9,200) and Camden (11,700).

Figure 4: Change in employee jobs in London boroughs, 2002/03

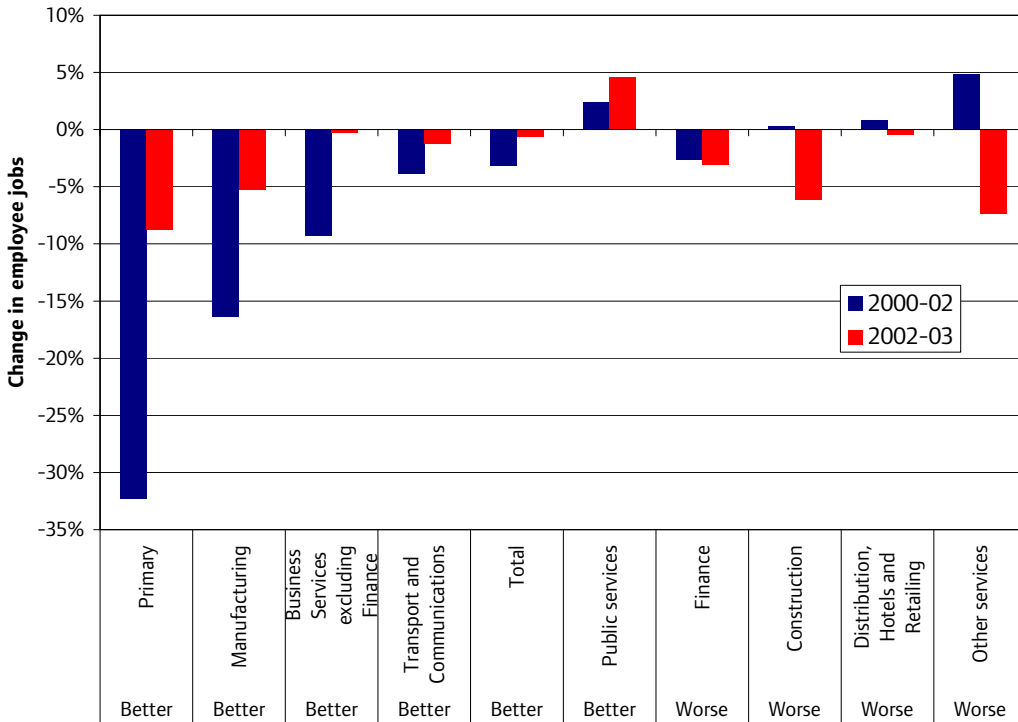
Source: ABI and GLA Economics



The turnaround in 2003 compared with 2000/02 can be most clearly seen by looking at the way sectors fared during 2002/03 compared with 2000/02. In four sectors – primary, manufacturing, business services, and transport and communications – jobs were lost during 2002/03 but the fall was less, often considerably so, than during 2000/02. However distribution, hotels and restaurants, and construction and other services, all moved from positive to negative growth, in the last two cases significantly so.

Figure 5: Differences between 2000/02 and 2002/03

Source: ABI and GLA Economics



London's decline in employee jobs continues to contrast with that of most other regions, although the South East suffered greater job losses during 2002/03. In line with the trend of the previous two business cycles, London has been more volatile than the rest of Britain, growing more during upturns and shedding proportionately more jobs in downturns. During 2002/03, only three regions saw falling employment: London, the South East, and the West Midlands. London's neighbouring Eastern region, continued its strong growth to become the fastest-growing region with the next fastest being Yorkshire and Humber.

London's decline in employee jobs relative to most other regions, reflects the nature of the current economic cycle. The structure of London's employment, with a concentration in business services and finance, means the capital has been more affected by a slowdown in growth in those parts of the economy. During 1997 to 2000, the rates of employee job growth in London were considerably above the rest of Britain. It is only since 2001 that London has underperformed the rest of the country.

Figure 6: Employee job changes by British region 2002/03

Source: ABI and GLA Economics

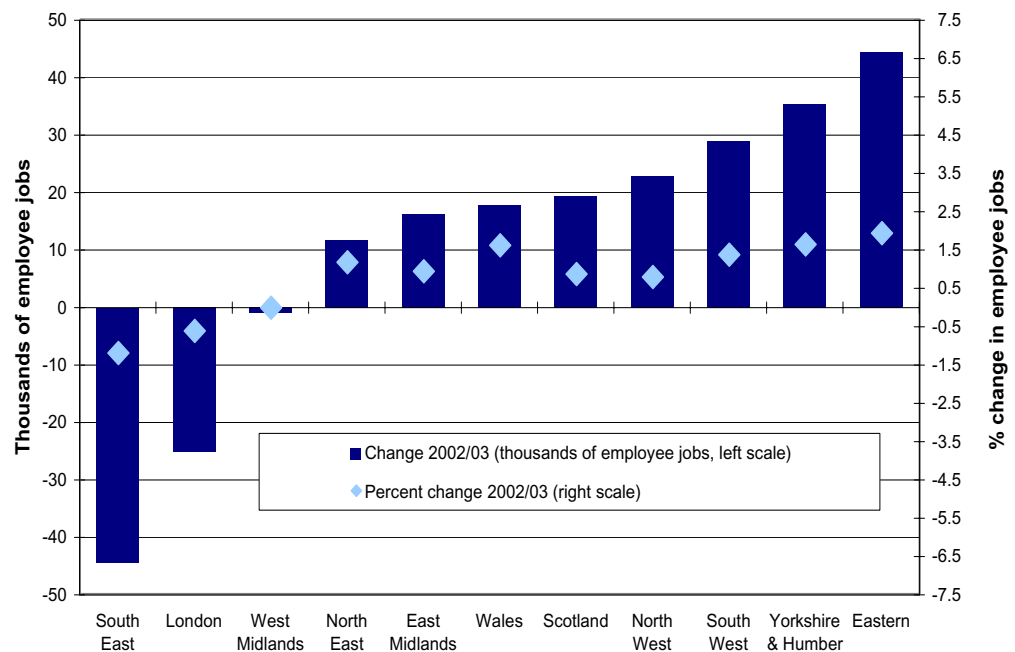


Figure 7: Recent trends in employee jobs

Source: ABI and GLA Economics

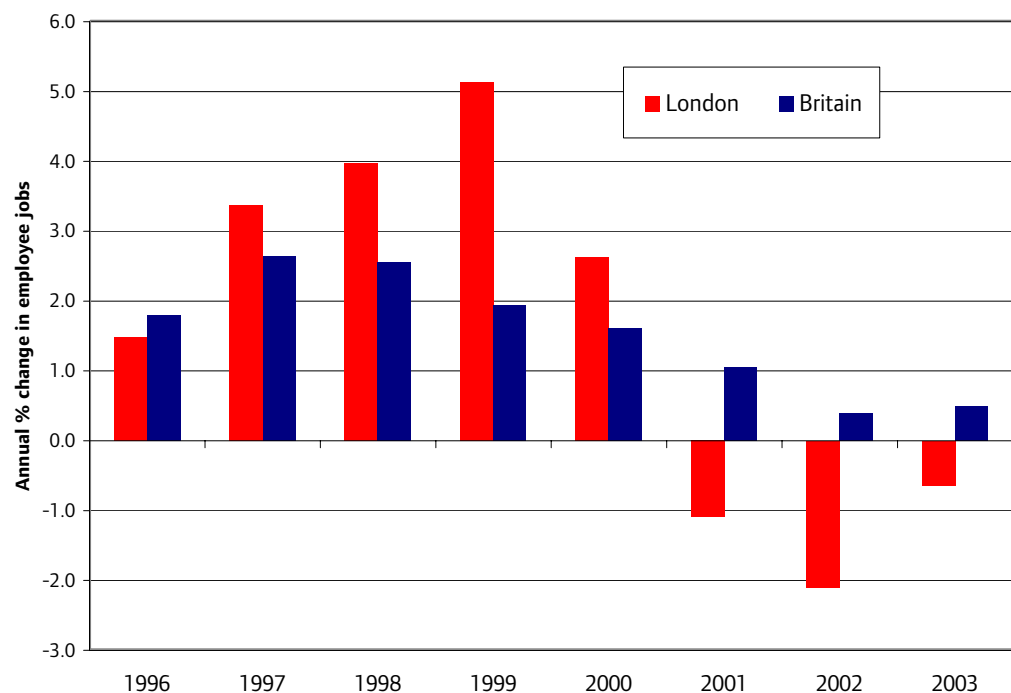
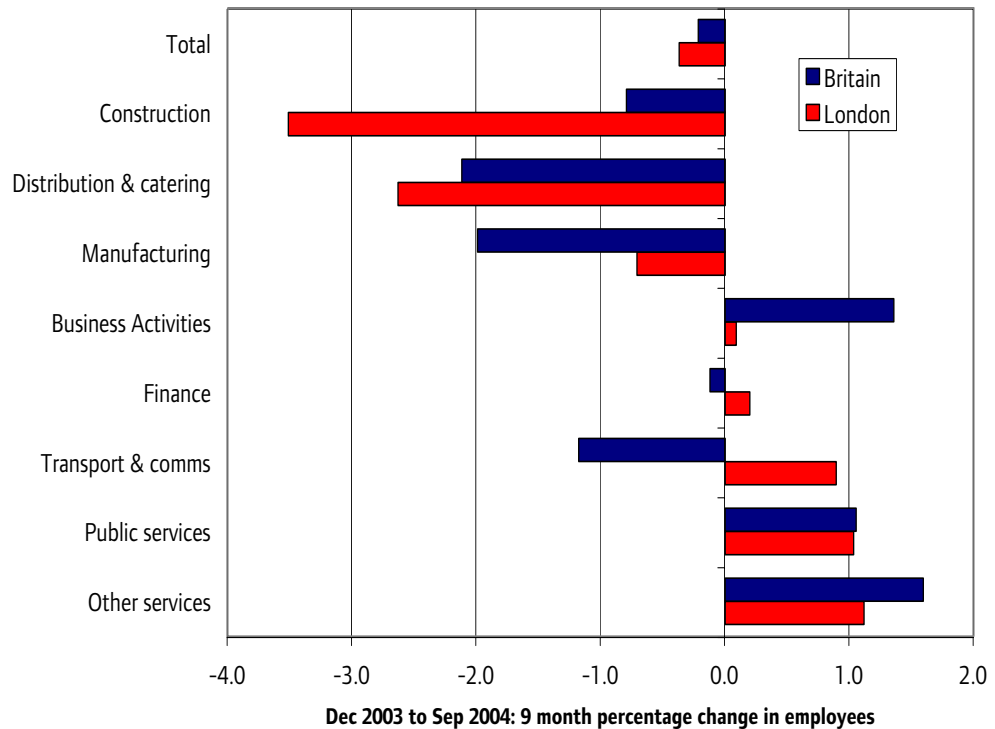


Figure 8: Employee job trends into 2004

Source: STES and GLA Economics



For the first nine months of 2004, STES shows a steady recovery for transport and communications and other services in London. Finance and business services, the sources of much of the losses of the previous three years, also show initial signs of recovery. And while London's losses continue marginally to exceed those of Britain, this difference appears to be confined to two sectors: construction and distribution.

Footnotes

¹ Visit: www.london.gov.uk/mayor/economic_unit

² Throughout this article, figures refer to the number of jobs at the end of the year. Thus '44,000 jobs were lost during 2000/01' means that there were 44,000 less employee jobs at the end of 2001 than there were at the end of 2000. For 2004, data is available only until September and for that year, figures refer to the number of jobs in September.

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		

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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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