

London's Economy Today



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Economic overview

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Growth in bus passengers continues and the number of passengers on the tube also increased in March. The annual growth in combined tube and bus use remained at 6.7 per cent and tube ridership had its first positive annual growth rate since 2001.

The Purchasing Managers' Index (PMI) measure of business activity in London was 57.2 in March. This is significantly above 50, which is the level consistent with stable activity, but the trend has been downwards since the peak in November. London's manufacturers are becoming more optimistic about their future output but do not expect this to be matched by increasing exports. It seems that export optimism is being affected by the relative strength of sterling since the beginning of 2004.

Rising interest rates

At its meeting on 6 May, the Bank of England's Monetary Policy Committee (MPC) decided to raise interest rates by a quarter of a percentage point to 4.25 per cent. In explaining its decision the MPC noted continued robust retail spending, unexpected strong house price inflation, improving investment prospects, a pick up in earnings growth and a sharp rise in commodity prices.

Jean-Claude Trichet (President of the European Central Bank) and Alan Greenspan (Chairman of the US Federal Reserve) have also warned that increases in oil prices pose upside risks to inflation and downside risks to economic growth. Therefore, despite the generally positive economic news so far in 2004, there are still significant risks to the world economy.

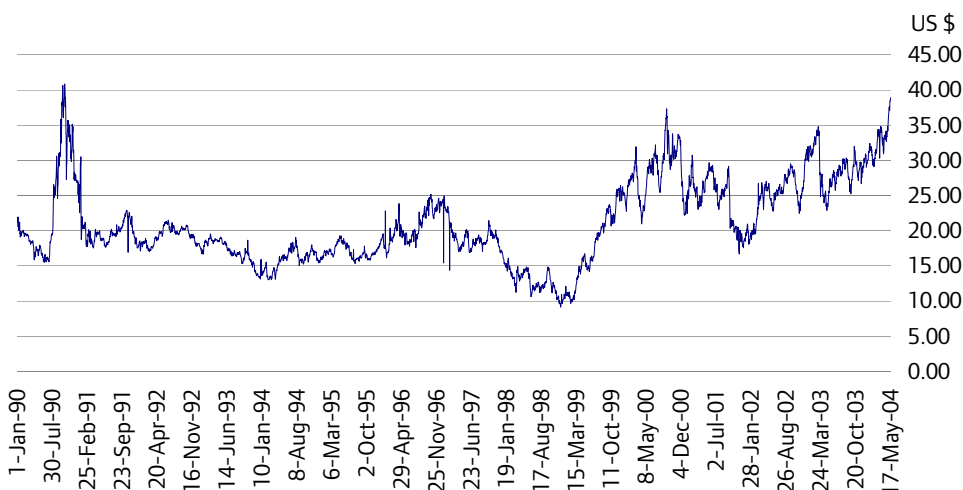
Oil prices rise to the highest level since 1990

Oil prices have risen to their highest level since the lead up to the first Gulf war in October 1990 and by around a quarter since the beginning of 2004 (Chart 1). This has been caused by fears over the security of oil supplies from the Middle East, a reduction in OPEC (Organisation of Petroleum Exporting Countries) production quotas, low US fuel inventories, and strong oil demand from the recovering US economy and the rapidly growing Indian and Chinese economies. The International Energy Agency has reported that global oil demand growth in 2004 is set to reach 2.5 per cent, the fastest rate since 1996.

Despite OPEC, which accounts for about a third of world oil output, having a price target of \$22-28 per barrel they cut production quotas in April after many of its

Chart 1. Crude Oil Brent Blend – dated (\$ per barrel)

Source: FT.com



members complained that the falling US dollar outweighed price rises as far as the purchasing power of their total oil revenues were concerned. The next planned meeting of OPEC is on 3 June 2004 where the members will come under increasing pressure from Europe and the US to increase production quotas.

The global economic upswing has been maintained but problems remain

The recent G7 (US, Italy, Germany, the UK, France, Canada and Japan) meeting in Washington concluded that prospects for the world economy were favourable and that 'although risks remain, such as energy prices, overall the balance of risks to the outlook has improved.' It is certainly true that overall short term economic news has been positive. US job creation is finally taking place pulling unemployment down, factory orders are rising, there is evidence of a pick up in business investment and the service sector is expanding rapidly. US GDP (gross domestic product) grew at an above trend annual rate of 4.2 per cent in Q1 2004, however this was slightly below expectations.

In comparison Eurozone growth is disappointing, although the 0.6 per cent expansion during Q1 2004 was better than expected. Eurozone manufacturing and business sentiment also show initial signs of improvement, but labour markets are still weak with the German unemployment rate rising to 10.5 per cent in April. However, despite the recent world recovery significant obstacles to long-term stability remain. The US budget and current account deficits continue to widen (the US trade deficit increased to a record \$46 billion in March).

UK economy

The Organisation for Economic Cooperation and Development (OECD), in its twice-yearly assessment of the world economy, has said that the recovery is well established in the UK and believes the economy will grow by 3.1 per cent in 2004 and 2.7 per cent in 2005. On the International Labour Organisation measure, unemployment fell to 4.7 per cent in the three months to March, the lowest since these monthly records began in 1984. The number of people claiming unemployment benefit also fell in March to 876,300. Alongside lower unemployment has come an increase in annual average earnings to 5.2 per cent in March, the highest rate since June 2001. The strong UK labour market, alongside the Bank of England's Inflation Report which showed UK inflation overshooting its 2 per cent target in two years time (based on market expectations for interest rates), suggests further interest rate rises this year.

Strong retail sales figures, business optimism and factory orders are all providing positive news for the UK economy.

However, official data should provide a note of caution. In contrast with recent survey data, manufacturing production fell by 0.3 per cent in March (after a fall of 0.5 per cent in February), against expectations for a 0.5 per cent rise and total industrial output was flat, 0.6 per cent less than expected. In March year-on-year growth in manufacturing output was only 0.4 per cent. Preliminary first quarter GDP figures were also lower than expected with real GDP rising by 0.6 per cent in the first quarter of 2004 from 0.9 per cent in the previous quarter. Personal bankruptcies in England and Wales also increased by nearly 30 per cent in the first quarter of 2004 compared with a year earlier as consumer debt increases. The current weakness of official manufacturing output data, alongside the risks of a retrenchment in consumer expenditure if interest rates were raised significantly above expectations, provides uncertainties to the actual on-going and future potential strength of the UK recovery.

Conclusion

Despite stating that the world economy was on course for a 'strong and sustainable' recovery led by the US, Japan and the UK, the OECD has warned that there are threats from unbalanced growth. It raised its forecast for growth across the OECD to 3.4 per cent in 2004 (its highest since 2000) and believed world trade growth would almost double this year to 8.6 per cent from last year's 4.5 per cent. However, threats to the world economy remain and should not be underestimated. The recovery in the Eurozone countries is still relatively weak, the US trade and budget deficits are too high and need to be reduced and higher commodity prices (especially oil) could lead to inflationary pressures and hence higher interest rates across the globe.

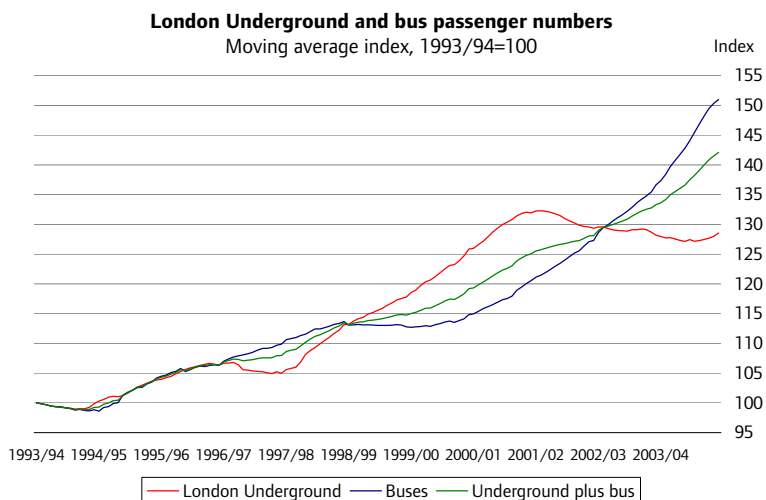
Tube and bus passenger numbers

- The number of tube passengers increased by 0.4% in period 13 (29 February – 31 March 2004), the same rate as in the previous period.
- The growth in bus use, although still strong, has slowed. Bus use rose by 0.4% in period 13, which is the slowest growth since period 11 in 2002/03.
- Total bus and tube passengers also increased by 0.4% in period 13, slightly below the rate in period 12.

Latest release: 22/04/04

Next release: May 2004

Source: Transport for London



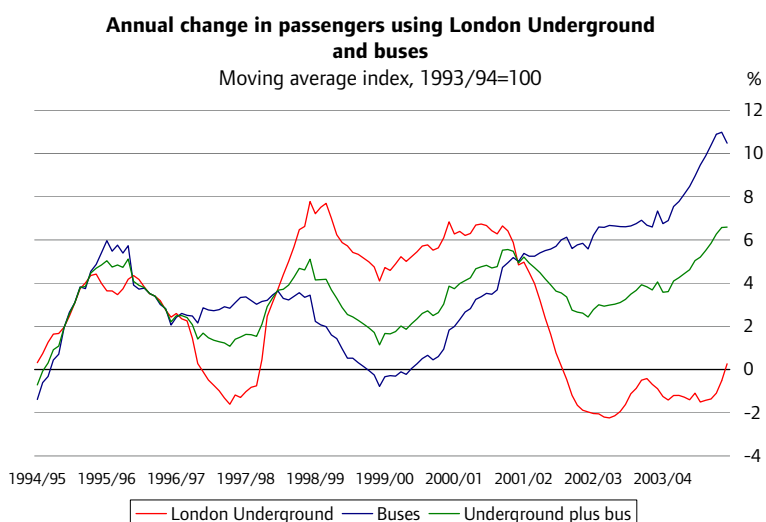
Annual growth in tube passenger numbers

- Annual growth in the number of bus and tube passengers combined was 6.7% in period 13, with no change from the previous period.
- Tube ridership had positive growth of 0.3% for the first time since 2001.
- Annual growth in bus passengers remained high at 10.5% but below the peak of 11% in the previous period.

Latest release: 22/04/04

Next release: May 2004

Source: Transport for London



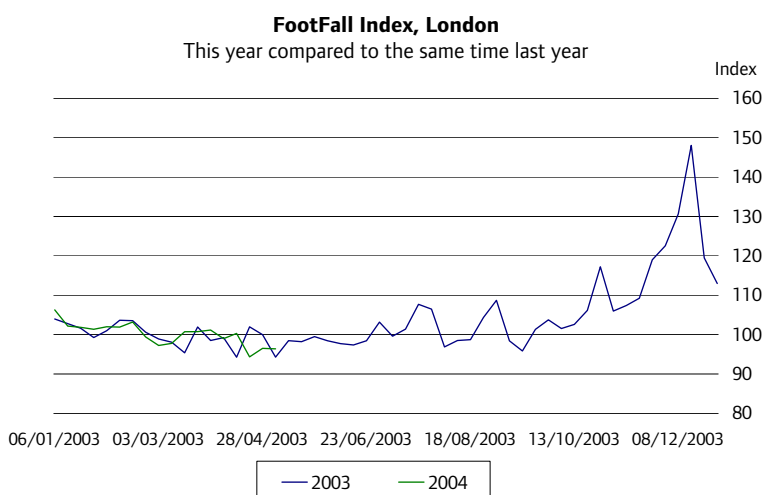
Number of London shoppers similar to last year

- The FootFall index dipped around the Easter period in early April, but showed recovery by the beginning of May.
- The current level of the index is comparable with the same time last year.
- The FootFall index measures the number of shoppers and does not necessarily reflect the level of spending in London.

Latest release: 03/05/2004

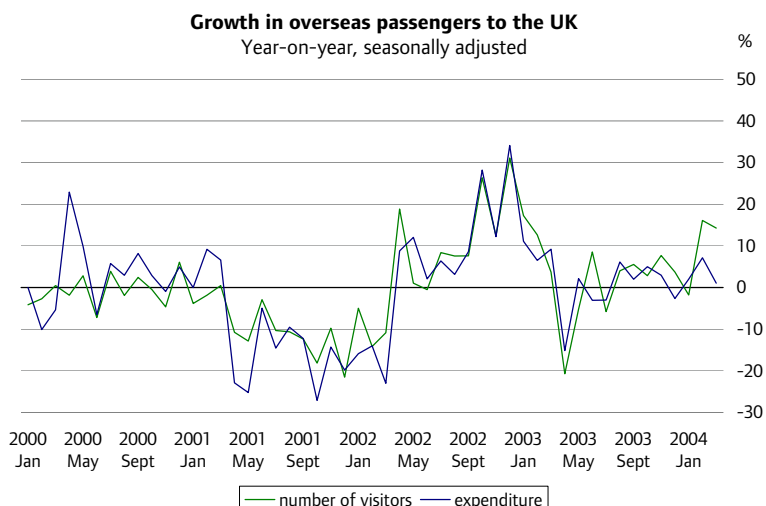
Next release: every week

Source: FootFall Ltd



UK tourism activity

- The number of visitors to the UK was 14.3% higher in March 2004 than in March 2003, but below the 16% increase recorded in February.
- Expenditure by overseas visitors slowed more notably, growing by just over 1% between March 2003 and March 2004.



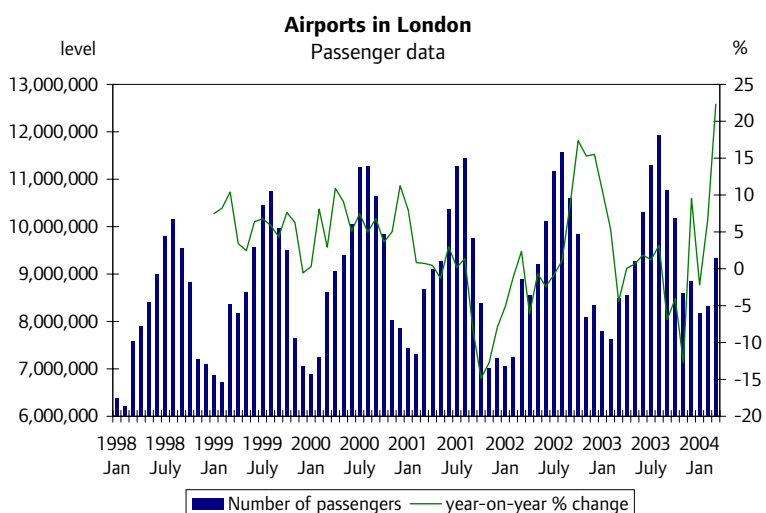
Latest release: 07/05/04

Next release: 09/06/04

Source: International Passenger Survey

Air passenger numbers

- Air passenger numbers were 22.3% higher in March 2004 than in March 2003.
- 9.3 million passengers travelled through London's airports in March 2004, which was the busiest March on record.



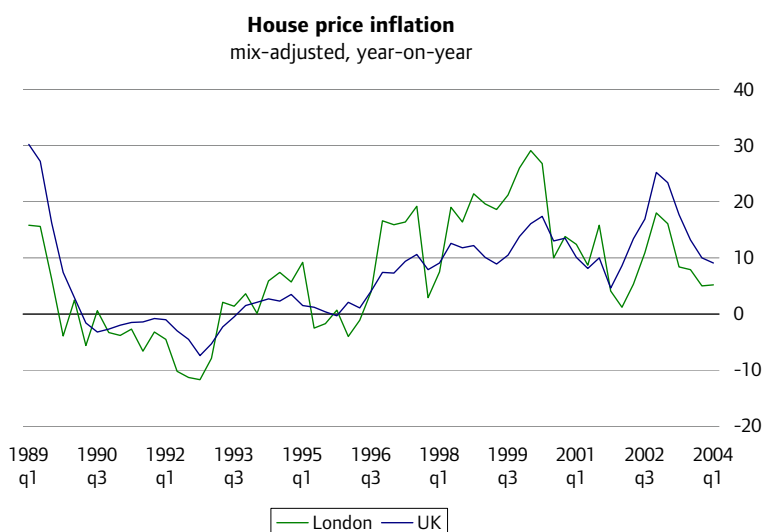
Latest release: 11/05/04

Next release: June 2004

Source: Civil Aviation Authority

Housing market

- New figures from the Office of the Deputy Prime Minister showed a slowdown in UK house price inflation in Q1 2004. The growth rate is lower than those reported by the main mortgage lenders.
- London's annual house price inflation was 5.2% from 2003 Q1 to 2004 Q1, lower than the UK rate of 9.1%.
- The highest rates of house price growth are in the north of England and Scotland. The slowest are in the South East and Eastern regions.



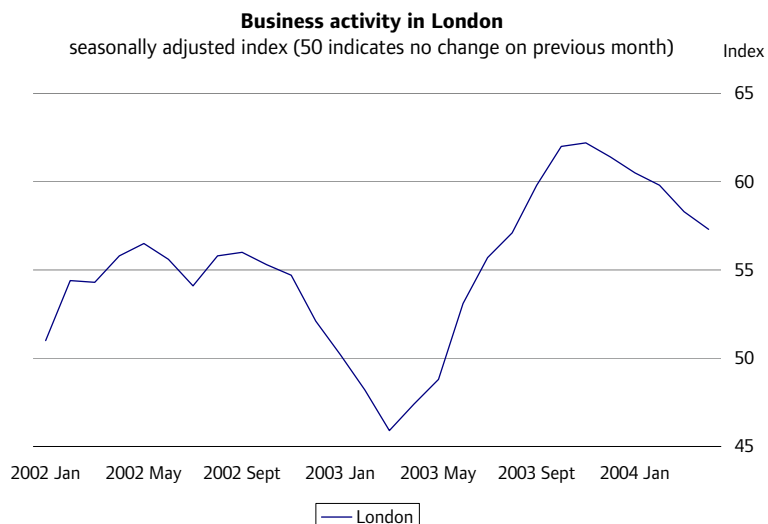
Latest release: 10/05/04

Next release: 09/08/04

Source: Survey of Mortgage Lenders,
Office of the Deputy Prime Minister/ONS

Business activity in London

- London firms continued to expand output in goods and services in April but the rate of growth declined again.
- The Purchasing Managers' Index (PMI) of business activity recorded 57.2 in April 2004 (down from 58.3 in March but still significantly higher than 50 which indicates no change).



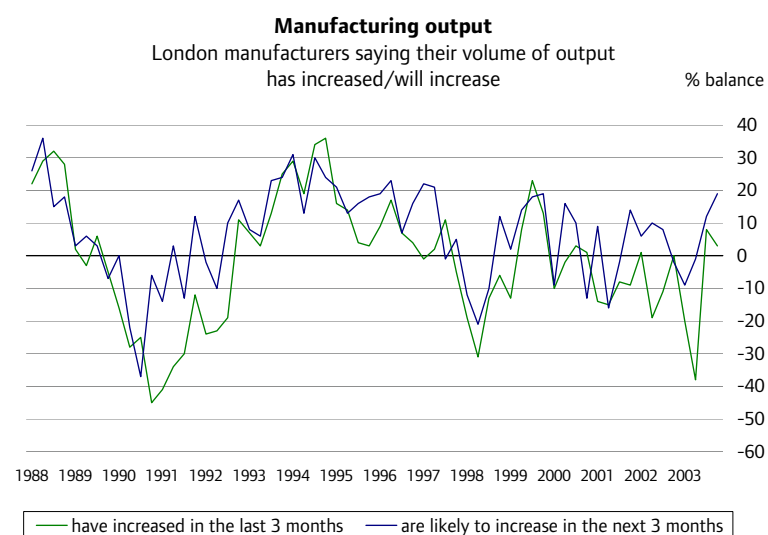
Latest release: 10/05/04

Next release: June 2004

Source: PMI/Royal Bank of Scotland

London manufacturers' output

- The balance of London manufacturers who increased their output in the previous three months fell but remained positive in the latest CBI/Experian Regional Trends Survey.
- The balance of London manufacturers that are likely to increase output in the next three months was 19%, the highest level since 2000.



Latest release: May 2004

Next release: August 2004

Source: CBI/RTS

London manufacturers' exports

- The latest CBI survey shows a negative balance of -14% of manufacturers who increased exports in the previous three months.
- London's manufacturers have also become less optimistic about their export prospects in the next three months. London manufacturers are at their least optimistic about future exports since 2001.



Latest release: May 2004

Next release: August 2004

Source: CBI/RTS

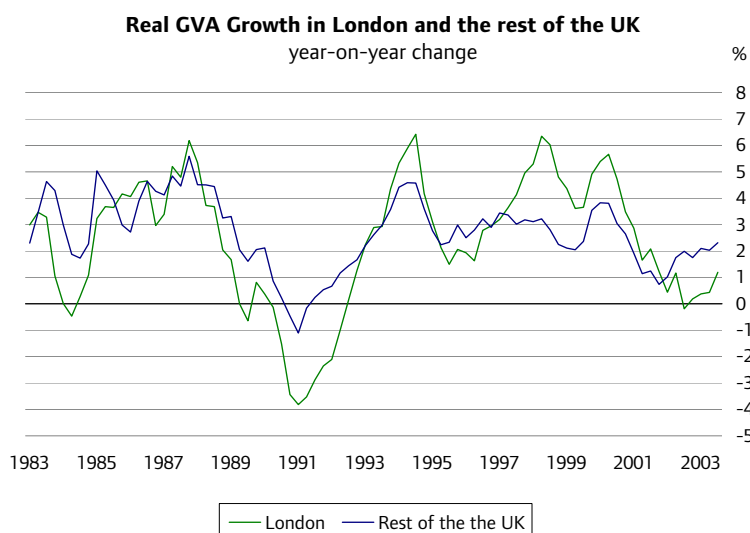
Economic growth

- Despite increasing growth, London's annual GVA growth is slower than in the rest of the UK. The rest of the UK GVA figure does not include London.
- Latest UK GDP figures rose by 0.6% in Q1 2004 down from 0.9% in Q4 2003. Annual UK GDP growth in the first quarter of 2004 was 3.0% (not shown in the chart).

Note: The most recent Experian estimates for London GVA include changes due to the adoption of chain linking and rebasing the UK figures to 2000 prices.

Latest release: May 2004

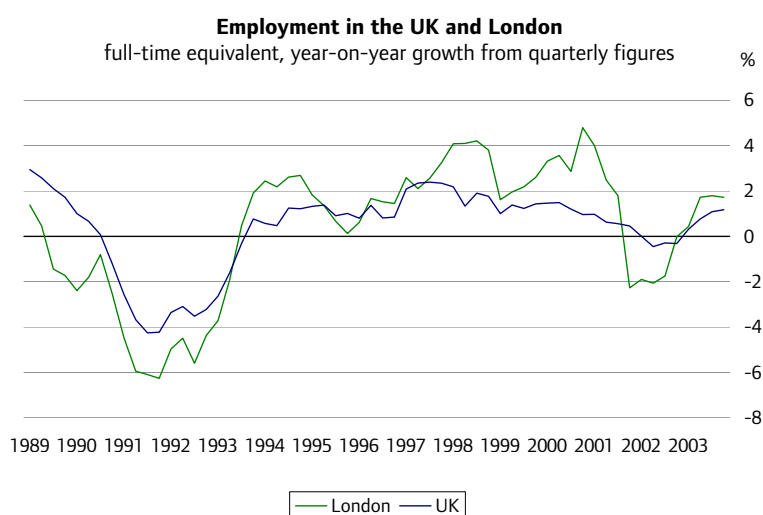
Next release: June-July 2004



Source: Experian/ONS

Employment growth

- London's year on year employment growth recovered in 2003. It grew by 1.7% between Q4 2002 and Q4 2003.
- London's employment growth was faster than in the UK as a whole, which grew at a rate of 1.2% over the same period.
- Over the last 15 years the UK employment growth rate has fluctuated less than London's rate.



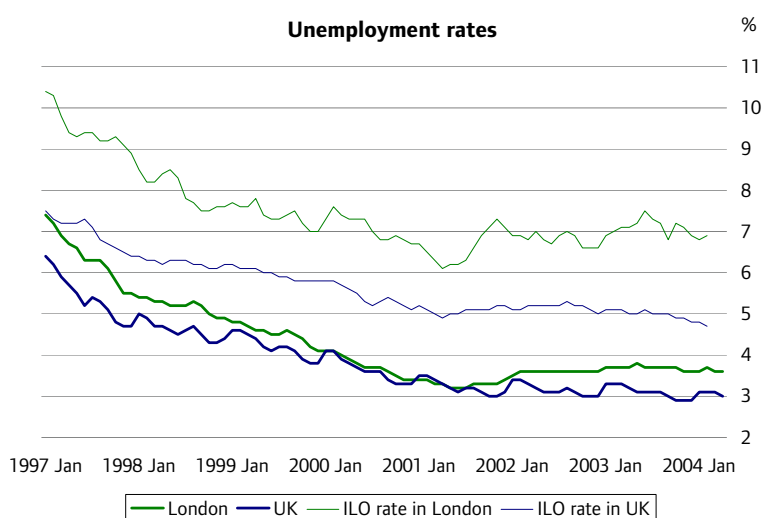
Latest release: May 2004

Next release: June-July 2004

Source: ONS

Unemployment rates

- London's ILO unemployment rate increased slightly to 6.9% in the three months to March 2004. In contrast the UK ILO figures show a reduction to 4.7% – the lowest rate since monthly records began two decades ago.
- Unemployment claimant count rates remained at historically low levels in April 2004. These rates have been relatively stable over the past year.



Latest release: 12/05/04

Next release: 16/06/04

Source: ONS

World City, World Knowledge:

The economic contribution of London's higher education sector

Leticia Veruete-McKay
Economist

There are over 340,000 students in London, studying at 41 higher education institutions. A new GLA Economics report examines how higher education contributes to the London and UK economies. It also estimates the value of investment in higher education in terms of the human capital it generates.

Key findings

- London's higher education sector generated nearly £9 billion for the UK economy in 2001/02.
- The sector created between 66,700 and 75,500 full-time equivalent jobs in London, or nearly 2 per cent of London's jobs.
- The total economic gain from the higher earnings of London graduates is almost £12 billion over their working lives.

Higher education in London

There are 41 higher education institutions in London, with over 340,000 students and some of the largest undergraduate universities in the UK. They specialise in a wide range of areas, from business to dance and drama.

London's higher education sector adds significant value to London in terms of economic activity and employment. The London higher education sector generated £3.8-£4.6 billion of output in 2001/02, equivalent to 2.5 to 3 per cent of London's output. The sector created between 66,700 and 75,500 full-time equivalent jobs in London, which represents 1.6 to 1.8 per cent of London's employment.

The UK-wide impact

Higher education institutions in London, and overseas students and visitors to these institutions, have an impact on the UK that extends well beyond the capital. In 2001/02, London's higher education sector generated nearly £9 billion for the UK economy. This included £746 million in export earnings, such as overseas income and the money spent by overseas students and visitors to London institutions. In terms of employment, London's higher education sector generated 122,000 full-time equivalent jobs across the UK.

The benefits of human capital

Higher education provides students with skills that have a long-term impact on productivity and consequently output and employment. Investment in people (gaining knowledge and skills) creates human capital, which leads to higher productivity and higher earnings in the economy.

The full report is on the GLA Economics internet pages:

www.london.gov.uk/mayor/economic_unit

For a printed copy, please email glaeconomics@london.gov.uk or telephone 020 7983 4922

This adds value to London's economy and to the UK as a whole. The total economic gain from the higher earnings of London graduates, over their working lives, is around £11.7 billion. Around £7.2 billion of this accrues to London. This is a conservative estimate based on available information and some assumptions, and looks only at gains to individuals who have undertaken higher education studies. It excludes the wider social benefits of higher education, and does not take account of the value of the research and knowledge generated by London higher education institutions.

Estimating the direct economic impact on individuals alone does not capture the full benefits of investment in human capital. There is evidence that higher education provides substantial wider benefits to society. Many economists argue that higher education can help to combat unemployment and promote social inclusion and cohesion.

The Organisation for Economic Cooperation and Development (OECD) estimated that the social rates of return on education in the UK were 14 per cent for women and 15 per cent for men in 1999/2000. These returns are large and higher than the return on a risk-free investment. The UK has the highest social returns from higher education compared with other OECD countries. The relatively high social returns in the UK from higher education appear to be a consequence of shorter courses in Britain's universities and a high completion rate compared to many other OECD countries. Investment in London's higher education sector has clear benefits beyond those gained by individuals who receive it.

Access and participation

It is important that all groups in society have the opportunity to benefit from higher education. The participation rates of young Londoners in higher education are higher than the UK as whole. London participation rates also rose by twice as much as the UK between 1998/99 and 2000/01, but have flattened off since then (Table 1). However, this rapid expansion has generally benefited

Table 1. Age Participation Index, London and the UK

	1998/99	1999/2000	2000/01	Change from 1998/99 to 2000/01
	%	%	%	percentage points
London total	33.1	36.1	38.0	4.9
UK total	31.0	32.0	33.0	2.0

Source: London figures – KPMG calculations from the Higher Education Statistical Agency's Student Record, various years. UK figures – Department of Education and Skills

Table 2. Higher education participation by social class, UK

	1991/92	1998/99	Change
	%	%	%
Professional	55	72	17
Intermediate	36	45	9
Skilled non-manual	22	29	7
Skilled manual	11	18	7
Partly manual	12	17	5
Unskilled	6	13	7
All social classes	23	31	8

Source: H Glennester, *United Kingdom Education 1997-2001*, CASE Paper 50, Centre for the Analysis of Social Exclusion, 2001, Table 1

individuals from the middle and upper classes more than those from the less affluent classes (Table 2). Furthermore, between 1998/99 and 2001/02 higher education participation rates in London's less prosperous boroughs have also not caught up with the more prosperous boroughs.

The future

London higher education institutions need to expand in order to meet demand. They are successful in attracting research income, but cost pressures and the need to continue investing in infrastructure and facilities are intense.

London is a world centre of research – it attracts nearly 25 per cent of all higher education research income in the UK. Not surprisingly, London higher education institutions receive almost double the amount of research income per student compared to institutions outside London. Also, as London is a research-intensive region, 8 per cent of higher education students are postgraduates from overseas compared with 6 per cent in the UK as a whole.

The financial position of London and UK higher education institutions deteriorated between 1997/98 and 2001/02, although London's institutions face more financial pressures than institutions outside the capital. They incurred a modest financial deficit in the 2001/02 academic year, and growth in expenditure outpaced growth in income between 1997/98 and 2001/02.

More investment is urgently required if these important institutions are to meet the challenges of providing the skills that London needs.

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

CBI	Confederation of British Industry
EBS	Experian Business Strategies
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
MPC	Monetary Policy Committee
ODPM	Office of the Deputy Prime Minister
OECD	Organisation for Economic Cooperation and Development
ONS	Office of National Statistics
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
RTS	Regional Trends Survey

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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 GLA group. The unit was set up in May 2002 and is funded by the Greater London Authority, Transport for London and the London Development Agency.