

London's Economy Today



Issue 17 | January 2004

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A prosperous new year?

by Christopher Lewis

Over the Christmas period and into the New Year, the major economic story has been the rapid depreciation of the US dollar against a whole range of currencies including Sterling. So far this necessary adjustment has not created economic turmoil, and does not seem likely to.

However, the IMF warned that 'the possible global risks of a disorderly exchange rate adjustment, especially to financial markets, cannot be ignored.' Closer to home the main news has been to do with larger than expected falls in UK unemployment. Despite these national falls London's unemployment rate remained stable at 3.6% in December on the claimant count measure but increased to 7.1% in the three months to November on the International Labour Organisation (ILO) measure. This month's feature looks at trends in employee jobs in London, a significant part of the labour market.

The international economic environment: the US dollar adjustment

On 13 January the Federal Reserve reported in its 'Beige Book' (which surveys regional US economic and financial conditions) that the US economy continued to strengthen with no signs of mounting inflationary pressure. The survey pointed to a modest improvement in the labour market and strong retail sales in the run up to Christmas. The report coincided with an unexpected narrowing of the US trade deficit in November from \$41.6 billion to \$38 billion. Despite the narrowing,

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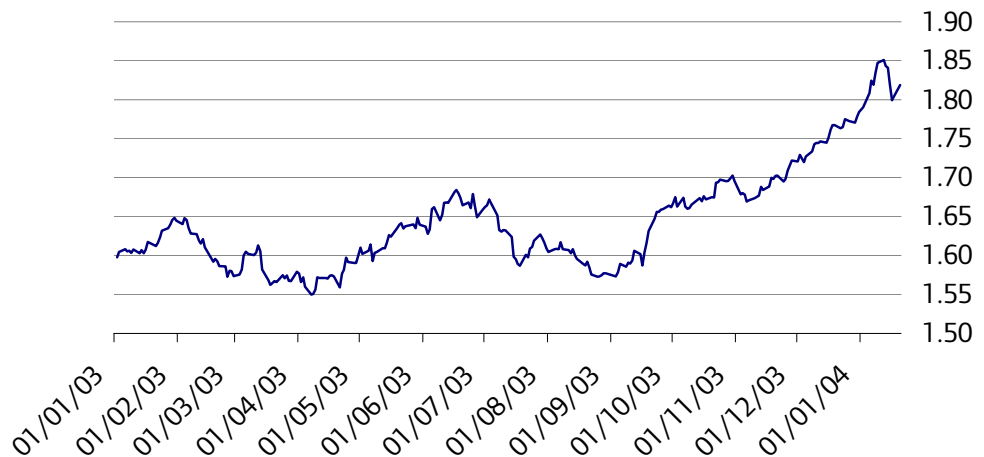
- **Seminar on London's leisure economy – register now:** Monday 16 February 2004, 4pm to 5pm, at City Hall. The seminar will cover our latest report, *Spending Time: London's Leisure Economy*, and recent changes to leisure jobs in London based on the ABI's new employment figures. To attend email glaeconomics@london.gov.uk or phone Lucinda Cawood on 020 7983 4922.
- **The Case for London:** GLA Economics has commissioned four technical reports to support the GLA's submission to HM Treasury's Spending Review 2004. Topics include: transport accessibility; cost of living comparisons between London, Edinburgh and Manchester; London and direct foreign inward investment; and the London labour market. The reports are online at: www.london.gov.uk/mayor/economic_unit/case_for_london

the trade deficit has already set a new yearly record. For the 11 months to November 2003, the deficit totalled \$446.8 billion, passing the previous record of \$428 billion in 2002.

The size of the US trade and fiscal deficits is the fundamental reason for the recent depreciation of the US dollar against a whole range of currencies. Between 1 December 2003 and 20 January 2004 the US dollar depreciated around 5.5% against Sterling (Chart 1). An 11-year high for Sterling of £1=\$1.85 was reached on 12 January. Against the Euro the US dollar has fallen around 15% in four months and some 40% over the last two years.

**Chart 1. US dollar/
UK pound exchange rate**

*Source: Federal Reserve Bank
of New York*



The major concern about this necessary adjustment to the value of the US dollar is that it will stifle net export growth from the Eurozone area and weaken the worldwide recovery. As long as the adjustment is gradual then the risks are low, but any collapse in the US dollar would bring about the possibility of a stock market crash in the US caused by foreign investors selling their US assets. This would obviously have a negative knock-on effect to the whole world economy. Fortunately, this is still only a remote possibility but it has led the IMF to warn that 'episodes of rapid dollar adjustments failed to inflict significant damage in the past, but with US net external debt at record levels, an abrupt weakening of investor sentiments vis-à-vis the dollar could possibly lead to adverse consequences both domestically and abroad.'

Lower UK unemployment and general economic improvement

The number of unemployment benefit claimants fell 8,300 in December to 908,200. The unemployment rate remained unchanged at 3%, a 28-year low. On the ILO measure unemployment fell by 29,000 to 1.46 million in the three months to November. This brought the unemployment rate down from 5.0% to 4.9%, the lowest since May 2001. The strength in the UK labour market is due to higher self-employment and public sector employment. Despite the fall in unemployment, growth in average earnings fell from 3.6% in October to 3.5% in November. Benign wage inflation will be a factor in allowing the Bank of England's Monetary Policy Committee (MPC) to keep interest rates at historically low levels for a longer period of time than would have otherwise been the case. However, in what is expected to be a close decision, most economists still predict that the MPC will raise interest rates by 0.25% to 4% in February.

UK financial companies enjoyed their fastest profits growth for more than three years in the last quarter of 2003 (CBI/PWC survey). The news for the retail sector and manufacturing seems to be slightly more mixed. Christmas

shopping seems to have come later than usual with a surge for electrical goods and supermarket sales, while clothing stores did relatively badly. Manufacturing output fell at its fastest rate for more than a year in November (at -0.7%), but in December the Chartered Institute of Purchasing and Supply's manufacturing index rose for the tenth month in a row and its employment measure indicated the fastest pace of growth in manufacturing hiring since 1997.

London's recovery continues

London's economy is still improving. Growth in bus passengers remains extremely strong and the number of passengers on the tube also increased slightly in the 9 November to 6 December period. The annual growth in combined tube and bus use continued to rise, suggesting economic expansion in London. Consistent with this, the Purchasing Managers' Index (PMI) measure of business activity in London remained above 60 in December (50 indicates stable activity). The PMI also reported that employment in London's businesses continued to expand, and at a faster rate in December than in November 2003.

London's tourism sector also appeared to continue its recovery. In the three months to November, the number of overseas visitors to the UK increased by 4% compared with the previous three months. Over the same period, spending by overseas visitors was up 3%. The British Incoming Tour Operators Association reported an increase in arrivals of 2.9% in November 2003 compared to a year ago, with forward bookings up 4.7%.

Future prospects look good

As the US and UK economies strengthen there is still concern about the slowness of the Eurozone's recovery. Export growth has led the Eurozone recovery so far, but there are fears that the depreciation of the US dollar will damage export competitiveness and leave European firms dependent on domestic demand, which is still weak. The weakness of domestic demand in the Eurozone will not be helped by the European Commission's decision to launch legal action to uphold the Eurozone's Stability and Growth Pact. If successful, this will cause France and Germany to make deep spending cuts.

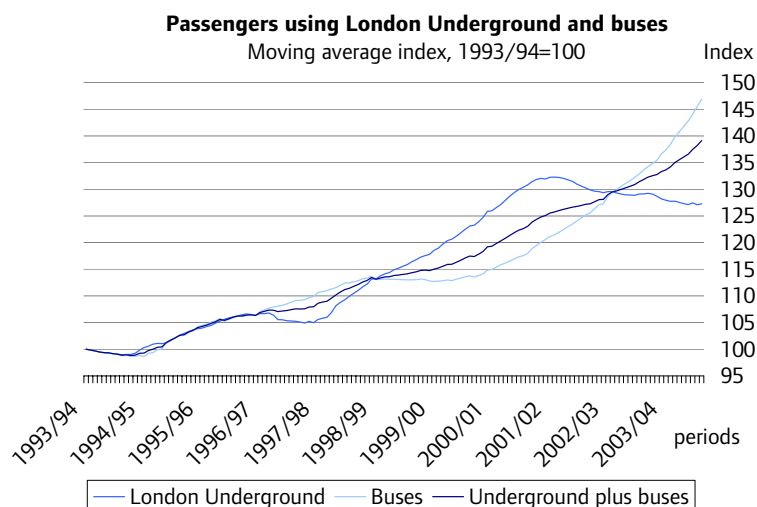
The UK economy, however, is relatively strong by comparison and London seems to be experiencing an upturn. In its annual assessment of the UK economy, the IMF predicted it would grow 3% in 2004 and said that 'in the face of global shocks over the last few years, the performance of the UK economy, supported by stimulative macroeconomic policies, has been enviable.' However, the IMF warned that the Government might break its fiscal rules, and recommended a moderation in the growth of Government spending alongside a gradual but early tightening of monetary policy to achieve a soft landing in consumption and the housing market.

Tube passenger numbers stabilise

- The number of tube passengers in period 9 (9 November to 6 December) remained relatively stable. The index increased by 0.1% from period 8 and TfL believes this may be due to the introduction of the Oyster card.
- Bus use increased again by 1.0%.
- The aggregate passenger index (tube and buses) rose by 0.7%. This is the strongest increase since Easter 2002 and is consistent with a recovery in London's economy.

Latest release: 05/01/04

Next release: February 2004



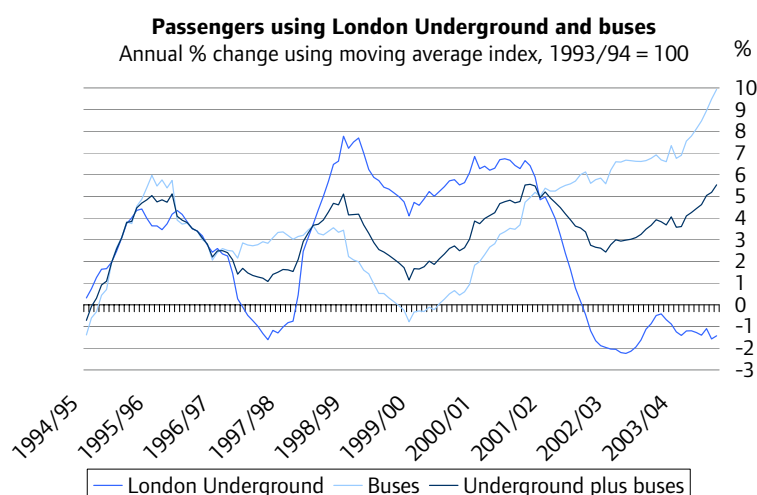
Source: Transport for London

Annual growth in public transport use increases

- More people used public transport in period 9 this year compared to last year.
- Annual growth in the aggregated index rose by 5.5% in period 9 compared to 5.2% in period 8.
- The rapid growth in bus use since April 2003 has accelerated even further.

Latest release: 05/01/04

Next release: February 2004



Source: Transport for London

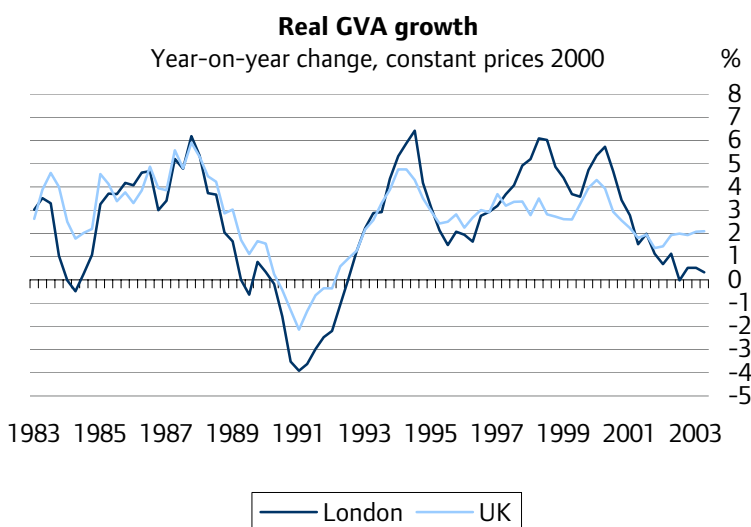
UK growth is revised up

- The UK economy shows evidence of a continued recovery in Q3 2003. GDP growth was revised up to 0.8% compared to 0.6% in Q2.
- Annual growth in UK GDP was also revised up to 2.1% in Q3.
- The most recent figures for London's economy also show moderate but positive annual growth.

Note: No changes to London GVA since last LET

Latest release: 23/12/03

Next release: 23/01/04



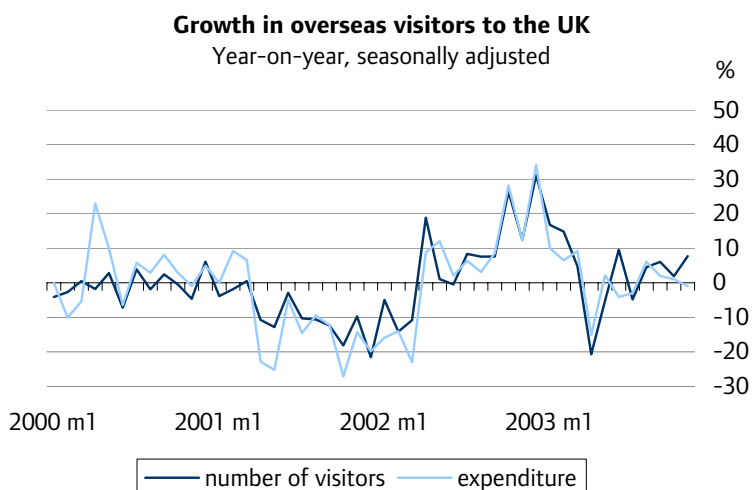
Source: ONS and EBS

Overseas visitor numbers rise

- UK tourism activity showed signs of a strong recovery in November. The number of overseas visitors increased by 4.2% – the strongest monthly increase since August 2003.
- However, overseas tourists are spending slightly less than the same time last year. This could be explained by fewer high-spending North American visitors coming to the UK.

Latest release: 09/01/04

Next release: 06/02/04



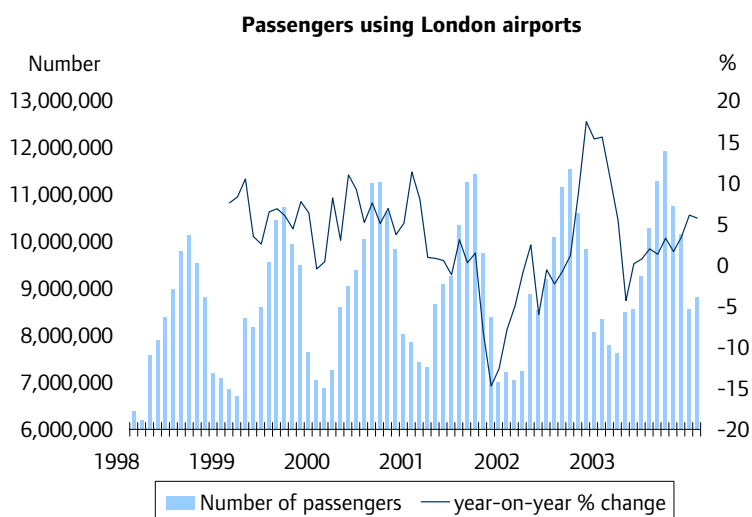
Source: ONS

Air traffic to London recovers

- Air traffic activity in London increased slightly in December, having fallen from a peak in August 2003. The number of passengers using London airports was 5.6% higher than in December 2002.
- Anecdotal evidence suggests these results reflect strong traffic on European routes and long-haul destinations other than the US. This is consistent with a rise in Western European tourists and a decline in North American visitors to the UK.

Latest release: 15/01/04

Next release: February 2004



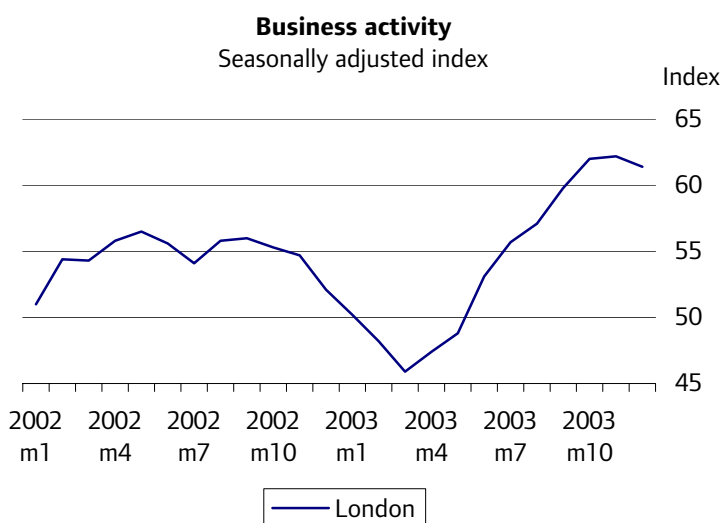
Source: Civil Aviation Authority

Business activity still strong

- The latest Purchasing Managers' Index (PMI) business survey provides evidence of a sustained recovery in London's economy.
- The London index fell to 61.4 in December from 62.2 in November. As 50 indicates stability, the December survey shows a continued strong expansion in business activity.

Latest release: 19/01/04

Next release: February 2004



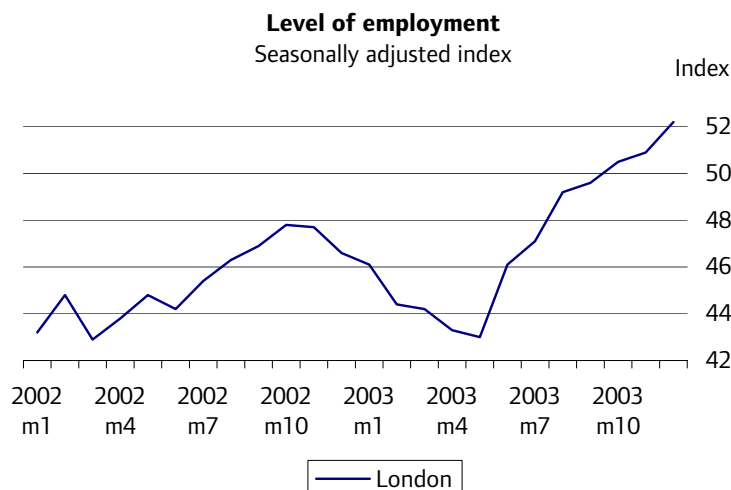
Note: 50 indicates no change on previous month

Source: Royal Bank of Scotland /London PMI

Employment keeps expanding

- The PMI survey indicates that the positive economic outlook has encouraged London companies to employ more people.
- This is the third consecutive month that the PMI survey reported an expansion in employment. The index rose 1.3 points to 52.2 in December, indicating the expansion in employment accelerated.

Latest release: 19/01/04
Next release: February 2004

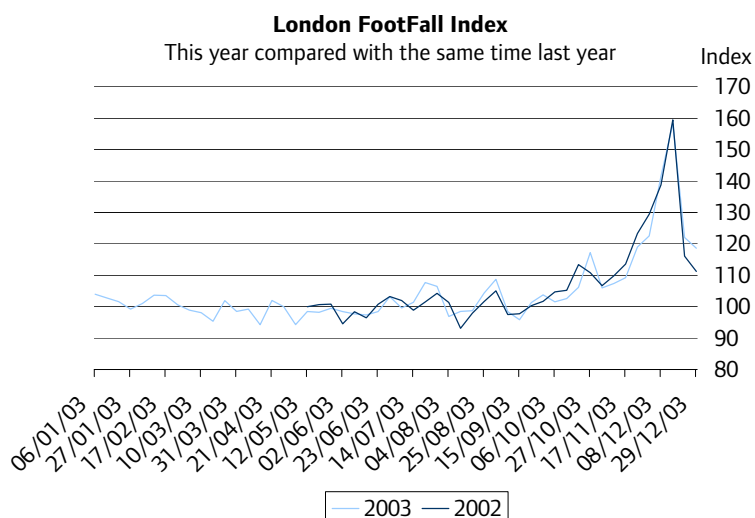


Note: 50 indicates no change on previous month
Source: Royal Bank of Scotland /London PMI

Last minute pre-Christmas FootFall is higher than last year

- Annual comparisons of the FootFall Index show the numbers of shoppers in London are above trend.
- The number of potential shoppers in London during December remained above figures for December 2002.
- This year there seems to have been a later pre-Christmas shopping rush in London, which may be due to earlier price discounting.

Latest release: 29/12/2003
Next release: every week

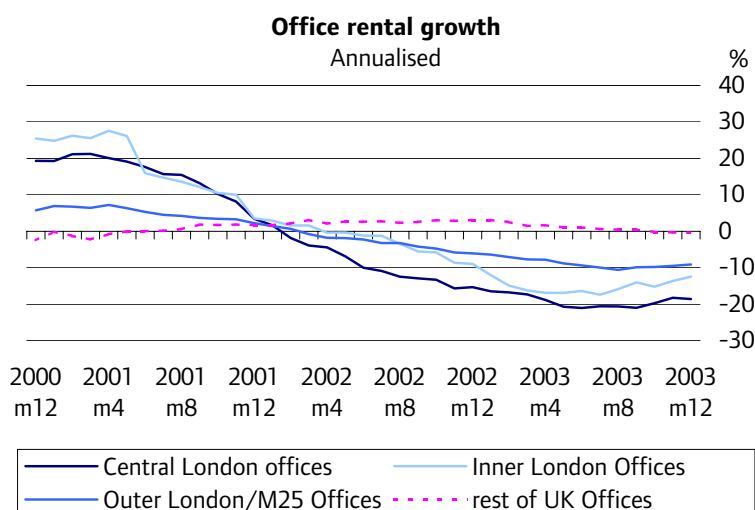


Source: FootFall Limited

London office rents still falling

- London office rentals kept falling in December, with rental values in Central London offices down by 18.5% compared with the previous year.
- Inner and Outer London saw some small initial signs of recovery in office rental growth at the end of last year. Annualised growth rates have been negative since December 2001.
- Average office rentals were negative across the rest of the UK, with annualised growth of -0.4%.

Latest release: January 2004
Next release: February 2004



Source: CB Richard Ellis

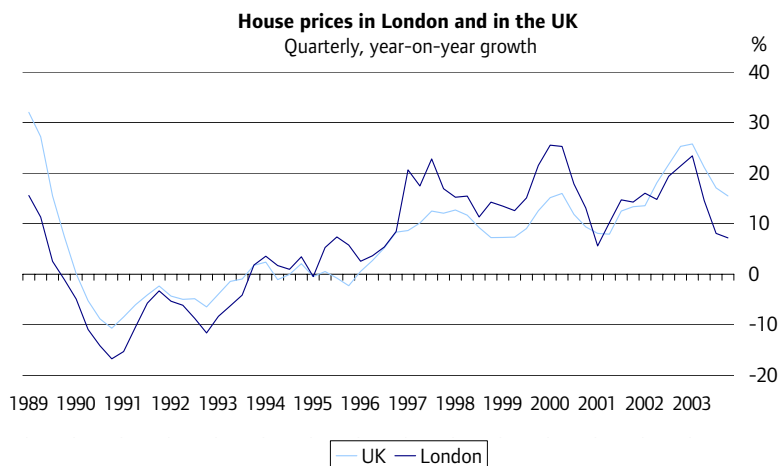
London and UK house prices

- The UK housing market remains buoyant, but there were signs of cooling down in Q4 2003. Annual growth in the Nationwide UK house price index was 15.5% compared to 17.1% in Q3.
- Regional disparities persisted in Q4. Nationwide noted that price growth in the North outstripped the rest of the UK. Annual house prices are growing much faster across the UK than in London. London's house price growth fell to 7.2% in Q4 from 8.1% in Q3.

Latest release: January 2004

Next release: April 2004

Source: Nationwide



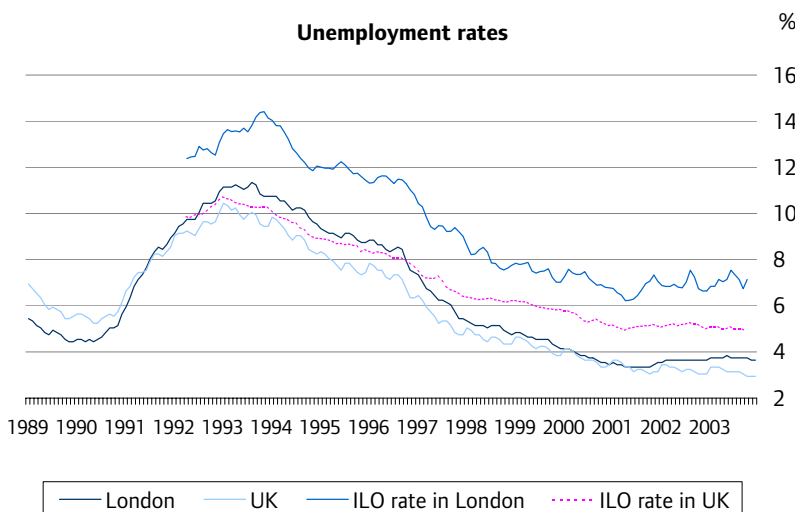
Mixed picture for London's unemployment rates

- ILO unemployment for London was 7.1% in September–November, higher than the 6.7% in August–October but lower than the 7.5% in May–July. In contrast, the UK ILO unemployment rate fell 0.1% to 4.9% in September–November.
- The London and UK claimant count rates remained stable in December at 3.6% and 3.0% respectively. London's claimant count rate is 0.1% lower than in December 2002.

Latest release: 14/01/03

Next release: 11/02/04

Source: ONS



London jobs

- Total workforce employment in London rose by 77,000 in the year to September 2003, reaching 4.555 million.
- This increase has been driven by a rapid growth in the number of self-employed jobs.

Note: Civilian workforce jobs include employees, self-employed and government supported trainees jobs.

Latest release: 14/01/04

Next release: 22/04/04



Source: ONS

London employee jobs – the latest trends

by Damian Walne

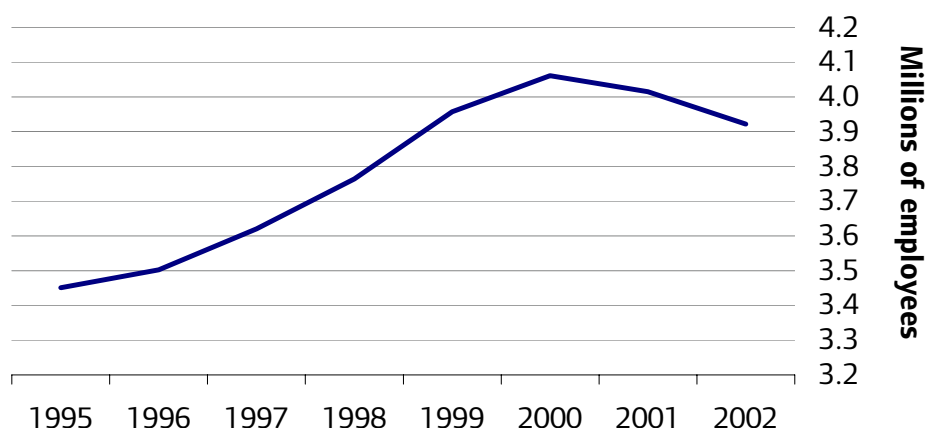
- New ONS employment figures show that London had 3.92 million employee jobs in 2002, a fall of 139,000, 3.5%, from 2000.
- The largest fall was in business services, alongside a sustained loss of jobs in manufacturing.
- The City of London had the sharpest decline in jobs but this largely occurred in 2001 with some recovery in 2002.
- London is the only British region to have lost jobs over 2000 to 2002 although this followed several years in which London had much higher jobs growth.

The Annual Business Inquiry (ABI) from the Office for National Statistics (ONS) provides the principal measure of employee jobs¹ by place of work. The latest ABI was released in December 2003 and provides a picture of employment for December 2002.

In December 2002, London had 3.92 million employee jobs. This reflects 93,500 jobs lost in London over 2001/02, 2.3% of total jobs. This follows a fall of 46,000 jobs (1.1%) over 2000/01. Over 2000/02, London lost over 139,000 jobs, 3.5% of the 2000 total.

Chart 1. Total employee jobs (London, year end)

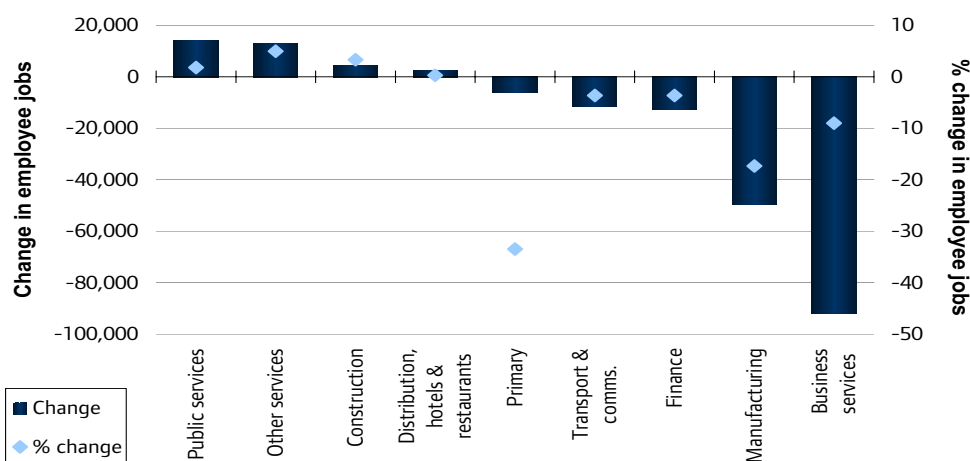
Source: ABI



The changes over 2000 to 2002 indicate developments in the sectoral composition of London's employment.

Chart 2. Change in sector employment (London, 2000 to 2002)

Source: ABI



¹ This does not include self-employment.

The largest job losses were concentrated in the following sectors:

- Business Services: reduced by 92,000 jobs, a decline of 9%.
- Manufacturing: continued to contract with a reduction of over 50,000 jobs, down almost 17%.
- Finance: lost over 12,500 jobs, a fall of 4%.

These job losses have been offset partially by increasing employment in:

- Public services: grew by 13,500 jobs (5%).
- Other services: increased by 13,000 jobs (5%).

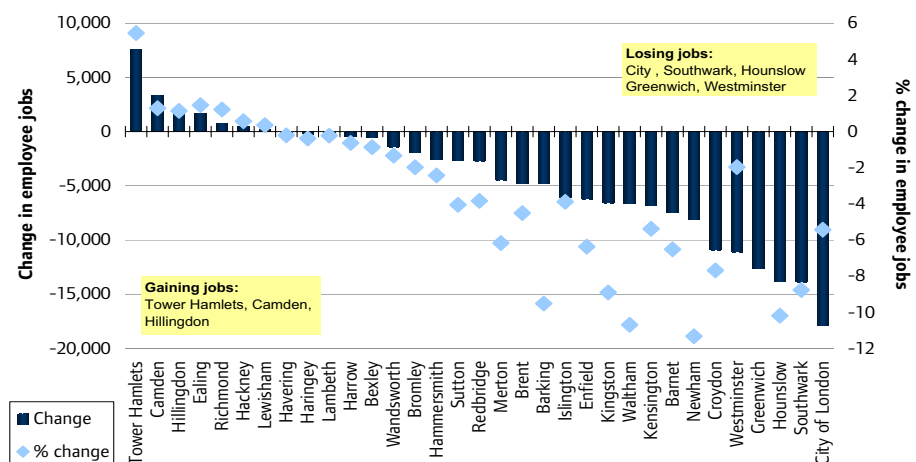
Twenty-six of London's 33 boroughs had decreasing employment over 2000 to 2002. The largest losses were in the City of London, down almost 18,000 jobs (5.4%). These losses in the City occurred in 2001, while 2002 marked a recovery in the City's employment prospects.

London boroughs with significant downturns in employee jobs over 2000 to 2002 include:

- Southwark lost some 14,000 jobs (9%).
- Hounslow declined by almost 14,000 jobs (10%).
- Greenwich experienced a decline of almost 13,000 jobs (17%).
- Westminster saw employment fall by 11,000 (2%).

Chart 3. Employment change by borough (2000 to 2002)

Source: ABI



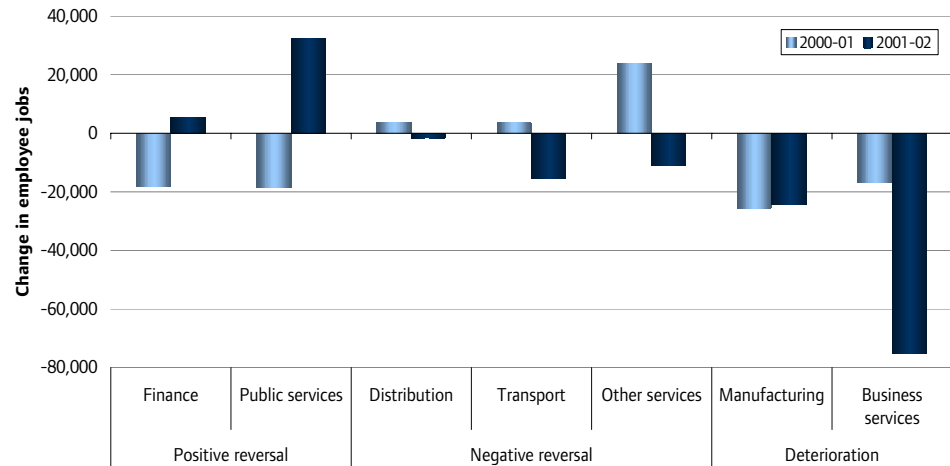
Seven boroughs increased employment over 2000 to 2002. The biggest gain was in Tower Hamlets, up by 7,500 jobs, or over 5%, primarily through the expansion of Canary Wharf in 2001. Other boroughs to record increases in employment include Camden, Hillingdon, Ealing and Richmond.

In bringing together the sector analysis of employment and the geographical analysis of employment in London, some key changes in employment can be identified. In business services, employment declined in almost all boroughs except Tower Hamlets. The most significant falls were in:

- Greenwich, which lost 9,000 jobs, mostly in 'labour recruitment' agency work in 2001, possibly due to the completion of the Millennium celebrations.
- Westminster, which lost 13,000 jobs, mainly in accounting, law, advertising and 'labour recruitment'.
- Hounslow, which lost 13,000 jobs, mostly data processing and industrial cleaning.

Chart 4. Differences between 2000-01 and 2001-02

Source: ABI

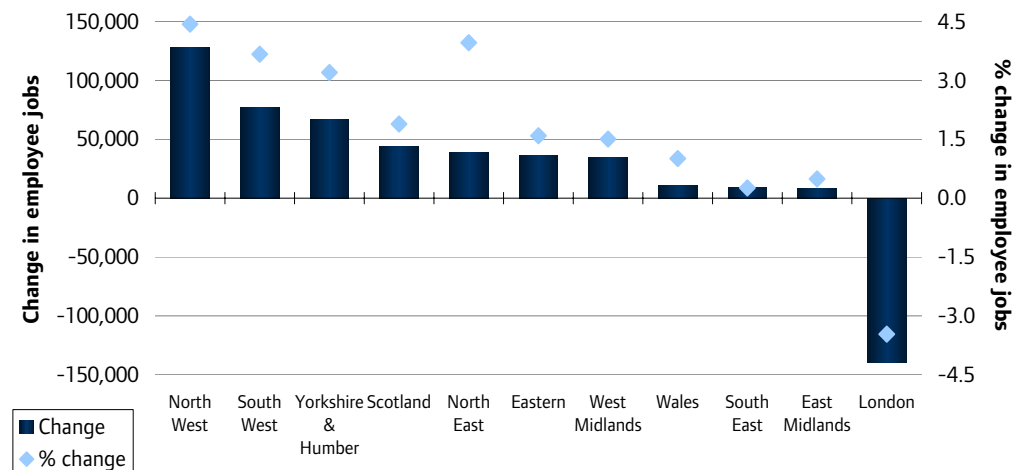


Although employment in London has declined for two consecutive years, the characteristics of change in 2001 were very different to those of 2002. Most notable is the recovery in finance, which reversed from a sharp fall in 2001 to an increase in 2002. Employment in public services also reversed from falling employment in 2001, possibly explained by the increasing level of government spending.

However, other sectors changed from gaining jobs in 2001 to losing jobs in 2002. Most notable in this is 'other services' which includes many leisure activities and creative industries. In business services the rate of decline in jobs accelerated over 2001 to 2002.

Chart 5. Employment changes in British regions (2000 to 2002)

Source: ABI

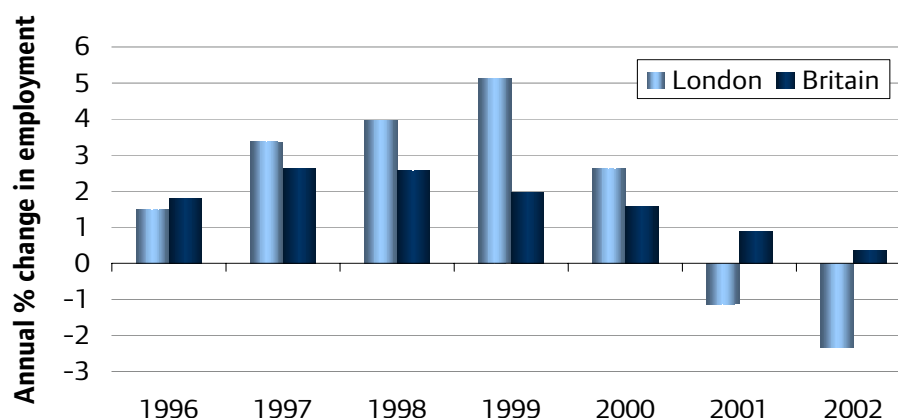


Over 2000 to 2002, London was the only region with falling employment. The surrounding regions of the South East and East of England continued to grow, although at slower rates than in previous years. The highest rates of employment growth were in the North West, followed by the North East, the South West and Yorkshire.

London's decline in contrast to other regions largely 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 was more affected by a slowdown in growth in those parts of the economy. Over 1997 to 2000, the rates of employment growth in London were considerably above the rest of Britain. It is only since 2001 that London has underperformed the rest of the country.

Chart 6. Recent trends in employment change

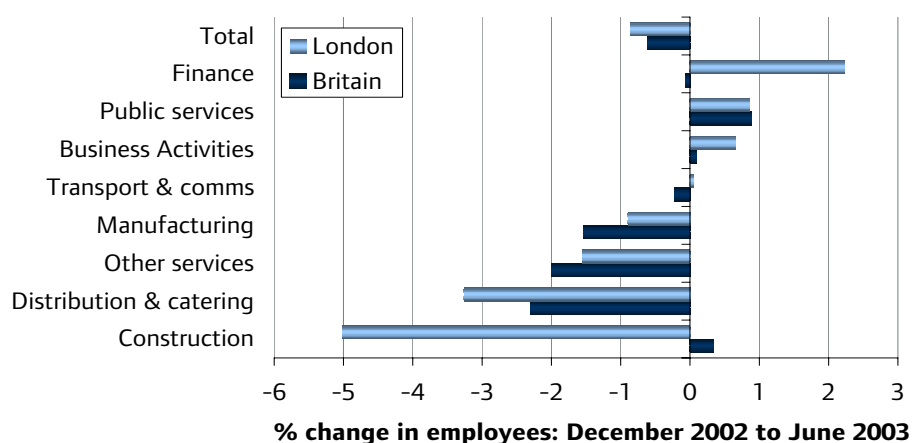
Source: ABI



The ABI only takes us to December 2002. To begin considering how employment evolved in 2003 means using the ONS's Short Term Employer Survey which shows London is continuing to lose jobs at a faster rate than the national average.

Chart 7. Employment trends into 2003

Source: Short-Term Employer Survey



In the first six months of 2003, in contrast to 2001 and 2002, sectors such as business services appeared to be enjoying employment growth. Similarly finance is experiencing its strongest employment growth for several years. This is encouraging for the employment growth figures expected for the second half of 2003 and for future employment in 2004.

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
BAA	British Airports Authority
BCC	British Chamber of Commerce
BITOA	British Incoming Tour Operators Association
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
EBS	Experian Business Strategies
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
IMF	International Monetary Fund
LET	London's Economy Today
MPC	Monetary Policy Committee, Bank of England
ONS	Office of National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers

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© Greater London Authority
January 2004

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 on the third Thursday in 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 and central government.

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The Mayor of London established GLA Economics in May 2002 to provide a firm statistical, factual and forecasting basis for policy decision-making by the Mayor of London and the GLA group.

GLA Economics is funded by

