GLAECONOMICS

# London's Economy Today

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London's Economy Today is published by email and on www.london.gov.uk on the third Tuesday 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.

# The upturn has arrived

**by Duncan Melville**

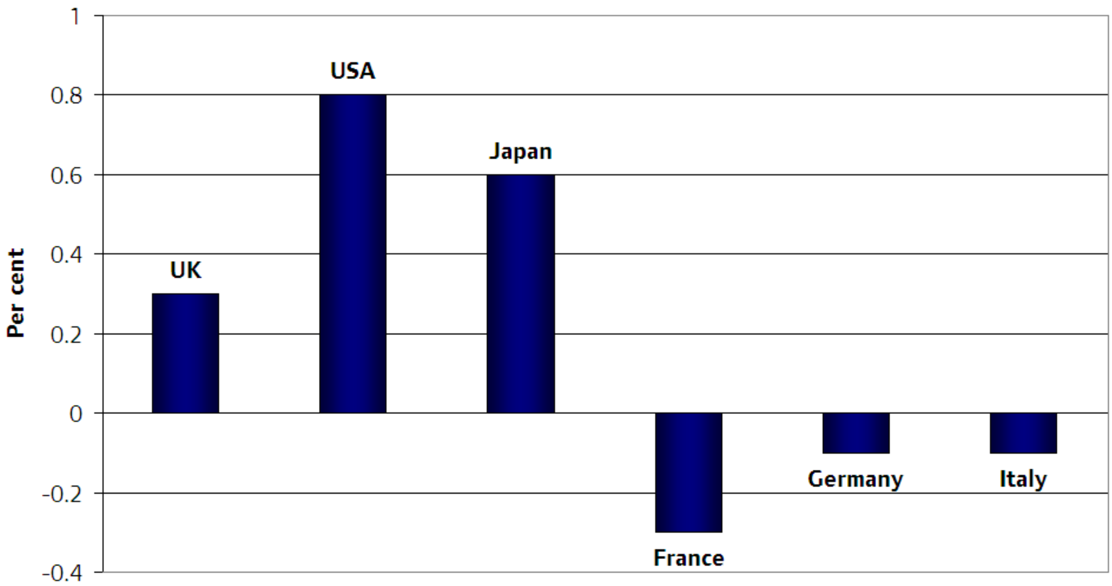
There are signs that the UK economy is starting to turn up. The Chartered Institute for Purchasing and Supply's indices for manufacturing and services in August recorded their highest levels since May 2002 and January 2001 respectively. Additionally, the National Institute of Economic and Social Research (NIESR) 's indicator of GDP suggested that UK output in the three months to August was up by 0.8 per cent on the previous three months. This NIESR measure has been an accurate predictor of actual output growth recently, so a significant pick up in quarterly growth for the third quarter of this year is likely.

### A mixed international outlook

Internationally, the picture is more mixed (Chart 1). The US economy expanded by 0.8 per cent in the second quarter of this year. Although recent figures for retail sales and industrial output were somewhat below what most economic commentators had been expecting, the US economy is generally expected to continue its recovery. However, weakness in continental Europe continues. France, Germany and Italy recorded negative quarterly GDP growth in the second quarter of this year. For Germany and Italy, this was the second consecutive quarter of negative growth.

Although some pick-up in the Euro Area is expected in the second half of this year, the current consensus among forecasters surveyed by *The Economist* is for growth of just 0.5 per cent in the Euro Area for 2003.

**Chart 1 Quarterly real output growth in 2003 quarter 2**




*Source: OECD*

### More encouraging signs for London

There are encouraging signs for the London economy. The important tourism sector appears to be stabilising after a difficult economic period. In the three months to July, the number of overseas visitors to the UK was up by 1.0 per cent on the previous three months. Similarly, the British Incoming Tour Operators Association reported a second month of stability with the number of visitor arrivals down by just 0.5 per cent in July compared to July 2002, the equivalent figure for June was an increase of 0.2 per cent. Finally, the British Airports Authority (BAA) reported that passenger numbers at their three London airports (Gatwick, Heathrow and Stansted) were up by 3.4 per cent in August compared to August 2002.

This improvement in tourism may be one reason behind the increase in the FootFall Index for London which measures the number of visitors to shopping centres. This index was up by 3.5 per cent for the week beginning 1 September on a year before and most of August also recorded annual increases.

The London housing market also appears to be becoming more buoyant. The new ODPM house price index showed London house prices up by 9.4 per cent in July compared to July 2002, up from the annual increases recorded for May and June. Similarly, the Royal Institution of Chartered Surveyors (RICS) reported that a net balance of just 8 per cent of surveyors reported a fall in London's house prices in August. Earlier in the year, the net balance of surveyors reporting falling house prices stood at over 50 per cent. RICS also reported a further rise in the net balance of surveyors expecting an increase in London house prices in the next three months in August. Further evidence that the London housing market has troughed is provided by Rightmove. Rightmove reports that the gap between the number of properties coming off the market and those coming on in London increased sharply in August. Past prices falls would appear to have encouraged buyers to enter the housing market.

However, business confidence in London can at best be described as mixed and at worse as unoptimistic, although this may be because the latest reading we have is for the second quarter of this year before the encouraging signs noted above began to materialise. In the second quarter, the London Chamber of Commerce and Industry's *London Monitor* survey reported that companies' confidence in their own future was actually lower than in the first quarter. In contrast, the same survey revealed that they had become more optimistic with regard to the prospects for the London economy as a whole over the next 12 months although the level of confidence was still low by historic standards.

In addition, the latest labour markets statistics for London are, overall, not positive. London's claimant unemployment rate stayed at 3.7 per cent in August, a level it has been at since March. However, the ILO unemployment rate (the generally preferred measure of unemployment) for May to July was 7.5 per cent, a whole percentage point above the rate recorded six months in November 2002 to January 2003. In addition, the employment rate (the proportion of the resident population of working age in employment) was at 69.7 per cent for May to July, down by 0.7 percentage points compared to the rate attained in November 2002 to January 2003. The labour market tends to lag developments in the wider economy, so this deterioration in employment and unemployment reflects past weakness in the London economy rather than heralding a future economic weakening.

**A continuing recovery, but with risks further out**

Overall looking forward the most recent signs for the London and UK economies are relatively optimistic. The gradual economic upswing seems set to continue. Further out, there may be trouble ahead. The US current account deficit already stands at around 5 per cent of GDP, and with unbalanced world growth with the US growing faster than the Euro area and Japan, this deficit is likely to get even larger. At some point the US dollar may come under significant downward pressure and this could lead to a messy resolution of the world's economic imbalances, with a period of weak economic growth.

## What's new this month:

**Working paper 4: Long run employment projections for London**

Alternative methodology and results

This working paper derives long run employment estimates for London through to 2041, based on projections of the population and the employment rate (the percentage of the population in employment).

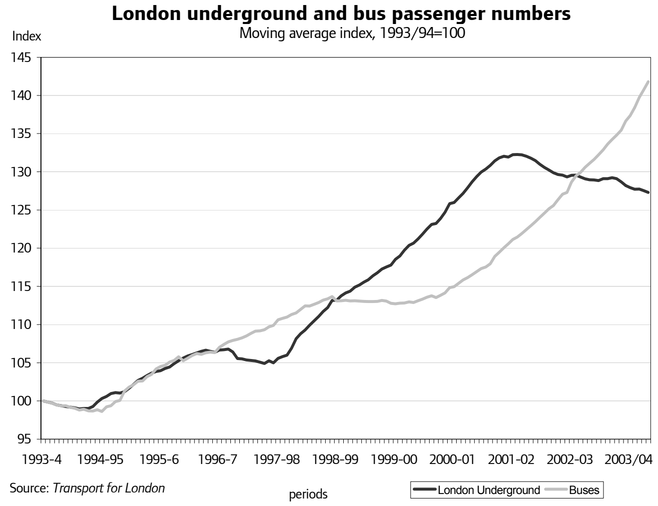
Working paper 4 will be available on the GLA Economics website on Monday 22 September 2003: www.london.gov.uk/mayor/economic_unit

# Economic indicators

## Tube and bus use – monthly figures

Source: Transport for London
Latest release: 16/09/03
Next release: October 2003

- Tube ridership, which measures the number of passengers on London Underground, is a reliable and frequent indicator of economic activity in London.
- Tube ridership declined for the second consecutive period, down 0.2 per cent in period 5 (20 July-16 August) from period 4.
- While this might suggest the London economy has slowed, at the same time bus usage has been increasing sharply.

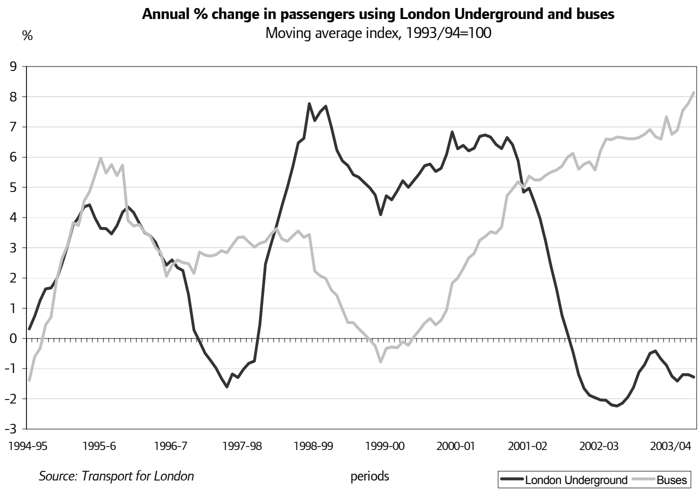


Source: *Transport for London*

## Tube and bus use – annual change

Source: Transport for London
Latest release: 16/09/03
Next release: October 2003

- The number of passengers using the Tube fell 1.3 per cent in period 5 from the previous year. The decline may be related to the slow recovery in Central line demand and improved bus services in central London.
- It is likely that some people previously using the Tube have switched to buses. The annual growth rate in the number of bus passengers continued to rise to 8.1 per cent in period 5 from 7.8 per cent in period 4.

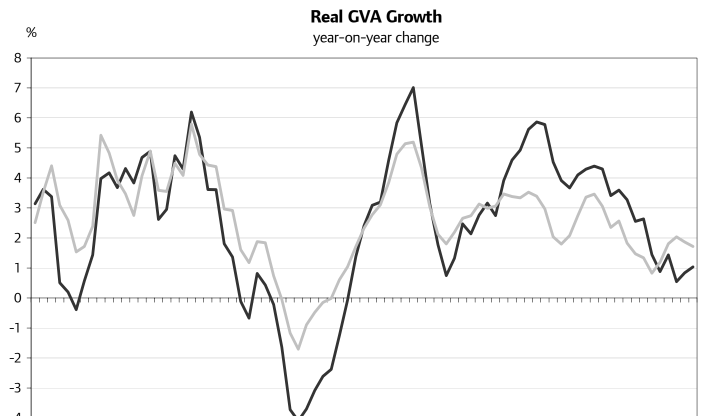


Source: *Transport for London*

## Economic activity

Source: EBS and ONS
Latest release: September 2003
Next release: October 2003

- EBS estimates for gross value added (GVA) indicate softer growth in the UK economy in the first half of 2003.
- Annual growth in London's output has picked up steadily since the end of 2002, although the London economy has grown less fast than the UK as a whole since mid-2002.
- Revised real GVA estimates reflect new ONS regional data. GVA in London has been revised upwards, almost doubling the annual growth rate in the second quarter of 2003.

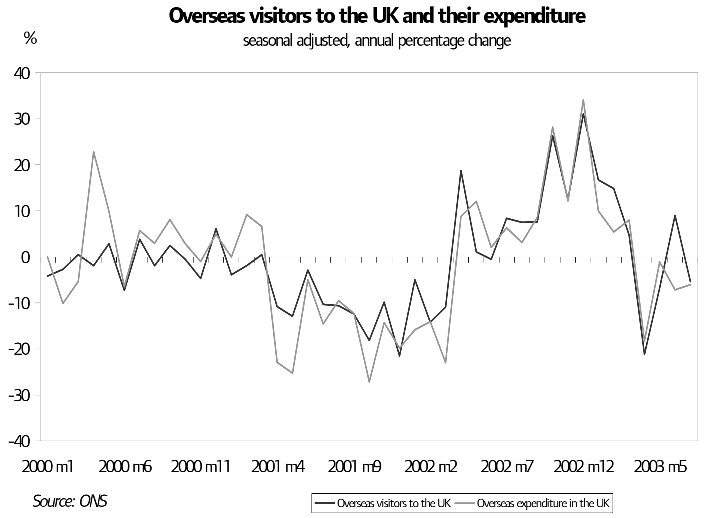


Source: *Experian Business Strategies*

## Overseas visitors

Source: ONS
Latest release: 5/09/03
Next release: 8/10/03

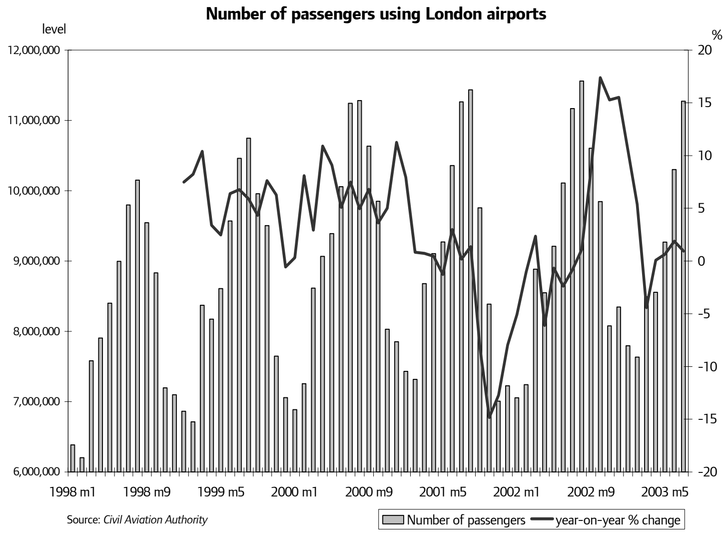
- UK tourism activity has in July not yet fully recovered from the dip in March (during the war in Iraq), despite the strong bounce back in the number of overseas visitors to the UK in June (not shown in the chart).
- The number of overseas visitors to the UK was down 5 per cent in July compared to 2002. Visitors from North America and other areas apart from Western Europe continued to increase in July.
- Overseas visitors spending improved slightly in July, increasing 3 per cent from June.




## More activity in London airports

Source: CAA
Latest release: 12/09/03
Next release: mid-October 03

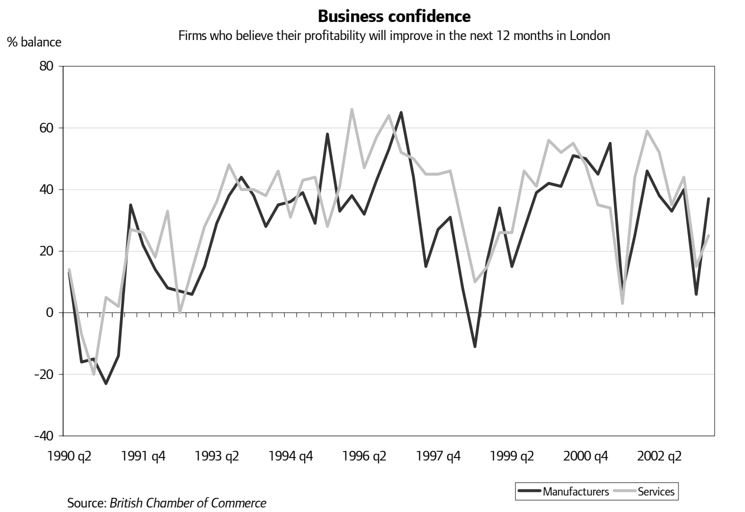
- Traffic through London airports continued to recover in July, continuing the trend seen since the end of the war in Iraq.
- The number of passengers using London airports in July increased almost 1 per cent from the previous year.
- According to the BAA, activity at Heathrow airport improved in August following the British Airway's strike in late July (not shown in the chart).




## Business confidence improves

Source: BCC and LCC
Latest release: August 2003
Next release: October 2003

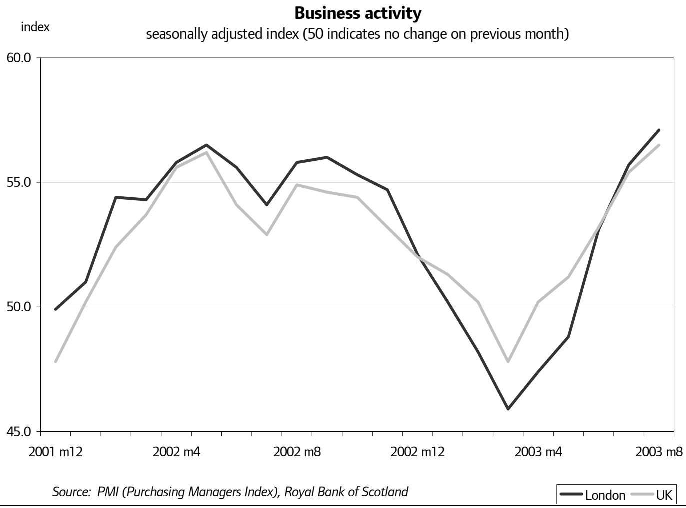
- Business confidence regarding profitability among London firms in both manufacturing and services improved in the second quarter, following the negative sentiment during the war in Iraq.
- For the first time since the third quarter of 2001, London manufacturers felt more optimistic about their profitability prospects than firms in the service sector.



## Business activity up in London

Source: PMI, Royal Bank of Scotland
Latest release: August 2003
Next release: October 2003

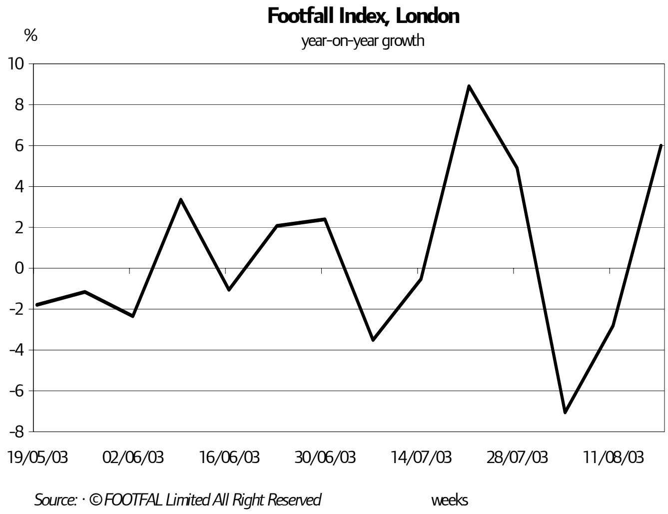
- In August, business activity in London and the UK continued to strengthen for the fifth successive month since the war in Iraq.
- London companies in particular have expanded their business activity in recent months.




## Potential London shoppers

Source: FootFall Limited
Latest release: mid-August 2003
Next release: third week September 2003

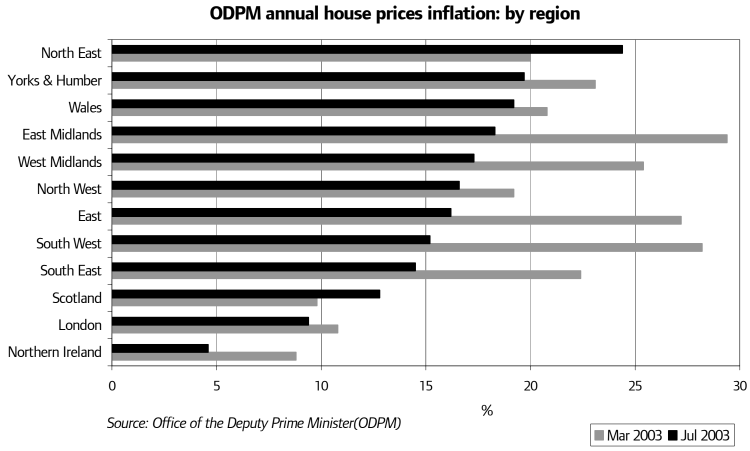
- The FootFall Index provides a good measure of potential shoppers in London. It measures the average number of individuals passing through shopping centres in London on a weekly basis.
- Moreover, because it is positive correlated with UK retail sales, the FootFall index can provide a good sense of consumer spending in London.
- Good weather may have deterred shoppers in the first half of August. However, there was a strong upsurge in potential shoppers in the third week of August 2003 compared to last year.




## New house price index: ODPM

Source: ONS
Latest release: 15/09/03
Next release: 13/10/03

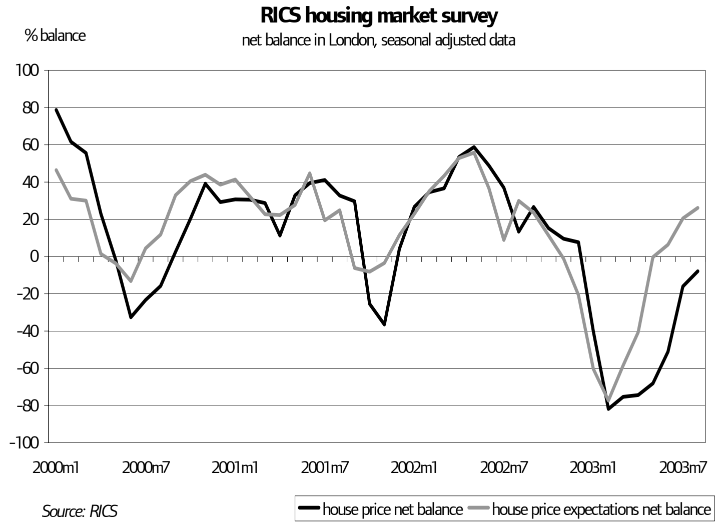
- The Office of the Deputy Prime Minister (ODPM) has produced a new measure of house prices by region, for the period since February 2002.
- Unlike the Nationwide and Halifax house price indices, the ODPM index is based on transactions at completion.
- London recorded the second lowest annual house price inflation after Northern Ireland among all the regions in July.



## House prices stabilise

Source: RICS
Latest release: 16/09/03
Next release: 16/10/03

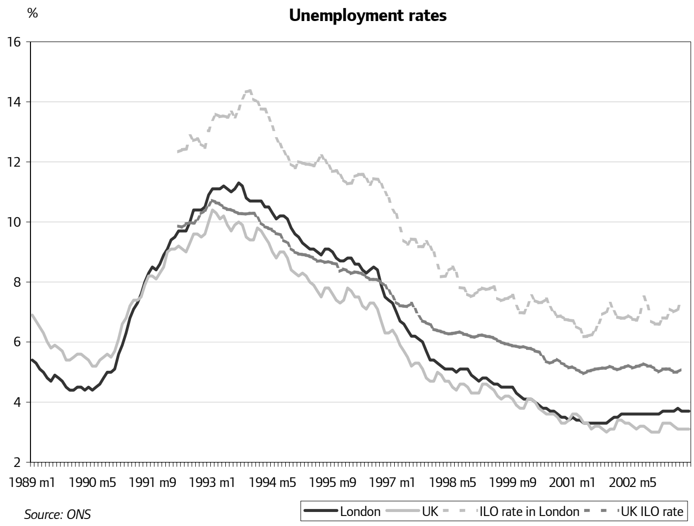
- London house prices showed greater stability in August. There has been a net balance of surveyors reporting price decreases since December 2002. However, this balance was a its lowest level for the past eight months to August.
- Surveyors are also more optimistic about the outlook in the London housing market in the next quarter. They expect house prices and sales activity to pick up in the coming months.




## A mixed picture for labour markets

Source: ONS
Latest release: 17/09/03
Next release: 15/10/03

- Latest labour market figures indicate a mixed picture. The UK and London claimant count rates (based on people claiming unemployment benefits) were unchanged in August at 3.1 and 3.7 per cent respectively.
- The ILO's UK unemployment rate (based on people out of work) was stable at 5 per cent in the three months to July 2003. However, the ILO unemployment rate in London edged up to 7.5 per cent in June from 7.1 per cent in March.




## Jobs in London

Source: ONS
Latest release: 17/09/03
Next release: 15/10/03

- London civilian workforce jobs measure jobs at the workplace rather than where they live. Therefore, this indicator provides information on total employment in the London economy, including commuters.
- London workforce employment rose by 29,000 in March 2003 from the previous year, reaching 4.51 million.
- However, total employment in London has not recovered fully to those levels seen during the peak in 2001.

# London's manufacturing today

**by Damian Walne**

- Manufacturing in London faces challenges from global competition and technological change.
- London's manufacturing had 260,000 employee jobs in 2001, representing about 8 per cent of the capital's economy.
- Manufacturing in London is different from elsewhere in Britain. It is highly concentrated in printing and publishing, and in professional and administrative jobs.
- Manufacturing employment and output is expected to continue to fall in London, although at a much slower rate than in previous decades.

The London Development Agency has established the London Production Industries Commission. Its role is to develop a strategy to sustain and enhance the competitiveness of manufacturing in London. A consultation document is being prepared which will be issued in late October. GLA Economics has assisted in providing a factual base of statistics and analysis for the Commission.

**The context for manufacturing**

The Government's Manufacturing Strategy states prosperity, 'depends on a successful and dynamic manufacturing sector,' which 'can have a strong future in Britain.'[1] The strategy stresses manufacturing is a fifth of the national economy, two-thirds of exports, employs a seventh of the workforce, and supports many well-paid jobs. Recognised in the strategy are long-term structural trends for the relative decline of manufacturing. As prosperity grows, consumers spend more on services such as leisure, healthcare and travel, the share of spending on consumable goods falls. The strategy highlights the twin forces of global competition and new technologies that are shaping the threats and opportunities for manufacturing in Britain.

Global competition has intensified. The liberalisation of international trade has seen developing countries, particularly East Asia (including China) become major producers of goods at much lower cost than advanced nations. The creation and expansion of the European single market has increased competition from less expensive nations in southern and eastern Europe. Costs of transport and communication have fallen. The consolidation of many of the world's major industrial businesses has allowed them to become more footloose in where they source production.

New and advancing technologies have transformed much of manufacturing. Increasing automation in all advanced economies has meant output can be produced with fewer workers. When productivity grows more rapidly in manufacturing than the whole economy, manufacturing declines as a share of employment.
The strategy also considers the downturn in world economic activity as affecting global manufacturing in recent years. However, a new study by the IPPR shows that the experience of manufacturing in Britain has not been in line with that of comparable advanced economies.[2] It has performed poorly by international standards through the late 1990s to today. Much of this negative experience is attributed to an unfavourable sterling exchange rate that weakens the position of British exports and increases the competitiveness of imports.

It is in the context of these long-term trends and more recent short-term experiences that London's manufacturing must compete. It is necessary to consider its current position, the past and recent performance, and how London's manufacturing is different from that of the rest of Britain.

**London's manufacturing**

In 2001, London had 260,000 manufacturing jobs, 6.5 per cent of London's 4 million employee jobs, and 7 per cent of all manufacturing jobs in Britain. In London, manufacturing employs less than a quarter of the number who work in business services, and a third of the number in retail and distribution.

New regional output figures from ONS for 2000 show London's manufacturing had an estimated output of £14.8 billion (current prices). It contributed 11 per cent to the capital's economy, and almost 10 per cent of the manufacturing output of Britain. London's output per employee in manufacturing is higher than it is nationally. Within London, it is a little less than output per employee in financial and business services.

London has experienced rapid decline in employment in manufacturing. In 1982, there were 630,000 employees. By 2001, 370,000 of these had been lost. The heaviest falls occurred between

[1] Department of Trade and Industry (2002), *The Government's Manufacturing Strategy*, www.dti.gov.uk/manufacturing/

[2] Institute for Public Policy Research (2003), *Manufacturing in the UK*, www.ippr.org/publications/

1982 and 1993 when London lost on average 6-7 per cent of its manufacturing jobs per year. The real value of London's manufacturing output over 1982 to 2001 remained relatively stable. As manufacturing employment contracted, it became more productive in the use of labour, more than doubling real output per employee between 1982 and 2001.

The pattern in London contrasts with the London economy as a whole. Over 1982 to 2001, both employment in, and the output of, London have increased, particularly since the mid 1990s. In 1982, 17 per cent of London's jobs and 14 per cent of London's output were in manufacturing. The comparable shares in 2001 are a fraction of those in 1982.

The pace of change in manufacturing in London has been more rapid than across Britain. Over 1982 to 2001, Britain lost 33 per cent of its manufacturing jobs – London lost 60 per cent. Over the same period, real manufacturing output in Britain grew by 30 per cent – in London it fell 5 per cent. The output per employee in manufacturing grew across Britain, but it grew faster in London.

The rapid rate of decline in London's manufacturing employment through the 1980s and early 1990s has not been sustained. The numbers of manufacturing jobs in London has continued to decline, but at a far more modest pace of less than 1 per cent of jobs each year over 1993 to 2000.

The most recent short-term data gives an indication of what has been happening over the past few years. Employment in manufacturing in London has shown more volatility than it has nationally. The whole of 1999 was a strong year for manufacturing in London with a strong recovery in jobs following a poor 1998, and contrasted with continued decline across Britain. However, since the middle of 2000, manufacturing employment in London has declined, with some 25,000 jobs, 7 per cent, lost through 2001, making this the largest decline since 1993. The job losses continued, but slowed, through 2002 and into 2003.

**How London's manufacturing is different**
London's manufacturing is very different from Britain as a whole, both in terms of the sectors that compose manufacturing and the occupations of its employees. It is less about the production of goods and more about management and administration and creative activities. Manufacturing in London is highly concentrated in one sector. In London, 90,000 jobs, over a third of manufacturing employment, are in publishing and printing, which also accounts for a third of London's manufacturing output. This sector is centred in London with over a quarter of all Britain's publishing and printing. The sector has performed consistently and has enjoyed moderate growth in recent years, especially in publishing and recorded media. It is atypical as a manufacturing sector and many employees are engaged in activities such as writing and journalism.

All London's other manufacturing sectors experienced long-term decline. Engineering, including the production of machinery and motor vehicles, was once the largest manufacturing sector in London, but by 2001 it employed a third of the number it did in 1982. Sectors such as textiles and traditional manufacturing in wood, metals, and minerals have diminished in their contribution. Even sectors perceived as high-tech, such as information technology and electronics, have experienced relative decline.

Manufacturing in London rests on a more highly skilled occupation base than across Britain. Higher skilled professional and technical occupations are 28 per cent of jobs in London's manufacturing, but 19 per cent for manufacturing in Britain. Managers, administrative and secretarial occupations in manufacturing are 34 per cent in London, and 25 per cent for Britain. Typical production jobs in skilled trades or as operatives of processes and machinery are 28 per cent of manufacturing jobs in London, but 46 per cent nationally.

This contrasting occupational structure again highlights how London is different. Few of London's jobs in manufacturing are performing functions understood as production. Most jobs are either in managerial, administrative or creative roles. This is partly a result of the dominance of printing and publishing. However, in traditional manufacturing, only around a fifth of jobs are in production, compared to almost half nationally. In ICT and electronics, a third of jobs in London are in administration and management; across Britain it is only a quarter.

This different occupational structure helps to explain the higher productivity in terms of output per employee, in London's manufacturing which is 30 per cent greater than manufacturing nationally, using the most recent ONS estimates. However, London's output per employee in manufacturing is potentially constrained by the sector structure. The most productive chemicals and pharmaceutical sector is relatively small in London, and ICT and electronics is less productive in London than it is nationally.

## Spotlight on manufacturing

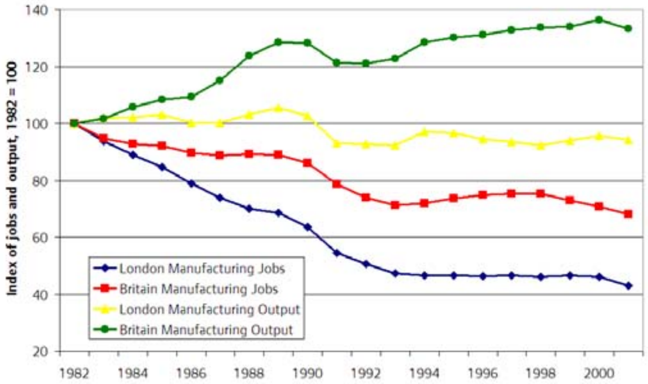
### Where London's manufacturing is

- London has 7 per cent of Britain's manufacturing jobs and 10 per cent of the manufacturing output.

*Source: ONS: Annual Business Inquiry, Regional Accounts*

| | London | Britain |
|---|---|---|
| **Employees (2001)** | 260,000 | 3,590,000 |
| **Output (2000)** | £14.8 billion | £149.9 billion |
| **Output per employee (2000)** | £51,600 | £39,600 |

### The decline of London's manufacturing

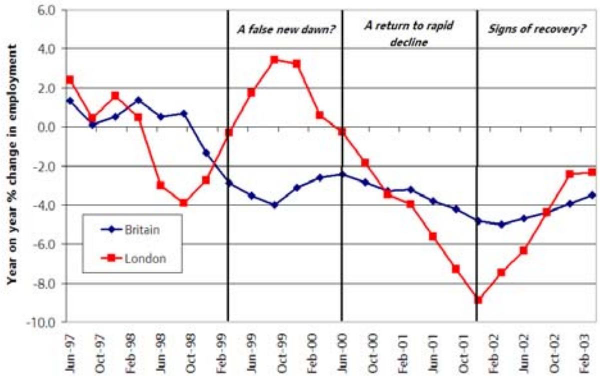



*Source: Experian Business Strategies*

- London lost manufacturing jobs faster than nationally. The job losses slowed in the 1990s.
- London's real manufacturing output has remained stable. In Britain, manufacturing output has grown .

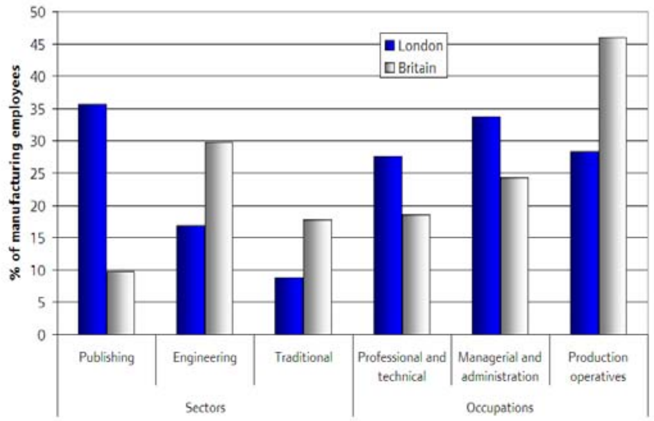
### The stabilisation of London's manufacturing?

- London's manufacturing showed signs of employment growth in the late 1990s.
- However, 2001 was the poorest for several years and job losses continued through 2002 and 2003.




*Source: ONS Short Term Employer Survey*

### How London's manufacturing is different




*Source: ONS Annual Business Inquiry, ONS Labour Force Survey*

- London's manufacturing is highly based in publishing and printing, and much less in traditional manufactures and engineering.
- London's jobs are highly based in professional, technical, and administrative roles – and much less in actual production.

**Where is London's manufacturing going?**
The economic statistics show relative and absolute decline of London's manufacturing in terms of employment and output. It is widely discussed that statistics may understate the importance of manufacturing, for example in how to classify services such as product design. Similarly statistics may overstate the decline when services formerly within manufacturing firms are now outsourced to service providers. This rests on the point that a portion of services is really manufacturing. However, the exact reverse is also true, and much manufacturing is actually services.

Therefore, the long-term and now much slower decline in manufacturing in London cannot be disputed. The projections of employment developed for the London Plan anticipate manufacturing employment in London to fall by 25 per cent between 2001 and 2016.[3] In the context of projected overall jobs growth of more than 14 per cent, manufacturing may represent fewer than 5 per cent of London's jobs within the next decade.

This is complemented by the conclusions of the IPPR study. Manufacturing employment will continue to shrink but this is compatible with growth in manufacturing output, rising prosperity, and employment growth in London as a whole, with the crucial caveat that this process should occur gradually. The correct objective is not for larger but for more successful manufacturing. The government strategy aspires to 'help build a vibrant, knowledge-intensive, high-skilled manufacturing base.'

A recent study by the Institute for Manufacturing questioned the assumption of a transition to high-value activities.[4] It explored the strength of the linkage between production with innovation and design. It found most manufacturers expect the outward trend in production to accelerate and high-value activities to leave Britain too. As other nations further develop production, they also build the base to move to high-value activities. It cannot be taken for granted that these activities will remain in Britain.

All of this poses questions for the role of manufacturing in London. Does manufacturing matter? Nationally, it is argued that manufacturing matters because of its contribution to the current account of the balance of payments, as a source of employment to less prosperous regions, for spending on research and development, and its significance in terms of the productivity of the economy. Do these arguments hold for London? Does manufacturing matter in a world city with exceptional strengths in business, financial and other services?

That London's manufacturing is so different already provides some clues as to the shape of its future, namely the strength of publishing, a sector closely attuned with media, and the high share of jobs that are either professional occupations, or management or secretarial. This points to a sector that is about creativity and a sector that is about administration and finance. Is this manufacturing at all?

[3] Mayor of London (2002), Planning for London's Growth: Statistical basis for the Mayor's Spatial Development Strategy, www.london.gov.uk/mayor/economic_unit/glaepublications.jsp

[4] Institute for Manufacturing, University of Cambridge (2003), Making the Most of Production, www.ifm.emg.cam.ac.uk

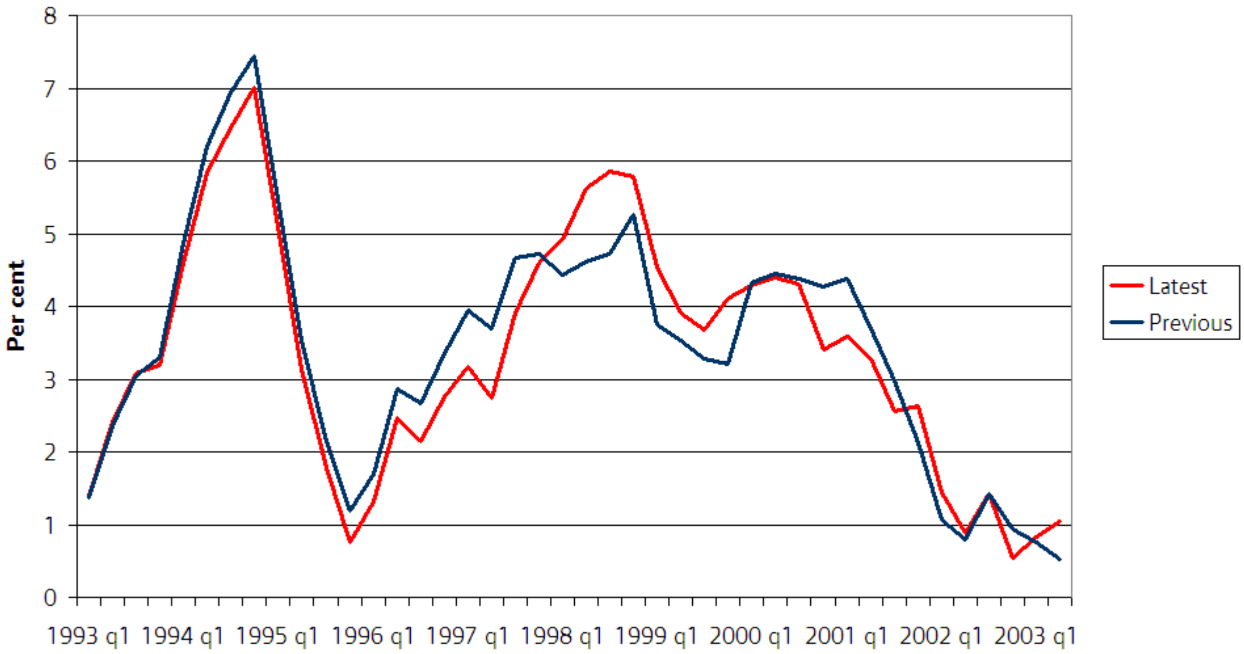
# The past is changing
**by Duncan Melville**

While you can never be sure exactly what will happen in the future, you would have thought that the past is given and unchanging. This is true, but our interpretation of the past can change, and in economics the most common way this can happen is through revisions to economic data. The last month has seen some very significant data releases. Last month the Office for National Statistics (ONS) released revised regional output figures for the period 1989 to 2001, and last Friday (12 September 2003) ONS released new figures for UK output[5] for the period 1948 to 2001 incorporating the effect of several methodological improvements.[6] Both of these revisions have profoundly affected how we view the recent history of the London and UK economies.

## New regional and UK output data

Turning first to the new regional output figures, ONS only produces these in current prices. Experian Business Strategies (EBS) has, however, updated its estimates of real or constant price output in London in the light of these figures.[7] Chart 1 shows both the latest and previous estimates of annual output growth in London.

**Chart 1: London's output growth**




*Source: EBS*

[5] ONS measures regional output in terms of Gross Value Added (GVA) at current prices.

[6] The most notable of these methodological improvements is the introduction of annual chain-linking. Previously constant price or real output was measured using prices which are updated every five years. So before the introduction of chain-linking real output was measured in 1995 prices. With annual chain linking the prices used will be updated every year and this will produce an improved measure of real output growth which better reflects the current structure of relative prices in the UK.

[7] Its figures, however, have understandably not yet been updated to reflect the new UK output figures released on 12 September.

The impact on measured growth rates is very significant between the third quarter of 1996 and the first quarter of 1999 – for nine out of these ten quarters the new estimate of the annual rate of output growth in London is at least 0.5 percentage points higher or lower than the previous estimate. For example, EBS now estimates that London's annual rate of output growth in the third quarter of 1998 was 5.9 percent compared to the previous estimate of 4.7 per cent. Overall, EBS now estimates that over the course of 1998 and 1999 London grew by 1½ percentage points more than they had previously estimated.

The new ONS figures have revised up UK output growth for the years 1998 to 2000. In total, ONS now believes that the UK economy expanded by 1.3 percentage points more than they had previously calculated over these three years. The upward revisions to growth in output in 1998 were mainly driven by higher consumption and lower imports than previously estimated, and in both 1999 and 2000 higher growth estimates were largely driven by downward revisions to imports and upward revisions to investment.

**What are the implications of this new data?**
So if both the UK and London economies enjoyed higher growth in recent years, isn't this good news? Maybe not, at least as far as the UK figures go. These new figures may bring increases in interest rates sooner than had previously been expected and could lead to increases in taxes or reduced levels of public expenditure. The reason for this is that higher growth may significantly cut the Treasury and Bank of England's estimates of the extent of spare capacity in the economy and the scope for future non-inflationary growth.

At the time of the 2003 Budget, the Treasury's estimate of the extent of spare capacity or the output gap was around 1.3 percent of GDP for the first quarter of this year.[8] Given the revisions to GDP data for the first quarter of this year and the data released since the Budget for the second quarter then, without this higher past economic growth, the Treasury's estimate of the output gap would probably have expanded to around 1¾ per cent of GDP for the second quarter of this year. However, all other things being equal, if growth in the period 1998 to 2000 was 1.3 percentage points higher than previously thought then this will cut the Treasury's estimate of the output gap back to around ½ per cent of GDP.

If there is much less spare capacity in the economy than was previously thought, then the economy will be able to expand by much less before the Bank of England raises interest rates to reduce inflationary pressures. In addition, less slack in the economy would mean that much less of the Government's budget deficits would be cyclical reflecting temporary weakness in the economy, that might be expected to disappear as the economy returned to trend, and more would be structural. If this is the conclusion, then it increases the likelihood that taxes would have to be raised or public expenditure cut in order to improve the Government's fiscal accounts. It is already clear from press reports that next year's spending review is going to be very tight. If the Treasury does revise down its estimates of the size of the output gap then we can expect that it may be even tighter still.

So are all other things equal? ONS will release revised UK output data for 2002 and part of 2003 at the end of this month. If the data were revised down, this would offset at least part of the increase in output growth found for 1998 to 2000. However, if it were to be revised up, then this would further reduce the extent of spare capacity the Treasury thinks there is in the economy. The only other way of opening up the output gap would be for the Treasury to increase its estimate of the trend rate of growth that its believes the economy can sustain over the longer term. Table 1 shows the Treasury's estimate of the trend rate of growth over the recent past as given at the time of the 2003 Budget and my attempt to reproduce these estimates using the revised ONS data.[9]

[8] The Treasury does not publish its estimates of the output gap but its magnitude is pretty clear from Chart B4 on page 226 of the 2003 Budget Book.

[9] One qualification with respect to my estimates is that the Treasury estimate trend growth using non-oil GVA. Our estimates use total GVA as ONS has not released separate new estimates of oil sector GVA.

**Table 1: Estimates of the annual trend rate of output growth for the UK (%)**

| Period | Budget 2003 Treasury estimates | Possible new estimates |
|---|---|---|
| 1986Q2 to 1997 H1 | 2.51 | 2.54 |
| 1997H1 to 2001Q3 | 2.61 | 2.81 |

*Source: Table B3 page 225 of Budget 2003 and GLA Economics calculations based on ONS data*

GLA Economics calculations using the new ONS data suggest trend growth between the first half of 1997 and the third quarter of 2001 was 0.2 percentage points higher than the Treasury's most recent estimate. Since estimates of hours worked are not expected to have changed the Treasury's estimate of trend growth in output per hour over this period might also be expected to have increased by 0.2 percentage points. The Treasury's current approach to projecting future trend output growth takes forward the estimate of trend growth in output per hour from this period. Thus, it could raise its estimate of trend output growth by around 0.2 percentage points to 3 per cent from its current estimate of 2¾ per cent. However, any such move could well be controversial. Most organisations that estimate UK trend output growth put it at around 2½ per cent per annum below the Treasury's current estimate. Of course, these organisations have produced their estimates using the same previous set of data as the Treasury and it is possible that in the light of the new ONS data they might move up their estimates at the same time as the Treasury leaving the gap between the Treasury and the consensus unchanged – only time will tell. As a result, we will be awaiting the Treasury's next pronouncement on the output gap and the trend rate of output growth in this year's Pre- Budget Report with particular anticipation.

## Data sources

| | |
|---|---|
| Tube Ridership | Further information: contact Transport for London on 020 7941 4500 |
| FTSE 100 Index | Further information: see www.ft.com or the daily Financial Times |
| Brent Crude oil | Further information: see www.ft.com or the daily Financial Times |
| Office Space Demand | Further information: see www.cbhillierparker.com |
| House Prices | Nationwide house price data from www.nationwide.co.uk/hpi/<br>Land Registry data from http://www.landreg.gov.uk<br>Royal Institute of Chartered Surveyors |
| Consumer Confidence | Further information: see www.martinhamblin.co.uk |
| Average earnings | Data available from www.statistics.gov.uk |
| Retail Price Index | Data available from www.statistics.gov.uk |
| MEW | Data available from www.bankofengland.co.uk |
| Retail Sales | Data available from www.statistics.gov.uk/rsi |
| Unemployment rates | Data available from www.statistics.gov.uk |
| GDP/GVA Growth | Data available from Experian Business Strategies on 020 7630 5959 |
| Balance of Trade | Data available from www.statistics.gov.uk |
| Index of Production | Data available from www.statistics.gov.uk |
| Manufacturing Expectations | Further information see www.cbi.org.uk |
| Services Sector | Data available from www.cips.org |
| Profitability | Data available from www.statistics.gov.uk |
| Tourism - Overseas Visitors | Data available from www.statistics.gov.uk |
| Tourism - Domestic Visitors | Data available from www.londontouristboard.com |
| London Airports | Data available from www.caa.co.uk |
| New orders | Data available from www.rbs.co.uk/pmireports |

## Acronyms

| | |
|---|---|
| BAA | British Airports Authority |
| BCC | British Chamber of Commerce |
| CAA | Civil Aviation Authority |
| CBI | Confederation of British Industry |
| CIPS | The Chartered Institute of Purchasing and Supply |
| CML | Council of Mortgage Lenders |
| EBS | Experian Business Strategies |
| EMU | Economic and Monetary Union |
| FTSE 100 | Financial Times Stock Exchange 100 index of stocks traded on the London Stock Exchange |
| GDP | Gross Domestic Product |
| GVA | Gross Value Added |
| ILO | International Labour Organisation |
| IPS | International Passengers Survey |
| LCC | London Chamber of Commerce |
| MEW | Mortgage Equity Withdrawal |
| ONS | Office of National Statistics |
| PMI | Purchasing Managers Index |
| RICS | Royal Institute of Chartered Surveyors |
| RPI | Retail Price Index |

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### Chinese

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### Hindi

यदि आप इस दस्तावेज़ की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नम्बर पर फोन करें अथवा दिये गये पता पर सम्पर्क करें।

### Vietnamese

Tiếng Việt
Nếu bạn muốn bản sao của tài liệu này bằng ngôn ngữ của bạn, hãy gọi điện theo số hoặc liên lạc với địa chỉ dưới đây.

### Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন্ নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

### Greek

Αν θα θέλατε ένα αντίγραφο του παρόντος εγγράφου στη γλώσσα σας, παρακαλώ να τηλεφωνήσετε στον αριθμό ή να επικοινωνήσετε στην παρακάτω διεύθυνση.

### Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہِ کرم نیچے دیئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ قائم کریں.

### Turkish

Bize telefon ederek ya da yukarıdaki adrese başvurarak bu belgenin Türkçe'sini isteyebilirsiniz.

### Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، الرجاء الاتصال برقم الهاتف او الكتابة الى العنوان

### Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

### Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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