

London's Economy Today



Issue 62 | October 2007

In this issue

Crossrail gets the go-ahead.....	1
Latest news	1
Economic indicators ...	4
Globalisation, skills and employment: The London story	8

Crossrail gets the go-ahead

by Richard Davies, Economist

The announcement by Government that the Crossrail project will go-ahead is good news for London and Londoners. Crossrail will go from Maidenhead and Heathrow in the west, through central London, the City and Canary Wharf, to Shenfield and Abbey Wood in the east. This vital enhancement to London's transport infrastructure will support future growth and prosperity in the economy. It will encourage more companies to locate and do business in London and make it easier and quicker for people to get around the Capital for work and leisure. Subject to Royal Assent next year, it is expected that construction of the scheme will begin by 2010 with the first services operating from 2017. It will add between £36 billion and £64 billion to London's GDP in present value terms.

London house price inflation higher than other regions

Housing data from various sources published in October provides evidence that the UK housing market is slowing down but London house prices are growing faster than the rest of the UK. The Financial Times House Price Index showed that London house prices rose by 1.1 per cent during August giving an annual rate of growth of 17.6 per cent. This annual rate was nearly twice as fast as the next region, the South West. In

GLA ECONOMICS

Latest news...

Working Hard or Hardly Working

How cities could work better

Thursday 22 November 2007

Do not miss GLA Economics' third international conference. Come and hear the following leading speakers debate how we can make our cities work better:

Tony Venables (Department for International Development)

Paul Cheshire (London School of Economics)

Baroness Jo Valentine (London First)

Manny Lewis (LDA Chief Executive)

Bridget Rosewell (Consultant Chief Economist, GLA Economics).



Visit www.london.gov.uk/mayor/economic_unit/events/working-hard.jsp for further information and to book your place.

contrast, house price growth in England and Wales was 0.4 per cent in August with the annual rate falling to 9.4 per cent. The Council of Mortgage Lenders has revised its forecast for UK annual house price inflation downwards from 5 per cent to between 2-3 per cent for 2008.

‘Credit Crunch’ in financial markets set to continue

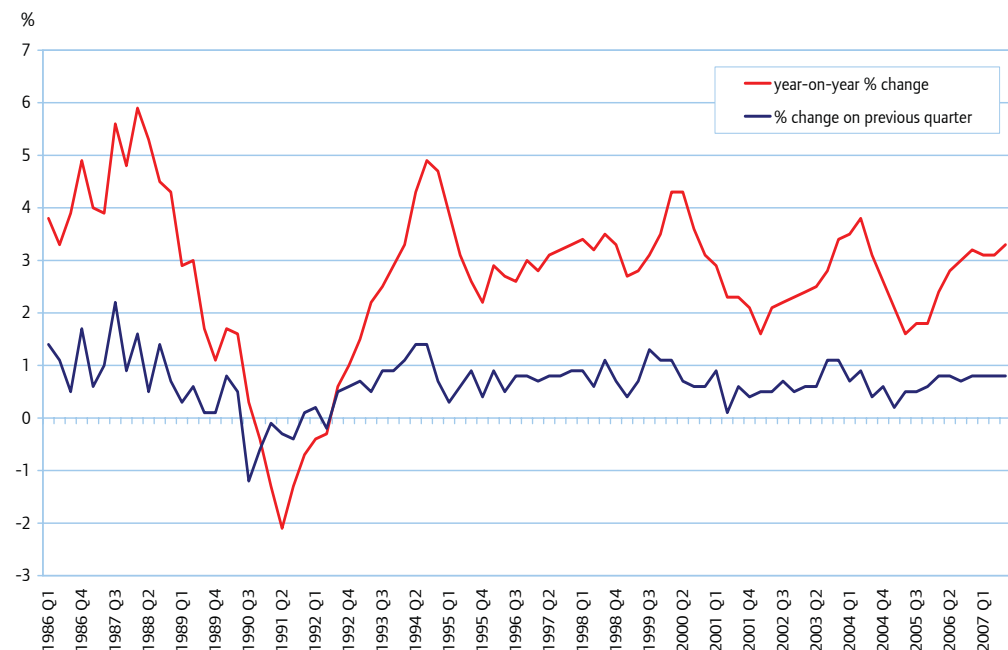
The Bank of England’s third quarter “Quarterly Credit Conditions Survey” indicated that the outlook for credit conditions is less favourable for corporations than for households. Lenders confirmed that they had reduced credit availability and tightened the price terms on loans to corporations over the past three months and this was expected to continue over the next three months. Lenders are also predicting a rise in defaults by medium sized firms. In contrast, the availability of secured credit to households was unchanged and was expected to remain so over the next three months.

UK annual growth rises in 3rd Quarter 2007 but set to slow in 2008

The UK economy is estimated to have grown by an above trend 0.8 per cent in Q3 2007, the same level of growth as in the previous three quarters. Growth in Q3 was better than analysts were expecting. On a year-on-year basis, the rate of UK growth increased from 3.1 per cent to 3.3 per cent (see Figure 1). In Q3 a small acceleration in growth for total services was offset by slower growth in the production industries. Business services and finance in particular grew very strongly in Q3 at 1.7 per cent giving a robust annual rate of 5.6 per cent.

Figure 1: UK GDP growth

Source: Office for National Statistics



Pre-Budget Report (PBR) and Comprehensive Spending Review (CSR)

On 9 October the Chancellor of the Exchequer announced the Government’s PBR and CSR. The key points were:

- The Chancellor cut his forecast for economic growth in 2008 to 2 to 2½ per cent;
- The Chancellor increased his forecasts for public borrowing, especially for this and the next financial years;

- The CSR 2007 set out plans for public spending to grow by just 2.1 per cent on average a year in real terms (after accounting for inflation) for the three years to 2010-11. This is around half the rate of increase (4.0 per cent) seen in previous spending review periods (April 1999 to March 2008); and,
- Most areas of government spending saw a reduction in the expected rate of growth of real spending, for example on education and health.

As anticipated, given recent events in financial markets and the resulting credit crunch, the economic growth forecast for 2008 in the PBR is lower than that produced for the March 2007 Budget. The Treasury projections for this year and next are now in line with the consensus amongst independent economic forecasters (see Table 1).

Table 1: Summary of the Treasury and consensus economic projections

Source: HM Treasury

GDP Growth (%)	2007	2008	2009
Budget 2007	2¾ to 3¼	2½ to 3	2½ to 3
PBR 2007	3	2 to 2½	2½ to 3
Consensus	2.9	2.2	2.4

Oil prices hit all-time nominal highs

Oil prices have been at record nominal high levels in October, with Brent crude around \$85 per barrel. Oil prices could go even higher if there is an early winter cold snap (especially in the US) or further instability in the Middle East and Nigeria. Upward pressure on oil prices is also coming from strong demand in fast growing emerging market economies such as India and China. In the UK average diesel prices have risen above £1 a litre.

IMF downgrades world growth in 2008 but expects the global economy to remain solid

The International Monetary Fund (IMF) has revised its projection for world GDP growth in 2008 downwards slightly from 5.2 per cent to 4.8 per cent. The continued strength of the world economy is due now more than ever before to the phenomenal growth in the emerging market economies. The IMF forecasts that in 2007 for the first time China and India will make the largest country-level contributions to global growth (ie, more than the US). The IMF's current projections for GDP in 2007 show China growing at 11.5 per cent, India at 8.9 per cent and Russia at 7 per cent.

Although world GDP growth is forecast to slow down in 2008, it should be recognised that this is from extremely robust growth. The IMF forecasts that the on-going problems in the US housing market will cause growth in the US economy to decline to 1.9 per cent in both 2007 and 2008. Slower growth is forecast across Europe in 2008 with 2.1 per cent growth in the Euro area and 2.3 per cent growth in the UK. The IMF believes that risks to its solid growth forecasts are tilted to the downside due to high oil prices and a deeper than expected effect on credit availability caused by recent turbulence in financial markets. With London exposed to a slowing UK economy in 2008 and the likely weakening of the important financial and business services sector, it can be expected that the Capital's economy will also slow next year from its current robust pace.

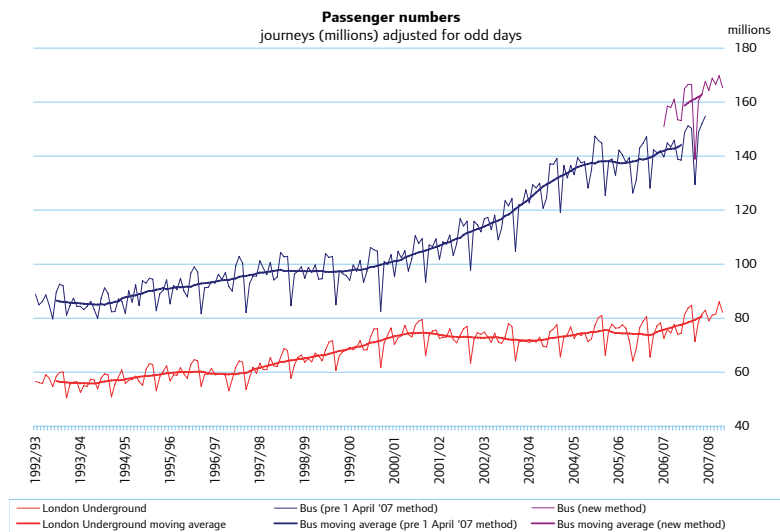
Economic indicators

Increase in moving average of passenger numbers

- The most recent 28-day period is from 22 July to 18 August 2007. London's Underground and buses had 247.5 million passenger journeys; 165.3 million by bus and 82.2 million by Underground.
- The moving average increased to 243.5 million from a revised 241.9 million passengers every period. The moving average for buses was 162.8 million. The moving average for the Underground was 80.7 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET edition 58 (June 2007).

Latest release: October 2007

Next release: November 2007



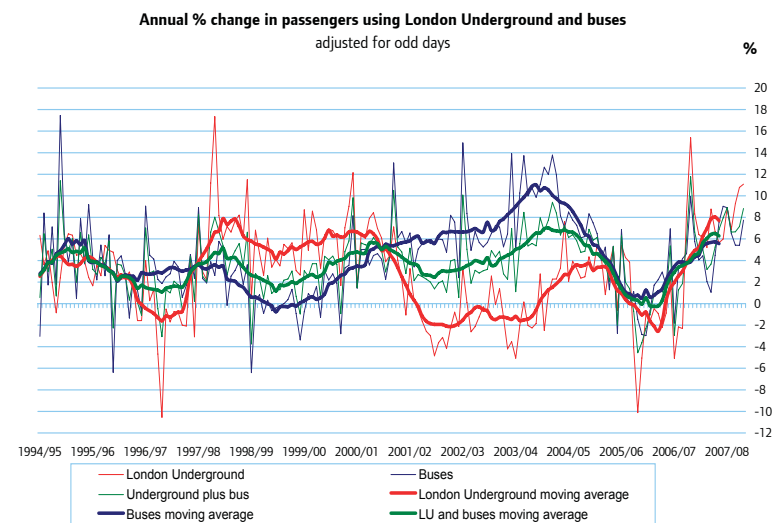
Source: Transport for London

Average annual growth rate of passengers falls slightly

- The moving average annual rate of growth in passenger journeys decreased to 6.3% from 6.5% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers fell to 5.6% from 5.7% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to 7.7% from 8.0% in the previous period.

Latest release: October 2007

Next release: November 2007



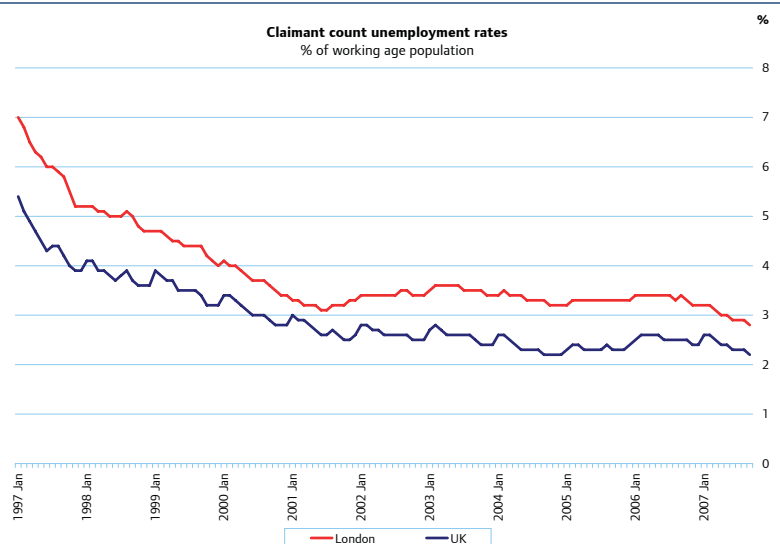
Source: Transport for London

Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseekers' Allowance) in London was 2.8% in September 2007.
- There were 141,300 unemployment claimants in London in September 2007 compared with 169,300 in September 2006.
- The claimant count unemployment rate of the UK remains below that of London.

Latest release: October 2007

Next release: November 2007



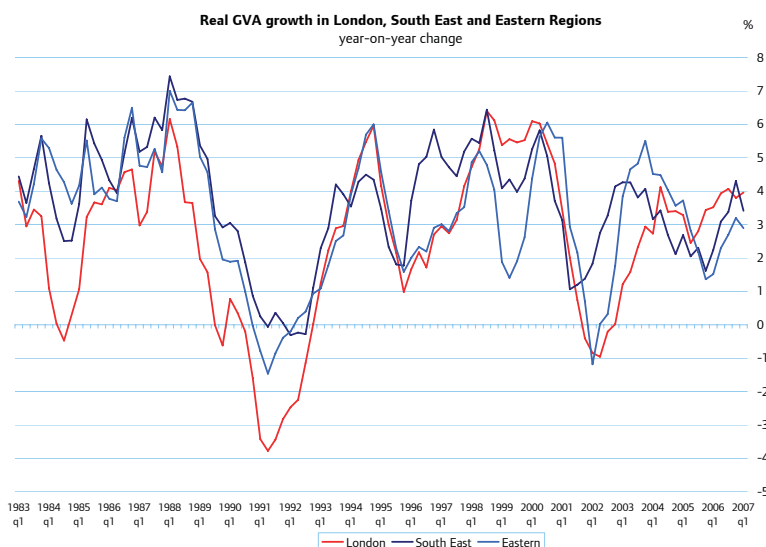
Source: Claimant Count, Nomis

Robust annual output growth in London

- London's annual growth in output increased to 4.0% in Q1 2007 from 3.8% in Q4 2006.
- Annual output growth in the South East decreased to 3.4% in Q1 2007 from 4.3% in the previous quarter.
- Annual output growth in the Eastern region was 2.9% in Q1 2007, down from 3.2% in Q4 2006.

Latest release: August 2007

Next release: November 2007



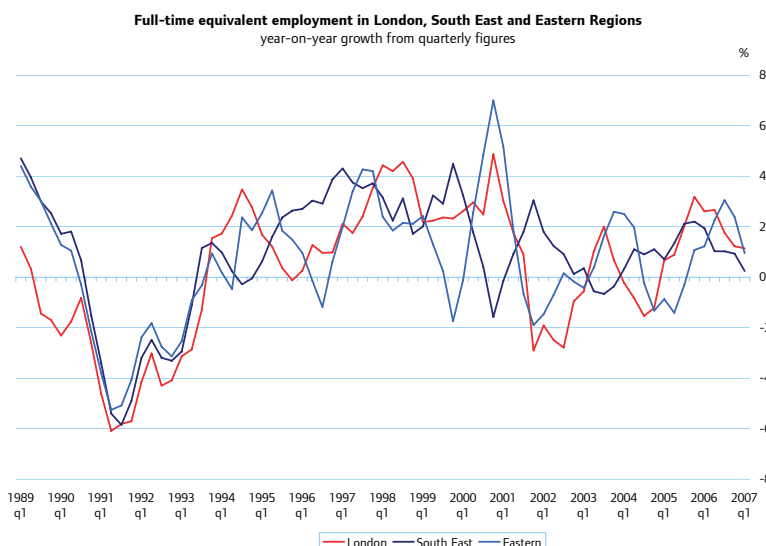
Source: Experian Business Strategies

Slowing annual employment growth in London and its neighbouring regions

- London's annual employment growth was 1.1% in Q1 2007, a decrease from 1.2% in Q4 2006.
- Annual employment growth in the South East decreased to 0.2% in Q1 2007 from 0.9% in Q4 2006.
- Annual employment growth in the Eastern region was 1.0% in Q1 2007, down from 2.4% in the previous quarter.

Latest release: August 2007

Next release: November 2007



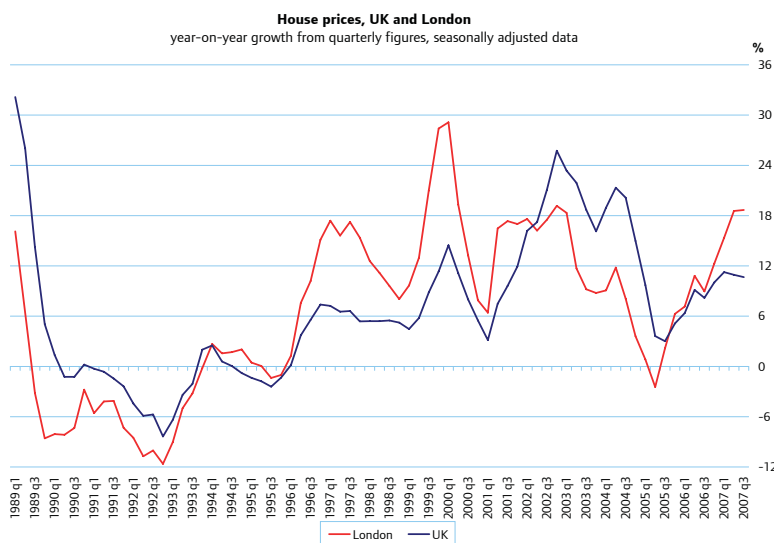
Source: Experian Business Strategies

Annual house price inflation in London remains strong

- Annual house price inflation, as measured by the Halifax Bank of Scotland, increased in Q3 2007 in London and remained above 10% in the UK.
- Annual house price inflation in London increased to 18.7% in Q3 2007 from 18.5% in Q2. Annual house price inflation in the UK decreased slightly to 10.7% in Q3 from 10.9% in Q2.
- Annual house price inflation was higher in London than in the UK for the eighth consecutive quarter.

Latest release: October 2007

Next release: January 2008



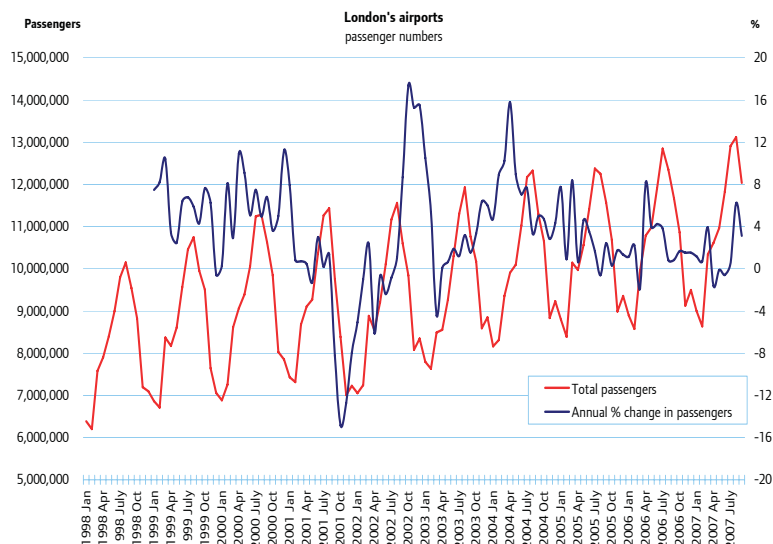
Source: HBoS

Small increase in year-on-year airport passenger numbers

- 12.0 million passengers travelled through London's airports in September 2007.
- The number of passengers using London's airports increased by 3.1 per cent from September 2006 to September 2007.
- The number of passengers using London's airports has risen year-on-year for the past three months.

Latest release: October 2007

Next release: November 2007



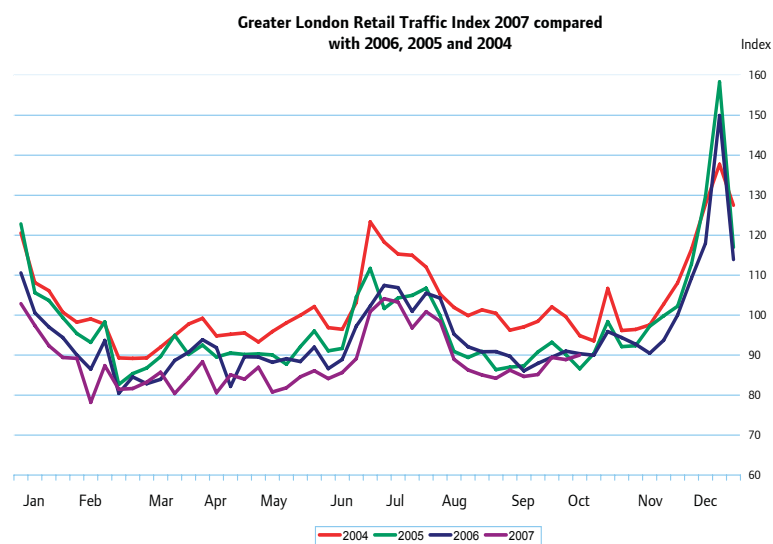
Source: Civil Aviation Authority

SPSL Retail Traffic just below 2006 levels

- The SPSL Retail Traffic Index of shoppers in London was 90.0 in the first week of October compared to 88.9 in the previous week.
- The index has generally been lower than 2006 levels throughout 2007 so far.
- SPSL's Retail Traffic Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-October

Next release: Weekly



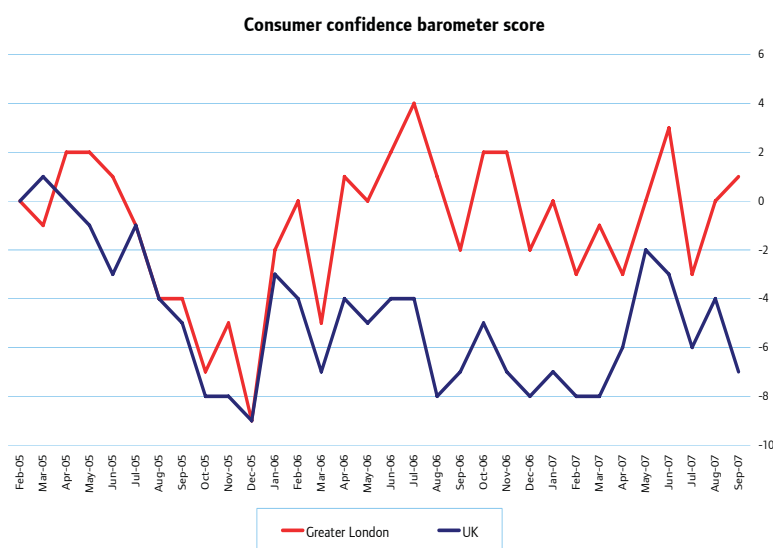
Source: SPSL

Consumer confidence in London improves

- The GfK index of consumer confidence reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months (including whether now is a good time to make major purchases). A score above zero signifies a positive change in views.
- For Greater London the consumer confidence score rose to 1 in September from 0 in August.
- For the UK the consumer confidence score fell to -7 in September from -4 in August.

Latest release: September 2007

Next release: October 2007



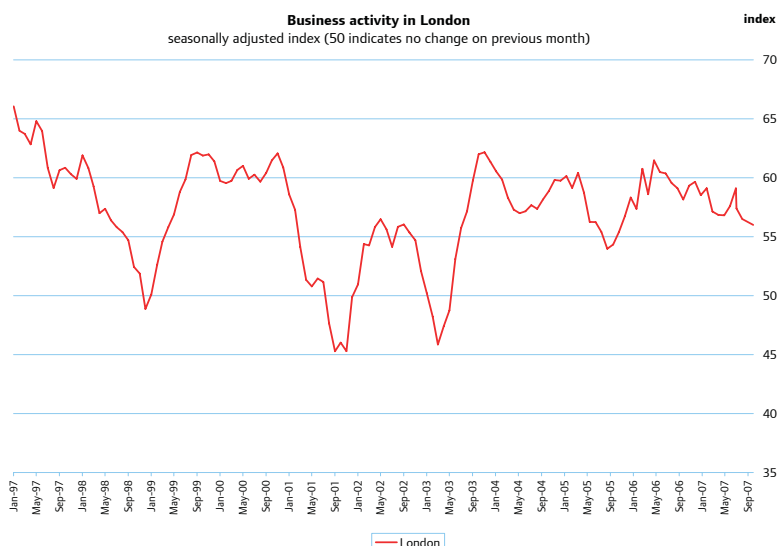
Source: GfK NOP on behalf of the European Commission

London's business activity still expanding

- London firms continued to expand their output of goods and services in September 2007.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.0 in September 2007 compared to 56.5 in August.
- A rate of above 50 on the index indicates an increase in business activity from the previous month. The PMI for business activity has been above 50 since June 2003.

Latest release: October 2007

Next release: November 2007



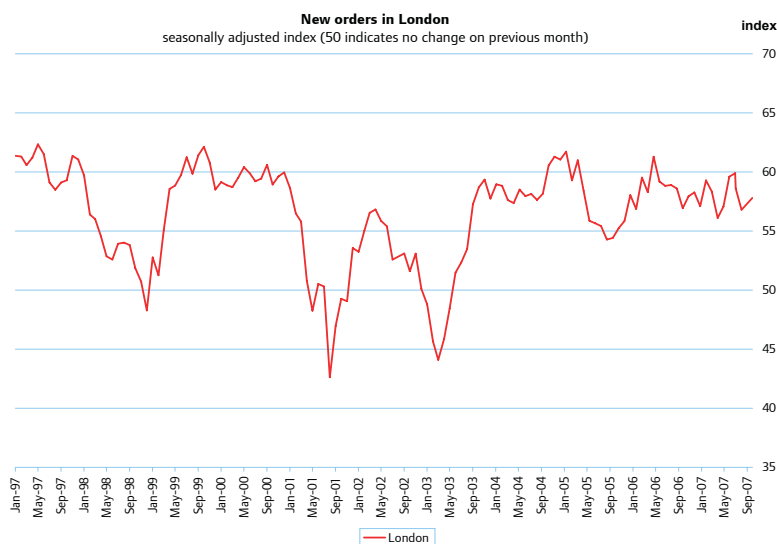
Source: The Royal Bank of Scotland/NTC Economics

New orders in London increasing

- September 2007 saw continued growth in new orders for London firms.
- The PMI for new orders recorded 57.8 in September compared to 56.8 in August.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: October 2007

Next release: November 2007



Source: The Royal Bank of Scotland/NTC Economics

Slowing employment growth in London

- London firms continued to increase their level of employment in September 2007 but at a slower rate than in previous months.
- The PMI for the level of employment was 51.7 in September compared to 53.9 in August.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: October 2007

Next release: November 2007



Source: The Royal Bank of Scotland/NTC Economics

Globalisation, skills and employment: The London story

Lubomira Anastassova-
Chirmiciu,
Economist

The London Skills and Employment Board (LSEB) has been established to provide leadership in improving adult skills and employment in London. The Board is tasked with developing a strategy for adult training in London and ensuring its implementation. The Board determined that the strategy should be based on and follow the development of a robust evidence base and GLA Economics was asked to help in its preparation. The purpose of the evidence base is to summarise relevant data and information and draw attention to key issues pertinent to skills and employment in London. This article highlights the main findings from the evidence base.

London is a highly successful global economy

London is one of the world's most important centres for international business services and clearly ranks as the world's leading centre in a number of areas of international financial intermediation. Its success is based on its competitive strengths across a range of factors including qualified staff, but also access to markets and transport infrastructure. These attributes are highlighted in a survey of around 500 of Europe's largest companies as shown in Table 2.

Table 2: London's city ranking according to various location factors

Source: *European Cities Monitor*, Cushman & Wakefield (2006)

Location factor (in order of importance)	2005	2006	Leader
Easy access to markets	1	1	London
Qualified staff	1	1	London
External transport links	1	1	London
Quality of telecoms	1	1	London
Cost of staff	22	16	Warsaw
Climate created by government	6	5	Dublin
Office space value for money	24	29	Warsaw
Availability of office space	3	1	London
Language spoken	1	1	London
Internal transport	2	1	London
Quality of life	13	7	Barcelona
Freedom from pollution	27	26	Stockholm

Demand for high-skilled workers keeps growing

Global trends have driven a structural shift in London's economy from manufacturing to services. As a result of such changes, London's employers now employ a more highly qualified workforce than in the past¹. Whilst there are always uncertainties in making forecasts, both occupational and sectoral analyses suggest that the demand for high skills is expected to grow in the future. Already 43 per cent of jobs require level 4 (degree level) or higher qualifications; by 2020, this is expected to increase to around 50 per cent, higher than the expected 42 per cent average across the UK.

London's labour market meets the needs of London's businesses...

London's population is extremely dynamic and is more highly skilled than the rest of the UK because it attracts well-qualified inward migrants from the UK and abroad to supplement its own young people entering the labour market (as well as its existing resident population). London also draws on large numbers of daily commuters living in surrounding regions. Commuting helps to supply London's businesses with the labour it requires. Consequently, London's businesses do not face major skills gaps; London has the lowest percentage of establishments with skills gaps of any UK region².

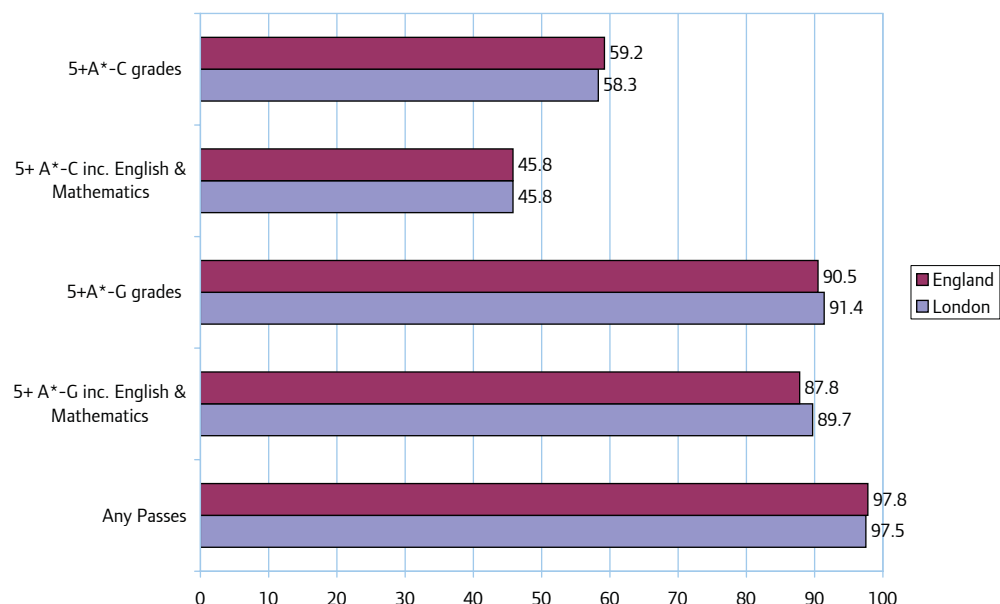
... but young Londoners need to do better at school in order to compete in London's labour market

The qualifications achieved by London's young people need to improve to match the requirements of London's economy. A majority of employers state that it would be easier for their organisation to recruit the right people if the education system delivered more people equipped with skills and attitudes appropriate for the workplace³.

Despite this and as shown in Figure 2, under 50 per cent of London children taking GCSEs achieve five or more GCSEs with grades A* to C (including English and Maths) which are prerequisites for many higher education (HE) courses. As a result, even if all London's 15 year olds with five or more GCSEs at grades A* to C (including English and Maths) were to progress through A levels and into higher education it would still not meet London's future skills needs.

Figure 2: GCSE attainment levels in London and England for secondary school pupils aged 15, (2005/06), (%)

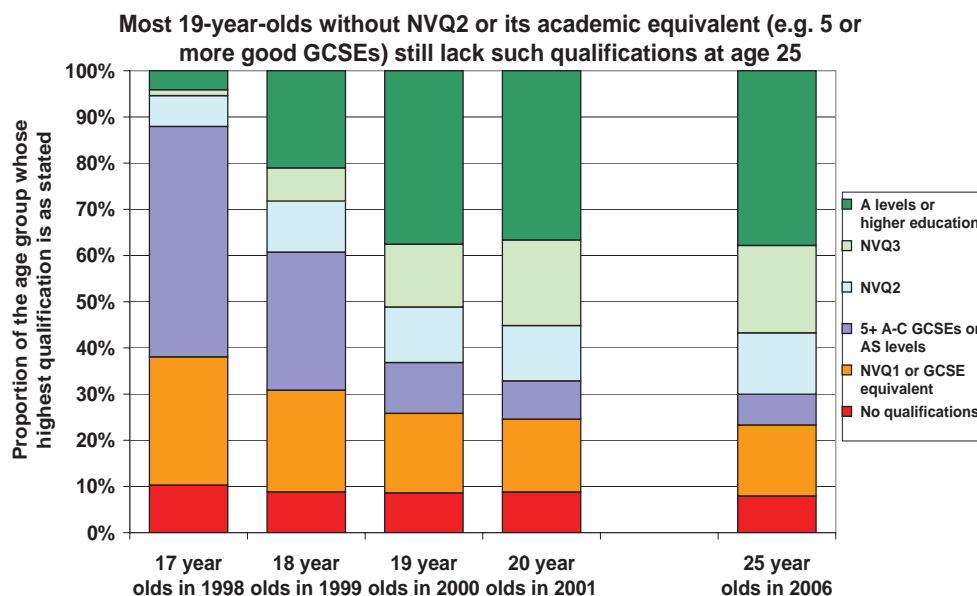
Source: DfES, 2005/2006



There are significant variations in educational attainment across London boroughs, with the share of London's school children achieving five or more GCSEs with grades A* to C (including English and Maths) ranging from 30 per cent to 60 per cent. Achieving a good education first time around is important because there is little evidence that many adults with low qualifications progress through formal levels of learning beyond the age of 19 to any significant extent (as shown in Figure 3).

Figure 3: Progression of Young Adults with Low Skills

Source: Labour Force Survey, ONS; UK; updated April 2007



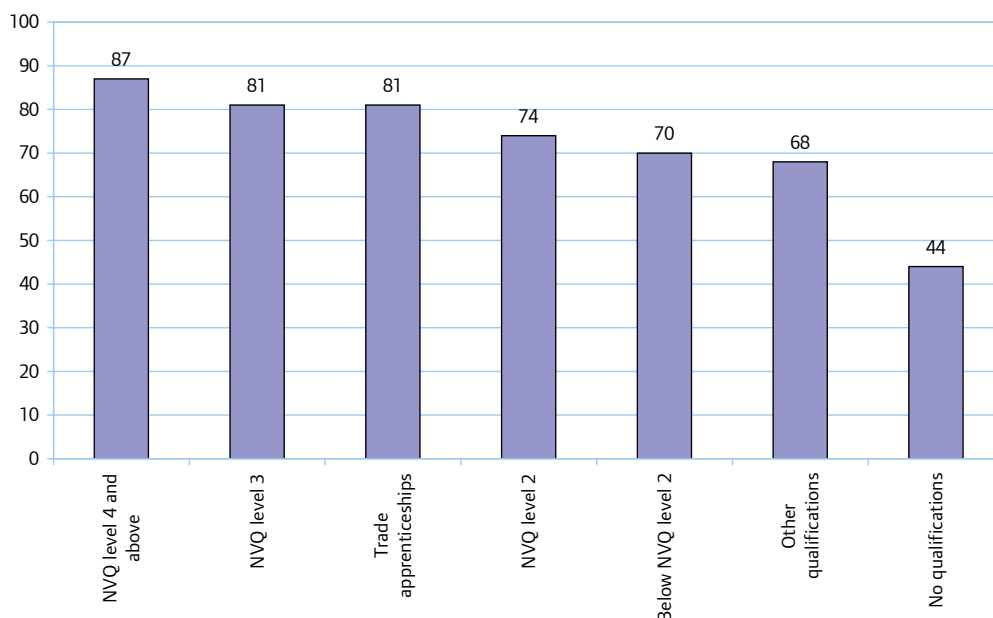
Despite the labour market's efficiency for business, London has more people out of work

Around 30 per cent of London's working-age population is not in work, more than any other region of the UK. A lack of work impacts on individuals as well as the economy as a whole. A key consequence of being out of work is its impact on children, not least because of the effect this has on educational and future work prospects of these young people.

Worklessness has multiple causes and research shows that these are best addressed in a holistic manner where all institutions involved work in a co-ordinated way.

Figure 4: Employment rates in London by qualification level, 2005 (%)

Source: Annual Population Survey, 2005



In London the lack of basic skills – or basic qualifications – appears to be a major factor for some individuals' employment prospects. As shown in Figure 4, the employment rate for individuals with any qualifications is 68 per cent or higher, compared to only 44 per cent for those with no qualifications. Furthermore, according to cost-benefit analysis conducted for the Leitch Review, basic skills have high benefit to cost ratios when compared to other training initiatives.

Conclusion

London offers a plentiful supply of highly skilled workers to meet the needs of its businesses. A significant factor here is London's ability to attract highly skilled migrants from both the rest of the UK and internationally. There are challenges at the lower end of the London labour market and a need to improve London school students' educational achievements. London has a high rate of worklessness that needs to be addressed; notably, individuals with no formal qualifications have a much lower propensity to be in work.

This article provides a short overview of some of the points covered in the LSEB's evidence base. The main strategy is now being drafted to try and address some of the issues highlighted here.

Footnotes

- 1 The definition of qualifications has its limitations since it does not necessarily reflect the skills/competence level of workers in full. However, qualifications are easily measured and so for statistical purposes qualifications are usually used as an approximation for skills. However, it is acknowledged that many skills that are of value to businesses will be acquired through work experience, or other means, and not necessarily through qualifications.
- 2 National Employers Skills Survey, 2005: Main report, June 2006, Learning and Skills Council.
- 3 The Voice of London Employers 2007, London First.

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
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.

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

Past features

Issue

38	Climate Change: Threat or opportunity for London?
39	Creative data for London
40	Assessing the Pre-Budget report
41	Two-thirds of new jobs to be filled by women
	Capital jobs - Changes in London's employee jobs in 2004
42	A Snap of the Snapshot
43	Ready for Retail - GLA Economics' work in the retail sector
44	Women, ethnicity and part-time work in London's labour market
45	The London living wage in 2006
46	Barker Review of Land Use Planning
47	London Economic Development Snapshot
48	A new Local Area Tourism Impact model for London
49	What works with tackling worklessness?
50	Retail in London
51	Who are London's low paid?
52	London's opportunities in emerging markets
53	London Economic Development Snapshot
	London's employee jobs - the latest trends
54	Crossrail: Where is it going?
55	How large is wage inequality in London?
	Budget 2007: The implications for London
56	The McKinsey Report and its relevance to London's financial services sector
57	Focus on key London employment sectors
58	Increasing London's housing supply
59	London Economic Development Snapshot
60	Creative London - London's Creative Sector: 2007 Update
61	The value of London's key exports

GLA Economics

City Hall
The Queen's Walk
London SE1 2AA

Tel 020 7983 4922

Fax 020 7983 4137

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

© Greater London Authority
October 2007

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

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

Subscribe

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

Disclaimer

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

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

Other formats

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

Public Liaison Unit
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

Tel **020 7983 4100**
Minicom **020 7983 4458**
www.london.gov.uk

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

About GLA Economics

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

GLA Economics is funded by



MAYOR OF LONDON