

London's Economy Today



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Oil prices surge to record highs in July

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The Mayor of London's Economic Development Strategy (EDS) draws on a comprehensive base of evidence on London's economic performance to analyse the issues facing the capital's economy and details actions to maintain and promote further development. This month's supplement 'London Economic Development Snapshot', by Patricia Seex, looks at the soon to be published LDA six-monthly Snapshot report, which shows the progress made in delivering the objectives set out in the EDS.

A recent report by Oxera has found that London financial markets are cheaper than the New York Stock Exchange and Nasdaq with regards to underwriting fees and other direct initial public offering (IPO) costs. London is the most attractive place in the world for IPOs with a unique mix of highly competitive underwriting, low compliance costs, low cost of raising equity capital and the highest standards of corporate governance. Other figures show that the money raised by companies floating on the London Stock Exchange increased by 64 per cent in the first half of this year to £10.4bn. London's status as a magnet for international companies is highlighted by the fact that there were 50 IPOs by overseas groups from 15

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Latest news...

- **London and the International Economy seminar:** GLA Economics will be holding this seminar on Thursday 7 September 2006. If you would like further information on this event, please email glaeconomics@london.gov.uk
- **GLA Economics Annual Report 2006:** Our Annual Report is now available. Please see the website www.london.gov.uk/mayor/economic_unit/index.jsp to download your copy, alternatively email glaeconomics@london.gov.uk or call +44 (0)20 7983 4922

different countries. Maintaining the strength and competitiveness of the capital's financial markets is very important as barriers to international investment reduce further.

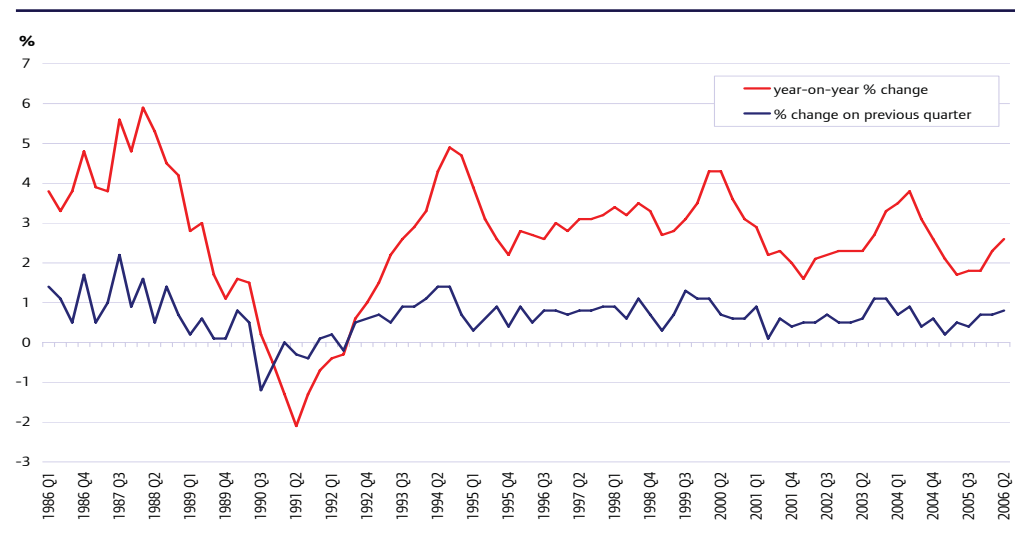
London's economy continues to expand and is currently outperforming the UK as a whole. In June, the Purchasing Managers' Index (PMI) measure of seasonally adjusted business activity for London was the second highest among all the regions while the seasonally adjusted level of employment for the capital was the highest. Seasonally adjusted new orders received by private sector companies in London rose for the thirty-seventh successive month. The PMI shows that the rate of expansion remains strong, though the capital's seasonally adjusted new orders and business activity indices did ease slightly in June.

UK economic growth strengthens

The UK economy is estimated to have grown by 0.8 per cent in the second quarter (Q2) of 2006, an increase from the upwardly revised 0.7 per cent in the previous quarter. This is the highest quarterly growth rate since Q2 2004. The annual growth rate in Q2 2006 picked up to 2.6 per cent from an upwardly revised 2.3 per cent in Q1 2006 (see Figure 1). Strength in the financial and business services sector once again led the way with quarterly growth of 1.2 per cent in Q2 and annual growth at 4.8 per cent. As well as recent economic growth being slightly higher than many analysts had expected, economic growth figures since 2001 have been revised upwards due mainly to stronger financial and business services activity. A robust financial and business services sector is especially welcome news for the London economy where it plays an important role. However, alongside consumer price index (CPI) inflation rising further above its target to 2.5 per cent in June (its highest level since September 2005), faster current growth and upward revisions to previous growth figures have increased the likelihood that the Bank of England will raise interest rates this year.

Figure 1. UK GDP growth

Source: Office for National Statistics



There are now a few tentative signs that UK housing market activity may be starting to slow down, but the London property market currently remains strong. In June, seasonally adjusted UK house prices, as measured by the Nationwide, rose by only 0.3 per cent and fell by 1.2 per cent on the Halifax index. Despite the unexpected large monthly fall annual house price inflation on the Halifax measure rose slightly. The Halifax index shows that house prices in the three months to June were 9.4 per cent higher than a year

earlier compared with a 9.1 per cent annual rate in the three months to May. Meanwhile, the Nationwide recorded annual house price inflation of 5.0 per cent in June compared with 4.7 per cent in May. Overall the housing market still remains firm but annual house price growth is expected to ease during the latter part of this year.

Company pension fund deficits are a concern for many individuals and they are also having an impact on the UK economy. The household saving ratio increased to 6.0 per cent in Q1 2006 reflecting the rise in employers' pension fund contributions to make up for past shortfalls. This is the highest saving ratio since Q4 2001 and is restraining domestic demand growth. However, strong sales of televisions and food and drink during the World Cup helped to sustain retail sales growth in June according to the CBI, British Retail Consortium (BRC) and official ONS figures. Rising UK unemployment, moderate earnings growth, an increasing tax burden, high fuel costs and escalating utility bills though are still having a dampening effect on consumption, despite the pick-up in retail sales in Q2. With the World Cup now over this underlying dampening effect is expected to come to the fore more during the rest of the year.

World Cup supports German recovery

The World Cup and strong export growth seems to have given German consumers and businesses renewed confidence. GfK's forward-looking consumer climate indicator has risen to a five year high while business confidence in June hit its highest level in 15 years. However, Germany's inflation rate also accelerated in June and it seems more likely that the European Central Bank (ECB) will continue to raise interest rates during the rest of this year. This will act as a break on Germany's, and the rest of the Eurozone's, current recovery. Economic confidence in the whole of the Eurozone also reached a five year high in June with sentiment especially strong in the industrial and retail sectors.

US consumers remain nervous with interest rates continuing to rise. On 29 June the Federal Reserve increased interest rates for the seventeenth consecutive time by a further 0.25 per cent to 5.25 per cent. The Federal Reserve had to make a difficult decision, as while inflation has been increasing there are signs that economic growth is already starting to ease back and concerns that consumer spending could falter. Although the Federal Reserve's decision came as no surprise, some analysts interpreted the wording of the policy statement as a sign that the two years of rate rises could be nearing an end. This led to a slight strengthening to both US and global stock markets before increasing geopolitical tensions and record oil prices caused a further bout of weakness.

Over the last month oil prices have hit record highs above \$75 per barrel (see Figure 2) as fears increased of wider instability in the Middle East. The current conflict centred around Israel has created great uncertainty in the oil market. Further terrorist sabotage on Nigeria's oil industry has also added to the recent upward pressure on prices. Almost a quarter of normal oil production in Africa's largest oil producer has now been closed down.

Figure 2. Brent crude oil price (\$ per barrel)

Source: FT.com



With business confidence improving, domestic demand picking-up, growth forecasts being revised higher, unemployment falling to an eight year low of four per cent and inflation remaining positive, the Japanese central bank has ended its policy since March 2001 of zero interest rates by raising rates to 0.25 per cent on 14 July. During the year ending 31 March 2006 Japan grew at its fastest rate of expansion in 15 years. Meanwhile, China continues to boom with official figures showing that in Q2 2006 the economy grew by 11.3 per cent compared with the same period last year. Export growth remains rapid and China's trade surplus hit a record \$14.5bn in June. The growing surplus looks set to continue and this is increasing the pressure for protectionist measures in the US.

World trade talks show no signs of success

The latest talks in the Doha Development Round of trade negotiations, which was launched in 2001, have again ended without a breakthrough in Geneva. With time running out World Trade Organization's head Pascal Lamy believes that the talks have now hit a crisis situation. The failure to cut agricultural protectionism and open up world markets to manufactured goods and services would be to the detriment of the whole global economy. Unfortunately, full success for the Doha trade talks seems to be becoming less and less likely. There are still concerns in financial markets that central banks throughout the world might have to raise interest rates more aggressively than they have so far to keep inflationary pressures under control. However, in general global stock markets have stabilised during the month despite record oil prices and further instability in the Middle East.

Overall, UK growth is around trend but unemployment is still rising. Meanwhile the capital's economy has had a strong first half to the year with increasing business activity, rising house prices and the job market firm. Worldwide economic conditions may well become more difficult in the future especially if geopolitical tensions rise further and negatively impact on equity and commodity markets, and if trade talks continue to falter with protectionist policies rearing their ugly head again. London's economy, however, has a strong base from which to continue its expansion and is currently performing better than the rest of the UK.

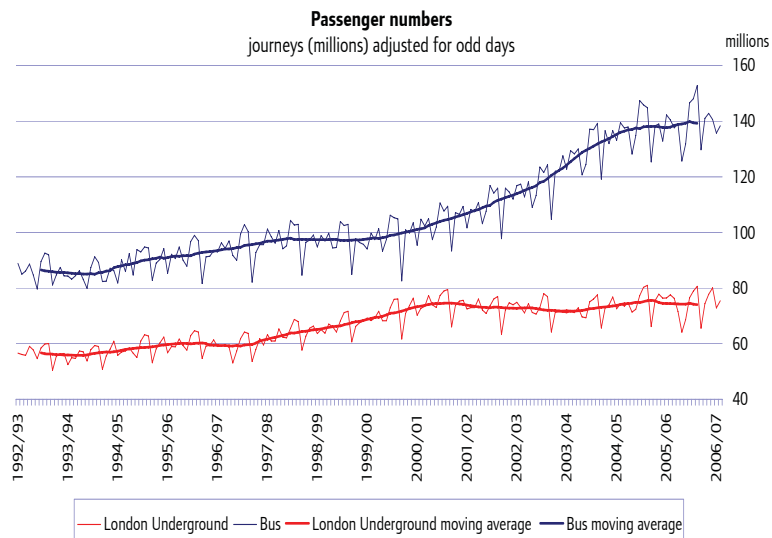
Economic indicators

Moving average of passenger numbers remains roughly stable

- The most recent 28-day period is from 30 April to 27 May 2006. London's public transport had 218.5 million passenger journeys; 140.7 million by bus and 77.8 million by Underground.
- The moving average decreased slightly to 213.3 million from 213.6 million passengers every period.
- The moving average for buses was 139.2 million passenger journeys. The moving average for the Underground was 74.1 million.

Latest release: July 2006

Next release: August 2006



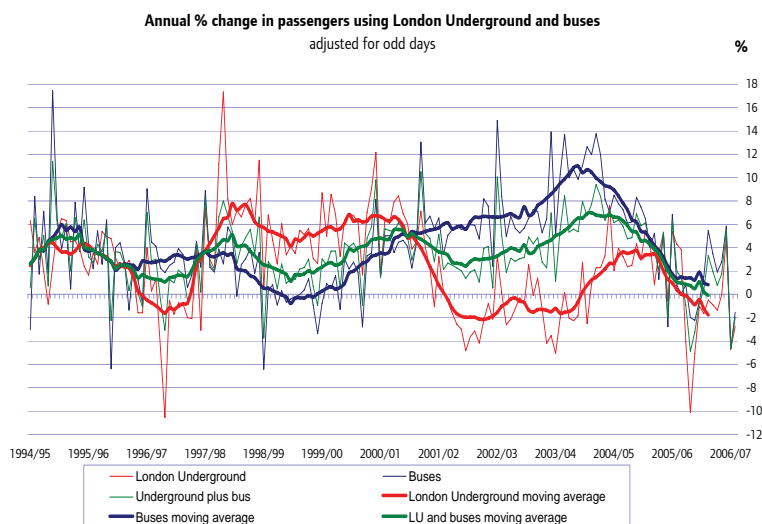
Source: Transport for London

Annual growth rate of passenger journeys decreasing

- The moving average annual rate of growth in passenger journeys decreased to -0.1% from 0.2% in the previous period.
- The moving average annual rate of growth in bus journey numbers decreased slightly to 0.8% from 1.0% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased to -1.8% from -1.2% in the previous period.

Latest release: July 2006

Next release: August 2006



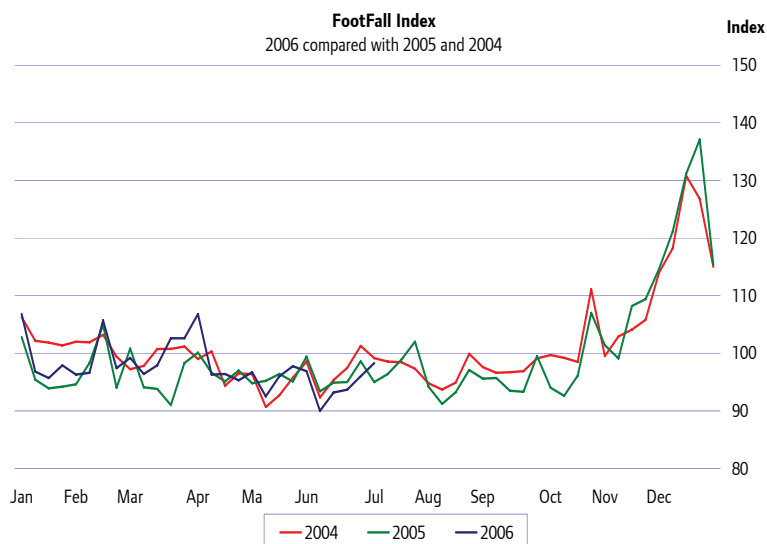
Source: Transport for London

Footfall Index rising

- The Footfall Index of shoppers in London was 98.3 in the first week of July compared to 96.0 in the last week of June.
- The level of the index in June 2006 was slightly lower than in the same period in 2004 and 2005.
- The FootFall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: Mid-July

Next release: every week



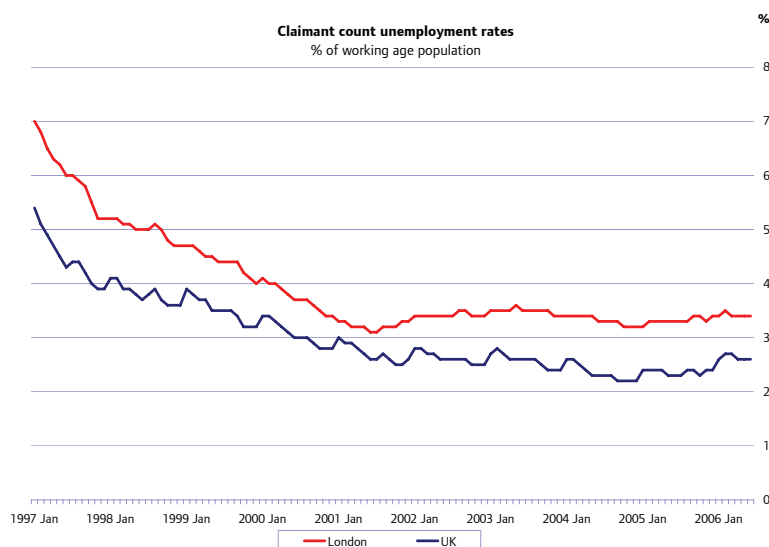
Source: Footfall Limited

Claimant count unemployment

- The rate of claimant count unemployment (the percentage of resident working age population who are unemployed and claiming Jobseeker's Allowance) in London was 3.4% in June 2006.
- There were 168,800 unemployment claimants in London in June 2006 compared with 163,500 in June 2005.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: July 2006

Next release: August 2006



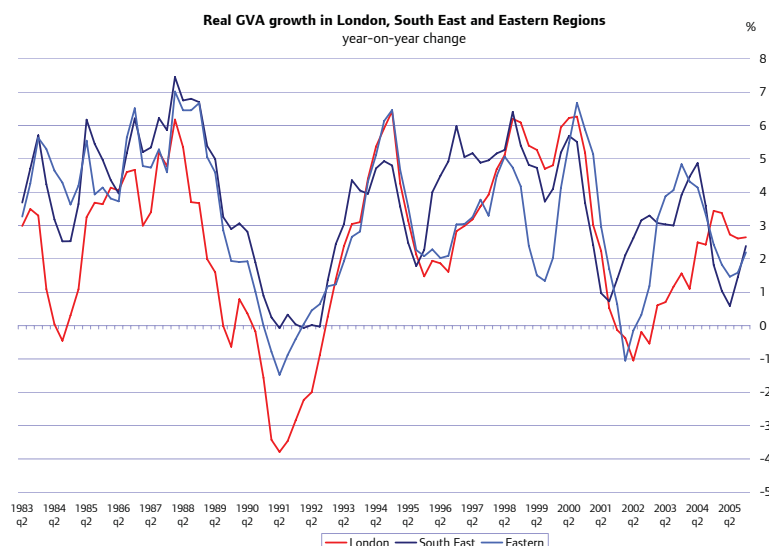
Source: Claimant Count, Nomis

Similar output growth in London, the South East and Eastern regions

- London's annual growth in output was 2.6% in Q4 2005, unchanged from the previous quarter.
- Annual output growth in the South East in Q4 2005 was 2.4%, up from 1.5% in the previous quarter.
- Annual output growth in the Eastern region was 2.2% in Q4 2005, up from 1.6% in the previous quarter.

Latest release: May 2006

Next release: August 2006



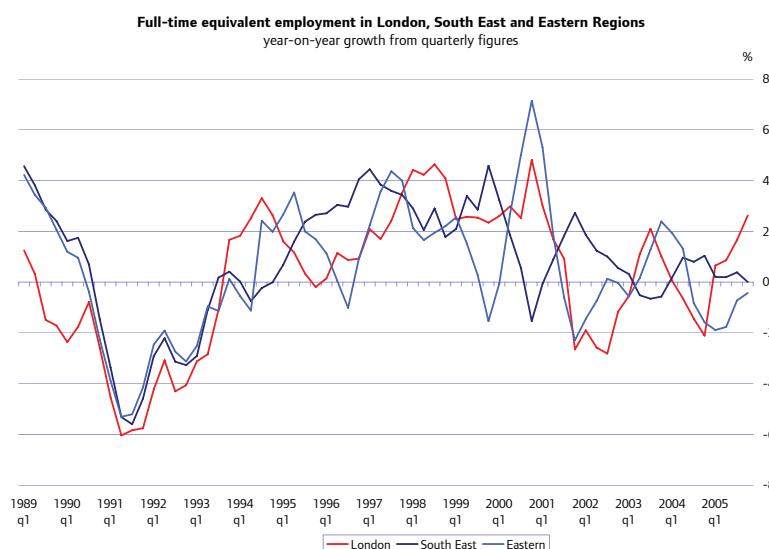
Source: Experian Business Strategies

London's annual employment growth higher than in its two neighbouring regions

- London's year-on-year employment growth increased to 2.6% in Q4 2005 from 1.7% in Q3 2005.
- Annual employment growth in the South East decreased slightly to 0.0% in Q4 2005 from 0.4% in Q3 2005.
- Annual employment growth in the Eastern region was -0.4% in Q4 2005 up from -0.7% in Q3 2005.
- London experienced higher year-on-year employment growth than the South East and Eastern regions throughout 2005.

Latest release: May 2006

Next release: August 2006



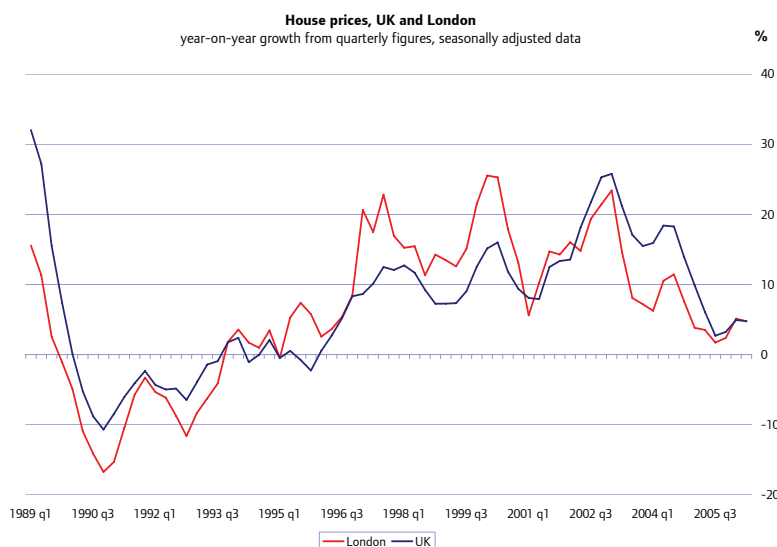
Source: Experian Business Strategies

Similar annual house price growth in London and the UK

- Nationwide reported very similar house price growth for London and the UK in Q2 2006.
- Annual house price growth in London was 4.7% in Q2 2006 down from 5.1% in Q1.
- Annual house price growth in the UK was 4.8% in Q2 2006 down slightly from 4.9% in Q1.

Latest release: July 2006

Next release: October 2006



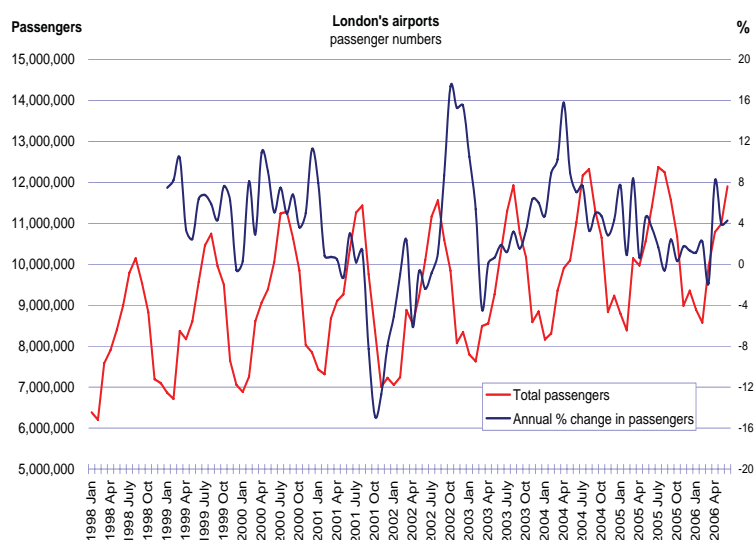
Source: Nationwide

Continued annual growth in airport passenger numbers

- 11.9 million passengers travelled through London's airports in June 2006.
- The number of passengers using London's airports increased by 4.3% from June 2005 to June 2006.
- International travel through London's airports has seen positive year-on-year growth in the last three months.

Latest release: July 2006

Next release: August 2006



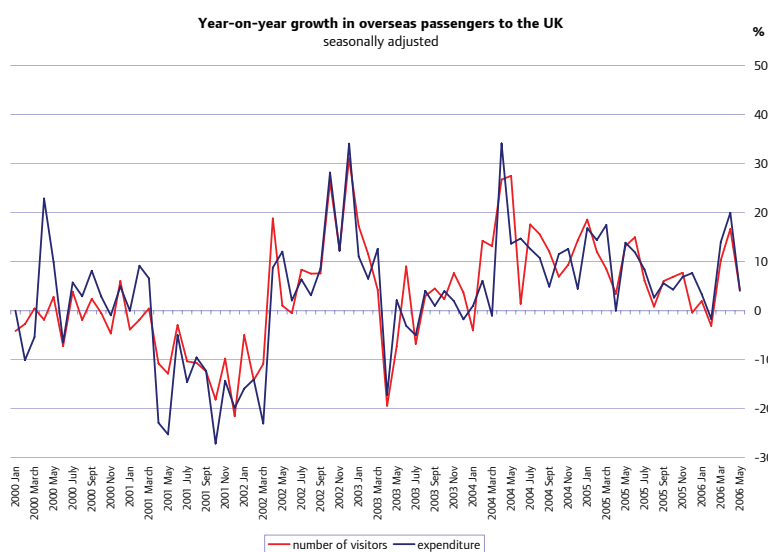
Source: Civil Aviation Authority

Slower annual growth in tourism activity

- Annual growth in overseas visitor numbers to the UK and their expenditure in the UK continued in May 2006. Up to half of overseas visitors to the UK spend time in London.
- The annual growth rate of overseas visitors to the UK was 4.3% in May, down from 16.7% in April.
- The annual growth in expenditure by overseas visitors in the UK was 4.1% in May, down from 20.0% in April.

Latest release: July 2006

Next release: August 2006

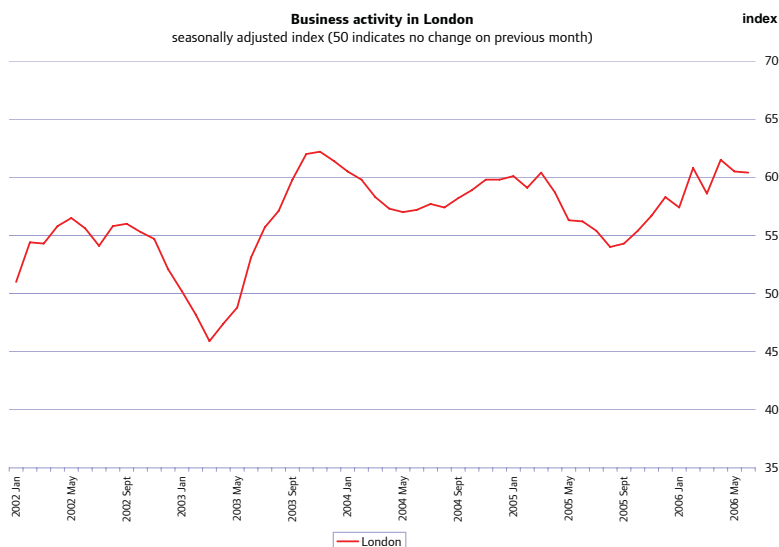


Source: Office for National Statistics

Business activity in London growing strongly

- London firms continued to expand their output of goods and services in June 2006.
- The Purchasing Managers' Index (PMI) of business activity recorded 60.4 in June compared to 60.5 in May.
- A rate 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: July 2006
Next release: August 2006



Source: PMI/The Royal Bank of Scotland

Employment in London expands

- London firms continued to increase their level of employment in June 2006.
- The PMI for the level of employment was 56.1 in June compared to 55.9 in May. This is close to the recent peak in April 2006 of 56.3.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: July 2006
Next release: August 2006

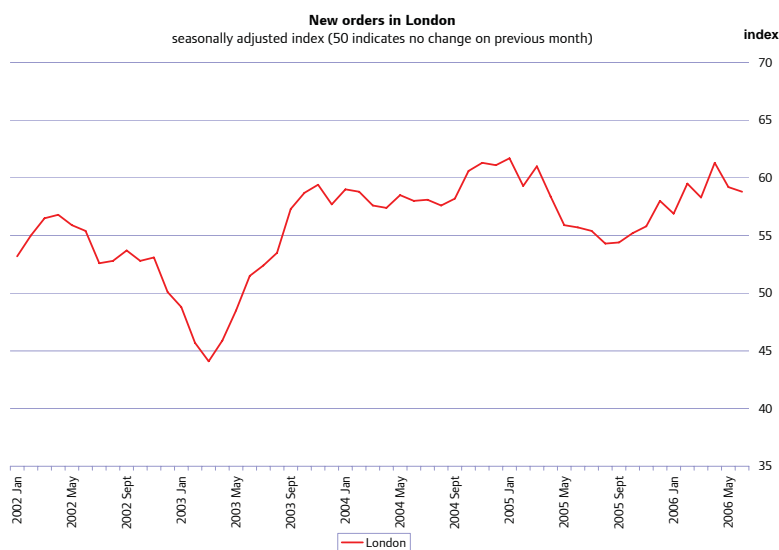


Source: PMI/The Royal Bank of Scotland

New orders in London still growing

- June 2006 saw continued growth in new orders for London firms.
- The PMI for new orders reported 58.8 in June 2006, a slight decrease from 59.2 in May.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: July 2006
Next release: August 2006



Source: PMI/The Royal Bank of Scotland

The LDA will shortly publish the third of its six-monthly Snapshot reports which show the progress made in delivering the objectives set out in the Mayor's Economic Development Strategy (EDS). The EDS, which was prepared by the LDA on behalf of the Mayor of London, draws on a comprehensive base of evidence on London's economic performance to analyse the issues facing the London economy and detail actions to maintain and promote further development. As a Mayoral strategy, the EDS calls on all organisations with an interest in London's economy – public, private, voluntary and community sectors – to work together to deliver the objectives of the EDS.

The aim of the Snapshot is to:

- identify and review London's progress against the strategic priorities of the EDS
- provide a basis on which to review the priorities for London's economic development
- act as a catalyst for directing economic development activities in London.

Considering London's performance against the four investment themes of the EDS shows:

- **Place and Infrastructure:** Indicators continue to improve.
- **People:** Performance against all three 'people' objectives continues to be poor.
- **Enterprise:** London's previously good performance on enterprise indicators appears to have stalled, although this is likely to be due to the stage of the economic cycle as the latest data on economic output suggest that things picked up in 2005.
- **Marketing and Promotion:** Indicators have shown a good recovery after the terrorist attacks in London in July 2005.

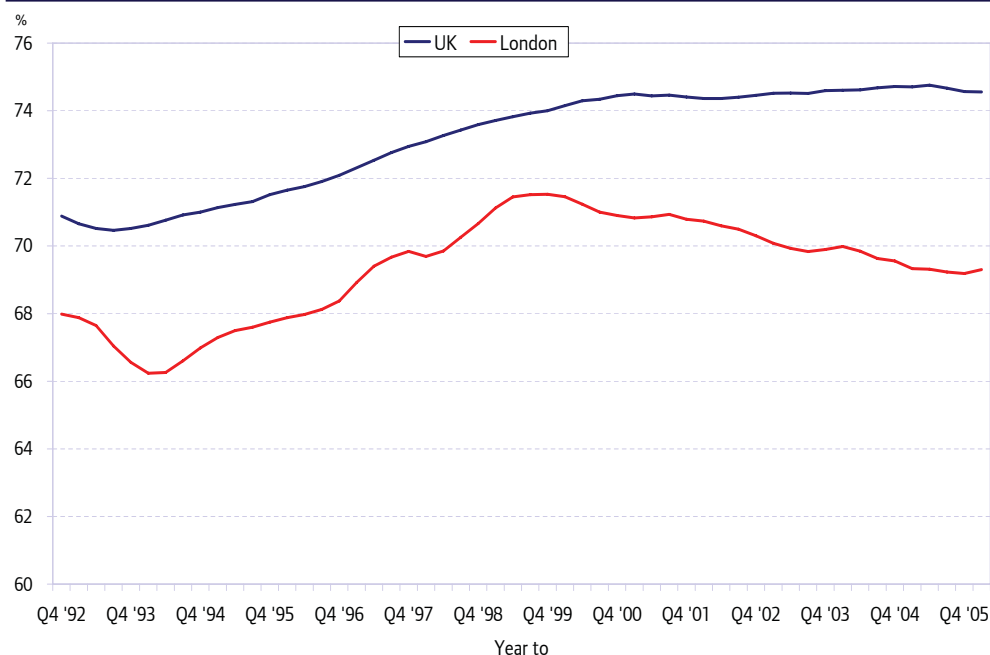
The priority for London's economic development remains improving the employment rate. The EDS 'people' objectives are the only objectives which London is consistently failing to meet. Over 30 per cent of working age adults in London are not in work – a higher proportion than any other region of the UK except Northern Ireland. Government spending on employment policies in London was £234 per workless person in 2005/06 – much lower than the UK average of £403 per workless person.

London's employment rate remains significantly below the UK average

The Snapshot highlights that London's employment rate fell over the whole of 2005, but increased over the first quarter of 2006, and is now 5.3 percentage points below the UK.

Figure 3. Working age employment rates (4 quarter average)

Source: LFS

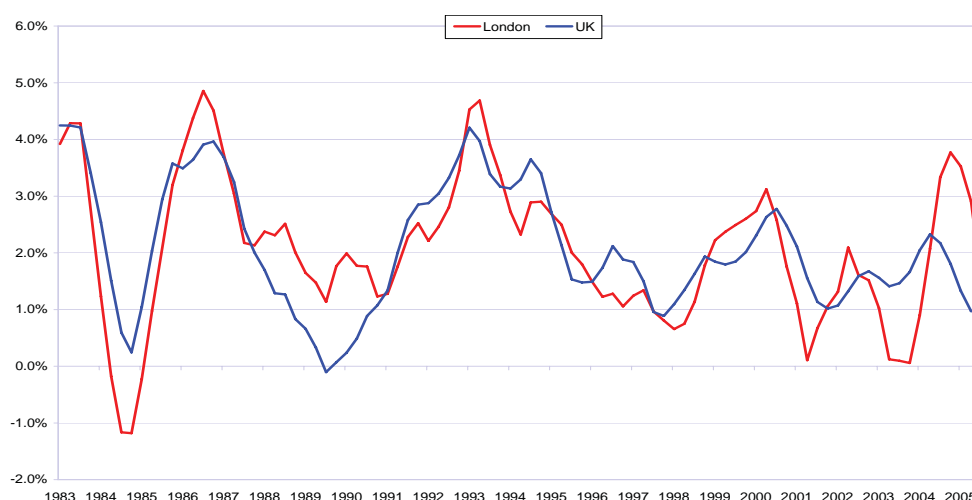


London's employment rate stood at 69.3 per cent when averaged over the year to Q1 2006 compared to 74.6 per cent for the UK as a whole. Although the employment rate improved over the most recent quarter, the chart shows that while the rate has shown improvements at various points over the past six years or so these have not been sustained; more data is required to evaluate whether the most recent quarter's improvement is a sign of a more permanent turn around in the London economy. Similarly, the employment rates for most disadvantaged groups and in disadvantaged areas do not show sustained improvement relative to London as a whole.

Workforce productivity in London has grown at a similar rate to the UK as a whole over the economic cycle to date

Figure 4. Annual growth rates in GVA per worker (FTE)

Source: EBS



London's GVA per worker has grown at a similar rate to that for the UK over this economic cycle and at a faster rate than that for the UK over the last year. Average growth in GVA per worker has been 1.6 per cent per annum in both London and the UK over the current economic cycle (1997-2005). In contrast, over the economic cycle that ran between 1986 and 1997 annual growth in GVA per worker in London averaged 2.3 per cent, compared to 2.1 per cent for the UK as a whole.

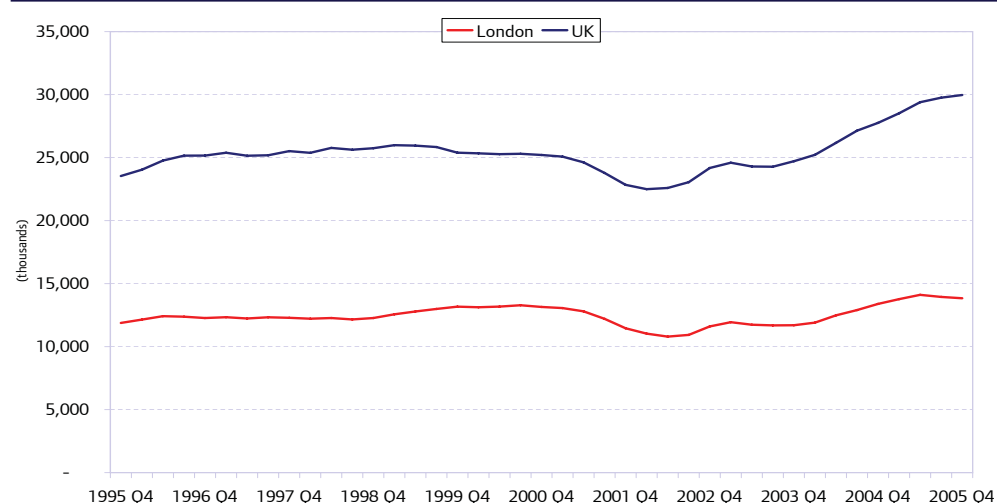
Figure 4 shows that growth in GVA per worker is volatile – more so in London than for the UK on average. London's weaker performance in recent years is likely to be due to the stage of the economic cycle as the latest data on economic output suggest that things picked up in 2005.

Indicators for Marketing and Promotion of London have shown a good recovery after the terrorist attacks in London in July 2005

The number of overseas visitors to London grew in the year to December 2005 compared to the same period a year earlier. However, the strong growth in the first half of the year fell after the terrorist attacks in London in July 2005. Growth in visitor spending in London continued in the six months following the July 2005 terrorist attacks, despite the small fall in the number of overseas visitors. There has been steady growth in visitor spending in London and the UK since the end of 2003.

Figure 5. Trips made by international visitors (last 4 quarters)

Source: IPS



The LDA will use the findings of the Snapshot to identify current priorities, direct investment decisions, and influence partners in London's economy in delivering the objectives of the EDS.

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
House prices	www.nationwide.co.uk/hpi/
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count rate

Unemployment rate based on the number of people claiming unemployment benefits.

Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

FootFall Index

Measures the average number of people passing through London shopping centres on a weekly basis. This index is positively correlated with UK retail spending so it can provide an indication of consumer spending in London.

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

ILO unemployment rate

The International Labour Organisation's calculation of the number of people out of work.

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year – twelve 28-day periods and one 29-day period. Period 1 starts at the beginning of the financial year rather than the calendar year.

Acronyms

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

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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.

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