

London's Economy Today



Issue 39 | November 2005

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Dynamic London ranked as top financial centre

Damian Walne, Economist

GLA Economics hosted its international conference, "The Dynamic City", on Tuesday 8 November. Speakers and delegates discussed how cities matter - bringing people together and business together in one place. This is the dynamic that creates the new opportunities, innovation and creativity that drives economic success.

Creative supplement

This month's supplement looks at "creative businesses" - another aspect of London as a dynamic city. It looks at how to measure and monitor creative businesses, highlighting work by GLA Economics to make sense of difficult data. (See page 9)

Economic Indicators

This month's economic indicators introduce the latest estimates of London's growth in output and jobs (see pages 5-8).

The conference also saw the launch of the latest publication from GLA Economics, *Our London Our Future: Planning for London's Growth II*. The report explores the changing world economy and examines the relationship between London and the UK. London's economic geography is mapped and the bottlenecks that prevent a high value London for all are considered. It forms part of the evidence base for the Mayor's London Plan.

GLAECONOMICS

Latest news...

- **Our London. Our Future:** Planning for London's Growth II is now available. To request a copy contact GLA Economics at 0207 983 4922 or by email to glaeconomics@london.gov.uk or download from our website at http://www.london.gov.uk/mayor/economic_unit
- **Youth Living Wage.** This current issues note proposes a living wage for young people using a methodology consistent with that used to calculate the general London Living Wage. GLA Economics' calculations suggest a youth living wage in London of £5.60 per hour. It is available to download from our website at http://www.london.gov.uk/mayor/economic_unit

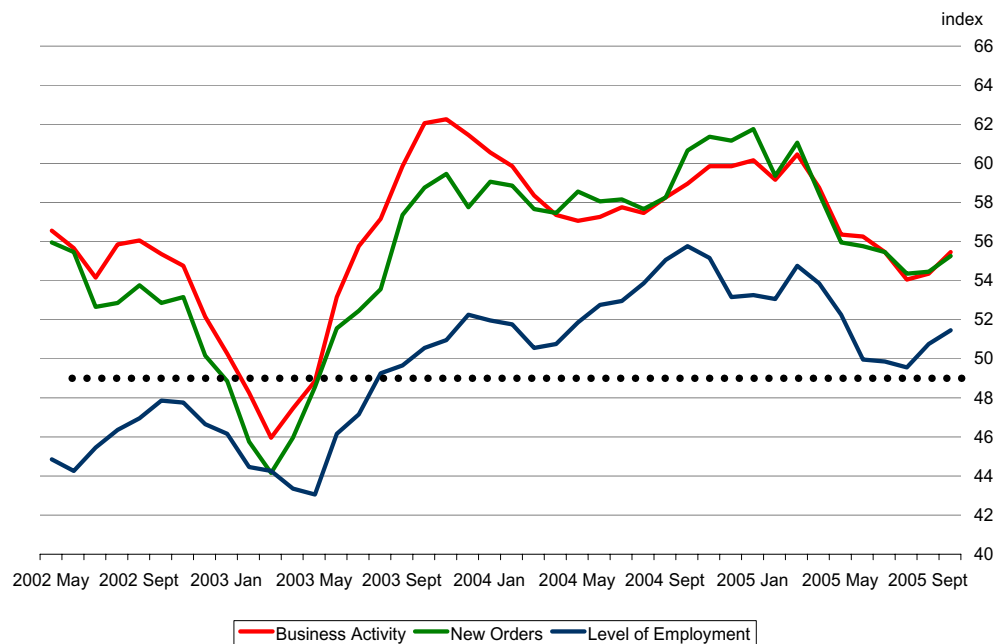
The view of London as a dynamic city is supported by new research commissioned by the Corporation of London, *The Competitive Position of London as a Global Financial Centre*. This surveyed senior professionals in financial services across the world, ranking London with New York as the only two genuine global financial centres. They set out what they see as the components of a city's competitiveness: availability of skilled personnel, access to international markets, business infrastructure and access to customers. All scored highly for London. Furthermore, part of the continuing appeal of London to foreign companies is its cosmopolitan status characterised by many nationalities trading with each other.

London today

London's economy continues to grow. Indicators do suggest the economy is improving. In October, the Purchasing Managers' Index (PMI) seasonally adjusted measures of business activity, new orders and the level of employment all improved. In the PMI, a score above 50 indicates growth on the previous month. In the summer, the score for employment fell below 50. It has now edged up over 51. Likewise, the scores for business activity and new orders, which declined, have both increased. This marks a subtle but important turnaround in the prospects for London's economy.

Chart 1. Business Activity, New Orders and Employment in London
Seasonally adjusted index (50 indicates no change on previous month)

Source: : Royal Bank of Scotland Purchasing Managers Index



Four months on from the terrorism attacks in July, there is a clearer idea of whether this has had an impact on London's tourism industry. The latest survey by Visit London of the capital's tourist attractions show the numbers of visitors in September 2005 were nearly 6% lower than in September 2004. This compares with 25% fewer visitors in August 2005 from August 2004, showing that tourists are now returning to London. This is backed up by data on the number of passengers travelling through London's airports, which in both September and October were up on the same time last year. Similarly, the latest numbers on passenger journeys on London Underground and buses were up on the same periods last year.

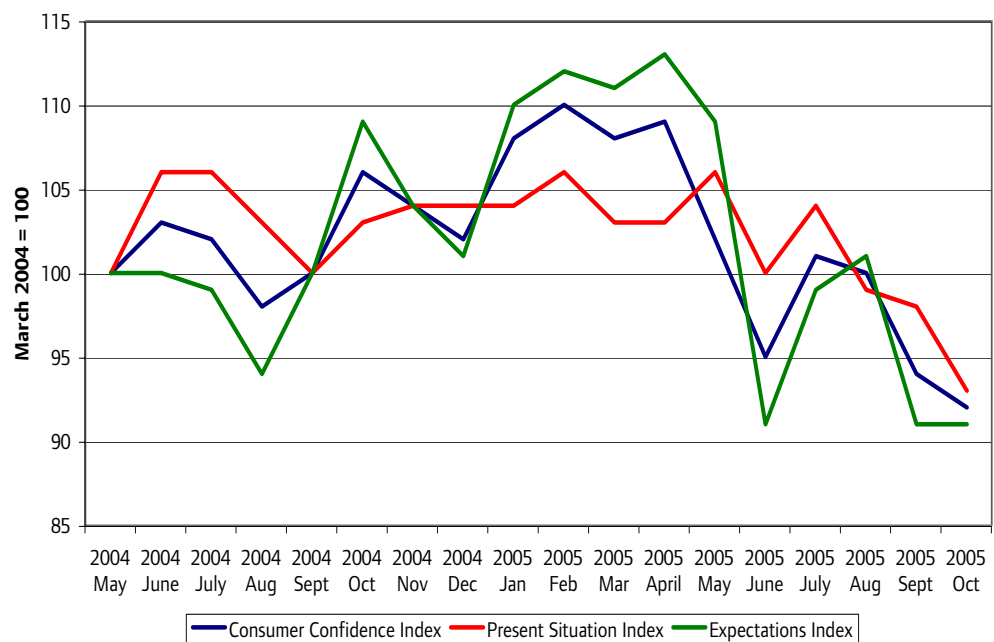
A nationwide slowdown?

In the UK economy, the Bank of England, as largely expected, left interest rates unchanged at 4.5%. Interest rates have remained unchanged for three months in a row. Meanwhile, the UK annual rate of inflation as measured by the Consumer Price Index fell to 2.3%. This compared to 2.5% the previous month and is the first decrease for over a year. This may take some pressure of the Bank of England and suggests that interest rates are unlikely to rise.

The Nationwide Consumer Confidence Index fell for a third month in a row in October. The building society's index fell to its lowest level since the survey began last year. This also reported falls in how confident people feel about the present situation of the UK economy. There was no change in people's expectations of the economy, jobs and income over the next six months.

Chart 1. Nationwide UK consumer confidence index

Source: Nationwide



News of the world economy

Oil prices have fallen below the heights they reached in the summer. Throughout November, prices have remained below \$60 per barrel and fallen as low as \$55. This compares to peaks of over \$70 in August. US government statistics reported stocks of crude oil being much higher than expected and buoyed by resumption of supplies from the Gulf of Mexico as the region recovers from Hurricanes Katrina and Rita. Therefore, many analysts believe oil prices may have peaked. However, a possible cold winter in North America and Europe raising demand and a December meeting of OPEC determining supply means prices have not settled yet.

In September, the high oil prices saw the US monthly trade deficit with the rest of the world grow to a record \$66 billion as overall imports to the US rose to \$171 billion. However, the US broke a second record in September as foreign investors invested \$102 billion in US assets. The trade deficit has therefore not deterred confidence in the US economy.

The record US trade deficit came as China reported a record monthly global trade surplus – standing at \$12 billion, a quarter of which is with the US. Chinese exports reached \$68 billion in September, soaring by 30% from a year earlier. This reflects Western retailers stocking up on clothing, toys, televisions and computers in the run-in to the year's busiest shopping period. This Christmas, more than any before, will be made in China.

Conclusions

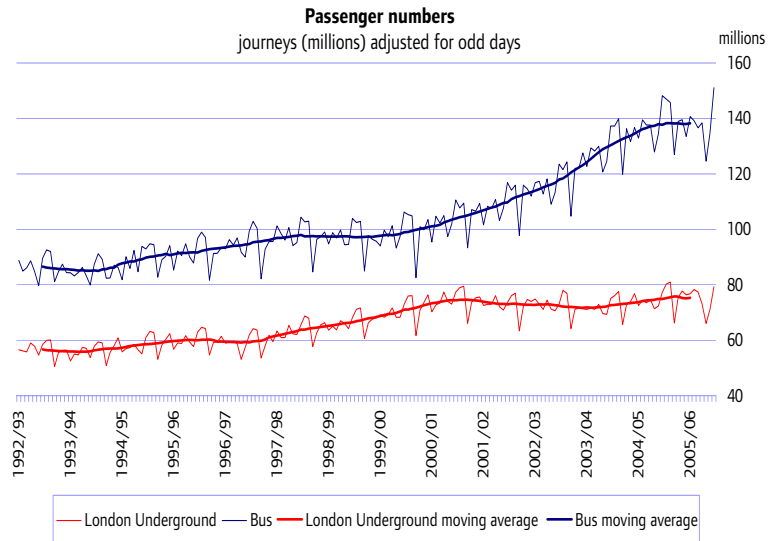
So what does all this mean for London? In the context of a UK economy in which consumers are being cautious and while the world felt the impact of oil prices; London's business reported increases in activity, new order and jobs, alongside a recovery in the number of visitors to London. It shows the resilience of London's economy.

Small increase in moving average of passenger numbers

- The most recent 28-day period is from 18 September to 15 October 2005. London's public transport had 230.4 million passenger journeys; 151.1 million by bus and 79.3 million by Underground.
- The moving average increased slightly to 213.5 million passengers every period. The average for buses was 138.2 million passenger journeys. The average for the Underground was 75.3 million.

Latest release: November 2005

Next release: December 2005



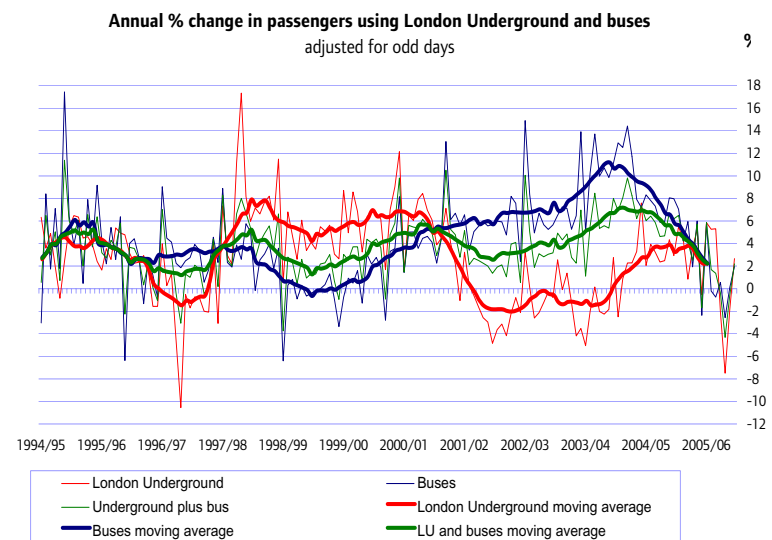
Source: Transport for London

Passenger journeys' annual growth rate continues to slow

- The moving average annual rate of growth in passenger journeys is 2.1%, below the annual growth in the previous period of 2.4%.
- The moving average annual rate of growth in bus journey numbers slowed further to 2.1%, down from 2.6% in the previous period.
- The moving average annual rate of growth in Underground passenger journey remained stable, also at 2.1%.

Latest release: November 2005

Next release: December 2005



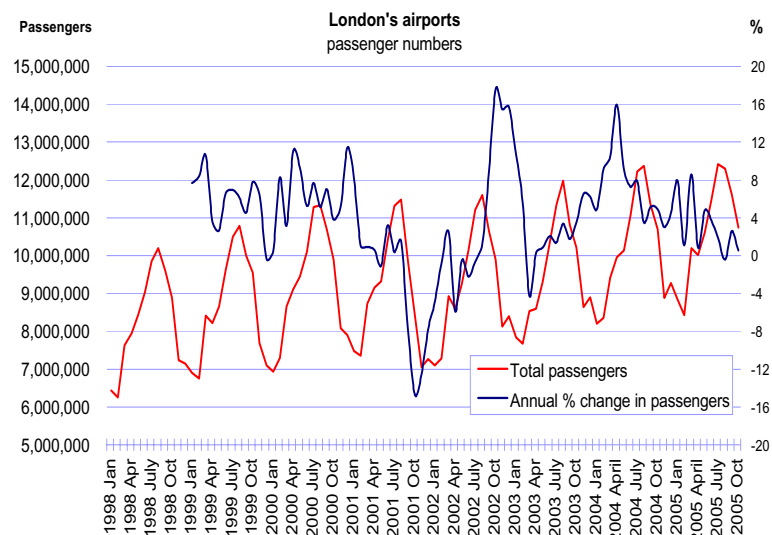
Source: Transport for London

Small annual growth in airport passenger numbers

- 10.6 million passengers travelled through London's airports in October 2005.
- The number of passengers using London's airports increased by 0.4% from October 2004 to October 2005.
- This continues to show a recovery in year on year growth from August 2005 when the annual change in passenger numbers decreased by 0.6%.

Latest release: November 2005

Next release: December 2005



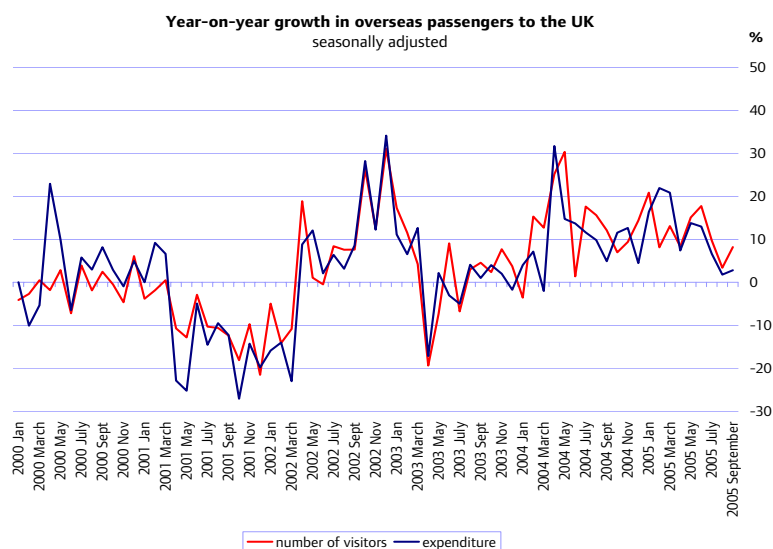
Source: Civil Aviation Authority

Year-on-year growth in number of overseas visitors to the UK

- September 2005 saw continued annual growth in overseas visitor numbers to the UK. Up to half of overseas visitors spend time in London.
- The annual growth rate of overseas visitors to the UK was 8.2% in September 2005, up from 3.4% in August.
- The year-on-year growth in expenditure by overseas visitors in the UK was 2.8% in September 2005, up from 1.8% in August.

Latest release: November 2005

Next release: December 2005



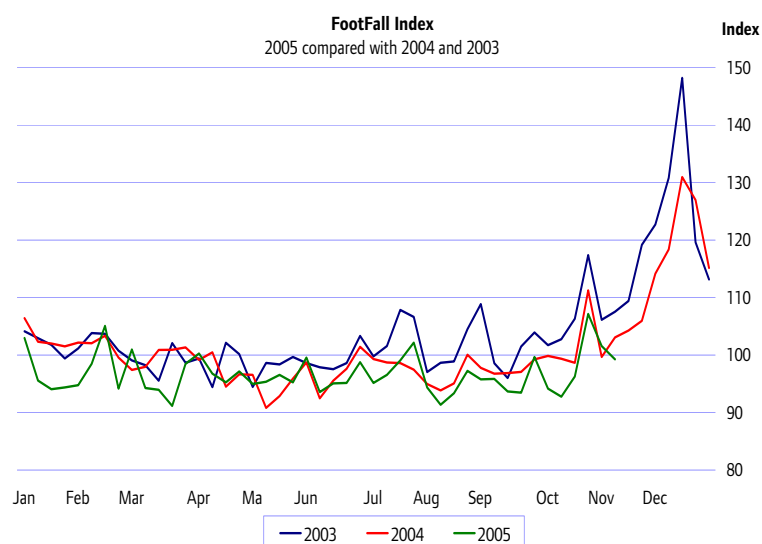
Source: Office for National Statistics

Shopping numbers remain below 2004 and 2003 levels

- The Footfall Index of shoppers in London was 99.1 in the first week of November compared to 101.4 in the last week of October.
- In the last week of October 2005 the number of shoppers rose briefly above the level in October 2004 during the same period.
- The FootFall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: 7 November 2005

Next release: Weekly



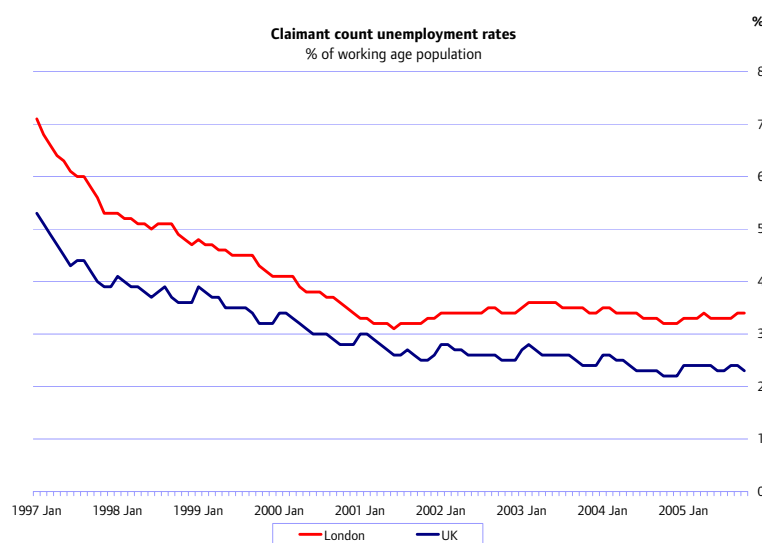
Source: Footfall Limited

Claimant count unemployment

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London was 3.4% in October 2005.
- There were 166,400 unemployment claimants in London in October 2005 compared with 159,200 in October 2004.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: November 2005

Next release: December 2005



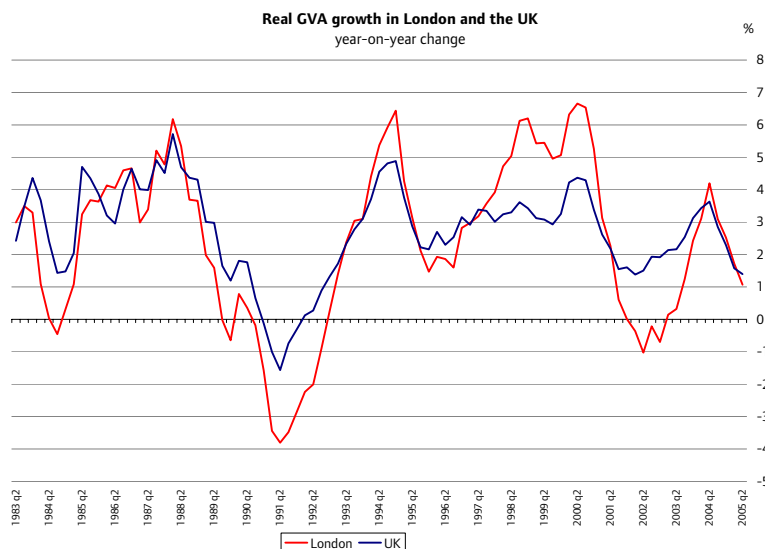
Source: Claimant Count, NOMIS

London's economy growing slightly slower than the UK's

- London's annual growth in output was 1.1% in Q2 2005, down from a revised 1.7% in 2005 Q1.
- The UK's annual growth in output was 1.4% in Q2 2005, down from a revised 1.6% in 2005 Q1.
- There have been changes to the series to reflect the availability of new data.

Latest release: November 2005

Next release: February 2006



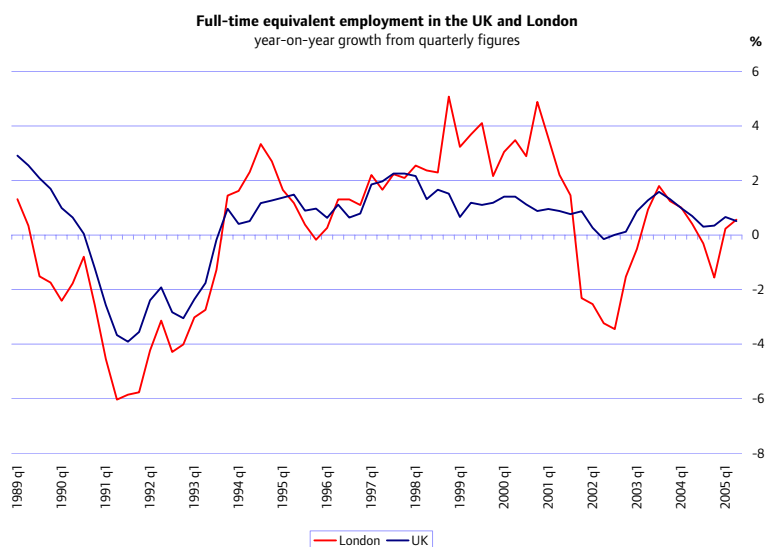
Source: Experian Business Strategies

Employment growth in London continues to rise

- London's year-on-year employment growth recovered further to 0.6% in Q2 2005 compared to 0.2% in Q1 2005.
- Annual employment growth in the UK as a whole decreased slightly to 0.5% in Q2 2005 from 0.7% in Q1 2005.
- There have been changes to the series to reflect the availability of new data.

Latest release: November 2005

Next release: February 2006



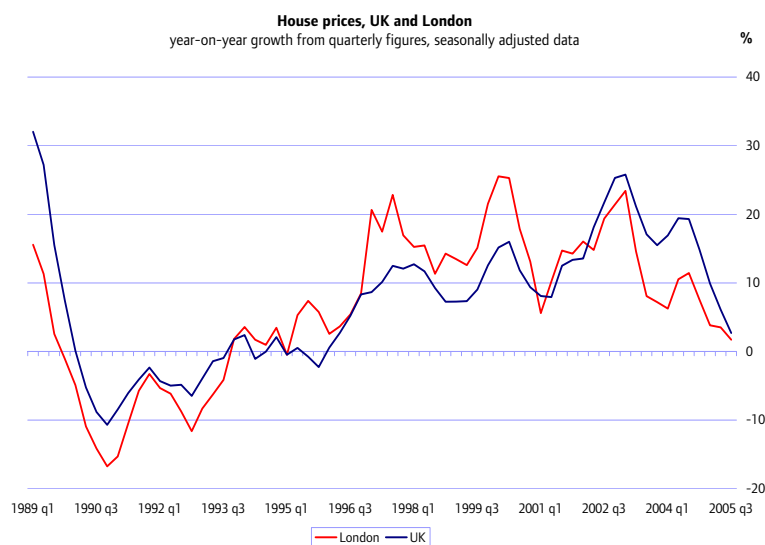
Source: Experian Business Strategies

Slowdown in the rate of house price growth

- Nationwide provides an index of house prices derived from their lending data. This is available up to Q3 2005 and shows a slowdown in London and across the UK.
- Annual house price growth in London slowed to 1.7% in Q3 2005 from 3.5% in Q2.
- Annual house price growth remained higher for the UK but slowed from 6.1% in Q2 2005 to 2.7% in Q3.

Latest release: November 2005

Next release: February 2006



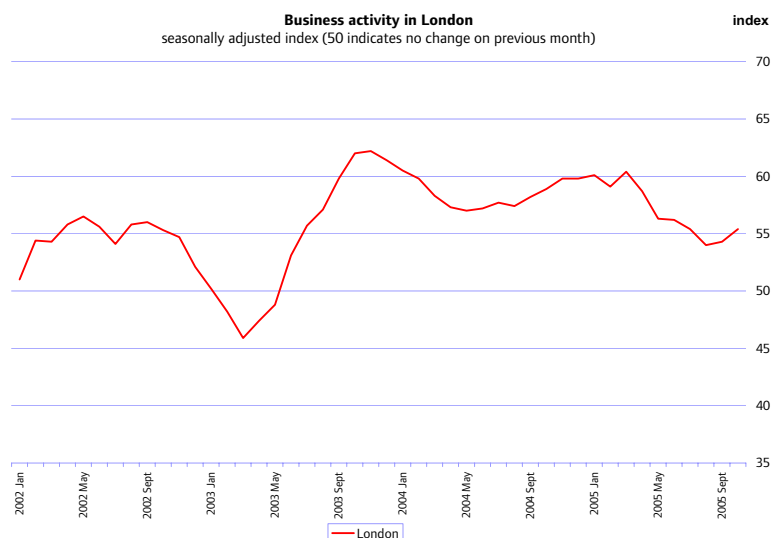
Source: Nationwide

Business activity in London expands

- London firms continued to expand their output of goods and services in October 2005.
- The Purchasing Managers' Index (PMI) of business activity recorded 55.4 in October compared to 54.3 in September.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: November 2005

Next release: December 2005



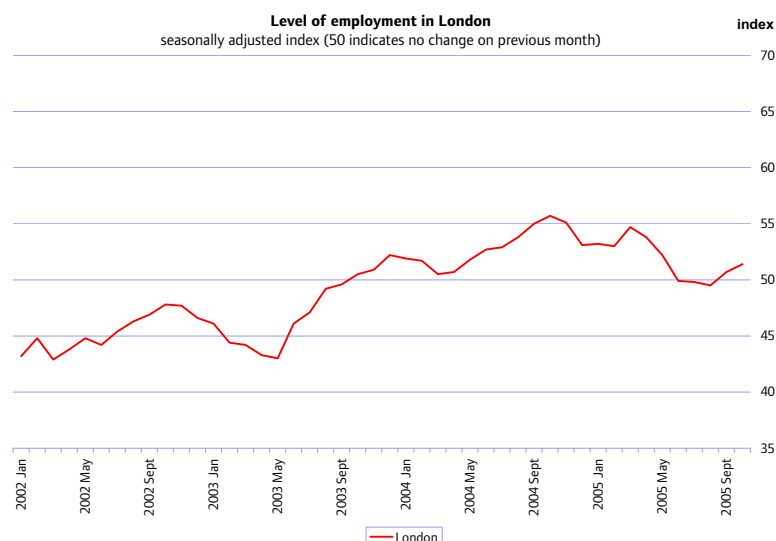
Source: PMI/The Royal Bank of Scotland

London employment

- London firms continue to increase their level of employment in 2005. The PMI for the level of employment was 51.4 in October.
- The PMI shows that the employment level in London firms has increased further to 51.4 in October 2005 from 50.7 in September 2005.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: November 2005

Next release: December 2005



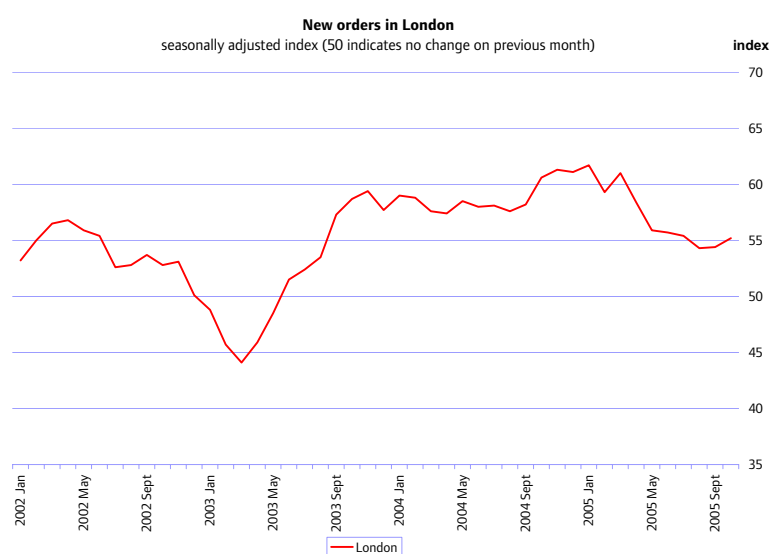
Source: PMI/The Royal Bank of Scotland

Continued growth in new orders

- New orders for London firms continued to rise. The PMI for new orders recorded 55.2 in October 2005. This is higher than 54.4 in September 2005.
- The volume of new orders to London private sector firms has been rising for more than two years.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: November 2005

Next release: December 2005



Source: PMI/The Royal Bank of Scotland

by Alan Freeman and
Matthew Waite
GLA Economics

GLA Economics is finalising work on a pilot study to get local area data about London's Creative industries. The data will provide the GLA and the LDA with more information about the creative sector in London and should help inform the development of projects, especially local area projects, in this field. Moreover, the data should allow for more effective monitoring and evaluation of policies and projects over time. If successful, the method could be extended to other sectors of London's economy.

Obtaining robust and consistent sector data, especially at the local level, is fraught with difficulties. When looking at sectors in London, two sources are usually used: the Annual Business Inquiry (ABI) and the Labour Force Survey (LFS) (which since 2004 has been superseded by the Annual Population Survey (APS)). Being surveys, they use evidence from samples – a sample of businesses in the case of the ABI and a sample of people for the APS. As with all surveys, these sources become increasingly unreliable the more specific the area of the economy studied or the lower the level of geography considered.

This is particularly important for this study because it applies a new standard developed by the Department of Culture, Media and Sport (DCMS) entitled the DCMS Evidence Toolkit (DET) (whilst also being consistent with the earlier DCMS standard applied in previous GLA Economics publications¹). Both these DCMS standards require a detailed breakdown into a number of 'creative sectors', or 'domains' as they are called in the DET. So for instance, the DET framework breaks the Creative industry into 4 domains: Audio-Visual, Books and Press, Performance and Visual Arts, each grouping together different types of creative product. On top of this each of these domains is split into 4 functions: Creation, Making, Dissemination and Exhibition/Reception. These reflect the different stages in the value chain involved in bringing these products to the consumer. This fine level of detail makes it difficult to obtain good quality, reliable data, especially at low levels of geography.

The data commissioned from TBR Economics for this study attempts to provide more reliable information on the various creative industry sectors or domains at successive levels of geography than could be gained from either the ABI or APS. It uses the 'Trends Central Resource' (TCR) dataset which contains information on around 2 million businesses and, as such, provides a base from which to draw a more detailed picture of activity at low geographic levels.

Whilst this provides more detailed data at the local level, because of the greater sample size, simply using this dataset would result in a third employment figure for Creative industries at the London level (alongside figures from the ABI and APS). As such the figure could not be compared with other sectors in London or with other regions of the UK. Therefore, to enable comparison with other sectors (including comparisons over time) the TCR data was 'constrained' to fit

1. *Creativity: London's Core Business; Creative Industries 2004 update.*

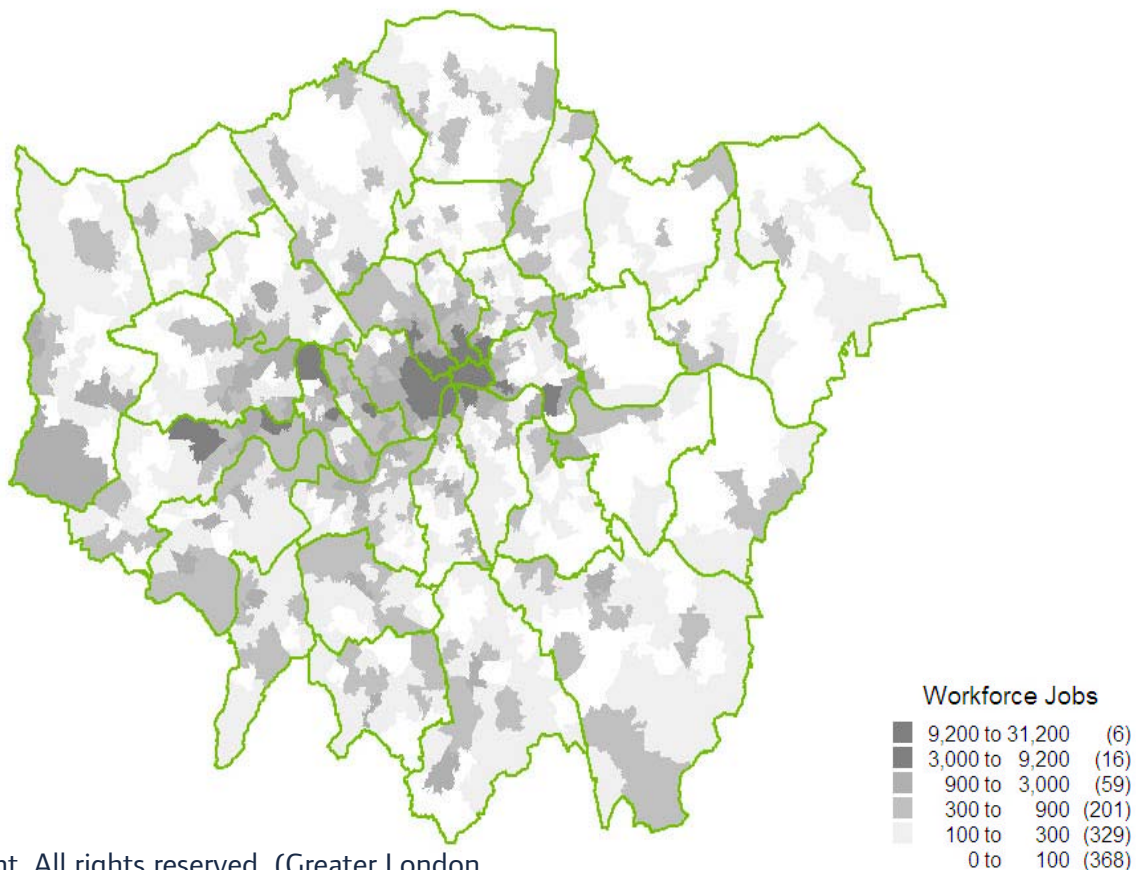
with ABI data at the London level. This is quite a technical process, but results in the aggregate level of employment and number of firms in the Creative industry in London being the same whether it is derived from the ABI or from the data commissioned for this study.

As a result, in the process of developing the data, the TCR data was checked thoroughly against the data used in building the ABI (principally the *Interdepartmental Business Register* (IDBR) which contains details of every UK business registered for VAT or PAYE) to make sure, as far as was possible, the data were consistent and comparable with one another.

The aim is therefore for more reliable data on every creative sector or domain at lower levels of geography than is currently possible. Nevertheless, if the numbers from all local areas and from each sector are added up across London, they match the total derived from official statistics aiding comparability with other London sectors and the creative industries in other regions. Thus there are, on the basis of ABI data, around 428,000 employee jobs within creative industries in London (this does not include creatively occupied workers outside the creative industries) of which 208,000 are in the Audio-Visual domain, 120,000 in Books and Press, 30,000 in Performance, and 70,000 in Visual Arts. The local area data shown in the map below is also derived from the TCR data and shows the spread of these 428,000 creative jobs across London as a whole.

Whilst GLA Economics is still finalising the study we hope to publish some of the more interesting data in an update report on London's creative industries in the new year.

Where London's creative jobs are



Additional information

11

Data sources

Tube and bus ridership	Transport for London on 020 7941 4500
GDP/GVA growth	Experian Business Strategies on 020 7630 5959
Tourism – overseas visitors	www.statistics.gov.uk
Tourism – domestic visitors	www.visitlondon.com
London airports	www.caa.co.uk
Business activity	www.rbs.co.uk/pmireports
Employment	www.rbs.co.uk/pmireports
London FootFall	www.footfall.com
Office space demand	www.cbhillierparker.com
House prices	www.nationwide.co.uk/hpi/
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs

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

Claimant count rate

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

Employee jobs

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

FootFall Index

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

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

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

ILO unemployment rate

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

Tube ridership

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

Acronyms

ABI	Annual Business Inquiry	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 of 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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