

London's Economy Today



Issue 38 | October 2005

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London still the best European city in which to locate a business

Christopher Lewis, Senior Economist

With less than two weeks to go before GLA Economics' international conference, *The Dynamic City*, on Tuesday 8 November, London has once again been named the best European city in which to locate a business.

The capital has always topped the annual survey since it first started in 1990 and this year increased its lead over second place Paris. London came top in five of the twelve categories: quality of staff; access to markets, customers or clients; external transport links; quality of telecommunications; and number of languages spoken. London's businesses face both threats and challenges from climate change and this month's supplement *Climate change: Threat or opportunity for London?* by Adarsh Varma looks at this issue in further depth.

The snapshot

London's economy continues to grow but has steadied as the UK's economy has weakened. In September, the Purchasing Managers' Index (PMI) measures of seasonally adjusted business activity, new orders and the level of employment all increased slightly and are broadly in line with the national average. The employment index showed expansion at 50.7 (this is above 50, which is the level consistent with no change on the previous month) after three successive months of very small

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Latest news...

Last chance to register – The Dynamic City conference

Hear leading world speakers talk about what makes a city dynamic in the 21st century. Attend cutting-edge workshops covering issues about the environment, skills, retail, people and communities, accessibility and infrastructure, and knowledge and universities. The Dynamic City conference: Tuesday 8 November, London.

For more information: 020 7983 4678, glaeconomics@london.gov.uk or www.london.gov.uk/mayor/economic_unit.

New publications:

- Retail in London: Working Paper C – Grocery Retailing
 - London's Economic Outlook: Autumn 2005 (released this Monday 31 October)
- For your copies: glaeconomics@london.gov.uk or www.london.gov.uk/mayor/economic_unit.

contraction. With regards to office property in the City, the quarterly survey of City agents published by the Corporation of London showed that demand for office space is increasing, with nine per cent more agents reporting a pick-up in enquiries in Q2 2005 than reporting a fall, and a positive balance of 13 agents expecting an increase in 2005 Q3.

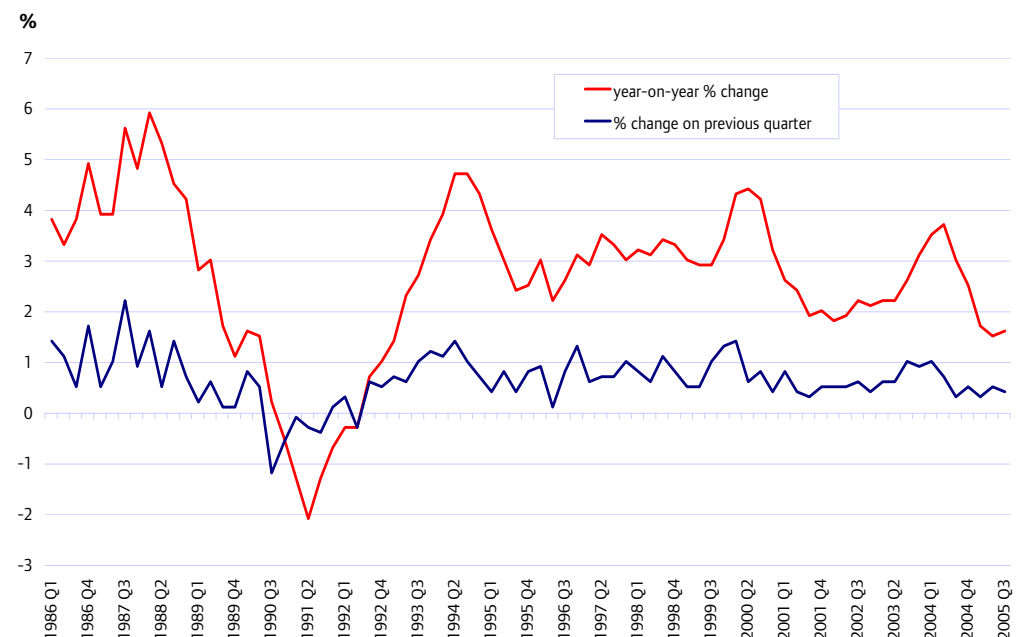
The terrorism attacks in July continue to weigh on London's tourism industry. Visit London statistics show that overall visits to London attractions decreased by 24.5 per cent in August 2005 compared with August 2004. Early indications for September suggest that overall attendance levels have fallen by around 10-15 per cent compared to the same time last year. Meanwhile, London Retail Consortium figures show that retail sales in central London are still weaker than in the UK as a whole. During September central London retail sales were 2.3 per cent lower, on a like-for-like basis, than in September 2004 compared with a 0.8 per cent fall for the UK. However the annual fall in central London was significantly less than the 8.9 per cent in July and 11.5 per cent in August.

UK economic growth remains sluggish

The UK economy grew by 0.4 per cent in Q3 2005 compared with 0.5 per cent in Q2 2005 (see Figure 1). However, annual output growth improved slightly to 1.6 per cent in the latest quarter (from 1.5 per cent in Q2). The two main parts of the economy continue to head in different directions. The service sector grew by 0.6 per cent in Q3 while industrial production fell by 0.6 per cent. Annual service sector growth is just below trend at 2.2 per cent while annual industrial production growth is a negative 1.3 per cent. Within the service sector the business services and finance sector continues to grow robustly at 0.7 per cent in Q3 2005 and at an annual rate of 3.1 per cent. This is good news for the London economy in which this sector plays an important role.

Figure 1: UK GDP growth

Source: Office for National Statistics



High oil prices remain a concern for the UK economy along with subdued consumer confidence and a weak retail sector. Annual growth in the seasonally adjusted volume of retail sales fell to 0.7 per cent in September (the lowest growth since January 1996). There are few signs of a significant recovery in overall household spending, but the housing market seems to have stabilised in recent months. Despite the UK economy being subdued consumer price inflation rose further above the two per cent target in September to 2.5 per cent. The combination of below trend growth for five quarters and above target inflation is making interest rate decisions by the Bank of England tricky and may well mean that interest rates are kept at 4.5 per cent during the rest of this year.

Aftermath of Katrina hits US economy but growth continues

The number of people in work in the US declined in September for the first time since May 2003 due to layoffs caused by Hurricane Katrina. However, the fall of 35,000 was significantly less than the 135,000 expected and job growth for July and August has been revised upwards. The unemployment rate only increased to 5.1 per cent from 4.9 per cent in August. Survey evidence suggests that service sector expansion slowed sharply and consumer confidence weakened in September. Output at US factories, mines and utilities fell by 1.3 per cent in September, the worst one month decline in more than 23 years. However, the Federal Reserve's Beige Book survey showed that the housing market remained strong and overall economic growth continued in September and early October. Cost increases from energy and petroleum products remain a concern.

Oil prices have steadied to just under \$60 per barrel below their August highs. This is despite US oil production hitting a 50-year low in September as hurricanes Katrina and Rita reduced output in the Gulf of Mexico. With oil prices still high, Eurozone economies show few signs of a significant pick-up. In August, German industrial output fell by a larger than expected 1.6 per cent and France's unemployment rate remained at 9.9 per cent. The President of the European Central Bank (ECB), Jean-Claude Trichet, has admitted that economic growth in the Eurozone is not satisfactory.

Japan's economy is improving with business confidence and household spending rising while unemployment is falling. After his landslide re-election, Japan's Prime Minister Junichiro Koizumi has also managed to get his post office reform bill passed by parliament. The state owned savings bank has over £1.7 trillion in assets and from 2007 it will be gradually privatised in separate units. Mr Koizumi is now expected to push his reforms to open up government-dominated sectors to competition further in an attempt to stimulate long-term growth. The amount of Chinese yuan denominated debt held by foreign banks has increased significantly as speculators anticipate another revaluation of the currency as its trade surplus is forecast to increase threefold in 2005 to over £50 billion.

Global economic uncertainties increase

Inflationary pressures have picked up throughout the world economy due to the rapid increase in oil prices during 2005. Despite a slight fall back in oil prices from their highs in August the full effect of rising oil prices in the earlier part of the year have yet to feed through fully into consumer price inflation. Financial markets are now expecting tighter monetary policies in the major developed countries than they had predicted a couple of months ago and this has been a factor in global stock market weakness over the last month. The FTSE 100 for example has fallen back from a four-year high of just over 5500 to around 5200. Overall, the global economy continues to grow at a healthy pace with support from China and the USA. However, the expected world economic climate over the winter now seems more uncertain than it did with tough decisions to be made by central bankers and stockmarkets reacting uneasily. As the soon to be retiring Alan Greenspan, the Federal Reserve Chairman, recently said, 'Although the global economic expansion appears to have been on a reasonably firm path through the summer months, the recent surge in energy prices will undoubtedly be a drag from now.'

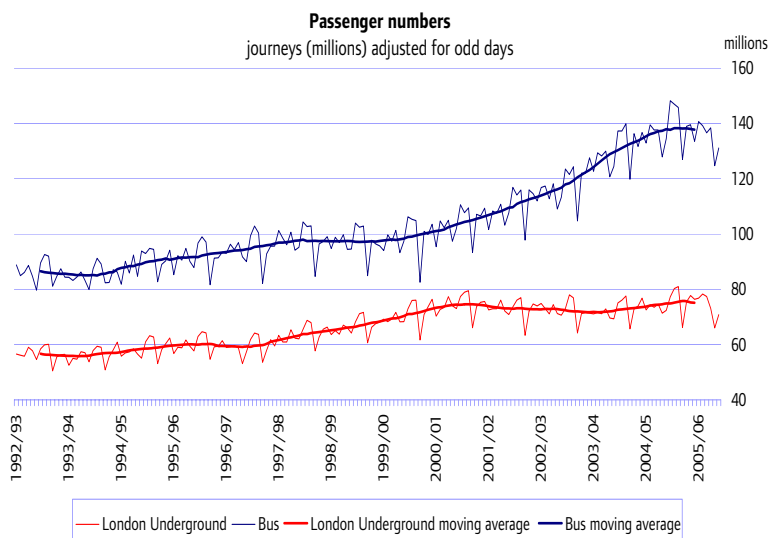
Economic indicators

Moving average of passenger numbers

- The most recent 28-day period is from 21 August to 17 September 2005. London's public transport had 201.9 million passenger journeys; 131.1 million by bus and 70.8 million by Underground.
- The moving average fell slightly to 212.9 million passengers every period. The average for buses was 137.7 million passenger journeys. The average for the Underground was 75.1 million.

Latest release: October 2005

Next release: November 2005



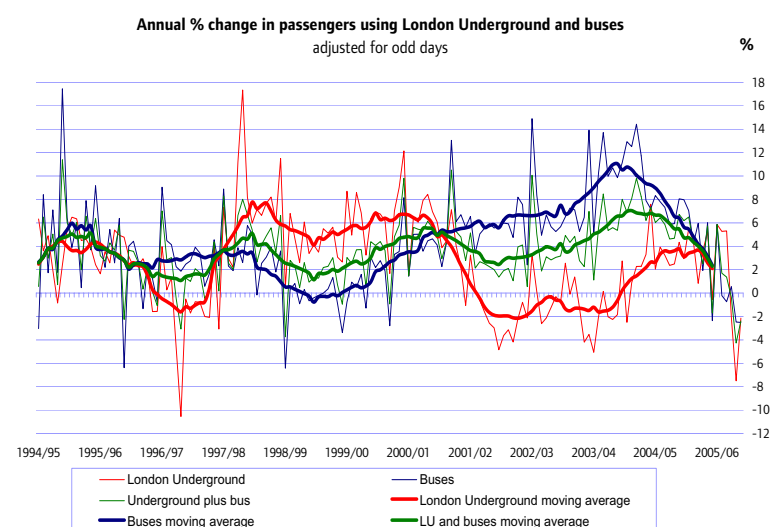
Source: Transport for London

Passenger journeys' annual growth rate continues to slow

- The moving average annual rate of growth in passenger journeys is 2.3%, below the annual growth in the previous period of 3%.
- The moving average annual rate of growth in bus journey numbers slowed further to 2.4%, down from 3.2% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased from 2.6% to 2.1%.

Latest release: October 2005

Next release: November 2005



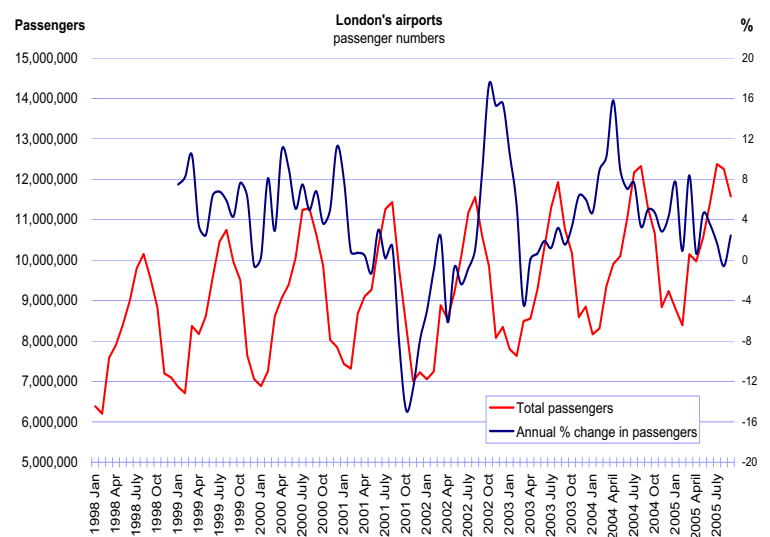
Source: Transport for London

Annual growth in airport passenger numbers

- 11.6 million passengers travelled through London's airports in September 2005.
- The number of passengers using London's airports increased by 2.4% from September 2004 to September 2005.
- This indicates a year-on-year recovery from August 2005 when the annual change in passenger numbers decreased by 0.6%.

Latest release: October 2005

Next release: November 2005



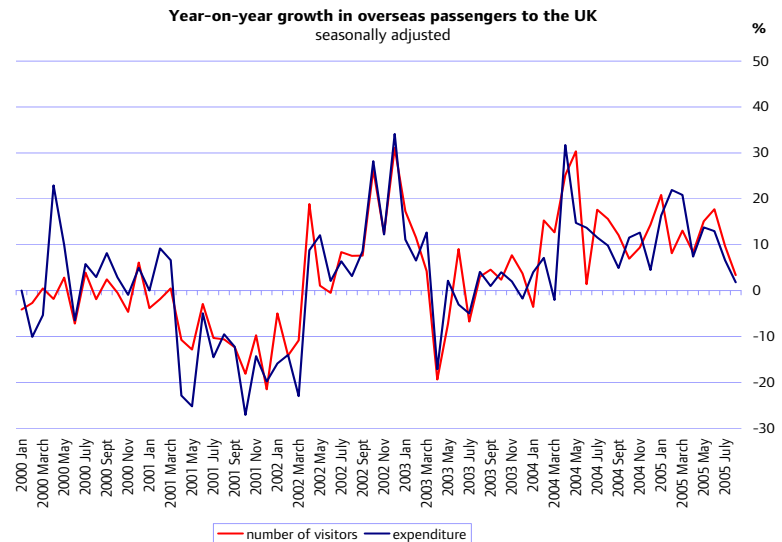
Source: Civil Aviation Authority

Slower growth in number of overseas visitors to the UK

- August 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 3.4% in August 2005, from 9.7% in July.
- The year-on-year growth in expenditure by overseas visitors in the UK was 1.8% in August 2005, from 6.6% in July.

Latest release: October 2005

Next release: November 2005

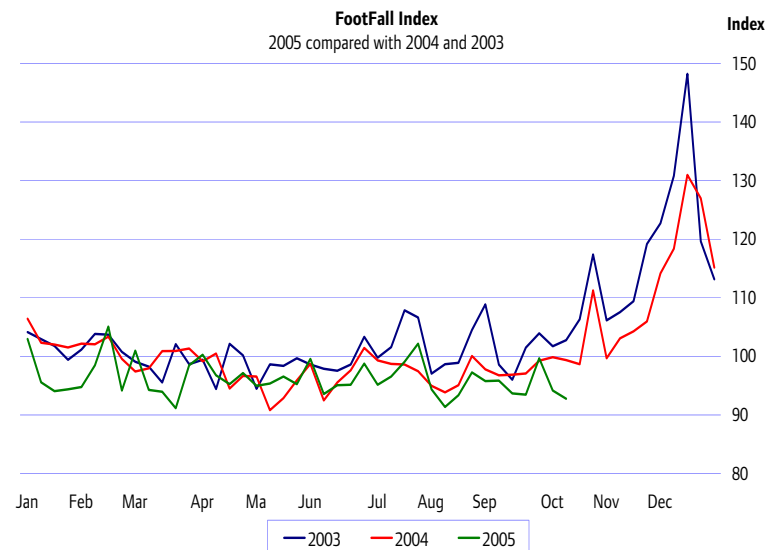


Shopping numbers remain below 2004 and 2003 levels

- The Footfall Index of shoppers in London was 92.6 in the second week of October compared to 94 in the first week.
- The level of the index in the first half of October 2005 was lower than in October 2004 and 2003 during the same period.
- The FootFall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: 18/10/05

Next release: every week

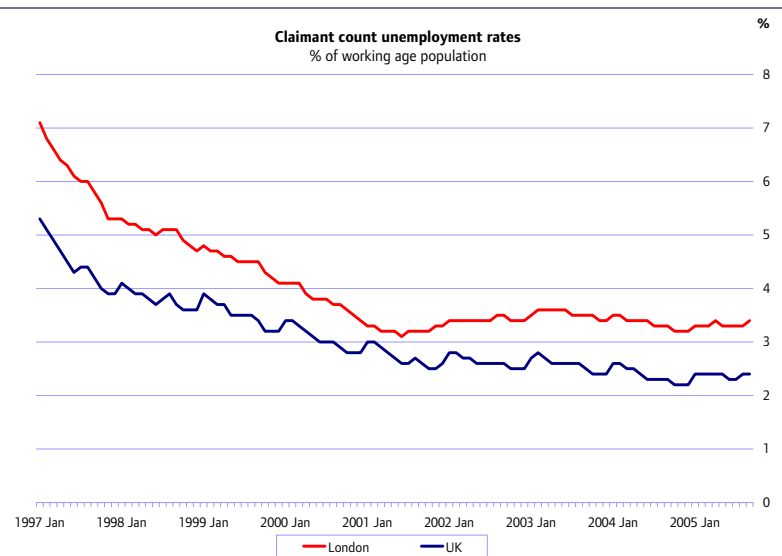


Claimant count unemployment

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London was 3.4% in September 2005.
- There were 166,700 unemployment claimants in London in September 2005 compared with 162,300 in September 2004.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: October 2005

Next release: November 2005

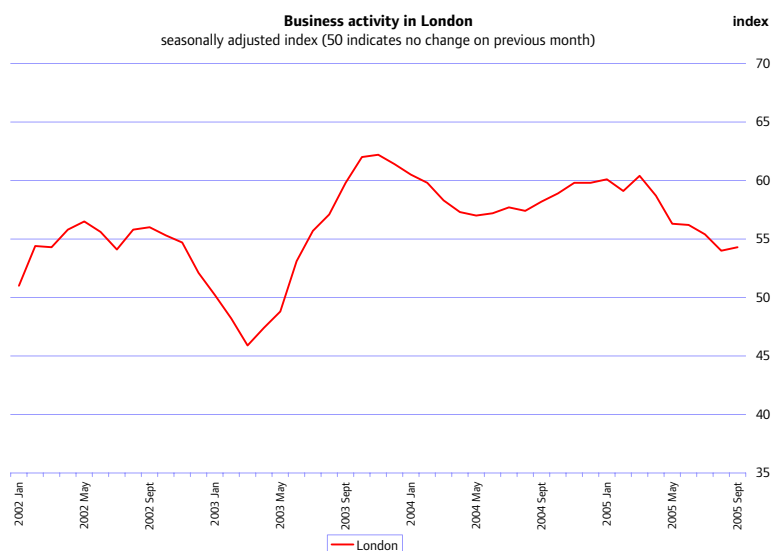


Business activity in London expands

- London firms continued to expand their output of goods and services in September 2005.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.3 in September compared to 54.0 in August.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: October 2005

Next release: November 2005



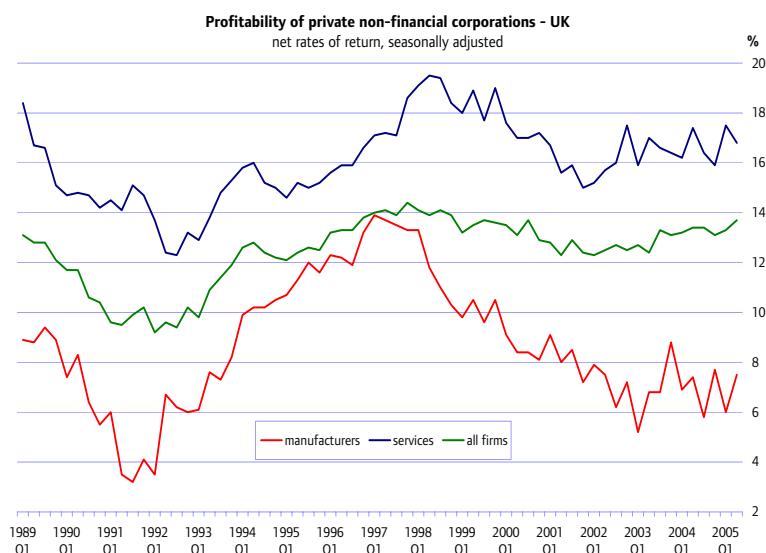
Source: PMI/The Royal Bank of Scotland

UK corporate profitability

- Overall UK corporate profitability strengthened slightly in 2005 Q2. The net rate of return by private corporations was 13.7% in 2005 Q2.
- The net rate of return in services was 16.8% in 2005 Q2, falling a little from 2005 Q1.
- The net rate of return in UK manufacturing corporations was lower than for services at 7.5% in 2005 Q2.

Latest release: October 2005

Next release: January 2006



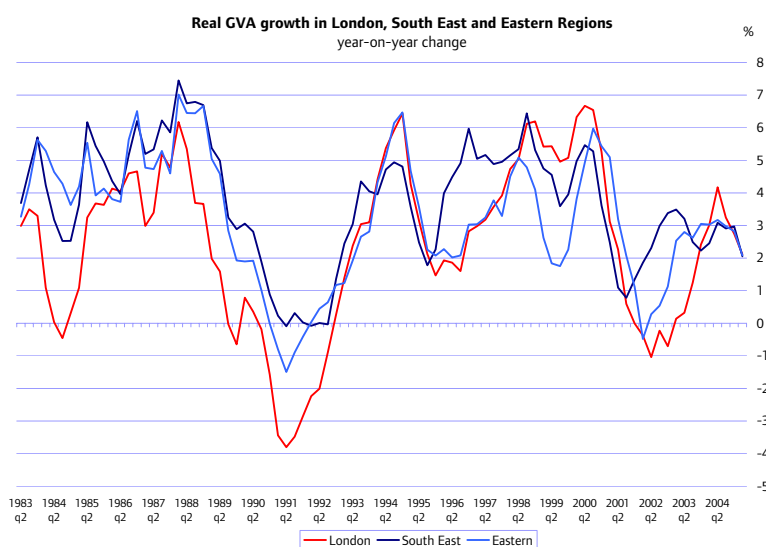
Source: Office for National Statistics

London and the wider South East growing at the same rate

- London's annual growth in output was 2.1% in Q1 2005, slightly below the annual growth of 2.7% in Q4 2004.
- The South East region's and the Eastern region's annual output growth were also 2.1% in Q1 2005.
- London and its two neighbouring regions recorded identical rates of growth in Q1 2005.

Latest release: August 2005

Next release: November 2005



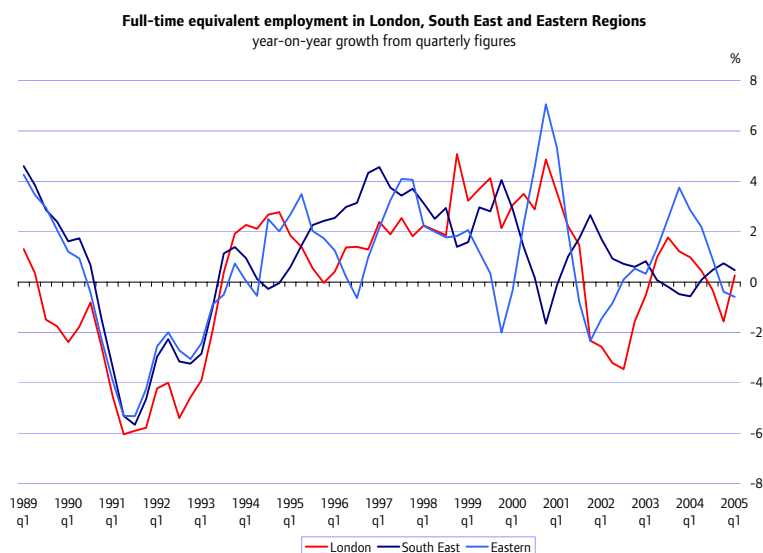
Source: Experian Business Strategies

Positive annual employment growth in London and the Eastern region

- London's year-on-year employment growth was 0.3% in Q1 2005 compared to -1.6% in Q4 2004.
- The South East's year-on-year employment growth was 0.5% in Q1 2005, a small fall from 0.7% in Q4 2004.
- The Eastern region's year-on-year employment change was -0.6% in Q1 2005 down from -0.4% in Q4 2004.

Latest release: August 2005

Next release: November 2005

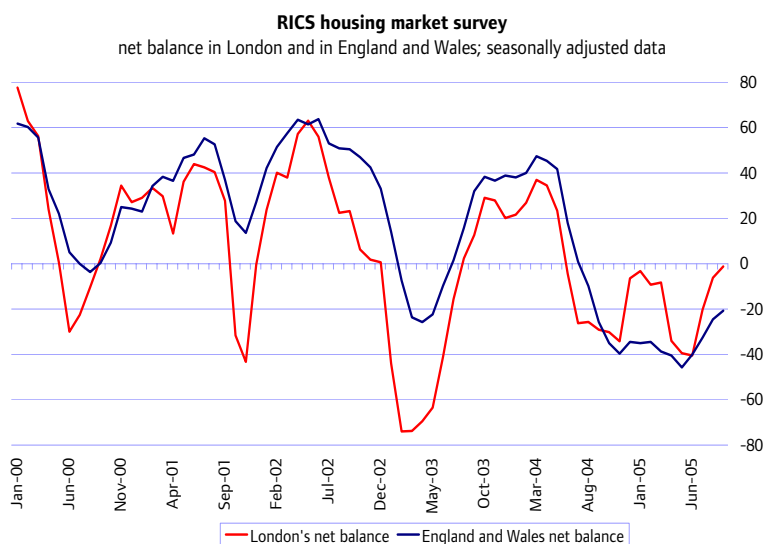


Signs of recovery in London house prices

- The RICS survey showed a negative net balance for London house prices of -2 in September. This net balance marks a continued recovery from a low of -41 in June.
- In recent months most surveyors have reported lower house prices in England and Wales. The net balance was -21 in September up from -25 in August.

Latest release: October 2005

Next release: November 2005

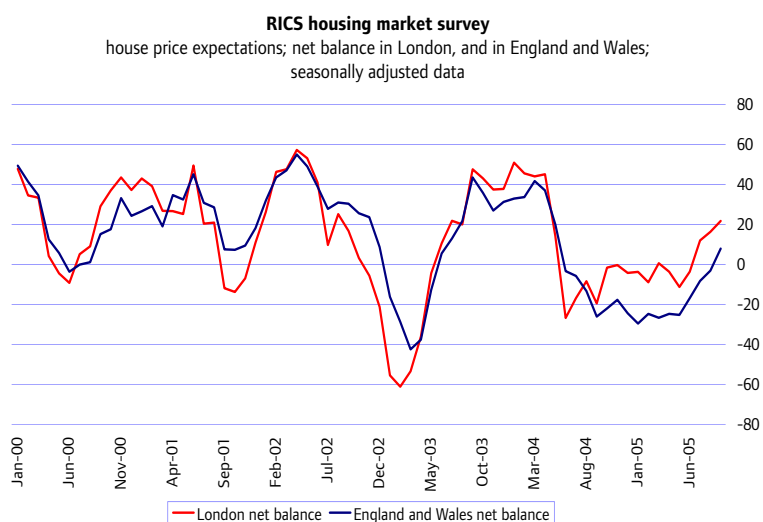


Surveyors expect increasing house prices

- The RICS survey shows a majority of surveyors expect house prices to increase over the next 3 months in London and in England and Wales.
- The net expectations balance in London was 21 in September 2005, rising from a balance of 16 in August.
- For England and Wales, the net balance for house price expectations is now positive for the first time since May 2004. It was 7 in September 2005 from -4 in August.

Latest release: October 2005

Next release: November 2005



Adarsh Varma
GLA Economics

With half the world's population now living in cities, the relationship between climate change and cities is increasing in importance. Cities are directly responsible for over 75 per cent of total energy consumption and therefore greenhouse gas (GHG) emissions¹. London, a city of around 7.4 million people, consumes more energy than Ireland and about the same as Greece or Portugal.

Because of its geography and unique meteorology, London, like many other world cities, is exposed to weather-related risks. The capital is situated in a low-lying estuary prone to both sea and river flooding.

As London's population and economy are projected to grow over the years, our capital will not just be a net contributor to climate change (through GHG emissions) but will also be exposed to climate change impacts.

Fact:

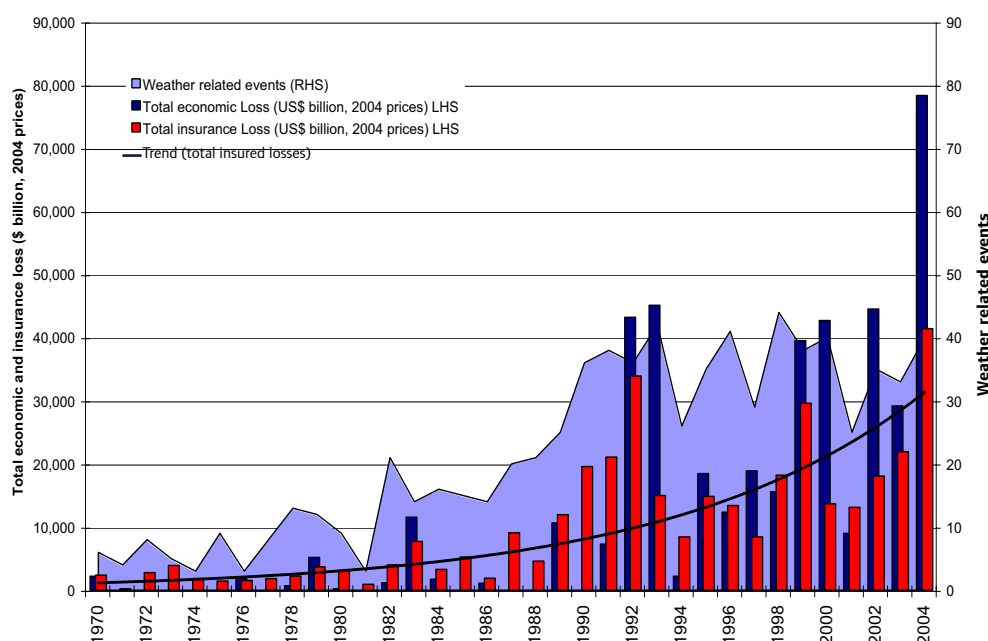
The proportion of the world's urban population has increased from 30 per cent in 1950 to 50 per cent in 2005 and is projected to reach 61 per cent in 2050.

Source: UN, 2005, World Population Prospects: The 2004 Revision Population database

In recent times worldwide floods, severe windstorms, earthquakes and the hot summers, such as the one in Europe in 2003 have caused a significant number of deaths and damage to property. Figure 2 shows the increasing trend over time in so-called extreme weather events and the increasing trend in losses to the insurance industry. There is little doubt in the insurance industry that these trends are related to greenhouse gases².

Figure 2: Total economic and insurance loss (US\$ billions)

Source: Sigma database, Swiss Re



Main climate change related risks to London

London is potentially exposed to a far greater financial risk from flooding than any other urban area in the UK. Compared to other big cities in the world the potential for material losses is high in London even though it has relatively low weather related risks (see Table 1). This is due to the high concentration and value of its assets and the fact that it lies within the flood plain of the River Thames.

Table 1: Natural hazard risks for the top ten megacities

Sources: 1) Statistical authorities, various websites. 2) Munich RE, 2004

Rank	City	Country	City GDP as % of country's GDP (1)	Risk index (2)	Natural Hazards							
					Earthquake	Volcanic eruption	Tropical storm	Winter storm	T'storm/hail/tornado	Flood	Tsunami	Storm surge
1	Tokyo	Japan	40	710	High	Low	Medium	Low	Medium	Medium	Low	Medium
2	San Francisco Bay	USA	<5	167	None	None	None	Low	Medium	Medium	None	None
3	Los Angeles	USA	<10	100	None	None	None	Low	Medium	Medium	None	None
4	Osaka, Kobe, Kyoto	Japan	20	92	High	None	Medium	Low	Medium	Medium	Low	Medium
5	Miami	USA	<5	45	None	None	Medium	Low	Medium	Medium	None	Medium
6	New York	USA	<10	42	None	None	Low	Low	Medium	Medium	None	Low
7	Hong Kong	China	10	41	Medium	None	Medium	Low	Medium	Medium	Low	Medium
8	Manila, Quezon	Philippines	30	31	High	Medium	Medium	Low	Medium	Medium	Low	Medium
9	London	UK	15	30	None	None	None	Medium	Medium	Medium	None	Medium
10	Paris	France	30	25	None	None	None	Medium	Medium	Medium	None	None



As London has grown, the economic centres have moved to areas more susceptible to storm surges and flooding, such as Canary Wharf/Isle of Dogs. The government has also designated the Thames Gateway, a high flood risk area, as one of the main growth areas to address housing shortages in the south east. The planned new residential and commercial properties represent a 15 per cent increase in flood exposure in London over the £126 billion worth of assets currently at risk in the Thames flood plain³.

Insurance and climate change

Climate change could affect weather-sensitive sectors such as utilities, health and agriculture, with direct links to the insurance industry. London's insurance market is the world's leading market for internationally traded insurance and reinsurance. Gross premiums on the London market were conservatively estimated at £25 billion in 2003⁴. Climate change risks, through the insurance sector can lead to further implications in the financial market affecting investment decisions and pensions funds. Severe weather events lead to large insurance payouts, which reduce insurers' and reinsurers' capital reserves. Lloyd's of London's provisional estimate for the claims arising from Hurricane Katrina is around £1.4 billion. Households and business decisions would also be affected if insurance premiums increased in London.

Opportunities through climate change for London

London is well placed to engage on the climate change agenda through new markets such as emissions trading⁵ as well as by taking a lead in new technologies and renewable sources of energy. London's position in the financial community is highly strategic and of great global importance. The city is already using its niche in the financial services market to develop products and services such as underwriting weather risks, financing clean energy technology development, new technology insurance, renewable energy funds, climate related consulting and advisory services, and emission trading markets. According to the ENDS Environmental Consultancy Directory⁶, 322 firms in the UK provide consultancy services for corporate environmental strategy and corporate social responsibility out of which 167 are in London. The London Stock Exchange now has a Corporate Responsibility Exchange for its member companies, and the City is at the forefront of ethical investment.

Facts:

- *London, as a region, consumes around 13 per cent of gas and electricity supply of all government office regions in Great Britain.*
- *Around 70 per cent of London's carbon dioxide (CO₂) emissions come from energy use in London's buildings, including domestic, commercial and public buildings.*

Furthermore, with higher temperatures the lifestyle in London may change. London could see an increase in café culture, outdoor music and theatre entertainment, sporting events and al fresco eating greatly benefiting the tourism industry. This could also change the look of London as planners design urban areas so that they can be used for such new demands and increased use of green spaces.

(Footnotes)

1 www.britishcouncil.org

2 Association of British Insurers, 2005, The financial risks of climate change

3 www.abi.org.uk

4 www.ifsl.org.uk

5 Emissions trading works by imposing a limit on firms' allowable emissions. Allowances are issued up to the limit, which businesses can trade if they are below or above the limit. Those firms able to reduce their emissions below their limit can sell their extra allowances at the market rate.

6 www.endsdirectory.com

Data sources

Tube and bus ridership	Transport for London on 020 7941 4500
GDP/GVA growth	Experian Business Strategies on 020 7355 8200
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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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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