

Current Issues Note 39

# Regional, sub-regional and local gross value added estimates for London, 1997-2011

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January 2013



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**Greater London Authority**  
**January 2013**

### **Published by**

Greater London Authority  
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The Queens Walk  
London SE1 2AA

**[www.london.gov.uk](http://www.london.gov.uk)**

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### **Cover photograph**

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## Introduction

In December 2012 the Office for National Statistics (ONS) released provisional estimates of regional, sub-regional and local gross value added (GVA) for 2011 (although industry breakdowns of the data are for 2010)<sup>1</sup>. This note presents the findings for London.

## Key points

- In 2011, London's total output was £283 billion (up 2.1 per cent on 2010). Inner London accounts for 69 per cent of this output, with Inner London-West alone accounting for 45 per cent of the total output.
- London now accounts for 21.6 per cent of the UK's total output.
- In 2010, over a fifth of London's output was generated by the financial and insurance industry, accounting for nearly half of the UK's total output in the industry and 4.5 per cent of the UK's total output.
- In 2010, Inner London produced 94 per cent of London's output in the financial and insurance industry, and over three-quarters of its output in professional/scientific/technical, information/communication, and real estate industries. Outer London hosted over half of London's output in only three industries (transport/storage, construction, and manufacturing).

## Background notes

- Gross value added (GVA) is the value generated by any unit engaged in a production activity. It therefore provides an estimate of the value of output for the economy. The GVA estimates in this note are workplace-based, where GVA is allocated to the area in which the economic activity takes place.
- The GVA estimates are in current prices, meaning no adjustment has been made to remove the effects on inflation. Over time, even if the true (economic) value of output is unchanged, GVA in current prices would increase in line with price rises (inflation).
- The GVA data covers London, its sub-regional and local areas. At the sub-regional (NUTS<sup>2</sup> 2) level, London has two areas: Inner London and Outer London. At the local (NUTS 3) level London has five areas: Inner London – West, Inner London – East, Outer London – East and North East, Outer London – South, and Outer London – West and North West.
- Throughout this document GVA refers to the headline GVA estimates which are calculated using a five-year moving average. Box 1 provides a comparison of these 'smoothed' estimates with the 'raw' annual data for London as a whole.

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<sup>1</sup> <http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2012/stb-regional-gva-2011.html>

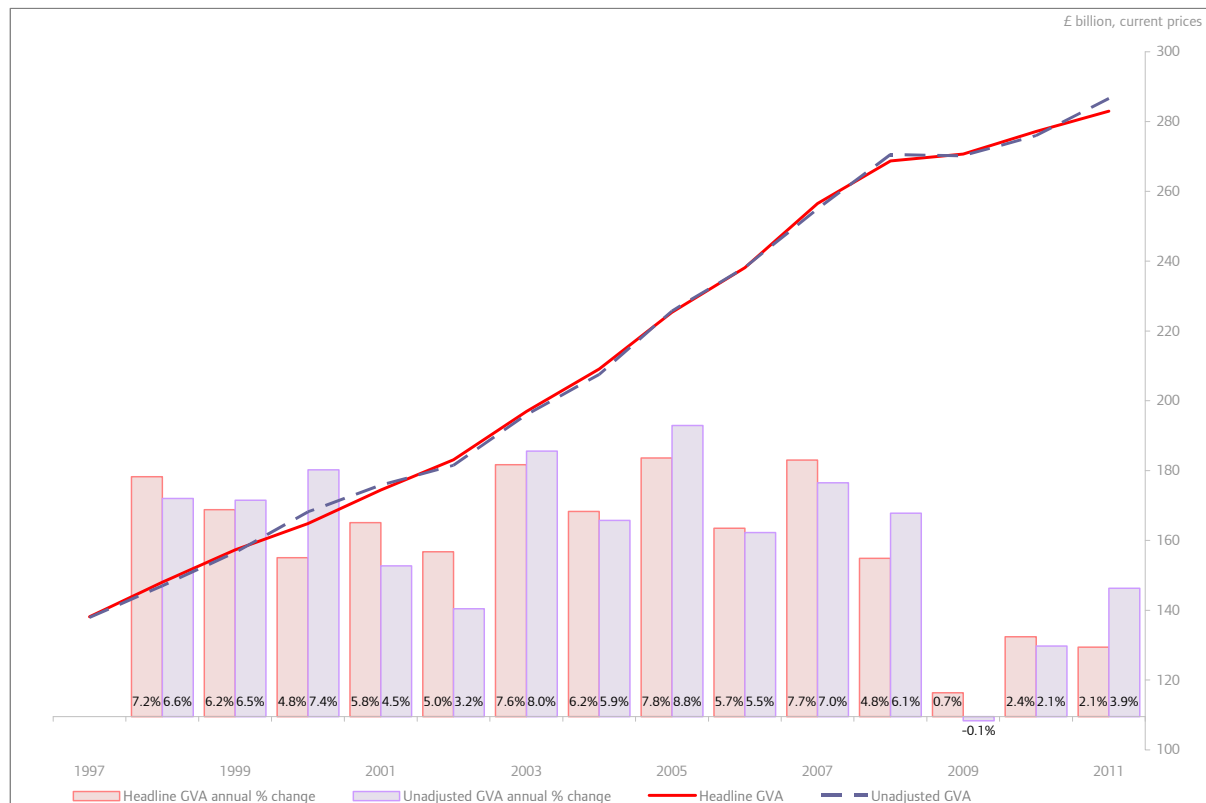
<sup>2</sup> NUTS stands for Nomenclature of Units for Territorial Statistics. It is a European classification for areas based on their size to ensure data across countries at different geographical levels are comparable.

## Box 1: Comparison of 'smoothed' and 'raw' GVA data for London

Currently, the ONS provide two estimates of GVA at regional level: headline GVA (which smooths the data using a five-year, weighted moving average) and an unadjusted, 'raw' GVA. Figure 1 shows the differences between the two values. Between 1997 and 2011, the difference (in absolute terms i.e. not accounting for the direction of the difference) between the headline and unadjusted estimates ranged from £3.36 billion (in 2011) to £0.63 billion (in 2006). Whilst these sound large, as a percentage of the total headline GVA they are 1.3 per cent and 0.0 per cent (to one decimal place) respectively.

However, the annual percentage changes for the two GVA series can vary a lot (see bars in Figure 1). In absolute terms, the difference ranges from 2.6 percentage points (in 2000) to 0.2 percentage points (in 2006). Nonetheless, as might be expected with the headline estimates, the annual percentage change in London's GVA has never been negative, whilst the unadjusted series has (see 2009 in Figure 1).

**Figure 1: Headline and Unadjusted GVA for London over time**



Source: Regional accounts ONS

Following a review of the methods used to produce smoothed (headline) GVA estimates, the ONS have announced that in the future they will remove the series and publish only the unadjusted data. At present the unadjusted estimates at NUTS 2 and 3 are constrained to the smoothed London-wide data and so, for consistency, in this report only the headline estimates have been analysed.

## London GVA

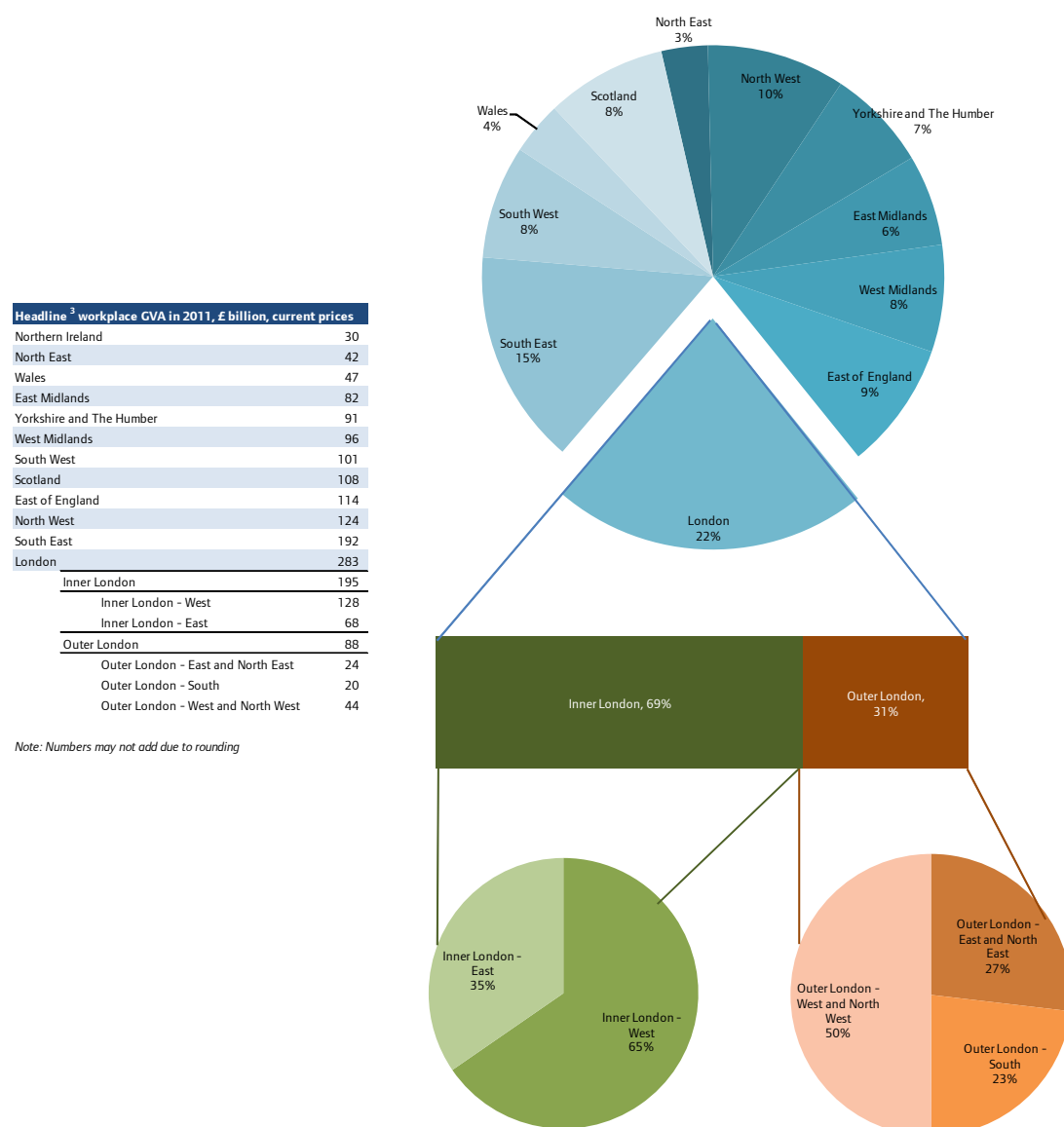
In 2011 London's total output was £283 billion in 2011. This is up 2.1 per cent on 2010 and accounted for 20 per cent of the UK's total GVA<sup>3</sup> increase between 2010 and 2011. In 2011 London produced 21.6 per cent of the UK's output, a figure which has risen since 1997 when it produced 18.9 per cent.

Nearly two-thirds of London's GVA was produced in Inner London in 2011 (Figure 2). In fact, almost half (45 per cent) of London's total output was produced in Inner London-West alone (Figure 3). Indeed, Inner London-West has a higher output than all UK regions but the South East (and, of course, London). However, Inner London-East has seen the greatest change in its relative importance to London's economy. Having accounted for 19 per cent of London's output in 1997, by 2011 this was up to 24 per cent (Figure 3).

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<sup>3</sup> Unless otherwise stated, UK output/GVA in this document refers to United Kingdom less Extra-Regio (which comprises compensation of employees and gross operating surplus which cannot be assigned to regions) and statistical discrepancy.

**Figure 2: Geographic breakdown of Headline UK<sup>1</sup> GVA in 2011<sup>2</sup>**



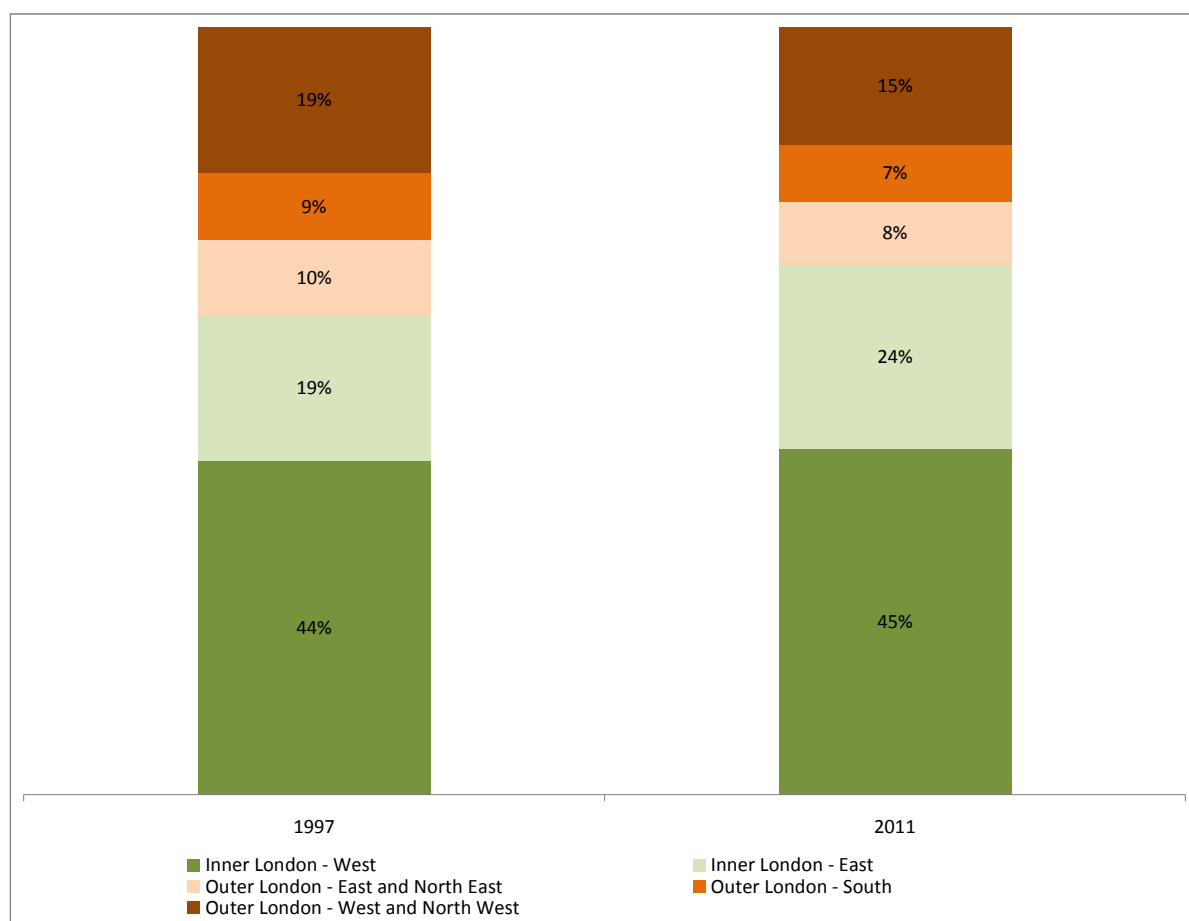
<sup>1</sup> UK less Extra-Region (which comprises compensation of employees and gross operating surplus which cannot be assigned to regions)

<sup>2</sup> 2011 data are provisional

<sup>3</sup> Headline estimates are calculated using a five-period moving average

Source: Regional Accounts, ONS

**Figure 3: Geographical breakdown of London's headline GVA<sup>1</sup>, 1997 and 2011<sup>2</sup>, current prices**



<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity takes place.

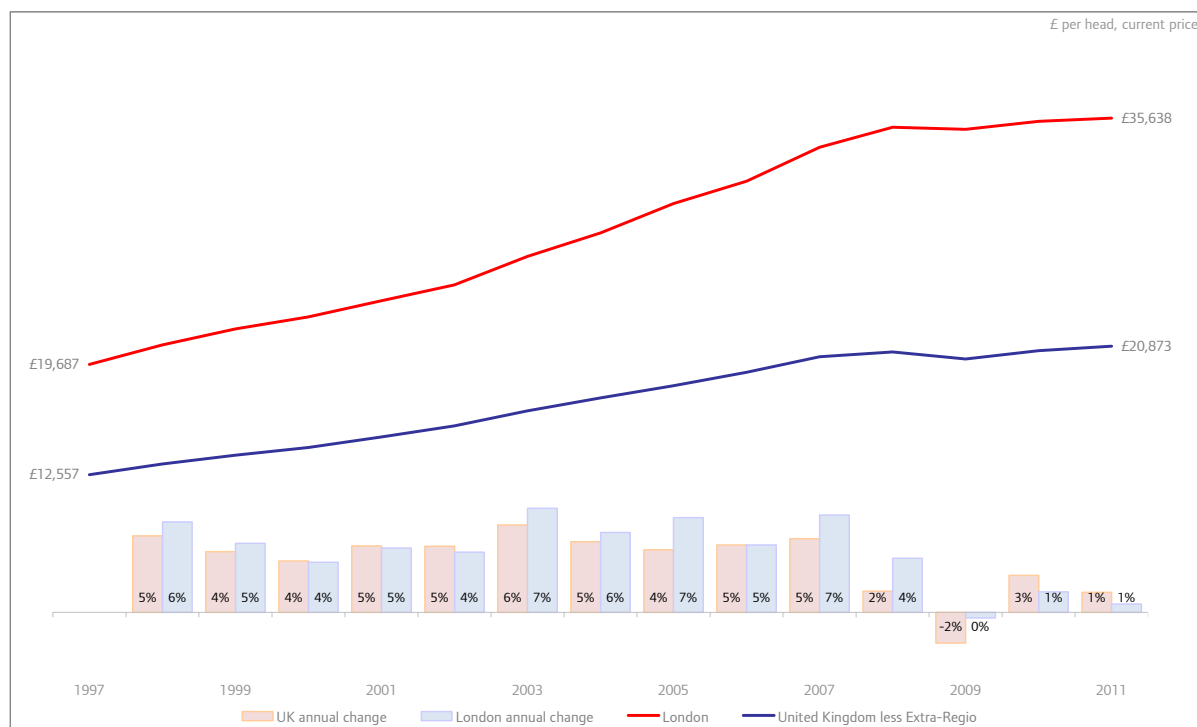
<sup>2</sup> 2011 data are provisional.

Source: Regional Accounts, ONS

Since 2007 London's output has increased by 10.3 per cent in nominal terms (i.e. without taking account of inflation), compared to 6.4 per cent for the UK. And, unlike any other region, London's output has more than doubled since 1997 (when it was £138 billion), compared to a 79 per cent increase for the UK as a whole.

London's output performance remains impressive even after adjusting for its relative size. Output per head of population in the capital was £35,638 in 2011 (see Figure 4), the highest of any region and 71 per cent higher than that for the UK as a whole. Over the last year, output per head in London has increased by 0.6 per cent. Since 2007, it has risen by 5.6 per cent, the largest increase of any other UK region and well above the 3.4 per cent increase for the UK as a whole.

**Figure 4: Headline GVA<sup>1</sup> per head (£) and annual percentage change for London and UK (less Extra Region), 1997-2011<sup>2</sup>, current prices**



<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity takes place.

<sup>2</sup> 2011 data are provisional.

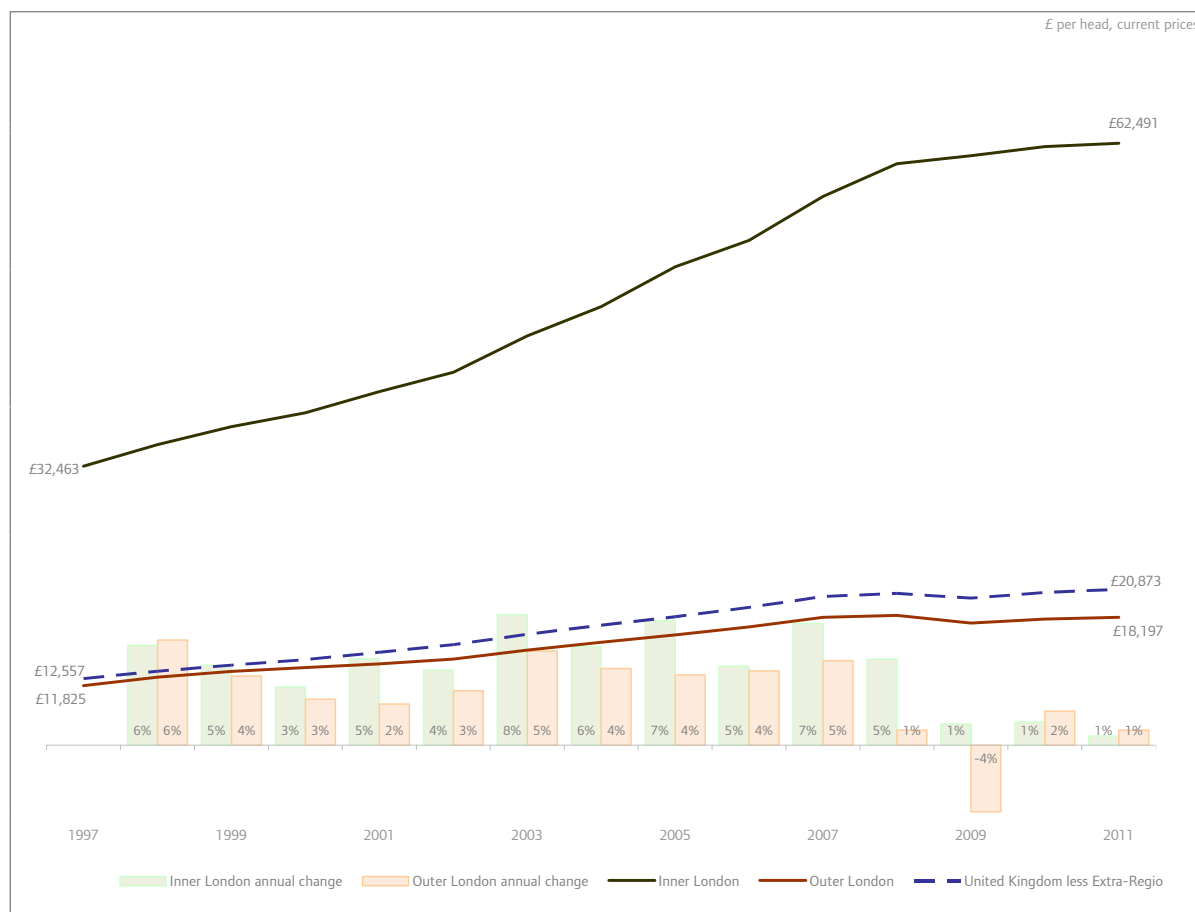
Source: Regional Accounts, ONS

However, the London-wide GVA per head estimates hide some significant variation across its sub-regions and local areas. Figures 5 and 6 show GVA per head across London since 1997. Whilst London has a higher GVA per head than the UK this is driven by Inner London. GVA per head in Outer London is lower than for the UK, and has been since 1997. The difference between Inner and Outer London's GVA per head was £44,141 in 2011, more than double the £20,418 difference that existed in 1997.

Looking at smaller areas in London (Figure 6) the variance is even larger; in 2011 there was a GVA per head difference of £97,492 between the highest (Inner London – West) and the lowest (Outer London – East and North East). Since 2007, only one of London's NUTS 3 areas saw a fall in GVA per head: Outer London – South, which fell by 3.2 per cent (and drove a 0.1 per cent fall in GVA per head for Outer London as a whole). Over the period of the data series, Inner London – East has seen a 125 per cent increase in the value of its output per head, the fastest growth of any local area in the UK.



**Figure 5: Headline GVA<sup>1</sup> per head and annual percentage change at London NUTS 2 level and UK (less Extra Regio), 1997-2011<sup>2</sup>, current prices.**

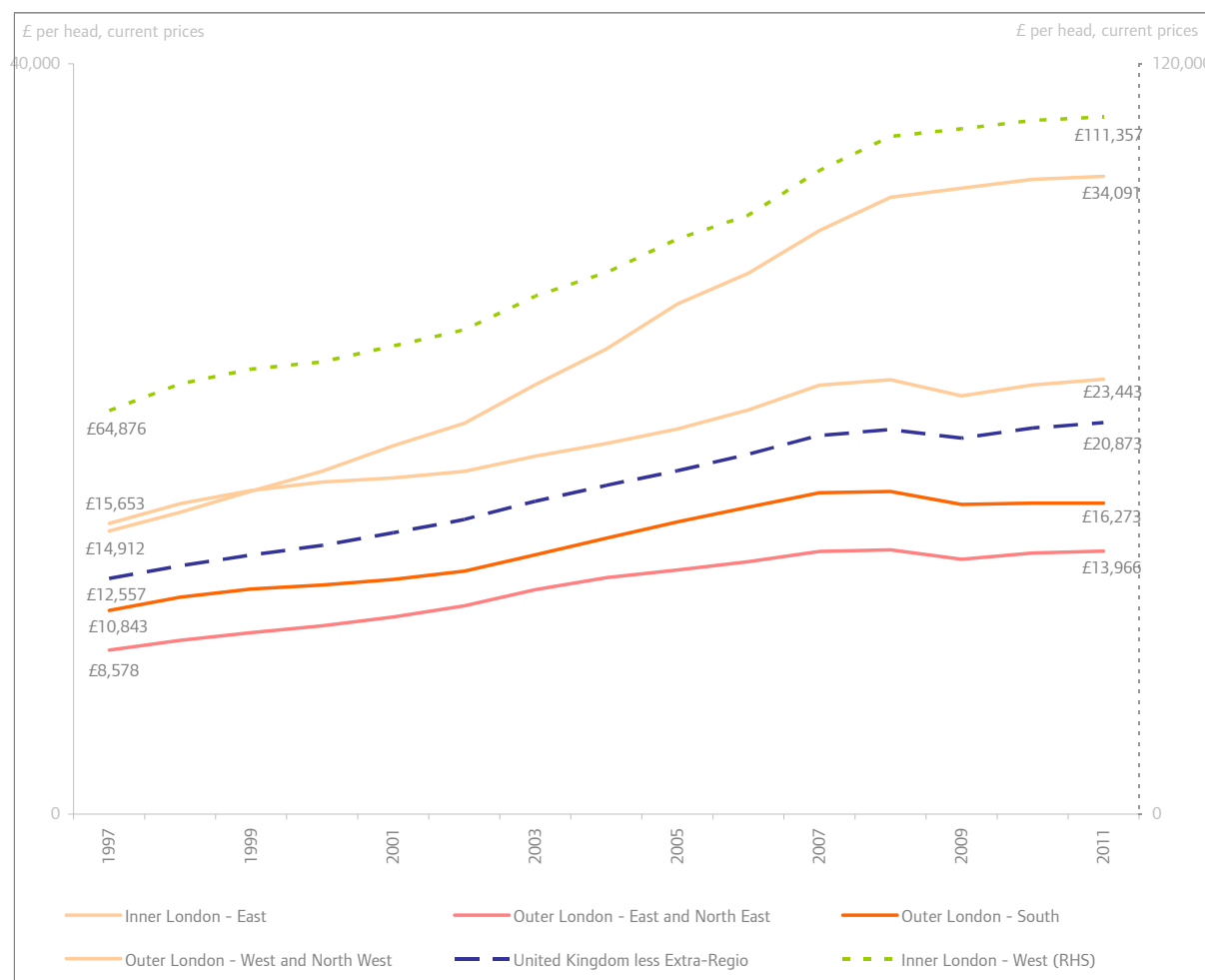


<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity takes place.

<sup>2</sup> 2011 data are provisional.

Source: Regional Accounts, ONS

**Figure 6: Headline GVA<sup>1</sup> per head at London NUTS 3 level and UK (less Extra Regio), 1997-2011<sup>2</sup>, current prices.**



<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity takes place.

<sup>2</sup> 2011 data are provisional.

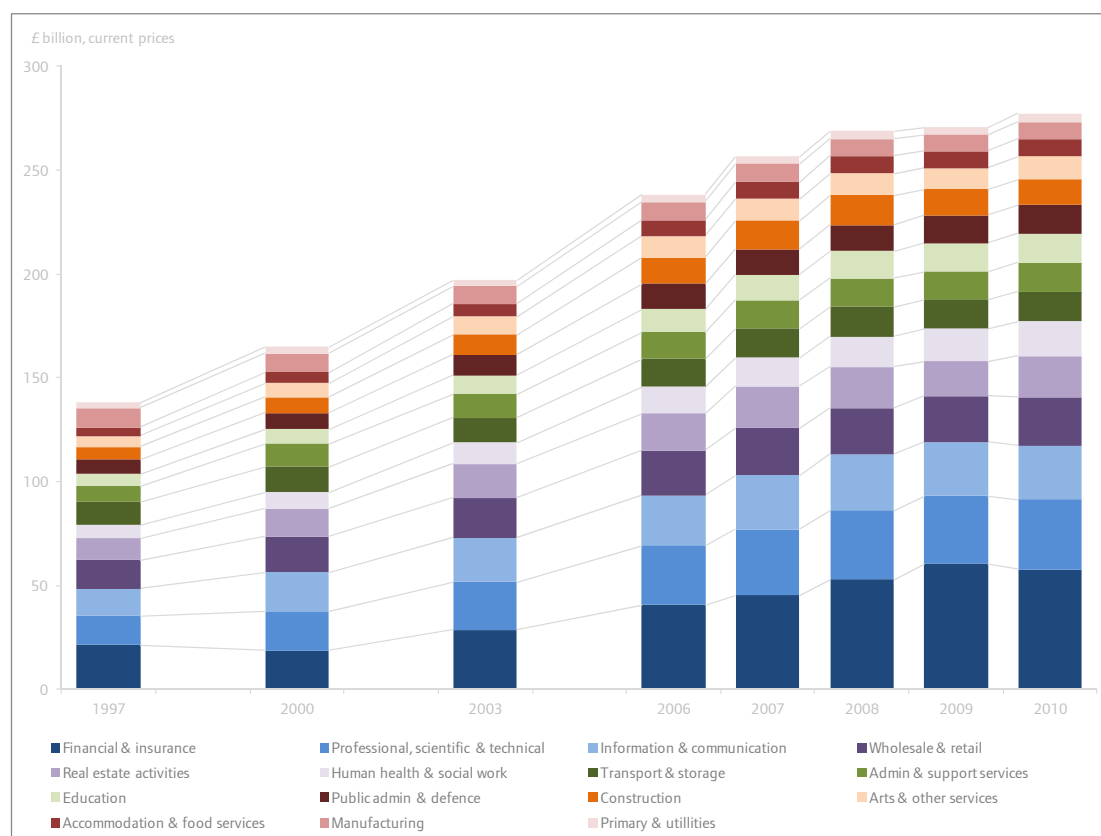
Source: Regional Accounts, ONS

## London GVA by industry

In 2010 over a fifth of London's output was generated by the financial and insurance industry (£57.7 billion) (see Figure 7). The value of this industry has grown by 172 per cent since 1997, more than any other industry in London and it accounts for 7 per cent of the UK's total output growth since 1997. In 2010, nearly half (47 per cent) of the UK's output in the financial and insurance industry was generated in London (up from 41 per cent in 1997) (see Figure 8). Indeed, London's financial and insurance industry made up 4.5 per cent of the UK's total output in 2010.

Professional/scientific/technical and information/communication industries also play an important role in London's output generation. In 2010, these two industries combined accounted for 22 per cent of London's output (up only slightly from 20 per cent in 1997). Further, London's professional/scientific/technical, information/communication, and arts/other service industries make up 5.5 per cent of the UK's total output, and account for over a quarter of the UK's output in each respective industry.

**Figure 7: Headline GVA<sup>1</sup> per head in London by industry, 1997-2010, current prices**



<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity takes place.

Source: Regional Accounts, ONS

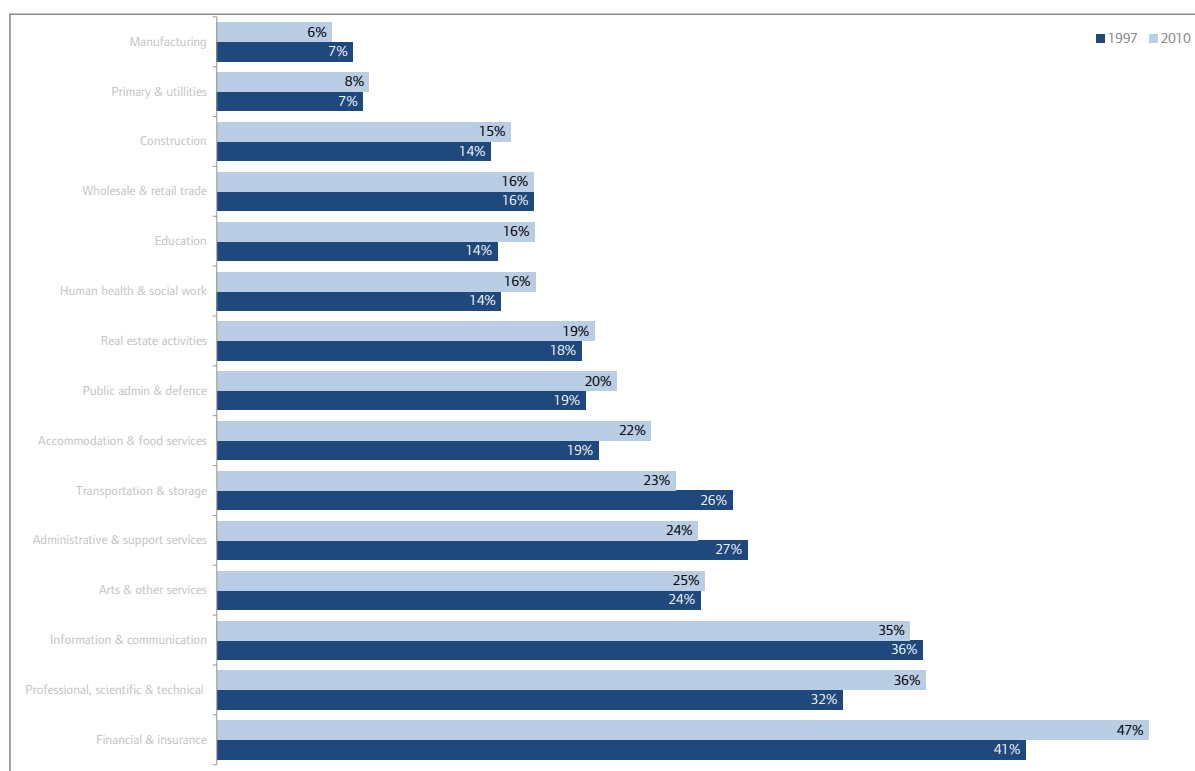
From 2007 to 2010, four industries in London have seen a fall in GVA:

- Construction, which has fallen by 10 per cent to £12.32 billion,
- Manufacturing, which has fallen by 6 per cent to £8.20 billion,
- Real estate activities, which has fallen by 2 per cent to £19.88 billion, and
- Information/communication, which has fallen by 1 per cent to £26.05 billion.

However, over the longer time period, only the GVA of manufacturing in London has seen a fall in its nominal value, having declined by 6 per cent between 1997 and 2010.

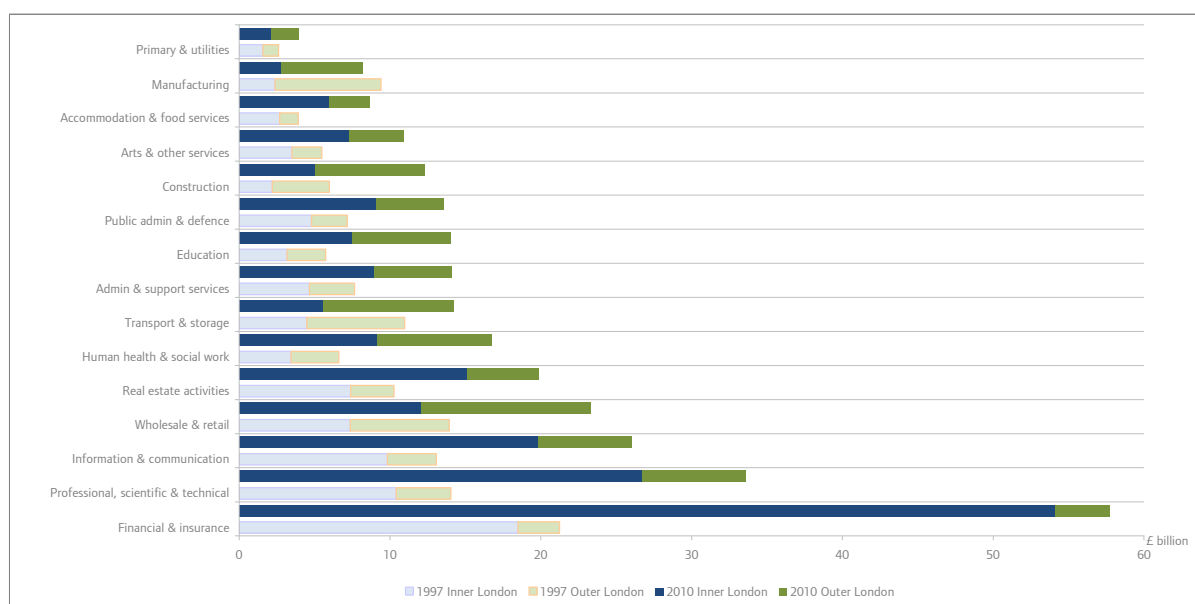
Figure 9 shows how London's output by industry is spread between Inner and Outer London in 1997 and 2010. For three industries Outer London hosted over half of London's output in those industries in 2010: transport/storage (61 per cent), construction (59 per cent) and manufacturing (66 per cent). However in 2010, Outer London produced only a 6 per cent share of London's total financial/insurance industry output (down from 13 per cent in 1997). Meanwhile, Inner London produced over three-quarters of London's output in professional/scientific/technical, information/communication, and real estate industries.

**Figure 8: London's share of UK headline GVA<sup>1</sup> by industry, 1997-2010, current prices**



<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity  
Source: Regional Accounts, ONS

**Figure 9: Inner and Outer London GVA<sup>1</sup> by industry, 1997 and 2010**



<sup>1</sup> Estimates are for workplace based GVA allocating incomes to the region in which the economic activity  
Source: Regional Accounts, ONS

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