

# London's Economy Today



Issue 50 | October 2006

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## Dow Jones hits all time high despite slowing US growth

by Christopher Lewis, Senior Economist

**The retail sector plays an important role in London's economy. The West End acts as a world-class retail and leisure area encouraging both domestic and international tourists to visit the capital. The retail sector also helps to facilitate entry into the labour market for people with few qualifications and those seeking flexible employment opportunities. This month's supplement 'Retail in London', by Matthew Waite and Richard Prothero, highlights some major issues covered by GLA Economics research programme into this sector over the last two years.**

London remains the top city to locate a business in Europe according to the 2006 European Cities Monitor by Cushman & Wakefield. The capital is now the top-rated city for seven (easy access to markets, qualified staff, telecommunications, availability of office space, languages spoken, internal transport and external transport links) out of the twelve factors that are ranked in the survey. Ernst and Young's European Investment Monitor showed that nearly ten per cent of all foreign investment projects into Europe came to London in the first half of 2006. London attracted 133 (out of the whole of the UK's 315) projects which was the same number as Germany and compares with 181 for France. Strong office leasing

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## Latest news...

● **Economist job vacancy, £34,076:** As a graduate or with a professional qualification in economics (or related subject), you will have a broad knowledge of economic issues relating to London, and the wider national and international context. Committed, motivated and passionate about economics, your broad knowledge of the subject will help contribute to the future work of GLA Economics.

For further information about this role please contact Matthew Waite on 020 7593 8251 or 07795 616885. For a full job description and application details please visit the GLA website [www.london.gov.uk/jobs.jsp](http://www.london.gov.uk/jobs.jsp) or call the recruitment team on 020 7983 4143 (text phone/4157) quoting reference CSE05. Closing date for applications: noon on 10 November 2006.

activity in the City continues with Knight Frank, the estate agent, reporting the highest quarterly total in Q3 2006 since the peak six years ago.

London businesses operate within a national and international background so it is unfortunate that the UK economy has slipped down the world league in terms of competitiveness. However, it does remain just in the top ten according to the World Economic Forum's annual survey. The UK's financial markets remain as world leaders' but businesses complained of over-regulation and high tax rates.

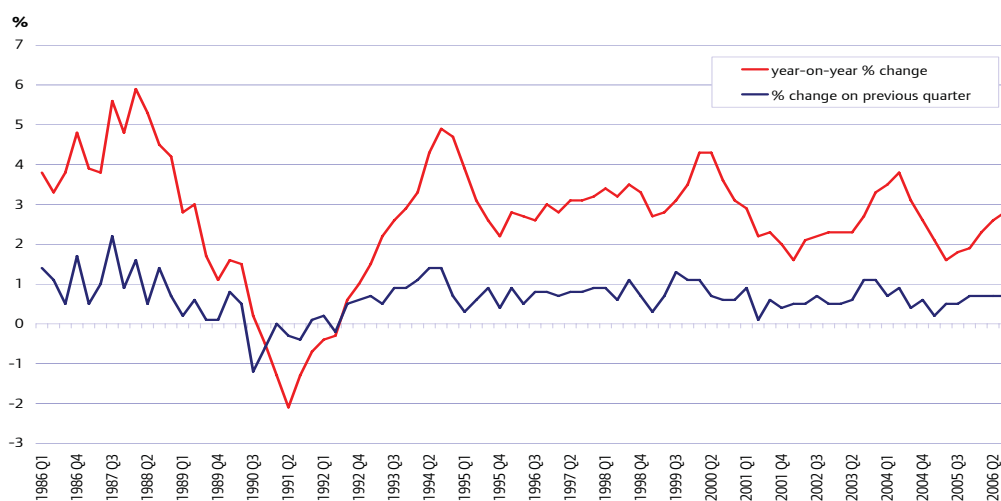
London's economy continues to outperform the UK as a whole. In September, London's Purchasing Managers' Index (PMI) measure of seasonally adjusted growth in the private sector workforce was once again the fastest amongst all regions. The business activity and new orders indices for the capital also remain above their UK levels. Seasonally adjusted business activity of private sector companies in London has now risen for 40 consecutive months. The PMI shows that the rate of London's expansion is still strong but has eased slightly over the last few months.

### UK growth remains firm

The UK economy is estimated to have grown by 0.7 per cent in Q3 2006, the same rate as in the previous three quarters (see Figure 1). The annual growth rate in Q3 2006 picked up to 2.8 per cent from 2.6 per cent in Q2 2006. This is the highest annual growth rate since Q3 2004. Despite around trend growth UK unemployment is still rising indicating some potential slack in the labour market. The UK service sector continues to grow robustly and the manufacturing sector has recently started to recover with annual growth up to 1.5 per cent in Q3 2006. Within the service sector, the business services and finance sector continues to lead the way with quarterly growth of 1.4 per cent and annual growth of 5.2 per cent in Q3. This is especially good news for the capital's economy where this sector plays an important role.

**Figure 1. UK GDP growth**

Source: Office for National Statistics



The interest rate rise in August did not cause an immediate cooling in UK house prices. In September, seasonally adjusted UK house prices, as measured by the Nationwide and Halifax rose strongly by 1.3 per cent and 1.0 per cent respectively. Annual house price inflation on the two measures is now very similar. The Nationwide recorded annual house price inflation of 8.2 per cent in September, a rise from 6.6 per cent in August, whereas the Halifax measure shows that house prices in the three months to September were 8.0 per cent higher than a year earlier compared with a 8.2 per cent annual rate in the three months to August. Annual house price inflation is expected to ease back from current levels in 2007 as higher interest rates and utility bills constrain demand. Most measures of annual house price inflation currently show London growing slightly faster than the UK as a whole.

### US economy continues to slow and weaker growth expected in 2007

The US economy continues to slow with September's rise in non-farm payroll jobs the weakest increase since October 2005, which followed Hurricane Katrina. The Institute for Supply Management (ISM's) US non-manufacturing index still indicates growth but has fallen to its lowest level since April 2003 and the ISM manufacturing index also suggests slowing growth. Due to this slowdown, markets are now expecting no more rises in interest rates and this alongside lower oil prices has boosted the Dow Jones to levels higher than the previous peak in January 2000. The Dow closed above 12,000 for the first time ever on 19 October (see Figure 2). Despite the current housing market correction and slowing economy Ben Bernanke, the Chairman of the Federal Reserve, has warned that inflation is still too high.

**Figure 2. Dow Jones Industrial Average**

*Source: FT*



Inflationary pressures have recently eased in the Eurozone but upside risks still remain which led the European Central Bank (ECB) to increase interest rates by 0.25 per cent (to 3.25 per cent) on 5 October. This was the fifth rise since December and current firm growth in the Eurozone means that further rate increases are expected. Despite a general improvement in the economies of most EU countries the business environment still faces major obstacles. The Dutch and Danish Governments are alarmed by the slow pace of EU bureaucratic reform and want the EU Commission to adopt an aggressive policy on cutting red tape, reducing administrative burdens on business and simplifying business legislation. The EU enterprise commissioner has admitted that his drive to simplify legislation has fallen behind schedule.

Japan's economy continues to strengthen with September's Tankan survey being better than financial markets had expected. Finance Minister Omi has announced that the time is ripe for declaring the end of deflation in Japan. China's economic boom continues but annual growth did slow slightly to 10.4 per cent in Q3 2006 from 11.3 per cent in the previous quarter. China's trade surplus in the first nine months of 2006 has already broken the record for a whole year set in 2005. China aims to increase domestic consumption growth further to make its economy more balanced and less dependent on net exports.

Oil prices have steadied around \$60 per barrel for the moment. To stem the rapid decline of oil prices since August's highs of near \$80 per barrel, OPEC has announced at an emergency meeting that it will cut oil output, for the first time since April 2004, by 1.2 million barrels per day from the beginning of November. Nigeria and Venezuela have already reduced their combined oil production by 170,000 barrels per day to support prices. Meanwhile the International Energy Agency (IEA) has reduced its forecast for global oil demand growth in 2007 due to weaker than previously expected US demand.

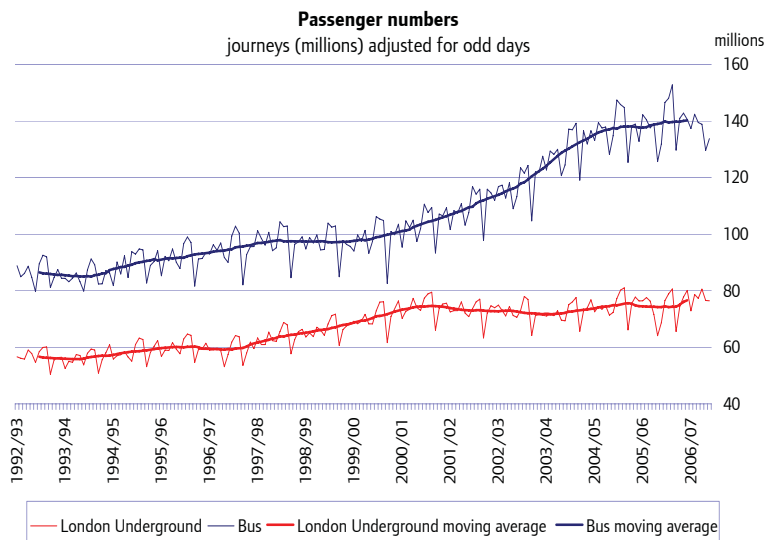
### **Global stock markets robust but bumpier times ahead for world economy**

Lower oil prices over the last couple of months along with falling future market US interest rates have helped to boost global equity markets. This has included the Dow Jones Industrial Average and India's Sensex stock markets hitting all time highs and the FTSE 100 reaching levels last seen in February 2001. However, there is a major risk that future markets are now anticipating monetary easing by the Federal Reserve far too soon. It is still more than possible that the Federal Reserve might actually raise interest rates again, rather than cut them, over the next six months. Meanwhile, further monetary tightening from other major central banks seems probable. By the end of the year interest rates are likely to be higher in the UK, the Eurozone and maybe even Japan. This has the potential to cause the global economy to face a far bumpier ride in 2007 than it has had this year.

# Economic indicators

## Moving average of passenger numbers increases

- The most recent 28-day period is from 20 August to 16 September 2006. London's public transport had 210.2 million passenger journeys; 133.8 million by bus and 76.4 million by Underground.
- The moving average increased to 216.9 million from 216.1 million passengers every period.
- The moving average for buses was 140.2 million passenger journeys. The moving average for the Underground was 76.6 million.

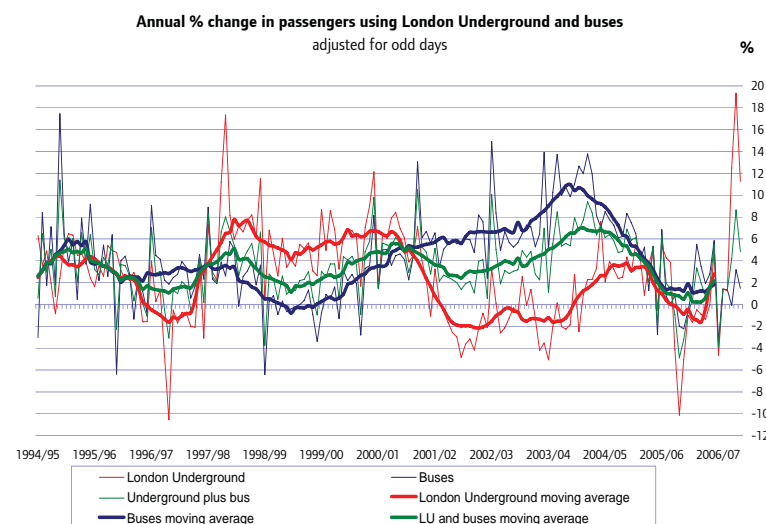


Source: Transport for London

Latest release: October 2006  
Next release: November 2006

## Increase in the annual growth rate of passenger journeys

- The moving average annual rate of growth in passenger journeys increased to 2.2% from 1.6% in the previous period.
- The moving average annual rate of growth in bus journey numbers increased to 1.8% from 1.5% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 2.8% from 1.6% in the previous period.

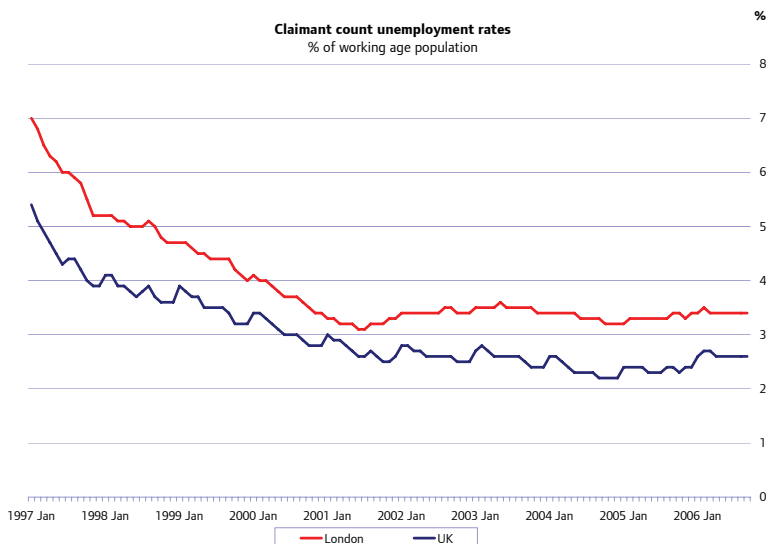


Source: Transport for London

Latest release: October 2006  
Next release: November 2006

## 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 September 2006.
- There were 169,300 unemployment claimants in London in September 2006 compared with 166,700 in September 2005.
- The claimant count unemployment rate in the UK remains below that of London's.



Source: Claimant Count, Nomis

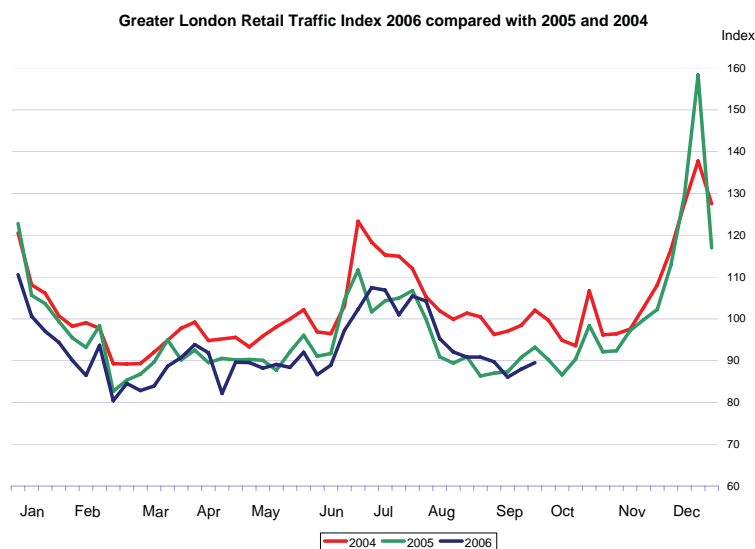
Latest release: October 2006  
Next release: November 2006

## SPSL Retail Traffic Index similar to 2005 levels

- The SPSL Retail Traffic Index of shoppers in London was 89.5 in the fourth week of September compared to 88.0 in the previous week.
- The level of the index in September 2006 was very similar to that of the same period in 2005.
- 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: every week

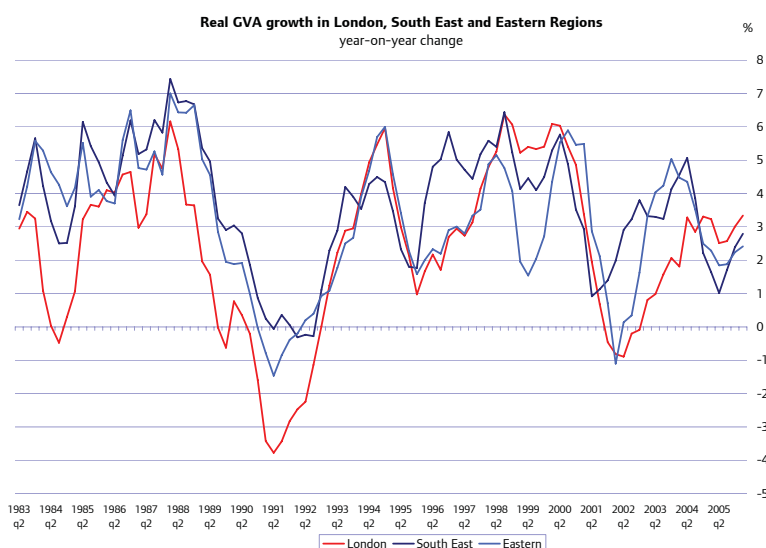


## London's annual output growth faster than the South East and Eastern regions

- London's annual growth in output was 3.3% in Q1 2006, an increase from 3.0% in Q4 2005.
- Annual output growth in the South East in Q1 2006 was 2.8%, up from 2.4% in the previous quarter.
- Annual output growth in the Eastern region was 2.4% in Q1 2006, up from 2.2% in the previous quarter.

Latest release: August 2006

Next release: November 2006

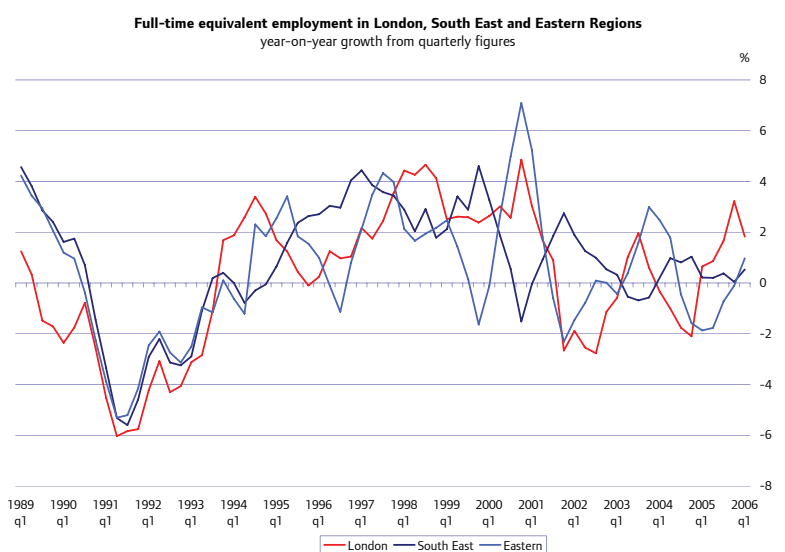


## London's annual employment growth remains above its neighbouring regions

- London's year-on-year employment growth decreased to 1.8% in Q1 2006 from 3.2% in Q4 2005.
- Annual employment growth in the South East increased slightly to 0.5% in Q1 2006 from 0.0% in Q4 2005.
- Annual employment growth in the Eastern region was 1.0% in Q1 2006 from an upwardly revised -0.1% in Q4 2005.
- London has experienced higher annual employment growth than the South East and Eastern regions for five consecutive quarters.

Latest release: August 2006

Next release: November 2006

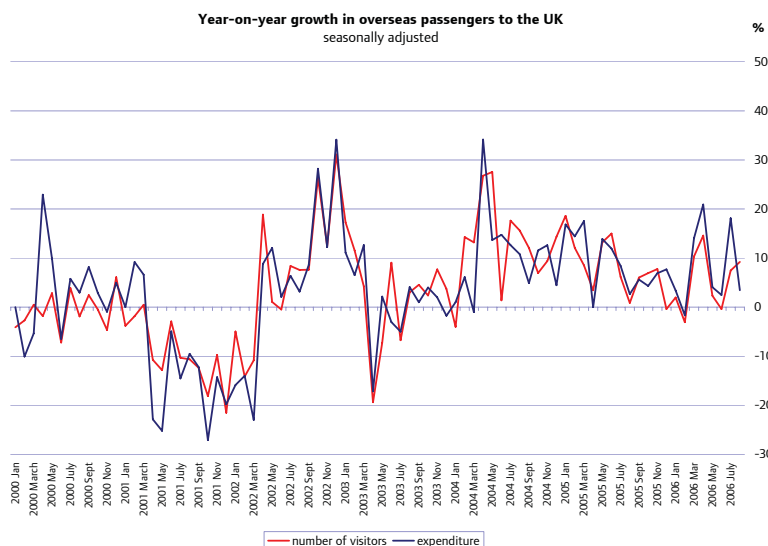


## Continued annual growth in visitor numbers and their expenditure

- Annual growth in overseas visitor numbers to the UK and their expenditure in the UK continued in August 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 9.2% in August, up from a revised 7.5% in July.
- The annual growth in expenditure by overseas visitors in the UK was 3.4% in August, down from a revised 18.1% in July.

Latest release: October 2006

Next release: November 2006



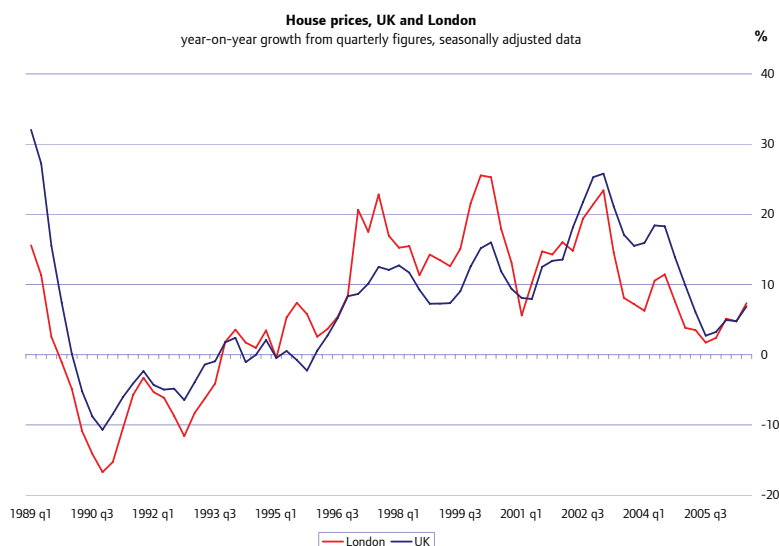
Source: Office for National Statistics

## Similar annual house price inflation in London and the UK

- Nationwide reported similar annual house price inflation for London and the UK in Q3 2006.
- Annual house price inflation in London was 7.3% in Q3 2006 up from 4.7% in Q2.
- Annual house price inflation in the UK was 6.9% in Q3 2006 up from 4.8% in Q2.

Latest release: October 2006

Next release: January 2007



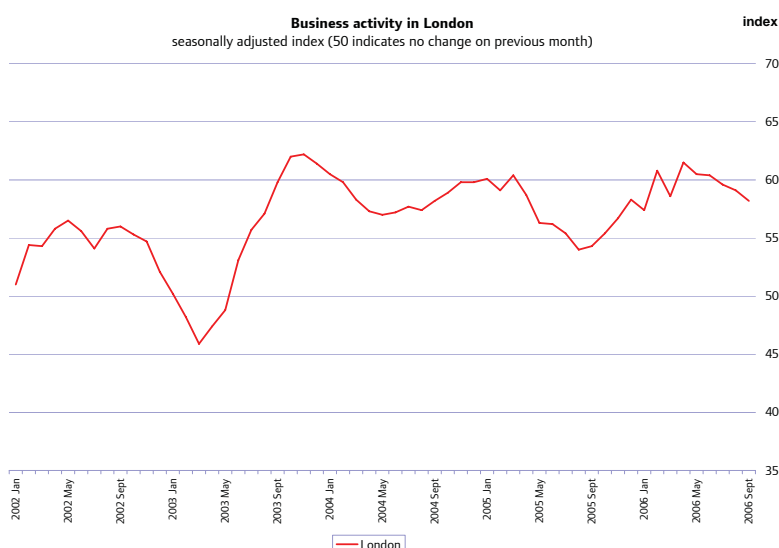
Source: Nationwide

## Business activity in London continues to grow

- London firms continued to expand their output of goods and services in September 2006.
- The Purchasing Managers' Index (PMI) of business activity recorded 58.2 in September compared to 59.1 in August.
- 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: October 2006

Next release: November 2006



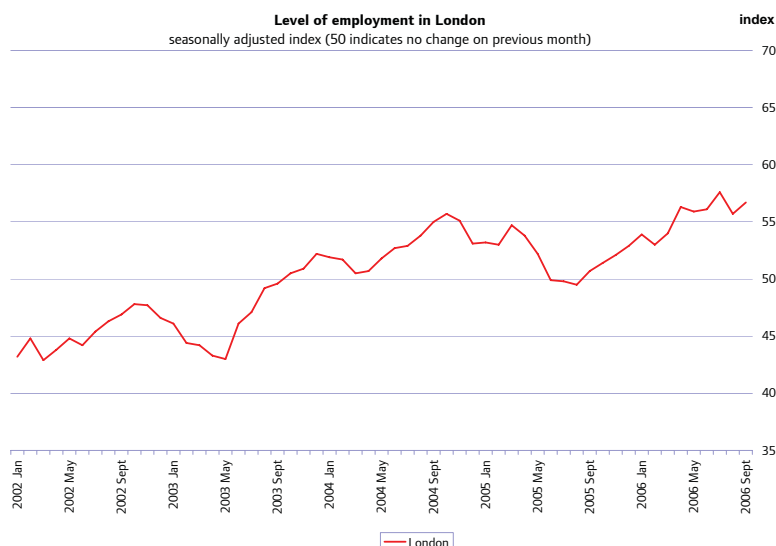
Source: PMI/The Royal Bank of Scotland

## Employment in London still expanding

- London firms continued to increase their level of employment in September 2006.
- The PMI for the level of employment was 56.7 in September compared to 55.7 in August.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: October 2006

Next release: November 2006



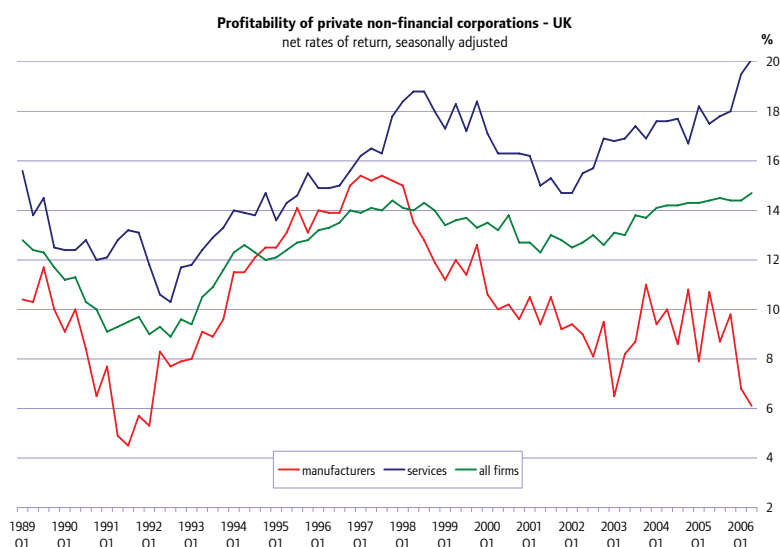
Source: PMI/The Royal Bank of Scotland

## Overall UK corporate profitability increases

- The net rate of return for all private non-financial corporations increased to 14.7% in Q2 2006 from an upwardly revised 14.4% in Q1 2006.
- The manufacturing sector experienced declining profitability in Q2 2006. The net rate of return was 6.1%, down from an upwardly revised 6.8% in the previous quarter.
- The service sector's net rate of return increased to 20.1% in Q2 2006, from an upwardly revised 19.5% in the previous quarter.

Latest release: October 2006

Next release: January 2007



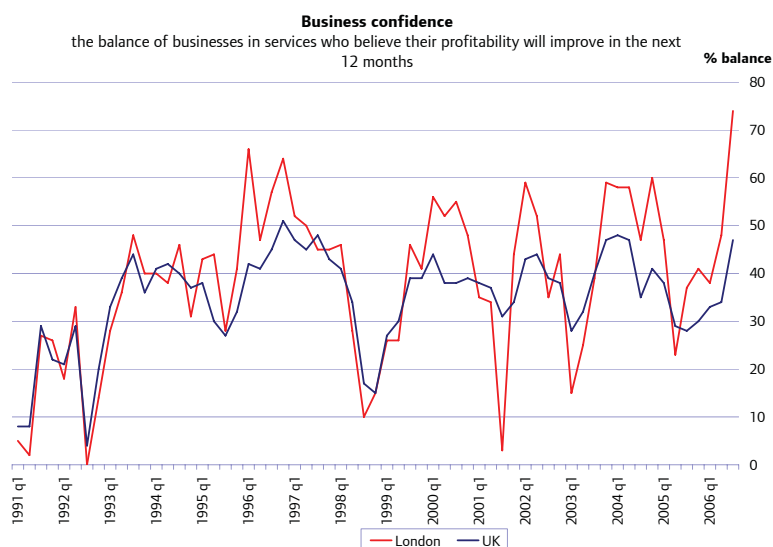
Source: Office for National Statistics

## Expectations of profitability remain higher in London than for the UK

- The British Chamber of Commerce's October Quarterly Economic Survey shows that London's service sector firms expect their profitability to improve.
- The net balance of businesses in services in London expecting to increase profitability over the next 12 months was 74% in Q3 2006.
- The net balance of UK businesses in services expecting increased profitability over the next 12 months was 47% in Q3 2006.

Latest release: October 2006

Next release: January 2007



Source: British Chamber of Commerce, Quarterly Economic Survey



Matthew Waite,  
Senior Economist  
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Economist

**All of us need to shop – if only for food – and shopping is a regular, repeated activity. As a result, all that going shopping involves (getting to, and back from, the shops, the shops themselves and the environment in which they are set) impacts significantly on our daily lives. As such, the retail sector’s impact on the everyday lives of Londoners is greater than simple statistics might suggest.**

Yet the statistics alone show that retail is important to London. They show that almost £4 in every £10 spent by Londoners goes to the retail sector. They show that retail accounts for around nine per cent of London’s employment making it one of London’s largest sectors. They show that retail offers a viable route into employment for many residents who might otherwise find it difficult to enter employment. They show that compared to the London average, retail employs a higher share of both women and people from Black, Asian and Minority Ethnic (BAME) communities.

The retail sector is of significant importance both to the London economy and to the people of London. It is therefore important that policy makers have a thorough understanding of London’s retail sector. As a result, GLA Economics has undertaken a wide-ranging body of research into various aspects of London’s retail sector, producing ten reports over the past two years.

## **The location of London’s retail offer**

The retail offer in London ranges from the internationally renowned shopping centres of the West End and Knightsbridge through town centres to out-of-centre retail and warehouse parks to small local parades of shops. Consumers now also increasingly have the opportunity to shop from home via the internet.

The West End is by a considerable margin the largest retail centre in London in terms of both floorspace and turnover. It attracts many visitors from the rest of the UK and from abroad and is one of a number of successful retail sites within Central London alongside Covent Garden, Knightsbridge, King’s Road and Kensington High Street.

In total there are around 200 town centres across London within which retail frequently plays an important part. Indeed, across London as a whole (outside of the West End) town centres account for around 40 per cent of total retail employment.

Out-of-centre retail in London consists of one shopping centre at Brent Cross together with at least 50 retail warehouse parks (selling clothes, furniture and electrical goods for instance), stand alone supermarkets and 'Big Box' stores (DIY stores or furniture retailers for example). A number of out-of-centre shopping centres outside the formal boundaries of London, for instance Lakeside and Bluewater, also attract many London residents.

In addition to the above, London has over 1,200 neighbourhood and local centres (as defined in the London Plan) providing retail and other services to local communities. Retail opportunities also exist in office developments; in petrol station forecourts; in railway and underground stations and in corner shops.

This all serves to illustrate that there is quite a range of locations in which retail is on offer across London. However, there are some areas within London which are not as well served by retail as the majority of areas, and analysis suggests that retail could act as a significant regenerating influence in some areas of London.

### **Changes in retail over time**

There have been many changes within London's retail sector over recent decades resulting from growing consumer expenditure, changes in transport patterns, changes to planning regulations and advances in technology for example. In particular, the location and structure of retail has been changed by:

- An increase in out-of-centre retail during the 1980s and 1990s through the development of retail warehouse parks.
- A decline in retail within small town centres which have lost out to both large town centres and out-of-centre retail.
- Increased retail consolidation, particularly in the grocery sector.
- A decline in the number of small retailers.
- Changes in retailers' management of supply chain and logistics issues.
- The growth in retail sales via the internet.

As incomes increase consumers place increasing value on leisure time. As a result, retailers and developers of retail destinations have sought to develop retail as a leisure activity rather than merely a functional process or transaction whose time is to be minimised. This is also considered to be a key strategy in maintaining the attraction of high-street retail in the face of the growth in internet shopping.

Many of these changes have resulted in policy challenges for public sector bodies in areas such as planning policy, national competition policy, policy measures to remove barriers to small retailers, policy measures around delivery restrictions and policy towards town centre management.

## The future of retail in London

Looking ahead, London is forecast to witness a sharp increase in population over the next two decades with an extra 1,018,000 residents forecast between 2001 and 2026<sup>1</sup>. Employment in London is also expected to grow, by 969,000 between 2003 and 2026<sup>2</sup>.

This combination of rising population and rising incomes should ensure continued strong growth in consumer spending on retail goods with spending on non-grocery goods forecast to rise by 4.8 per cent per annum to 2016 and grocery retail spending by 2.0 per cent per annum<sup>3</sup>.

The importance of internet retail can be seen from its rapid rise to account for around four to six per cent of retail sales over the past few years. Continued growth in internet retail is expected to impose strong competitive pressure on some high-street shopping sectors such as electricals and music. However, despite the rise of internet retail, there will still remain a need overall for increased retail floorspace in London over the next decade.

To meet this need for new retail floorspace, a number of new retail developments and expansions to existing centres are planned. Particularly important amongst these are proposed developments at Stratford and White City. If developed as intended, both these sites are forecast to enter the top ten retail sites in London by turnover during the next decade.

Competition from new and existing developments, and from internet shopping will mean that some town centres in London are likely to see a decline in the attractiveness of their retail offer relative to other town centres over the next decade or so. However, the general outlook for London's town centres is extremely positive: they should benefit from rising consumer spending on retail as set out above and the support of planning policy that encourages new retail development into existing town centre locations. The combination of these two factors should ensure that most London town centres are able to continue to expand and enhance their retail offer over the next decade.

This should include the West End, which is expected to further expand its retail offer and retain its role as the UK's and London's premier shopping destination. However, the West End does face some issues if it is to maximise its potential. In particular, the need to improve the general shopping environment on Oxford Street, which currently suffers from both pedestrian and transport congestion is likely to need effective consideration. To this end, a Mayoral Commission into the West End's future development was set up during 2005 and is expected to report in 2006.

The full version of the publication 'Retail in London' is available to download from the GLA Economics website <http://www.london.gov.uk/gla/publications/economy.jsp#retail-lon>

<sup>1</sup> J. Hollis and G. Hay, "GLA 2005 Round Interim Demographic Projections", DMAG Briefing 2005/33, GLA, September 2005.

<sup>2</sup> GLA Economics May 2006 – Current Issues Note 9: Borough employment projections to 2026.

<sup>3</sup> GLA London Town Centre Need Assessment – Comparison Goods Floorspace Need in London – Experian Business Strategies, September 2004.

# Additional information

## Data sources

<b>Tube and bus ridership</b>	Transport for London on 020 7941 4500
<b>GDP/GVA growth</b>	Experian Business Strategies on 020 7630 5959
<b>Tourism – overseas visitors</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>
<b>Tourism – domestic visitors</b>	<a href="http://www.visitlondon.com">www.visitlondon.com</a>
<b>London airports</b>	<a href="http://www.caa.co.uk">www.caa.co.uk</a>
<b>Business activity</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<b>Employment</b>	<a href="http://www.rbs.co.uk/pmireports">www.rbs.co.uk/pmireports</a>
<b>House prices</b>	<a href="http://www.nationwide.co.uk/hpi/">www.nationwide.co.uk/hpi/</a>
<b>Unemployment rates</b>	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>

## 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

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

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**GLA Economics is funded by**



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