

London's Economy Today



Issue 37 | September 2005

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Hurricanes hit world oil market and US economy

Christopher Lewis, Senior Economist

Overall, London's economy continues to perform reasonably well but growth has slowed alongside the UK. The business services sector has continued to remain a major strength of London's economy in 2005.

The financial sector also remains robust and the FTSE 100 closed above 5,400 on 16 September for the first time in over four years. In August, the Purchasing Managers' Index (PMI) measures of seasonally adjusted business activity and new orders in London both fell but they still show expansion at 54.0 and 54.3 (this is above 50, which is the level consistent with no change on the previous

Dynamic supplement

With new challenges emerging and old challenges resurfacing, our cities are constantly evolving. In this month's supplement, *Cities are changing. So must we - The Dynamic City conference*, David Chappell provides a preview of GLA Economics' upcoming international conference, *The Dynamic City* (Tuesday 8 November), which explores what it means to be a dynamic city in the new millennium. (See page 9).

Economic Indicators

This month's economic indicators are beginning to cover the period after the terrorism attacks on 7 and 21 July. (See page 5-8).

GLAECONOMICS

Latest news...

- GLA Economics' Annual Report is a semi-finalist at the Federation of European Business Communicators Associations' awards. The report was shortlisted by a panel of UK judges and is currently being judged by a European jury in the 'best annual report' section.
- With places filling up fast, potential delegates are urged to book their places at GLA Economics' *The Dynamic City* conference (Tuesday 8 November) ASAP. For more information: www.london.gov.uk/mayor/economic_unit
- GLA Economics welcomes two new trainee economists to the team: Rupika Madhura and Kamaldeep Dhaliwal.

month). London's seasonally adjusted index level of employment fell slightly and shows a small degree of employment contraction by being just below the 50 mark for the third consecutive month. However, Office for National Statistics data show that London's unemployment rate is similar to a year ago.

The main impacts of the terrorism attacks in July continue to be on tourism and the central London retail sector. Visit London statistics show that overall visits to London attractions decreased by 17.8 per cent in July 2005 compared with July 2004. Early indications for August suggest that overall attendance levels have fallen by around 20–25 per cent compared to the same time last year. Meanwhile, London Retail Consortium figures show that retail sales in central London during August were 11.5 per cent lower, on a like-for-like basis, than in August 2004. This compares with a smaller 1.0 per cent annual decline for the UK as a whole.

UK economic growth for Q2 revised upwards but still below trend

The UK economy grew by a revised 0.5 per cent in Q2 2005. Growth was driven by a rise of 0.6 per cent in the service sector with growth strongest in the business services and finance sector at 0.8 per cent. Annual output growth is currently at a below trend 1.5 per cent, which is its slowest rate for 12 years. Industrial production is dampening overall growth and fell a further 0.3 per cent in July. The trend estimate for industrial production shows an annual growth rate of –1.5 per cent. Household expenditure remained weak in Q2 2005 with growth of only 0.4 per cent following 0.1 per cent growth in Q1. Overall the seasonally adjusted retail sales volume in August was unchanged but there was an increase of 0.8 per cent for non-food stores. Compared with the same period a year ago, the seasonally adjusted volume of retail sales in the three months to August 2005 was up only 1.2 per cent. Despite weak retail sales consumer price inflation rose again in August to 2.4 per cent. This was the second consecutive month that petrol prices had driven inflation higher.

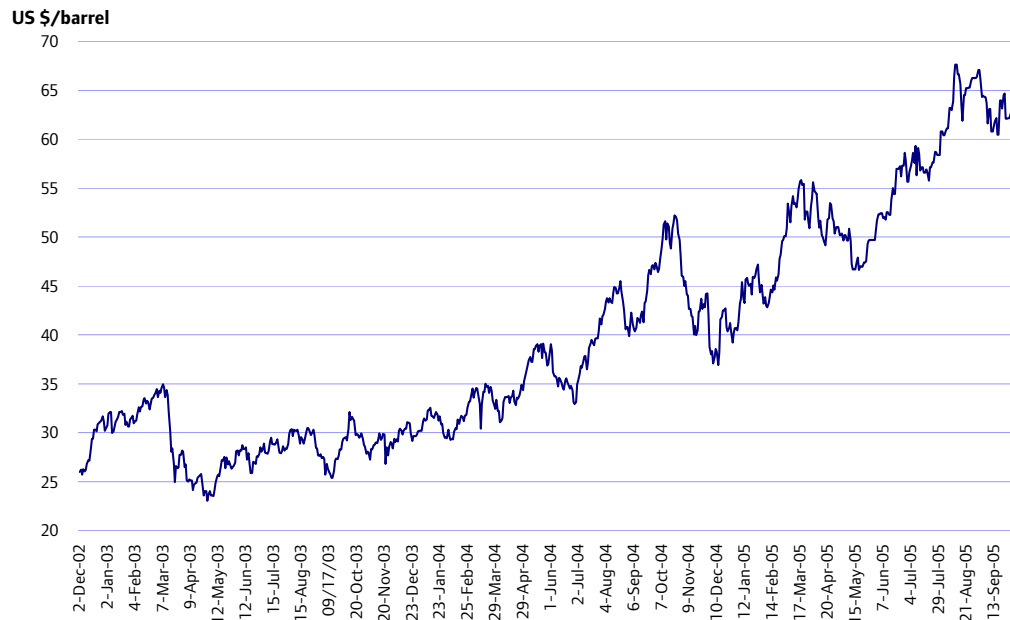
Oil prices remain high as Katrina and Rita strike

Oil prices once again spiked above \$65 per barrel due to the impact of Hurricane Katrina on the world oil market. Since then the threat and damage from Hurricane Rita has kept prices high (see Figure 1). Katrina initially knocked out around 95 per cent of the Gulf of Mexico's oil output and around a half still remains shut down. In addition at least four oil refineries in the Gulf Coast are expected to be out of action for months. The US government has released oil from its Strategic Petroleum Reserve to help offset production cuts caused by Hurricane Katrina and to some extent this has helped to calm the oil market. The Organisation for Petroleum Exporting Countries (OPEC) has also agreed to release an extra two million barrels per day of oil into the market if required from 1 October for three months.

'Oil prices once again spiked above \$65 per barrel due to the impact of Hurricane Katrina'

Figure 1: Brent crude oil price (\$ per barrel)

Source: FT.com



Katrina to slow US growth in 2005

US Treasury Secretary John Snow has predicted that as much as 0.5 per cent will be knocked off the US growth rate in 2005 due to Hurricane Katrina. However, healthy annual growth of around three per cent is still expected. A fall in US consumer confidence to its lowest level in more than a decade has been blamed on Katrina and high fuel prices. The total number of unemployment benefit claimants rose to its highest level in two years in the week ending 17 September with nearly all the new claimants directly attributable to the effect of Katrina. However, moving into 2006 the economic boost from rebuilding storm damaged areas should be expected to help offset the initial negative economic impact caused by the hurricanes. The short-run impact of Katrina was not strong enough to prevent the US Federal Reserve from raising interest rates once again by 0.25 per cent to 3.75 per cent on 20 September.

'Germany's general election ended in a stalemate causing jitters on the German stock market'

Germany's general election on the 18 September ended in stalemate between Angela Merkel's Christian Democrats and Chancellor Schroeder's Social Democrats. This caused the German stock market to fall two per cent in early trading the following day as investors fear a period of political deadlock that will stall economic reforms and damage consumer confidence. In contrast French Prime Minister

Dominique de Villepin has announced plans for tax reform and more work incentives. French unemployment fell below ten per cent in July for the first time in two years.

Japan's economy shows further signs of recovery despite still being stuck in mild deflation. The Organisation for Economic Cooperation and Development (OECD) has raised its growth projection for Japan in 2005 to 1.8 per cent (from 1.5 per cent). Business confidence is increasing underlying improvement in the world's second largest economy. Japan's election on 11 September saw

reforming Prime Minister Junichiro Koizumi re-elected in a landslide victory so he now has a strong mandate for further economic reforms. Meanwhile the International Monetary Fund (IMF) has reported that the Chinese economy still looks strong with growth for 2005 forecasted at nine per cent (compared to 8.5 per cent in its previous forecast).

'The Chinese economy still looks strong'

A steady but unspectacular year

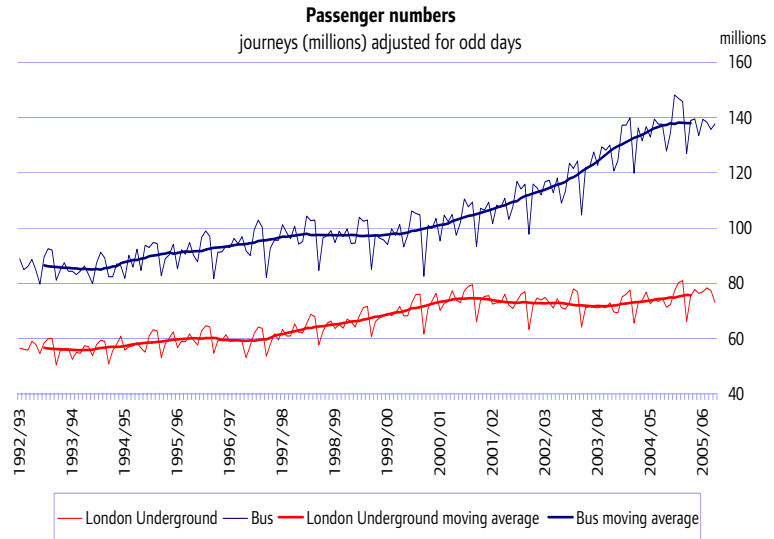
Global economic activity has slowed down this year compared to 2004. London's economy has been no exception to this but its performance remains good. UK growth has also weakened but remains robust in the business services and finance sector, which is especially important for London. The OECD has revised down the UK's growth rate to 1.9 per cent (from 2.4 per cent) in 2005. However, this still compares favourably to an upwardly revised 1.3 per cent growth rate (from 1.2 per cent) for the eurozone. The aftermath of Hurricane Katrina will have a negative impact on the US economy for the rest of 2005 but it is not expected to have a persistent effect. Meanwhile Germany's growth rate for 2005 has been revised down by the OECD to only one per cent (from 1.2 per cent) and the deadlock over the recent election will not help the economy recover.

Economic indicators

Moving average of passenger numbers

- The most recent 28-day period is from 25 June to 23 July 2005. This includes the incidents of 7 and 21 July and the closure of part of the Underground.
- London's public transport had 210.8 million passenger journeys; 137.7 million by bus (135.9 million in the previous period); 73.1 million by Underground down from 77.4 million in the previous period.
- The moving average fell slightly to 213.7 million passengers every period. The average for buses was 138 million passenger journeys. The Underground average was 75.7 million.

Latest release: August 2005
Next release: September 2005

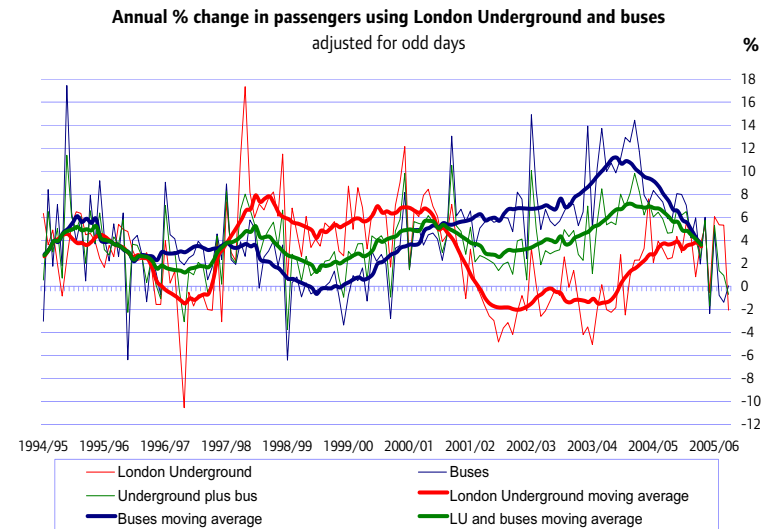


Source: Transport for London

Passenger journeys' annual growth rate slows

- The moving average annual rate of growth in passenger journeys is 3.5%, below the annual growth in the previous period of 3.9%.
- The moving average annual rate of growth in bus journey numbers slowed further to 3.6%, down from 4% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers decreased from 3.7% to 3.3%.

Latest release: August 2005
Next release: September 2005

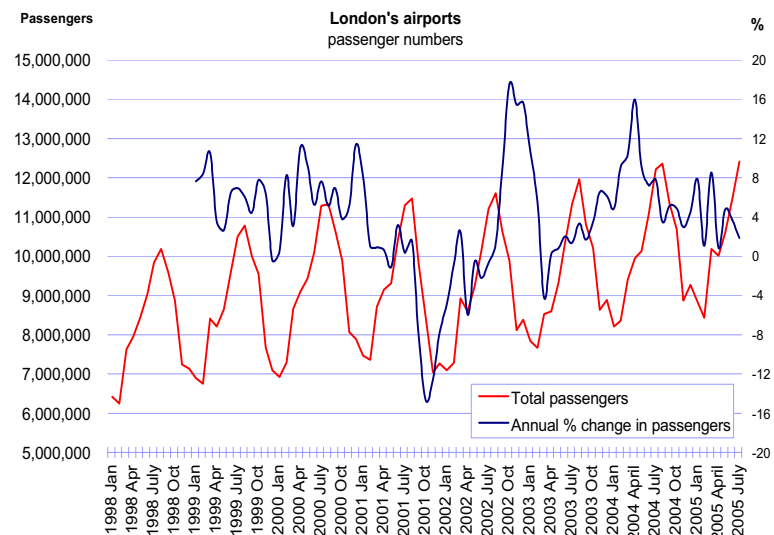


Source: Transport for London

Annual growth in airport passenger numbers

- 12.4 million passengers travelled through London's airports in July 2005.
- The number of passengers using London's airports increased by 1.7% from July 2004 to July 2005.
- International travel through London's airports has continued to show positive year-on-year growth throughout 2005.

Latest release: September 2005
Next release: October 2005



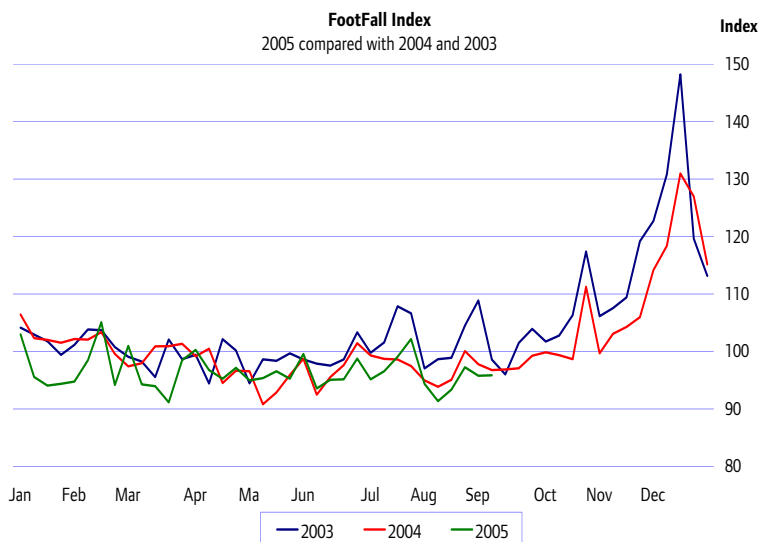
Source: Civil Aviation Authority

Shopping numbers remain below 2004 and 2003 levels

- The Footfall Index in London increased slightly to 95.7 in the first week of September from 95.6 at the end of August.
- The level of the index in August 2005 was somewhat lower than in August 2004 and 2003.
- The FootFall Index measures the number of shoppers and does not necessarily reflect the level of spending.

Latest release: 05/09/05

Next release: every week



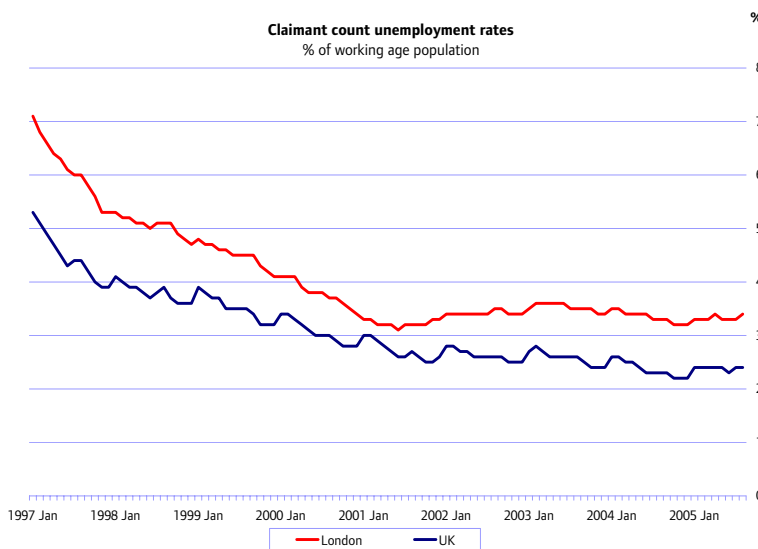
Source: FootFall Limited

Claimant count unemployment still low

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London was 3.4% in August 2005.
- There were 165,600 unemployment claimants in London in August 2005 compared with 162,900 in August 2004.
- The claimant count unemployment rate in the UK remains below that of London's.

Latest release: September 2005

Next release: October 2005



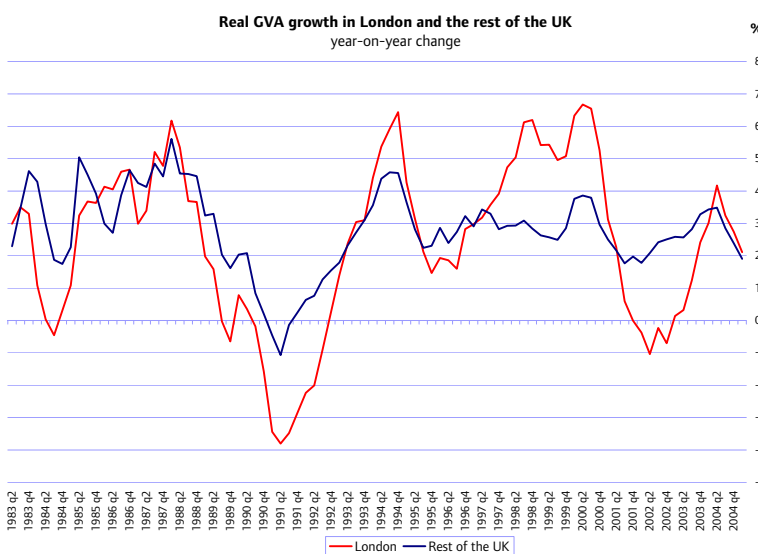
Source: Claimant Count, Nomis

London's economy growing slightly faster than the rest of the UK's

- London's annual growth in output was 2.1% in Q1 2005, down from a revised 2.7% in Q4 2004.
- The annual growth in output for the rest of the UK was 1.9% in Q1 2005, down from a revised 2.4% in Q4 2004.
- London's output growth remained higher than that for the rest of the UK in Q1 2005.

Latest release: August 2005

Next release: November 2005



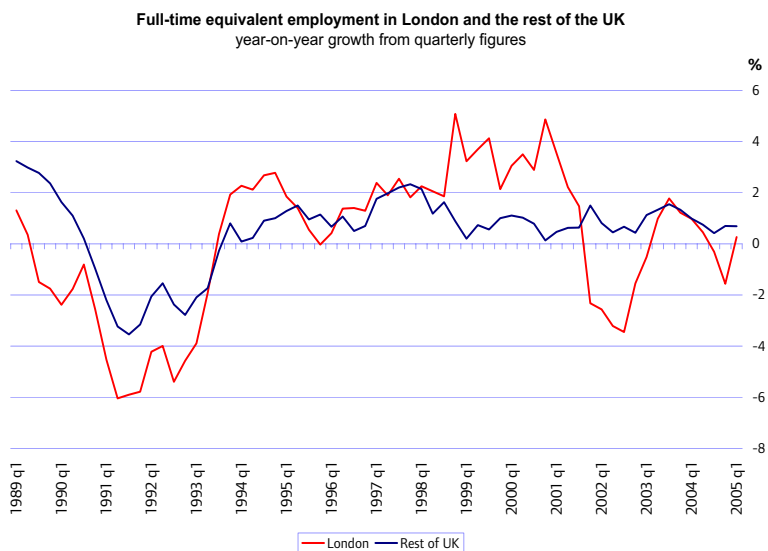
Source: Experian Business Strategies

London just returned to annual employment growth in Q1 2005

- London's year-on-year employment growth recovered to 0.3% in Q1 2005 compared to a decrease of 1.6% in Q4 2004.
- Annual employment growth in the rest of the UK remained steady at 0.7% in Q1 2005.
- London's annual employment growth remained lower than that for the rest of the UK in Q1 2005.

Latest release: August 2005

Next release: November 2005



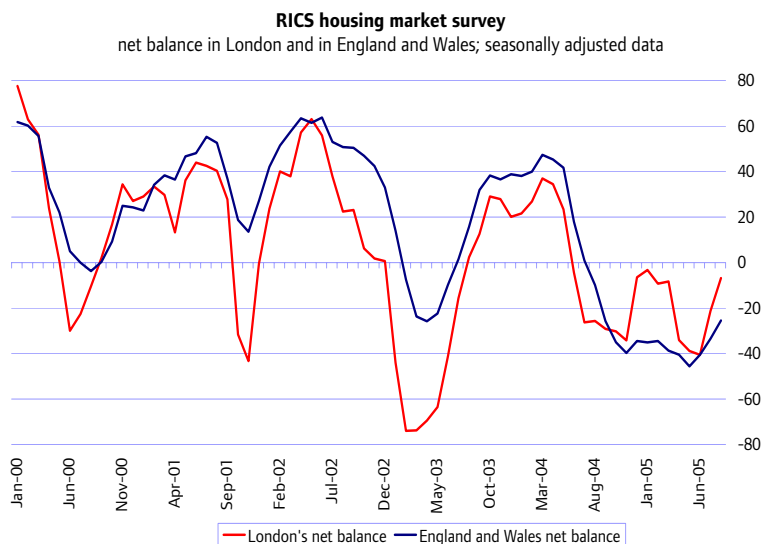
Source: Experian Business Strategies

Surveyors still reporting a fall in London house prices

- The RICS survey showed a negative net balance for London house prices of -7 in August. This net balance is a recovery from the level of -22 in July.
- In recent months most surveyors have reported lower house prices in England and Wales. The net balance was -26 in August up from -34 in July.

Latest release: September 2005

Next release: October 2005



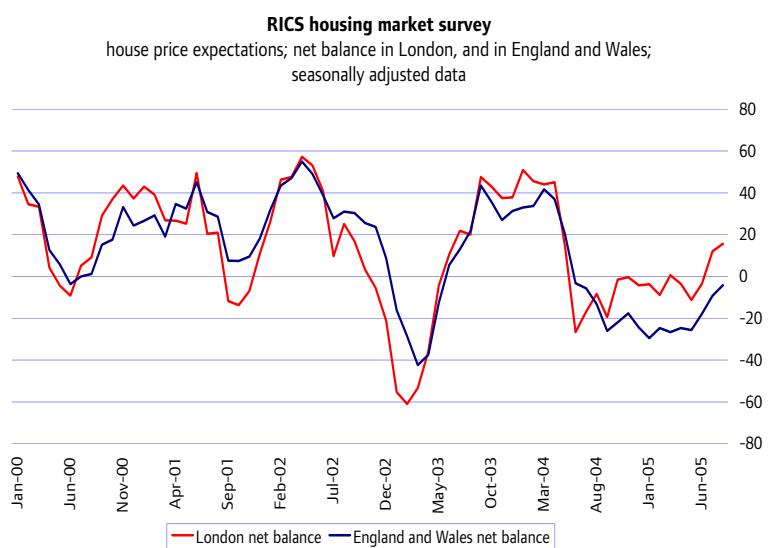
Source: Royal Institute of Chartered Surveyors

Surveyors expecting an increase in house prices in London

- The RICS survey shows a majority of surveyors expect house prices to increase over the next three months in London.
- The net expectations balance in London was 15 in August 2005, rising from a balance of 12 in July.
- For England and Wales, the net balance for house price expectations is lower than for London at -5 in August.

Latest release: September 2005

Next release: October 2005



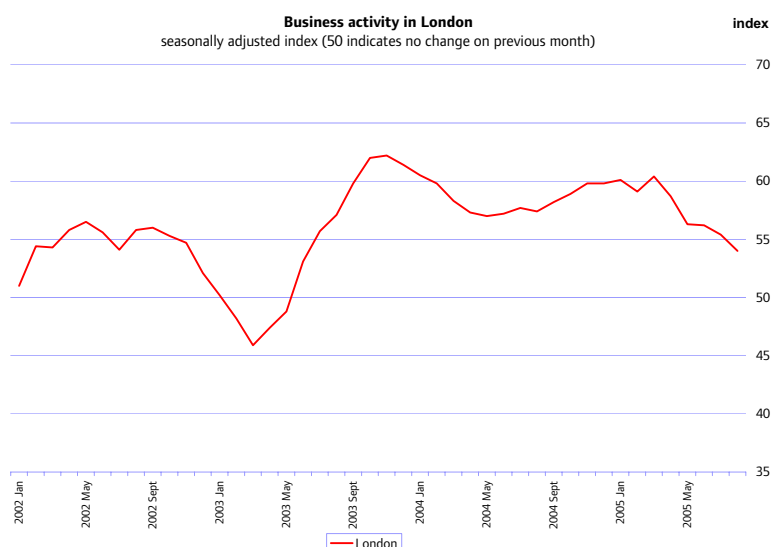
Source: Royal Institute of Chartered Surveyors

Business activity in London expands at a slower rate

- London firms continued to expand their output of goods and services in August 2005.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.0 in August compared to 55.4 in July.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: September 2005

Next release: October 2005



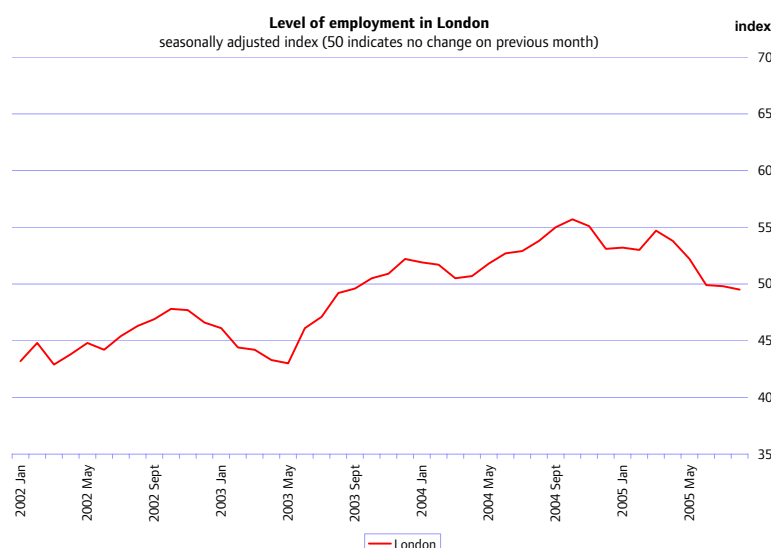
Source: PMI/The Royal Bank of Scotland

London employment weakening slightly

- The PMI shows that the level of employment in London firms has been just below the 50 mark since June 2005.
- The PMI for the level of employment was 49.5 in August, a slight fall from 49.8 in July.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: September 2005

Next release: October 2005



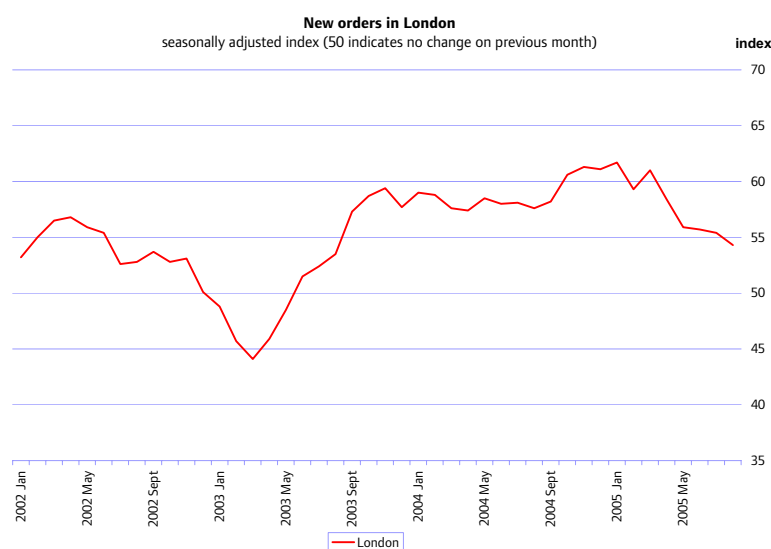
Source: PMI/The Royal Bank of Scotland

New orders in London continue to grow but at a lower rate

- New orders for London firms continue to grow. The PMI for new orders recorded 54.3 in August 2005 compared to 55.4 in July.
- The volume of new orders for London private sector firms has been increasing for just over two years.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: September 2005

Next release: October 2005



Source: PMI/The Royal Bank of Scotland

Cities are changing. So must we...

The Dynamic City conference

by David Chappell
Marketing Manager

Three international speakers, 200 high-flying delegates and a theme that will touch on topics as varied as the Olympics, the environment and worklessness...GLA Economics' second international conference, The Dynamic City, is pulling the punches.

With speakers flying in from America, France and China, the conference's strong international flavour is essential for the event, which is exploring what it means to be a dynamic city in the new century. The conference will cover diverse issues such as communities, women, education, retail and transport to name a few.

Featuring three international speakers in the morning session and six

workshops in the afternoon, the conference has already attracted interest from as far away as China, Sweden and the USA.

Conference speaker and GLA Economics' consultant Chief Economist, Bridget Rosewell, said this 'ground-breaking' conference was essential for anyone involved in investing in London, monitoring and planning city-based activities, or city administration.

At a glance

What:	The Dynamic City conference
When:	Tuesday 8 November
Where:	One Whitehall Place, London
Time:	9am - 5:30pm
Cost:	£165
Web:	www.london.gov.uk/mayor/economic_unit
Email:	glaeconomics@london.gov.uk
Phone:	+44 (0)20 7983 4922

The Theme

Throughout history, cities have been the places for innovation and change. They offer the opportunity for cross fertilisation, for raising money and for making market contacts. In a world of globalisation, shifts in population and new technologies, cities must continue to fulfil this role and evolve in order to do so.

The Dynamic City conference looks at how the economics of cities, and our policies towards them, are changing. The conference explores challenges that are common to most cities and looks at the innovative strategies that cities are adopting to respond to these challenges.

Most of all, the conference explores what it means to be a dynamic city in the 21st century.

‘This conference will feature some of the brightest speakers and most influential delegates in the field,’ Bridget said.

‘It’s the type of conference that experts will be talking about well into the future.’

The Speakers

Drawn from the USA, France and the United Kingdom, The Dynamic City’s keynote speakers - Saskia Sassen, Christian LeFevre and Bridget Rosewell - will draw on a wealth of experience as they discuss the role of cities in the 21st century.

Saskia Sassen

Professor Saskia Sassen is the Ralph Lewis Professor of Sociology at the University of Chicago and the Centennial Visiting Professor at the London School of Economics. Saskia’s books have been published in 16 languages and her comments have appeared in The Guardian, New York Times, Le Monde Diplomatique and the Financial Times amongst other media. Saskia is an advisor to several international bodies and is a member of the Council on Foreign Relations, the National Academy of Sciences Panel on Cities, and Chair of the Information Technology and International Cooperation Committee of the Social Science Research Council (USA).

Saskia’s publications

Saskia is the author of several books including **The Global City** and the upcoming **Territory, Authority and Rights**. Her most recent publications include **Global Networks, Linked Cities** (edited) and **Socio-Digital Formations: New Architectures for Global Order** (co-edited).

Christian Lefèvre

Christian Lefèvre is a professor at the University of Paris in the French Institute for Urban Affairs, a post he has had since 1998. He has a strong background in political science, sociology and planning and completed his studies on both sides of the Atlantic – the University of Bordeaux and at the Graduate School of Planning at UCLA.

Recognised as one of the leaders in his field, Christian is a member of various working groups and is an expert at the French level (Ministry of Environment-DATAR, City of Paris, to name just a few). He is also involved with public authorities in several European countries (UK, Netherlands, Spain, Germany and Italy) and works with several international organisations including the European Union.

Bridget Rosewell

Bridget Rosewell is one of the most respected and influential economists in the United Kingdom. A founding director of Volterra Consulting, Bridget is also the Consultant Chief Economist for GLA Economics which provides economic advice to the Mayor of London, the Greater London Authority, the London Development Agency and Transport for London.

Bridget is a former member of the Panel of Independent Forecasters, 'the 7 Wise Men', who advised the UK Chancellor. Currently, Bridget's appointments include:

- Non-Executive Director, Britannia Building Society
- Visiting Professor, City University Business School
- Member, Research Priorities Board, ESRC
- Special Adviser to Treasury Select Committee on monetary policy
- Member, Executive Committee, Centre for Economic Policy Research

Workshops

Following the speakers in the morning, delegates will be able to attend three of the following six workshops in the conference's afternoon session:

Green City

Examines the environmental effectiveness of cities, climate change and London, and London's environmental economy.

Accessible City

Looks at the relationship between accessibility, infrastructure and economic development.

Skilled City

Explores issues such as poverty, low-pay, skills, women and part-time work.

Knowledge City

Examines how research and innovation drives development and the role of universities.

People City

Discusses the development of new communities, the housing and job mix and uses the Thames Gateway Bridge as a case study.

Retail City

Looks at retail in London and the continuing changes shaping this key sector.

Mark your diaries

With just over a month to go, places at the conferences are limited so register to attend ASAP. For a copy of the brochure and registration form:

Visit: www.london.gov.uk/mayor/economic_unit

Email: glaeconomics@london.gov.uk

Call: +44 (0)20 7983 4922

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.cbhillerparker.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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