GLAECONOMICS

London's Economy Today

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Transport for London

MAYOR OF LONDON

LONDON DEVELOPMENT AGENCY

GLA Policy and Planning Assumptions – An Introduction to *London's Economy Today*

John Ross – Mayor's Policy Director for Economic and Business Policy

The GLA's strategic policy and planning assumptions are set out in the London Plan. These are 'responsibly conservative' – i.e. every attempt was made to make the projections as accurate as possible, but, as set out below, it is considered there is a balance of risk on the upside. That is, if the population and employment projections diverge from the central scenario the balance of probabilities is that they are likely to be higher.

Population

The London Plan projects a rise of 700,000 from a current population of 7.4 million to 8.1 million by 2016. At the time the London Plan was developed this exceeded Office of National Statistics projections. Since then ONS projections have been revised upwards to 2010 and are marginally above those of the GLA. The first major report, by Cambridge Econometrics, has now been published indicating higher figures than the London Plan – a population increase of 860,000 to 2016, to a total of 8.37 million compared to 700,000 to a total of 8.10 million in the London Plan. At the time the London Plan's projections of population growth were published there was surprise at the size of its projections. Now it is recognised that it is possible the numbers are either centrally correct or marginally too low.

The London Plan projects a deceleration of the current rate of population growth from 90,000 a year to 50,000 a year due to economic pressures. The GLA will review its population projections following the first results of the census in September.

Jobs projections

The GLA's current central assumption for London's economy is growth at least as fast as the Treasury's projection for the UK economy. This was an annual 2.5 per cent at the time the London Plan was drawn up. Total job increases for London are then calculated by calculating an average increase in productivity of labour. The Treasury has since revised upwards its official growth projections to 2.75 per cent. This revision has not yet been incorporated into the projections of the London Plan. This would imply higher job numbers that in the London Plan.

This upward revision of Treasury growth forecasts is a further indication of risks on the upside. That London's population, and therefore labour supply, is growing much more rapidly than the UK average is reason to believe that London's growth rate will exceed the national average. In addition London contains a higher proportion of the most rapidly growing economic sectors than other parts of the UK. London has outperformed the UK average for economic growth since the mid-1990s.

GLA Economics will publish a supplementary set of jobs projections for London based on the upward revision of Treasury growth figures to 2.75 per cent later this year.

Population, jobs and social risk in London

Examination of trends shows that population expansion and jobs creation in London are highly autonomous – this was outlined in *Planning for London's Growth*. During the early 1990s 500,000 jobs were lost in London during the cyclical downswing, but population growth accelerated. This reflects that population growth is primarily driven by natural increase and international migration – factors relatively autonomous of the immediate situation of the business cycle. If, therefore, job growth in London slowed it is unlikely that population growth would slow equivalently. This raises the most serious social issue in the city from this regard – maintaining sufficient jobs growth. For this reason all the Mayor's policies are oriented to creating sufficient jobs growth in the city – primarily addressing this via attempting to reduce cost pressures through ensuring adequate supply. This informs office supply planning, housing, transport, retail and other policies .

Cyclical developments and intermediate/long term trends

The policy and planning projections in the London Plan are medium and long-term averages – up to 15 years. They assume that there will be business cycles during the planning horizon, during which growth in downturns will be lower than the projected period average and upswings during which it will be higher – it is assumed that these fluctuations will cancel each other out. No attempt was made to time specific business cycles or assess their amplitude in such projections.

For other policy and planning purposes, however, it is vital for the GLA to have a perspective on the timing and phase of cycles – e.g. revenue projections, in assessing the overall economic situation in the city, and in timing certain economic initiatives (e.g. Mayor's initiatives on tourism, high value added manufacturing, creative industry initiatives etc). *London's Economy Today* is designed to fill this gap in the GLA's system of analysis and publications by publishing the most up to date information on the state of London's economy.

It is recognised that there is a trade off between recentness of the data and its systematic character. In addition to the need for timeliness, however, if all immediate indicators point in the same direction it is, despite their lack of a comprehensive character, possible to have considerable certainty as to the direction and scope of economic developments. If indicators point in different directions it is necessary to use more systematic, and therefore less up to date, GDP and other material. The data in this publication is therefore arranged to work backwards from the most immediate to the most systematic data.

Within this framework particular attention is drawn to the figures for Underground ridership. Due to its position as the central hub of London's transport system Tube ridership is an extremely sensitive indicator of economic, in particular, employment activity and, due to the electronic ticketing, an extremely up to data index. Publication of *London's Economy Today* will be synchronised each month with the release of data on Underground ridership.

Interrelation of cyclical developments and planning framework

Although there is a degree of independence between the two there is also a relation between the immediate cyclical data and the intermediate/long term projections that underlie GLA policy and investment planning assumptions. The GLA, in line with the Treasury, assesses that the current economic slowdown will be mild compared to the deep recessions of 1973, 1979, and early 1990s. These deep recessions meant that each upswing of the business cycle in London previously began with large unused capacity in people, office space, and, to a lesser extent transport capacity.

If the current slowdown/recession is mild then London will start the next upswing of the business cycle without such a large overhang of unused resources – its economy will be more 'taut'. It is for this reason that the large infrastructure and private sector investment projects are key to the economic development of the city. Without this adequate supply side strong upward pressures on demand due to the city's growth will create substantial upward pressure on costs, bringing demand and supply into balance via the undesirable route of slowing the economic growth of the city. Given London's weight in the national economy this would have significant negative implications for the UK and social conditions in the city.

A key goal of *London's Economy Today* is to track cyclical economic conditions and to ensure that they are not moving outside the parameters of the underlying assumptions of GLA, and government.

As regards the immediate business cycle in London, it has so far proceeded in line with GLA projections. The downturn is mild compared to the preceding business cycles. In particular unemployment is rising very slowly compared to the three previous cycles. The negative risk factor is the downturn on international share markets which is much more severe than in any recession since 1973.

GLA short-term policy making and planning is therefore at present based on the assumption of a relatively mild downturn but with scenario planning regarding downside risks. In assessing medium/long term risks of divergence from the projections in the London Plan the primary balance of risk is taken as on the upside, in particular as regards population growth.

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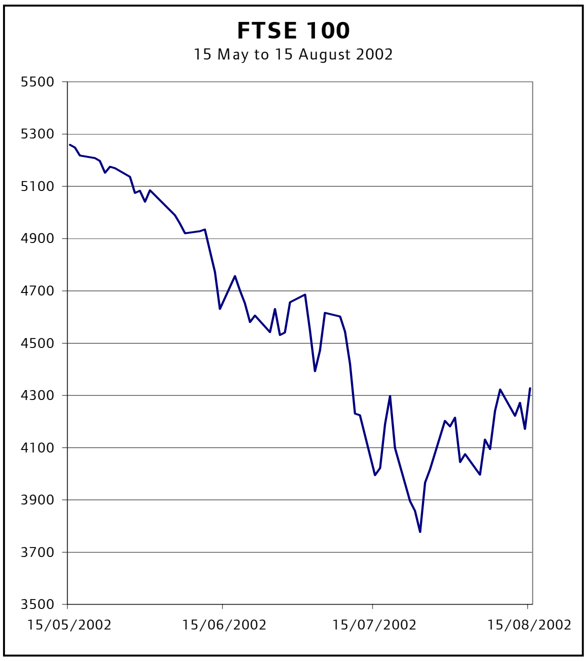
Bridget Rosewell – Consultant Chief Economist

- Economic growth has been slowing for nearly 2 years. Expectations of recovery during this spring and summer have been put at risk by stock market weakness and financial scandals
- We remain reasonably confident that a major recession will not take place, though it is now likely to be the back end of the year before any secure signs of recovery are seen, and employment will probably fall during the course of the year
- The medium term prospects for strong population and employment growth are not put at risk by the current downturn or even a more serious one

With share prices tumbling in a manner not seen since 1973, the short-term outlook for London's financial markets continues to be highly unpredictable. The FTSE 100 index of share prices fell by around 45% from its peak in December 1999 to the low on 24th July 2002. The index has witnessed a modest recovery in recent weeks, though it is not yet clear whether the index has reached is lowest level. Further falls are likely if more corporate accounting scandals emerge. Certainly these forces can only delay a recovery in investment.

The dramatic falls in share prices put at risk the recovery in economic activity that had otherwise been expected. Even so the 'real' UK economy, and in particular the London economy, continues to perform steadily.



Unemployment has risen little and employment rates show a slight pick up in the latest figures. Tube ridership has stabilised over the two years of economic slowdown but shows no dramatic downturn.

The continuing rapid rise in London house prices has helped to sustain consumer confidence, and recent GfK survey evidence does not yet show any significant falls in London. Retail sales, though weaker over the last two months, have still seen strong overall growth this year.

The latest data from the Nationwide continues to suggest that house prices in London are rising and the demand for new mortgages across the UK rose rapidly in July according to the Woolwich. Though London house price increases are likely to moderate, housing shortages will continue to boost prices.

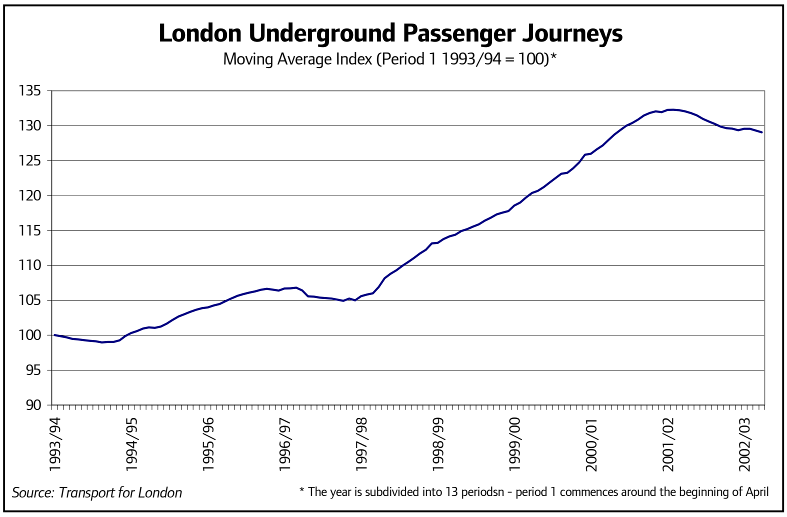
At the UK level, the expected spring recovery is showing in the statistics, with second quarter preliminary GDP estimates giving a rise of 0.9 per cent, compared to 0.1 percent in the first quarter. However, the latest index of production figures suggest that the tentative revival in the fortunes of UK manufacturing was short lived and the estimates of second quarter GDP included an over optimistic assessment of manufacturing prospects. Meanwhile underlying inflation remains low despite having increased from its record low of 1.5 per cent in June to 2.0 in July.

The key issue for the economy is essentially whether the wobbles in corporate confidence and a market collapse among the most serious in market history will undermine the recovery and push the economy back downwards again. This partly depends on the ability of the markets to bounce and we will all be watching carefully.

Tube Usage

Source: Transport for London
Latest Release: Tue 20 Aug 2002
Next Release: Tue 17 Sep 2002

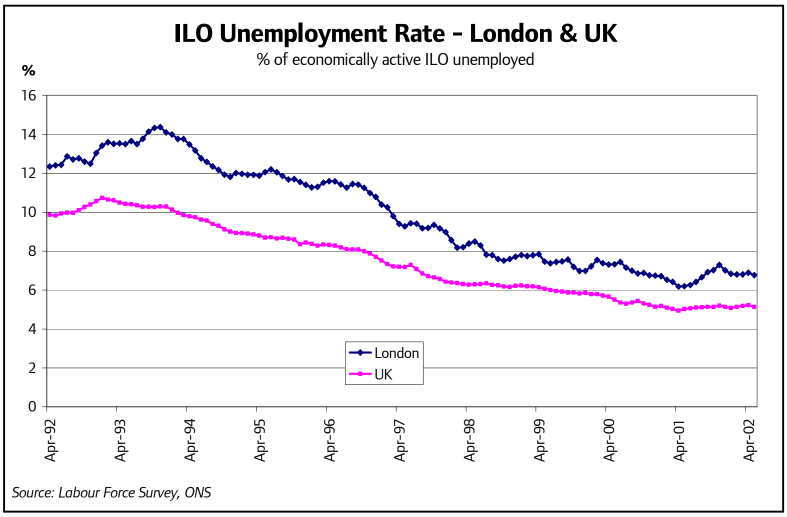
- The underlying trend in tube usage provides one of the most immediate indicators of the state of the London economy
- Following four years of steady growth, tube usage has been in moderate decline since April 2001
- Actual passenger journeys have increased for the four-week period to 20th July 2002, however, the moving average index trend, which compensates for seasonal variations, is still downward.



ILO Unemployment

Source: Labour Force Survey, ONS
Latest Release: Wed 14 Aug 2002
Next Release: Wed 11 Sep 2002

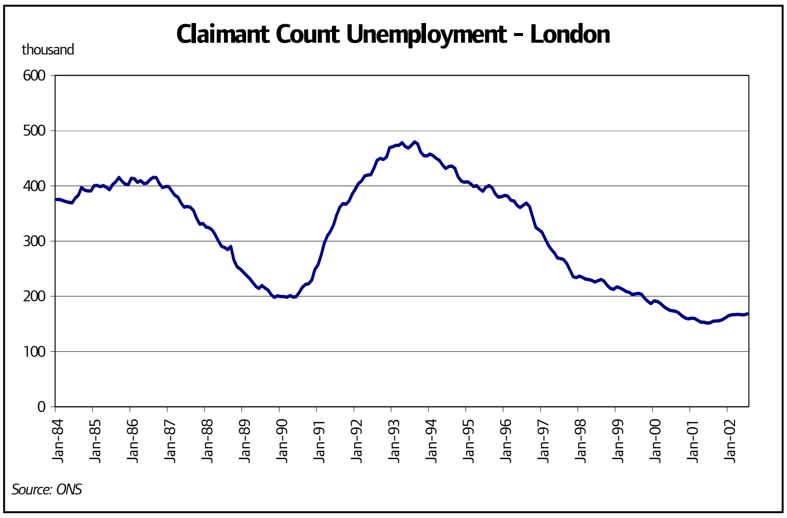
- London ILO unemployment has fallen modestly over recent months, whilst at the UK level it has remained relatively stable
- The London ILO unemployment rate in the April to June 2002 period was 6.8% (5.1% for the UK)
- Compared to a year ago, the London rate has increased by 0.6 percentage points



Claimant Count

Source: Labour Force Survey, ONS
Latest Release: Wed 14 Aug 2002
Next Release: Wed 11 Sep 2002

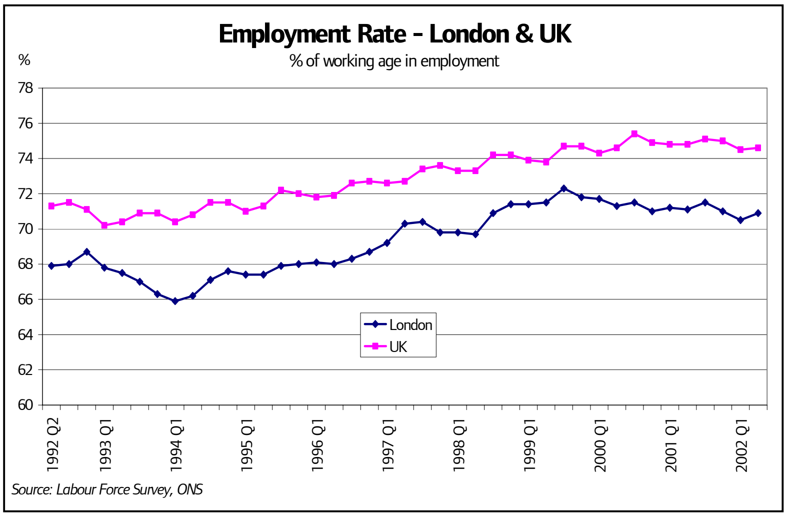
- London claimant count unemployment has risen over recent months, reaching its highest level since September 2000
- Claimant count unemployment was 168.2 thousand in June 2002, up from 166.4 thousand in July
- The London claimant count rate was 3.6 per cent in July 2002



Employment

Source: Labour Force Survey, ONS
Latest Release: Wed 14 Aug 2002
Next Release: Wed 11 Sep 2002

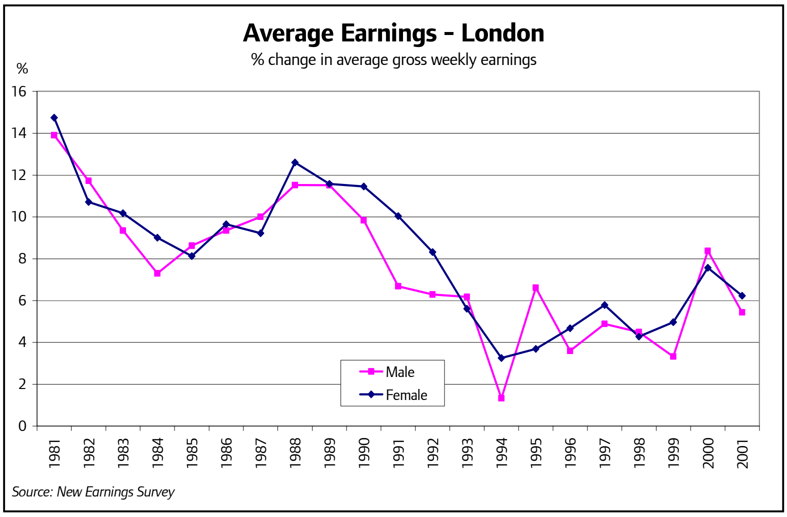
- London employment continues to be relatively stable
- The estimated seasonally adjusted employment rate for London for the second quarter of 2002 was 70.9% an increase of 0.4 percentage points on the previous quarter
- The latest estimate of London employment is 3.57 million for the period April to June 2002



Earnings

Source: New Earnings Survey
Latest Release: 24 Jan 2002
Next Release: Jan 2003

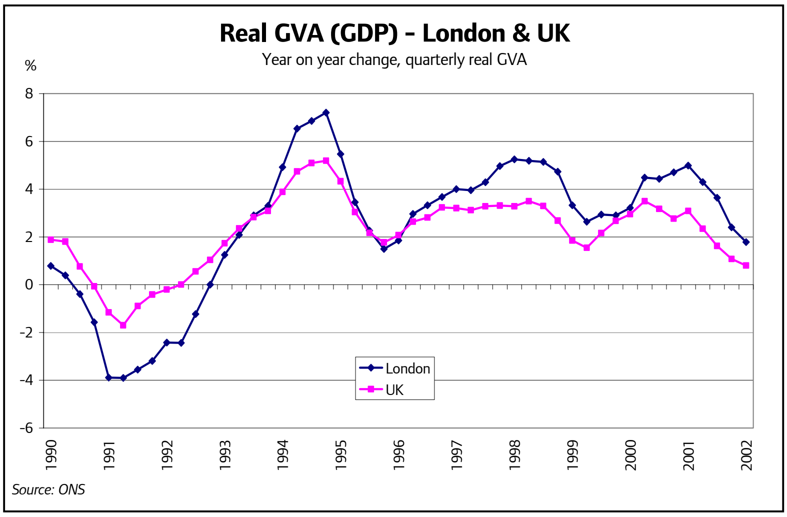
- Growth in London average gross weekly earnings was lower in 2001 than 2000
- 2001 saw an increase in male and female average gross weekly earnings in London of 5.4 per cent and 6.2 per cent respectively
- The increases lagged behind the UK averages, which were 5.7 per cent for men and 6.7 per cent for women



GDP/GVA Growth

Source: Experian Business Strategies
Latest Release: July 2002
Next Release: Oct 2002

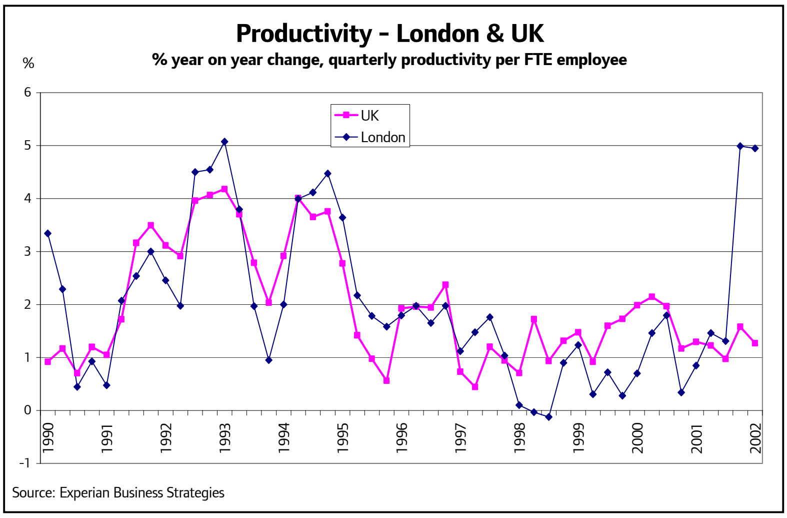
- Since the first quarter of 2001, the year on year trend in London real GVA growth has entailed a continued slowing of growth rates
- London real GVA growth continues to exceed the UK average
- Preliminary estimates of UK GDP growth for the second quarter show a revival in growth, with GDP at constant market prices increasing by 0.9 per cent compared to 0.1 per cent growth in the first quarter 2002



Productivity

Source: Experian Business Strategies
Latest Release: July 2002
Next Release: Oct 2002

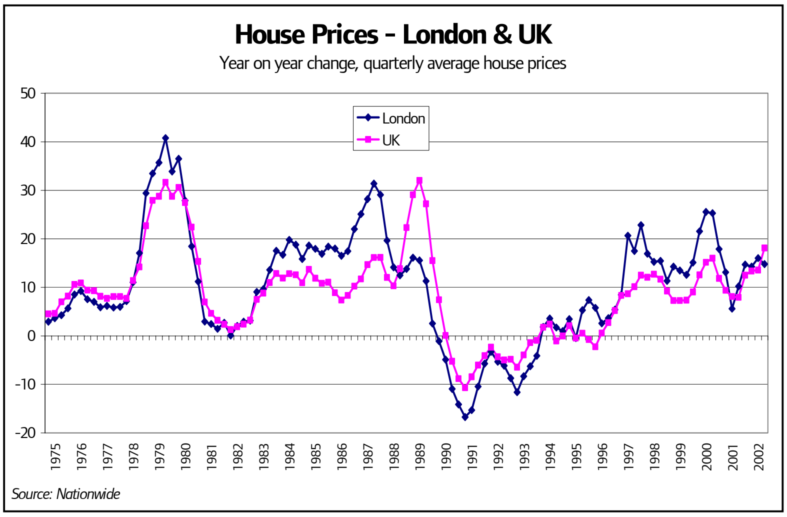
- The final quarter of 2001 saw a significant increase in the rate of London productivity growth
- The momentum however has not been maintained in the first quarter of 2002, with 0.8% quarterly growth compared to 2.5% for the previous quarter



House Prices

Source: Nationwide
Latest Release: July 2002
Next Release: October 2002

- House prices continue to rise rapidly in the capital, with the repo rate unchanged at 4.0%.
- Although price growth in London for the second quarter was lower than for some UK regions, e.g. East Anglia, the annual rise of 16% in the first quarter of 2002 was the strongest growth seen in the capital since the summer of 2000.



Retail Sales

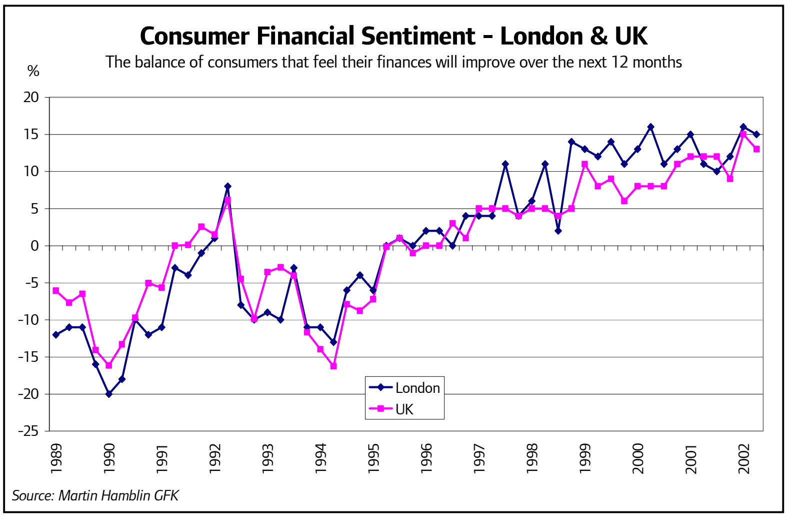
Source: ONS
Latest Release: Thu 25 July 2002
Next Release: Thu 22 Aug 2002

- The volume of UK retail sales fell in June by 0.7 per cent, the second consecutive monthly fall
- It is still a little early to say whether this represents the start of a longer term trend, though indications from the July CBI distributive trades survey and British Retail Consortium – KPMG sales monitor are that July retail sales will be disappointing
- The trend for the first half of 2002 was strong with particularly rapid growth (7.0%) in April 2002

Consumer Confidence

Source: Martin Hamblin GfK Survey
Latest Release: Tue 30 Jul 2002
Next Release: Sep 2002

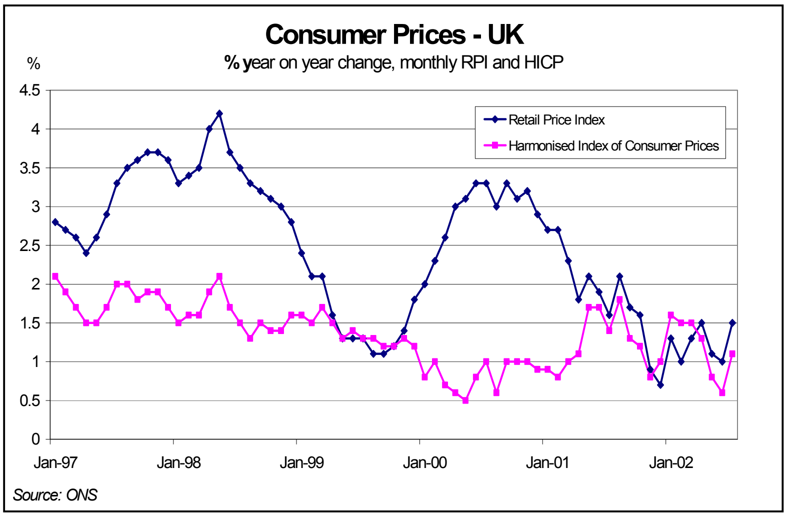
- Consumer confidence in London has fallen in the second quarter of 2002, however, confidence about consumers future finances remains relatively high
- A balance of 15 per cent of Londoners felt that their finances would improve over the next 12 months, one percentage point down on the last quarter
- Confidence about future finances in London remains higher than the UK average (a balance of 13 per cent)



Consumer Prices

Source: ONS
Latest Release: Tue 13 Aug 2002
Next Release: Tue 17 Sep 2002

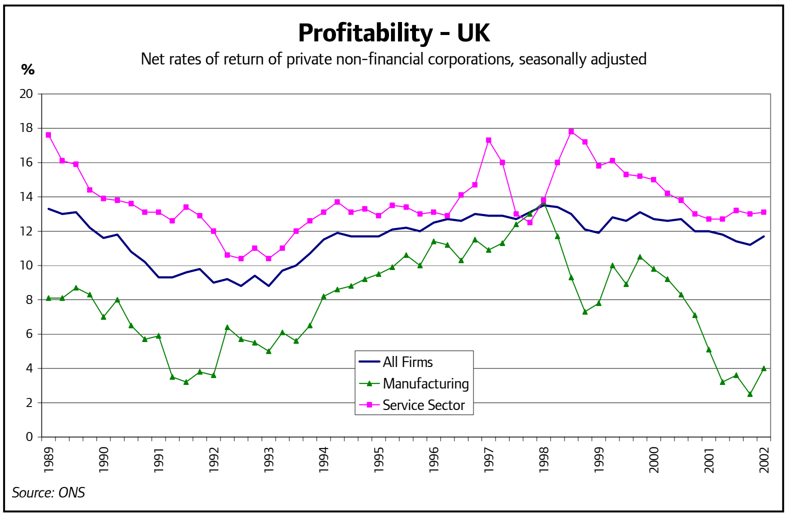
- July saw a surprise increase in consumer prices: in the year to July, the all items RPI rose by 1.5 per cent, down from 1.0 per cent in June
- In the 12 months to July, the UK HICP rose by 1.1 per cent, up form 0.6 per cent in June
- The largest upwards effects came from changes in food prices



Profitability

Source: ONS
Latest Release: Thu 4 July 2002
Next Release: Thu 3 Oct 2002

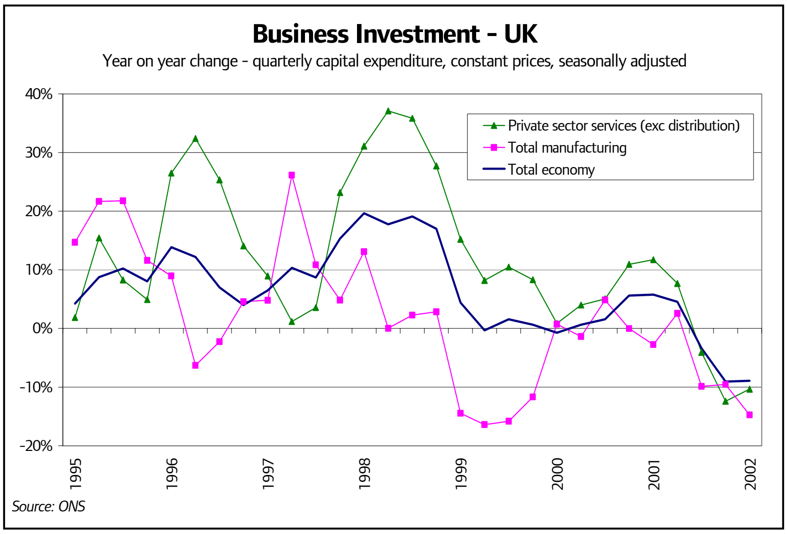
- Profitability of UK private non-financial corporations saw a modest upturn in the first quarter of 2002
- The net rate of return by private non-financial corporations in the first quarter of 2002 was 11.7 per cent, compared with 11.2 per cent in the final quarter of 2001
- The recovery was due largely to manufacturing, with the net rate of return of manufacturers increasing from a low of 2.5 per cent, to 4.0 per cent in the first quarter of 2002



Investment

Source: ONS
Latest Release: Thu 27 Jun 2002
Next Release: Thu 26 Sep 2002

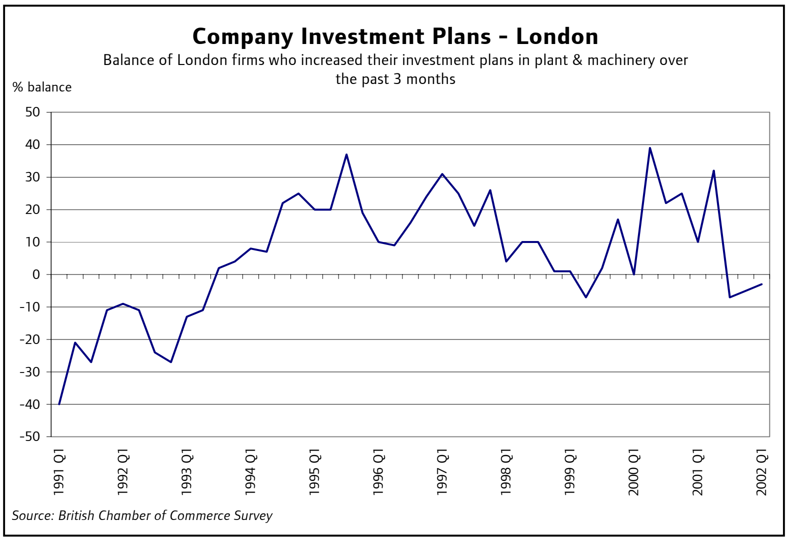
- In the first quarter 2002, UK business investment fell by 3.1% compared with the fourth quarter of 2001, and by 8.9 per cent compared with the first quarter of 2001
- This was the third successive quarter of contracting investment – the last similar occurrence was in the 1990-91 recession
- The decline over the last three quarters has affected manufacturing and private sector services



Investment Plans

Source: BCC Survey
Latest Release: Thu 18 Jul 2002
Next Release: Fri 18 Oct 2002

- BCC survey evidence supports the official data showing that uncertainty about future finances has meant investment plans are being curtailed
- For the past three quarters more London firms reduced investment plans than increased them
- A balance of –3 per cent of London firms said that they had increased their investment plans over the past 3 months, in the first quarter of 2002, compared to 10 per cent in the same quarter last year



Data Sources

Tube Usage	Further information contact Transport for London on 020 7941 4500
Unemployment	LFS data available from www.nomisweb.co.uk
Employment	LFS data available from www.nomisweb.co.uk
Earnings	New Earnings Survey data available from www.statistics.gov.uk
GDP/GVA Growth	Data available from Experian Business Strategies on 020 7630 5959
Productivity	Data available from Experian Business Strategies on 020 7630 5959
House Prices	Nationwide house price data available from www.nationwide.co.uk/hpi/
Retail Sales	Data available from www.statistics.gov.uk/rsi
Consumer Confidence	Further information on GfK Survey data see www.martinhamblin-gfk.co.uk
Consumer Prices	Data available from www.statistics.gov.uk/rpi
Profitability	Data available from www.statistics.gov.uk/timeseries
Investment	Data available from www.statistics.gov.uk
Investment Plans	Further information on BCC Survey data see www.chamberonline.co.uk

This is the preliminary edition of *London's Economy Today* and we would be most grateful for your feedback on it. If you have any comments or require any further information regarding this publication please contact:

Ian Harris
GLA Economics, 7th Floor, City Hall, The Queen's Walk, London SE1 2AA
Tel: 020 7983 4678 Email: ian.harris@london.gov.uk

Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA
www.london.gov.uk
Enquiries **020 7983 4100**
Minicom **020 7983 4458**