

London's Economy Today



Issue 34 | June 2005

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Euro weakens due to political uncertainties

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London's productive economy is based on a highly skilled labour force. The 2004 *London Annual Business Survey* showed that the availability of appropriately skilled employees is seen as the most important factor for the successful running of London businesses. In comparison to the national average a smaller proportion of London firms complain of their staff not having the adequate skills to do their jobs effectively. This month's supplement *A Time to Skill* by James Sloan looks at some of the important training and skills issues faced by the capital.

London expanding steadily

Overall, London's economy remains steady with the financial and business services sector doing well. London's fund management sector has been a strong performer in 2005 as there has been growth in hedge funds. *The Future of UK Asset Management*, a joint report by the Corporation of London and the Investment Management Association, has concluded that the UK's position as a leading asset management centre is secure in the short term largely because of the clustering effect and London's position as an important financial centre. As office vacancy rates fall CB Richard Ellis, the world's largest real estate advisory group, predicts

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business rents in central London will rise in the next two years. Office demand is expected to be generated by the capital's finance and business services sector. In May, the Purchasing Managers Index (PMI)'s measures of seasonally adjusted business activity, new orders and level of employment all fell for London firms. However these indices are all significantly above 50, which is the level consistent with no change on the previous month. The average annual rate of growth in tube passenger numbers is above three percent while the average annual rate of growth in bus passenger numbers continues to decline but is still above five per cent.

UK housing market cooling

Stable interest rates alongside a slowing but growing UK economy are supporting house prices. The UK housing market is relatively flat with the annual rate of house price growth moderating. In May seasonally-adjusted house prices as measured by the Nationwide rose by 0.3 per cent while the Halifax index fell by 0.6 per cent. The Nationwide annual rate of house price inflation fell from seven per cent in April to 5.5 per cent in May, the lowest rate since August 1996. Meanwhile, the Halifax index shows house prices in the three months to May just 5.7 per cent higher than a year earlier (the lowest increase since May 2001) compared with a 7.8 percent rate in April. Official figures from the Office of the Deputy Prime Minister has annual UK house price inflation at 6.9 per cent in April, with the slowest regional growth rate recorded in London at 2.7 per cent. The latest Royal Institution of Chartered Surveyors housing market survey reported that surveyors' confidence in anticipated sales activity is at its highest since November, but overall the survey was very weak. However, Yorkshire Bank's survey showed growing confidence in the housing market with a majority of homeowners expecting their properties to increase in value over the next year. London was the third most optimistic area after Wales and Northwest England. According to the Bank of England the number of seasonally adjusted loans for house purchases rose for the third successive month in April, which suggests that housing activity is at least stabilising.

'The UK housing market is relatively flat with the annual rate of house price growth moderating'

The end to the buoyant UK housing market has been a factor in slowing consumer expenditure. The UK retail sector remains weak with retailers'

'In April consumer credit grew at its slowest annual rate since November 2001'

expectations at their most pessimistic since 1992. Bank of England figures show that in April consumer credit grew at its slowest annual rate since November 2001. However, annual growth in total net lending to individuals and in consumer credit are still above ten per cent. Manufacturing output rebounded slightly in April but the Engineering Employers Federation has cut its 2005 growth forecast for UK manufacturing to 0.5 per cent from 1.4 per cent, and for engineering to 1.1 per cent from 2.6 per cent. Overall industrial production in the three months to April was 1.4 per cent lower than for the same period a year ago. The UK's tourism industry is being supported by foreign tourists. Visitor growth by overseas residents to

the UK remained strong during the year to April 2005, which is especially good news for the London economy.

US growth expected to remain firm

The US economy continues to grow strongly with the White House predicting growth of 3.4 per cent in 2005. Growth for Q1 2005 has been revised upwards and the unemployment rate fell to 5.1 per cent in April, its lowest level since September 2001. However, US inflation is still a slight worry due to high oil prices and Alan Greenspan (the Federal Reserve chairman) has warned that rapidly rising house prices could add to inflationary pressures. The Federal Reserve has already raised interest rates eight times since June 2004 from one per cent to three per cent but further moderate tightening of monetary policy is expected over the summer.

'On the back of the French and Dutch 'No' votes for a European Union Constitution, the Euro has fallen to levels against Sterling and the US dollar not seen since summer 2004'

Prospects for the Eurozone economy have not improved with political problems not helping matters. On the back of the French and Dutch 'No' votes for a European Union Constitution, the Euro has fallen to levels against Sterling (see Figure 1) and the US dollar not seen since summer 2004. A few Italian ministers are even suggesting that Italy should reintroduce the Lira and reports that the German Finance Minister and Bundesbank President have discussed the break-up of the monetary union with independent economists have also weakened the Euro. A report from Charles Stanley Sutherlands, the stockbroker, put a 50 per cent probability on at least one country leaving the Euro by 2008. Meanwhile there are a few signs of improvement for the Japanese economy where domestic demand is improving. In April the unemployment rate fell to 4.4 per cent, its lowest level since October 1998, and industrial production rose by 2.2 per cent.

Figure 1. The Sterling (£) – Euro (€) exchange rate

Source: Bank of England



Oil prices at an all-time high

Oil prices have risen to nearly \$60 per barrel as the US summer driving season begins and worries about lack of global refining capacity continue. Organisation of Petroleum Exporting Countries (OPEC) raised its production quota level by 0.5 million barrels per day (mbpd) to 28mbpd on 15 June, but this has had little effect on oil prices as OPEC were already producing at this level. Underpinning oil prices in 2005 has been strong world oil demand from China and the US. International Energy Agency figures show oil demand grew at a robust 2.2 per cent in Q1 2005. On the supply side Iraq has announced that it is unlikely to return to pre-war levels of oil output until 2007. Continued high oil prices will dampen world economic activity, but it must be remembered that adjusted for inflation oil prices are still below the levels seen in the early 1980s after the oil shocks of the 1970s. Despite current oil prices financial markets have actually been strengthening over the month. The FTSE 100 rose above the 5,100 mark during 22 June for the first time since May 2002. There has also been a pick-up in mergers and acquisition activity in the UK. The value of completed acquisitions in the first half of 2005 is a third higher than for the same period last year. This is all good news for confidence in London's important financial and business services sector.

'Financial markets have actually been strengthening over the month'

Economic indicators

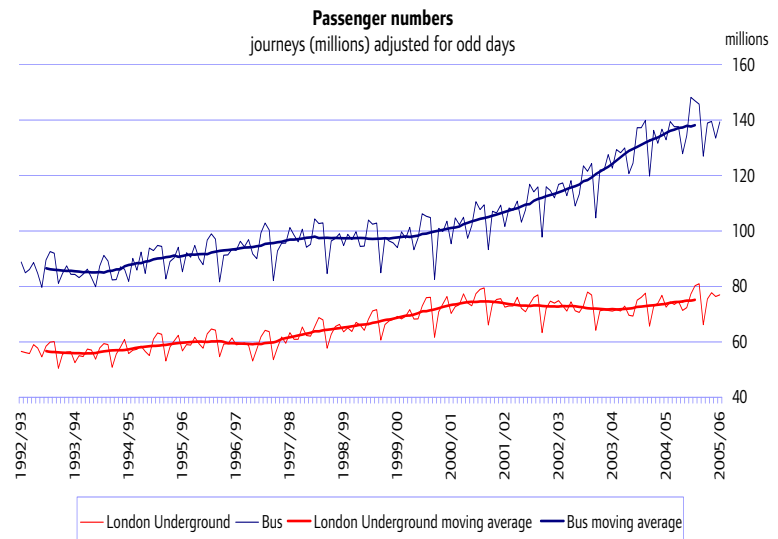
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Moving average of passenger numbers continue to grow

- In the most recent 28-day period, London's public transport had 216.3 million passenger journeys; 139.4 million by bus and 77 million by Underground.
- The moving average shows an increase to 213.4 million passengers every period. The average for buses improved to 138.2 million passenger journeys. The average for the Underground was 75.2 million.

Latest release: June 2005

Next release: July 2005



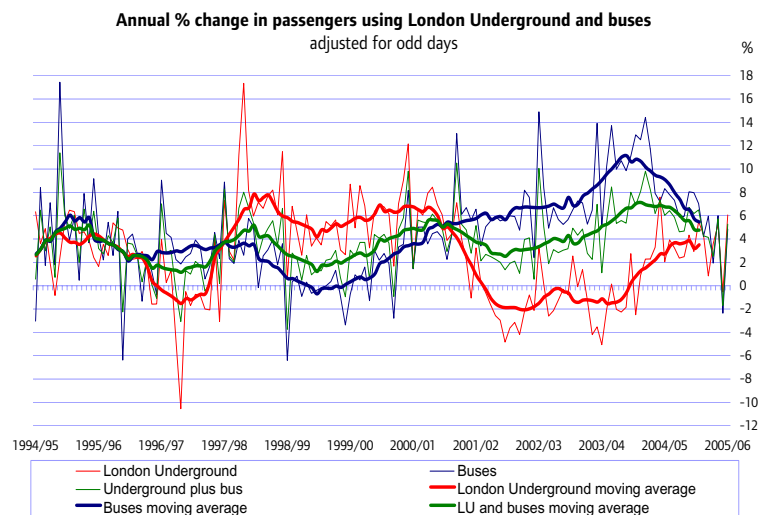
Source: Transport for London

Passenger journeys' annual growth

- The average annual rate of growth in passenger journeys remained at the same level as the previous period at 4.7%.
- The average annual rate of growth in bus journey numbers has slowed and is now at 5.4%, slightly down from 5.6% in the previous period.
- The average annual rate of growth in Underground passenger journey numbers increased from 3.1% to 3.4%.

Latest release: June 2005

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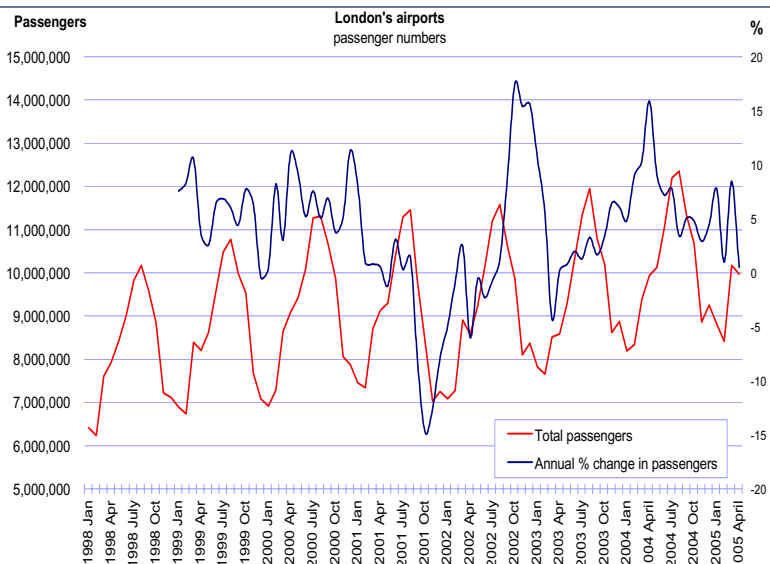
Source: Transport for London

Airport passenger numbers remain high

- In April, 9.9 million passengers travelled through London's airports.
- The number of passengers using London's airports increased only 0.4% from April 2004 to April 2005. This may reflect that Easter in 2005 was in March when annual growth was 8.4%.
- International travel through London's airports has continued to grow in 2005.

Latest release: June 2005

Next release: July 2005



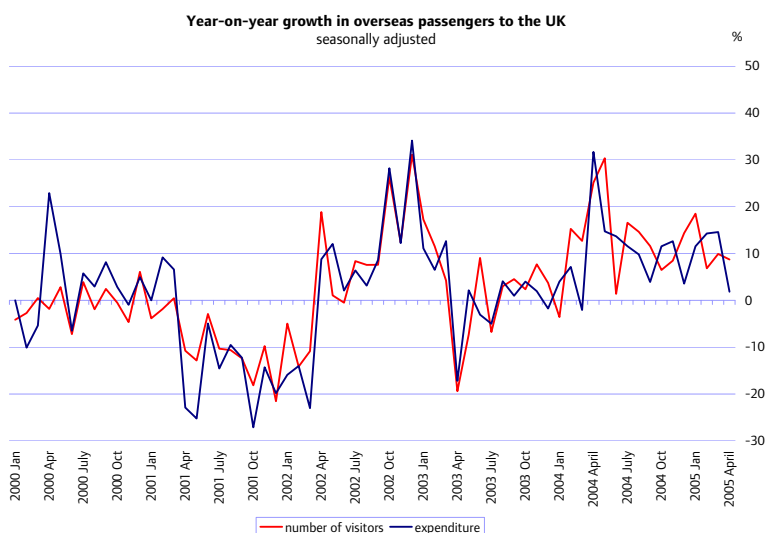
Source: Civil Aviation Authority

Growth in number of overseas visitors to the UK

- The early months of 2005 saw strong growth in overseas visitor numbers to the UK but a slowdown in the growth of their spending. Up to half of overseas visitors spend time in London.
- The annual growth of overseas visitors to the UK was 8.7% in April 2005.
- The year-on-year growth in expenditure by overseas visitors in the UK was 1.9% in April 2005.

Latest release: June 2005

Next release: July 2005



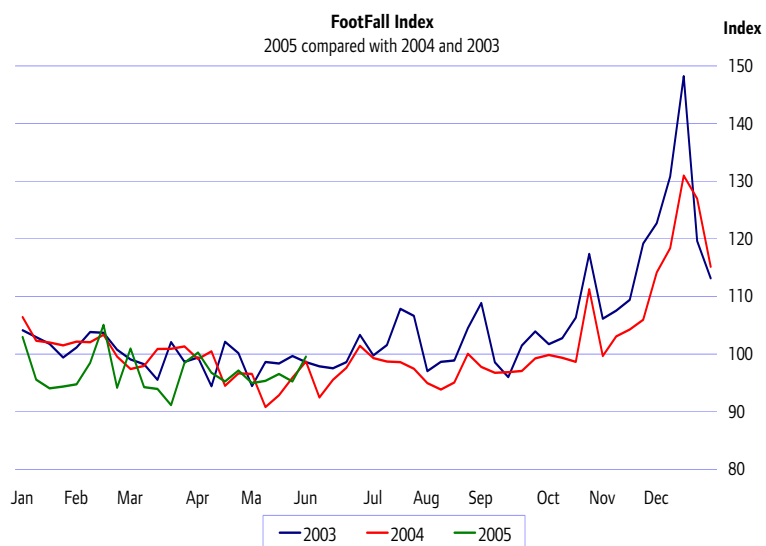
Source: Office for National Statistics

Shopping numbers recovering

- The FootFall Index of shoppers in London has been strong in May, continuing April's levels.
- The level of the index throughout May 2005 was higher than in May 2004.
- The FootFall Index measures the number of shoppers but does not necessarily reflect the level of spending.

Latest release: 30/05/05

Next release: every week



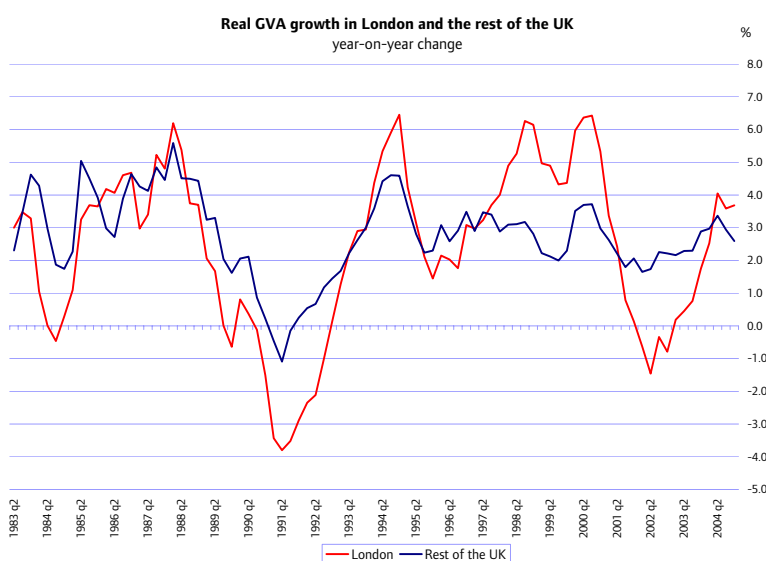
Source: FootFall Limited

London's economy grows faster than the rest of the UK

- London's annual growth in output was 3.7% in Q4 2004, up slightly from annual growth of 3.6% in Q3. This continued the recovery of 2004.
- Annual GVA growth in the rest of UK was 2.6% in Q4 2004, down from 2.9% in Q3 2004.
- London's output growth remained higher than that for the rest of the UK as a whole in Q4 2004.

Latest release: May 2005

Next release: August 2005



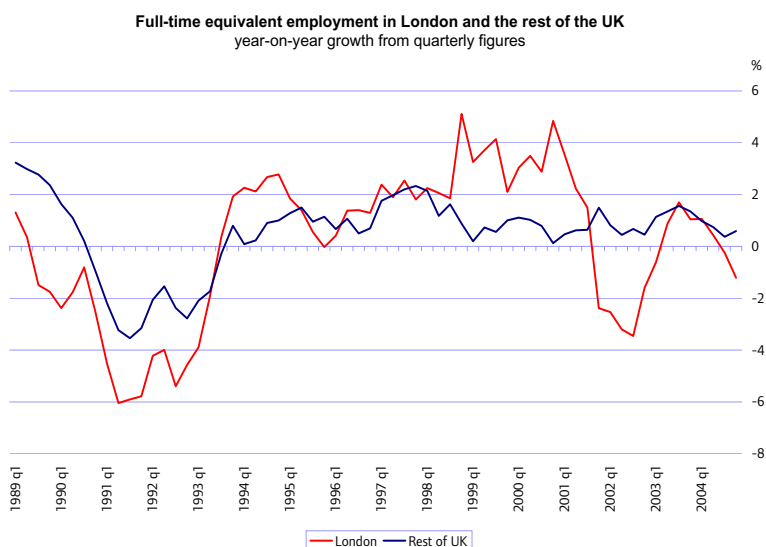
Source: Experian Business Strategies

Employment change in London weaker than rest of the UK

- Employment in London fell slightly in Q4 2004 compared to the same quarter in the previous year.
- London's year-on-year employment growth was -1.2% in Q4 2004 compared to -0.2% in Q3 2004.
- Annual employment growth in the rest of the UK remained positive as it rose to 0.6% in Q4 2004 from 0.4% in Q3.

Latest release: May 2005

Next release: August 2005



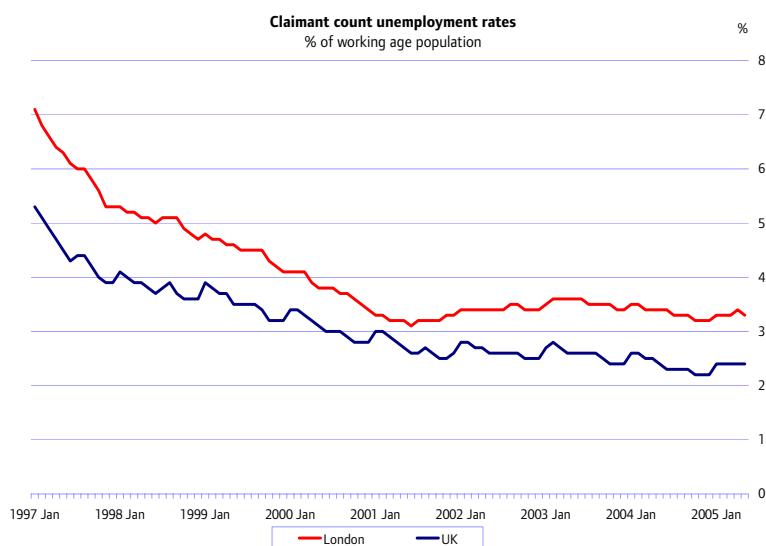
Source: Experian Business Strategies

Claimant count unemployment rate

- The rate of claimant count unemployment, people unemployed and claiming Jobseeker's Allowance, in London fell slightly from 3.4% in April 2005 to 3.3% in May 2005.
- There were around 164,000 unemployment claimants in London in May 2005, compared with 167,000 in May 2004.
- The claimant count unemployment rate in the UK remains below that of London.

Latest release: May 2005

Next release: June 2005



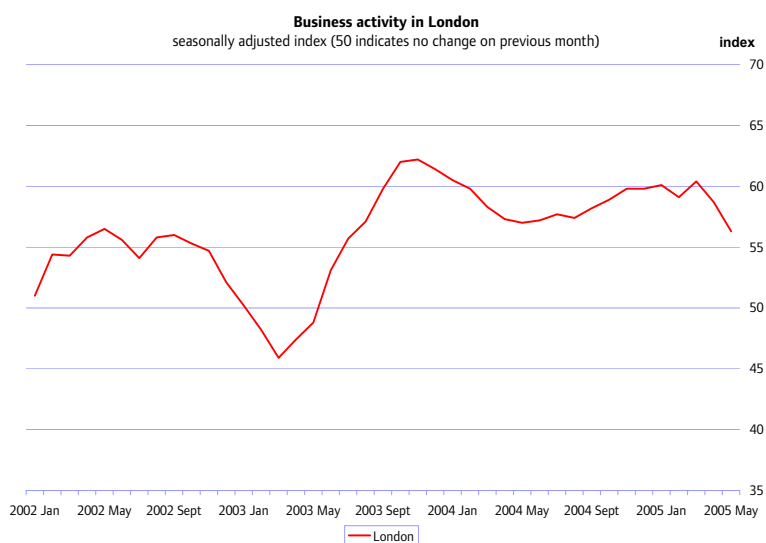
Source: Claimant Count, Nomis

Business activity in London

- London firms continued to expand their output of goods and services in May 2005.
- The Purchasing Managers' Index (PMI) of business activity recorded 56.3 in May compared to 58.7 in April.
- A rate above 50 on the index indicates an increase in business activity from the previous month.

Latest release: June 2005

Next release: July 2005



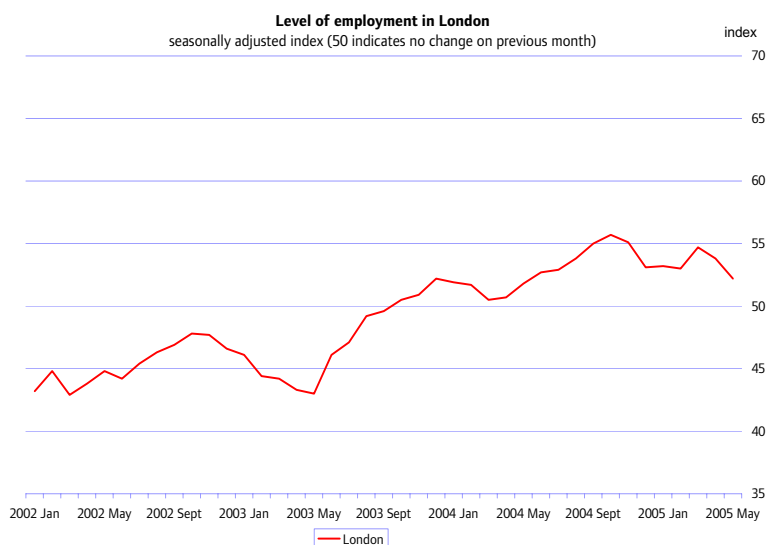
Source: PMI/The Royal Bank of Scotland

Employment growth eases

- London firms continue to increase their level of employment in 2005. The PMI for the level of employment was 52.2 in May. This is below 53.8 in April.
- The PMI shows that the employment level of London firms has been increasing continuously since September 2003.
- A rate above 50 on the index indicates an increase in the level of employment from the previous month.

Latest release: June 2005

Next release: July 2005



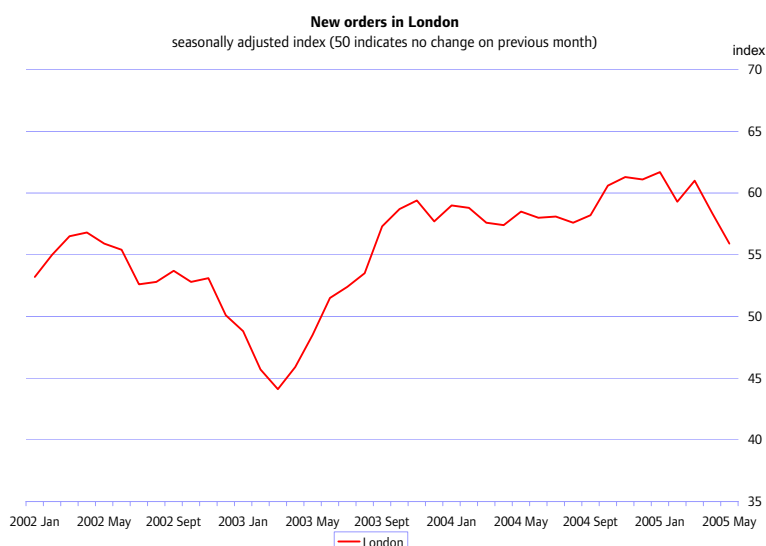
Source: PMI/The Royal Bank of Scotland

Slower growth in new orders

- New orders for London firms continued to rise. The PMI for new orders recorded 56 in May 2005. This is lower than 58.4 in April.
- The volume of new orders to London private sector firms has been rising for two years.
- A rate above 50 on the index indicates an increase in new orders from the previous month.

Latest release: June 2005

Next release: July 2005



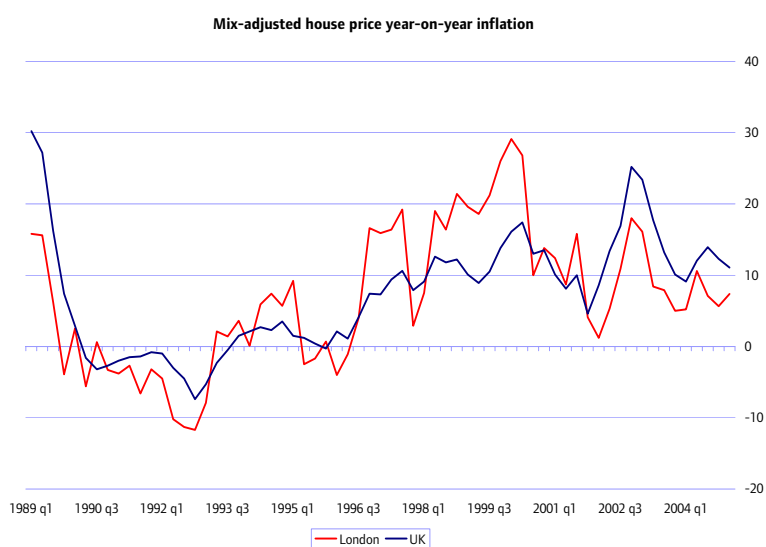
Source: PMI/The Royal Bank of Scotland

House price growth steady in early 2005

- The ODPM house price index is an official measure of house prices. In 2005, Q1 included Easter which may have positively affected the Q1 annual change in house prices. However, April figures have been weak.
- Annual house price growth in London increased to 7.4% in Q1 2005 from 5.6% in Q4 2004.
- Annual house price growth for the UK slowed to 11.1% in Q1 2005 from 12.3% in Q4 2004.

Latest release: June 2005

Next release: September 2005



Source: ODPM

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London Development
Agency

Good access to high quality labour is a critical issue for London's employers. Data from the *London Annual Business Survey* shows that London firms rank 'access to an appropriately skilled workforce' as one of the main factors affecting their competitiveness¹.

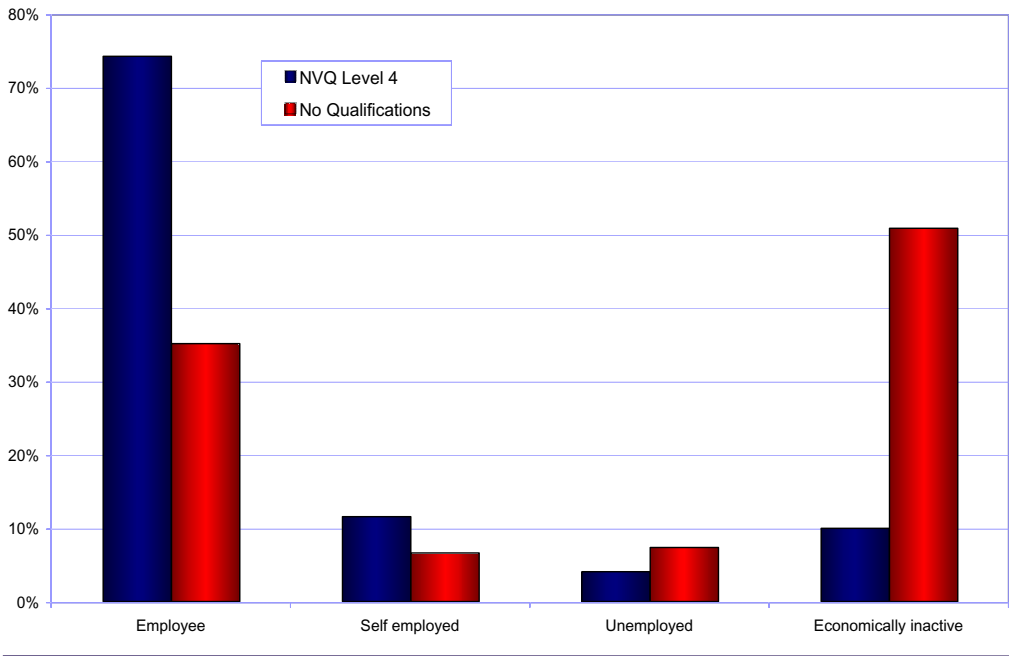
At first glance, London's labour market appears to better meet employer demand for skills than anywhere else in the country. For instance, a relatively small proportion of London firms have vacancies because of skill shortages (2.8 per cent compared to 4.3 per cent for England on the whole) alongside a smaller proportion complaining of skills gaps among staff². Moreover, in a survey of 30 different European countries London is ranked highest in terms of qualified staff³.

The capital's labour market meets this demand for labour despite London appearing to exhibit a greater demand for highly skilled workers than elsewhere. Around 38 per cent of people working in London are qualified to degree level or higher compared with around 26 per cent of people working elsewhere in the UK⁴.

The need for London's residents to have high skills is reiterated by the data in Figure 2. This chart shows that people with no qualifications are significantly more likely to be out of employment when compared to the highly skilled (around degree level). This requirement for a highly skilled workforce highlights the need for an effective, high-quality education and training system within London.

Figure 2: Economic status of Londoners by qualification level

Source: Labour Force Survey 2002/2003



Mind the skills gap

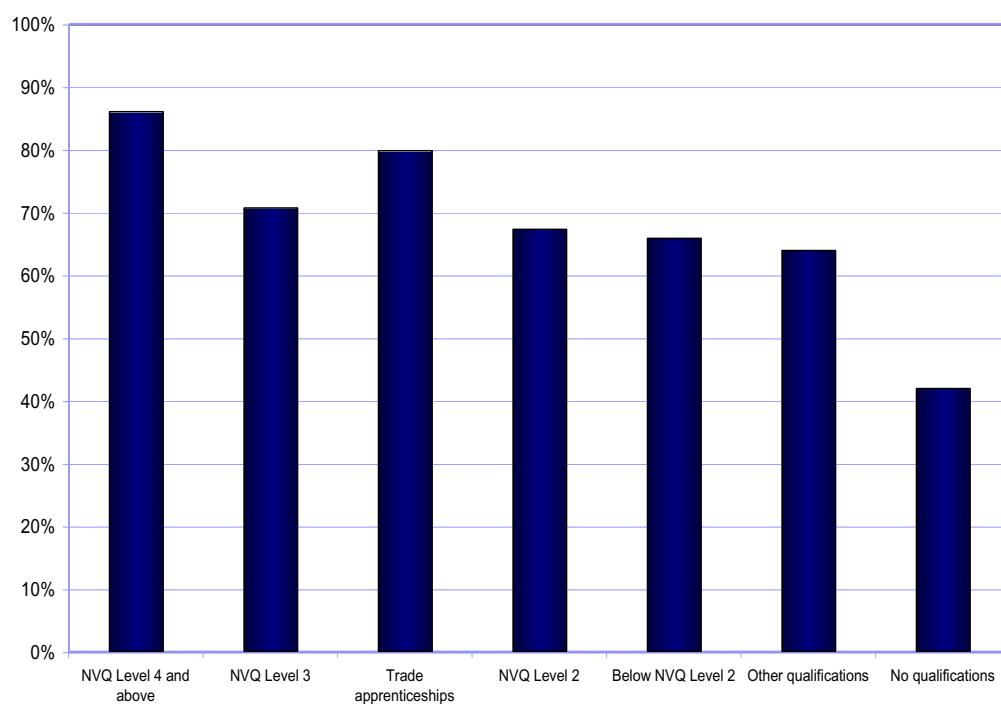
London's primary and secondary education system plays a key role in helping the capital meet its future skill needs. Despite significant improvements in raising the attainment level of pupils over the previous eight years, GCSE attainment in London's maintained schools (those funded by Local Education Authorities) remains below national levels. Alongside this, the average London A-Level candidate achieves 228 points compared with 259 points for the average candidate in England⁵. As London's economy demands more high quality labour than elsewhere in the UK, the gap between the requirements of employers and pupil attainment is still relatively large.

'The gap between the requirements of employers and pupil attainment is still relatively large'

London's core education system is supplemented by extensive further education infrastructure funded predominantly by London's five Learning and Skills Councils (LSC), which together manage a cumulative budget of around £1.2 billion. The five LSCs' funding provides education and training opportunities for London residents to gain qualifications predominantly at NVQ levels 2 and 3 (the equivalent of 5 GCSE's at grade A-C and A level respectively) through funding school sixth forms and colleges of further education. An important element of this funding provides a raft of training opportunities for those Londoners wishing to take up trade apprenticeships. Evidence suggests that the skills gained through trade apprenticeships are particularly useful, with the employment rate amongst people with this skills set being the second highest in London (see Figure 3).

Figure 3: London employment rate by qualification level

Source: Labour Force Survey, 2002/2003



Figures 2 and 3 also illustrate the value of having a degree level qualification in London. However, while the role of London's Higher Education sector (HE) is

well documented, progress into higher education amongst London's school and college leavers is disparate with residents in deprived boroughs generally having lower HE participation rates⁶.

A skilled or unskilled future?

This evidence suggests that some of the seemingly efficient worker to vacancy matching can be attributed to the significant inflow of skilled workers from both overseas and from other regions of the UK. As a result, deficiencies in

'It remains to be seen whether the recent improvements in attainment within London schools are enough to meet future demands'

the region's own education and training system are perhaps more evident in London's high unemployment and economic inactivity than its employment, with population flows alleviating much of the skill shortages that might otherwise result.

It remains to be seen whether the recent improvements in attainment within London schools are enough to meet the future demands of London employers. Future forecasts of London's economic growth suggest diminishing growth opportunities at the lower end of the occupational spectrum, and therefore if change in London's education and training system does not keep pace, more Londoners are likely to be competing for even fewer jobs at this end.

At present, skills and training provision in London is changing to tackle many of the issues outlined. The London Regional Skills Partnership – a collective of the major labour market institutions such as Jobcentre Plus, the Learning and Skills Council, the London Development Agency and the Greater London Authority to name but a few – is the main vehicle behind this change. This partnership will coordinate funding to meet the needs of the growing London economy, and specifically to tackle the disparity between the skills needed by employers and the current skills sets of many Londoners.

Related GLA Economics' publications:

Growing Together: London and the UK Economy (2005)

World City, World Knowledge: The economic contribution of London's higher education sector (2004)

Working Paper 11: Working London: Employment projections for London by sector (2004)

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(Footnotes)

¹ LDA and Business Link, 2003, London Annual Business Survey 2003

² Learning Skills Council, 2003, National Employers Skills Survey 2003

³ Cushman & Wakefield Healey & Baker's *European Cities Monitor*.

See www.frankfurst.de/sixcms/media.php/2000/CitiesMonitor2004.pdf

⁴ Office for National Statistics, 2003, Labour Force Survey 2002/2003

⁵ Taken from the Department for Education and Skills' performance tables.

See: www.dfes.gov.uk

⁶ GLA Economics, 2004, *World City, World Knowledge*, p51

Data sources

Tube and bus ridership	Transport for London on 020 7941 4500
GDP/GVA growth	Experian Business Strategies on 020 7630 5959
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 for 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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