



## London Economic Panel report

### Summary as at 24 July 2007

The London economy is extremely robust across virtually every sector and there are no indications that this period of growth will end in the near future. The only constraint is the accommodation of this growth, as increasing pressure is brought to bear on the capital's transport system, its power supply and the availability of commercial and residential accommodation.

### Overview

The London economy is growing faster than the rest of the UK – GVA growth 4% (rest of UK 2.6%). The employment rate remains healthy and is now level with the UK average – indicating that productivity is higher in the capital. Public transport use is also high, and increasing, on all modes. Retail sales in central London remain strong, while the footfall levels are constant. House prices continue to rise steadily and the indications are that this trend is set to continue. Continued pressure on inflation suggests that another interest rate rise is now entirely possible but overall the forecasts suggest that levels of business activity and new orders will continue to rise, as will employment – although at a slightly reduced rate – putting London in a strong on-going position.

It is argued that London's output is not properly measured or understood. The contribution of financial services intermediaries is not accurately reflected in the estimation of London's GVA. Properly measured, around another £12bn could be added to London's £180bn GDP. This would indicate that the benefits of investment in London are higher than current calculations.

### Note:

The London Economic Panel provides real time intelligence to influential business organisation London First. It consists of senior representatives from major players in several of the capital's most significant business sectors.

## The London Economy – by sector

### 1. Financial and Business services

The key message at the moment is uncertainty.

It will take a few weeks to see whether the recent volatility in financial markets is simply a 'blip' or if it marks a fundamental change which will, in turn, impact on professional services. A more coherent outlook is only likely to emerge by October, when the extent of central bank support (and the effectiveness of that support) for the markets is more certain, and when the extent to which risk appetite remains weak is also better understood.

In the immediate term, there has obviously been some fallout in terms of earnings - less directly from the investment banking side and more from the exposure of such units to leveraged funds, with those funds requiring capital injections or experiencing losses.

In the medium term, there is likely to be a reduction in private equity transactions, though whether these are significant enough over a six to twelve month period to impinge on banks is less certain. It is also likely that there will be some collateral fall out from some of these issues. Concerns about the higher end housing market in London seem justified if the hedge fund industry suffers.



## **2. Retail**

The retail sector in London is continuing to thrive – significantly out-performing the rest of the country. The poor summer weather is a slight cause for concern but is not showing any real impact at the moment. Activity is stronger for non-food items and food price inflation post-floods may have an impact.

There is some frustration that local government in the capital does not work with the retail sector as effectively as in other areas of the country to create an attractive retail environment. Positive planning powers for the Mayor may help to address this in the long term. In the short term (ahead of the Olympics) London First is working with Westminster City Council on areas for improvement in the West End.

Overall, the outlook for the retail sector remains positive.

## **3. Property**

### **3.1 Construction**

The construction industry is enjoying an extremely busy period with no signs of a slow-down. Projects across London are becoming larger, demanding more labour and materials. Tender costs have increased by around 8% in the last year and this is due to an increase in the cost of materials (up 10% in the same period) rather than labour (3.5%). It is estimated that there is currently £25bn of activity in London – but if everything that is currently on the table were to come through, by 2016 there would be £125bn of activity – although this is unlikely in reality.

Concerns over capacity and the ability to meet this incredible amount of activity are focused on the smaller, public sector projects which may struggle to secure the necessary labour. On-going pressures will also mean that companies who have invested in relationships over the last few years will be best placed to source the labour and materials that they require.

### **3.2 Commercial property**

London's retail property market has seen an increase in demand over the last 9 months. The availability of office floor space is becoming limited in the West End particularly and in the City, and rents are increasingly accordingly. The rise in demand in the City is based largely on the expansion of existing businesses but the West End is attracting more new business and is seen as a location from which to 'springboard'. Higher interest rates are beginning to have an impact on property investment pricing but are balanced by rental growth for the time being.

There is a concern that some companies may be deterred from locating in London if they are looking to expand – and do not believe they will be able to do so comfortably and affordably in the medium term. Long term, expansion in Canary Wharf is highly dependent on Crossrail.

### **3.3 Serviced offices**

The serviced office market is booming. Occupancy levels are at an all-time high – inquiry levels have increased by 41% and deals have increased by 50%. There is a particular demand for Grade A office space in the capital. Outside London the picture is rather different where demand and deals are flat. The biggest growth centre is construction and 13% of growth has come from the expansion of existing business. Much of the serviced office space is incubating small businesses rather than providing space for out-sourcing from larger businesses.



#### **4. Energy**

The demand for energy is growing considerably faster in London than elsewhere in the country with key 'hot spots' emerging across the capital. This demand is due mainly to IT, with increasing requirements for data storage and servers. Supply is struggling to keep pace with demand and the time horizons set out by the energy regulator are at odds with the requirements for increased infrastructure in the capital. It is vital that the unique needs of the capital are recognised if growth across all industries is not to be constrained by a lack of energy supply. This also impacts on improvement to the transport infrastructure which itself will require more power.

The demand for environmentally-friendly products by consumers is seeing a small increase but there is a chance that London (with a higher rate of 'early adopters') may see a sudden surge in the near future.

#### **5. Aviation**

London's airports provided the only real blip on the otherwise positive assessment of London's economic success over the last six months. Heathrow had suffered a disappointing first half of 2007, mainly due to a continuing decline in connecting passengers. Levels in non-connecting passengers had seen some growth – leaving the passenger numbers flat overall.

Domestic passenger numbers have declined, there has been a dip in Atlantic travel (in-bound due to the high £) and charter numbers are continuing to reduce year on year. These reductions have been the result of a number of factors, including tighter and often slower security measures, the doubling of passenger duty and high oil prices, which are feeding through to fares. There is a possibility that environmental concerns may also impact on some markets.

There should be a technical bounce back this August on the anniversary of last year's terror threats, security hold ups should improve and the bad weather in the UK may induce some air travel but overall the picture is not terribly optimistic.

#### **6. Further education**

Planned cuts in Learning and Skills Council (LSC) funding for mainstream adult further education originally planned for 2007-8 (which would have resulted in reductions of around 10% in English for Speakers of other Languages training) were offset in June with the release of £15 million of special funding. This followed intervention from the London Skills and Employment Board (LSEB), the London Development Agency, and ultimately the Department for Education & Skills and the LSC.

However, this is interim funding for one year only. Unless the LSEB - who are scheduled to release a draft plan for skills in London in the autumn - secure special treatment for London, the 2007-8 planned reduction and a further cut the following year will be implemented for the 2008-9 session. This is in order to transfer funding to support the major expansion of full-level 2 (GCSE equivalent) training and the Government's Train to Gain initiative.

The new Department for Innovation, Universities and Skills has recently published its plans for implementing the recommendations from the Leitch report on skills. It endorses the rebalancing of funding priorities between Government, employers and individuals and supports some reform of vocational qualifications. It poses significant further challenges to colleges to establish relationships with employers who will define demand for skills training, albeit within Government priorities - currently full-level 2 qualifications. In London the LSEB's ability to determine these priorities will be crucial to the shaping of the FE sector over the next five years.



## **London Economic Panel Members**

Sir Stuart Hampson (Chair)  
Ms Helen Alexander, Chief Executive Officer, The Economist Group  
Sir Michael Bichard, Rector, University of the Arts London  
Sir Win Bischoff, Chairman, Citigroup Europe  
Ms Amanda Burton, Director of Global Business Services, Clifford Chance  
Mr Colin Cohen, Director of Sales Operations, IBM UK Ltd  
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Mr Vincent de Rivaz, Chief Executive, EDF Energy  
Mr Paul Donovan, Managing Director, Economic Research, UBS  
Mr Robert Evans, UK Deputy Chairman, CB Richard Ellis  
Mr James Farren, Territory Director, London and SE, Royal Mail  
Mr George Kessler CBE, Managing Director, Kesslers International  
Mr Ian Krieger, Vice Chairman, Deloitte  
Mr Bob Macnaughton, Chief Executive Officer, NCP  
Mr Harvey McGrath, Chairman, Man Group (London First)  
Sir Jonathan Michael, Chief Executive, Guys & St Thomas' Hospital Trust  
Mr Miles Pooley, General Manager, The London Marriott Hotel  
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