EMERGING FROM CRISIS

A REPORT PRODUCED BY OXFORD ECONOMICS ON BEHALF OF SAVILLS

DECEMBER 2009

THE PROSPECTS FOR LONDON

Preface

London's economy is pivotal to the health and success of the rest of the UK economy, accounting for 19% of UK GDP. Over the last 18 months many commentators have questioned whether London and the rest of the world's major financial centres have been mortally wounded by the global financial crisis.

Savills felt that these questions needed to be evaluated in a clear and independent fashion, and commissioned Oxford Economics **to research and report** into what has made London the City it is today, how deeply wounded it has really been by the financial crisis, and most importantly how it will recover and evolve over the next decade.

This report looks beyond just the hard economic data and examines the historic, cultural and infrastructure issues that draw people and businesses to London. It examines the economics and the fabric of London in interviews with key decision makers across all sectors of London's business community. As a result of this depth of analysis we feel that it presents a new breadth of understanding of the challenges facing London and what made the capital what it is today.

The report identifies a "virtuous circle" that has created the world city of London, and examines the risks to the maintenance of that virtuous circle in the future. Clearly we are not out of the dark days yet, but Oxford Economics predict that London's medium term growth will match the robust performance of London in the decade prior to the current recession.

Clearly challenges still exist – the report raises concerns about London's infrastructure, its skills bases, tax, and overly knee-jerk regulatory change. However, the report concludes that **at the moment** the "virtuous circle" is still in place, and this combined with the City's track record in constantly re-inventing itself, will ensure that its flourishes over the next decade.

What does all this mean for the real-estate industry in London? Clearly, we have to ensure that we have a stock of business and residential space that is fit for purpose. Too much caution by **developers banks and the authorities** in relation to the redevelopment and refurbishment of London's office and residential stock could damage our global position as much as too little investment in training or transport.

The last word must lie with the report's authors, who conclude that "The city's welcoming cosmopolitan atmosphere, its physical, cultural, historical and linguistic links to other countries in the world, and the rights conferred on EU citizens and many other who live and work here, make London the obvious home of choice for many."

John Rigg
Head of central London markets – Savills Commercial Ltd
December 2009

Contents

Executive summary

This research sets out to examine whether London's economy has been permanently damaged by the global financial crisis, or whether it will bounce back to its normal rude health. The research combines a mix of analyses covering macro-economic, societal and other trends to examine whether the factors that made London the world city that it was before the current crisis will still be there to drive growth over the next decade.

Key findings of the research are as follows:

- The present recession has hit London's economy harder than many other cities around the world. And in the face of ongoing financial constraints, debt overhang and adverse employment trends, a strong bounce in 2010 is unlikely.

- Oxford Economics' forecasts show the UK capital growing at a reasonably robust pace by 2011, with growth into the medium term matching the very strong performance seen over the decade or so prior to the recession.

- This expected pace of expansion, over the period 2012-2020, would outstrip that of the rest of the UK and of most comparable cities across the western world.

- At the heart of London's economic strengths lies what can only be described as a 'virtuous circle'. The existence of a large, well-resourced and talented 'cluster' of financial and business services – and the associated pool of capital – makes for a highly-productive economy attractive to businesses of all kinds. High productivity in turn ensures that high rewards can be offered to attract the most talented people, and skilled individuals do indeed come to London not just from the rest of the UK but from the EU and around the globe. This in turn reinforces the attractiveness of London for business.

- London already has a well established cluster of businesses, and these 'agglomeration benefits' are often hard to break.

- London also offers further benefits to firms: a regulatory environment allowing flexibility, a moderate tax burden by west European standards, connectedness to EU and other markets, the English language, the respected legal system, relative lack of corruption and time zone amongst other things.

- The success of a city is not all about money. Our interviews confirmed the importance of cultural factors, including the entertainments and heritage on offer. The city's welcoming cosmopolitan atmosphere, its physical, cultural, historical and linguistic links to countries around the world, and the rights conferred on EU citizens and many others to live and work here, make London the obvious home of choice for many.

- There are challenges ahead. These include: competition from the rapidly emerging financial centres of the Pacific Rim; over-regulation and burdensome tax changes implemented by an over-zealous government (whatever its political stance); and under-investment in infrastructure.

- However, the report suggests that even with these challenges ahead, London is, and is likely to remain, the number one city in Europe for many businesses. As for the rise of Asia, London-based firms stand to benefit from the UK's historical and cultural ties with parts of that continent, as this puts them in a good position to build business ties with that expanding and dynamic region.

1. Introduction: The recession in context

KEY POINTS

- In the wake of the international financial crisis, London's economy has been hit hard by the recession, compared with the country as a whole. However, the UK capital's recent problems are by no means unique amongst the world's cities.
- Furthermore, a look back at the past shows that London also fared comparatively badly in the recessions of the 1970s, 1980s and 1990s, but that this did not prevent it subsequently recovering strongly – and going on to enjoy periods of very robust economic growth.
- Indeed London's underlying economic performance improved progressively from the late 1970s onwards, and over the last 10-15 years clearly outperformed the rest of the UK – and most comparable cities overseas – in terms of output and income growth.
- This out-performance partly reflected London's favourable industrial composition, which was already weighted towards the generally fast-growing business and financial services sectors. But in addition, these sectors grew more rapidly than their equivalents in rival European localities, with financial services' growth also outstripping that across the rest of the UK.
- As a result, by 2008 London's productivity levels significantly exceeded the UK average, and stood amongst the best in the world. The living standards of individuals residing and working in the capital were correspondingly high by UK and global standards.

Not surprisingly given its comparative reliance on financial and associated services, London's economy is faring badly in the present recession, which has its origins in the global financial crisis that began to unfold in mid-2007. Nor can an immediate turnaround in fortunes be realistically expected, given the need to adjust to the loss of financial sector capacity, the associated access-to-finance constraints facing corporates across a range of sectors, and likely caution on the part of London's consumers given high indebtedness and developments in the labour and housing markets.

Looking further ahead, it is not difficult to envisage other potential challenges to London's economic pre-eminence. In principle these include the possible lure for talent and capital of traditional and new competitor cities overseas, and the possible policy response of the authorities to the poor position of the public finances – and indeed to perceived popular opinion on issues ranging from financial sector remuneration to the environment.

These potential challenges are considered in Section 3 of this report. But as we make clear in Section 4, Oxford Economics' strong expectation is nevertheless for London to escape the recession in due course, to bounce back much more rapidly than the rest of the UK through 2011-13, and to settle into the familiar pattern of growth out-performance beyond that. We also see London outperforming the majority of overseas cities that could be regarded as potential rivals, or at least important benchmarks.

On first reflection, this may appear to be an optimistic view, given the scale of the financial implosion. But we would maintain that:

- Although financial services are unlikely to enjoy quite such a rapid rate of expansion over the next decade as over the decade prior to the recession, they should return to a reasonable pace of growth. While the scale of some wholesale activities can be expected to remain shrunken relative to the recent past, there is little reason why insurance should not continue to thrive. Retail banking, fund management and the 30-40% of business and professional services that derive from financial activities (accountancy, tax consultancy and certain legal activities for example) also have the potential to remain important poles of growth.
- On this basis one of the major attractions to businesses of all kinds, namely the 'cluster' of financial and related services with its associated pool of capital and talent, would remain firmly in place. Other attractive aspects of London's economy – a comparatively business-friendly, flexible regulatory environment, a moderate business tax burden, the English language, trusted English legal system, and time zone for example – should also endure.
- This can only reinforce the 'virtuous circle' whereby high productivity affords comparatively high wages, attracting the best and brightest talent from around the world, in turn underpinning high productivity and an attractive environment for business. London's attractiveness as a place to live and work will be further bolstered, at least for the time being, by moderate personal taxes (by European standards), well-priced property following recent house price falls, and sterling's weakness. And even if tax, housing market and/or currency developments lead to some of this monetary advantage being lost over time, London's other quality-of-life attractions – above all its cosmopolitan culture – should continue to attract the world's best and brightest here.
- Against this background we are confident that any 'growth gap' resulting from 'underperformance' on the part of financial and related services (relative to the unusual strength of the recent past) will be bridged by stronger growth in other sectors. If we had to guess which, then we could point to information and communications technology, the creative industries and 'green' activities. But the precise pattern of growth beyond the recession – which in truth can only be guessed at in a world of high mobility and rapidly-changing technology – is not especially important in this context. What is important is the fact that a combination of talent, capital and economic flexibility will surely bring about the conditions for economic activity of some kind to fill any remaining 'gap'.

The underlying strengths underpinning this view are examined in Section 2. There and elsewhere, we draw on a set of short interviews with key players in the London business world (box 1-1). But we start in this section with a brief look at the impact of the recession, followed by a look back at past performance. As we show, London has fared badly in previous recessions, but has typically bounced back and gone on to maintain a healthy lead over the rest of the country, and rival cities abroad, in terms of the levels and rates of growth of economic activity and living standards.

Box 1-1: Interviews with senior figures in the London business world

As part of this project, in September 2009 Oxford Economics carried out in-depth face-to-face interviews with seven individuals with considerable knowledge about the strengths and weaknesses of the London economy and sound insights into the prospects and challenges for the future. The interviewees came from business representative organisations, well-known international financial and business service providers, international recruitment specialists, retail property and planning specialists, promoters of foreign investment in the UK capital and think-tanks concerned with the policy environment affecting urban economic development. These interviews supplemented the wider range of anecdotal evidence available to Oxford Economics through its regular client contacts.

Respondents were asked to comment on four broad areas: London's strengths as a location for businesses and individuals; the broad economic outlook and sectoral pattern of future growth; policy issues and potential supply-side constraints; and potential international competitor cities. The full results are written up in boxes interspersed throughout this report, although key points are also brought out where appropriate in the main body of the text.

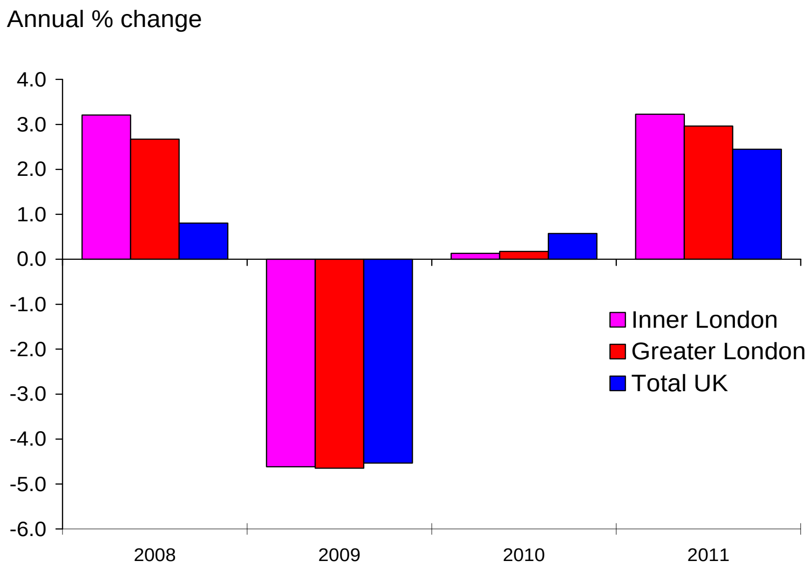
1.1 The impact of the 2009 recession on London

Global economic conditions continued to deteriorate through the spring and summer of 2009 with the UK recession becoming much more severe. Oxford Economics' summer 2009 regional forecasts were based on the central projection of a 4.0% contraction in GDP across the UK as a whole. But while we expect the UK-wide recession to be deep, we do not expect it to be very prolonged with growth returning in 2010.

A striking feature of this recession has been its wide reach, with all sectors and locations across the nation feeling the impact to varying degrees. As a general rule industrial regions are being strongly impacted as a result of the global downturn in demand for manufactured goods, while regions with a more balanced economy across sectors, and with a relatively largely public sector, are fairing modestly better. We expect London to experience a greater-than-average contraction in 2009, at -4.5%, (Chart 1-1), as a result of the professional services and banking contractions in particular. London is also expected to recover a little more slowly than the rest of the UK through 2010, but to return to a reasonable pace of growth in 2011.

At the national level, though the economy is expected to return to growth by 2010, it will take the labour market longer to recover. The recovery will be slow and sectorally distinct from the pattern of growth which typified much of the previous decade. The industrial sectors are not projected to regain their lost employment and growth in retailing and construction will be much more modest.

Chart 1-1: GDP by region in the recession



Source : Oxford Economics

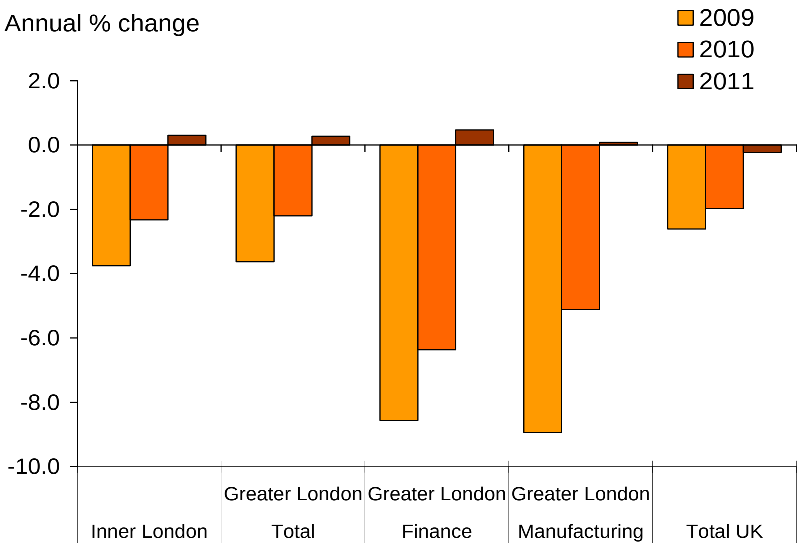
UK-wide unemployment is expected to peak above 2.0 million on the claimant count measure and – in the face of a mismatch between available skills with the needs of the labour market – to remain above 1.6 million into the medium term. That compares with an average of below 0.9 million over the four year period 2003-07. Over that time unemployment in all regions is forecast to remain relatively high, close to the levels of the mid-to-late 1990s.

At the regional level, London employment is being hit especially hard (Chart 1-2), with a total of 270,000 jobs expected to be cut across the Greater London area between 2008 and 2010 – some 6% of the total. As seen across many other global locations, financial services and manufacturing are expected to be the worst affected sectors, shedding 14% and 11% of their bases respectively over the two years. Some 50,000 jobs will be lost in London financial services alone.

The rapid decline in prospects and widespread job cuts in financial services has also had damaging secondary impacts across a large number of business service industries, such as consulting, accountancy, IT, legal services, marketing and public relations. Indeed in absolute terms it is this sector which accounts for the largest job losses in the city-region over the two years to 2010 – some 100,000, equivalent to 8% of the 2008 total. One consequence is the dramatic decline in the take-up of new office space in the capital, with the figures recorded for early 2009 the lowest for a generation.

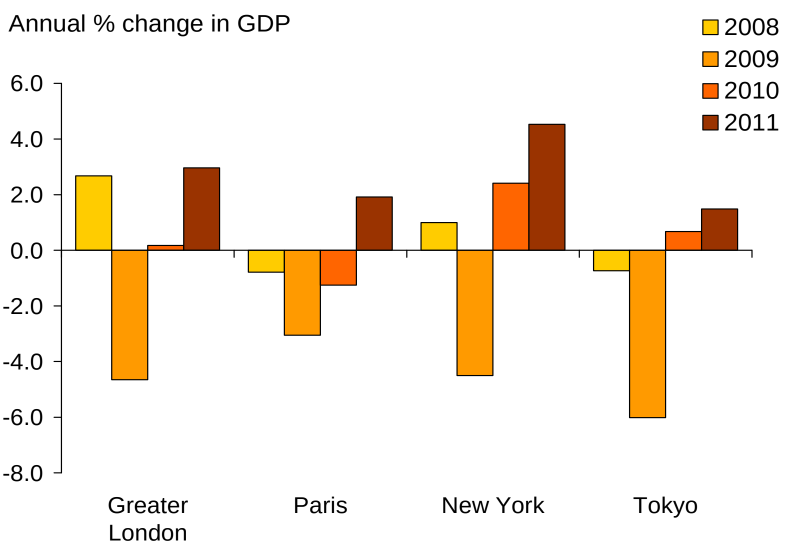
Other sectors in London will also be badly affected by employment losses during and immediately after the recession. Distribution and retail are expected to see over 40,000 jobs go by 2010 (7% of the total), hotels and catering almost 25,000 (8%) and the construction industry – one of the first to suffer as the wheels of the property industry ground to a halt in 2008 – another 20,000 (8%).

Chart 1-2: Trends in employment



Source : Oxford Economics

Chart 1-3 Global business and financial centres in the recession



Source : Oxford Economics

But London is not of course alone, amongst the major financial and business centres around the globe, in being badly affected by the nature of this recession. As Chart 1-3 shows, New York, Tokyo and Paris are also being heavily impacted. And at least across Europe, cities are as a general rule faring worse than economies overall, with the subsequent recovery likely to be protracted by the standards of previous recessions, and GDP growth in many cases not returning to ‘normal’ until 2012. However, amongst this group of European comparators, London is amongst the most badly affected (Chart 1-4). (Also see Annex 2, which sets out data for London and seven comparator cities.)

Box 1-2: Comparator and competitor cities, and city definitions

Interviews undertaken in connection with this project (see box 1-1) revealed some divergent views about the London economy's main competitors. But the following points came through clearly:

- Only New York and Tokyo were seen as large enough, in terms of the size and power of their financial and business service 'cluster', to be considered true rivals for the global 'number 1' position. However, as these were in completely different regions and time zones, they were seen by some as important mainly for benchmarking purposes, rather than as genuine competitors for talent, capital and business location. More often than not, global companies would want an important presence somewhere in Europe, whatever their other presence worldwide, with the key location question then boiling down to a choice of where precisely within the continent.
- Places such as Singapore, Shanghai, Hong Kong and (though to a lesser extent) Dubai were potentially important regional hubs, but again not genuine potential competitors to London.
- Within Europe, certain cities such as Zurich, Geneva, Amsterdam and Dublin were seen as potential competitors in the case of particular activities (corporate headquarter location, or hedge fund management for example), but not as serious rivals in terms of the financial and related business service 'cluster' as a whole. Only Paris was seen as a real major competitor in this sense, followed just possibly by Frankfurt.

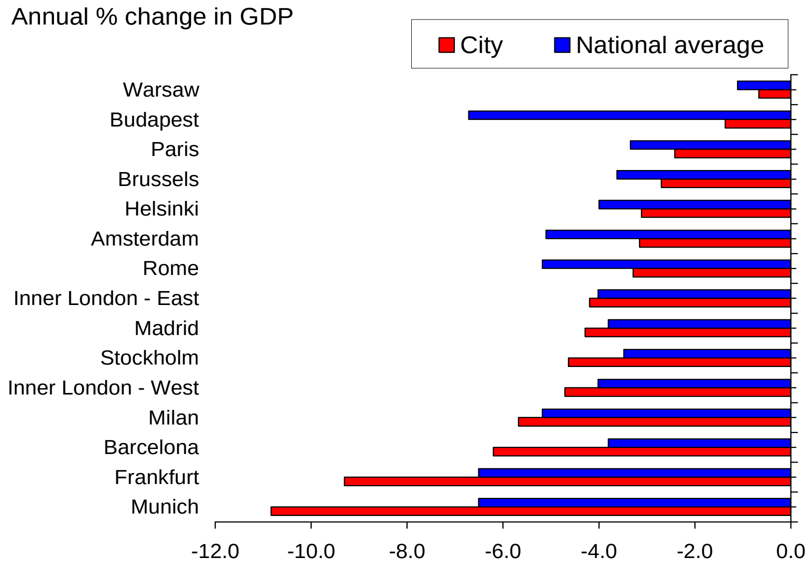
For these reasons, we place some focus on New York, Tokyo and Paris as major international comparators in the main body of this report. But we also draw on our detailed database and forecasts relating specifically to a wide range of European cities. Annex 2 draws out the performance of London compared with seven of these.

Definitions

We use two definitions of London in this report, based on the European Union's NUTS system: Greater London (a so-called 'NUTS 1', i.e. broadest level, region) and Inner London (a smaller 'NUTS 2' region). Inner London comprises the City of London plus the 13 boroughs of Westminster, Kensington & Chelsea, Hammersmith & Fulham, Camden, Islington, Hackney, Haringey, Newham, Tower Hamlets, Lewisham, Southwark, Lambeth and Wandsworth.

Inner London will be more heavily influenced by the fortunes of the 'central business districts' of the City, West End and Canary Wharf, and is arguably the better definition to use when making comparisons with other financial and business service-orientated cities overseas, especially the various European counterparts. Inner London is the definition used in our European cities database and forecast (Annex 2). However, in the comparisons with the larger city-regions of New York, Paris and Tokyo, Greater London is probably the better comparator.

Chart 1-4 European cities' output contraction in 2009



Source : Oxford Economics

1.2 The longer term context: London's historically strong performance

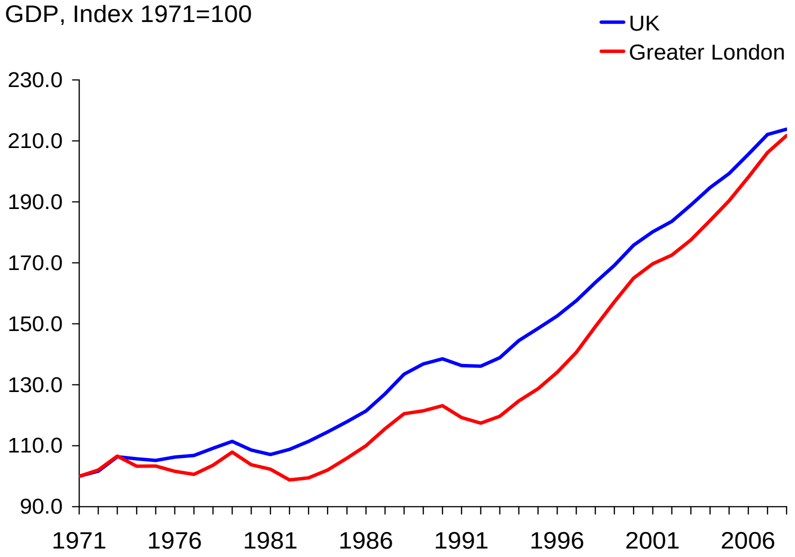
Even on a short-term basis, the recession should not be seen as entirely negative for London as it has brought adjustments to previously unsustainable positions. As some of our interviewees stressed, property availability and cost, plus the availability of skills, have made London more attractive to potential international businesses and investors. And taken together with sterling's decline since 2007, the fall in residential property prices has added still further to London's attractiveness as a place to live and work (or indeed visit on a short-term basis), compared with alternative city locations abroad.

But more importantly, London should continue to thrive over the medium term, even if – as is plausible – the recent downward pressures on property prices and sterling went into reverse. The key lesson of the past is that the city-region has been through deep and/or prolonged recessions before – in the 1970s, 1980s and 1990s – but has bounced back robustly on each occasion (Charts 1-5 and 1-6). Just as now, London's economy was affected more adversely than the average in those recessions, but subsequently bounced back and went on to sustain reasonably robust growth – and since the early 1990s, a clearly above-average rate of expansion. This gives us confidence in our forecast that London's economy will return to economic buoyancy once the present recession is past.

This growth performance was achieved even though, in absolute level terms, London was already a rich and productive region benchmarked against the rest of the UK and wider industrial world.

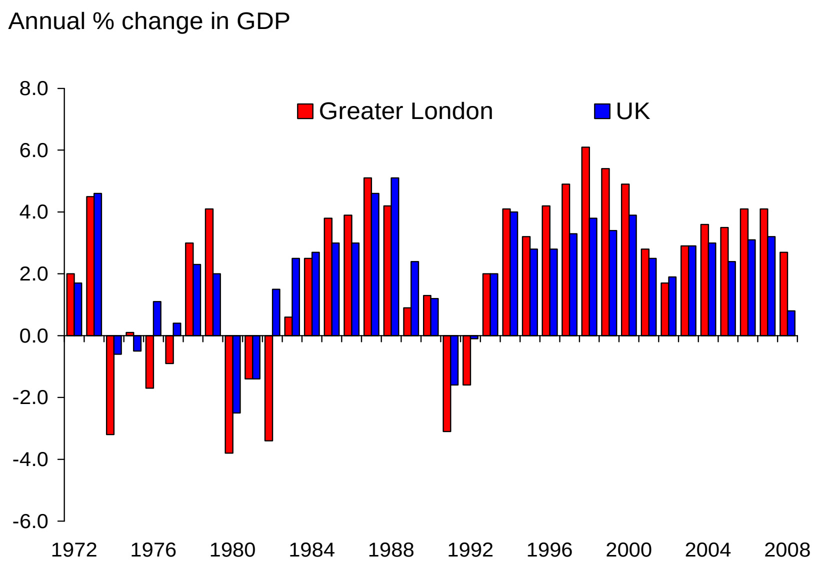
As Chart 1-5 suggests, London did not fare particularly well in the 1970s, in terms of growth rates relative to the rest of UK. Nevertheless, by 1978 it still had an advantage over the rest of the country in terms of levels of income and output per head. The story over the following three decades turned progressively more positive, as shown in the Charts 1-7 to 1-10. (Statistical detail is at Annex 1.)

Chart 1-5: Trends in GDP since the early 1970s



Source : Oxford Economics

Chart 1-6: London's GDP growth cycle compared



Source : Oxford Economics

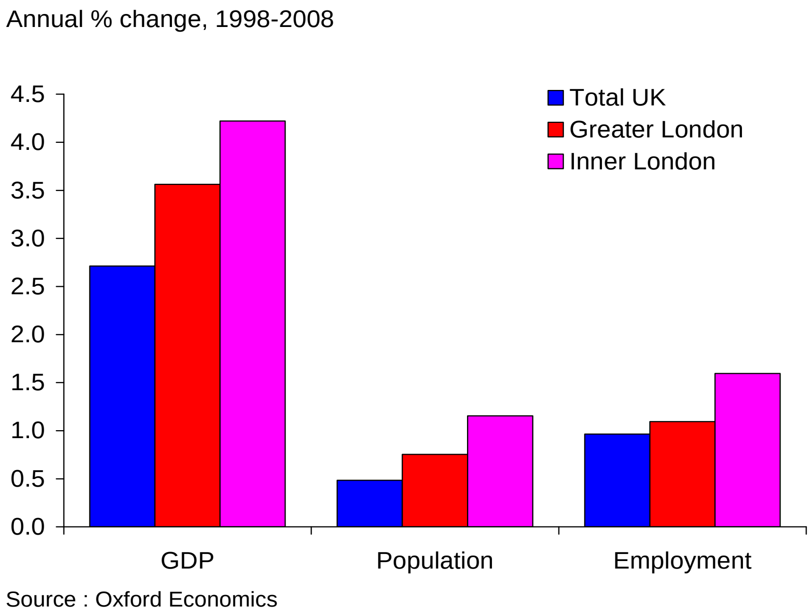
- Over the decade to 1988, the capital held on to its lead over the rest of the country in terms of the level of output and income per head. But it did not widen the gap on these measures, and overall GDP grew more slowly than across the country as a whole as the capital's population shrank fractionally and employment failed to grow.

- Over the decade to 1998, GDP rose at a slightly faster rate than in the UK as a whole, due an improved productivity growth performance. Real disposable income per resident also increased a little more quickly than across the country as a whole, despite the return of population expansion.

- Over the decade to 2008 London really came into its own. Its population expanded ahead of the nation as a whole, and demographic trends were favourable to prosperity as the population of working age grew to a relatively high 68% of the total. Employment grew slightly ahead of the national average, allowing the claimant count unemployment rate fall to 2.8%, to match the national average having been above it. On average over the period as a whole, GDP grew by 3.6% per annum, compared with 2.8% in the UK as a whole. However that figure does mask a good deal of variation, with annual growth peaking at 6.1% in 1998, then falling as low as 1.7% in 2002 in the wake of the 'Dotcom bust', before settling in a broadly 3-4% range during 2003-08.

- This GDP growth was sufficient for the rate of productivity growth to improve further, with output per person employed up 2.4% a year (UK average: 1.7%). Household disposable income also grew ahead of the UK average, both in absolute real terms and on a per resident basis.

Chart 1-7: GDP, population and employment growth



As a result of these trends, by 2008 the level of output and income per head[1] was well ahead of the UK as a whole to the extent shown in Table 1-1.

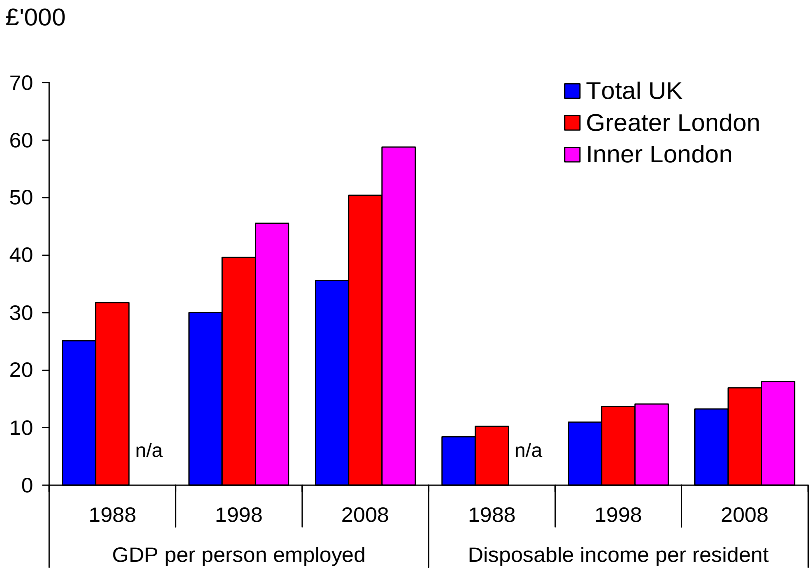
Table 1-1 Productivity and income per head, 2008 (UK = 100)

	GDP per person employed	Average earnings (workplace-based)	Disposable income per head of population
Inner London	165.1	146.4	135.8
Greater London	141.6	141.7	127.7
UK average	100.0	100.0	100.0

See annex 1 tables 5-10 for raw data.

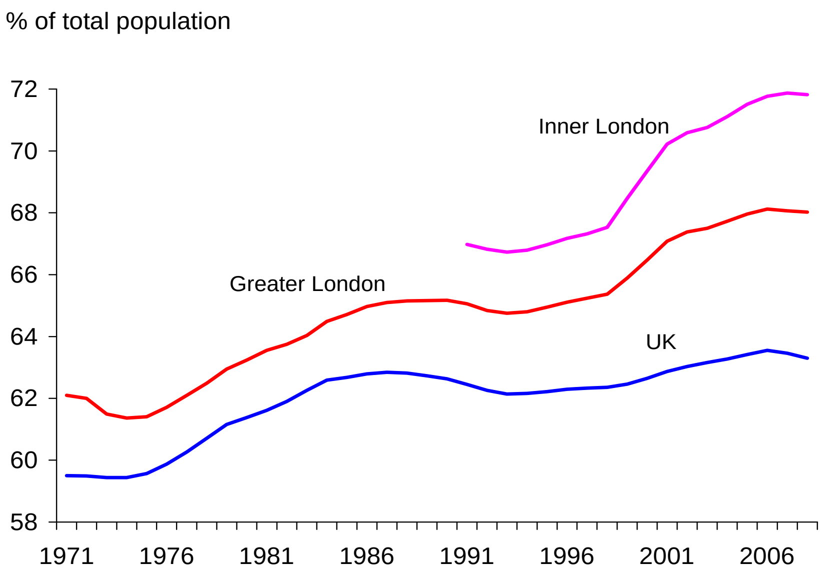
[1] The most appropriate measures to benchmark for these purposes are real disposable income per resident and real GDP per person employed. Real GDP per resident, commonly used for comparing between nations, paints a distortive picture in the case of city-regions due to the output of non-resident commuters employed within the zone.

Chart 1-8: Output and income per head



Source : Oxford Economics

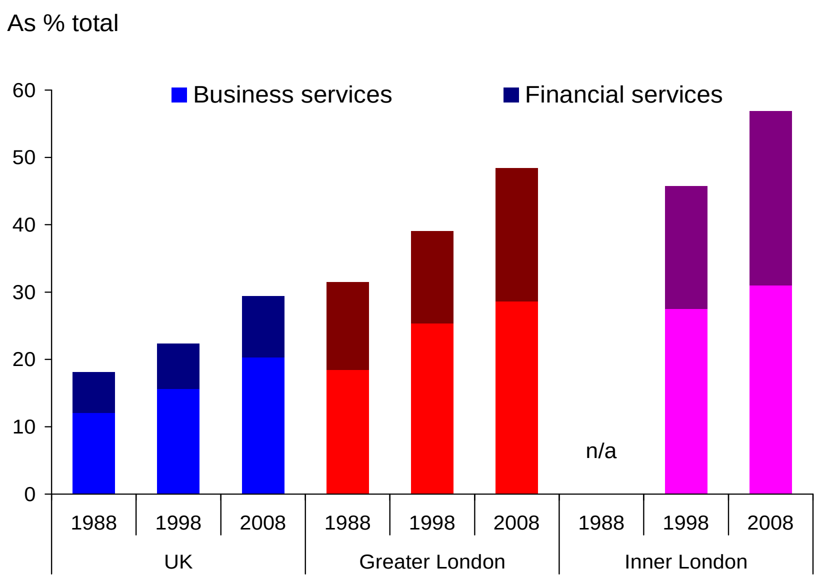
Chart 1-9: Working age population



Source : Oxford Economics

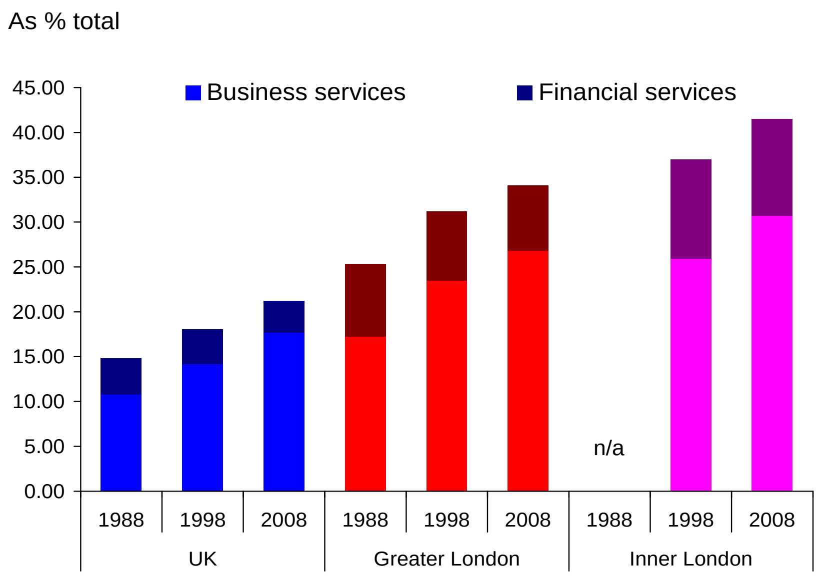
Greater London's increasing lead in prosperity over the rest of the country has been associated with its evolving economic structure (Charts 1-10 and 1-11 and Annex 1 Tables 11-20). In particular, its economy has been more dependent on financial and business services than the UK as a whole, and these sectors have expanded most rapidly in terms of value added over the past decade (and in terms of job creation in the case of business services). In addition, financial services grew more rapidly in London over the decade to 2008 than across the country as a whole, whereas (in very broad terms) only the non-service sector grew at a below-national-par rate – and these industries had accounted for only a comparatively modest 15% of London's economy even at the start of that decade.

Chart 1-10: Contribution of business and financial services to employment



Source : Oxford Economics

Chart 1-11: Contribution of business and financial services to real value added



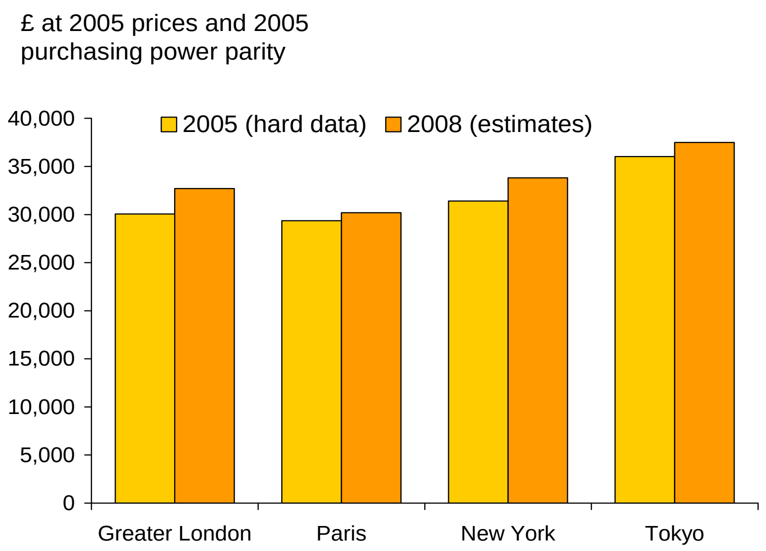
Source : Oxford Economics

As a general rule what was true of Greater London over the decade to 2008 was even more true of Inner London. Population, employment, GDP, GDP per worker, disposable income and disposable income per head all increased at an even faster pace than across the capital region as a whole. By 2008, those of working age accounted for over 70% of Inner London's resident population, and as table 1-1 shows income and output per head were even higher than for Greater London as a whole.

Data availability problems make meaningful comparisons across global cities difficult. For example, to get an idea of relative prosperity based on official data for London, Paris, New York[2] and Tokyo, we can only look at GDP per resident in 2005 (Chart 1-12). These data suggest that GDP per capita (translated into sterling using purchasing power parity) was then just ahead of Paris and just behind New York, though more clearly behind Tokyo. Figures for GDP growth, including Oxford Economics estimates for missing elements, show London typically enjoying faster growth than these other cities in the years before and after 2005 (chart 1-13). As a result, we believe that by 2008 the shortfall compared with New York and Tokyo had narrowed a little, while the lead over Paris widened slightly.

Oxford Economics' more detailed databases do however allow for a greater range of comparisons with Paris and Tokyo (Table 1-2). These show how the GDP per resident data above flatter London in comparison to Paris, because of the output of non-resident commuters. GDP per person employed looks to have been a little lower than in Paris in 2008. But disposable income per resident was higher than in Paris, and productivity higher than in Tokyo. Furthermore, compared with both Paris and Tokyo, the economic and demographic trends were clearly in London's favour, with comparatively strong growth over the past decade in the population of working age, numbers employed, total GDP, productivity, total disposable income and disposable income per resident.

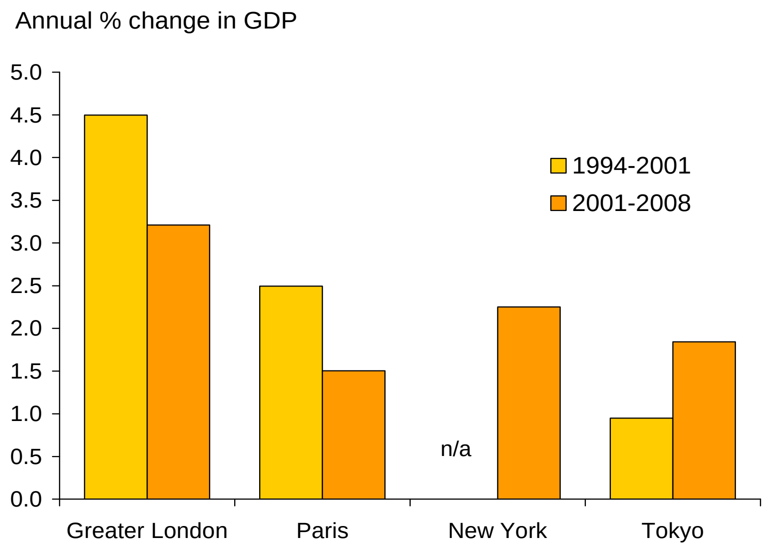
Chart 1-12: GDP per resident in the major global business centres



Source: OECD and Oxford Economics

[2] Greater New York area: New York-Northern New Jersey-Long Island.

Chart 1-13: GDP growth in the major global business centres



Source: Oxford Economics

Table 1-2: London, Paris and Tokyo compared

	Average annual % change		Level
	1988-1998	1998-2008	2008
Population (000s)			
Greater London	0.8	0.5	8,292
Paris	0.3[1]	0.6	11,674
Tokyo	1.0	0.8	12,798
Working age population			
Greater London	0.5	1.2	5,180
Paris	0.2[1]	0.5	7,874
Tokyo	1.0	0.2	8,784
Employment			
Greater London	-0.1	1.1	4,722
Paris	1.0	1.1	5,797
Tokyo	1.0	0.0	6,382
GVA (£bn 2000 prices)[2]			
Greater London	2.2	3.6	219.3
Paris	1.3	2.0	279.0
Tokyo	1.4	1.0	238.6
GVA per person employed[2]			
Greater London	2.2	2.4	44,400
Paris	1.1	0.9	48,100
Tokyo	1.0	1.0	37,400
Disposable income (£bn 2000 prices)[2]			
Greater London	3.4	2.9	122.8
Paris	-	2.1	151.0
Tokyo	-	-	-
Disposable income per resident[2]			
Greater London	2.9	2.2	16,100
Paris	-	1.5	13,800
Tokyo	-	-	-

[1] 1989-1998 rather than 1988-1998. [2] Data translated into common currency using purchasing power parity for year 2000. GVA (gross value added) is GDP excluding indirect taxes.

In terms of very broad industrial structure (Table 1-3), London bears some similarities to the other main global cities. Financial and business services combined account for 42-46% of value added in London, Paris and New York, although within that financial services were notably less important in Paris. One other key difference is the greater contribution of goods-producing industries in the French capital. Also notable is how these industries are more important still in Tokyo.

Table 1-3: GDP[1] by broad sector, 2006

	Greater London	Paris[2]	New York[3]	Tokyo[4]
Financial services	17.9	8.5	16.6	}
Business services	28.4	36.9	25.2	}
Public administration, education, health	13.9	14.9	15.2	} 78.0
All other services	29.0	24.1	35.1	}
Goods-producing industries	10.7	15.6	7.9	22.0

[1] Valued at various prices (London 2003, Paris 2000, New York 2001, Tokyo 2000) and therefore only broadly rather than strictly comparable. [2] île de France area. [3] Metropolitan area. [4] Tokyo prefecture.

Other cities around Europe are typically smaller and more concentrated than Greater London, making a comparison with the Inner London region more appropriate. The tables in Annex 2 set out detailed comparisons between Inner London, Paris[3] and six other western European cities (as listed in Table 1-4 below). These show how the economies of all eight performed robustly over the period to 2008, but with London's amongst the best performers of all:

- Between 1994 and 2008, London's resident population grew by 1.1% a year, faster than in any of the comparators aside from Madrid, with its population of working age growing more rapidly still to increase as a share of the total to 70.4% – i.e. from the lowest to the highest of the group. Employment increased by 1.6% a year, the third fastest increase behind Madrid and Amsterdam.

- Over the same period GDP in London grew at an average annual rate of 4.0%, higher than in any of the comparators bar Madrid. As a result GDP per person employed grew by 2.4% per annum, just behind Stockholm but ahead of the other six cities. Average annual productivity growth in the seven other cities was 1.1%.

- Over the six years to 2008 the real disposable income of London's resident households grew by 2.9% per annum, on a par with Madrid and ahead of the other six cities. That equated to an average annual rise per head of population of 2.0%, faster than in any of the other cities. Over the six previous years, Londoners' real personal disposable income had grown by an even more rapid 5.3% per annum.

By 2008, Inner London's productivity level was higher than in any of the seven comparators (Table 1-4). However, a note of caution is required. Even where the raw data are highly reliable (and they may not be at these sub-national levels), the comparisons are heavily influenced by two factors: the choice

[3] The definition of 'Paris' used for all comparisons in this report is the 'île de France' area – on the face of it broadly equivalent to Greater London (or even Greater London plus its wider commuter belt), but defined by the EU as a 'NUTS 2' region more equivalent to Inner London.

of city definition; and the question of how to convert values into a common currency. The apparent industrial make-up of GDP will also be influenced by the choice of base year, due to differential movements in prices. The 2000 price basis used in our European cities database, for example, will typically to downplay the contribution of public-type services to value added in recent years, compared with equivalent money-terms measures.

Amongst these European cities too, London's comparative strength over the past decade and a half is partly associated with the structure of its economy: the fact that financial and business services accounted for a comparatively significant share of London's economy in the early-to-mid 1990s, together with the fact that these sectors subsequently expanded at an above-average rate across Europe; and the fact that output of these sectors grew even more rapidly in London than in most other European cities. (See Annex 2 for more detail.)

Table 1-4 Comparative productivity levels in European cities, London = 100

Based on 2000 exchange rates[1]		Based on purchasing power parities[2]	
Inner London	100.0	Inner London	100.0
Stockholm	84.7	Paris	88.1
Paris	79.2	Stockholm	81.7
Zurich	74.4	Frankfurt	72.4
Frankfurt	67.0	Milan	71.3
Amsterdam	57.7	Amsterdam	67.5
Milan	55.8	Zurich	65.3
Madrid	43.3	Madrid	61.6

[1] These data are derived directly from the Oxford Economics European cities database, which translates measures of GDP into euros at constant 2000 prices, valued at 2000 market exchange rates. Productivity is GDP per person employed. The raw data can be found in annex 3. [2] The Oxford Economics data adjusted for OECD purchasing power parity measures for 2000, based on comparative price levels for national GDP. But note that this comparison will still not adjust precisely for city-specific purchasing power differentials.

2. The factors underpinning London's economic dynamism

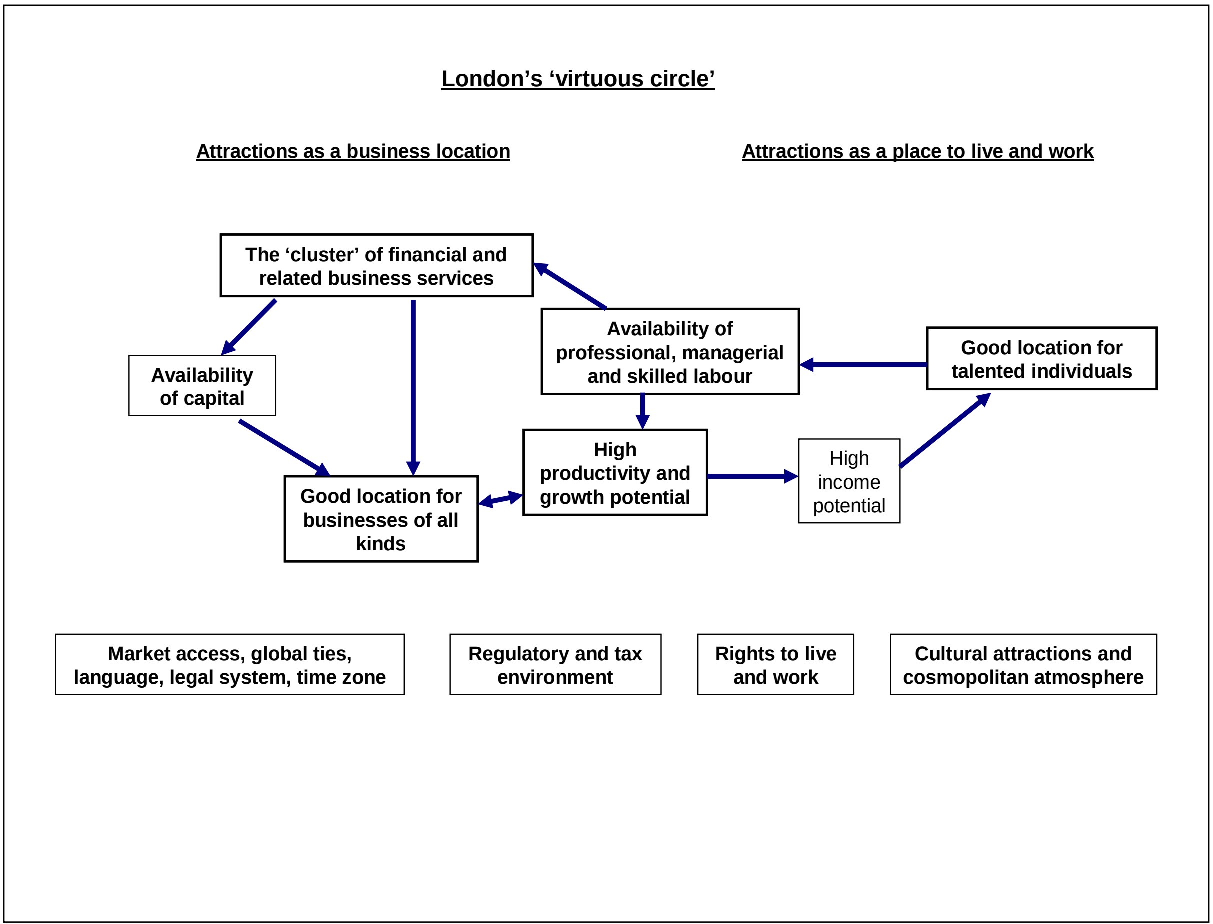
KEY POINTS

- At the heart of London's economic success lies a virtuous circle, in which the availability of high rewards helps to attract the finest talent from around the world – cementing the position of London's leading 'cluster' of financial and business service activities.
- In turn, the availability of capital, skills and essential business services makes London a highly productive location, able to afford this high remuneration and attractive to businesses of all kinds.
- But pecuniary awards alone do not fully explain the attraction that London has for the world's best and brightest individuals. Historical, cultural, linguistic and physical ties to other parts of the globe are important, as are use of the English language and the rights of EU citizens and many others to settle in the UK. Above all, London's cultural attractions and 'cosmopolitan atmosphere' make it a good place to live and work in the eyes of many.
- For businesses meanwhile, human and capital resources are only part of the story. Ready access to EU and other markets, an amenable regulatory and tax environment, the language, legal system and time zone are all helpful too.

This section outlines the factors underpinning the past economic dynamism demonstrated in section 1, and the reasons why these factors can be expected to remain in place to support a return to economic out-performance once the recession is past. It is split into three subsections dealing in turn with: London's labour market including its ability to attract the most talented individuals from around the world; the key role played by London's 'cluster' of financial and related business services; and London's other advantages as a business location.

Above all, however, it is the interaction between these various factors that lies at the heart of London's success story, a 'virtuous circle' in which:

- London's ability to attract the best talent underpins the financial and business services 'cluster'.
- The existence of this 'cluster', the deep pool of available capital associated with it, and the availability of talent, makes for a highly productive regional economy with the potential to expand robustly, attractive to businesses of all kinds.
- This high productivity is the basis for London's comparatively high employee remuneration, which in turn is a major consideration in mobile individuals' decisions about where to live and work.
- For business, the availability of these resources – capital, labour to employ directly, and the talent of professional service providers – is reinforced by other advantages: connectedness to markets in the UK, EU and across the globe; a reasonably business-friendly, flexible regulatory environment; a moderate tax environment at least by west European standards; the English language; a respected legal system and lack of corruption; and convenient time zone.



- For individuals, the favourable pecuniary factors – high earnings potential combined with moderate taxation – are reinforced by non-pecuniary considerations: connectedness with the rest of the world; the right to work and settle for EU citizens and many other overseas nationals; and probably above all London's culture and heritage, including its 'cosmopolitan atmosphere'.

In addition, London-based businesses and mobile residents are currently benefiting from comparatively cheap property prices. A weak exchange rate (compared with the decade to 2007) is bolstering the competitiveness of London's global-facing businesses and making it even cheaper for previously overseas-based individuals, with e.g. euro-denominated savings, to set up in London.

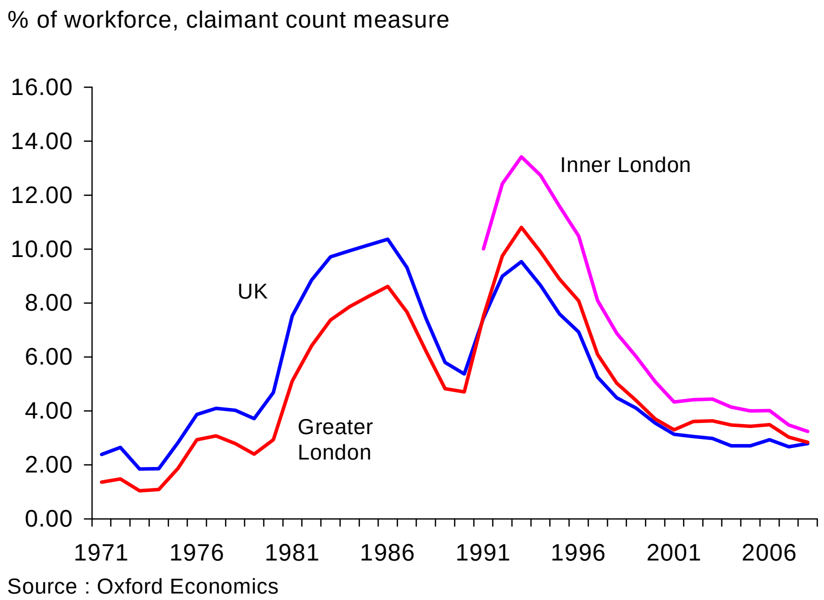
2.1 London's labour market: attracting the best global talent

The achievement of significant employment growth in London since the mid-1990s partly reflects an improved ability to provide jobs for the existing indigenous population, including school-leavers, new graduates and the previously-unemployed or inactive. This is reflected in the decline in the regional unemployment rate in the period through to 2008, to come into line with the national average having been above it for most of the period since 1990 (Chart 2-1). And looking ahead it is to be hoped that improving educational achievement will further benefit the employment opportunities for London's native population.[4]

However, the picture on that score is by no means optimal: unemployment amongst Inner London residents, on the broader ILO measure, is high compared with other European cities (Annex 2 Table 4). And the majority of our interviewees raised concerns about an ongoing continued skills mismatch, between the needs of London's employers and the skills of those who have gone through the British state education system. As one of our interviewees, an international recruitment specialist, put it: 'The brightest and best from overseas are better than the UK-educated. Foreigners are recruited in order to fill the gap.'

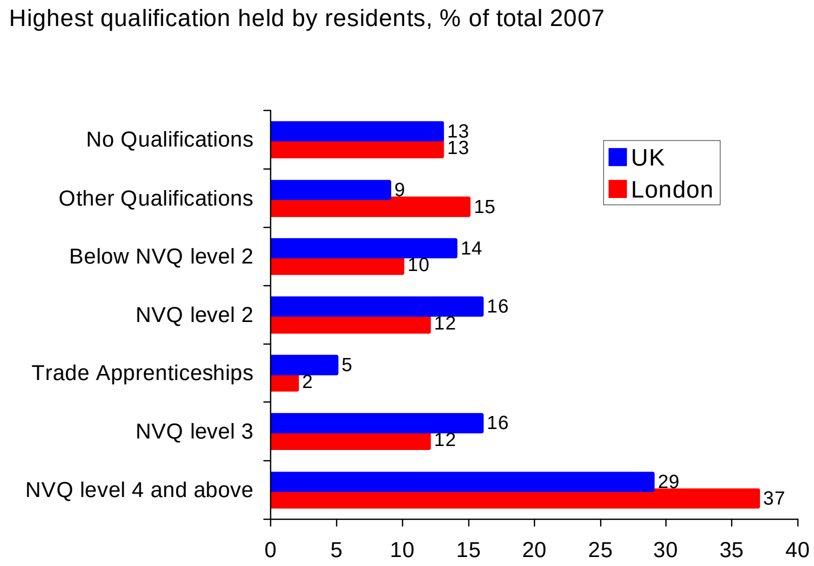
But this last highlights up the positive as well as negative side of London's labour market. For this market shines undisputedly in its ability to attract workers from elsewhere – the rest of the UK but also, importantly, the rest of the world – in order to fill jobs. And it has proved especially good at generating and filling jobs requiring professional, managerial or technical skills, with employees educated to a high level.

Chart 2-1: Unemployment rates



[4] For example, as the Greater London Authority (GLA) point out in their 'Focus on London' report, 2009 edition, the proportion of teenagers gaining five A*-C grades at GCSE has risen from 45% in 2000 to 64% in 2008.

Chart 2-2: Qualifications of the resident population



Source : Annual Population Survey 2007

To highlight just a few basic facts[5]:

- Some 37% of Greater London's working age population had qualifications at degree level ('level 4') or above in 2007, compared with 29% across the UK as a whole (Chart 2-2). For residents aged 25-34, the figure is put at approximately 50%.
- In that year some 46% of jobs across Greater London were filled by individuals educated to degree level (Chart 2-3) – and 56% for central London – compared with a UK average of 33%.
- In 2008, managerial, professional and technical jobs accounted for 53% of all full-time employee jobs in Greater London (Table 2-1). The equivalent figure for the rest of Great Britain was 39%.

[5] Source: 'Focus on London', Greater London Authority, 2009 edition.

Box 2-1: Views on London's attractiveness as a place to live and work

Most of our interviewees stressed how London's attractiveness as a location for business went hand-in-hand with its attractiveness as a place for individuals to live and work. London was, in essence, the location of choice for the world's best and brightest. This was underpinned as much by the city's welcoming and cosmopolitan atmosphere, wide range of leisure services, shops and cultural attractions (from music, theatre and other arts, to museums and heritage sites) as by the high pecuniary rewards on offer to talented individuals. London's vitality stood in stark contrast with cities sometimes cited as potential alternatives, such as Zurich. These factors together gave London a 'critical mass' of the kind that could never simply disappear overnight.

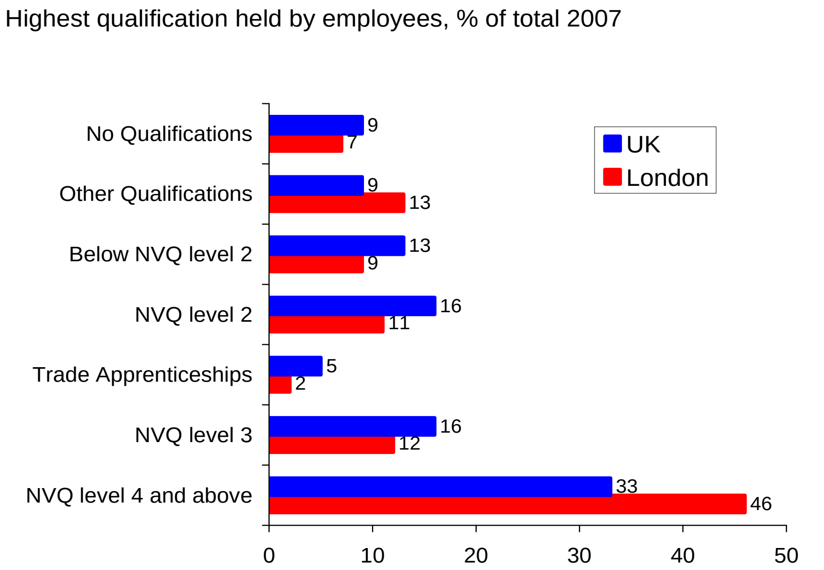
Other attractions for individuals included a way of working that was not particularly hierarchical, in contrast to e.g. the US. On participant further pointed out how London's private schools were attractive to foreigners. Families from central Asian states for example (Kazakhstan and neighbours) were now seeing London as a good place to live and be educated. All of these attractions in turn meant that significant 'hot money' had continued to pour into the capital from overseas, helping to buoy the central London property market amongst other things.

In addition, London was at least for the time being a much more attractive proposition to internationally mobile workers than two years ago, due to the fall in property prices across Greater London. The recent depreciation of sterling had also improved London's standing in terms of global cost-of-living benchmarks.

But while the majority of interviewees took a very positive view of London as an attractive place to live and work, this was not universal:

- One suggested that London's attractions appealed very much to younger people, but that it was not such as good proposition once those individuals had settled down and started to have families. (But others felt that while this was sometimes true, it was not always so by any means.)
- Another was concerned about the problems associated with London's high population density – most notably, the poor transport system (see Box 3-2 later in this report). Related quality-of-life issues could now, at least at the margin, drive some skill sets out of London.

Chart 2-3: Qualifications of the employed workforce



Source : Annual Population Survey 2007

Table 2-1 Composition of jobs and average earnings

	% of jobs, 2007		Median full-time earnings, 2008, £000		Mean full-time earnings, 2008, £000	
	Rest of GB	London	UK	London	UK	London
Managers and senior officials	14.9	18.0	36.7	47.9	50.5	77.0
Professional occupations	12.5	16.7	35.3	41.0	40.1	51.4
Associate professional & technical	14.0	18.4	28.5	34.7	31.9	43.4
Administrative & secretarial	11.7	12.0	19.0	24.6	20.7	26.4
Skilled trades	11.3	8.0	23.6	27.7	24.7	28.5
Personal services	8.2	6.8	16.3	19.6	17.1	21.7
Sales & customer service	7.8	6.4	15.0	16.9	16.2	18.7
Process, plant, machine operatives	7.6	4.5	21.5	29.0	22.8	28.3
Elementary occupations	11.8	8.7	17.2	19.8	18.0	20.2
Total	100.0	100.0	25.1	32.8	31.3	46.5

Source: GLA 'Focus on London' 2009 edition; ONS Annual Survey of Hours and Earnings (ASHE), 2008

One reason for individuals being attracted to London as a place to work is, of course, the comparatively high remuneration available, as reflected in the figures on earnings and disposable income. Table 2-2 meanwhile compares the disposable income of Inner London residents with that of seven other European locations.

Table 2-2 Comparative disposable income per resident, 2008, London = 100

Based on 2000 exchange rates[1]		Based on purchasing power parity[1]	
Inner London	100.0	Inner London	100.0
Zurich	95.1	Zurich	83.5
Stockholm	75.7	Paris	79.4
Paris	71.4	Milan	75.3
Frankfurt	64.7	Stockholm	73.1
Milan	58.9	Madrid	70.0
Amsterdam	56.6	Frankfurt	69.9
Madrid	49.2	Amsterdam	66.2

[1] These data are derived on the same basis as in table 1-4 on productivity. See footnotes there.

Compared with the rest of the UK (but not necessarily other capitals), the bald earnings and income figures may overstate the 'true' gap in living standards, due to the capital's higher living costs. But the 'true' gap still looks to be significantly positive. While no recent official data exists for regional price differentials, the Office for National Statistics did publish estimates of relative consumer prices in 2004 (Table 2-3). Depending on the precise measure and methodology used, these showed the consumer price level to be 7-10% higher in Greater London than across the country as a whole. Adjusting for a living cost difference of these magnitudes would still leave earnings, income and output per head well above their national benchmarks. Indeed based on the near-28% lead in disposable income per head (Table 1-1) and the near-10% gap in living costs based on the broadest measure, the data imply that the average Londoner is over 16% better off than the average UK resident.

Table 2-3 Comparative consumer price levels, 2004[1] (UK = 100)

	Including all housing costs		Excluding most housing costs[2]	
	National weights	Regional weights	National weights	Regional weights
Greater London	109.7	109.1	107.1	107.1
UK average	100.0	100.0	100.0	100.0

[1] No official statistics have been published since. [2] Excluding mortgage interest costs, housing depreciation and council tax. Source: 'Relative regional consumer price levels in 2004', D Wingfield, D Fenwick & K Smith, ONS Economic Trends 615, February 2005.

Meanwhile comparing across countries, workers in London benefit not just from the high gross salaries made affordable by high productivity, but also from the UK tax system which has for some time imposed a moderate burden, at least by the standards of western Europe (Table 2-4).

Table 2-4 Tax burdens in the 20 highest-income OECD countries

Total tax revenues as % GDP			Tax wedge on employment[2]	
	Average, 2002-2006	2007		2008
Japan	26.7	27.9[1]	Ireland	22.9
United States	26.8	28.3	Australia	26.9
Switzerland	29.3	29.7	Iceland	28.3
Australia	30.7	30.6[1]	Japan	29.5
Ireland	29.9	32.2	Switzerland	29.5
Canada	33.6	33.3	United States	30.1
Germany	35.2	36.2	Canada	31.3
United Kingdom	**35.8**	**36.6**	**United Kingdom**	**32.8**
Luxembourg	37.7	36.9	Luxembourg	35.9
Spain	35.1	37.2	Norway	37.7
Netherlands	38.0	38.0	Spain	37.8
Iceland	38.4	41.4	Denmark	41.2
Austria	42.7	41.9	Finland	43.5
Finland	43.9	43.0	Sweden	44.6
Italy	41.4	43.3	Netherlands	45.0
Norway	43.2	43.4	Italy	46.5
France	43.6	43.6	Austria	48.8
Belgium	44.7	44.4	France	49.3
Sweden	48.7	48.2	Germany	52.0
Denmark	48.9	48.9	Belgium	56.0
Average of above countries	**37.7**	**38.2**	**Average of above countries**	**38.5**
Of which: European countries	**39.8**	**40.3**	**Of which: European countries**	**41.3**

[1] 2006 figures. Note that, on average, the tax burden of the other countries in the table was unchanged between 2006 and 2007. [2] Income tax, employer and employee social security contributions as % of total labour cost, for an individual with no children on the income level of the average worker.

Source: OECD.

For the time being, individuals wanting to set up home in London, particularly those with savings denominated in non-sterling currencies, will find London a considerably cheaper place than just two years ago. In that time average Greater London house prices have fallen by 26%[6], while sterling is down by 21% against the euro, 18% against the US dollar and 20% in trade-weighted terms.[7]

But pecuniary rewards are only part of the story. London has of course benefited from the laws and regulations allowing EU citizens, and many other foreign nationals, to settle and work in the UK. The UK capital is also well-connected physically with the rest of the world, and has linguistic, cultural and historical ties with many countries across most the world including Asia and North America. And

[6] Halifax house price index: second quarter 2009 versus third quarter 2007.

[7] Average June-August 2009 versus June-August 2007. Source: Bank of England.

English is taught as a second language right around the world. Compared with potential competitor locations, these factors alone would give London an edge. But the key factors cited by our interviewees were London's varied cultural attractions – music, theatre, sports, museums and heritage – and its cosmopolitan atmosphere welcoming of individuals of varied international backgrounds.

A promoter of foreign investment in the capital summed this up by saying that London was, quite simply, 'a good place to live and work'. Most other participants expressed similar sentiments, with the chairman of one large business service provider describing London as a 'cosmopolitan place, welcoming of a pool of labour from the EU and beyond'. As a result, London had a 'fantastic pool of skills', meaning that – with the possible exception of legal work – skills should not act as a constraint on future growth. A leading London business representative described London as a 'great place to live' and drew a stark contrast with Zurich, 'where everything shuts down at five o'clock'.

While some saw London's attractions as being mainly for younger mobile professionals, others felt that the city was not necessarily a less attractive place for those wishing to settle for the duration of their career. One representative of an international bank pointed to a 'way of working that was not especially hierarchical' as a further advantage.

One other feature of London that most of our interviewees had views on was the transport system. Some viewed this as reasonable (or at least not as bad as often portrayed), others as unnecessarily poor in comparison with many other European and Asian cities, and others as a problematic but inevitable side-effect of London's overall attractions as a place to live. But the basic conclusion must be that, however much of a problem the transport system is for London residents and commuters, that factor must be balanced by the pecuniary and other perceived benefits of living here. Nor should it be overlooked that many much-needed transport improvements are under way or in the pipeline.

2.2 London's financial and business services 'cluster'

Asked about London's strengths as a place to invest and do business, many of our interviewees saw the existence of a strong 'cluster' of financial and business services as the key. This provides businesses of all kinds with necessary professional services, as well as easy access to capital. As the chairman of a large business service provider put it, London gains from having 'deep services in fields such as legal, accounting and IT, which are efficient and in close proximity.' The existence of the 'cluster', with its own pool of international talent, may also help to attract like-minded individuals to the capital to work in other sectors, such as the creative industries for example.

To give just a few facts about London's financial and associated business services sector, it achieved a £33bn trade surplus in 2007, and then contributed 14% of UK GDP and accounted for one in 30 UK jobs[8]. Financial services alone contributed 15% of UK corporation tax receipts and 11% of income tax receipts in 2007/08. Related to London's dominance, the UK had the largest international capital flows of any country in the world in 2007[9].

[8] http://www.thecityuk.com/output/Financial-sectors.aspx, consulted on 26th of August 2009.
[9] 'London: Winning in a Changing World', Review of the Competitiveness of London's Financial Centre, Mayor of London / Merrill Lynch, 2008.

The UK capital also[10]:

- Has offices, branches or headquarters of almost every major international bank and financial institution in the world.
- Hosts the world's largest foreign exchange market, with a daily turnover of 34% of the global total.
- Is the world's most important market for over-the-counter derivatives with 43% of global trades.
- Enjoys a 46% share of global foreign equity trading.
- Accounts for over 70% of global trading in international bonds.
- Is home to four of the six leading law firms in the world, and to over 200 foreign law firms.

The domestic financial industry – made up principally of commercial banking, retail banking and retail insurance – is an important sector in its own right, employing 150,000 people in London. But London has greater strength still as an international financial centre, which employs 250,000 people and attracts capital and talent from over the world. In addition, London has a powerful set of direct supporting industries, notably financial media, accounting, consulting and legal activities, employing a further 150,000 between them. So whereas Paris or Frankfurt can be viewed as market places for domestic participants, to which foreign players are granted access, London, and to a lesser extent New York, are characterised by foreigners trading with each other.

'Clustering' fosters key networking opportunities and ready access to knowledge, skilled labour, customers, and suppliers. This in turn provides knowledge-rich environments associated with innovation and the building of relationships, trust, and reciprocity. These so-called 'agglomeration benefits' can and evidently do outweigh the impact of developments which would otherwise drive geographical dispersal – such as the increased ability to outsource and offshore, the ongoing decline in communications costs, and land price differentials. Once such a 'critical mass' of skills, capital, markets and customers is established in one place, it is all but impossible to move overnight. So while today's dominant financial centres may lose some commoditised activities to low-cost cities in future, high valued-added activities – 'strategic' management, front office work, product innovation, client-facing and deal-making activities – can be expected to remain in place.

Reasons why the cluster has grown up in London include the fact that the UK is amongst the world's most open major economies with a unique network of worldwide links. The sector can operate in a flexible labour market, with a principles-based regulatory framework and free movement of capital. So while sustained economic growth brought a massive expansion in financial services across the globe, the UK benefited more than most as London became an increasingly important financial centre.

[10] "The City UK: The World's leading International Financial Centre", UK Trade and Investment, City of London Corporation, Think London, and International Financial Services London, August 2008.

Looking ahead, financial services will have a crucial role to play in aiding the recovery, notwithstanding recent developments. Indeed the revival of credit, liquidity and other financial services is essentially a pre-requisite for the return of normal economic growth. And looking further out, international financial flows will remain important due to three medium-term developments:

- The globalisation of markets, including financial markets. Despite the recent revival of protectionist pressures, the globalisation process is extremely unlikely to go into reverse. Interdependence of financial markets should continue to develop, albeit at a slower pace in the immediate future.
- The fact that emerging economies will continue to grow faster than advanced countries for the foreseeable future. This will lead to the rise of local and regional capital markets and increasing economic influence for the largest and most politically stable of these countries.
- The nature of demographic developments, which will affect the balance of savings and investment. As emerging economies typically have fast-growing, younger populations, they will demand increasing amounts of capital to meet their investment needs. By contrast the developed world – with its ageing populations – would benefit if it generated an increased pool of savings.

London, as a leading international financial centre, will surely have a crucial role to play in this environment.

Our interviewees, meanwhile, tended to agree that financial services could not be expected to grow at quite such a rapid rate over the next decade as over the past decade (see Box 4-2 later in this report). But the general view was that they would return to a reasonably robust rate of growth overall, continuing to make a major contribution to the city's wider economic growth. London would certainly remain a major player in the global financial markets. Although wholesale capital activities needed to be re-shaped following the excesses of the recent past, London's insurance sector remained vibrant and retail banking was in a reasonably strong position. And in any case the financial services industry had a proven track record of being able to reinvent itself.

2.3 London's further advantages as a business location

Asked about London's strengths as a business location, other than labour availability and the financial and business services cluster, our interviewees pointed to: London's historic and cultural ties across the world; the English language; the amenable regulatory environment; a well-connected and improving transport system (though getting around within London could be a problem); the English legal system; the time zone; and a general lack of corruption. Access to markets was also a crucial feature, with one promoter of foreign investment in London referring to the city's offering of a 'springboard to European markets'. For the time being, UK-based businesses were also benefiting from the additional availability of office space and skills arising from the recession, and from sterling's comparative weakness.

Looking at regulation, the recently-published IFC-World Bank 'Doing Business 2010' report is timely, and bears out our interviewees' perception that the environment remains on balance a positive reason for businesses to locate in the UK rather than elsewhere. Out of 183 economies covered, the UK was identified as the fifth easiest in which to do business, and the best place of all within Europe (Table 2-5). Since the previous year's report, the study identified two UK reforms making it easier to do business in the UK (specifically relating to construction permits and registering property). In that time, the UK overtook Denmark for fifth place – this being the only change of place within the top ten.

The economic flexibility associated with this regulatory environment – together with the availability of capital and talent – helps to explain why London should continue to thrive in future, despite the likelihood that financial services will not make quite such as large contribution to growth as in the recent past. The majority – though not quite all – of our interviewees felt that other sectors would be able to step up their contribution to economic growth (Box 4-2). Sectors cited as having potential included information communications and technology, the creative industries, environmentally-driven activities, higher education, pharmaceuticals and healthcare, business services such as accountancy, specialist retail activities, shipping, and transportation and logistics.

Table 2-5 World bank rankings for ease of doing business

Rank	Top 15	Rank	Selected others
1	Singapore	18	Sweden
2	New Zealand	19	Korea
3	Hong Kong	21	Switzerland
4	United States	22	Belgium
5	**United Kingdom**	23	Malaysia
6	Denmark	25	Germany
7	Ireland	30	Netherlands
8	Canada	31	France
9	Australia	33	United Arab Emirates
10	Norway	47	Hungary
11	Georgia	62	Spain
12	Thailand	72	Poland
13	Saudi Arabia	74	Czech Republic
14	Iceland	78	Italy
15	Japan	89	China

Out of 183 countries. Source: IFC-World Bank *Doing Business 2010*, September 2009

Business tax changes in recent years, meanwhile, have been mixed. The headline corporation tax rate has been reduced from 33% twelve years ago, to 28%, following the global downward trend. But the exchequer cost of those moves has been offset by countervailing revenue-raising measures, including restrictions on both dividend tax credits and capital depreciation allowances. At the same time, employer NICs were increased in 2003 and are due to rise further in 2011, while the trend in 'green' taxes and other miscellaneous levies – many paid by business in the first instance – has been upwards. Nevertheless, the overall tax climate facing business was still seen by our interviewees as positive, and the climate for doing business will be helped by the moderate economy-wide tax burden, especially by west European standards, shown earlier in Table 2-4.

Meanwhile, two London-specific developments were also seen as more positive than negative by our interviewees: the setting up and subsequent operation of the office of the London Mayor, and the staging of the 2012 Olympics. Though views on the latter were not universally positive, one planning specialist was confident about the prospects for lasting legacy, highlighting how the Olympics offered an 'opportunity for regeneration, which London needs to look at constantly'. And a leading representative of businesses in London saw great benefits for the capital in the near-term, suggesting that the staging of the Games provided 'a bright light at the end of the tunnel'.

Box 2-2: Views on London's strengths as a location for business

One of the most important attractions of London for foreign investors and international business, as perceived by our interviewees, was the existence of the large financial and related business services cluster. This provided the resources – capital, knowledge and essential services – that global firms sought from developed world locations. London provided a powerful example of the benefits of agglomeration. Easy access to markets, across the UK and Europe, compound the attraction.

Other business advantages cited included:

- The English language.
- London's historic and cultural ties to key markets right around the world, in addition to its position within the European Single Market. India for example was now the second largest inward investor in London in terms of capital flows. Going forward, boardroom ties between London and the various Asian economies would be increasingly important for business success.
- An amenable regulatory and tax environment – a factor seen as significant by some and as a more marginal positive by others.
- The transport system, which was regarded as well-connected both within London and between London and other key markets and locations. (However, most interviewees also saw transport infrastructure as a potential problem – see box 3.2.)
- The respected English legal system.
- The time zone occupied by London, in between those of the other key financial and business hubs in North America and Asia Pacific.
- The general lack of corruption in UK and London business and political circles.

Even the recent deep recession should not be seen as wholly negative from a business perspective, given the increased availability of both property and skills. Indeed such was the availability of office accommodation that one interviewee cited reports of a five-year rent-free office agreement.

Box 2-3: Views on two London-specific policy matters

There was a fair degree of unanimity amongst our interviewees on the role of ***the office of the Mayor***. This seen as important in providing a figurehead for the capital, to act as a focus and stand up for London's interests in the wider political world, to co-ordinate policy across the city-region and to push through policies of strategic importance. Most felt the Mayor had a reasonable degree of power. But one felt that his powers were clearly too limited, and most agreed that, if the role were to evolve further it should be in the direction of more responsibility. One participant felt that the Mayor's powers were adequate, except in the planning field where an extension would be beneficial.

The majority view was that both holders of the office to date had been successful, though one participant pointed out that the problem area of skills actually fell within the Mayor's remit.

The majority but not all respondents took a positive view of the ***Olympic Games*** in terms of their economic impact. Some saw the Games' legacy – the physical regeneration of the east of the capital, with shopping and business hubs as well as new social housing and parks – as a significant positive. Others saw them as beneficial in the short-term, by buoying demand. It was also suggested that the timing of the Games was extremely fortuitous, with construction costs kept down by the recession but the event itself set to underpin a two-year-old recovery which might otherwise be beginning to flag at that point in time.

Others, however, were concerned that the Games' costs would outweigh the benefits – as had happened elsewhere, with costly infrastructure subsequently under-used. One suggested that the Games provided real potential for lasting legacy, but was concerned at 'lost ground'; without further thought and effort on the part of policy makers, the full legacy potential would not be realised.

3. The challenges and risks now facing London

KEY POINTS

- To some extent London can be regarded as in competition with other business and financial services centres around the globe, for skills and capital and as a location for firms. And the degree of competition will if anything intensify in future, as centres in the 'emerging' world develop and as 'economic power' and capital drift gradually towards the Asia Pacific region.
- At the same time, it is possible to envisage some of London's competitive advantages, such as in the regulatory and tax arena, being eroded, and some of its perceived disadvantages – notably its transport infrastructure – having a more marked detrimental impact.
- Certainly, London cannot afford to be complacent against this background. But the general perception is that – barring unexpected, significant policy mistakes – London should be able to continue to thrive in future, helped by the 'inertia' associated with business clustering.
- It is helpful too that international companies will often want a major presence in Europe, whatever their presence elsewhere, and that within this continent London is – and really should remain – the location of choice for global firms and skilled, mobile individuals.
- As for potential policy 'own goals', major improvements in the transport system are under way, and the possibility of radical reform going 'too far' in the financial regulatory field looks to have receded. And while we cannot rule out potentially damaging specific tax changes, the overall tax burden can be expected remain moderate by west European standards.

In today's world of highly mobile, globalised world economy, competition for capital, business and talent from rival locations overseas is an ever-present danger, notwithstanding the huge advantage of the 'momentum' associated with the financial 'cluster' and pool of international talent.

However, questioned about rival locations overseas, our interviewees generally painted a positive picture for London. One view coming through strongly was that most important international firms would want a significant presence in Europe whatever their presence elsewhere. So while New York and Tokyo were 'world class' business centres in the same way as London, they were important for benchmarking purposes rather than being genuine rivals for business. By the same token, cities such as Shanghai, Singapore and Hong Kong – and for some but not others Dubai – were likely to be important financial and business hubs in future, but again not true competitors for business location.

For many firms, the question of location boiled down to where *within* Europe. And here, the only real competitors in terms of the business and financial services cluster as a whole were Paris and – just possibly – Frankfurt. Other cities, such as Geneva, Zurich, Amsterdam and Dublin, were competitors only for specific activities – registered headquarters location and hedge fund management for example – some of which were in any case not particularly important in terms of employment numbers.

There were however two caveats to this view. Firstly, some interviewees envisaged a long-term trend in which capital and financial services activity – though not so much non-financial activities – would drift away from western cities in general and towards cities in the Asia Pacific region. The accumulation of debt and associated problems in the west would if anything accelerate this trend.

Secondly, there was a risk – albeit an outside one – that serious policy mistakes could put London's status in jeopardy. Potential issues raised included further significant tax changes, the possibility of regulatory tightening in the financial and/or other fields going too far, and a failure to complete planned improvements in the UK's transport infrastructure.

We therefore look in turn at international competition for London's financial cluster, and at potential domestic challenges to the capital's prosperity.

3.1 International challenges to London's financial cluster

The picture painted by the Global Financial Centres Index 6[11], published in September 2009, accords with the relaxed view of international competition taken by our interviewees. Based on this survey of 75 respective centres, London has remained in first place. For each of five industry sub-indices, London and New York fill the top two places, with London ahead in asset management, government and regulatory, insurance, and professional services. New York is ahead only in banking. London also leads in all five areas of competitiveness, i.e. people, business environment, infrastructure, market access and 'general competitiveness', with New York second in each category. Hong Kong and Singapore meanwhile – in third and fourth spots – have also demonstrated consistently high competitiveness in all areas over the past two years.

The Index scores reflect a combination of independent data on the five competitiveness elements and responses to an online questionnaire completed by financial services professionals for centres with which they are familiar. Compared with Index 5 published six months earlier, the scores rose in all but three of the 62 centres participating in both surveys, reflecting the general return of confidence to the sector. But some Asian centres – Beijing, Shanghai and Seoul – posted particularly notable gains.

Table 3-1 Global Financial Centres Index competitiveness ratings

Rank	Top 15	Rating (change since March)	Rank	Selected others	Rating (change since March)
1	London	790 (+9)	19	Paris	630 (+30)
2	New York	774 (+6)	20	Washington DC	630 (+34)
3	Hong Kong	729 (+45)	21	Dubai	617 (+37)
4	Singapore	719 (+32)	22	Beijing	613 (+135)
5	Shenzen	695 (n/a)	23	Dublin	613 (-5)
6	Zurich	676 (+17)	27	Edinburgh	605 (+5)
7	Tokyo	674 (+63)	31	Amsterdam	586 (+11)
8	Chicago	661 (+23)	35	Seoul	576 (+114)
9	Geneva	660 (+22)	36	Stockholm	569 (+13)
10	Shanghai	655 (+117)	39	Madrid	560 (+54)
11	Sydney	651 (+41)	43	Qatar	558 (+51)
12	Frankfurt	649 (+16)	44	Bahrain	558 (+45)
13	Toronto	647 (+32)	45	Kuala Lumpur	557 (+47)
14	Jersey	640 (+27)	47	Milan	554 (+33)
15	Guernsey	638 (+23)	53	Mumbai	542 (+57)

Out of 75 centres. Source: Z/Yen and City of London, *The Global Financial Centres Index 6*, September 2009

[11] 'Global Financial Centre Index 6', Z/Yen Group and City of London, September 2009.

The factors that determine a financial centre's competitiveness have also been surveyed, as shown in Table 3-2. Availability of skilled personnel is judged as the most important single factor, with over 90% of respondents judging it either very important or critically important. In fact, it might be virtually impossible to establish a business which needs a pool of personal skilled in international financial services anywhere except in London and New York.

On account of these results, it could be argued that there are only two genuinely 'global' financial centres: London and New York. In 1990, the consensus has pointed to London, New York and Tokyo, with Paris and Frankfurt potentially in contention too.

However, the number of financial centres seeking international business is growing. While London and New York are the two undisputed financial hubs, new Asian centres such as Hong Kong and Singapore have evolved into well developed regional hubs. And a number of regional centres do aspire to be global centres, including Singapore, Hong Kong and Beijing as well as Tokyo. There is no consensus on which is the dominant centre for the region or on whether a new global centre will emerge in the region. It is possible that no single one will emerge as a new global power. But if a third global financial centre does develop there is a good case for believing that it will be in China – with Shanghai a strong bet.

Certainly the rise of Asia means that London cannot afford to be complacent as regards its policy environment and infrastructure. It also means that London businesses would do well to strengthen their ties with that part of the world. However, the majority view amongst our interviewees was that cities outside of Europe could not be seen as genuine alternative business locations to London, and that London could and should continue to thrive despite the more general drift of capital and 'economic power' to the east. One suggested that, given the importance of 'inertia', the top ten in the global financial competitiveness league table would still be virtually the same in five years' time as now.

However, rather than seeing the growth of other financial centres as a threat, London-based firms could leverage an opportunity to develop partnerships that can stimulate growth and development. Indeed the point was made in our own interviews that London firms were building links with the Asia Pacific region, but that these ties would need to be strengthened further to entrench London's position against a background in which the economic 'centre of gravity' would inevitably drift to the East.

Box 3-1: Views on potential international competitors for London

The majority of interview participants took the view that London had little to fear when it came to the possibility of losing businesses, capital and talent to rival cities overseas – provided that particularly burdensome changes to taxation and regulation were avoided, and that planned improvements in the transport system proceeded.

London and New York, together just possibly with Tokyo, clearly stood out as 'the' financial and business services centres of the world. But some saw these cities as more important for benchmarking purposes than as true competitors for talent and capital. Typically, global corporations would wish to have a significant presence in Europe regardless of their presence elsewhere in the world, in order to readily access the continent's markets. The question of location really boiled down to where precisely *within* Europe. In that context:

- For some very specific activities (e.g. registered headquarters or hedge fund management), it might prove challenging to keep established businesses against competition from the likes of Geneva, Zurich, Amsterdam and Dublin.
- But for financial and business services as a whole, only Paris and just possibly Frankfurt could be regarded as true competitors. And of these, London was the obvious choice for most.

Other cities elsewhere in the world were likely to prove important regional hubs in future – Shanghai, Beijing, Hong Kong, Taipei, Seoul, Singapore, Mumbai and Dubai were all raised in this context. Some participants were concerned about future competition for London, at least in the financial services area, from cities in the Asia Pacific region (though less so the Gulf). The economic 'centre of gravity' was clearly shifting to this region from the west, with the west's high indebtedness likely to accelerate that process. The rise of China and India, together with the huge potential of Indonesia, would benefit those cities to the potential detriment of cities across the west.

The UK has a record success in handling financial flows and advisory services from Europe, Asia and the Middle East. For many years, individuals, firms and institutions from those regions and others have come to London to seek financial and professional advice, invest funds, raise capital and manage risk. The UK has been able to support them through its leading role in equity and debt issuance, advisory services, value-added insurance and professional services. The more established sovereign wealth funds which have accumulated wealth from the export of commodities or rapid economic growth have often chosen UK-based firms for investment advice, or indeed located investment offices in London.

In practice, the UK is already part of the greater global financial services value-chain, rather than a pure competitor in a winner-takes-all race – and as an open economy, directly benefits from the wider economic growth that it is helping to foster. The fact that UK-based businesses have acknowledged the large-scale shifts in economic flows and are working with those trends should help to embed the UK in the new markets, and help those markets to be developed in a fashion that will enhance global stability and openness. London in particular could be expected to benefit from these developments.

Table 3-2: Competitive factors ranked

Factor of competitiveness	Rank	Average score
Availability of skilled personnel	1	5.37
Regulatory environment	2	5.16
Access to international financial markets	3	5.08
Availability of business infrastructure	4	5.01
Access to customers	5	4.90
A fair and just business environment	6	4.67
Government responsiveness	7	4.61
Corporate tax regime	8	4.47
Operational costs	9	4.38
Access to suppliers of professional services	10	4.33
Quality of life	11	4.30
Cultural and language	12	4.28
Quality / availability of commercial property	13	4.04
Personal tax regime	14	3.89

Source: 'The Competitive Position of London as a Global Financial Centre', City of London, November 2005.

Nor does the creation of multiple regional centres mean that these cities will no longer need the services offered by international centres such as London. They will still require specialist advanced services such as the high-value risk management offered by the London insurance and financial markets, as well as access to a wider range of investors and investments instruments.

3.2 Potential domestic challenges to the capital's prosperity

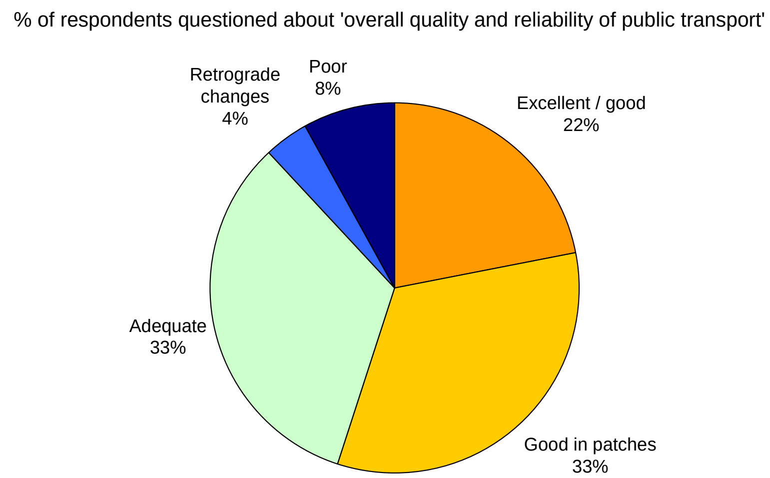
Aside from the educational, skill and employment prospects of London's indigenous population (see Section 2.1), our interviewees' concerns about possible constraints on London's future economic success mostly fell into three categories: infrastructure, taxation and regulation.

Transport infrastructure was frequently cited by our interviewees as a potential constraint on future growth, and as potentially harmful for London in terms of its attractions as a place to live and work. London's system was believed to be poor in comparison with many other European and Asian cities. One representative of a policy think tank suggested that the capital's transport infrastructure was 'creaking' and that without significant improvement, this would be a real problem on a ten-year if not five-year horizon. However, for this respondent infrastructure problems were to some extent an inevitable side-effect of the high population density that went hand-in-hand with economic success. And the chairman of a large business service provider suggested that while transport could prove a constraint, and was a little worse than the likes of Paris and Frankfurt, it 'was not as bad as some say'.

More generally, there was some optimism amongst the respondents in terms of the direction of change. Referring to the possibility of the planning system as a constraint, one specialist in that field was optimistic, pointing out how the government had proved 'aware of the potential bottleneck for large infrastructure projects'. Crossrail was seen by all participants as very important indeed for the

London's economic success. Other rail improvements were needed, but several desirable projects were already underway. However, if for any reason Crossrail did not proceed, our interviewees felt that would be clearly negative – with one representative of an international bank stating that this was 'of vital importance to a city that wants to call itself a world class city'.

Chart 3-1: Business views on London's transport system



Source: CBI/KPMG London Business Survey, June 2009

A degree of optimism is also found in the June 2009 CBI/KPMG London Business Survey, where those taking a broadly positive view outweighed those taking a negative view by 55%-12% (Chart 3-1). A year earlier this split was a more equal 38%-37%. In a separate question, 9% of this year's sample said that transport services were 'improving across the board' with a further 45% saying services were 'better in places'. Only 10% felt they were 'worsening in places' with none now believing they were 'worsening across the board'.

But proponents of a better transport system in London cannot be complacent given public finance constraints. Already, public sector gross investment spending is to be cut by 10% between 2009/10 and 2010/11, and by a further 19% over the following three years. Net of depreciation, the latest target is for investment spending to run at 1¼% of GDP in the medium term, compared with a target of 2¼% as recently as the March 2008 Budget. Even worse, it seems almost certain that further cuts in total public spending will be required, not just relative to existing plans but on a year-on-year basis. In the light of policy in previous periods of public finance 'austerity', it is all too easy to envisage capital budgets in particular being cut still further. And as transport typically accounts for almost a quarter of public sector capital expenditure, it is difficult to see the transport budget emerging unscathed.

Box 3-2: Views on potential 'supply-side' constraints: skills and infrastructure

Many participants in our interview process pointed to the ***education, skills and employment of London's indigenous population*** as a key concern. London's economic success centred on the creation and filling of jobs requiring comparatively high educational and skill levels. But the fact that so much talent had to be attracted from overseas suggested that there was a real skills 'gap'. The UK did not seem to be generating the right skills for the future. And long-term unemployment could prove to be a real social problem, especially in the context of highly indebted households.

But at the higher end of the income scale, London had a fantastic pool of skills. Shortage of high-end skills was not expected to inhibit growth for many years, with the possible exception of legal work. The flexibility of the workforce was also an important competitive advantage. There was though, the question of how those drawn into financial sector in the 'boom' years would be re-absorbed into the workforce. That could only be corrected over a long time period, given the resulting skills mismatch.

Transport infrastructure was frequently cited as a potential constraint, and as potentially harmful for London's attractiveness as a place to live and work. There was general agreement that the city compared poorly with Paris and other European cities. A contrast was also made with public rail investments in Asian cities. But for some, infrastructure problems were an inevitable side-effect of the dense population resulting from London's economic success. London's other attractions must, almost by definition, outweigh the costs attached to migration into the capital, including congestion.

Crossrail was seen by all participants as very important indeed for the London's economic success; if the scheme did not proceed, that would be clearly negative – with one participant suggesting that London should no longer be regarded as a 'world class' city in that case. The project would open up locations that were presently inaccessible. Other rail improvements were also needed, but desirable projects were already underway, including upgrades to the Underground rail network. However, it was vital for London's future competitiveness that the pace of these improvements was not allowed to slip.

By contrast views on ***Heathrow expansion*** ranged from positive to negative. Some saw expansion as vital with one respondent stating that alternative ideas – such as a new airport on the Thames – were unrealistic. Others were concerned that the environmental costs would outweigh the potential benefits, with one suggesting that Heathrow's position to the west did not fit well with London's service-based economy centred on the City. There was however broad agreement that either airport capacity in the South East in total needed to be expanded, or links to airports outside of the region improved.

Other infrastructure concerns included ***power supply***, where further upgrades would be absolutely essential. ***Housing*** was also a potential constraint, and an area where innovative locally-driven policies were needed. Given the high deposit requirements now facing mortgagors, affordability had become an issue even for young professionals with salaries in the £50,000 range. This could knock on to skills availability. But as with transport, shortage in this area – and the associated higher costs – could be seen to some extent as simply an inevitable side-effect of London's broader attractiveness.

Our interviewees also had ***other infrastructure*** concerns, including power supply – where failure to invest sufficiently could prove critical – and housing supply. On the latter, one leading London business representative was clear that 'there was not enough supply at the right price' and that this could 'have a knock-on effect for the availability of skills'. However, the coming restraint on ***public expenditure*** more generally was seen by some participants as an opportunity as well as a challenge. As one international recruitment specialist put it, a reduction in the concentration of jobs in the public sector might allow London's workforce as a whole to 'become more productive'.

The state of the public finances also underpins concerns about ***taxation***. Interviewee concerns about confirmed changes mainly related to instability of the system, and to a few specific reforms – e.g. high earners, non-domicile rules and foreign profits – rather than to the economy-wide burden. There was however an expectation that taxes would be raised further. The precise impact of this would clearly depend on the policy detail: higher employer NICs, for example, would threaten job creation. But it was difficult to envisage any tax rises which would not be damaging at the margin in some way.

Looking at the taxation issue in more depth, there are three potential issues which mean that London in particular cannot afford to be complacent. Firstly, the tax system is already less favourable to Londoners than other UK residents in some respects. Higher prices for goods, services and property mean that the real value of tax allowances and thresholds is lower in London than in the rest of the country. More Londoners are dragged into the higher income tax bracket, and into inheritance tax, compared to individuals in otherwise similar circumstances but based elsewhere. The impact of stamp duty land tax is even harsher because of that tax's unique and arguably absurd structure.[12]

These features of the tax system, together with decisions about the distribution of public expenditure across the economy and the fact that 'real terms' incomes are higher in London, mean that London typically pays more in revenues to the exchequer than are spent in the capital. This results in an effective transfer of funds from London to the rest of the economy. For 2007, the City of London Corporation put this gap in the £11½bn-£18½bn range[13]. On this basis at least 12%, and possibly as much as 20%, of taxes paid by Londoners benefit the residents of other regions. As one of our interviewees from a policy think-tank explained, the best fiscal policy of all – from the capital's point of view – would be 'for London to keep a larger share of revenues raised here'.

Secondly, of the tax increases already announced and in pipeline, several are aimed at middle- and high earners and their employers – and at high earners most of all. These include:

- A new 50% income tax rate for those with income of £150,000 or more per annum, due to come in next April, together with the restriction of pension tax relief for those individuals to 20%.
- Withdrawal of tax allowances for those with income of £100,000 a year or more from April 2011.

[12] For example, a home buyer on 1½ times the national average wage, purchasing a property worth 1½ times the UK average, would pay stamp duty land tax equivalent to 3½ weeks' take-home pay. But a Londoner, on 1½ times the average London wage and purchasing a property worth 1½ times the London average, would pay a bill equivalent to 11½ weeks' take-home pay.

[13] 'London's place in the UK economy, 2008-09', City of London Corporation and London School of Economics, October 2008.

Box 3-3: Views on fiscal and regulatory policy

Public expenditure would inevitably grow more slowly in the years ahead than in the recent past, and probably more slowly than on the present plans, in the view of our interviewees. This could have negative impacts for London's longer term prospects, particularly if it delayed planned infrastructure improvements. But some participants also saw a positive side, with one hopeful that a reduction in public sector employment would eventually improve the overall productiveness of London's workforce.

Tax developments were also a potential concern. To date, this related more to the instability of the system, and to a few specific tax changes – e.g. the forthcoming 50p tax rate for higher earners, non-domicile rules and foreign profits – than to the economy-wide burden. One participant noted further that talented mobile individuals had by no means been 'deserting in droves', while another viewed tax differentials as only a marginal consideration in the context of London's wider strengths. For businesses with significant property requirements, the financial constraints following the credit crunch had been far more important in driving behavioural change than any taxation (or regulatory) issue.

Taxes were though expected to be raised further, potentially inhibiting London's economic prospects. The precise impact would obviously depend on the policy detail: higher employer NICs, for example, would threaten job creation. But it was difficult to envisage any tax rises – business or personal – which would not be damaging in some way. For high earners in the financial sector, higher taxes would compound the impact of lower pre-tax rewards. One participant was concerned at the potential for further rises in both business and personal tax to threaten competitiveness, and believed that the Treasury simply did not 'get it' when it came to the potential impact of taxation on wealth creation.

On ***regulatory issues***, potential concerns included: the new points-based immigration system, which risked stopping some genuine and required non-EU talent from coming to the UK; EU labour laws such as the Temporary Workers Directive; and the possibility of tighter regulations in the financial markets. But on this last point, respondents were mostly relaxed. The general view was that some degree of tightening was desirable, that the prospect of radical reform going too far had receded, and that any likely new rules (e.g. bonus caps) would be not lead to an exodus of talent. And whatever happened here, the regulatory environment would remain at least as benign as in other EU locations.

One respondent, though, was concerned that key parts of the London's financial sector – fund management and insurance – could be driven away if regulation moved too far in the wrong direction. Another cited the degree of uncertainty caused by talk of potential changes to the role of the Financial Services Authority. This respondent also felt that any rules aimed at restricting individual earnings would be unwelcome from an economic perspective, but was hopeful that this would not happen.

For the retail sector, the ***planning system*** was admittedly laborious, but it was unclear that there was a better option available. ('Zoning systems', as used in the US, were probably not appropriate for London.) In any case the government was clearly aware of the potential for planning issues to act as a bottleneck, and in practice ensured that they did not stand in the way of key infrastructure projects.

- A 0.5 percentage point increase in national insurance contribution rates, for both employers and employees, from April 2011.

The Treasury suggest that the total yield for the measures targeting high earners will be £7bn per annum, when the full effect is finally felt in 2012/13, although it remains to be seen whether that amount is actually raised given potential behavioural impacts. (The NICs shake-up, which also includes a rise in the starting point for contributions, will raise around £5bn a year on a net basis.) With 20% of all London managers and senior officials earning over £90,000, and the top 10% possibly earning over £132,000 (compared with figures of £60,000 and £80,000 across the UK as a whole)[14], these changes will inevitably bear disproportionately on the capital. Furthermore, just like the new stamp duty land tax thresholds introduced in 1997-98, the £100,000 and £150,000 benchmarks could quite easily be left unchanged in cash terms for many years, so that more and more individuals – particularly in London – are caught in the net.

The third issue is of course the possibility of still more tax increases as a future government battles to restore the public finances to health. On the basis of present fiscal policies and a continuation of them[15], Oxford Economics forecasting scenarios have suggested that there would still be a current budget deficit of some £30bn in 2017/18. We believe it reasonable to assume that a future government would seek to close this gap, through some combination of tax rises and current spending restraint (with total net borrowing reduced a little faster still through extra capital spending cuts). Of the £30bn, we suggest that £10bn could be expected take the form of new discretionary tax rises.

On this basis the total tax burden would end up at around 37% of GDP in 2017/18, rather than the 36½% presently in prospect. In all probability that would still leave the UK just below the average of the 20 richest OECD member states, and more clearly below the average for other rich European economies. Nevertheless, with most other European countries not facing the same fiscal pressures as the UK, the UK's tax advantage will have been reduced a little compared with the recent past.

The impact for London will, of course, depend very much on the form that tax rises take. If the recent focus on high-earners were extended, the consequences for London in particular could be significant. However, it is unlikely that a focus on high earners alone would be enough to achieve the financial goals as defined above (or indeed to raise much revenue at all). That essentially leaves two paths:

- A focus on middle-income earners, employers, savings and property, arguably building further on some of the key revenue-raising themes of the post-1997 era (reluctance to raise income tax thresholds in line with earnings, employer and employee NICs rises, dividend tax credit restrictions, and increased reliance on stamp duties and inheritance tax for revenue). The impact

[14] Source: ONS Annual Survey of Hours and Earnings, 2008. The figure for London's top decile is reported as 'unreliable'.

[15] By this we mean: no further discretionary tax rises beyond those already announced; spending other than on interest and benefits to come in as presently planned through to 2010/11; total spending to come as presently planned over 2011/12-2013/14; and beyond that net investment spending held at 1.25% of GDP, assumed depreciation to rise by £1bn a year, and current spending to rise by 0.7% a year in real terms, as on the present plans for 2011/12-2013/14.

of such a strategy would in all probability be felt more intensely in London than in other parts of the country, because of the income and property price pattern.

- More of a focus on consumption, including specific 'green' levies as well as alcohol and tobacco duties, but also just possibly consumption more generally. It is worth noting here that, the last time a British government was forced to raise taxes to help address a yawning budget deficit, in the early-to-mid 1990s, this was essentially the route chosen (road fuel and tobacco duty 'escalators', VAT on domestic fuel, air passenger duty, landfill tax). If a strategy such as this were pursued, it would probably impact more evenly across the country. Even so, there could still be some detrimental impact on the capital's ability to compete with rival locations overseas, with the precise impact dependent on the precise tax changes put in place. Further increases in the taxation of air travel, for example, might run the risk of disproportionate damage to activity in London.

As set out in Section 2-3, the ***regulatory environment*** has traditional been a source of strength for the London economy. But our interviewees did raise some concerns about possible damage if regulatory tightening went too far. Particular issues raised included the new points-based immigration system, which risked stopping some potentially genuine and required non-EU talent from coming to the UK, EU-driven labour law changes (for example the Temporary Workers Directive), and the possibility of tighter regulations in the financial markets.

In the financial services area, the government will of course have to be careful not to tighten regulation too far, to avoid putting the UK's leading position at risk. As described earlier the sector is still central to UK economic prospects, employing a large number of people and having linkages to many other sectors. It is also disproportionately large contributor to tax receipts. But on a positive note, it is encouraging that the Financial Services Global Competitiveness Group, which the Chancellor co-chairs, has asserted the need to strengthen and enhance the UK's place as a global financial centre.

Our interviewees were also broadly relaxed on the question of financial regulatory change. The general view was that at least some degree of tightening was desirable, that the prospect of radical reform potentially going too far had receded, and that any new rules would be unlikely to result in an exodus of talent. And whatever tightening happened in the UK, the regulatory environment would remain at least as benign as in alternative EU locations. (This last point would also apply in other fields such as labour market legislation.)

As one representative of an international bank stated in respect of financial regulation, 'it is not clear precisely how things will pan out, but any change is likely to be marginal rather than radical'. An international recruitment specialist, meanwhile, summed matters up in the following terms: 'Modest regulatory changes such as a cap on financial earnings will not prove to be a barrier, due to a lack of alternative locations. Nowhere else has the same critical mass of people and cosmopolitan culture. New York is London's only potential rival, not Switzerland for example'. And a policy think-tank specialist had similar sentiments, stating that 'regulatory and tax changes might make a difference at the margin, but nowhere else in the EU could take over'.

Box 3-4: The outcome of the General Election and implications for London's economy

From a political perspective the forthcoming General Election could prove pivotal. Yet based on the policy statements of the various parties, we are unable to draw any firm conclusion as to which result would be 'best' for London's economy. In the regulatory field, both major parties have criticised the role of the banking sector in driving recent events, but we would be surprised if either would in practice tighten the rules so far as to jeopardise London's position as a leading global financial centre.

In the fiscal policy field, it is widely accepted that whoever wins the Election, public expenditure will need to be further restrained. Some discretionary tax rises are also likely to be needed. But the impact on London's economy will depend on the detail – details which are unclear from policy statements to date. We would however offer the following rather speculative points, based on past experience:

- Under the Conservatives, more of the required fiscal tightening would take the form of spending restraint, with fewer tax rises, than under Labour. On the simplest assumption where this resulted in a smaller 'fiscal transfer' to the rest of the country, London would benefit at the margin.
- Again on the simplest of assumptions, London might benefit a little more under a Conservative government because of the type of tax rises traditionally favoured. That is, a Conservative government might be inclined to fall back on consumption taxes, as in the 1990s, while Labour might well focus more on the earnings and assets of middle-to-higher income individuals.
- But this view could easily be overturned by the policy detail. If a Conservative government resorted to cutting investment in the transport network by even more than Labour is planning to – which past experience suggests is a clear risk – London would stand to suffer disproportionately. The detail of any consumption tax rises (e.g. in air passenger duty) could also prove important.

Other policy differences could also prove significant, though again it is impossible to judge the outcome in terms of 'better or worse for London' at this stage:

- The Conservatives look set to rein in public expenditure immediately on election, whereas Labour's emphasis is on tightening only when the recovery is secured. If the recovery is well under way by the middle of next year, then immediate tightening would be clearly appropriate. But if not, early spending restraint could put more jobs at risk in London and elsewhere.
- The Conservatives are opposed to the expansion of Heathrow. By contrast Labour has been officially supportive, though its re-election would by no means guarantee completion of the project.
- The Conservatives support a restructuring of the financial regulatory 'architecture', to give greater powers to the Bank of England at the expense of the Financial Services Authority. The impact of such a change remains to be seen, but it would obviously be important for London.

4. The outlook: Oxford Economics' central view

KEY POINTS

- It is unlikely that London's financial services industry will grow at quite the same rapid pace over the decade ahead as over the past decade.
- Nevertheless, London's key economic strengths – the availability of skills and capital, access to international markets and the flexible environment within which businesses can operate – should ensure two things. The financial services should still enjoy a reasonable rate of growth overall. And to the extent that they do not match the pace of expansion of the recent past, other sectors – the creative industries, ICT and 'green' activities for example – are in a strong position to step up to fill the 'gap'.
- Consequently, over the period 2011-2020 London's growth performance will be broadly on a par with that achieved on average in the recent past, outpacing the rest of the UK and ensuring that the UK capital will remain one of the world's richest and most productive regional economies.

4.1 Near-term prospects

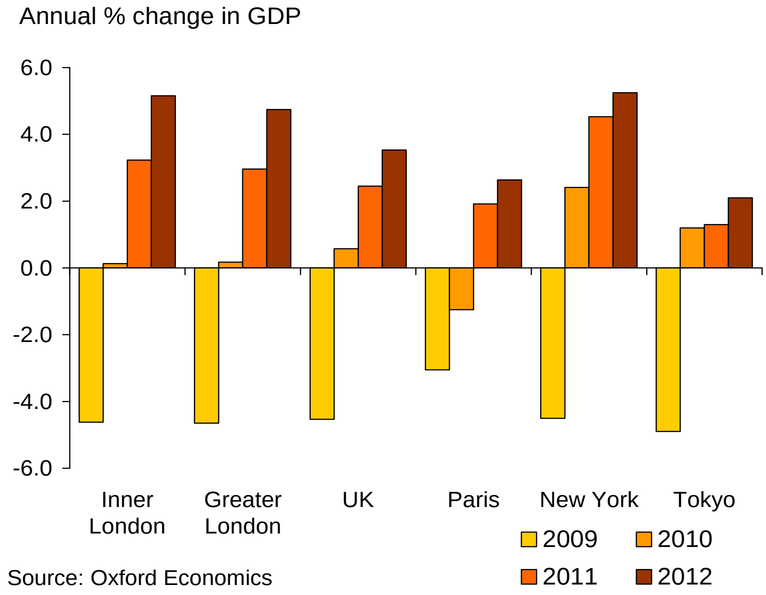
While London will emerge a little later from the recession than the rest of the UK, once growth does resume we expect it to be reasonably strong by national standards, More specifically, we see London's GDP growing by an average 3.8% per annum (Inner London: 4.2%) between 2010 and 2012, compared with 3.0% for the UK as a whole. During the recovery and beyond the business services sector is forecast to generate substantial job growth, alongside the health sector (as the population continues to age and front line services receive some shielding from the public spending restraint now surely in prospect).

In this near-term recovery phase, financial services are expected to rebound fairly robustly in terms of value, and by a little more than across the UK as whole. But even then the rate of growth will not match that achieved on average over the decade to 2008. And while employment in the sector will benefit, its level will still be more than 10% lower in 2012 than in 2008. Meanwhile we also see a comparatively strong rebound across the rest of the private sector in the two years after 2010 – in non-business services, production and construction alike.

Amongst the global comparators, New York will if anything rebound a little more quickly than London, with that city as well as Tokyo seeing clear growth next year. But our forecast shows Paris contracting in 2010. Through 2011 and 2012, we see London clearly growing more quickly than Paris and Tokyo, although we also expect New York to be expanding robustly at that point.

Benchmarked other European cities, near-term prospects for Inner London can also be described as promising, despite the fallout from the credit crunch. Our forecast here showed Inner London bounding back more quickly between 2010 and 2012 than in five of the seven comparator cities (the exceptions being Stockholm and Frankfurt). (See Annex 2 for detail.)

Chart 4-1: London's recovery benchmarked against the UK and global centres



4.2 The medium-term outlook

In the medium-to-long run Oxford Economics' latest regional forecasts show London returning to its historical position as the fastest growing region as professional services remain in demand across the world. Annual gross value added (GVA) is expected to rise by 3-4% each year between 2011 and 2020, after stabilising during 2010. Total employment is forecast to rise by around 350,000 (to over 4.8 million) in the five years from 2010, driven by significant expansion in business and financial services as London re-exerts its international leadership in the knowledge economy.

The fallout from the recent market turmoil means that once the recession ends financial services as a whole will grow at a slower pace than in the recent past. But areas such as insurance, asset management and wholesale finance should continue to thrive – subject to the government not going too far in terms of regulatory tightening and tax rises. While banking is likely to grow at a slower pace than over the past decade, the success of financial services, particularly in international markets, is not solely dependent on banking and hedge funds. International insurance is a major source of income for the UK and prospects for non-life insurance companies are solid, with signs that the market is hardening which is likely to lead to a sharp rise in insurance premiums. Asset management and wholesale finance will also continue to thrive. We are also likely to see diversification within financial services as firms from outside the sector enter the market, particularly in retail financial services.

This forecast, that financial services overall will return to a reasonably robust rate of growth, ties in with our interviewees' expectations. A promoter of foreign investment stressed how the financial services sector had 'constantly reinvented itself' in the past and could be expected to remain a key feature of the capital's economy. London would surely remain 'one of the major financial centres of the world'. And to the extent that financial services were unlikely to grow at quite the same pace as over the past decade, the majority believed that other sectors – creative industries and ICT-related services for example – could fill the gap. One retail property and planning specialist pointed to new Continental names now coming into London, signaling that these companies 'do see a market in the future'.

In the longer term, London is expected to remain well-positioned on global competitiveness, and to continue to see a broad trend of economic growth and expansion. Migration trends remain a source of uncertainty, however. London has traditionally seen a net inflow of international immigrants, set against a net outflow domestically, including workers moving to neighbouring areas when having a family or potentially further afield when retiring. We are forecasting lower levels of inward international migration over the next few years as a result of poorer job opportunities during the recession, and this is likely to slow the pace of population growth in London. Even so, London is likely to remain an attractive destination for younger, highly educated people from overseas, and we do not see lower immigration constraining employers' chances of attracting the labour they want in the medium term.

Looking in at the 2012-2020 period in our forecast (detailed in Annex 1), demographics are favourable with above-average population growth and a further rise in the proportion of working age. GDP will grow at an average 4.0% per annum (Inner London: 4.3%), a robust rate of growth by historical and national standards broadly on a par with the average over the decade to 2008. Employment and productivity will grow more quickly than in the rest of the UK, with unemployment on the claimant count measure returning to below the national average (although on wider measures the comparison might not be so flattering). Disposable income per resident will grow a little more quickly than the national average.

In terms of growth in value added, business and financial services will lead the way, and will grow more quickly than across the UK as a whole. However, financial services will not match the very strong rate of expansion seen over the decade to 2008. In very broad terms other sectors are likely to grow on a par with the rest of the UK, with non-business private services achieving an average growth rate of above 3%.

Box 4-1: Views on the broad economic outlook facing the UK capital

Our interviewees shared the general view painted by most economic forecasts, that the global and UK economies would recover in due course, to achieve reasonable rates of growth by past standards over the coming decade, with London sharing in that growth. The majority went further, agreeing that London would return to a more robust rate of expansion than the UK and industrial world as a whole. Respondents suggested variously that:

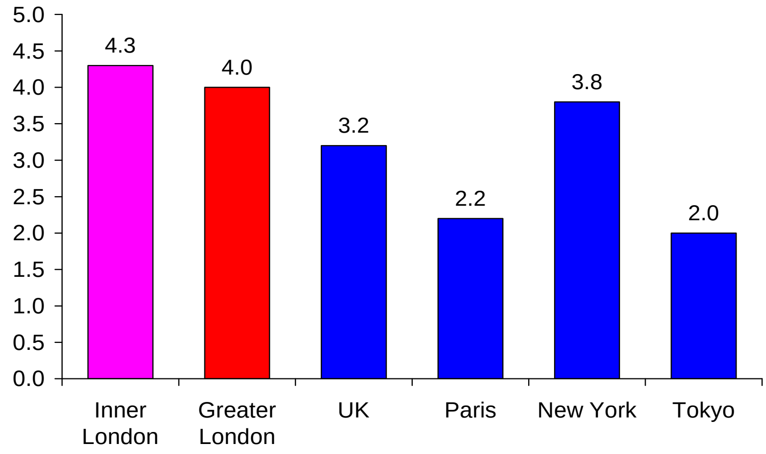
- London was not, in fact, suffering more badly than other UK regions in the recession, contrary to view taken by forecasters in the immediate aftermath of the financial crisis, when economic problems were focused almost exclusively on financial service providers.
- London's economy in particular could be expected to bounce back sooner and stronger than believed just a few months ago, justifying the clearly positive attitude now pervading the City.
- Key sectors of London's economy, such as West End retail, had been buoyed through the recession by inward tourism, from the Middle East for example.
- Just as in previous episodes, London had entered this recession first and could be expected to recover first.

Other respondents were, though, more cautious about prospects on a two-to-three year horizon. Though London could still be expected to bounce back relative to the rest of Europe, some factors could be expected to act as a drag on growth. Consumer and company balance sheet adjustment, access to finance, the public finance position and high unemployment coupled with skills mismatch would all make for a 'longer haul' recovery rather than the more typical bounce that has followed previous recessions. Perhaps above all, global savings and trade imbalances remained significant. For interviewees in this more cautious camp, any recovery in the months ahead would prove temporary. It was further pointed out that, in the consumer-facing and property spheres, other parts of Europe had seen fewer business casualties as they had not experienced the same kind of property price 'boom' as here.

Looking to the medium-term, one respondent pointed out how London was well-placed to benefit from a continuation of the globalisation process. Levels of trade and capital flows should return, and communications costs would be driven down still further. Another respondent, however, was concerned that London's recent growth had been 'excessive', based as it was on easy access to credit, making a return to these rates of growth unlikely. This participant was doubtful that other sectors could bridge the gap left by the decline in financial services – and indeed by the impending reversal of the sharp increase in public sector employment over the past several years. Given this, it was not impossible to see London growing more slowly than the rest of the UK for a while to come. However the majority of interviewees did envisage other sectors filling this 'gap' (see box 4-2).

Chart 4-2: Medium term growth prospects

Annual % change in GDP, 2012-2020



Source: Oxford Economics

As Chart 4-2 shows, our forecasts for Paris and Tokyo point to clearly slower economic growth into the medium term than in London. We are not yet in a position to produce such robust forecasts for New York over that timescale. But our shorter-term forecast points to annual growth of around 3¾% in 2014, which we would regard as a good indicator of the possible trend in the years beyond that. On this basis, New York's growth rate would be close to London's but would not quite match it.

We also see Inner London returning to a pre-eminent position amongst the group of European city peers (see tables at Annex 2), with total GDP, total real disposable income and GDP per worker all growing more quickly than in the seven comparators. Productivity levels will remain above those of the other cities by a considerable margin.

Box 4-2: Views on the sectoral pattern of London's future growth

There was broad agreement amongst our interviewees that financial services could not be expected to grow over the next decade at the same rapid – or unsustainable – pace seen in the recent past. But:

- The majority expected financial services overall to return to a reasonably robust rate of growth, with London certainly remaining one of the world's major financial centres. Although wholesale capital activities needed to be re-shaped following the excesses of the recent past, London's insurance sector remained vibrant and retail banking was in a reasonably strong position. And in any case the financial services industry had a proven track record of being able to reinvent itself.

- The majority also felt that, to the extent that financial services did not grow at quite the same pace as in the recent past, London's ability to attract capital and talent, together with its economic flexibility, should enable other sectors to step up and fill the 'gap'.

One interviewee pointed out how non-financial sectors were already important. While financial services were the most significant in terms of the 'stock' of foreign direct investment, two sectors were more important in terms of the 'flow'. Information communications and technology had accounted for a third of all new foreign-owned projects in recent years, compared with 10% for financial services. The creative industries – advertising, design and media (content such as films as well as distribution) – formed a third major group, just ahead of financial services in terms of the share of investment flow. 'Green' activities meanwhile – electric vehicles, waste-to-energy services and retrofitting of buildings – formed a small but burgeoning sector that might well expand strongly over the decade ahead.

Other interviewees also pointed to the huge diversity of knowledge-based and creative industries in the capital – and to London's high-ranking research universities. Other sectors cited as having the potential for robust growth included pharmaceuticals and healthcare, business services such as accountancy, specialist retail activities, shipping, and transportation and logistics. By contrast, prospects for industrial activity would be limited to niche areas, probably funded by private equity and probably not in the consumer goods sector. In the retail sector, foreign-owned firms were well placed to come into London, and some were doing so already. While this process was being helped by the availability of property, it could also be regarded as a sign of confidence in London's future.

But not all participants took quite such an optimistic view. One felt that the City had suffered a very significant shock and that financial service consolidation had some way to run. New non-legacy institutions could spring up, fuelled by individuals laid off, with private equity helping to fund small 'boutique' businesses. But by and large, new employment would have to be in areas other than financial services. The fact that London had virtually no manufacturing base could be a problem in this context. This participant expected retail banking and basic capital market operations (bond trading etc) to continue to thrive in London, but saw no reason why wealth management functions could be expected to stay here, particularly given the increasing importance of sovereign wealth funds which could simply be based in their home countries. (The UK, of course, had no such fund.)

Conclusion

This investigation of London's underlying economic strengths and weaknesses has confirmed the view already reflected in Oxford Economics' published forecasts, namely that London's economy can be expected to flourish over the 2010-2020 decade – despite the adverse impact of a recession initially centred on the financial markets.

A key part of the capital's success – past and future – is the existence of a large, well-resourced and talented 'cluster' of financial and business services. This cluster and associated pool of capital make for a highly-productive economy attractive to firms of all kinds. In turn, high productivity means that high rewards can be offered to the most talented people – and skilled individuals do indeed come to London from around the globe. This in turn reinforces the attractiveness of London for business.

For businesses, the so-called 'agglomeration benefits' of clustering – of the concentrated pool of face-to-face contacts, suppliers, labour and clients – clearly counter several factors that would otherwise drive geographical dispersal, such as falling communications costs, increasing mobility and land price differentials. And London offers further benefits to firms: a regulatory environment allowing flexibility, a moderate tax burden by west European standards, connectedness to EU and other markets, the English language, the respected legal system, relative lack of corruption and convenient time zone.

For talented individuals, pecuniary rewards are by no means the only factor making London an attractive place to live and work. Our interviews confirmed the importance of cultural factors, including the entertainments and heritage on offer. The city's welcoming cosmopolitan atmosphere, its physical, cultural, historical and linguistic links to countries around the world, and the rights conferred on EU citizens and many others to live and work here, make London the obvious home of choice for many.

Looking ahead, footloose capital and financial activities may well drift gradually away from cities across the western world as a whole, towards those in the Asia Pacific region. But the majority of our interviewees expected London to remain a leading global business and financial centre for the next decade and beyond. Typically, global businesses – financial and non-financial – would want a major presence in Europe whatever their presence elsewhere, so the question of location will often boil down to where within the continent. Aside from specialist activities, London is, and is likely to remain, the number one preference in this context. As for the rise of Asia, London-based firms stand to benefit from the UK's historical and cultural ties with parts of that continent, as this puts them in a good position to build business ties with that expanding and dynamic region.

On the domestic front, possible government policy mistakes could in principle threaten London's position: particularly burdensome regulatory or tax changes, or a failure to push on with transport system improvements being the most obvious. But there are sound reasons for not being too pessimistic about potential developments in these areas. In the financial services arena, our interviewees believed the momentum had shifted against regulatory tightening of a too radical nature. And it is difficult to see the regulatory environment becoming tighter than in other EU locations.

Meanwhile, as long as public spending is restrained along the lines now being openly spoken about by politicians of all parties, the UK's overall tax burden should remain moderate by west European standards (though we cannot rule out the possibility of potentially damaging specific tax changes). And while such spending restraint will surely prevent some potential transport system upgrades from being realised, many much-needed improvements are in place or well under way. Only if Crossrail fails to go ahead after all would the transport situation threaten London's economic potential.

These considerations support our forecasts that London's economy should continue to thrive into the medium-term. Although financial services cannot be expected to grow at quite the same pace over the next decade as over the past decade, London should remain a major financial centre with this sector delivering a reasonable pace of expansion. In this sphere, we may not see the return of some wholesale market activities, but insurance, retail banking and basic fund management are well-placed to thrive.

More importantly still, to the extent that financial services do grow more slowly than previously, London's combination of available skills, capital, market access and flexibility should ensure that non-financial activities step up to fill the growth 'gap'. Information and communications technology, the creative industries, and environmentally-driven activities have all become increasingly important for London's economy in recent years. These sectors, and no doubt many others, certainly have the potential to thrive over the decade ahead.

Annex 1: UK regional data and forecasts

Oxford Economics maintains a databank of economic statistics covering the regions of the UK, and makes forecasts for these regions on a regular basis. This annex picks out a few key points from our latest work in this area, and sets out tables of data further below.

The recession: Between 2008 and 2010, for Greater London we expect average annual declines of 2.9% in employment, 2.3% in GDP (equivalent to 2.7% per head of population), and 0.3% in disposable income, equivalent to 0.9% per resident. In each case the decline is expected to be a little more intense in Greater London than across the UK as a whole, with Inner London affected to the same extent or slightly more than Greater London overall. The pattern of job losses reflects three factors: (1) Similar rates of job loss to the rest of the country in the non-financial sectors, including business services and production and construction where the fall is particularly marked. (2) The fact that financial services jobs are being lost at a faster-than-average rate across the country, combined with London's comparatively heavy reliance on that sector for jobs. (3) The fact that financial sector jobs are being shed at an even faster rate in London than across the country as a whole.

The previous thirty years: Over the 1978-88 decade London maintained its advantage over the rest of the country in terms of levels of income and output per head, but without further widening the gap. Overall GDP grew more slowly than across the country as a whole, as the capital's population shrank fractionally and employment failed to grow. Over the 1988-98 period, GDP rose at a slightly faster rate than in the UK as a whole due an improved productivity growth performance. Real disposable income per resident also increased a little more quickly than across the country as a whole, despite the return of population expansion.

But over the ten years to 2008 London really came into its own. Its population expanded by 0.8% per annum, ahead of the nation as a whole (Table 1). The population of working age grew to 68% of the total (Table 2), almost five percentage points higher than the national average. Employment grew by an average 1.1% a year, slightly ahead of the national average (Table 3), allowing the claimant count unemployment rate to drop to 2.8%, matching the national average having been above it previously (Table 4). GDP grew by 3.6% per annum, compared with 2.8% in the UK as a whole (Table 5). The rate of productivity growth improved further, with GVA per person employed growing by 2.4% a year (Table 7), outstripping the UK's average performance of 1.7%. Household disposable income grew by 2.9% a year (Table 8), equivalent to 2.2% per head of population, ahead of the UK total in both cases. As a result, by 2008 the level of output and income per head was well ahead of the UK as a whole.

The recovery phase: London's economy is expected to bounce back robustly between 2010 and 2012, with GDP growing by 3.8% per annum (Inner London: 4.2%) compared with 3.0% for the UK as a whole. This in turn will allow productivity and employment to both grow ahead of the economy-wide average, with the same true for disposable income, disposable income per resident and average earnings. Financial services are expected to rebound fairly robustly in terms of GVA, and by a little more than across the UK as whole. But even in this recovery phase the rate of growth will not match that achieved on average over the decade to 2008. And while employment in this sector will benefit, its level will still be more than 10% lower in 2012 than in 2008. London is though expected to enjoy a comparatively strong rebound across the rest of the private sector, in business services, other services, production and construction alike.

The medium-term: We expect London's economy to continue to grow at a robust pace throughout the rest of the next decade:

- Demographic factors will remain favourable with above-average population growth and a further rise in the proportion of the population of working age, to almost 70% (and above 73% in Inner London).
- Overall GDP will grow at an average 4.0% per annum (Inner London: 4.3%), a robust rate of growth by historical and national standards, comparable to the 3.6% (inner London: 4.2%) seen on average over the decade to 2008.
- Both employment and productivity will grow more quickly than across the rest of the UK, with unemployment on the claimant count measure returning to below the national average.
- Per head of population, both GDP and disposable income will grow somewhat more quickly than the national average, though average earnings will grow broadly in line with the mean.

Looking at sectors, financial services will build on the recovery in terms of GVA, but will not grow as rapidly as in the decade to 2008. Business services can be expected to grow broadly in line with the pace of growth achieved over that decade, and will consequently make a major net contribution to jobs growth in the capital. In both cases growth in these sectors will be a little ahead of the UK as a whole, and it is this which will continue to give London the edge. In other broad sectors growth will be on a par with the rest of the nation.

Table 1: Population													
	Level (000s)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	2700	3029	3067	3110	3334	-	-	1.2	0.6	0.7	0.9
Greater London	6946	6729	7066	7616	7690	7780	8292	-0.3	0.5	0.8	0.5	0.6	0.8
Total UK	56178	56916	58475	61372	62029	62719	65464	0.1	0.3	0.5	0.5	0.6	0.5

Table 2: Working age population														
	Level (000s)							As % total population						
	1978	1988	1998	2008	2010	2012	2020	1978	1988	1998	2008	2010	2012	2020
Inner London	-	-	1823	2175	2194	2233	2449	-	-	67.5	71.8	71.6	71.8	73.4
Greater London	4340	4384	4619	5180	5211	5292	5769	62.5	65.1	65.4	68.0	67.8	68.0	69.6
Total UK	34108	35757	36467	38846	39048	39478	40970	60.7	62.8	62.4	63.3	63.0	62.9	62.6

Table 3: Employment													
	Level (000s)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	2344	2745	2581	2634	2982	-	-	1.6	-3.0	1.0	1.6
Greater London	4280	4274	4235	4722	4451	4536	5069	0.0	-0.1	1.1	-2.9	1.0	1.4
Total UK	27077	27993	28712	31605	30171	30283	32507	0.3	0.3	1.0	-2.3	0.2	0.9

Table 4: Claimant count unemployment rate												
	% of workforce							% of workforce: period average				
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1989-1998*	1999-2008	2009-2011	2012-2020
Inner London*	-	-	6.9	3.3	6.3	5.8	4.6	-	10.7	4.3	5.9	4.9
Greater London	2.8	6.2	5.0	2.8	5.9	5.5	4.5	6.0	7.4	3.6	5.0	4.7
Total UK	4.0	7.4	4.5	2.8	6.1	5.8	5.0	7.8	7.0	3.2	5.2	5.2
* Data for Inner London start in 1991; the period average for that region is therefore 1991-98.												

Table 5: Gross value added													
	Level (£bn at 2003 prices)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	107	161	154	167	235	-	-	4.2	-2.3	4.2	4.3
Greater London	117	136	168	238	227	245	337	1.5	2.2	3.6	-2.3	3.8	4.0
Total UK	575	703	862	1126	1081	1147	1480	2.0	2.0	2.7	-2.0	3.0	3.2

Table 6: Gross value added per head of population													
	Level (£000 at 2003 prices)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	39.5	53.3	50.3	53.8	70.6	-	-	3.0	-2.9	3.5	3.4
Greater London	16.8	20.1	23.8	31.3	29.6	31.5	40.6	1.8	1.7	2.8	-2.7	3.2	3.2
Total UK	10.2	12.4	14.7	18.3	17.4	18.3	22.6	1.9	1.8	2.2	-2.5	2.4	2.7

Table 7: Gross value added per person employed													
	Level (£000 at 2003 prices)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	45.6	58.8	59.8	63.6	78.9	-	-	2.6	0.8	3.1	2.7
Greater London	27.2	31.7	39.6	50.4	51.1	54.1	66.4	1.5	2.2	2.4	0.7	2.9	2.6
Total UK	21.2	25.1	30.0	35.6	35.8	37.9	45.5	1.7	1.8	1.7	0.3	2.8	2.3

Table 8: Household disposable income													
	Level (£bn at 2003 prices)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	38.1	54.6	54.3	57.4	76.7	-	-	3.7	-0.3	2.9	3.7
Greater London	55.6	68.9	96.6	129.0	128.4	135.8	180.6	2.2	3.4	2.9	-0.3	2.8	3.6
Total UK	365.1	478.6	642.7	814.6	818.3	855.9	1084.9	2.7	3.0	2.4	0.2	2.3	3.0

Table 9: Household disposable income per head of population													
	Level (£000 at 2003 prices)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	14.1	18.0	17.7	18.5	23.0	-	-	2.5	-0.9	2.2	2.8
Greater London	8.0	10.2	13.7	16.9	16.7	17.5	21.8	2.5	2.9	2.2	-0.7	2.2	2.8
Total UK	6.5	8.4	11.0	13.3	13.2	13.6	16.6	2.6	2.7	1.9	-0.3	1.7	2.5

Table 10: Average earnings													
	Level (£000 not inflation-adjusted)							Average annual % change					
	1978	1988	1998	2008	2010	2012	2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	25.0	34.9	37.1	40.4	57.2	-	-	3.4	3.2	4.3	4.4
Greater London	3.2	8.8	23.8	33.8	35.9	39.0	55.4	10.7	10.4	3.5	3.1	4.3	4.5
Total UK	3.5	9.3	16.3	23.8	24.6	26.3	37.7	10.3	5.7	3.9	1.5	3.5	4.6

Table 11: Financial services: share in economy														
	GVA as % total (valued at 2003 prices)							Employment as % total						
	1978	1988	1998	2008	2010	2012	2020	1978	1988	1998	2008	2010	2012	2020
Inner London	-	-	18.2	25.9	25.7	26.9	30.0	-	-	11.0	10.8	9.8	10.0	10.4
Greater London	11.4	13.0	13.7	19.8	19.6	20.6	23.4	6.1	8.1	7.7	7.3	6.6	6.7	7.0
Total UK	5.5	6.1	6.7	9.1	9.5	9.8	11.4	3.0	4.0	3.8	3.5	3.4	3.3	3.4

Table 12: Business services: share in economy														
	GVA as % total (valued at 2003 prices)							Employment as % total						
	1978	1988	1998	2008	2010	2012	2020	1978	1988	1998	2008	2010	2012	2020
Inner London	-	-	27.5	31.0	30.8	31.1	33.4	-	-	25.9	30.7	30.2	30.7	34.1
Greater London	11.2	18.5	25.3	28.6	28.5	28.9	31.6	12.3	17.2	23.5	26.8	26.3	26.7	30.0
Total UK	7.5	12.1	15.7	20.3	20.2	20.9	23.9	7.9	10.8	14.2	17.7	17.3	17.7	20.2

Table 13: Public administration, education & health: share in economy														
	GVA as % total (valued at 2003 prices)							Employment as % total						
	1978	1988	1998	2008	2010	2012	2020	1978	1988	1998	2008	2010	2012	2020
Inner London	-	-	13.4	10.9	11.6	10.9	9.5	-	-	18.6	18.8	20.1	19.5	18.8
Greater London	26.2	20.4	15.4	13.2	14.1	13.3	11.8	22.6	23.3	19.4	20.6	21.9	21.3	20.8
Total UK	25.2	21.7	20.1	18.1	19.3	18.6	17.5	20.1	22.5	22.4	24.9	26.3	26.1	26.4

Table 14: All other services: share in economy														
	GVA as % total (valued at 2003 prices)							Employment as % total						
	1978	1988	1998	2008	2010	2012	2020	1978	1988	1998	2008	2010	2012	2020
Inner London	-	-	29.5	24.8	25.2	24.6	22.2	-	-	34.8	32.6	33.0	33.0	31.2
Greater London	26.8	28.3	30.5	28.3	28.7	28.1	26.1	34.5	34.1	36.3	35.6	35.8	35.8	34.1
Total UK	25.0	27.4	29.2	29.5	29.8	29.7	29.3	30.4	32.5	34.7	34.6	34.7	35.0	34.7

Table 15: Production & construction: share in economy														
	GVA as % total (valued at 2003 prices)							Employment as % total						
	1978	1988	1998	2008	2010	2012	2020	1978	1988	1998	2008	2010	2012	2020
Inner London	-	-	11.2	7.4	6.7	6.5	4.9	-	-	9.6	7.1	6.8	6.8	5.5
Greater London	24.4	19.8	15.0	10.0	9.1	9.0	7.0	24.5	17.2	13.1	9.7	9.3	9.4	8.0
Total UK	35.5	31.3	27.2	22.0	20.1	20.0	17.0	36.4	27.9	22.9	17.7	16.9	16.6	14.3

Table 16: Financial services: growth rates												
	GVA real annual % change						Employment annual % change					
	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	8.1	-2.8	6.7	5.9	-	-	1.3	-7.3	2.0	2.0
Greater London	2.8	3.0	7.6	-2.9	6.6	5.8	2.9	-0.5	0.5	-7.5	1.9	1.9
Total UK	3.2	3.1	6.1	-0.4	5.0	5.3	3.4	-0.1	0.2	-4.5	-0.2	1.2

Table 17: Business services: growth rates												
	GVA real annual % change						Employment annual % change					
	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	5.6	-2.7	4.9	5.4	-	-	3.3	-3.8	1.7	2.9
Greater London	6.69	5.73	5.0	-2.7	4.9	5.4	3.4	3.2	2.5	-3.9	1.7	2.9
Total UK	7.15	4.79	5.6	-2.4	4.7	5.1	3.5	3.1	3.3	-3.5	1.5	2.6

Table 18: Public administration, education & health: growth rates												
	GVA real annual % change						Employment annual % change					
	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	2.2	0.8	1.1	2.7	-	-	1.7	0.3	-0.4	1.1
Greater London	-1.03	-0.39	2.2	0.8	1.1	2.6	0.3	-1.8	1.7	0.3	-0.4	1.1
Total UK	0.63	1.30	1.8	1.0	1.3	2.6	1.4	0.3	2.1	0.5	-0.2	1.0

Table 19: All other services: growth rates												
	GVA real annual % change						Employment annual % change					
	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	2.6	-1.8	3.0	3.2	-	-	0.9	-2.5	1.0	0.9
Greater London	2.1	3.2	3.0	-1.9	3.1	3.2	-0.1	0.6	0.9	-2.6	1.0	0.8
Total UK	3.1	2.8	2.9	-1.7	2.9	3.2	1.0	1.0	1.0	-2.2	0.6	0.8

Table 20: Production & construction: growth rates												
	GVA real annual % change						Employment annual % change					
	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020	1978-1988	1988-1998	1998-2008	2008-2010	2010-2012	2012-2020
Inner London	-	-	0.1	-7.3	3.1	0.8	-	-	-1.4	-4.6	0.6	-1.1
Greater London	-0.6	-0.4	-0.3	-7.4	3.5	1.1	-3.5	-2.7	-1.9	-4.9	1.4	-0.6
Total UK	0.9	0.7	0.7	-6.5	2.9	1.2	-2.3	-1.6	-1.6	-4.5	-0.6	-1.0

Annex 2: European cities data and forecasts

In this Annex we compare the economic and demographic performance of **Inner London** with seven similarly-defined city-regions, namely Amsterdam, Frankfurt, Madrid, Milan, Paris, Stockholm and Zurich. (Note that the Inner London forecast is in essence consistent with the UK regional forecast at Annex 1. But differences in the timing of the work, as well as definitional and methodological issues, can cause apparent minor discrepancies between the two datasets.)

The present recession: Inner London is expected to suffer more than all of the comparators in terms of employment, with the total down by nearly 8% between 2008 and 2010, compared with 5½% in Madrid, 4% in Paris and 2% or less in the remaining five. Part of this story is simply that London is comparatively heavily reliant on financial services, where jobs are being shed at a faster-than-average rate everywhere. But in addition, London's particular exposure to global financial developments means that financial sector jobs are being shed at a faster rate – 17% over the two years – than in any of the comparators. Knock-on effects from the financial services contraction also mean sizeable job losses in business services (over 10%) and production and construction (10%) – the worst of the cities in the case of the former and third worst in the case of the latter.

Associated with this, GDP is expected to fall by over 5% over the two years, and GDP per head of population by almost 6%. That is not quite as bad as the falls projected for Frankfurt, Milan and Stockholm, but worse than those being seen in Amsterdam, Madrid, Paris and Zurich. The ILO unemployment rate is forecast to rise from 8.3% in 2008 to 13.0% in 2010 – the second worst record, behind Madrid, in terms of both percentage point increase and 2010 level. But such rapid labour-shedding will ensure that productivity rises in London and Madrid, in contrast to declines elsewhere.

Meanwhile, the largely 'automatic' response of taxes and benefits to the recession means that real personal disposable income can be expected to fall by less than GDP everywhere. In the case of London the drop over the two years is around ½%. But in four other cities – Amsterdam, Paris, Stockholm and Zurich – real disposable income is expected to rise.

The recent past: Over the period 1994-2008, London's resident population grew at an average annual rate of 1.1%, faster than in any of the comparator cities with the exception of Madrid (Table 1). The population of working age grew more rapidly still, to increase as a share of the total population from 65.7% – the lowest of the eight cities – to 70.4% – the highest (Table 2). London's employment increased by 1.6% a year, the third fastest increase behind Madrid and Amsterdam (Table 3). Excluding Madrid, average annual employment growth in the six other comparators was 1.1%. GDP in London grew at an average annual rate of 4.0%, higher than in any of the comparators with the exception of Madrid (Table 5). Average growth in the seven other cities was 2.6%. As a result, GDP per person employed grew by 2.4% per annum, just behind Stockholm but ahead of the other six cities (Table 7). Average annual productivity in the seven other cities was 1.1%.

In addition, over the six years to 2008 the real disposable income of London's resident households grew by 2.9% per annum, on a par with Madrid and ahead of the other six cities (Table 8). Average net income growth amongst the other seven cities was 1.6%. That equated to an average annual rise per head of population of 2.0%, faster than in any of the other cities (Table 9). Average net income growth per head across the other seven cities was 0.8%. Over the six previous years, Londoners' real personal disposable income had grown by an even more rapid 5.3% per annum (3.8% per head), in each case ahead of the other cities for which data are available (Amsterdam, Frankfurt, Paris and Stockholm). Tables 2 and 3 together also demonstrate Inner London's exceptional ability to attract workers not resident in the zone, to the extent that employment is greater than the resident population of working age. This is not the case for any of the seven comparator cities.

The unemployment picture painted here is however less flattering. On the broad International Labour Organisation (ILO) basis, the rate for Inner London residents fell from 9.4% in 1999 to 8.3% in 2008, but this still left it higher than in any of the comparators, aside from Madrid – where the rate had also been below London's for several years until a sharp jump in 2008.

In terms of industrial structure (Tables 10-19), London has benefited in two ways. Financial and business services accounted for a comparatively significant share of London's economy in the early-to-mid 1990s. As these sectors typically grew at an above-average rate across Europe over the subsequent decade and a half, there is a sense in which London benefited 'automatically'. But in addition, output of London's financial and business services grew at a more significant pace than in most other European cities, compounding the impact. More specifically:

- In 1994, financial services (Tables 10 and 15) accounted for 12.9% of the London economy's gross value added, making it a more important component of the economy than in any of the comparator cities with the exception of Zurich. Financial services output subsequently grew robustly in all of the cities bar Frankfurt, but increased most rapidly in London at 7.3% a year. By 2008, financial services accounted for 19.9% of London's value added, still behind Zurich's financial sector in terms of GVA share but well ahead of everywhere else. Employment growth in the sector was in line with the European city average, at 1.1% per annum, implying very rapid growth in value added per worker. The sector's share of total London employment edged down over the period, from 11.4% to 10.6%, though this share still remained higher than in any of the comparator cities.

- In 1994, business services[16] (Tables 11 and 16) accounted for 32.5% of the London economy's gross value added, making it a more important component of the economy than in any of the comparator cities except Paris. Business services output subsequently grew at an above-average rate across the zone as a whole (compared with total GVA), but was fastest in London at 5.3% per annum. By 2008, business services accounted for 38.5% of London's value added, just ahead of Paris and well ahead of the other six cities. Business services employment grew by a robust 3.8% per annum over the period, taking its share of total London employment up from 22.4% to 30.4%. Even so, this rate of employment growth was below the average for the other cities, implying above-average productivity growth for London in this sector.

[16] 'Business services' here comprise real estate activities, renting of machinery, equipment and household goods, computer and related activities, research and development, and an array of other activities such as accountancy, legal work, consultancy and other professional services.

- Other private sector-type services[17] (Tables 13 and 18) accounted for 27.0% of London's GVA in 1994, marginally below the average of the other cities. This value grew at a reasonably robust 3.2% per annum over the subsequent 14 years (other cities' average: 3.0%), but nevertheless edged down as a share of London's total GVA, whereas the average for the other cities edged up from 26.6% to 28.3%. Employment in these services grew by 1.3% per annum to edge down as a share of total employment from 34.6% to 32.8%. A very similar pattern is seen on average across the other cities, although there were notable variations between them, with employment growth rates ranging from -0.2% in Paris to 4.7% in Madrid, and 2008 employment shares varying from 17.5% in Paris to 42.5% in Madrid.

- By contrast, production and construction taken together (tables 14 and 19) accounted for a smaller share of London's economy in 1994 than in any of the comparator cities, at 12.6% of GVA and 10.4% of jobs. These sectors' GVA subsequently grew comparatively slowly across the board, with the exception of Stockholm and Madrid, with employment flat or falling outside of those two cities. By 2008 these sectors accounted for just 7.4% of London's GVA, and 7.1% of jobs, to remain much less significant than in the comparator cities.

- Employment in public administration, education and health (Tables 12 and 17) accounted for 21.1% of total London jobs in 1994, well below Paris and Stockholm and just below Amsterdam and Madrid, but just above Frankfurt and Zurich and clearly above Milan. It was subsequently broadly flat through to 2001, but then grew by an annual average of 1.9% over the following seven years. But at 0.9%, average annual growth for the whole period 1994-2008 was below the average of 1.6% for the other cities. It allowed the sector's share of London's total employment to fall to 19.1%, on a par with Frankfurt and lower than in all the other cities bar Milan. At the same time the sector's GVA increased by an average 1.2% per annum in real terms, implying only very modest productivity growth. But productivity growth in this sector was also broadly flat in Madrid and Milan, and fell in Paris, Amsterdam and Zurich. Measured in constant 2000 prices, the sector's share of London GVA fell from 14.9% to 10.2%, the lowest share amongst the eight. The average share of public services in GVA in the other cities fell from 16.6% to 14.1% in that time.

The recovery phase: Inner London is expected to enjoy average annual GDP growth of 3.4% between 2010 and 2012 in this forecast. This is faster than in five of the seven comparators (the exceptions being Stockholm and Frankfurt). Employment is expected to respond with a mid-ranking 1.0% annual growth, but this is seen as sufficient to push the unemployment rate back down to 11.4% from 13.0% – a drop of 1.6 percentage points which is larger than anywhere else except Madrid. But London's unemployment rate would be the highest of the eight cities in that year on this basis. Household disposable income is expected to grow by 2.1% per annum over the two years (1.4% per head), as the fiscal 'cushioning' seen in the downturn goes into reverse. Nevertheless this growth is the third fastest of the eight cities.

[17] Services other than financial, business, public administration, education and health. This includes distribution and retail, hotels and catering, transport and communication, and the 'other services' classification including sanitation, leisure activities and membership organisations.

In terms of the sector split for value added, financial services are expected to bounce back more strongly in London than anywhere else, at 6.2% per annum, although this growth is not seen as being particularly jobs-rich in comparison with the other cities. Amongst the other four broad sectors, London's growth performance is more mid-ranking, with the exception of public administration, education and health, where London is the only one of the eight cities to see a fall in both output and jobs (although Frankfurt and Milan are expected to see job cuts in these public sector-type services alongside continued output increases).

The medium term: Inner London's GDP is expected to grow by around 4% a year between 2012 and 2020, broadly in line with its achievement over the 14 years to 2008. That is equivalent to 2.4% per person employed. On both measures this is the fastest rate of growth amongst the comparators. The level of productivity (as measured by GDP per person employed at 2000 euro prices) will remain higher than in any of the other cities by a considerable margin – some 30% in the case of Stockholm which will remain in 'second place' on this basis of calculation.

Real disposable income is expected to grow at an annual average rate of 3.5%, again the fastest of the group. This is equivalent to 2.6% per head of population, which is the second fastest after Stockholm. Employment is also expected to grow faster than anywhere else, at 1.5% per annum. That would be sufficient to push unemployment down to 9.1% of the resident workforce – still the highest of the group but closing some of gap with all of the other cities bar Madrid.

Table 1: Population

	Level (000s)						Average annual % change				
	1984	1994	2008	2010	2012	2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	2524	2614	3032	3058	3097	3321	0.4	1.1	0.4	0.6	0.9
Amsterdam	-	2464	2636	2666	2695	2828	-	0.5	0.6	0.5	0.6
Frankfurt	-	3670	3782	3793	3803	3839	-	0.2	0.1	0.1	0.1
Madrid	-	5039	6180	6244	6266	6241	-	1.5	0.5	0.2	0.0
Milan	-	8876	9650	9715	9747	9757	-	0.6	0.3	0.2	0.0
Paris	-	10859	11674	11771	11861	12162	-	0.5	0.4	0.4	0.3
Stockholm	-	1709	1953	1979	2015	2109	-	1.0	0.7	0.9	0.6
Zurich	-	1170	1321	1342	1362	1419	-	0.9	0.8	0.7	0.5

Table 2: Working age population

	Level (000s)						As % of total population					
	1984	1994	2008	2010	2012	2020	1984	1994	2008	2010	2012	2020
London	1627	1717	2134	2144	2178	2392	64.5	65.7	70.4	70.1	70.3	72.0
Amsterdam	-	1704	1799	1814	1809	1860	-	69.2	68.2	68.0	67.1	65.8
Frankfurt	-	2567	2518	2520	2522	2475	-	69.9	66.6	66.4	66.3	64.5
Madrid	-	3553	4300	4298	4265	4168	-	70.5	69.6	68.8	68.1	66.8
Milan	-	6331	6368	6379	6331	6258	-	71.3	66.0	65.7	65.0	64.1
Paris	-	7430	7874	7898	7896	7937	-	68.4	67.4	67.1	66.6	65.3
Stockholm	-	1132	1318	1323	1330	1359	-	66.2	67.5	66.8	66.0	64.4
Zurich	-	811	912	922	931	952	-	69.3	69.0	68.7	68.4	67.1

Table 3: Employment

	Level (000s)						Average annual % change				
	1984	1994	2008	2010	2012	2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	2366	2211	2765	2551	2604	2923	-0.7	1.6	-3.9	1.0	1.5
Amsterdam	-	1243	1592	1559	1582	1717	-	1.8	-1.0	0.7	1.0
Frankfurt	-	1886	2045	2006	2077	2110	-	0.6	-1.0	1.8	0.2
Madrid	1521	1946	3325	3139	3401	3770	2.5	3.9	-2.8	4.1	1.3
Milan	3700	4004	4740	4688	4680	4755	0.8	1.2	-0.6	-0.1	0.2
Paris	4980	5114	5797	5567	5732	6062	0.3	0.9	-2.0	1.5	0.7
Stockholm	-	944	1109	1105	1187	1241	-	1.2	-0.2	3.6	0.6
Zurich	-	735	860	844	853	868	-	1.1	-0.9	0.5	0.2

Table 4: ILO unemployment rate

	% of workforce					% of workforce: average		
	1999*	2008	2010	2012	2020	1999-2008*	2009-2011	2012-2020
London	9.4	8.3	13.0	11.4	9.1	8.9	12.0	9.3
Amsterdam	3.7	2.5	6.0	5.8	3.9	3.4	5.4	4.3
Frankfurt	6.9	6.0	7.8	7.5	5.5	6.6	7.4	6.0
Madrid	13.0	8.8	15.3	10.8	3.7	8.2	14.4	5.6
Milan	4.8	3.7	5.4	4.8	3.4	3.9	5.2	3.8
Paris	10.5	7.6	10.7	9.5	7.4	8.6	10.1	7.8
Stockholm	3.9	5.6	8.2	6.7	6.1	4.9	7.7	6.2
Zurich*	3.7	3.4	6.0	4.3	3.6	4.1	5.4	3.7

*Zurich: 2002 and 2002-2008

Table 5: Gross domestic product

	Level (€bn at 2000 prices)						Average annual % change				
	1984	1994	2008	2010	2012	2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	132.1	160.1	278.2	264.1	282.3	383.7	1.9	4.0	-2.6	3.4	3.9
Amsterdam	-	60.0	92.3	88.7	93.0	115.3	-	3.1	-2.0	2.4	2.7
Frankfurt	-	110.8	137.8	127.3	136.4	161.0	-	1.6	-3.9	3.5	2.1
Madrid	60.7	81.9	145.0	139.2	146.1	181.5	3.0	4.2	-2.0	2.5	2.7
Milan	167.0	220.2	265.9	250.8	264.2	306.6	2.8	1.4	-2.9	2.6	1.9
Paris	289.1	350.1	461.8	442.1	462.4	550.8	1.9	2.0	-2.2	2.3	2.2
Stockholm	-	56.4	94.5	89.6	99.7	125.4	-	3.8	-2.7	5.5	2.9
Zurich	-	47.1	64.4	62.3	64.9	75.6	-	2.3	-1.6	2.1	1.9

Table 6: Gross domestic product per head of population

	Level (€000 at 2000 prices)						Average annual % change				
	1984	1994	2008	2010	2012	2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	52.3	61.2	91.7	86.4	91.1	115.5	1.6	2.9	-3.0	2.7	3.0
Amsterdam	-	24.4	35.0	33.3	34.5	40.8	-	2.6	-2.6	1.8	2.1
Frankfurt	-	30.2	36.4	33.6	35.9	41.9	-	1.4	-4.0	3.4	2.0
Madrid	-	16.2	23.5	22.3	23.3	29.1	-	2.7	-2.5	2.3	2.8
Milan	-	24.8	27.6	25.8	27.1	31.4	-	0.8	-3.2	2.5	1.9
Paris	-	32.2	39.6	37.6	39.0	45.3	-	1.5	-2.6	1.9	1.9
Stockholm	-	33.0	48.4	45.3	49.5	59.4	-	2.8	-3.3	4.6	2.3
Zurich	-	40.3	48.7	46.4	47.7	53.3	-	1.4	-2.4	1.3	1.4

Table 7: Gross domestic per person employed

	Level (€000 at 2000 prices)						Average annual % change				
	1984	1994	2008	2010	2012	2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	55.8	72.4	100.6	103.5	108.4	131.3	2.6	2.4	1.4	2.3	2.4
Amsterdam	-	48.3	58.0	56.9	58.8	67.1	-	1.3	-1.0	1.7	1.7
Frankfurt	-	58.7	67.4	63.5	65.7	76.3	-	1.0	-2.9	1.7	1.9
Madrid	39.9	42.1	43.6	44.3	43.0	48.1	0.5	0.3	0.8	-1.6	1.4
Milan	45.1	55.0	56.1	53.5	56.5	64.5	2.0	0.1	-2.3	2.7	1.7
Paris	58.1	68.5	79.7	79.4	80.7	90.9	1.7	1.1	-0.2	0.8	1.5
Stockholm	-	59.8	85.2	81.0	84.0	101.0	-	2.6	-2.5	1.8	2.3
Zurich	-	64.1	74.8	73.8	76.1	87.1	-	1.1	-0.7	1.5	1.7

Table 8: Household disposable income

	Level (€bn at 2000 prices)						Average annual % change				
	1996	2002	2008	2010	2012	2020	1996-2002	2002-2008	2008-2010	2010-2012	2012-2020
London	53.6	73.0	86.5	86.0	89.6	117.6	5.3	2.9	-0.3	2.1	3.5
Amsterdam	34.1	41.4	42.6	43.2	44.3	54.8	3.3	0.5	0.8	1.2	2.7
Frankfurt	61.5	67.3	69.8	69.2	70.8	81.6	1.5	0.6	-0.4	1.1	1.8
Madrid	-	73.0	86.8	86.7	88.8	107.2	-	2.9	-0.1	1.2	2.4
Milan	-	156.3	162.2	157.2	164.1	183.0	-	0.6	-1.6	2.2	1.4
Paris	184.1	222.5	237.8	243.3	248.4	285.6	3.2	1.1	1.2	1.0	1.8
Stockholm	27.7	36.5	42.2	43.4	46.0	60.0	4.7	2.4	1.5	2.9	3.4
Zurich	-	30.4	35.8	36.3	37.8	43.7	-	2.8	0.7	2.0	1.9

Table 9: Household disposable income per head of population											
	Level (€000 at 2000 prices)						Average annual % change				
	1996	2002	2008	2010	2012	2020	1996-2002	2002-2008	2008-2010	2010-2012	2012-2020
London	20.2	25.3	28.5	28.1	28.9	35.4	3.8	2.0	-0.7	1.4	2.6
Amsterdam	13.8	16.1	16.2	16.2	16.4	19.4	2.6	0.1	0.2	0.7	2.1
Frankfurt	16.6	17.9	18.5	18.3	18.6	21.3	1.2	0.5	-0.6	1.0	1.7
Madrid	-	13.1	14.0	13.9	14.2	17.2	-	1.2	-0.6	1.0	2.4
Milan	-	17.2	16.8	16.2	16.8	18.8	-	-0.3	-1.9	2.0	1.4
Paris	16.9	19.8	20.4	20.7	20.9	23.5	2.7	0.5	0.7	0.6	1.4
Stockholm	15.9	19.7	21.6	21.9	22.8	28.4	3.7	1.5	0.8	2.0	2.8
Zurich	-	24.5	27.1	27.1	27.7	30.8	-	1.7	-0.1	1.2	1.3

0.8

Table 10: Financial services: shares in economy												
	Gross value added as % total (at 2000 prices)						Employment as % of total					
	1984	1994	2008	2010	2012	2020	1984	1994	2008	2010	2012	2020
London	10.9	12.9	19.9	19.4	20.5	23.1	9.3	11.4	10.6	9.6	9.7	10.1
Amsterdam	-	10.3	12.5	11.9	11.9	12.3	-	5.8	5.5	5.2	5.2	5.3
Frankfurt	-	8.2	7.5	6.8	6.8	7.3	-	6.4	5.9	5.2	5.2	5.9
Madrid	7.6	6.5	8.9	8.9	9.0	10.0	4.5	4.2	2.7	2.6	2.6	2.6
Milan	4.9	5.3	7.1	7.2	7.3	8.3	3.3	3.5	3.1	3.0	3.1	3.4
Paris	8.7	7.8	8.9	8.8	8.8	8.8	5.7	5.6	5.6	5.5	5.5	5.5
Stockholm	-	8.2	10.3	9.7	9.6	10.3	-	4.2	5.0	4.5	4.4	4.5
Zurich	-	17.6	24.8	24.1	24.8	27.4	-	9.5	10.0	9.4	9.5	9.7

Table 11: Business services: shares in economy												
	Gross value added as % total (at 2000 prices)						Employment as % of total					
	1984	1994	2008	2010	2012	2020	1984	1994	2008	2010	2012	2020
London	29.9	32.5	38.5	38.3	38.4	42.4	16.3	22.4	30.4	29.6	29.4	33.0
Amsterdam	-	20.7	22.4	22.9	23.2	24.1	-	14.5	22.3	23.2	24.0	27.0
Frankfurt	-	27.4	31.7	30.1	31.2	34.6	-	12.0	21.6	20.3	21.9	28.3
Madrid	16.4	18.6	20.3	20.0	19.8	19.3	6.0	11.0	15.8	15.4	15.6	16.7
Milan	18.7	19.7	21.2	21.4	21.9	23.9	4.8	8.3	14.4	14.5	15.3	19.6
Paris	31.5	34.2	37.8	38.7	39.1	41.2	13.7	19.5	24.4	25.1	25.7	29.3
Stockholm	-	27.8	27.0	25.8	25.9	28.1	-	13.4	19.5	18.4	18.8	23.3
Zurich	-	14.5	13.3	13.2	13.3	13.9	-	11.6	16.7	16.9	17.3	18.9

Table 12: Public administration, education & health: shares in economy												
	Gross value added as % total (at 2000 prices)						Employment as % of total					
	1984	1994	2008	2010	2012	2020	1984	1994	2008	2010	2012	2020
London	19.2	14.9	10.2	10.9	10.1	8.2	23.5	21.1	19.1	20.6	20.3	19.3
Amsterdam	-	20.9	15.8	16.5	16.0	14.5	-	22.5	22.5	22.7	22.6	22.6
Frankfurt	-	12.3	12.6	14.5	13.8	12.4	-	18.0	19.1	20.6	19.6	17.4
Madrid	18.6	18.2	15.8	17.4	17.3	15.5	18.6	22.2	19.6	21.0	20.7	19.1
Milan	11.8	10.9	10.3	11.3	10.9	10.0	12.8	13.8	13.5	14.0	13.8	12.1
Paris	18.0	17.8	14.5	15.2	14.8	13.2	29.0	34.9	38.7	39.5	40.0	42.9
Stockholm	-	21.3	15.6	17.9	17.5	15.9	-	30.9	27.4	29.3	29.1	27.2
Zurich	-	15.0	14.0	14.8	14.5	13.2	-	17.3	20.4	21.5	21.5	21.3

Table 13: All other services: shares in economy

	Gross value added as % total (at 2000 prices)						Employment as % of total					
	1984	1994	2008	2010	2012	2020	1984	1994	2008	2010	2012	2020
London	24.4	27.0	24.1	24.4	24.1	20.9	35.3	34.6	32.8	33.3	33.7	31.8
Amsterdam	-	28.6	34.4	34.3	34.5	36.2	-	39.2	36.5	36.0	35.6	34.4
Frankfurt	-	24.4	25.8	27.9	27.5	27.8	-	33.2	33.1	33.7	33.4	32.7
Madrid	32.9	31.8	33.9	34.9	34.6	37.2	42.6	38.3	42.5	42.7	42.4	44.3
Milan	26.9	26.1	26.3	27.3	26.8	26.2	29.7	31.5	32.8	33.0	32.6	32.1
Paris	19.8	21.4	24.1	24.5	24.5	25.4	23.9	20.3	17.5	17.5	16.7	12.7
Stockholm	-	27.0	26.7	28.1	27.5	26.9	-	34.3	32.8	33.2	32.4	30.5
Zurich	-	27.2	27.0	27.7	27.6	27.4	-	36.4	33.5	33.6	33.4	32.9

Table 14: Production & construction: shares in economy

	Gross value added as % total (valued at 2000 prices)						Employment as % of total					
	1984	1994	2008	2010	2012	2020	1984	1994	2008	2010	2012	2020
London	15.5	12.6	7.4	6.9	6.8	5.5	15.5	10.4	7.1	6.9	6.9	5.8
Amsterdam	-	17.9	13.6	13.1	13.1	11.6	-	15.8	11.6	11.2	11.1	9.3
Frankfurt	-	27.3	22.0	20.1	20.3	17.4	-	29.1	19.5	19.2	18.9	15.0
Madrid	24.4	24.6	20.9	18.6	19.1	17.8	26.9	23.4	18.9	17.8	18.3	17.0
Milan	36.4	36.5	33.6	31.2	31.6	30.1	46.7	41.0	34.6	33.8	33.6	31.5
Paris	21.8	18.6	14.5	12.8	12.7	11.3	27.1	19.3	13.5	12.1	11.8	9.4
Stockholm	-	15.6	20.1	18.1	19.2	18.4	-	16.7	14.9	14.2	14.9	14.0
Zurich	-	25.1	20.3	19.5	19.1	17.5	-	23.6	17.3	16.6	16.3	15.0

Table 15: Financial services: growth rates

	Gross value added real annual % change					Employment annual % change				
	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	3.5	7.3	-3.7	6.2	5.3	1.3	1.1	-8.9	2.0	1.9
Amsterdam	-	4.5	-4.3	2.6	3.2	-	1.4	-3.8	0.6	1.3
Frankfurt	-	1.1	-8.3	3.2	3.1	-	0.0	-6.9	2.2	1.7
Madrid	1.7	6.3	-2.0	3.3	4.1	1.7	0.8	-4.9	3.8	1.4
Milan	3.6	3.5	-2.6	3.3	3.7	1.5	0.4	-2.1	0.9	1.4
Paris	0.7	2.9	-2.8	2.4	2.4	-0.1	1.0	-3.2	1.5	0.7
Stockholm	-	5.5	-5.3	4.7	3.9	-	2.4	-4.7	2.2	1.0
Zurich	-	4.7	-2.9	3.5	3.2	-	1.5	-4.2	1.3	0.5

Table 16: Business services: growth rates

	Gross value added real annual % change					Employment annual % change				
	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	2.7	5.3	-2.8	3.5	5.1	2.6	3.8	-5.2	0.6	2.9
Amsterdam	-	3.7	-0.9	3.1	3.3	-	5.0	0.9	2.4	2.6
Frankfurt	-	2.8	-6.3	5.4	3.5	-	4.8	-3.9	5.8	3.4
Madrid	4.5	4.7	-2.8	2.0	2.5	8.9	6.6	-3.9	4.6	2.2
Milan	3.3	1.9	-2.5	3.9	3.0	6.4	5.3	-0.3	2.5	3.4
Paris	2.7	2.6	-0.8	2.9	3.0	3.9	2.5	-0.7	2.8	2.4
Stockholm	-	3.6	-4.9	5.6	4.1	-	3.9	-3.2	4.8	3.3
Zurich	-	1.6	-2.1	2.7	2.5	-	3.8	-0.5	1.9	1.3

Table 17: Public administration, education & health: growth rates

	Gross value added real annual % change					Employment annual % change				
	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	-0.8	1.2	0.9	-0.5	1.0	-1.8	0.9	-0.2	0.3	0.8
Amsterdam	-	1.1	-0.1	1.0	1.5	-	1.8	-0.5	0.5	1.0
Frankfurt	-	1.9	3.4	0.8	0.8	-	1.0	2.8	-0.7	-1.3
Madrid	3.0	2.9	2.8	2.1	1.4	4.3	3.0	0.6	3.3	0.3
Milan	2.0	0.9	1.8	0.9	0.8	1.5	1.0	1.3	-0.8	-1.4
Paris	1.7	0.4	0.2	1.1	0.9	2.1	1.7	-1.0	2.1	1.6
Stockholm	-	1.5	4.0	4.4	1.7	-	0.3	3.1	3.4	-0.3
Zurich	-	1.7	1.3	0.9	0.8	-	2.3	1.8	0.4	0.1

Table 18: All other services: growth rates

	Gross value added real annual % change					Employment annual % change				
	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	2.8	3.2	-2.0	2.6	2.0	-0.9	1.2	-3.1	1.7	0.7
Amsterdam	-	4.5	-2.2	2.8	3.4	-	1.3	-1.7	0.2	0.6
Frankfurt	-	2.1	0.0	2.8	2.3	-	0.5	0.1	1.2	-0.1
Madrid	2.9	4.5	-0.5	2.2	3.7	1.4	4.7	-2.6	3.7	1.8
Milan	2.5	1.4	-1.1	1.7	1.6	1.4	1.5	-0.2	-0.7	0.0
Paris	2.6	2.7	-1.2	2.5	2.8	-1.3	-0.2	-1.9	-0.9	-2.7
Stockholm	-	3.7	-0.3	4.4	2.7	-	0.8	0.4	2.4	-0.2
Zurich	-	2.1	-0.4	2.0	1.8	-	0.5	-0.8	0.2	0.0

Table 19: Production & construction: growth rates

	Gross value added real annual % change					Employment annual % change				
	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020	1984-1994	1994-2008	2008-2010	2010-2012	2012-2020
London	-0.3	0.2	-5.6	2.5	1.0	-4.5	-1.2	-5.0	0.6	-0.6
Amsterdam	-	1.1	-3.8	2.4	1.3	-	-0.4	-2.8	0.1	-1.2
Frankfurt	-	0.2	-8.0	3.9	0.2	-	-2.3	-1.9	1.1	-2.7
Madrid	3.3	2.8	-7.4	3.7	1.9	1.1	2.3	-5.9	5.5	0.4
Milan	2.8	0.8	-6.5	3.3	1.3	-0.5	0.0	-1.6	-0.3	-0.6
Paris	0.2	0.0	-8.0	2.3	0.8	-3.1	-1.6	-7.0	0.2	-2.1
Stockholm	-	5.7	-7.6	8.7	2.4	-	0.3	-2.4	6.1	-0.2
Zurich	-	0.7	-3.5	0.9	0.8	-	-1.1	-3.1	-0.4	-0.8

OXFORD ECONOMICS

savills

OXFORD ECONOMICS
121 ST ALDATES
OXFORD OX1 1HB

t: 01865 268 900
f: 01865 268 906

oxfordeconomics.com

SAVILLS
20 GROSVENOR HILL
LONDON W1K 3HQ

t: 020 7499 8644
f: 020 7495 3773

savills.com