

Growth and slump in the US and EU – what are the effects on a globalised London economy?

Presentation to the LSE London Seminar
by

Saxon Brettell

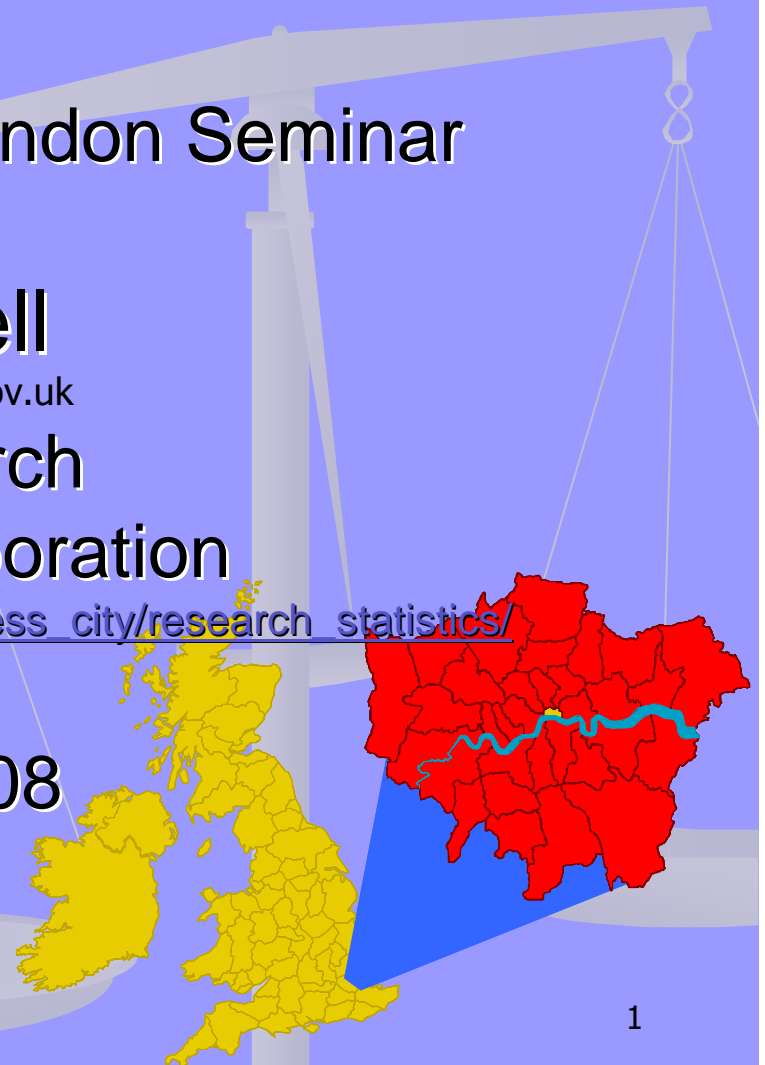
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Content

- 5 questions asked
- A review of the evidence on London's advantages as a place to do (financial) business
- Some comparative EU/US analysis of convergence and volatility
- Lessons for London
- 5 questions answered



Two short term 'global' questions

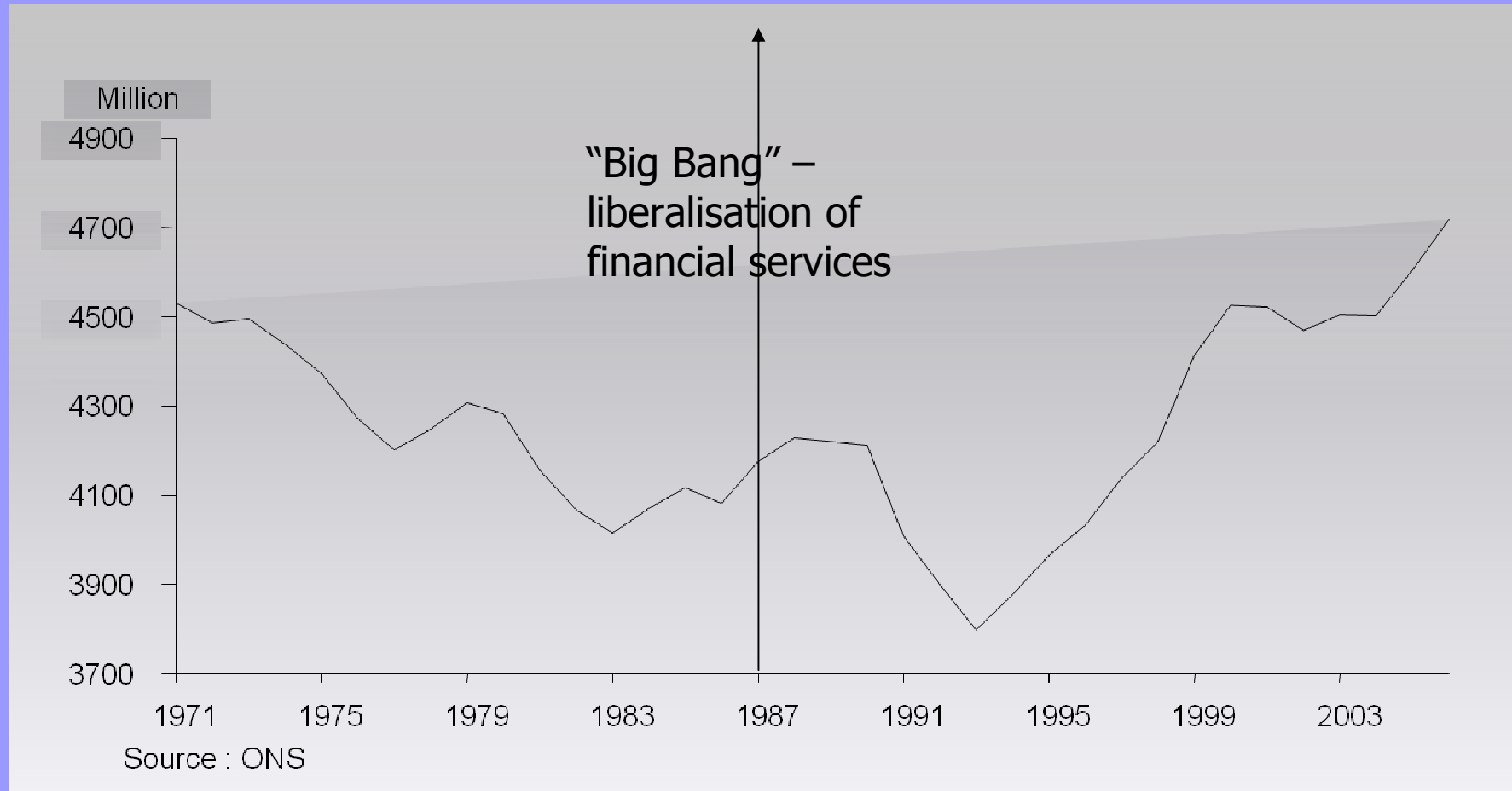
- Is the balance of risk of slowing growth in the US versus recession tipping towards recession this year?
- Is the global re-pricing of risk a permanent step change?



The developing global role of London – 3 long term ‘local’ questions

- Will London’s agglomeration advantages last?
- Are the better yields from more integrated markets bringing a higher responsiveness to global shocks for London?
- Will public and private initiatives be concerted to ensure the competitive ‘offer’ of London as a global financial centre is sustained?

Employment has been returning to London with liberalisation



.. and London's relative role in building *economic* value has increased rapidly

- accounts for 19% of UK gross value added but just 12% of the UK's population
- directly contributes between £83bn and £90bn to the UK Exchequer
 - close to 1/5 of all UK tax revenues
 - increased by over a 1/3 in the last six years
 - the net contribution is between £7bn and £18bn

*Oxford Economics estimates for 2006/7

What market practitioners say makes London a globally competitive financial centre

- 1 Availability of Skilled Personnel**
- 2 Regulatory Environment**
- 3 Access to International Financial Markets**
- 4 Availability of Business Infrastructure**
- 5 Access to Customers**
- 6 A Fair and Just Business Environment**
- 7 Government Responsiveness**
- 8 Corporate Tax Regime**
- 9 Operational Costs**
- 10 Access to Suppliers of Professional Services**
- 11 Quality of Life**
- 12 Cultural & Language**
- 13 Quality / Availability of Commercial Property**
- 14 Personal Tax Regime**

Source: Z/Yen / City of London Corporation, Nov 2005

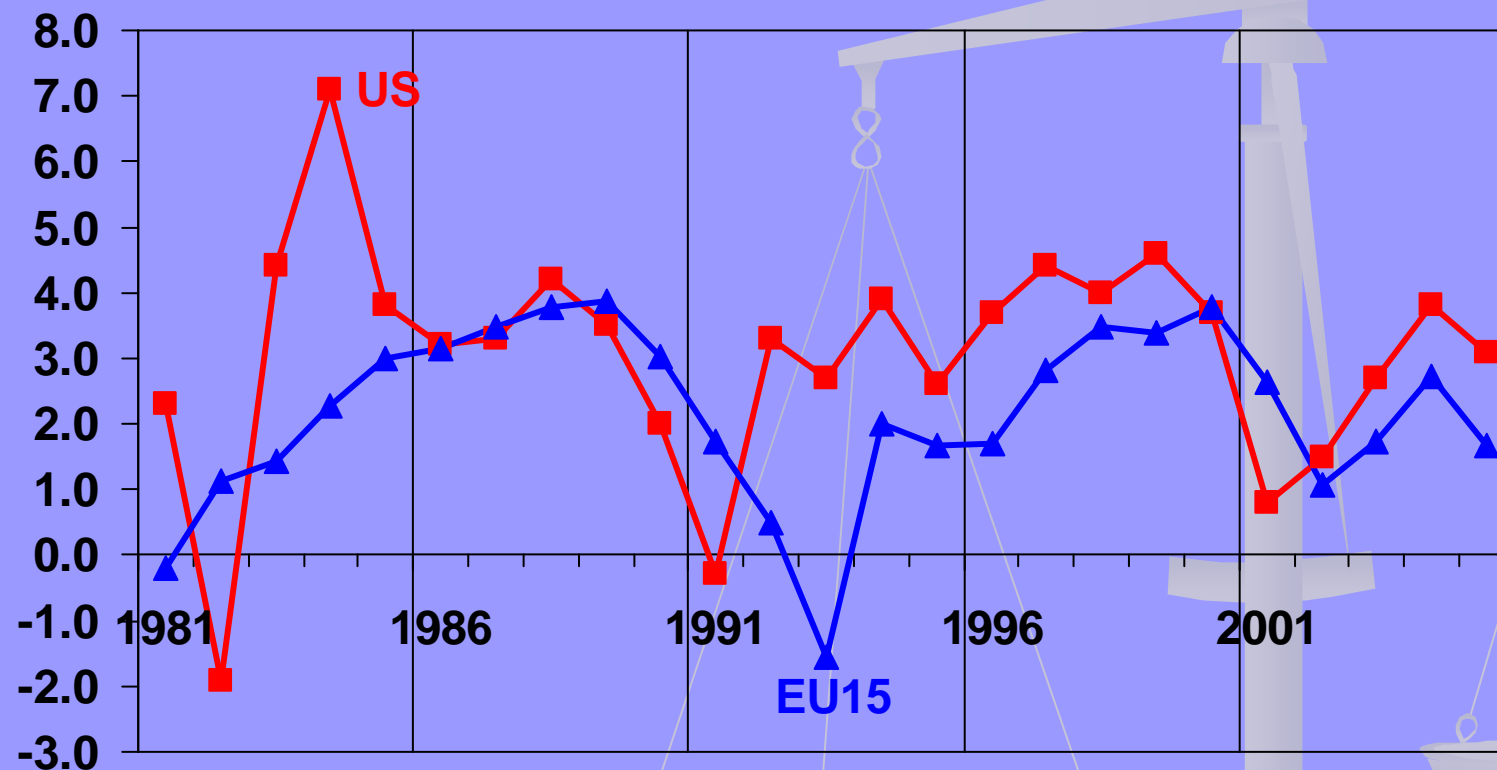
A GFCI Index – London is ‘top of the league’ in financial centres

Financial Centre	Rank Sept 2007	Rating (cf with 6 months before)
London	1	806 (+21)
New York	2	787 (+9)
Hong Kong	3	697 (+7)
Singapore	4	673 (+7)
Zurich	5	666 (+6)
Frankfurt	6	649 (+1)
Geneva	7 (+3)	645 (+12)
Chicago	8	639 (+1)
Sydney	9 (-2)	636 (- 4)
Tokyo	10 (-1)	625 (- 9)

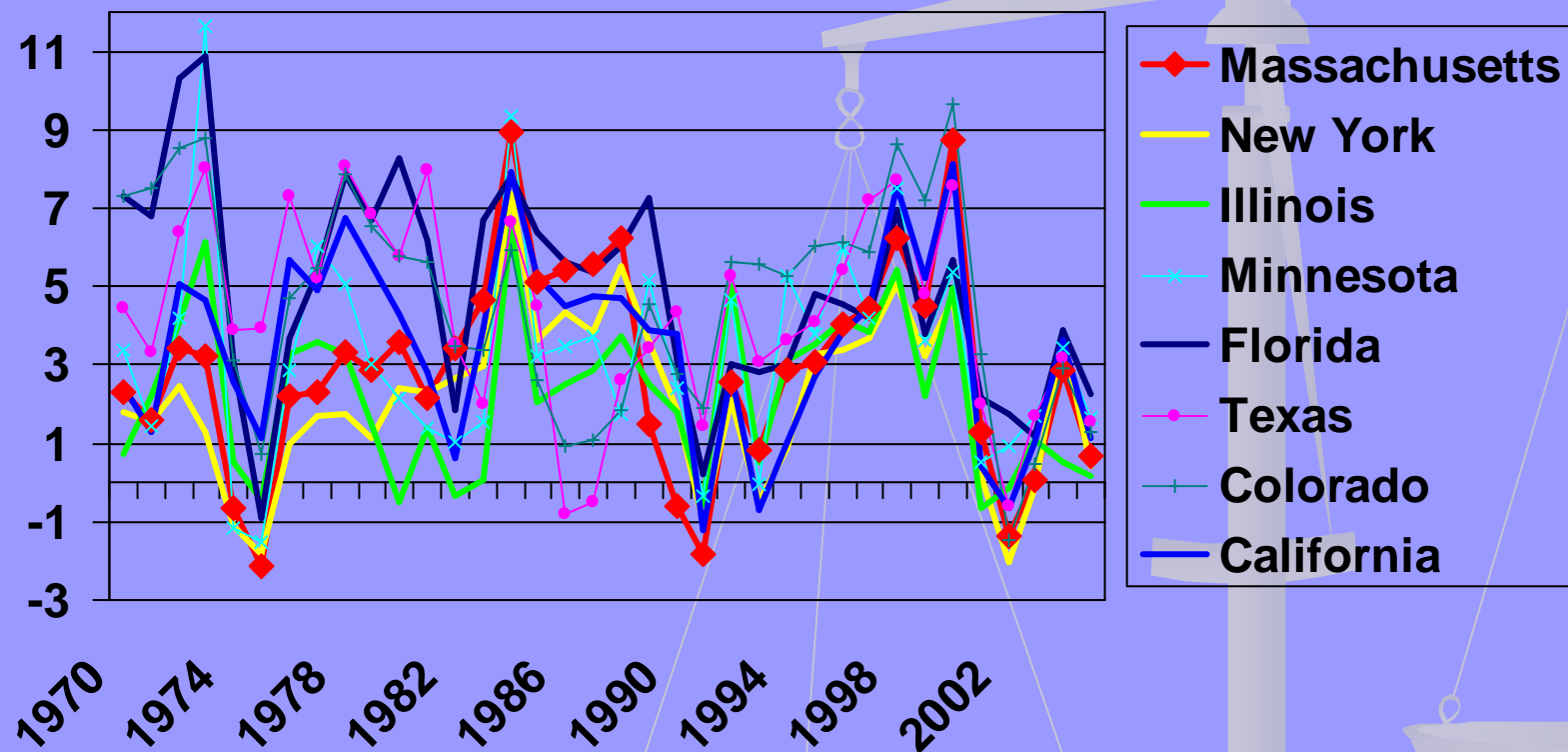
Lessons from the GFCl surveys?

- London agglomeration economies need to be supported:
 - access to basic services, skilled people, a legal framework, proportionate regulation and market financial infrastructure crucial
 - transport issues – must deal with “Heathrow hassle”, congested within and without London transport systems
 - taxation, both corporate and personal, needs to be more predictable and proportionate – law of unforeseen consequences could mean effects on PE, SWFs, HFs, individuals
 - immigration – welcome plus quality public services, housing and the associated local government finances needed to sustain growth

The NICE 'decade' - Real GDP growth in the US and EU



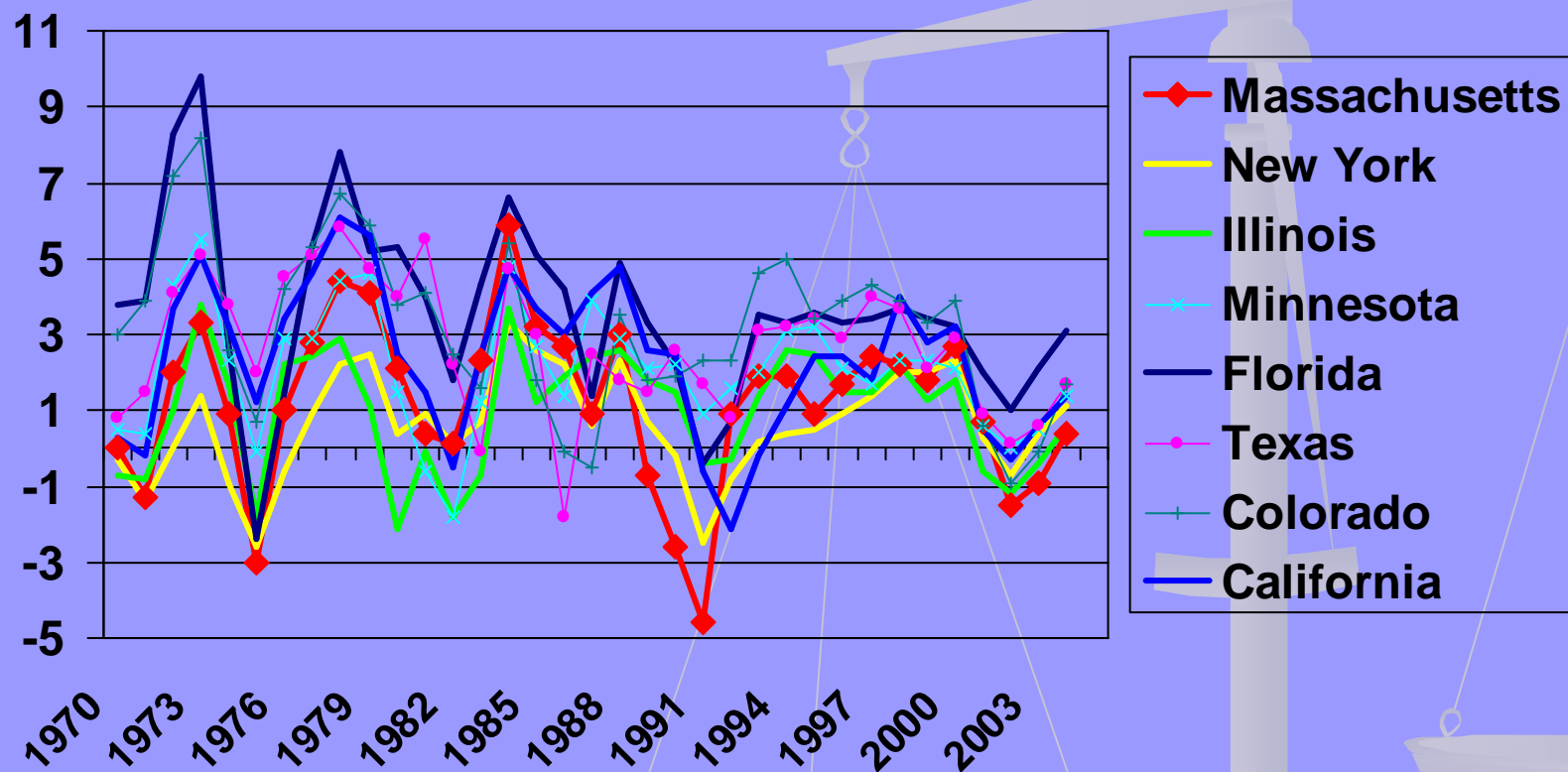
Lessons from the US – a high income growth volatility of US states..



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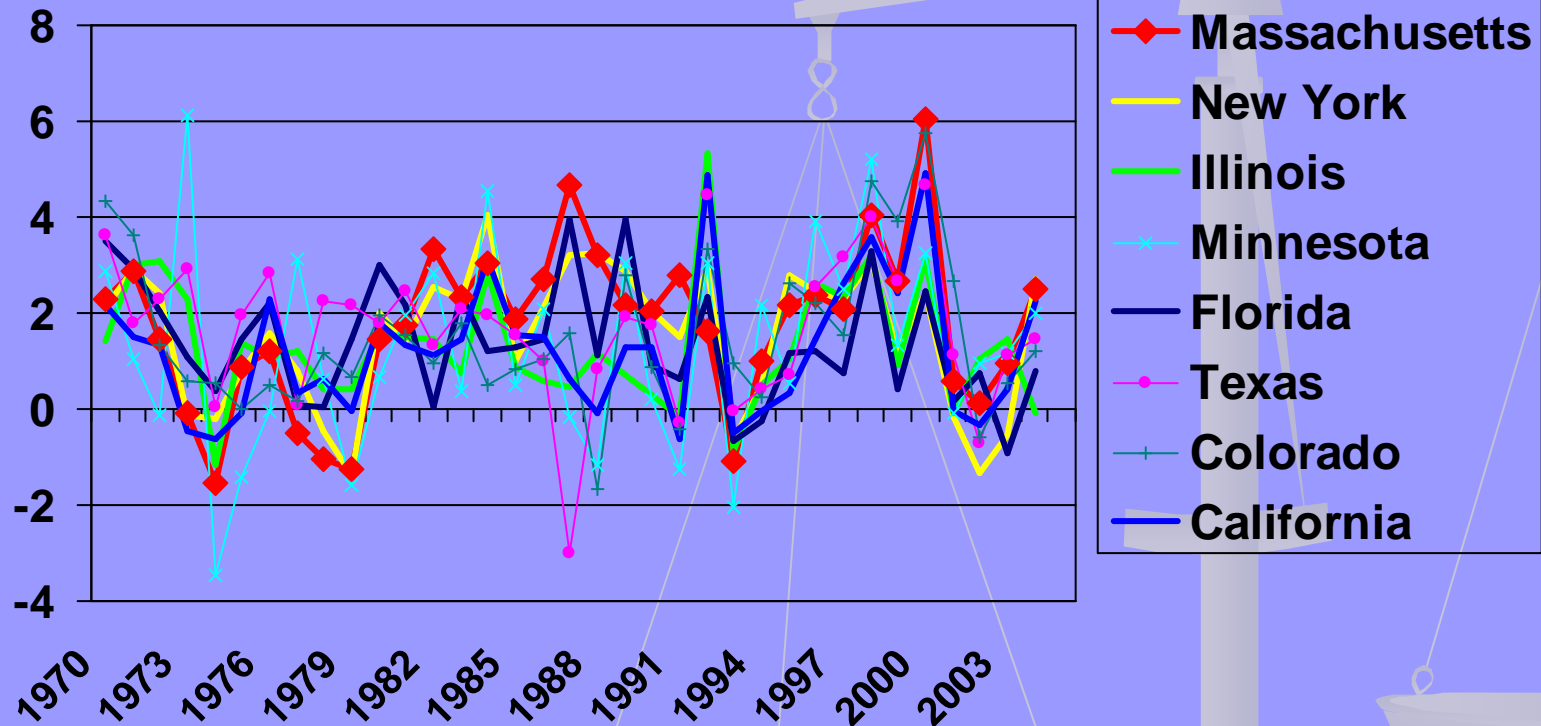


..drives high employment growth volatility of US states



..and evens out returns to labour

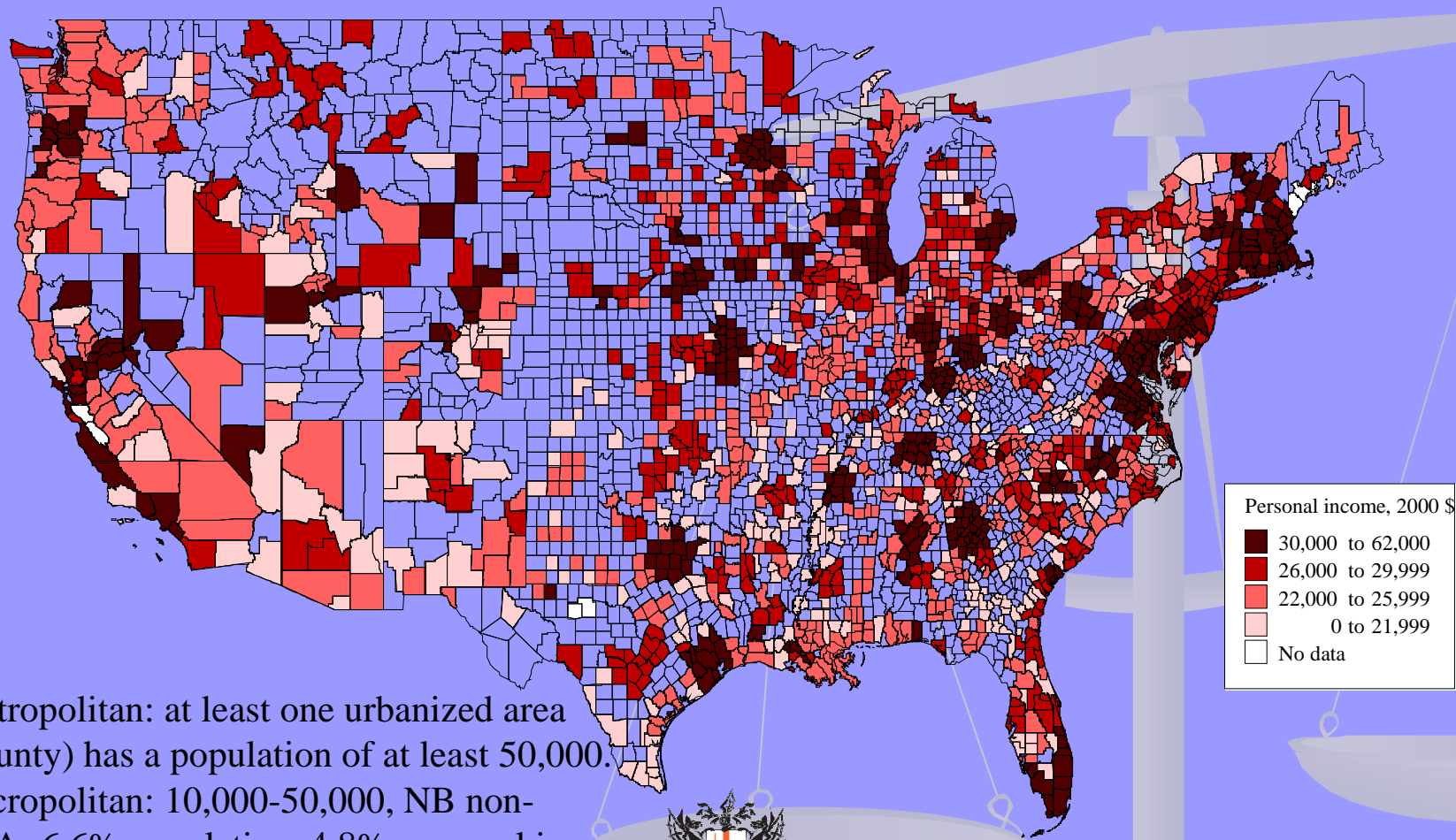
growth in income per
worker



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Income per capita US Metropolitan and Micropolitan FUR Areas, 2005*



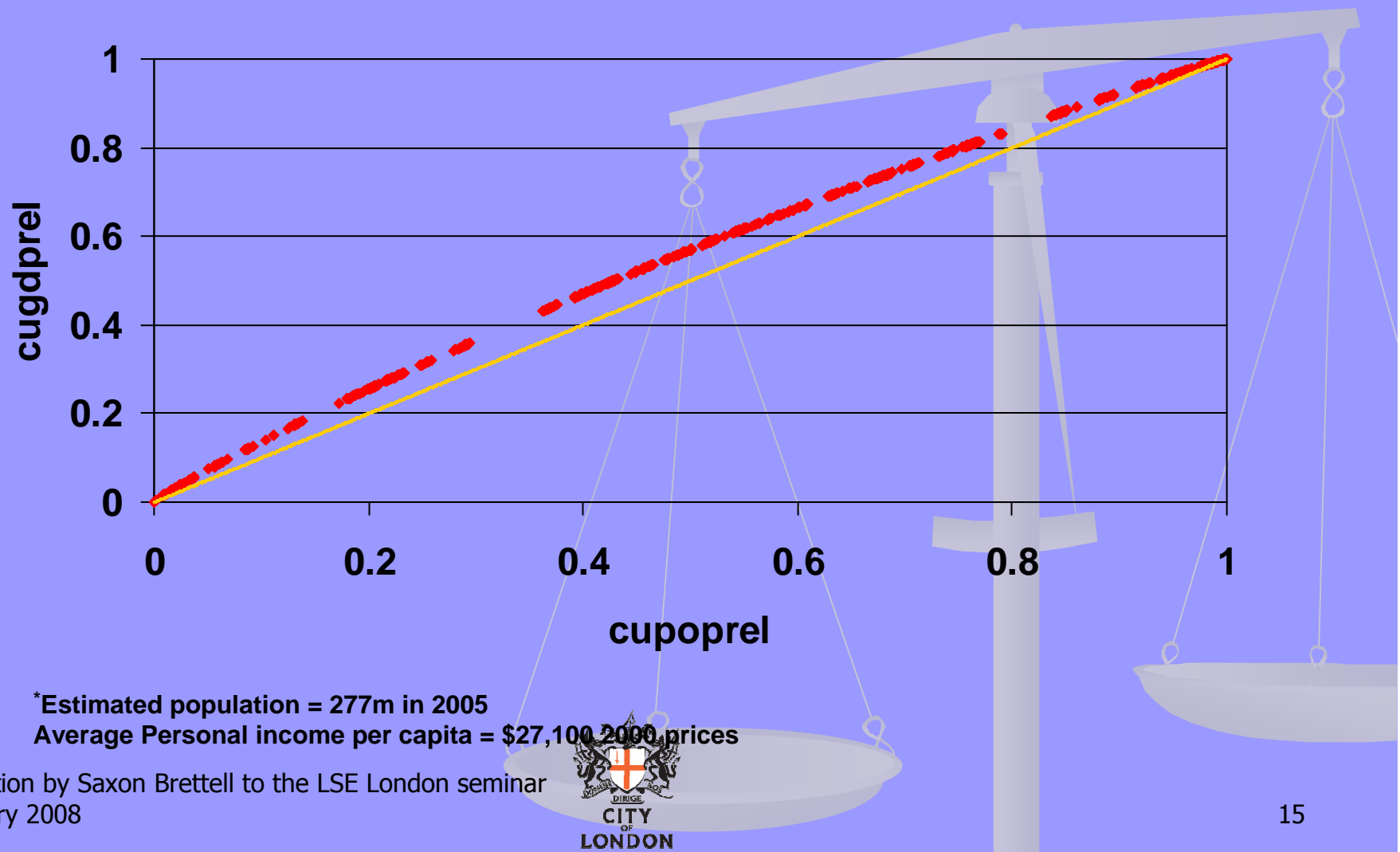
Metropolitan: at least one urbanized area (county) has a population of at least 50,000.

Micropolitan: 10,000-50,000, NB non-CSA=6.6% population, 4.8% personal income in 2005. *projection from 2004 base

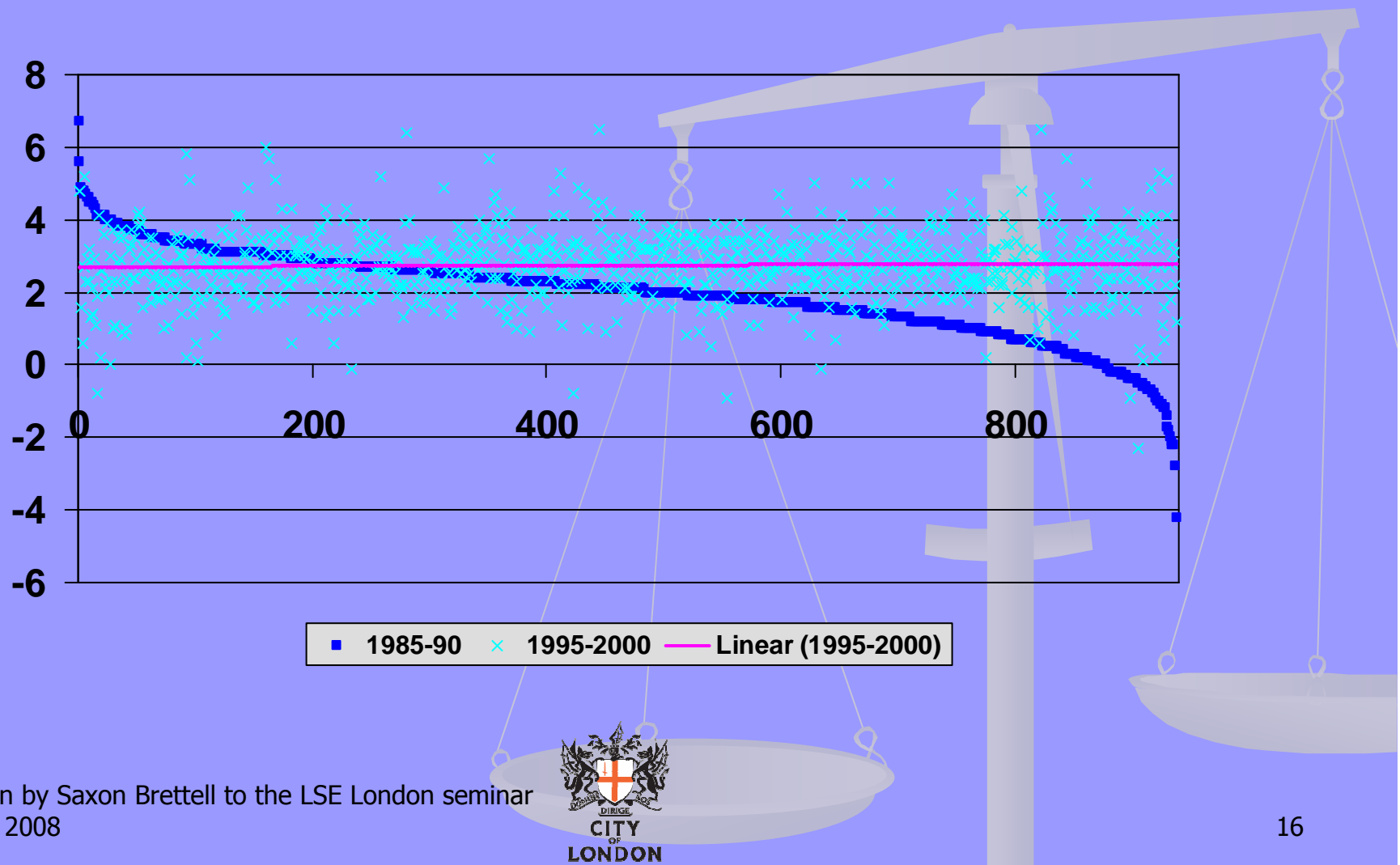


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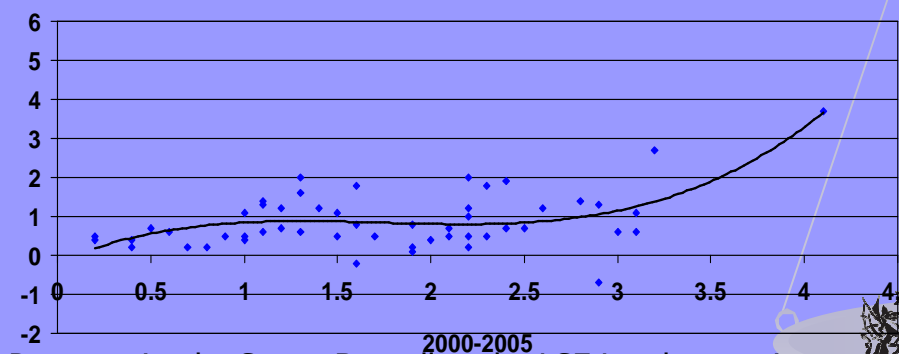
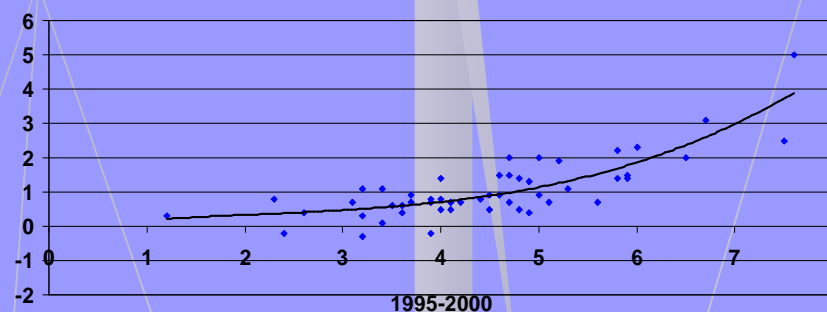
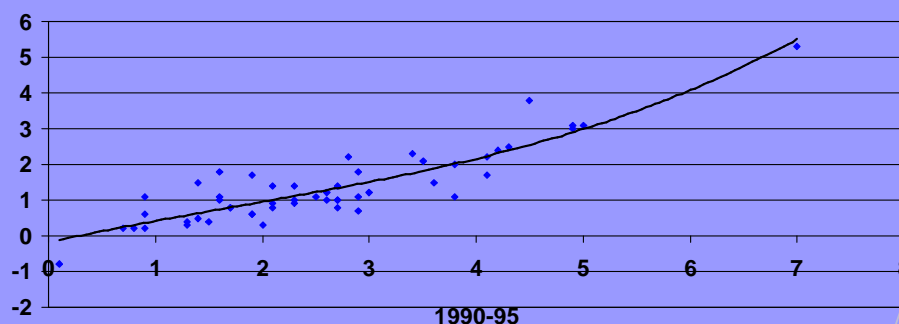
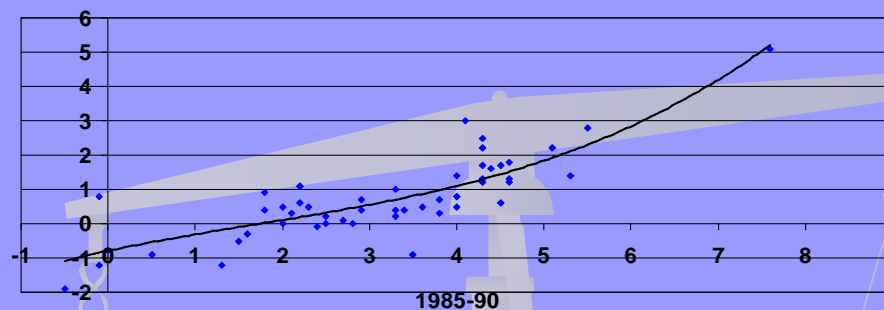
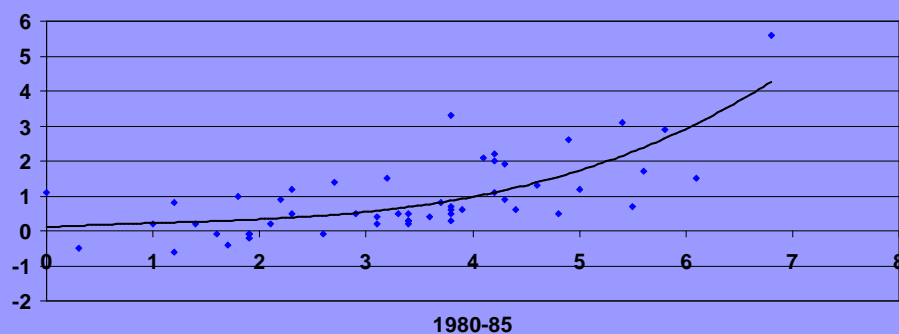
US regional income distribution for 938 CSAs* is very even..



US average income per capita at fine spatial detail shows just random shocks over time



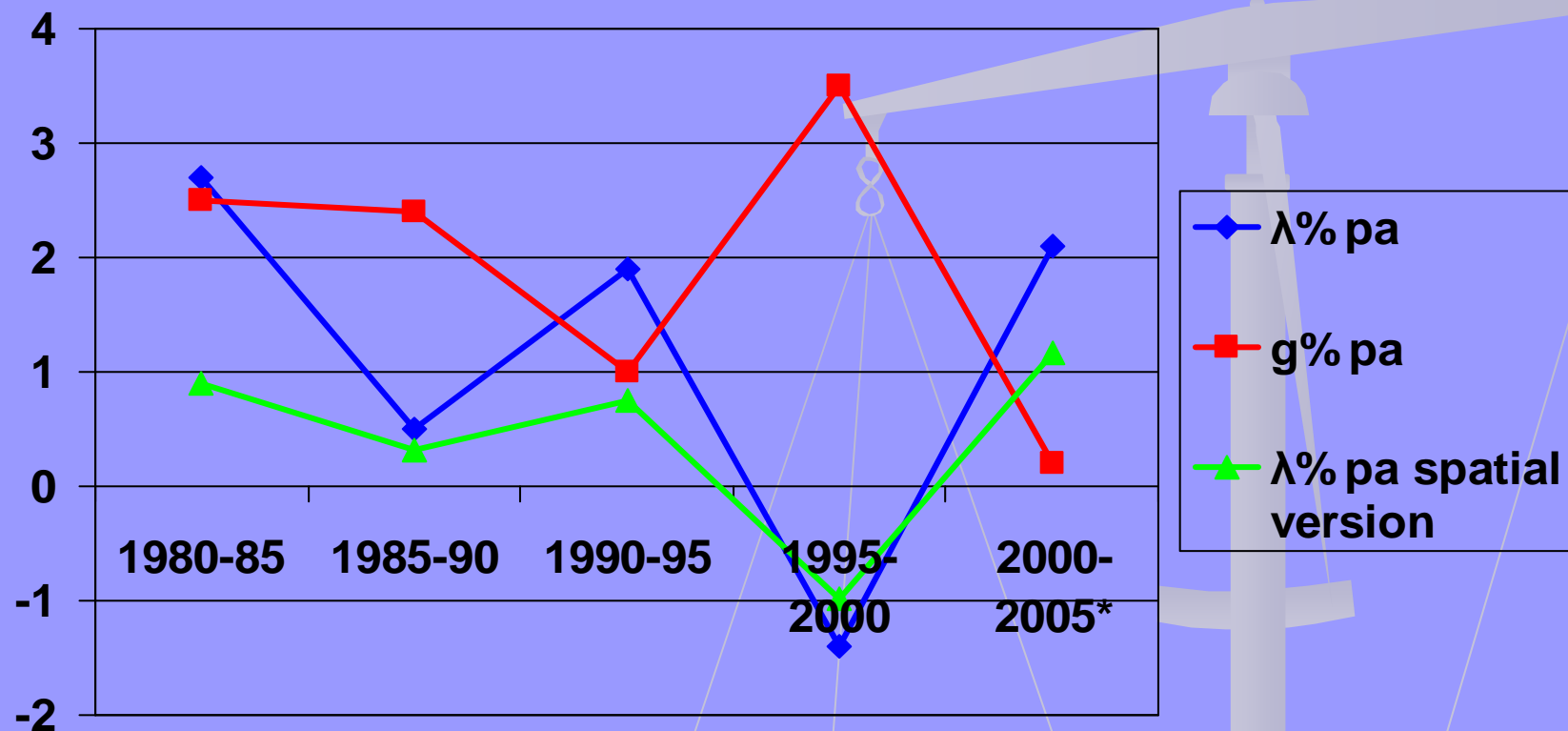
Migration is of course the reason: Population versus income change US states



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US CSA Growth and Beta convergence by growth phases 1980-2005



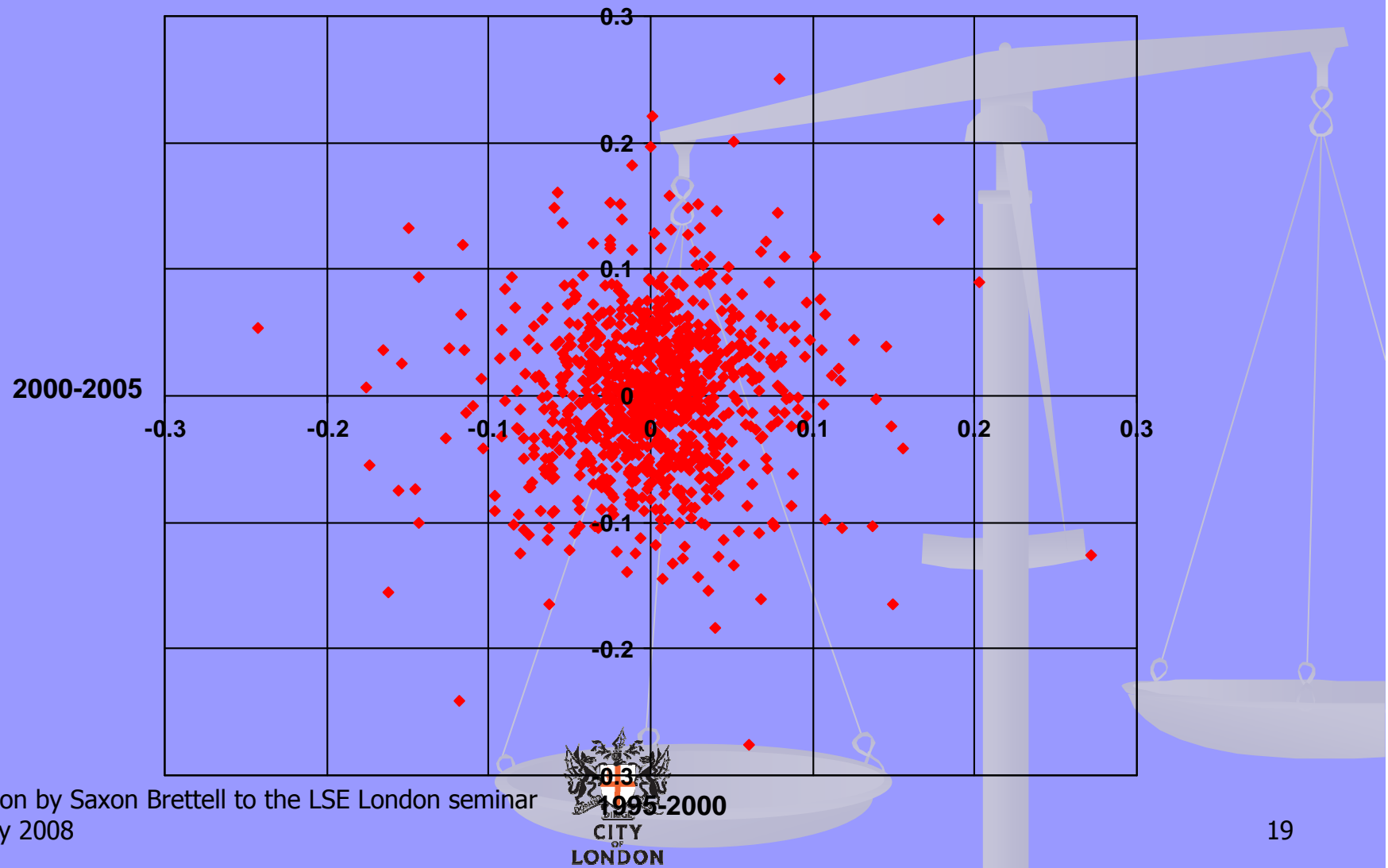
$$g_y = c - (1 - e^{-\beta t}) \ln(y_0) + X\delta + \gamma Wg_y + \varepsilon$$

$$\lambda = -\ln(1 + \beta)/t$$



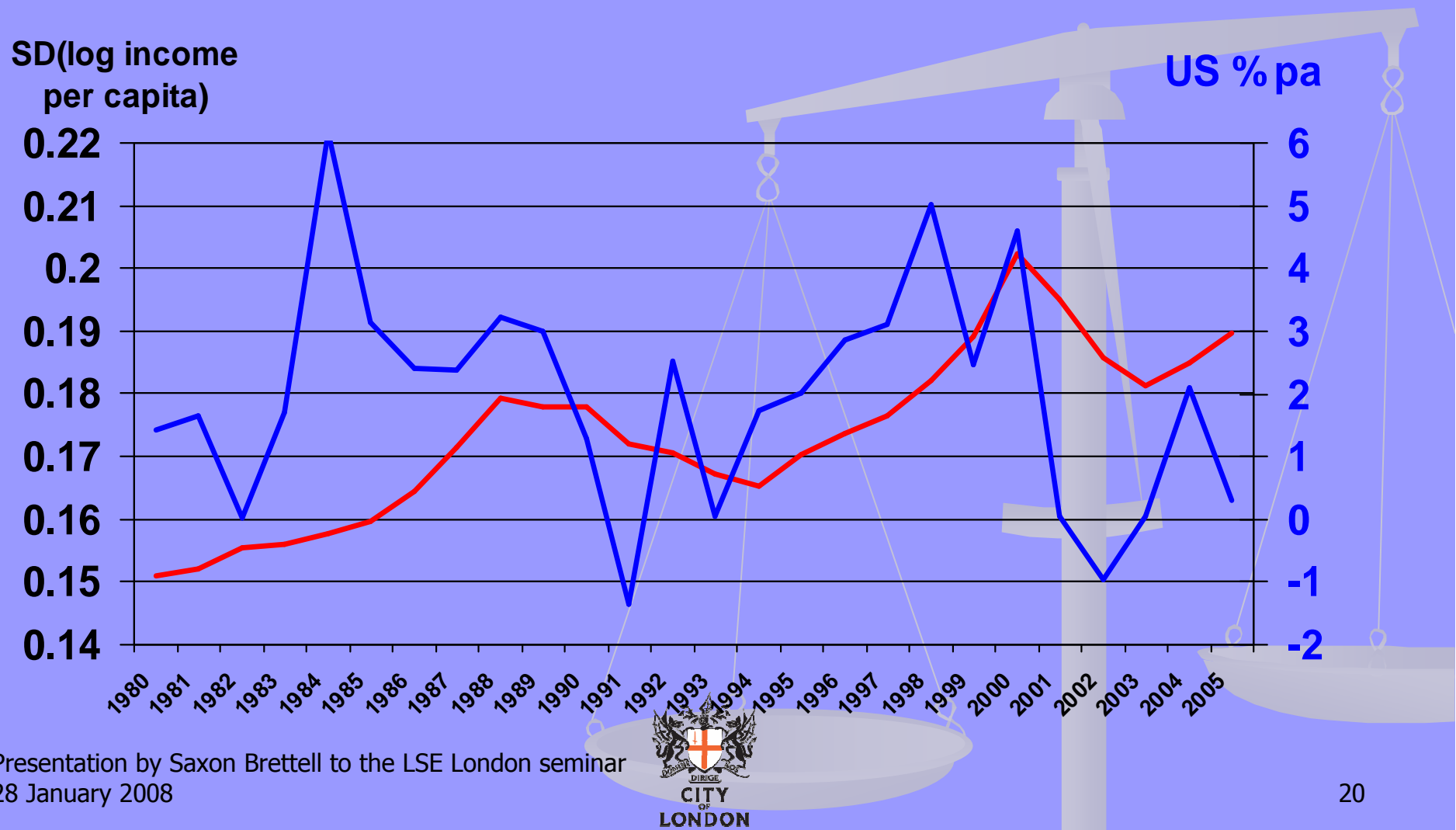
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Phase residual correlations from US Beta convergence plots are random

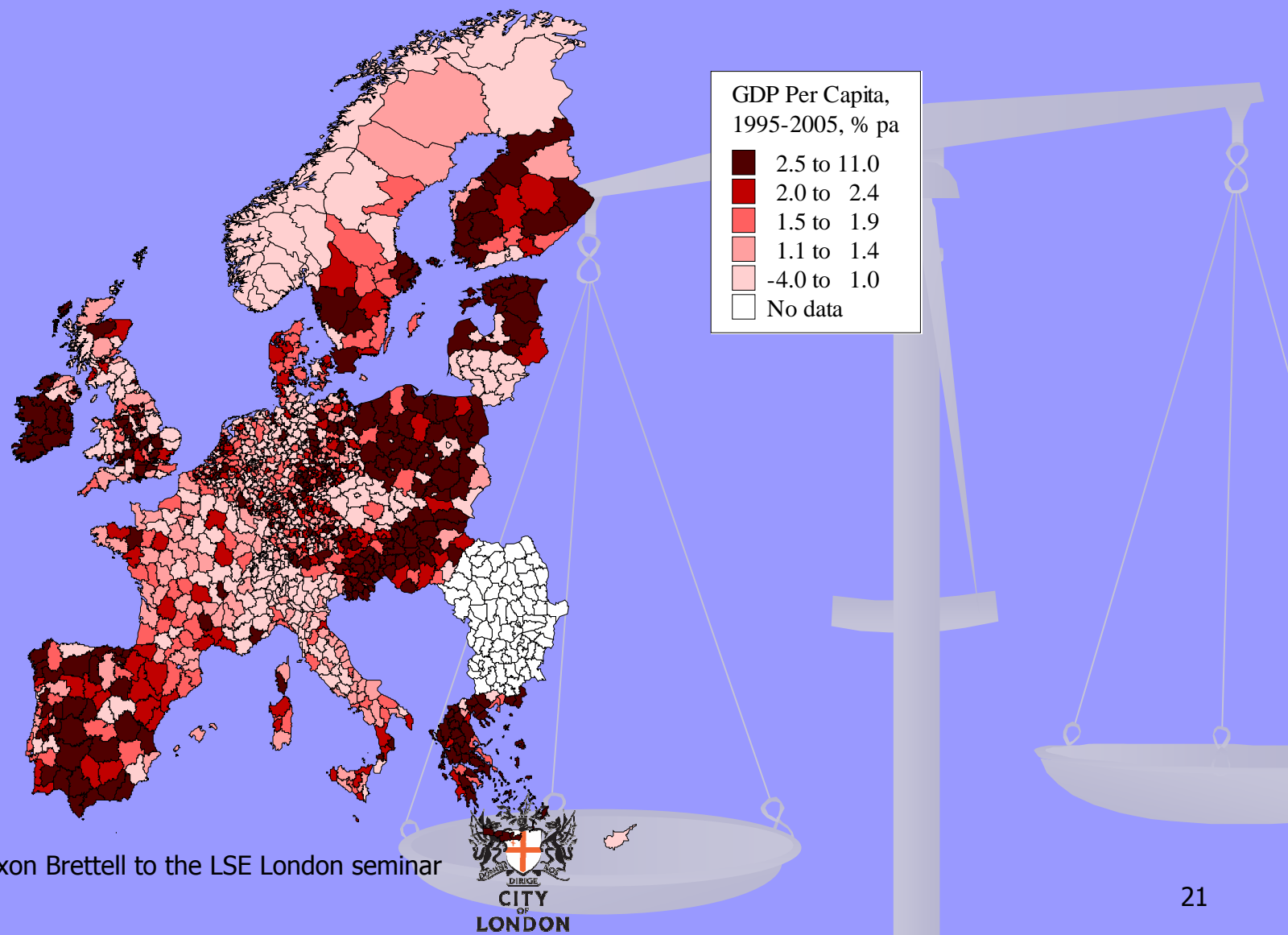


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..but a rising trend Sigma plot for US CSAs
as incomes grow over time

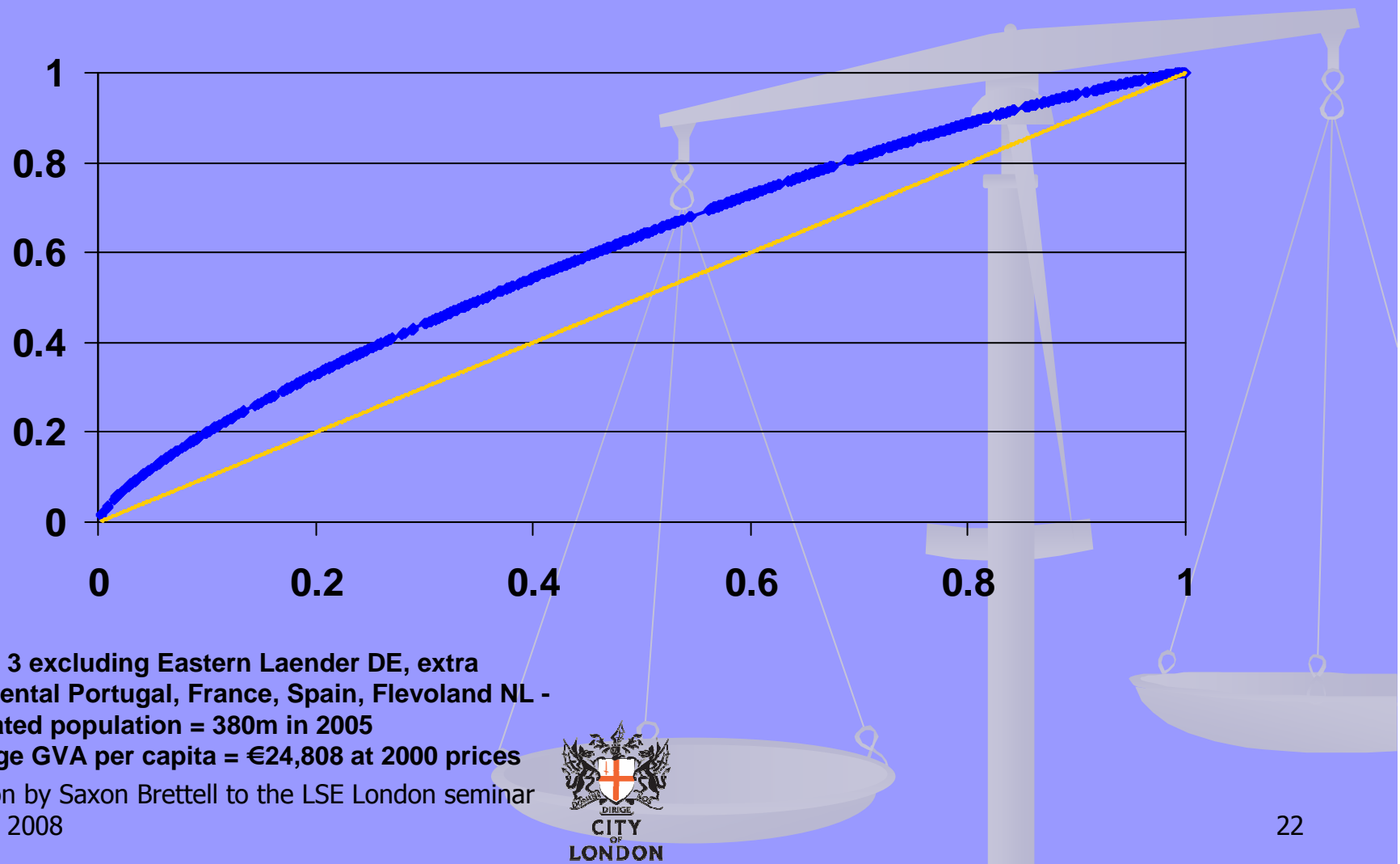


The NICE decade in the EU?

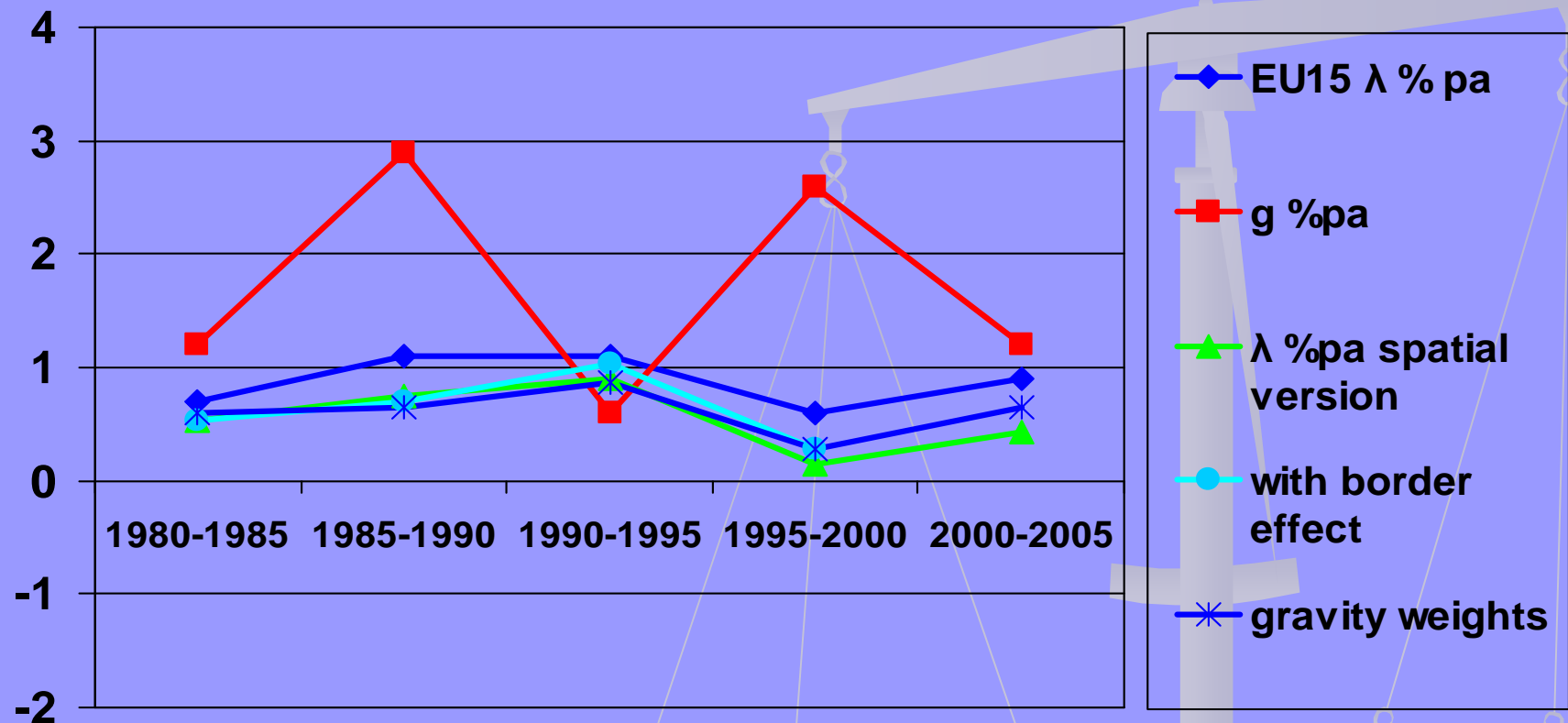


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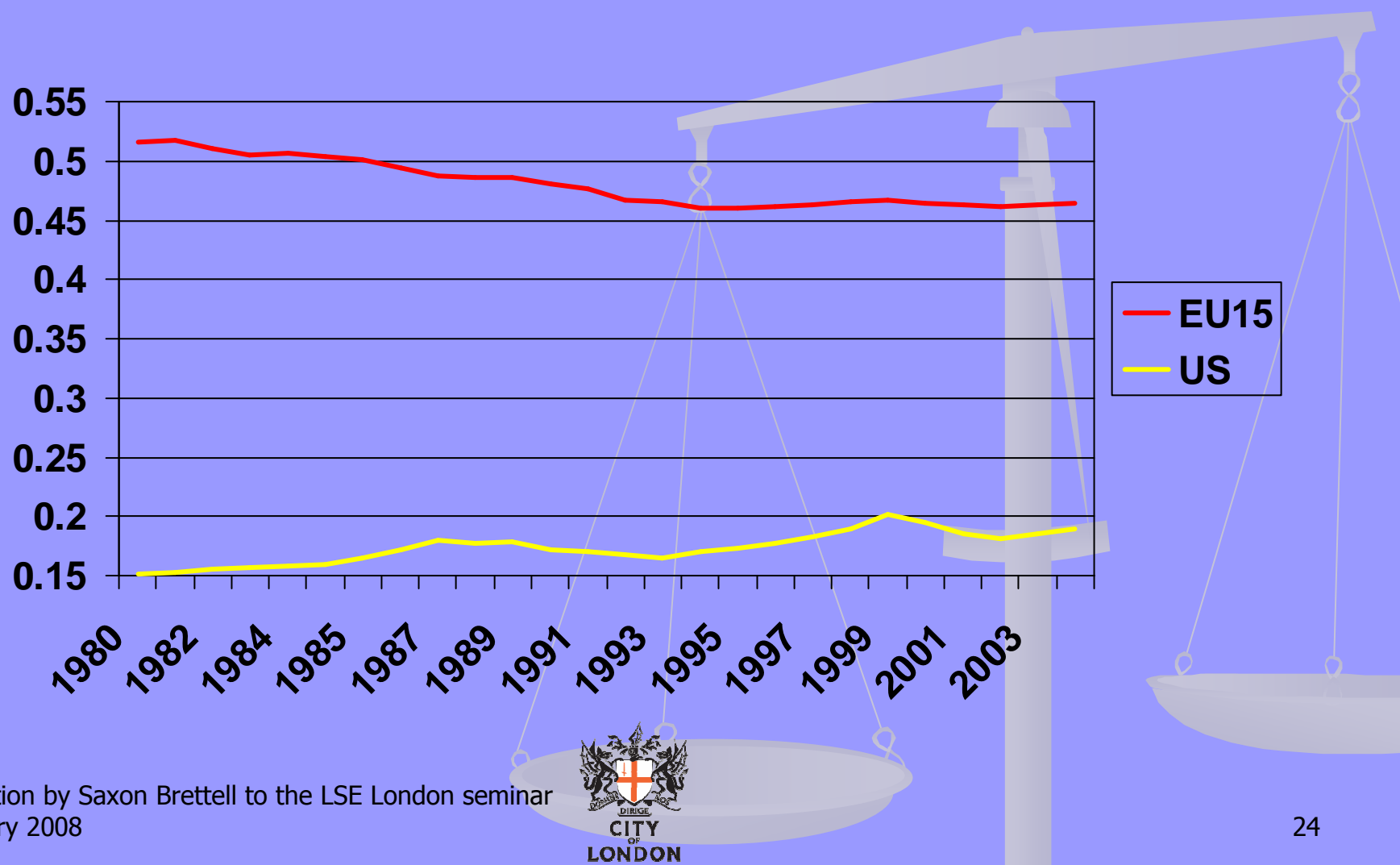
EU15* regional income distribution much more uneven than in the US



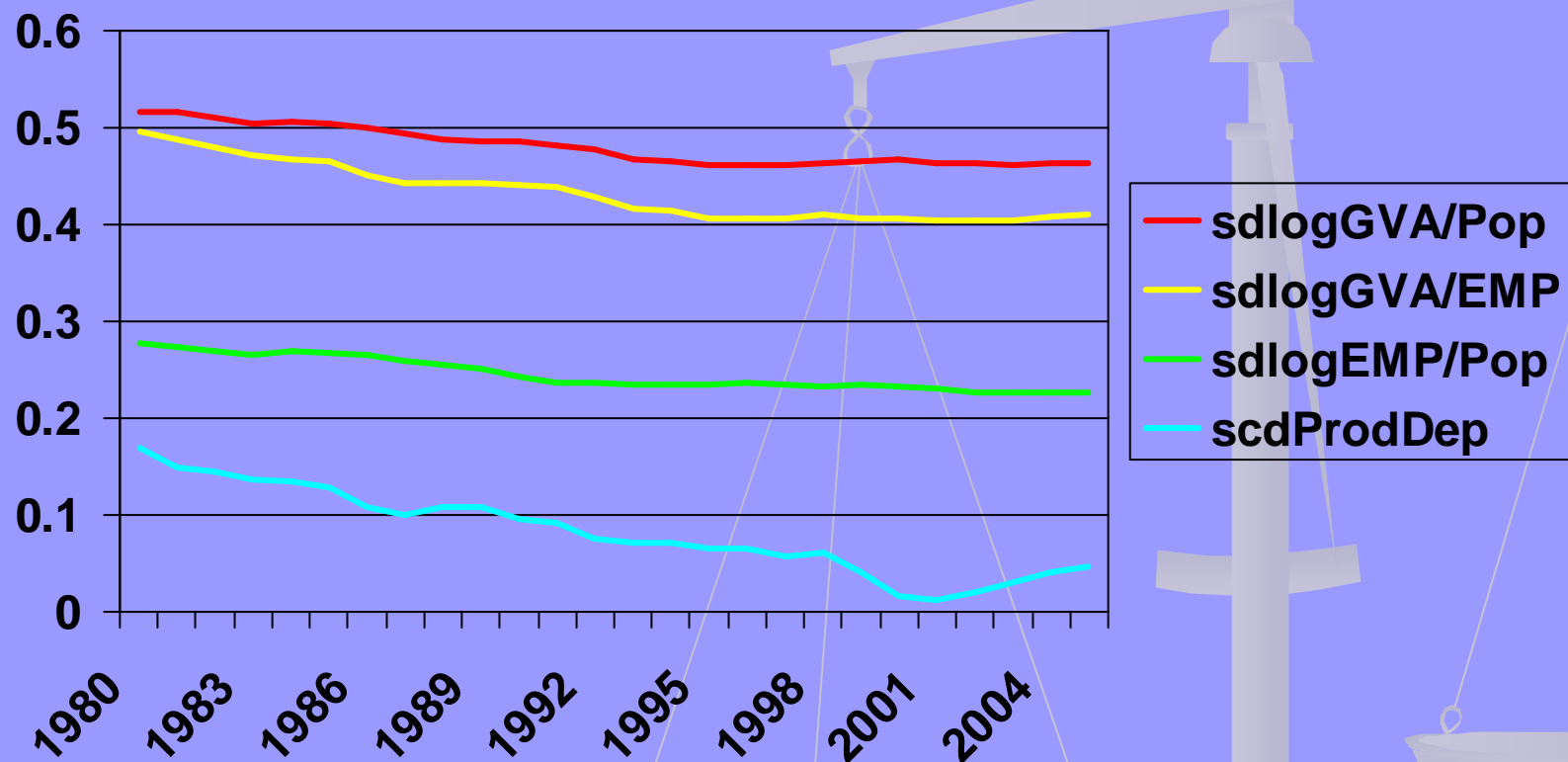
EU15 NUTS 3 regions convergence by growth phases 1980-2005



Sigma convergence – EU15 regions comparison with US regions



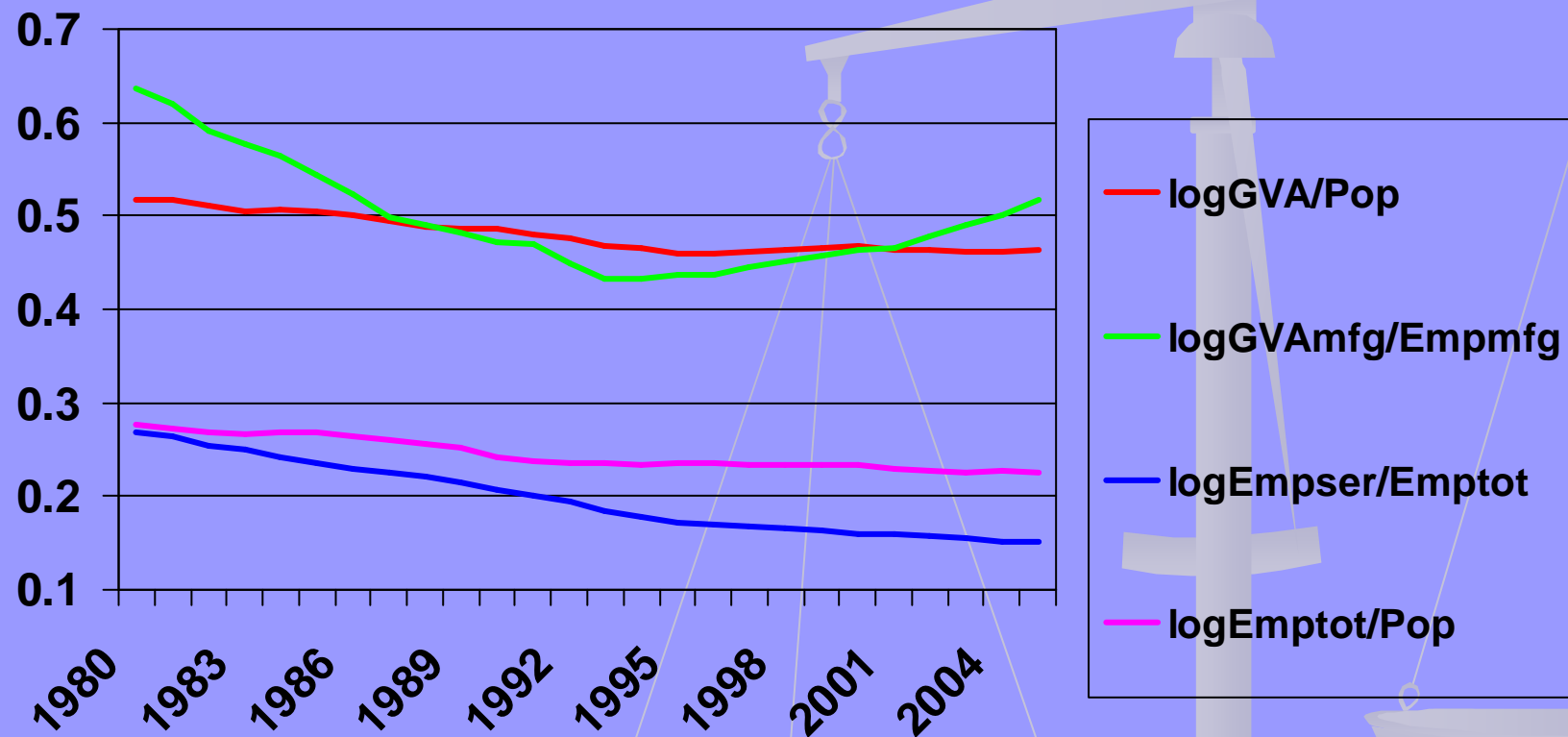
Sigma convergence – EU15 regions productivity product decompositions



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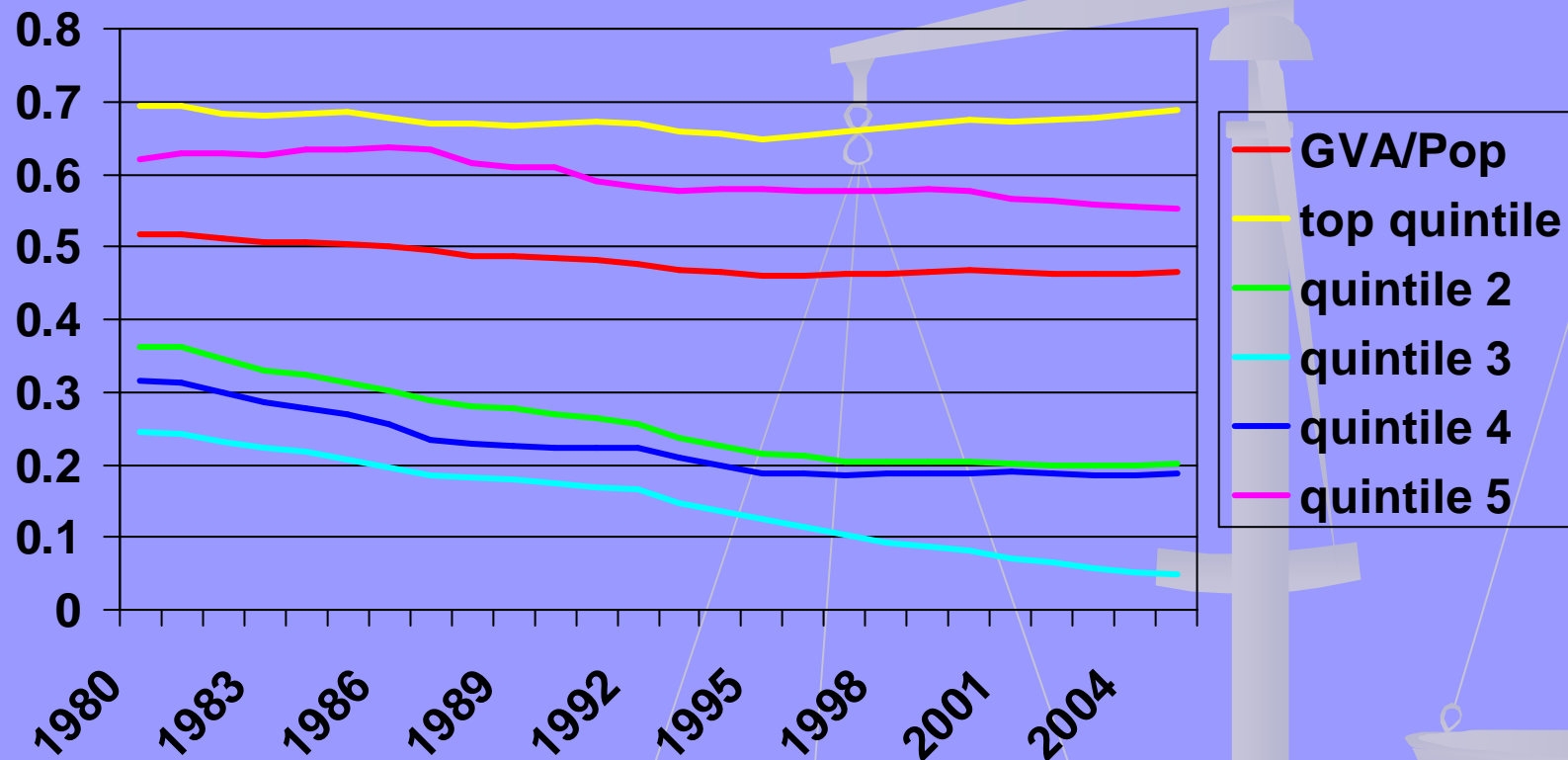


Sigma plots decomposed by sector EU15 NUTS3 regions



Sigma plots contributions

EU15 NUTS3 income bands



What does the Evidence show?

- Convergence in GVA per caput in both US and EU is mainly due to 'pure' productivity convergence
- Adjustment processes in the US strongly driven by work-related migration wage pull and unemployment push
- EU regions remain unresponsive but some evidence of a complex transition in the last decade for EU 15:
 - post 1990s manufacturing has become more globally 'localised'
 - strong convergence in broad regional services returns
 - richest regions are pulling away as urban agglomeration economies and localised spillovers come more strongly into play?

Answers to my questions?

- Is the balance of risk of slowing growth in the US versus recession tipping towards recession this year? No
- Is the global re-pricing of risk a permanent step change up? No
- Will London's agglomeration advantages last? Yes
- Are the better yields from more integrated markets bringing a higher responsiveness to global shocks for London? Yes
- Will public and private initiatives be concerted to ensure the competitive 'offer' of London as a global financial centre is sustained? Yes