

Yorkshire economic report

Executive summary

Activity in the Yorkshire economy lost momentum during 2006 to be one of the weaker performing UK regions. While growth is forecast to slowly recover in 2007 and 2008, Yorkshire will slightly underperform the UK average.

Key trends

- Yorkshire economy to gradually recover over the next two years.** Growth in activity in the Yorkshire economy is forecast to gradually pick-up over the next two years to 2% and 2.2% in 2007 and 2008 respectively.

- Services remain key driver of growth.** While growth in the private sector is forecast to gather momentum during 2007, it will lag the national average. An over-representation in basic manufacturing will limit regional growth.

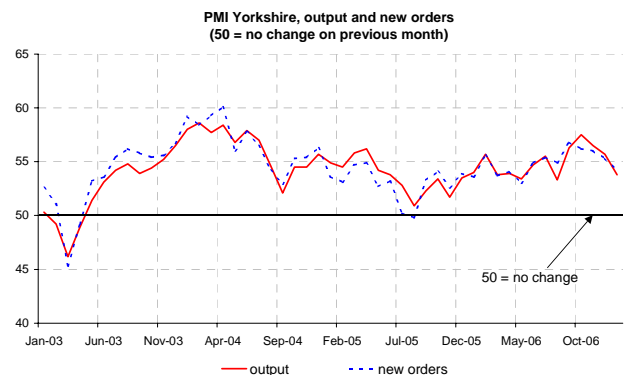
- Employment growth has weakened.** A rise in services employment continues to drive the overall increase in employment. The number of jobs in manufacturing has remained steady while construction employment has fallen.

- Unemployment rate rises to six year high.** From a low of 4.2% in early 2005, the unemployment rate trended up to reach 6% in late-2006.

- House price inflation to moderate in 2007.** Yorkshire house price inflation kept pace with the UK average during 2006. Average annual house prices in

Yorkshire rose by 6% during 2006, compared with 6½% for the UK.

PMI Yorkshire, private sector (50 = no change on previous month)



Yorkshire employment, 3 month average (percentage change, year on year)



Regional economy to slowly recover

Activity in the Yorkshire economy lost momentum during 2006, with growth estimated to have fallen below the UK average. This is in marked contrast to the first half of the decade when regional growth outperformed the UK average, underpinned by a strong performance from Financial & Business services and a boom in construction. From 2.1% in 2005, growth in the Yorkshire economy eased to 1.6% in 2006 as activity in the previously buoyant private services sector eased and growth in construction moderated. The unemployment rate also rose to a six-year high of 6% during 2006.

GVA growth (percent)

	Yorkshire	UK
2005	2.1	1.9
2006	1.6	2.7
2007	2.0	2¾
2008	2.2	2¾

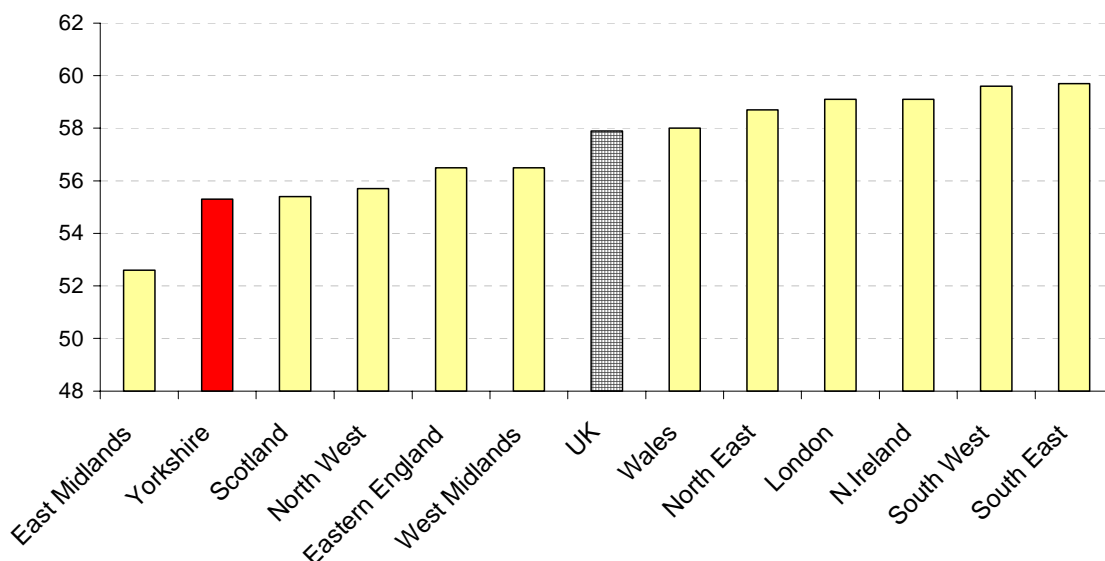
Source: Experian, Autumn 2006

Activity in Yorkshire is expected to gradually recover during 2007 and 2008 but continue to lag the UK average. While growth in private sector services is forecast to improve, it is not expected to match that recorded during 2001-2005 and will remain below the UK average. Growth in employment will stay sluggish, which is likely to lead to a further increase in the unemployment rate. House price growth is also expected to moderate in 2007 as households feel the effects of higher interest rates.

Modest growth in private sector

The PMI Yorkshire and Humberside Report indicates that growth in activity in the private sector had been sustained at a modest rate into early 2007. That said, the rate of expansion has slipped from its peak in October last year and remains below the UK average. Growth in new orders is solid, although the rate of expansion has slipped in recent months. The total level of business outstanding remains steady, with an

**PMI output indices - Yorkshire and UK
(50 = no change on previous month)**



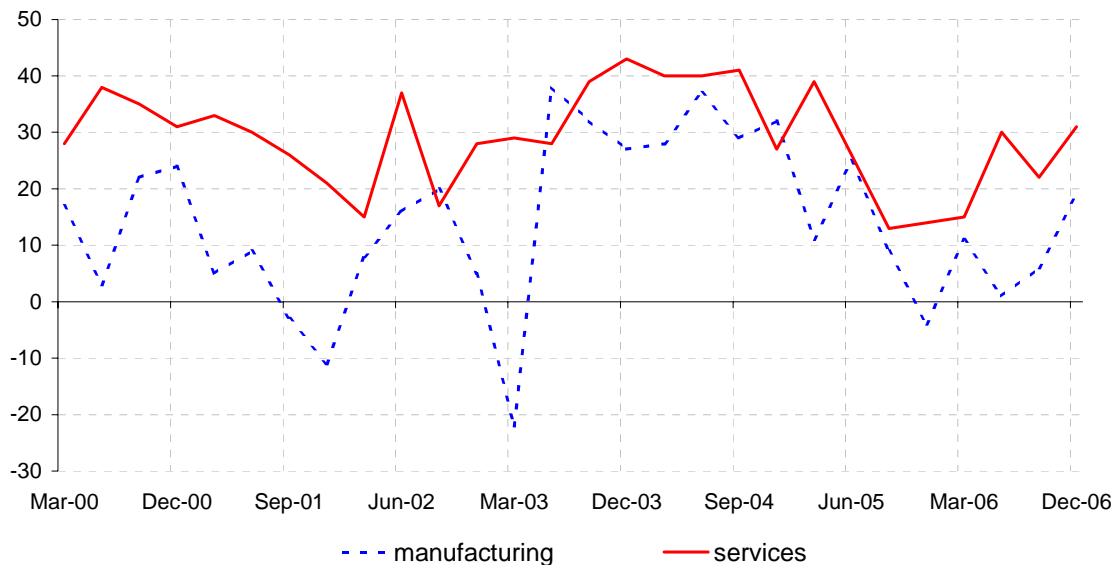
increase in services largely offset by a decline in manufacturing. Firms report only a marginal rise in staffing levels, with services reporting a slightly stronger rate of employment growth than manufacturing. While input cost inflation continues to increase, the rate of increase was the lowest in over a year. Output price inflation, on the other hand, has accelerated to its strongest rate in nearly two years, suggesting that firms may be starting to rebuild their margins.

A comparison of the regional PMI output indexes for the UK shows that in the three months to January 2007, Yorkshire recorded the second slowest output growth. The weakest growth was recorded in the East Midlands. The fastest growing UK regions were located in the South (South East, South West and London). Growth in employment in Yorkshire was the weakest of all UK regions in the three months to January 2007.

The BCC Quarterly Economic Survey pointed to somewhat more buoyant trends in services and manufacturing in the final quarter of 2006. In services, sales and orders in both the home and export markets were strong, with conditions in the export market stronger than the national average. Firms' confidence in their turnover and profitability remained robust. Investment in plant and machinery strengthened. Despite these strong conditions, however, the rate of growth in employment eased slightly during the quarter.

Survey respondents in manufacturing reported strong sales in the home market during the final quarter of 2006 and a strong recovery in home orders. Export sales and orders also picked up from the previous quarter. Confidence in both turnover and profitability remained buoyant and was broadly in line with the national average. Employment was largely

BCC Quarterly Economic Survey - Yorkshire, home market sales (net balance statistic)



unchanged over the quarter, with no marked pick-up in job numbers expected in the near term.

The CBI/Experian Regional Trends Survey indicated that conditions in manufacturing remained robust in early 2007, with the volume of output strengthening in the three months to January 2007. The volume of new orders in both the home and export markets continued to expand, although the rate of expansion was down on the previous quarter. The number of firms operating below capacity also edged down. Survey respondents were very optimistic about the future, with further gains expected in output and new orders.

three months to December 2006. Employment gains have been largely confined to services, with the number of jobs in manufacturing remaining steady and construction employment trending down.

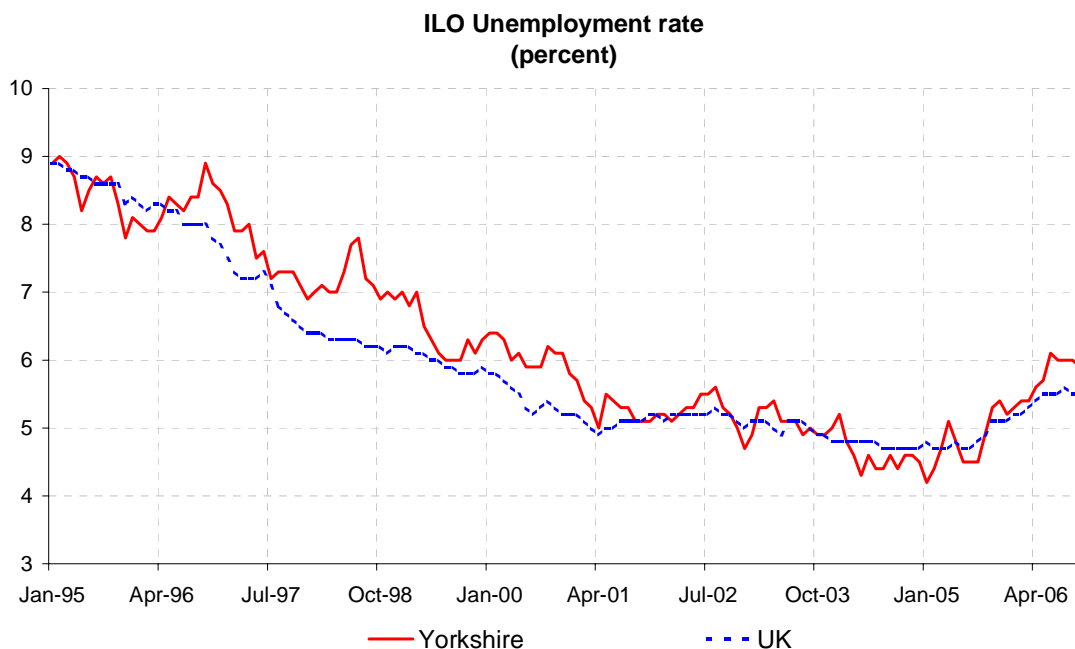
The unemployment rate continued its upward trend during 2006 as growth in employment was outpaced by an increase in the number of people looking for work. From a low of 4.5% in mid-2005, the ILO unemployment rate gradually increased, reaching 6% in the 3 months to December 2006. The claimant count measure of unemployment also rose from a low of 2.7% in late 2004/early 2005 to 3.3% in January 2007.

Unemployment rate hits six year high

Annual growth in employment in the regional economy has eased since the beginning of 2006. From 0.7% yoy in the three months to January 2006, employment growth had eased to 0.1% yoy in the

Brisk house price inflation during 2006

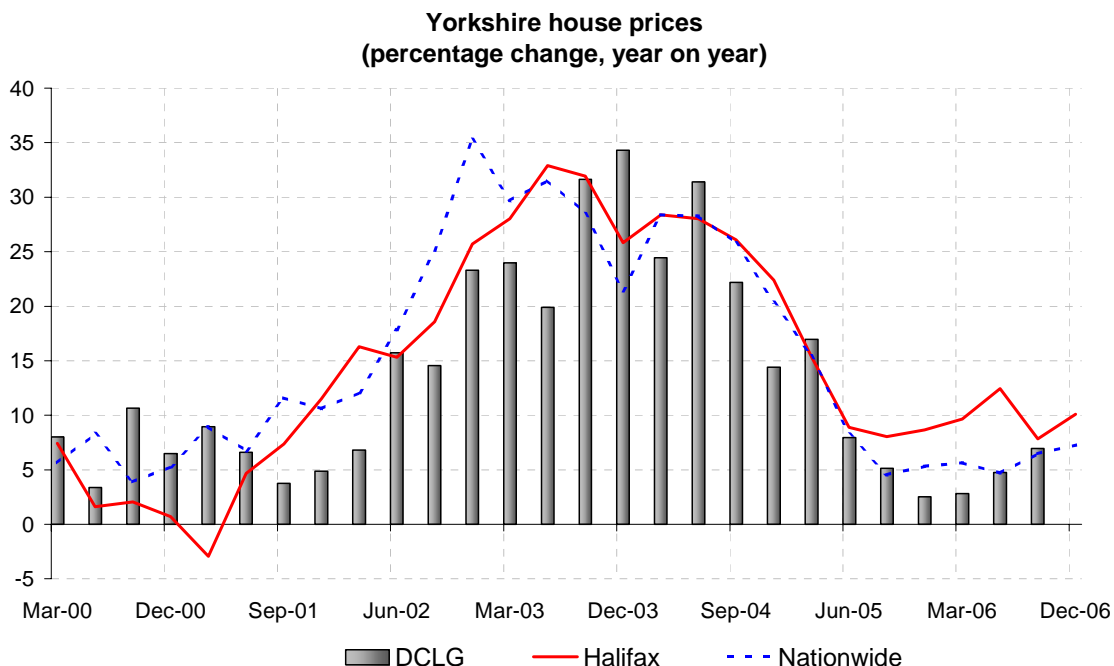
Average house prices in Yorkshire and the Humber increased moderately 2006, broadly in line with the UK average. The Nationwide house price index pointed to a 6.0% increase in average house prices in



Yorkshire during 2006, marginally below the 6.5% average increase recorded for the UK. The Halifax house price index, on the other hand, pointed to a slightly higher rate of increase in annual average house prices in Yorkshire, with regional house prices increasing by 10% in 2006, compared with 8.5% for the UK. The DCLG measure pointed to an increase in annual average house prices of 6.9% in Yorkshire in 2006 (compared to 7.4% for the UK), with average house prices for first-time buyers up by 7.2% and former owner-occupiers up by a very strong 13.5%.

Despite some periods of divergence, the rate of growth in average house prices in Yorkshire has also been broadly in line with the UK average over the past 10 years. The Halifax data shows that the average price for a house in Yorkshire has increased by 173% (from £53,005 to £144,582) in the past 10 years, compared with 183% (from £66,094 to £186,954) for the UK. Thus the average price of a house in the UK remains around 1.3 times higher than the average price of a house in Yorkshire.

In the final quarter of 2006, Nationwide reported that average prices in Yorkshire were up by 7.3% on year earlier levels, while the Halifax measure showed a stronger increase of 10.1% on year earlier levels. Rightmove reported that strong annual house price inflation in Yorkshire had carried over into early 2007, with annual house prices up by 12.1% yoy in January 2007.



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