

Yorkshire economic report

Executive summary

After a strong performance in 2007, the Yorkshire economy will slow sharply in 2008. Activity in services will moderate, job creation will cease and house prices will record modest falls across most of the region.

Key trends

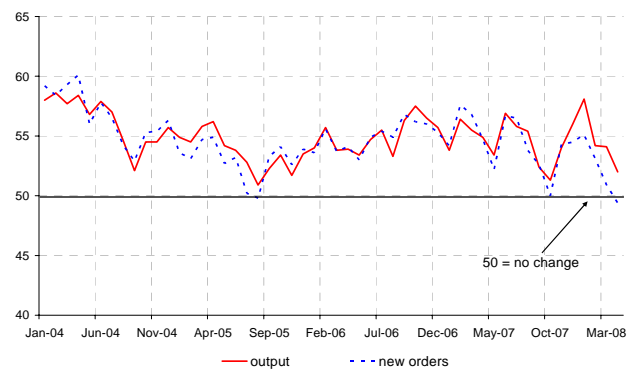
- **Growth in the Yorkshire economy set to slow in 2008 and then gradually pick-up in late 2009, in line with trends across the UK.** We are forecasting growth in Yorkshire of 1¼-1½% in 2008 and 1-1¼% in 2009, below the UK average

- **Growth in activity in services moderates.** Activity in private sector services, the regional economy's engine of growth, is now slowing, largely reflecting the softening in consumer spending. This trend is expected to continue during the remainder of 2008 and into 2009. The outlook for manufacturing is more encouraging, particularly in export markets, reflecting the recent depreciation of Sterling.

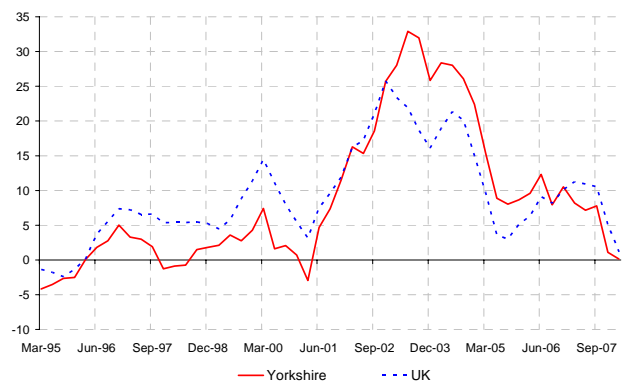
- **Job creation will grind to a halt.** The slowing economy will lead to stable employment in the region. The decline in the number of manufacturing jobs is forecast to continue, offsetting modest job increase in services and construction. The unemployment rate is expected to edge up.

- **Housing market downturn gathers pace in 2008.** Current trends in house price data suggest that house prices will remain under downward pressure over the coming months due to a combination of weak buyer demand, stretched housing affordability and tighter lending criteria.

PMI Survey of Yorkshire - private sector output and new orders (50 = no change on previous month)



Halifax house prices, percentage change, year on year



Regional economy to slow significantly

After a strong performance in 2007, activity in the Yorkshire economy is forecast to slow significantly in 2008 and 2009. Estimates produced by Experian indicate that the Yorkshire economy expanded by 3.7% in 2007, its best performance in three years. The regional economy also outperformed the UK average of 3.0% last year.

In 2008, regional growth is expected to moderate to 1¼-1½%, underperforming the UK average of 1.7%. Activity in the previously strong performing services sector is slowing sharply, particularly in financial and business services, while manufacturing growth is modest. Job creation will grind to a halt, consumer spending will slow and house prices will show modest declines. The economy will gradually recover in late 2009 but will continue to lag the UK average.

Yorkshire and UK output growth (percent)

	Yorkshire	UK
2006	2.6	2.9
2007	3.7	3.0
2008	1¼-1½	1.7
2009	1-1¼	1.6

Growth in private sector weakens

Recent PMI Yorkshire and Humberside Reports point to a moderation in growth in the regional's private sector in early 2008. Growth in business activity has gradually lost momentum since the beginning of the year. This slower growth largely reflects weak growth in new business as demand has waned, particularly in

the service sector. At the same time business backlogs have continued to contract, as slower growth in new business has allowed companies to clear their backlogs. Despite signs of overcapacity, overall employment has continued to rise, particularly in manufacturing, underpinned by business expansion plans. In the three months to April 2008, Yorkshire recorded the highest growth in employment of all UK regions.

PMI survey respondents indicate that their margins have been under increasing pressure in early 2008, with the rate of increase in input costs rising to its highest rate in the survey's history. The increase largely reflects record crude oil prices which have pushed up the costs of energy and fuel products. There have also been reports that the strength of the euro against sterling has raised the prices of goods imported from Europe. While companies have responded by raising their output prices, the rate of output price inflation remains well below that of input costs.

Respondents to the BCC Quarterly Economic Survey indicated that conditions in the home market for Yorkshire manufacturers weakened in the first three months of 2008. Conditions in export markets, on the other hand, were more buoyant, with sales remaining upbeat and steady gains in orders. Employment levels fell over the quarter, with a further deterioration expected in coming months. Investment in plant and machinery strengthened, despite a small decline in cashflow, and confidence in both turnover and profitability were robust.

The BCC Quarterly Economic Survey indicated that services experienced a mixed start to 2008. While growth in activity in the home market moderated, survey respondents reported a strong increase in demand from export markets. Employment levels and cashflow showed a moderation in growth, while investment in plant and machinery strengthened. Confidence in turnover and profitability remained at buoyant levels.

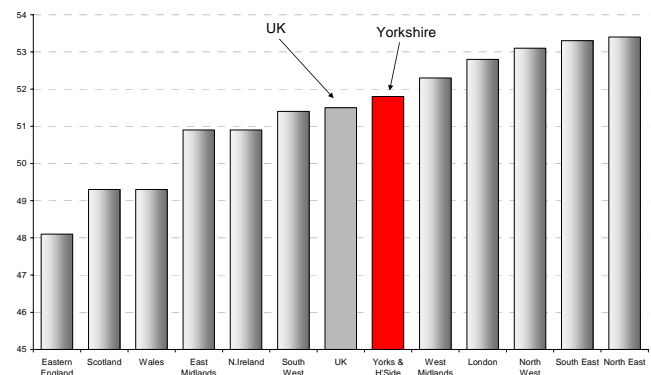
The Leeds Quarterly Economic Survey indicated that conditions for manufacturers deteriorated in the first quarter of 2008. Conditions in the home market weakened, with growth in sales and orders moderating. In export markets, manufacturers reported no growth in sales and a fall in new orders. Nevertheless, turnover remained robust and profit expectations strengthened. Investment, however, deteriorated, and almost three-quarters of manufacturers were operating below full capacity. While employment increased moderately over the quarter, no growth in employment was expected in coming months. Just under half of manufacturers also reported that the increased cost of raw materials was putting upward pressure on their prices.

The Leeds Quarterly Economic Survey indicated that conditions in services remained buoyant in the March 2008 quarter. Survey respondents reported that sales and orders in the home market remained buoyant while conditions in export markets strengthened. Strong turnover and profit expectations underpinned

an increase in both capital investment and employment.

Comparing the average regional PMI output indices for the three months to April 2008 shows that Yorkshire's private sector has outperformed the UK average in early 2008, albeit marginally. The strongest growth in activity in the three month period was recorded in the North West, followed by the North East and then London.

PMI output indices, 3 months to April 2008 (50 = no change on previous month)

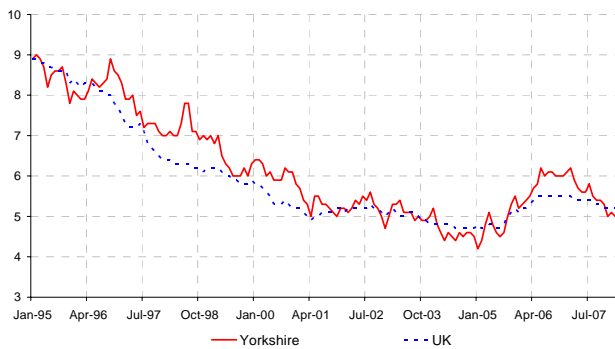


Robust labour market

Despite survey evidence of an overall slowdown in private sector growth, Yorkshire's labour market remains robust. In the 3 months to March 2008, total employment was up by a strong 2.4% on the previous three months to be up by 3% on year earlier levels. A large number of the new jobs were full time positions and were filled by female workers.

Growth in employment has outpaced growth in the labour force, resulting in a downward trend in the regional unemployment rate. In the three months to March 2008, the ILO unemployment for Yorkshire was 5%, down from 6.2% a year earlier and below the UK average of 5.2%.

ILO Unemployment rate (percent) - Yorkshire & UK



Data on employee jobs by industry show that job growth in the final few months of 2007 was largely confined to services. Wholesale & retail trade, hotels & restaurants, education, and health & social work all recorded increases in jobs in the December 2007 quarter. Jobs in Real estate, renting & business activities, on the other had, fell slightly reflecting the slowing in activity in the property market. The number of jobs in manufacturing was largely unchanged while employee jobs in construction declined.

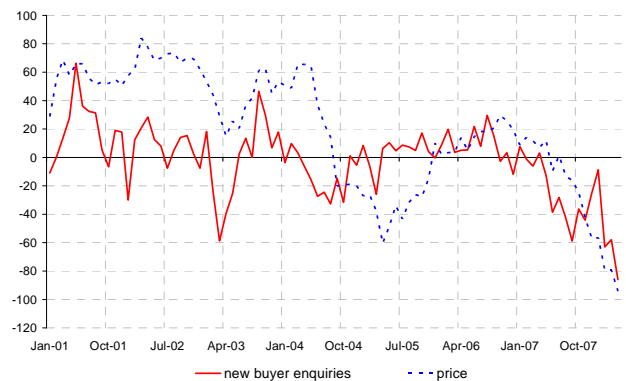
Housing market deteriorates

Residential property prices in Yorkshire have mirrored trends in the wider UK market in recent years. The annual rate of house price growth slowed across all

UK regions in the first quarter of 2008 and Yorkshire was no exception. After recording house price growth of 76% over the last five years, average house prices in Yorkshire declined by 0.5% in the March 2008 quarter, according to the Halifax house price index, to be up by only 0.2% on year earlier levels. By comparison, average house prices in the UK declined by 1% in the March 2008 quarter but remained 1.2% higher when compared with year earlier levels.

The RICS Housing Market Survey indicates that conditions in Yorkshire’s housing market deteriorated further in April. The net balance of surveyors reporting falling house prices continued to increased, new buyer enquiries fell further and new vendor instructions to sell picked up. Confidence in sales also declined. House prices look to remain under downward pressure over coming months, with a widespread perception amongst survey respondents that house prices would fall further in the near term.

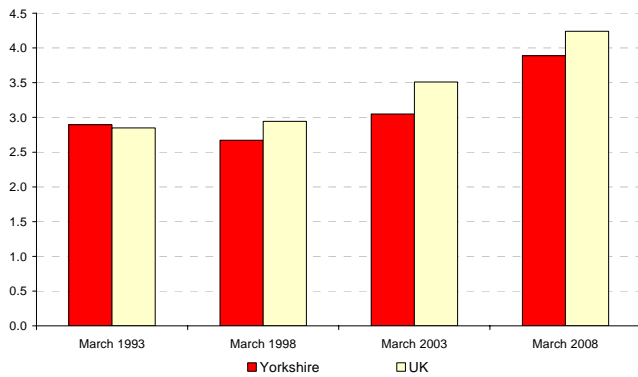
RICS housing market survey (percentage balance of surveyors)



The Department of Communities and Local Government data shows that after trending upwards

since the mid-1990s, the average house price to income ratio for Yorkshire has remained relatively steady over the past 1.5-2 years, ranging from 3.8 to 4.0 times. This is lower than the UK average which has ranged between 4.0 and 4.2 times recently.

DCLG house price to income ratio (times)



The Government’s recently published Yorkshire and Humber Plan (revised Regional Spatial Strategy) includes a target to deliver over 22,000 homes each year from now until 2026 to help meet projected household growth. The proposed economic development in city and town centres is expected to lead to annual job growth of around 29,000. Development will be focused around 4 key 'regional cities' - Leeds, Hull, Sheffield and now Bradford. The Humber ports and Robin Hood airport will play vital roles as economic drivers and key gateways to the region.

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