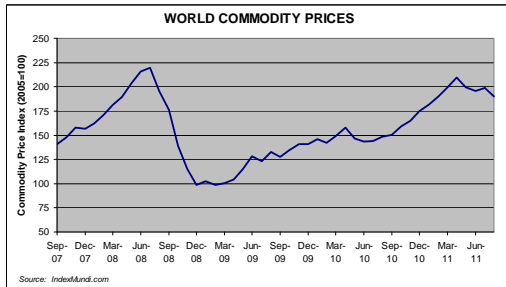


THE GLOBAL CONTEXT

Growth in the major economies has stagnated, with prospects little better for the rest of 2011



- the rate of expansion of the US economy has been slowing since the middle of 2010, and growth is now down to an annual rate of 1%
- the major EU economies also grew slowly in the 2nd quarter of 2011: 0.1% in Germany, zero in France, 0.3% in Italy, and 0.2% in Spain
- the price of crude oil remains around a third higher than a year ago, but is a little below the 3-year high reached in Spring
- commodity prices in general doubled in the 2 years to April 2011, but seem to have reached a peak at that point
- the Eurozone debt crisis and concerns over US economic prospects have badly damaged business and consumer confidence in the major economies

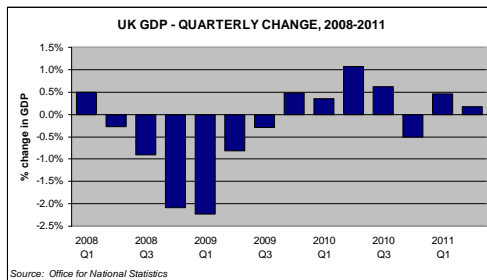
- growth in China has also eased somewhat, though the immediate economic impact of the disaster in Japan may have been less than originally expected

Forecasts/prospects. The latest OECD assessment states that growth is likely to stay weak in the G7 during the second half of the year. The volatility of the current global situation makes even these short-term forecasts more uncertain than usual.

Implications for Leeds City Region – while slower world growth may ease pressure on input prices, it will make export growth harder to achieve.

THE UK ECONOMY

There is mounting evidence of a slowdown in the UK economy



- the UK economy grew by 0.2% in the 3 months to June 2011. This means that GDP has grown by just 0.7% over the last year
- annual inflation in August 2011 was 4.5%, up marginally from 4.4% in July on the government's preferred Consumer Price Index measure
- the average rate of pay increases remains well below the rate of inflation, at 2.8% in the year to July 2011. The growth of regular pay (excluding bonuses) in the private sector, at 2.2%, was similar to the increase of 2% in public sector regular pay (though the latter figure drops to 1.8% when the publicly-owned banks are excluded)
- retail sales volumes in July 2011 were unchanged on a year ago, perhaps reflecting the squeeze on household incomes

- employment in the 3 months to July 2011 was a little higher than it had been a year earlier, but the numbers in work have started to fall in recent months. There were 29.2m people in employment (a rate of 70.5% of all adults), below the pre-recession peak of 29.6m in 2008
- public sector employment fell by 97,000 between March-June 2011 (excluding temporary Census staff), partly offset by the creation of 41,000 private sector jobs
- unemployment has begun to rise, and reached 2.5m in the quarter to July 2011, a rate of 7.9%
- the surveys of current business sentiment by Markit and the Chartered Institute of Purchasing & Supply reflect the slowdown in the world economy and the loss of business confidence. Manufacturing activity fell in August 2011 for the first time since 2009, led by a worrying drop in exports. While the construction industry continued to grow, the expansion of the service sector almost came to a halt, with the loss of confidence perhaps exacerbated by the impact of the riots

Forecasts/prospects. Independent forecasters now predict, on average, UK growth of 1.3% in 2011 and 2% in 2012, according to the latest HM Treasury summary. These reflect the slowdown that has occurred since the Office for Budget Responsibility published its forecast in March of 1.7% growth for 2011 (which they have admitted is unlikely to be achieved) and of 2.5% for 2012.

Implications for Leeds City Region – the current UK growth rate is so low that if London and the South East are continuing to expand, other parts of the UK such as the LCR could well be experiencing no growth or even decline.

LEEDS CITY REGION

The City Region's labour market position appears to be sliding back, and business activity is also slowing

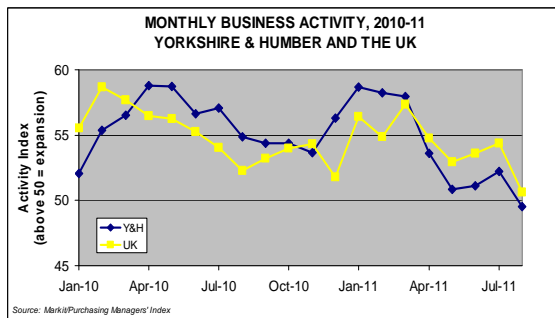
The latest available economic data and intelligence for the City Region includes the following:



- there were 13,000 fewer people in work in the Leeds City Region in 2010 than in 2009, and the employment rate (the proportion of adults with a job) remained below the UK average, at 68% compared to 70%
- within the City Region, the highest employment rates in 2010 were in Craven, Harrogate and Selby, though the precise figures are not statistically reliable. The lowest rate of 62% was recorded in Bradford
- the official unemployment total for the City Region in 2010 was

132,000, a rate of 9.1%. This is up on the figure of 8.3% for 2009, and is also above the 2010 English average of 7.8%

- the more up-to-date total of Job Seekers Allowance claimants stood at 84,500 in August 2011, 7,000 greater than a year previously. The City Region claimant rate of 4.3% is above the English average of 3.8%
- within the City Region, the August 2011 claimant rates range from 2% in Harrogate to 5.5% in Bradford. York is the only area to have experienced a drop in its claimant total (-3%) over the past year, whereas the fastest increase of 18% took place in Bradford
- there were 2,000 new business start-ups in the City Region in July 2011 (as measured by the number of new registered company bank accounts). The total to date in 2011 is 13,800, which is 4% higher than the figure of 13,300 for the same period in 2010
- City Region average house prices in the first quarter of 2011 were 5% below the previous three months, and 6% lower than the same period in 2010. The volume of property sales was 11% lower



- the August 2011 Lloyds TSB/Markit Purchasing Managers Index for Yorkshire & Humber as a whole suggests that private sector output fell in the month for the first time in over 2 years, while employment in the region fell for the 3rd consecutive month. On both indicators, Yorkshire & Humber performance is a little below the UK average
- the Quarterly Economic Survey by the Chambers of Commerce for the Leeds City Region showed a more positive picture for the 2nd quarter of 2011, with export sales continuing at well above pre-recession levels and levels of capital investment continuing to grow strongly
- however, profitability remained below pre-recession levels while the improvement in home sales appeared to have levelled off below 2007 levels

Forecasts/prospects

- the latest forecasts from Yorkshire Forward's Regional Econometric Model (published in March 2011) predict output growth of 2% for Leeds City Region in 2011 and 1.7% in 2012, similar to projected growth for Yorkshire & Humber as a whole
- looking back over the period of the recession and forward to 2015, private services (covering a large proportion of the economy from hotels & catering, transport, finance and business services to personal and cultural services) are expected to weather the crisis better than other parts of the economy, in that the sector could recover its output losses more quickly than manufacturing. Construction output is expected to remain well below peak levels for the foreseeable future
- the projected growth in City Region output is not expected to be sufficient to drive rapid job creation - 'full-time equivalent' employment in 2015 is predicted to be no higher than it was in 2009, and still 3% below the peak levels reached in 2007
- revised forecasts for the City Region will be available soon

Implications for the Leeds City Region – the slowdown in UK growth during 2011 makes it likely that the City Region economy will also expand more slowly than had originally been expected. City Region companies will need to work hard to win new business in this difficult climate.