

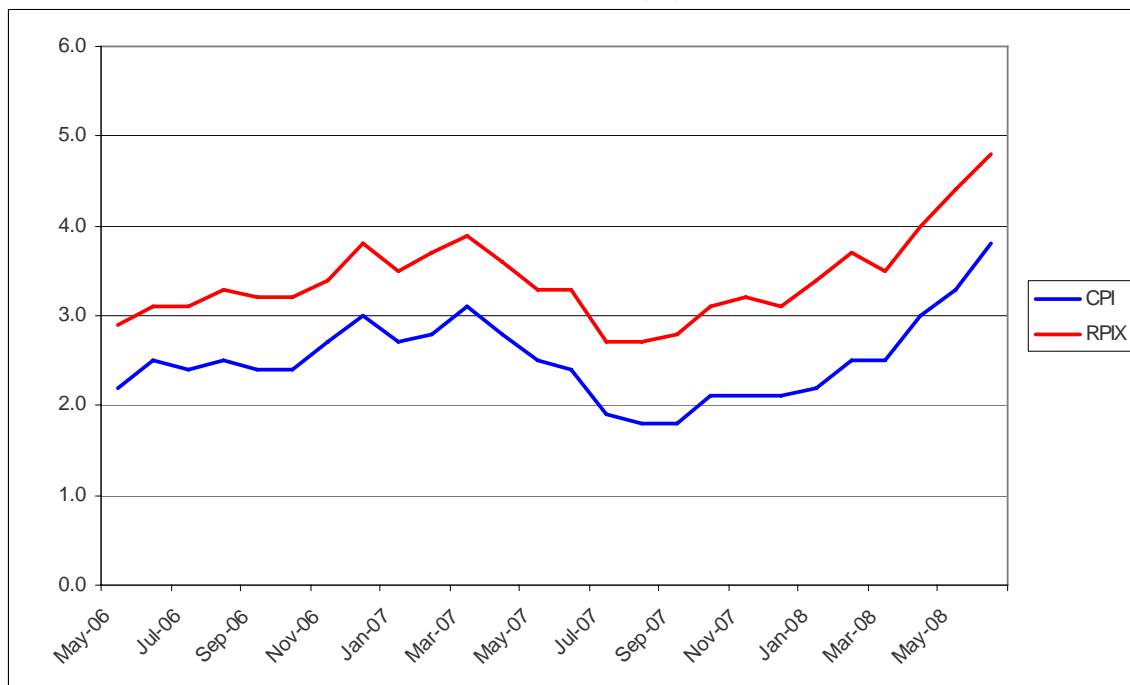
Monthly Economic Monitor: June/July 2008

Global and National Conditions

This section highlights the key international and national economic news from June:

- In the United States growth in the first quarter was stronger than earlier reported. The initial estimate of growth of 0.6% in the year to the end of the first quarter was revised upwards to 0.9%;
- The price of oil continued to rise through June and reached a record level of \$147 per barrel in mid July;
- In the Eurozone industrial production increased from 2.0% in the year to the end of March to 3.9% in the year to the end of April. However inflation in the Eurozone increased to 3.5% in May. In Germany, the largest Eurozone economy, inflation increased from 2.6% in April to 3.0% in May;
- The Governor of the Bank of England wrote an open letter of explanation to the Chancellor after inflation increased to 3.3% in May (and subsequently to 3.8% in June), which is more than one percentage point above the target of 2%. Inflation is being driven upwards by global increases in the price of food and energy. The final economic growth figure for the first quarter of the year was 0.3%, a downwards revision from the initial estimate of 0.4%

UK Inflation (%)



Source: Office for National Statistics, July 2008

The East Midlands Economy

There is evidence that the East Midlands economy continues to slow in line with the national economy.

The most recent survey evidence suggests that levels of activity continue to fall in the region, though not below the national averages. The British Chambers of Commerce report a deterioration in home sales and orders in both the manufacturing and service sectors of the economy in the second quarter of 2008. However manufacturers have reported an increase in export sales and orders, helped by the fall in the value of sterling during the past year. The Royal Bank of Scotland East Midlands PMI report also suggest that levels of output in the region declined during the second quarter.

On the whole the manufacturing sector is out-performing the service sector in the region. The industrial structure of the East Midlands, with relatively more manufacturing activity and lower levels of financial services than elsewhere, will provide the region with a degree of resilience in the face of the current slowdown.

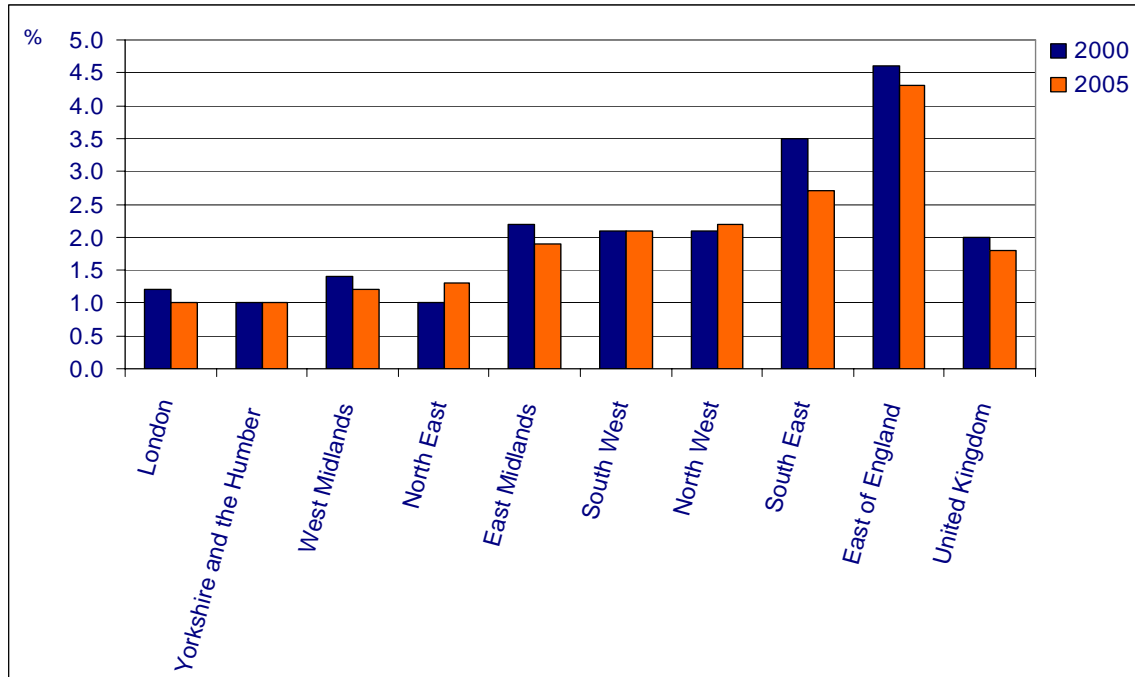
The labour market remains relatively strong. Although there has been a small increase in the unemployment rate and a small decline in the employment rate in the last year this is due to an increase in labour market participation. Announced job cuts have yet to impact on these numbers (flows on to and off from the claimant count are canceling each other out) but this may change in the next six months.

Innovation in the East Midlands

Innovation is defined by the Department for Business, Enterprise and Regulatory Reform (DBERR) as the successful exploitation of new ideas. For the economy as a whole, higher levels of innovation are a crucial element in raising productivity levels. For individual businesses, increased levels of innovation will lead to sustained or improved growth. One method of quantifying the level of innovation in a region is to look at the Gross Domestic Expenditure on Research and Development (GERD) as a percentage of Gross Value Added (GVA). GERD includes investment in innovation by businesses, government and universities. In this section we take a look at the latest data published by DBERR. The key results are outlined below:

- The level of GERD in the East Midlands was 1.9% in 2005, 0.1 percentage points higher than the UK average.
- Of the three components of GERD, business accounted for the largest proportion in the East Midlands, of 1.4% of GVA, whilst expenditure by higher education accounted for 0.4%, and by government just 0.1%.
- In 2005 the East Midlands was ranked fifth out of the nine English regions, down from third in 2000.
- The leading region in the UK is the East of England, where levels gross domestic expenditure on R&D are 4.3% and investment from business alone stand at 3.4% of total GVA, almost three times the average for the UK.

Gross Domestic Expenditure on R&D as % of GVA (2005)



Source: *Regional Competitiveness and State of the Regions*, Department for Business, Enterprise and Regulatory Reform 2008.

The East Midlands Labour Market

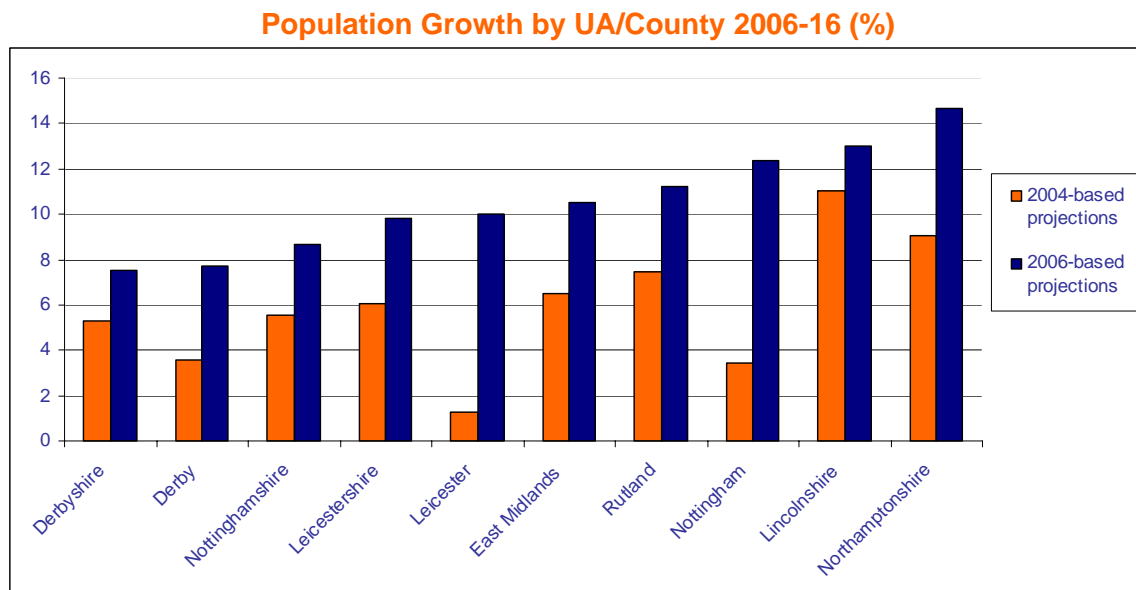
The latest monthly Labour Force Survey (LFS) suggests that the labour market in the East Midlands remains relatively strong, despite the economic slowdown. The employment rate is slightly lower in the three months to May 2008 compared to both the last month's and the last year's estimate but is still above the national average. The unemployment rate has increased both compared to last month's estimate and to the same period a year earlier, and now exceeds the national average.

- The seasonally adjusted employment rate in the East Midlands was 75.5% in the three months to May 2008, down 0.6 percentage points on last month's estimate and down by 0.5 percentage points on the same period a year earlier. This is compared to an employment rate of 74.9% in the UK, which is the same as last month's estimate and up 0.4 percentage points from a year earlier;
- In the East Midlands, the seasonally adjusted ILO unemployment rate for the three months to May 2008 was 5.6%, up 0.2 percentage points on last month's estimate and up by 0.3 percentage points on the same period a year earlier. In the UK, the unemployment rate was 5.3%, which is the same as last month's estimate and down 0.2 percentage points on the same period a year earlier;
- The provisional regional claimant count for June 2008 was 2.6%, up 0.1 percentage point on the last month and down by 0.1 percentage points from the same month a year earlier;
- The seasonally adjusted estimate of the number of economically active people in the East Midlands was 2.28 million, up 28,000 on the same period a year earlier.

2006 Based Population Projections

In June 2008, the Office for National Statistics (ONS) published new projections for the population of England at sub-national level. These are based on the 2006-Mid Year Population Estimates (MYE). These project the resident population of the English regions and their constituent Local Authorities from 2006 to 2031, on the basis of recent trends in births, deaths and migration. These new projections supersede the 2004-based projections, and represent a considerable increase in trend-based growth rates for most areas in England. Key points are as follows:

- If current trends continue, the East Midlands will experience the fastest growth of all English regions, growing by 10.5% between 2006 and 2016, equivalent to an additional 460,400 residents. The average growth for England as a whole over the decade is projected to be 7.8%;
- This exceeds the growth rate projected for the East of England (10.2%), the South West (9.7%) and Yorkshire and the Humber (9.3%);
- The 2004-based projections forecast a growth rate of 6.5% for the East Midlands between 2006 and 2016 – just over half the increase projected on the basis of the 2006 estimates. England as a whole was forecast to grow by 5.3% over the decade on the basis of 2004 estimates, over 2 percentage points less than the rate suggested by the newly released projections.



Source: ONS Crown Copyright, '2006-based Sub-national Population Projections', June 2008

Within the East Midlands, the 2006-based projections suggest that:

- Northamptonshire and Lincolnshire are still projected to experience the highest growth rates in the region. Between 2006 and 2016, Northamptonshire is projected to grow by 14.7%, an additional 98,300 residents over the decade. This is compared to the 2004-based projections, which forecast an additional 60,300 residents, or a total growth rate of 9.1%;
- The biggest changes between the 2004 and 2006-based projections are for Leicester and Nottingham, which had among the lowest growth rates in the region according to the 2004-based projections. The 2006-based projections

reverse this picture for Nottingham City, with the third highest projected rate of growth and suggest a very significant increase in growth for Leicester City:

- According to the new projections, Nottingham City will gain an additional 35,500 residents between 2006 and 2016, total growth of 12.4% while Leicester City will gain an additional 29,000 residents, a growth rate of 10%.

Key National Statistics	Rate	Monthly Change
Interest rate	5.00%	Unchanged
Retail Prices Index (all items)	4.6%	+0.3pp
RPIX Inflation	4.8%	+0.4pp
CPI Inflation	3.8%	+0.5pp
Producer Prices Index - PPI Output	8.9%	+1.3pp
Employment rate (%)	74.9%	Unchanged
ILO Unemployment rate (%)	5.2%	Unchanged
AEI Headline rate 3 month average (SA) - including bonuses	3.8%	
AEI Headline rate 3 month average (SA) – excluding bonuses	3.8%	
Claimant count rate (Jobseeker's Allowance)	2.6%	Unchanged
UK Gross Domestic Product	+0.3% (Q1:2008)	

Source: National Statistics (Crown Copyright), July 2008; Bank of England