QUARTERLY ECONOMIC OUTLOOK

October 2011

new
economy

Quarterly Economic Outlook

The Greater Manchester Quarterly Economic Outlook assesses the current economic climate, based on the latest detailed intelligence available on trends in the area, including unemployment, house prices and the commercial property market.

Positive signs have emerged in the last quarter, which suggest that GM's visitor economy is buoyant and its international profile is growing. Hotel occupancy rates were at record levels in June and July, while figures for August show that year-on-year growth remains strong.

The Conservative Party conference in Manchester will boost visitor numbers and the event could be worth around £27million to Greater Manchester's economy.

Furthermore, with both Manchester clubs now involved in the Champions League, the visiting fans from abroad should help to keep hotel occupancy levels high and bring increased expenditure to the local economy. Manchester City's FA Cup win and participation in Europe could be worth as much as £25 million to the economy alone.

Providing a clear sign of GM's world leading research capabilities, it was announced at the Conservative conference that the Government would be investing £50 million in a Global Research and Technology Hub to commercialise graphene – the Nobel-prize winning discovery made by scientists at the University of Manchester.

This is why securing the graphene research hub in GM is so important – it would help promote the area as a world-class centre for science and innovation in order to attract new businesses and create new employment.

Establishing a world leading research hub such as this in GM would help to address ongoing concerns around the North–South divide, with clear disparities remaining in employment, economic output, research funding, and house prices. In 2008 for example, the "North" received only 36% of total government non-HE related R & D investment, with 64% of the total going to the "South".

Analysing differences between the two areas is not a straightforward task, and it is too simplistic to think of the divide as purely being a line separating one half of the country from the other. It must also be recognised that the parts of the economy that are internationally focused and act as key drivers of growth (including corporate HQ's, science/R & D, and key export sectors) are more prominent in the South, whereas more domestically-focused activities, which have struggled in recent years, are more prevalent in the North – such as low-value manufacturing and public sector activities.

While GM is making significant progress in a number of areas, there can be no escaping the fact that the UK economy is in an extremely fragile state.

The downgrading of growth for the three months to June from 0.2% to 0.1% by the ONS means that the economy has actually flatlined for the last nine months. Current indicators are now more strongly pointing towards a double dip recession for the UK. Faced with this growing risk and the eurozone crisis, the Bank of England has announced a second round of quantitative easing in which it will inject £75 billion to try and revive the economy.

Key Data for Greater Manchester

Indicator	Date	Value	Annual Change
Total Jobseekers Allowance Claimants	Aug 2011	81,315	↑
Youth JSA Claimants (16-24)	Aug 2011	25,730	↑
Long-term JSA Claimants (6 months+)	Aug 2011	30,240	↑
Average house price	Aug 2011	£106,492	↓
Manchester Airport passenger numbers	Jul 2011	2,128,222	↑
Average GM hotel occupancy rate	Aug 2011	69.6%	↑
Manchester office take up (sq. ft)	Q2 2011	174,978	↑

PEOPLE OUTLOOK

UNEMPLOYMENT CONTINUING TO RISE IN GM

The total number of people claiming Jobseeker's Allowance in GM has risen over the last 12 months. The 81,300 JSA claimants recorded in August 2011 was 8.4% higher (+6,300) than in August 2010.

The number of people claiming for 6-months or longer in GM has been increasing since December 2010. The latest data are particularly worrying and they show that long-term claimant numbers in GM rose by more than 1,600 (+5.4%) between July and August, reaching 30,200.

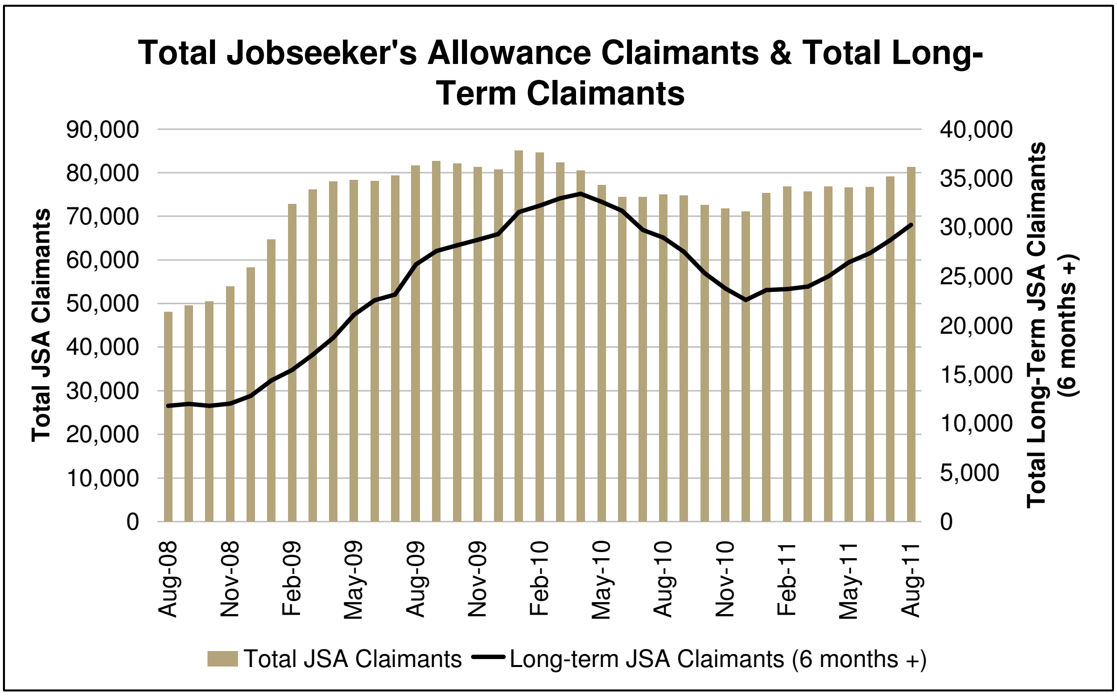
The economic slowdown is also having a major impact on the job prospects of young people. The number of youth (16–24) claimants in GM is continuing to increase and was 25,700 in August – a rise on the July figure of nearly 1,400 (5.6%).

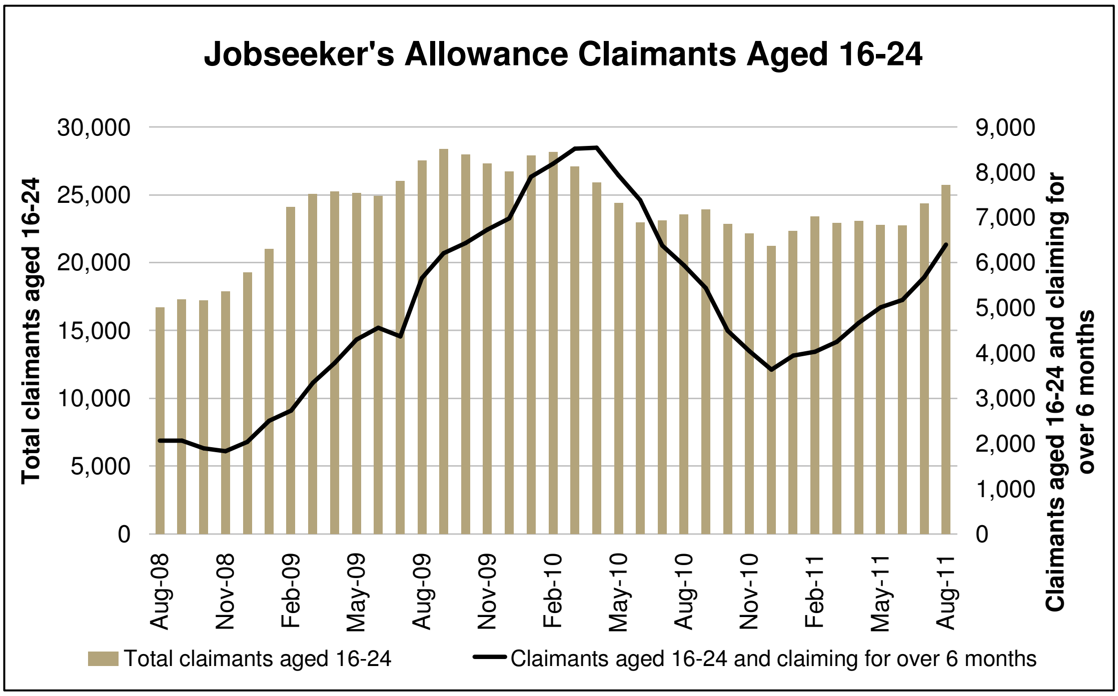
Youth claimants peaked in GM in September 2009 at 28,000, however if the current trend continues this figure could be surpassed before the end of 2011.

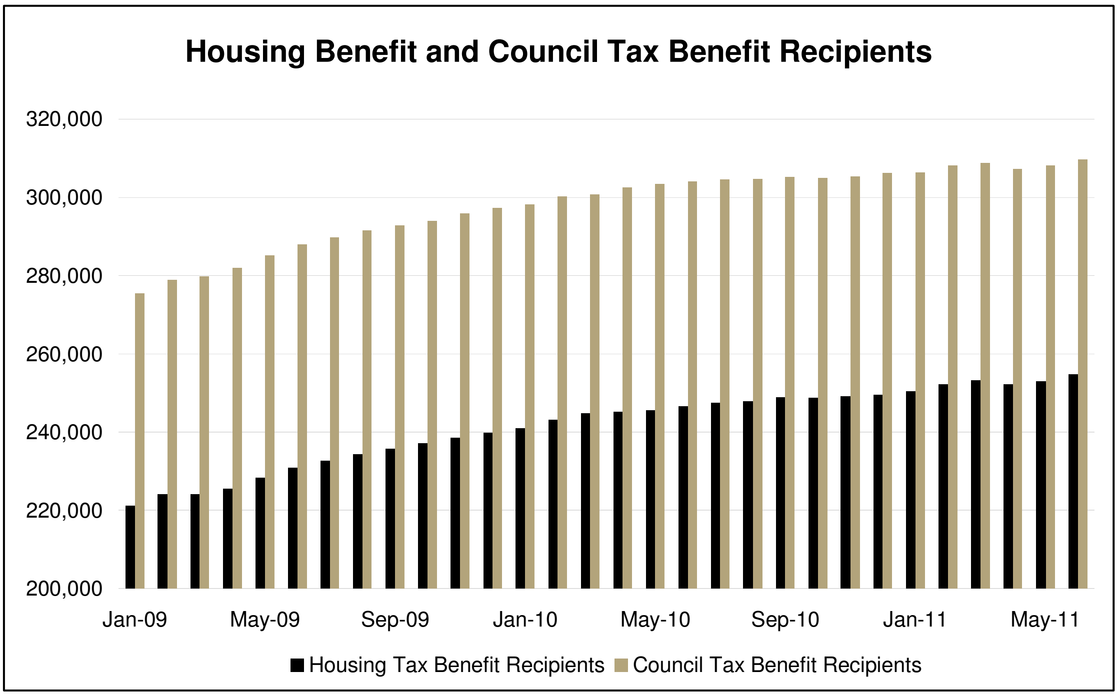
GM has actually performed better than the NW and UK on claimant count increases, but this emphasises the overall weakness of the economy nationally, and therefore the difficulty of restoring growth in GM.

With public sector cuts now beginning to bite, the economic climate in GM is likely to remain challenging over the coming months. Further increases in unemployment look to be inevitable, especially at a time when vacancy numbers are falling and output continues to flatline.

Data published by the Department for Work & Pensions shows that across GM the number of Housing Benefit and Council Tax Benefit recipients increased in June 2011, by 3.3% to 255,000 (+8,100) and by 1.8% to 310,000 (+5,600) respectively.




Jobseeker's Allowance Claimants Aged 16-24
Total claimants aged 16-24
Claimants aged 16-24 and claiming for over 6 months
30,000
25,000
20,000
15,000
10,000
5,000
0
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
Aug-08
Nov-08
Feb-09
May-09
Aug-09
Nov-09
Feb-10
May-10
Aug-10
Nov-10
Feb-11
May-11
Aug-11
Total claimants aged 16-24
Claimants aged 16-24 and claiming for over 6 months


Housing Benefit and Council Tax Benefit Recipients
320,000
300,000
280,000
260,000
240,000
220,000
200,000
Jan-09
May-09
Sep-09
Jan-10
May-10
Sep-10
Jan-11
May-11
Housing Tax Benefit Recipients
Council Tax Benefit Recipients

LATEST EMPLOYMENT DATA HIGHLIGHT IMPACT OF THE DOWNTURN ON GM'S SECTORS

New data have been released by National Statistics as part of the Business Register and Employment Survey (BRES), breaking employment down by sector up to and including 2010.

Whilst the new data can be subject to errors that mean it should treated with caution, it does provide the most up-to-date official picture of how GM has been affected by the economic downturn. Between 2008 and 2010, total employment in GM declined by 3.0% – equating to 35,000 fewer jobs. In total, 1.128 million people were working in GM in 2010.

The change in GM's population was down to the decline in full-time employment. Part-time working grew very slightly in GM from 2008 to 2010 – up by 0.1% or 250 jobs. Full time employment fell by 4.3% (-35,400).

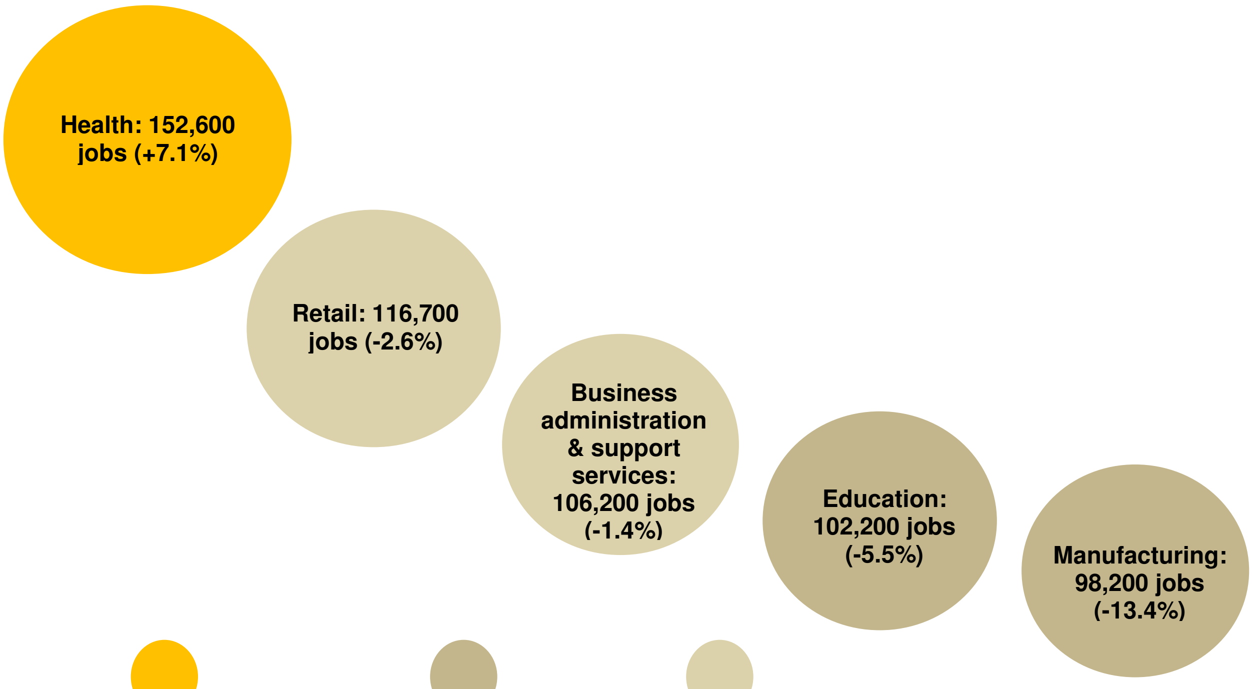
In both absolute and relative terms, the sector most affected in GM by the downturn was construction, which suffered a 25.2% drop (-17,300) in job numbers between 2008 and 2010. Manufacturing (-15,200 jobs) also saw a substantial decline in employment over the same period.

The (largely public) health sector remains the largest employer in GM, and actually grew by more than 10,000 jobs (+7.1%) between 2008 and 2010. Retail is the second largest employer at just under 117,000, although the sector saw a 2.6% decrease (-3,100) in jobs up to 2010.

At a local authority level in GM, Manchester experienced the largest absolute decline in jobs from 2008 to 2010 at 9,000 (-2.9%). The financial & business services sector alone lost 7,500 jobs in Manchester over this timeframe. In relative terms, Rochdale suffered the highest fall at 7.2% (-5,400 jobs).

The only local authority in GM to buck the trend of declining jobs between 2008 and 2010 was Wigan, which saw an additional 1,300 roles (+1.4%) created. This was largely due to gains made by the largely public education and health sectors.

Top 5 Sectors in Greater Manchester by Employment Size in 20 10



High Growth (>5%, 08-10)

High Decline (>-5%, 08-10)

Decline (<-5%, 08-

Source: Business Register and Employment Survey

BUSINESS ACTIVITY

PROPERTY MARKET REMAINS STABLE IN GM BUT TOUGH TIMES FOR THE CONSTRUCTION INDUSTRY

Demand for good-quality space in Manchester city centre remains strong, but while office and industrial rents in Manchester have risen in the last 12 months according to Cushman & Wakefield, they remain below their pre-recession levels.

Outside London, Manchester's office market has the highest prime rents in the UK at £30 per sq. ft. – up from £27 per sq. ft. in Q2 2010.

Industrial rents rose slightly over the last year to reach £5.50 per sq. ft., but prime rents in the retail sector have declined.

In its second quarter report for 2011, DTZ forecasts that take-up in the Manchester office market is expected to fall back to the long-term average. Office take-up in Manchester increased during the second quarter of 2011 to 175,000 sq. ft. Half year take-up was 300,000 sq. ft., around 40% below the long-term average.

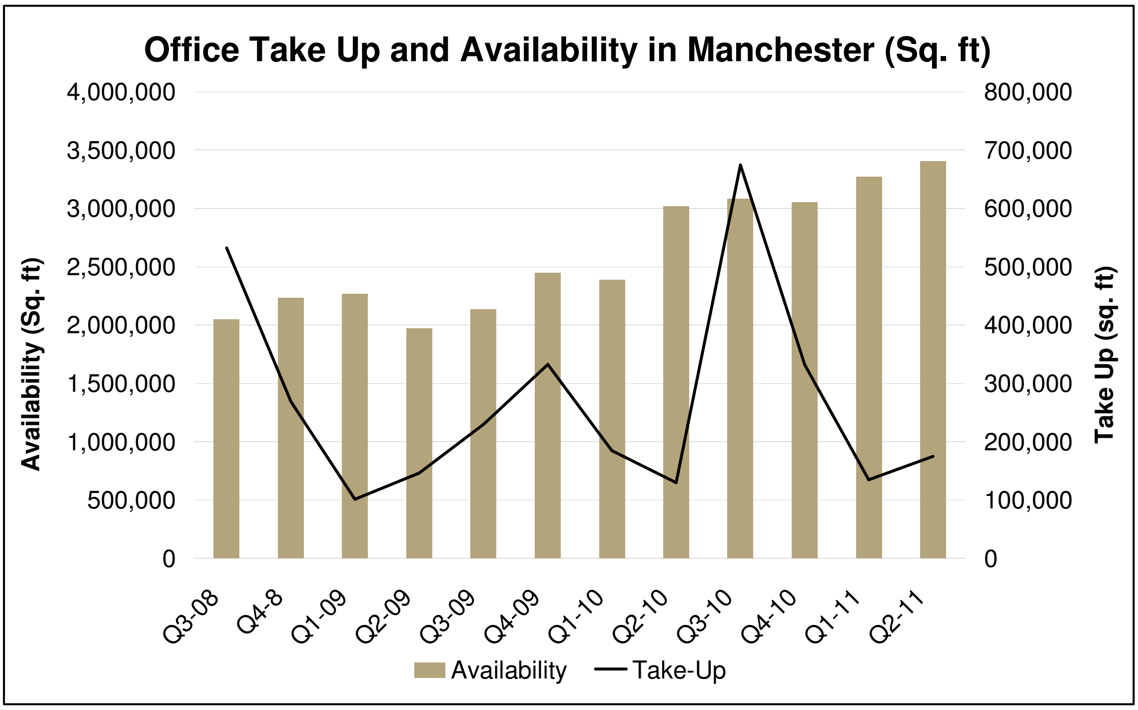
There was positive news in July when Aegis, a global outsourcing services provider, announced it was entering the UK and European market for the first time. The move will create up to 600 new jobs and the company has agreed to take 36,000 sq. ft. of space at City Tower in Manchester city centre. KPMG has also signed a pre-letting deal to take 65,000 sq. ft. of space at the One St Peter's Square development, with the move planned in 2015.

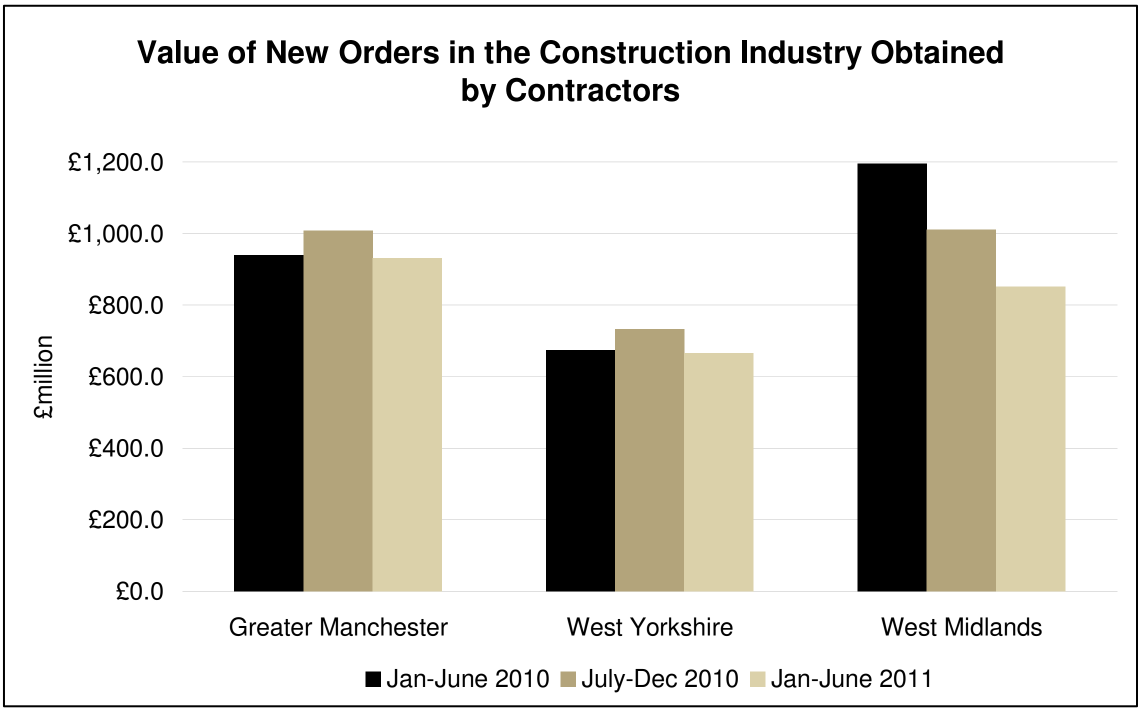
Continuing to look to the future, CBRE believes that trends in the market will encourage developers planning to start work on new city centre office schemes. Subject to the funding markets improving, it anticipates two or three new developments starting in 2012/13 in response to the known existing lease expiries within Manchester's professional services sector.

Official data published by National Statistics show that building firms and contractors reported falling orders in the first half of 2011. Factors such as reduced expenditure on school and hospital building and a collapse in demand from the retail industry are likely to be some of the reasons for the declines.

In GM, the total value of new orders in the construction industry obtained by contractors for January–June 2011 was £930.7 million. This was £8.1million down on the figure for the same period in 2010, and was £77.0 million less than the value of new orders obtained in the second half of last year.

	Prime Rents, June 2011 (£/sq. ft)			Annual Trend		
Area	**Office**	**Industrial**	**Retail**	**Office**	**Industrial**	**Retail**
Manchester	£30.00	£5.50	£250.00	↑	↑	↓
Birmingham	£28.50	£5.50	£250.00	↑	↓	↓
Bristol	£27.50	£7.75	£150.00	↑	↑	↓
Leeds	£25.00	£5.00	£250.00	↓	↓	↔
Newcastle	£22.00	£4.25	£250.00	↔	↓	↓
Cardiff	£21.00	£5.50	£225.00	↔	↔	↑
Edinburgh	£27.00	£7.50	£200.00	↔	↔	↑
Glasgow	£29.00	£6.25	£250.00	↔	↑	↔


Office Take Up and Availability in Manchester (Sq. ft)
Availability (Sq. ft)
Take Up (sq. ft)
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
Q3-08
Q4-8
Q1-09
Q2-09
Q3-09
Q4-09
Q1-10
Q2-10
Q3-10
Q4-10
Q1-11
Q2-11
Availability
Take-Up


Value of New Orders in the Construction Industry Obtained by Contractors
£million
£1,200.0
£1,000.0
£800.0
£600.0
£400.0
£200.0
£0.0
Greater Manchester
West Yorkshire
West Midlands
Jan-June 2010
July-Dec 2010
Jan-June 2011

PLACE

ENCOURAGING TRENDS IN THE VISITOR ECONOMY AND AIRPORT PASSENGER NUMBERS

The visitor economy is performing well in GM. In particular, hotel occupancy in Manchester city centre was at its highest levels in June and July since recording of the figures began in 2000 – standing at over 80% in each month.

The latest data for August 2011 show that occupancy levels have fallen back, however the year-on-year trend remains positive. For January–August 2011, the average hotel occupancy in GM was 72.0%, well above the 68.0% occupancy recorded for the corresponding period in 2010.

Passenger numbers at Manchester Airport are continuing to rise and reached 2.1 million in July 2011, representing the fifth consecutive month of growth. On an annual basis this translates into an increase of 5.6% (112,000 passengers) when compared with the corresponding figure for July 2010.

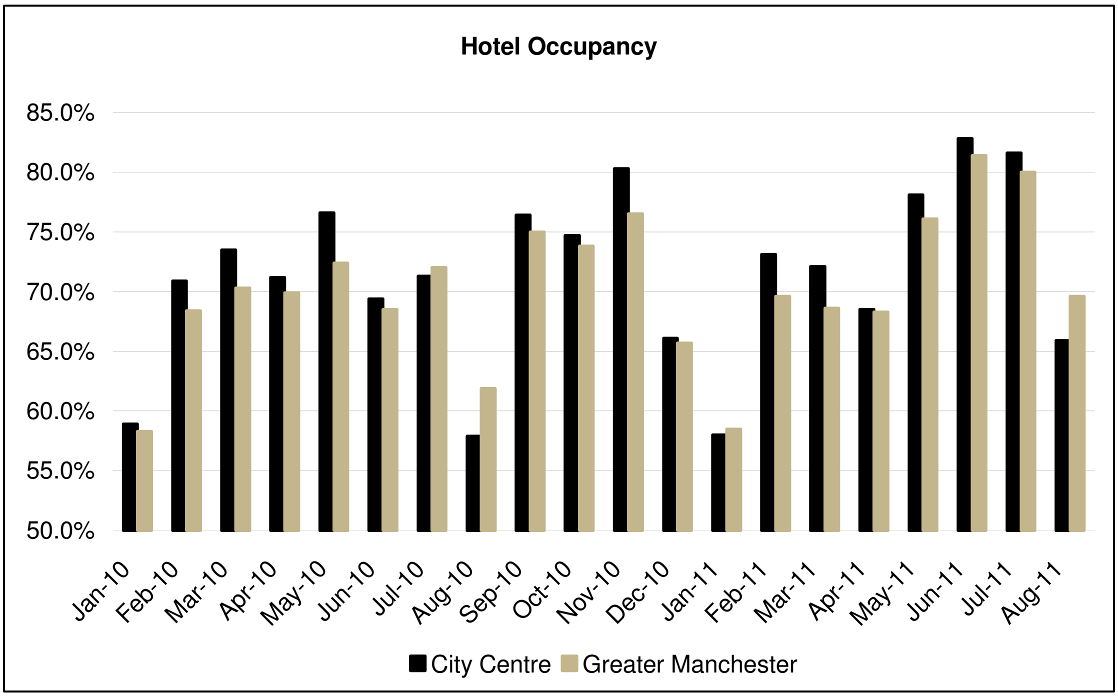
The increase in passenger numbers at Manchester Airport has been fuelled by growth on scheduled international services, which handled 1.24 million people in July 2011 – nearly 180,000 more than in July 2010. Manchester now serves more international destinations than Heathrow.

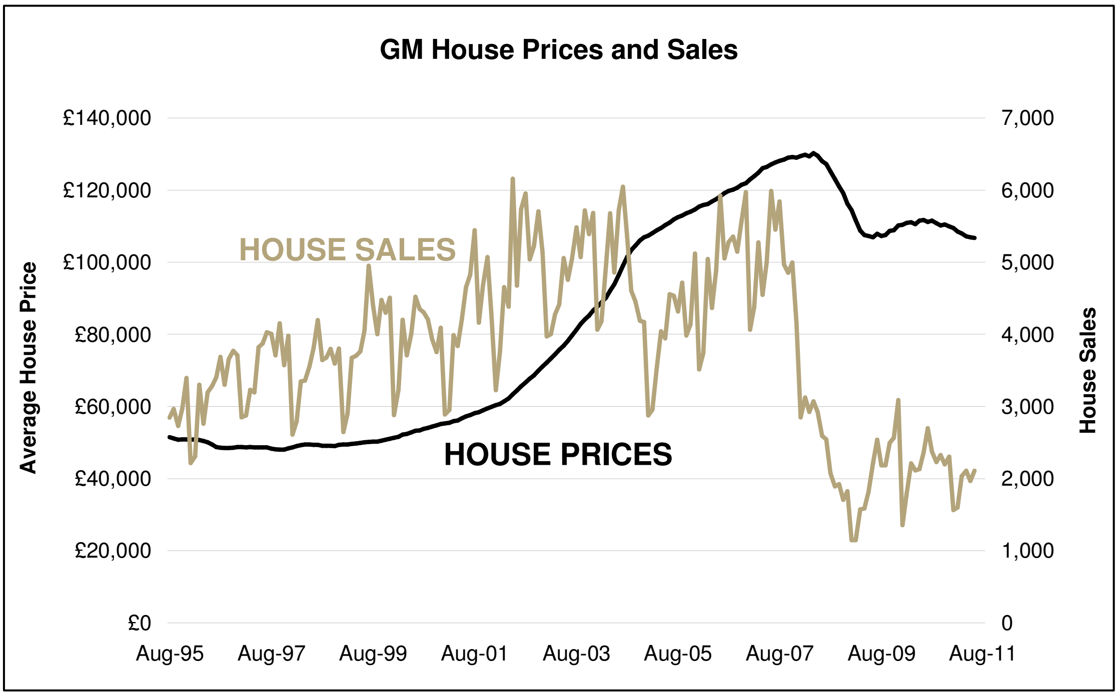
Up to and including July, total passenger numbers at Manchester Airport this year are just over 10.5 million, a rise of 7.7% (+756,000) compared to January–July 2010.

Less positively, the housing market continues to struggle, and the average property in GM cost £106,492 in August 2011, continuing a stagnation in prices since April. In comparison, the average cost of a house in England and Wales currently stands at £162,347, highlighting that GM remains relatively affordable.

Property sales have also stagnated in GM, while at the same time the cost of renting has increased, making it increasingly difficult to save the required deposit to buy a property.

*August figure is provisional


Hotel Occupancy
85.0%
80.0%
75.0%
70.0%
65.0%
60.0%
55.0%
50.0%
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Mar-11
Apr-11
May-11
Jun-11
Jul-11
Aug-11
City Centre
Greater Manchester


GM House Prices and Sales
Average House Price
£140,000
£120,000
£100,000
£80,000
£60,000
£40,000
£20,000
£0
House Sales
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
HOUSE SALES
HOUSE PRICES
Aug-95
Aug-97
Aug-99
Aug-01
Aug-03
Aug-05
Aug-07
Aug-09
Aug-11

CONTRASTING FORTUNES FOR THE NORTH AND SOUTH

There continue to be a number of disparities between the North and South of England in several areas, including: employment; economic output; research funding; other government funding/investment; and house prices.

The "North" generally incorporates the North West, North East and Yorkshire & Humber. As a result of data limitations, it may also include the East Midlands and West Midlands where a more specific definition cannot be produced. The "South" comprises London, the South West, South East and East of England.

Employment

Between 1998 and 2008, the South increased its private sector employment by 7.1%, whereas in the North the rise was only 1.2% – an increase of only 100,000 over the decade.

Over the same period, the share of public sector employment in the North increased to 25.2% (from 2.4 million up to 3.0 million), while in the South it grew 24.1% (2.5 million, rising to 3.1 million). The change in public sector employment shares was very similar.

However, as a result of the lack of private sector job creation in the North, the public/private balance shifted towards the public sector more in the North than in the South. By 2008 the public sector accounted for 28.1% of total employment in the North, compared to 24.9% in the South.

Economic Output

In 2008. the North contributed £424.6bn toward national Gross Value Added (GVA), compared to the South which contributed £234.1bn more, at £658.7bn. GVA per head also varies – in 2008 it was £17,300 in the North, compared to £21,100 in the South.

Although GVA in the North grew by 61.4% between 1997 and 2008, the South grew significantly faster (85.5%), and so the contribution of the North of England to national GVA fell from 42.6% in 1997 to 39.2% in 2008.

GM actually performs well when its economic output is compared to other parts of the North. For example, in 2008 GM's total GVA was £47.7 billion, significantly higher than the entire North East region (GVA of £40.1 billion).

While GM performs well when compared to other areas of the North, it must be noted that there are clear differences in the contributions made by South Manchester (GVA of £32.2bn in 2008) North Manchester (GVA of £15.5bn in 2008) in terms of economic output.

Research Funding

There are vast differences in both government and private sector research investment between the North and South of England. Data on total non-higher education (HE) expenditure on research and development (R & D) (Eurostat, 2008) show that significant disparities exist in the levels of R & D spending in the South and North of England – for the private, public and not-for-profit sectors.

Although Government spending per capita is higher in the North (£8,100) than in the South (£7,800), it is disproportionately influenced by spending to manage decline (particularly benefit spend) rather than to support growth. On spending to support growth, the North fares much worse, receiving just 36% of total government non-HE related R&D investment for England.

There is also far larger private sector research investment in the South. Just 12.1% of England's total private R & D spend is spent in the North of England – £10 per capita in the North compared to almost £66 per capita in the South. Therefore, whilst the South is 36% bigger in economic terms, it receives over 550% more in private sector R & D spend than the North.

Other Government Funding and Investment

A range of other government investment policies are disproportionately committed to investment in the South (and London in particular).

For example:

- £15.7bn was committed to the cost of constructing Crossrail in 2007, which has a modest benefit to cost ratio of 1.97:1 under DfT's own estimates, compared to a benefit to cost ratio of 4:1 for the Northern Hub, which has struggled to secure investment of £0.5bn.

- The Olympics in London will cost over £9 billion to the UK taxpayer – whilst this will generate direct, indirect and induced economic benefits for the UK as a whole, since this are largely realised through regeneration, construction of new infrastructure, new housing, tourism, increased consumer spending and marketing, these will primarily accrue in London and the South East.
- The policy of Quantitative Easing (QE) disproportionately benefits the South, and the City of London in particular. A recent report by BCA Research argues that the approach of creating electronic money pushes up share prices and profits without feeding through to wages. As such, QE ends up overwhelmingly in profits, thereby exacerbating already extreme income inequality across Britain. As the Bank of England injected £200bn of newly created money, mostly on government bonds, the price of many assets, including shares and commodities such as oil, was driven up, negatively impacting upon the cost of living.
- The first round of successful Regional Growth Fund bids has been announced, with a total of 43 successful bids. Thirty of the bids are in the North, compared to only five in the South. While this may be seen as a positive outcome, the amount of funding each bid will receive is extremely small when considered against the overall gap in economic performance with the South.
- As part of government attempts to ease housing shortages, the New Homes Bonus Scheme has been introduced. Beginning in April 2011, it match funds the additional council tax raised for new homes and empty properties brought back into use, with an additional amount for affordable homes for the following six years. However, the scheme may well take money away from authorities in the North and redistribute it to wealthier areas in the South, where demand for expensive housing is far greater. The transfer of funds from North-South could be as high as £101 million over the next three years.
- The government is proposing to reform local government finance by enabling councils to retain business rates, which represent more than 80.0% of the government grant to councils. The plans are still at the consultation stage, however a critical issue to address is the extent to which stronger economies disproportionately benefit from the policy. Although GM in toto is likely to benefit, there will be large areas of the broader North that will not benefit, whilst the South overall will be a net beneficiary.

House Prices

The housing market is clearly facing its own struggles, and with the exception of London, all regions in England & Wales have suffered an annual fall in average property prices.

House prices in England and Wales declined by 2.6% (£4,300) between August 2010 and August 2011. The average cost of a house in England and Wales currently stands at £162,347.

In contrast, London saw a 2.1% rise in prices over the same period. Of concern for the North, the North West (-5.4%), North East (-7.8%) and Yorkshire & Humber (-4.6%) all saw more severe declines in house prices from August 2010 to August 2011 than any region in the South of England.

A similar North–South divide is evident in Greater Manchester. Manchester, Stockport, Salford and Trafford all saw monthly increases in house prices between July and August, whereas districts in the North of GM suffered declines.

UK OUTLOOK

FALLING GROWTH SPARKS FEARS OF A DOUBLE DIP RECESSION

The UK economy grew by only 0.1% in Q2 2011, while annual GDP growth was less than 1.0% One-off factors such as the extra bank holiday in April for the Royal Wedding and the Japanese tsunami played a part, but the figure was still disappointing, and the risk of a double dip recession has sharply increased.

The Bank of England has just announced another round of quantitative easing to try to stimulate the flagging economy. The Chancellor has also announced a new "credit easing" initiative to help small businesses, as the Government strives to find new ways for companies to find much needed credit.

For the 31st consecutive month, the Bank of England opted to leave interest rates unchanged at 0.5%. The last time rates were above this figure was in February 2009 when they stood at 1.0%.

CPI annual inflation reached 4.5% in August, up from 4.4% in July and reflecting higher prices for clothing and footwear, petrol and energy. Downward pressure from transport services, especially the cost of flying, helped to offset some of these price rises.

Inflation has been well above the Bank of England's target rate of 2.0% for 63 of the last 74 months, although it expects inflation to return to target in the next two years. RPI annual inflation was 5.2% in August, higher than the figure of 5.0% in July.

The UK's deficit on trade in goods and services was £4.5 billion in July, virtually the same as the June figure, driven by a deficit on goods trade of £8.92billion that was not compensated for by a surplus on services of £4.47billion.