

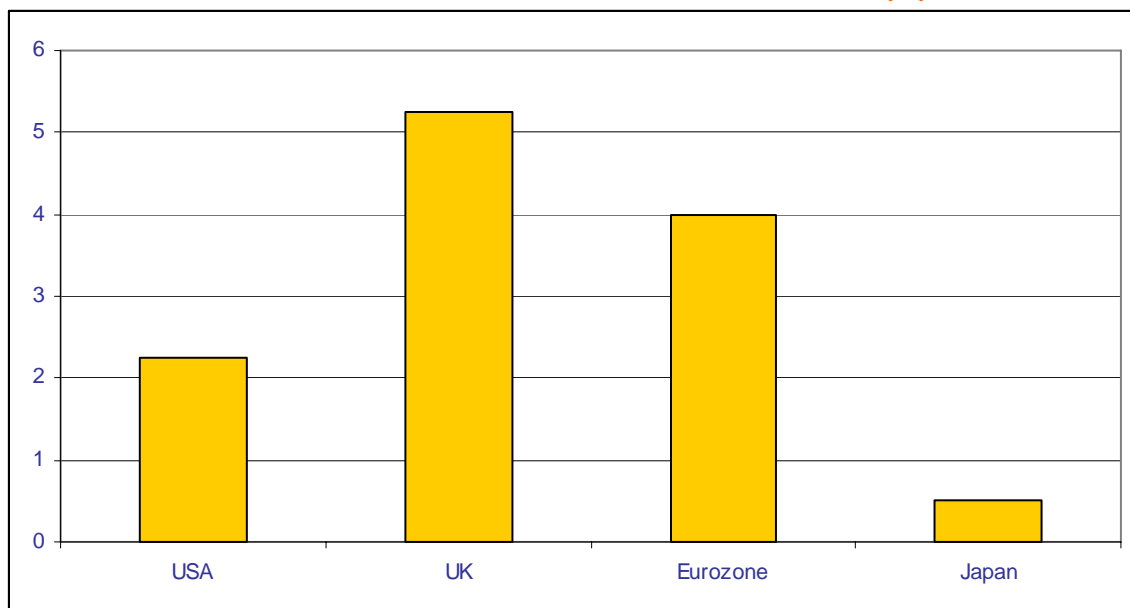
Monthly Economic Monitor: **March 2008**

Global and National Conditions

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

- In the United States the Federal Reserve Open Market Committee cut interest rates by three quarters of a percentage point at it's latest meeting. Interest rates in the USA are now just 2.25% and are significantly lower than in the UK and the Eurozone. This cut came after the collapse of the investment bank Bear Stearns;
- The Governing Council of the European Central Bank left interest rates unchanged at 4.0% at its March meeting. The euro reached its highest rate against the dollar since its introduction and has also appreciated significantly against the pound during the last 6 months;
- The Bank of England's Monetary Policy Committee left interest rates unchanged at 5.25% at its March meeting. In his budget speech the Chancellor of the Exchequer cut his forecast of economic growth in the UK to 1.75-2.25% in 2008. The forecast for the following two years remained unchanged, with growth expected to increase to 2.75% by the end of 2009. Inflation increased from 2.2% in January to 2.5% in February, the highest for nine months.

Interest Rates March 2008 - Selected Countries (%)



Source: Royal Bank of Scotland; Bank of Japan

The East Midlands Economy

The East Midlands has experienced a relatively strong final quarter of 2007 (Oct-Dec), though there are indications that levels of activity might be easing. Survey evidence suggests that growth in economic activity in the region is starting to slow. However, business confidence remains relatively high, particularly in the manufacturing sector.

Recent survey evidence suggests that, despite an easing of economic activity in the East Midlands, the region compares relatively well with the UK. Although the British Chambers of Commerce Quarterly Economic Survey (BCC QES) for the final quarter of 2007 reported a decline in domestic sales and orders among the region's manufacturers, these figures remain significantly higher than the national average. There was a similar pattern among service sector companies, but export sales and orders were lower in the East Midlands. The Royal Bank of Scotland Purchasing Managers Index series suggests that growth in levels of output and employment in the region started to slow during the early months of 2008. The Engineering Employers Federation reported relatively strong output figures among the region's manufacturers in the final quarter of 2007.

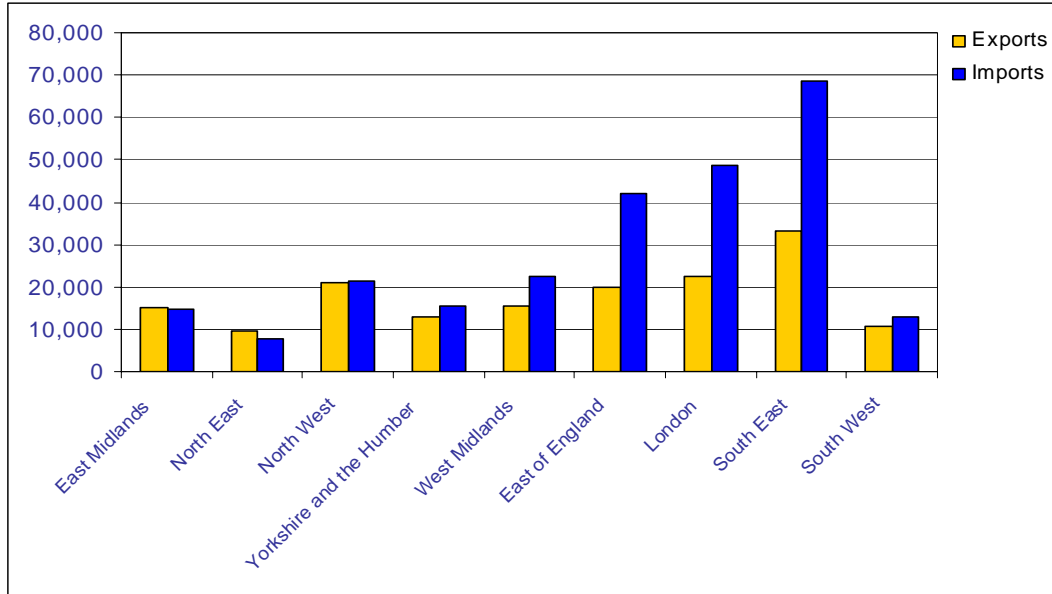
Looking forward, the BCC QES reports an increase in confidence in the manufacturing sector. However, in the service sector levels of confidence in the region dipped slightly in the final quarter of 2007 but remain in line with the national average.

Regional Trade

In this section we take a look at trends in regional trade using the latest data available from HM Revenue & Customs (HMRC). Import and export data is currently available to the end of the fourth quarter of 2007 with provisional annual totals for 2007 also published.

- In the final quarter of 2007 the value of East Midlands' exports was around £3.8bn, whilst the value of imports was around £3.9bn. In the same period the value of UK exports was £57.5bn, whilst imports were a lot higher at around £80bn;
- Provisional figures for 2007 as a whole show the value of East Midlands exports was around £15.1bn (6.9% of UK total) and imports around £14.7bn (4.8% of UK total);
- Figures for 2007 show that 55.4% of the value of exports from the East Midlands went to EU25 countries. Only 49.0% of the value of imports originated from EU25 countries;
- In 2007 the South East had the highest value of imports (at £68.7bn) and exports (£33.3bn) of any region in the UK;
- Between 2006 and 2007 the UK has seen a reduction in the value of exports by around 10%. The East Midlands has seen a slightly larger fall of 15.5%. London was the worst affected region seeing a reduction in the value of its exports of almost a quarter over the same time period;
- In contrast the value of imports increased in all regions with the exception of the North West and London where small reductions were seen. The value of imports in the East Midlands increased by 7.3%, the North East saw the largest rise in the value of imports, at 22.8%.

Regional Trade 2007 (£m)



Source: UK Regional Trade in Goods Statistics, HM Revenue & Customs, 2007, from uktradeinfo, March 2008

The East Midlands Labour Market

Based on the latest Labour Force Survey (LFS) data the labour market in the East Midlands remains relatively strong. The employment rate has fallen in the last month and is lower than a year ago but remains above the UK average. The unemployment rate has increased compared to last month but is not significantly different from a year ago.

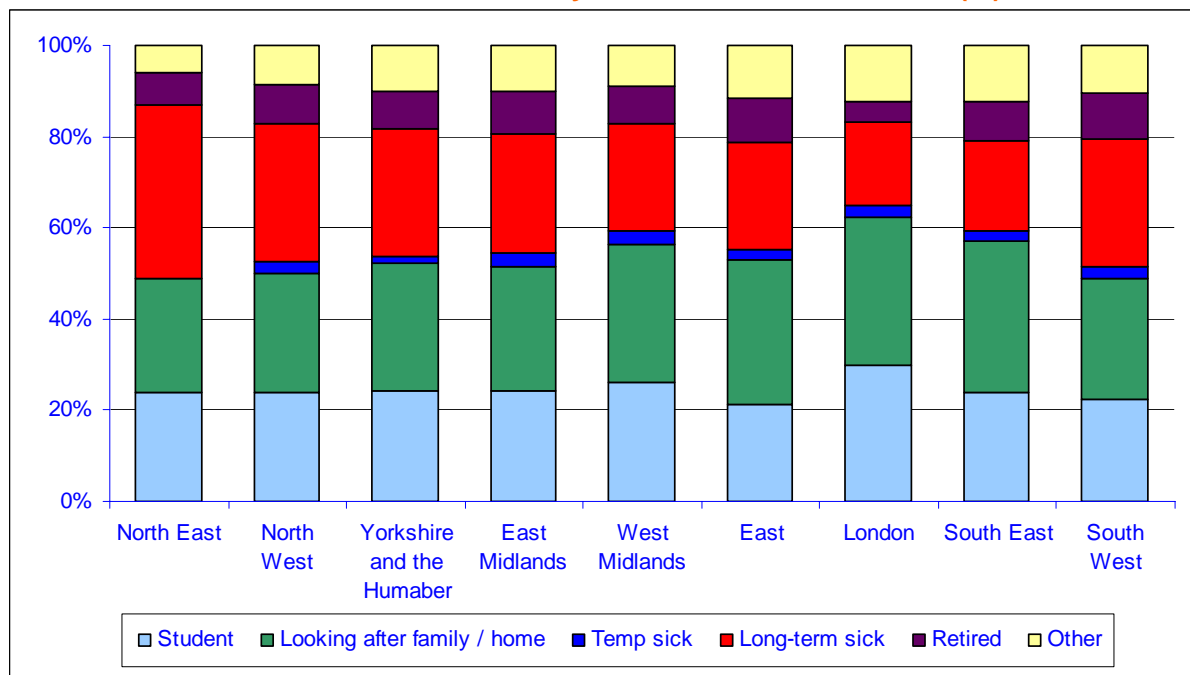
- The seasonally adjusted employment rate in the East Midlands was 75.4% in the three months to January 2008, down 0.4 percentage points on last month's estimate, and down 1.0 percentage points on the same period a year earlier. This is compared to an employment rate of 74.8% in the UK, which is up by 0.3 percentage points on 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 January 2008 was 5.5%, down by 0.2 percentage points on both last month's estimate and the same period a year earlier. In the UK, the unemployment rate was also 5.2%, down by 0.1 percentage points on last month's estimate and down 0.3 percentage points on the same period a year earlier;
- The regional claimant count for February 2008 was 2.4%, down by 0.4 percentage points from the same month a year earlier;
- The seasonally adjusted economically active working age population in the East Midlands was 2.27 million in November 2007 to January 2008. The activity rate was 80.0% in this period down by 1.2 percentage points on the same period a year earlier;

Economic Inactivity in the East Midlands

The Labour Force Survey (LFS) asks respondents the main reason why they are not looking for work or are unavailable for work. The main economically inactive groups are students, people looking after the family and home, the long-term sick and disabled, the temporarily sick or injured, retired people and discouraged workers:

- The seasonally adjusted inactivity rate for the working age population for the three months to January 2008 is 20.0% in the East Midlands. This rate is the highest in North East and London at 23.9% and 24.2% respectively. The lowest inactivity rates can be found in South East, South West and East at 17.3%, 17.4% and 17.7% respectively;

Reason for Economic Inactivity, October- December 2007 (%)



Source: Labour Market Statistics Regional Monthly Data
<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15084>

Note: Data refer to the period October-December 2007 and they are not seasonally adjusted. Retired people are defined as those aged over 59 for women and those over 64 for men.

- The characteristics of people who are economically inactive vary depending on their reason for inactivity. The percentage of students among the inactive population is 24% in the East Midlands. This rate is the highest in London at 29.5%, followed by the West Midlands at 25.8%. Those who look after family and home account 27.5% of the East Midlands' inactive population. This proportion is the highest in the South East and in London at 33% and 32.3% respectively. The third biggest sub-group of the inactive is the long-term sick population, which accounts for 26.2% in the East Midlands. This proportion is 37.1% in the North East and 30.1% in the North West.
- The inactive group can be divided into those who want a job and those who do not. Although this is not a proper reflection of whether people will move into economic activity, it gives some indication of the strength of people's labour market attachment. In the East Midlands 24.9% of the inactive want a job. This proportion is almost 30% in the North East and 28.6% in the South

East, while is just 22.6% in the West Midlands and 23.8% in the Yorkshire and Humber.

Key National Statistics	Rate	Monthly Change
Interest rate	5.25%	Unchanged
Retail Prices Index (all items)	4.1%	Unchanged
RPIX Inflation	3.7%	+0.3pp
CPI Inflation	2.5%	+0.3pp
Producer Prices Index - PPI Output	5.7%	Unchanged
Employment rate (%)	74.8%	+0.3pp
ILO Unemployment rate (%)	5.2%	-0.1pp
AEI Headline rate 3 month average (SA) - including bonuses	3.7%	
AEI Headline rate 3 month average (SA) – excluding bonuses	3.7%	
Claimant count rate (Jobseeker's Allowance)	2.5%	Unchanged
UK Gross Domestic Product	+0.6% (Q4:2007)	

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