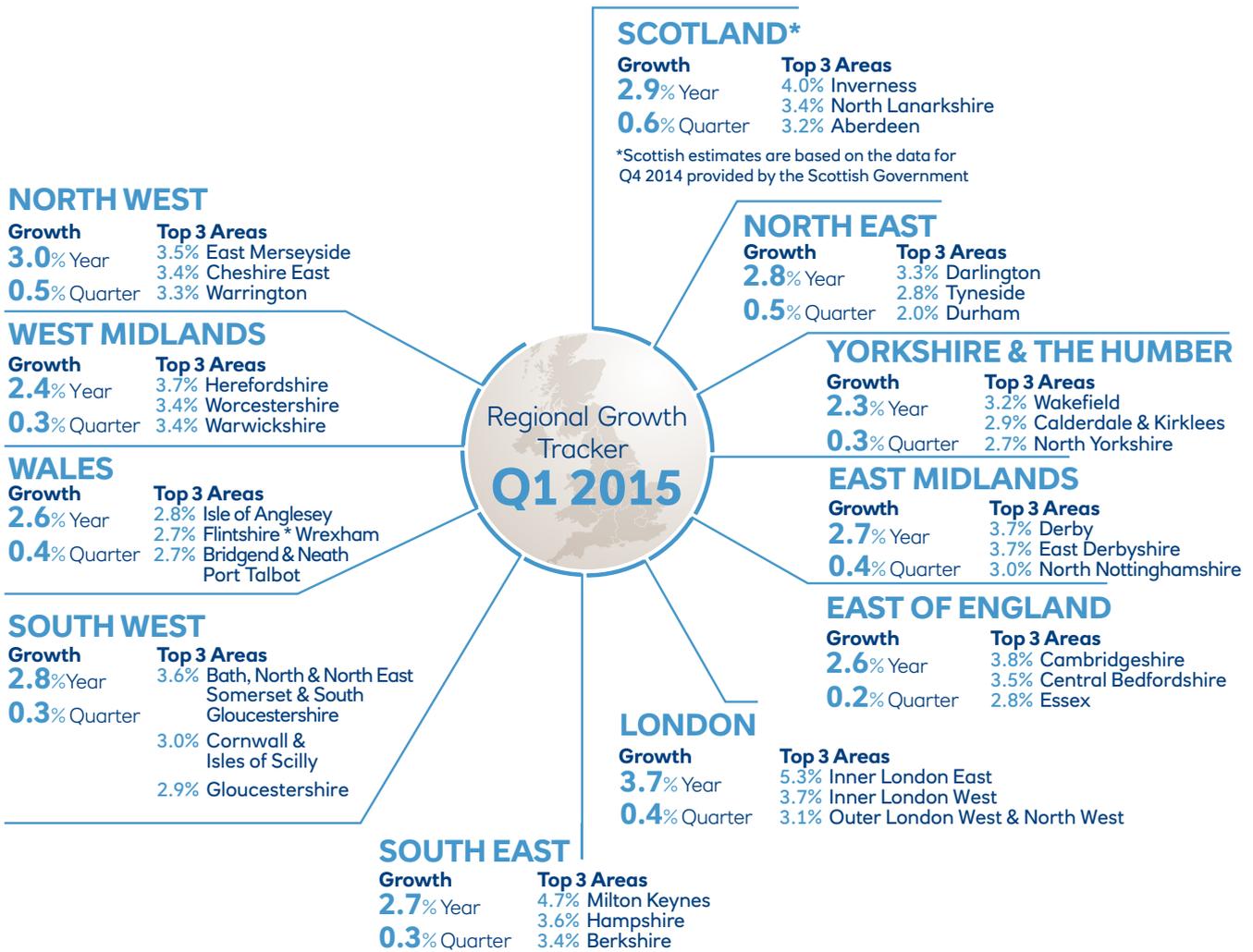


 RBS NatWest

Regional Growth Tracker Q1 2015

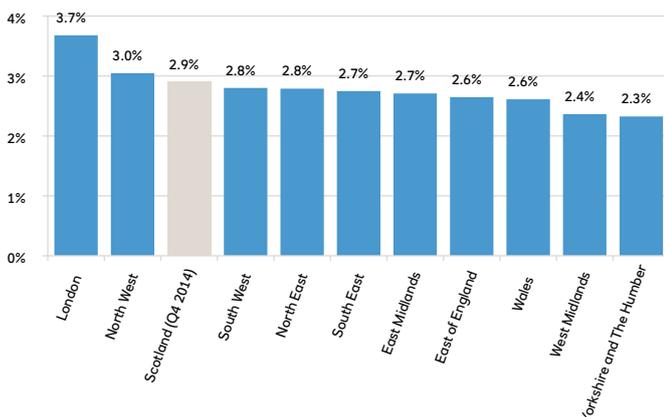
Regional Growth Tracker

Regional growth at a glance



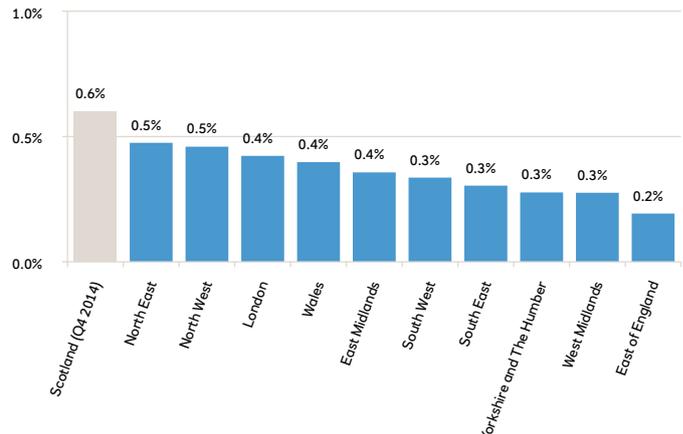
Estimated year on year growth across the UK's regions in 2015

Source: RBS calculations using ONS data



Estimated quarter on quarter growth across the UK's regions in Q1 2015

Source: RBS calculations using ONS data



Regional Growth Tracker

Regional growth in the UK

It was a slower Q1 for the UK economy and this was reflected in our estimates of growth across its regions. The regions that did well this quarter were those with heavier reliance on sectors like wholesale & retail, leisure and ICT and those that we estimate as being more competitive than their regional peers.

It was pleasing to see that both the North East and the North West were at the top of the table in Q1. Both regions managed to shake of a difficult quarter for financial services and saw other sectors pick up the slack. At a local area level, it was Inner East London that stood out from the pack, followed by Milton Keynes, Cambridgeshire, Derby and Herefordshire. And all have seen a fall in unemployment rates as a result, with the exception of Milton Keynes, where the rate of unemployment has been unchanged over the year.

Key facts

North West and North East beat London to top Q1 with 0.5%q/q

Regions with reliance on wholesale & retail, leisure and ICT did better

Best performing regions overcame a difficult first quarter for financial services

Inner East London, Milton Keynes, Cambridgeshire, Inner West London and Derby stand out at local level y/y



Rupert Seggins is an economist in the RBS Economics Team and leads on the RBS Growth Tracker. Prior to joining RBS he worked at HM Treasury and most recently at the British Embassy in Tokyo.

Regional Growth Tracker

Regional growth in the UK

Contents

- 5 North East
- 6 North West
- 7 Yorkshire & The Humber
- 8 East Midlands
- 9 West Midlands
- 10 East of England
- 11 Wales
- 12 South West
- 13 South East
- 14 London
- 15 Scotland

The RBS Regional Growth Tracker is put together by Royal Bank of Scotland economists to estimate and track growth across the UK including Scotland, Wales and nine regions of England as well as smaller local areas.

We calculate our growth estimate by taking the UK growth rate of each sector and weighting them by the sector shape of each region's economy. For Scotland, we take the data provided by the Scottish Government. We then make an adjustment for each region's historic competitiveness. This reflects each region's inherent strengths/weakness, and the fact that some have tended to grow more quickly/slowly than their sector shape implies they "ought" to have done. Differences are small from quarter to quarter, but can become large over time.

Contributing economists



Stephen Boyle is Head of RBS Economics and was educated at Glasgow and McGill Universities. After a first stint from 1996 – 2001, Stephen returned to RBS in 2006, after establishing Futureskills Scotland and leading the economics and evaluation functions of Scottish Enterprise. He has also worked in universities and was director of an economic consulting business.



Sebastian Burnside joined RBS in 2009. Before joining the team he worked for Ofcom, the communications regulator, and in consultancy. He holds the Chartered Financial Analyst designation and degrees from the London School of Economics and the University of Edinburgh.



Stephen Blackman has over 12 years professional experience as an applied economist, working in both the private and public sectors as well as academia. His expertise includes UK macroeconomics, household income and the labour market, financial and banking economics, demographics and socio-economic trends.



Marcus Wright previously worked as an economist for an investment trust where he provided economic insight to fund managers. Marcus has previously worked for RBS in risk and has also worked for a Scotland-based economic development consultancy. Marcus holds a first class degree in economics from the University of Aberdeen.

Regional Growth Tracker

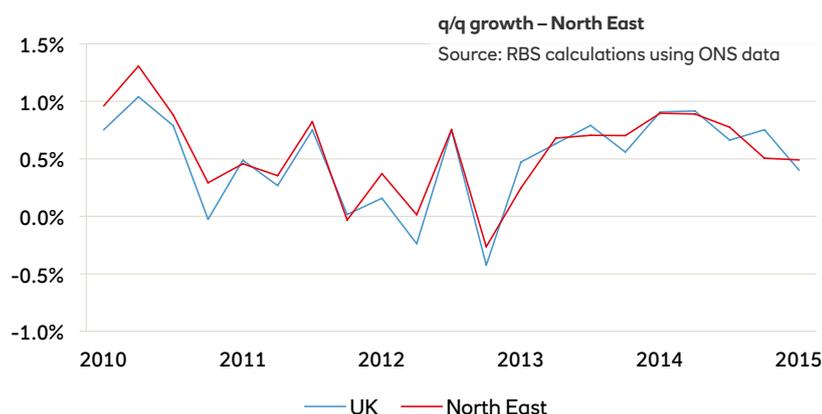
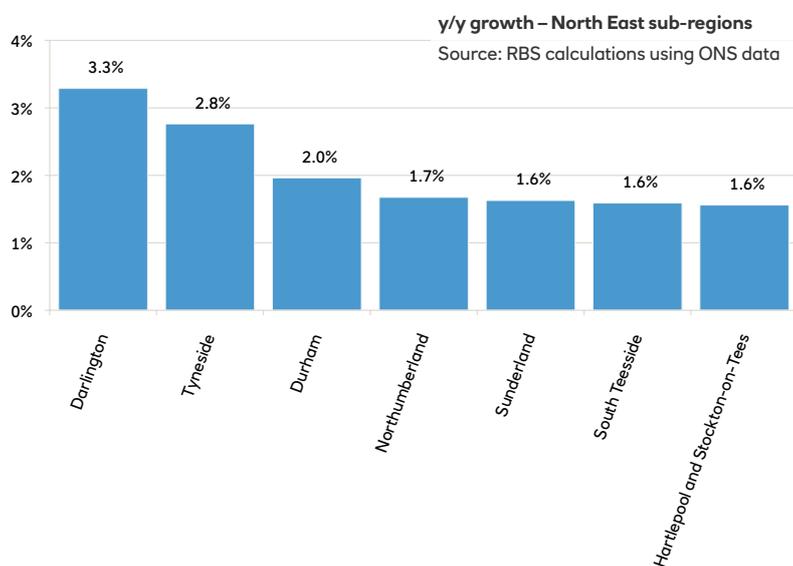
North East

North East at top of the table for growth along with North West at 0.5%q/q

Darlington and Tyneside show most growth as Sunderland's unemployment rate drops

The North East tops the table as the fastest growing Government Office Region in England and Wales in Q1. Activity in the region expanded by 0.5% compared with Q4 2014, comparing favourably with the UK's 0.4%. Sectors that shone include financial services, energy supply and chemical manufacturing. All outpaced the UK average. Particular hot spots include Darlington and Tyneside, whose economies grew annually by 3.4% and 2.8% respectively.

A step-up in the pace of economic expansion saw the region's unemployment rate fall sharply. It has fallen by 2.5 percentage points over the last year, to 7.5%. Above the national average yes, but a significant achievement nonetheless. Sunderland deserves a medal as its unemployment rate has dropped from 13.7% in 2013 to 8.3% in 2014, a fall of 5.4 percentage points. Only Leicester has seen a steeper drop.



View from the region



Jason Heywood
Regional Director

“It is great news to see the North East leading the way for Q1 growth, and especially good news to see a further fall in the region's unemployment rate. Economic expansion continues with the strong focus on exports bringing new revenues and jobs to the region. We expect a further boost from the recently launched transatlantic flights from Newcastle International Airport which will not only bring people to the area but will serve as another channel for cargo export. Generally we are seeing confidence continue to grow with results inevitably to follow.”

Regional Growth Tracker

North West

North West one of fastest growing UK regions in Q1 with 0.5% growth q/q

East Merseyside and East Cheshire fastest growing within the region

We estimate that the North West's economy was one of the two fastest growing regions in the UK, alongside the North East. Growth of 0.5%q/q was driven primarily by wholesale & retail, information & communications technology and the region's manufacturing base, in particular chemicals and basic metals manufacturing. The region also benefitted from a lower reliance on financial services, a sector which suffered in Q1.

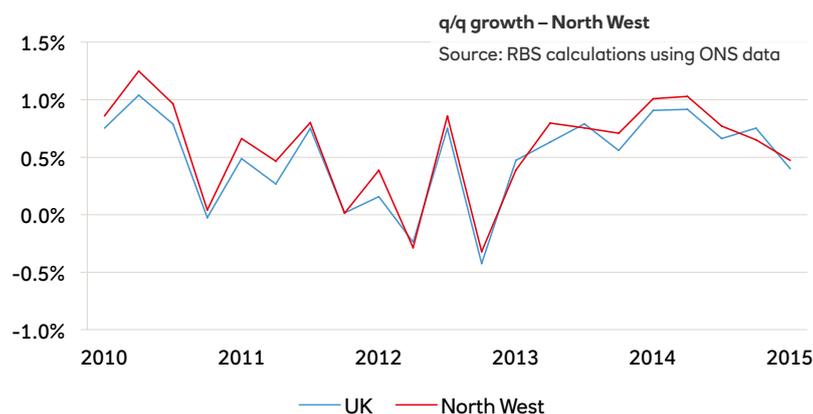
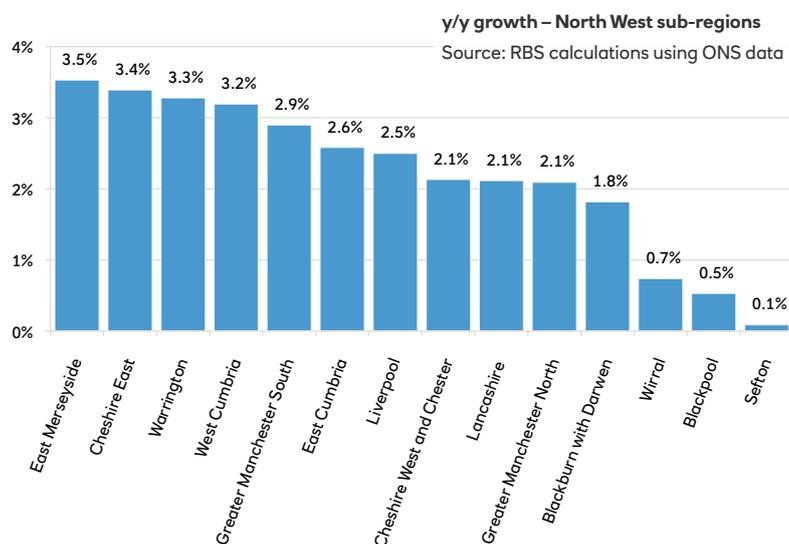
On our estimates, the fastest growing part of the North West were East Merseyside and East Cheshire, which grew by an estimated 3.6%y/y and 3.5%y/y. Retail and business services were the big drivers of growth, with manufacturing providing support. On our estimates, both regions are also relatively competitive against their peers, which we also include as a factor that boosted growth. The welcome result of all this growth for East Cheshire is that the unemployment rate has fallen twice as fast as the North West average over the last year and now sits at 3.5%.

View from the region



Steve Lewis
Regional Director

"It is great to see such strong results in the North West, with growth in the regions equalling that in London. This comes as little surprise given the strength of business performance we are seeing across our the full range of our portfolios. M&A activity continues to be strong, indicating business confidence remains high, whilst retailers are benefiting from buoyant consumer markets. This is leading to an increase in customers looking for new bank and loan facilities as they gear up for both organic and inorganic growth. Overall we expect to see these growth trends continue with the stable economic environment and current good investment conditions set to prevail for remainder of the year."



Regional Growth Tracker

Yorkshire & The Humber

Yorkshire's 0.3%q/q growth slightly slower than UK's 0.4%q/q

Fastest growing area in Yorkshire is Wakefield estimated at 3.3%/y/y

On our estimates, Yorkshire & the Humber's economic growth was slightly slower than the UK's growth of 0.4%q/q. Wholesale and retail led the way, but growth came from a diverse set of sectors including ICT, health, chemicals manufacturing and utilities outside of water and sewerage. The region also benefitted from its relatively lower reliance on financial services, a sector which suffered in Q1.

We estimate that the fastest growing part of Yorkshire & The Humber was Wakefield, growing by an estimated 3.3%/y/y. This was predominantly due to the wholesale and retail sector, but we also adjusted our estimates to reflect the region's competitiveness relative to its peers. The City's growth has translated into a fall in its unemployment rate over twice that of the wider region. The rate of joblessness is at 6.3%, on the most recent estimates.

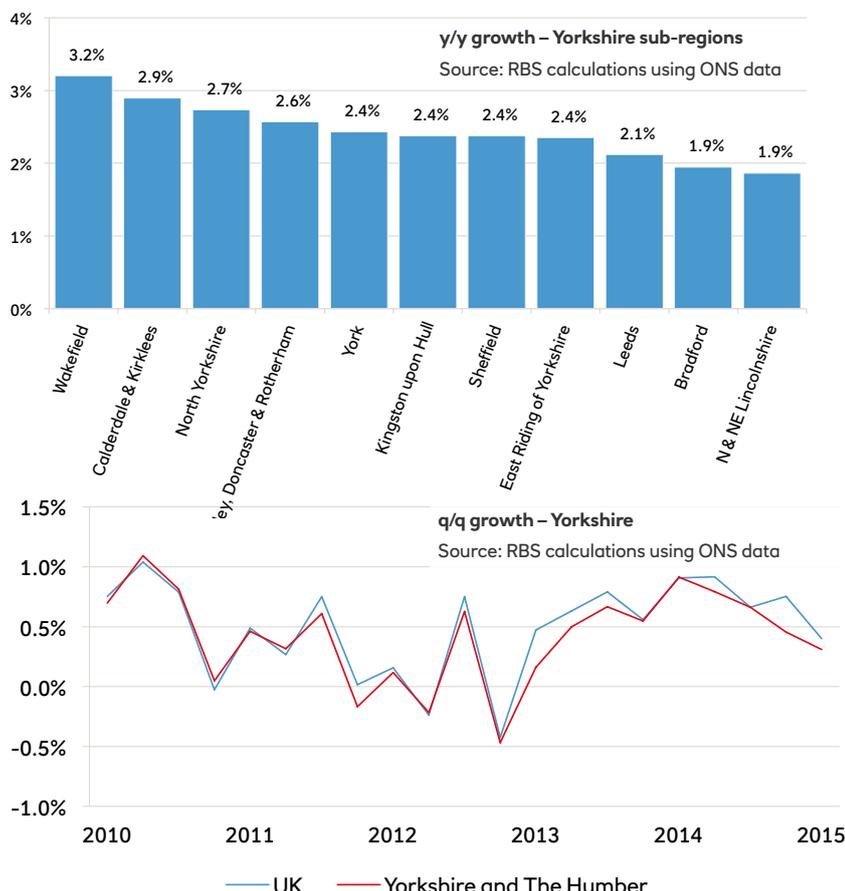
View from the region



Liam Kane
Regional Director

"There is a growing optimism and confidence in the region but I wouldn't call it unbridled. The unpredictable outcome of the General Election, along with continuing uncertainty in the eurozone means that a lot of people I speak to have been keeping a watching brief. We now have a budget to come in July which is another milestone that will be monitored carefully in Yorkshire and right across the UK.

"The cranes are back in our cities and that brings a certain feel good factor and breeds confidence. On our part, our lending is up and the feedback we are getting from customers on the service they are receiving is also improving. There's no talk about banks not being open for business and there is a regular demand for both asset finance and invoice finance from Yorkshire's businesses. The sectors I'm seeing doing particularly well are automotive and leisure and that points to disposable income returning to people's pockets. Nevertheless the businesses I speak to are finding it difficult to find the skilled workers they need and that remains the biggest challenge to SMEs.



Regional Growth Tracker

East Midlands

Estimates suggest East Midlands grew 0.4%q/q in the first quarter

Derby one of top performing in country with 3.8%y/y growth

We estimate that the East Midlands economy grew by 0.4%q/q in the first quarter of the year, placing it among the middle of its regional peers. The region's growth was broad-based, coming from sectors as diverse as wholesale & retail, leisure, ICT, real estate and manufacturing sectors like basic metals and clothing,

The fastest growing part of the region was Derby, which we estimate grew by 3.8%y/y. This was driven by manufacturing, business services, retail & leisure and also the region's competitiveness relative to its peer group, for which we make an adjustment. As one might expect, the unemployment rate in the region has also fallen and fallen fast, from 8.9% in 2013 to 7.7% by the end of 2014.

View from the region

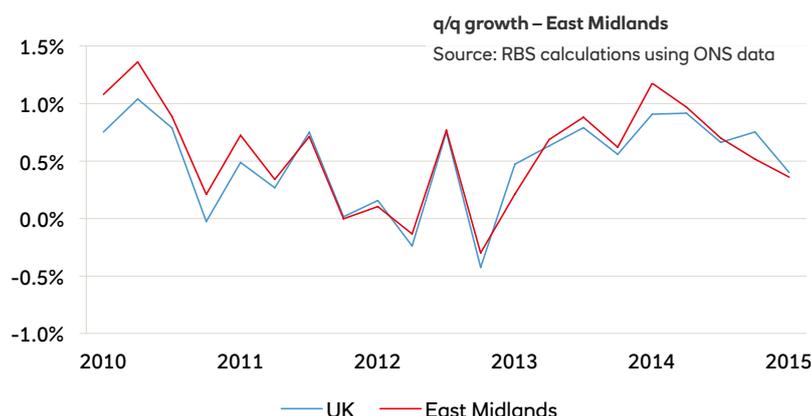
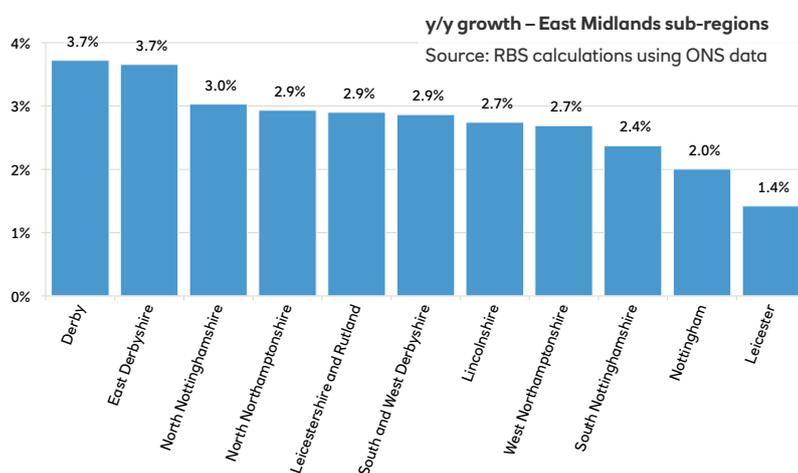


Adrian Fern
Regional Director

"The news from the East Midlands remains positive, with continued positive growth and business confidence across the majority of sectors. The Chamber of Commerce's Q1 economic survey reflected this with upticks in growth and profitability expectations. George Osborne recently visited Derby and described the broader Midlands as the Engine of UK growth.

"The only notable exception is manufacturing. Whilst many firms continue to experience positive conditions and growth, those exporting to the Eurozone have found challenges over recent months due to the increased strength of the pound against the Euro.

"Recruitment has continued to build, with many businesses citing a shortage of skills as a challenge and potential or real barrier to growth. Whilst this is prevalent in professional services firms, they have continued to enjoy very strong growth again on the back of improved economic activity."



Regional Growth Tracker

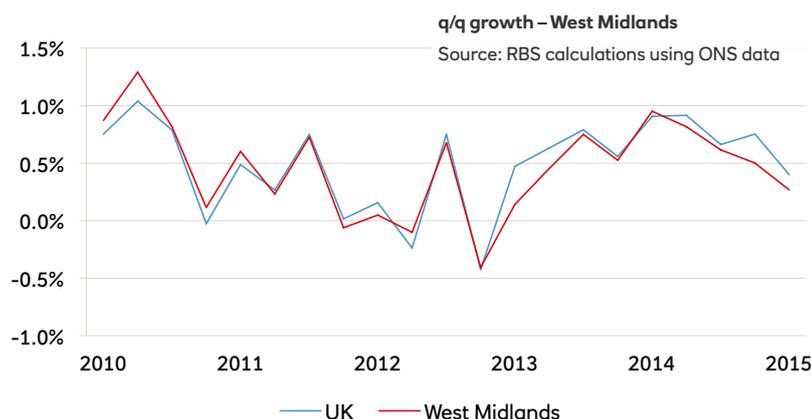
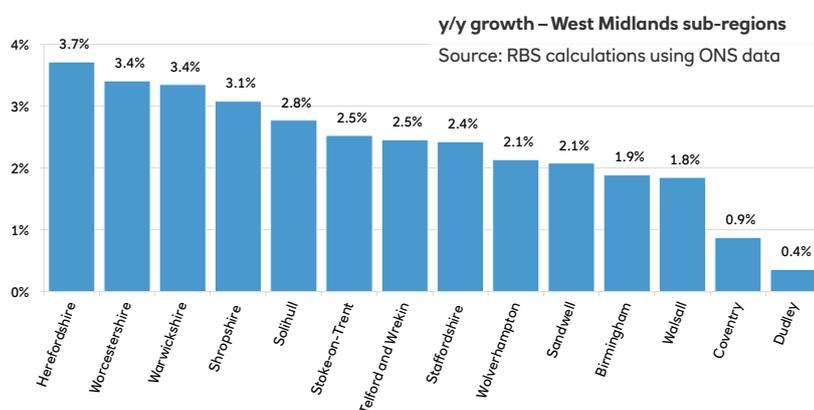
West Midlands

0.3%q/q growth represents slower quarter for West Midlands

Herefordshire is top performer in region with output up 3.9%/y/y

A slightly slower quarter for the West Midlands. We estimate that the region's economy grew by 0.3%q/q, placing it towards the lower end of the pack. While sectors like wholesale & retail, basic metals manufacturing and ICT did well, the other sectors of the region's economy were unable to grow fast enough to push up the overall economic performance.

That said, there were some strong economic performances within the region. We estimate that Herefordshire's economy was the fast growing in the West Midlands, with output up by 3.9%/y/y, a very healthy performance. And others, like Worcestershire, Warwickshire and Shropshire did well too. And while unemployment rates have come down a lot over the past year, in some places they remain stubbornly high. Birmingham's unemployment rate is still above 10%, something we hope that further economic growth will be able to remedy.



View from the region



Andrew Mitchell
Regional Director

"The West Midlands has seen strong levels of inward investment and a healthy number of start-ups, which is positive news for the region's economy. Fundamentally we are in a good position; market conditions are good, confidence is up and we are seeing an increase in requests for lending to fund investment and expansion. In particular, we are experiencing a buoyant agricultural sector in Staffordshire, Shropshire and Herefordshire; whilst the leisure sector is delivering growth, leading to increased visitor numbers to the area. The strength and depth of representation in the manufacturing, automotive and advanced engineering sectors is stimulating supply chain activity across the region.

Regional Growth Tracker

East of England

East of England lags behind with estimated 0.2%q/q growth

Cambridgeshire performing well with 4.0%/y/y growth

A relatively poor performance from the East of England economy saw it in last place in the regional rankings for economic growth in Q1. Activity in the region grew by just 0.2%, compared with the UK average of 0.4%. Nothing particularly stands out as contributing to the weakness.

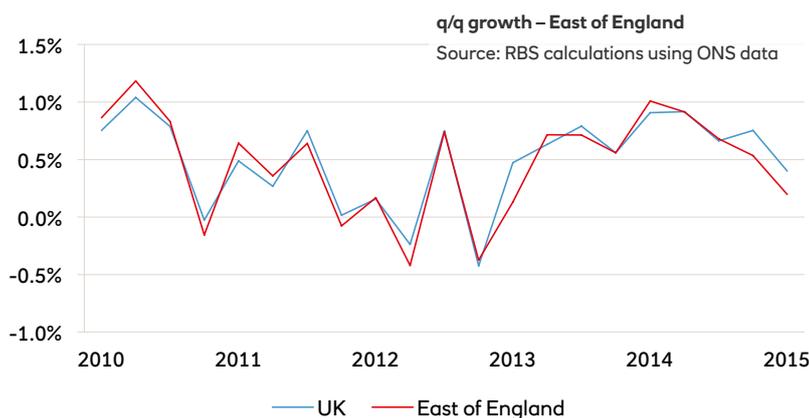
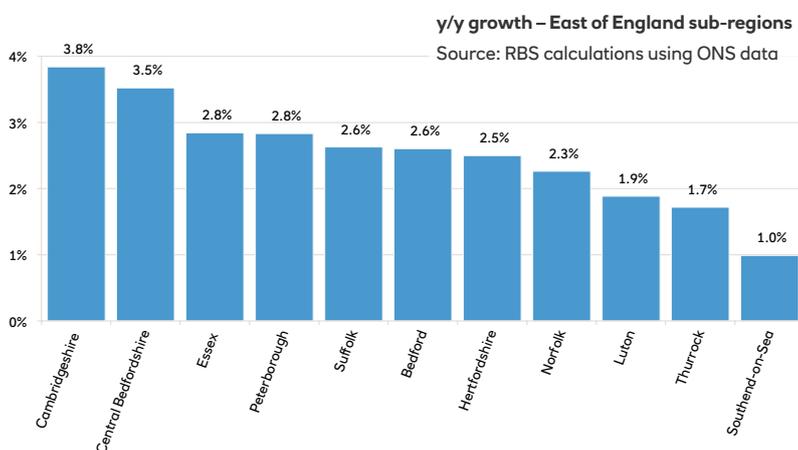
This performance jars with news that the region also contains some of the country's fastest growing local area economies and has some of the lowest unemployment of anywhere in the UK. Places like Central Bedfordshire for example, where just 3.5% of the labour force are looking for work, one of the lowest unemployment rates in the UK. Or Cambridgeshire, whose economy grew by 4.0% in the year to Q1. That's over a percentage point faster than the UK's post war average.

View from the region



John Cox
Regional Director

"2015 has started well in the East with the majority of our customers reporting an improvement in business confidence and outlook. Some projects slowed temporarily in the lead up to the General Election and whilst attention will turn to the question of the UK's relationship with Europe there appears to be a general up turn in business. Accessing a skilled labour force is becoming an increasing issue for many businesses in the East and with customers telling us that access to finance is not a barrier to growing their businesses. We stand ready to support our customers in the agricultural sector which has seen incomes fall with the downturn in commodity prices, alongside the opportunities which exist in this sector. We are also seeing a modest increase in the number of corporate finance transactions both in terms of company purchases and sales across a range of sectors."



Regional Growth Tracker

Wales

Wales shows solid growth at an estimated 0.4%q/q for Q1

Flintshire & Wrexham, Isle of Anglesey are fastest growing in Wales

In the pack. By our estimates, the Welsh economy grew by 0.4%q/q in the first quarter of the year, the same as the UK average. Wholesale & retail, leisure and ICT were the three leading sectors, with social care and basic metals manufacturing also making important contributions.

We estimate that Flintshire & Wrexham and the Isle of Anglesey were the fastest growing Welsh regions, both expanding by 2.7%y/y and 2.8%y/y in Q1. In the Isle of Anglesey, growth was firmly led by the retail & leisure sectors, while in Flintshire & Wrexham, growth was a little more broad based and also included manufacturing. This has been reflected in falling unemployment rates in both regions, but in particular in the Isle of Anglesey where the rate of unemployment has fallen by 3.1 percentage points over a year, much faster than the UK average.

View from the region



Barry Evans

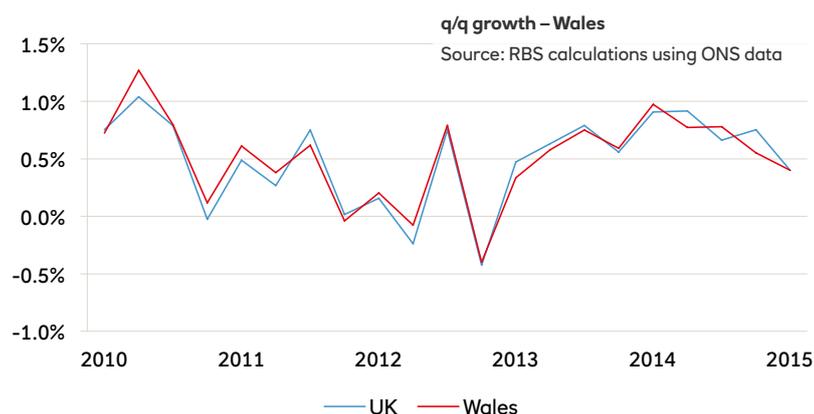
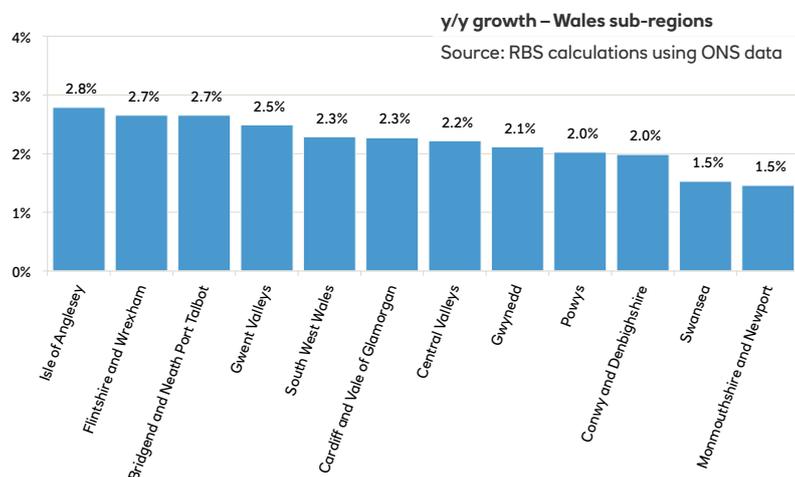
Regional Director

“The period of uncertainty presented by the General Election is now behind us and the consistent policy agenda has offered reassurance to large and small business, providing a stable platform upon which to base investment decisions.

“Our lending book across Wales continues to grow across traditional lending products, including asset and invoice finance. In addition, we are also receiving more enquiries from start ups and also early stage businesses seeking our specialist advice and guidance. I am really looking forward to opening our Cardiff incubator hub in conjunction with Entrepreneurial Spark in early 2016 – this will complement existing support networks for the business community across south east Wales.

“Since the end of Q1 we have seen particular confidence and increased activity across most key sectors including construction, manufacturing, leisure and agriculture.

“Overall our customers are upbeat and optimistic about the future, encouraged also by good news offered by some major infrastructure projects and the associated supply chain opportunities they will present in the future.”



Regional Growth Tracker

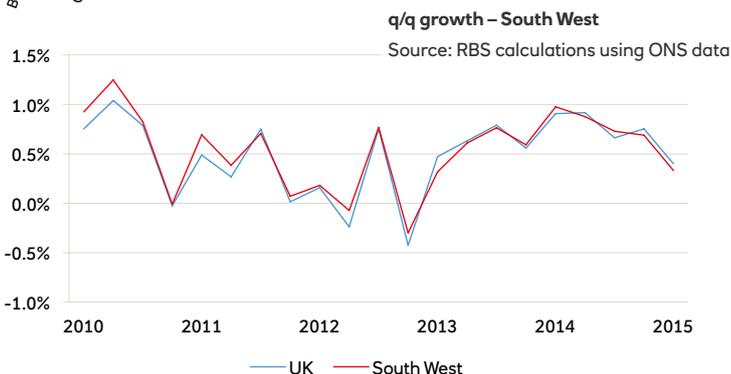
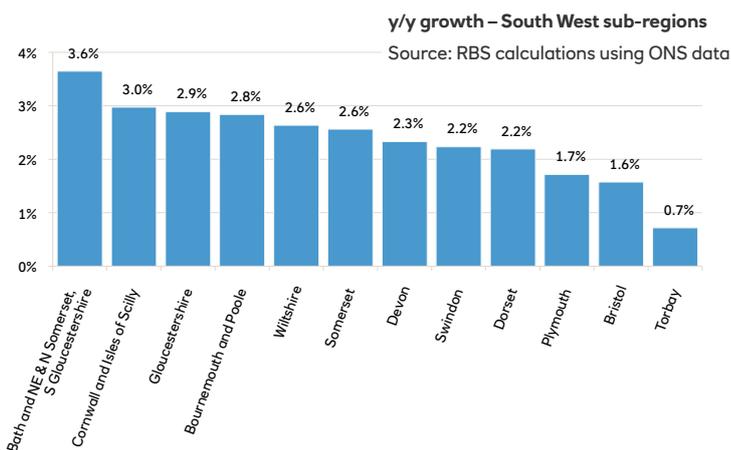
South West

South West estimated to grow 0.3% q/q for Q1 with Bath one of fastest growing areas in UK

Traditionally strong real estate and leisure sectors perform well

By our estimates, the South West's economy was to be found in the middle of the pack in Q1. Growth of 0.3%q/q was slightly below the UK average. Like the rest of the UK, the recovery was led by the wholesale & retail sector, but the South West did relatively well in its traditionally strong real estate and leisure sectors as well. Growth would have been even faster, but for the region's relatively small ICT sector, a part of the UK economy that grew well in Q1.

Top of the regional charts on our estimates was Bath, which found itself among the fastest growing regions in the UK. Growth was broad based across wholesale & retail, business services and ICT. However it was the region's inherent competitiveness which provided the main boost. On our estimates, Bath is one of the most competitive regions of the UK and we have adjusted our growth figure accordingly. And at just 4.4% in the year to December, it also has one of the lowest rates of unemployment.



View from the region



Simon Godfrey
Regional Director

“Once again the South West Region continues to deliver a balanced performance across the majority of sectors, however we have seen a marked improvement in the leisure sector and we expect this trend to continue as we move further into 2015.

Confidence levels are returning to the market as move through the year. There is definitely a more upbeat feel in our local economies and we are working closely with them to understand their ambitions and how we can work in partnership with them to bring new insight and solutions to the table. A good example is agriculture which has the potential for income diversification. We're finding the farming community is now far more receptive to new ideas on broadening income streams or managing their energy costs via green/ renewable energy

As a consequence of the renewed confidence businesses are now revisiting their investment strategies and whether it is borrowing to fund increased capital expenditure, new acquisitions, higher levels of working capital or maybe the purchase of new premises, there is an appreciation that there is a need to invest in their respective business and the do nothing strategy is no longer an option.

Regional Growth Tracker

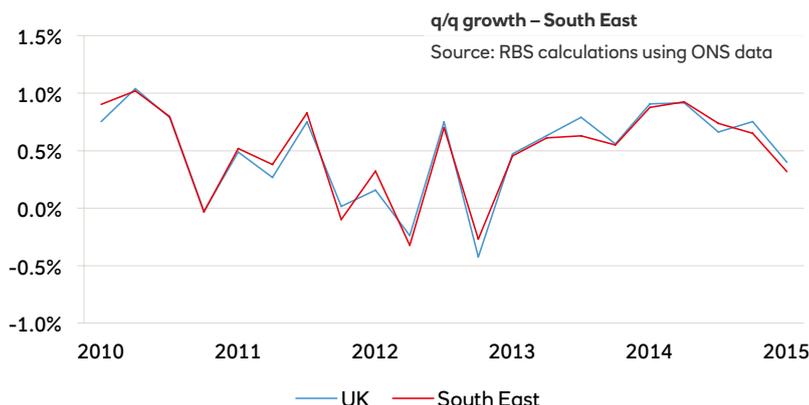
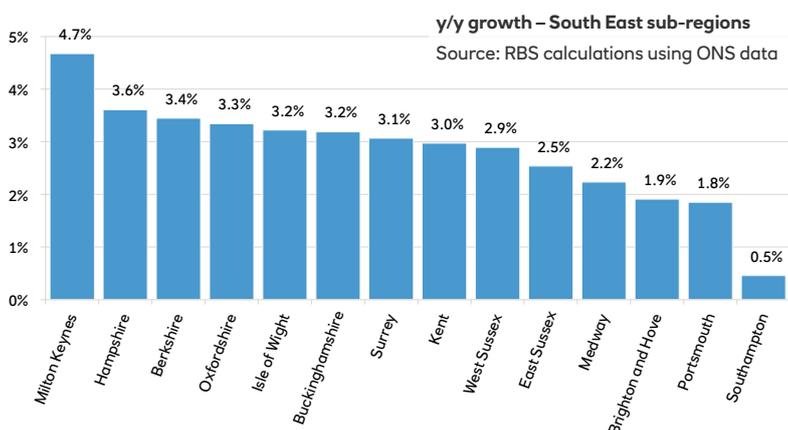
South East

South East slightly behind UK with 0.3%q/q growth for Q1

Milton Keynes second fastest growing area in whole of UK with output up 4.7%/y

We estimate the south east's economy grew by 0.3% in the first quarter of 2015, slightly slower than the UK. This scores the region a mid-table finish. Longer term, the region's economy looks well placed to perform well. It outplayed the UK average in important value-add sectors like information and communication technology plus financial services.

Within the region, Milton Keynes again stole the show. Output in this increasingly important city rose by 4.7%/y, securing it the accolade of the second fastest of all the UK's local areas behind inner London East. Other areas whose economies are growing rapidly include Hampshire, Berkshire and Oxfordshire, each of whose economies are at least 3% larger than in Q1 2014. That's in stark and unwelcome contrast to Southampton, whose economy managed to eke out growth of just 0.2% over the year to March.



View from the region



Daryl Gayler
Regional Director

“We are pleased to be seeing strong levels of appetite from our customers in the South East to borrow from us. Whereas this time last year there was a feeling of cautiousness around the economy and the upcoming general election, now we’re seeing increased levels of confidence. Whatever your political allegiance, the general election has at least provided continuity and as a result we’re seeing customers interested in borrowing from us to fund increased capital expenditure, new acquisitions or higher levels of working capital.”

Regional Growth Tracker

London

London remains near top of growth tracker with 0.4%q/q estimated

Capital suffers disproportionately from a weak quarter for financial services

One of the better performing regions again. According to our estimates, the Capital grew by 0.4%q/q in the first quarter, surpassed only by the North East and the North West. While London suffered disproportionately from a weak quarter for financial services, its ICT, retail and wholesale and leisure sectors combined to more than make up for it.

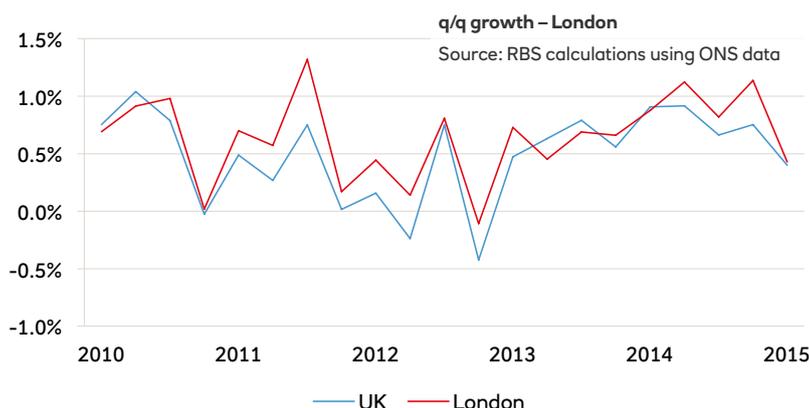
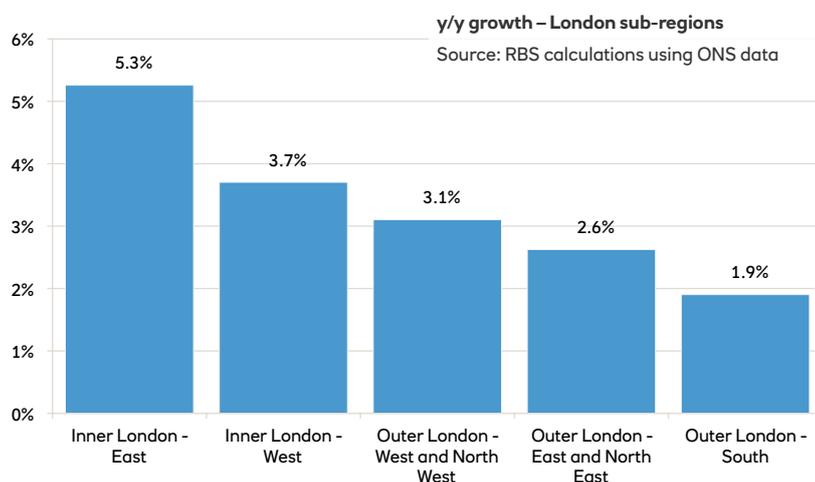
Once again, Inner East London found itself at the top of the UK growth pile. Driven primarily by its large business services sector and regional competitiveness, we estimate that the region grew by 5.4%y/y. Contrast this with Outer South London, an area including places like Croydon and Kingston, which on our estimates grew by 2.0%. The good news, though, is that unemployment rates fell in all London regions, ranging from a 2.5 percentage point fall in Inner East London, to a 0.2 percentage point fall in Outer South London.

View from the region



Roger Fenwick
Regional Director

“It’s great to see that London is one of the top performing regions once again. This certainly reflects the increase in investment activity that we’re seeing right across our customer base. Leisure, Technology Media and Telecoms, Retail and Recruitment all continue to be high performing sectors and we’re seeing increased confidence across all of them and more willingness to invest. We’re seeing wholesalers looking to go into retail, for example, and retailers looking to grow overseas, expanding into new overseas markets. Private equity firms are also keener than ever to invest in London’s growth - taking advantage of London’s fast-growing technology, media and telecoms industry, for example. Compared to where we were this time last year there is a marked increase in confidence, and with the election now behind us we expect to see that continue.”



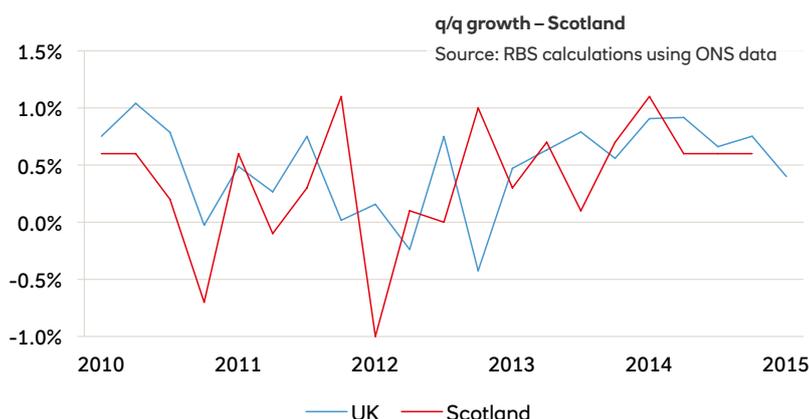
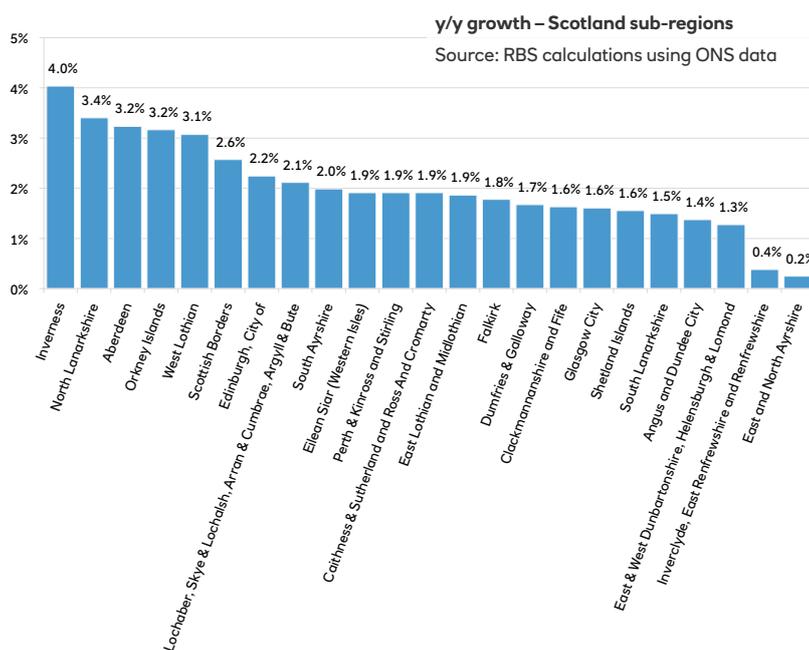
Regional Growth Tracker

Scotland

Q4 figures showed a 0.6%q/q growth estimate – slightly lower than UK

Our estimates for end of 2014 suggest Inverness fastest growing local area

The Scottish Government reported that growth in Scotland at the end of last year was 0.6%q/q, which would have placed Scotland slightly below the average of the UK regional pack on our estimates. Nowcasting Scotland has estimated that growth in the first quarter of this year was also 0.5%, which would make Scotland the fastest growing UK region. Our estimates for the end of last year suggest that Inverness was Scotland's fastest growing regional economy, expanding by 4%/y/y, which would place it among the fastest growing UK areas.



View from the region



Mark Gall
Regional Director

“Despite the obvious challenges within the oil and gas sector the Scottish economy continues to perform well. We are continuing to see growth in line with the UK however particular areas of strength are the service sector, retail and wholesaling.

Undoubtedly the oil and gas downturn has impacted markedly however it is a very resilient sector which has learned to trade through economic cycles and we are still continuing to see good lending opportunities as some businesses take the opportunity to take advantage of the greater value in the acquisition market.

Overall our customers continue to have a positive outlook and many are taking advantage of favourable funding rates to meet their expansion and growth strategies. This has allowed the Scottish balance sheet to increase over H1 which is a trend, on a look forward basis, that is expected to continue in the next 6 months of the year.”