
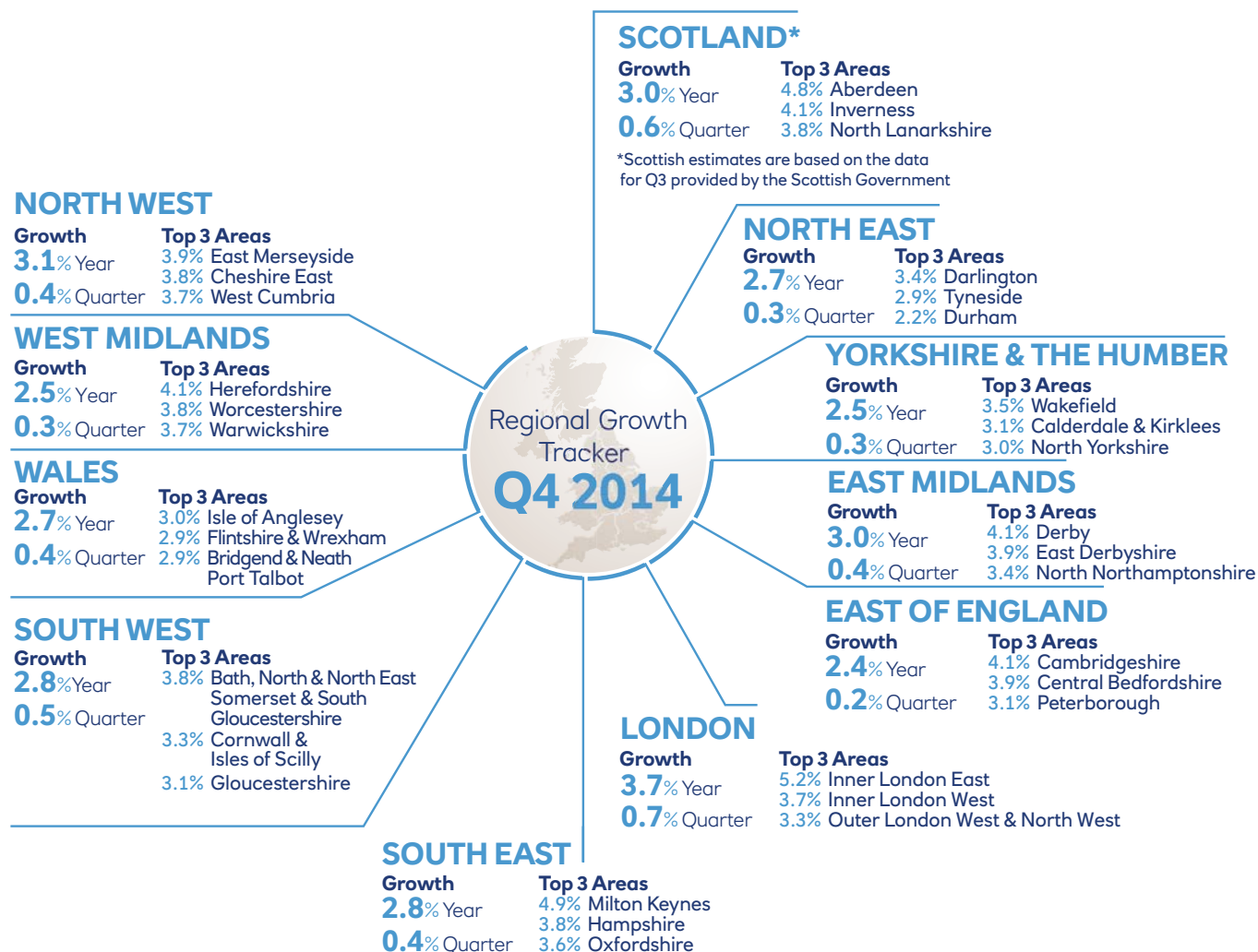


 RBS NatWest

Regional Growth Tracker Q4 2014

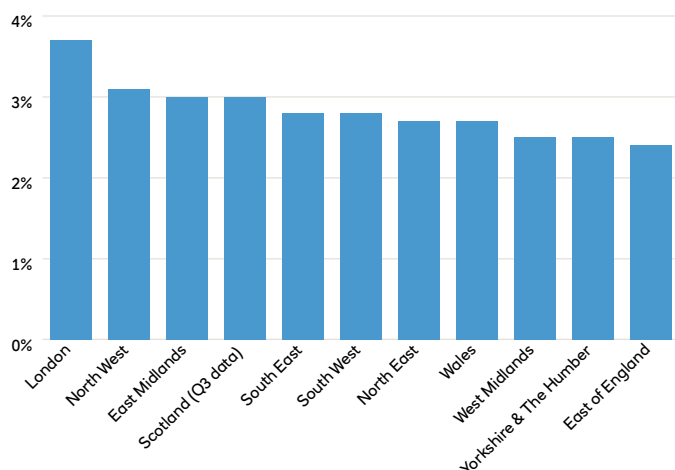
Regional Growth Tracker

Regional growth at a glance



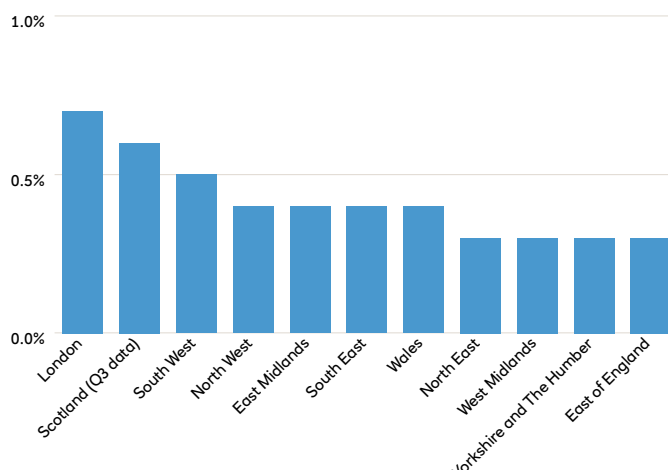
Estimated year on year growth across the UK's regions in 2014

Source: RBS calculations using ONS data



Estimated quarter on quarter growth across the UK's regions in Q4 2014

Source: RBS calculations using ONS data



Regional growth in the UK

The UK's regions saw growth slow, in some cases considerably, at the end of last year, but growth nonetheless. Despite this slowdown, we estimate that growth over the past year for many regions has been at or above their historical average. With labour markets continuing to heal across the UK, 2014 should be chalked up as a success for the UK's regional economies.

Top of the class last year was London, driven by its massive professional services and information & communications technology sectors. It was not, however, a case of a North/South divide, as the North West and the East Midlands were the second and third fastest growing regional economies in 2014. In the former case, it was manufacturing sectors such as food products that performed better than the UK average. In the latter, it was the retail & wholesale sector.

We estimate that the five fastest growing local area economies were: Inner East London, Milton Keynes, Aberdeen, Cambridge and Herefordshire. In all cases, it was the heady cocktail of competitiveness and a reliance on professional and technical services that set them apart from the rest. But looking ahead, there are clouds gathering over Aberdeen, as the area adjusts to lower oil prices.

Rupert Seggins, RBS Economist

Key facts

2014 was another good year of growth across all UK regions

London was the standout, powered by professional services and ICT

But it is not a North/South divide. The North West and East Midlands were not far behind the leader

Fastest growing local areas in 2014 were: Inner East London, Milton Keynes, Aberdeen, Cambridge and Herefordshire



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 in the UK

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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

The North East grew 2.7% over the course of the 2014 and 0.3% in Q4 according to estimates

Darlington, Tyneside and Durham led the way for the region

The North East economy grew by an estimated 0.3%q/q in Q4 2014, a considerably slower rate than the previous quarter's 0.8%q/q. The main reason for this was a weaker performance in manufacturing and construction, while the region relies less on the faster growing professional services sector. Darlington was the one local area to perform better than the UK average over the last year, growing by an estimated 3.4%y/y, with Tyneside growing by 2.9%y/y. But in better news, the unemployment rate fell in almost all local areas in the year to Q3 2014.

Marcus Wright, RBS Economist

View from the region

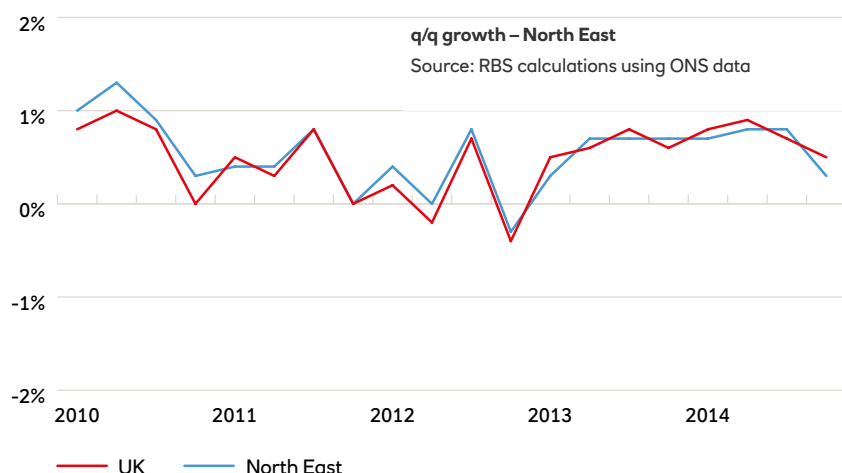
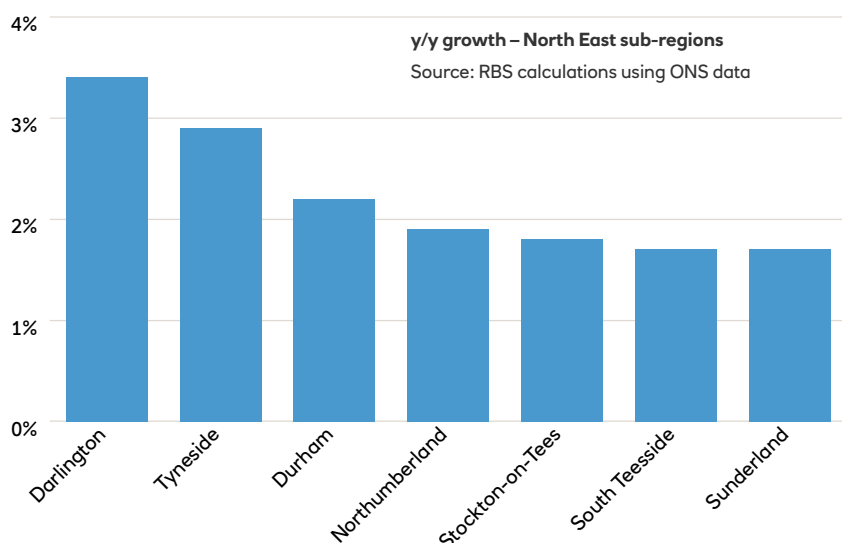


Jason Heywood
Regional Director

"Lending is definitely on an upward swing across the board and customers are now prepared to invest. Stagnation appears to be behind us and has been replaced with thoughtful decisiveness.

"The consistently positive news about growth is giving people confidence to invest and explore new areas of financing support, for instance private equity is showing interest in the leisure sector.

"The North East is home to Nissan and a number of car component manufacturers who benefit from a boost to the autos sector. The European Referendum, due in 2017, is starting to be a topic of conversation among the CBI and Chambers of Commerce because of the impact it could potentially have on the export trade. Customers have learned a lot from the downturn and are applying the same discipline to their financing decisions now as they did then but today they are making them happen now instead of stalling."



Regional Growth Tracker

North West

In the North West the estimated growth is 3.1% for 2014 and 0.4% for Q4

East Merseyside, Cheshire East and West Cumbria led the way for the region

We estimate that the North West was one of the faster growing UK regions in the year to Q4 2014. The region grew by 3.1%y/y, above the average of 3%y/y and second only to London. Services were at the fore again, in particular professional and administrative services and the wholesale and retail sector. An entrepreneurial spirit is alive and well in the North West, with the region now home to a thriving Media, IT and computing industry with a number of Cloud Computing and IT Service companies setting up in the region. However, the near halving of the unemployment rate in Cheshire to around 3.5% in the year to Q3 2014 has perhaps been the most impressive story of all.

Rupert Seggins, RBS Economist

View from the region

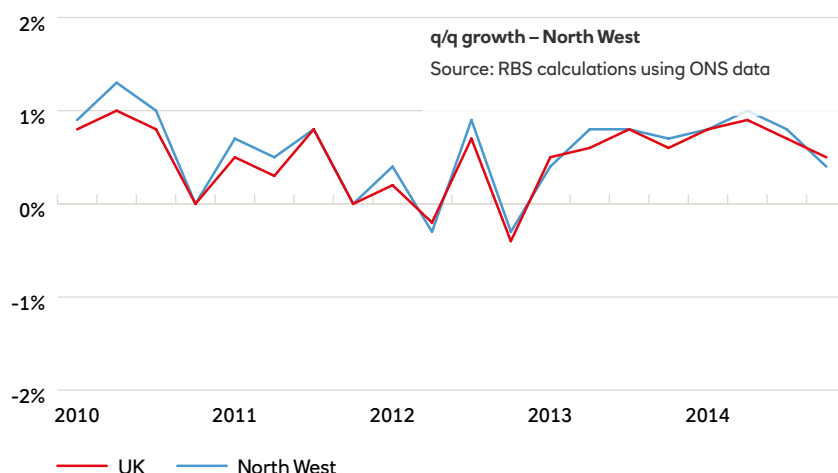
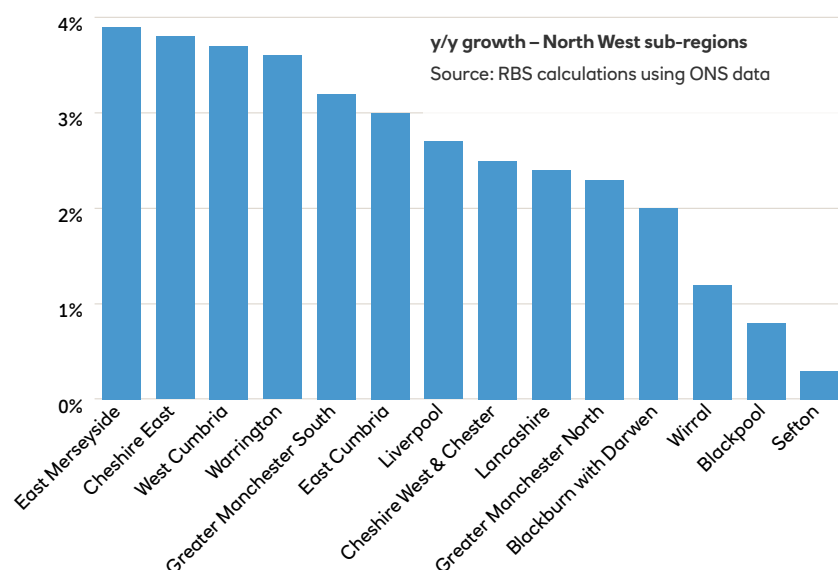


Steve Lewis

Regional Director

"The North West's economic diversity gives it a certain level of resilience. We enjoyed a strong year-end which looks set to continue into 2015 with investor confidence still buoyant judging by the increase in private equity and M&A activity. The launch of new debt funds, sometimes up to £100m, is further evidence of this positivity. An entrepreneurial spirit is alive and well in the North West, with region home to a thriving Media, IT and computing industry with a number of Cloud Computing and IT Service companies are setting up in the Region. We're also seeing something of a renaissance in the property and commercial real estate sector with a number of new builds on the horizon.

"Obviously, a big issue for Manchester is just how far the debate over the devolution of power from Westminster will go. The North West is well placed to benefit given its strong local authorities and expanding infrastructure – a perfect example being the £1.5bn acquisition of Stansted by the Manchester Airport Group which, from a funding perspective, RBS was instrumental in advising client and arranging both medium and long term funding."



Regional Growth Tracker

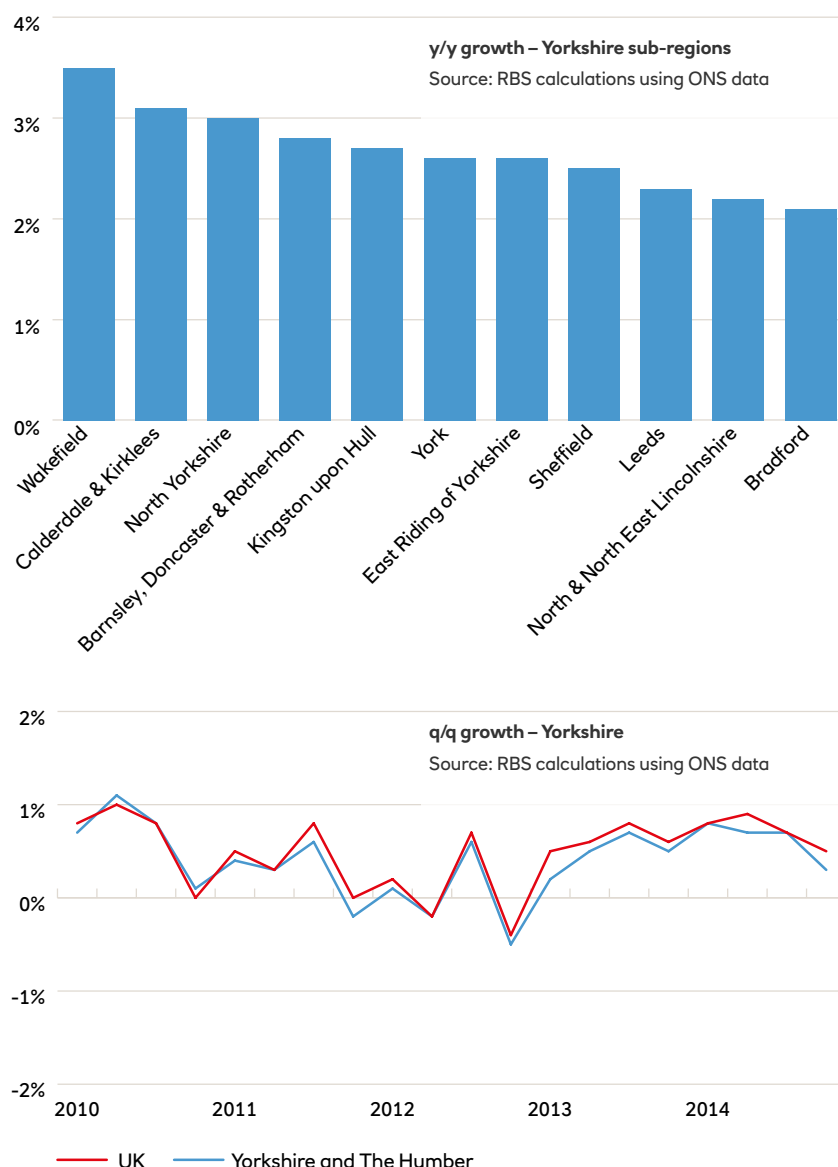
Yorkshire & The Humber

Yorkshire & The Humber grew 2.5% over the course of the year and 0.3% in Q4 according to estimates

Wakefield, Calderdale/ Kirklees and North Yorkshire were fastest growing within the region

It was a bit of a tough end to the year for Yorkshire & The Humber. The region grew by an estimated 0.3%q/q. This was mainly down to weakness across a number of manufacturing sectors, which the region has a comparatively greater than average reliance on. Wakefield was the region's star performer over the year, owing to a combination of a more diversified and competitive local economy than in most of the rest of the region. While this brought down the unemployment rate by an impressive 3 percentage points to 7.6% in the year to Q3, the lowest rate of unemployment remains in York, where it is just 4.6%.

Rupert Seggins, RBS Economist



View from the region



Liam Kane
Regional Director

"It's been a positive start to 2015 for Yorkshire's economy, with good lending growth last year in the region to small medium enterprises and larger corporates. Confidence is holding up despite some uncertainty from our customers over the outcome of the General Election and the eurozone economy.

"We also saw a higher demand for commercial mortgages as well as asset finance in 2014. Leisure, food, advanced manufacturing and professional services, have been some of the main drivers for Yorkshire's economy, and we expect this to continue in 2015.

"Having been host to the start of the Tour de France last year, Yorkshire stands to reap the economic benefits from the first-ever Tour de Yorkshire this year."

Regional Growth Tracker

East Midlands

The East Midlands grew by 3% in 2014 according to estimates and 0.4% in Q4

Derby, East Derbyshire and North Northamptonshire growing fastest

The East Midlands rounded out 2014 with a great final quarter of growth. At the end of December the economy was 3% bigger than a year ago. We've not seen that sort of above-trend growth since before the recession. Business services, construction, retail and transport have all added to the East Midlands growth story. And it's that sort of growth which has meant businesses in the East Midlands could create another 50,000 jobs, pulling unemployment down to 5.5%, lower than the UK-wide figure. Over the next 12 months the challenge will be to get productivity growth going again so that firms can afford to offer inflation beating pay rises.

Sebastian Burnside, RBS Economist

View from the region



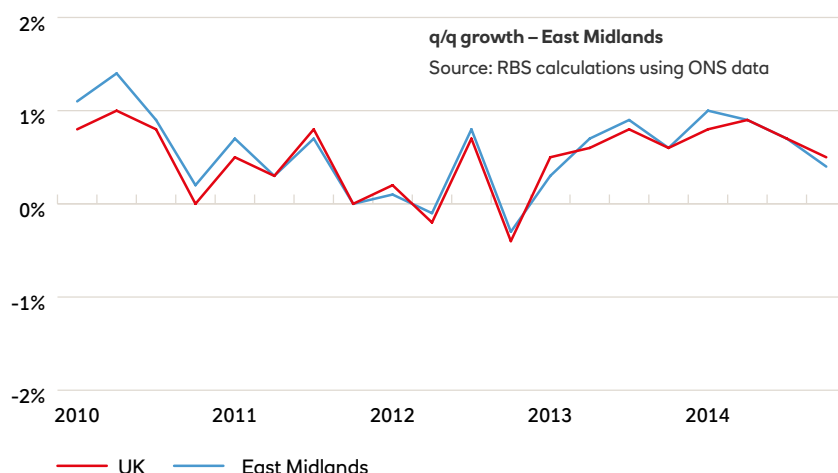
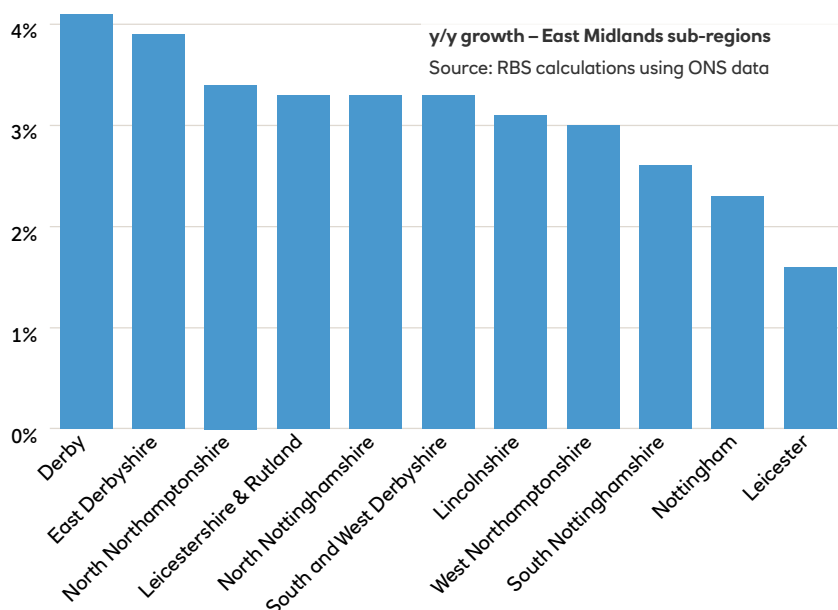
Adrian Fern
Regional Director

"The East Midlands had a strong 2014. In fact, it was the third best performing region in the UK after London and the North West, having shown annual growth of 3%. That compared to the UK average of 2.85%.

"We have seen good levels of growth in many industry sectors; we have a comparatively high level of advanced manufacturing in our region, as shown by companies such as Rolls-Royce and their supply chain. That has certainly contributed to the positive growth story of the East Midlands.

"Professional services – particularly law firms – are also delivering strong growth, and that is always an indicator of increased business activity. The leisure sector is also doing well, reflecting an increase in consumer confidence and spending.

"While a good level of overall confidence remains, some of our customers have expressed uncertainty about what the General Election and the volatility in the eurozone might mean for their businesses. Despite this, they are continuing to invest, and expand; it continues to be a generally positive picture."



Regional Growth Tracker

West Midlands

West Midlands growth is estimated as being 2.5% for 2014 and 0.3% for Q4

The top three areas for growth were Herefordshire, Worcestershire and Warwickshire

The West Midlands ended 2014 on a high note with growth hitting its trend rate of 2.5%. And that growth is leading to jobs. The West Midlands has seen the biggest fall in unemployment of any UK region over the last 12 months, down almost 2% to 6.3%. Employment is rising across many sectors of the economy with hotels & restaurants and business services doing well. But with tensions rising in Europe and a slow down in far Eastern markets it will be tough to see a repeat of 2014's export success story. Lower oil prices should put more money in the pockets of domestic consumers and help prop up demand at home.

Sebastian Burnside, RBS Economist

View from the region



Andy Mitchell
Regional Director

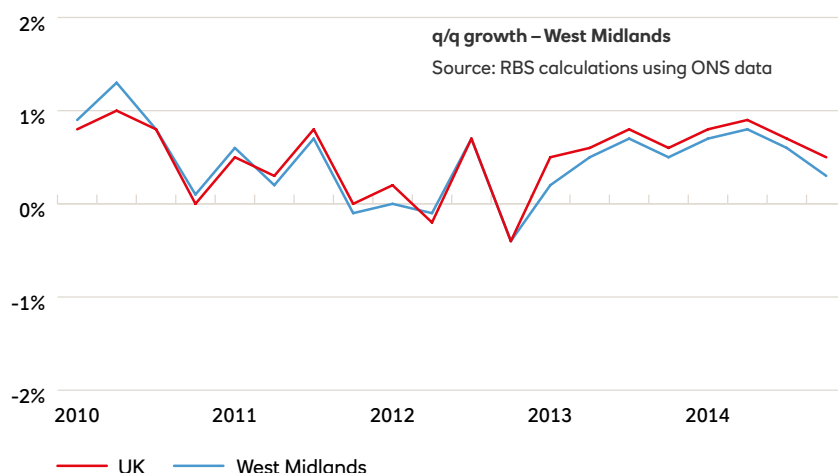
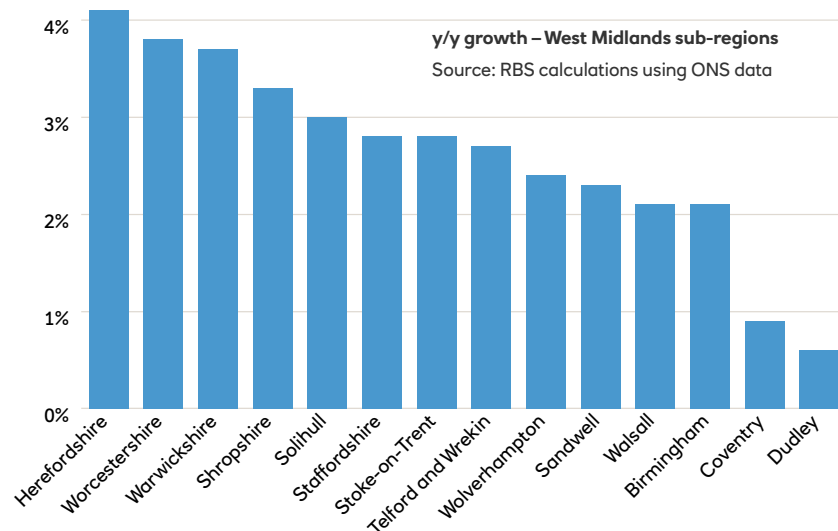
"Automotive, advanced manufacturing, leisure and consumer industries, continued to perform strongly in the West Midlands."

"Growth was strongest in the second half of last year, after many businesses decided to implement their strategic plans, having determined market conditions were sufficiently favourable for them to invest in their own expansion."

"We also saw confidence return among the small medium enterprise community as shown by its increased lending appetite."

"Companies in general have increased their capital expenditure, including acquiring new and enlarged premises to meet their growing order books. They therefore have more working capital demands. Mergers and acquisitions have also returned to the corporate agenda."

"There has also been strong foreign direct investment into the West Midlands and this is contributing to an entrepreneurial start-up market. On the whole, the medium-term outlook remains positive for the West Midlands."



Regional Growth Tracker

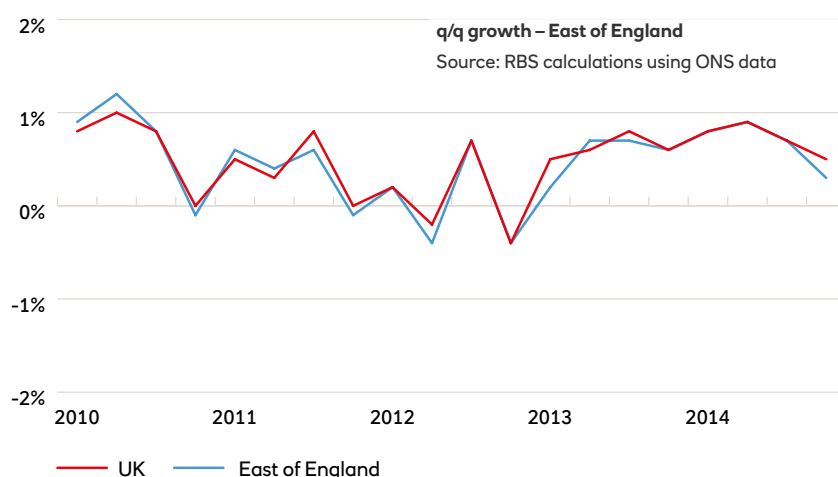
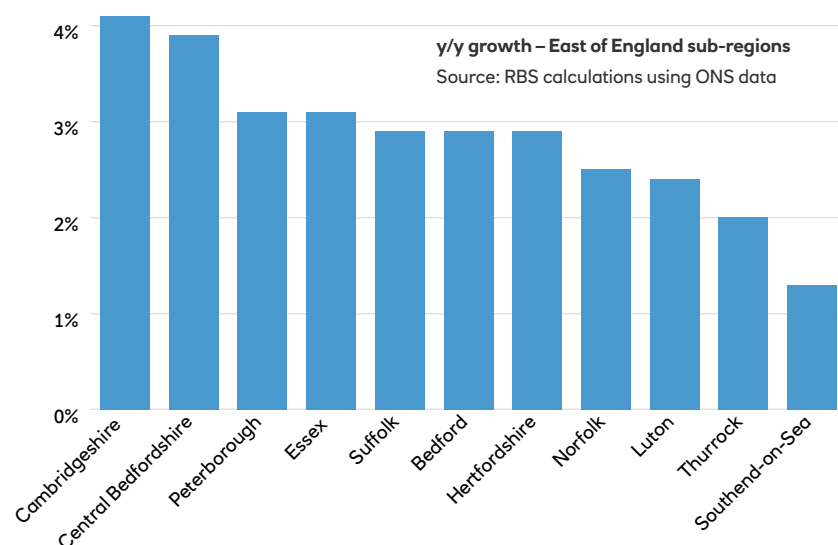
East of England

The East of England showed growth of 2.4% in 2014 according to estimates and grew 0.2% in Q4

Cambridgeshire, Central Bedfordshire and Peterborough grew most quickly

East of England's economy came off the gas a little in Q4, growing by 0.3%q/q. This places the region towards the bottom of our regional growth tracker. The manufacturing sector seems to have struggled. And the evidence points to the pharmaceutical sector in particular, a sector that's suffering nationally. Cambridgeshire and Central Bedfordshire bucked the trend, growing by 4.1% and 3.9% respectively. And it's no surprise that they both have the third and fourth highest employment rates in the UK. 81.1% of Cambridgeshire working age population are working, compared with 72% for the UK. Only the Orkney and Shetland Islands have a higher employment rate. Two very different economies indeed.

Stephen Blackman, RBS Economist



View from the region



John Cox
Regional Director

"We have seen strong demand for lending across the East during 2013 and 2014. We support businesses across a range of sectors in the region and we're seeing particular interest from those in agriculture, leisure and healthcare. It is encouraging that our customers appear to have more confidence and are committing to investment in their businesses."

"Despite political uncertainties confidence is continuing into 2015 and the outlook is generally positive, with customers in certain pockets telling us that one of the challenges they now face is finding the right skilled labour to support the growth they are looking to achieve."

Regional Growth Tracker

Wales

Growth in Wales is estimated at 2.7% for the year and 0.4% for Q4

Anglesey and Flintshire & Wrexham were the fastest growing areas

The Welsh economy finished the year with a respectable 0.4%q/q estimated growth figure, slightly below the 0.5%q/q national average. We estimate that the Isle of Anglesey was the country's star performer over the course of last year, growing by 3%/y/y. The country's slowest growers were some of its cities, specifically: Swansea and Newport. A lower reliance on some of the faster growing sectors like professional services appear to be the reason why. As a result, these were the only two Welsh regions which saw a rise in the unemployment rate in the year to Q3 2014.

Stephen Boyle, RBS Economist

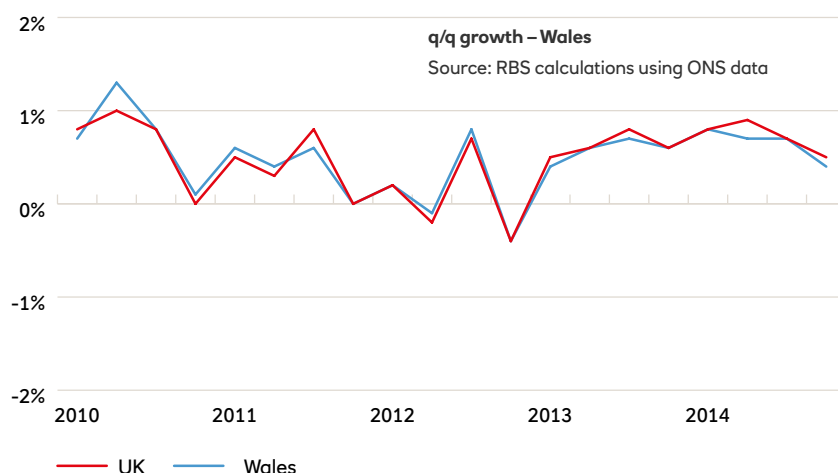
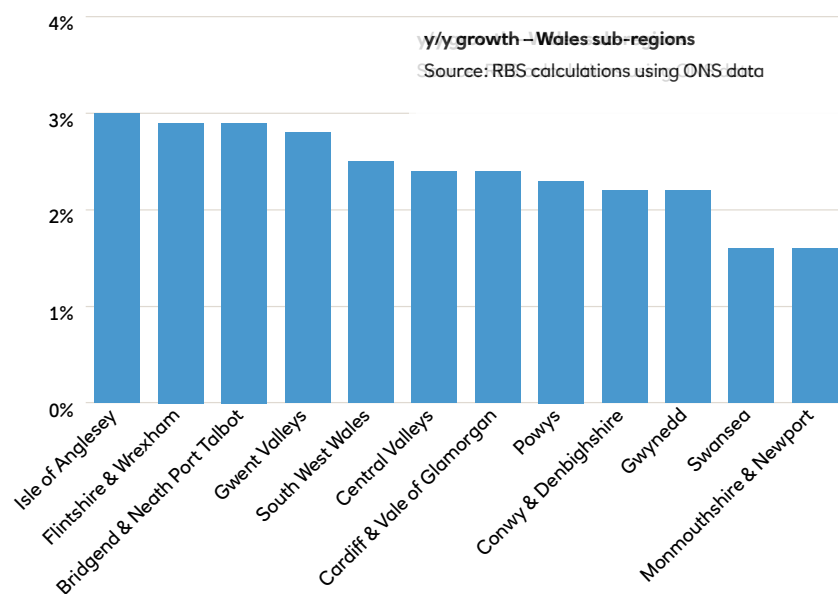
View from the region



Barry Evans
Regional Director

"There's definitely a more upbeat feel in the local economy. Our customers are demonstrating higher levels of confidence, they're now more open and receptive to embracing the insights and solutions we discuss with them. 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 such as from green/renewable energy, than they used to be."

"Consumer demand continues to surprise us; as value for money and available spending power improves in the economy it has a positive knock-on effect for business. Our lending book in Wales and SW England grew significantly for the first time in a number of years in 2014, with healthcare, manufacturing and agriculture all actively investing. The looming General Election has created some additional uncertainty around what this might mean for employers and entrepreneurs in terms of changes to regulation, tax and VAT etc. but overall businesses are optimistic about prospects in 2015 and beyond."



Regional Growth Tracker

South West

In the South West growth is estimated at 2.8% for 2014 and 0.5% for Q4

Bath, Somerest, Cornwall and Gloucestershire grew fastest

The region was bang on the UK average at the end of the year, growing by an estimated 0.5%q/q. Professional and real estate services and the transport equipment manufacturing sector were the stand-out performers. Bath topped the local area league tables for the last year, growing by 3.8%y/y, well above the UK average, with Cornwall and Gloucestershire not far behind. The South West already has one of the lowest unemployment rates in the country. Nevertheless, there were some notable falls, in particular in Swindon, where the rate fell from 7.4% to 4.9% in the year to Q3 2014.

Marcus Wright, RBS Economist

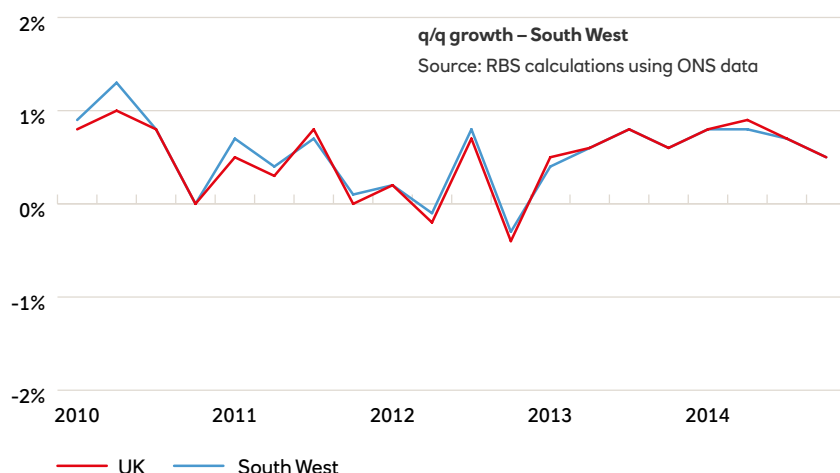
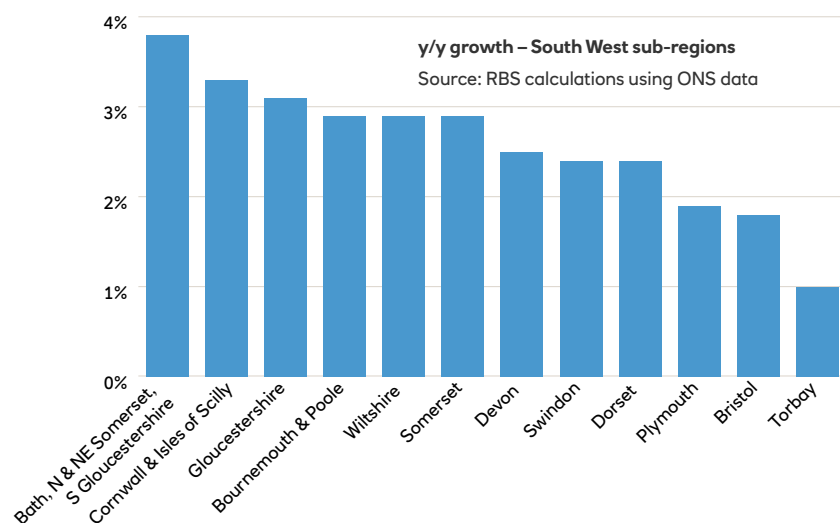
View from the region



Simon Godfrey
Regional Director

"It's good to see that the increased confidence we're sensing amongst our customers in the South West is mirrored in the growth stats out today. The region is very diverse in terms of the type of businesses based here and we're seeing positive signs across a number of the core components. Agriculture continues to face both opportunities and challenges and we're supporting South West businesses through both."

"The healthcare sector is evidencing renewed confidence, and the continuing trend for 'staycations' is having a positive effect on the Leisure sector here. The region is also maintaining and developing a strong reputation for its food and drink industry and we expect the positive trend in this sector to continue in 2015. Meanwhile manufacturing is seeing growth and expanding at a reasonable rate."



Regional Growth Tracker

South East

The South East's growth for 2014 is estimated to be 2.8% over 2014 and 0.4% in Q4

Milton Keynes, Hampshire and Oxfordshire were the fastest growing areas

The South East's economy grew by 0.4% in the final quarter of 2014. That places the region mid-table in our regional growth tracker. So a work-horse performance means the South East's economy expanded by 2.8% in the year, slightly above the UK's 2.7%. There was no smoking gun as to the reason for the solid, if unspectacular, performance. The construction sector struggled a little, as did the health. But only mildly. While the region's professional, legal and business communities punched above their weight. Within this diverse region Milton Keynes stole the show. It's economy grew by a whopping 4.9% year on year, beaten to the top spot only by East London – basically the City with Silicon Roundabout thrown in. Hampshire also grew strongly, up by 3.8%.

Stephen Blackman, RBS Economist

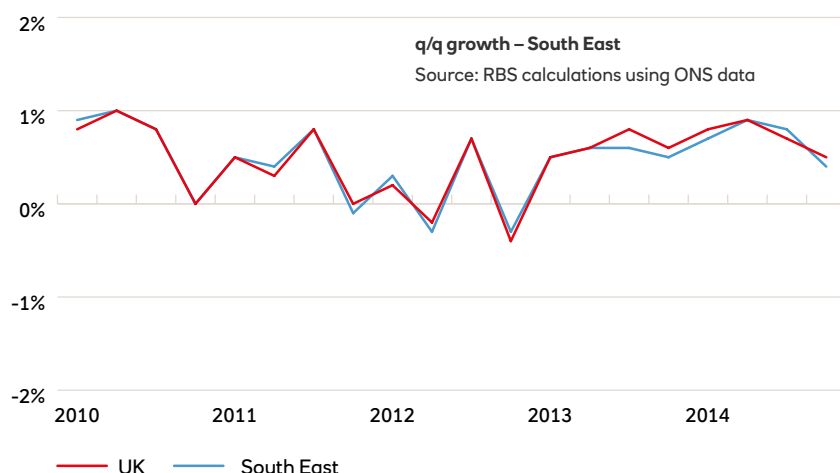
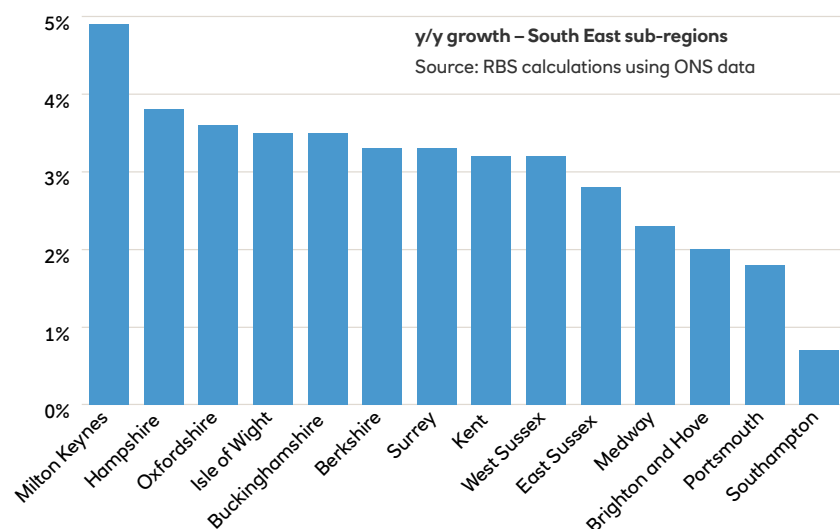
View from the region



Daryl Gayler
Regional Director

"We are pleased to be seeing a marked increase in the appetite from our customers in the South East to borrow from us. Those who a year ago were very cautious or felt it was just too early to be investing are now coming back to us with more confidence in the strength of the UK's economic outlook. 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."

"With unemployment in the South East at one of the lowest levels in the country and the economic outlook more positive, businesses in the region are now keen to make sure they don't lose ground to competitors and this creates the opportunity for us to support them."



Regional Growth Tracker

London

London was the fastest growing of all regions with an estimated 3.7% growth in 2014 overall

With estimated growth of 0.7% it was also fastest growing in Q4

Out in front yet again. The capital grew by an estimated 0.7%q/q at the end of 2014, comfortably above the UK average of 0.5%q/q. The region's inherent competitiveness and its large professional services and information and communications technology sectors provided the engine behind the surge. As a result, Inner East London was the fastest growing local area in the UK, with estimated growth of 5.2%y/y. Little wonder then that in the year to Q3, the unemployment rate fell by over 2 percentage points in both Inner East and Inner West London.

Stephen Boyle, RBS Economist

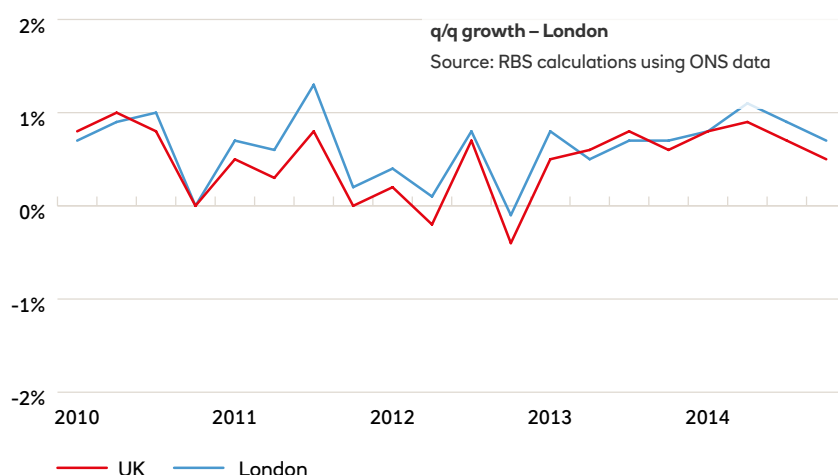
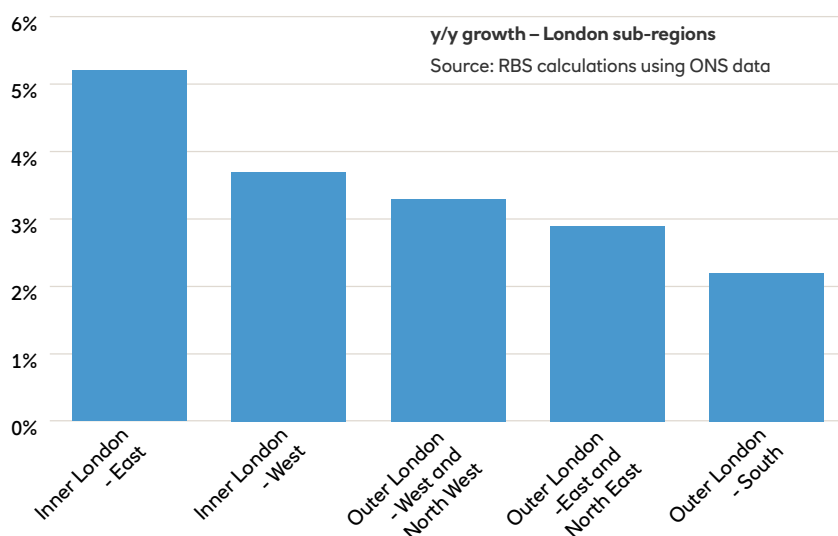
View from the region



Roger Fenwick
Regional Director

"It's great to see that the increased confidence and positivity we're sensing amongst our London customer base is mirrored in the growth stats out today. Appetite for growth is up across a number of sectors and although businesses are rightfully mindful about the upcoming general election and the effects a change in leadership might have, the feeling is that this is a sustained economic recovery and any dip in confidence post the election will hopefully only be a temporary one."

"We're seeing particular appetite for growth in the leisure sector – bars, pubs, clubs etc. – with some great new concepts coming into the capital and also in recruitment, with many firms now looking to expand overseas. The TMT sector – technology media and telecoms – has been a sweet spot for London for a number of years now and that shows no sign of stopping. With the sector and the capital increasingly seen as a great location for investment, and with equity investment in such companies also peaking, confidence and growth in this sector looks set to continue in 2015."



Regional Growth Tracker

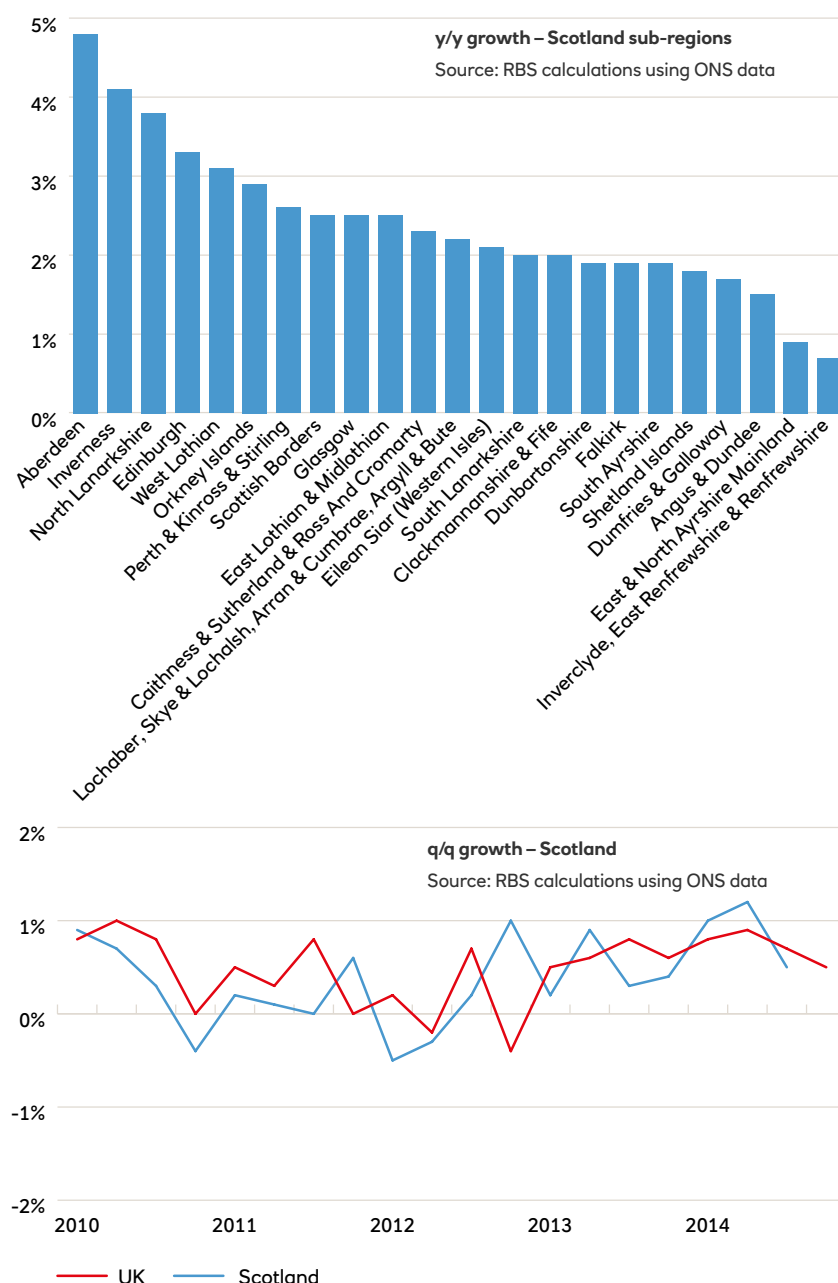
Scotland

Q3 growth was 0.6% according to the Scottish Government

Aberdeen, Inverness and North Lanarkshire are estimated to be growing most quickly

Statistics Scotland reported that the economy grew by 0.6%q/q in Q3 of 2014. We estimate that it was Aberdeen and Inverness that were the fastest growing regions in the year to Q3, growing above 4%y/y. However, we expect the economic performance of oil producing regions like Aberdeen to slow as a result of the steep decline in the oil price. Given current performance, it is likely that the more competitive services-oriented local areas such as Inverness and Edinburgh will be the drivers of growth in the year ahead.

Stephen Boyle, RBS Economist



View from the region



Jim McIntyre

Regional Director

“Growth in the Scottish economy over the last 12 months has been broadly in line with the rest of the UK. We have seen increased activity from the manufacturing, food and drink, and renewable energy sectors.

“Over the same period, we have seen companies increase their investment in equipment, to fund efficiency and expansion projects.

“While there are some challenges to growth for the oil and gas sector and uncertainty over the eurozone, the sense we get from our business customers is that they continue to have a positive outlook.

“We have a very active entrepreneurial ecosystem in Scotland. RBS is committed to this through its association with Espark, and we are seeing an increasing number of start-ups, which can only be a plus for the Scottish economy.”

Regional Growth Tracker

What our customers are saying

North West



Patsy Slevin, Director of Prospect Brewery Limited in Wigan

"We opened a new bar at the beginning of December in a railway arch in Wigan, called Wigan Central with funding from NatWest. Initial trading figures have far exceeded our expectations, despite dry January and there are very positive signs that people are beginning to spend money and socialise in pubs more. We are very hopeful for 2015 as the consumption of real ales is a growing market."

Scotland



Amy Ramage, owner of Blossom Beauty in Edinburgh

"Despite having just opened the doors to Blossom Beauty, business is really good. My customer numbers are fantastic, both new and repeat customers, indicating that certainly Edinburgh's trading conditions are strong just now. We are off to a good start which has certainly helped with my initial nerves around such a venture. I hope business continues along this trajectory."

Wales



Gwern Evans, Managing Director of Rhiannon Ltd, designers and makers of unique handmade jewellery in Wales

"The last year has been a relatively good one with significant growth and progress for Rhiannon. We've increased turnover and profit and created a number of new positions within the company. We are also looking to invest further and expand the business during the year to come. Conditions remain favourable from our perspective and we feel optimistic and confident about the year ahead."

London



Alex Moore, Director of Rosa's Thai Café – a multi-site restaurant business in London

"The last quarter of 2014 was very strong for our business and we were very busy. We opened an additional 2 cafes with the support of NatWest, which were both exceeded our projected trading figures. We have had a strong start to 2015 and our customers tell us they enjoy eating Thai food during cold weather spells. Our turnover is up on the same period last year with the average spend per head higher and the demand for more expensive wines also growing. We are very hopeful for 2015 and beyond and have plans in place to open an additional two cages taking our total to eight."

East Midlands



Dr Alif Moosajee, Principal Dentist and Clinical Director, Oakdale Dental in Leicester

"As a healthcare professional I feel that I am in a very privileged position because, in some respects my business is insulated from the downturn because as my mother and father said to me "people will always have teeth!!" However the economic downturn has made things difficult for some dental practices and other small businesses. We are certainly not complacent and constantly look for ways to add value to our patients so they keep coming back and hopefully refer us to their family and friends. We believe that's the easiest way to make your business grow. I do feel though that there is more positivity in our local economy and I think there is a feeling that we're on the cusp of some welcome growth."