

# Greater Manchester Brexit Monitor

## Key economic trends and developments – July 2018

**GMCA**

 BOLTON  
BURY

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OLDHAM

 ROCHDALE  
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**July saw the UK Government publish the long-awaited White Paper, detailing their vision for the UK and EU's post Brexit relationship.** Although going some way to address post-Brexit uncertainties, resistance and resignations from key figures in government, lack of detail in certain policy areas, and expected push-back from the EU make it challenging to untangle how this vision will play out. Economic trends over recent months give some cause for optimism however, with recent good weather offsetting the impact of bad weather earlier in the year - and contributing to positive growth in services, manufacturing, and construction sectors. Despite this, the outlook for most households is still mixed, with continuing rises in living costs outpacing wages which has left many people feeling a continued squeeze on household spending.

### Macro-Economic Trends & Developments

- **The growth rate for business activity rose in all regions except the North East in June**, with the PMI for the North West rising to 55.1 from 52.3 in April. However, this is still below pre-referendum levels (55.5) (above 50 = growth). **This places the North West in the middle among all English regions, and close to the national average (55.2).**
- **According to new estimates from the Office for National Statistics, UK GDP grew by 0.2% in the three months to May 2018 (March-May).** The service industries were the main driver of growth in this period. Economic commentators suggest the positive performance was due to a combination of warm weather and the royal wedding. However, falling construction output continues to account for the largest downward pull on growth.

### Policy, Trade, & Regulation

- **On 12<sup>th</sup> July the UK government published details of their agreed vision for what the UK and EU's post Brexit relationship should look like.** This is the UK's official negotiating position and not the final Brexit deal however; this position will require negotiation and agreement with the EU. Key points include:
  1. **The UK would maintain a 'common rulebook' with EU regulations on goods**, essentially establishing a free trade area for goods, although ending free trade in services.
  2. **The European Court of Justice would no longer have jurisdiction in the UK, with any common or harmonised regulation or law upheld by UK courts.** Parliament would oversee the UK's trade policy and have the ability to 'choose' to diverge from the EU rules – although with recognition this will affect frictionless trade and cooperation.
  3. **The free movement of people between the UK and EU would end**, however little detail is given on what arrangement will replace this, expected to be set out in a separate immigration white paper to be published in Autumn.

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### Key Sectors & Business Investment

- Research with GC Business Growth Hub clients in the 3 months to the end of June 2018 shows **cautious increases in business certainty around hiring and investment plans, with a larger proportion of local firms are proposing to keep investment plans the same** compared to the previous three month period (Jan-March). Despite this, there is **still significant uncertainty amongst business, with 30% unsure what impact Brexit will have on hiring and 23% unsure about future investment plans.**
- The Greater Manchester Chamber of Commerce reports that **Greater Manchester's economy continues to grow ahead of UK rates.** The Chamber's Manchester Index™ – made up of seven key indicators from their Quarterly Economic Survey – rose to 31.2 this quarter, its highest since Q3 2015.
- **The UK Manufacturing Purchasing Managers Index** survey shows that after significantly slower growth in early 2018, there are hints of more stable performance - the index rising to 54.4 (June) from 54.3 (May).
- **Growth rates in the services sector continue to rise steadily from March's low, with the services PMI rising to 55.1 in June from 54.0 in April.** Despite a surprisingly strong quarter, PMI survey respondents highlight that continuing Brexit-related uncertainty has held back larger orders.
- **Recent trends in the retail industry suggest growing sales this month, although at a slower rate than historic trends** driven in part by good weather and recent Royal Wedding celebrations.

### Property and Housing

- **April housing sales data from the Land Registry** shows that the vote to leave the EU has had little impact on house prices in GM. Furthermore, June data indicates **that construction activity is sustaining a moderate recovery from weather related-disruptions earlier in the year.**

### Economic inclusion

- **Numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in GM have fallen for the first time since November 2017 in May**, down 1,405 (-2.6%) on the previous month to 52,250 people. **ILO unemployment rates however still stand above national and regional rates, although they have fallen since the referendum.**
- **The Consumer Prices Index and Household Finance Index** both indicate a **continued rise in consumer costs and resultant squeeze on household finances, with living costs rising faster than wages.** Recent rises in costs have been driven in particular by rising fuel prices.

## Macro-economy

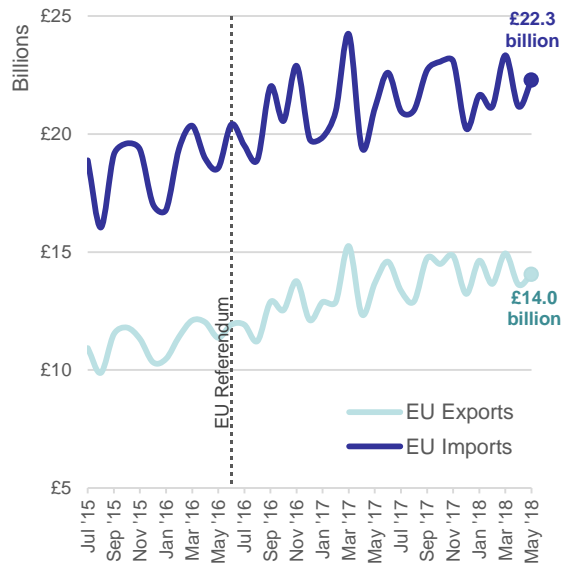
- **According to new estimates from the Office for National Statistics (ONS), UK GDP grew by 0.2% in the three months to May 2018 (March-May),** compared to no growth in the previous three months (Feb-April 2018). This is ONS' first monthly GDP growth estimate rather than quarterly. The service industries were the main driver of growth in this period, seeing a boost from warm weather and the royal wedding. However, falling construction output continues to account for the largest downward pull on growth.<sup>(1)</sup>
- **The Bank of England's Agents report for Q2 2018 indicates mixed business conditions across the UK.** Business services and manufacturing (particularly exporters) remain stronger sectors in Q2, but according to the Agent's report, investment intentions are only 'modestly positive'. Consumer demand remains weak as a result of squeezed real incomes, prompting further retrenchment in the retail sector.<sup>(2)</sup>

## UK International Trade

- **The total UK trade (goods and services) deficit widened by £5.0 billion to £8.3 billion in the three months to May 2018;** excluding erratic commodities, the deficit widened by £2.9 billion to £8.7 billion. The widening of the trade in goods deficit was **due mainly to a falling exports of cars,** and rising imports of unspecified goods.<sup>(3)</sup>

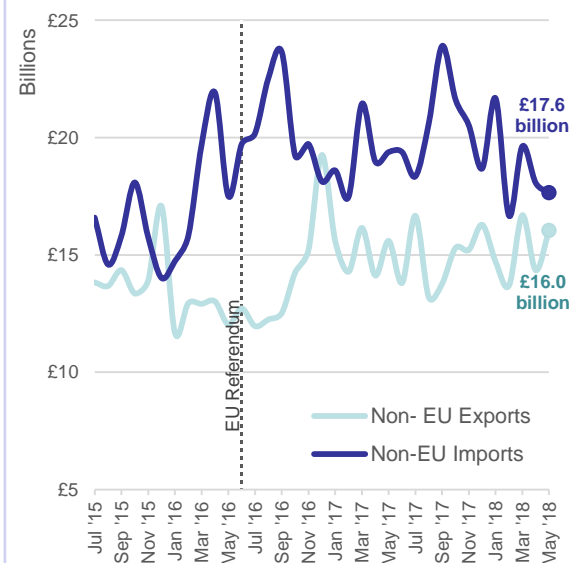
### EU Trade

- The UK was a net importer from the EU in May 2018, with imports exceeding exports by £8.2 billion.<sup>(4)</sup>



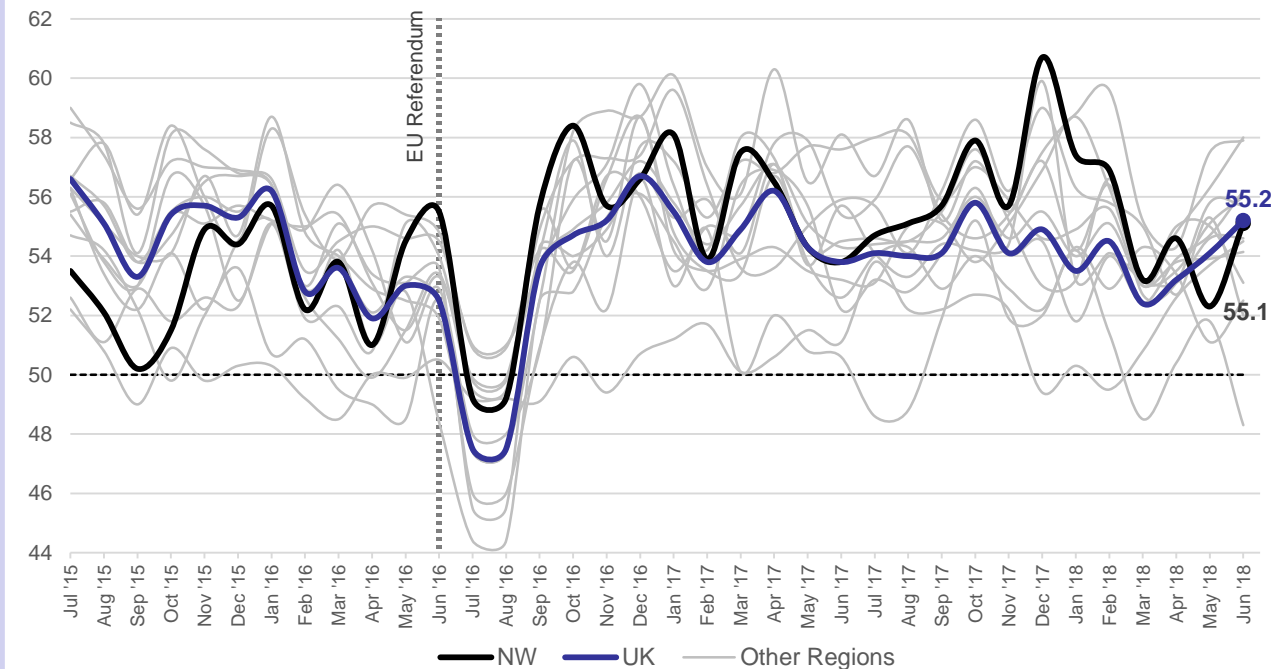
### Non-EU Trade

- The UK was a net importer from non-EU nations in May 2018, with imports exceeding exports by £1.6 billion.<sup>(4)</sup>



## IHS Markit Regional Purchase Managers' Index (PMI)

- **The growth rate for business activity rose in all regions except the North East in June,** with the PMI for the North West rising to 55.1 from 52.3 in April. However, this is still below pre-referendum levels (55.5) (above 50 = growth). **This places the North West in the middle among all English regions, and in line with the national average (55.2).** All other regions shown in grey below.
- **Cost pressures for businesses continue to increase in June,** in particular - wages, fuel prices, and raw materials continue to push prices higher across the UK..<sup>(5)</sup>



## Business Investment

- Research with GC Business Growth Hub clients in the 3 months to the end of June 2018 shows **cautious increases in business certainty around hiring and investment plans, with a larger proportion proposing to keep plans the same** compared to the previous three month period (Jan-March). Despite this, there is **still significant uncertainty**, with 30% unsure what impact Brexit will have on hiring and 23% unsure about future investment plans.<sup>(6)</sup>

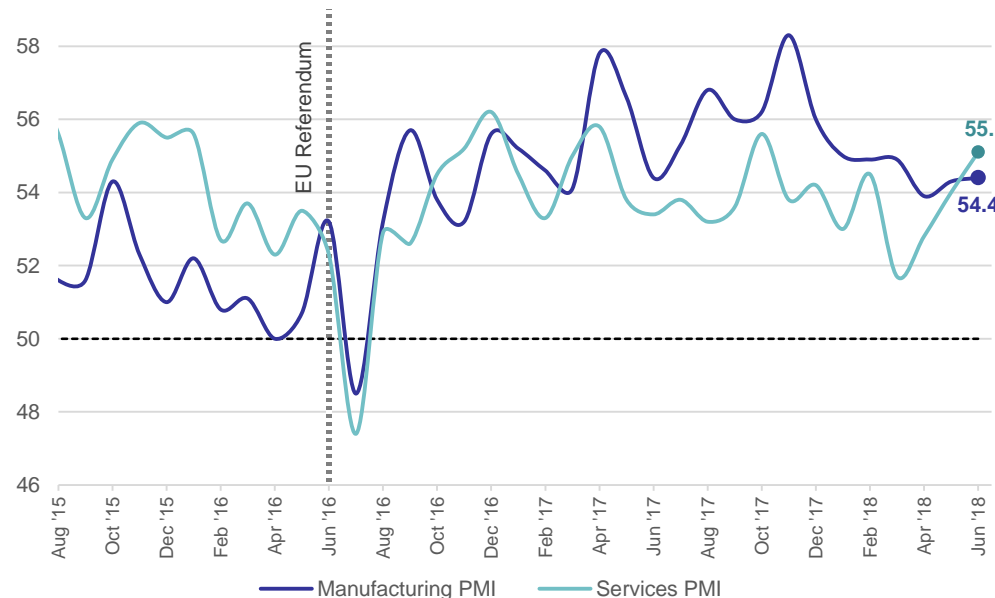
What impact is Brexit likely to have on your hiring plans?					What impact is Brexit likely to have on your investment plans?				
Make redundancies	Decrease or freeze hiring	Remain the same	Increase hiring	Don't know	Decrease investment	Remain the same	Decision put on hold	Increase investment	Don't know
<1%	4%	65%	<1%	30%	3%	71%	<1%	2%	23%
<1%	6%	47%	2%	44%	4%	57%	4%	5%	31%
Quarter ending June '18					Previous Quarter				

## Greater Manchester Chamber of Commerce

- Research by the Greater Manchester Chamber of Commerce reports that **Greater Manchester's economy continues to grow ahead of UK rates**. The Chamber's Manchester Index™ – made up of seven key indicators from the GM Chamber of Commerce Quarterly Economic Survey – rose to 31.2 this quarter from 28.2 last quarter, its highest since the Q3 2015. Whilst at the British Chambers of Commerce revised down its forecast for UK growth from 1.4% to 1.3% for 2018, the Chamber's still forecasts 2.5% - 2.75% growth for GM over the coming 12 months.<sup>(7)</sup>

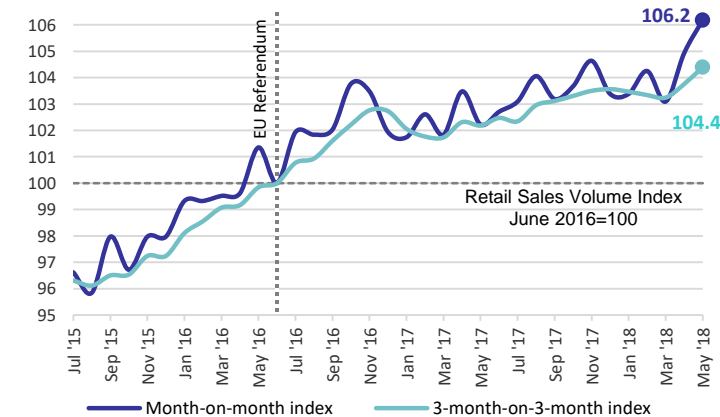
## IHS Markit/CIPS Manufacturing & Services PMIs®

- After slowing through early 2018, growth rates in manufacturing show signs of stabilising since March with UK Manufacturing PMI rising to 54.4 in June from 54.3 in May (above 50 = growth). While a marked drop from late 2017's high of 58.3, this **still indicates continued growth and stands higher than pre-referendum levels (52.3)**.
- Authors of the Index reports - IHS Markit - urge caution however, highlighting that the results have been driven by **manufacturing firms working through backlogs of work** rather than growth in new orders, and that this trend in the sector may not be sustainable in future.<sup>(8)</sup>
- Growth rates in the services sector continue to rise steadily from March's low, with the services PMI rising to 55.1 in June from 54.0 in April.** Despite a surprisingly strong quarter, PMI survey respondents highlight continuing Brexit-related uncertainty is holding back larger orders.<sup>(9)</sup>



## Retail Sales

- The volume (not value) of retail sales grew by 1.3% in May 2018** compared to April 2018, representing a 3.9% increase on May 2017 and a 6.2% increase on June 2016. Reports indicate this upturn may have been driven in part by good weather and recent Royal Wedding celebrations.
- The **underlying trend in the retail industry** – as suggested by the three-month on three-month measure – **is one of growing sales, although at a slower rate than historic trends**.<sup>(10)</sup>



## Brexit White Paper and Chequers Meeting

- Following a meeting of the cabinet at Chequers in early July, on 12<sup>th</sup> July the UK government published a White Paper setting out details of their agreed vision for what the UK and EU's post Brexit relationship should look like<sup>(11,12,13)</sup>. **This is the UK's official negotiating position and not the final Brexit deal however; this position will require negotiation and agreement with the EU.** Key points include:
  - The UK will maintain a 'common rulebook' and 'continued harmonisation' with EU regulations on goods, essentially **establishing a free trade area for goods** and avoiding friction at the UK-EU border (including Northern Ireland). A 'facilitated customs arrangement' will be implemented using technology to apply correct tariffs up front depending on where goods are destined for. There will however be different arrangements for services, **ending free trade in services**. This is of particular relevance to GM, with services making up the majority of the GM economy, with particular strengths in financial and professional services, although may provide some reassurance to GM's manufacturing sector.
  - A 'joint institutional framework' will be established to interpret UK-EU agreements. **The European Court of Justice will no longer have jurisdiction in the UK, with any common or harmonised regulation or law upheld by UK courts**, albeit with 'due regard' to EU case law. This includes harmonisation on regulations around state aid and competition. Parliament will oversee the UK's trade policy and have the ability to 'choose' to diverge from the EU rules – although with recognition this will affect frictionless trade and cooperation.
  - The **free movement of people between the UK and EU will end**, however a 'mobility framework' will be set up to allow UK and EU citizens to travel between nations, apply to work, or study. How favourable or challenging this future arrangement will be is not detailed.
- The government position as put forward at Chequers and in the White Paper has however proved controversial with some in government, **leading to the resignation of David Davis as minister for Brexit negotiations and Boris Johnson as foreign secretary**. The paper also recognised the need to step up preparedness for the full range of possible outcomes from negotiations, including a no-deal scenario.

## Warnings from Major British Vehicle Manufacturers

- Through June and July, **heads of the UK aerospace industry, Airbus, Unipart, BMW, and Jaguar Land Rover have warned that a no deal or hard Brexit could cost major vehicle manufacturers billions of pounds per year, as well as risking major manufactures moving operations abroad.**<sup>(14,15,16)</sup>

## Combined Authorities Meeting DExEU Minister

- On 18<sup>th</sup> June, Andy Burnham and other combined authority mayors met with the Department for Exiting the European Union minister to discuss the risks and opportunities of Brexit for Greater Manchester and the regions.** Andy Burnham and other CA Mayors raised the Government's refusal to share their regional impact analysis, and the challenges this creates in preparing for Brexit. The meeting also reiterated the lack of a proper structured engagement between Government and with Mayors and other Local Government leaders.

## Future of European Funding in the UK

- Through May and June the European Commission announced proposals for the 2021-27 EU budget post-Brexit. From 2014-20 the Greater Manchester allocation of ERDF and ESF totalled €405m, for which the region will continue to be eligible until 2020/21. **UK organisations have been advised to continue bidding for EU funding of all types, with the UK Government underwriting the continued payment of any successful funding application, even when projects are approved after the UK leaves the EU.** Current proposals also allow scope for the UK to continue in certain EU funding and science schemes as a 'third country'.

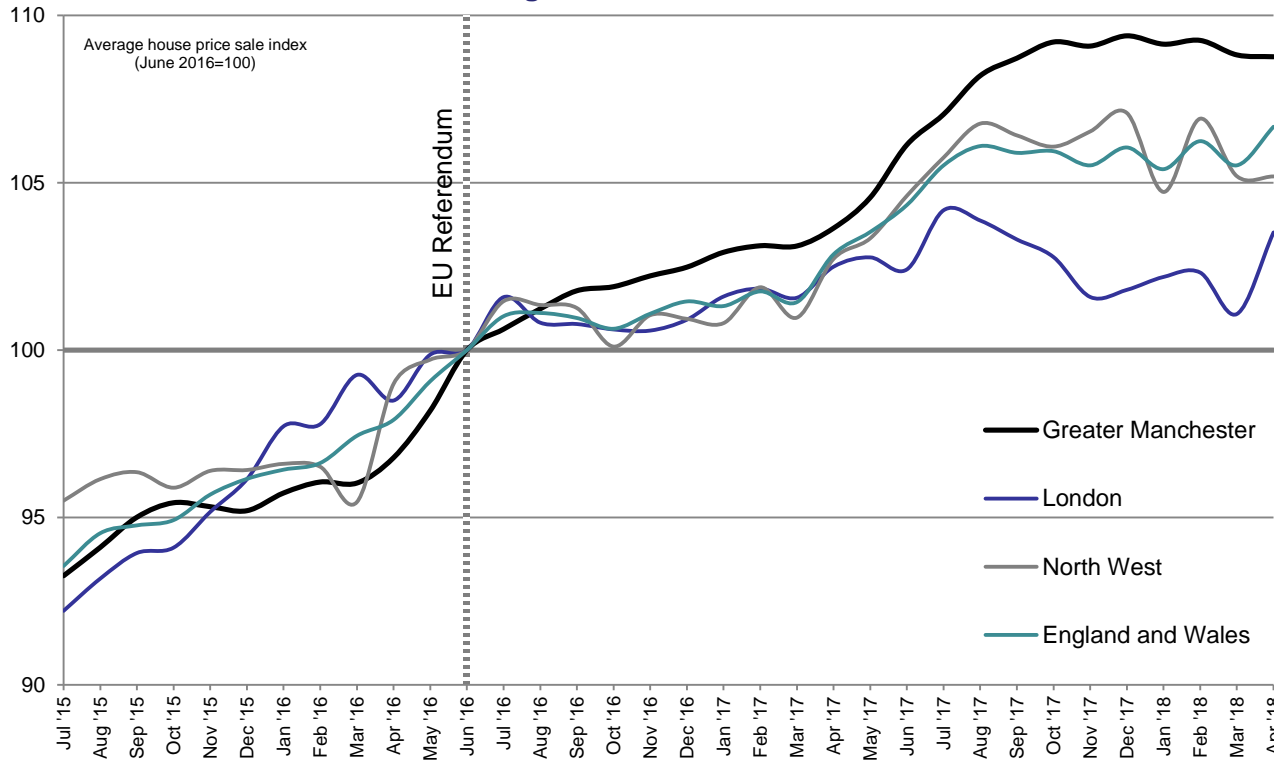
## Brexit - Key Dates

12 <sup>th</sup> July 2018	UK Government publishes its White Paper setting out detailed explanation of the UK's position on all aspects of Brexit.
18 <sup>th</sup> October 2018	EU summit during which both the UK and EU hope to agree an outline of the future UK-EU relationship.
Late October 2018	Deadline set by the EU's chief negotiator Michel Barnier as the point by which Brexit negotiations must have concluded to give the EU time to sign off on the deal. It is expected UK parliament will need to have also voted on this final deal prior to this.
13 <sup>th</sup> December 2018	Final EU summit of 2018. A possible fallback option if the October deadline is not reached.
29 <sup>th</sup> March 2019	Britain's formal exit from the EU, two years following the trigger of Article 50.
31 <sup>st</sup> December 2020	Planned end of the proposed Brexit transition period. Until this date, the UK will essentially function as if a member of the EU (including continuing current funding and regulatory arrangements).

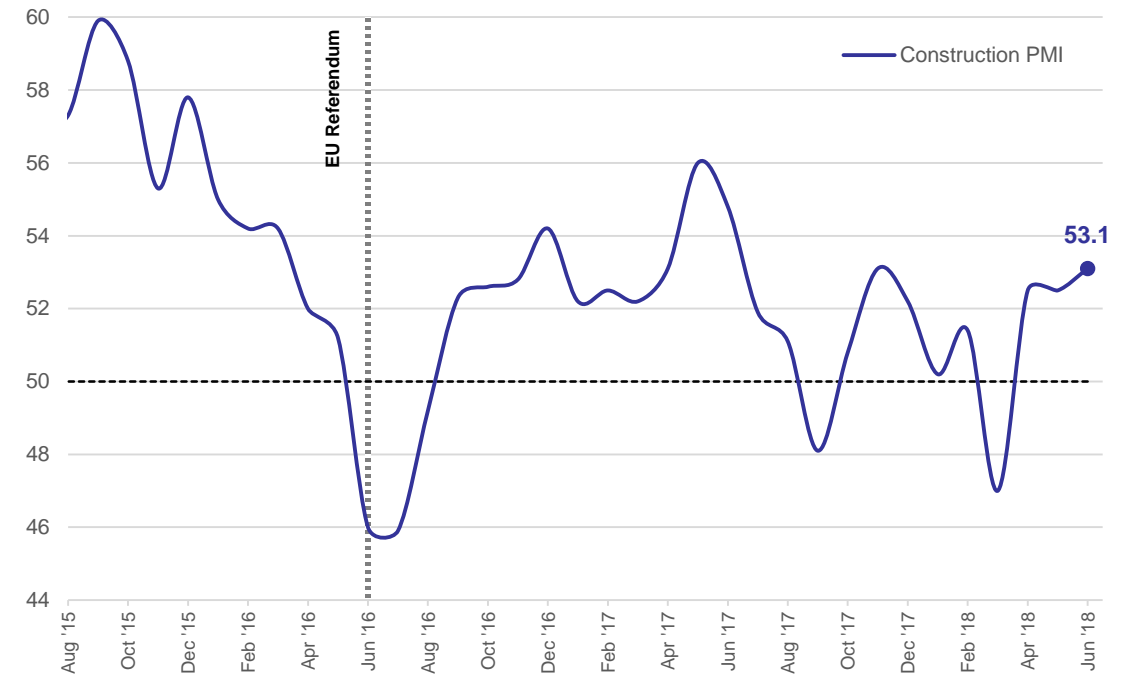
## Housing sales

- **April housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in GM**, with post-referendum trends in house prices roughly in line with pre-referendum trends. London has however seen flatter growth since the referendum. After a period of more rapid growth since March 2017, house prices growth in GM has slowed since September and seen a minor fall over recent months. This is possibly a seasonal pattern with price growth in GM often flattening during winter; as we move into summer new trends may emerge. **Overall, prices in Greater Manchester have risen faster than national and regional averages since the referendum.**<sup>(17)</sup>

Average House Sales Prices



IHS/CIPS Construction PMI



April 2018 Average House Price

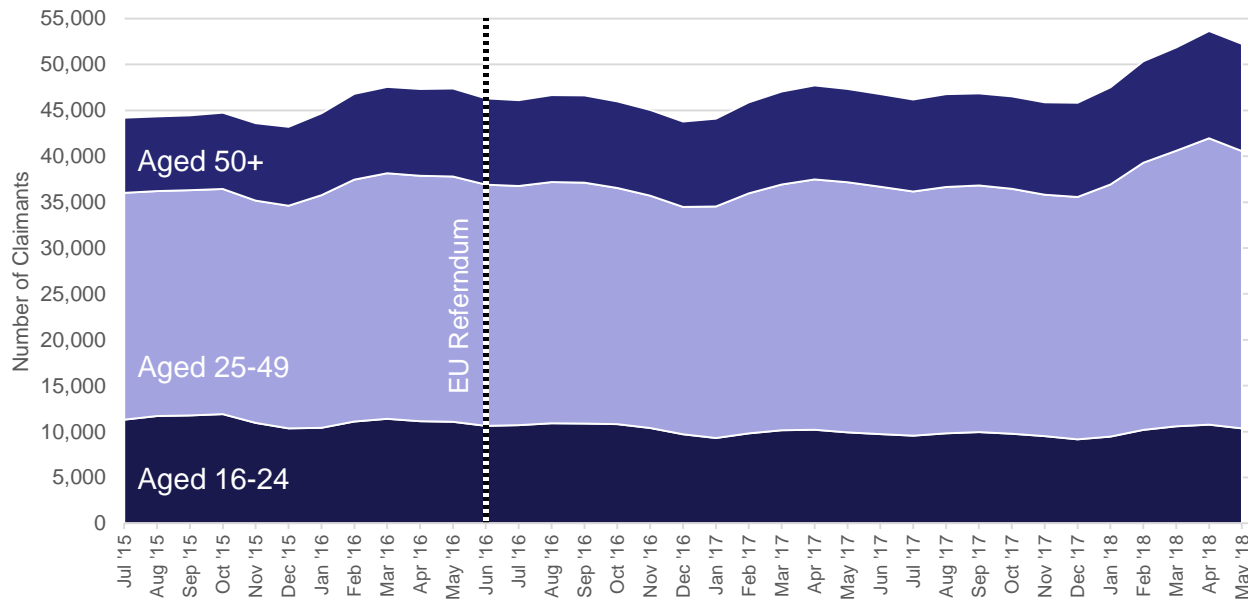
Greater Manchester	Since last month	Annual Change	Since EU Referendum
£162,588	-0.1%	+4.9%	+6.7%

- **June data indicates construction activity sustaining a moderate recovery from weather related-disruptions earlier in the year, with the construction PMI rising to 53.1 in June**, up from 52.5 in April (above 50 = growth). Along with November 2017, this marks the joint highest rate of growth since June 2017.<sup>(18)</sup>
- **Survey respondents report the fastest rise in new orders since May 2017, driven particularly by rising demand in for residential housing.** Despite this, input costs continue to rise steeply, with steel prices in particular posing issues in June.

## Unemployment and Claimant Counts

- **Numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in GM have fallen for the first time since November 2017 in May, down 1,405 (-2.6%) on the previous month to 52,250 people, with falls seen in all age groups. The total number of claimants however still stands 12.8% (5,920) higher than pre-referendum levels.** As a proportion of the working age population, number of claimants has also risen to 3.0% from 2.6% in June 2016. This is in line with national trends, with UK rates rising from 1.9% to 2.2% since the referendum, and North West trends, rising from 2.3% to 2.8%.<sup>(19)</sup>
- In the 12 month period up to December 2017, the ILO Unemployment rate in GM stood at 4.9%, down from 6.5% in the 12 month period up to June 2016. **Unemployment in GM still stands above national and regional rates, however it has fallen at a faster rate over the last two years.**<sup>(20)</sup>
- **Due to changes to unemployment benefits and the roll-out of Universal Credit over the last year, long-term trends in claimant counts should be treated with caution.** Greater numbers may be moved onto certain types of benefits or be expected to find additional work and therefore may appear in claimant counts, while total unemployment rates may not increase. **The GMCA are engaging with the Department for Work and Pensions on their consultation into the uses of this data.**

Claimant count (Job Seekers Allowance and Universal Credit) in GM by age group



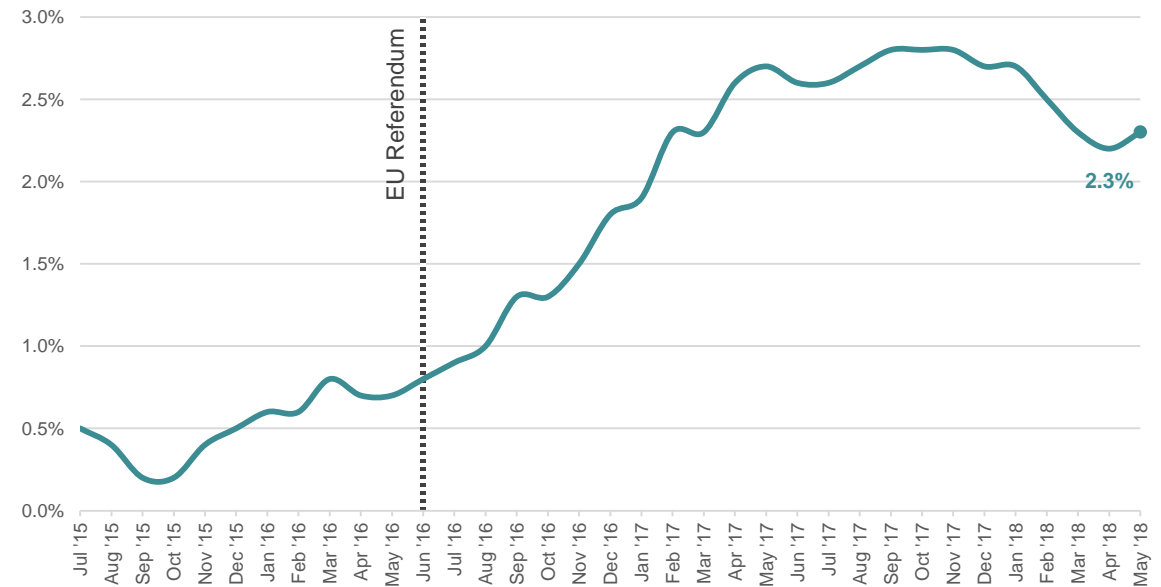
## EU Migration

- Latest international migration figures from ONS indicate that **EU emigration in 2017 stood at a record high with 139,000 EU citizens having left the UK.** Total EU citizen immigration however stood at 240,000 in 2017, resulting in a total net inward migration of around 101,000. This is the lowest in recent years, however still higher than around pre-2013 rates.<sup>(21)</sup>

## Household Finances

- **The seasonally adjusted Household Finance Index (HFI) – which tracks people’s sense of financial wellbeing – reveals a continued squeeze on UK household finances.** June’s HFI fell to 43.4, a deterioration since May’s high of 44.9 (below 50 signals deterioration). While wages are rising at the fastest rate since 2009, this has been overshadowed by rising living costs.<sup>(22)</sup>
- The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.3% in May 2018, up from 2.2% in April 2018, indicating a **continuing rise in consumer costs.** Rising motor fuel prices produced the largest upward contribution to the change in the rate between April and May 2018, rising by 3.8%.<sup>(23)</sup>

Consumer Prices Index (incl. owner-occupier housing costs) (CPI-H)



Section	Sources
<b>Macro-Economic Trends &amp; Developments</b>	<ol style="list-style-type: none"> <li>1. <a href="#">ONS (10 July 2018): Statistical bulletin: GDP monthly estimate, UK: May 2018</a></li> <li>2. <a href="#">Bank of England (28 June 2018): Agents' summary of business conditions - 2018 Q2</a></li> <li>3. <a href="#">ONS (10 July 2018): UK trade: May 2018</a></li> <li>4. <a href="#">HMRC (10 July 2018): Overseas Trade Statistics - Non-EU and EU Trade: May 2018</a></li> <li>5. <a href="#">IHS Markit / NatWest UK Regional PMI (9 July 2018): "Regional business activity growth continues to be led by the Midlands"</a></li> </ol>
<b>Key Sectors &amp; Business Investment</b>	<ol style="list-style-type: none"> <li>6. <a href="#">Manchester GC Business Growth Hub (end June 2018 snapshot): Internal Survey of Client Companies</a></li> <li>7. <a href="#">Greater Manchester Chamber of Commerce statement on Quarterly Economic Survey Q2-2018 and Manchester Index</a></li> <li>8. <a href="#">Markit/CIPS UK Manufacturing PMI (2 July 2018): "Manufacturing sector remains subdued at end of second quarter"</a></li> <li>9. <a href="#">Markit/CIPS UK Services PMI (4 July 2018): "Strongest rise in service sector activity since October 2017"</a></li> <li>10. <a href="#">ONS (14 June 2018): Retail sales in Great Britain: May 2018</a></li> </ol>
<b>Policy, Trade, &amp; Regulation</b>	<ol style="list-style-type: none"> <li>11. <a href="#">Statement from HM Government (6 July 2018): Chequers</a></li> <li>12. <a href="#">HM Government (12 July 2018): The future relationship between the United Kingdom and the European Union</a></li> <li>13. <a href="#">BBC News (10 July 2018): Theresa May's new-look cabinet meets amid Brexit turmoil</a></li> <li>14. <a href="#">BBC News (5 July 2018): No-deal Brexit 'could ground aircraft'</a></li> <li>15. <a href="#">Financial Times (4 July 2018): Jaguar Land Rover says hard Brexit will cost it £1.2bn a year</a></li> <li>16. <a href="#">Financial Times (22 June 2018): More UK businesses join Airbus lead on hard Brexit warning</a></li> </ol>
<b>Property &amp; Housing</b>	<ol style="list-style-type: none"> <li>17. <a href="#">HM Land Registry (April 2018): House Price Index Database, updated 13 June 2018</a></li> <li>18. <a href="#">Markit/CIPS UK Construction PMI (3 July 2018): "Construction output growth reaches seven-month high in June"</a></li> </ol>
<b>Economic Inclusion</b>	<ol style="list-style-type: none"> <li>19. <a href="#">ONS (2018): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed July 2018</a></li> <li>20. <a href="#">ONS (2018): Labour Force Survey (model based estimates of unemployment), accessed July 2018</a></li> <li>21. <a href="#">ONS (16 July 2018): Statistical bulletin: Migration Statistics Quarterly Report: July 2018 (rescheduled from May 2018)</a></li> <li>22. <a href="#">IHS Markit Household Finance Index (18 June 2018): "Income from employment rises at survey-record pace in June, but higher living costs continue to hold back household confidence"</a></li> <li>23. <a href="#">ONS (13 June 2018): Consumer price inflation UK: May 2018</a></li> </ol>