

North West Brexit Monitor

Key economic trends & developments – September 2018

September saw Brexit preparations accelerate as negotiation deadlines come closer, with recent months marked in particular by increasing discussion across the nation of the risk and impact of leaving the EU without a deal in place. Despite this, there are reasons for optimism with the UK Government maintaining that they are confident that a deal will be reached, and overall positive – if variable – trends in recent months in construction, services, and retail sectors purchasing manager's survey data. Consumer spending growth ticked up, boosted by the warmer weather. For most households however, the outlook is still mixed, with falls in unemployment and rising wages unable to counter the effect of rising living costs, leaving most still feeling the squeeze.

Macro-Economic Trends & Developments

- **The growth rate for business activity rose in all regions of the UK except the North East in August**, with the PMI for the North West rising to 54.2 from 52.1 in July. However, this is still below pre-referendum levels (55.5) (above 50 = growth). **This places the North West at the lower end of English regions, but in line with the national average (54.2).**
- **According to monthly estimates from the Office for National Statistics (ONS), UK GDP grew by 0.6% in the three months to July 2018 (May-July)**, after zero growth in Feb-April 2018 (partly a result of bad weather earlier in the year). The service industries were the main driver of growth in this period, seeing a boost from warm weather and the World Cup. However despite positive movements compared to early 2018, **the underlying trend for the UK in real GDP is one of slowing growth since 2014.**

Policy, Trade, & Regulation

- **On 24th August and 13th September, the Government published a total of 52 technical notices setting out information on how different areas of UK business and law would be affected by a 'no deal' scenario**, allowing businesses and citizens to make informed plans and preparations. While the government maintains that a no deal scenario is unlikely, these notices address areas of immediate concern were the UK to leave the EU with no agreed formal relationship.
- The notices address a range of topics including the **future of certain EU funding streams, medicines labelling and regulation, nuclear regulation, importing and exporting, tobacco and food labelling, humanitarian and state aid, and studying in the EU.**
- **On 18th September the Migration Advisory Committee published their final report on the impact and future of EEA migration in the UK.** Notable recommendations include that migration policy should focus primarily on high-skilled labour, not implement any regional policy variations, and give no future priority to EU migrants over non-EU migrants.

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Key Sectors & Business Investment

- **The UK Manufacturing Purchasing Managers Index** survey shows a continuing slowdown in manufacturing growth since November 2017, with the index falling to 52.8 (August) from 53.8 (July).
- **Growth rates in the services sector however give signs for optimism with the services PMI rising to 54.3 in August from 53.5 in July.** Nevertheless, PMI survey respondents highlight continuing Brexit-related uncertainty holding back larger orders and struggles recruiting skilled workers.
- **Recent trends in the retail industry suggest growing sales this month, with underlying trends showing momentum picking up following a longer period of slow growth in the sector.**

Property and Housing

- **June housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in the North West**, with post-referendum trends in house prices roughly in line with pre-referendum trends, with the exception of Cheshire & Warrington which saw a drop in house prices up to April 2017 and slower growth since. **Overall, prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum, with Cumbria close behind.** All other areas of the North West have seen total growth below the national average.
- Furthermore, despite a dip in the construction PMI, August data indicates **that the sector is sustaining a moderate recovery from weather related-disruptions earlier in the year.**

Economic inclusion

- Trends in unemployment since the referendum broadly reflect previous long-term trends, with an **overall decline in unemployment rates in most areas.** This is with the exception of Lancashire where unemployment rates have stayed broadly flat (4.2% pre-referendum to 4.1% latest) and Cheshire & Warrington where rates have risen slightly (3.5% pre-referendum to 3.9% latest), taking it now above Cumbria (3.3%).
- **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 transport costs.**

Macro-Economic Trends & Developments

Macro-economy

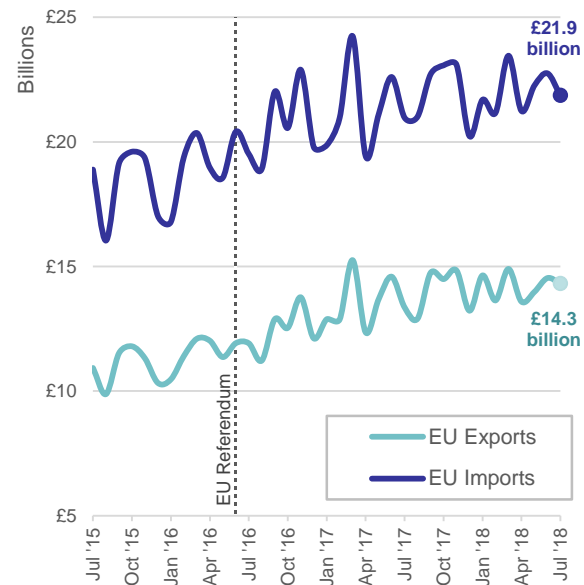
- According to monthly estimates from the Office for National Statistics (ONS), UK GDP grew by 0.6% in the three months to July 2018 (May-July). This represents a continued upward trend compared to 0.1% and 0.4% growth in the previous two rolling quarters (March-May and April-June), and following zero growth in Feb-April 2018 (partly a result of bad weather earlier in the year). The service industries were the main driver of growth in this period, seeing a boost from warm weather and the World Cup, However, production output continues to slip, contributing to a downward pull on growth. **Despite positive movements compared to early 2018, the underlying trend for the UK in real GDP is one of slowing growth since 2014.** ^(1,2)
- The Bank of England's Agents Report for Q3 2018 indicates rising (although still modest) consumer spending boosted by good weather, slowing manufacturing output and exports, rising business uncertainty around Brexit (particularly for investment plans), and recruitment difficulties resulting in higher average pay settlements. **The Bank also left interest rates on hold at 0.75% this month,** although highlighted concerns around future 'greater uncertainty' in future in light of Brexit and the increasing possibility of no deal. ^(3,4)

UK International Trade

- The total UK trade deficit (goods and services) narrowed by £1.4 billion to £3.4 billion in the three months to July 2018; excluding erratic commodities (mainly aircraft and gold), the deficit narrowed by £0.2 billion to £5.2 billion. ⁽⁵⁾

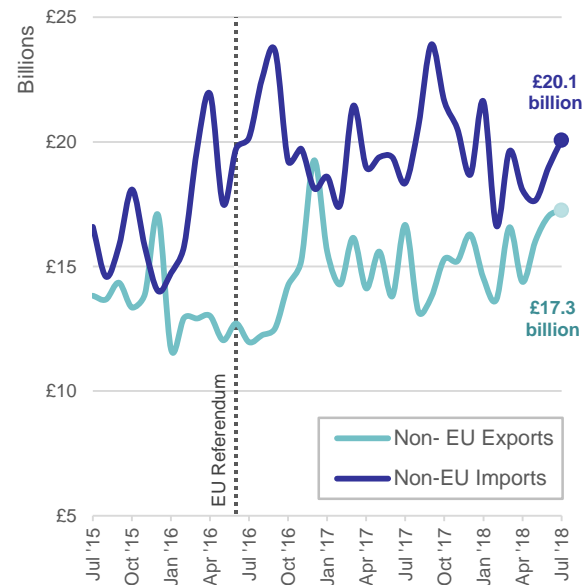
EU Trade

- The UK was a net importer from the EU in July 2018, with imports exceeding exports by £7.6 billion. ⁽⁶⁾



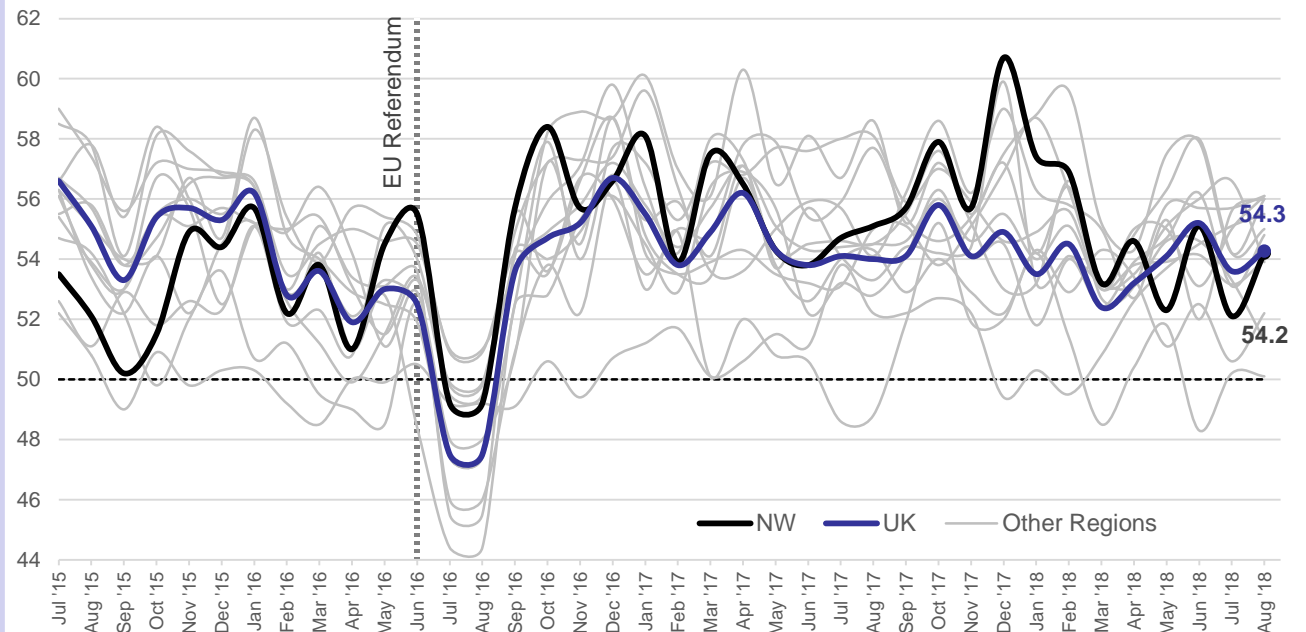
Non-EU Trade

- The UK was a net importer from non-EU nations in July 2018, with imports exceeding exports by £2.8 billion. ⁽⁶⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- The growth rate for business activity rose in all regions of the UK except the North East in August, with the PMI for the North West rising to 54.2 from 52.1 in July. However, this is still below pre-referendum levels (55.5) (above 50 = growth). **This places the North West at the lower end among English regions, but in line with the national average (54.2).** All other regions shown in grey below.
- Cost pressures for businesses continue to increase in August, with firms reporting increased uncertainty on the outlook going into the next 12 months. ⁽⁷⁾



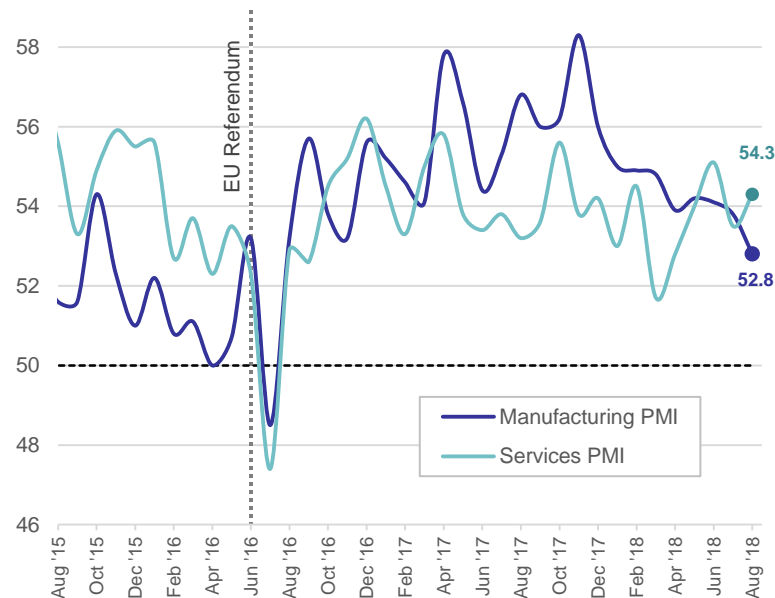
Key Sectors & Business Investment

British Chamber of Commerce

- In September the **British Chamber of Commerce updated their Business Brexit Risk Register** following the Government's publication of 52 technical notices detailing 'no deal' contingency planning, **maintaining 19 'red-rated', 4 'amber-rated' issues, and upgrading 1 'green-rated' issue**, a small improvement from their previous register update.
- This register brings together 24 top questions being asked by businesses across the UK, with red and amber ratings indicating that the answers to most key questions remain uncertain. The single 'green-rated' issue that the Chamber feel is now clear is around how businesses will pay import VAT.⁽⁸⁾
- In light of this Brexit-related uncertainty and resultant weaker outlook for trade and investment, on 17th September **the Chamber downgraded their projections for UK GDP growth in 2018 to 1.1% from 1.3%**, and 2019 projection down to 1.3% from 1.4%.⁽⁹⁾
- The Chamber's most recent **Quarterly International Trade Outlook** (covering Q1 2018) highlights **significant labour and skills shortages among exporters, particularly in manufacturing**, raising concerns over how Brexit may affect the UK's EU labour force. The report additionally raises concerns around how future EU relations may affect ease of trade. Nevertheless, the report highlights a **strong quarter for UK exporters, in particular for the North West, West Midlands, and South West**.⁽¹⁰⁾

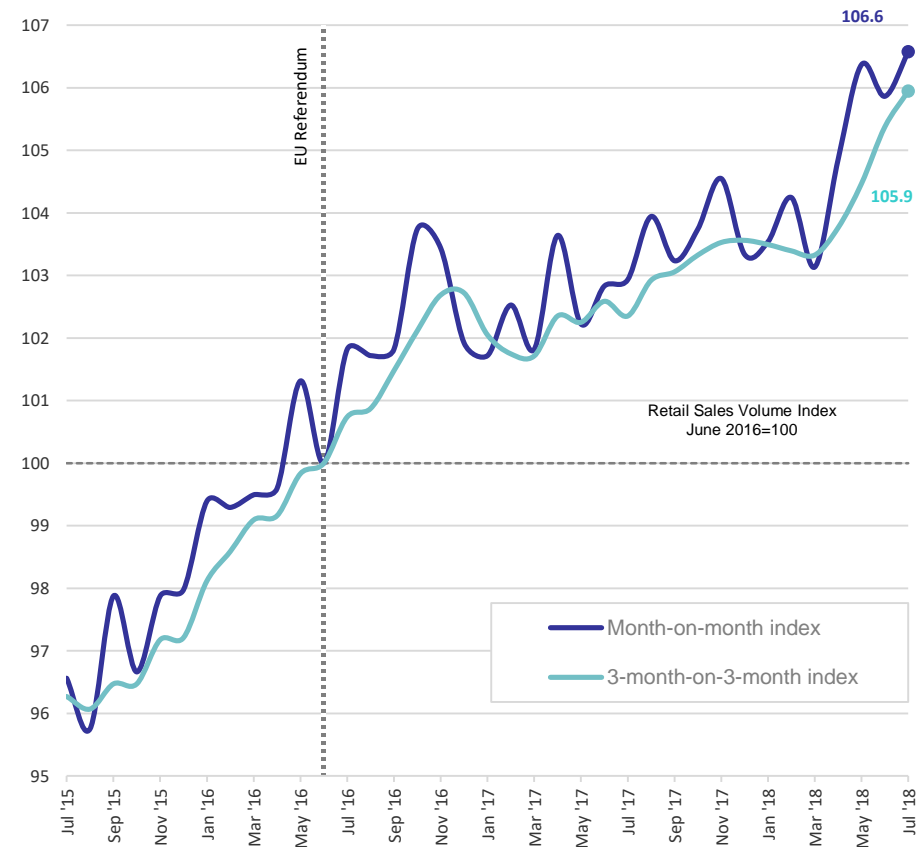
IHS Markit/CIPS Manufacturing & Services PMIs®

- August data shows a continued slowdown in UK manufacturing growth, with the UK Manufacturing PMI falling to 52.8 from 53.8 in June (above 50 = growth). While a marked drop from late 2017's high of 58.3, this **still indicates continued growth, although lower than pre-referendum levels (53.2) for the first time**.
- Despite continued weakness of the pound, foreign demand has decreased, likely driving this slowdown. With input prices rising, job creation has slowed to near zero, with cuts being seen among some large enterprises.⁽¹¹⁾
- **Growth rates in the services sector however give signs for optimism with the services PMI rising to 54.3 in August from 53.5 in July**. Nevertheless, PMI survey respondents highlight continuing Brexit-related uncertainty holding back larger orders and struggles recruiting skilled workers.⁽¹²⁾



Retail Sales

- **The volume (not value) of retail sales grew by 0.7% in July 2018** compared to June 2018, representing a 3.5% increase on July 2017 and a 6.6% increase on June 2016.
- Reports indicate this upturn may have been driven in part by good weather, the World Cup, and increasing online sales.
- **The underlying trend in the retail industry – as suggested by the three-month on three-month measure – is one of growing sales, with momentum picking up following a longer period of slow growth.**⁽¹³⁾



Policy, Trade, & Regulation

No Deal Technical Notices

- On 24th August and 13th September, the Government published a total of 52 technical notices setting out information on how different areas of UK business and law would be affected by a 'no deal' scenario, allowing businesses and citizens to make informed plans and preparations.⁽¹⁴⁾
- While the government maintain that a no deal scenario is unlikely, highlighting that around £3.7billion in funding and over 16,000 staff have been (or are planned to be) allocated to plan for Brexit and that 80% of the withdrawal agreement has been agreed with the EU, these notices address areas of immediate concern were the UK to leave the EU with no agreed formal relationship in March 2019.
- The notices address a range of topics including the future of certain EU funding streams, medicines labelling and regulation, nuclear regulation, importing and exporting goods, tobacco and food labelling, humanitarian and state aid, and studying in the EU.
- While the EU have also published their own preparedness notices discussing possible impacts of a no deal for EU firms, on 31st August following a meeting with Brexit minister Dominic Raab, Michel Barnier made a statement also emphasising that good progress has been made in negotiations. Nevertheless, Barnier still emphasised the importance of reaching an agreement, and particular concerns on agreements around security and intellectual property rights.^(15,16)

Migration Advisory Committee

- On 18th September the Migration Advisory Committee published their final report on the impact and future of EEA migration in the UK in light of Brexit. Particularly notable recommendations for the North West include that migration policy should focus primarily on high-skilled labour (despite concerns expressed from the hospitality, agricultural, and health sectors in particular around potential labour shortages), not implement any regional variations in migration policy (including the £30,000 salary threshold), and give no future priority to EU migrants over non-EU migrants.⁽¹⁷⁾

Future of European Funding in the North West

- From 2014-20 the North West allocation of ERDF and ESF totalled €1.13billion, for which the European Commission has announced 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.
- In their recent 'no deal' technical notices, the government has reiterated that they will guarantee any funding secured before 29th March 2019 and continue all allocated 2014-20 ESF and ERDF funding, even in the event of a no deal. Current proposals for the EU and UK's future relationship also allow scope for the UK to continue in certain EU funding and science schemes as a 'third country'.

House of Commons Exiting the European Union Committee update

- On 18th September the House of Commons Exiting the EU Committee published their latest update. While it welcomed the government's recent White Paper and technical notices, it criticised that the White Paper was only being published 17 months after Article 50, expressed concerns about the feasibility of current plans for the Northern Irish border, and speculated that many no deal contingency plans would be reliant on the reciprocal agreement of the EU, which it said has not been guaranteed.⁽¹⁸⁾

Brexit - Key Dates

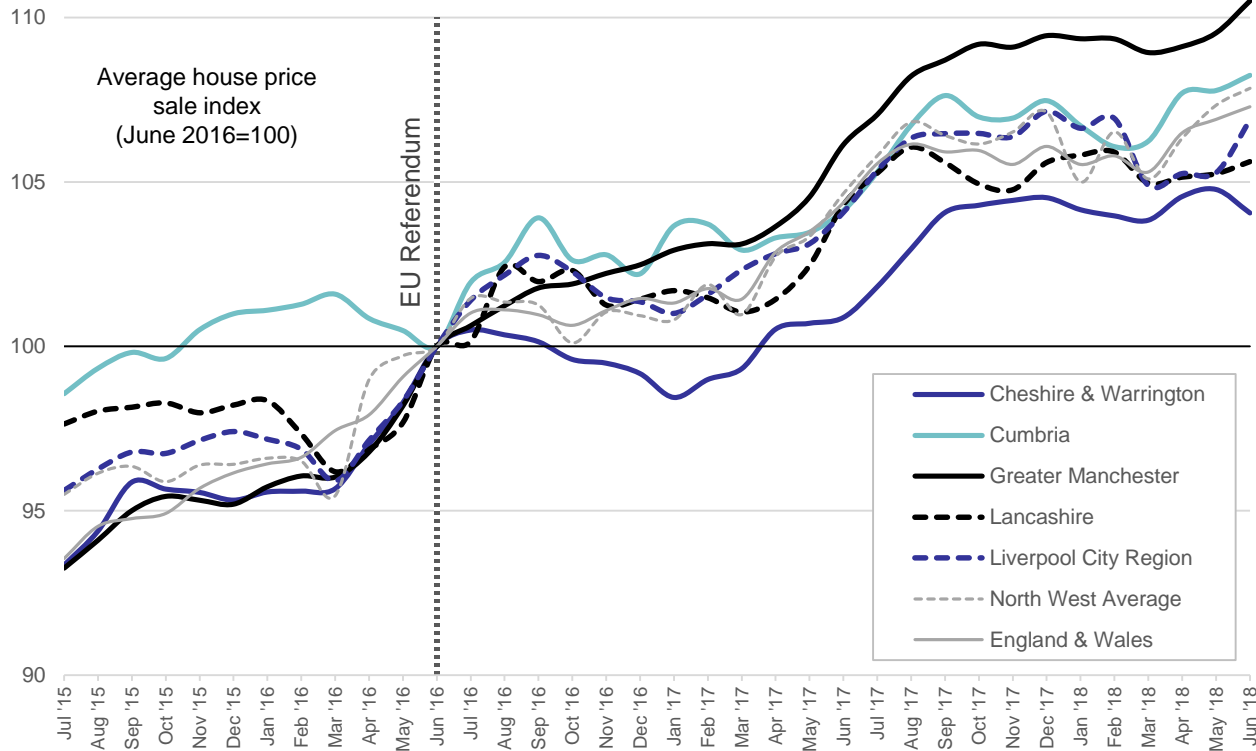
August - September 2018	Publication of 52 DExEU 'no deal' preparation technical notices
18 th October 2018	EU summit during which both the UK and EU hope to agree an outline of the future UK-EU relationship.
Late October 2018	Deadline set by the EU's chief negotiator Michel Barnier as the point by which 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 th December 2018	Final EU summit of 2018. A possible fallback option if the October deadline is not reached.
29 th March 2019	Britain's formal exit from the EU, two years following the trigger of Article 50. In the case of a 'no deal', all current EU legislation and agreements would cease to apply from this date in the absence of any other arrangements.
31 st 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).

Property & Housing

Housing sales

- June housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in the North West**, with post-referendum trends in house prices roughly in line with pre-referendum trends, with the exception of Cheshire & Warrington which saw a drop in house prices up to April 2017 and slower growth since. After a period of flat growth since September 2017, house prices in most areas across the North West appear to be picking up once again since March. Although a longer period of flat growth than previous years, this likely reflects a seasonal pattern with price growth often slowing during winter. **Overall, prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum, with Cumbria close behind.** All other areas of the North West have seen total growth below the national average. ⁽¹⁹⁾

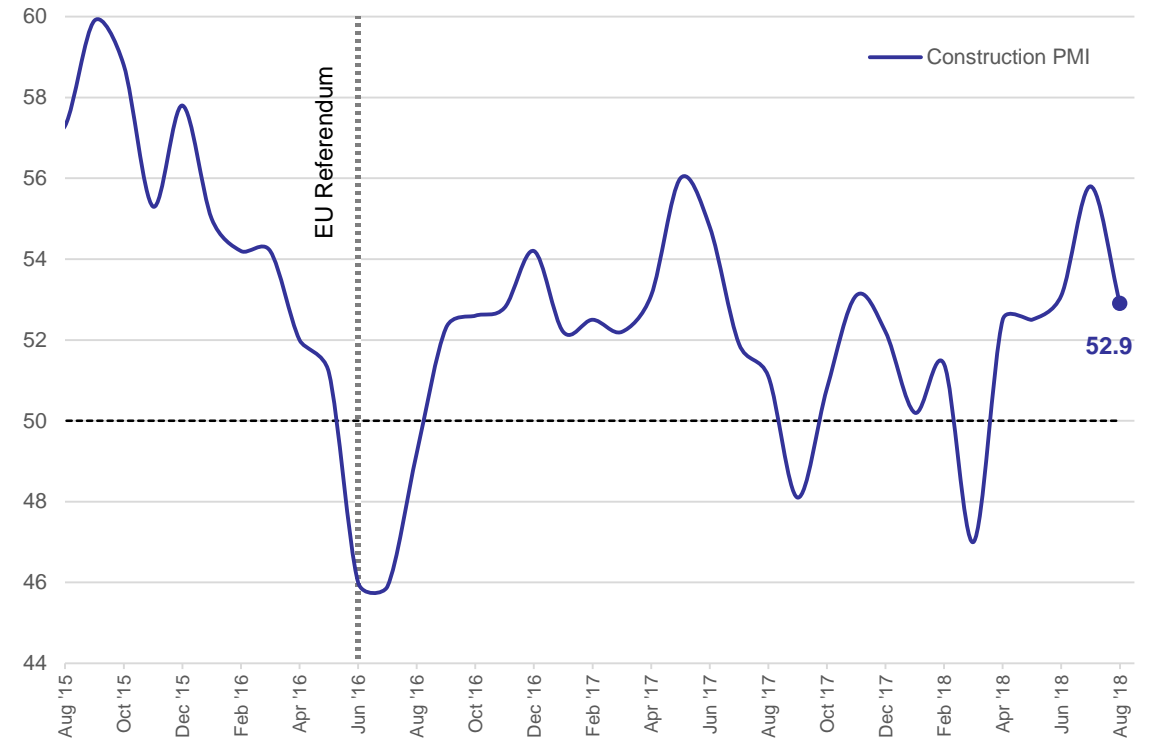
Average House Sales Prices



June 2018 Average House Price

North West	Since last month	Annual Change	Since EU Referendum
£159,801	+0.5%	+3.1%	+7.8%

IHS/CIPS Construction PMI



- August's construction PMI stands at 52.9**, down from 55.8 in July (above 50 = growth), indicating a **slowdown in construction output since the previous month**. However, growth remains positive following the recovery from weather related-disruptions earlier in the year.⁽²⁰⁾
- Construction PMI survey respondents are positive about prospects for future growth**, citing favourable economic conditions, although tempered by stretched supply chains, skills shortages, and ongoing Brexit-related uncertainty.

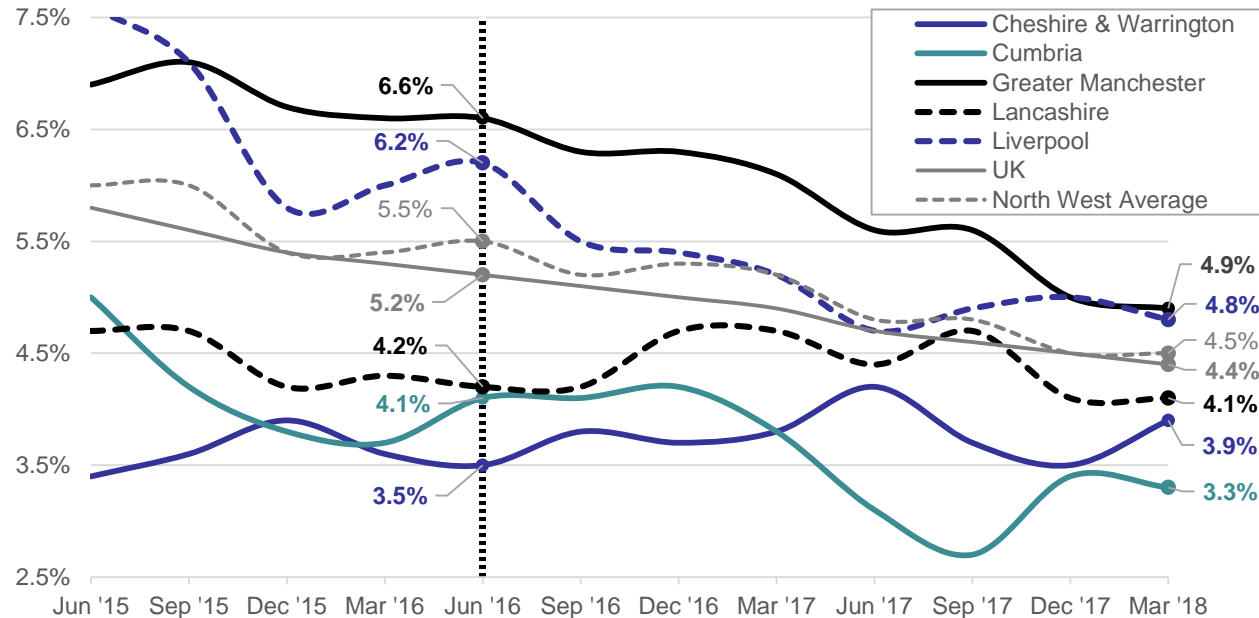
Economic Inclusion

Unemployment and Claimant Counts

- Trends in unemployment since the referendum broadly reflect previous long-term trends, with an **overall decline in ILO unemployment rates** (the standard definition of unemployment used by the International Labour Organisation) **in most areas**. This is with the exception of Lancashire where unemployment rates have stayed broadly flat (4.2% pre-referendum to 4.1% latest) and Cheshire & Warrington where rates have risen slightly (3.5% pre-referendum to 3.9% latest), taking it now above Cumbria (3.3%). ⁽²¹⁾
- Numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in the North West stood at 128,715 in August, up 1,305 (1.1%) on the previous month, with rises in all age groups.
- The total number of claimants is 22.2% (23,280) higher than pre-referendum levels.** As a proportion of the working age population, number of claimants has also risen to 2.8% from 2.3% in June 2016, mirroring national trends. ⁽²²⁾

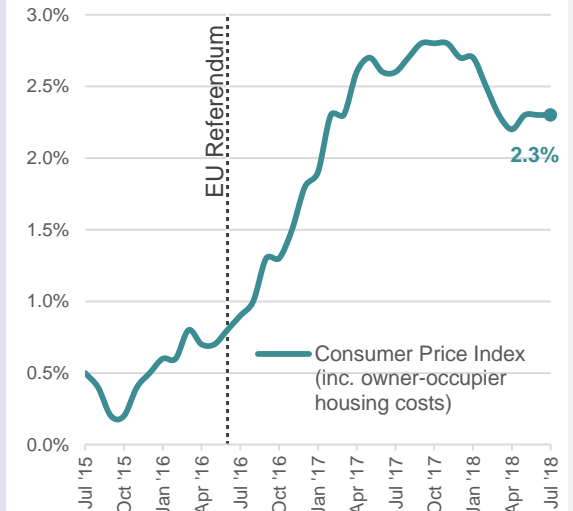
Due to recent changes to unemployment benefits and the roll-out of Universal Credit in the North West over the last year, long-term trends in claimant counts should be treated with caution. Greater numbers may be moved onto certain types of benefits or be expected to find additional work and may appear in counts, while total unemployment rates may not change. ILO unemployment rates are unaffected.

ILO Unemployment Rate (% of economically active population aged 16-64)

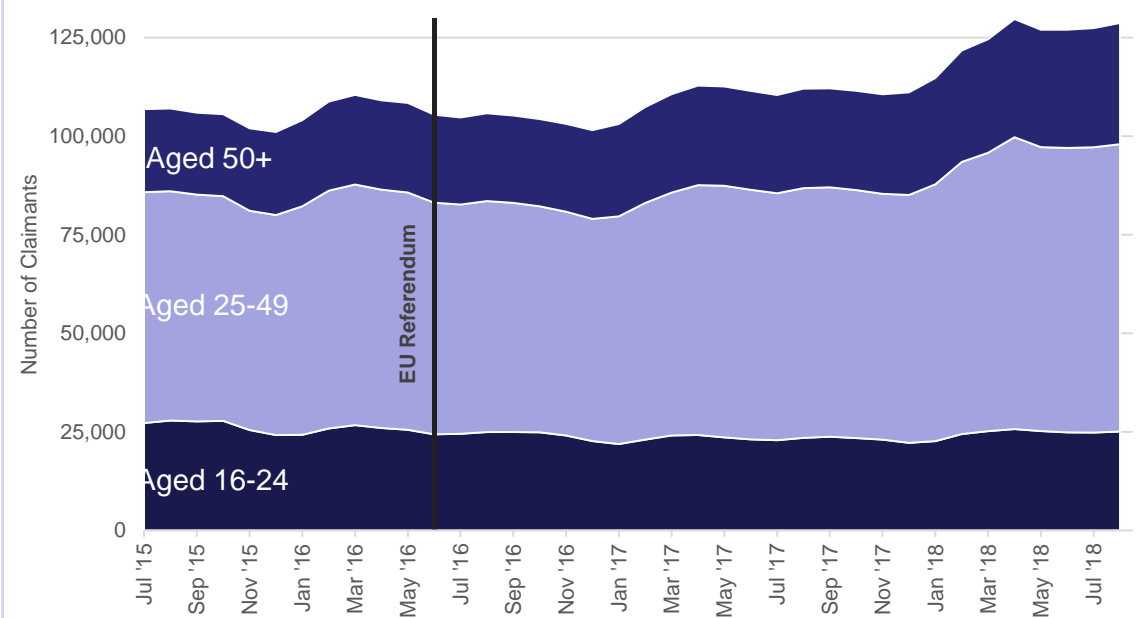


Household Finances

- The Household Finance Index (HFI) – which tracks Britons' sense of financial wellbeing – reveals a continued although slowing squeeze on UK household finances.** August's HFI rose to 45.9 from 45.0 in July (below 50 signals deterioration). While wages continue to rise, this has been overshadowed by rising living costs. ⁽²³⁾
- The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.3% in July 2018, unchanged from June, indicating a continuing rise in consumer costs.** Rising transport fares produced the largest upward contribution to inflation this month. ⁽²⁴⁾



Claimant count (JSA and related Universal Credit) in the North West by age group



Sources

Section	Sources
Macro-Economic Trends & Developments	<ol style="list-style-type: none"> 1. ONS (10 September 2018): Statistical bulletin: GDP monthly estimate, UK: July 2018 2. ONS (10 August 2018): Statistical bulletin: GDP first quarterly estimate, UK: April to June 2018 3. Bank of England (13 September 2018): Agents' summary of business conditions - 2018 Q3 4. BBC News (13 September 2018): Bank of England leaves rates on hold amid Brexit uncertainty 5. ONS (10 July 2018): UK trade: July 2018 6. HMRC (11 September 2018): Overseas Trade Statistics - Non-EU and EU Trade: July 2018 7. IHS Markit / NatWest UK Regional PMI (10 September 2018): "Yorkshire & Humber is top performer in August, while North East remains laggard"
Key Sectors & Business Investment	<ol style="list-style-type: none"> 8. British Chamber of Commerce (September 2018): Business Brexit Risk Register 9. British Chamber of Commerce (17 September 2018): UK growth forecasts downgraded as Brexit uncertainty hits investment and trade 10. British Chamber of Commerce (11 April 2018): Quarterly Economic Survey Q1 2018 11. Markit/CIPS UK Manufacturing PMI (3 September 2018): "UK manufacturing upturn slows as new export orders contract for first time since April 2016" 12. Markit/CIPS UK Services PMI (5 September 2018): "Stronger upturn in service sector activity during August, but business optimism hits five-month low" 13. ONS (16 August 2018): Retail sales, Great Britain: July 2018
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Economic Inclusion	<ol style="list-style-type: none"> 21. ONS (2018): Labour Force Survey (model based estimates of unemployment), accessed September 2018 22. ONS (2018): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed September 2018 23. IHS Markit Household Finance Index (20 August 2018): "Survey-record rise in income from employment helps lift household sentiment in August" 24. ONS (9 September 2018): Consumer price inflation UK: July 2018