

North West Brexit Monitor

Key economic trends and developments - April 2018

Thursday 29th March was an important 'half-way point for Brexit' – one year since Article 50 was triggered and one year until the UK's potential exit. To date, Brexit has had limited impact on the UK economy and labour market, with manufacturing seeing a strong year and services continuing to grow, albeit at a slower rate. Looking forward, taking into account Sterling's post-EU referendum slide which has been a mixed blessing for UK manufacturers, the 'exchange-rate effect' has largely washed through, and rising import prices and cost of goods are likely to affect both producers, services and consumers alike – as the costs are passed on. Across the North West unemployment has risen, but numbers in work are also at a record high. Nevertheless, firms within the region report increased uncertainty in future investment plans and hiring, emphasising the need for clarity and expediency in negotiations.

Macro-Economic Trends & Developments

- According to final estimates, **UK GDP grew by 0.4% in the fourth quarter (Oct-Dec) of 2017.** Annual GDP growth was estimated to have slowed to 1.8% in 2017 from 1.9% in 2016.
- The growth rate for business activity slowed in the North West for a second month in February, with the Regional aggregate PMI dropping to 56.9 from 57.4 in January. **This places the North West as second best performing UK region after the East Midlands.**
- **The UK continued to be a net importer from the EU in January 2018, with imports exceeding exports by £7.5 billion, up from £7.0 billion in December 2017.**

Policy, Trade, & Regulation

- The beginning of April 2018 was marked by the publication of the **Commons Exiting the European Union Select Committee's 15 key recommendations and criteria for any acceptable EU exit deal, covering issues such as trade barriers and tariffs, participation in collaborative agencies, and ability for particular industries to access the EU market.** Many of these recommendations are of particular importance to the North West given their potential direct impact on the region's key business and employment clusters in Financial & Professional Services, Creative Industries, Higher Education, Health Innovation, and Tourism and Aviation.
- Other important developments include the **Commons Work and Pensions Select Committee** paper on the future of European Funding, in particular European Social Funds and its planned successor, the UK Shared Prosperity Fund. **Between 2014 and 2020, North West LEPs have together been allocated around £458 million of funding from the ESF,** making the future of these funds of particular importance to economic and social development across the region.

For more information, please contact:

Louis Richards, Analyst Economics Team, Greater Manchester Combined Authority (GMCA):

louis.richards@greatermanchester-ca.gov.uk

Key Sectors & Business Investment

- Following a steady fall since November, the **UK Manufacturing PMI stabilised around 55.1 in March, however still indicating growth, and higher than its pre-referendum level (52.3).**
- **The UK Services PMI dropped to 51.7 in March from 54.5 in the previous month, the lowest level of growth since July 2016 and the EU Referendum.** Anecdotal accounts indicate this **slower growth may have been due to the recent bad weather in the UK, subdued consumer demand, and increased Brexit-related uncertainty,** which has led to delayed decision-making and risk aversion.
- **Recent trends in the retail industry suggest falling sales,** mainly due to strong declines across all main retail sub-sectors in December, and also links to the bad-weather in early 2018.

Property and Housing

- **January housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices.** Prices in the North West have grown very closely in line with national trends since the referendum.
- **UK housing demand and supply in January remains weak,** with buyer enquiries and new properties to market seeing a sustained fall, and mortgage approvals 2.4% lower than January 2017. **Nevertheless, total number of monthly sales remain high at 102,610 nationwide.**

Economic inclusion

- **Unemployment in the North West has seen a 5.9% spike since January, rising by 6,700 to 120,495 people in February 2018. This places unemployment at a three-and-a-half year high and 14.3% (15,060) higher than before the referendum result.**
- **March Household Finance Index data reveals a continued, although slowing, squeeze on UK household finances.** Despite this, workplace incomes are rising at the fastest rates since 2009 and concerns about job security at lowest reported levels for nine years.
- Consumer Prices Index including owner-occupiers' housing costs (CPIH) 12-month inflation rate was 2.5% in February down from 2.7% in January, indicating a **continued but slowing rise in consumer costs.**

Macro-Economic Trends & Developments

Macro-economy

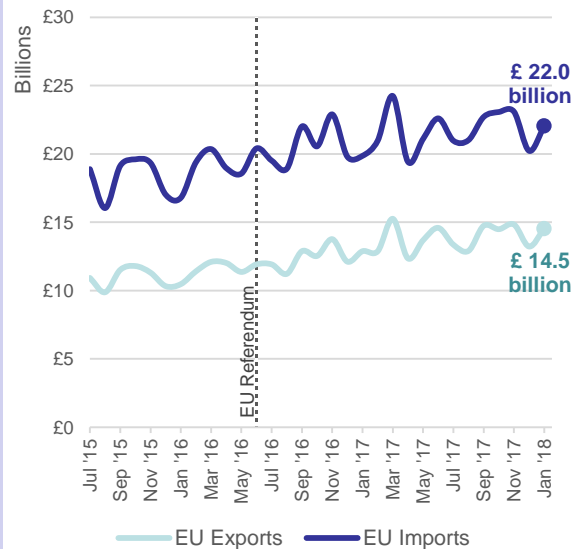
- According to final estimates, UK GDP grew by 0.4% in the fourth quarter (Oct-Dec) of 2017, unchanged from the second revised estimates. This continues the same 0.4% rate of growth recorded in Q3. Growth in the latest quarter was driven by professional, scientific, administration and support activities within the services sector.
- Annual GDP growth in 2017 was estimated to have slowed to 1.8%, a 0.1ppt revision upwards from second estimates, however still marking a decline from 1.9% growth in 2016.⁽¹⁾

UK International Trade

- The total UK trade (goods and services) deficit widened by £3.4 billion to £8.7 billion in the three months to January 2018; excluding erratic commodities, the deficit widened by £2.6 billion to £8.9 billion. The widening of the trade in goods deficit was due mainly to a £1.3 billion increase in imports (particularly fuels) from non-EU countries, combined with a £1.2 billion decrease in exports to non-EU countries, in the 3 months to January 2018.⁽²⁾

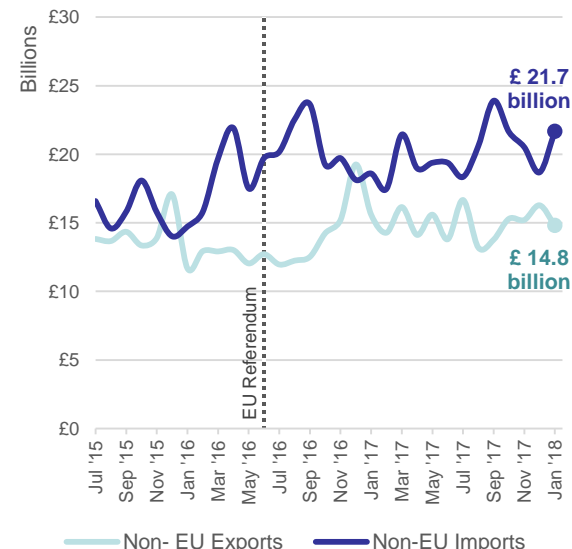
EU Trade

- The UK was a net importer from the EU in January 2018, with imports exceeding exports by £7.5 billion, up from £7.0 billion in December 2017.⁽³⁾



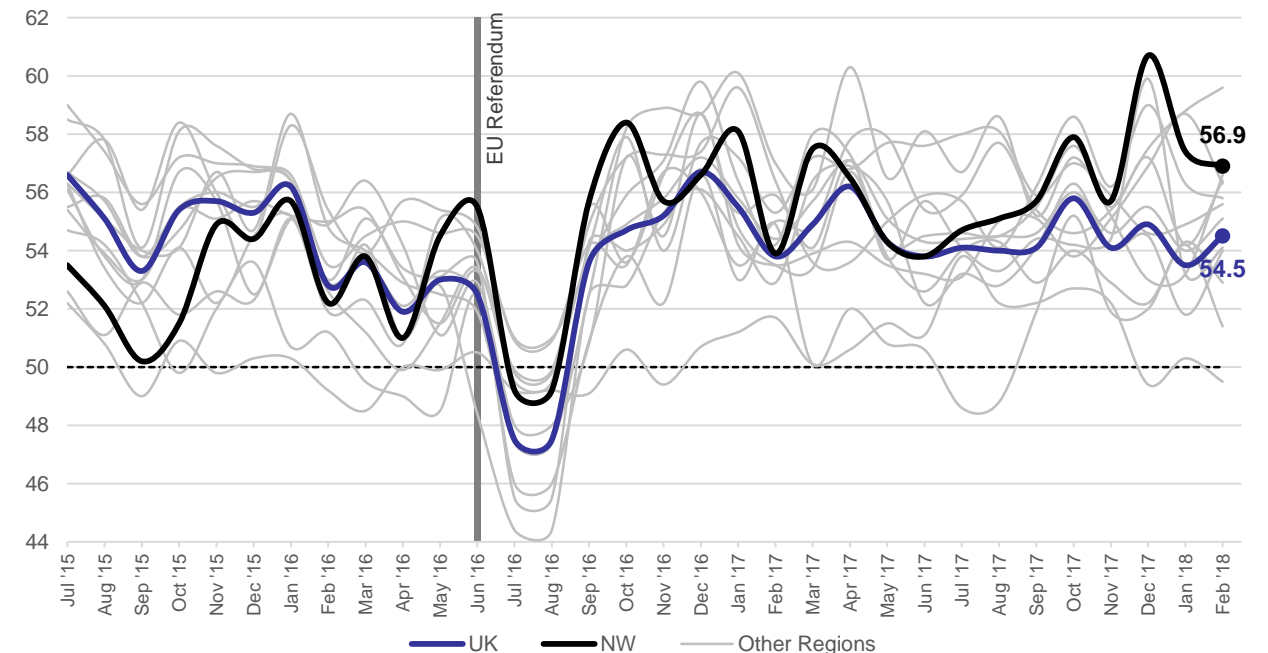
Non-EU Trade

- The UK was a net importer from non-EU nations in January 2018, with imports exceeding exports by £6.9 billion, up from £2.4 billion in December 2017.⁽³⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- The growth rate for business activity slowed in the North West for a second consecutive month in February, with the PMI dropping to 56.9 from 57.4 in January (above 50 = growth). This nevertheless places the North West as second best performing UK region after the East Midlands (58.8). All other regions are shown as grey lines on the chart below.
- All regions in England saw a rise in private sector employment, with the exception of the North East which saw a minor fall in staffing numbers, for the first time since last September. February showed signs of easing price pressures, with all English regions seeing a slower rise in firms' input costs, reflected in a slowdown in selling price inflation to a six-month low.⁽⁴⁾



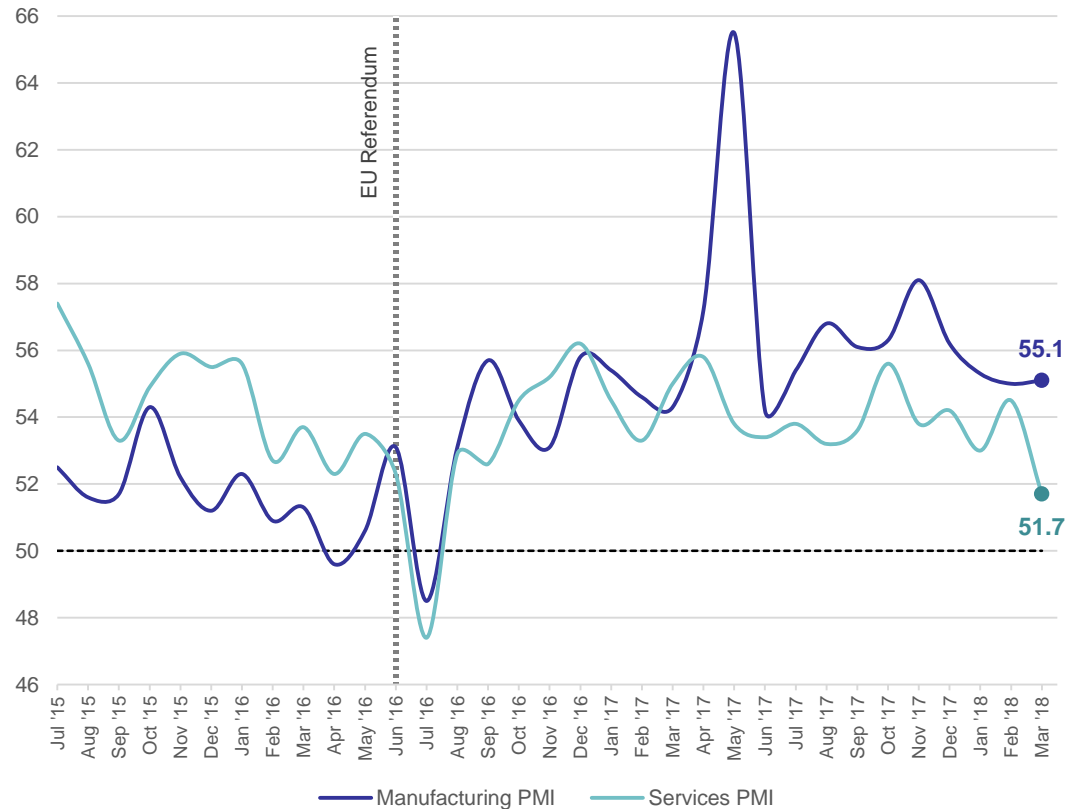
Key Sectors & Business Investment

British Chamber of Commerce

- **The British Chamber of Commerce's** most recent **Quarterly Economic Survey** highlights that UK economic growth remained subdued in the first quarter of 2018 (January to March), despite a strong export performance which is attributed primarily to strong global trading conditions rather than domestic demand.⁽⁵⁾
- Uncertainty, recruitment difficulties, and price pressures are reported as persistent concerns for businesses, although short-term confidence levels remain resilient. This is supported by findings from Greater Manchester's GC Business Growth Hub who report increasing uncertainty in hiring and investment plans in light of Brexit among firms in the region.⁽⁶⁾
- The Chamber reports that the North West saw a +3% increase in the number of service firms reporting improved cash flow, the 4th lowest of all regions and below the national average of +6%.

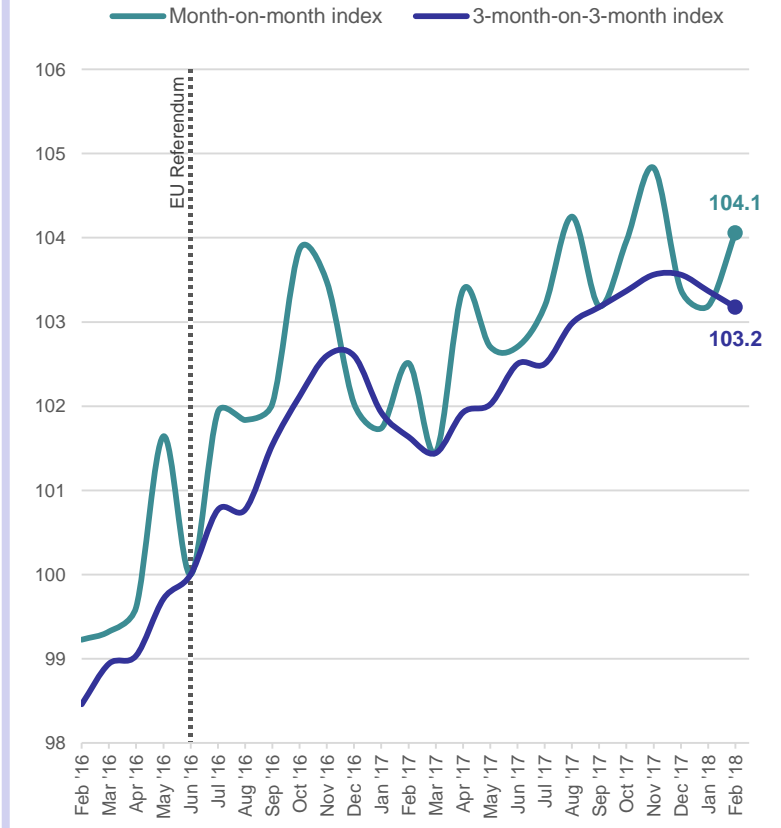
IHS Markit CIPS Manufacturing & Services PMIs®

- Following a steady slowing of growth rates since November, the UK Manufacturing PMI stabilised around 55.1 in March, **still indicating growth and higher than pre-referendum levels (52.3)**.
- Companies continued to report solid inflows of work from domestic and overseas markets. Output growth picked up, but with a slower increases in new orders and employment. Rates of inflation in input costs & output charges remain elevated despite easing since February.⁽⁷⁾
- **The IHS Markit/CIPS UK Services PMI® dropped to 51.7 in March from 54.5 in February, the lowest level of growth since July 2016 and the EU Referendum.**
- Anecdotal accounts from survey respondents indicate this **slower growth may have been due to the recent bad weather in the UK, along with subdued consumer demand, and increased Brexit-related uncertainty,** which has led to delayed decision-making and risk aversion.⁽⁸⁾



Retail Sales

- **The volume (not value) of retail sales grew by 0.8% in February 2018** compared to January 2018, however this follows two months of decline. This nevertheless represents a 1.5% increase on February 2017 and a 4.1% increase on June 2016.
- **The underlying recent trend in the retail industry in – as suggested by the three-month on three-month measure – is one of falling sales,** mainly due to strong declines across all main retail sub-sectors in December.⁽⁹⁾



Policy, Trade, & Regulation

Policy and research developments

- The beginning of April 2018 was marked by the publication of the **Commons Exiting the European Union Select Committee's 15 key recommendations and criteria for any acceptable EU exit deal**. These are particularly important to the North West given the region's key business and employment clusters in Financial & Professional Services, Media, Higher Education, Health Innovation, and Aviation.
- Other important developments include the Commons Work and Pensions Select Committee paper on the future of European Funding, in particular European Social Funds (ESF) and its planned successor, the UK Shared Prosperity Fund. **Between 2014 and 2020, North West LEPs have together been allocated around £458 million of funding from the ESF** (using August 2017 exchange rates), making the future of these funds of particular importance to economic and social development across the North West.
- On 11th April, the **Confederation of British Industry (CBI) published a report into the impact divergence from EU regulation on a range of UK industries.**⁽¹⁰⁾ Similarly to GMCA's Brexit research programme examining potential impacts on the North West and UK economy⁽¹¹⁾, the report recognises the importance of ensuring alignment with the EU for the majority of regulation. The report highlights that **Brexit presents opportunities for regulation changes in sectors such as agriculture, shipping, and tourism** that could benefit the British economy and consumers.
- Despite these opportunities, CBI adds that **these opportunities for regulatory divergence are vastly outweighed by the costs of deviating from rules necessary to ensure smooth access to the EU market, with 19 out of 23 sectors examining expressing a preference for convergence or alignment with the EU for the majority of regulation.** The CBI emphasises the importance of understanding **how** changes to rules in one sector will affect supply chains; and recommends that **where rules are fundamental to the trade or transport of goods, the UK and EU must seek convergence.**

Criteria set out for the future UK-EU relationship

- On 4th April the **Commons Exiting the European select committee published 15 key recommendations and criteria** which any acceptable EU exit deal should meet.⁽¹²⁾ Whilst all recommendations will affect the region's economy more broadly, **it is likely that the North West will be more significantly impacted by those recommendations relating to financial and broadcasting services, higher education, health innovation, and tourism and aviation/commercial flights, each represented by major clusters of activity in different areas of the North West.**
- Notable recommendations include:
 - **No additional tariffs or border checks** on trade of goods with the EU
 - **Mutual convergence on and recognition of EU regulations**
 - **Protection of financial and broadcasting services ability to continue to sell to EU markets**
 - **Continued participation in research and education programmes, such as Horizon 2020 and Erasmus+**
 - **Continued participation in relevant aerospace agreements** to ensure no disruption to direct flights
 - **Continued participation in other co-operative agencies** such as the European Medicines Agency
 - **Replication of current security arrangements around crime and terrorism**
 - Maximising access to European markets while **protecting the UK fishing industry**
 - An open **border between the Republic of Ireland and Northern Ireland**
 - There should be **no impediments to the free flow of data between the UK and the EU**
 - Any **new immigration arrangements should not impede workers** providing services across the border or **prevent recognition of their qualifications** and right to practise

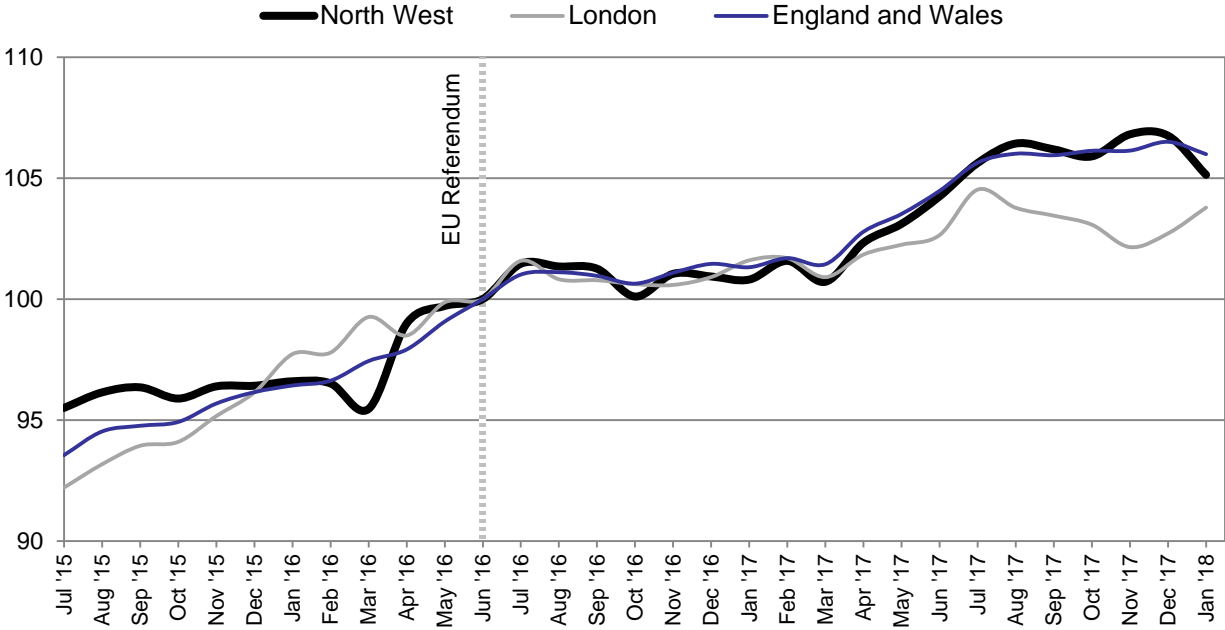
European funding – Commons Work & Pensions Select Committee report on the European Social Fund

- On 4th April the **Commons Work and Pensions Select Committee published a report on the future of the European Social Fund (ESF)**, £500 million per year of which currently goes toward employment and skills support funding in disadvantaged communities and regions across the UK. The report highlights **that whilst the central government has pledged to create a UK Shared Prosperity Fund (UKSPF) to serve a similar purpose to current EU funding, there are questions around how this funding will work and its future**⁽¹³⁾.
- The committee highlights that **the government should commit to this new fund meeting several strengths of the current European Social Fund:** It should offer dedicated funding for people and communities poorly served or neglected by mainstream employability services, **distinct from other growth-boosting investments;** and it should also enable local areas to fund both long-term strategies and **more immediate local crises such as the collapse of a major employer.**
- It should additionally address weaknesses of the existing ESF, for example: It should avoid funding siloes by **creating a new arms length body to hold the new fund's budget** and integrate existing funding streams and objectives; and it should **avoid unnecessary bureaucracy which can prevent small, specialist, and local organisations accessing funds.**

Property & Housing

- **Housing 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 continuing growth in house prices roughly in line with pre-referendum trends, following a short period of lower growth in the year following the EU referendum. Prices in the North West have grown very closely in line with nation trends since the referendum.⁽¹⁴⁾
- The Halifax House Price Index indicates that **UK housing demand and supply in January remains weak**, with buyer enquiries and new properties to market seeing a sustained fall, and mortgage approvals 2.4% lower than January 2017. **Nevertheless, total number of monthly sales remain high at 102,610 nationwide.**

Average House Prices Sales (Index June 2016=100)



UK Housing Market and Finance



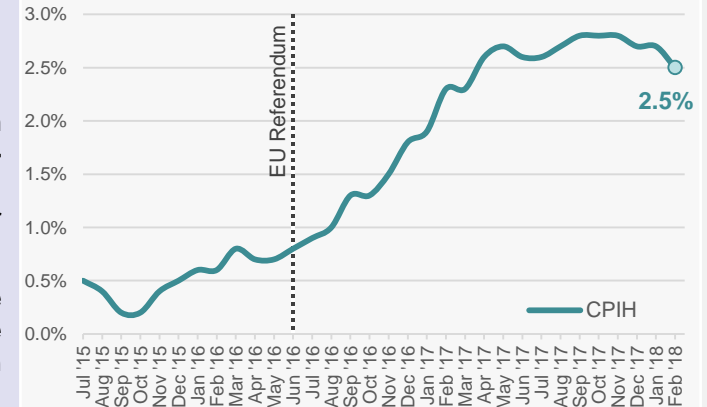
January 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£155,788	-1.5%	+4.3%	+5.1%

- According to the Halifax House Price Index, **indicators of housing demand and supply remain weak, with buyer enquiries falling for the 10th consecutive month.** The number of **new properties coming to market continues to fall for the 23rd consecutive month** – the worst sequence since 2007 – 2009 ⁽¹⁵⁾
- **Mortgage rates continue to stay low by historical standards** despite the November rise in the Bank of England Base Rate. Despite this, mortgage approvals in January 2018 were 2.4% lower than one year earlier (67,478)
- Nevertheless, **in January there were 102,610 home sales**, meaning monthly sales exceeded 100,000 for the 13th month in succession. This puts the 3-month period up to January **2% higher than the same period last year.**

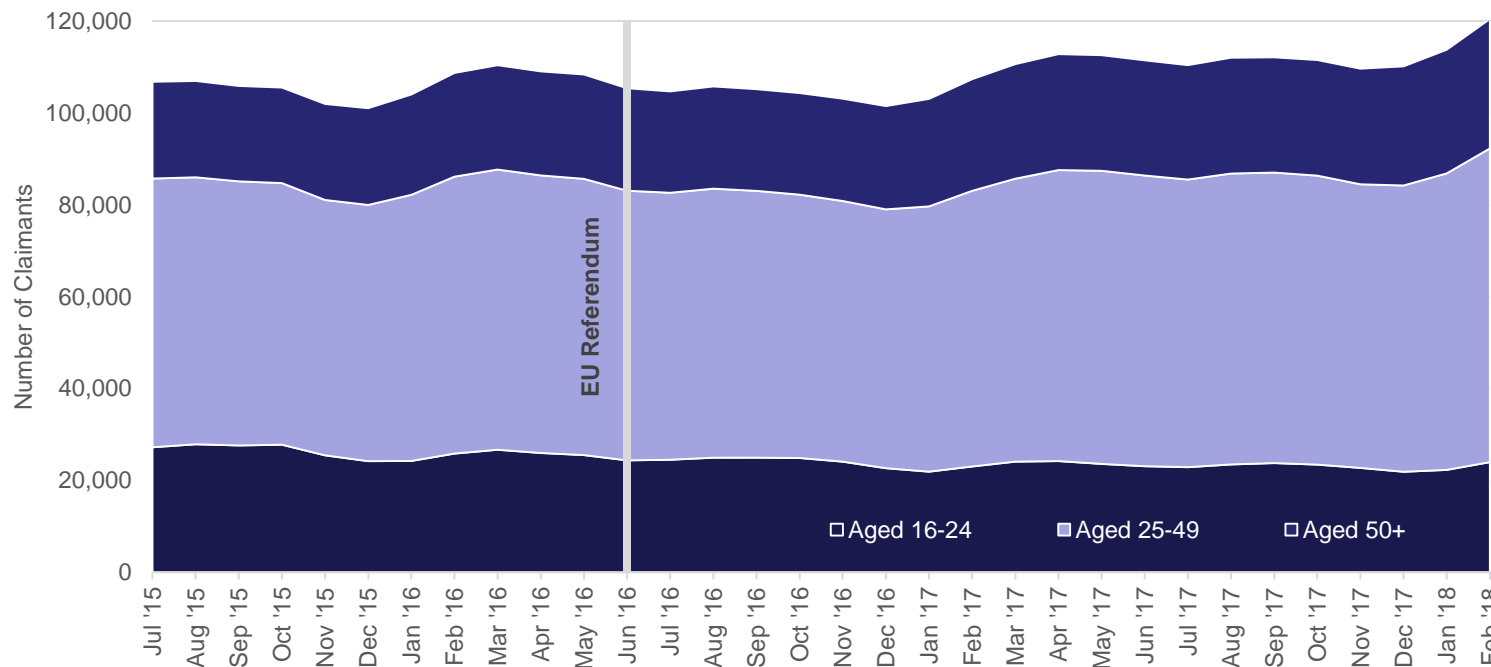
Economic Inclusion

- **Unemployment in the North West has seen a 5.9% spike since January, rising by 6,700 to 120,495 people in February 2018. This places unemployment at a three-and-a-half year high and 14.3% (15,060) higher than before the referendum result.** Unemployment as a proportion of the working age population has also risen to 2.7% from 2.3% in June 2016. This is in line with national trends, with UK unemployment rising from 1.9% in June 2016 to 2.1% in February 2018.⁽¹⁶⁾
- **The seasonally adjusted Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – reveals a continued, although slowing, squeeze on UK household finances.** March’s HFI gives a reading of 43.1, up from February’s 42.9 however still indicating worsening household finances (below 50 signals deterioration). Despite this, March HFI data indicates positive movements in pay and job security, with workplace incomes rising at the fastest rates since 2009 and concerns about job security at lowest reported levels for nine years.⁽¹⁷⁾

- **The Consumer Prices Index including owner-occupiers’ housing costs (CPIH) 12-month inflation rate was 2.5% in February 2018, down from 2.7% in January 2018, indicating a continued - but slowing rise in consumer costs.** This nevertheless remains 1.7ppts higher than pre-referendum rates.
- Following a steady increase from late 2015, **since April 2017 the CPIH rate has levelled off, ranging between 2.5% and 2.8%.⁽¹⁸⁾**



Claimant count (JSA and out-of-work UC) in the North West by age group



February 2018 Unemployment (% of working age residents)

North West	UK
2.7%	2.0%

February 2018 Unemployment - Change by Age Group (NW)

	16-24	25-49	50+	Total
Since last month	+1,695	+3,735	+1,260	+6,700
	+7.6%	+5.8%	+4.7%	+5.9%
Since EU Referendum	-385	+9,580	+5,880	+15,060
	-1.6%	+16.3%	+26.4%	+14.3%

Sources

Section	Sources
Macro-Economic Trends & Developments	<ol style="list-style-type: none"> 1. ONS (29 March 2018): Statistical bulletin –Quarterly national accounts: October to December 2017 2. ONS (9 March 2018): UK trade: January 2018 3. HMRC (9 March 2018): Overseas Trade Statistics - Non-EU and EU Trade: January 2018 4. IHS Markit England and Wales Regional PMI (12 March 2018): “Regional business activity growth led by East Midlands”
Key Sectors & Business Investment	<ol style="list-style-type: none"> 5. British Chamber of Commerce (11 April 2018): Quarterly Economic Survey Q1 2018 6. Greater Manchester GC Growth Company (End March 2018 snapshot): Internal Survey of Client Companies 7. Markit/CIPS UK Manufacturing PMI (3 April 2018): “UK Manufacturing PMI signals steady growth rate at end of opening quarter” 8. Markit/CIPS UK Services PMI (5 April 2018): “Weakest rise in services activity for 20 months in March, partly linked to snow disruption” 9. ONS (22 March 2018): Retail sales in Great Britain: February 2018
Policy, Trade, & Regulation	<ol style="list-style-type: none"> 10. Confederation of British Industry (CBI) (11 April 2018): Smooth operations 11. Greater Manchester Combined Authority (GMCA): Greater Manchester and Brexit 12. Commons Exiting the European Union Select Committee (4 April 2018): The future UK-EU relationship 13. Work and Pensions Select Committee (4 April 2018): European Social Fund
Property & Housing	<ol style="list-style-type: none"> 14. HM Land Registry (January 2018): House Price Index Database, updated 20 March 2018 15. IHS Markit/Halifax House Price Index (7 March 2018): “Annual house price growth slows to 1.8%”
Economic Inclusion	<ol style="list-style-type: none"> 16. ONS (2018): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed March 2018 17. IHS Markit (19 March 2018): “Squeeze on household finances moderates in March, helped by higher workplace incomes and softer inflation” 18. ONS (20 March 2018): UK consumer price inflation: February 2018