

North West Brexit Monitor

Key economic and policy developments

November 2017

Executive Summary

Headlines

- **The November Monitor provides mixed messages about the health of the UK's economy.** Both the UK Manufacturing and Services Purchasing Managers' Index (PMI) surveys show growth in the economy, in particular manufacturing, which reported rising production and new order volumes, as companies benefit from strong domestic market conditions. However, whilst **UK GDP is estimated to have increased by 0.4% in Q3 (July to Sept) 2017**, a slight improvement on the 0.3% growth posted in Q2, growth is slower than across the Eurozone (0.6%) in the same period.
- Despite the positive message from PMI survey returns this month, economic commentators are still cautious about the future. **The Bank of England's (BoE) Monetary Policy Committee (MPC) took steps to address rising inflation**, voting 7-2 to raise the interest rate earlier in the month. This was the first increase in over a decade, raising its benchmark interest rate by a quarter of a percentage point to 0.5%, which could signal the start of a gradual increase in borrowing costs. The BoE's Quarterly Inflation Report also signalled that two more rate hikes are likely over the next three years in order to return inflation back to its 2% target, which could see rates hit 1% by the end of 2020.
- **In terms of Brexit discussions, Prime Minister Theresa May has said that "real and tangible progress" had been made**, but that the country must be prepared for "every eventuality" – including a 'no-deal' scenario. The Prime Minister also reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a "creative" solution that is "unique" to the UK. November also marked the opening of the 6th round of talks, with discussions between David Davis and Michel Barnier leading on citizens' rights, the Irish border, and the UK's "divorce bill".

Key sectors & business investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index** (PMI), growth in business activity increased for a fourth consecutive month in the North West in October 2017, with the PMI rising to a nine-month high of 57.9, up from 55.7 in September. This made the North West the best performing region in England, and the second best in the UK behind only Wales.
- At the national level, the combined Manufacturing and Services PMI Index for England also rose for a fourth month in a row in October, to a six-month high of 56.0, up from 54.6 in September. All areas of the country recorded an increase in employment in October, though the overall pace of job creation slowed to a four-month low. Meanwhile, October's survey showed the steepest rise in average prices charged for goods and services for six months, reflecting businesses' efforts to offset the impact of higher costs.
- **The IHS Markit/CIPS UK Manufacturing PMI rose from 56.0 (revised from 55.9) in September to 56.3 in October** (above 50 = growth). Production and new order volumes rose as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges both well above historical series averages.
- **The IHS Markit/CIPS UK Services PMI increased from 53.6 in September to 55.6 in October.** This month's rise was mainly due to a rebound in new order growth from September's 13-month low amid improved domestic demand and new product launches. Whilst output rose, input costs continued to rise due to higher food prices, energy bills, transport costs, and salaries. There is further caution in the Services survey's new job creation figures - the weakest since March 2017.

Executive summary

Terms of trade, regulation & access to funding

- **The Government has published two white papers on future trade and customs arrangements.** These papers set out three strategic objectives: ensuring UK-EU trade is as frictionless as possible, avoiding a hard border between Ireland and Northern Ireland, and establishing the UK's own independent international trade policy, but also provide some contingency planning in case the UK leaves the EU without a negotiated settlement.
- **The government has created a new EU Exit and Trade (Domestic Preparedness, Legislation and Devolution) Sub-Committee,** which will oversee domestic policy preparations and implementation of the UK's withdrawal from the European Union. The new Sub-Committee will be chaired by the First Secretary of State.
- **The Chancellor of the Exchequer will present his Autumn Budget to Parliament on 22 November 2017.**

Property investment, housing and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices,** with average house prices in the North West rising by 7.7% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at demand in the office space market. Latest figures from **GVA's *The Big Nine*** report have shown that office take up in Manchester and Liverpool was strong in Q317, with both city centres outperforming their 5-year quarterly averages.

Economic inclusion

- **The total claimant count unemployment in the North West declined by 1.5% in October 2017 (latest)** compared to September 2017, now standing at 110,510, but is still 9% higher than the most recent low of 101,545 in December 2016, and 5% higher than June 2016.⁽¹⁸⁾
- Despite rising consumer prices (CPI index) the latest seasonally adjusted **IHS Markit Household Finance Index (HFI) showed a slight perceived easing of household financial pressures during October**, registering 43.8 in October (42.8 in September; and all figures under 50 = a perceived easing in household finances). However, given that households tend to be more willing to take on personal debt in the lead up to Christmas, this improvement in sentiment may be explained by seasonal factors.

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Macro-economic trends and developments

Macro-economy

- **UK GDP was estimated to have increased by 0.4% in Q3 (July to Sept) 2017, marking a slight improvement on the 0.3% growth posted in Q2.** Services was the largest contributor to GDP growth, expanding by 0.4% with a strong performance in computer programming, motor trades and retail trade. Meanwhile, manufacturing returned to growth after a weak Q2, increasing by 1.0% in Q3. However, construction activity contracted for the second quarter in a row, although still remains above its pre-downturn peak.⁽¹⁾
- **The Bank of England's (BoE) Monetary Policy Committee (MPC) took steps to address rising inflation, voting 7-2 to raise the interest rate earlier in the month.** This was the first increase in over a decade, raising its benchmark by a quarter of a percentage point to 0.5%, which could signal the start of a gradual increase in borrowing costs. The BoE's Quarterly Inflation Report suggested that two more rate hikes are likely over the next three years in order to return inflation back to its 2% target, which could see rates hit 1% by the end of 2020.
- **The UK's deficit on trade in goods and services widened by £3.0 billion in the three months to September 2017 to £9.5 billion,** largely due to increased imports of machinery, unspecified goods (including non-monetary gold), and fuels. These increases were, however, partially offset by a decrease in imports of aircraft. Moreover, **the UK's deficit on trade in goods and services narrowed by £0.7 billion between August and September 2017,** primarily due to increased exports of unspecified goods (including gold).
- **EU trade: The UK was a net importer from the EU in September 2017, with imports exceeding exports by £8.1 billion.** EU Exports for September 2017 were £14.6 billion, an increase of £1.6 billion (13%) compared with August 2017, and an increase of £1.7 billion (13%) compared with 12 months ago. EU Imports for September 2017 were £22.6 billion, an increase of £1.7 billion (8%) compared with August 2017, and an increase of £0.6 billion (3%) compared with a year ago.
- **Non-EU trade: The UK was a net importer in September 2017, with imports exceeding exports by £10.1 billion.** Non-EU Exports for September 2017 were £13.8 billion, an increase of £0.6 billion (4%) compared with August 2017, and an increase of £1.3 billion (10%) compared with a year ago. Non-EU Imports for September 2017 were £23.8 billion, an increase of £3.2 billion (16%) compared with August 2017, and an increase of £0.2 billion (1%) compared with a year ago.⁽³⁾

Consumer sentiment

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rose to 2.8% in September 2017, up from 2.7% in August 2017, marking its highest level since March 2012.** The main contributors to the increase in the rate were rising prices for food and recreational goods. These upward effects were, however, partially offset by downward contributions across a range of goods and services, in particular clothing prices.⁽⁴⁾
- **September 2017 saw the quantity bought in the retail industry decrease by 0.8% compared with August 2017.** However, the underlying pattern in the retail industry in 2017 is one of growth. Store prices continue to rise across all store types and recorded their highest year-on-year price growth since March 2012 at 3.3% (non-seasonally adjusted) in September 2017. Online sales values also increased year-on-year by 14% (17% of all retail spending).⁽⁵⁾

Key sectors & business investment

Business Investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, growth in business activity increased for a fourth consecutive month in the North West in October 2017, with the PMI rising to a nine-month high of 57.9, up from 55.7 in September (above 50 = growth). This made the North West the best performing region in England, and the second best in the UK behind only Wales.
- At the national level, the combined Manufacturing and Services PMI Index for England also rose for a fourth month in a row in October, to a six-month high of 56.0, up from 54.6 in September. All areas of the country recorded an increase in employment in October, though the overall pace of job creation slowed to a four-month low. Meanwhile, October's survey showed the steepest rise in average prices charged for goods and services for six months, reflecting businesses' efforts to offset the impact of higher costs. This suggests that there are reasons to remain cautious going forward.⁽⁶⁾

CIPS Manufacturing PMI to end September 2017



Manufacturing

- **The IHS Markit/CIPS UK Manufacturing PMI rose from 56.0 (revised from 55.9) in September to 56.3 in October** (above 50 = growth). Production and new order volumes continued to rise as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges well above historical series averages.⁽⁷⁾

CIPS Services PMI to end September 2017



Services

- **The IHS Markit/CIPS UK Services PMI rose from 53.6 in September to 55.6 in October**, mainly due to a rebound in new order growth from September's 13-month low amid improved domestic demand and new product launches. Whilst output rose, input costs continued to rise due to higher food prices, energy bills, transport costs and salaries. Job creation is the weakest since March, suggesting firms are more cautious about the future.⁽⁸⁾

Trade, regulation and access to funding

Trade, rules and regulatory developments

- The Government has published two white papers on future trade (Preparing for our future UK trade policy⁹) and customs arrangements (Customs Bill: legislating for the UK's future customs, VAT and excise regimes¹⁰). The papers set out three strategic objectives: ensuring UK-EU trade is as frictionless as possible, avoiding a hard border between Ireland and Northern Ireland; and establishing the UK's own independent international trade policy, as well as contingency planning in case the UK leaves the EU without a negotiated settlement. The Intellectual Property Office also published an updated report on the future of intellectual property laws following the decision that the UK will leave the European Union (EU).⁽¹¹⁾
- In terms of Brexit talks, Prime Minister Theresa May has said that "real and tangible progress" had been made, but that the country must be prepared for "every eventuality" – including a 'no-deal' scenario. The Prime Minister confirmed that the UK would remain subject to the rulings of the European Court of Justice during a planned two-year transition period after Britain leaves the EU in March 2019, and reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a "creative" solution that is "unique" to the UK.⁽¹²⁾
- It has been confirmed that Parliament is to be given a 'take-it-or leave-it vote' on the final Brexit deal before the UK leaves the EU.⁽¹³⁾
- The Government has created a new EU Exit and Trade (Domestic Preparedness, Legislation and Devolution) Sub-Committee, which will oversee domestic policy preparations and implementation of the UK's withdrawal from the European Union. The new Sub-Committee will be chaired by the First Secretary of State.⁽¹⁴⁾ November also marked the opening of the 6th round of talks, with discussions between David Davis and Michel Barnier leading on citizens' rights, the Irish border, and the UK's "divorce bill".
- The Chancellor of the Exchequer will present his Autumn Budget to Parliament on 22 November 2017.⁽¹⁵⁾

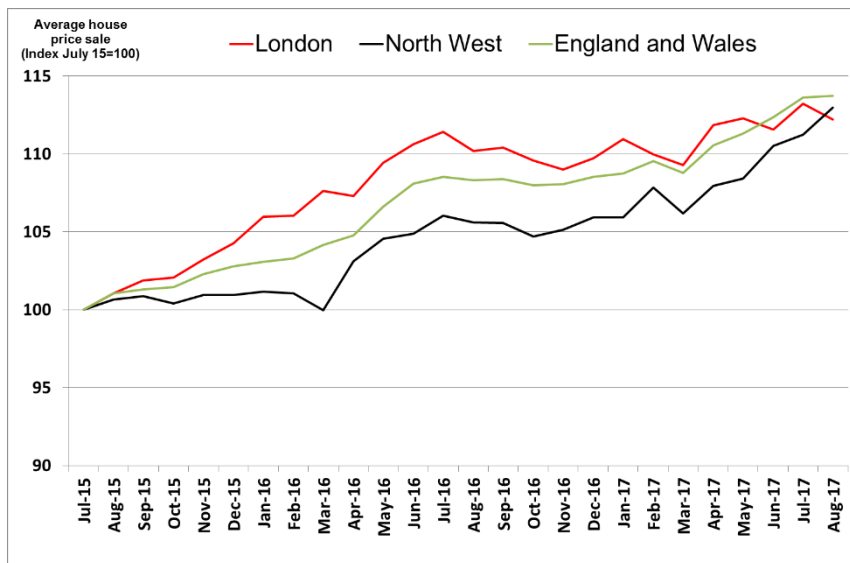
European Funding

- In a speech on 16 October in Edinburgh, EU Research Commissioner Carlos Moedas reiterated that the Horizon 2020 programme is still fully open to UK researchers. He added that UK opinions are welcome on what the next EU research programme should look like.⁽¹⁶⁾ In other EU funding news, Erasmus+, the Lifelong learning programme, released its 2018 calls. The amount of funding available to UK applicants has increased from €148 million (in 2017) to almost €170 million. Erasmus+ supports transnational projects covering all levels of education from school, VET, HE, and adult education.⁽¹⁷⁾

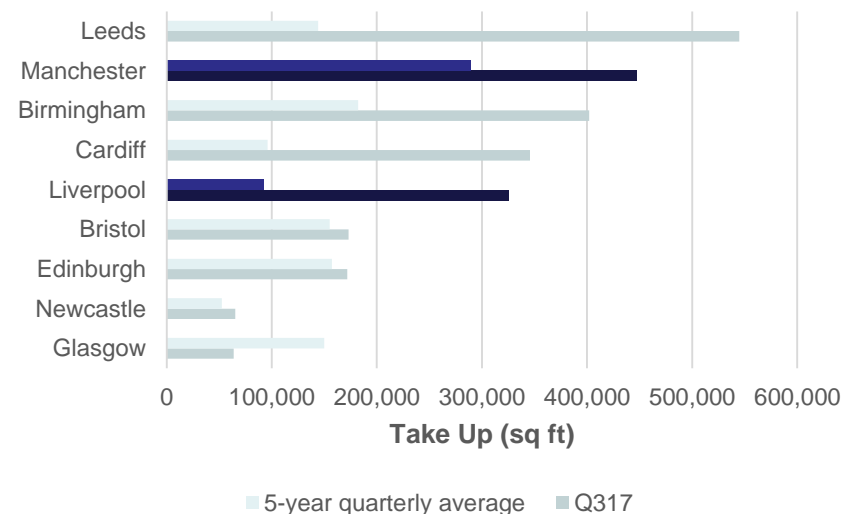
Property and investment, housing, and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices,** with average house prices in the North West rising by 7.7% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at demand in the office space market. Latest figures from **GVA's *The Big Nine*** report have shown that office take up in Manchester and Liverpool was strong in Q317, with both city centres outperforming their 5-year quarterly averages.

Average House Prices Sales (Index July 2015=100)



Commercial Property: Office space

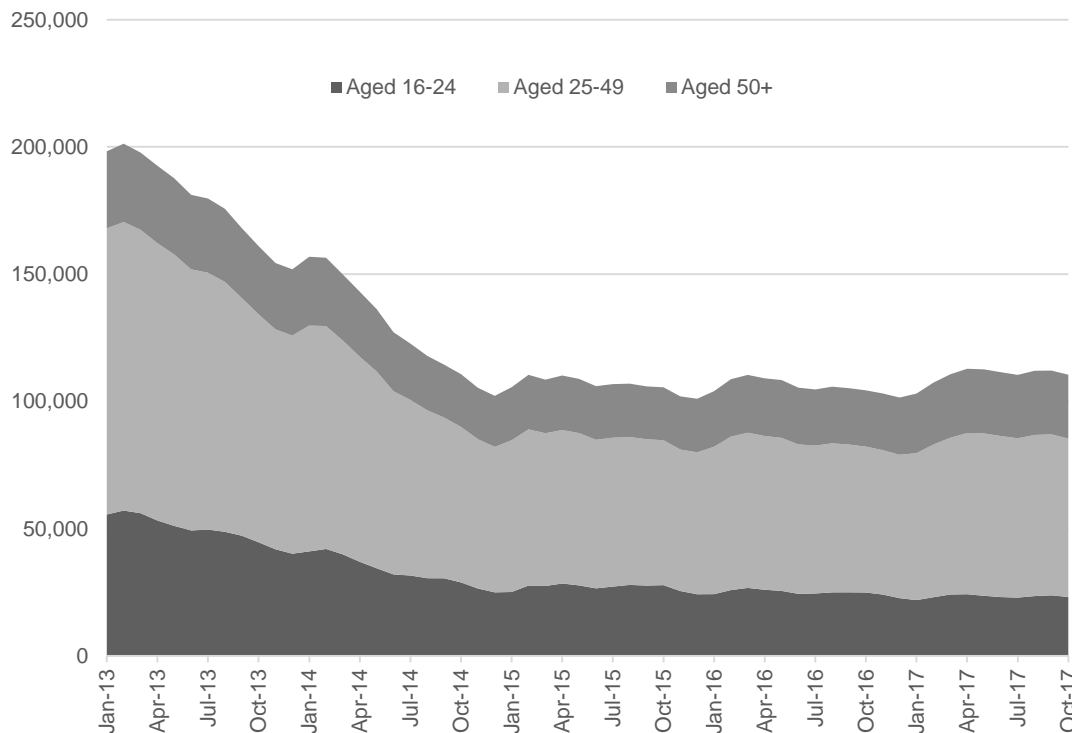


- **Housing Index** data from the Land Registry suggest the vote to leave the EU continues to have little impact on house prices, with moderate growth in average residential prices this period.
- **The latest house price data (latest, August 2017) for GM reveals an average price of £159,865**, an increase of 1.5% from the previous month, and growth of 7.0% from August 2016.⁽¹⁸⁾
- **GVA's *The Big Nine*** report shows that office take up in Manchester city centre in Q317 was 447,809 sq ft, which was 55% higher than the 5-year quarterly average of 289,574 sq ft, placing it second in terms of take up behind only Leeds.
- Meanwhile, Liverpool was fifth behind Birmingham and Cardiff with office take up of 325,901 sq ft, a massive 252% above the 5-year quarterly average of 92,611 sq ft.⁽¹⁹⁾

Economic Inclusion

- **Unemployment:** Claimant count unemployment in the North West rose through the first four months of 2017, but has been more stable over the last few months. **The total claimant count unemployment in the North West declined by 1.5% in October 2017 (latest) compared to September 2017, now standing at 110,510, but is still 9% higher than the most recent low of 101,545 in December 2016, and 5% higher than June 2016.**⁽¹⁸⁾
- Despite rising consumer prices (CPI index) the latest seasonally adjusted **IHS Markit Household Finance Index (HFI)** - which tracks Britons' sense of financial wellbeing - showed a slight perceived easing of household financial pressures during **October**, registering 43.8 in October, (42.8 in September; and all figures under 50 = a perceived easing in household finances). However, given that households tend to be more willing to take on personal debt in the lead up to Christmas, this improvement in sentiment may be explained by seasonal factors.⁽²⁰⁾

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- The claimant rate in October 2017 in the North West was 2.4% of the working age population, compared with 1.9% in the UK.
- Within the region the claimant rate varies from 3.0% in Liverpool CR, 2.6% in Greater Manchester, 2.3% in Lancashire, 1.7% in Cumbria, 1.6% in Cheshire and Warrington.
- Year-on-year (October 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region increased by 5.9% (+6,150).
- The largest increase is observed in claimants aged **50+**, up 13.5% since October 2016 (+2,985)
- The claimant count for **25 to 49 year olds** has also increased, by 8.6% from October 2016 (+4,920).
- In contrast, the claimant count for **16-24 year olds** has decreased by 7.1% from October 2016 (-1,760).⁽²¹⁾

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