Version 26 July 2018

North West Brexit Monitor

Key economic trends and developments – **July 2018**

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 12th 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

- **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.
- Following the government's publication of the Brexit White Paper, the **British Chamber of Commerce updated their Business Brexit Risk Register, maintaining 22 'red-rated' and 2 'amber-rated' issues for British businesses that are either unclear or unresolved**.

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 the North West, and that there are indications that flattening of price growth through the winter reflected a seasonal pattern, with prices beginning to rise again.
- 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 the North West have fallen for the first time since November 2017** in May, down 3,120 (-2.4%) on the previous month to 125,865 people, with falls seen in all age groups. **The total number of such claimants however still stands 19.4% (20,430) higher than pre-referendum levels.**
- In the 12 month period up to December 2017, the ILO Unemployment rate in the North West stood at 4.4%, down from 5.3% in the 12 month period up to June 2016. **Unemployment in the North West now stands in line with national rates,** although varies widely between areas of the North West.
- **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-Economic Trends & Developments

Macro-economy

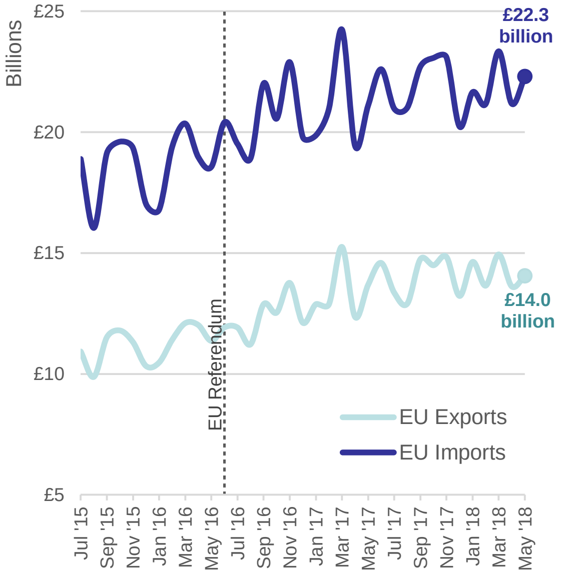
- **According to new estimates from the Office for National Statistics (ONS), UK GDP grew by 0.2% in the three months to May 2018 (March-May)**, compared to no growth in the previous three months (Feb-April 2018). This is ONS' first monthly GDP growth estimate rather than quarterly. The service industries 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.(1)
- **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. (2)

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 i**mports of unspecified goods**.(3)

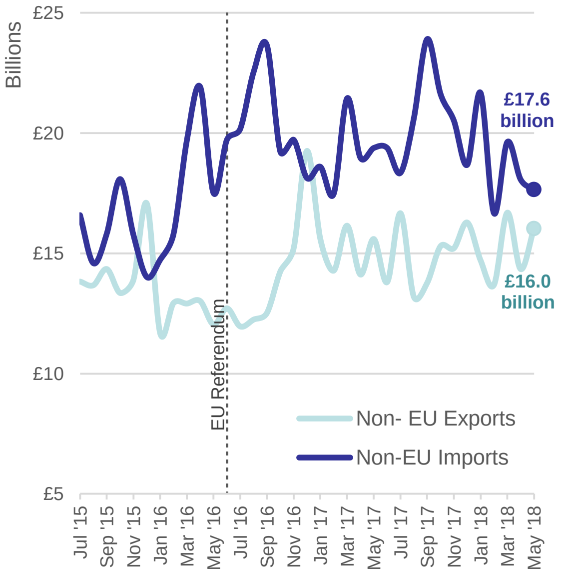
EU Trade

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



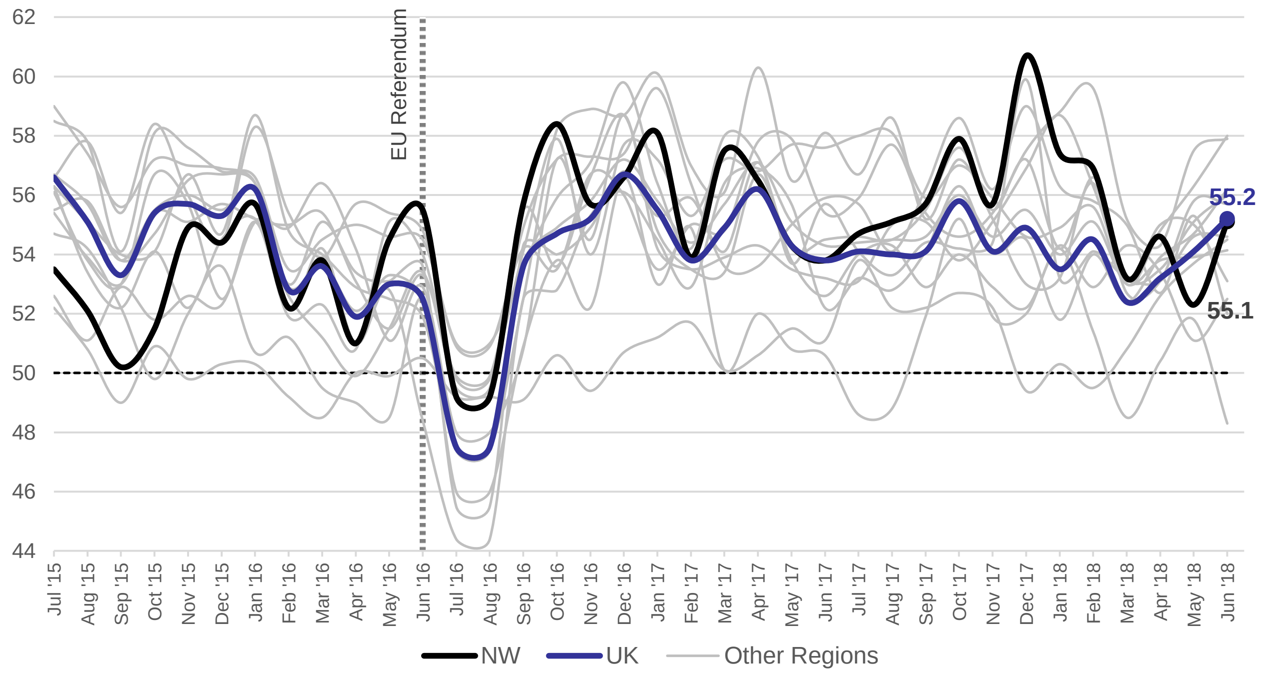
Non-EU Trade

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



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..(5)



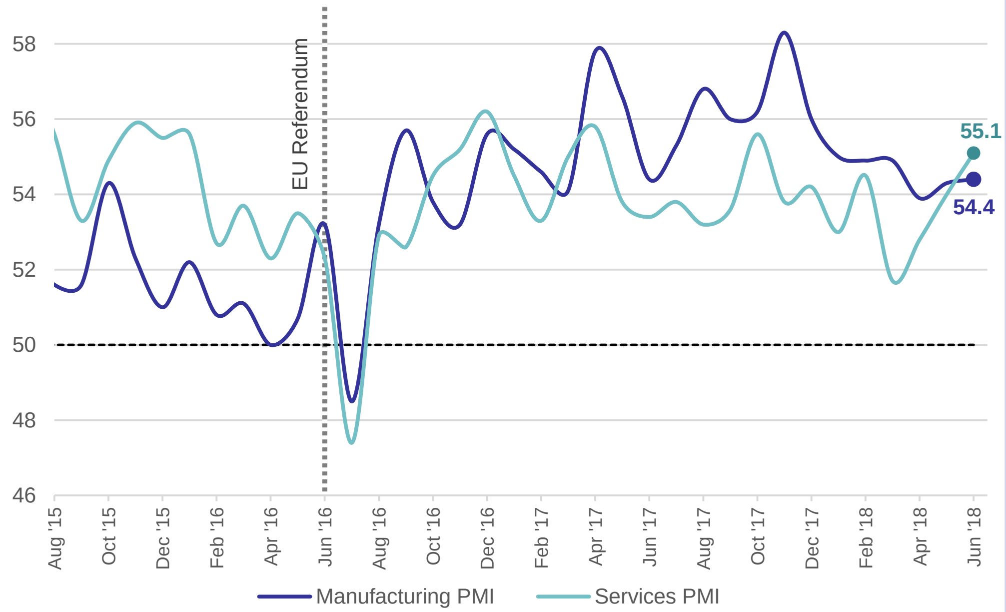
Key Sectors & Business Investment

British Chamber of Commerce

- In July following the Government's publication of the Brexit White Paper, the **British Chamber of Commerce updated their Business Brexit Risk Register, maintaining 22 'red-rated' and 2 'amber-rated' issues**. 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. (6)
- The British Chamber of Commerce'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.** (7)
- **The British Chamber of Commerce's** most recent **Quarterly Economic Survey** (covering Q2 2018) 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. 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 finding that there is **still significant uncertainty around investment and hiring plans in light of Brexit among firms in the region.** (8,9)
- 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%.

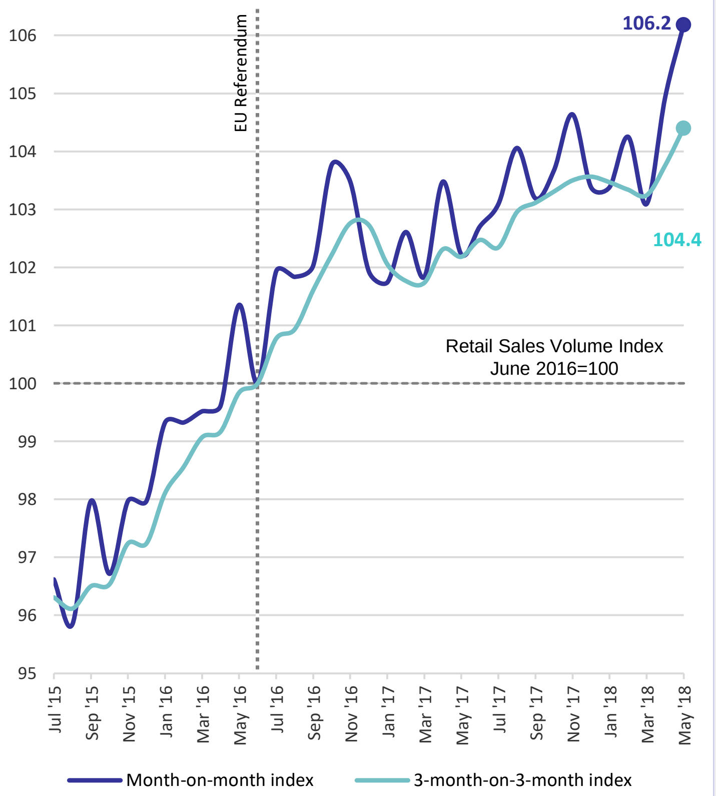
IHS Markit/CIPS Manufacturing & Services PMIs®

- 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. (10)
- **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. (11)



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.** (12)



Policy, Trade, & Regulation

Brexit White Paper and Chequers Meeting

- Following a meeting of the cabinet at Chequers in early July**, on 12th 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**[13,14,15]. **<u>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.</u>** Key points include:

1. 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 the North West, with services making up the majority of the region's economy, although may provide some reassurance to the North West's manufacturing sector.
2. 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.
3. 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**. With several high-profile automotive manufacturers based in the North West, this highlights a significant risk to employment in the region. [15,16,17]

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 North West allocation of ERDF and ESF totalled €1.13billion, 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'.
- In late July the Ministry of Housing, Communities, and Local Government confirmed that the government will continue to guarantee that regions receive their expected ERDF and ESF funding up until the end of 2020 even in the event of a 'no-deal' outcome in which the currently planned 'transition period' would not happen (*see timeline to the right*) and funding would no longer be provided by the EU.

Brexit - Key Dates

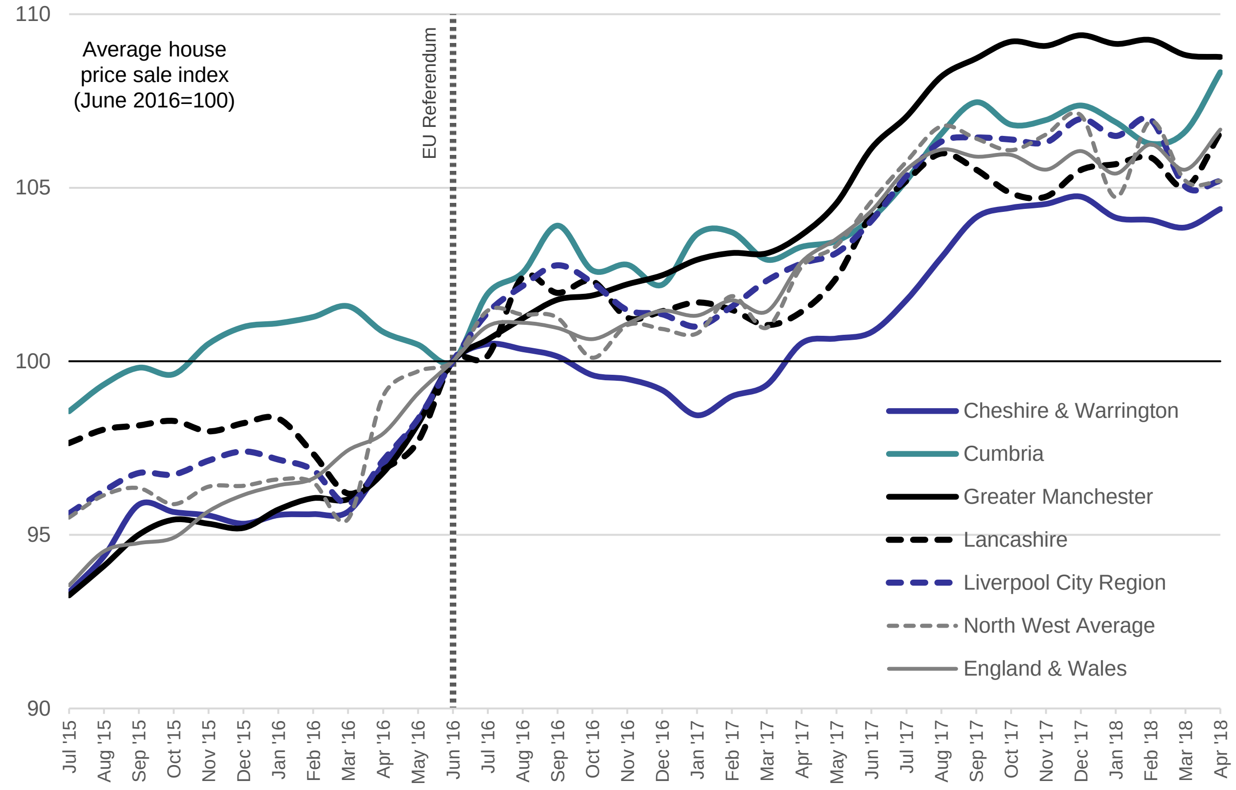
12th July 2018	UK Government publishes its White Paper setting out detailed explanation of the UK's position on all aspects of Brexit.
18th October 2018	EU summit during which both the UK and EU hope to agree an outline of the future UK-EU relationship.
Late October 2018	Deadline set by the EU's chief 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.
13th December 2018	Final EU summit of 2018. A possible fallback option if the October deadline is not reached.
29th March 2019	Britain's formal exit from the EU, two years following the trigger of Article 50.
31st 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

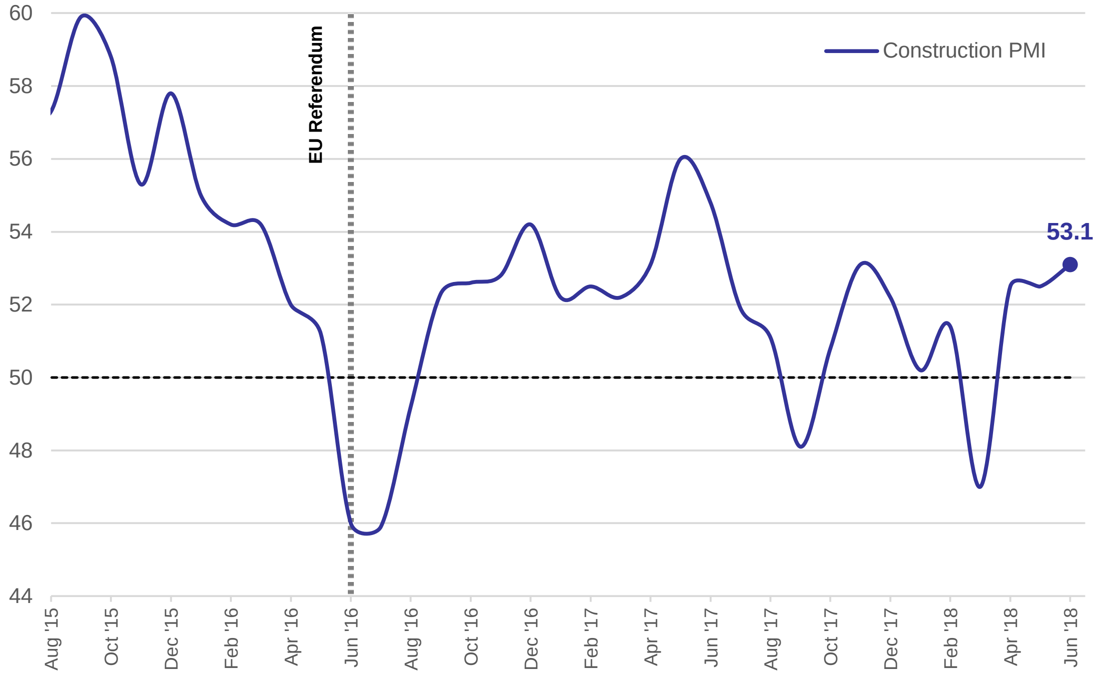
- **April housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices across the North West,** with post-referendum trends in house prices roughly in line with pre-referendum trends, with the exception of Cheshire & Warrington which saw a drop in house prices up to April 2017. After a period of more rapid growth across the North West since March 2017, house price growth has again slowed since September in most areas, with slight falls across all areas. However there are indications that this is a seasonal pattern with price growth in most areas often flattening during winter, with indications in April's prices data again beginning to rise in most areas. **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



April 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£155,868	<0%	+2.4%	+5.2%

IHS/CIPS Construction PMI



- **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.[20]
- **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.

Economic Inclusion

Unemployment and Claimant Counts

- **According to DWP claimant counts, numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in the North West have fallen for the first time since November 2017** in May, down 3,120 (-2.4%) on the previous month to 125,865 people, with falls seen in all age groups. **The total number of claimants however still stands 19.4% (20,430) 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. This is in line with national trends, with UK rates rising from 1.9% to 2.2% since the referendum. Similar trends are seen across all areas of the North West, although claimant rates ranges from 1.9% of the working age population in Cumbria up to 3.3% in Liverpool City Region.[21]
- In the 12 month period up to December 2017, the ILO Unemployment rate in the North West stood at 4.4%, down from 5.3% in the 12 month period up to June 2016. **Unemployment in the North West now stands in line with national rates,** although varies widely between areas of the North West.[22]
- **Due to changes to unemployment benefits and the roll-out of full service Universal Credit over the last year, long-term trends in claimant counts and comparisons between areas 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 claimant count measure.***

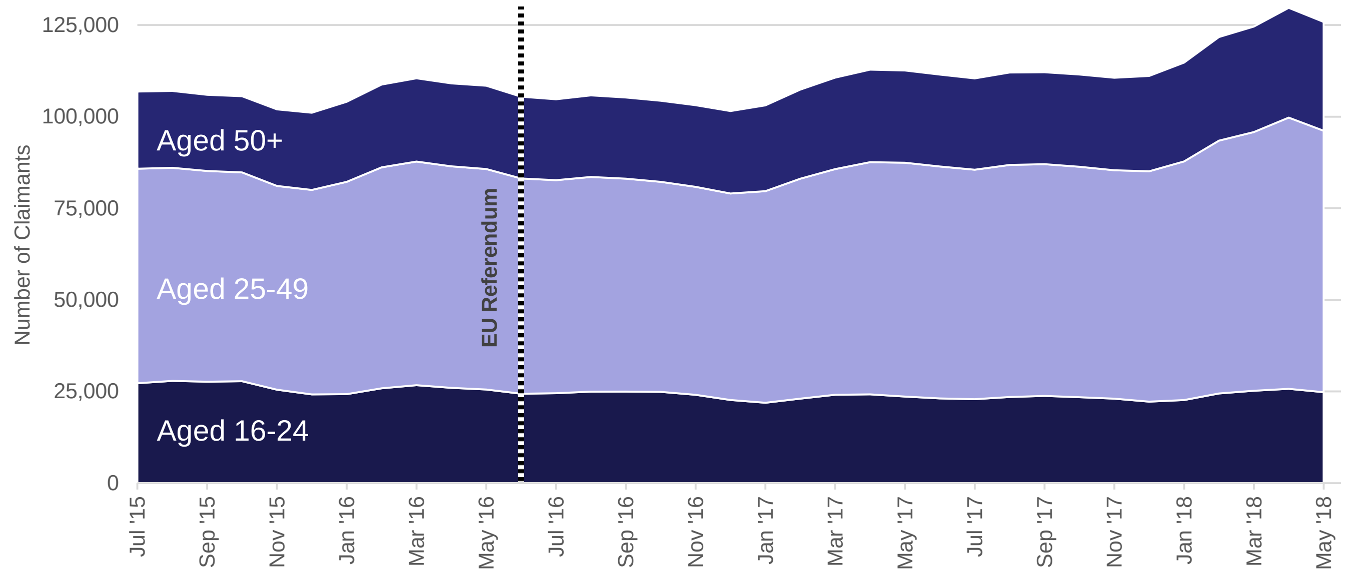
EU Migration

- 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 pre-2013 rates.[23]

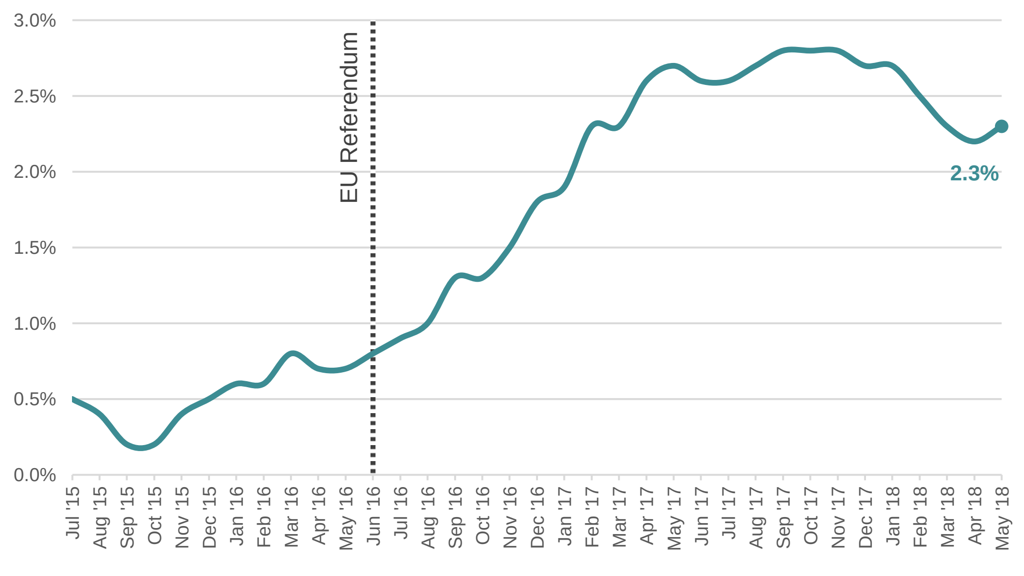
Household Finances

- **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.[24]
- 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%.[25]

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



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



Sources

Section	Sources
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