

North West Brexit Monitor

Key economic trends and developments – February 2019

Pressure on the Government to deliver Brexit continues to mount after eleven MPs – eight from Labour and three from the Conservatives – quit their respective parties to form the Independent Group, and Labour announced that the party would back a new referendum on whether Britain should leave the EU. Agreement on a deal for the UK to leave the EU looks set to go down to the wire with Theresa May and Jean-Claude Juncker promising to conclude EU-UK negotiations on the country's Brexit deal before the bloc's leaders summit in Brussels on March 21, and the decisive "meaningful vote" in Parliament having been pushed back to as late as March 12 – just 17 days before the UK is due to leave the EU.

The ongoing uncertainty over what the final deal will look like continues to impact the UK economy. According to monthly estimates from the Office for National Statistics (ONS), UK GDP grew by 0.2% in the three months to December 2018, with quarterly growth slowing after a strong third Quarter, while both the UK Manufacturing and Services PMI showing slower growth in January, reportedly driven by Brexit-related concerns. Moreover, the underlying trend in the retail industry was one of declining sales in December, down 0.2% compared with the previous three months. Research with GC Business Growth Hub clients in the 3 months to the end of January 2018 suggests an increasingly weaker picture around future business hiring and investment plans.

Macro-Economic Trends & Developments

- **The North West led business activity growth for the second month in a row in January 2019, with the regional PMI for the NW reading 53.9**, a small drop from 54.2 in December (above 50 = growth). This compares with average business activity growth of 50.3 across the UK as a whole. Nevertheless, the region saw a fall in new orders for the first time in two-and-a-half years, and all regions in the UK recorded a decrease in business.
- According to monthly estimates from the Office for National Statistics (ONS), **UK GDP grew by 0.2% in the three months to December 2018, with quarterly growth slowing after a strong Quarter 3**. GDP growth was driven by the services sector, but offset by smaller negative contributions from production and construction sectors. ONS data shows that the production industries contracted 1.1%, and construction by 0.3%. The last time all production sub-sectors contracted was Quarter 1 2009. Annual ONS data shows that the UK economy expanded at its slowest annual rate since 2012, down from 1.8% in 2017 to 1.4%.

Policy, Trade, & Regulation

- Theresa May has yet to secure any further concessions on the Northern Ireland backstop, which was agreed as part of the Withdrawal Agreement with the EU; the EU has reiterated its position that there would not be any changes to the legal text already agreed with the UK.
- MPs are due to vote on Mrs May's latest parliamentary motion about her Brexit plan B on 27th February, but more than 30 moderate Conservative MPs are reported to be ready to rebel against the Prime Minister by backing a proposal by former Labour minister Yvette Cooper aimed at preventing a no-deal Brexit by extending Article 50.
- Meanwhile, hardline Eurosceptic Conservative MPs have warned they will seek to "end the government" if Mrs May delays Brexit by requesting an extension to Article 50, saying that should Britain's departure be pushed back, they will no longer vote for government legislation — in a move that could severely hinder Mrs May's administration.

Key Sectors & Business Investment

- Following the publication of UK government contingency planning, and as negotiations continue, the **British Chamber of Commerce updated their Business Brexit Risk Register** in February listing **15 'red-rated', 6 'amber-rated' issues, and 3 'green-rated' issues**, a minor upgrade from their previous register. The three 'green-rated' issues that the Chamber feel are now clear are around how businesses will pay import VAT, access to EU workforce, and industrial standards
- The manufacturing sector made a slow start to 2019, with **the UK Manufacturing PMI falling to a three-month low of 52.8** in January down from 54.2 in December, with companies reporting that Brexit preparations led to sharp rises in both purchasing activity and stockpiling of inputs at warehouses. Latest data also indicates a renewed loss of momentum for the UK service sector, with the **UK Services PMI falling to 50.1 in January**, down from 51.2 in December, with survey respondents overwhelmingly linking the slowdown in business activity to heightened political uncertainty at the start of 2019.

Property and Housing

- **December 2018 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 broadly in line with pre-referendum trends.

Economic inclusion

- Trends in unemployment in the North West 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, with the exception of Lancashire where unemployment rates have risen slightly.
- **The Household Finance Index (HFI) increased in January to a three-month high of 44.8, from 44.0 in December, but remained below the no-change mark of 50.0, indicating pessimism towards current financial prospects among UK households**. However, the **Consumer Prices Index (CPI-H) 12-month inflation rate was 1.8% in January 2018, down from 2.0% in December 2018**.

Macro-Economic Trends & Developments

Macro-economy

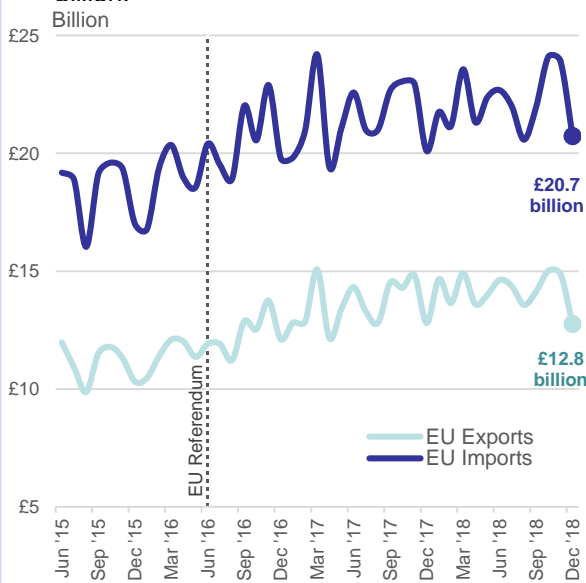
- According to monthly estimates from the Office for National Statistics (ONS), **UK GDP grew by 0.2% in the three months to December 2018, with quarterly growth slowing after a strong Quarter 3.** GDP growth was driven by the services sector, but offset by smaller negative contributions from production and construction sectors. ONS data shows that the production industries contracted 1.1% and construction by 0.3%. The last time all production sub-sectors contracted was Quarter 1 2009. Annual ONS data shows that the UK economy expanded at its slowest annual rate since 2012, down from 1.8% in 2017 to 1.4%.⁽¹⁾
- Latest ONS data have revealed that **consumer price inflation decelerated to a 25-month low of 1.8%, taking it below the bank of England's 2.0% target.**⁽²⁾ The National Institute of Economic and Social research (NIESR) analysis found that disinflationary pressure is widespread with the drop in the rate of inflation unable to be explained by one-off factors such as the January sales.⁽³⁾

UK International Trade

- The total trade deficit (goods and services) widened by £0.9 billion to £10.4 billion in the three months to December 2018;** this was driven by a £1.5 billion increase in goods imports, whereas goods exports remained broadly flat. Excluding erratic commodities (such as aircraft and such as non-monetary gold), the total trade deficit widened £3.8 billion to £12.9 billion in the period.⁽⁴⁾

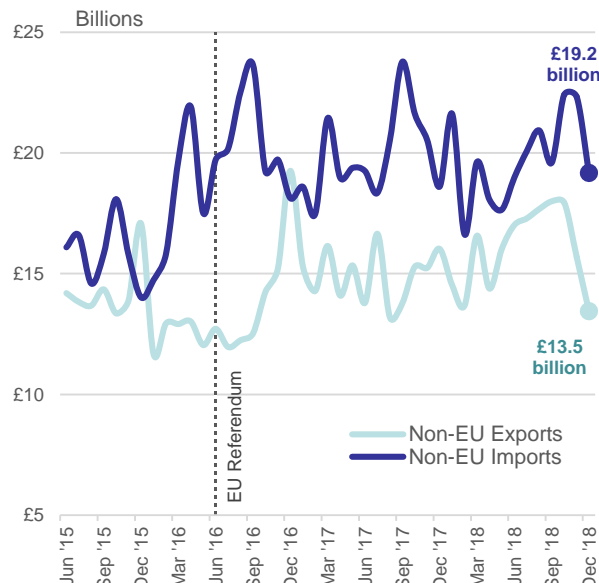
EU Trade in Goods

- The UK was a net importer in goods from the EU in December 2018, with imports exceeding exports by approximately £8.0 billion.⁽⁵⁾



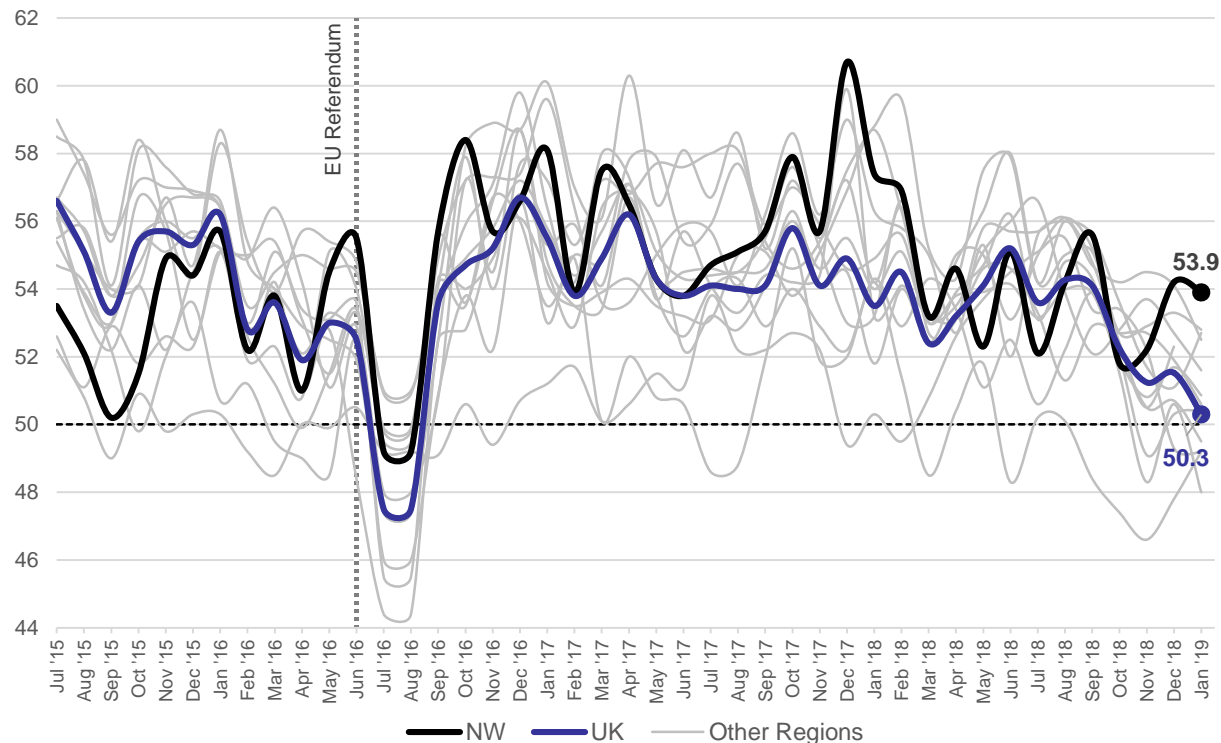
Non-EU Trade in Goods

- The UK was a net importer in goods from non-EU nations in December 2018, with imports exceeding exports by approximately £5.7 billion.⁽⁵⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- The North West led business activity growth for the second month in a row in January 2019, with the regional PMI for the NW reading 53.9, a small drop from 54.2 in December (above 50 = growth).** This compares with average business activity growth of 50.3 across the UK as a whole. Nevertheless, the region saw a fall in new orders for the first time in two-and-a-half years, and all regions in the UK recorded a decrease in outstanding business. (All other regions of the UK shown in grey below).⁽⁶⁾



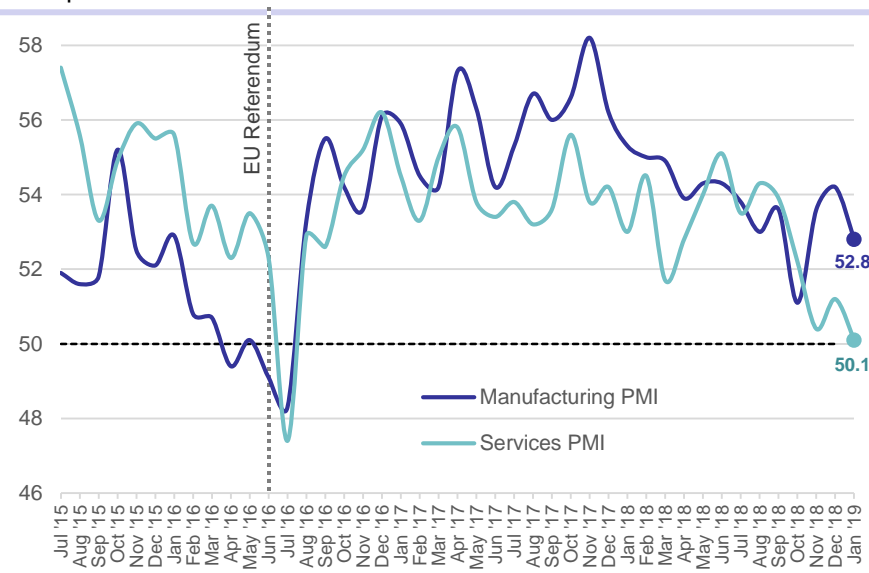
Key Sectors & Business Investment

British Chamber of Commerce

- Following the publication of UK government contingency planning, and as negotiations continue, the **British Chamber of Commerce updated their Business Brexit Risk Register** in February listing **15 'red-rated', 6 'amber-rated' issues, and 3 'green-rated' issues**, a minor upgrade from their previous register. 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 three 'green-rated' issues that the Chamber feel are now clear are around how businesses will pay import VAT, access to EU workforce, and industrial standards.⁽⁷⁾
- The Chamber's most recent **Quarterly Economic Survey for Q4 2018** underscores the ongoing economic uncertainty, reporting that "the UK economy is in stasis" and highlighting that "while it's not contracting, it's not growing robustly either" with firms reporting muted domestic demand and investment. The Q4 18 survey results indicate an increase in price pressures facing firms, as well as weakened investment levels, and fewer firms expecting turnover and profitability to increase over the next twelve months. It also reports on the magnitude of the recruitment difficulties faced by firms across the UK. The Chamber's **Monthly Economic Review for February**, however, has suggested that latest data indicates that UK economic conditions are weakening, with Brexit uncertainty, a more sluggish global economy and significant costs on both UK consumers and businesses stifling economic activity.^(8,9)
- The Chamber's most recent **Quarterly International Trade Outlook** (covering Q4 2018) reported a **4.1% rise in the BCC/DHL Trade Confidence Index (TCI)** – a measure of the UK's exporting health – compared to the previous quarter. The Trade Outlook reported that this increase reflected increased trade beyond the borders of the EU, but also noted that businesses continue to face pressure in the face of rising costs as Sterling weakness persists.⁽¹⁰⁾

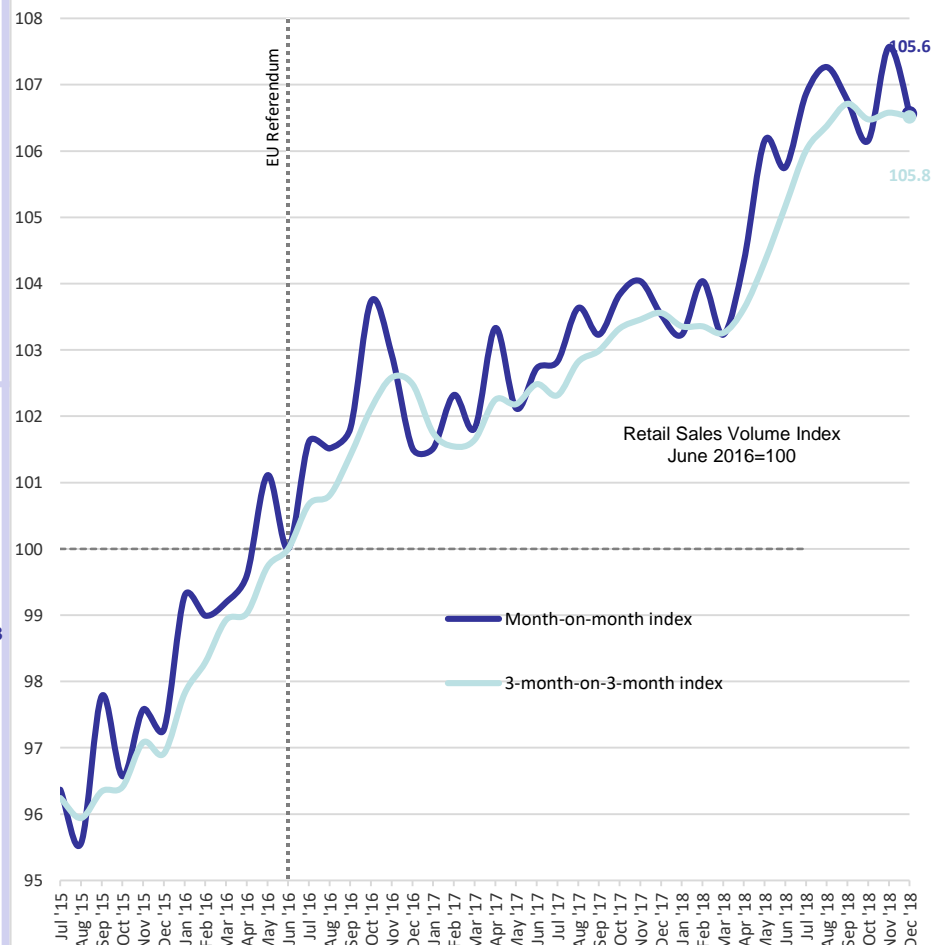
IHS Markit/CIPS Manufacturing & Services PMIs®

- The manufacturing sector made a lacklustre start to 2019, with the **UK Manufacturing PMI falling to a three-month low of 52.8** in January down from 54.2 in December, marking its second-weakest reading since July 2016 (the first survey month following the EU referendum result). Companies reported that Brexit preparations led to sharp rises in both purchasing activity and stockpiling of inputs at warehouses.⁽¹¹⁾
- Latest data indicates a renewed loss of momentum for the UK service sector, with the **UK Services PMI falling to 50.1 in January**, down from 51.2 in December and just above the crucial 50.0 no-change value. Survey respondents overwhelmingly linked the slowdown in business activity growth to heightened political uncertainty at the start of 2019.⁽¹²⁾



Retail Sales

- The **volume (not value) of retail sales decreased by 0.9% during December 2018**, as all sectors except food stores and fuel stores declined during the month.
- The **underlying trend in the retail industry** – as suggested by the three-month on three-month measure – **was one of declining sales, down 0.2% in December** compared with the previous three months.⁽¹³⁾



Policy, Trade, & Regulation

Withdrawal Agreement and No Deal Preparation

- **Eleven MPs – eight from Labour and three from the Conservatives – have quit their respective parties to form the Independent Group.**
- **Following the rejection of Theresa May’s Brexit deal by MPs on 15th January, renewed negotiations with the EU are still ongoing.**
- On 30th January, Parliament voted in favour of an amendment instructing Theresa May to reopen discussions with the EU to find alternatives to the Irish backstop. The vote passed amid a series of seven amendments that were brought before the House, including a non-binding amendment that criticises a “no deal” scenario, which was passed by 318 votes to 310.⁽¹³ⁱ⁾
- Theresa May has yet to secure any further concessions on the backstop, which was agreed as part of the Withdrawal Agreement with the EU to avoid a hard border with Northern Ireland. The EU reiterated its position that there would not be any changes to the legal text already agreed with the UK government.⁽¹⁴⁾
- MPs are due to vote on Mrs May’s latest parliamentary motion about her Brexit plan B on 27th February, but more than 30 moderate Conservative MPs are reported to be ready to rebel against the Prime Minister by backing a proposal by former Labour minister Yvette Cooper aimed at preventing a no-deal Brexit by extending Article 50. Meanwhile, hardline Eurosceptic Conservative MPs have warned they will seek to “end the government” if Mrs May delays Brexit by requesting an extension to Article 50, saying that should Britain’s departure be pushed back, they will no longer vote for government legislation — in a move that could severely hinder Mrs May’s administration.⁽¹⁵⁾
- Theresa May and Jean-Claude Juncker have promised to conclude EU-UK negotiations on the country’s Brexit deal before the bloc’s leaders summit in Brussels on March 21.⁽¹⁶⁾ Meanwhile, **Theresa May has offered the House of Commons a new deadline to vote on a revised deal, pushing back the decisive “meaningful vote” to as late as March 12 – just 17 days before the UK is due to leave the EU.**⁽¹⁷⁾
- **Labour has announced that the party would back a new referendum on whether Britain should leave the EU.** Meanwhile, senior Labour figures have indicated that, not only would they back a second referendum, but that they would also campaign for Remain, marking a reversal of policy for a party which endorsed Brexit in its 2017 election manifesto.⁽¹⁸⁾

Future of European Funding in Greater Manchester

- From 2014-20 the Greater Manchester allocation of ERDF and ESF totalled €405m, 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, with the UK Government underwriting the continued payment of any successful funding application to ERDF, ESF, the European Territorial Cooperation Programmes and also a number of other EU programmes where UK can take part as a third country post Brexit. The underwrite will apply even when projects are approved after the UK leaves the EU.**
- In their recent ‘no-deal’ technical notices,⁽¹⁹⁾ 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. A number of additional technical notes setting out how the guarantee will operate for specific programmes have been issued for Erasmus+, Nuclear research, Horizon 2020, European Social Fund, European Regional Development Fund, LIFE, Connected Europe Facility and the European Territorial Cooperation programmes.⁽²⁰⁾

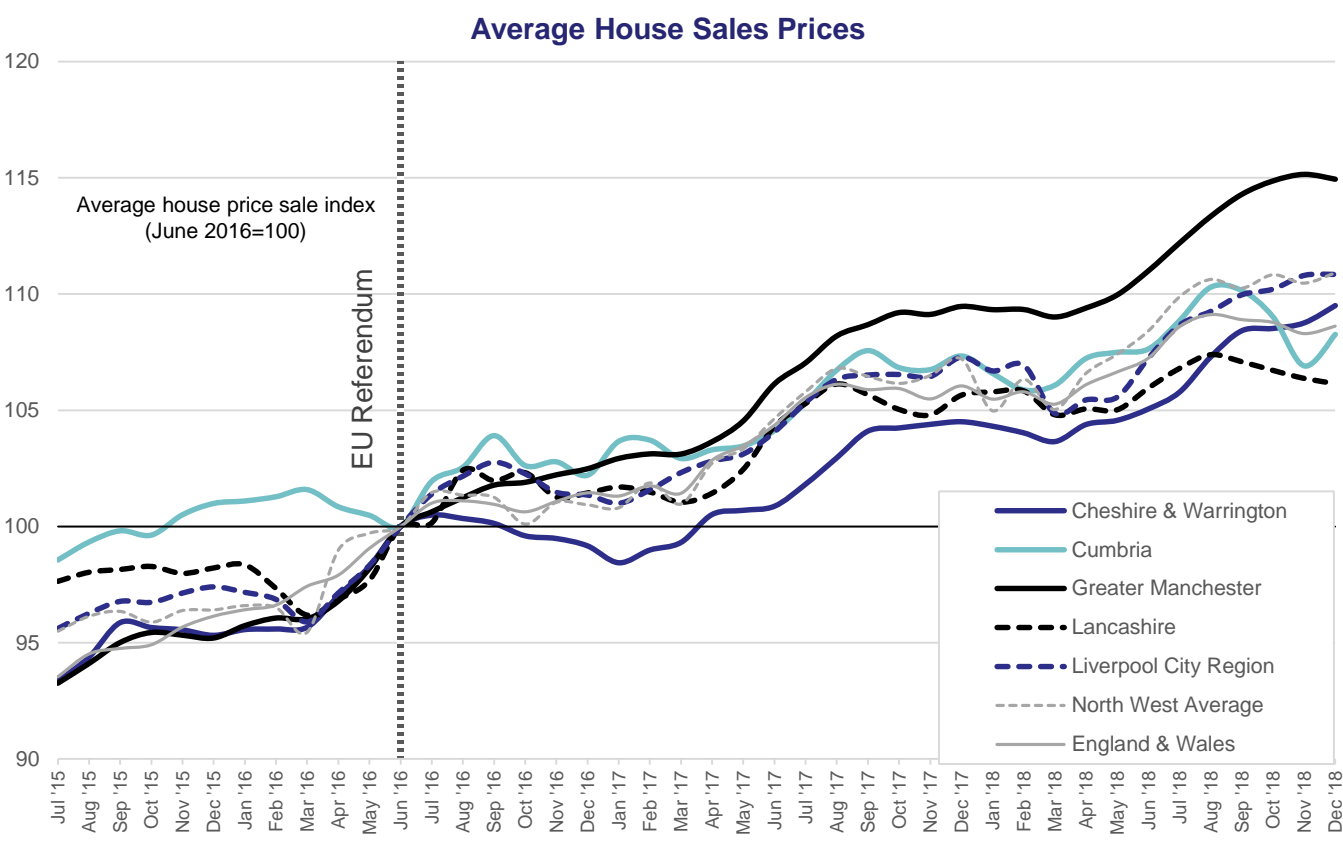
Brexit - Key Dates

15 th January 2019	MPs voted against Theresa May’s Brexit deal
26 th February 2019	The Prime Minister updated on her renewed negotiations with the EU and the Government’s position on future votes.
12 th March 2019	Latest date for the “meaningful vote”.
21 st March 2019	The final EU summit before the UK’s planned departure from the EU.
29 th March 2019	The UK’s planned 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, but with the possibility of extending until December 2022. Until this date, the UK will essentially function as if a member of the EU.

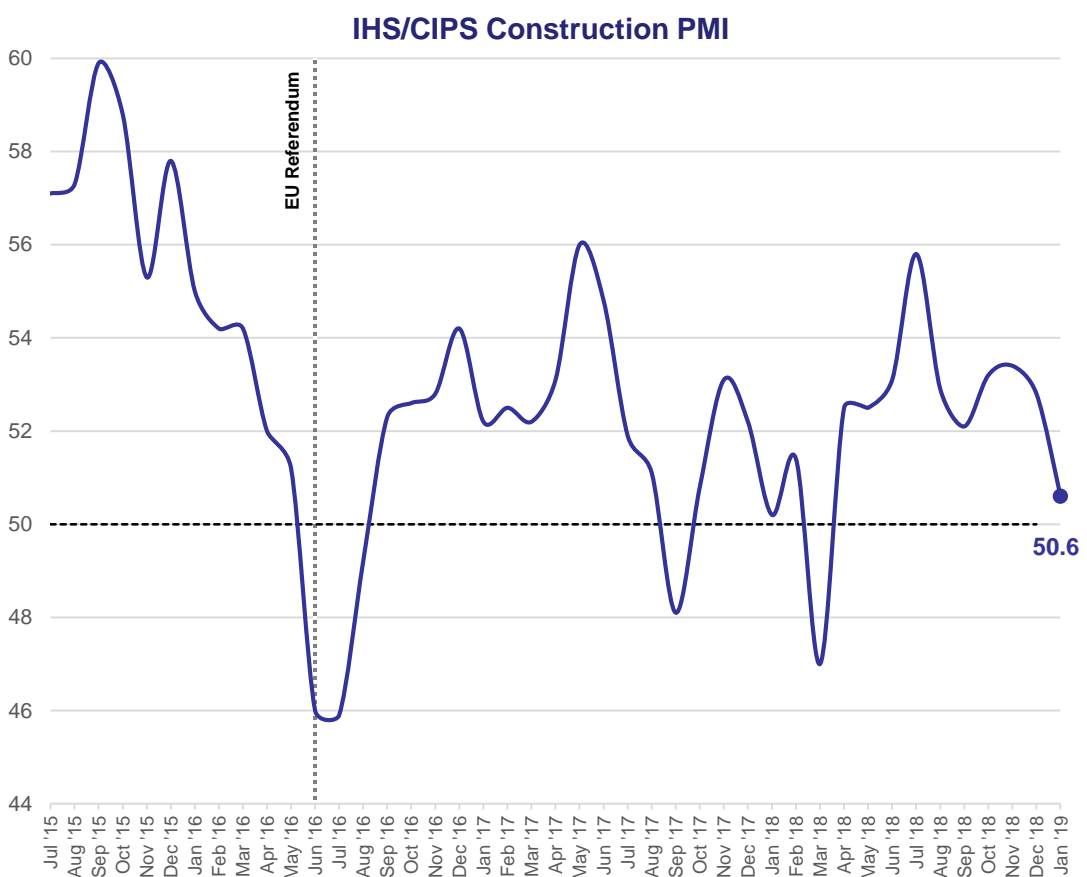
Property & Housing

Housing sales

- December 2018 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. After a period of flat growth since September 2017, house prices across the North West have picked up again since March 2018, although latest data have indicated a moderation in house price growth over the past three months. **Prices in Greater Manchester have risen fastest in the North West, consistently above both national and regional averages since the referendum.**⁽²⁴⁾



December 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£164,352	0.4%	+3.5%	+10.9%

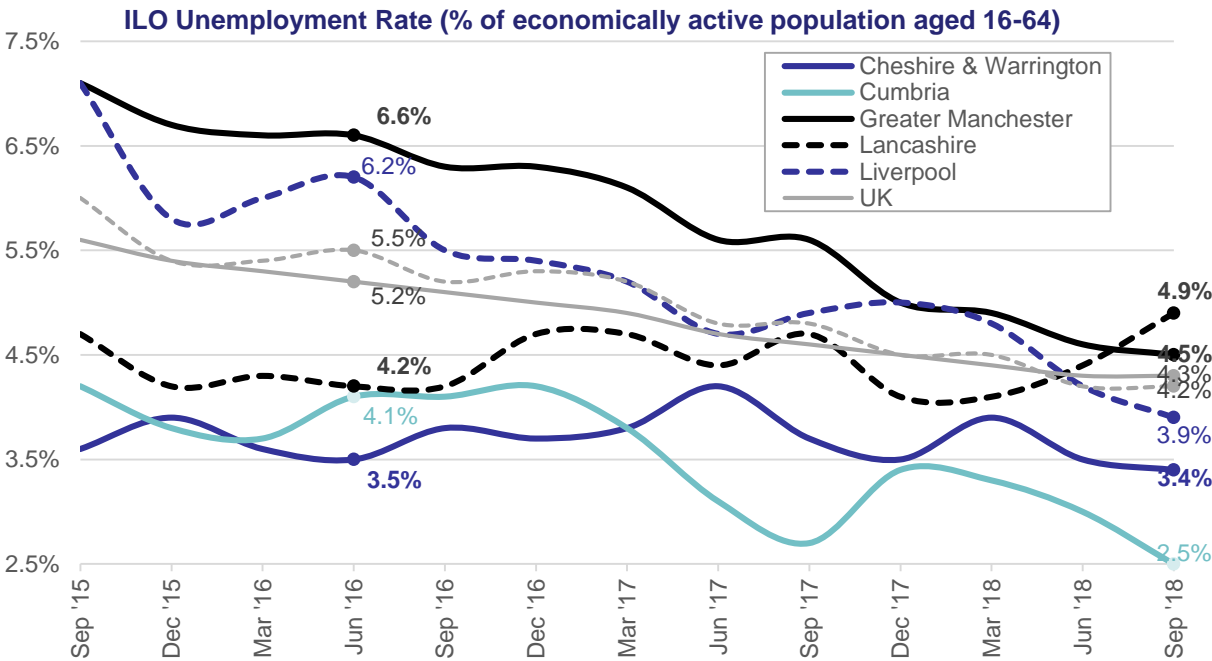


- Latest data has pointed to a loss of momentum for the UK construction sector, with the **UK Construction PMI dropping to a ten-month low of 50.6 in January**, down from 52.8 in December. A number of survey respondents noted that Brexit uncertainty had led to hesitancy among clients and a corresponding slowdown in progress on new projects.⁽²⁵⁾

Economic Inclusion

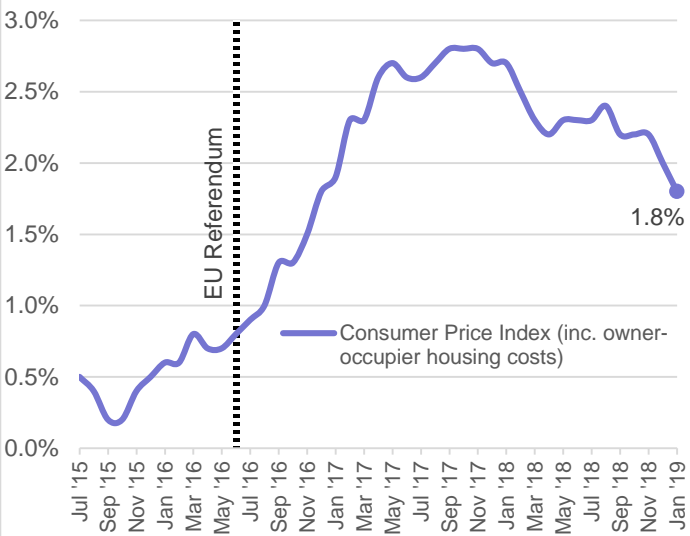
Unemployment and Claimant Count

- Trends in unemployment in the North West 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 risen slightly (from 4.2% pre-referendum to 4.9% latest) and Cheshire & Warrington where rates have stayed broadly flat (3.5% pre-referendum to 3.4% latest). Cumbria has the lowest rate of unemployment in the North West at (2.5%), while Lancashire has the highest.⁽²⁶⁾
- The Claimant Count – as reported by DWP in their experimental alternative Claimant Count statistical series – in the North West fell by 552 (0.3%) November in September, to 161,169, with declines registered across all age groups.⁽²⁷⁾
- The total number of claimants in the North West is 0.5% (812) higher than pre-referendum levels.** As a proportion of the working age population, the number of claimants has also risen to 3.6% from 3.5% in June 2016, in contract to national trends.⁽²⁸⁾

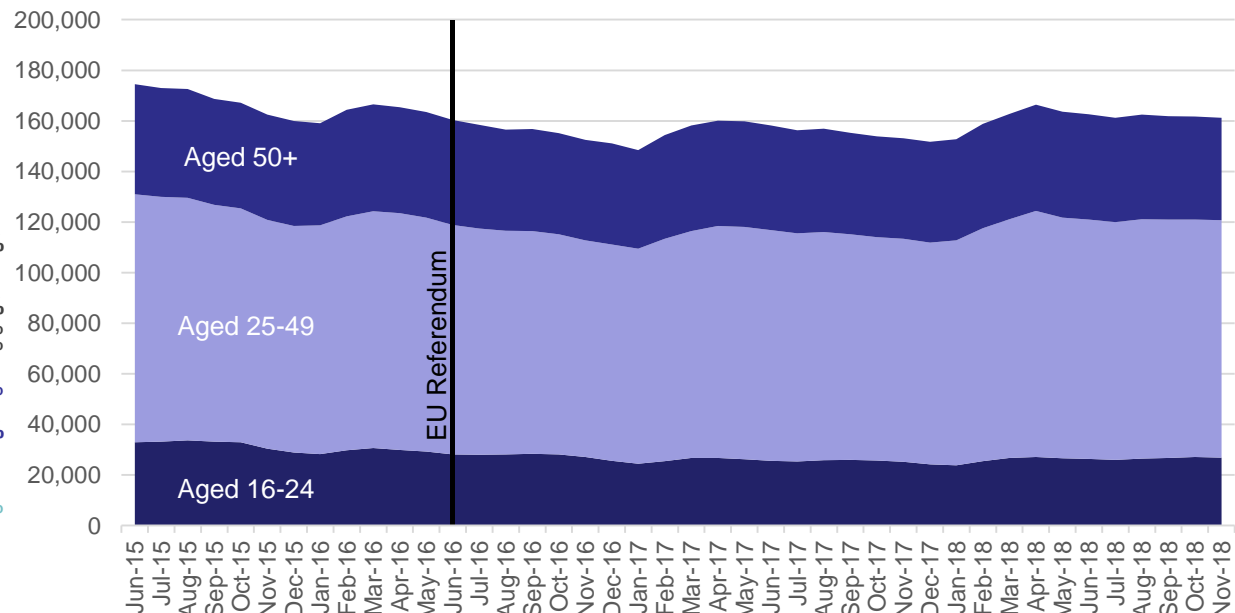


Household Finances

- The Household Finance Index (HFI)** – which tracks Britons' sense of financial wellbeing – **increased in January to a three-month high of 44.8, from 44.0 in December, but remained below the no-change mark of 50.0, thereby indicating pessimism towards current financial prospects among UK households.**⁽²⁹⁾
- The Consumer Prices Index (CPI-H)** 12-month inflation rate was 1.8% in January 2019, down from 2.0% in December 2018. The largest downward contribution came from electricity, gas and other fuels.⁽³⁰⁾



Alternative Claimant Count in NW by age group



Sources

Section	Sources
Macro-Economic Trends & Developments	<div>1. ONS (11 February 2018): Statistical bulletin: GDP monthly estimate, UK: December 2018</div> <div>2. ONS (13 February 2019): Consumer price inflation UK: January 2019</div> <div>3. NIESR (13 February 2019): NIESR Press Note – NIESR reacts to the latest ONS CPI inflation statistics released today</div> <div>4. ONS (11 February 2019): UK trade: December 2018</div> <div>5. HMRC (12 February 2019): Overseas Trade Statistics - Non-EU and EU Trade: December 2018</div> <div>6. IHS Markit / NatWest UK Regional PMI</div>
Key Sectors & Business Investment	<div>7. British Chamber of Commerce (February 2019): Business Brexit Risk Register</div> <div>8. British Chamber of Commerce (February 2019): Quarterly Economic Survey Q4 2018</div> <div>9. British Chamber of Commerce (February 2019): Monthly Economic Review February 2019</div> <div>10. British Chamber of Commerce (February 2019): Q4 2018 Quarterly International Trade Outlook</div> <div>11. Markit/CIPS UK Manufacturing PMI (1 February 2019): “Series-record stockpiling of inputs at UK manufacturers as Brexit preparations continue”</div> <div>12. Markit/CIPS UK Services PMI (5 February 2019): “New orders decline for the first time in two-and-a-half years”</div> <div>13. ONS (18 January 2018): Retail sales, Great Britain: December 2018</div>
Policy, Trade, & Regulation	<div>14. FT: Theresa May wins out on (most of) her Brexit plan B</div> <div>15. BBC: MPs back May's bid to change deal</div> <div>16. IHS MARKIT / CIPS UK MANUFACTURING PMI News Release</div> <div>17. IOD: Nearly a third of firms looking overseas due to Brexit</div> <div>18. Voting with their Money: Brexit and Outward Investment by UK Firms</div> <div>19. BBC: Bank forecasts worst year for UK since 2009</div> <div>20. NIESR Press Release: Prospects for the UK Economy</div> <div>21. UK and non-UK people in the labour market: November 2018</div> <div>22. HMG (2018): How to prepare if the UK leaves the EU with no deal</div> <div>23. HMG (2018): The Government’s guarantee for EU-funded programmes if there’s no Brexit deal</div>
Property & Housing	<div>24. HM Land Registry (13 February 2018): House Price Index Database: December 2018</div> <div>25. Markit/CIPS UK Construction PMI (4 February 2018): “UK construction output rises only marginally in January”</div>
Economic Inclusion	<div>26. ONS (2018): Annual Population Survey/Labour Force Survey, accessed February 2019</div> <div>27. DWP (2018): Alternative Claimant Count, accessed February 2019</div> <div>28. GMCA Calculation using DWP Alternative Claimant Count data and ONS claimant count denominators</div> <div>29. IHS Markit Household Finance Index (21 January 2019): “UK households start 2019 on downbeat tone as job security falls at fastest pace for 11 months”</div> <div>30. ONS (13 February 2019): Consumer price inflation UK: January 2019</div>