

North West Brexit Monitor

Key economic trends and developments – June 2018

As key votes and EU deadlines move closer, while government negotiations move forward, there is still significant uncertainty for businesses and workers in the UK around what to expect after the UK's exit from the EU. The main social and economic indicators continue to show mixed signals as to the referendum's impact on the UK economy so far. The Office for National Statistics first quarter estimates show lower growth in GDP. Manufacturing and services Purchasing Managers surveys (PMIs) indicate continuing, but slower growth (compared to peaks this time last year), and while there are signs of positive movements in a range of other PMIs - these movements come alongside warnings from industry leaders on the importance of expediency and transparency on Brexit. Rising oil prices, slower order books, and slower consumer spending all hint at headwinds for the economy in the months ahead.

Macro-Economic Trends & Developments

- **The growth rate for business activity saw its first rise since December 2017 in the North West in March**, with the PMI rising to 54.6 from 53.2 in March. However, this is still below pre-referendum levels (55.5) (above 50 = growth). **This places the North West as the 3rd best performing English region after Yorkshire and the West Midlands.**
- **The UK continued to be a net importer from the EU in March 2018.** Imports exceeded exports by £8.5 billion, a £1.0 billion increase from February's net deficit.

Policy, Trade, & Regulation

- **Plans were published by central government in early June for a 'temporary customs arrangement' as an alternative backstop solution to a hard Irish Sea customs border.**
- In his June press statement, Chief Negotiator for the EU, Michel Barnier, provided a **debrief on progress made in the run-up to the European Council** being held later this month. He focussed on three key issues for negotiations: the separation issues, covering: data protection, geographical indications (including trade borders); and the continuation of administration beyond Brexit.
- On 12th June, **MPs voted by 324 votes to 298 to approve the EU Withdrawal Bill**, following a previous push back from the House of Lords.
- On 18th June, combined authority mayors from across the country met with the Department for Exiting the European Union minister to discuss the risks and opportunities of Brexit, and represent the interests of devolved administrations and the regions in ongoing discussions.
- A June report from EY highlighted the **North West's strong performance for foreign direct investment in 2017**, citing Manchester as driving this performance, as the largest recipient of foreign direct investment outside of London, raising concerns over investors' post-Brexit plans in the North West.

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Key Sectors & Business Investment

- The British Chamber of Commerce's Quarterly International Trade Outlook for the first quarter of 2018 highlights **skills and labour shortages among exporters**, particularly in manufacturing. Despite this, exporters saw a **strong first quarter, particular in the North West**, West Midlands, and South West.
- The UK Manufacturing Purchasing Managers Index (PMI) survey show that after slowing through early 2018, the **growth rate in manufacturing shows hints of an upturn in May rising to 54.4 from 53.9 in April.**
- **Growth rates in the services sector continue to rise from March's low, with the services PMI rising to 54.0 in May from 52.8 in April.** Despite this, business volumes continued to increase but at a subdued rate with lower growth expected to continue over the forthcoming months.
- **Recent trends in the retail industry suggest a continued flattening of sales.** While sales have recovered from the negative impact of bad weather earlier this year, they still remain subdued compared to the long-term trend.

Property and Housing

- March housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices. **After a more rapid growth across the North West since March 2017, house price growth has slowed since September in most areas**, with slight falls from December to February in Cumbria and Greater Manchester. **Overall, prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum.**
- **May data indicates construction activity sustaining a moderate recovery from weather related-disruptions earlier in the year**, with the construction PMI remaining at 52.5 in May, the same as April.

Economic inclusion

- Numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in the North West has risen for a fifth consecutive month in April, rising by 5,435 (4.4%) from March to 128,985 people. This places the total number of claimants at a 47-month high and 22.3% (23,550) higher than pre-referendum levels. However, **due to recent changes to unemployment benefits and the roll-out of Universal Credit in GM over the last year, long-term trends should be treated with caution.**
- **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 **continued rise in consumer costs.** This rise was driven primarily by rising fuel prices.

Macro-Economic Trends & Developments

Macro-economy

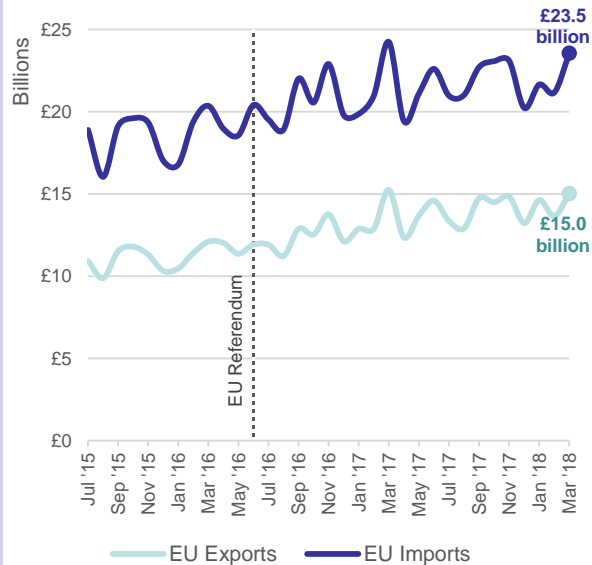
- According to revised estimates from the Office for National Statistics, UK GDP grew by 0.1% in the first quarter (Jan-March) of 2018, compared to 0.4% in the previous quarter (Oct-Dec 2017). This is unchanged from preliminary estimates. **This is the slowest rate of growth since Q4 2012.** The service industries were the main driver of growth in this quarter. However, falls in construction account for the largest downward pull on growth. While bad weather earlier this year negatively impacted certain sectors, the total effect on UK GDP was offset by increased spending on **energy** and **online retail**.⁽¹⁾
- There were significant rises in oil prices in May, during which time prices twice broke \$80 per barrel, raising concerns of possible economic instability in the next 6 months.⁽²⁾

UK International Trade

- The total UK trade (goods and services) deficit narrowed by £0.7 billion to £6.9 billion in the three months to March 2018; excluding erratic commodities, the deficit widened by £1.2 billion to £8.5 billion. The narrowing of the trade in goods deficit, including erratic commodities, was due mainly to a falls in imports of ships and aircraft from the EU, as well as rising import prices from outside the EU, resulting in falling goods imports.⁽³⁾

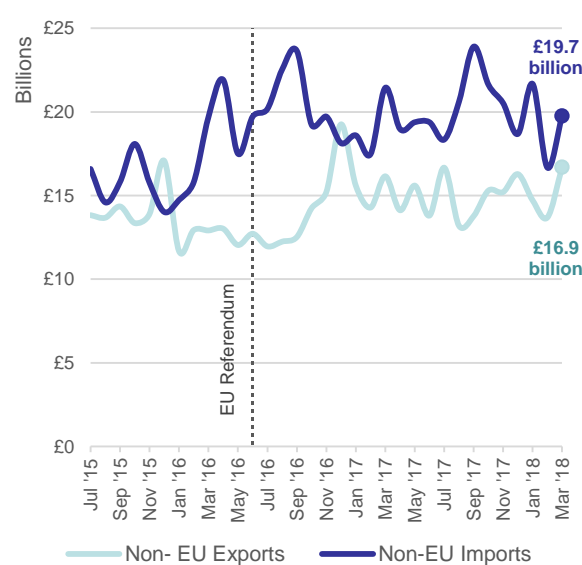
EU Trade

- The UK was a net importer from the EU in March 2018, with imports exceeding exports by £8.5 billion.⁽⁴⁾



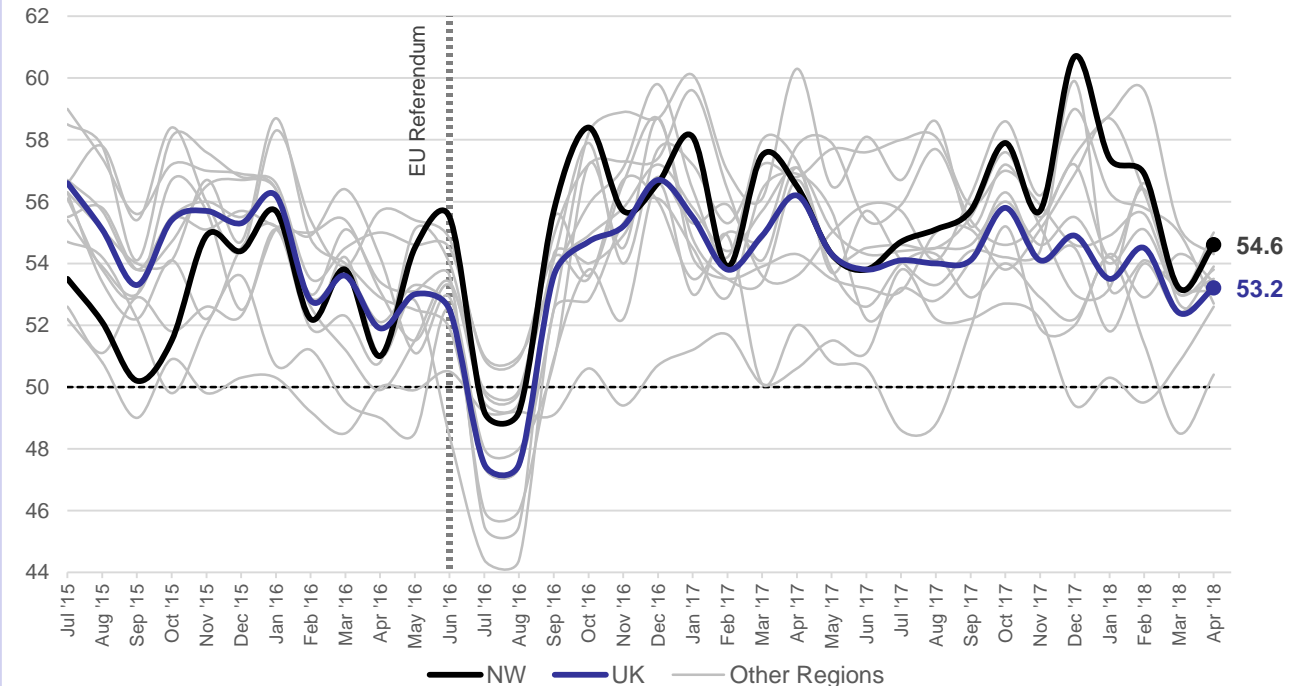
Non-EU Trade

- The UK was a net importer from non-EU nations in March 2018, with imports exceeding exports by £2.8 billion.⁽⁴⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- The growth rate for business activity saw its first rise since December 2017 in the North West for in March, with the PMI rising to 54.6 from 53.2 in March. However, this is still below pre-referendum levels (55.5) (above 50 = growth). **This places the North West as third best performing English region after the Yorkshire (55.0) and the West Midlands (54.8).** All other regions shown in grey below.
- Rates of job creation across England in April slowed to their weakest since August 2016, partly reflecting firms' rising input prices and staff costs. Staffing levels in the North West were reported as falling for the first time in more than a year and a half, albeit only marginally.⁽⁵⁾



Key Sectors & Business Investment

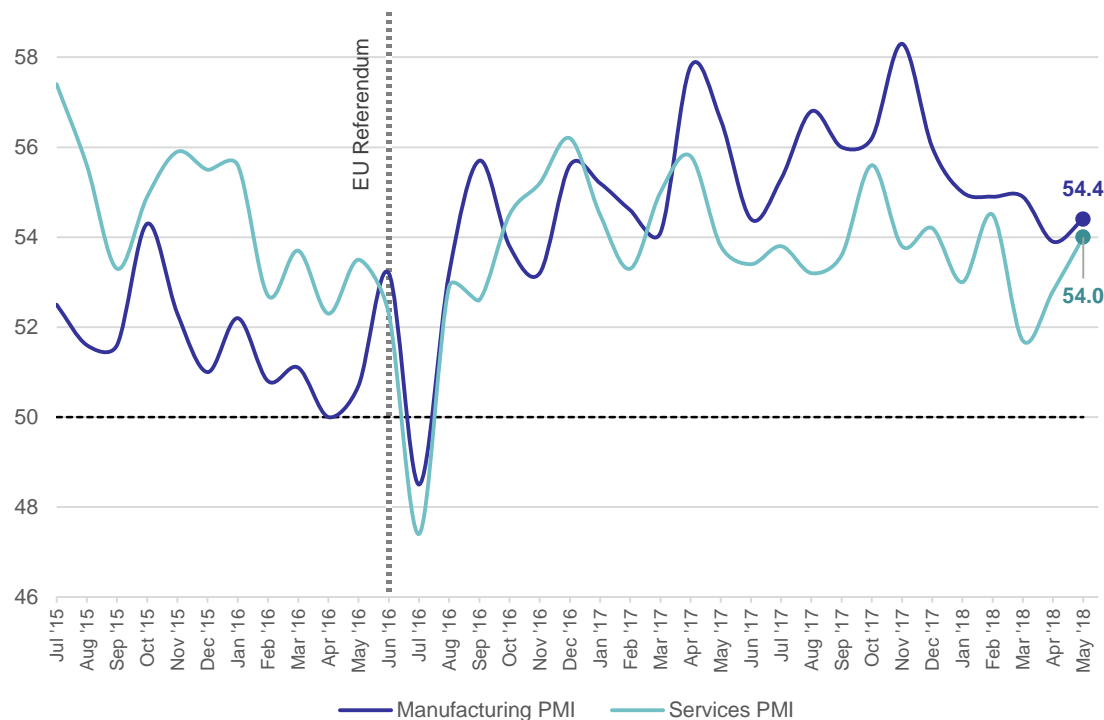
British Chamber of Commerce

- In June, the British Chamber of Commerce published their **Quarterly International Trade Outlook** for the first quarter of 2018. The report 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.** ⁽⁶⁾
- 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. 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.** ^(7, 8)
- 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

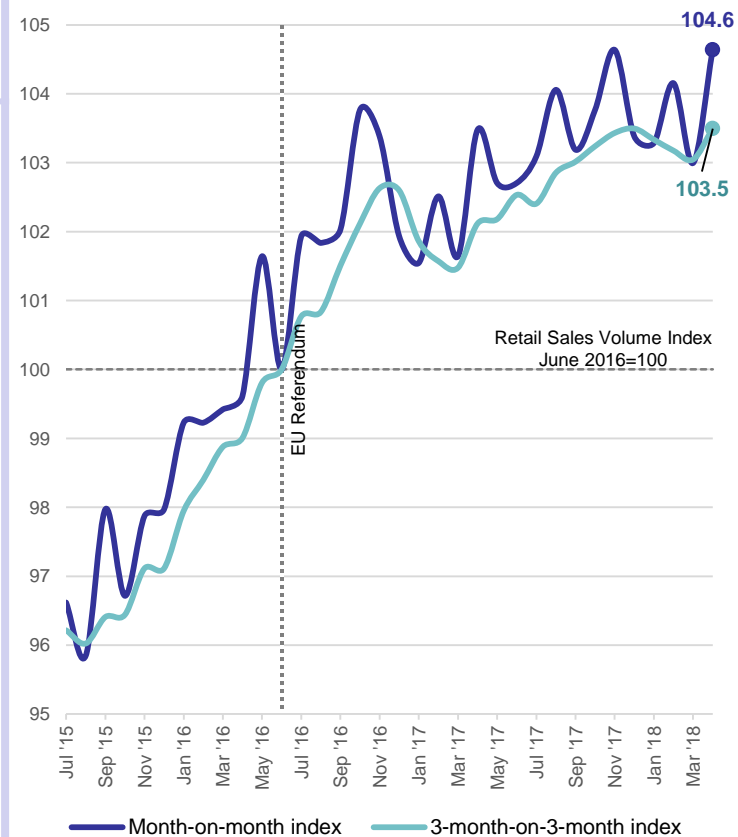
Manufacturing & Services PMIs®

- After slowing through early 2018, growth rates in manufacturing show initial hints of an upturn in May with UK Manufacturing PMI rising to 54.4 from 53.9 in April (above 50 =growth). While a drop from late 2017's high of 58.3, this **still indicates continued growth and stands (just) higher than pre-referendum levels (52.3).**
- IHS Markit however urge caution in their latest figures, highlighting that this upturn has been driven by firms working through backlogs of work rather than growth in new orders and that this trend may not be sustainable in future. ⁽⁹⁾
- Growth rates in the services sector continue to rise from March's low, with the services PMI rising to 54.0 in May from 52.8 in April.** Despite this, business volumes continued to rise at a subdued rate with low growth expectations in future. IHS Markit cites Brexit-related uncertainty as continuing to negatively impact new orders for the services sector. ⁽¹⁰⁾



Retail Sales

- The volume (not value) of retail sales grew by 1.6% in March 2018** compared to February 2018, representing a 1.1% increase on March 2017 and a 4.6% increase on June 2016.
- The **underlying recent trend in the retail industry – as suggested by the three-month on three-month measure – is one of flattening sales.** Sales have recovered from the negative impact of bad weather earlier this year, but remain subdued. ⁽¹¹⁾



Policy, Trade, & Regulation

The latest round of Brexit negotiations and European Commission

- In a June press statement, Chief Negotiator for the EU, Michel Barnier, **provided a debrief on progress made in the run-up to the European Council being held later this month**. He focussed on three key issues for negotiations: the separation issues, covering data protection, geographical indications (including trade borders); and the continuation of administration, beyond Brexit, of state aid and funding. He also raised the major question of a trade border between Ireland and Northern Ireland; and the importance of the future partnership between the UK and EU - including the conditions required for Brexit to succeed. On the latter, Barnier said **more work was needed**, in particular the need for 'realism' in the UK's interest in securing all the benefits of the current relationship, but without the full EU regulatory & application framework.
- The next key date will be October 18-19 2018:** A quarterly EU summit which is Barnier's target date to agree a withdrawal treaty, tying off legal loose ends for departure, such as the rights of citizens, mutual financial commitments and how to keep the Irish border fully open. It will also contain the transition deal and be accompanied by a separate "political declaration" outlining the broad terms of a free trade accord and other relationships to follow after that. ^(12,13)

MPs Vote on EU Withdrawal Bill

- On 12th June, **MPs voted by 324 votes to 298 to approve the EU Withdrawal Bill**, following a previous push back from the House of Lords. The bill does not include previously suggested amendments guaranteeing MPs a vote on the final Brexit deal, but includes assurances that they will have 'input' on this deal. ⁽¹⁴⁾

Horizon Science and Innovation Funding

- In early June the EU published proposals for their 2021 to 2027 budget, which are reported to leave open the possibility of the UK's continued participation in the Horizon Europe EU-funded science and innovation scheme**, the successor to the current Horizon 2020 scheme. The proposals allow scope for the UK to pay for continued participation in the programme as an 'associated third country', although with caveats to ensure that the UK could not receive more funding than it pays in fees. These proposals are currently unconfirmed and will be dependent on the nature of the EU and UK's final exit deal. ^(15,16)

EY UK Foreign Investment Attractiveness Survey

- In June, EY published their annual report examining the attractiveness of the UK for foreign investment. The report highlights the North West's strong performance in 2017, citing Manchester in particular as driving this performance, as the largest recipient of foreign direct investment outside of London. The report also highlighted increasing concerns from investors around Brexit, and slowing investment in the digital sector. ⁽¹⁷⁾

Combined Authorities Mayors Provide Evidence

- On 18th June, combined authority mayors from across the country met with the Department for Exiting the European Union (DExEU) minister to discuss the risks and opportunities of Brexit, and represent the interests of devolved administrations and the regions in ongoing discussions.** This follows combined authority mayors including Andy Burnham (Greater Manchester Combined Authority in the North West) and Andy Street (West Midlands Combined Authority) providing evidence to the Public Administration & Constitutional Affairs Committee on Devolution & Brexit in early June.

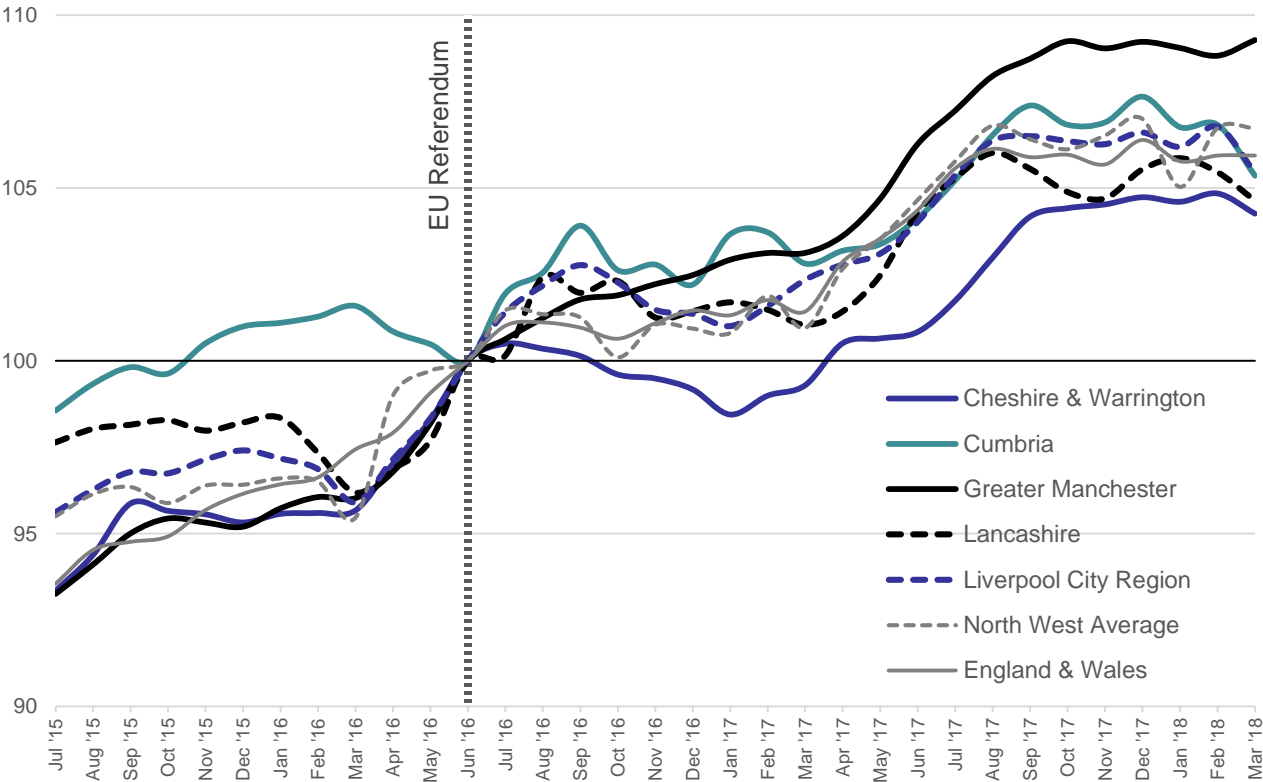
Brexit - Key Dates

28th-29th June 2018	Next meeting of the European Council, during which EU leaders will discuss Brexit negotiations, including the Northern Ireland border.
Late June 2018	UK Government expected to publish White Paper setting out detailed explanation of the UK's position on all aspects of Brexit. At the time of writing it is uncertain whether this will be before the June 28 th EU summit. ^(18,19)
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 regulation arrangements).

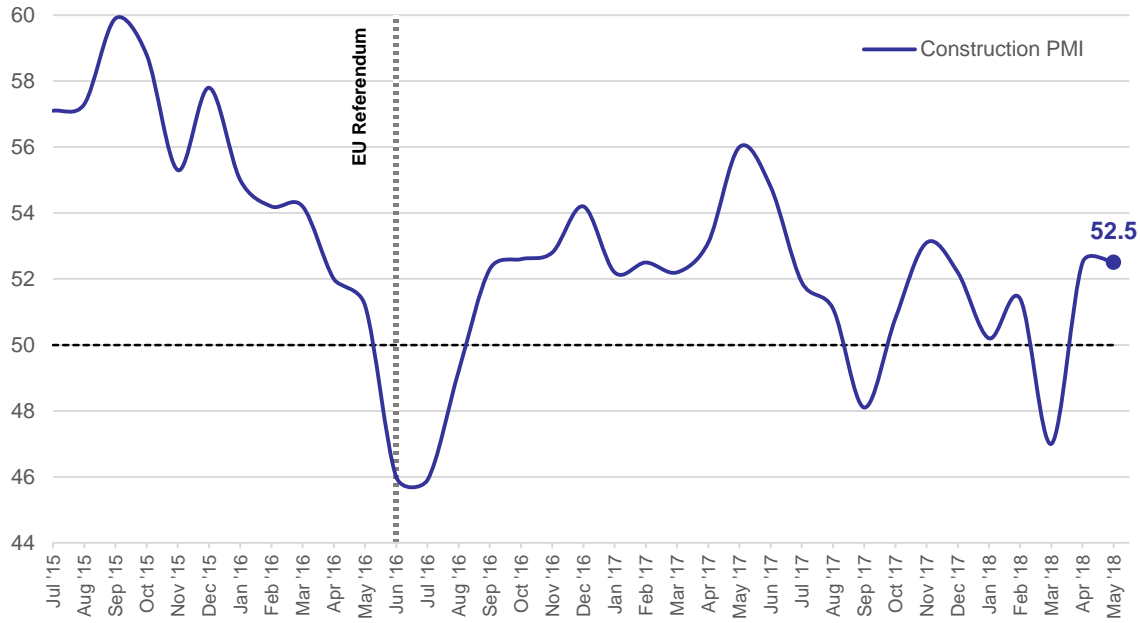
Property & Housing

- March 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 the North West and Cumbria in particular. However this is possibly a seasonal pattern with price growth in most areas often flattening during winter; as we move into summer new trends may emerge. **Overall, prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum.** All other areas of the North West have seen total growth below the national average.⁽²⁰⁾

Average House Prices Sales (Index June 2016=100)



IHS/CIPS Construction PMI



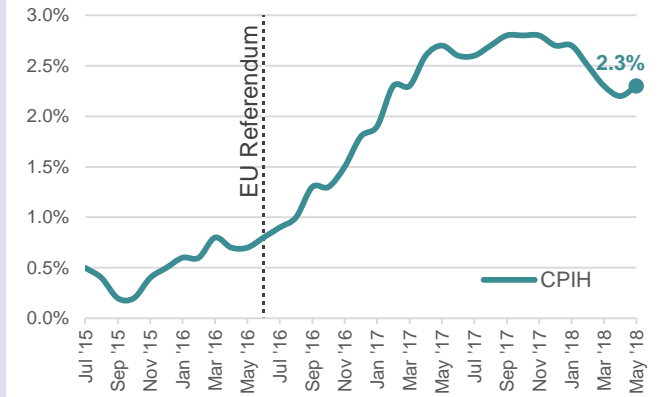
March 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£157,461	-0.3%	+5.2%	+6.3%

- May data indicates construction activity sustaining a moderate recovery from weather related-disruptions earlier in the year, with the construction PMI remaining at 52.5 in May**, the same as April (above 50 = growth). This continues the highest rate of growth since November 2017 and an overall moderate expansion in construction output, although remaining subdued compared to historical rates of growth.⁽²¹⁾
- There are signs that underlying demand in the sector remains subdued, with new orders showing signs of decline.** Anecdotal reports from businesses indicate that this may be due to heightened economic and political uncertainty around Brexit, and lower confidence and business optimism amongst some clients.

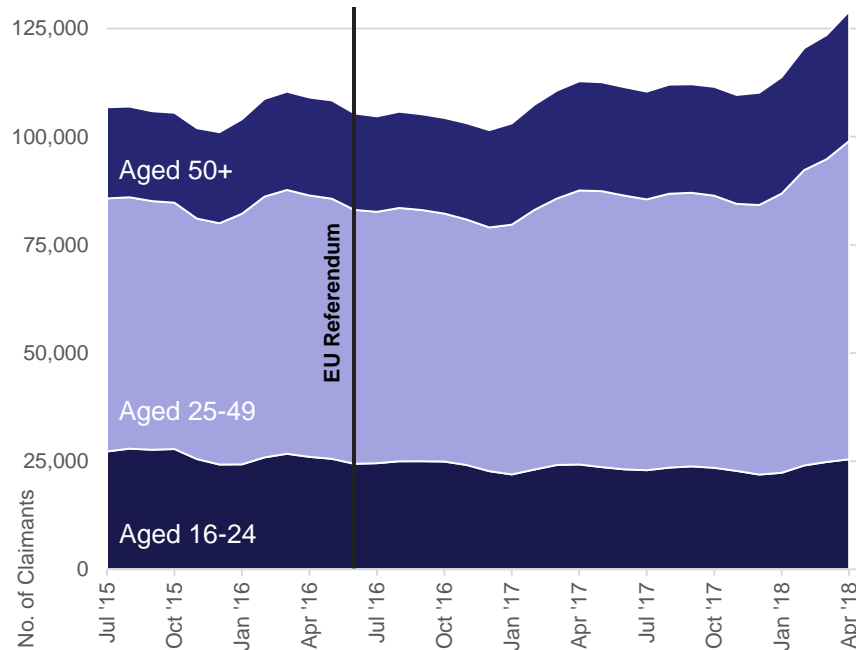
Economic Inclusion

- Numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in the North West have risen for a fifth consecutive month in April, rising by 5,435 (4.4%) from March to 128,985 people. **This places the total number of claimants at a 47-month high and 22.3% (23,550) higher than pre-referendum levels. However, due to recent changes to unemployment benefits and the roll-out of Universal Credit in GM over the last year, long-term trends should be treated with caution.**⁽²²⁾
- As a proportion of the working age population, claimant count rates in the NW have risen to 2.8% in April from 2.7% in March. This is in line with national trends, with UK rates rising from 1.9% in June 2016 to 2.2% in April 2018. Liverpool City Region continues to have the highest rates of claimants in the North West at 3.4%. A steady rise in Cheshire & Warrington sees rates overtake Cumbria to 2.1%, placing Cumbria lowest with 2.0% (joint lowest).
- The seasonally adjusted Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – reveals a continued, although easing, squeeze on UK household finances.** May’s HFI gives a reading of 44.7, up slightly from April’s 43.4, however still indicating worsening household finances (below 50 signals deterioration).⁽²³⁾

- The Consumer Prices Index (CPI-H) 12-month inflation rate** was 2.3% in May 2018, up from 2.2% in April 2018.
- Rising motor fuel prices produced the largest upward contribution to the change in the rate between April and May 2018. **The ONS said that fuel prices increased by the biggest monthly amount since January 2011, rising by 3.8%.**⁽²⁴⁾

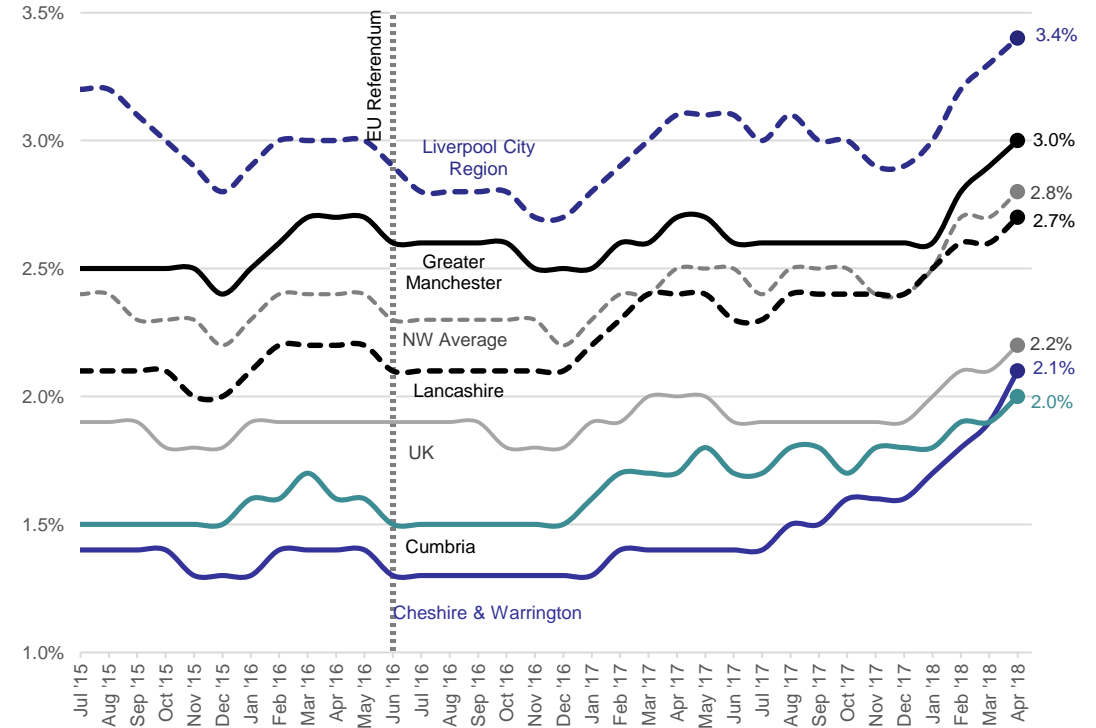


Total claimant count (JSA and UC) in the North West by age group



April 2018 Claimant Count Change by Age Group (North West)				
	16-24	25-49	50+	Total
Since last month	625	3,590	1,230	5,435
	+2.5%	+5.1%	+4.3%	+4.4%
Since EU Referendum	1,045	14,880	7,645	23,550
	+4.3%	+25.3%	+34.3%	+22.3%

Claimant rates across the North West (% of working age population)



Section	Sources
Macro-Economic Trends & Developments	<ol style="list-style-type: none"> ONS (25 May 2018): Statistical bulletin: Second estimate of GDP: January to March 2018 BBC News (5 June 2018): Petrol prices in record monthly rise, says RAC ONS (10 May 2018): UK trade: March 2018 HMRC (4 June 2018): Overseas Trade Statistics - Non-EU and EU Trade: March 2018 IHS Markit England and Wales Regional PMI (14 May 2018): "Business activity growth picks up in England in April, but Wales sees further slowdown"
Key Sectors & Business Investment	<ol style="list-style-type: none"> British Chamber of Commerce (June 2018): Q1 2018 Quarterly International Trade Outlook British Chamber of Commerce (11 April 2018): Quarterly Economic Survey Q1 2018 Manchester GC Business Growth Hub (End May 2018 snapshot): Internal Survey of Client Companies Markit/CIPS UK Manufacturing PMI (1 June 2018): "Mild output growth acceleration masks underlying weaknesses" Markit/CIPS UK Services PMI (5 June 2018): "Business activity growth reaches three-month high, but strong cost pressures persist in May" ONS (24 May 2018): Retail sales in Great Britain: April 2018
Policy, Trade, & Regulation	<ol style="list-style-type: none"> European Commission (June 2018): Press statement by Michel Barnier following this week's round of negotiations European Council (Art.50). Agenda 29/06/2018 BBC News (12 June 2018): Ministers win key Brexit bill vote after concession Financial Times (7 June 2018): EU opens door to UK participation in €100bn research programme European Commission (7 June 2018): Commission proposes most ambitious Research and Innovation programme so far EY (June 2018): In Transition: EY's Attractiveness Survey UK BBC News (16 May 2018): Brexit: UK promises 'significant' White Paper Financial Times (4 June 2018): May delays blueprint for future EU ties until after June summit
Property & Housing	<ol style="list-style-type: none"> HM Land Registry (March 2018): House Price Index Database, updated 23 May 2018 Markit/CIPS UK Construction PMI (4 June 2018): "UK construction activity growth remains subdued in May"
Economic Inclusion	<ol style="list-style-type: none"> ONS (2018): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed June 2018 IHS Markit Household Finance Index (21 May 2018): "Light at end of tunnel for UK household finances in May" ONS (June 2018): Consumer price inflation UK: May 2018