

# **North West Brexit Monitor**

Key economic and policy developments

October 2017

# Executive Summary

## Headlines

- **The October Monitor highlights continued growth in the UK economy, but challenges remain on the horizon.** UK survey of Purchasing Managers in Manufacturing show growth in both new orders and employment, with the Lloyds Bank Regional Purchasing Managers' Index (PMI) revealing that growth in business activity accelerated for a third consecutive month in the North West in September. However, despite this optimism, manufacturers continue to report significant rises in input prices, set against a weaker pound, and reports of increased supply-chain pressures. Furthermore, whilst the UK's services sector activity picked up last month according to UK Purchasing Managers, growth in new orders for the year ahead were at their slowest since August 2016; and analysis by the Chamber of Commerce suggests that much of the reported growth is within large firms, rather than SMEs and Micro-size firms.
- **UK productivity growth remains an underlying challenge for the economy, as the Office for Budget Responsibility reports that it is likely to revise down potential productivity growth in its November forecast.** According to the ONS, output per hour is estimated to have fallen by 0.1% from Quarter 1 to Quarter 2 - 2017, following a 0.5% decline in the first three months of the year. Economists have warned that the UK's productivity lags behind other trading partners such as the US, France and Germany. This is important, because in the long-run virtually no other measures come close to capturing how living standards change within the economy, and this feeds through into wages. UK average weekly earnings data, when adjusted for price inflation, also show that the real value of people's earnings have fallen over the last year. Increased consumer borrowing, alongside statements from the Bank of England suggest that interest rates could be raised, and this will put future consumer spending under a greater strain.
- **The fifth round of negotiations has begun in Brussels, focusing on technical issues.** This is the final set of talks before EU leaders meet in late October to decide if enough progress has been made to talk about post-Brexit relations with the UK, including trade. Earlier in the month MEPs voted (in a non-binding vote) to urge the EU not to open the next phase of Brexit talks unless there is a "*major breakthrough*". A motion in the European Parliament to support a delay in any decision over trade discussions was backed by 557 MEPs, with 92 against and 29 abstentions. **October also saw the Secretary of State for Exiting the European Union David Davis meeting with the Northern Combined Authority Mayors**, where Andy Burnham, Steve Rotherham and Ben Houchen emphasised the north's priorities, and the importance of the negotiations representing all of the UK's interests.

## Key sectors & business investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, growth in business activity accelerated for a third consecutive month in the North West in September 2017, with the PMI rising to a five-month high of 55.7, up from 55.1 in August. This made the North West the third best performing region in the UK, behind Wales and Yorkshire & Humber.
- **The IHS Markit/CIPS UK Manufacturing PMI** fell to 55.9 in September of 2017 from the reported 56.9 in August. It came below market expectations but remains well above its long-run average of 51.7 (above 50 = growth). Output, new orders and employment rose while cost inflationary pressures grew amid rising commodity prices, a weaker pound and increased supply-chain pressures.
- **The IHS Markit/CIPS UK Services PMI** rose to 53.6 in September 2017 from an 11-month low of 53.2 in August. The rate of job creation remained close to August's 19-month high while incoming new work expanded at the slowest pace since August 2016 and optimism towards the year ahead deteriorated. Furthermore, input cost inflation reached a seven-month high.

# Executive summary

## Terms of trade, regulation & access to funding

- **The end of September was marked by the start of the Party Conference season** and the keynote Brexit speech given by Prime Minister Theresa May in Florence. The Prime Minister set out the UK's position on how to move Brexit forward, and made reference to a transition period – suggesting at least two years (to 2021) as a possibility – where all the 'rules' remain the same, including payments into the EU budget, free movement of people, and jurisdiction of the European Court of Justice would stay in place.
- **The beginning of October saw Secretary of State for Exiting the European Union David Davis meeting with the Northern Combined Authority Mayors**, holding discussions with Andy Burnham, Steve Rotherham and Ben Houchen about the region's priorities for EU exit. The Secretary of State agreed that there would be ongoing Ministerial engagement with the Mayors, and to set up joint working groups assessing the implications of Brexit options for sector and businesses in the North, and examining the powers returning to the UK which could be devolved beyond Westminster.

## Property investment, housing and planning

- **Housing Index data from the Land Registry** suggest the vote to leave the EU continues to have little impact on house prices. The latest house price data (latest, July 2017) for the North West reveals an average price of £157,427, an increase of 0.7% from the previous month, and growth of 4.9% from July 2016.
- **Commercial property:** This month's Monitor looks at industrial rents across the North West. Data from **Colliers International** shows that growth in office rents and land values has been greatest in Manchester and Warrington, while land values for large sites across the North West rose above those for small sheds and the premium on rents of small sheds over large sheds narrowed from 2012 to 2017.

## Economic inclusion

- **The total claimant count unemployment in the North West declined** by 0.4% in September 2017 (latest) compared to August 2017, now standing at 111,645, but is still 10% higher than the most recent low of 101,545 in December 2016.
- **The Household Finance Index for September 2017**, compiled by Markit Economics, **reveals that UK households experienced the strongest squeeze on finances for three years in the third quarter of 2017**. The average HFI reading in Q3 2017 was the weakest for 3 years. September data revealed a sharp deterioration in UK household finances, with rising living costs and subdued pay growth remaining key pressures on household finances, and the cash available for households to spend falling again sharply.

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# Macro-economic trends and developments

## Macro-economy

- **UK Economic growth rose from 0.2% in Quarter 1 to 0.3% in Quarter 2, however it still lagged behind its economic peers.** The OECD countries grew by 0.7% in Q2, led by Japan who posted GDP growth of 1.0%. Meanwhile, US GDP expanded by 0.6%, an increase that was matched by the Euro area, as Germany's economy grew by 0.6% and France expanded by 0.5%. Growth in the UK was supported by government spending and capital investment which helped to support economic activity in the face of weak growth in both household spending and business investment.<sup>(1,2)</sup>
- **UK labour productivity**, as measured by output per hour, is estimated to have fallen by 0.1% from Quarter 1 2017 to Quarter 2 2017. This follows a 0.5% decline in the first three months of the year. Over a longer time-period, labour productivity growth has been lower on average than before the economic downturn.<sup>(3)</sup>
- **The UK's deficit on trade in goods and services widened by £6.2 billion in the three months to August 2017 to £13.2 billion**, due to the impact of trade in aircraft, ships and precious metals. Termed 'erratic commodities', these can make a large contribution to trade in goods, but can mask underlying trends in export and import values due to their volatility. Excluding these, the deficit on trade in goods and services widened by £2.9 billion in the three months to August 2017 to £10.8 billion.<sup>(4)</sup>
- **EU trade: The UK was a net importer from the EU in August 2017, with imports exceeding exports by £8.1 billion.** EU Exports for August 2017 were £12.8 billion, a decrease of £0.6 billion (-4%) compared with July 2017, but an increase of £1.5 billion (+14%) compared with 12 months ago. EU Imports for August 2017 were £20.9 billion, unchanged from July 2017, but an increase of £2.0 billion (+10%) compared with a year ago.
- **Non-EU trade: The UK was a net importer in August 2017, with imports exceeding exports by £7.4 billion.** Non-EU Exports for August 2017 were £13.2 billion, a decrease of £3.5 billion (-21%) compared with July 2017, but an increase of £0.9 billion (+8%) compared with a year ago. Non-EU Imports for August 2017 were £20.6 billion, an increase of £2.3 billion (+12%) compared with July 2017, but a decrease of £1.9 billion (-9%) compared with a year ago.<sup>(5)</sup>

## Consumer sentiment

- **The Consumer Prices Index 12-month inflation rate, including owner occupiers' housing costs (CPIH), rose in August 2017 from 2.6% in July 2017 to match May's 5-year high of 2.7%.** Prices in all broad categories were higher in August 2017 than a year ago. Four categories showed their highest 12-month rate since 2012 or earlier: clothing and footwear; furniture and household goods; restaurants and hotels; and miscellaneous goods and services. Rising prices for clothing and motor fuels were the main contributors to the increase in August 2017, and the price of clothing and footwear saw its highest increase since 2006.<sup>(6)</sup>
- **Retail Sales (volume) in August 2017, increased by 1.0% compared with July 2017**, and by 2.4% compared with August 2016. This marked a 52<sup>nd</sup> consecutive month of year-on-year increase in retail sales volumes. Year-on-year contribution of food stores remains flat, whilst there was a fall in the contribution of growth from petrol stations.<sup>(7)</sup>

# Key sectors & business investment

## Business Investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, growth in business activity accelerated for a third consecutive month in the North West in September 2017, with the PMI rising to a five-month high of 55.7, up from 55.1 in August. This made the North West the third best performing region in the UK, behind Wales and Yorkshire & Humber.
- At the national level, the combined Manufacturing and Services PMI Index for England rose marginally in September to a four-month high of 54.6, up from 54.5 in August. Employment continued to rise in September as companies took on new staff to meet higher demand for goods and services, but the overall pace of job creation was slower than in August, with weaker employment growth in the North West contributing to this. Latest survey data also revealed further increases in prices across the country. Firms' costs rose steeply due to the weak pound, increasing commodity prices and salaries, which resulted in businesses raising average prices charged for goods and services at their fastest rate for five months.<sup>(8)</sup>

## CIPS Manufacturing PMI to end September 2017



## Manufacturing

- **The IHS Markit/CIPS UK Manufacturing PMI fell to 55.9 in September of 2017 from the reported 56.9 in August.** It came below market expectations but remains well above its long-run average of 51.7 (above 50 = growth). Output, new orders and employment rose while cost inflationary pressures grew amid rising commodity prices, a weaker pound and increased supply-chain pressures.<sup>(9)</sup>

## CIPS Services PMI to end September 2017



## Services

- **The IHS Markit/CIPS UK Services PMI Business Activity Index rose to 53.6 in September 2017 from an 11-month low of 53.2 in August.** The rate of job creation remained close to August's 19-month high while incoming new work expanded at the slowest pace since August 2016 and optimism towards the year ahead deteriorated. Input cost inflation reached a seven-month high and average prices charged by service sector firms continued to increase.<sup>(10)</sup>

# Trade, regulation and access to funding

## Trade, rules and regulatory developments

- The end of September was marked by the start of the Party Conference season and the keynote Brexit speech given by Prime Minister Theresa May in Florence. In the strongly anticipated speech, the Prime Minister set out the UK's position on how to move Brexit forward, and made reference to a transition period. This suggested two years (to 2021) as a transition, where existing 'rules' remain the same, including payments to the EU budget, free movement of people, and jurisdiction of the European Court of Justice stays in place.<sup>(11)</sup>
- **October saw Secretary of State for Exiting the European Union David Davis meeting with the Northern Combined Authority Mayors**, holding discussions with Andy Burnham, Steve Rotherham and Ben Houchen about the region's priorities for EU exit. The Secretary of State agreed that there would be ongoing Ministerial engagement with the Mayors, and to set up joint working groups assessing the implications of Brexit options for sector and businesses in the North, and examining the powers returning to the UK which could be devolved beyond Westminster. Speaking after the meeting, the Secretary of State, said:  
*"As we continue to make decisive steps towards our exit, we are committed to bringing all of the UK with us...The Combined Authorities play a crucial role in representing the priorities of our regions which is why I'm pleased that we are continuing to build a productive relationship with their Mayors."*<sup>(12)</sup>
- In early October MEPs voted to urge the EU not to open the next phase of Brexit talks unless there is a "major breakthrough". A motion in the European Parliament to back a delay in any decision over trade discussions was backed by 557 MEPs, with 92 against and 29 abstentions. The vote was not binding, but highlights the viewpoint the Prime Minister's Florence commitments must now translate into concrete proposals; that priority issues still remain on citizens' rights; and the viewpoint that there has not been enough progress on the UK's financial obligations, and the issue of the Irish/Northern Irish border.<sup>(13)</sup>
- The fifth round of negotiations began in Brussels on 9 October. Focusing on technical issues, it is the final set of talks before EU leaders meet on 19 October to decide if enough progress has been made to talk about post-Brexit relations with the UK, including trade.<sup>(14)</sup>

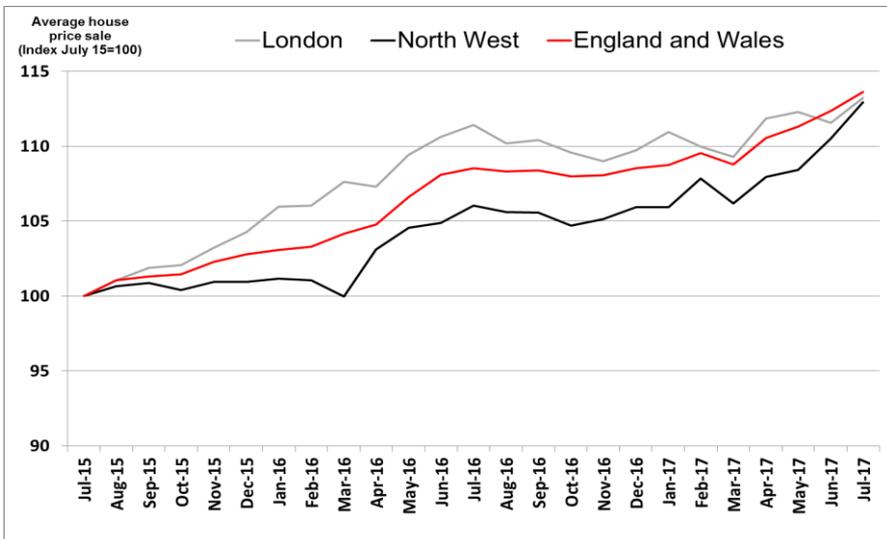
## European Funding

- The new Horizon 2020, the European £79bn R&D&I programme, will publish the next (and final) Work Programmes for 2018-2020 at the end of October. A number of info days and brokerage events will be running in Brussels and also the UK over the next few months. Horizon 2020 covers topics such as health, energy, ICT, smart cities, water, transport, opening science, blue innovative growth, innovation and investment, and social sciences and humanities.<sup>(15)</sup>

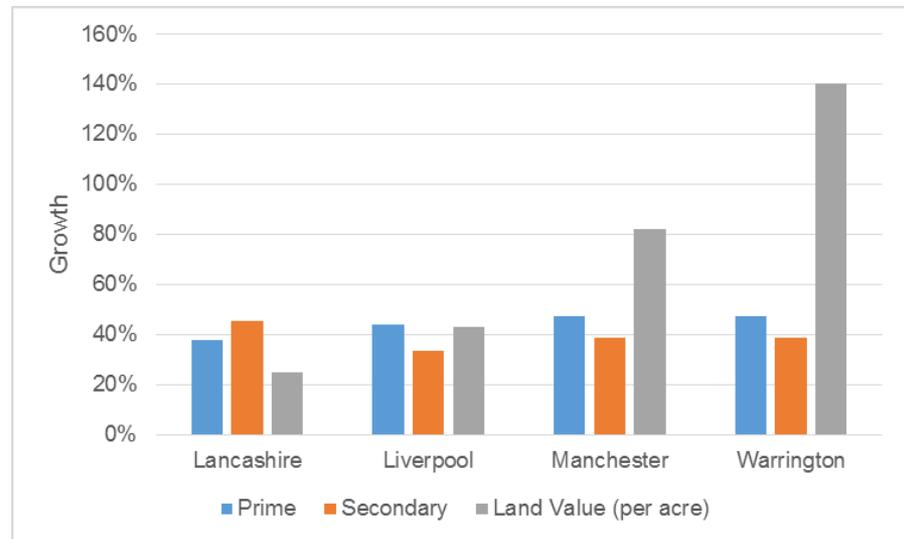
# Property and investment, housing, and planning

- **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 4.9% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at industrial rents across the North West. Data from **Colliers International** shows that growth in office rents and land values has been greatest in Manchester and Warrington, while land values for large sites across the North West rose above those for small sheds and the premium on rents of small sheds over large sheds narrowed from 2012 to 2017.

**Average House Prices Sales (Index July 2015=100)**



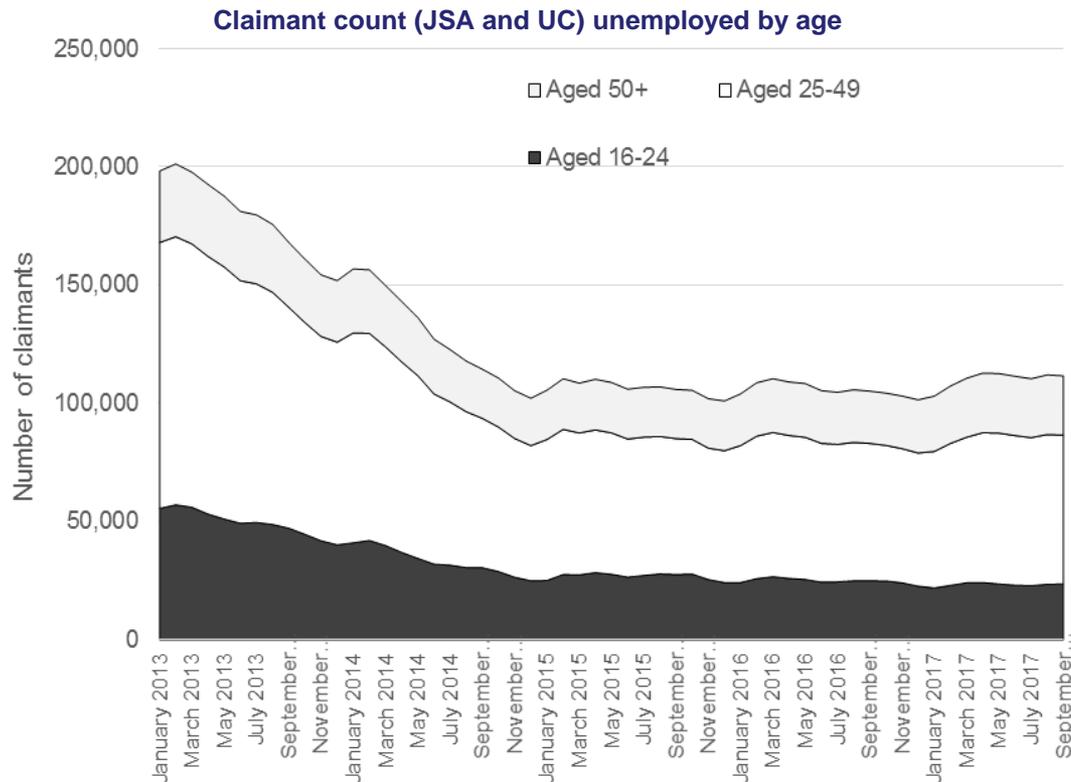
**Commercial Property, Industrial Rents Growth, 2012-H217**



- **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, July 2017) for the North West reveals an average price of £157,427, an increase of 0.7% from the previous month, and growth of 4.9% from July 2016.<sup>(16)</sup>
- Data from **Colliers International** shows that growth in industrial rents has been greatest in Manchester and Warrington, with prime rents per square feet in both regions rising by 47% from 2012 to H2-2017, and secondary rents rising by 38%. This outstripped growth of 44% prime and 33% secondary in Liverpool, and 38% prime and 48% secondary for Lancashire.
- Meanwhile, growth in industrial land value per acre rose 140% in Warrington, while land value rose by 82% in Manchester, and by 43% and 23%, respectively, in Liverpool and Lancashire.<sup>(17)</sup>

# 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 0.4% in September 2017 (latest) compared to August 2017, now standing at 111,645, but is still 10% higher than the most recent low of 101,545 in December 2016.** <sup>(18)</sup>
- **The Household Finance Index for September 2017**, compiled by Markit Economics, **reveals that UK households experienced the strongest squeeze on finances for three years in the third quarter of 2017.** The average HFI reading in Q3 2017 was the weakest for 3 years. September data revealed a deterioration in UK household finances, with rising living costs and subdued pay growth remaining key pressures on household finances, and the cash available for households to spend falling again sharply.<sup>(19)</sup>



## Monthly Unemployment by age of resident

- The claimant rate in September 2017 in the North West was 2.3% of the working age population, compared with 1.9% in the UK.
- Within the region the claimant rate varies from 2.8% in Liverpool CR, 2.6% in Greater Manchester, 2.1% in Lancashire, 1.5% in Cumbria, 1.3% in Cheshire and Warrington.
- Year-on-year (September 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region increased by 6.0% (6,345).
- The largest increase is observed in claimants aged **50+**, up 13.2% since September 2016 (2,920)
- The claimant count for **25 to 49 year olds** has also increased, by 8.2% from September 2016 (4,790).
- In contrast, the claimant count for **16-24 year olds** has decreased by 5.4% from September 2016 (-1,360).<sup>(20)</sup>

# Sources (1)

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