

North West Brexit Monitor

Key economic and policy developments

September 2017

Executive Summary

Headlines

- The September Monitor shows that the economy has remained robust up to quarter 3 of 2017, with manufacturers reporting stronger output despite the pressure of rising import prices. Although unemployment in the North West remains above pre-referendum levels, it continues to fall from its recent peak, while the property market remains buoyant. Further, although the latest data for UK services shows that the picture is perhaps becoming more mixed, with Purchasing Manager Index survey data for UK services firms showing the slowest growth rates in almost a year, and the fastest rate of input price inflation since February 2017, regional activity remains robust.
- The end of the month was marked by speeches given by Prime Minister Theresa May on Brexit, in Canada on 18 September which referred to the future transitioning of EU trade agreements into bilateral arrangements; and the key speech in Florence on 22 September in which the Prime Minister set out the UK's position on how to move Brexit forward. Here the PM made reference to a transition period - suggesting 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 the jurisdiction of the European Court of Justice would stay in place.
- The PM also highlighted that future trade deal would not be a 'Stark choice of two models', i.e. something based on European Economic Area membership, or a traditional Free Trade Agreement but an opportunity to be 'creative as well as practical in designing an ambitious economic partnership which respects the freedoms and principles of the EU, and the wishes of the British people.' However, the speech didn't give more details of exactly what that solution would be, but sets the tone for the forthcoming fourth round of talks between David Davis and EU officials in Brussels starting Monday 25 September.

Key sectors & business investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, growth in business activity accelerated for a second consecutive month in the North West in August 2017, with the PMI rising to a four-month high of 55.1, up from 54.7 in July.
- At the national level, the Lloyds Bank PMI for England rose marginally in August to a three-month high of 54.5, up from 54.4 in July. Moreover, the pace of job creation at the national level was the fastest seen for almost two years in August, with all regions recording higher employment except the North East. Yet, August survey data showed a further increase in inflationary pressures, with average prices charged for goods and services rising at the fastest rate for four months along with strong growth in businesses' costs.
- **The IHS Markit/CIPS Manufacturing PMI index was 56.9 in August 2017.** This was a four month high and its second highest level in over three years. All five PMI components – output, new orders, employment, suppliers' delivery and stocks of purchases – were consistent with stronger performance for the manufacturing industry over the last month.
- **The IHS Markit/CIPS Services PMI Index was 53.2 in August 2017,** whilst remaining above the 50.0 mark for the thirteenth consecutive month, growth within the sector was at its lowest level since September 2016 on the back of subdued client demand and heightened uncertainty about the domestic outlook. The latest survey also pointed to stronger cost pressures across services.

Executive summary

Terms of trade, regulation & access to funding

- The third round of Brexit talks took place in Brussels during the last week of August, where the ongoing dispute over the UK's financial settlement to leave the EU continued to be a key sticking point in negotiations. The EU remains committed to its stance that talks on a trade deal will only start after significant progress on the terms of separation have been agreed, while the UK continues to push for a more flexible approach to negotiations which would allow wider issues beyond citizens' rights, the financial settlement, and Northern Ireland to be addressed.
- MPs also began considering the general principles of the EU (Withdrawal) Bill at the Second Reading on September 7, with the first vote on September 11 passing by 326 votes to 290. When complete, the bill will overturn the 1972 European Communities Act which took the UK into the then European Economic Community, and convert all existing EU laws into domestic ones.

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.** The latest house price data (June 2017) for the North West reveals an average price of £156,394, an increase of 1.9% from the previous month, and growth of 5.4% from June 2016.
- **Commercial property:** This month's Monitor looks at demand in the logistics and industrial market. Research by **Knight Frank** finds an increase of 8% in take-up for H117 compared to H216, and 32% compared to H116, with headline rents expected to continue to rise in the latter part of 2017, albeit at a slowing rate.

Economic inclusion

- **Unemployment: The total claimant count unemployment for the North West declined in August 2017 (latest) but is still higher than that observed prior to the referendum result in June 2016,** increasing from 105,435 to nearly 111,720.
- **Household Finance: The Household Finance Index for August 2017,** compiled by Markit Economics, **reveals that household budgets continued to deteriorate sharply during August,** with elevated inflationary pressures contrasting with subdued pay growth. Despite this, however, it was also reported that concerns about job security were at their lowest levels since the end of 2015.

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Macro-economic trends and developments

Macro-economy

- **Economy: The second estimate of UK GDP growth for Q2 from ONS of 0.3% remains unchanged and marks a slight uplift from the 0.2% growth recorded in Q1.** Government spending and capital investment have helped to keep the economy buoyant. This investment has compensated for weak growth in household spending, which slowed from 0.4% in Q1 to just 0.1% in Q2, and business investment, which was flat in Q2.⁽¹⁾
- **Trade: The UK's deficit on trade in goods and services widened by £0.4 billion in the three months to July 2017 to £8.6 billion,** driven primarily by lower exports and higher imports of finished manufactured goods with non-EU countries. Export and import prices of goods fell over the 3 months to July 2017, contributing to a more modest increase in trade values compared with a larger increase in trade volumes. Between June and July 2017, the UK's total trade deficit remained unchanged at £2.9 billion. However, downward revisions of £0.6 billion to imports of goods and £0.9 billion to imports of services, and an upward revision of £0.3 billion to total trade exports resulted in a downward revision of £1.7 billion to the previously published trade deficit figure for June 2017.⁽²⁾
- **EU trade: The UK was a net importer from the EU in July 2017, with imports exceeding exports by £7.6 billion.** EU Exports for July 2017 were £13.3 billion, a decrease of £1.2 billion (8 per cent) compared with June 2017, but an increase of £1.4 billion (12 per cent) compared with 12 months ago. EU Imports for July 2017 were £20.9 billion, an increase of £1.5 billion (36 per cent) compared with June 2017, but an increase of £1.4 billion (7 per cent) compared with a year ago.
- **Non-EU trade: The UK was a net importer in July 2017, with imports exceeding exports by £1.7 billion.** Non-EU Exports for July 2017 were £16.7 billion, an increase of £2.9 billion (21 per cent) compared with June 2017, and an increase of £4.7 billion (39 per cent) compared with a year ago. Non-EU Imports for July 2017 were £18.3 billion, a decrease of £1.0 billion (5 per cent) compared with June 2017, and a decrease of £1.8 billion (9 per cent) compared with a year ago.⁽³⁾

Consumer sentiment

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.6% in July, unchanged from June 2017.** Over the last month, falling fuel prices were offset by rising costs across a range of goods and services, including clothing, household goods, gas and electricity, and food and non-alcoholic beverages.⁽⁴⁾
- **Retail sales: Retail sales volumes rose by 0.3% in July 2017, on the back of strong sales growth in food stores,** which recovered from a fall of 1.1% in June 2017 to expand by 1.5%. However, sales in all other sectors except food and household goods declined in July. The underlying pattern, (3-month on 3-month change) showed overall growth of 0.6% up to July 2017.⁽⁵⁾

Key sectors & business investment

Business Investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, growth in business activity accelerated for a second consecutive month in the North West in August 2017, with the PMI rising to a four-month high of 55.1, up from 54.7 in July.
- At the national level, the PMI for England rose marginally in August to a three-month high of 54.5, up from 54.4 in July. Moreover, the pace of job creation at the national level was the fastest seen for almost two years in August, with all regions recording higher employment except the North East. Yet, August survey data showed a further increase in inflationary pressures, with average prices charged for goods and services rising at the fastest rate for four months along with strong growth in businesses' costs.⁽⁶⁾

CIPS Manufacturing PMI – June 2007 to June 2017



Manufacturing

- **The IHS Markit/CIPS Manufacturing PMI Index was 56.9 in August 2017.** This was a four month high and its second highest level in over three years. All five PMI components – output, new orders, employment, suppliers' delivery and stocks of purchases – showed stronger performance for the manufacturing industry last month.⁽⁷⁾

CIPS Services PMI – June 2007 to June 2017



Services

- **The IHS Markit/CIPS Services PMI Index was 53.2 in August 2017.** Whilst remaining above the 50.0 mark for the thirteenth consecutive month, growth within the sector was at its lowest level since September 2016 on the back of subdued client demand and heightened uncertainty about the domestic economic outlook. The latest survey also pointed to stronger cost pressures across the service sector, with the rate of input price inflation the fastest since February.⁽⁸⁾

Trade, regulation and access to funding

Trade, rules and regulatory developments

- The third round of Brexit talks took place in Brussels during the last week of August. The EU remains committed to its stance that talks on a trade deal will only start after significant progress on the terms of separation have been agreed, while the UK continues to push for a more flexible approach to negotiations which would allow wider issues beyond citizens' rights, the financial settlement, and Northern Ireland to be addressed. Some progress was made, however, on the status of frontier workers, who travel cross-border weekly or monthly for work; the immunities and privileges of EU and UK public officials after Brexit; and the confidentiality rules around shared documents.⁽⁹⁾
- The Government appears to be seeking a transitional arrangement for the period immediately following the UK exit from the EU⁽¹⁰⁾. The Financial Times has suggested that *"the transition is essential to breaking the deadlock on the first phase of talks, offering Britain assurances about the future that may allow it to make commitments on a financial settlement"*.⁽⁹⁾
- MPs also began considering the general principles of the EU (Withdrawal) Bill at the Second Reading on September 7, with the first vote on September 11 passing by 326 votes to 290. When complete, the bill will overturn the 1972 European Communities Act which took the UK into the then European Economic Community, and convert all existing EU laws into domestic ones.⁽¹¹⁾

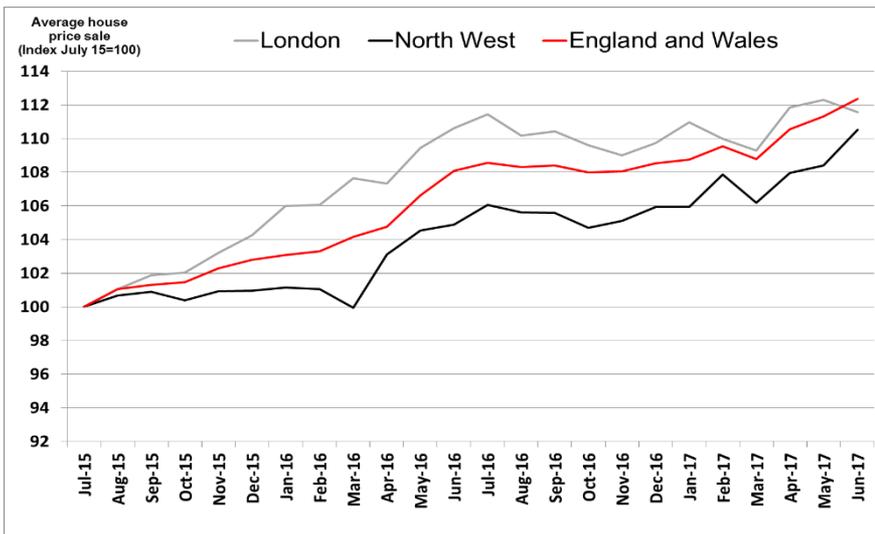
European Funding

- On 6 September, the UK government published the paper: *Collaboration on science and innovation: a future partnership*⁽¹²⁾ setting out the science research collaboration programmes and initiatives that the UK will seek to continue participating in after Brexit. This includes the EU Framework Programme for Research and Innovation. The UK will seek to secure a similar status as other non-EU members such as Switzerland, Norway, Turkey, or Israel, that participate in the programme as an associate member, but with no voting rights in the committees responsible for developing the programme.
- On the current EU Framework Programme, Horizon 2020, Minister Jo Johnson provided further clarity on 18 July. Until now, UK Government has only guaranteed to underwrite funding of successful bids contracted before the EU exit. This guarantee to Horizon 2020⁽¹³⁾ funding has now been extended to applications submitted before the UK's departure from the EU and that are subsequently successful post-Brexit. This also applies to 2-stage applications when stage 2 takes place post-Brexit. This means that UK applicants can submit applications for the Horizon 2020 Work Programme for 2018-2020 up until 29 March 2019.
- The European Commission has announced the latest Northwest Europe Interreg call for stage 1 applications with a deadline on 17 November. The ESIF Science and Commercialisation call⁽¹⁴⁾ will close on 31 October 2017. The Sustainable Urban Development call⁽¹⁵⁾ had its first review point on 31 July. The next review point is 30 September. The final deadline will be 31 October. The final Business Support call for funding will be released in November 2017.

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.**
- **Commercial property:** This month's Monitor looks at demand in the logistics and industrial market. Research by **Knight Frank** finds an increase of 8% in take-up for H117 compared to H216, and 32% compared to H116, with headline rents expected to continue to rise in the latter part of 2017, albeit at a slowing rate.

Average House Prices Sales (Index July 2015=100)



Q217 Prime Headline Rents (£/sq ft)

Market	<20,000 sq ft	20,000-50,000 sq ft	50,000+ sq ft
Manchester	£7.00 ↑	£6.75 ↑	£6.25 ↔
Warrington	£6.50 ↑	£6.00 ↑	£6.25 ↔
Liverpool	£6.00 ↑	£5.50 ↔	£5.50 ↔

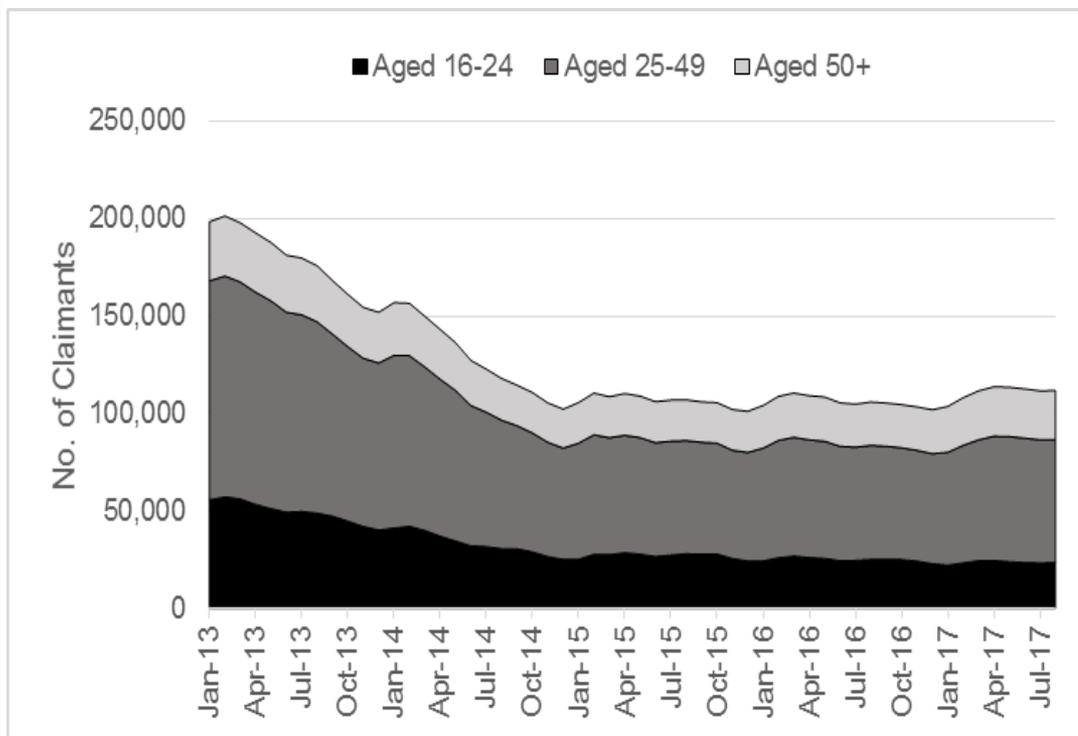
Arrows indicate movement expected to Q218

- **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 (June 2017) for the North West reveals an average price of £156,394, an increase of 1.9% from the previous month, and growth of 5.4% from June 2016.⁽¹⁶⁾
- Research from **Knight Frank** shows that the North West saw strong take-up of logistics and industrial space in H1 2017, compared with both the previous six months and the same period last year. A total of 2.52m sq ft of units above 50,000 sq ft was transacted during H1 2017, up 8% on the level of transactions in H2 2016 and 32% up on transactions in H1 2016.
- **Knight Frank** anticipate continued rental growth, albeit at a slowing rate, mainly due to supply constraints, and given the limited supply of new build space, continued strong demand for good quality second hand space is projected.⁽¹⁷⁾

Economic Inclusion

- **Unemployment: The total claimant count unemployment in the North West declined in August 2017 (latest) but is still higher than that observed prior to the referendum result in June 2016**, increasing from 105,435 to nearly 111,720. The August figure represents an increase of 0.1% from July 2017, and a 5.6% increase from August 2016, but a decrease of 1.8% from the recent peak claimant count recorded in April 2017, which stood at 113,710.⁽¹⁸⁾
- **Household Finance: The Household Finance Index for August 2017**, compiled by Markit Economics, **reveals that household budgets continued to deteriorate sharply during August**, with elevated inflationary pressures contrasting with subdued pay growth. However, it was also reported that concerns about job security were the least widespread since the end of 2015. Nevertheless, households expected a worsening in finances over the next 12 months; and the lowest proportion of survey respondents expected a rise in interest rates on a one-year horizon since August 2016.⁽¹⁹⁾

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- The claimant rate in August 2017 in the North West was 2.5% of the working age population, compared with 1.9% in the UK.
- Within the region the claimant rate varies from 3.1% in Liverpool CR, 2.6% in Greater Manchester, 2.4 in Lancashire, 1.8% in Cumbria, and 1.5% in Cheshire and Warrington.
- Year-on-year (August 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region increased by 5.6% (5,885).
- The largest increase is observed in claimants aged **50+**, up 13.7% since August 2016 (3,060)
- The claimant count for **25 to 49 year olds** has also increased, by 7.6% from August 2016 (4,430).
- In contrast, the claimant count for **16-24 year olds** has decreased, by 6.4% from August 2016 (-1,600).⁽²⁰⁾

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