

# **North West Brexit Monitor**

Key economic and policy developments

July 2017

# Executive Summary

## Headlines

- **The July Monitor comes after 12 months since the referendum vote to leave the EU.** In the first nine months following the referendum vote the UK's economy held up well, with data from UK manufacturers and the service sector both recording strong growth. However, the last three Brexit Monitor's have shown mixed signs, with UK firms still reporting growth, but at a much slower rate than the data for the previous 12 months. Leading indicators such as manufacturing activity and business sentiment are starting to weaken, which suggests that lagging indicators such as unemployment may be set to follow going forward.
- **Office for National Statistics data shows that the UK economy slowed during Q1 of 2017, with GDP growth of 0.2%.** This places the UK within the group of weakest performers of advanced economies during the first part of the year. Meanwhile, financial markets are expecting the Bank of England to raise interest rates for the first time in a decade by the end of 2017 as inflation rises, despite the brief drop in inflation in June due to falling prices.
- Further challenges are shown in official **productivity data published in July by the ONS, with the UK falling back to below the level it was at in 2007.** Output per hour posted its first quarterly decline since the end of 2015 in Q1 2017, falling by 0.5 per cent. Rising inflation and a decline in real wages, which lagged inflation during May, have resulted in a reduction in the amount people have to spend, and suggests that future consumer spending will slow considerably over the next year.

## Key sectors & business investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, although business activity continued to expand in the North West in May 2017 (index figures over 50 indicate growth), the rate of expansion slowed for a third month in a row, with the regional PMI measure falling to a nine-month low of 53.8, down from 54.3 in May. In comparison, at the national level, business activity in England and the UK continued to grow in May, although the rate of expansion slowed to a nine-month low. Meanwhile, the Lloyds survey highlighted that businesses continued to face strong cost pressures, linked partly to rising wage bills and the weak pound.
- **The IHS Markit/CIPS Manufacturing Purchasing Managers Index (PMI)** – a leading indicator of sentiment, based on questionnaire responses – **came in at a three month low of 54.3 in June 2017** (an Index of 50+ equals growth). The latest survey pointed to a broad-based slowdown, as growth of new business slowed in both the domestic and export markets.
- **The headline IHS Markit/CIPS Services PMI Business Activity Index came in at 53.4 in June 2017;** whilst remaining above the 50.0 mark for the eleventh consecutive month, business optimism in the services sector is at its weakest since December 2011.

# Executive summary

## Terms of trade, regulation & access to funding

- Following the general election held on June 8, negotiations on the terms of the UK leaving the EU officially began in Brussels on 19 June 2017. Prime Minister, Theresa May, confirmed that a bill will be introduced to repeal the European Communities Act during the Queen's Speech on 21 June 2017. The PM stated that the Government will "seek to maintain a deep and special partnership with European allies and to forge new trading relationships across the globe". The European Union (Withdrawal) Bill 2017-19 was published (first reading) on July 13.

## 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**, with moderate growth in average residential prices since June 2016. The latest house price data (April 2017) for the NW reveals an average price of £152,765, an increase of 1.7% from the previous month, and growth of 4.7% from April 2016.
- **Commercial property:** This month's Monitor looks at the UK's industrial and logistics market. Research by **Cushman & Wakefield** has acknowledged the resilience of the industrial and logistics property sectors despite the uncertainty of the Brexit negotiations, projecting the sector to outperform office and retail.

## Economic inclusion

- **Unemployment:** **The total claimant count unemployment in the North West declined in June 2017 (latest) but is still higher than that observed prior to the referendum result in June 2016**, increasing from just over 105,000 to nearly 112,000 (5.9%). This represents a decline of 1.8% from peak claimant count in April 2017 which stood at nearly 114,000.
- **Household Finance:** **The Household Finance Index for June 2017**, compiled by Markit Economics, **signalled that UK households experienced a sharp deterioration in household finances in June against a backdrop of steep rises in living costs.**

## More information

- For more information on the data and sources used in the Brexit Monitor please refer to the annex, or contact:

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# Macro-economic trends and developments

## Macro-economy

- **Macro: GDP growth was confirmed at just 0.2 per cent during the first three months of 2017**, making the UK the weakest performer among advanced economies; the weak Q1 figure followed growth of 0.5 per cent and 0.7 per cent, respectively, in the previous two quarters. The slowdown in the first three months of the year was driven by a slowdown in consumer services, largely as a result of the weaker pound.<sup>(1)</sup>
- **Trade: The total trade deficit (goods and services) widened from £6.9 billion to £8.9 billion in the three-month period from March to May 2017**, driven by increased imports of transport equipment (cars, aircraft, and ships), oil, and electrical machinery from non-EU countries, and a fall in the exports of services during the period. This followed a narrowing in the previous 3-month period of December 2016 to February 2017. Meanwhile, the deficit for Quarter 1 (Jan to Mar) 2017 has been revised down to £8.8 billion.<sup>(2)</sup>
- **EU Trade: The UK was a net importer in EU trade during May, with imports exceeding exports by £7.1 billion.** EU Exports for May 2017 were £13.7 billion, an increase of £1.3 billion (11 per cent) compared with April 2017, and an increase of £2.3 billion (20 per cent) compared with May 2016.
- **Non-EU Trade: The UK was a net importer in non-EU trade during May, with imports exceeding exports by £3.7 billion.** Non-EU Exports for May 2017 were £15.7 billion, an increase of £1.6 billion (11 per cent) on April 2017, and an increase of £3.6 billion (30 per cent) compared with May 2016.<sup>(3)</sup>

## Consumer sentiment

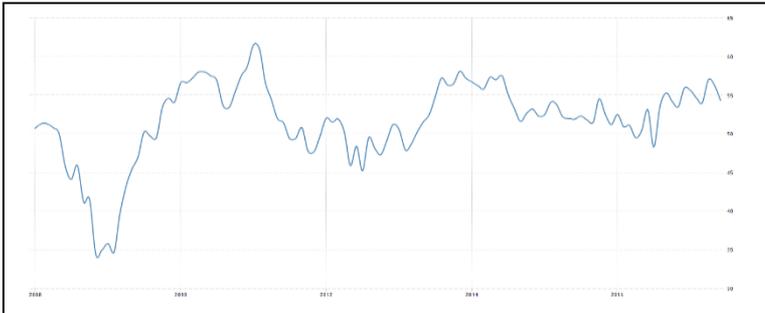
- **Prices: Financial markets are expecting the Bank of England to raise interest rates for the first time in a decade by the end of 2017 as inflation continues to increase** following a period of relatively low inflation in 2015. The Consumer Price Index including owner occupiers' housing costs 12-month inflation reached its highest level since April 2012 in May 2017, climbing to 2.7% up from 2.6% in April.<sup>(4)(5)</sup>
- **Retail sales: Retail sales volumes rose at their fastest rate since April 2013 in May 2017, increasing by 0.9% compared with May 2016.** The underlying pattern, as measured by the 3-month on 3-month change showed growth of 0.6% in May 2017. Meanwhile, average store prices (excluding fuel) increased by 2.8% on the year; this was the largest growth since March 2012.<sup>(6)</sup>
- **Household Borrowing: Strong growth in consumer credit has further added to expectations that the next move in interest rates from the BoE will be a hike.** Although growth in mortgage debt – which remains by far the largest single component of household debt – was stable in May, consumer credit grew above expectations in the 12 months to May, expanding by 10.3 per cent. The BoE has warned that consumer credit is outpacing household income growth, and is high by historical standards.<sup>(7)</sup>
- **Household Debt: UK households have responded to a tight squeeze on incomes from rising inflation, taxes, and falling wages by saving less. The saving ratio fell to 1.7 per cent in Q1 of 2017 - the lowest savings ratio since records began in 1963.**<sup>(8)</sup>

# Key sectors & business investment

## Business Investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, although business activity continued to expand in the North West in May 2017 (index figures over 50 indicate growth), the rate of expansion slowed for a third month in a row, with the regional PMI falling to a nine-month low of 53.8, down from 54.3 in May.
- At the national level, business activity in England and the UK continued to grow in May, although the rate of expansion slowed to a nine-month low. Meanwhile, the Lloyds survey highlighted that businesses continued to face strong cost pressures, linked partly to rising wage bills and the weak pound.<sup>(9)</sup>

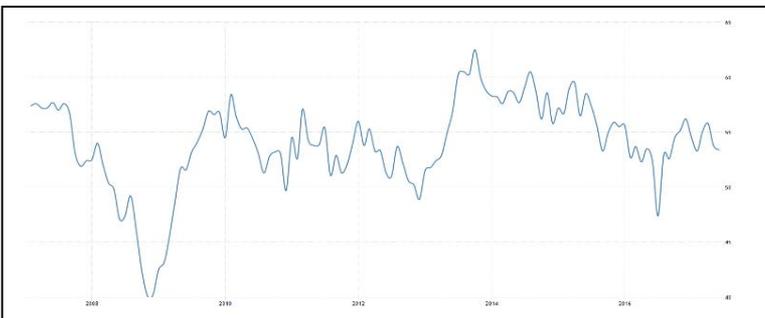
## CIPS Manufacturing PMI – June 2007 to June 2017



## Manufacturing

- **The seasonally adjusted IHS Markit/CIPS Manufacturing PMI came in at a three month low (54.3 in June 2017)**, compared with 56.3 in May 2017. Although, June saw manufacturers report further expansions of both production and new order volumes, the latest survey pointed to a broad-based slowdown, as growth of new business slowed in both the domestic and export markets.<sup>(10)</sup>

## CIPS Services PMI – June 2007 to June 2017



## Services

- **The headline IHS Markit/CIPS Services PMI Business Activity Index came in at 53.4 in June 2017.** Whilst remaining above the 50.0 mark for the eleventh consecutive month, business optimism in the services sector is at its weakest since December 2011. Growing concern around political uncertainty, Brexit negotiations, and general concerns about the economic outlook were cited as reasons for this.<sup>(11)</sup>

# Trade, regulation and access to funding

## Trade, rules and regulatory developments

- Following the general election held on June 8, negotiations on the terms of the UK leaving the EU officially began in Brussels on 19 June 2017. The European Union (Withdrawal) Bill 2017-19 was published (first reading) on July 13.
- The Government is continuing to debate whether a transitional arrangement should be negotiated in the period immediately following the UK exit from the EU. Chancellor of the Exchequer, Philip Hammond, has urged the Government to negotiate an early transitional arrangement that “allows the complex supply chains and business relationships that criss-cross our continent to continue to deliver value”. However, Brexit Secretary, David Davis, has insisted that the UK would be fully outside of the customs union and single market by March 2019.<sup>(12)</sup>
- The EU’s chief Brexit negotiator, Michel Barnier, has stated that he hopes to finalise the terms of the UK’s separation from the EU by the Autumn, but has made clear this would require “rapid and sufficient progress” on citizen rights, Northern Ireland, and a financial settlement. To date, the UK has only produced a position paper on citizen rights, while the EU has issued positions covering all aspects of the separation.<sup>(13) (14)</sup>

## European Funding

- A morning workshop for applicants of the Northwest Europe (NWE) Interreg Programme is being hosted in Manchester on 12 September. The programme will launch its 6th call for projects on 16 October. NWE funds transnational collaborations on the areas of: research and innovation, low carbon and resource efficiency.<sup>(15)</sup> September and October 2017 will also see the launch of a number of other European calls including the Urban Innovation Actions, URBACT and the H2020 Work Programme for 2018-20.

## Brexit timeline



**23 June 2016**

- The UK holds a referendum on its membership to the EU



**24 June 2016**

- Voters chose to leave the EU by a **52%-48%** margin
- Prime Minister David Cameron announces his resignation



**13 July 2016**

- Theresa May is appointed Prime Minister
- She names David Davis as Brexit Secretary



**27 July 2016**

- The European Commission appoints Michel Barnier as EU Brexit negotiator



**29 March 2017**

- The UK officially triggers Article 50 to leave the EU



**19 June 2017**

- UK and EU negotiators open Brexit talks in Brussels



**October 2018**

- Deadline for final deal on Brexit



**28 March 2019**

- The ratification process of the deal must be completed



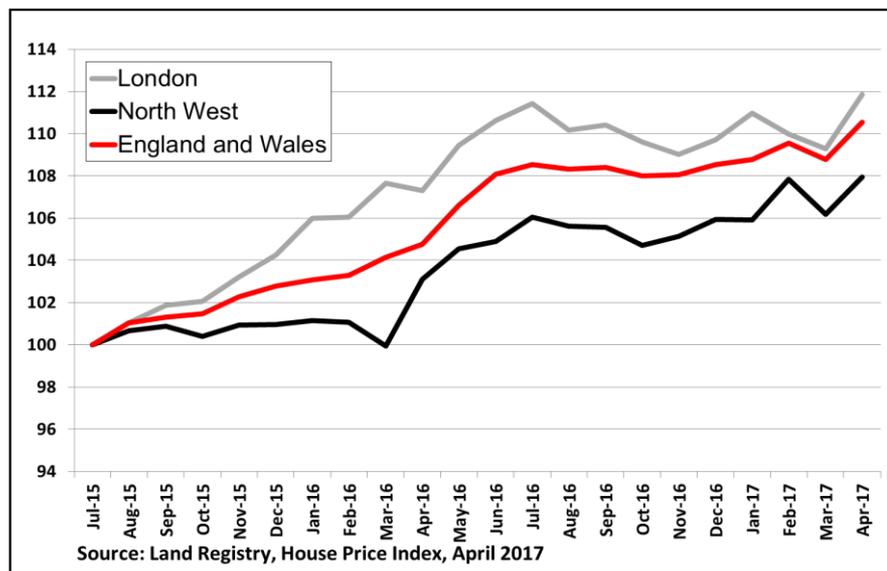
**29 March 2019**

- The UK is expected to exit the EU

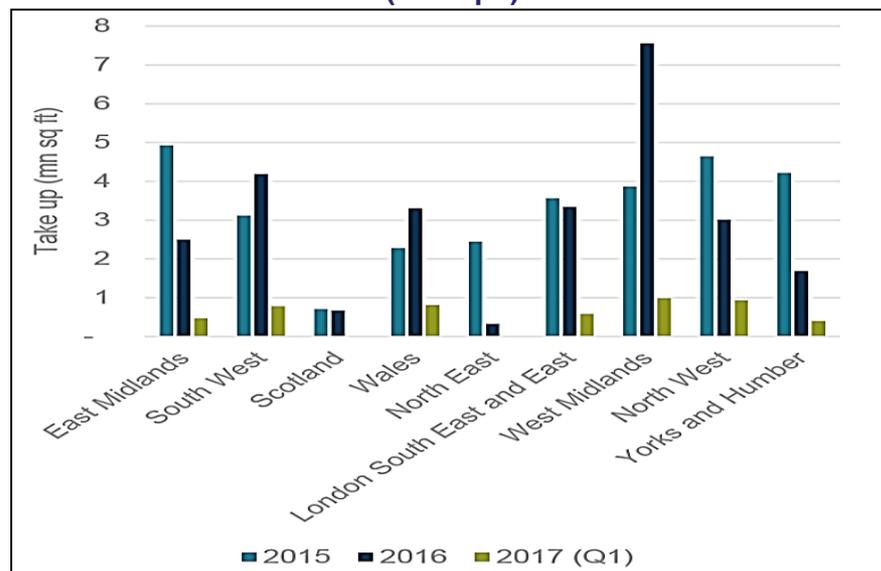
# Property and investment, housing, and planning

- **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 the UK's industrial and logistics market. Research by **Cushman & Wakefield** has acknowledged the resilience of the industrial and logistics property sectors despite the uncertainty of the Brexit negotiations, projecting the sector to outperform office and retail. Underpinning this resilience are strong performing trends in exports and e-commerce which are driving demand for commercial space.<sup>(16)</sup>

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



**Commercial Property – quarterly industrial & logistics take-up (mn sq ft)**

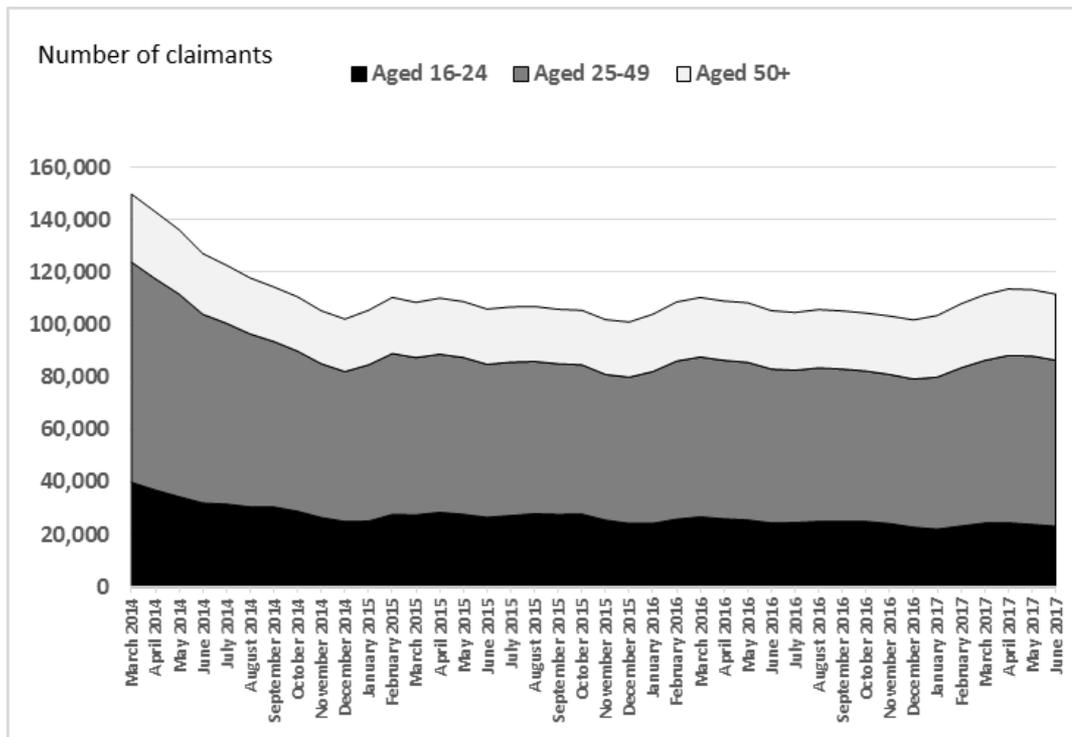


- **Housing Index** data from the Land Registry suggest the vote to leave the EU continues to have little impact on house prices, with moderate growth in average residential prices this period.
- The latest house price data (April 2017) for the NW reveals an average price of £152,765, an increase of 1.7% from the previous month, and growth of 4.7% from April 2016.<sup>(17)</sup>
- Data from **Cushman & Wakefield** shows that the North West had the highest industrial and logistics take up (mn sq ft) in Q1 2017, after the West Midlands. This came despite a calming in the overall market for quarterly take-up by all grades, with Q1 2017 down 0.7% compared to Q1 2016.<sup>(16)</sup>

# Economic Inclusion

- **Unemployment:** The total claimant count unemployment in the North West declined in June 2017 (latest) but is still higher than that observed prior to the referendum result in June 2016, increasing from just over 105,000 to nearly 112,000. This represents a decline of 1.8% from peak claimant count in April 2017 which stood at nearly 114,000. <sup>(18)</sup>
- **Household Finance:** The Household Finance Index for June 2017, compiled by Markit Economics, signalled that UK households experienced a sharp deterioration in household finances in June against a backdrop of rising living costs. <sup>(19)</sup>

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- The claimant rate in June 2017 in the North West was 2.5% of the working age population, compared with 2.0% 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 1.4% in Cheshire and Warrington. <sup>(20)</sup>
- Year-on-year (June 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region increased by 5.9% (6,270).
- The largest increase is observed in claimants aged **50+**, up 12.9% since June 2016 (2,875)
- The claimant count for **25 to 49 year olds** has also increased by 7.9% from June 2016 (4,625).
- In contrast, the claimant count for **16-24 year olds** has decreased by 5.3% from June 2016 (-1,225).

# Sources (1)

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<b>Business Investment</b>	<ol style="list-style-type: none"><li>9. Lloyds Bank (10 June 2017): “Business activity rises on the back of stronger demand for goods and services” <a href="http://www.lloydsbankinggroup.com/Media/Press-Releases/press-releases-2017/lloyds-bank/england-sees-economy-lose-growth-momentum-at-end-of-second-quarter/">http://www.lloydsbankinggroup.com/Media/Press-Releases/press-releases-2017/lloyds-bank/england-sees-economy-lose-growth-momentum-at-end-of-second-quarter/</a></li><li>10. Markit/CIPS UK Manufacturing PMI: “UK manufacturing growth slows at end of second quarter” (03 July 2017) <a href="https://www.markiteconomics.com/Survey/PressRelease.mvc/5c12cda5843a4817a8028785232865dd">https://www.markiteconomics.com/Survey/PressRelease.mvc/5c12cda5843a4817a8028785232865dd</a></li><li>11. Markit/CIPS UK Services PMI: “Slower rise in service sector activity” (05 July 2017) <a href="https://www.markiteconomics.com/Survey/PressRelease.mvc/70057b6e5aea4629b5157589b0f97f21">https://www.markiteconomics.com/Survey/PressRelease.mvc/70057b6e5aea4629b5157589b0f97f21</a></li></ol>

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<b>Investment, housing, property and planning</b>	<p>16. Cushman &amp; Wakefield (15 June 2017): UK Industrial and Logistics Market Outlook Spring 2017 <a href="http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/2017/industrial-and-logistics-report/">http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/2017/industrial-and-logistics-report/</a></p> <p>17. UK Land Registry (April 2017): House Price Index Database, accessed 31 May 2017 <a href="https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads">https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads</a></p>
<b>Economic Inclusion</b>	<p>18. ONS (2017): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), June 2017 <a href="https://www.nomisweb.co.uk">https://www.nomisweb.co.uk</a></p> <p>19. IHS Markit (June 2017): Household Finance Index – Higher living costs continue to squeeze household finances in June <a href="https://www.markiteconomics.com/Survey/PressRelease.mvc/da28b8529f224b8593a1b2aa540f4fc4">https://www.markiteconomics.com/Survey/PressRelease.mvc/da28b8529f224b8593a1b2aa540f4fc4</a></p> <p>20. ONS (2017): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), June 2017 <a href="https://www.nomisweb.co.uk">https://www.nomisweb.co.uk</a></p>