

# North West Brexit Monitor

Key economic and policy developments

June 2017

# Executive Summary

## Headlines

- **The recent gap seen between buoyant economic surveys and weak official data on the UK economy appears to be starting to close.** Economic growth for Quarter 1 of 2017 was revised down from 0.3% to 0.2%, while both the services and manufacturing purchasing managers' indexes - despite still indicating growth - fell in May 2017. There are continued signs that the prices of goods are rising. **The Consumer Prices Index climbed to 2.7% in May 2017, its highest level since June 2013, up from 2.6% in April.**
- Almost one year on from the referendum, negotiations have commenced between David Davis, and Michel Barnier over the UK's future relationship with the EU. The UK appears to have accepted the EU's position that there must be substantial progress on the terms of the exit (including 'Brexit Bill') before talks can commence on the terms of a new trade arrangement. The most immediate points to be discussed include the status of UK and EU citizens living abroad, and Northern Ireland's relationship with the EU.
- The Queen's speech also set out the legislative programme for the next two years. Much of the speech was dedicated to provisions around Brexit, including new bills on trade, customs and repeal of legislation. Technology provisions also covered matters such as data protection, electric cars, commercial satellites, space bases and HS2. Finally, the unanimously popular provision on banning unfair tenant fees was included together with proposals on house building and housing market transparency.
- Further mention was made on Brexit by UK Chancellor Philip Hammond in his annual speech at the Mansion House confirming that he is seeking a lengthy transitional period after Brexit, which would extend Britain's current customs arrangements with the EU.

## 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 second month in a row, with the regional PMI falling to a three-month low of 54.3, down from 56.5 in April.
- At the national level, business activity in England and the UK continued to grow in May, although the rate of expansion fell to a three-month low. That said, the Lloyds survey highlighted the fact that all regions saw a rise in staffing levels as firms took on additional staff to meet rising demand
- **The IHS Markit/CIPS Manufacturing Purchasing Managers Index (PMI)** – a leading indicator of sentiment, based on questionnaire responses – **came in at 56.7 in May 2017**, below April's three-year high of 57.3, (an Index of 50+ equals growth). Output and new order growth remained solid and the rate of job creation rose to the highest since June 2014. **The headline IHS Markit/CIPS Services PMI Business Activity Index fell to 53.8 in May 2017** from a four-month high of 55.8 in April.

# Executive summary

## Terms of trade, regulation & access to funding

- When Britain formally leaves the EU in 2019, it will not only be direct arrangements with the EU that cease to be valid - by law, Britain will also be excluded from EU arrangements with “third countries”. According to Financial Times research of the EU treaty database, this amounts to 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to Britain, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. Whilst there have been no details of Brexit negotiations published this month, the monitor looks at these EU bilateral agreements, as well as non-tariff ‘barriers’ to trade.

## Property investment, housing and planning

- **Housing Index** data from the Land Registry suggest the vote to leave the EU has had little impact on house prices, with moderate growth in average residential prices this period. The latest house price data (March 2017) for the North West reveals an average price of £150,250, a decrease of 1.6% from the previous month, and growth of 6.2% from March 2016
- **Commercial property:** This month’s Monitor focuses on supply of land for industrial development. Research by **Savills** highlights that a total of 1,400 acres of land that could accommodate new industrial units of more than 100,000 sq ft is currently being promoted for development in the North West. 41% (570 acres) of the total is on what are classified as prime logistics sites across the region.
- **The total claimant count unemployment in the North West has continued to increase in April 2017 (latest) and is higher than that observed prior to the referendum result in June 2016**, increasing from just over 105,000 to just over 113,000 (7.5%). This is the highest increase in the claimant count since the referendum result.
- **Household Finance: The Household Finance Index for April 2017**, compiled by Markit Economics, **signalled that UK households experienced sharply rising living costs against a backdrop of subdued pay growth in May**, which contributed to a sustained squeeze on financial wellbeing. Recent pressures on UK consumer finances have been the sharpest for almost three years.

## 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: Economic growth for Quarter 1 (Jan to Mar) 2017 was revised down from 0.3% to 0.2%. This marked the first time in a year that UK growth failed to outpace that of the euro area.** Slower growth was driven by a bigger than expected slowdown in consumer services, largely as a result of the weaker pound. However, the timing of Easter may also have been a factor in the slowdown, with official data showing a rebound in consumer activity during April.<sup>(1)</sup>
- **Trade: Quarter 1 (Jan to Mar) 2017 saw the deficit on trade in goods and services widen by £5.7 billion compared to the Quarter 4 (Oct to Dec) 2016, to £10.5 billion.** Between February and March 2017, the UK's total trade deficit widened by £2.3 billion to £4.9 billion, contributing nearly half of the quarterly deficit. The main causes of the widening deficit were increased imports of machinery and transport equipment (mainly mechanical machinery and cars), oil and chemicals. These commodities also contributed the most to the increase in imports in March 2017.<sup>(2)</sup>
- **EU trade: The UK was a net importer in March 2017 from the EU, with imports exceeding exports by £9.0 billion.** EU Exports for March 2017 were £15.3 billion, an increase of £2.5 billion (19 per cent) compared with February 2017, and an increase of £3.2 billion (26 per cent) compared with 12 months ago. EU Imports for March 2017 were £24.3 billion, an increase of £3.6 billion (17 per cent) compared with February 2017, and an increase of £4.0 billion (20 per cent) compared with a year ago.
- **Non-EU trade: The UK was a net importer in March 2017, with imports exceeding exports by £5.3 billion.** Non-EU Exports for March 2017 were £16.1 billion, an increase of £1.8 billion (13 per cent) compared with February 2017, and an increase of £3.6 billion (28 per cent) compared with a year ago. Non-EU Imports for March 2017 were £21.4 billion, an increase of £4.0 billion (23 per cent) compared with February 2017, and an increase of £1.8 billion (9.4 per cent) compared with a year ago.<sup>(3)</sup>

## Consumer sentiment

- **Prices: The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate climbed to 2.7% in May 2017, its highest level since June 2013, up from 2.6% in April.** Rising prices for recreational and cultural goods and services (particularly games, toys and hobbies) was the main contributor to the increase in the rate. There were also smaller upward contributions from increased electricity and food prices. These upward contributions were partially offset, however, by falls in motor fuel prices, and air and sea fares, the latter two influenced by the timing of Easter in April this year.<sup>(4)</sup>
- **Retail Sales: The 3 months to April 2017 showed a slight uptick in retail sales of 0.3%. This marked the first increase for the underlying 3 month-on-month pattern in four months.** In April 2017, the volume of retail sales rose by 2.3% compared with March 2017, and by 4.0% compared to the same time last year. Anecdotal evidence from retailers suggests that good weather contributed to growth, but the timing of Easter may also have been a factor.<sup>(5)</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>(6)</sup>

## CIPS Manufacturing PMI – May 2007 to 2017



## CIPS Services PMI – May 2007 to 2017



## Manufacturing

- **The seasonally adjusted IHS Markit/CIPS Manufacturing PMI came in at 56.7 in May 2017**, below April's three-year high of 57.3. Output and new order growth remained solid and the rate of job creation rose to the highest since June 2014.
- Manufacturers raised capacity in response to increased backlogs of work and outstanding business expanded at the fastest rate in over six years. Optimism regarding the outlook for production levels over the next 12 months improved to a 20-month high.<sup>(7)</sup>

## Services

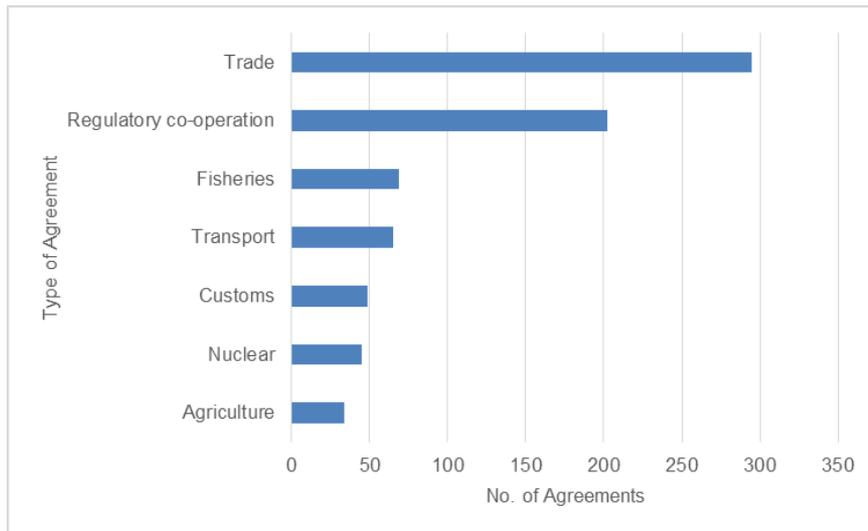
- **The headline IHS Markit/CIPS Services PMI Business Activity Index fell to 53.8 in May 2017** from a four-month high of 55.8 in April and below market expectations of 55.0.
- The index for the last month points to the slowest expansion of service sector output since February, mainly due to weaker new business growth amid squeezed household budgets and delays with decision making ahead of the General Election.<sup>(8)</sup>

# Trade, regulation and access to funding

## Trade, rules and regulatory developments

- Against the backdrop of the general election and purdah restrictions, there has been little other activity in advancing negotiations regarding trade rules and regulations. As such, this month's Monitor focuses on wider trade issues. When Britain formally leaves the EU in 2019, it will not only be direct arrangements with the EU that cease to be valid - by law, Britain will also be excluded from EU arrangements with "third countries".
- According to Financial Times research of the EU treaty database, this amounts to 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to Britain, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. This, however, provides an opportunity for the UK to negotiate new and potentially better and/or more ambitious deals with its trading partners, and the importance of each of these agreements to the UK varies widely. That said, many countries will likely want to know the outcome of EU-UK talks before making their own commitments.<sup>(9)</sup>

## Bilateral agreements by theme

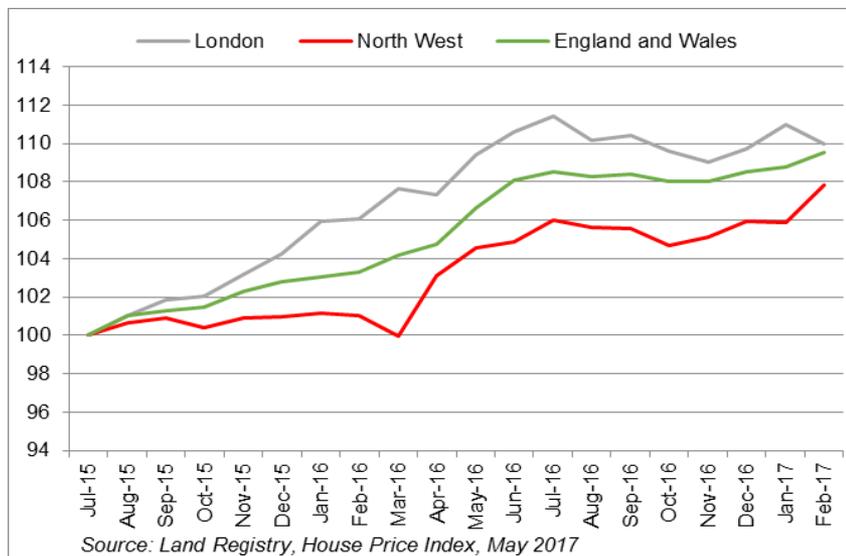


- It is also important to consider 'non-tariff barriers' to trade. The EU's average external tariff on industrial goods is just over 2%, although it is much larger in sectors such as motor vehicles. However, academic studies generally show the cost of the bloc's other barriers to trade is two or three times as large.
- The potential impact of regulatory divergence differs between sectors and firms; for some the impact could be limited, while others could benefit from better tailored rules. However, particularly for some companies in competitive export sectors and with low margins, separate EU and UK standards could require costly duplication of production lines.<sup>(10)</sup>

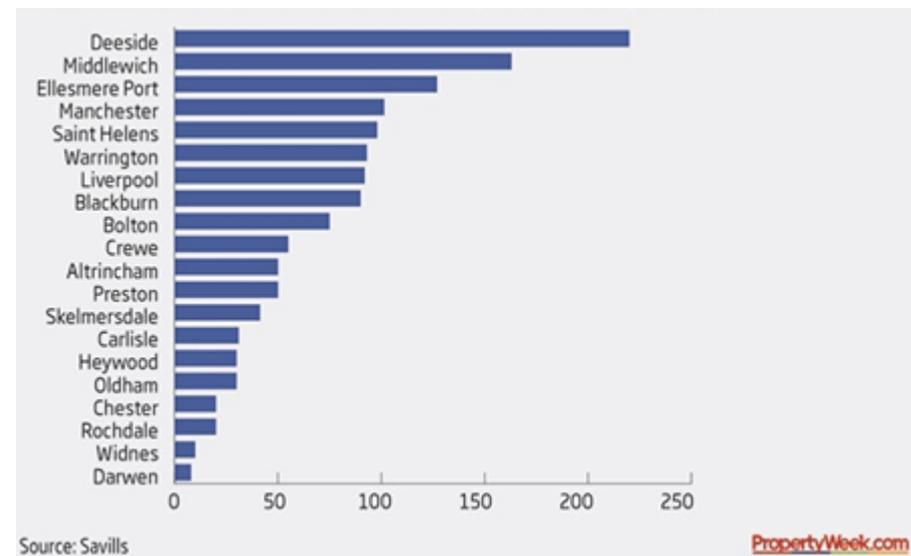
# Property and investment, housing, and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices in the North West** and indeed it will take time for the housing market to react in the longer-term.
- **Commercial property:** This month's Monitor focuses on supply of land for industrial development in the North West and GM. Research by **Savills** highlights that a total of 1,400 acres of land that could accommodate new industrial units of more than 100,000 sq ft is currently promoted for development in the North West. 41% (570 acres) of the total is on what are classified as prime logistics sites.<sup>(11)</sup>

Average House Prices Sales (Index July 2015=100)



Commercial Property – NW logistics land supply (acres)

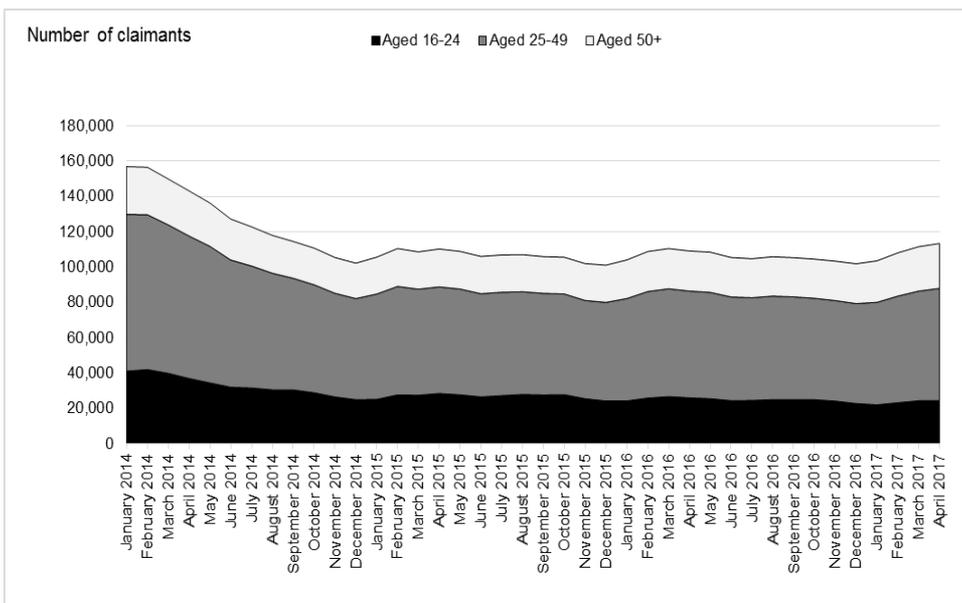


- The latest house price data (March 2017) for the North West reveals an average price of £150,250, a decrease of 1.6% from the previous month, and growth of 6.2% from March 2016.<sup>(12)</sup>
- Occupier demand for large industrial and warehousing sites in the region remains strong. However, research by **Savills** suggests that there are only seven suitable sites in the North West which could accommodate new industrial units of over 300,000 sq ft.<sup>(11)</sup>

# Economic Inclusion

- **Unemployment:** The total claimant count unemployment in the North West has continued to increase in April 2017 (latest) and is higher than that observed prior to the referendum result in June 2016, increasing from just over 105,000 to just over 113,000 (7.5%). This is the highest increase in the claimant count since the referendum result. <sup>(13)</sup>
- **Household Finance:** The Household Finance Index for April 2017, compiled by Markit Economics, signalled that UK households experienced sharply rising living costs against a backdrop of subdued pay growth in May, which contributed to a sustained squeeze on financial wellbeing. Recent pressures on UK consumer finances have been the sharpest for three years. <sup>(14)</sup>

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- The claimant rate in April 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, 2.7% in Greater Manchester, 2.4 in Lancashire, 1.8% in Cumbria; and 1.4% in Cheshire and Warrington. <sup>(15)</sup>
- Year-on-year (April 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region was up by just over 4,200 (3.9%).
- **The largest increase is observed in claimants aged 50+, up 12.0% from April 2016 (2,720).**
- The claimant count for **25 to 49 year olds** has also increased slightly by 5.2% (3,160).
- In contrast, the claimant count for **16-24 year olds** has decreased by 6.3% (-1,640).

# Sources (1)

Section	Sources
<b>Executive Summary &amp; Macro economy</b>	<ol style="list-style-type: none"> <li>1. FT (25 May 2017): UK economy slows more than expected in first quarter of 2017  <a href="https://www.ft.com/content/51e52774-4126-11e7-82b6-896b95f30f58">https://www.ft.com/content/51e52774-4126-11e7-82b6-896b95f30f58</a> </li> <li>2. ONS (May 2017): UK trade: Mar 2017  <a href="https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/mar2017">https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/mar2017</a> </li> <li>3. HMRC (May 2017): Overseas Trade Statistics - Non-EU and EU Trade: Mar 2017  <a href="https://www.uktradeinfo.com/Statistics/OverseasTradeStatistics/Pages/EU_and_Non-EU_Data.aspx">https://www.uktradeinfo.com/Statistics/OverseasTradeStatistics/Pages/EU_and_Non-EU_Data.aspx</a> </li> <li>4. ONS (June 2017): UK consumer price inflation: May 2017  <a href="https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2017">https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2017</a> </li> <li>5. ONS (May 2017): Retail sales in Great Britain: Mar 2017  <a href="https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/apr2017">https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/apr2017</a> </li> </ol>
<b>Business Investment</b>	<ol style="list-style-type: none"> <li>6. Lloyds Bank (10 June 2017): “Business activity rises on the back of stronger demand for goods and services”  <a href="http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2017/170612_regionalpmi.pdf">http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2017/170612_regionalpmi.pdf</a> </li> <li>7. Markit/CIPS UK Manufacturing PMI: “UK manufacturing sees further marked growth in May” (01 June 2017)  <a href="https://www.markiteconomics.com/Survey/PressRelease.mvc/f9778bf91d8047e6ac0fd6876fb6a756">https://www.markiteconomics.com/Survey/PressRelease.mvc/f9778bf91d8047e6ac0fd6876fb6a756</a> </li> <li>8. Markit/CIPS UK Services PMI: “Service sector growth slows in May” (05 June 2017)  <a href="https://www.markiteconomics.com/Survey/PressRelease.mvc/efedf38d3830419493f000a036403885">https://www.markiteconomics.com/Survey/PressRelease.mvc/efedf38d3830419493f000a036403885</a> </li> </ol>
<b>Trade, regulation and access to funding</b>	<ol style="list-style-type: none"> <li>9. FT (30 May 2017): After Brexit: the UK will need to renegotiate at least 759 treaties  <a href="https://www.ft.com/content/f1435a8e-372b-11e7-bce4-9023f8c0fd2e">https://www.ft.com/content/f1435a8e-372b-11e7-bce4-9023f8c0fd2e</a> </li> <li>10. FT (18 December 2016): Post-Brexit trade may hinge on non-tariff barriers  <a href="https://www.ft.com/content/69202760-c3a2-11e6-9bca-2b93a6856354">https://www.ft.com/content/69202760-c3a2-11e6-9bca-2b93a6856354</a> </li> </ol>

# Sources (2)

Section	Sources
<b>Investment, housing, property and planning</b>	<p>11. Property Week (19 May 2017): Shed occupiers forced to settle for space outside Greater Manchester <a href="http://www.propertyweek.com/insight/market-features/shed-occupiers-forced-to-settle-for-space-outside-greater-manchester/5089355.article">http://www.propertyweek.com/insight/market-features/shed-occupiers-forced-to-settle-for-space-outside-greater-manchester/5089355.article</a></p> <p>12. 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>13. ONS (2017): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), April 2017 <a href="https://www.nomisweb.co.uk">https://www.nomisweb.co.uk</a></p> <p>14. IHS Markit (April 2017): Household Finance Index – UK household finances remain under greatest pressure since mid-2014 <a href="https://www.markiteconomics.com/Survey/PressRelease.mvc/8f5ebbd9d944c7ea27066d43a0053a4">https://www.markiteconomics.com/Survey/PressRelease.mvc/8f5ebbd9d944c7ea27066d43a0053a4</a></p> <p>15. ONS (2017): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), April 2017 <a href="https://www.nomisweb.co.uk">https://www.nomisweb.co.uk</a></p>