North West Brexit Monitor

Key economic and policy developments

May 2017

GMCA BOLTON BURY MANCHESTER OLDHAM ROCHDALE SALFORD STOCKPORT TAMESIDE TRAFFORD WIGAN

Executive Summary

Headlines

- **Economic intelligence suggests a mixed picture for the UK economy, with significant challenges ahead.** The Office for National Statistics (ONS) reported that gross domestic product (GDP) grew by 0.3% in its initial estimate for the first quarter of 2017, down from 0.7% in the fourth quarter of last year. This is the slowest rate since the start of 2016 and rising inflation is a key driver behind the change. Declining consumer confidence is also reflected in retail sales with a decrease of 1.4% in the three months to March 2017 – the first quarterly decline since quarter four 2013 – as a result of rising costs.
- **Business sentiment has remained resilient to date, but there are some signs that this may be shifting**. The latest Purchasing Managers Index (PMI) survey shows that UK manufacturing expanded at its fastest rate for three years in April 2017 and the UK service sector has also seen a rise in activity. Whether this positive sentiment will continue however has yet to be seen – particularly given the shift in consumer confidence and rising input costs. Latest intelligence on the commercial property market from property consultancy GVA, also suggests that it has slowed across the UK in Q1 2017, albeit that take-up in Greater Manchester continues to outpace major UK cities including Birmingham and Bristol.
- The end of April also saw the **EU endorse guidelines on negotiati.ng the UK's exit from the Union** during a meeting of the 27 EU leaders in Brussels on April 29. The published guidelines show little change to the draft in the previous Monitor.

Key sectors & business investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, business activity continued to expand in the North West in April 2017, with a PMI reading of 56.5, down from 57.5 in March 2017 (index figures over 50 indicate growth). The North West, whilst experiencing growth, was the weakest performing region in England according to the latest survey results.
- At the national level, business activity grew at its fastest rate across England and the UK in 2017 so far, with job creation also picking up speed. However, the Lloyds survey highlighted the continued build-up of inflationary pressures, as prices charged for goods and services rose at the fastest rate since 2008 due to a combination of rising costs and strong demand.
- **The PMI for April 2017 revealed that the UK manufacturing sector grew at its fastest pace for three years in April 2017**. This should, however, be viewed with some caution given that it is against the context of volatile markets and unpredictable political developments. **In April 2017 the UK service sector saw a sharp rise in business activity since December 2016**. However, the sector also experienced significant increases in input costs due to utility bills, full costs, salary payments and food prices.

Executive summary

Terms of trade, regulation & access to funding

- **Twenty-seven European Union leaders met in Brussels on 29 April and formally endorsed the EU's guidelines on negotiating the UK's exit from the Union**. The now approved version provides a plan for how the EU wants to manage negotiations with the UK. The guidelines make clear that a trade deal will only start after significant progress on the terms of separation have been agreed, and that there will be no partial agreement (i.e. nothing is agreed, until everything is agreed) and no sector preference. Issues covered by the guidelines include: Trade; sectors; EU citizens rights to stay, the single financial settlement, financial regulation, timing of Brexit and single negotiation.

Property investment, housing and planning

- **Official Housing Index data** 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 (February 2017) for the North West reveals an average price of £152,618, an increase of 1.8% from the previous month, and growth of 6.7% compared with February 2016.(13)
- **GVA's *The Big Nine*** report shows that take up in Manchester city centre in Q117 was 26.3% below the five-year quarterly average; take up 'out of town' was also weaker at 21.5% below the five-year quarterly average. Both of these were, however, largely in line with national trends. Take up in Liverpool city centre was 49.7% below the five-year quarterly average, although take up 'out of town' was 18.2% above the five-year quarterly average.

Economic inclusion

- **Since the EU referendum result on 24th June 2016, the claimant count unemployment in the North West has, on average, remained lower than in June 2016. In February 2017 however, this has risen by 2%**, from 105,000 to 107,000.
- **The Household Finance Index (HFI)** compiled by Markit Economics provides the earliest indication of changes in UK household finances each month. Results for February 2017 indicate that UK household finances worsened at the second-fastest rate since August 2014, predominantly due to rising living costs. While income from employment rose marginally in February 2017, household perception of current inflation also increased.

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: UK GDP was estimated to have increased by 0.3% in Quarter 1 (Jan to Mar) 2017**, down from 0.7% during the final quarter of 2016; this marked the slowest rate of growth since Quarter 1 2016. The slowdown was largely consumer led, with growth in services slowing from 0.8% in Quarter 4 2016 to 0.3%, driven by increases in prices in retail trade and accommodation.(1)
- **Trade: In the 3 months to February 2017, the deficit on trade in goods and services narrowed to £8.5 billion**, mainly due to increases in exports of machinery and transport equipment, oil and chemicals. Trade prices continue to be influenced by recent sterling movements, with export and import prices falling from January to February 2017, coinciding with an increase in volumes.(2)
- **International Markets: All ten of the UK's top 10 export partners experienced year on year increases in export values in February 2017**. The USA was the UK's largest export partner in February 2017, and export values to the US registered growth of 5% year on year. China experienced the largest value increase compared with February 2016, up 44%. The largest decrease compared with February 2016 was outside the UK's top ten destinations, with export values to Hong Kong falling 39%.
- **All ten of the UK's top 10 import partners experienced year on year increases in import values in February 2017** (although import growth remained slower than export growth, resulting in the narrowing of the trade deficit). Germany remained the UK's top import partner, with imports from Germany increasing 3% year-on-year in February 2017. Norway saw the largest value increase compared with February 2016, up 98%, while imports from Switzerland saw the largest fall, down 27%.(3)

Consumer sentiment

- **Prices: The Consumer Price Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.3% in March 2017**, unchanged from February's 41-month high. Rising prices for food, alcohol and tobacco, clothing and footwear, and miscellaneous goods and services were largely offset by a downward contribution from transport – particularly air fares and, to a lesser extent, motor fuels.(4)
- **Retail Sales: The 3 months to March 2017 showed a decrease in retail sales of 1.4%**, marking a third consecutive decrease for the underlying 3 month-on-month pattern. The 3 months to March 2017 (Quarter 1) is the first quarterly decline since Quarter 4 2013. This came as a result of rising costs, with average store prices (including fuel) increasing by 3.3% year-on-year in March 2017 - the largest growth since March 2012.(5)
- **Household savings: Households' outstanding sterling holdings increased by 1.5% month-on-month in February 2017**, accelerating from 0.5% growth in January 2017. Compared to February 2017, outstanding sterling holdings rose by 8.9% in February 2017, up from 8.2% the previous month; and higher than the 6-month (8.6%), and 12-month (8.2%) moving average.(6)

Key sectors & business investment

Business Investment

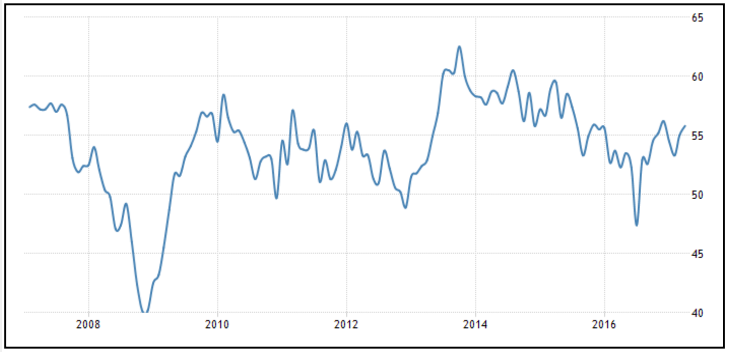
- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, business activity continued to expand in the North West in April 2017, with a PMI reading of 56.5, down from 57.5 in March 2017 (index figures over 50 indicate growth). The North West, whilst experiencing growth, was the weakest performing region in England according to the latest survey results.
- At the national level, business activity grew at its fastest rate across England and the UK in 2017 so far, with job creation also picking up speed. However, the Lloyds survey highlighted the continued build-up of inflationary pressures, as prices charged for goods and services rose at the fastest rate since 2008 due to a combination of rising costs and strong demand.(7)

CIPS Manufacturing PMI – April 2017

Manufacturing

- **The performance of the UK manufacturing sector grew at its fastest pace for three years in April 2017.**
- The manufacturing PMI in April 2017 (57.3) saw an improvement on March's four month low of 54.2. Growth in UK manufacturing output was driven by inflows of work from the domestic market and an increase in new exports.
- The surge should, however, be viewed with some caution given that it is against the context of volatile markets and unpredictable political developments. Whilst the weak pound has had a positive impact on orders, it also continues to cause cost and supply chain pressures.(8)

CIPS Services PMI – April 2017



Services

- **In April 2017 the UK service sector saw a sharp rise in business activity since December 2016.**
- In April, the Index stood at 55.8 – it's highest level for four months, with accelerated services activity linked to a range of factors including B2B demand, new product launches, and increased sales to overseas clients.
- The sector also saw a notable increase in companies looking to boost their staff numbers. That said, the sector also experienced significant increases in input costs due to utility bills, full costs, salary payments and food prices.(9) (10)

Trade, regulation and access to funding

Trade, rules and regulatory developments

- **Twenty-seven European Union leaders met in Brussels on 29 April to formally endorse the EU's guidelines on negotiating the UK's exit from the Union**. Like the draft guidelines reported in the April Monitor, the approved version is a plan for how the EU wants to manage negotiations with the UK, and says that talks on a trade deal will only start after significant progress on the terms of separation have been agreed. The following provides a summary of the key point set out in the full guidelines.(11)
  - **Trade.** Any future free trade agreement must ensure a level playing field in terms of competition and state aid, and must encompass safeguards against unfair competitive advantages. The deal will not undermine or dis-benefit the single market.
  - **Sectors.** Preserving the integrity of the single market excludes participation based on a sector-by-sector approach. No preference will be given to specific sectors in terms of access to the single market.
  - **EU citizens' right to stay.** Such guarantees must be effective, enforceable, non-discriminatory and comprehensive, including the right to acquire permanent residence after a continuous period of five years of legal residence. There is an emphasis upon smooth, simple administration, but also ensuring legal guarantees over citizen's rights.
  - **Single financial settlement,** including issues resulting from the Multiannual Financial Framework, and the European Investment Bank, European Development Fund, European Central Bank - should ensure that the Union and the UK both respect the obligations resulting from the whole period of membership in the Union, covering all commitments as well as liabilities
  - **Financial regulation.** Any future framework should safeguard financial stability in the Union and respect its regulatory and supervisory regime and standards and their application. Similar to trade above, this aims to ensure that the UK does not try to gain competitive advantage through the introduction of a looser regulatory framework.
  - **Timing.** The European Council will monitor progress closely and determine when sufficient progress has been achieved to allow negotiations to proceed to the next phase. The 27 EU countries will determine what "sufficient progress" actually means.
  - **Negotiation.** There will be no separate formal negotiations between individual member states and the UK. The EU intends to get legally binding language written into negotiating directives to prevent separate negotiations happening.

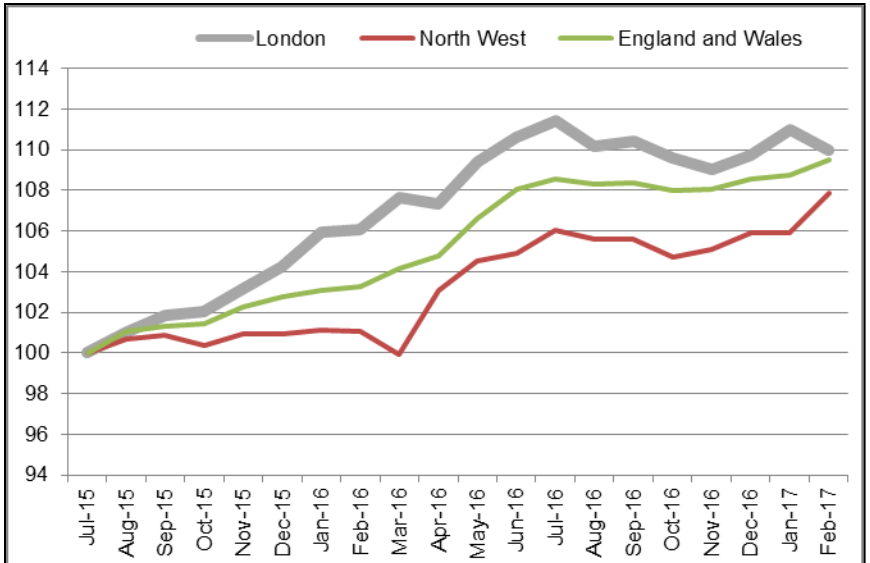
European Funding

- **Rural Development Programme for England Growth Programme** grants are available to support tourism infrastructure projects in GM. The call will remain open until the funding is fully committed or until 31 January 2018.(12) **The Rural Payments Agency** has informed ESIF Chairs and LEADER contacts that business should carry on as usual during the general election. Notifying applicants of the outcome of RDPE EOIs or LEADER EOIs by e-mail or letter is acceptable, although decisions should not be publicised.

Property and investment, housing, and planning

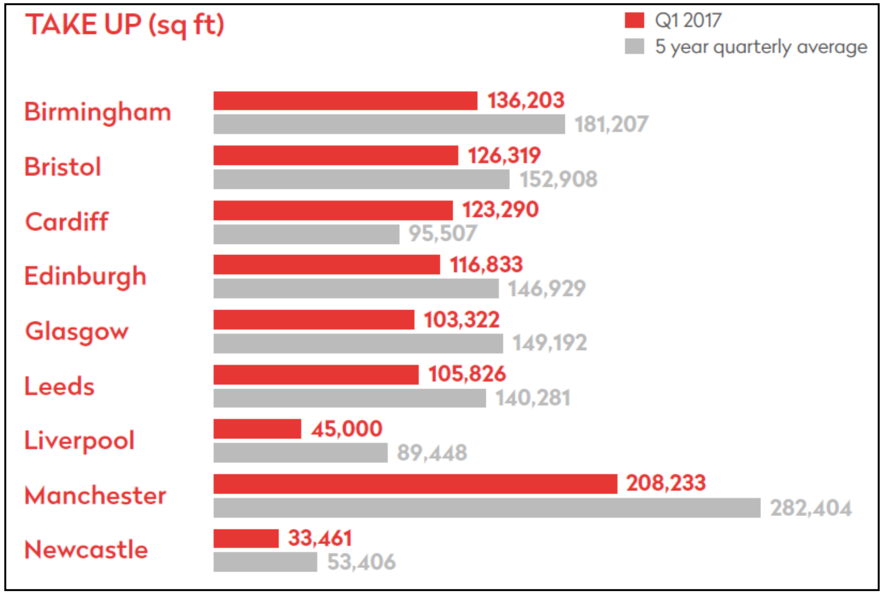
- **Housing data from the Land Registry continues to show little impact on house prices.** However, separate data from some mortgage lenders (not National Statistics) suggests a slowdown in UK prices starting to emerge.
- **Commercial property:** This month's Monitor provides a snapshot of the office space market in the nine biggest cities in the UK, with a focus on Manchester and Liverpool in the North West.

Average House Prices Sales (Index July 2015=100)



Source: Land Registry, House Price Index, April 2017

Commercial Property (focus on office space)



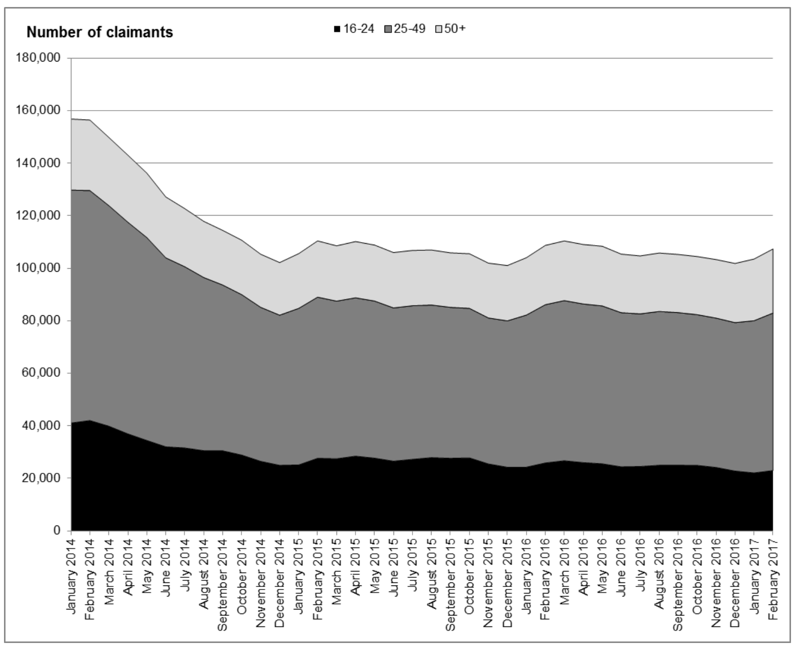
- **Housing Index** data from the Land Registry suggest the vote to leave the EU has had little impact on house prices, with moderate growth in average residential prices this period.
- The latest house price data (February 2017) for the North West reveals an average price of £152,618, an increase of 1.8% from the previous month, and growth of 6.7% compared with February 2016.(13)

- **GVA's *The Big Nine*** report shows that take up in Manchester city centre in Q117 was 26.3% below the five-year quarterly average; take up 'out of town' was also weak at 21.5% below the five-year quarterly average. Both of these were, however, largely in line with national trends.
- Take up in Liverpool city centre was 49.7% below the five-year quarterly average, although take up 'out of town' was 18.2% above the five-year quarterly average. The strong 'out of town' performance in Liverpool was largely the result of North West Ambulance Service's 40,000 sq ft lease at Estuary Point.(14)

Economic Inclusion

- **Since the EU referendum result on 24th June 2016, the claimant count unemployment in the North West has, on average, remained lower than in June 2016. In February 2017 however, this has risen by 2%**, from 105,000 to 107,000.(15)
- **The Household Finance Index (HFI)** compiled by Markit Economics provides the earliest indication of changes in UK household finances each month. Results for February 2017 indicate that UK household finances worsened at the second-fastest rate since August 2014, predominantly due to rising living costs. While income from employment rose marginally in February 2017, household perception of current inflation also increased.(16)
- **The Bank of England held interest rates at their record low of 0.25%** in March 2017, due to predicted increases in inflation. It is expected that the interest rate will remain at this rate through 2017/2018, due to "prolonged economic and political uncertainties".(17)

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- **The claimant rate in February 2017 in the North West was 2.4% of the working age population, compared with 1.9% in the UK**. Within the region the rate varies from 2.9% in Liverpool CR, 2.6% in Greater Manchester, 2.3% in Lancashire, 1.6% in Cumbria; and 1.3% in Cheshire and Warrington.
- Year-on-year (February 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region was down by just fewer than 1,400 (-1.3%). **The largest decrease is observed in claimants aged 16-24, down 11.2% from February 2016** (-2,890)**.** The claimant count for 25 to 49 year olds has also decreased slightly by 0.5% (-300). In contrast, **the claimant count for 50+ year olds has increased by 8.1%** (1,820).(15)

Sources (1)

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