

Greater Manchester Brexit Monitor

Key economic and policy developments

April 2017

Executive Summary

Headlines

- **Leading UK indicators this month continue to show strong growth in the first 3 months of the year.** The final estimate of Quarter 4 2016 by the ONS confirms the average growth rate for the year was 1.8%, buoyed up by increases in consumer spending which has seen the highest increase since Q4 2007. The National Statistics are backed up by stronger than expected performance in the UK's services sector, shown by the latest Purchasing Managers' Index (PMI) published in April. **The services sector, which accounts for three-quarters of the UK economy, shows service business activity at its strongest level in 2017**, however services prices are rising at the fastest rate since the PMI survey started in 2007/08. This month is also marked by the formal declaration of the UK's intention to exit the European Union, as well as the publication of the European Council's guidelines on the framework for negotiations, both of which are covered further in this month's Monitor. **Theresa May has called a general election for June 8**, stating that Britain needed certainty, stability and strong leadership following the EU referendum. The next general election had been expected in 2020, but the Fixed Term Parliaments Act allows for one to be held earlier if two-thirds of MPs back the move.

Key sectors & business investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, business activity growth in the North West accelerated in March 2017, with the PMI rising to 57.5. This made the North West the second best performing region in the UK in March – behind the East of England – and marks a reversal in fortunes for the North West after business activity growth decelerated in February 2017.
- At the national level, business activity growth in England and the UK both accelerated in March 2017 (albeit less strongly than in the North West). However, March saw a slower rate of job creation across both England and Wales. This was the result of sharply rising input costs driven by the weak sterling exchange rate, higher raw material prices, salary pressures, and increased energy bills.
- **The UK Manufacturing Purchasing Managers' Index (M-PMI)** shows that the manufacturing sector continued to perform strongly in 2016 despite signs of much slower growth in 2017 to date. **The UK Services Purchasing Managers' Index (S-PMI)** shows the service sector saw its strongest rise in growth so far during the first three months of 2017. This marked increase in activity and growth has been linked to supportive UK economic conditions and greater client demand, whilst exchange rate depreciation is reported to have led to new sales enquiries, particularly from the US.

Terms of trade, regulation & access to funding

- **The Prime Minister has submitted the formal declaration of the UK's intention to exit the European Union.** The main theme of the letter was to retain a commitment to Europe, just not as a member of EU. The letter outlines themes of cooperation and partnership, alongside sovereignty, will, national security, society and economy. The outcome at present may not be known but this letter will have significant consequences for both the UK and the EU. **The letter also makes reference to “ensuring specific interests within the UK and regions are taken into account”.** It is important GM's interests are therefore represented.
- The first consequence of the letter was for **the European Council to publish guidelines on the framework for negotiations under Article 50 TEU and set out the overall positions and core principles that the Union will pursue throughout the negotiations.** The core principles outlined in the European Council response are, in summary: that the four freedoms of the Single market are indivisible; there will be no cherry picking of sectors; and “nothing is agreed, until everything is agreed”.

Executive summary

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 sales this period. The latest house price data (January 2017) for the North West reveals an average price of £149,767, a decrease of 0.4% from the previous month, but growth of 4.6% compared with January 2016.⁽¹³⁾
- **Commercial property: Knight Frank** suggest that North West take-up of Industrial and Warehouse units over 50,000 sq ft during the second half of 2016 totalled 2.3 million sq ft, up 10% on the same period in 2015. This brings total take-up across the region for the whole of 2016 to 4.2 million sq ft, compared with 5.1 million sq ft in 2015. Almost half of the take-up during the second half of 2016 has been for brand new space, a sign that the industrial property market has remained attractive in the North West to date.⁽¹⁶⁾

Economic inclusion

- **The claimant count unemployment in GM remains lower than that observed prior to the referendum result in June 2016.** Levels between June 2016 and February 2016 fell by 1,000 to 45,500 (latest), with no percentage point change in the 'Claimant Rate' for the same period.
- **The Household Finance Index, compiled by Markit Economics, signal a sustained squeeze on UK households' financial wellbeing.** This is based on a combination of subdued pay trends and the second-fastest increase in living costs since July 2013. Households also expect a strong rise in their future living costs as pessimism about the longer-term impact of Brexit grows.

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: The final estimate of Quarter 4 GDP for the UK is 0.7% and average growth rate for 2016 1.8%.** Most notable in the latest ONS figures is household spending, this rose 2.8% over the previous 12 months, much faster than growth in the investment by both public and private sectors ('capital formation') which rose by 0.5%. Growth in the economy is again consumer led, whereas total business investment contracted by 1.5%, the first contraction since the recession.⁽¹⁾
- **Trade: The deficit on trade in goods and services remains at £2.0 billion in January 2017.** The UK's deficit on trade in goods and services decreased by £0.1 billion between January 2017 and December 2016. The almost unchanged balance reflects an increase in both exports and imports between December 2016 and January 2017, with exports increasing very slightly more than imports. At the commodity level, electrical machinery, cars, and chemicals were the largest contributors to increasing exports.⁽²⁾
- **International Markets: In 2016, nearly 50% of all UK exports of goods went to just 6 countries:** the United States, Germany, France, Netherlands, Republic of Ireland and China. The United States are the UK's biggest export partner, receiving 15.7% of all UK exported goods. The UK's largest import partner was Germany in 2016, supplying 14.8% of all goods imported to the UK. Similar to exports, over 50% of the UK's imports are from 6 countries: Germany, China, US, Netherlands, France, and Belgium.⁽³⁾

Consumer sentiment

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.3% in February 2017, up from 1.9% in January.** The rate in February 2017 was the highest since September 2013, having steadily increased since late 2015. Prices for food increased by 0.3% between February 2016 and February 2017, following 31 consecutive months of prices falling year on year.⁽⁴⁾
- **Household spending: In Quarter 4 (Oct to Dec) 2016, household spending grew by 0.7%** (£2.0 billion) compared with Q3 (July to Sept) 2016. The main contribution to growth is "Housing costs", this has increased by 1.3% compared with Q3 2016. Household spending in volume terms increased to an almost record high of £295 billion in Quarter 4 2016, the highest volume spending since Quarter 4 2007.⁽⁵⁾
- **Household savings: The savings ratio of UK residents fell to a new low in Quarter 4** as households saved just over 3% of their income. The latest monthly borrowing figures show debt is rising fast, mortgage debt rising by 3% and unsecured credit rising by over 10% (covering credit card, car loan, personal loans).⁽⁶⁾

Key sectors & business investment

Business Investment

- According to the **Lloyds Bank Regional Purchasing Managers' Index (PMI)**, business activity growth in the North West accelerated in March 2017, with the PMI rising to 57.5. This made the North West the second best performing region in the UK in March – behind the East of England – and marks a reversal in fortunes for the North West after business activity growth decelerated in February 2017.
- At the national level, business activity growth in England and the UK both accelerated in March 2017 (albeit less strongly than in the North West). However, March saw a slower rate of job creation across both England and Wales. This was the result of sharply rising input costs driven by the weak sterling exchange rate, higher raw material prices, salary pressures, and increased energy bills.⁽⁷⁾

CIPS Manufacturing Purchasing Managers' Index – March 2017



Manufacturing

- **The performance of the UK manufacturing sector remains steady despite signs of slower growth.**
- Whilst there has been a loss of impetus in manufacturing output and new orders, the sector remains above long-term averages. The seasonally adjusted Markit/CIPS Purchasing Managers' Index dropped to a four-month low of 54.2 in March. Despite this drop, however, the Index remains above the neutral mark of 50.0 for the eighth consecutive month. It is also reported that manufacturers have benefited from increases in export competitiveness and work inflows following the fall in the pound.⁽⁸⁾

CIPS Services Purchasing Managers' Index – March 2017



Services

- **In March 2017 the UK service sector saw its strongest rise in growth so far during 2017.**
- In March the Index stood at 55.0, up from 53.3 in February with service sector growth at its strongest since December 2016. This marked increase in activity and growth has been linked to supportive UK economic conditions and greater client demand, whilst exchange rate depreciation is reported to have led to new sales enquiries and improved demand from overseas clients (particularly from the US).⁽⁹⁾

Trade, regulation and access to funding

Trade, rules and regulatory developments

- **Twenty-seven European Union leaders meeting in Brussels on 29 April formally endorsed 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. (xx,xx).
- **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.

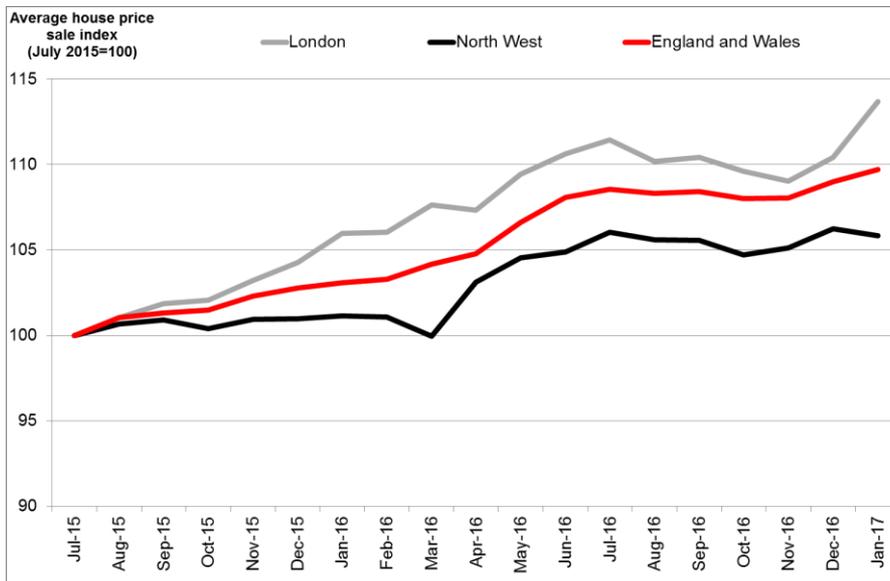
European Funding

- **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. ⁽¹³⁾
- **The Rural Payments Agency** has informed ESIF Chairs and LEADER contacts that business should carry on as usual during the general election campaign. Notifying applicants of the outcome of RDPE EOIs or LEADER EOIs by e-mail or letter is acceptable, although the decision 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 on the Industrial and Warehouse market in the UK, North West and Greater Manchester. Agents report rising UK prices, in particular linked to prime stock. Major deals within GM have been recorded, e.g. Logistics North (Bolton/Salford), and there is demand for logistics space with good access to large urban areas.

Average House Prices Sales (Index July 2015=100)



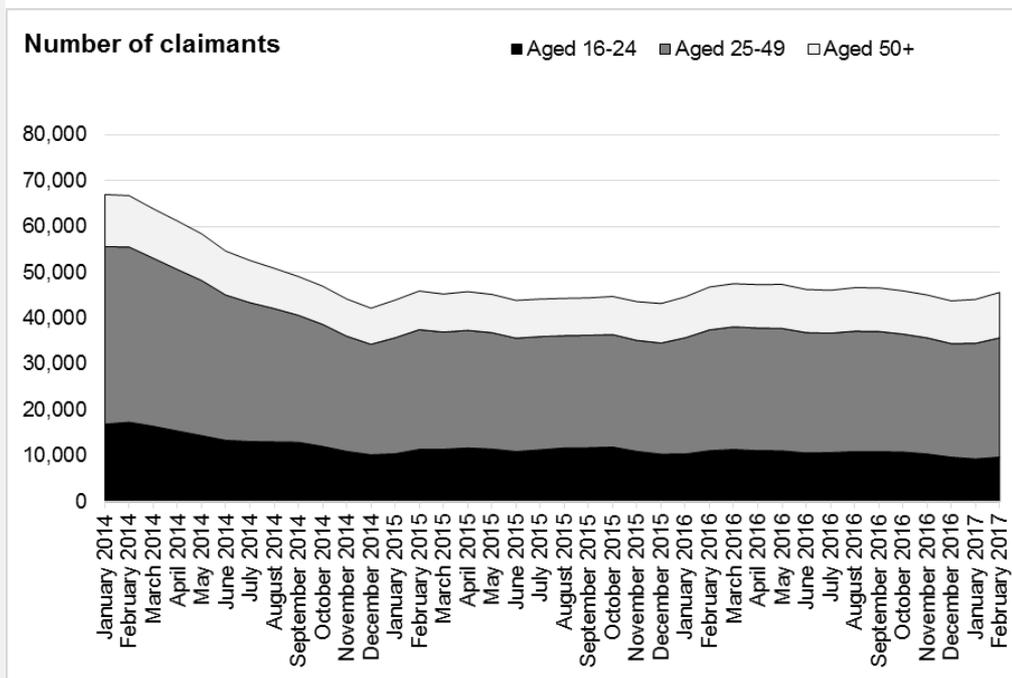
Commercial Property (Focus on industrial)

- **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 (January 2017) for the North West reveals an average price of £149,767, a decrease of 0.4% from the previous month, but growth of 4.6% compared with January 2016.⁽¹³⁾
- **Knight Frank**, suggest that North West take-up of units over 50,000 sq ft during the second half of 2016 totalled 2.3 million sq ft, up 10% on the same period in 2015. This brings total take-up across the region for the whole of 2016 to 4.2 million sq ft, compared with 5.1 million sq ft in 2015. Almost half of the take-up during the second half of 2016 has been for brand new space, a sign that the industrial property market has remained attractive in the North West to date.⁽¹⁶⁾
- **GVA Industrial Intelligence Spring 2017** highlight increasing land values in the UK, and a declining supply of prime standing stock. They note major deals within GM, which include Lidl who have bought 43 acres at Logistics North, Bolton/Salford. They particularly note price rises and firm moves in the South East (Park Royal) and in GM, but 'no significant movements in other locations'.⁽¹⁷⁾
- **The Cushman Wakefield Quarterly Outlook on the Industrial Property Market** also suggests that the underlying fundamentals in the industrial sector remain positive, despite the wider uncertainty generated by Brexit. The growth in e-commerce continues to generate unprecedented levels of demand for logistics space around urban areas.⁽¹⁸⁾

Economic Inclusion

- Unemployment:** The claimant count unemployment in GM remains lower than that observed prior to the referendum result in June 2016 - falling from just over 46,000 to 45,500 in February 2017 (latest), with no percentage point change observed in the claimant rate for the same period. This compares to an increase of 0.1% in the North West rate, and no change observed in the UK rate, for the same period - June 2016 to February 2017. ⁽¹⁹⁾
- Household Finance:** The Household Finance Index, compiled by Markit Economics, provides the earliest indication of changes in UK household finances each month. **Results for March 2017 signalled a sustained squeeze on UK households' financial wellbeing.** This reflects a combination of subdued pay trends, and the second-fastest increase in living costs since July 2013. Households expect a strong rise in their living costs over the next 12 months, as pessimism about the longer-term impact of Brexit has steadily intensified in comparison to July 2016. ^(20,21)

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- Despite falling unemployment since the referendum vote - as a proportion of working age residents - the **GM claimant rate (2.6%) remains higher than that of the North West (2.4%) and the UK (1.9%).**
- With regards to age, the number of **GM claimants aged 16-24 has increased, up 4.5% in February 2017 (-415).** This has decreased however by 12.5% in the year to February 2017.
- The number of claimants aged 50+ continues to increase, up 5.8% in the year to February, and up 3.4% from January 2017 (325). ⁽²²⁾

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