

Greater Manchester Brexit Monitor

Key economic and policy developments

March 2017

Executive Summary

Headlines and Macro Economy

- **The UK economy has remained in good shape since the European referendum vote last year, but there remain risks for the short and medium term.** The second estimate of Q4 2016 GDP showed that UK GDP grew by 0.7% quarter-on-quarter, the largest increase since Q4 2015, where output also grew by 0.7%. The OBR have subsequently revised up GDP forecasts from 1.4% to 2% for 2017/18 but they have downgraded medium-term expectations in subsequent years to 1.6% (2018/19), 1.7% (2019/20), 1.9%, (2020/21) and 2% in 2021-22. Leading indicators, such as the PMI data for manufacturing and services align with this economic outlook. They highlight a strong 2016, however this month's data show a slowdown in the rate of growth. Rising input costs and inflation are contributing to new challenges for the economy.
- **The Spring Budget on March 8th** aimed to maintain confidence in the economy whilst saving the unexpected windfall from better borrowing figures for the uncertain times ahead. As expected, the Budget did not contain any significant give-aways with funds being set aside to support growth in the UK economy post Brexit. There was an additional £2 billion allocated over the next 3 years for Adult Social Care, and a number of tax changes were announced, including changes to the rate of National Insurance Contributions paid by self-employed workers. Measures to ease the impact of business rate rises were announced and extra help for small firms affected by the revaluation of properties, alongside a proposal to introduce greater simplicity on tax credits to support Research & Development by firms. The Budget confirmed the Government's ongoing discussions with Greater Manchester in relation future transport funding and announced the allocation of £90 million to the North.

Key sectors & business investment

- **Research with MGC Business Growth Hub clients over the past 3 months highlights that firms generally expect their investment plans to remain the same following the EU referendum result (79%).** Of the remaining 21%, 4% said they were likely to increase investment at their UK sites, whilst 7% envisaged decreasing investment, 9% were unsure of the impact on investment, and 1% said they had put investment plans on hold.
- **Manufacturing Purchasing Mangers' Index (M-PMI)** shows that the UK manufacturing sector continued to perform strongly in 2016. Whilst the PMI data continues to show growth in the sector, it is at a much slower rate this month, compared to December's two-and-a-half year high. Similarly, the **Services Purchasing Mangers' Index (S-PMI)** shows that the UK service sector continued to expand in February, but at a significantly lower rate.

Executive summary

Terms of trade, regulation & access to European funding

- **March saw the House of Lords vote to amend the 'Great Repeal Bill' to force the Government to guarantee the rights of EU citizens living in the UK.** The House of Lords have also voted by a majority for the proposal to give Parliament the final say over Brexit. The change means that the PM may have to win a future vote in Parliament if she decides to see through pulling Britain out of the EU with no deal at all. However, Secretary of State for Exiting the European Union David Davis, stated an intention to reverse the change when the Bill returns to the Commons. He has also confirmed no change to triggering Article 50 before the end of March.
- **There was little detail in the Budget on trade, regulation, and Brexit.** However, the Budget did announce that **the first wave of challenges funded from the Industrial Strategy Challenge Fund will include £270m** for: leading the world in the manufacture of batteries for the next generation of electric vehicles; developing cutting-edge artificial intelligence and robotics systems; and accelerating patient access to new drugs and treatments by developing brand new medicine manufacturing technologies.

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 average house price data for GM is £153,500, up over £10,000 on the value 12 months ago.
- **Commercial property:** According to Cushman & Wakefield's analysis of annual occupier take up data the GM industrial property market saw over 400,000 sqm of sales/lettings in 2016 (excluding warehousing). Whilst the level of sales/lettings is down from what was recognised to be a record year at over 600,000 sqm in 2015 (following significant new supply) it is still in line with the seven year average suggesting that the industrial property market remains attractive in GM.

Economic inclusion

- **The Household Finance Index (HFI)** February 2017 indicates that UK household finances worsened at the second-fastest rate since August 2014, predominantly due to rising living costs. However, **Claimant Count and Universal Credit unemployment has fallen since the referendum result in June 2016**, from just over 46,000 to 44,000 in GM. Despite the fall, the claimant rate in GM (2.5%) remains higher than the average in the North West (2.3%) and the UK (1.8%).

Macro-economic trends and developments

Macro-economy

- **The economy has performed better than the Office for Budget Responsibility expected** in the latter half of 2016 and started this year with momentum (albeit slower than 2017) which should raise the growth numbers for this year. The Chancellor has highlighted that the headline growth forecasts for 2017 will be revised higher from 1.4% to close to 2%. However, the OBR (and other independent forecast houses) have downgraded medium-term expectations in subsequent years to 1.6% (2018/19), 1.7% (2019/20), 1.9%, (2020/21) then 2% in 2021-22. ⁽¹⁾
- **GDP: UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.7% between Quarter 3 (July to Sept) 2016 and Quarter 4 (Oct to Dec) 2016**, revised up 0.1 percentage points from the preliminary estimate of GDP (published 26 January 2017). Upward revisions within the manufacturing industries is the main reason, with helpful boosts from higher exports, lower imports and extra government spending. However, Quarter 4 2016 saw a slowdown in business investment which fell by 1.0%, driven by subdued spending on “ICT equipment and other machinery and equipment”. ⁽²⁾
- **Trade: The UK trade deficit on goods and services narrowed to £8.6 billion in Quarter 4 (Oct to Dec) 2016** following a sharp widening of the deficit in Quarter 3 (July to Sept) 2016. The narrowing was predominantly due to an increase in exports of goods to non-EU countries. Exports of goods to both EU and non-EU countries have increased through most of 2016, but there was a much higher quarter-on-quarter growth in exports to non-EU countries in Quarter 4 2016, following a fall in Quarter 3. ⁽³⁾
- **Sterling: Following the EU referendum, the value of sterling fell sharply against a basket of currencies.** Recent depreciation has coincided with upward price pressure on both export and import prices. Between Quarter 3 (July to Sept) 2016 and Quarter 4 (Oct to Dec) 2016, export prices increased by 3.0% and import prices increased by 2.4%. These growth rates are not as high as seen between Quarter 2 and 3 2016, but continue the trend in rising export and import prices. ⁽³⁾

Consumer sentiment

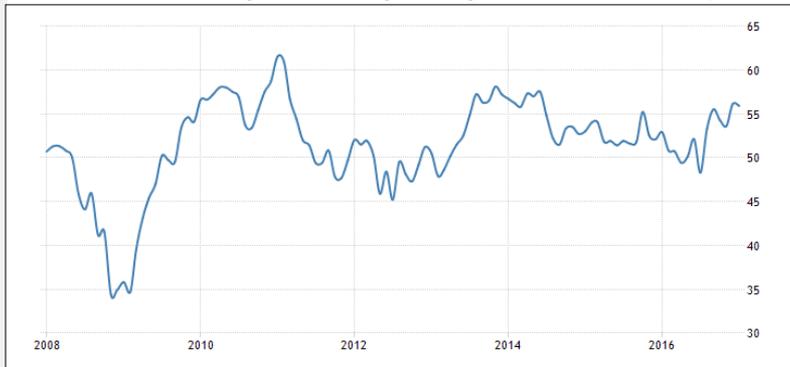
- **Consumer spending: UK GDP growth in Quarter 4 2016 saw a continuation of strong consumer spending in the last part of the year.** However, the latest data from the **Consumer Prices Index (CPI)** highlights a rise in prices 1.8% in the year to January 2017, compared with a 1.6% rise in the year to December 2016, indicating that rising inflation may start to affect consumer behaviour later in 2017. The rate in January 2017 was the highest since June 2014. The main contributors to the increase in the rate were motor fuels and food prices. Pressures were offset by prices for clothing, which fell by more than they did a year ago. ⁽⁴⁾

Key sectors & business investment

Business Investment

- **Research with MGC Business Growth Hub clients over the past 3 months highlights that firms generally expect their investment plans to remain the same following the EU referendum result (79%).** Of the remaining 21%, just 4% said they were likely to increase investment at their UK sites, whilst 7% envisaged decreasing investment, 9% were unsure of the impact on investment, and 1% said they had put investment plans on hold. **The survey findings also suggest that businesses are increasingly unlikely to expect the referendum to impact on their recruitment intentions (77%).** ⁽⁵⁾

CIPS Manufacturing Purchasing Managers' Index – February 2017



Manufacturing

- **The UK manufacturing sector continued to perform strongly in 2016, however the start of 2017 suggest signs of slower growth.**
- Manufacturing output and new orders have continued to rise, although at a slower rate. The seasonally adjusted Markit/CIPS Purchasing Managers' Index posted 54.6 in February, down from December's two-and-a-half year high (56.1). Export orders increased for the ninth consecutive month, with improved sales to Ireland, mainland Europe, Asia, Australia, the USA and Canada. ⁽⁶⁾

CIPS Services Purchasing Managers' Index – February 2017



Services

- **The UK service sector continued to expand in February, but growth was much slower than the average for 2016.**
- In February the Index stood at 53.3, down from 54.5 in January with service sector growth at its slowest since September 2016 (53.7). Rising energy costs and average input prices rising at their steepest pace since August 2008 have all contributed to the drop in the momentum of the sector's growth. ⁽⁷⁾

Trade, regulation and access to funding

Trade, rules and regulatory developments

- **March saw the House of Lords vote to amend the 'Great Repeal Bill' to force the Government to guarantee the rights of EU citizens living in the UK.** The House of Lords have also voted by a majority for the proposal to give Parliament the final say over Brexit. The change means that the PM may have to win a future vote in Parliament if she decides to see through pulling Britain out of the EU with no deal at all. However, Secretary of State for Exiting the European Union David Davis, stated an intention to reverse the change when the Bill returns to the Commons. He has also confirmed that there is no change to the Government's proposal to trigger Article 50 before the end of March.^(8,9,10)
- **Whilst the Budget did not make detailed reference to Brexit and trade, it did announce £270 million to launch the Industrial Strategy Challenge Fund.** Initial funding will support research and innovation in universities and businesses, in areas like: developing artificial intelligence and robotics that will work in extreme environments, like offshore energy, nuclear energy and space; designing and manufacturing better batteries for new electric vehicles that will help improve air quality; improving medicine manufacturing technologies to speed up patient access to drugs.⁽¹¹⁾
- **The Industrial Strategy Commission was also launched in March.** This is an independent inquiry to support the Industrial Strategy Green Paper Consultation (launched in January). The Commission is Chaired by British economist Dame Kate Barker and will publish its findings in July 2017. It aims to address the following key questions: What are the strengths and weaknesses of the UK economy? What are the future challenges and opportunities for an industrial strategy? What is the appropriate role for the state to play? What lessons can be learnt from past UK experience and international comparisons? Each of these questions has strong links to Brexit and the future health of the UK economy. For more information: <http://industrialstrategycommission.org.uk>
- **National Productivity Investment Fund.** The Budget announced transport spending as part of the National Productivity Investment Fund. The government is funding improvements to transport infrastructure, including: £690 million for new local transport projects, to improve congestion on roads and public transport; and £220 million to improve congestion points on national roads, with £90 million going to the North and £23 million to the Midlands.⁽¹¹⁾

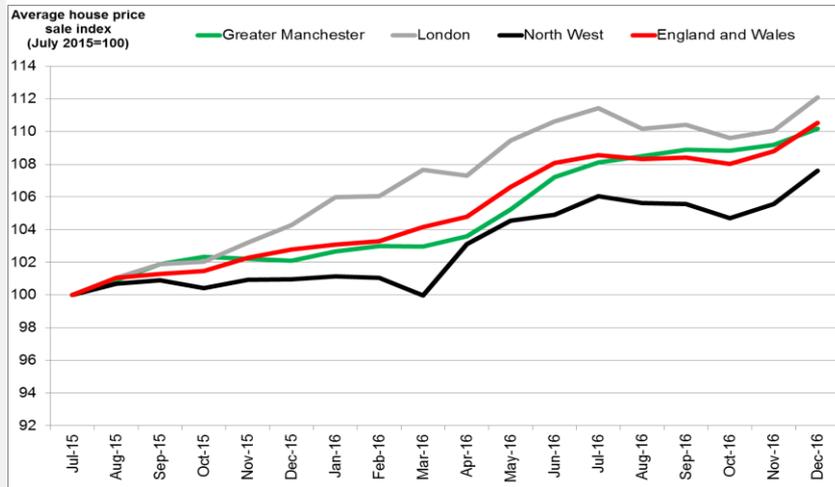
European Funding

- Following the announcement from Environment Secretary, Andrea Leadsom, on the remaining uncommitted funding from the **Rural Development Programme for England (RDPE) Growth Programme** in January, a national call for rural tourism infrastructure projects has been launched. Grants from £35,000 are available to GM organisations to fund the capital expenditure of tourism infrastructure projects that help the growth of the local rural economy and attract more visitors to the area.⁽¹²⁾

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.
- **The Housing White Paper ‘Fixing our broken housing market’** recognises the need to diversify the market through support for SME builders and encouraging new methods of construction. Post Brexit there is still a focus on affordable homeownership with measures such as Lifetime ISAs and maximum income limits on Starter Homes supporting this, but the Paper adds an acknowledgment of the need to increase affordable renting options, including making the private rented sector more affordable. ⁽¹³⁾

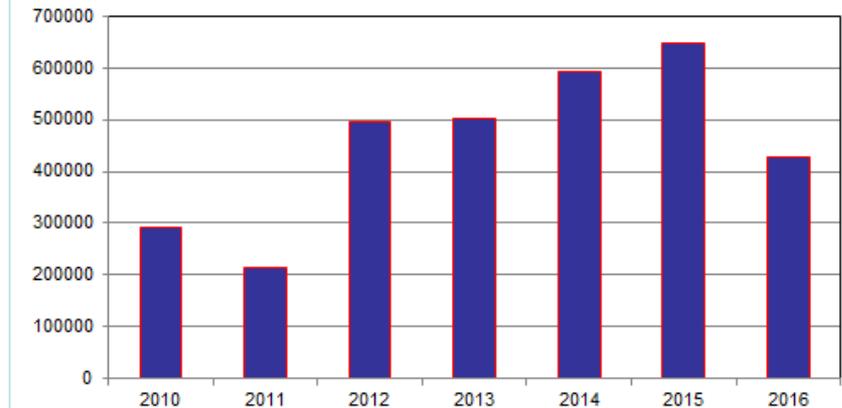
Average House Prices Sales (Index July 2015=100)



- **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 sales this period. The latest house price data for GM shows the average price of £153,500 (December 2016) is up from £152,200 the previous month, and up £10,000 on the value in December 2015. ⁽¹⁴⁾

Industrial Property and Investment

Square metres of industrial property sales & lettings, GM

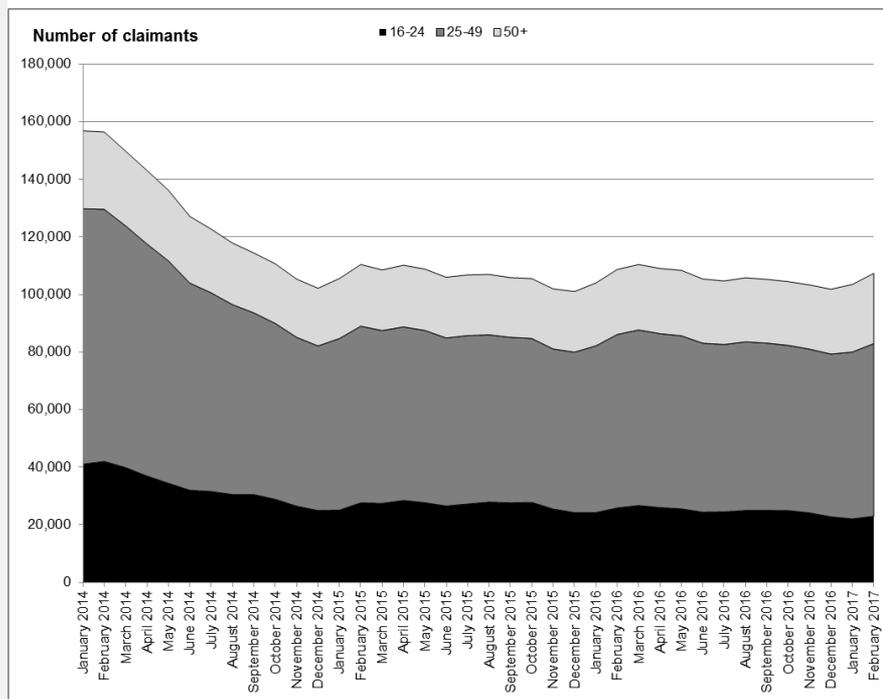


- **Industrial.** According to Cushman & Wakefield’s analysis of annual occupier take up data, the GM industrial property market saw over 400,000 sqm of sales/lettings in 2016 (excluding warehousing). Whilst the level of sales/lettings is down from what was recognised to be a record year, at over 600,000 sqm in 2015 following significant new supply, it is still in line with the seven year average suggesting that the industrial property market remains attractive in GM. ⁽¹⁵⁾

Economic Inclusion

- **The Inclusive Growth Commission final report, Making our Economy Work for Everyone, was launched 7 March.** Four key sets of recommendations are proposed for putting inclusive growth at the heart of public policy and finance: 1) Placed-based industrial strategies: Delivering business-led productivity and quality jobs; 2) A fundamental reset of the relationship between Whitehall and the town hall, underwritten in new social contracts; 3) Inclusive growth at the heart of public investment; 4) Making inclusive growth our working definition of economic success. ⁽¹⁶⁾
- **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. ⁽¹⁷⁾

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- **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.** ⁽²¹⁾
- 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).**

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