

# North West Brexit Monitor

Key economic and policy developments

January 2017

# Executive Summary

## Headlines

- **The latest economic indicators** highlight strong growth across UK. Purchasing Managers across the UK have reported rises in new business in the last quarter of 2016. **UK manufacturing started 2017 on a strong footing**, with exports growing at the fastest pace for the last two-and-a-half years. **The main risk to the economy is now thought to be inflation** from rising costs of materials, alongside rising fuel, IT, and wage costs.
- The **majority of economists surveyed by the FT (120 in 2015 and again at the end of 2016) remain pessimistic about Brexit's likely effect on Britain's longer-term economic prospects.**<sup>(1)</sup> This is despite Economists coming under pressure for their short term pessimism; incorrectly predicting the ability of the UK economy to remain resilient after the referendum result. The Bank of England's Chief Economist blamed the failure of economic models to cope with 'irrational behaviour' in the modern era.<sup>(2)</sup>
- **On 17th January the Prime Minister made a major speech setting out her objectives for the negotiation with the EU.** The speech outlined a 'hard Brexit' position, with the UK not seeking a deal that would keep the UK "half in, half out" of the EU. The key message was that the UK will leave the single market, but will push for a new "comprehensive free trade agreement" that will give "the greatest possible access" to the single market. The **Supreme Court ruling (24 January)** has ruled that the Government cannot trigger Article 50 without an act of Parliament. Latest: MPs backed the European Union Bill in the 01 February vote, and this is accompanied by the release of the Government's White Paper.<sup>(3)</sup>

## Macro economy

- **Indicators point to a strong finish to 2016**, which some economic commentators refer to as "The Sterling effect" - as PMI data shows Britain's manufacturing hit its best level since the summer of 2014, helped by rising export orders stimulated by a 18% depreciation in the pound against the dollar. Most economists still believe growth will slow in the longer-term to 1.5% in 2017.
- **The UK economy grew 0.6% from October to December**, maintaining the rate of growth of the previous quarter. The figures, from the Office for National Statistics (ONS), show that a feared slowdown in the UK economy as a result of Brexit has not shown up in official data. In 2016 as a whole, the economy grew by 2.0%, down from 2.2% in 2015. Growth in the July-to-September period was 0.6%, helped by "robust consumer demand" and greater output in the financial sector.
- **The Bank of England's Monetary Policy Committee (MPC)** expects inflation to rise from 1.3% in 2016 to 2.7% in 2017 and 2018, higher than in its last set of forecasts three months ago, and higher than the 2.0% inflation target.
- **Exports and the UK's deficit on trade in goods and services.** The UK's deficit on trade in goods and services was estimated to have been £4.2 billion in November 2016, a widening of £2.6 billion from October 2016, which reflects a £3.3 billion increase in imports, partially offset by a £0.7 billion increase in exports – mostly electrical machinery and transport equipment.

# Executive summary

## Key sectors and business investment

- **ONS Index of Services (IoS) showed output increased by 0.3% between September 2016 and October 2016 (latest).** Growth in the latter part of 2016 was consumer led, with retail sales contributing 0.14 percentage points to the overall increase.
- **The latest Markit Purchasing Managers (PMI) survey data shows that the UK manufacturing sector has started 2017 on a strong footing** driven by rising exports, and grew at the fastest pace in the last two-and-a-half years in December 2016.

## Terms of trade, regulation & access to European funding

- **The PM gave a major speech outlining her approach to the negotiations for exiting the EU, committing to giving MPs a vote** on the Brexit deal struck by the government following the negotiations with the EU. The PM also said her government would agree a phased implementation following agreement of the deal to avoid any “cliff edges”.<sup>(14)</sup>
- **On EU transnational funding,** On 4 January Environment Secretary Andrea Leadsom announced that the remaining European funding from the Rural Development Programme for England (RDPE) Growth Programme would be launched on a national call.. All LEPs in the NW have been given a notional allocation from the RDPE Programme.

## Property investment, housing and planning

- **The Chancellor’s Autumn Statement** speech included a **commitment to investment in infrastructure and innovation**, and 1.0% to 1.2% of GDP will be invested in the recommendations of the National Infrastructure Commission (0.8% at present).
- **Official Housing Index** data shows that average UK house prices rose by 0.8% in December, taking the annual increase to 4.5%. However, prices have curtailed in the last few months in both London and the North West.
- **The investment market has been resilient since the Referendum.** For example, take-up in central Manchester reached 681,901 sq ft Q1-Q3 of 2016. Q3-2016 was the strongest in 2016, totalling 266,644 sq ft, 8% higher than the five-year average.

## Economic inclusion

- **Household Finance Index (HFI)** results for November 2016 show households signalling the strongest inflation expectations since 2014. Bank of England data show that personal debt grew 10.8% year-to-November 2016, the highest since December 2008.
- **Since the referendum result on 24th June 2016, the claimant count unemployment has fallen in the North West by 3.5% from 105,000 to 102,000.** The claimant rate in December 2016 was 2.3% of the working age population, compared with 1.8% in the UK. Within the region the rate varies from 2.8% in Liverpool CR, 2.5% in Greater Manchester, 2.1% in Lancashire, 1.5% in Cumbria, and 1.3% in Cheshire and Warrington.

# Macro-economic trends and developments

## Macro-economy

- **The UK economy grew 0.6% from October to December**, maintaining the rate of growth of the previous quarter. The figures, from the Office for National Statistics (ONS), show that a feared slowdown in the UK economy as a result of Brexit has not shown up in official data. In 2016 as whole, the economy grew by 2.0%, down from 2.2% in 2015. Growth in the July-to-September period was 0.6%, helped by "robust consumer demand" and greater output in the financial sector. <sup>(4)</sup>
- **Bank of England Agents' Summary of Business Conditions, 2016 Q4**, suggests UK growth had edged up from the same time last year, but businesses remain cautious about prospects for 2017. Falls in sterling have led to higher goods export volumes. Consumer demand had been boosted by rising tourist spending. Firms' intentions pointed to only small increases in investment in 2017. Input cost inflation had picked up sharply in 2016, but wage growth had remained stable. <sup>(5)</sup>
- **The UK's deficit on trade in goods and services** was estimated to have been £4.2 billion in November 2016, a widening of £2.6 billion from October 2016, which reflects a £3.3 billion increase in imports, partially offset by a £0.7 billion increase in exports. The widening of the deficit in November 2016 is attributed to trade in goods in which there were increased imports from both EU and non-EU countries, partially offset by an increase in exports to EU countries, mostly finished manufactures of electrical machinery and transport equipment. <sup>(6)</sup>
- **Lloyds Bank Regional Business Activity (Output) Index** shows business activity growth hits 18-month high at the end of 2016. England and Wales business activity rises at fastest rate for 18 months. Rising order books point to promising start to 2017, reflected in employment growth. Inflation of prices charged for goods and services fastest since May 2011. Most regions record strong and accelerated growth, led by the East of England, followed closely by the South West and West Midlands (both 58.7 – a figure over 50 shows positive growth). These were then followed by Yorkshire (57.7), then South East, the North West, and North East (56.8). The East Midlands (56.0) was the slowest despite also recording growth. <sup>(7)</sup>

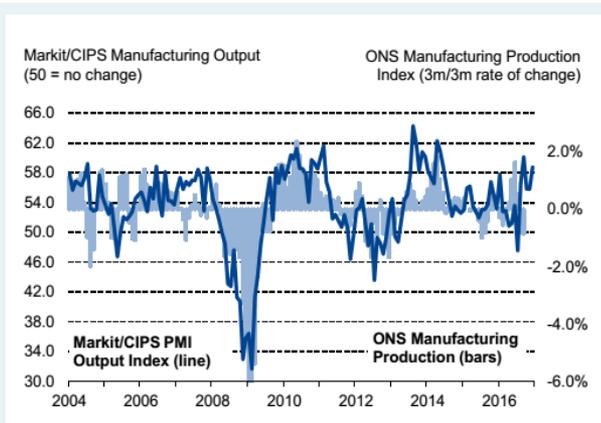
## Consumer sentiment

- **Consumer Trends.** Spending on goods and services by UK households when compared with the same quarter a year ago has been showing positive growth each quarter since Quarter 4 2011. It was 2.6% higher in Q3-2016 than in Q3-2015. <sup>(8)</sup>
- **The Consumer Prices Index (CPI)** rose by 1.2% in the year to November 2016, compared with a 0.9% rise in the year to October. The rate in November was the highest since October 2014, when it was 1.3%. Rises in the prices of clothing, fuels and recreational goods, most notably computers, were the main contributors to the increase. <sup>(9)</sup>

# Key sectors & business investment

## Key sectors and business investment

- **Industrial Strategy.** The Prime Minister has unveiled plans for a new, more interventionist, industrial strategy, designed to boost the post-Brexit UK economy. The plan was published in a green paper as she held her first regional cabinet meeting in the North West of England. Broadband, transport and energy are highlighted in a bid to "align central government infrastructure investment with local growth priorities". The 10-point plan involves: Investing in science, research and innovation; Developing skills; Upgrading infrastructure; Supporting business to start and grow; Improving government procurement; Encouraging trade and inward investment; Delivering affordable energy and clean growth; Cultivating world-leading sectors; Driving growth across the whole country; Creating the right institutions to bring together sectors and places. (10)



## Manufacturing

- Manufacturing PMI stands at a **30 month high (56.1)** with the latest **Markit/CIPS Manufacturing Index** once again outlining **upturns in output, new orders and employment.** (11)
- **New export business increased for the seventh successive month in December**, with companies reporting increased levels of new work from the USA, Europe, China, Middle East, India and other Asian markets. (11)
- Construction output also increased, lifted by increased new orders and a general rebound in business conditions. However, input prices also continue to rise sharply and are at their highest level since April 2011. (12)



## Services

- Markit/CIPS Services PMI data for December highlights the continuing growth of the UK's dominant sector, as **total business activity and new business expansion accelerated at the fastest pace since July 2015**, with the Index rising to 56.2. (13)
- Employment growth in the service sector is stable, and remains unchanged from November's seven month high, **however employment growth over 2016 as a whole was weaker in comparison to 2013, 2014 and 2015.** (13)

# Trade, regulation and access to European funding

## Trade, rules and regulatory developments

- **The Prime Minister's speech (17 January)** set out her objectives for the Brexit negotiations with the EU, including maintaining the common travel area between the UK and Irish Republic, and "control" of migration between the UK and the EU. Negotiations are set to begin after notice under Article 50 of the Lisbon Treaty is served by the end of March. The most keenly awaited part of the speech dealt with the UK's post-Brexit trading relationship with the rest of Europe.
- Any agreement with the EU must "allow for the freest possible trade in goods and services", but the PM stated that what she was proposing could not mean retaining any membership of the single market. She also said she did not want the country to be "bound" by the shared external tariffs. Instead, the UK would be "striking our own comprehensive trade agreements with other countries". The PM also said her Government would agree a phased implementation largely to help avoid a "cliff-edge" for businesses after a UK exit, and suggested that 'The Plan' should be published at the end of February 2017. <sup>(14)</sup>
- **Supreme Court ruling (24 January)** by a majority of eight to three, the Supreme Court has ruled that the Government cannot trigger Article 50 without an act of Parliament authorising it to do so. The judgement means Theresa May cannot begin talks with the EU until MPs and peers give their backing - although this is expected to happen in time for the Government's 31 March deadline. The court ruled the Scottish Parliament and Welsh and Northern Ireland assemblies did not need a say. <sup>(15)</sup>
- Latest: The PM is on course to start the two-year Brexit process next month after MPs voted by 498 to 114, a government majority of 384, for the bill that gives her the power to invoke the EU treaty's Article 50 exit clause. A white paper was launched on the 2<sup>nd</sup> February setting out a broad strategy for a new partnership between the UK and the EU although it is important to note that the Government were explicit in stating that they have avoided "publishing any detail that would undermine our negotiating position".

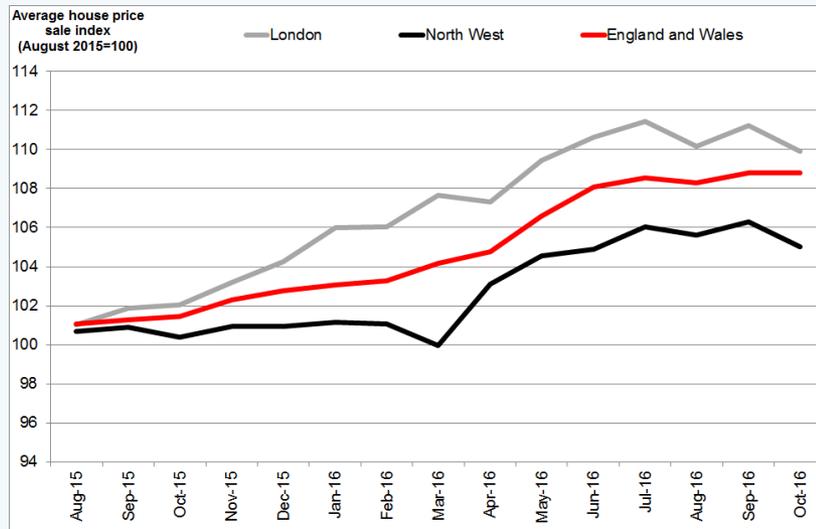
## European Funding

- On 4 January Environment Secretary Andrea Leadsom announced that the remaining European funding from the Rural Development Programme for England Growth Programme would be launched on a national call. The call was launched on 25 January covering Food Processing, Tourism Infrastructure and Business Development. All LEPs in the NW have been given a notional allocation from the RDPE Programme. The Call will be open until 31 January 2018 or until funding is allocated. <sup>(16)</sup>
- On 7 December Greater Manchester and Liverpool received a 3 Start Award each as European Reference Sites for Active and Healthy Ageing. The award is an international recognition to regions and cities that are seen as "highly inspirational ecosystems, delivering creative and workable solutions to improve the lives and health of older people". Liverpool and Greater Manchester will hold the Reference Site status for 3 years.
- On EU transnational funding, the Interreg Europe Programme announced the successful applicants from their 2016 call. A total of 66 projects were approved with 8 of them led by UK organisations, including one from Oldham on community energy. <sup>(17)</sup>

# Property and investment, housing, and planning

- **The Chancellor's Autumn Statement speech** included a commitment to investment in infrastructure and innovation, and that between 1.0%-1.2% of GDP will be invested in the recommendations of the **National Infrastructure Commission** (0.8% at present). The £23 billion **National Productivity Investment Fund** (NPIF) programme announced will be targeted at four areas to improve productivity: Housing, Transport, Digital Communications and Research and Development. The £2.3bn new **Housing Infrastructure Fund** is part of the NPIF, and is allocated to "provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest." Further infrastructure spend included £1.1bn to upgrade local roads/public transport; and £1bn for digital infrastructure. <sup>(18)</sup>

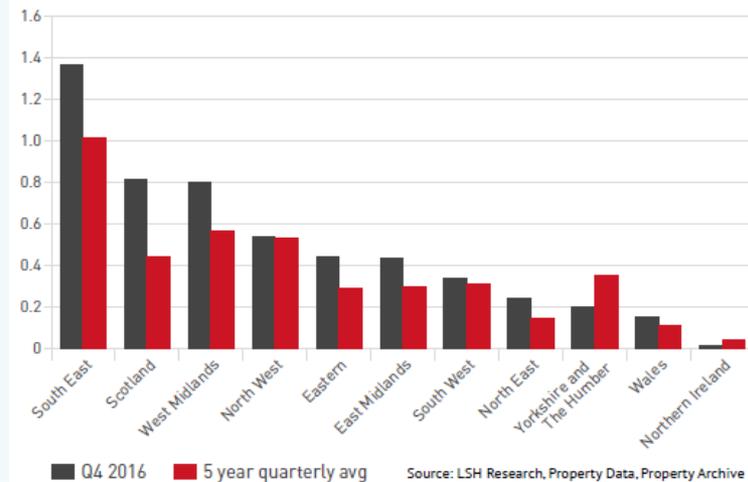
## Average House Prices Sales (Index August 2015=100)



- Official Housing Index data from the Land Registry suggests the vote to leave the EU has had little impact on house prices, with moderate growth in average sales this period. <sup>(19)</sup>
- Average UK house prices rose by 0.8% in December, taking the annual increase to 4.5%, according to data from Nationwide. However, as illustrated in the chart opposite, prices have curtailed in the last few months in London and the North West.

## Property and Investment

### REGIONAL INVESTMENT VOLUME (£BN)

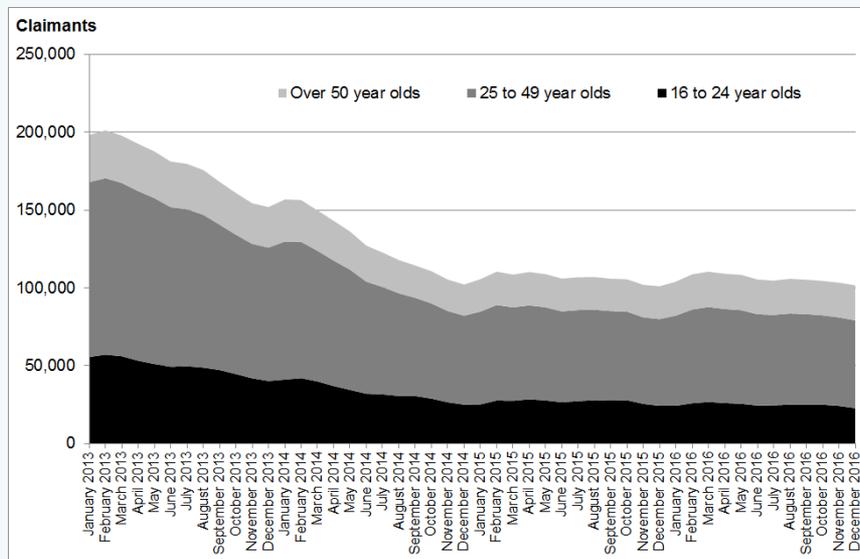


- According to Lambert Smith Hampton, Alongside Central London offices, the rebound in Q4 also reflected strong activity in the UK's regional office markets – including the North West. Across 2016 as a whole, activity in the regions was healthy with annual volume up 8% on a 5 year average – boosted in particular by growth in Scotland and the West Midlands, <sup>(20)</sup>
- Office take-up in Manchester city centre reached 681,901 sq ft in the first three quarters of 2016. Q3-2016 was the strongest in 2016, totalling 266,644 sq ft, 8% higher than the 5-year average. Manchester also recorded the highest office rents outside London in 2016, at £35 per square foot. <sup>(21)</sup>

# Economic Inclusion

- **The Household Finance Index (HFI)** compiled by Markit Economics provides the earliest indication of changes in UK household finances each month. Results for November 2016 show **households signalling the strongest inflation expectations** since 2014. Household incomes also remain close to stagnation. <sup>(22)</sup>
- **Personal Debt.** Data from the Bank of England show personal debt grew 10.8% in the year to November 2016 to £192 bn in the UK, the highest level since December 2008. Bank of England statistics show that personal debt, including credit cards and bank loans (not mortgages or student loans) has been growing at a yearly rate of 10% in the past 6 months.
- **Inflation.** Whilst it is difficult to predict how things like changes in the value of the pound will feed through to the overall price level, and how inflation will change in the next 2 years, the Bank of England is expecting inflation to rise from 1.3% in 2016 to 2.7% in 2017 – which in turn will start to have an impact on living standards across the North West. <sup>(23,24)</sup>
- Delivering the annual Charity Commission lecture, Prime Minister Theresa May announced **a package of measures to transform mental health support in schools, workplaces and communities**, as part of her view to build a 'shared society'. The new measures have a focus on care, early intervention, support for children and young people. <sup>(25,26)</sup>

## North West Claimant Count (JSA and UC) unemployed by age



- **Since the EU referendum result on 24th June 2016, the claimant count unemployment has fallen in the North West by 3.5% from 105,000 to 102,000.** <sup>(27)</sup>
- The claimant rate in December 2016 in the North West was 2.3% of the working age population, compared with 1.8% in the UK. Within the region the rate varies from 2.8% in Liverpool CR, 2.5% in Greater Manchester, 2.1% in Lancashire, 1.5% in Cumbria; and 1.3% in Cheshire and Warrington.
- Year-on-year (December 2015 to 2016) analysis of change in the number of unemployed claimants shows the total for the region was up by just over 600. By age group the main findings were:
  - **16 to 24 year olds:** There were 22,720 young people claiming JSA/UC in December 2016, down 1,475 or -6.1% on December 2015.
  - **25 to 49 year olds:** There were 56,395 residents claiming JSA/UC in December 2016, up 610 or 1.1% on December 2015.
  - **50+ year olds:** There were 22,545 residents aged 50+ claiming JSA/UC in December 2016, up 1,485 or 7.1% on December 2015.

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