

# **North West Brexit Monitor**

Key economic and policy developments

September 2016

# Executive summary

**After a series of disappointing data in July, latest figures suggest the UK economy has rebounded somewhat, with increased confidence and output across key sectors. While the ONS announced that there has been ‘no major effect’ on the economy so far, growth prospects remain uncertain following the UK’s decision to leave the European Union.**

The impact will be determined by the trade relationship negotiated between the UK and the EU, and how the UK government reacts to its new-found potential policy freedom in the areas of migration and regulation.

Important context for this Monitor is the announcements by the UK prime minister at the Conservative party conference:

1. A “Great Repeal Bill” in the next Queen’s Speech, expected next April. Leaving the EU requires the repeal or at least substantial amendment of the 1972 legislation, as well as other statutes implementing EU law. The Queen’s Speech will repeal the European Communities Act 1972 as and when the UK leaves the European Union.
2. The deadline for invoking Article 50. This will be done, the PM said, before the end of March next year. Unless there is some agreement to extend time, meaning that the UK would cease to be a member of the EU by 2019.

**This briefing monitors the economy post the EU Referendum with both leading and lagging indicators to assess the impact of this landmark decision on Greater Manchester. It will be used to inform North West’s Brexit response, including relationships with key Central Government departments.**

## Macro economy:

- ONS and Market PMI data suggests a bounce-back in the UK economy, with **surveys from Gaff and Lloyds showing increased business activity and consumer confidence in the North**. Following warnings of the impact on the economy prior to the referendum, **the OECD upwardly revised growth forecasts from 1.7% to 1.8% for 2016**, though 2017 estimates have been cut further, to just 1% growth. **Other forecasters and credit agencies continue to downgrade near- and medium-term forecasts** to reflect the uncertainty surrounding the UK economy.
- **HM Treasury remains silent ahead of the Autumn Statement**, while Mark Carney defended the BoE’s decision to lower interest rates, thereby supporting the rebound in business sentiment. **Government is also developing its Industrial Strategy, which is expected to set out the principal economic direction of this parliament**, with the BIS Committee having invited written submissions to their forthcoming inquiry of any proposals.

# Executive summary

## Sectors & business investment:

- Overall production of goods in the economy increased in July, however **regional stakeholders may be concerned that a sharp fall in manufacturing output was masked by a rise in oil & gas production**. PMI data finds that **the service sector has recorded increased output and new business, with more optimistic expectations for the future**. However, this is tempered by CBI research which suggests lower business volumes and decreased confidence in the last quarter 2016.

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

- To date there have been **no decisions related to terms of trade and rules and regulations**, though David Davis (Secretary of State for Exiting the European Union) suggests that the UK may need to exit the Single Market to secure limits on migration.
- The Chancellor of the Exchequer has announced that ESIF (ERDF and ESF) projects **with contracts signed by Government before the Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the EU**. This includes applications that are currently with Government for consideration, and that can be under contract by the time of the Autumn Statement – to be published on 23 November 2016 .

## Property investment, housing and planning:

- To date, there have been **no announced changes to local or national planning policy**.
- While **Royal Institute of Chartered Surveyors** suggested a drop in house prices in the immediate to short-term after the referendum, in September, members have predicted an average 3.3% rise in prices over the next 5 years.
- Official **Housing Index data** from the **Land Registry** suggests Brexit has had little impact on house prices to date.

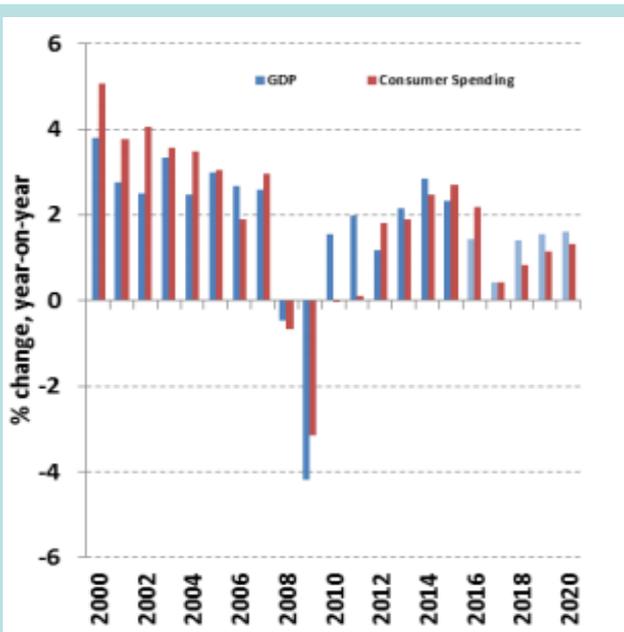
## Economic inclusion:

- The RSA Inclusive Growth Commission has released its interim report, finding that the **vast majority of high-Brexit areas had more workers earning below the living wage than the UK average**, and that high-Brexit areas were focussed on older industrial areas in England and Wales - with the NW scoring highly on both metrics.
- Labour market effects are typically a lagging indicator and at this stage it is **too early to assess the impact of Brexit**. NW claimant count rose slightly in August, in contrast to 4 months of decline, while the ILO unemployment rate for the NW increased slightly, putting it above the UK rate.
- Inflation remained at 0.6% in August, resisting BoE predictions for the rate to rise to 0.8% in 2016 (0.4% previously forecast).<sup>3</sup> However, **increased prices across import-price sensitive components of the CPI suggest increasing inflationary pressures in the medium-term**.

# Macro-economic trends and developments

## Macro-economy

- **Latest economic data suggests that the UK economy has rebounded from the initial shocks of the Brexit vote**, with increases across key Market PMI indices<sup>1</sup>. However, prospects remain mixed in the medium- to long-term, with **Standard & Poor suggesting positive signs ‘may prove to be a mirage,’** only making up for ground lost in July<sup>2</sup>.
- In its first forecast since the referendum, **The British Chamber of Commerce has downgraded its UK GDP growth predictions**, forecasting 1.8% in 2016, 1.0% in 2017 and 1.8% in 2018, down from 2.2%, 2.3% and 2.4% respectively<sup>3</sup>. Experian have maintained their 0.4% growth forecast for 2017, with longer-term growth forecast at 1.8% for 2018 to 2022<sup>4</sup>.
- Responding to claims that the BoE overreacted by lowering interest rates to 0.25% and providing additional monetary stimulus, **Mark Carney has defended the bank’s decision, claiming its actions contributed to the bounce-back in business sentiment witnessed over the last month**<sup>5</sup>.
- **HM Treasury appears to be maintaining its policy of silence ahead of the Autumn Statement**, which is now confirmed for 23 November 2016<sup>6</sup>, with no significant policy announcements since the referendum result.



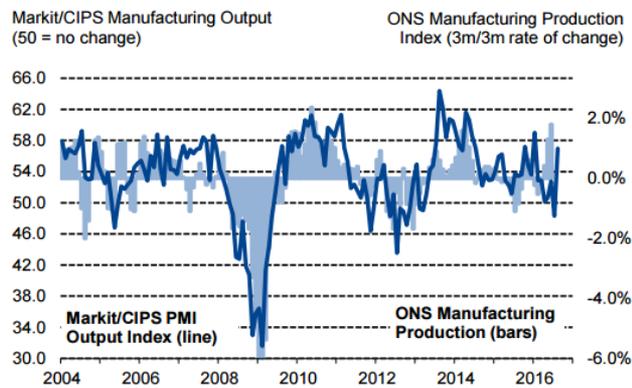
## Business and consumer sentiment

- Market's Purchase Managers Index (PMI) for August suggests firms across the economy have shrugged off the initial shock of the Leave vote, with Services sector firms linking positive output expectations to export opportunities, reduced uncertainty and stable markets.
- The North West experienced the largest increase in business activity across all English regions, according to Lloyds Bank's Regional PMI Survey, rising from 49.2 to 55.7 in August – a 7 month high<sup>7</sup>.
- The Gaff Consumer Confidence Barometer bounced-back in August, with the core index for the North increasing by 9 points to -5, recovering July's losses. This trend was reflected across the country, with increases across all five measures used to calculate the index<sup>8</sup>.

# Key sectors & business investment

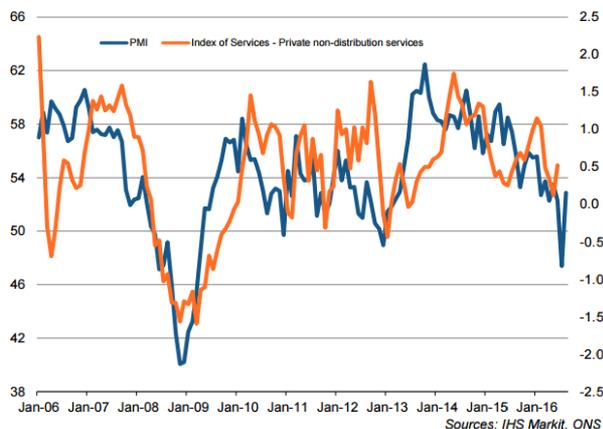
## Business Investment

- Latest data from EEF, the manufacturing industry body, continues to position the NW at the heart of the UK's manufacturing industry, highlighting £23.7m worth of output – 16% of total regional output – and employment of 350,000 people<sup>9</sup>.
- The 2016 Fact card, supported by Santander, emphasises the Northwest's concentration of chemicals and pharmaceuticals, and transport manufacturing, reinforces the latter's regionally significant concerns about the negative consequences of potential future import/export tariffs on component and complete product sales.



## Manufacturing

- We now have access to the first full month of post-referendum ONS production data. Overall, production increased by 0.1% in July compared with June<sup>10</sup>, though this was grounded in a rise in oil and gas production, **with a fall in manufacturing posing relatively greater risk to GM.**
- However, Market's Manufacturing PMI rebounded in August, posting 53.3 – up 5.1 on July's post 2013 low of 48.2. Production and new orders both increased, with exports benefitting from the low price of sterling. Input costs increased, though, raising the risk of inflation further down the line.



## Services

- **Market/ CIPS UK Services PMI showed increases in both output and new business, with expectations rebounding from July's 89-month low.** Similarly, jobs in the services sector also bounced-back, following a pause in July.
- However, these figures are tempered by research from the CBI, which found that the growth of business volumes in the Business and Professional Services sector fell in the last quarter – with a sharp fall in confidence. **These divergent findings highlight the persistent volatility in the services sector resulting from the current political uncertainty.**

# Terms of trade, regulation and access to funding

## Terms of trade, rules and regulatory developments

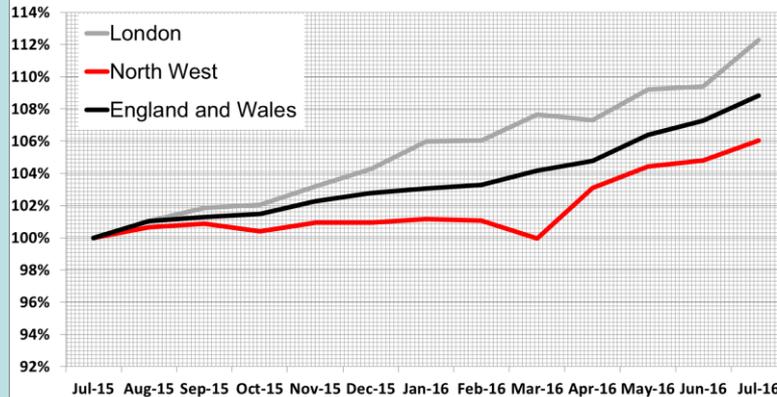
- Theresa May has stated that **Government will no longer provide a running commentary of negotiations**. However, David Davis, the Secretary of State for Exiting the EU<sup>11</sup>, has said **the UK's securing of increased migration control may be incompatible with membership of the single market**. Theresa May's spokesperson was quick to rebuff this, saying it is 'not government policy'<sup>12</sup>.
- The EU has appointed lead negotiators for Brexit, appointing Michel Barnier and former Belgium PM Guy Verhofstadt. **Both are seen as ardent Europhiles and likely to be strongly opposed to any watering down of the EU's fundamental freedoms** – free movement of goods, capital, business and – importantly – people<sup>13</sup>.
- There remains no clear timetable for new trade deals. **US President Barack Obama said at the recent G20 Summit in China that the UK won't be prioritised in free trade talks**, though it remains possible that this policy may change after Presidential Elections in November<sup>14</sup>.
- Similarly, the Japanese Government has warned that, having invested heavily in the UK as a trade gateway to the EU, **Japanese firms may look to relocate their European Headquarters to the European continent**, should UK/EU terms of trade deteriorate<sup>15</sup>.

## Access to European funding

- The Chancellor of the Exchequer has announced that ESIF (ERDF and ESF) projects with contracts signed by Government before the Autumn Statement will be fully funded, **even when these projects continue beyond the UK's departure from the EU**. This includes applications currently with Government, and that can be under contract by the Autumn Statement.
- Government will also consider further calls for projects up to and post the Autumn Statement, however these calls will be subject to new criteria, that is currently under development.
- **There is uncertainty regarding the continuation of some European-UK science partnerships**. The pressure group Scientists for EU have reported 371 individuals describing adverse effects immediately after the referendum, including 100 reports of people who are planning to leave the UK and 40 disruptions to Horizon 2020 projects.
- Furthermore, universities are concerned that, while current staff may feel secure, **it may become more difficult to attract talent in future**, with the risk that some potential researchers may be dissuaded from applying to funds such as the Marie Curie EU programme if their future permissions to work in the UK are at risk.

# Property investment, housing and planning

Average house price sale (Index=100)



Source: Land Registry, House Price Index, August 2016

## Housing

- **Brexit impacts have not yet fed through to local data on house sales.** New Economy is therefore monitoring monthly sales data to contextualise any changes in July.
- **RICS predict a drop in house prices in the immediate to short-term as demand falls.**<sup>21</sup>
- There has been no change to Government housing policy, which pledges to **build 250,000 home in the UK per year.**
- As of July 2016, South Lakeland has the highest average house price in the region, whilst Burnley has the lowest. These are both below the England and Wales average of £222,000.

## Property Investment & Planning

Share Prices £	23rd Jun	10th Aug	% change
<b>Barratt</b>	577.5	435	-24.70%
<b>Redrow</b>	426.6	338.2	-20.70%
<b>Taylor Wimpey</b>	192.5	153.2	-20.40%

**Share prices in residential building companies fell sharply after the referendum, with Redrow, Barratt and Taylor Wimpey experiencing falls of over 20% between the 23rd June and the 10th August. However, by 5th September prices had rallied to 10-15% below 23rd June figures.** <sup>19</sup>

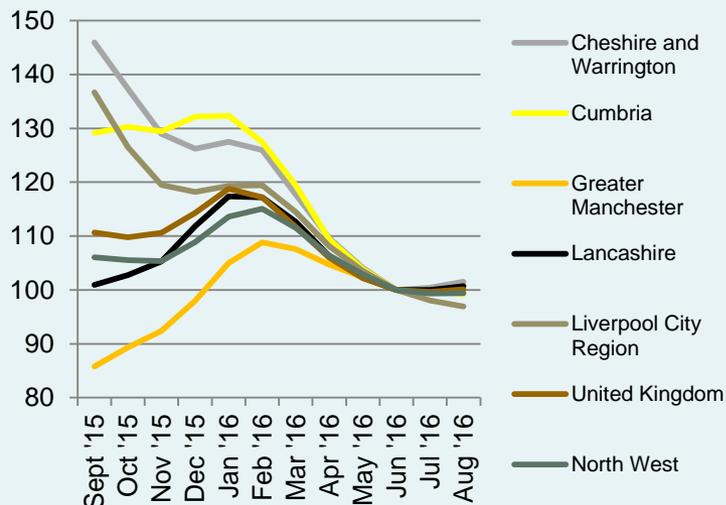
- Following an 89-month low in July, Savills Commercial Development Activity index saw an easing of the downturn. However, while private new build activity rebounded, all other sectors saw further declines – particularly public retail & leisure projects. Commercial developers are said to be downbeat regarding the three-month outlook for activity<sup>20</sup>.
- CBRE predict heightened uncertainty and reduced foreign investment will have an adverse effect on the UK property market and property returns may shrink by one percentage point in 2017.<sup>21</sup>
- In the second quarter of 2016, there was a 2.6% increase in the number of dwellings started in the North West compared to the second quarter of 2015, from 71,100 to 73,300. There was a decrease of 3.4% in the number of dwellings completed, from 70,200 to 67,800.<sup>22</sup>
- To date, there have been no announced changes to local or national planning policy.

# Economic Inclusion

## Policy response

- **Achieving higher levels of economic inclusion is an aspiration for councils across the North West.** The RSA's Inclusive Growth Commission released its interim report in September with a final report due in Spring 2017. Interim recommendations stress the importance of recognising the value and differences between places, be they city regions or non metropolitan areas, and in understanding the role that they can play in driving economic growth. The correlation between disadvantaged and old industrial areas with high-Brexit votes was noted and should be factored into decision making. Furthermore, the commission emphasised the importance of filling the gap left by European Social Funding and the European Investment Bank<sup>23</sup>,
- Responding to David Cameron's resignation as MP for Witney, **Theresa May reiterated her ambition to lead the UK as a 'one nation' Prime Minister.** This was reinforced by Phillip Hammond during his first session with the Economic Affairs Committee, where he suggested that a new fiscal framework may be geared towards short term projects that go to **'the heart of the Prime Minister's agenda of creating an economy that works for everybody'**<sup>24</sup>.
- The Government has proposed controversial reforms to the education system, expanding grammar school provision and enabling all state schools to select pupils by academic ability. While access conditions are included in the proposal, including taking a share of pupils from low-income families, there has already been cross-party criticism of the plans, which are likely to intensify as the policy is developed<sup>25</sup>.

## ONS Claimant Count (June Index = 100)



## Unemployment and economic activity

- Recruitment and Employment Confederation research shows increases in permanent placements and temp billings in August in the North, **with the latter growing faster than in any other region. However, salaries rose at a slower rate in August**<sup>26</sup>, which may pose risks to living standards if inflation rises.
- **NW combined claimant count (Universal Credit & JSA) increased by 0.7% in August, in contrast to 54 consecutive months of significant decline.** ILO unemployment also rose in the NW, from 4.9% to 5.1% - moving it above the national level, which remained at 4.9%.
- Inflation remained at 0.6% in the year to August – well below the BoE 2% target. However, underlying components of the CPI will start to see upward pressure as input prices rise for producers, especially for those components – such as transport – with high import prices.

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