

The North West Brexit Monitor

Key economic and policy developments

August 2016

Executive Summary

The UK voted to leave the European Union on 23rd June and uncertainty remains as to the longer term socio-economic impact of this decision. 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.

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

Macro economy:

- **The North of England has recorded a particularly sharp fall in consumer confidence** according to the GfK Survey
- **The majority of forecasters have downgraded their short term forecasts to reflect the impacts of Brexit to the UK economy** and a particularly large fall in business confidence has been felt across London and South East
- The Bank of England (BoE) Monetary Policy Committee (MPC) has reacted by **lowering interest rates to 0.25%, announced an additional £70bn of Quantitative Easing and £100bn of funding to banks to promote lending.**

Sectors & business investment:

- **Both Services and Manufacturing experienced falls in confidence** and a survey by EEF found that North West manufacturing companies had the lowest confidence in the UK, with 25% unable to find any benefit of leaving the EU.
- A survey taken by the Business Growth Fund Climate Index which poll entrepreneurs and business leaders across the North, found 83% maintained a positive outlook for business in the long term.

Executive Summary

Terms of trade, regulation & access to European funding:

- To date **there have been no decisions made over terms of trade or regulation.**
- The Chancellor Phillip Hammond has issued a statement ensuring **all EU structural and investment funding secured before the Autumn statement will be backed by the Treasury until 2020.**

Property investment, housing and planning:

- To date, **there have been no announced changes to local or national planning policy.**
- **Brexit impacts have not fed through to local data on house sales, yet RICS do predict a drop in house prices in the immediate- to short-term as demand falls.**
- Uncertainty in the property market, with major developers recording sharp fall in share prices, may also be compounding declines in the construction sector.

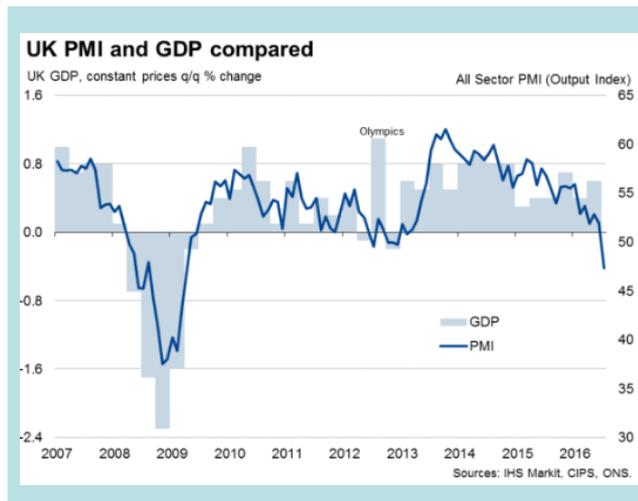
Economic inclusion:

- The RSA's Inclusive Growth Commission is due to release its interim report in September and is expected to identify potential measures of 'inclusive growth' which can be adapted to the different circumstances faced by areas within the region and beyond. Building on this research, **New Economy will be monitoring the impact Brexit has upon inclusion.**
- **Labour market effects are typically a lagging indicator and at this stage it is too early to assess the impact of Brexit.** Unemployment has fallen steadily in the North West and is now in line with the UK. Particularly so in the Liverpool City Region which has fallen by 2.4% over 2015 to 6.0%, less so in Greater Manchester which remains at 6.6%. Positively across the North and in contrast with the rest of the UK, there was a rise in permanent job placements in July, albeit at the weakest rate in over three years.
- **The BoE expects inflation to rise** to 0.8% in 2016 (0.4% previously forecast). The most recent inflation figures show inflation rose in July to 0.6% from 0.5% in June. Inflationary changes post the EU Referendum will be available for subsequent editions of the Monitor to examine the squeeze on households.

Macro-economic trends and developments

Macro-economy

- **The majority of forecasters have downgraded their short-term forecasts to reflect the impacts of Brexit to the UK economy.** Oxford Economics short term UK GDP growth forecast now projects 1.4% growth in 2017 and 2018, down from 2.3% and 2.2% respectively¹. Similarly Experian have also downgraded their UK GDP growth projections, forecasting just 0.4% UK GDP growth in 2017² **Over the longer term the impact is more uncertain**, scenario work by Oxford Economics has predicted that impact could range from no impact to a 3.9% contraction in long term GDP by 2030 depending on outcomes of the Government's negotiations.
- **The BoE also downgraded its UK growth forecasts**, with 2016 GDP growth remaining at 2%, 2017 growth falling from 2.3% to 0.8% and 2018 growth from 2.3% to 1.8%. **BoE expects inflation to rise** to 0.8% in 2016 (0.4% previously forecast), 1.9% in 2017 (from 1.5%) and 2.4% in 2018.⁴ The latest figures show inflation rose by 0.1% to 0.6% in July⁵.
- **The MPC has voted to lower interest rates to 0.25%**, with Governor Carney stating banks had 'no excuse' not to pass rates cuts to customers. A £70bn increase to Quantitative Easing was also announced, with £60bn to purchase Government bonds and £10bn corporate bonds. **The BoE also announced £100bn of funding to banks to promote lending.**⁶
- To date, there have been no fiscal policy announcements from Government, with Phillip Hammond, Theresa May's new Chancellor of the Exchequer, suggesting he will wait until the **Autumn Statement to 'reset' economic policy.**⁷



Business and consumer sentiment

- Markit's Purchase Managers Index (PMI) for July recorded the **sharpest contraction in the UK economy since 2009**, with both output and order books falling amongst respondents for the first time since 2012⁸.
- The GfK Consumer Confidence Barometer recorded the sharpest fall in its core index since 1994, falling 8 points to -9. **The North of England recorded a particularly strong fall, with confidence dropping 15 points**⁹.
- Lloyds Bank's Regional PMI Survey has indicated large decreases in business activity in London and the South East

Key sectors & business investment

Business Investment

Business Activity PMI went into decline in July 2016 for the North West Region to 49.2, down from 55.5 on the previous month the first contraction in business activity since December 2012¹⁰. However a survey taken by the Business Growth Fund Climate Index which polls entrepreneurs and business leaders across the North of England, found 83% maintained a positive outlook for business in the long term.

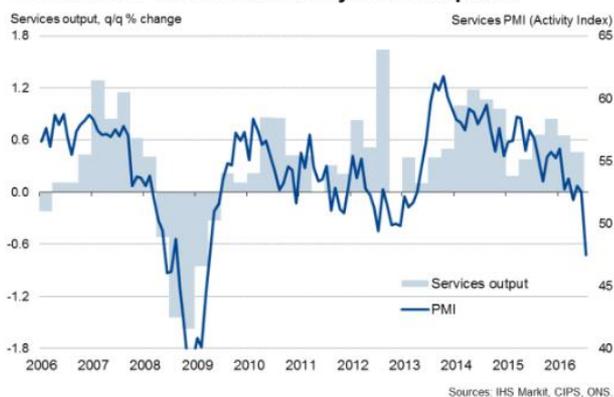
UK manufacturing: official and survey data compared



Manufacturing

- Markit's Manufacturing PMI fell to 48.2 the lowest level since 2013 and below the earlier post-Brexit flash estimate of 49.1. Reversing a marginal rise in activity in June, UK civil engineering experienced the largest downturn in the sector since 2013¹¹
- A survey by EEF found that North West manufacturing companies had the lowest confidence in the UK, with 25% unable to identify any benefit of Brexit and 59% concerned with weaker demand for manufactured goods¹².
- North and Western Lancashire Chamber of Commerce reported sales (-3%) and orders (-2%) for Manufacturing in Lancashire contracted in Q2 2016 in the run up to the referendum¹³

UK services: official and survey data compared



Services

- Latest Markit data confirmed a PMI fall to 47.4 in the services sector. Commercial activity saw the largest downturn of all sectors, falling for the second month running, at the fastest rate since December 2009¹⁴.
- The EY Item Club suggests financial & professional services, which makes up 13.5% of employment in the Liverpool City Region¹⁵ and 21% in Greater Manchester¹⁶, is well-placed to ride out current uncertainty as a result of its robust global presence, higher capital requirements and liquidity, and rigorous regulation¹⁷.
- The Deloitte North West Share Index found North West companies total market capitalisation fell by £1.4bn during the second quarter of 2016. However Cheshire and Warrington based United Utilities increased their market cap by £750m. The Stobart Group, based in Cumbria, and Manchester company Boohoo.com both increased their market values by £100m.

Terms of trade, regulation and access to funding

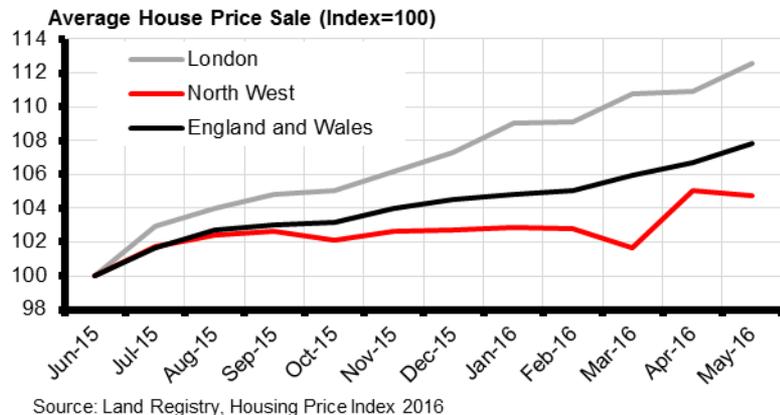
Terms of trade, rules and regulatory developments

- BREXIT will require renegotiations of the terms of trade between the UK and EU, and non-EU countries where the UK has benefitted from EU trade agreements. At this stage, there is no clear timetable for new trade deals, though **negotiations around the 'Fundamental Freedoms' of movement in goods, services, capital and labour will likely prove critical.**
- The majority of EU rules and regulations are embedded in UK law. Given these number in the tens of thousands, it will be important to undertake analysis to inform the Government's review of legislation. **New Economy, working with Core Cities, have begun work on this with the analysis to be completed by the Autumn.**
- Nevertheless, **changes to State Aid rules (by repeal or replacement) would change the parameters for the North West's services to businesses** – with significant implications if local areas start to compete against one another. To date there have been no announcements on changes to procurement processes for public agencies.

Access to European funding

- The Chancellor Philip Hammond has stated that **all European structural and investment funding and Horizon 2020 funding signed before the Autumn statement will be guaranteed by the Treasury until 2020.** This includes £5m for the Graphene Engineering Innovation Centre at the University of Manchester as well as the £1m EU funded scheme to tackle unemployment across the Liverpool City Region. Farming and fishing across the North West will continue to receive subsidies under the Common Agricultural Policy and the European Maritime and Fisheries Fund.
- The North West LEPs were allocated a notional total of €1.1bn in funding from the European Structural Investment Fund (ESIF) for 2014-2020¹⁸. EU funding is distributed based on GDP compared to the EU average, with more funding given to poorer regions. As a result, **the North West would be disproportionately affected compared to the UK if this funding, and the significant amount of funding not committed within the ESIF programme by the Autumn Statement, is not continued after 2020.**
- 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.¹⁹
- EU funding created an estimated 29,795 jobs across the North West from 2007 to Feb 2016, demonstrating the long term effect of EU funding.²⁰

Property investment, housing and planning



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.**²¹
- There has been no change to Government housing policy, which pledges to **build 250,000 home in the UK per year.**
- As of May 2016, Cheshire and Warrington has the highest average house price in the region (£192,000), whilst the Liverpool City Region has the lowest (£129,000). These are both below the England and Wales average of £222,000.

Property Investment & Planning

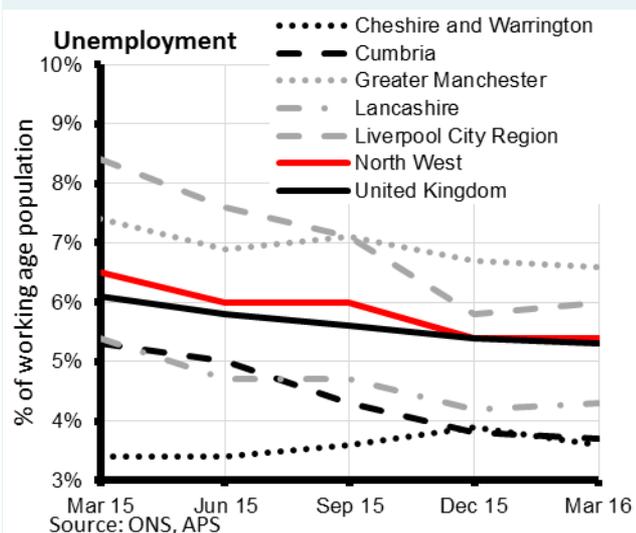
Share Prices £	23rd Jun	10th Aug	% change
Barratt	577.5	435	-24.70%
Redrow	426.6	338.2	-20.70%
Taylor Wimpey	192.5	153.2	-20.40%

- **Share prices in residential building companies fell sharply in the immediate aftermath of the referendum,** with Redrow, Barratt and Taylor Wimpey experiencing falls of over 20% between the 23rd June and the 10th August.²²
- **Uncertainty in the property investment market may also be compounding declines in the construction sector,** which contracted for the second month running in July according to latest PMI data, with the sector suffering the fastest drop in output since 2009 and commercial activity hit particularly hard.²³
- **CBRE predict property returns may shrink by 1% in 2017**²⁴ due to heightened uncertainty and reduced foreign investment.
- **To date, there have been no announced changes to local or national planning policy.**
- Dwellings started increased by 32% in the North West in Q1 2016 (3,410 to 4,200), however dwellings completed decreased by 12% (3,330 to 2,290)²⁵, **these fluctuations are in line with seasonal demand and do not yet show the impact of the EU Referendum.**
- Greater Manchester had the greatest number of house sales as of March 2016 (4,893) followed by the Liverpool City Region (2,311) and Lancashire (2,093).²⁶

Economic Inclusion

Policy response

- **Achieving higher levels of economic inclusion is an important aspiration for many councils across the North West.** This reflects the substantial legacy that structural economic change has left on labour markets across the region. The region's largest metropolitan areas, through Liverpool and Manchester's membership of Core Cities, are co-sponsors of and contributors to the RSA's Inclusive Growth Commission. The Commission's interim report, due in September, is expected to identify potential measures of 'inclusive growth' which can be adapted to the different circumstances faced by areas within the region and beyond and could provide the basis of future monitoring work.
- On July 13th, Theresa May stated in her first speech as Prime Minister that she aims to **"make Britain a country which works for everyone"** and help those families who are "just managing" to get by.²⁷
- In the run up to her appointment, Theresa May argued that she wants to **ensure big business is made more accountable** by placing employees on executive boards and **making shareholders' annual votes on executive pay binding rather than advisory.**
- **Governor Carney believes UK unemployment will rise to 5.5% by 2018** and a survey by IHS Markit found UK recruitment took its sharpest drop since 2009.



placements rose in the North in July, compared with the sharpest national decline in seven years.²⁸

- Jobseeker's allowance/Universal credit and economic inactivity rates provide a monthly snapshot of labour market trends and inclusion. It is too early for the impact of Brexit to have fed into these figures. Unemployment has fallen steadily in the North West and **is now in line with the UK average.²⁹**
- **Economic inactivity is higher in the North West (25%) than the UK (22%).** The combined JSA/UC claimant rate is also higher in the North West (2.4%) than the UK (1.9%)²⁸. The claimant count fell at rate of 1.6% over July, above the national average (-0.8%).
- Inflation will be monitored to assess the effect on living standards. Current figures released in August show inflation rose to 0.6% in July from 0.5% in June³⁰, and **BoE predict rising inflation to 0.8% in 2016 (0.4% previously forecast).**
- Cumbria (3.7%) and Cheshire and Warrington (3.6%) have the lowest levels unemployment in the North West.

Sources (1)



¹ Oxford Economics

² Experian, UK Macro Economic Forecast, July 2016

³ Oxford Economics: Assessing the Economic Implications of Brexit

⁴ Bank of England, Inflation Report, August 2016

⁵ Consumer Prices Index, August 2016

⁶ Bank of England, Monetary Policy Summary, August 2016

⁷ Financial Times, 'Hammond: UK could 'reset' fiscal policy after Brexit', 22 July 2016

⁸ IHS Markit, UK All-Sector PMI. August 2016

⁹ GfK, UK Consumer Confidence Barometer Brexit Special, July 2016

¹⁰ Lloyds Bank: England and Wales Regional PMI, August 2016

¹¹ IHS Markit, UK Manufacturing PMI, August 2016

¹² EEF, the manufacturers' organisation, and BDO LLP, July 2016

¹³ North and Western Lancashire Chamber of Commerce: Lancashire Quarterly Economic Survey, Q2 2016

¹⁴ IHS Markit, UK Services PMI, August 2016

¹⁵ Liverpool City Region: Skills for Growth, November 2014

¹⁶ New Economy: Financial and Professional Services in Greater Manchester

Sources (2)

¹⁷ EY, ITEM Club, Financial Services, August 2016

¹⁸Sheffield Political Economy Research Institute: UK Regions and European Structural Investment Funding 2016

¹⁹Royal Institute for Chartered Surveyors; EU Referendum: Impacts for Property, Land and Construction

²⁰Sheffield Political Economy Research Institute: UK Regions and European Structural and Investment Funds, 2016

²¹Financial Times: Brexit Briefing

²²London Stock Exchange

²³IHS Markit, UK Construction PMI, August 2016

²⁴ CBRE Global Investors; What Brexit means for UK Property

²⁵DCLG Live Tables,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525683/LiveTable208.xlsx

²⁵Ibid

²⁶ Statement from the New Prime Minister Theresa May; <https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may>

²⁷ The Recruitment and Employment Confederation, 'Permanent placements fall at sharpest rate in over seven years', August 2016

²⁸NS NOMIS, JSA/UC Claimant Count

²⁹ONS NOMIS, JSA/UC Claimant Count; Annual Population Survey

³⁰Consumer Prices Index, August 2016