

North West Brexit Monitor

Key economic trends & developments – November 2018

November saw Prime Minister Theresa May secure backing from the cabinet and EU leaders for a draft withdrawal agreement between the UK and the EU, although the deal still faces passing through parliament with challenges remaining around ensuring UK access to the EU single market, access to UK waters for EU boats, and Gibraltar. UK GDP growth bounced back from a weak first half of 2018 to a strong 0.6% expansion in Q3. Most parts of the economy contributed with growth from services, construction and manufacturing. However, contrary to the previous quarters official statistics, current surveys suggests slowing growth in parts of the economy. Whilst Manufacturing's expansion was particularly noteworthy (as it had shrunk in Q1 and Q2 this year) the PMI survey of UK services shows growth slowing to its second lowest rate since the referendum in 2016. In the 12 months up to June 2018, unemployment stood at 4.2% in the North West, and down from 5.5% in June 2016, but above national rates.

Macro-Economic Trends & Developments

- **Despite stronger official figures for the previous quarter from ONS, latest surveys suggest that regional business activity growth in the North West witnessed a slowdown in October 2018, with the regional PMI for the NW falling to 51.8**, from 55.6 in September (above 50 = growth). This marked the weakest increase in private sector output since the shock to activity following the EU referendum in July 2016, with the regional PMI for the NW posting its weakest outturn since August 2016.
- According to estimates from the Office for National Statistics (ONS), **UK GDP grew by 0.6% between Q2 (April to June) 2018 and Q3 (July to Sept)**. Real GDP growth in Quarter 3 was driven by growth of 0.3% in July 2018, which stemmed from strong retail sales boosted by warm weather and the World Cup, as well as a low base reflecting the weaker start to the year. Construction output growth continued to pick up following a weak start to the year, while quarterly output in manufacturing rose for the first time in 2018.

Policy, Trade, & Regulation

- **The cabinet backed a draft withdrawal agreement between the UK and the EU following a special cabinet meeting on November 14th**. However, the draft withdrawal agreement has triggered a wave of resignations and letters of no confidence by Conservative Ministers and MPs who said that they cannot support the proposed agreement.
- To come into force, the Brexit deal requires approval by the UK cabinet, an EU summit, the House of Commons, and the European Parliament. **On a special 25th November summit this draft deal was accepted by EU leaders, leaving only agreement by the House of Commons and final sign off from European Parliament**.
- Prime Minister Theresa May has also sought backing from businesses for the draft withdrawal agreement, announcing to the CBI annual conference that her plan would provide a fair system that would help young people in the UK get jobs and training.
- On 28th November, the government published its economic impact analysis for post-Brexit partnerships.

Key Sectors & Business Investment

- Compared to official statistics on the previous quarters economic output, conditions in the UK manufacturing sector slowed sharply during October with the **UK Manufacturing PMI falling to a 27-month low of 51.1 in October**, down from September's downwardly revised reading of 53.6 (above 50 = growth). The **UK services PMI fell to 52.2 in October** from 53.9 in September, to signal the slowest rate of business activity expansion since March and second lowest since July 2016, the survey directly following the EU referendum.
- **The underlying trend in the retail industry remains one of growing sales, with the quantity bought in the three months to September increasing by 1.2%** when compared with the previous three months.

Property and Housing

- **September 2018 housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in the North West**, with post-referendum trends in house prices in line with pre-referendum trends. **Prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum**. All other areas of the North West have seen total growth below the national average except Liverpool City Region.

Economic inclusion

- Trends in unemployment since the referendum broadly reflect previous long-term trends, with an **overall decline in unemployment rates in most areas**. This is with the exception of Lancashire where unemployment rates have risen slightly and Cheshire & Warrington where rates have stayed broadly flat.
- **The Household Finance Index has revealed a further deterioration in UK household finances, partly driven by weaker employment income growth**. However, **the 12-month Consumer Prices inflation rate slowed in September 2018 to 2.2%**, down from 2.4% in August.

Macro-Economic Trends & Developments

Macro-economy

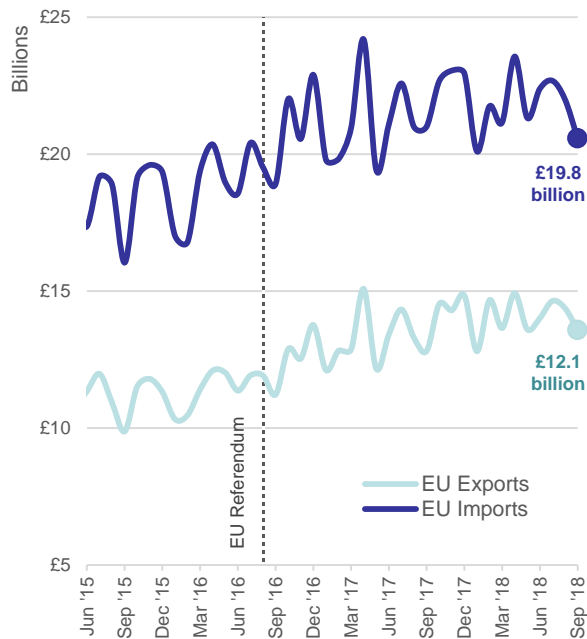
- According to monthly estimates from the Office for National Statistics (ONS), **UK GDP grew by 0.6% between Q2 (April to June) 2018 and Q3 (July to Sept)**. Real GDP growth in Quarter 3 was driven by growth of 0.3% in July 2018, which stemmed from strong retail sales boosted by warm weather and the World Cup, as well as a low base reflecting the weaker start to the year. However, month-on-month growth in real GDP has been flat in both August and September 2018. Construction output growth continued to pick up following a weak start to the year, while quarterly output (Q3) in the manufacturing sector rose for the first time in 2018. Growth in services output slowed to 0.4%, but remained the largest positive contributor to GDP growth in Quarter 3.⁽¹⁾

UK International Trade

- The total trade deficit (goods and services) narrowed by £3.2 billion to £2.9 billion in the three months to September 2018**; this was driven by a £2.9 billion narrowing of the goods deficit, which was further bolstered by a £0.3 billion widening of the services surplus.⁽²⁾

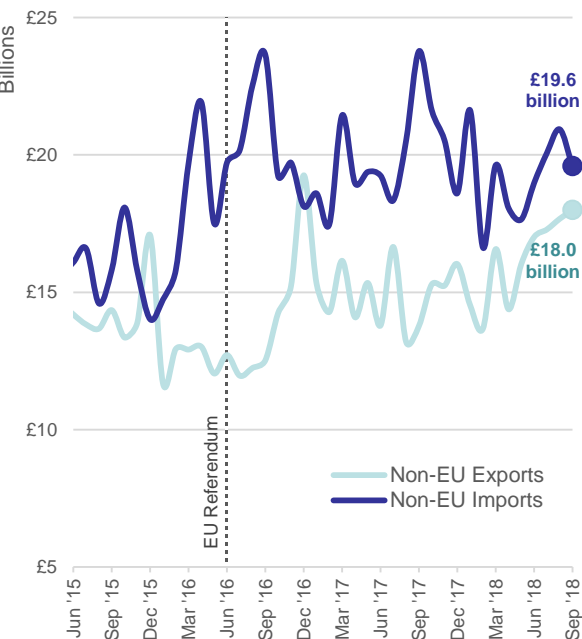
EU Trade

- The UK was a net importer from the EU in September 2018, with imports exceeding exports by approximately £7.7 billion.⁽³⁾



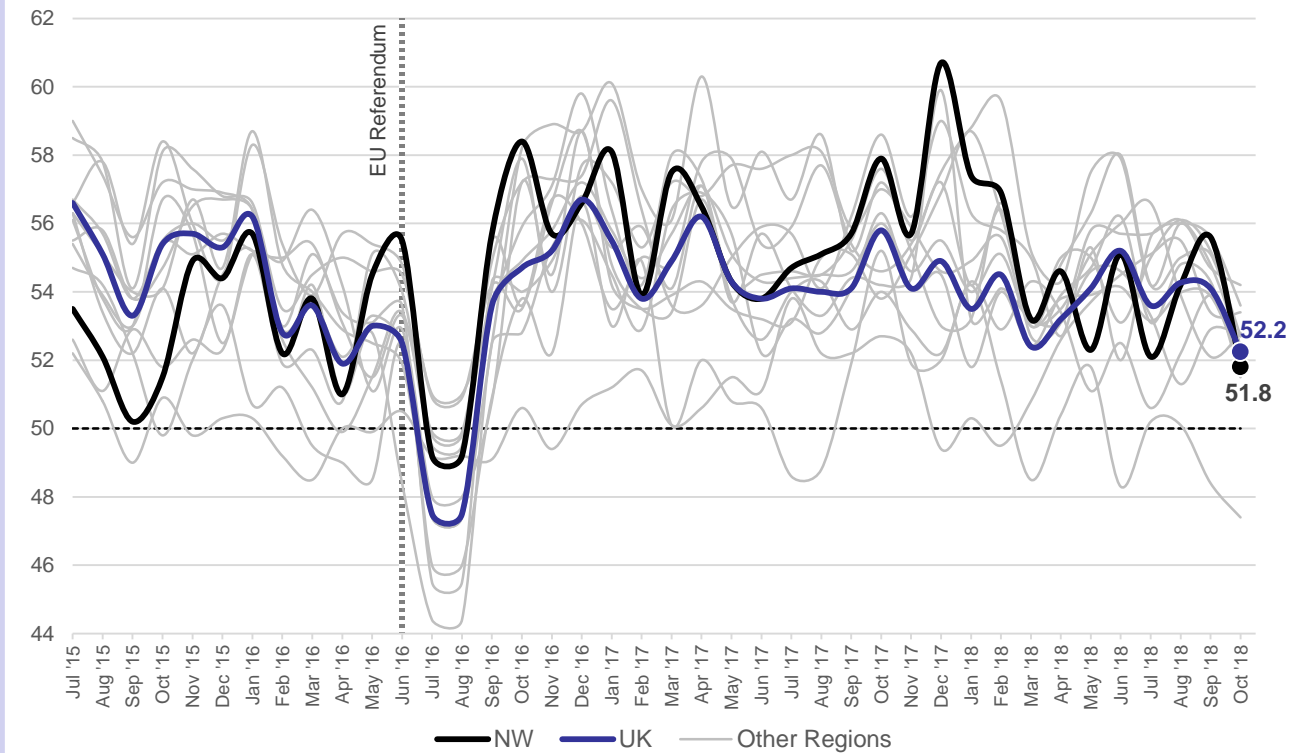
Non-EU Trade

- The UK was a net importer from non-EU nations in September 2018, with imports exceeding exports by approximately £1.6 billion.⁽³⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- Regional business activity growth in the North West witnessed a notable slowdown in October 2018, with the regional PMI for the NW falling to 51.8**, from 55.6 in September (above 50 = growth). This marked the weakest increase in private sector output in the current expansionary sequence since the shock to activity following the EU referendum in July 2016, with the regional PMI for the NW posting its weakest outturn since August 2016. *All other regions shown in grey below.*⁽⁴⁾



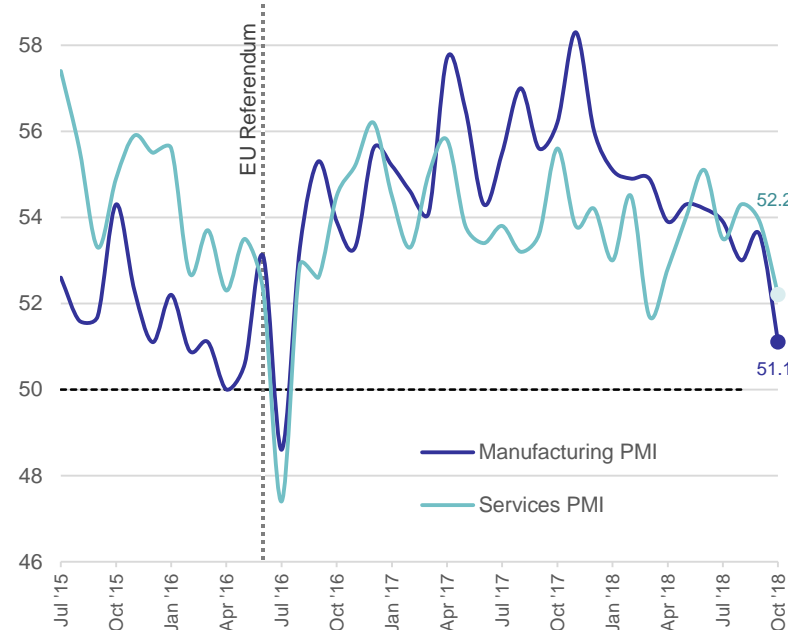
Key Sectors & Business Investment

British Chamber of Commerce

- In November the **British Chamber of Commerce updated their Business Brexit Risk Register** following the Government's continuing negotiations, **listing 17 'red-rated', 5 'amber-rated' issues, and 2 'green-rated' issues**, a minor upgrade from their previous register. This register brings together 24 top questions being asked by businesses across the UK, with red and amber ratings indicating that the answers to most key questions remain uncertain. The two 'green-rated' issues that the Chamber feel are now clear are around how businesses will pay import VAT and industrial standards.⁽⁵⁾
- The Chamber's most recent **Quarterly Economic Survey for Q3 2018** indicates a **worrying outlook for the UK economy**, with this year's economic growth predicted to be the lowest since the financial crisis and the Chamber calling on government to address Brexit-related uncertainty and deliver bold action to boost investment and business confidence. Growth in services and manufacturing are reported to be flatlining, with the **lowest proportion of businesses in 25 years recruiting staff** (with those that are attempting to recruit new staff struggling to fill positions). The Chamber's **Monthly Economic Review for November** echoes these sentiments, with growth expected to remain below average for the next few years, and increasing urgency among firms for a clear Brexit deal.^(6,7)
- The Chamber's most recent **Quarterly International Trade Outlook** (covering Q1 2018) highlights **significant labour and skills shortages among exporters, particularly in manufacturing**, raising concerns over how Brexit may affect the UK's EU labour force. The report additionally raises concerns around how future EU relations may affect ease of trade.⁽⁸⁾

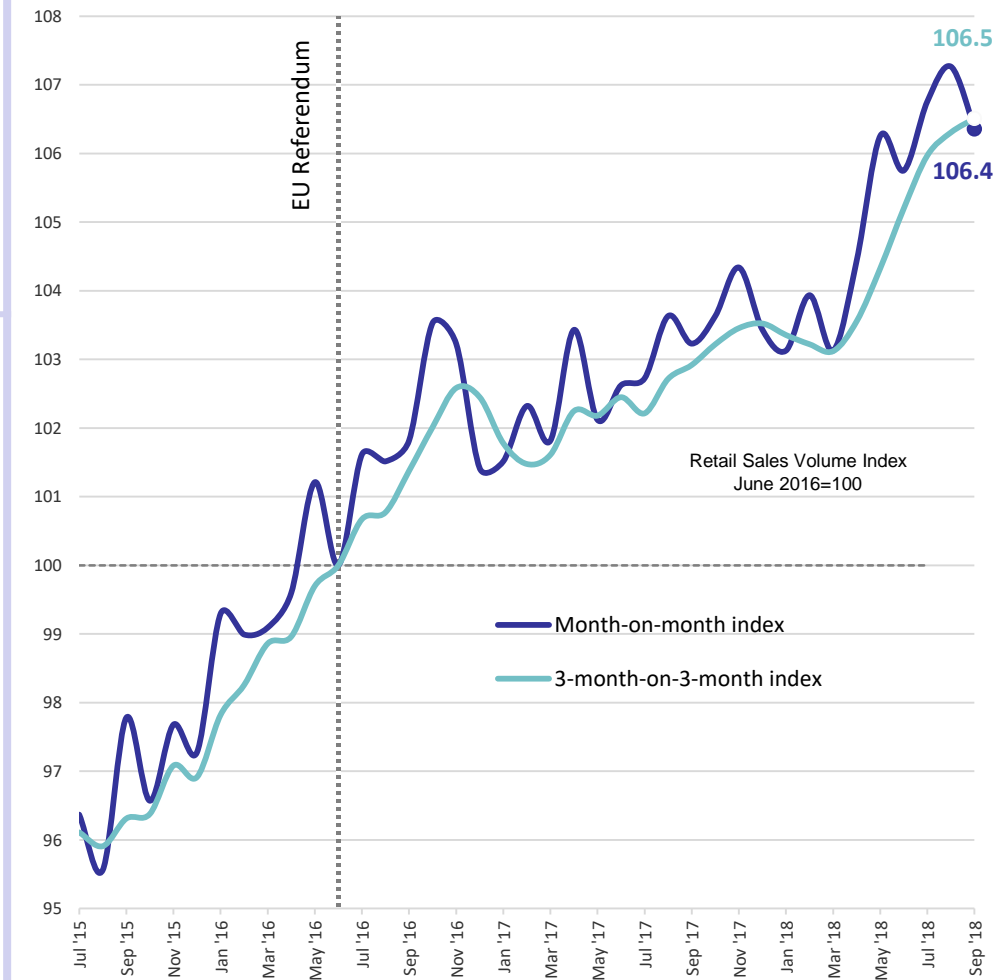
IHS Markit/CIPS Manufacturing & Services PMIs®

- Despite ONS statistics showing manufacturing growth in the last quarter, leading indicator surveys suggest that conditions in the UK manufacturing sector slowed during October with the **UK Manufacturing PMI falling to a 27-month low of 51.1 in October**, down from September's downwardly revised reading of 53.6 (above 50 = growth). New order inflows and employment both declined this month for the first time since July 2016 – the PMI survey directly following the EU referendum. The drop in new business was partly driven by rising global trade tensions and Brexit uncertainties.⁽⁹⁾
- The **UK services PMI dropped to 52.2 in October** from 53.9 in September, to signal the slowest rate of business activity expansion since March and the second lowest since July 2016, the PMI survey directly following the EU referendum. Respondents noted that economic uncertainty had held back business activity growth.⁽¹⁰⁾



Retail Sales

- The volume (not value) of retail sales declined by **0.8% during September 2018**, due mainly to a 1.5% fall in food store sales – the largest decline since October 2015.
- However, the underlying trend in the retail industry – as suggested by the three-month on three-month measure – **remains one of growing sales, up 1.2% in September** compared with the previous three months.⁽¹¹⁾



Policy, Trade, & Regulation

Withdrawal Agreement

- **The cabinet has backed a draft withdrawal agreement between the UK and the EU following a special cabinet meeting on November 14th.**⁽¹²⁾ However, the draft withdrawal agreement has triggered a wave of resignations by Ministers who said that they cannot support the proposed agreement. These have included **Secretary of State for Exiting the EU, Dominic Raab, and Secretary of State for Work and Pensions, Esther McVey.**⁽¹³⁾ To come into force, the Brexit deal requires approval by, in sequence: the UK cabinet, an EU summit, the House of Commons, and the European Parliament.⁽¹⁴⁾ **On a special 25th November summit this draft deal was accepted by the EU, leaving only agreement by the House of Commons and final sign off from European Parliament.**
- Prime Minister Theresa May has sought backing from businesses for the draft withdrawal agreement, announcing to the Confederation of British Industry (CBI)'s annual conference that her plan would provide a fair immigration system that would help young people in the UK get jobs and training. CBI president John Allan has urged MPs to back Mrs May's deal – despite it not being "perfect" – warning of the consequences for businesses if the UK were to simply crash out of the EU.⁽¹⁵⁾
- The provisional deal text drafted by the UK and the EU covers:
 - **Financial settlement:** Britain will honour all its financial commitments to Brussels. Using conservative assumptions, the UK Treasury expects a net British outlay of €40bn to €45bn, although the National Audit Office identified public payments that could reach €60bn, along with an additional €14bn of contingent liabilities such as outstanding loans.
 - **Citizen rights:** The exit agreement maintains the existing EU residence and social security rights of more than 3m EU citizens in the UK, and about 1m UK nationals living on the continent.
 - **Transition:** The treaty provides for a transition period for the UK until the end of 2020, which can be extended for an unspecified one-off period, set by mutual agreement.
 - **Northern Ireland:** A protocol in the treaty makes unique arrangements for Northern Ireland, with the aim of upholding the peace process and avoiding a hard border dividing the island of Ireland. Most significantly the protocol lays out “backstop” arrangements for the Irish border that ensure the free circulation of goods across the island of Ireland.
 - **UK-EU customs union:** The backstop plan for Northern Ireland is underpinned by a UK-EU customs union. This avoids the need for customs checks across the Irish Sea. While Northern Ireland will apply the full “union customs code”, the UK would apply a more basic customs union model. This avoids the needs for tariffs, quotas and rules of origin in UK-EU trade.
 - **Governance:** The arrangements for overseeing the withdrawal treaty ensure that neither the EU nor the UK is bound by the other jurisdiction's courts when it comes to interpreting the agreement.⁽¹⁶⁾
- On 28th November, the government published its [economic impact analysis for various possible post-Brexit partnerships](#), indicating a no-deal would have the largest negative impact on economic growth over the next 15 years.

Future of European Funding in Greater Manchester

- From 2014-20 the North West allocation of ERDF and ESF totalled €1.13billion, for which the European Commission has announced the region will continue to be eligible until 2020/21. **UK organisations have been advised to continue bidding for EU funding of all types, with the UK Government underwriting the continued payment of any successful funding application, even when projects are approved after the UK leaves the EU.** In their recent [‘no deal’ technical notices](#), the Government has reiterated that they will guarantee any funding secured before 29th March 2019 and continue all allocated 2014-20 ESF and ERDF funding, even in the event of a no deal.

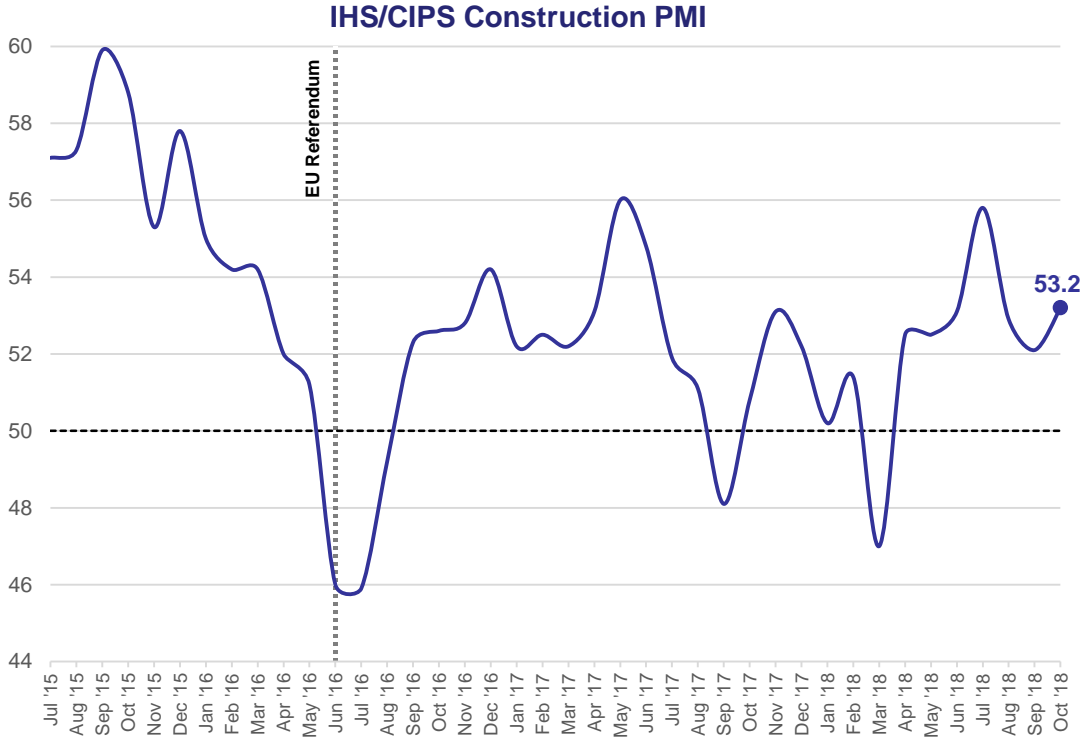
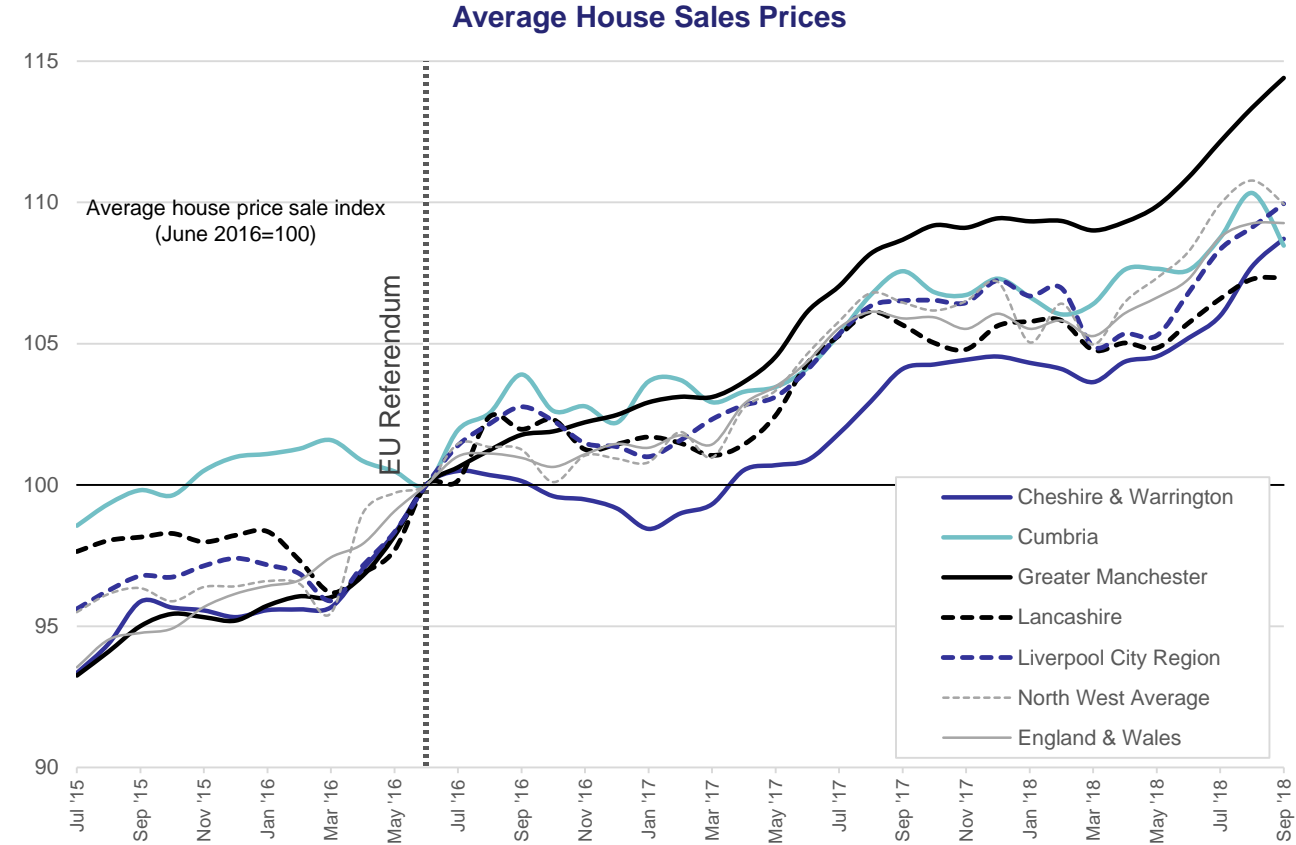
Brexit - Key Dates

25th November 2018	EU summit during which the UK and EU agreed on draft a withdrawal agreement.
11th December 2018	Date set for House of Commons vote on proposed Brexit deal
13-14th December 2018	Final EU summit of 2018. A possible fall-back option if UK parliament reject the current proposal before mid-December.
21st January 2018	If no deal is agreed, the Prime Minister must announce a ‘no deal’ by this date giving MPs 14 days to vote on a plan of action, being leaving with no deal, seeking an extension of Article 50, or holding another referendum.
29th March 2019	Britain’s formal exit from the EU, two years following the trigger of Article 50. In the case of a ‘no deal’, all current EU legislation and agreements would cease to apply from this date in the absence of any other arrangements.
31st December 2020	Planned end of the proposed Brexit transition period. Until this date, the UK will essentially function as if a member of the EU (including continuing current funding and regulatory arrangements).

Property & Housing

Housing sales

- September 2018 housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in the North West**, with post-referendum trends in house prices roughly in line with pre-referendum trends, with the exception of Cheshire & Warrington which saw a drop in house prices up to April 2017. After a period of flat growth since September 2017, house prices across the North West have picked up again since March. This likely reflects a seasonal pattern with price growth often slower during winter. **Prices in Greater Manchester have risen fastest in the North West, consistently above both national and regional averages since the referendum.** All other areas of have seen total growth below the national average except Liverpool City Region.⁽¹⁷⁾



September 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£162,915	-0.8%	+3.3%	+10.0%

- UK construction companies indicated a sustained increase in business activity during October**, with the UK construction PMI rising to 53.2 – up from 52.1 in September – marking its second-highest level in 16 months.
- However, despite total UK construction activity rising at a stronger pace in October, **optimism regarding the 12-month outlook was at its lowest level for nearly six years**, as the sector reported rising uncertainty about the future of the economy, resulting in slower growth of new orders and purchasing.⁽¹⁸⁾

Economic Inclusion

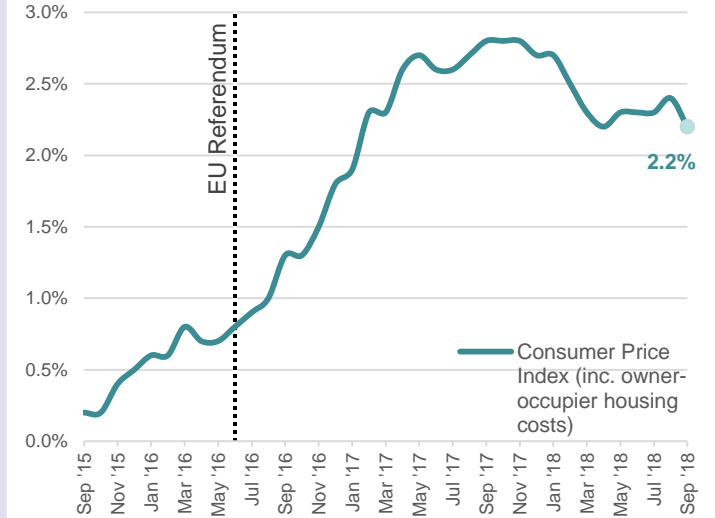
Unemployment and Claimant Count

- Trends in unemployment in the North West since the referendum broadly reflect previous long-term trends, with an **overall decline in ILO unemployment rates** (the standard definition of unemployment used by the International Labour Organisation) **in most areas**. This is with the exception of Lancashire where unemployment rates have risen slightly (4.2% pre-referendum to 4.4% latest) and Cheshire & Warrington where rates have stayed broadly flat (3.5% pre-referendum to 3.5% latest), taking it now above Cumbria (3.0%).⁽¹⁷⁾
- Numbers of people claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in the North West have however risen to their highest levels in over four years in October, up 1,570 (1.2%) on the previous month to 132,730 people, with rises in all age groups. **The total number of claimants is 25.9% (27,295) higher than pre-referendum levels**. As a proportion of the working age population, the number of claimants has also risen to 2.9% from 2.3% in June 2016, mirroring national trends.⁽¹⁸⁾

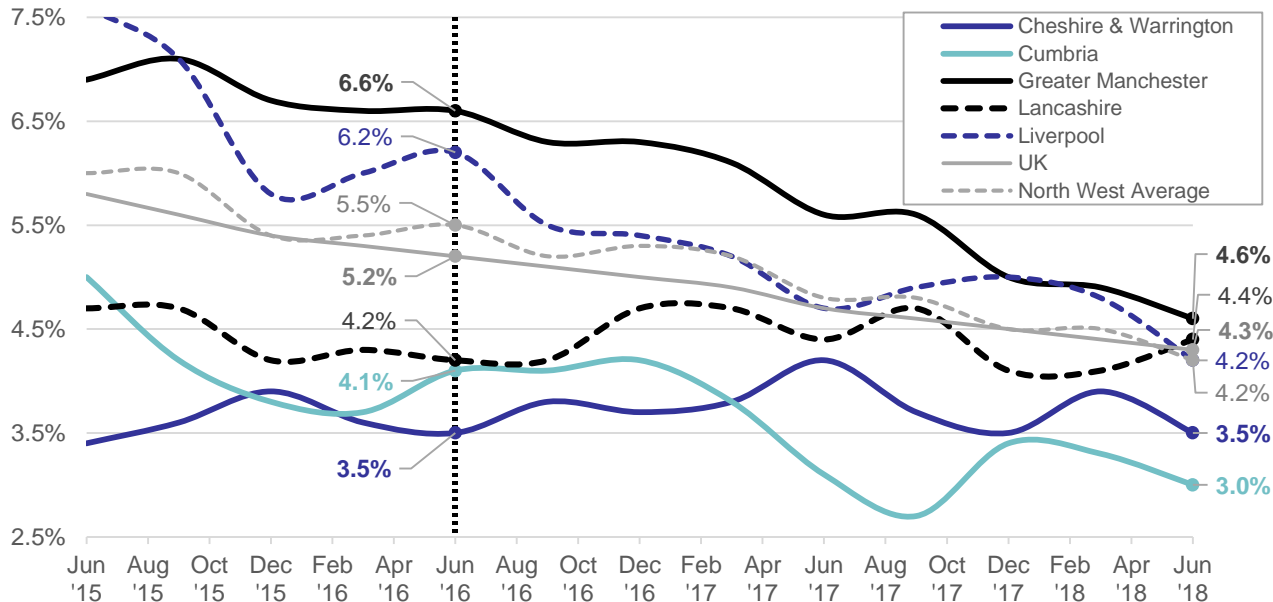
Due to recent changes to unemployment benefits and the roll-out of Universal Credit in GM over the last year, long-term trends in claimant counts should be treated with caution. Greater numbers of people may be moved onto certain types of benefits or be expected to find additional work and may appear in the claimant count. ILO unemployment rates are unaffected.

Household Finances

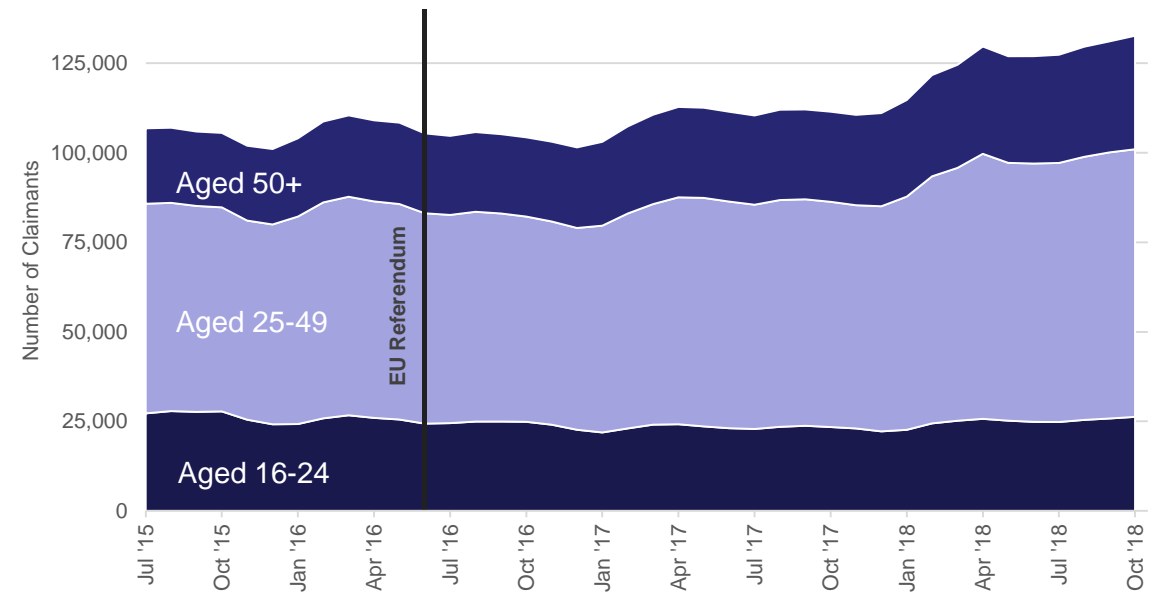
- The Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – reveals a further deterioration in UK household finances, partly driven by weaker employment income growth.** October’s HFI fell to 45.1 from 45.7 in September (below 50 signals deterioration). However, household spending was boosted by savings and unsecured credit.⁽¹⁹⁾
- The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.2% in September 2018, down from 2.4% in August.** The largest downward contribution came from food and non-alcoholic beverages.⁽²⁰⁾



ILO Unemployment Rate (% of economically active population aged 16-64)



Claimant count (JSA and related UC) in the North West by age group



Sources

Section	Sources
Macro-Economic Trends & Developments	<ol style="list-style-type: none"> 1. ONS (9 November 2018): Statistical bulletin: GDP monthly estimate, UK: September 2018 2. ONS (9 November 2018): UK trade: September 2018 3. HMRC (9 November 2018): Overseas Trade Statistics - Non-EU and EU Trade: September 2018 4. IHS Markit / NatWest UK Regional PMI (12 November 2018): "Broad-based slowdown in output growth across UK regions in October"
Key Sectors & Business Investment	<ol style="list-style-type: none"> 5. British Chamber of Commerce (November 2018): Business Brexit Risk Register 6. British Chamber of Commerce (8 October 2018): Quarterly Economic Survey Q3 2018 7. British Chamber of Commerce (November 2018): Monthly Economic Review November 2018 8. British Chamber of Commerce (June 2018): Q1 2018 Quarterly International Trade Outlook 9. Markit/CIPS UK Manufacturing PMI (1 November 2018): "UK manufacturing new orders and employment fall for the first time since mid-2016" 10. Markit/CIPS UK Services PMI (5 November 2018): "Weakest expansion of service sector activity since March" 11. ONS (18 October 2018): Retail sales, Great Britain: September 2018
Policy, Trade, & Regulation	<ol style="list-style-type: none"> 12. BBC (14 November 2018): "Brexit: Cabinet backs draft agreement" 13. FT (14 November 2018): "Resignations rock Theresa May's government" 14. BBC (19 November 2018): Brexit plan will stop EU migrants 'jumping the queue' - May 15. FT (14 November 2018): "Brexit treaty: what the EU and UK have agreed" 16. FT (15 November 2018): "Tusk sets date to finalise Brexit deal"
Property & Housing	<ol style="list-style-type: none"> 17. HM Land Registry (14 November 2018): House Price Index Database: September 2018 18. Markit/CIPS UK Construction PMI (2 November 2018): "UK construction output increases at sharper rate but outlook deteriorates"
Economic Inclusion	<ol style="list-style-type: none"> 19. ONS (2018): Annual Population Survey/Labour Force Survey, accessed November 2018 20. ONS (2018): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed November 2018 21. IHS Markit Household Finance Index (22 October 2018): "Household sentiment falls in October despite weakest inflation expectations for two years" 22. ONS (17 October 2018): Consumer price inflation UK: September 2018