PURPOSE OF REPORT

This report updates members on the key economic and policy developments in relation to the UK’s decision to leave the European Union (EU). The latest edition of the monthly Greater Manchester Brexit Monitor is attached to provide a real-time view of the economic and policy impact of Brexit.

RECOMMENDATIONS:

Members are asked to:

- Note the contents of the June Brexit Monitor (appendix 1)

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1. INTRODUCTION

1.1 Following the vote to leave the EU, the GMCA has been monitoring the economic and social trends and policy developments to develop an appropriate policy response. The impact of Brexit is being tracked across the following themes:

- Macro-economy trends and developments;
- Key sectors and business investment;
- Trade, regulation, and access to European Funding;
- Property investment, housing, and planning; and
- Economic inclusion.

2. KEY MESSAGES FROM THE BREXIT MONITOR

2.1 The key messages from the June Brexit Monitor include:

- The recent gap seen between buoyant economic surveys and weak official data on the UK economy appears to be starting to close. Economic growth for Quarter 1 (Jan to Mar) 2017 was revised down from 0.3% to 0.2%, while both the services and manufacturing purchasing managers’ indexes – despite still indicating growth – also fell in May 2017. The slower economic growth marked the first time in a year that UK growth failed to outpace that of the Euro area and was driven by a bigger than expected slowdown in consumer services, largely as a result of the weaker pound. However, the timing of Easter may also have been a factor in the slowdown.

- Housing data from the Land Registry continues to suggest the vote to leave the EU has had little impact on house prices and indeed it will take time for the housing market to react.

- The Consumer Prices Index including owner occupiers’ housing costs (CPIH) 12-month inflation rate climbed to 2.7% in May 2017, its highest level since June 2013, up from 2.6% in April. Rising prices for recreational and cultural goods and services (particularly games, toys and hobbies) was the main contributor to the increase in the rate.

- The total claimant count unemployment in GM has continued to increase in April 2017 (latest), and is higher than that observed prior to the referendum result in June 2016 – increasing from just over 46,000 to just over 47,500; as a proportion of the working age population, this represents a percentage point increase of 0.1%. This, however, comes against a backdrop of continued high total employment.

- The Household Finance Index for April 2017, compiled by Markit Economics, signalled that UK households experienced sharply rising living costs against a backdrop of subdued pay growth in May, which contributed to a sustained squeeze on financial wellbeing. Recent pressures on UK consumer finances have been the sharpest for almost three years.

- Research with MGC Business Growth Hub clients between Mar-May 2017 highlights that 74% of firms generally expect their investment plans to remain the
same following the EU referendum result. Of the remaining 26%, 9% said they were likely to increase investment, 1% envisaged decreasing investment, 7% said investment plans were on hold, and 9% were unsure. The period saw a decline in the proportion of businesses expecting investment plans to remain the same compared with previous three rolling quarters.

• In a snap poll of 700 of its members following the general election, the Institute of Directors found that the uncertainty caused by the general election had led to a sharp fall in business confidence. The poll also found that businesses wanted a rapid agreement with the European Union on transitional arrangements for Brexit, along with clarity on the status of EU workers in the UK.

• Almost one year on from the referendum, negotiations have now commenced over the UK’s future relationship with the EU. The UK appears to have accepted the EU’s position that there must be substantial progress on the terms of the exit (including the ‘Brexit Bill’) before talks can commence on the terms of a new trade arrangement. The most immediate points to be discussed include the status of UK and EU citizens living abroad, and Northern Ireland’s relationship with the EU. In addition, UK Chancellor Philip Hammond in his annual speech at the Mansion House set out that he is seeking a lengthy transitional period after Brexit, which would extend Britain’s current customs arrangements with the EU.

• Finally, on 21st June, the Queen’s Speech set out the legislative programme for the next two years. Much of the speech was dedicated to provisions around Brexit, including new bills on trade, customs and repeal of legislation.

3 RECOMMENDATIONS

3.1 Members are asked to:
   • Note the contents of the June Brexit Monitor (appendix 1)
Greater Manchester Brexit Monitor
Key economic and policy developments
June 2017
Executive Summary

Headlines

- The recent gap seen between buoyant economic surveys and weak official data on the UK economy appears to be starting to close. Economic growth for Quarter 1 of 2017 was revised down from 0.3% to 0.2%, while both the services and manufacturing purchasing managers’ indexes - despite still indicating growth - fell in May 2017. There are continued signs that the prices of goods are rising. **The Consumer Prices Index climbed to 2.7% in May 2017, its highest level since June 2013, up from 2.6% in April.**

- Almost one year on from the referendum, negotiations have commenced between David Davis, and Michel Barnier over the UK’s future relationship with the EU. The UK appears to have accepted the EU’s position that there must be substantial progress on the terms of the exit (including the ‘Brexit Bill’) before talks can commence on the terms of a new trade arrangement. The most immediate points to be discussed include the status of UK and EU citizens living abroad, and Northern Ireland’s relationship with the EU.

- The Queen’s speech also set out the legislative programme for the next two years. Much of the speech was dedicated to provisions around Brexit, including new bills on trade, customs and repeal of legislation. Technology provisions also covered matters such as data protection, electric cars, commercial satellites, space bases and HS2.

- Further mention was made on Brexit by UK Chancellor Philip Hammond in his annual speech at the Mansion House confirming that he is seeking a lengthy transitional period after Brexit, which would extend Britain’s current customs arrangements with the EU.

Key sectors & business investment

- **Research with MGC Business Growth Hub clients over Mar-May 2017 highlights that 74% of firms generally expect their investment plans to remain the same following the EU referendum result.** Of the remaining 26%, 9% said they were likely to increase investment, 1% envisaged decreasing investment, 7% said investment plans were on hold, and 9% were unsure. The Mar-May 2017 period saw a decline in the proportion of businesses expecting investment plans to remain the same compared with previous three rolling quarters.

- In terms of employment, 73% of firms said they envisaged they would continue to recruit at the same pace following the EU referendum result. Of the remaining 27%, 4% would increase hiring, 9% would recruit but at a slower pace, and 1% put a freeze on hiring. The remaining 13% declined to answer or don’t know. The Mar-May 2017 period saw a decline in the proportion of businesses indicating they are unlikely to expect changes in recruitment intentions compared with previous three quarters. The downturn in sentiment from firms regarding both investment and recruitment comes in line with weaker macroeconomic surveys at the UK level.

- **The IHS Markit/CIPS Manufacturing Purchasing Managers Index (PMI) – a leading indicator of sentiment, based on questionnaire responses – came in at 56.7 in May 2017, below April’s three-year high of 57.3, (an Index of 50+ equals growth). Output and new order growth remained solid and the rate of job creation rose to the highest since June 2014. The headline IHS Markit/CIPS Services PMI Business Activity Index fell to 53.8 in May 2017 from a four-month high of 55.8 in April.**
Executive summary

Terms of trade, regulation & access to funding

- When Britain formally leaves the EU in 2019, it will not only be direct arrangements with the EU that cease to be valid - by law, Britain will also be excluded from EU arrangements with “third countries”. According to Financial Times research of the EU treaty database, this amounts to 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to Britain, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services.

Property investment, housing and planning

- 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 residential prices this period. The latest house price data (March 2017) for GM reveals an average price of £154,037, an increase of 0.2% from the previous month, and growth of 7.3% compared with the level in February 2016.

- Commercial property: This month’s Monitor focuses on supply of land for industrial development. Research by Savills highlights that a total of 1,400 acres of land that could accommodate new industrial units of more than 100,000 sq ft is currently being promoted for development in the North West. 41% (570 acres) of the total is on what are classified as prime logistics sites and 22% (306 acres) of the total is located in Greater Manchester, mostly in Manchester, Bolton and Rochdale.

- The total claimant count unemployment in GM has continued to increase in April 2017 (latest), and is higher than that observed prior to the referendum result in June 2016 – increasing from just over 46,000 to just over 47,500; as a proportion of the working age population, this represents a percentage point increase of 0.1%. This, however, comes against a backdrop of high employment.

- Household Finance: The Household Finance Index for April 2017, compiled by Markit Economics, signalled that UK households experienced sharply rising living costs against a backdrop of subdued pay growth in May, which contributed to a sustained squeeze on financial wellbeing. Recent pressures on UK consumer finances have been the sharpest for almost three years.

More information

- For more information on the data and sources used in the Brexit Monitor please refer to the annex, or contact:
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Macro-economic trends and developments

Macro-economy

- **Macro:** Economic growth for Quarter 1 (Jan to Mar) 2017 was revised down from 0.3% to 0.2%. This marked the first time in a year that UK growth failed to outpace that of the euro area. Slower growth was driven by a bigger than expected slowdown in consumer services, largely as a result of the weaker pound. However, the timing of Easter may also have been a factor in the slowdown, with official data showing a rebound in consumer activity during April. (1)

- **Trade:** Quarter 1 (Jan to Mar) 2017 saw the deficit on trade in goods and services widen by £5.7 billion compared to the Quarter 4 (Oct to Dec) 2016, to £10.5 billion. Between February and March 2017, the UK’s total trade deficit widened by £2.3 billion to £4.9 billion, contributing nearly half of the quarterly deficit. The main causes of the widening deficit were increased imports of machinery and transport equipment (mainly mechanical machinery and cars), oil and chemicals. These commodities also contributed the most to the increase in imports in March 2017. (2)

- **EU trade:** The UK was a net importer in March 2017 from the EU, with imports exceeding exports by £9.0 billion. EU Exports for March 2017 were £15.3 billion, an increase of £2.5 billion (19 per cent) compared with February 2017, and an increase of £3.2 billion (26 per cent) compared with 12 months ago. EU Imports for March 2017 were £24.3 billion, an increase of £3.6 billion (17 per cent) compared with February 2017, and an increase of £4.0 billion (20 per cent) compared with a year ago.

- **Non-EU trade:** The UK was a net importer in March 2017, with imports exceeding exports by £5.3 billion. Non-EU Exports for March 2017 were £16.1 billion, an increase of £1.8 billion (13 per cent) compared with February 2017, and an increase of £3.6 billion (28 per cent) compared with a year ago. Non-EU Imports for March 2017 were £21.4 billion, an increase of £4.0 billion (23 per cent) compared with February 2017, and an increase of £1.8 billion (9.4 per cent) compared with a year ago. (3)

Consumer sentiment

- **Prices:** The Consumer Prices Index including owner occupiers’ housing costs (CPIH) 12-month inflation rate climbed to 2.7% in May 2017, its highest level since June 2013, up from 2.6% in April. Rising prices for recreational and cultural goods and services (particularly games, toys and hobbies) was the main contributor to the increase in the rate. There were also smaller upward contributions from increased electricity and food prices. These upward contributions were partially offset, however, by falls in motor fuel prices, and air and sea fares, the latter two influenced by the timing of Easter in April this year. (4)

- **Retail Sales:** The 3 months to April 2017 showed a slight uptick in retail sales of 0.3%. This marked the first increase for the underlying 3 month-on-month pattern in four months. In April 2017, the volume of retail sales rose by 2.3% compared with March 2017, and by 4.0% compared to the same time last year. Anecdotal evidence from retailers suggests that good weather contributed to growth, but the timing of Easter may also have been a factor. (5)
Key sectors & business investment

**Business Investment**

- **Research with MGC Business Growth Hub clients in the 3 months to May 2017 highlights** that 74% of firms generally expect their investment plans to remain the same following the EU referendum result. Of the remaining 26%: 9% said they were likely to increase investment, 1% envisaged decreasing investment, 7% said investment plans were on hold, and 9% were unsure. The survey period also saw a slight decline in the proportion of businesses expecting investment plans to remain the same compared with previous three rolling quarters: (77%: Feb/Apr17; 78%: Jan/Mar17; 75%: Dec/Feb17).

- In terms of employment, 73% of firms said they envisaged they would continue to recruit at the same pace following the referendum result. Of the remaining 27%, 4% would increase hiring, 9% would recruit but at a slower pace, and 1% put a freeze on hiring. The remaining 13% declined to answer or don’t know. The Mar-May 2017 period saw a decline in the proportion of businesses indicating they are unlikely to expect changes in recruitment intentions compared with previous three quarters: (80%: Feb/Apr17; 76%: Jan/Mar17; 77%: Dec/Feb17).

**Manufacturing**

- The seasonally adjusted IHS Markit/CIPS Manufacturing PMI came in at 56.7 in May 2017, below April’s three-year high of 57.3. Output and new order growth remained solid and the rate of job creation rose to the highest since June 2014.

- Manufacturers raised capacity in response to increased backlogs of work and outstanding business expanded at the fastest rate in over six years. Optimism regarding the outlook for production levels over the next 12 months improved to a 20-month high.

**Services**

- The headline IHS Markit/CIPS Services PMI Business Activity Index fell to 53.8 in May 2017 from a four-month high of 55.8 in April and below market expectations of 55.0.

- The index for the last month points to the slowest expansion of service sector output since February, mainly due to weaker new business growth amid squeezed household budgets and delays with decision making ahead of the General Election.
Trade, rules and regulatory developments

• Against the backdrop of the general election and purdah restrictions, even with the formal start of the negotiations and the Queen’s Speech, there has been little activity in advancing negotiations regarding trade rules and regulations. As such, this month’s Monitor focuses on wider trade issues. When Britain formally leaves the EU in 2019, it will not only be direct arrangements with the EU that cease to be valid - by law, Britain will also be excluded from EU arrangements with “third countries”.

• According to Financial Times research of the EU treaty database, this amounts to 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to Britain, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. This, however, provides an opportunity for the UK to negotiate new and potentially better and/or more ambitious deals with its trading partners, and the importance of each of these agreements to the UK varies widely. That said, many countries will likely want to know the outcome of EU-UK talks before making their own commitments.atório

Bilateral agreements by theme

- It is also important to consider ‘non-tariff barriers’ to trade. The EU’s average external tariff on industrial goods is just over 2%, although it is much larger in sectors such as motor vehicles. However, academic studies generally show the cost of the bloc’s other barriers to trade is two or three times as large.

- The potential impact of regulatory divergence differs between sectors and firms; for some the impact could be limited, while others could benefit from better tailored rules. However, particularly for some companies in competitive export sectors and with low margins, separate EU and UK standards could require costly duplication of production lines.
• **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices and indeed it will take time for the housing market to react.**

• **Commercial property:** This month’s Monitor focuses on supply of land for industrial development in the North West and GM. Research by Savills highlights that a total of 1,400 acres of land that could accommodate new industrial units of more than 100,000 sq ft is currently being promoted for development in the North West. 41% (570 acres) of the total is on what are classified as prime logistics sites and 22% (306 acres) of the total is located in Greater Manchester, mostly in Manchester, Bolton and Rochdale.\(^{11}\)

**Average House Prices Sales (Index July 2015=100)**

- **Greater Manchester**
- **London**
- **North West**
- **England and Wales**

**Commercial Property – NW logistics land supply (acres)**

- Deeside
- Middlewich
- Ellesmere Port
- Manchester
- Saint Helens
- Warrington
- Liverpool
- Blackburn
- Bolton
- Crewe
- Altrincham
- Preston
- Skelmersdale
- Carlisle
- Heywood
- Oldham
- Chester
- Rochdale
- Widnes
- Darwen

Source: Savills

• **Housing Index** data from the Land Registry suggest the vote to leave the EU continues to have little impact on house prices, with moderate growth in average residential prices this period.

• The latest house price data (March 2017) for GM reveals an average price of £154,037, an increase of 0.2% from the previous month, and growth of 7.3% from February 2016.\(^{12}\)

• Occupier demand for large industrial and warehousing sites in the region remains strong. However, research by Savills suggests that there are only seven suitable sites in the North West which could accommodate new industrial units of over 300,000 sq ft, of which five are in Greater Manchester.\(^{11}\)
**Economic Inclusion**

- **Unemployment**: The total claimant count unemployment in GM continued to increase in April 2017 (latest), and is higher than that seen prior to the referendum result in June 2016 – increasing from just over 46,000 to just over 47,500. As a proportion of the working age population, this represents a percentage point increase of 0.1. This compares to a percentage point increase of 0.2 in the North West rate, and an increase of 0.1 in the UK rate, for the same period - June 2016 to April 2017.\(^{(13)}\)

- **Household Finance**: The Household Finance Index for April 2017, compiled by Markit Economics, signalled that UK households experienced sharply rising living costs against a backdrop of subdued pay growth in May, which contributed to a sustained squeeze on financial wellbeing. Recent pressures on consumer finances have been the sharpest for almost three years.\(^{(14)}\)

**Claimant count (JSA and UC) unemployed by age**

- As a proportion of working age residents, the GM claimant rate (2.7%) remains just above that of the North West (2.5%) and the UK (2.0%).

- The total claimant count increased for all age groups in April 2017. The number of GM claimants aged 16-24 was up 0.2% (25) in April 2017, and up 1.6% (425) for claimants aged 25-49.

- The number of claimants aged 50+ continues to increase, up 8.2% since the referendum result in June, and up 1.2% (120) from March 2017.\(^{(13)}\)
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