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 January 2018 Brexit Monitor (appendix 1)

CONTACT OFFICERS:

Simon Nokes, Managing Director, New Economy
simon.nokes@neweconomymanchester.com

John Holden, Director of Research, New Economy
john.holden@neweconomymanchester.com
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 European Funding; Property investment, housing, and planning; and Economic inclusion.

2. KEY MESSAGES FROM THE BREXIT MONITOR

2.1 EU leaders have confirmed that “sufficient progress” has been made in the first phase of Britain’s Brexit talks, setting the way for stage 2 of negotiations to begin which will focus on the UK’s future relationship outside the EU. As a result, the EU has published its guidelines for the next stage of negotiations, covering negotiations, transition, law and regulation, and trade policy. Britain has committed to paying a net exit bill of at least €40bn-€45bn and to a two-year transition deal; the EU’s Chief Negotiator, Michel Barnier, has stated that the transition has to take place under all existing rules and regulations, and that the transition should come to an end on 31 December 2020.

2.2 The positive development in negotiations, however, has come against a backdrop of increased economic uncertainty. UK GDP expanded by 0.4% in Q3 (July to Sept) 2017, and while this marked a slight improvement on the 0.3% growth posted in Q2, growth in the UK lags behind the European Union and Euro Area countries.

2.3 January was marked by the London Mayor’s publication of ‘Preparing for Brexit’. The economic impact study authors Cambridge Econometrics have created a series of growth scenarios, ranging from a status quo where the UK remains in the Single Market through to a hard no-deal Brexit where the UK moves to WTO trade rules. It is thought that London will emerge relatively better than the rest of the UK because it has a higher concentration of high-value sectors, which are more resilient and able to recover from economic shocks more quickly. However, the results show that Brexit will not only reduce the size of the UK economy, but also put it on a slower long-term growth trajectory - the economy is still expected to grow, but at a slower rate than if Brexit did not occur.

2.4 The Consumer Prices Index, including owner occupiers’ housing costs, (CPIH) 12-month inflation rate was 2.8% in November 2017, unchanged from October 2017. Meanwhile, the Consumer Prices Index (CPI) 12-month rate accelerated to 3.1% in November 2017, up from 3.0% in October 2017. This marks the highest level since March 2012, and has required the Governor of the Bank of England to write a letter to the Chancellor explaining why the central bank has missed its inflation target. However, the UK Manufacturing PMI showed growth for a 17th consecutive month in December, but did slow from November’s 51-month high. The UK Services PMI continued to show improving growth in December.

2.5 Unemployment in GM is now slightly lower than that seen prior to the referendum result – falling from 46,290 in June 2016 to 45,545 in November 2017 (latest). However, unemployment as a proportion of the working age population remains unchanged compared to June 2016 at 2.6%.

2.6 The IMF’s recent Article IV mission included a meeting with the GMCA in Manchester to discuss regional productivity differences. In their concluding statement the IMF highlighted the importance of addressing congestion and housing restrictions, increasing human capital, and improving transport connectivity to boosting
regional productivity. The IMF also suggested that a greater role for local decision-making has the potential to better tailor policies to economic conditions.

3. RECOMMENDATIONS

3.1 Members are asked to:
   - Note the contents of the January 2018 Brexit Monitor (appendix 1).