GM LOCAL ENTERPRISE PARTNERSHIP BOARD

SUBJECT: Brexit Impacts
DATE: 16 July 2018
REPORT OF: Simon Nokes, Executive Director of Strategy & Policy

PURPOSE OF REPORT
This report updates Members the latest position on the impacts and potential implications of Brexit on Greater Manchester.

RECOMMENDATIONS:
Members are asked to:
- Note the contents of this report and provide feedback.

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1. **Introduction**

1.1. It has now been two years since the vote to leave the EU. Since then, the GMCA has been monitoring economic and social trends and policy developments to develop an appropriate GM policy response. The impact of the vote to leave the EU is being tracked across the following themes:

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

1.2. This report provides members with an update on the key messages from the analysis undertaken to date.

1.3. The LEP meeting is the week after the crucial Cabinet debate on the likely deal, and the expected publication of a ‘substantial’ White Paper on the UK’s approach to exiting the EU. There will be a verbal update on any implications of these at the meeting.

2. **Macro-economy trends and developments**

2.1. As key votes and EU deadlines move closer, and Government negotiations move forward, there is still significant uncertainty for businesses and workers in the UK around what to expect after the UK’s exit from the EU.

2.2. The main social and economic indicators continue to show mixed signals as to the referendum’s impact on the UK economy so far. The Office for National Statistics first quarter 2018 estimates show lower growth in GDP: UK GDP grew by 0.1% in the first quarter of 2018, compared to 0.4% in the previous quarter, the slowest rate of growth since Q4 2012.

2.3. Manufacturing and services Purchasing Managers’ surveys (PMIs) indicate continuing, but slower growth. While there are signs of positive movements in a range of other PMIs, these movements come alongside warnings from industry leaders on the importance of expediency and transparency on Brexit.

2.4. While labour market performance has been stronger than most forecasters expected, unemployment has increased in recent months and the number of people in GM claiming unemployment benefits (Job Seekers Allowance and also related Universal Credit) is now at a 46 month high (53,345 people), 15.2% higher than the pre-referendum level.

2.5. The latest (June 2018) Brexit Monitor is attached as Annex 1, which provides more information on the current macro-economy trends and developments, for members to consider.

3. **Potential Impacts of Brexit on Greater Manchester**
3.1. Although the Government has yet to formally release detailed regional analysis of the potential impact of different Brexit scenarios, in March 2018 the House of Commons Exiting the European Union Committee released draft analysis the Government had shared with them which aimed to quantify the potential impact of leaving the EU on the British economy.

3.2. The reports suggests that there will be an adverse effect on the economy of the UK and all its regions – with the North West one of the four regions hardest hit under both ‘soft’ and ‘hard’ Brexit scenarios (2 to 12% points lower than baseline). The report also highlights that the degree of impact depends on the outcome achieved in the negotiations, and is likely to be greater in areas more exposed to change in trade barriers by nature of their export composition – and in those with a higher dependence on exports as a proportion of the regional economy.

3.3. The GMCA has been working with businesses to monitor the impacts of Brexit. Virtually all assessments agree that the impacts are likely to be negative. This is significant as the city region’s trade is more reliant on trade with the EU than other parts of the UK, with the EU accounting for 58% of good exports from GM firms, compared with 42% for England as a whole. Employers report particular concerns around potential customs delays (causing additional friction in supply chains), firms’ ability to attract and retain talent and the potential divergence of regulations and barriers that would impact on trade.

3.4. The GMCA has undertaken analysis to understand the potential cost which could be imposed on key sectors of the Greater Manchester economy when the UK leaves the EU. This was published on 19th March 2018 and is provided in Annex 2 for information. It focuses on three area where Greater Manchester firms and sectors could be exposed:

- **The potential impact of non-tariff barriers on trade** – Where the Government’s assessment of the size of the non-tariff barriers can be applied to goods exports by GM sectors. This approach finds that the additional costs from an increase in non-tariff barriers would be £170m pa for a deal similar to the EEA, £320m for a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to trade under World Trade Organisation (WTO) rules. While the impact on services is impossible to quantify from current data source, it is clear that the actual impact for GM firms and sectors would significantly higher overall that the calculations for goods exports set out here.

- **The potential impact of tariff barriers on trade** – Where an illustrative ‘no deal’ scenario to identify the parts of the economy more exposed to risks from the WTO ‘Most Favoured Nation’ trade rules. This would lead to an average tariff rate of just under 5 per cent across all goods, at a cost of up to £150m pa for GM exporters. Again, the impact on service exports means that the overall impact across GM’s economy would be higher.
• The potential impact on the Greater Manchester labour market and access to skills for employers where it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. They are Distribution, Hotels and Restaurants, where 26,000 workers are EU nationals; Banking and Finance, where there are 14,000; Manufacturing where there are 13,000; and Public Admin, Education and Health where there are 12,000.

3.5. There are also likely to be implication for the movement of capital – and therefore for investment in Greater Manchester. Surveys of Greater Manchester businesses, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

3.6. The report highlight four steps necessary to manage the risks and take advantage of the opportunities from Brexit:

• The potential impact on Greater Manchester’s labour market and supply of skills makes devolution to ensure that the city region’s skills system is more responsive to the needs of employers even more vital. This will need to be a core component of the Local Industrial Strategy being developed jointly with government, backed up by the Shared Prosperity Fund. It will need to include the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent.

• A full regional analysis – jointly carried out by Greater Manchester and the Government – of the potential impacts of the Government’s scenarios for the future relationship between the EU and the UK has become an urgent requirement. While Greater Manchester is now being engaged at an official level by the Department for Exiting the European Union (DEXEU); and the GMCA has shared its analysis of the potential regional impacts of Brexit, Government has yet to commit to producing undertaking a full regional analysis.

• Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region’s businesses, will be missed. A number of meetings have now been held between the Mayor of Greater Manchester, other metro Mayors, and ministers from DEXEU to discuss the potential impacts of Brexit, but Government has yet to commit to GM or the North having a formal voice in the negotiations; and

• The process of returning powers from the EU must not end at Westminster. A full assessment is needed of which powers can be devolved to the city regions following Brexit. Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity
and ensure that all communities can contribute to, and benefit from, growth. This progress needs to be built on to ensure Greater Manchester firms and labour market are able absorb the disruption caused by Brexit and take advantage of any opportunities.

3.7. In addition to the areas outlined above, the GMCA is also updating the Internationalisation Strategy Action Plan to reflect the changed environment around Brexit to identify and mitigate any upcoming risks. The priorities that raise the greatest concerns are around the attraction of inward investment, the future performance of exports, and the attractiveness of the City-Region to international students, and so actions are being developed to reflect the need to focus more carefully on these issues if overall targets are to be met. This is included as a separate item on the agenda.

4. **Recommendations**

4.1. Recommendations appear at the front of this report.
Greater Manchester Brexit Monitor  
Key economic trends and developments – June 2018

As key votes and EU deadlines move closer, while government negotiations move forward, there is still significant uncertainty for businesses and workers in the UK around what to expect after the UK’s exit from the EU. The main social and economic indicators continue to show mixed signals as to the referendum’s impact on the UK economy so far. The Office for National Statistics first quarter estimates show lower growth in GDP. Manufacturing and services Purchasing Managers surveys (PMIs) indicate continuing, but slower growth (compared to peaks this time last year), and while there are signs of positive movements in a range of other PMIs - these movements come alongside warnings from industry leaders on the importance of expediency and transparency on Brexit. Rising oil prices, slower order books, and slower consumer spending all hint at headwinds for the economy in the months ahead.

Macro-Economic Trends & Developments

• The growth rate for business activity saw its first rise since December 2017 in the North West in March, with the PMI rising to 54.6 from 53.2 in March. However, this is still below pre-referendum levels (55.5) (above 50 = growth). This places the North West as the 3rd best performing English region after Yorkshire and the West Midlands.

• The UK continued to be a net importer from the EU in March 2018. Imports exceeded exports by £8.5 billion, a £1.0 billion increase from February’s net deficit.

Policy, Trade, & Regulation

• Plans were published by central government in early June for a ‘temporary customs arrangement’ as an alternative backstop solution to a hard Irish Sea customs border.

• In his June press statement, Chief Negotiator for the EU, Michel Barnier, provided a debrief on progress made in the run-to-European Council being held later this month. He focussed on three key issues for negotiations: the separation issues, covering: data protection, geographical indications (including trade borders); and the continuation of administration beyond Brexit.

• On 18th June, Andy Burnham and other combined authority mayors from across the country met with the Department for Exiting the European Union minister to discuss the risks and opportunities of Brexit, and represent the interests of Greater Manchester in ongoing discussions. This follows Andy Burnham providing evidence to the Public Administration & Constitutional Affairs Committee on Devolution & Brexit in early June.

• On 12th June, MPs voted by 324 votes to 298 to approve the EU Withdrawal Bill, following a previous push back from the House of Lords.

• A June report from The Guardian highlighted Manchester as the largest recipient of foreign direct investment outside of London, raising concerns over investors’ post-Brexit plans in GM.

Key Sectors & Business Investment

• Research with GC Business Growth Hub clients in the 3 months to the end of May 2018 shows some increases in business certainty around both hiring and investment plans, although broader trends remain similar to the previous quarter. There is nevertheless still underlying uncertainty, with 37% unsure what impact Brexit will have on hiring and 23% unsure on investment plans.

• The UK Manufacturing Purchasing Managers Index (PMI) survey show that after slowing through early 2018, the growth rate in manufacturing shows hints of an upturn in May rising to 54.4 from 53.9 in April.

• Growth rates in the services sector continue to rise from March’s low, with the services PMI rising to 54.0 in May from 52.8 in April. Despite this, business volumes continued to increase but at a subdued rate with lower growth expected to continue over the forthcoming months.

• Recent trends in the retail industry suggest a continued flattening of sales. While sales have recovered from the negative impact of bad weather earlier this year, they still remain subdued compared to the long-term trend.

Property and Housing

• March housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices. However, there are recent indications of flattening prices nationally and in GM, with London in particular seeing prices fall towards pre-referendum levels.

• May data indicates construction activity sustaining a moderate recovery from weather-related disruptions earlier in the year, with the construction PMI remaining at 52.5 in May, the same as April.

Economic inclusion

• Numbers in GM claiming unemployment and underemployment benefits (Job Seekers Allowance and also related Universal Credit) has risen for a fourth consecutive month in April, rising by 1,895 (3.7%) from March to 53,345 people. This places the total number of claimants at a 46-month high and 15.2% (7,055) higher than pre-referendum levels. However, due to recent changes to unemployment benefits and the roll-out of Universal Credit in GM over the last year, long-term trends should be treated with caution.

• The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.3% in May 2018, up from 2.2% in April 2018, indicating a continued rise in consumer costs. This rise was driven primarily by rising fuel prices.

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Macro-Economic Trends & Developments

Macro-economy

- According to revised estimates from the Office for National Statistics, UK GDP grew by 0.1% in the first quarter (Jan-March) of 2018, compared to 0.4% in the previous quarter (Oct-Dec 2017). This is unchanged from preliminary estimates. This is the slowest rate of growth since Q4 2012. The service industries were the main driver of growth in this quarter. However, falls in construction account for the largest downward pull on growth. While bad weather earlier this year negatively impacted certain sectors, the total effect on UK GDP was offset by increased spending on energy and online retail.\(^{(1)}\)
- There were significant rises in oil prices in May, during which time prices twice broke $80 per barrel, raising concerns of possible economic instability in the next 6 months.\(^{(2)}\)

UK International Trade

- The total UK trade (goods and services) deficit narrowed by £0.7 billion to £6.9 billion in the three months to March 2018; excluding erratic commodities, the deficit widened by £1.2 billion to £8.5 billion. The narrowing of the trade in goods deficit, including erratic commodities, was due mainly to a falls in imports of ships and aircraft from the EU, as well as rising import prices from outside the EU, resulting in falling goods imports.\(^{(3)}\)

**EU Trade**

- The UK was a net importer from the EU in March 2018, with imports exceeding exports by £8.5 billion.\(^{(4)}\)

**Non-EU Trade**

- The UK was a net importer from non-EU nations in March 2018, with imports exceeding exports by £2.8 billion.\(^{(4)}\)

IHS Markit Regional Purchasing Managers' Index (PMI)

- The growth rate for business activity saw its first rise since December 2017 in the North West for in March, with the PMI rising to 54.6 from 53.2 in March. However, this is still below pre-referendum levels (55.5) (above 50 = growth). This places the North West as third best performing English region after the Yorkshire (55.0) and the West Midlands (54.8). All other regions shown in grey below.
- Rates of job creation across England in April slowed to their weakest since August 2016, partly reflecting firms’ rising input prices and staff costs. Staffing levels in the North West were reported as falling for the first time in more than a year and a half, albeit only marginally.\(^{(5)}\)
Investment

- Research with GC Business Growth Hub clients in the 3 months to the end of May 2018 shows some increases in business certainty around both hiring and investment plans. However broad trends remain similar to the previous three months (Dec-March), with the largest increases weighted toward businesses keeping plans the same. There is however still significant uncertainty, with 37% unsure what impact Brexit will have on hiring and 23% unsure about future investment plans.\(^6\)

<table>
<thead>
<tr>
<th>Make redundancies</th>
<th>Decrease or freeze hiring</th>
<th>Remain the same</th>
<th>Increase hiring</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1%</td>
<td>5%</td>
<td>55%</td>
<td>2%</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Quarter ending May ’18</td>
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</tr>
<tr>
<td>0%</td>
<td>2%</td>
<td>49%</td>
<td>0%</td>
<td>49%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Previous Quarter</td>
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</tbody>
</table>

**Greater Manchester Chamber of Commerce**

- Greater Manchester Chamber of Commerce's economic survey for the second quarter of 2018 has shown sustained growth and employment in Greater Manchester. Nearly half of the businesses surveyed have reported that both quarterly sales and advance orders have increased compared to the previous quarter. Although export sales have recorded a slight increase from the first quarter of 2018, growth in export orders appears to be moderating. Employment and recruitment levels registered an upturn towards the beginning of the year and continue to remain steady. Across the UK there is a softening in the construction and services, which may suggest some risks to future growth in jobs and wages.\(^7\)

**IHS Markit/CIPS Manufacturing & Services PMIs®**

- After slowing through early 2018, growth rates in manufacturing show initial hints of an upturn in May with UK Manufacturing PMI rising to 54.4 from 53.9 in April (above 50 =growth). While a drop from late 2017’s high of 58.3, this still indicates continued growth and stands (just) higher than pre-referendum levels (52.3).
- IHS Markit however urge caution in their latest figures, highlighting that this upturn has been driven by firms working through backlogs of work rather than growth in new orders and that this trend may not be sustainable in future.\(^8\)
- Growth rates in the services sector continue to rise from March's low, with the services PMI rising to 54.0 in May from 52.8 in April. Despite this, business volumes continued to rise at a subdued rate with low growth expectations in future. IHS Markit cites Brexit-related uncertainty as continuing to negatively impact new orders for the services sector.\(^9\)

**Retail Sales**

- The volume (not value) of retail sales grew by 1.6% in March 2018 compared to February 2018, representing a 1.1% increase on March 2017 and a 4.6% increase on June 2016.
- The underlying recent trend in the retail industry – as suggested by the three-month on three-month measure – is one of flattening sales. Sales have recovered from the negative impact of bad weather earlier this year, but remain subdued.\(^10\)
The latest round of Brexit negotiations and European Commission

- In a June press statement, Chief Negotiator for the EU, Michel Barnier, provided a debrief on progress made in the run-up to the European Council being held later this month. He focussed on three key issues for negotiations: the separation issues, covering data protection, geographical indications (including trade borders); and the continuation of administration, beyond Brexit, of state aid and funding. He also raised the major question of a trade border between Ireland and Northern Ireland; and the importance of the future partnership between the UK and EU - including the conditions required for Brexit to succeed. On the latter, Barnier said more work was needed, in particular the need for ‘realism’ in the UK’s interest in securing all the benefits of the current relationship, but without the full EU regulatory & application framework.

- The next key date will be October 18-19 2018: A quarterly EU summit which is Barnier’s target date to agree a withdrawal treaty, tying off legal loose ends for departure, such as the rights of citizens, mutual financial commitments and how to keep the Irish border fully open. It will also contain the transition deal and be accompanied by a separate “political declaration” outlining the broad terms of a free trade accord and other relationships to follow after that. (11,12)

MPs Vote on EU Withdrawal Bill

- On 12th June, MPs voted by 324 votes to 298 to approve the EU Withdrawal Bill, following a previous push back from the House of Lords. The bill does not include previously suggested amendments guaranteeing MPs a vote on the final Brexit deal, but includes assurances that they will have ‘input’ on this deal. (13)

Combined Authorities Meeting DEU Minister

- On 18th June, Andy Burnham and other combined authority mayors from across the country met with the Department for Exiting the European Union (DEU) minister to discuss the risks and opportunities of Brexit, and represent the interests of Greater Manchester in ongoing discussions. This follows combined authority mayors including Andy Burnham (Greater Manchester Combined Authority) and Andy Street (West Midlands Combined Authority) providing evidence to the Public Administration & Constitutional Affairs Committee on Devolution & Brexit in early June. Details on these meetings will be published in next month’s Brexit Monitor.

Horizon Science and Innovation Funding

- In early June the EU published proposals for their 2021 to 2027 budget, which are reported to leave open the possibility of the UK’s continued participation in the Horizon Europe EU-funded science and innovation scheme, the successor to the current Horizon 2020 scheme. The proposals allow scope for the UK to pay for continued participation in the programme as an ‘associated third country’, in a similar manner to Israel and Switzerland, although with caveats to ensure that the UK could not receive more funding than it pays in fees. These proposals are however currently unconfirmed and will be dependent on the nature of the EU and UK’s final exit deal. (15,16)

EY UK Foreign Investment Attractiveness Survey

- In June, EY published their annual report examining the attractiveness of the UK for foreign investment. This report highlighted Manchester as the largest recipient of foreign direct investment outside of London, although also highlighted increasing concerns from investors around Brexit, and slowing investment in the digital sector. (17)
March housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in GM, with post-referendum trends in house prices roughly in line with pre-referendum trends. London has however seen flatter growth since the referendum and a recent fall in average prices. After a period of more rapid growth since March 2017, house prices growth in GM has slowed since September. This is possibly a seasonal pattern with price growth in GM often flattening during winter; as we move into summer new trends may emerge. Overall, prices in Greater Manchester have risen faster than national and regional averages since the referendum.\(^{(20)}\)

May data indicates construction activity sustaining a moderate recovery from weather related-disruptions earlier in the year, with the construction PMI remaining at 52.5 in May, the same as April (above 50 = growth). This continues the highest rate of growth since November 2017 and an overall moderate expansion in construction output, although remaining subdued compared to historical rates of growth.\(^{(21)}\)

There are signs that underlying demand in the sector remains subdued, with new orders showing signs of decline. Anecdotal reports from businesses indicate that this may be due to heightened economic and political uncertainty around Brexit, and lower confidence and business optimism amongst some clients.
**Economic Inclusion**

### Unemployment and household finance

- Numbers claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in GM have risen for a fourth consecutive month in April, rising by 1,895 (3.7%) from March to 53,345 people. This places the total number of claimants at a 46-month high and 15.2% (7,055) higher than pre-referendum levels. (22)
- As a proportion of the working age population, this has also risen to 3.0% from 2.6% in June 2016, a 45-month high. This is in line with national trends, with UK rates rising from 1.9% in June 2016 to 2.2% in April 2018, and regional trends, with North West rates rising from 2.3% in June 2016 to 2.8% in April 2018. Due to recent changes to unemployment benefits and the roll-out of Universal Credit in GM over the last year, long-term trends should be treated with caution.
- The seasonally adjusted Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – reveals a continued, although easing, squeeze on UK household finances. May’s HFI gives a reading of 44.7, up slightly from April’s 43.4 however still indicating worsening household finances (below 50 signals deterioration). (23)

### Consumers prices

- The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.3% in May 2018, up from 2.2% in April 2018. Rising motor fuel prices produced the largest upward contribution to the change in the rate between April and May 2018. The ONS said that fuel prices increased by the biggest monthly amount since January 2011, rising by 3.8%. (24)

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**Claimant count (JSA and UC) in GM by age group**

- **Aged 16-24**: 16-24
- **Aged 25-49**: 25-49
- **Aged 50+**: 50+

**April 2018 Claimant Count Change by Age Group (GM)**

<table>
<thead>
<tr>
<th>Age</th>
<th>Since last month</th>
<th>Since EU Referendum</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24</td>
<td>+215</td>
<td>+20</td>
</tr>
<tr>
<td>25-49</td>
<td>+1,225</td>
<td>+4,765</td>
</tr>
<tr>
<td>50+</td>
<td>+455</td>
<td>+2,280</td>
</tr>
</tbody>
</table>

**April 2018 Claimant Count (% of working age residents)**

<table>
<thead>
<tr>
<th>Region</th>
<th>GM</th>
<th>North West</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24</td>
<td>3.0%</td>
<td>2.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>25-49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50+</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Macro-Economic Trends & Developments

1. **ONS (25 May 2018):** Statistical bulletin: Second estimate of GDP: January to March 2018
2. **BBC News (5 June 2018):** Petrol prices in record monthly rise, says RAC
3. **ONS (10 May 2018):** UK trade: March 2018
4. **HMRC (4 June 2018):** Overseas Trade Statistics - Non-EU and EU Trade: March 2018
5. **IHS Markit England and Wales Regional PMI (14 May 2018):** "Business activity growth picks up in England in April, but Wales sees further slowdown"

### Key Sectors & Business Investment

6. **Manchester GC Business Growth Hub (End May 2018 snapshot):** Internal Survey of Client Companies
7. **Greater Manchester Chamber of Commerce Quarterly Economic Survey Q2-2018
8. **Markit/CIPS UK Manufacturing PMI (1 June 2018):** "Mild output growth acceleration masks underlying weaknesses"
9. **Markit/CIPS UK Services PMI (5 June 2018):** "Business activity growth reaches three-month high, but strong cost pressures persist in May"
10. **ONS (24 May 2018):** Retail sales in Great Britain: April 2018

### Policy, Trade, & Regulation

11. **European Commission (June 2018):** Press statement by Michel Barnier following this week’s round of negotiations
12. **European Council (Art.50), Agenda 29/06/2018
13. **BBC News (12 June 2018):** Ministers win key Brexit bill vote after concession
14. **BBC News (5 June 2018):** Brexit: HMRC chief defends £20bn customs figure
15. **Financial Times (7 June 2018):** EU opens door to UK participation in €100bn research programme
16. **European Commission (7 June 2018):** Commission proposes most ambitious Research and Innovation programme so far
17. **EY (June 2018):** In Transition: EY’s Attractiveness Survey UK
18. **BBC News (16 May 2018):** Brexit: UK promises ‘significant’ White Paper
19. **Financial Times (4 June 2018):** May delays blueprint for future EU ties until after June summit

### Property & Housing

20. **HM Land Registry (March 2018):** House Price Index Database, updated 23 May 2018
21. **Markit/CIPS UK Construction PMI (4 June 2018):** "UK construction activity growth remains subdued in May"

### Economic Inclusion

22. **ONS (2018):** Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed June 2018
23. **IHS Markit Household Finance Index (21 May 2018):** "Light at end of tunnel for UK household finances in May"
24. **ONS (June 2018):** Consumer price inflation UK: May 2018
Brexit and Greater Manchester
Summary

- Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. The refreshed Greater Manchester Strategy has set out the ambition and priorities for the city region and Greater Manchester already has a wide network of global relationships, encouraging exports and investment.

- This progress need to be built on to ensure that Greater Manchester firms and labour market are able to absorb the disruption caused by Brexit and take advantage of any opportunities.

- Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region’s businesses, will be missed.

- There has been some assessment of the potential overall impacts of Brexit on the North West of England with virtually all assessments agreeing that those impacts are negative.

- However, this type of headline assessment does not reveal the potential impacts on firms and sectors – and the spatial implications which they drive. There has been little analysis of the potential impacts on the trading patterns and labour market of Greater Manchester from different potential scenarios.

- The city region’s trade is more reliant on trade with the EU than other parts of the UK, with the EU accounting for 58 per cent of goods exports from Greater Manchester firms – compared with 42 per cent for England as a whole. Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK.

- The analysis in this paper explores sector and firm effects further by focusing on three areas where Greater Manchester firms and sectors could be exposed:

  i. The potential impact of non-tariff barriers on trade by Greater Manchester sectors, where the Government’s assessment of the size of the non-tariff barriers can then be applied to goods exports by Greater Manchester sectors. This approach finds that the additional costs from an increase in non-tariff barriers would be £170m per annum for a deal similar to the European Economic Area, £320m for a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. While the impact on services is impossible to quantify from current data sources, it is clear that the actual impact for Greater Manchester firms and sectors would be significantly higher overall than the calculations for goods exports set out here.

  ii. The potential impact of tariff barriers on trade by Greater Manchester sectors, where an illustrative ‘no deal’ scenario to identify the parts of the economy more exposed to risks from the introduction of World Trade Organisation ‘Most Favoured Nation’ trade rules. This would lead to an average tariff rate of just under 5 per cent across all good, at a cost of up to £150m per annum for Greater Manchester exporters. Again, the impact on service exporters means that the overall impact across Greater Manchester’s economy would be higher.

  iii. The potential impact on the Greater Manchester labour market and access to skills for employers where it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. They are Distribution, Hotels, and Restaurants, where 26,000 workers are EU nationals; Banking and Finance, where there are 14,000; Manufacturing, where there are 13,000; and Public Admin, Education, and Health, where there are 12,000.

- There are also likely to be implications for the movement of capital – and therefore for investment in Greater Manchester. Surveys of Greater Manchester businesses, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

- This analysis points to four steps necessary to manage the risks and take advantage of the opportunities from Brexit:

  i. The potential impact on Greater Manchester’s labour market and supply of skills makes devolution to ensure that the city region’s skills system is more responsive to the needs of employers even more vital. This will need to be a core component of the Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, and backed up by the Shared Prosperity Fund. It will need to include the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent;

  ii. A full regional analysis – jointly carried out by Greater Manchester and the Government – of the potential impacts of the Government’s scenarios for the future relationship between the UK and EU has become an urgent requirement. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK;

  iii. Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region’s businesses, will be missed; and

  iv. The process of returning powers from the EU must not end at Westminster. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment, drawing on the experience of the Scottish Government and other devolved authorities.
Introduction

1.1 Devolution to Greater Manchester has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. Barriers to investment have been removed, a comprehensive system of business support has been developed, and reform of the skills system has begun. A Spatial Framework is being developed, investment is going into the transport network, employment support schemes have outperformed national equivalents, and the unique integration of health and social care is supporting the city region’s workforce. Most importantly, as decisions start to be made locally, all of these areas can be joined up to deliver the ambitions and priorities of the refreshed Greater Manchester Strategy. While there is still a long way to go before the full potential of devolution is achieved, progress has been made.

1.2 The UK’s exit from the EU will have significant implications for the Greater Manchester economy – risks from disrupting long-standing trading relationships, alongside the potential opportunities if new trade deals are secured. Those risks arise from both process of transition as the UK leaves the EU and from any new deal which is agreed with the EU if it creates barriers to trade and restricts access to the skills which the Greater Manchester economy needs.

1.3 Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region’s businesses, will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.

1.4 The Government’s own economic analysis of the impact of Brexit has shown how the regional impacts of different Brexit scenarios can vary. Under the Government’s forecasts, UK GDP is forecast to be 1.5 per cent lower over 15 years if the UK remains a member of the EU’s single market, 5 per cent lower if a free trade deal is agreed and 8 per cent lower if the UK leaves the EU without a deal and reverts to World Trade Organisation terms. But the equivalent figures are 2.5 per cent, 8 per cent and 12 per cent for the North West of England, and 3.5 per cent, 11 per cent and 16 per cent for the North East.

1.5 The analysis in this report, assessing some of the implications of Brexit for Greater Manchester’s economy, its sectors and firms, shows why that voice in negotiations is so important. It also points to the potential for further devolution of powers to city regions through the Brexit process, and the need for the Shared Prosperity Fund – the future mechanism for regional investment which currently takes place through the EU – to reinforce and not undermine the progress which has been made through the devolution process.

1.6 The next section summarises the ongoing process of monitoring the impact of Brexit which is being carried out by Greater Manchester, and some of the most recent findings. Section 3 sets out the city region’s response to Brexit so far. Sections 4 and 5 summarise the approach to assessing the potential impacts on Greater Manchester’s firms and sectors, and the main findings from that analysis. The final section sets out the preparations needed to support those firms and sectors through the Brexit process.

Monitoring the impact of Brexit

2.1 New Economy Manchester, and now the Greater Manchester Combined Authority (GMCA), have been working with businesses to monitor the impacts of Brexit since the June 2016 referendum. Monthly monitors have been produced and are published monthly.

2.2 As well as monitoring the developments in the negotiations between the UK and EU, and the latest economic data, the Monitors draw on local intelligence from Greater Manchester’s businesses about how they are responding. The latest findings include:

- Research with Greater Manchester Business Growth Hub clients in the 3 months to the end of January 2018 shows that 57 per cent of firms expected their investment plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods. However, latest data revealed an increase in uncertainty, with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

- Research with Growth Company Business Growth Hub clients in the 3 months to the end of January 2018 shows that 50 per cent of firms expected their hiring plans to remain the same following the EU referendum result, but firms appeared to become increasingly uncertain about their hiring plans. Latest figures have revealed an increase in the proportion of firms who are unsure what impact Brexit would have on hiring plans, from 26 per cent in Oct-Dec 17 to 33 per cent in Nov 17-Jan 18 – a record high.

2.3 Interviews carried out by the GMCA with large employers in the city region have also identified some of their priorities for the Brexit negotiations. They have been: concerns about customs delays causing additional friction in supply chains, particularly if Rules of Origin become onerous; the potential impacts on cash flows of any changes to VAT rules; firms’ ability to attract and retain talent; and the potential divergence of regulations and barriers that would cause to trade. They are also looking at opportunities from the potential reshoring of some supply chains in the UK.

2.4 This process of monitoring and ongoing dialogue with businesses and other employers has informed Greater Manchester’s response to Brexit.
3 Greater Manchester’s response to Brexit

3.1 Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. This progress needs to be built on to ensure that Greater Manchester firms and labour market are able to absorb the disruption caused Brexit and take advantage of any opportunities.

3.2 Greater Manchester already has a wide network of global relationships, encouraging exports and investment. A new Internationalisation Strategy was published in July 2017 to extend and deepen trading relationships while the Business Growth Hub is increasing the number of firms who export – with associated productivity benefits. Innovations such as the GM-China Forum and the new Manchester-India Partnership mean that the city region is well-placed to benefit from new trading links with large high-growth economies.

3.3 Steps are also being taken, as set out in the Greater Manchester Strategy, to strengthen growth and reform services in the city region. These should help to mitigate the impact of Brexit, as far as possible, and ensure any opportunities are grasped. For example, where firms have traditionally filled skilled gaps through migration, they will have a stronger incentive to raise skills in the UK and the Greater Manchester skills system will need to respond. Where powers are returned from the EU, there will be opportunities for further devolution, joining up powers in functional economic areas to raise productivity. The disruption of supply chains across borders could also create opportunities for local firms.

3.4 The Local Industrial Strategy which Greater Manchester is developing in partnership with Government, businesses and other residents will therefore be a key aspect of Greater Manchester’s response. This Strategy will be published in Spring 2019 and will address the Grand Challenges set out in the National Industrial Strategy: Artificial Intelligence & Data Economy; Clean Growth; Future of Mobility; and An Ageing Society.

3.5 For this response to be fully effective, it needs to be based on a proper assessment of the potential impacts of Brexit, exploring the implications for firms and sectors in Greater Manchester – and the wider North of England – of potential Brexit deals.

4 Greater Manchester’s approach to assessment

4.1 Raising productivity in Greater Manchester can make the city region’s economy better prepared for the transition of the UK out of the EU, and the disruption and potential shocks that may bring. However, for individual firms and sectors, the shape of the future trading relationship between the UK and EU – and the regulatory and other requirements that will bring – will be crucial for maintaining their competitiveness and growth.

4.2 While the trade-offs and compromises between different scenarios for the future UK-EU relationship are becoming clearer, the exact model which that relationship will take is still far from certain. There has been some assessment of the potential overall impacts of Brexit on the North West of England. For example, the Greater Manchester Forecasting Model, produced by Oxford Economics, in its most recent analysis (2017) forecast slower growth for the city region than the forecast carried out before the EU referendum (the 2015 forecast), with the lower growth driven by the impacts of Brexit and a wider slow-down in productivity. This was in line with other forecasters and some other regional forecasts are set out in the box.

4.3 However, this type of headline assessment does not reveal the potential impacts on firms and sectors – and the spatial implications which they drive. There has been little analysis of the potential impacts on the trading patterns and labour market of Greater Manchester from different potential scenarios. A deeper assessment of the implications of Brexit for Greater Manchester is required.

4.4 Greater Manchester has offered to work with Central Government to produce this, but no collaborative work has yet been done. Greater Manchester therefore has a responsibility to carry out that assessment and the headline findings are set out here.

4.5 Greater Manchester’s firms are greatly exposed to any disruption of established trading relationships with the EU. The city region’s trade is more reliant on trade with the EU than other parts of the UK, with the EU accounting for 58 per cent of goods exports from Greater Manchester firms in the latest available data – a greater reliance on the EU as an export market than the average for England as a whole (42 per cent).

4.6 Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK. Barriers to trade are likely to have a significant impact on these supply chains, and on some firms who may not be aware that they are in the supply chains for exporters given that they may be several tiers below the primary exporter. While the surveys of Greater Manchester firms and in depth interviews may pick up some of these effects, they do not give a comprehensive view.
Assessments of the Potential Regional Impacts of Brexit

Virtually all assessments of the regional economic impacts of Brexit agree that those impacts are negative. However, there is some disagreement about whether Greater Manchester and the wider North are likely to be hit harder, or less hard, than other parts of the UK.

The Government’s own economic analysis forecast that UK GDP would be 1.5 per cent lower over 15 years if the UK remains a member of the EU’s single market, 5 per cent lower if a free trade deal is agreed and 8 per cent lower if the UK leaves the EU without a deal and reverts to World Trade Organisation terms. But the equivalent figures are 2.5 per cent, 8 per cent and 12 per cent for the North West of England, and 3.5 per cent, 11 per cent and 16 per cent for the North East.

Research carried out by academics as part of the ESRC project on ‘The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors’ is consistent with the Government’s analysis, finding that “it is the Midlands and the North of England which are by far the most vulnerable. They are more exposed to Brexit than any other region in Europe. The reason is that the Midlands and north of England are much more dependent on EU markets for their trade than London, the South-East or Scotland.” This conclusion is based on using global input-output tables to link trade to value added to bring out the link between local value-added and trade which is obscured when looking at simple measures of gross exports and imports.

The assessment carried out by Cambridge Econometrics for the Greater London Authority also found a larger impact on the rest of the UK than on London. They concluded that the impacts on employment and population would be slightly smaller in the rest of the UK, as much of the reduction in migration and population is expected to be in London. But, “the losses in GVA and productivity across all scenarios (comapred to what may have happened if the UK remained in the Single Market and Customs Union) are noticeably more severe for the rest of the UK than for London, which implies that the rest of the UK will be much worse off than London following Brexit”.

However, a study by the Centre for Economic Performance at the London School of Economics & Political Science, concluded that areas in London and South East would tend to see bigger negative impacts, due to larger impacts from non-tariff barriers than found in other forecasts and because looking at trade exposure ignores the willingness of individuals and firms to substitute away from foreign to domestic supply as trade-costs rise. Overall, their conclusion was that urban areas would be hardest hit, consistent with the fact that urban areas have their employment concentrated in the sectors that are predicted to be most negatively affected.

4.7 The assessment carried out by academics as part of the ESRC project on ‘The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors’ has calculated the extent of regional exposures brought about by such impacts on supply chains. This split gross exports into domestic value added and foreign value added based on global input-output tables. By calculating the domestic value added in exports from UK regions to the EU, and dividing that by regional GDP, an indicator of the share of regional GDP exposed to Brexit is reached. This approach found that around a third of Greater Manchester’s manufacturing output is exposed to Brexit, and 11.3 per cent of the whole Greater Manchester economy.

4.8 Studies of the impact of Brexit have also tended to focus on the implications for the UK’s trade with the EU, rather than the UK’s trade with the rest of the world which is currently conducted through EU agreements. These markets are crucial for the city region’s exporters – 11 per cent (£603m) of Greater Manchester’s goods exports are to the USA and another 4 per cent (£223m) to China. According to Financial Times research of the EU treaty database, there are 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to the UK, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. The UK Government is hoping that better and more ambitious agreements will be agreed with countries outside the EU which will increase trade, but there is also the potential for negative impacts if the UK is not able to replicate those trade agreements that the EU currently has with other countries.

4.9 The size of those potential impacts is impossible to quantify from the data sources currently available to Greater Manchester, reinforcing the case for a full analysis with Government of the regional impact of Brexit scenarios. The Government’s own analysis of Brexit impacts concluded that trade deals with non-EU countries could – in the most optimistic scenario – add 0.7 per cent to the UK’s GDP in the long term. This beneficial effect only offset part of the negative impacts which the Government found resulted from the potential new trade agreements with the EU (an overall loss of 1.6 per cent of UK GDP with an EEA-type deal; a loss of 4.8 per cent with an FTA-type deal; and a loss of 7.7 per cent with WTO rules following no deal). If the current EU trade deals with other countries were not replicated, then these negative effects would be larger for the UK and Greater Manchester.

4.10 The analysis in this paper explores sector and firm effects further by focusing on three areas where Greater Manchester firms and sectors could be exposed:

i. The potential impact of non-tariff barriers on trade by Greater Manchester sectors;
ii. The potential impact of tariff barriers on trade by Greater Manchester sectors; and
iii. The potential impact on the Greater Manchester labour market and access to skills for employers.

4.11 There are also likely to be implications for the movement of capital – and therefore for investment in Greater Manchester. These are impossible to quantify from available data sources, and will depend on any agreement reached between the UK and EU on financial services. However, there are some insights from the surveys of businesses carried out for Greater Manchester’s Brexit Monitor. As the most recent finding, set out above, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.
4.12 The uncertainty, at this stage, around what sort of deal the UK Government is aiming to achieve, and the shape of any final agreement with the EU on the future relationship, makes the analysis of any potential impacts challenging. The assessments therefore draw on the material from the Government’s own assessment which have been put into the public domain, and other studies carried out by academic institutions and think tanks. The uncertainty around these, in addition to the obvious difficulties in forecasting future events, means that there is inevitably a range of possible outcomes. But, despite these challenges, such analysis is important for assessing the possible implications for Greater Manchester of different types of deal, and for providing a sense of scale and direction of changes.

4.13 The clear conclusion is that any deal which creates barriers to trade with existing trading partners or reduces the availability of skills for firms, would have a negative impact on the Greater Manchester economy. These could be partially offset in the long-term by the development of new trading relationships. But, there would still be a difficult transition for many firms – not just those involved directly in trading with the EU, but also firms focused on domestic UK markets which are involved in the supply chains for firms involved in cross-border trade. There are also impacts on investment which are related to the uncertainty which is facing firms, whatever the future relationship between the UK and EU.

4.14 The following section sets out the findings from Greater Manchester’s analysis.

5 Findings from Greater Manchester’s analysis

(i) Non-Tariff Barriers

5.1 In monitoring the potential impacts of Brexit, the GMCA has carried out a rolling survey of businesses and in depth interviews with some of Greater Manchester’s larger employers – supported by the Manchester Growth Company and the Greater Manchester Chamber of Commerce. This work has found that non-tariff barriers are seen as at least as significant as tariff barriers as a risk to current trading relationships.

5.2 Commitments by the Prime Minister have provided some reassurance that the UK is likely to retain most EU regulatory standards after Brexit, and therefore reduce non-tariff barriers. However, this is obviously subject to negotiation with the EU and may well not apply across all sectors. Analysis from the Business Register and Employment Survey shows that a higher proportion of Greater Manchester’s employment is in manufacturing – and particularly food and drink manufacturing and textile manufacturing – than the Great British average. The same is true of retail and business and professional services. Negative economic impacts on these sectors could therefore have a disproportionate impact on employment in Greater Manchester.

5.3 The Government’s analysis of the economic implications of Brexit included an assessment of the potential impact of non-tariff barriers under different scenarios. While the final deal negotiated by the Government with the EU may differ from these scenarios, the range produced by the Government is very likely to cover the final outcome. The Government’s estimates of non-tariff barrier costs, expressed as ‘tariff equivalents’ and reproduced from the Government’s ‘EU Exit Analysis Cross Whitehall Briefing, January 2018’ are shown in the Chart.
5.4 The Government’s assessment of the size of the non-tariff barriers can then be applied to exports by Greater Manchester sectors, to better assess the potential scale of impact for sectors in the city region. Data on exports from Greater Manchester are only available for goods and applying the Government’s calculations to that data finds that the additional costs from an increase in non-tariff barriers would be £170m for a deal similar to the European Economic Area, £320m for an FTA-type deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. The impact is clearly negative and significant.

5.5 However, Greater Manchester also exports services, which make up over 80 per cent of the Greater Manchester economy. These include business, finance and other professional services, education, health and defence, and information and communication. For example, the strength of the higher education sector in Greater Manchester has led to it becoming a successful export sector, with a net benefit to the city region from the cohort of international students beginning courses in 2015-16 of £852m. Such services are not only exported directly to the EU, but are also provided to major exporters in other regions of the UK as part of their supply chains. Robust data for services exports are unavailable at the Greater Manchester level, and so potential impacts on services exports cannot be quantified, but it is clear that the actual impact for Greater Manchester firms and sectors would be significantly higher overall than the calculations for goods exports set out here.

(ii) Tariff Barriers

5.7 Avoiding non-tariff barriers is important for all sectors across Greater Manchester, but the introduction of tariffs on trade with the EU would also have a significant impact – particularly for manufacturing. Analysis of the potential impact of trade tariffs on broad sectors of the economy has therefore been carried out. The work uses an illustrative ‘no deal’ scenario to identify the parts of the economy more exposed to risks from the introduction of World Trade Organisation ‘Most Favoured Nation’ trade rules. This illustrates the impact if no trade deal is struck between EU and UK. This is not the scenario which the UK Government is aiming for, but is a possibility which the Government is preparing for and gives a sense of the scale of potential impacts.

5.8 If tariffs were introduced on goods exports to the EU in line with World Trade Organisation rules, then they would be charged at an average rate of just under 5 per cent across all goods, at a cost of up to £150m per annum for Greater Manchester exporters.

5.9 The Greater Manchester industries which would be expected to be impacted the most under the no trade deal scenario, would be:

- Miscellaneous Manufactures has a modelled tariff estimate of £45 million per annum;
- Food and Export of Live Animals has a modelled tariff estimate of £45 million per annum;
- Machinery and Transport has a modelled tariff estimate of £25 million per annum; and
- Chemicals has a modelled tariff estimate of £24 million per annum.

5.10 Again, robust data for services exports are unavailable at the Greater Manchester level, and so potential impacts on services exports cannot be quantified. However, given the importance of the service sector to the UK and Greater Manchester’s economy, GMCA has identified a number of key capabilities which are exposed to Brexit: Business, financial and professional services; Creative and digital industries; and Healthcare services and life sciences manufacturing.
5.11 The Prime Minister’s commitment to explore with the EU the terms on which the UK could remain part of the European Medicines Agency (as well as the European Chemicals Agency and European Aviation Safety Agency) is helpful. Her aspiration that UK service providers should not be discriminated against in the EU – and vice versa – is also a good one, even if it is currently far from clear how this will be achieved. However, distancing the UK from the EU’s Digital Single Market could limit opportunities for Greater Manchester’s thriving digital firms. And the mapping of such sector-based approaches onto Greater Manchester’s capabilities reinforces the importance of assessing the place-based impacts of Brexit.

5.12 Across the service sector, the attraction and retention of talent is also a key issue.

(iii) Labour Market Impacts

5.13 Uncertainty over the UK’s future immigration rules makes assessment of the labour market impacts of Brexit challenging. However, it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. Greater Manchester commissioned analysis from the Migration Observatory at Oxford University on the proportions of Greater Manchester workers who are EU nationals. Applying these proportions to the latest available data from the Office for National Statistics’ Labour Force Survey, the main areas of risk according to the size of the current workforce in Greater Manchester are:

- Distribution, Hotels, and Restaurants, where 26,000 workers are EU nationals;
- Banking and Finance, where 14,000 workers are EU nationals;
- Manufacturing, where 13,000 workers are EU nationals; and
- Public Admin, Education, and Health, where 12,000 workers are EU nationals.

5.14 These figures from official data sources on employment are likely to under-represent the overall potential impact on the labour market. This is because many workers may be seasonal and/or contracted through employment agencies and so will not be included in these data.

5.15 Any skills shortages brought about by Brexit would exacerbate existing challenges in Greater Manchester, where skills – and therefore productivity – are already too low. Investment to make up this gap and a more joined up local approach which could respond to the needs of local firms should already have started if this challenge is to be met in time for Brexit. The risk is that any opportunities for Greater Manchester residents to raise their pay through a tighter labour market could be missed if they are not accompanied by higher skills and productivity.

4 Speech by the Prime Minister, 2 March 2018.
5 The analysis by the Migration Observatory was based on Labour Force Survey (all quarters), using a sample based on individuals living in the relevant geography, in the labour force (aged 16-65), who are employed.

6.1 The analysis here clearly shows the significant impact on Greater Manchester’s firms if the UK’s deal with the EU creates barriers to trade – both non-tariff and tariff. Some Greater Manchester sectors are also reliant on the skills which workers from the EU bring – emphasising the importance of making the Greater Manchester skills system more responsive to local employers.

6.2 But it also shows the importance of a place-based assessment of the impacts of Brexit scenarios. The sector mix differs in every city region, meaning that the implications of a UK deal play out in different ways in different places: Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.

6.3 The Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, will be crucial for addressing the risk and grasping the opportunities of Brexit. The potential impact on Greater Manchester’s labour market and supply of skills makes devolution to ensure that the city region’s skills system is more responsive to the needs of employers even more vital, including the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent.

6.4 The Shared Prosperity Fund, which will replace the regional investment currently carried out by the EU, will need to back up that Local Industrial Strategy. That means developing the fund so that it is based on:

- Multi-year funding – providing flexibility to sequence investments to maximum local effect;
- A place-based single pot – allocated to functional economic areas, so that resources can be allocated within national themes, but prioritised to local productivity priorities and taking a joined-up approach which avoids policy silos;
- Matched funding – with UK national funding which has in the past been used to match EU Structural Funds also brought into the Shared Prosperity Fund;
- Flexible use – so that it can be used for both capital and revenue purposes, and for early intervention and preventions (e.g. school readiness) rather than just tackling problems which arise later. It could then also support innovations such as the local revolving investment funds which have been pioneered in Greater Manchester;
- Funding level – with the amount of funding available to Greater Manchester being at least the level of existing EU Structural Funds and their matched funding.

6.5 The Prime Minister’s appetite to ensure a place-based devolved fund is essential. The analysis here shows the extent of the risks and opportunities for Greater Manchester and the wider North, and how the local potential to address these can be maximised with the right investment approach.

6.6 This analysis is based on the latest available data. It is likely that any and all of these risks could be exacerbated if an agreement with the EU that reflects the demands of some parts of Greater Manchester and the wider North is not achieved.

6.7 The analysis here clearly shows the significant impact on Greater Manchester’s firms if the UK’s deal with the EU creates barriers to trade – both non-tariff and tariff. Some Greater Manchester sectors are also reliant on the skills which workers from the EU bring – emphasising the importance of making the Greater Manchester skills system more responsive to local employers.

6.8 But it also shows the importance of a place-based assessment of the impacts of Brexit scenarios. The sector mix differs in every city region, meaning that the implications of a UK deal play out in different ways in different places: Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.
As powers are returned from the EU, it is also important that the process does not end at Westminster. A concentration of powers in this way would not only miss out on the opportunities to further devolution to drive growth and reform public services, but would be likely to lead to further disillusionment with the UK’s national institutions and their inability to respond to local priorities. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment, drawing on the experience of the Scottish Government and other devolved authorities, and it would be welcome if the offer to the UK Government to be involved in this process were taken up.

**Technical Annex**

The latest available data for exports from Greater Manchester produced by HMRC are for 2015. The total value of exports from Greater Manchester firms was £5.5bn in that year, a 3 per cent increase from 2014, placing Greater Manchester 15th out of 38 Local Enterprise Partnerships in terms of total exports. Adjusted for working age population, however, Greater Manchester falls to 27th, with an export value per head of working age population of £3.1m, half that for the average across all LEPs (£6.7m). The EU accounted for 58 per cent of goods exports from Greater Manchester firms in 2015, little different to the 59 per cent recorded in 2014. However, the latest figures still represent a greater reliance on the EU as an export market than the average for England as a whole (42 per cent).

The USA was the largest purchaser of exports (by value) from Greater Manchester firms, with £603m (11 per cent) worth of exports heading to the USA. However, of the top ten destinations for Greater Manchester exports, eight were located within the EU, with China (£223m or 4 per cent) the only other top ten partner besides the USA outside of the EU. This underscores the importance of the EU as a trading bloc for Greater Manchester.

**Table 1: Major export destinations from Greater Manchester, 2015**

<table>
<thead>
<tr>
<th>Partner Country</th>
<th>Export Value (£ million)</th>
<th>Share of total export goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>603</td>
<td>11%</td>
</tr>
<tr>
<td>Germany</td>
<td>551</td>
<td>10%</td>
</tr>
<tr>
<td>Irish Republic</td>
<td>521</td>
<td>9%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>411</td>
<td>7%</td>
</tr>
<tr>
<td>France</td>
<td>398</td>
<td>7%</td>
</tr>
<tr>
<td>Belgium</td>
<td>312</td>
<td>6%</td>
</tr>
<tr>
<td>China</td>
<td>223</td>
<td>4%</td>
</tr>
<tr>
<td>Italy</td>
<td>192</td>
<td>3%</td>
</tr>
<tr>
<td>Spain</td>
<td>177</td>
<td>3%</td>
</tr>
<tr>
<td>Poland</td>
<td>156</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: HMRC
HMRC provide data for the main commodities traded by Greater Manchester, as defined by UN Standard International Trade Classification. These are:

- Chemicals: £1.4bn, (25 per cent of the total value of exports);
- Machinery and Transport: £1.3bn (24 per cent);
- Other Miscellaneous Manufactures: £1.3bn (23 per cent); and
- Manufactured Goods: £0.8bn (14 per cent).

**Chart 2: Exports by sector to the EU, 2015**

In order to estimate the potential impact of tariffs on Greater Manchester exporters, tariffs from the World Trade Organisation schedules were applied to the data for goods exports from the city region provided by HMRC.

This approach provides a static impact. In the event of the actual introduction of these tariffs, there would then be a dynamic effect as exports would very likely reduce as the introduction of tariffs made goods from Greater Manchester more expensive, and less competitive, in EU markets. These effects would then reduce trade flows and sales by Greater Manchester firms, and also mean that the actual amount paid in tariffs would be lower.

It is estimated that under the scenario where the UK leaves the EU with no trade deal in place, goods exports from Greater Manchester could be impacted by up to £150 million in tariffs, with an average tariff rate of just under 5 per cent. The potential impacts in individual sectors are shown in table 2.
Table 2: Estimates of Tariffs Payable by Greater Manchester Sector Under WTO Rules

<table>
<thead>
<tr>
<th>Sector</th>
<th>Statistical Value (£ million)</th>
<th>Average Tariff</th>
<th>Tariffs Payable Estimate (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Live Animals</td>
<td>229</td>
<td>19.6%</td>
<td>45.0</td>
</tr>
<tr>
<td>Beverages and Tobacco</td>
<td>-</td>
<td>6.4%</td>
<td>-</td>
</tr>
<tr>
<td>Crude Materials</td>
<td>36</td>
<td>3.2%</td>
<td>11</td>
</tr>
<tr>
<td>Mineral Fuels</td>
<td>31</td>
<td>1.1%</td>
<td>0.3</td>
</tr>
<tr>
<td>Animal and Vegetable Oils</td>
<td>-</td>
<td>8.8%</td>
<td>-</td>
</tr>
<tr>
<td>Chemicals</td>
<td>784</td>
<td>3.0%</td>
<td>23.9</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>491</td>
<td>1.9%</td>
<td>9.4</td>
</tr>
<tr>
<td>Machinery and Transport</td>
<td>568</td>
<td>4.3%</td>
<td>24.6</td>
</tr>
<tr>
<td>Miscellaneous Manufactures</td>
<td>896</td>
<td>5.1%</td>
<td>45.4</td>
</tr>
<tr>
<td>Other commodities</td>
<td>-</td>
<td>2.1%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: GMCA applying assumptions from Civitas national work. (Data on Beverages not available)

In order to calculate the potential impact of non-tariff barriers, the Government’s estimates of non-tariff barrier costs, expressed as ‘tariff equivalents’ were used from the Government’s ‘EU Exit Analysis Cross Whitehall Briefing, January 2018’. These were then applied to the HMRC data on Greater Manchester exports of goods. This approach found that the additional costs for Greater Manchester sectors from an increase in non-tariff barriers would be £170m per annum for a deal similar to the European Economic Area, £320m for an a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. The impact is clearly negative and significant.