Date: 31st May 2019

Subject: Brexit Monitor Monthly Update

Report of: Sir Richard Leese, Portfolio Lead for Business and Economy and Jim Taylor, Portfolio Lead Chief Executive for Business and Economy

PURPOSE OF REPORT

This report updates members on the key economic and policy developments of relevance to Greater Manchester in relation to the UK’s decision to leave the European Union (EU).

RECOMMENDATIONS:

Members are asked to:
• Note the contents of the April Brexit Monitor (Appendix 1)

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Risk Management – N/A
Legal Considerations – N/A
Financial Consequences – Revenue – N/A
Financial Consequences – Capital – N/A

Number of attachments included in the report: 1
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 Prime Minister Theresa May is asking the House of Commons to vote on her withdrawal agreement bill during the week starting June 3rd. MPs have already rejected Mrs May’s Brexit deal three times since January, forcing the anticipated date for leaving the EU to be delayed from March 29th until as late as October 31st.

2.2 According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in Quarter 1 (Jan to Mar) 2019, up from the 0.3% recorded in the previous three-month period, and the 0.2% increase in Quarter 4 (Oct to Dec) 2018. The services sector was the largest contributor to quarterly GDP growth, increasing by 0.3% in Quarter 1 (Jan to Mar) 2019. The production and construction sectors also contributed positively, with growth of 1.4% and 1.0%, respectively.

2.3 However, more recent data from April suggests the recent growth fillip at UK manufacturers may be slowing, with the UK Manufacturing PMI falling to 53.1, down from March’s 13-month high of 55.1. Alongside weaker growth in production, new orders and stocks of purchases, the lower PMI level also reflected job losses in the sector. Meanwhile, Brexit stock-building continued, albeit to a lesser extent than in the prior survey month. The UK Services PMI returned above the 50.0 no-change mark in April, rising to 50.4 from March’s 32-month low of 48.9. However, despite a change of direction for service sector activity, survey respondents continued to report that Brexit uncertainty and concerns about the UK economic outlook had encouraged clients to postpone spending decisions.

2.4 Locally, the GM Chamber of Commerce’s Q1 2019 Quarterly Economic Survey (QES) showed that the economy is feeling the impact of Brexit uncertainty with the Greater Manchester Index™ – the Chamber’s key economic indicator for Greater Manchester, which combines seven key indicators taken from the QES – declining to 19.6, a significant drop from 33.0 in the final quarter of 2018 (above zero indicates a positive outlook). The latest QES revealed a fall in domestic demand for all three sector groups – manufacturing, services, and construction – in the first quarter of 2019. Meanwhile, overseas sales and orders dropped for manufacturing and services but increased for the constructions sector, reflecting the high levels of overseas investment in construction projects in GM.

2.5 Trends in unemployment since the referendum broadly reflect previous long-term trends, with an overall decline in ILO unemployment rates. However, in the 12 months to
December 2018, unemployment stood at 4.6% in GM, up from 4.5% in the 12-month period to September 2018. Moreover, unemployment in GM still stands above national and regional rates.

3 RECOMMENDATIONS

3.1 Recommendations appear at the front of this report.

BACKGROUND PAPERS: N/A

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Greater Manchester Brexit Monitor
Key economic trends and developments – May 2019

Having already been rejected three times since January, Prime Minister Theresa May now faces a crunch vote on her withdrawal agreement bill in the House of Commons in June, with Brexit secretary Steve Barclay admitting that defeat would render the bill “dead in that form”. However, despite six weeks of cross-party talks, May is unlikely to receive backing from Labour, with the opposition party having warned Theresa May that it will not support her Brexit deal unless the Prime Minister makes more concessions.

However, despite the political uncertainty, economic activity has shown signs of picking up. According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in the first quarter of 2019, up from the 0.3% recorded in the previous three-month period, while the UK Services PMI returned above the 50.0 no-change mark in April. That said, April saw the UK Manufacturing PMI fall from March’s 13-month high, while the Claimant Count in GM rose by 4.7% in February 2019, with increases in all age groups, and unemployment in GM rose to 4.6% in the 12 months to December 2018, up from 4.5% in the 12 month period to September 2018.

Macro-Economic Trends & Developments

- The North West saw the fastest rise in business activity in April 2019, with the regional PMI for the NW rising to a seven-month high of 55.2, up from 53.7 in March (above 50 = growth). This compared with a UK-wide average of 50.9, with the UK remaining divided into areas of growth and areas of contraction at the start of the second quarter.

- According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in Quarter 1 (Jan to Mar) 2019, up from the 0.3% recorded in the previous three month period, and the 0.2% increase in Quarter 4 (Oct to Dec) 2018. The services sector was the largest contributor to quarterly GDP growth, increasing by 0.3% in Quarter 1 (Jan to Mar) 2019. The production and construction sectors also contributed positively, with growth of 1.4% and 1.0%, respectively.

Policy, Trade, & Regulation

- Theresa May is facing new calls by Conservative MPs to set a date for her departure.

- Former Foreign Secretary Boris Johnson has declared that he will run for the Conservative party leadership as May prepares to leave office.

- The UK Brexit Secretary Steve Barclay is preparing a paper on whether to step up planning in case the country leaves the EU without a deal ahead of its scheduled departure date of October 31.

- The pound has brushed its lowest level since mid-February as the UK currency tracked a deepening sense among investors that Westminster’s cross-party talks seeking a consensus on a Brexit agreement were faltering.

- The UK and Ireland have signed a deal to maintain their citizens’ rights to travel freely between the two countries after the UK leaves the EU.

- The latest, and likely final, Greater Manchester ERDF calls were launched on 8 April. Three calls are currently open for: Business and Innovation, Competitive Businesses and Low Carbon Economy.

Key Sectors & Business Investment

- April saw the recent growth fillip at UK manufacturers show signs of petering out, with the UK Manufacturing PMI falling to 53.1, down from March’s 13-month high of 55.1. Alongside weaker growth in production, new orders and stocks of purchases, the lower PMI level also reflected job losses in the sector. Meanwhile, Brexit stock-building continued, albeit to a lesser extent than in the prior survey month.

- The UK Services PMI returned above the 50.0 no-change mark in April, rising to 50.4 from March’s 32-month low of 48.9. However, despite a change of direction for service sector activity, survey respondents continued to report that Brexit uncertainty and concerns about the UK economic outlook had encouraged clients to postpone spending decisions.

Property and Housing

- January 2019 (latest) 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.

Economic Inclusion

- Trends in unemployment since the referendum broadly reflect previous long-term trends, with an overall decline in ILO unemployment rates in GM. However, unemployment in GM rose to 4.6% in the 12 months to December 2018, up from 4.5% in the 12 month period to September 2018, and unemployment in GM remains above national and regional rates.

- The Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – rose to a three-month high of 44.0 in April, from 43.4 in March. The Index nonetheless remained below the no-change mark of 50.0, indicating pessimism towards current financial prospects among UK households. Meanwhile, the Consumer Prices Index (CPI-H) 12-month inflation rate was 1.8% in March 2019, unchanged from February.
According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in Quarter 1 (Jan to Mar) 2019, up from the 0.3% recorded in the previous three month period, and the 0.2% increase in Quarter 4 (Oct to Dec) 2018. The services sector was the largest contributor to quarterly GDP growth, increasing by 0.3% in Quarter 1 (Jan to Mar) 2019. The production and construction sectors also contributed positively, with growth of 1.4% and 1.0%, respectively. Within production, manufacturing growth was notably strong at 2.2%. However, the strength in quarterly growth was in part due to the low December monthly growth in the base period, which makes the current period look stronger in comparison.\(^\text{(1)}\)

**UK International Trade**
- The UK's total trade deficit (goods and services) widened by £8.9 billion to £18.3 billion in the three months to March 2019. The trade in goods deficit widened by £6.4 billion to £43.3 billion, while the trade in services surplus narrowed by £2.5 billion to £25.0 billion. Excluding erratic commodities, (such as non-monetary gold), the total trade deficit increased £3.1 billion to £14.5 billion in the period.\(^\text{(2)}\)

**EU Trade in Goods**
- The UK was a net importer of goods from the EU in March 2019, with imports exceeding exports by approximately £10.5 billion.\(^\text{(3)}\)

**Non-EU Trade in Goods**
- The UK was a net importer of goods from non-EU nations in March 2019, with imports exceeding exports by approximately £4.5 billion.\(^\text{(3)}\)

**IHS Markit Regional Purchase Managers’ Index (PMI)**
- The North West saw the fastest rise in business activity in April 2019, with the regional PMI for the NW rising to a seven-month high of 55.2, up from 53.7 in March (above 50 = growth). This compared with a UK-wide average of 50.9, with the UK remaining divided into areas of growth and areas of contraction at the start of the second quarter. Growth in underlying demand for goods and services remained strong in the North West, but this was accompanied by increases in input prices, with the North West recording the joint-strongest cost pressures in March (with Northern Ireland), despite the rate of increase in the region easing to an 11-month low.\(^\text{(4)}\)
Key Sectors & Business Investment

**Business Investment & Hiring**
- Research with GC Business Growth Hub clients in the 3 months to the end of April 2019 suggests a more stable picture around business investment plans, with the proportion of businesses reporting that their investment plans remained unchanged rising to 65% in the Feb-Apr 2019 period up from 56% in the previous rolling quarter (Jan-Mar 2019). Meanwhile, business hiring plans paint a somewhat mixed picture, with the proportion of businesses reporting that they were planning to decrease or freeze hiring and the proportion planning to continue hiring at the same pace both rising.\(^{(5)}\)

**Greater Manchester Chamber of Commerce**
- The GM Chamber of Commerce’s Q1 2019 Quarterly Economic Survey showed that the economy is feeling the impact of Brexit uncertainty with the Greater Manchester Index™ – the Chamber’s key economic indicator for Greater Manchester, which combines seven key indicators taken from the QES – declining to 19.6 – a significant drop from 33.0 in the final quarter of 2018. The latest QES revealed a fall in domestic demand for all three sector groups – manufacturing, services, and construction – in the first quarter of 2019. Meanwhile, overseas sales and orders dropped for manufacturing and services but increased for the constructions sector, reflecting the high levels of overseas investment in construction projects in GM. The reduction in both domestic and overseas orders for services and manufacturing has allowed an easing of capacity pressures, and many businesses have reported that they do not plan to add to their workforce immediately. If the current UK political uncertainty continues, both business investment and household spending are likely to be further affected in the near term.\(^{(6)}\)

**IHS Markit/CIPS Manufacturing & Services PMIs®**
- April saw the recent growth fillip at UK manufacturers show signs of petering out, with the UK Manufacturing PMI falling to 53.1, down from March’s 13-month high of 55.1. Alongside weaker growth in production, new orders and stocks of purchases, the lower PMI level also reflected job losses in the sector. Meanwhile, Brexit stock-building continued, albeit to a lesser extent than in the prior survey month.\(^{(7)}\)
- The UK Services PMI returned above the 50.0 no-change mark in April, rising to 50.4 from March’s 32-month low of 48.9. However, despite a change of direction for service sector activity, the rate of expansion was much softer than on average in 2018. Survey respondents continued to report that Brexit uncertainty and concerns about the UK economic outlook had encouraged clients to postpone spending decisions.\(^{(8)}\)

**Retail Sales**
- The volume (not value) of retail sales increased by 1.1% during March 2019, marking an acceleration from the 0.4% increase posted in February.\(^{(9)}\)
- The underlying trend in the retail industry – as suggested by the three-month on three-month measure – was one of increasing sales, up 1.6% in March compared with the previous three months.\(^{(9)}\)
Withdrawal Agreement and No Deal Preparation

- Prime Minister Theresa May is asking the House of Commons to vote on her withdrawal agreement bill during the week starting June 3rd. MPs have already rejected Mrs May's Brexit deal three times since January, forcing the UK's exit from the EU to be delayed from March 29th until as late as October 31st, and are expected to once again vote the deal down.
- Brexit Secretary Steve Barclay has admitted that if the bill was rejected by the Commons, the deal struck between Mrs May and Michel Barnier, EU chief negotiator, would be “dead in that form”. (10)
- Labour's leadership has warned Theresa May it will not support her Brexit deal in the vote in early June unless the prime minister makes more concessions. Labour continues to push for a permanent customs union between the UK and the EU, and has also expressed concerns that May's successor could potentially renege on any compromise Brexit deal agreed by the government and the opposition party. (11)
- Theresa May is facing new calls by Conservative MPs to set a date for her departure, amid signs she is heading for another parliamentary defeat on her Brexit deal. Should Mrs May refuse to set a date for her departure, the 1922 committee could respond by changing the Tory party's rules to allow MPs another vote of confidence in her leadership. (12) Former Foreign Secretary Boris Johnson has declared that he will run for the Conservative party leadership as May prepares to leave office. (13)
- The UK Brexit Secretary Steve Barclay is preparing a paper on whether to step up planning in case the country leaves the EU without a deal ahead of its scheduled departure date of October 31st. (14)
- The pound has brushed its lowest level since mid-February as the UK currency tracked a deepening sense among investors that Westminster's cross-party talks seeking a consensus on a Brexit agreement were faltering. (15)
- The UK and Ireland have signed a deal to maintain their citizens' rights to travel freely between the two countries after the UK leaves the EU. The agreement includes a memorandum of understanding guaranteeing reciprocal rights to social security, health services and education in Ireland and the UK after Brexit. It also confirms the rights of the two countries' citizens' to work and vote in local and national parliamentary elections in each other's jurisdiction. (16)

Future of European Funding in Greater Manchester

- The latest, and likely final, Greater Manchester ERDF calls were launched on 8th April. Three calls are currently open for: Business and Innovation, Competitive Businesses and Low Carbon Economy. (17)
- From 2014-20 the Greater Manchester allocation of ERDF and ESF totalled €405m, for which the European Commission has announced the region will continue to be eligible until 2020/21. UK organisations have been advised to continue bidding for EU funding, with the UK Government underwriting the continued payment of any successful funding application to ERDF and ESF, as well as a number of other EU programmes where UK can take part as a third country post Brexit. The underwrite will apply even when projects are approved after the UK leaves the EU.
- In their August 2018 'no-deal' technical notices, (18) the Government has reiterated that they will guarantee any funding secured before 29th March 2019 (the expected leave date at the time) and continue all allocated 2014-20 ESF and ERDF funding, even in the event of a No Deal.
- As part of the final set of No Deal contingency measures, the European Commission has also proposed a draft regulation that would allow the UK to continue participating in EU programmes such as Interreg and Horizon 2020 in 2019. There is a risk that UK participants may not be able to continue working in existing or future EU projects in the event of No Deal. A number of additional technical notes setting out how the guarantee will operate for specific programmes, should there be an agreement, should have been issued for Erasmus+, Nuclear research, Horizon 2020, European Social Fund, European Regional Development Fund, LIFE, Connected Europe Facility and the European Territorial Cooperation programmes. (19)
Housing sales

- January 2019 (latest) 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. House prices in GM have risen faster than national and regional averages since the referendum, although house prices in GM have fallen marginally in recent months. In contrast, house prices in London have seen flatter growth since the referendum, and have fallen below pre-referendum levels in recent months.\(^{(20)}\)

- The UK Construction PMI returned above the 50.0 no-change threshold for the first time since January in April, climbing to 50.5, up from 49.7 in March. The latest reading signalled a modest expansion of overall construction output, which contrasted with the declines seen in each of the previous two months.\(^{(21)}\)
Economic Inclusion

Unemployment and Claimant Count

• Trends in unemployment since the referendum broadly reflect previous long-term trends, with an overall decline in ILO unemployment rates (the standard definition of unemployment).

• In the 12 months to December 2018, unemployment stood at 4.6% in GM, up from 4.5% in the 12 month period to September 2018. Moreover, unemployment in GM still stands above national and regional rates. (22)

• The Claimant Count – as reported by DWP in their experimental Alternative Claimant Count statistical series – in GM rose by 3,256 (4.7%) in February 2019, to 72,852, with increases in all age groups. (23)

• The total number of claimants in GM is 2.6% (1,845) higher than pre-referendum levels. As a proportion of the working age population, the number of claimants has also risen to 4.1% from 4.0% in June 2016. (24)

Household Finances

• The Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – rose to a three-month high of 44.0 in April, from 43.4 in March. The increase was supported by stronger growth in earnings from employment, while job security perceptions also stabilised amid a pick-up in workplace activity. However, the Index remained below the no-change mark of 50.0, indicating pessimism towards current financial prospects among UK households. (25)

• The Consumer Prices Index (CPI-H) 12-month inflation rate was 1.8% in March 2019, unchanged from February. (26)
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2. ONS (10 May 2019): UK trade: March 2019  
3. HMRC (10 May 2019): Overseas Trade Statistics - Non-EU and EU Trade: March 2019  
4. IHS Markit/NatWest UK Regional PMI (13 May 2019): “North West remains at top of rankings for business activity growth in April” |
| **Key Sectors & Business Investment** | 5. Manchester GC Business Growth Hub (end-April 2019 snapshot): Internal Survey of Client Companies  
6. Greater Manchester Chamber of Commerce Quarterly Economic Survey, Q1 2019  
7. IHS Markit/CIPS UK Manufacturing PMI (1 May 2019): “UK manufacturing upturn slows as new export business falls and pace of stockpiling eases”  
8. IHS Markit/CIPS UK Services PMI (3 May 2019): “Service sector returns to growth in April, but subdued demand continues”  
9. ONS (18 April 2019): Retail sales, Great Britain: March 2019 |
| **Policy, Trade, & Regulation** | 10. FT (15 May 2019): ‘Why Theresa May faces defeat on her flagship Brexit bill’  
11. FT (15 May 2019): ‘Labour warns Theresa May it will not back Brexit deal in crunch vote’  
12. FT (15 May 2019): ‘Tory grandees renew calls for May to set departure date’  
13. FT (16 May 2019): ‘Boris Johnson declares for Tory leadership’  
14. FT (10 May 2019): ‘Fresh no-deal Brexit proposals set to spark cabinet clash’  
15. FT (15 May 2019): ‘Sterling touches lowest since February as Brexit uncertainty drags on’  
16. FT (8 May 2019): ‘UK and Ireland agree to maintain common travel area after Brexit’  
17. GMCA (10 April 2019): The Mayor of Greater Manchester calls on the city-region to back £50m of European Funding  
18. HMG (2018): How to prepare if the UK leaves the EU with no deal  
19. HMG (2018): The Government’s guarantee for EU-funded programmes if there’s no Brexit deal |
| **Property & Housing** | 20. HM Land Registry (20 March 2019): House Price Index Database: February 2019  
24. GMCA Calculation using DWP Alternative Claimant Count data and ONS claimant count denominators  
25. IHS Markit Household Finance Index (23 April 2019): “Household earnings rise at fastest rate since survey began in 2009”  
26. ONS (17 April 2019): Consumer price inflation UK: March 2019 |