

Greater Manchester Brexit Monitor

Key economic and policy developments

August 2016

Executive Summary

The UK voted to leave the European Union on 23rd June and uncertainty remains as to the longer term socio-economic impact of this decision. The impact will be determined by the trade relationship negotiated between the UK and the EU, and how the UK government reacts to its new-found potential policy freedom in the areas of migration and regulation.

This briefing monitors the economy post the EU Referendum with both leading and lagging indicators to assess the impact of this landmark decision on Greater Manchester. It will be used to inform GM's Brexit response, including relationships with key Central Government departments.

Macro economy:

- **The majority of forecasters have downgraded their short term forecasts to reflect the impacts of Brexit to the UK economy** and a particularly large fall in business confidence has been felt across London and South East. **The North of England has recorded a particularly sharp fall in consumer confidence** according to the GfK Survey.
- The Bank of England (BoE) Monetary Policy Committee (MPC) has reacted by **lowering interest rates to 0.25%, announced an additional £70bn of Quantitative Easing and £100bn of funding to banks to promote lending.**

Sectors & business investment:

- **Manufacturing experienced the greatest fall in confidence** and the GM business survey results revealed that Advanced Manufacturers were the most concerned about the impact of Brexit on their business. **The service sector has also seen a fall in confidence.** Hotel occupancy has remained buoyant across GM, but this likely reflects existing bookings with the full impact of Brexit yet to be seen.
- A survey undertaken with 120 MGC Business Growth Hub clients on the impact of the EU referendum result shows that 70% of firms are not planning to change their investment or hiring plans.
- There is evidence that UK investors are being more cautious than international investors, which will be kept under regular review in future version of the Brexit Monitor.

Executive summary

Terms of trade, regulation & access to European funding:

- To date **there have been no decisions related to terms of trade and rules and regulations.**
- On Friday, 12th August, the Chancellor of the Exchequer announced that **ESIF (ERDF and ESF) projects with contracts signed by Government before the Autumn Statement will be fully funded**, even when these projects continue beyond the UK's departure from the EU. This includes applications that are currently with Government for consideration, and that can be under contract by the time of the Autumn Statement. Government will also consider further calls for projects up to and post the Autumn Statement, however these calls will be subject to new criteria, that is currently under development.

Property investment, housing and planning:

- To date, **there have been no announced changes to local or national planning policy.**
- **Brexit impacts have not fed through to local data on house sales, yet RICS do predict a drop in house prices in the immediate- to short-term as demand falls.**
- Uncertainty in the property market, with major developers recording sharp fall in share prices, may also be compounding declines in the construction sector.

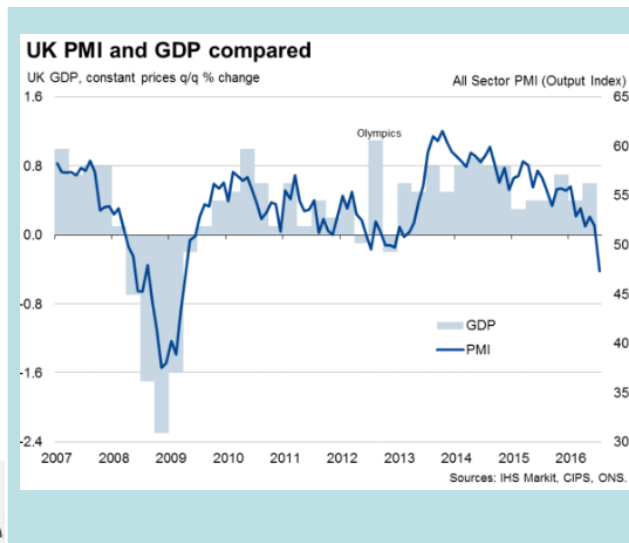
Economic inclusion:

- GM is **committed to delivering inclusive economic growth** and this is at the heart of the Greater Manchester Strategy currently being refreshed.
- **Labour market effects are typically a lagging indicator and at this stage it is too early to assess the impact of Brexit.** Unemployment has fallen steadily in GM but consistently remains above the UK. Positively across the north and in contrast with the rest of the UK, there was a rise in permanent job placements in July⁶, albeit at the weakest rate in over three years.
- **The BoE expects inflation to rise to 0.8% in 2016 (0.4% previously forecast).**³ Inflationary changes post the EU Referendum will be available for subsequent editions of the Monitor to examine the squeeze on households.

Macro-economic trends and developments

Macro-economy

- **The majority of forecasters have downgraded their short-term forecasts to reflect the impacts of Brexit to the UK economy.** Oxford Economics short term UK GDP growth forecast now projects 1.4% growth in 2017 and 2018, down from 2.3% and 2.2% respectively¹. Similarly Experian have also downgraded their UK GDP growth projections, forecasting just 0.4% UK GDP growth in 2017² **Over the longer term the impact is more uncertain**, scenario work by Oxford Economics has predicted that impact could range from no impact to a 3.9% contraction in long term GDP by 2030 depending on outcomes of the Government's negotiations.
- **The BoE also downgraded its UK growth forecasts**, with 2016 GDP growth remaining at 2%, 2017 growth falling from 2.3% to 0.8% and 2018 growth from 2.3% to 1.8%. **BoE expects inflation to rise** to 0.8% in 2016 (0.4% previously forecast), 1.9% in 2017 (from 1.5%) and 2.4% in 2018.⁴
- **The MPC has voted to lower interest rates to 0.25%**, with Governor Carney stating banks had 'no excuse' not to pass rates cuts to customers. A £70bn increase to Quantitative Easing was also announced, with £60bn to purchase Government bonds and £10bn corporate bonds. **The BoE also announced £100bn of funding to banks to promote lending.**⁵
- To date, there have been no fiscal policy announcements from Government, with Phillip Hammond, Theresa May's new Chancellor of the Exchequer, suggesting he will wait until the **Autumn Statement to 'reset' economic policy.**⁶



Business and consumer sentiment

- Markit's Purchase Managers Index (PMI) for July recorded the **sharpest contraction in the UK economy since 2009**, with both output and order books falling amongst respondents for the first time since 2012⁷. August figures, while yet to be released as a composite, indicate a potentially encouraging bounce back.
- The GfK Consumer Confidence Barometer recorded the sharpest fall in its core index since 1994, falling 8 points to -9. **The North of England recorded a particularly strong fall, with confidence dropping 15 points**⁸.
- Lloyds Bank's Regional PMI Survey has indicated large decreases in business activity in London and the South East

Key sectors & business investment

Business Investment

A survey undertaken with 120 MGC Business Growth Hub clients across all sectors on the impact of Brexit shows that over 70% of those interviewed are not currently planning to change their investment plans and will continue to hire staff at the same pace as a result of the EU referendum. Of those interviewed, 52% did however say the single market was either “vital” or “somewhat important” to their business. There is evidence that UK investors are being more cautious than international investors, which will be kept under regular review in future version of the Brexit Monitor.

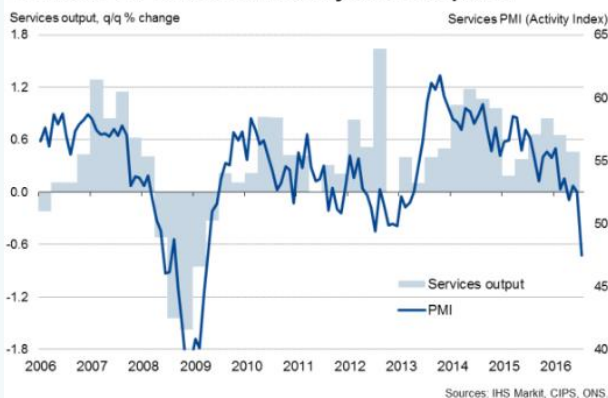
UK manufacturing: official and survey data compared



Manufacturing

- Markit's Manufacturing PMI fell to 48.2 the lowest level since 2013 and below the earlier post-Brexit flash estimate of 49.1. August figures show this has increased to 53.3. Reversing a marginal rise in activity in June, UK civil engineering experienced the largest downturn in the sector since 2013⁹
- For Advanced Manufacturing, while weaker sterling should aid export growth, disruption to international supply chains and uncertainty around capital investment pose key risks
- The pre-referendum 2015 GM Business Survey found that 38% of Advanced Manufacturing firms saw continued membership of the EU as critical, above an all-sector average of 21%¹⁰

UK services: official and survey data compared



Services

- **Greater Manchester's 83% hotel occupancy confirmed a record for the month of June**, whilst the city centre's 81% occupancy matched that of June 2015¹¹. However, impacts of Brexit are likely to lag in this data.
- Latest Markit data for July confirmed a PMI fall to 47.4 in the services sector, although it recovered in August to 52.9. Commercial activity saw the largest downturn of all sectors, falling for the second month running, at the fastest rate since December 2009¹².
- The EY Item Club suggests financial & professional services is well-placed to ride out current uncertainty as a result of its robust global presence, higher capital requirements and liquidity, and rigorous regulation¹³.

Terms of trade, regulation and access to funding

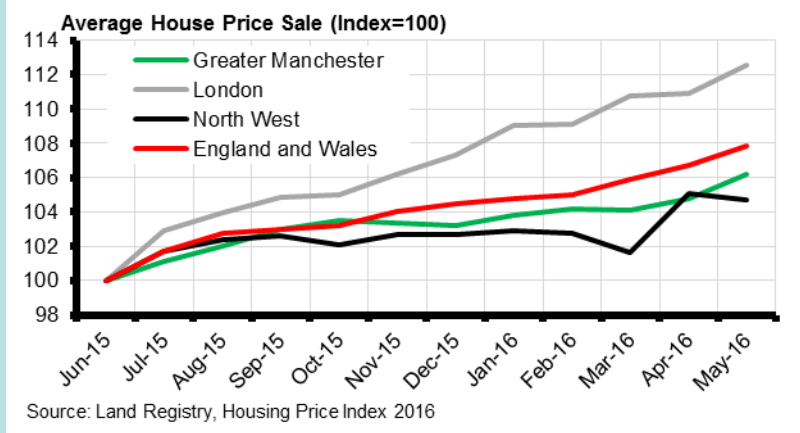
Terms of trade, rules and regulatory developments

- BREXIT will require renegotiations of the terms of trade between the UK and EU, and non-EU countries where the UK has benefitted from EU trade agreements. At this stage, there is no clear timetable for new trade deals, though **negotiations around the 'Fundamental Freedoms' of movement in goods, services, capital and labour will likely prove critical.**
- The majority of EU rules and regulations are embedded in UK law. Given these number in the tens of thousands, it will be important to undertake analysis to inform the Government's review of legislation. **New Economy, working with Core Cities, have begun work on this with the analysis to be completed by the Autumn.**
- Nevertheless, **changes to State Aid rules (by repeal or replacement) would change the parameters for GM's services to businesses** – with significant implications if local areas start to compete against one another. To date there have been no announcements on changes to procurement processes for public agencies.

Access to European funding

- GM receives funding from the European Regional Development Fund (ERDF) and European Social Fund (ESF) as well as from Transnational Funds. £35m of GM's £325m indicative allocation for the 2014-2020 period is contracted, though there are immediate term questions about the size of the Working Well Expansion and, for the 2018-2020 period, further funding for the Work & Health Programme.
- On Friday, 12th August, the Chancellor of the Exchequer announced that **ESIF (ERDF and ESF) projects with contracts signed by Government before the Autumn Statement will be fully funded**, even when these projects continue beyond the UK's departure from the EU. This includes applications that are currently with Government for consideration, and that can be under contract by the time of the Autumn Statement. Government will also consider further calls for projects up to and post the Autumn Statement, however these calls will be subject to new criteria, that is currently under development.
- There is **uncertainty regarding the continuation of some European-UK science partnerships**. The pressure group Scientists for EU have reported 371 individuals describing adverse effects immediately after the referendum, including 100 reports of people who are planning to leave the UK and 40 disruptions to Horizon 2020 projects.¹⁴ Prof Robert Young, who leads the Graphene Flagship project at the University of Manchester, has raised concerns that Britain may lose its place in the EU's ground-breaking Graphene Flagship project.

Property investment, housing and planning



Housing

- **Brexit impacts have not yet fed through to local data on house sales.** New Economy is therefore monitoring monthly sales data to contextualise any changes in July.
- **RICS predict a drop in house prices in the immediate to short-term as demand falls.**¹⁵
- There has been no change to Government housing policy, which pledges to **build 250,000 home in the UK per year.**

Property Investment & Planning

Share Prices £	23rd Jun	10th Aug	% change
Barratt	577.5	435	-24.70%
Redrow	426.6	338.2	-20.70%
Talyor Wimpey	192.5	153.2	-20.40%

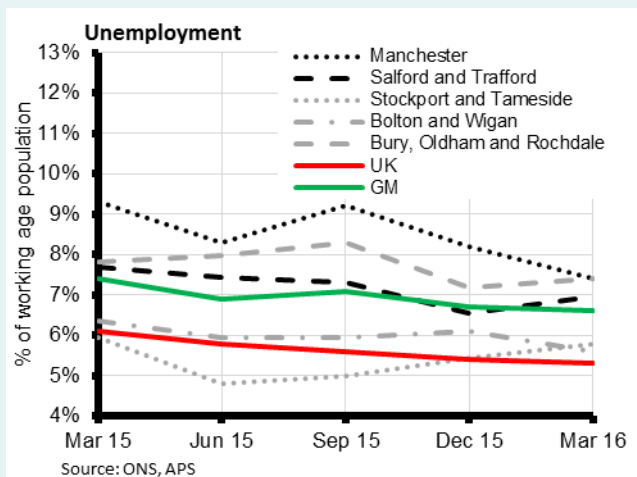
- **Share prices in residential building companies fell sharply in the immediate aftermath of the referendum,** with Redrow, Barratt and Taylor Wimpey experiencing falls of over 20% between the 23rd June and the 10th August.¹⁶

- **Uncertainty in the property investment market may also be compounding declines in the construction sector,** which contracted for the second month running in July according to latest PMI data, with the sector suffering the fastest drop in output since 2009 and commercial activity hit particularly hard.¹⁷
- CBRE predict heightened uncertainty and reduced foreign investment will have an adverse effect on the UK property market and **property returns may shrink by 1 % in 2017.**¹⁸
- To date, **there have been no announced changes to local or national planning policy.**
- There was a **62% increase in the number of dwellings started in GM** in the first quarter of 2016, increasing from 1,090 to 1,770. However there was a **37% decrease in the number of dwellings completed,** falling from 1,130 to 710¹⁹. These fluctuations are in line with seasonal demand and are not thought to be related to the impact of the EU Referendum.

Economic Inclusion

Policy response

- **GM is committed to delivering inclusive economic growth** and this is at the heart of the Greater Manchester Strategy currently being refreshed. Key indicators of inclusive growth are being identified by GM as part of the submission to the RSA Inclusive Growth Commission and further detail will be included in subsequent editions of the Monitor
- On July 13th, Theresa May stated in her first speech as Prime Minister that she aims to “**make Britain a country which works for everyone**” and help those families who are “just managing” to get by.²⁰
- In the run up to her appointment, Theresa May argued that she wants to **ensure big business is made more accountable to outsiders** by placing employees on executive boards and **make shareholders’ annual votes on executive pay binding rather than advisory**.
- In light of the closure of BHS, Downing Street released a statement revealing the government will aim to “**prevent reckless and irresponsible behaviour**” as part of the wider policy of reforming capitalism.



- Research from The Recruitment & Employment Confederation showed **permanent placements rose in the North in July, compared with the sharpest national decline in seven years.**²¹
- Amongst other indicators inclusion, Jobseeker’s allowance/Universal credit and economic inactivity rates provide a monthly snapshot of labour market trends. It is too early for the impact of Brexit to have fed into these figures. Unemployment has fallen steadily in GM but consistently remains about **1.1% above the UK average.**²²
- Similarly, **economic inactivity is higher in GM than the UK** at 25% and 22% respectively. **The combined JSA/UC claimant rate is also higher in GM (2.7%) than the UK (1.9%)**²³
- Inflation data post the EU Referendum has yet to be released, but **BoE predict rising inflation 0.8% in 2016 (0.4% previously forecast).** Inflation will be monitored to assess the effect on living standards for GM residents.

Sources (1)

¹ Oxford Economics

² Experian, UK Macro Economic Forecast, July 2016

³ Oxford Economics: Assessing the Economic Implications of Brexit

⁴ Bank of England, Inflation Report, August 2016

⁵ Bank of England, Monetary Policy Summary, August 2016

⁶ Financial Times, 'Hammond: UK could 'reset' fiscal policy after Brexit', 22 July 2016

⁷ IHS Markit, UK All-Sector PMI. August 2016

⁸ GfK, UK Consumer Confidence Barometer Brexit Special, July 2016

⁹ IHS Markit, UK Manufacturing PMI, August 2016

¹⁰ New Economy, Greater Manchester Business Survey 2016

¹¹ STR GLOBAL, LTD. REPLICATION OR OTHER RE-USE OF THIS DATA WITHOUT THE EXPRESS WRITTEN PERMISSION OF STR GLOBAL IS STRICTLY PROHIBITED.

¹² IHS Markit, UK Services PMI, August 2016

¹³ EY, ITEM Club, Financial Services, August 2016

¹⁴ Royal Institute for Chartered Surveyors; EU Referendum: Impacts for Property, Land and Construction

Sources (2)

¹⁵Financial Times: Brexit Briefing

¹⁶London Stock Exchange

¹⁷IHS Markit, UK Construction PMI, August 2016

¹⁸ CBRE Global Investors; What Brexit means for UK Property

¹⁹DCLG Live Tables,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525683/LiveTable208.xlsx

²⁰ Statement from the New Prime Minister Theresa May; <https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may>

²¹ The Recruitment and Employment Confederation, 'Permanent placements fall at sharpest rate in over seven years', August 2016

²²ONS NOMIS, JSA/UC Claimant Count

²³ONS NOMIS, JSA/UC Claimant Count; Annual Population Survey