

# Greater Manchester Brexit Monitor

Key economic and policy developments

January 2017

# Executive Summary

## Headlines

- **December's leading economic indicators** highlight strong growth across UK. Purchasing Managers across the UK have reported rises in new business in the last quarter of 2016. **UK manufacturing started 2017 on a strong footing**, with exports growing at the fastest pace for the last two-and-a-half years. **The main risk to the economy is now thought to be inflation** from rising costs of materials, alongside rising fuel, IT, and wage costs. However, results from the GM Business Growth Hub's client survey continue to show robust levels of business confidence in GM firms following the vote to leave the EU.
- The **majority of economists surveyed by the FT (120 in 2015 and again at the end of 2016) remain pessimistic about Brexit's likely effect on Britain's longer-term economic prospects.**<sup>(1)</sup> This is despite Economists coming under pressure for their short term pessimism; incorrectly predicting the ability of the UK economy to remain resilient after the referendum result. The Bank of England's Chief Economist blamed the failure of economic models to cope with 'irrational behaviour' in the modern era.<sup>(2)</sup>
- **On the 17th January the Prime Minister made a major speech setting out her objectives for the negotiation with the EU.** The speech outlined a 'hard Brexit' position, with the UK not seeking a deal that keep the UK "half in, half out" of the UK. The key message was that the UK will leave the single market, but will push for a new "comprehensive free trade agreement" that will give "the greatest possible access" to the single market. The UK will also negotiate a new customs union agreement with the EU. The Prime Minister also confirmed that there will be restrictions to EU migration, that the House of Commons will have a vote on the final deal before it comes into force, and that there will be a phased approach implementation after the deal has been reached.<sup>(3)</sup>

## Macro economy

- Indicators point to a strong finish to 2016, which some economic commentators refer to as "The Sterling effect" - as PMI data shows Britain's manufacturing hit its best level since the summer of 2014, helped by rising export orders stimulated by a 18% depreciation in the pound against the dollar. Most economists still believe growth will slow in the longer-term to 1.5% in 2017.
- **The UK economy grew by 0.6% in the third quarter, according to ONS, faster than previous estimates.** Growth for the July-to-September period had originally been estimated at 0.5%, with growth helped by consumer demand and greater financial services output. GDP is now 8% higher than its pre-crisis peak.
- **The Bank of England's Monetary Policy Committee (MPC)** expect inflation to rise from 1.3% in 2016 to 2.7% in 2017 and 2018, higher than in its last set of forecasts three months ago, and higher than the 2% inflation target.
- **Exports and the UK's deficit on trade in goods and services.** The UK's deficit on trade in goods and services was estimated to have been £4.2 billion in November 2016, a widening of £2.6 billion from October 2016, which reflects a £3.3 billion increase in imports, partially offset by a £0.7 billion increase in exports – mostly electrical machinery and transport equipment.

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- **ONS Index of Services (IoS) showed output increased by 0.3% between September 2016 and October 2016 (latest).** Growth in the latter part of 2016 was consumer led, with retail sales contributing 0.14 percentage points to the overall increase.
- **The latest Markit Purchasing Managers (PMI) survey data shows that the UK manufacturing sector has started 2017 on a strong footing** driven by rising exports, and is growing at the fastest pace for two-and-a-half years in December 2016.

## Terms of trade, regulation & access to European funding

- **The PM gave a major speech outlining her approach to the negotiations to come with the EU, committing to giving MPs a vote** on the Brexit deal struck by the government following the negotiations with the EU. The PM also said her government would agree a phased implementation following agreement of the deal to avoid any “cliff edges”.<sup>(14)</sup>
- **On EU transnational funding,** AGMA have secured a number of European bids since the November 2016: Oldham (three Interreg Europe bids), TfGM (two Horizon 2020 bids) and Manchester (one Horizon 2020 bid). Since Horizon 2020 was launched GM universities have been involved in 144 projects (€77m of grant funding).

## Property investment, housing and planning

- **The Chancellor’s Autumn Statement** speech included a **commitment to investment in infrastructure and innovation**, and that between 1.0% to 1.2% of GDP will be invested in the recommendations of the National Infrastructure Commission (0.8% at present).
- **Official Housing Index data** from the Land Registry suggests the vote to leave the EU has had little impact on house prices, with moderate growth in average sales in the last part of 2016.
- **The investment market has been resilient since the Referendum.** Take-up in Manchester city centre reached 681,901 sq ft in the first three quarters of 2016. Q3-2016 was the strongest in 2016, totalling 266,644 sq ft, 8% higher than the five-year average.

## Economic inclusion

- **Household Finance Index (HFI)** results for November 2016 show households signalling the strongest inflation expectations since 2014. Bank of England data shows personal debt grew 10.8% year-to-November 2016, the highest since December 2008.
- **Since the referendum result in 24th June 2016, claimant count unemployment has fallen** from just over 46,000 to 44,500 in GM, a 3.0% fall up to November 2016 - compared to a fall of 1.2% in the UK level. However, the November claimant rate (unemployed claimants as a proportion of the working age population) is higher in GM (2.5%) than the North West (2.3%) and the UK (1.8%).

# Macro-economic trends and developments

## Macro-economy

- **The UK economy grew by 0.6% in the third quarter, according to ONS, faster than previous estimates.** Growth for the July-to-September period had originally been estimated at 0.5%. The ONS also said growth was helped by "robust consumer demand" and greater output in the financial sector. <sup>(4)</sup>
- **Bank of England Agents' Summary of Business Conditions, 2016 Q4**, suggests UK growth had edged up from the same time last year, but businesses remain cautious about prospects for 2017. Falls in sterling have led to higher goods export volumes. Consumer demand had been boosted by rising tourist spending. Firms' intentions pointed to only small increases in investment in 2017. Input cost inflation had picked up sharply in 2016, but wage growth had remained stable. <sup>(5)</sup>
- **Exports and the UK's deficit on trade in goods and services** was estimated to have been £4.2 billion in November 2016, a widening of £2.6 billion from October 2016, which reflects a £3.3 billion increase in imports, partially offset by a £0.7 billion increase in exports. The widening of the deficit in November 2016 is attributed to trade in goods in which there were increased imports from both EU and non-EU countries, partially offset by an increase in exports to EU countries, mostly finished manufactures of electrical machinery and transport equipment. <sup>(6)</sup>
- **The CBI has carried out its largest consultation of members since before the EU referendum, in its report: 'Making a Success of Brexit'**, stating that the UK's new relationship with the European Union (EU) must meet the needs of every part of the economy to be a success, as the consequences of leaving any behind could have knock-on effects for others. <sup>(7)</sup>

## Consumer sentiment

- **Consumer Trends.** Spending on goods and services by UK households when compared with the same quarter a year ago has been showing positive growth each quarter since Quarter 4 2011. It was 2.6% higher Q3-2016, compared to Q3-2015. <sup>(8)</sup>
- **The Consumer Prices Index (CPI)** rose by 1.2% in the year to November 2016, compared with a 0.9% rise in the year to October. The rate in November was the highest since October 2014, when it was 1.3%. Rises in the prices of clothing, fuels and recreational goods, most notably computers, were the main contributors to the increase. <sup>(9)</sup>

# Key sectors & business investment

## Business Investment

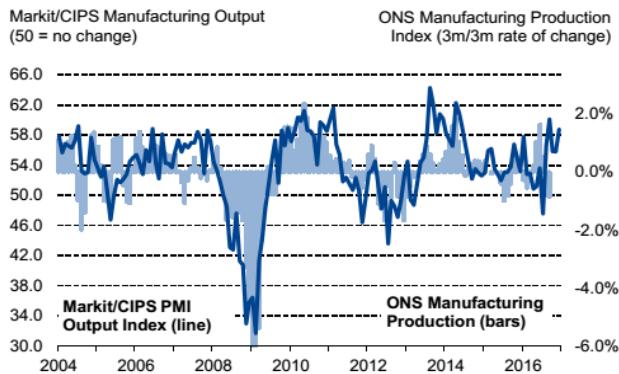
- Research with MGC Business Growth Hub clients highlights a notable increase in the proportion of businesses that expect their investment plans to remain the same following the EU referendum (76% in Q4 2016 compared with 70% in Q3 2016). Similarly, the findings suggest businesses are increasingly likely to expect the referendum decision not to impact on their recruitment intentions (79% in Q4 2016 compared with 69% in Q3 2016).<sup>(10)</sup>
- In Q4 2016, just over two-fifths of surveyed companies said the single market is either 'vital' or 'somewhat important' to their businesses (44%), whilst a third (33%) see the market as unimportant. Almost a quarter of respondents (22%) are unsure about the overall impact of the Referendum vote on their businesses.<sup>(10)</sup>

## Manufacturing

- Manufacturing PMI stands at a **30 month high (56.1)** with the latest **Markit/CIPS Manufacturing Index** once again outlining **upturns in output, new orders and employment**.<sup>(11)</sup>
- **New export business increased for the seventh successive month in December**, with companies reported increased levels of new work from the USA, Europe, China, Middle East, India and other Asian markets.<sup>(12)</sup>
- Construction output also increased, lifted by increased new orders and a general rebound in business conditions. However input prices also continue to rise sharply and are at their highest level since April 2011.<sup>(12)</sup>

## Services

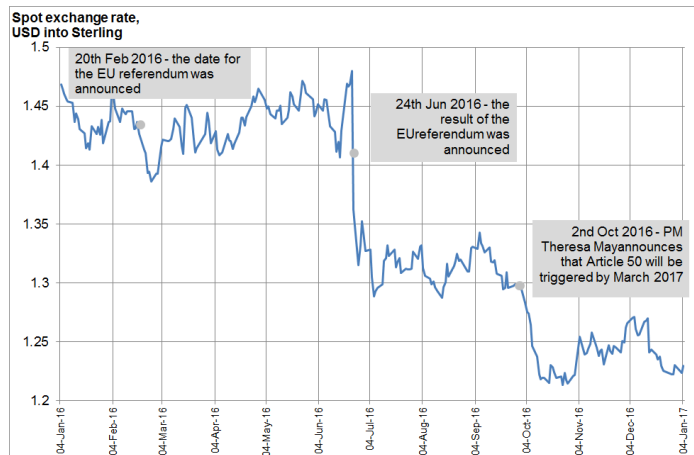
- Markit/CIPS Services PMI data for December highlights the continuing growth of the UK's dominant sector, as **total business activity and new business expansion accelerated at the fastest pace since July 2015**, with the Index rising to 56.2.<sup>(13)</sup>
- Employment growth in the service sector is stable, and remains unchanged from November's seven month high, **however employment growth over 2016 as a whole was weaker in comparison to 2013, 2014 and 2015**.<sup>(13)</sup>



# Trade, regulation and access to European funding

## Trade, rules and regulatory developments

- **The PM gave a major speech outlining her approach to the negotiations to come with the EU.** This is by some distance the most extended example to-date of where the PM has talked about Brexit. The PM **committed to giving MPs a vote** on the Brexit deal struck by the government following the negotiations with the EU. <sup>(14)</sup>
- The PM also said her government would agree a phased implementation following agreement of the deal, largely to help avoid a “cliff-edge” for businesses after a UK exit. With Article 50 ‘still set’ for the end of March, the Secretary of State for Exiting the European Union has suggested that ‘The Plan’ should be published at the end of February or start of March 2017.
- **Sir Tim Barrow**, a former envoy to Moscow with a career as a diplomat over three decades has been confirmed by the Government as the **new UK ambassador to the EU**. The appointment comes after Sir Ivan Rogers’s recent resignation.



- The chart opposite shows how the value of the pound (GBP vs USD) from the day when the EU referendum date was announced (20 February), when the result of the referendum was announced (24 June), and the date of the announcement on Article 50 (2 October 2016)/
- Although the value of the pound has been falling for some time, the vote to leave the European Union has had a big effect in recent months. Whilst currencies fluctuate on a daily basis, Sterling against the dollar is 10% down on the spot level recorded 4 January compared with that on 24 June 2016.

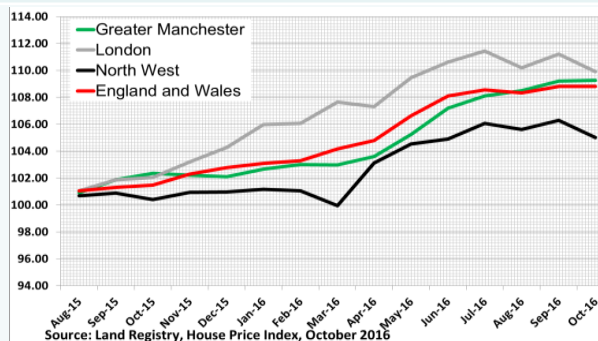
## European Funding

- On 4 January Environment Secretary Andrea Leadsom announced that the remaining **European funding from the Rural Development Programme for England (RDPE) Growth Programme** will be launched on a national call. GM RDPE allocation is £415,000 (open call until the funding is allocated) supporting small tourism infrastructure projects in GM. <sup>(16)</sup>
- **On EU transnational funding**, AGMA have secured a number of European bids since November 2016: Oldham (three Interreg Europe bids), TfGM (two Horizon 2020 bids) and Manchester (one Horizon 2020 bid). Since Horizon 2020 was launched GM universities have been involved in 144 projects (€77m of grant funding). <sup>(17)</sup>

# Property investment, housing, and planning

- **The Chancellor's Autumn Statement speech** included a commitment to investment in infrastructure and innovation, and that between 1.0%-1.2% of GDP will be invested in the recommendations of the **National Infrastructure Commission** (0.8% at present). The £23 billion **National Productivity Investment Fund** (NPIF) programme announced will be targeted at four areas to improve productivity: Housing, Transport, Digital Communications and Research and Development. The £2.3bn new **Housing Infrastructure Fund** is part of the NPIF, and is allocated to "provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest." Further infrastructure spend included a £1.1bn to upgrade local roads/public transport; and £1bn for digital infrastructure. <sup>(18)</sup>

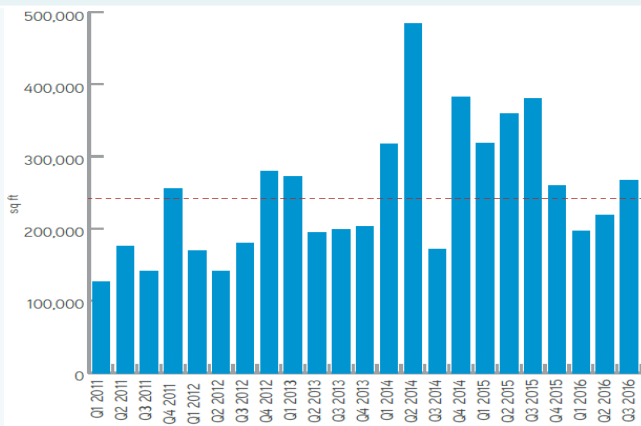
## Average House Prices Sales (Index August 2015=100)



## Housing

- Official Housing Index data from the Land Registry suggests the vote to leave the EU has had little impact on house prices, with moderate growth in average sales this period. <sup>(19)</sup>
- Average House Prices in GM have increased during 2016 but there are signs, as illustrated in the chart opposite, that prices have curtailed recently in London and the North West.

## Colliers: Quarterly Office Take-up (2011-2016)



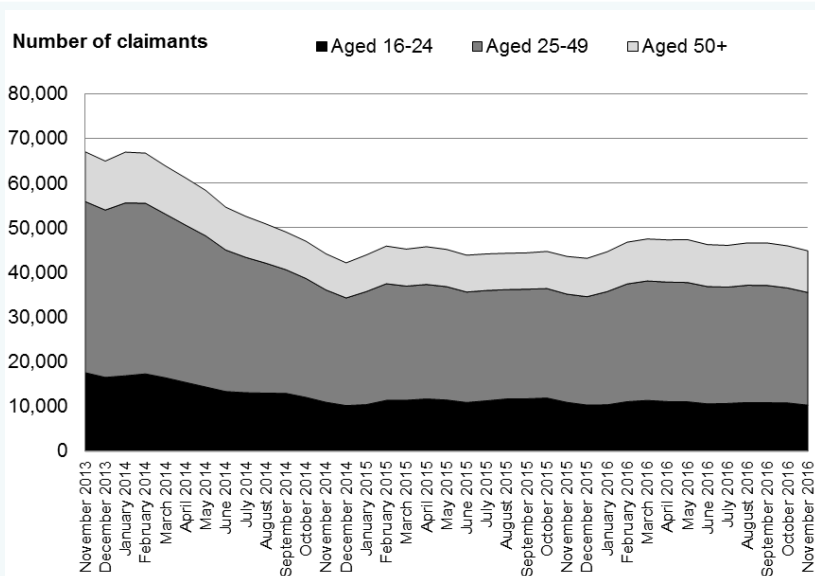
## Property and planning

- **The investment market has been resilient since the Referendum.** Take-up in Manchester city centre reached 681,901 sq ft in the first three quarters of 2016. Q3-2016 was the strongest in 2016, totalling 266,644 sq ft, 8% higher than the five-year average. <sup>(20)</sup>
- A report by Colliers shows that the legal sector accounted for almost a quarter of the take-up in 2016, followed by Media & Tech (16%) and Business Services (15%). The financial sector accounted for the highest proportion (20%) of take-up during 2015. <sup>(20)</sup>
- Take-up is set to be boosted in the final quarter of 2016, with Swinton Insurance signing a lease to take all 101 Embankment, the 165,000 sq ft office currently under construction, and one of the largest letting deals in Manchester in recent years. <sup>(21)</sup>

# Economic Inclusion

- **The Household Finance Index (HFI)** compiled by Markit Economics provides the earliest indication of changes in UK household finances each month. Results for November 2016 show **households signalling the strongest inflation expectations** since 2014. Household incomes also remain close to stagnation. <sup>(22)</sup>
- **Personal Debt.** Data from the Bank of England shows personal debt grew 10.8% in the year to November 2016 to £192 bn in the UK, the highest level since December 2008. Bank of England statistics show that personal debt, including credit cards and bank loans (not mortgages or student loans), has been growing at a yearly rate of 10% in the past 6 months.
- **Inflation.** Whilst it is difficult to predict how things like changes in the value of the pound will feed through to the overall price level, and how inflation will change in the next 2 years, the Bank of England expecting inflation to rise from 1.3% in 2016 to 2.7% in 2017 – which in turn will start to have an impact on living standards within GM. <sup>(23,24)</sup>
- Delivering the annual Charity Commission lecture, Theresa May announced a **package of measures to transform mental health support in schools, workplaces and communities**, as part of her view to build a 'shared society'. The new measures have a focus on care, early intervention, support for children and young people. <sup>(25,26)</sup>

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



## Monthly Unemployment by age of resident

- **Since the referendum result in 24th June 2016, the claimant count unemployment has fallen** from just over 46,000 to 44,500 in GM, 3.0% fall and 0.1% point change in rate up to November 2016. This compares to a fall of 1.2% in the UK level, and 0.1% point fall in the claimant rate.
- **The GM claimant count has seen a month on month decrease since August 2016, and has decreased by 2.4% in November 2016. However this is up 2.9% from November 2015.** As a proportion of working age residents, the **GM rate (2.5%) remains higher than that of the North West (2.3%) and the UK (1.8%)** <sup>(27)</sup>
- **GM 16-24 unemployment in September is down 5.8%** on November 2015, though **this is offset by a greater increase in unemployment amongst 25-49 and 50+ year olds**, resulting in a net increase of just over 1,250 claimants.
- **16 to 24 year olds:** There were 10,315 young people claiming JSA/UC in November 2016. This figure is down 630 or -5.8% on November 2015.
- **25 to 49 year olds:** There were 25,230 residents claiming JSA/UC in November 2016, up 1,005 or 4.1% on November 2015.
- **50+ year olds:** There were 9,330 residents aged 50+ claiming JSA/UC in November 2016, up 885 or 10.5% on November 2015.



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## Executive summary

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