1 PURPOSE OF REPORT

This paper updates members on the economic forecasts that have been developed for Greater Manchester.

2 RECOMMENDATIONS

Members are asked to:

- note the latest economic forecasts for GM and the headline implications for GM policy.
- note that data tables for the baseline and accelerated growth scenario have also been developed to enable full public scrutiny of the data.

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1. **Introduction**

1.1. Greater Manchester (GM) has consistently invested in developing a robust evidence base to inform strategy and policy development. Since 2005, a central part of this evidence base has been the Greater Manchester Forecasting Model (GMFM), which is produced by Oxford Economics (OE) annually based on their independent assessment of the prospects for the global, national, and local economy. This has been a central tool in informing the development of strategy in GM over the past decade, including the GM Strategy, the GM Spatial Framework, and the GM Transport Strategy 2040.

1.2. The attached report provides details of the latest GMFM forecasts. These were produced in September 2017 and were the first to be produced following the decision of the UK to leave the EU following the referendum in June 2016 and indicate how Brexit may affect GM’s economic prospects in the short- and long-term.

1.3. The report includes results from both the baseline (‘policy neutral’) forecasts, GMFM-2017, and an Accelerated Growth Scenario, AGS-2017, which has been produced to model the impact of GM playing a leading role in the development of the Northern Powerhouse.

1.4. The GMFM is a complex statistical tool that forecasts change using analysis of past trends and assumptions about the future. As with all forecasting models, the tool is based on a series of assumptions about how the real world functions and, as such, will always be subject to a high degree of uncertainty. Changes in government policy, ‘external shocks’ (such as oil or gas price changes), or the development of new technologies can have considerable unforeseen impacts upon the economy. For these reasons it is important that these forecasts should not be viewed as deterministic and they should not constrain the vision and strategy for Greater Manchester.

1.5. The forecasts – accompanied by a detailed data release providing historic and forecast data for all Gross Value Added (GVA), employment, and population variables for both the GMFM-2017 and AGS-2017 – was released in September 2017 to allow for public scrutiny of the data.

2. **Key messages**

2.1. The key messages from the latest economic forecasts for Greater Manchester are:

- The GMFM-2017 baseline forecast shows GVA growing at 1.7% per annum up to 2035, broadly comparable to the forecast UK average (1.8% per annum). Reflecting OE’s more pessimistic assumptions about future labour productivity growth, and the risks to trade and skills availability emerging from Brexit, this is a significantly lower rate of growth than the 2.3% per annum forecast in the last GMFM.

- Employment growth is forecast to remain robust at 0.5% per annum in GM, equating to a net increase of 141,000 employees from 2015 to 2035. This is broadly in line with the last GMFM results, although it results in 6,000 fewer jobs being created by 2035, and ahead of the expected employment growth rate for the UK of 0.4% per annum.
The baseline forecast suggests that the population will grow by 207,500 between 2015 and 2035, driven mostly by natural increase (birth rates and residents living longer). This results in 27,500 fewer residents in 2035 than was predicted in the previous forecast. At 0.4% per annum population growth in GM is expected to be slower than the UK average (0.5% per annum).

Comparisons with leading UK forecasting houses show that OE’s assumptions for future UK growth are in line with the expectations of other forecasters. Comparisons between GMFM and forecasts produced for GM by Cambridge Econometrics and Experian also show OE’s assumptions for growth being broadly comparable at a local level.

An accelerated growth scenario (AGS-2017) has been produced which models the impact of improvements to the skills base, innovation, and transport connectivity from GM playing a leading role in the Northern Powerhouse. This draws on analysis undertaken for the transformational growth scenario for the North prepared by Cambridge Econometrics and partners for the Northern Powerhouse Independent Economic Review, as well as considering the potential impacts of Brexit.

In the AGS-2017 scenario, GM’s economy is forecast to grow at an average annual rate of 2.2% between 2015 and 2035. This is equivalent to an additional £32.4 billion of economic output, and is significantly above the baseline forecast of 1.7% per year. Furthermore, GM would grow faster than the UK (1.8%) up to 2035.

Stronger GVA growth is supported by a shift towards higher value sectors. This means productivity growth in GM is stronger in the AGS scenario than the baseline forecast, averaging growth of 1.6% per year from 2015 to 2035, compared with 1.2% in the baseline and 1.3% per annum for the UK.

The number of jobs in Greater Manchester is forecast to rise by 190,300 between 2015 and 2035 in the AGS-2017 scenario, which is equivalent to 49,000 more jobs than in the baseline forecast. This represents an average annual growth rate of 0.6%, a little higher than the baseline forecast of 0.5% and higher than that projected for the UK.

GM’s population growth is stronger in the AGS scenario than in the baseline forecast. Total population is projected to rise by 286,000 between 2015 and 2035, which is 78,600 above the level of population increase shown in the baseline forecast.

2.2. Through the GM Brexit Monitor, the GMCA has been continuing to monitor the economic and social trends and policy developments arising from Brexit, and the wider changing economic climate, to ensure that GM policy is responsive to the changing economic circumstances. Whilst the Brexit Monitor has highlighted that business sentiment on investment prospects has weakened slightly since winter 2017, all other leading indicators reinforce the credibility of the short-term outlook presented in the forecasts. More specifically, whilst the GMFM-2017 and AGS-2017 are based on data from 2017, OE still regard these outputs as being a fair reflection of the economic conditions in 2018. In addition, the forecasts still reflect OE’s baseline view of the most likely outlook for the economy as at Spring 2018.
3. Implications for GM policy

3.1. The latest GMFM forecasts are the first time that the long-term impact of Brexit on the Greater Manchester economy has been modelled. It is important to note that the full impact of the decision to leave the EU will only be fully known once the future relationship with the EU is determined. Scenarios range from almost no economic impact should the UK negotiate a relationship equivalent to that of being in the single market to a significant economic loss should no deal be reached and we revert to trading on WTO terms.

3.2. The GMFM forecasts assume a smooth transition out of the EU which ultimately gives way to a bespoke Free Trade Agreement which allows the UK to maintain favourable trade terms with the EU and avoid tariff and non-tariff barriers to trade. Recent analysis published by GMCA on the impacts of Brexit on Greater Manchester\(^1\) assesses the potentially significant impacts on Greater Manchester’s economy should this not be the case and a deal is agreed with the EU which creates barriers to trade and restricts access to the skills which the Greater Manchester economy needs.

3.3. The key implications of the forecasts are:

- **Productivity.** The forecasts essentially project that, due to structural factors in the UK economy, productivity growth will be weak by historic and international standards, although job creation is expected to remain strong. This highlights that raising productivity is going to continue to be the key challenge in improving economic performance and creating well-paid, secure jobs for residents. This challenge is heightened by Brexit and the potential loss of markets and skilled labour, but the underpinning challenges at both a GM and UK level pre-date Brexit by decades. It will be critical that GM keeps a focus on raising productivity as a core part of the development of the Greater Manchester Local Industrial Strategy.

- **Dealing with the uncertainty of Brexit.** Economic projections are always an imprecise science, but the level of uncertainty is now greater than it has been at any time since the 2007 financial crisis. To deal with this, it will be critical that GM seeks to maintain and invest in its competitive advantages. The ‘growth gap’ between the baseline ‘business as usual’ projections and the achievement of the Northern Powerhouse aspirations as set out in the accelerated growth scenario has widened. Essentially this means that we need to work harder to achieve this ambition, ensuring that we are positioned to grow strongly post-Brexit. It will be critical that we have the right infrastructure and skills available to achieve a higher rate of trend growth.

- **GM Spatial Framework.** Clearly these forecasts will be an important input to the next version of the Greater Manchester Spatial Framework. However, they should not be treated as being deterministic: GM should plan to achieve the vision it wants to realise, not the future suggested by an econometric forecasting model. There is not a standard methodology to convert economic forecasts into land requirements for jobs, but the GMFM is an important input as part of GM’s wider evidence base to the work which is going on through the GMSF process to

determine GM’s land requirements. More broadly, it will also be essential that the spatial framework provides the market attractive sites for housing and employment that will attract and retain the investment and skilled population that our economy needs to remain competitive and create good quality jobs.

- **Resident jobs.** The forecasts also highlight the on-going challenge in ensuring that all GM residents are able to contribute to, and benefit from, economic growth. Slower economic growth, coupled with continued population growth, mean that a continued gap between the GM resident employment rate and the national resident employment rate is anticipated. Even under the accelerated growth scenario a 1.8 percentage point gap is expected to remain by 2035 between the GM and UK employment rates (although this would represent a fall from 3.3 percentage points in 2015). A continued focus on service reform to support residents to access employment opportunities will be important and the forecasts suggest that we will need to go further and faster with this programme. The projections for productivity also indicate that, without action, there will be a continued challenge of low productivity, low paid employment in GM. These considerations are reflected in the implementation of the refreshed Greater Manchester Strategy.

4. **Recommendations**

4.1. Recommendations appear at the front of this report.