

Greater Manchester Brexit Monitor

Key economic and policy developments

September 2016

Executive Summary

After a series of disappointing data in July, latest figures suggest the UK economy has rebounded somewhat, with increased confidence and output across key sectors. While the ONS announced that there has been ‘no major effect’ on the economy so far, growth prospects remain uncertain following the UK’s decision to leave the European Union. 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:

- ONS and Markit PMI data suggests a bounce-back in the UK economy, with **surveys from GfK and Lloyds showing increased business activity and consumer confidence in the North.** Following dire warnings of economic harm prior to the referendum, **the OECD upwardly revised growth forecasts from 1.7% to 1.8% for 2016,** though 2017 estimates have been cut further, to just 1% growth. **Other forecasters and credit agencies continue to downgrade near- and medium-term forecasts** to reflect the uncertainty surrounding the UK economy.
- **HM Treasury remains silent ahead of the Autumn Statement,** while Mark Carney defended the BoE’s decision to lower interest rates, thereby supporting the rebound in business sentiment.

Sectors & business investment:

- Overall production of goods in the economy increased in July, however **GM stakeholders may be concerned that a sharp fall in manufacturing output was masked by a rise in oil & gas production**
- **The service sector has recorded increased output and new business, with more optimistic expectations for the future.** GM hotel occupancy figures suggest that there is little impact currently on the visitor economy
- MGC’s ongoing survey of clients shows **the majority of firms intend to continue investing and recruiting at the same pace as before the referendum.** However, the majority of FDI investors consulted by MGC claim it is too soon to know the full impact of the referendum on their long-term investment plans.

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**, though David Davis (Secretary of State for Exiting the European Union) suggests that the UK may need to exit the Single Market to secure limits on migration.
- The Chancellor of the Exchequer has 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 – to be published on 23 November 2016 .

Property investment, housing and planning:

- To date, **there have been no announced changes to local or national planning policy**.
- While **Royal Institute of Chartered Surveyors** suggested a drop in house prices in the immediate to short-term after the referendum, in September, members have predicted an average 3.3% rise in prices over the next 5 years.
- Official Housing Index **data from the Land Registry suggests Brexit has had little impact on house prices to date**.

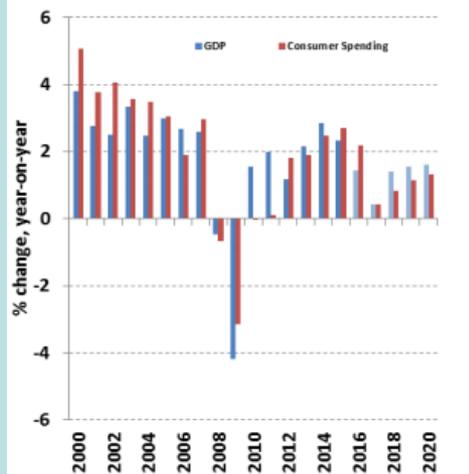
Economic inclusion:

- 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**. GM's claimant count rose slightly in August, in contrast to 5 months of decline, while the ILO unemployment rate for the NW increased slightly, putting it above the UK rate.
- **Inflation remained at 0.6% in August**, resisting BoE predictions for the rate to rise to 0.8% in 2016 (0.4% previously forecast).³ However, increased prices across import-price sensitive components of the CPI suggest increasing inflationary pressures in the medium-term.

Macro-economic trends and developments

Macro-economy

- **Latest economic data suggests that the UK economy has rebounded from the initial shocks of the Brexit vote**, with increases across key Markit PMI indices¹. However, prospects remain mixed in the medium- to long-term, with **Standard & Poor suggesting positive signs ‘may prove to be a mirage,’** only making up for ground lost in July².
- In its first forecast since the referendum, **The British Chamber of Commerce has downgraded its UK GDP growth predictions**, forecasting 1.8% in 2016, 1.0% in 2017 and 1.8% in 2018, down from 2.2%, 2.3% and 2.4% respectively³. Experian have maintained their 0.4% growth forecast for 2017, with longer-term growth forecast at 1.8% for 2018 to 2022⁴.
- Responding to claims that the BoE overreacted by lowering interest rates to 0.25% and providing additional monetary stimulus, **Mark Carney has defended the bank’s decision, claiming its actions contributed to the bounce-back in business sentiment witnessed over the last month**⁵.
- **HM Treasury appears to be maintaining its policy of silence ahead of the Autumn Statement**, which is now confirmed for 23 November 2016⁶, with no significant policy announcements since the referendum result. GM is preparing a submission for the Autumn Statement, which will set out the need for an Industrial Strategy which drives inclusive growth in GM and meets the challenges of Brexit.



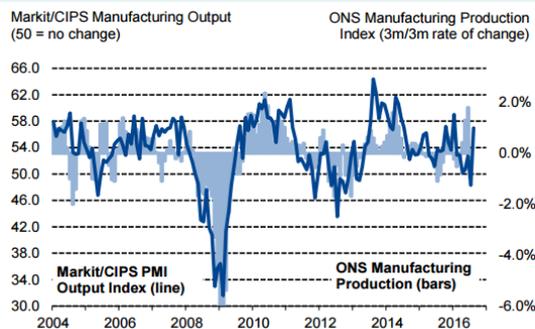
Business and consumer sentiment

- Markit’s Purchase Managers Index (PMI) for August suggests firms across the economy have shrugged off the initial shock of the Leave vote, with Services sector firms linking positive output expectations to export opportunities, reduced uncertainty and stable markets.
- The North West experienced the largest increase in business activity across all English regions, according to Lloyds Bank’s Regional PMI Survey, rising from 49.2 to 55.7 in August – a 7 month high⁷.
- The GfK Consumer Confidence Barometer bounced-back in August, with the core index for the North increasing by 9 points to -5, recovering July’s losses. This trend was reflected across the country, with increases across all five measures used to calculate the index⁸.

Key sectors & business investment

Business Investment

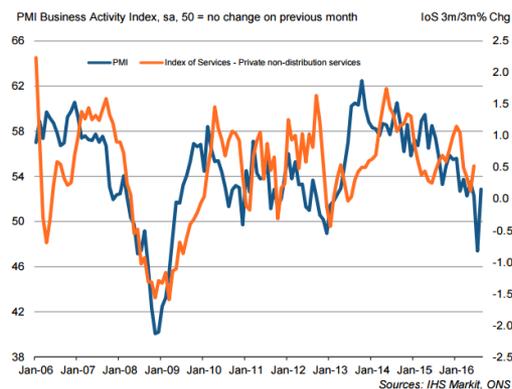
- Continuing trends seen last month, **over 70% of surveyed MGC Business Growth Hub clients (194) expect their investment plans to remain the same following the EU referendum**, with a similar proportion saying the referendum decision will not impact on their recruitment intentions.
- **About 45% of surveyed companies say the single market is either 'vital' or 'somewhat important' to their businesses, with 38% saying the market was unimportant.** There is anecdotal evidence that UK investors are being more cautious than international investors, but this is yet to be quantified by any hard evidence⁹.



Manufacturing

- We now have access to the first full month of post-referendum ONS production data. Overall, production increased by 0.1% in July compared with June¹⁰, though this was grounded in a rise in oil and gas production, **with a fall in manufacturing posing relatively greater risk to GM.**
- However, Markit's Manufacturing PMI rebounded in August, posting 53.3 – up 5.1 on July's post 2013 low of 48.2. Production and new orders both increased, with exports benefitting from the low price of sterling. Input costs increased, though, raising the risk of inflation further down the line.

Markit / CIPS UK Services PMI



Services

- **Markit/ CIPS UK Services PMI showed increases in both output and new business, with expectations rebounding from July's 89-month low.** Similarly, jobs in the services sector also bounced-back, following a pause in July.
- **Greater Manchester's 83% hotel occupancy in July matched 2015 record levels**, while the city centre's 81% occupancy fell just below record levels for the same period in 2015. **However, impacts of Brexit likely continue to lag in this data.** [Source: Str Global, Ltd. Republication or other re-use of this data without express written permission of Str Global is strictly prohibited.]

Terms of trade, regulation and access to funding

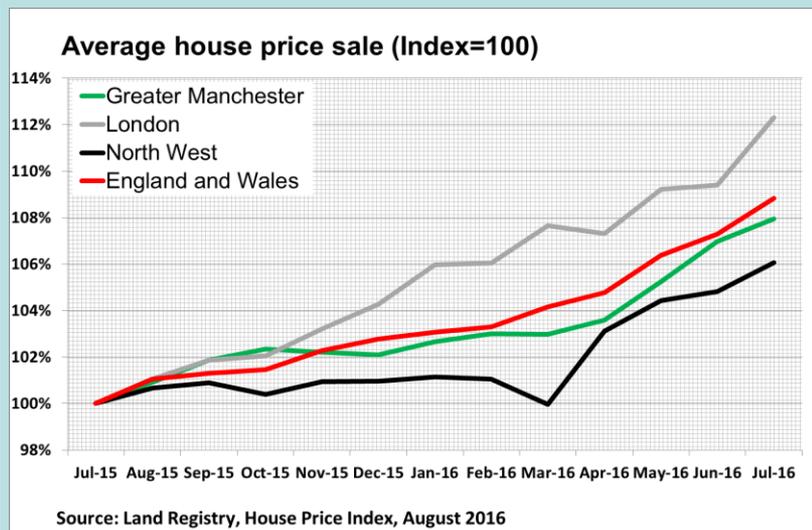
Terms of trade, rules and regulatory developments

- Theresa May has stated that **Government will no longer provide a running commentary of negotiations**. However, David Davis, the Secretary of State for Exiting the EU¹¹, has said **the UK's securing of increased migration control may be incompatible with membership of the single market**. Theresa May's spokesperson was quick to rebuff this, saying it is 'not government policy'¹².
- The EU has appointed lead negotiators for Brexit, appointing Michel Barnier and former Belgium PM Guy Verhofstadt. **Both are seen as ardent Europhiles and likely to be strongly opposed to any watering down of the EU's fundamental freedoms** – free movement of goods, capital, business and – importantly – people¹³.
- There remains no clear timetable for new trade deals. **US President Barack Obama said at the recent G20 Summit in China that the UK won't be prioritised in free trade talks**, though it remains possible that this policy may change after Presidential Elections in November¹⁴.
- Similarly, the Japanese Government has warned that, having invested heavily in the UK as a trade gateway to the EU, **Japanese firms may look to relocate their European Headquarters to the European continent**, should UK/EU terms of trade deteriorate¹⁵.

Access to European funding

- The Chancellor of the Exchequer has 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 currently with Government, and that can be under contract by the Autumn Statement.
- The GM team is currently working with the Managing Authorities to ensure that £150m of GM projects that are currently under consideration are approved before 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.
- In GM, partners are currently involved in at least 108 H2020 contracted projects (around €54m funding to GM organisations).

Property investment, housing and planning



Housing

- **Official Housing Index data from the Land Registry suggests Brexit has had little impact on house prices**, with continued moderate growth in average sales price in July 2016.¹⁶
- RICS predicted a drop in house prices in the immediate- to short-term after the referendum, however in September members have predicted an average 3.3% rise in prices over the next 5 years.¹⁷
- Data released by Nationwide in August suggested an increase of 0.6% in house prices in August 2016.¹⁸
- There has been no change to Government housing policy, to **build 250,000 homes in the UK per year**.

Property Investment & Planning

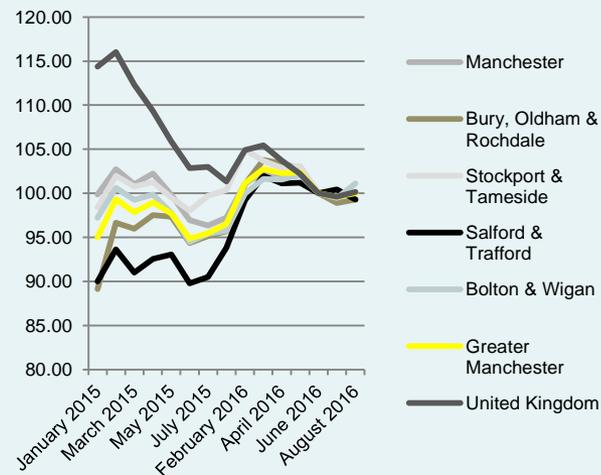
- **Share prices in residential building companies fell sharply after the referendum**, with Redrow, Barratt and Taylor Wimpey experiencing falls of over 20% between the 23rd June and the 10th August. However, by 5th September **prices had rallied to 10-15% below 23rd June figures**.¹⁹
- Following an 89-month low in July, Savills Commercial Development Activity index saw an easing of the downturn. However, while private new build activity rebounded, all other sectors saw further declines – particularly public retail & leisure projects. Commercial developers are said to be downbeat regarding the three-month outlook for activity²⁰.
- CBRE predict heightened uncertainty and reduced foreign investment will have an adverse effect on the UK property market and property returns may shrink by one percentage point in 2017.²¹
- In the second quarter of 2016, there was a 3.5% decrease in the number of dwellings started in GM compared to the second quarter of 2015, from 1,130 to 1,090. There was also a decrease of 18% in the number of dwellings completed, from 1,080 to 890.²²
- To date, there have been no announced changes to local or national planning policy.

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.
- Responding to David Cameron’s resignation as MP for Witney, **Theresa May reiterated her ambition to lead the UK as a ‘one nation’ Prime Minister**. This was reinforced by Phillip Hammond during his first session with the Economic Affairs Committee, where he suggested that a new fiscal framework may be geared towards short term projects that go to **‘the heart of the Prime Minister’s agenda of creating an economy that works for everybody’**²⁴.
- The Government has proposed controversial reforms to the education system, expanding grammar school provision and enabling all state schools to select pupils by academic ability. While access conditions are included in the proposal, including taking a share of pupils from low-income families, there has already been cross-party criticism of the plans, which are likely to intensify as the policy is developed²⁵.

ONS Claimant Count (July Index = 100)



Unemployment and economic activity

- Recruitment and Employment Confederation research shows increases in permanent placements and temp billings in August in the North, **with the latter growing faster than in any other region. However, salaries rose at a slower rate in August**²⁶, which may pose risks to living standards if inflation rises.
- **GM’s combined claimant count (Universal Credit & JSA) increased by 0.4% in August, in contrast to 5 consecutive months of decline.** ILO unemployment also rose in the NW, from 4.9% to 5.1% - moving it above the national level, which remained at 4.9%.
- Inflation remained at 0.6% in the year to August – well below the BoE 2% target. However, underlying components of the CPI will start to see upward pressure as input prices rise for producers, especially for those components – such as transport – with high import prices.

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