

Date: 30th November 2018

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 November Brexit Monitor (Appendix 1)

CONTACT OFFICERS:

Simon Nokes, Executive Director, Policy and Strategy
Simon.nokes@greatermanchester-ca.gov.uk

John Holden, Assistant Director, Research and Strategy
John.holden@greatermanchester-ca.gov.uk

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 The cabinet has backed a draft withdrawal agreement between the UK and the EU following a special cabinet meeting on November 14th. However, the draft withdrawal agreement has triggered a wave of resignations by Ministers who said that they cannot support the proposed agreement. These included Secretary of State for Exiting the EU, Dominic Raab, and Secretary of State for Work and Pensions, Esther McVey. The draft withdrawal agreement also prompted a number of Conservative MPs to submit a letter of no confidence in the Prime Minister.

2.2 Assuming it is agreed, after March 29 next year the Brexit withdrawal treaty will be Britain's only legal agreement with the EU. The agreement will not only determine the nature of Britain's exit from the EU, but also influence the country's future relationship with the Union. The provisional text drafted by the UK and the EU covers:

- **Financial settlement:** Britain will honour all its financial commitments to Brussels. Using conservative assumptions, the UK Treasury expects a net British outlay of €40bn to €45bn, although the National Audit Office identified public payments that could reach €60bn, along with an additional €14bn of contingent liabilities such as outstanding loans.
- **Citizen rights:** The exit agreement maintains the existing EU residence and social security rights of more than 3m EU citizens in the UK, and about 1m UK nationals living on the continent.
- **Transition:** The treaty provides for a transition period for the UK until the end of 2020, which can be extended for an unspecified one-off period, set by mutual agreement.
- **Northern Ireland:** A protocol in the treaty makes unique arrangements for Northern Ireland, with the aim of upholding the peace process and avoiding a hard border dividing the island of Ireland. Most significantly the protocol lays out "backstop" arrangements for the Irish border that ensure the free circulation of goods across the island of Ireland.
- **UK-EU customs union:** The backstop plan for Northern Ireland is underpinned by a UK-EU customs union. This avoids the need for customs checks across the Irish

Sea. While Northern Ireland will apply the full “union customs code”, the UK would apply a more basic customs union model. This avoids the needs for tariffs, quotas and rules of origin in UK-EU trade.

- **Governance:** The arrangements for overseeing the withdrawal treaty ensure that neither the EU nor the UK is bound by the other jurisdiction’s courts when it comes to interpreting the agreement.

2.3 To come into force, the Brexit deal requires approval by, in sequence: the UK cabinet, an EU summit, the House of Commons, and the European Parliament. EU leaders will hold special summit on November 25 aimed at signing off the proposed Brexit deal between the UK and the other 27 member states.

2.4 Official estimates from the Office for National Statistics (ONS), UK GDP grew by 0.6% between Q2 (April to June) 2018 and Q3 (July to Sept). Real GDP growth in Quarter 3 was driven by growth of strong retail sales July 2018, as well as a low base reflecting the weaker start to the year. Construction output growth continued to pick up following a weak start to the year, while quarterly output in manufacturing rose during Q3 for the first time in 2018.

2.5 However, more recent independent business survey showed that conditions in the UK manufacturing sector slowed during October with the UK Manufacturing PMI falling to a 27-month low of 51.1 in October (figures above 50 still indicate growth), down from September’s revised reading of 53.6.

2.6 The UK services PMI also fell to 52.2 in October from 53.9 in September, to signal the slowest rate of business activity expansion since March and the second lowest since July 2016 – the PMI survey directly following the EU referendum.

2.7 Trends in unemployment since the referendum broadly reflect previous long-term trends, with an overall decline in ILO unemployment rates in GM (to 4.6% in the 12 months to June, compared to 6.6% pre-referendum). Unemployment in GM however is still above national and regional rates.

2.8 Despite the ILO measure of unemployment falling, the number of people claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in GM have risen to 1,080 (2.0%) on the previous month to 55,095 people, with rises recorded in all age groups.

3 RECOMMENDATIONS

3.1 Recommendations appear at the front of this report.

Greater Manchester Brexit Monitor

Key economic trends & developments – November 2018

GMCA

 BOLTON
BURY

 MANCHESTER
OLDHAM

 ROCHDALE
SALFORD

 STOCKPORT
TAMESIDE

 TRAFFORD
WIGAN

November saw Prime Minister Theresa May secure cabinet backing for a draft withdrawal agreement between the UK and the EU. The PM met EU officials on the 21st with the aim of finalising a Brexit deal in time for the Sunday 25th November summit of European leaders. Further, the EU missed its deadline on Tuesday 20th to complete the text of its declaration on future relations with the UK, amid concerns from several member state; and challenge remain to ensuring UK access to the EU single market, access to UK waters for EU boats, and Gibraltar. UK GDP growth bounced back from a weak first half of 2018 to a strong 0.6% expansion in Q3. Most parts of the economy contributed with growth from services, construction and manufacturing. However, contrary to the previous quarters official statistics, current surveys suggests slowing growth in parts of the economy. Whilst Manufacturing's expansion was particularly noteworthy (as it had shrunk in Q1 and Q2 this year) the PMI survey of UK services shows growth slowing to its second lowest rate since the referendum in 2016. Local firms continue to report Brexit-related uncertainty, but a slightly improved outlook this month on both hiring and investment plans. In the 12 months up to June 2018, unemployment stood at 4.6% in GM, down from 4.9% in the 12 months to March, and down from 6.9% in the 12 month period up to June 2016, but above national and regional rates.

Macro-Economic Trends & Developments

- **Despite stronger official figures for the previous quarter from ONS, latest surveys suggest that regional business activity growth in the North West witnessed a slowdown in October 2018, with the regional PMI for the NW falling to 51.8**, from 55.6 in September (above 50 = growth). This marked the weakest increase in private sector output since the shock to activity following the EU referendum in July 2016, with the regional PMI for the NW posting its weakest outturn since August 2016.
- According to estimates from the Office for National Statistics (ONS), **UK GDP grew by 0.6% between Q2 (April to June) 2018 and Q3 (July to Sept)**. Real GDP growth in Quarter 3 was driven by growth of 0.3% in July 2018, which stemmed from strong retail sales boosted by warm weather and the World Cup, as well as a low base reflecting the weaker start to the year. Construction output growth continued to pick up following a weak start to the year, while quarterly output in manufacturing rose for the first time in 2018.

Policy, Trade, & Regulation

- **The cabinet backed a draft withdrawal agreement between the UK and the EU following a special cabinet meeting on November 14th**. However, the draft withdrawal agreement has triggered a wave of resignations by Ministers who said that they cannot support the proposed agreement. **The draft withdrawal agreement has prompted a number of Conservative MPs to submit a letter of no confidence in the PM**.
- To come into force, the Brexit deal requires approval by, in sequence: the UK cabinet, an EU summit, the House of Commons, and the European Parliament. EU leaders will hold a special summit on November 25 aimed at signing off the proposed Brexit deal between the UK and the other 27 member states.
- Prime Minister Theresa May has also sought backing from businesses for the draft withdrawal agreement, announcing to the CBI annual conference that her plan would provide a fair system that would help young people in the UK get jobs and training.

Key Sectors & Business Investment

- Research with GC Business Growth Hub clients in the 3 months to the end of October 2018 shows a **cautiously improved picture around business hiring and investment plans**. Businesses reported a **slightly brighter outlook around hiring plans** (6% planning to increase hiring, up from 1% in the previous quarter (May-July)), **as well as investment plans** (10% planning to increase investment, 2% in the previous quarter). However, the majority of businesses still state that their investment plans remain unchanged.
- Compared to official statistics on the previous quarters economic output, conditions in the UK manufacturing sector slowed sharply during October with the **UK Manufacturing PMI falling to a 27-month low of 51.1 in October**, down from September's downwardly revised reading of 53.6 (above 50 = growth). The **UK services PMI fell to 52.2 in October** from 53.9 in September, to signal the slowest rate of business activity expansion since March and second lowest since July 2016, the survey directly following the EU referendum.
- **The underlying trend in the retail industry remains one of growing sales, with the quantity bought in the three months to September increasing by 1.2%** when compared with the previous three months.

Property and Housing

- **August 2018 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 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** (to 4.6% in the 12 months to June, compared to 6.6% pre-referendum). **Unemployment in GM however is still above national and regional rates; and numbers of Job Seekers Allowance (JSA) and related Universal Credit claimants continue to rise**.
- **The Household Finance Index has revealed a further deterioration in UK household finances, partly driven by weaker employment income growth**. However, **the 12-month Consumer Prices inflation rate slowed in September 2018 to 2.2%**, down from 2.4% in August.

Macro-economy

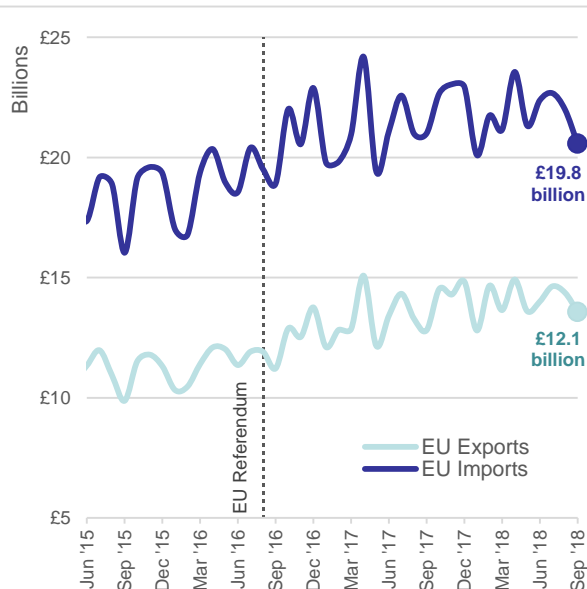
- According to monthly estimates from the Office for National Statistics (ONS), **UK GDP grew by 0.6% between Q2 (April to June) 2018 and Q3 (July to Sept)**. Real GDP growth in Quarter 3 was driven by growth of 0.3% in July 2018, which stemmed from strong retail sales boosted by warm weather and the World Cup, as well as a low base reflecting the weaker start to the year. However, month-on-month growth in real GDP has been flat in both August and September 2018. Construction output growth continued to pick up following a weak start to the year, while quarterly output (Q3) in the manufacturing sector rose for the first time in 2018. Growth in services output slowed to 0.4%, but remained the largest positive contributor to GDP growth in Quarter 3..⁽¹⁾

UK International Trade

- The total trade deficit (goods and services) narrowed by £3.2 billion to £2.9 billion in the three months to September 2018**; this was driven by a £2.9 billion narrowing of the goods deficit, which was further bolstered by a £0.3 billion widening of the services surplus.⁽²⁾

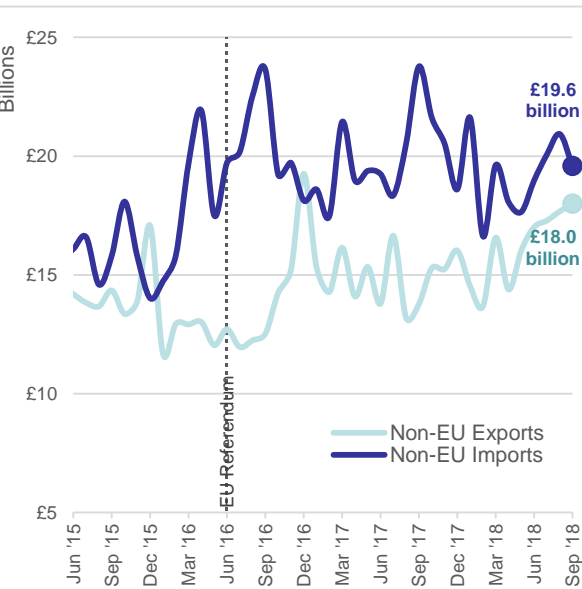
EU Trade

- The UK was a net importer from the EU in September 2018, with imports exceeding exports by approximately £7.7 billion.⁽³⁾



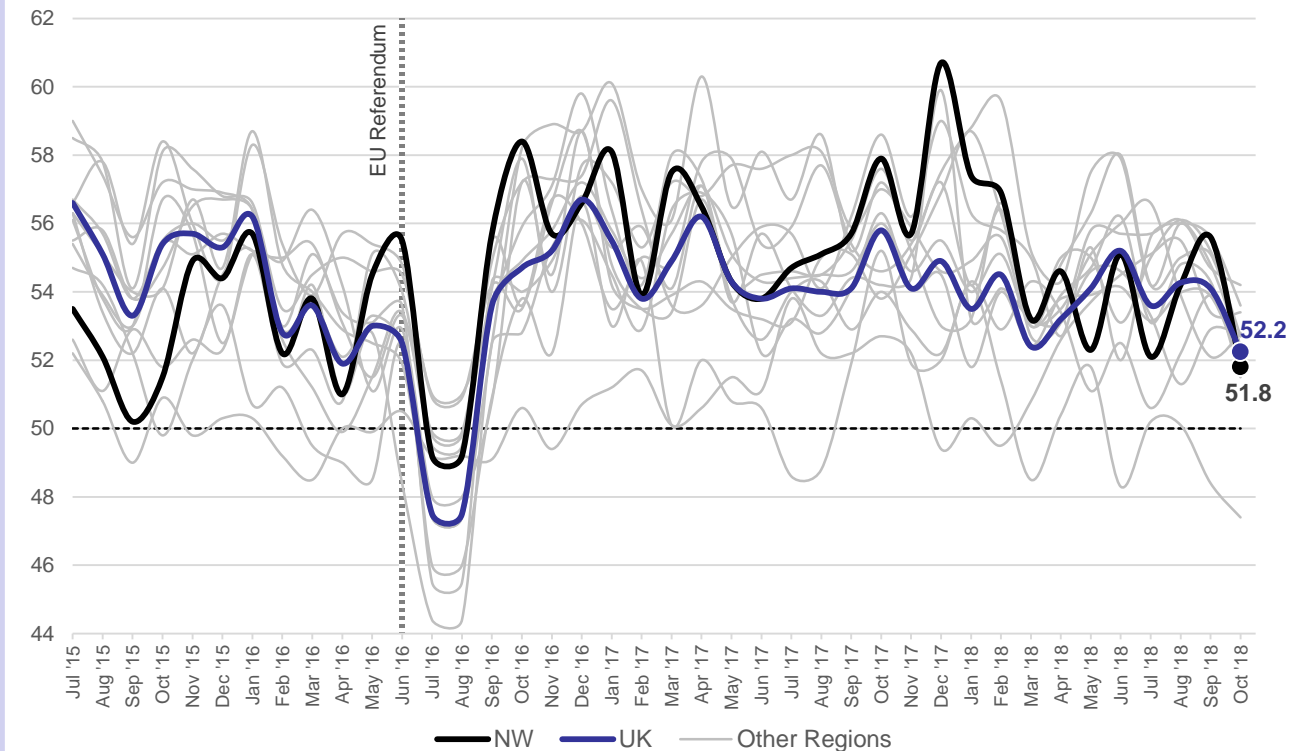
Non-EU Trade

- The UK was a net importer from non-EU nations in September 2018, with imports exceeding exports by approximately £1.6 billion.⁽³⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- Regional business activity growth in the North West witnessed a notable slowdown in October 2018, with the regional PMI for the NW falling to 51.8**, from 55.6 in September (above 50 = growth). This marked the weakest increase in private sector output in the current expansionary sequence since the shock to activity following the EU referendum in July 2016, with the regional PMI for the NW posting its weakest outturn since August 2016. *All other regions shown in grey below.*⁽⁴⁾



Business Investment & Hiring

- Research with GC Business Growth Hub clients in the 3 months to the end of October 2018 shows a **cautiously improved picture around business hiring and investment plans**. Businesses are showing a **slightly brighter outlook around hiring plans** (with 6% planning to increase hiring, up from 1% in the previous quarter (May-July)), **as well as investment plans** (with 10% planning to increase investment compared to 2% in the previous quarter). In both cases however, the majority of businesses responded that their plans remain unchanged.⁽⁵⁾

What impact is Brexit likely to have on your hiring plans?				
Make redundancies	Decrease or freeze hiring	Remain the same	Increase hiring	Don't know
<1% ↓	3% ↓	58% ↓	6% ↑	33% ↑
1%	5%	65%	1%	29%

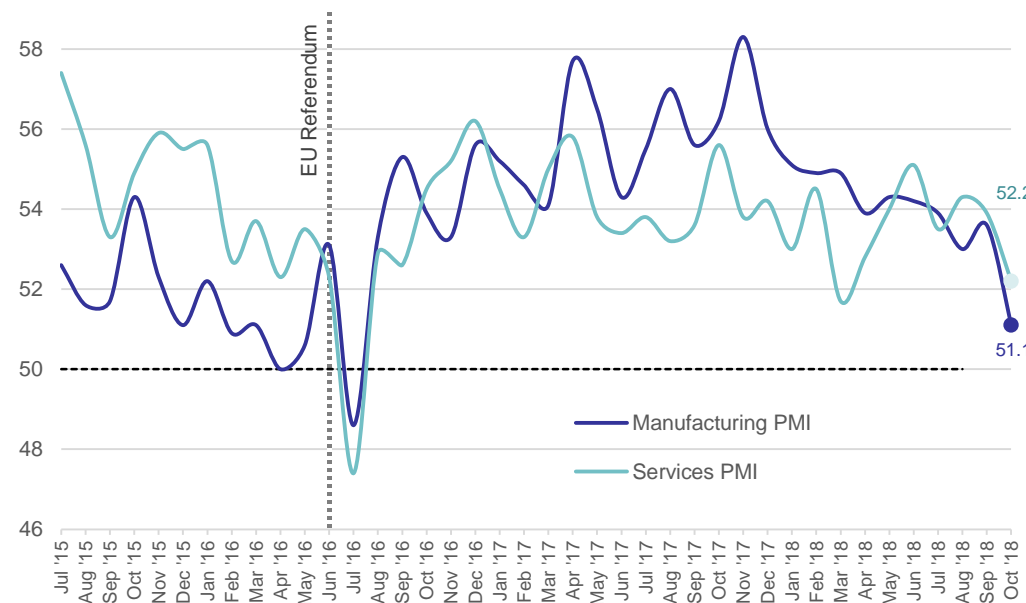
What impact is Brexit likely to have on your investment plans?				
Decrease investment	Remain the same	Decision put on hold	Increase investment	Don't know
3% ↓	62% ↓	2% ↑	10% ↑	23% ↓
4%	69%	1%	2%	24%

Greater Manchester Chamber of Commerce

- The GM Chamber of Commerce's Q3 2018 Quarterly Economic Survey reported an upturn in both manufacturing and construction in Greater Manchester, although services experienced a slightly surprising drop, mirroring other survey results and a slowdown in financial services. Construction orders over the next quarter were anticipated to grow, but manufacturing orders appear to be slightly cooling off. Services orders are now back down to start of the year levels, which may reflect some early Brexit impact associated with financial/legal deferments.⁽⁶⁾

IHS Markit/CIPS Manufacturing & Services PMIs®

- Despite ONS statistics showing manufacturing growth in the last quarter, leading indicator surveys suggest that conditions in the UK manufacturing sector slowed during October with the **UK Manufacturing PMI falling to a 27-month low of 51.1 in October**, down from September's downwardly revised reading of 53.6 (above 50 = growth). New order inflows and employment both declined this month for the first time since July 2016 – the PMI survey directly following the EU referendum. The drop in new business was partly driven by rising global trade tensions and Brexit uncertainties.⁽⁷⁾
- The **UK services PMI dropped to 52.2 in October** from 53.9 in September, to signal the slowest rate of business activity expansion since March and the second lowest since July 2016, the PMI survey directly following the EU referendum. Respondents noted that economic uncertainty had held back business activity growth.⁽⁸⁾



Retail Sales

- The volume (not value) of retail sales declined by 0.8% during September 2018**, due mainly to a 1.5% fall in food store sales – the largest decline since October 2015.
- However, the underlying trend in the retail industry** – as suggested by the three-month on three-month measure – **remains one of growing sales, up 1.2% in September** compared with the previous three months.⁽⁹⁾



Withdrawal Agreement

- **The cabinet has backed a draft withdrawal agreement between the UK and the EU following a special cabinet meeting on November 14th.⁽¹⁰⁾ However, the draft withdrawal agreement has triggered a wave of resignations by Ministers who said that they cannot support the proposed agreement. These have included Secretary of State for Exiting the EU, Dominic Raab, and Secretary of State for Work and Pensions, Esther McVey.⁽¹¹⁾**
- Prime Minister Theresa May has sought backing from businesses for the draft withdrawal agreement, announcing to the Confederation of British Industry (CBI)'s annual conference that her plan would provide a fair immigration system that would help young people in the UK get jobs and training. CBI president John Allan has urged MPs to back Mrs May's deal – despite it not being "perfect" – warning of the consequences for businesses if the UK were to simply crash out of the EU.⁽¹²⁾
- After March 29 next year, the Brexit withdrawal treaty will be Britain's only legal agreement with the EU. The agreement will not only determine the nature of Britain's exit from the EU, but also influence the country's future relationship with the union. The provisional text drafted by the UK and the EU covers:
 - **Financial settlement:** Britain will honour all its financial commitments to Brussels. Using conservative assumptions, the UK Treasury expects a net British outlay of €40bn to €45bn, although the National Audit Office identified public payments that could reach €60bn, along with an additional €14bn of contingent liabilities such as outstanding loans.
 - **Citizen rights:** The exit agreement maintains the existing EU residence and social security rights of more than 3m EU citizens in the UK, and about 1m UK nationals living on the continent.
 - **Transition:** The treaty provides for a transition period for the UK until the end of 2020, which can be extended for an unspecified one-off period, set by mutual agreement.
 - **Northern Ireland:** A protocol in the treaty makes unique arrangements for Northern Ireland, with the aim of upholding the peace process and avoiding a hard border dividing the island of Ireland. Most significantly the protocol lays out "backstop" arrangements for the Irish border that ensure the free circulation of goods across the island of Ireland.
 - **UK-EU customs union:** The backstop plan for Northern Ireland is underpinned by a UK-EU customs union. This avoids the need for customs checks across the Irish Sea. While Northern Ireland will apply the full "union customs code", the UK would apply a more basic customs union model. This avoids the needs for tariffs, quotas and rules of origin in UK-EU trade.
 - **Governance:** The arrangements for overseeing the withdrawal treaty ensure that neither the EU nor the UK is bound by the other jurisdiction's courts when it comes to interpreting the agreement.⁽¹³⁾
- To come into force, the Brexit deal requires approval by, in sequence: the UK cabinet, an EU summit, the House of Commons, and the European Parliament. EU leaders will hold special summit on November 25 aimed at signing off the proposed Brexit deal between the UK and the other 27 member states.⁽¹⁴⁾

Future of European Funding in Greater Manchester

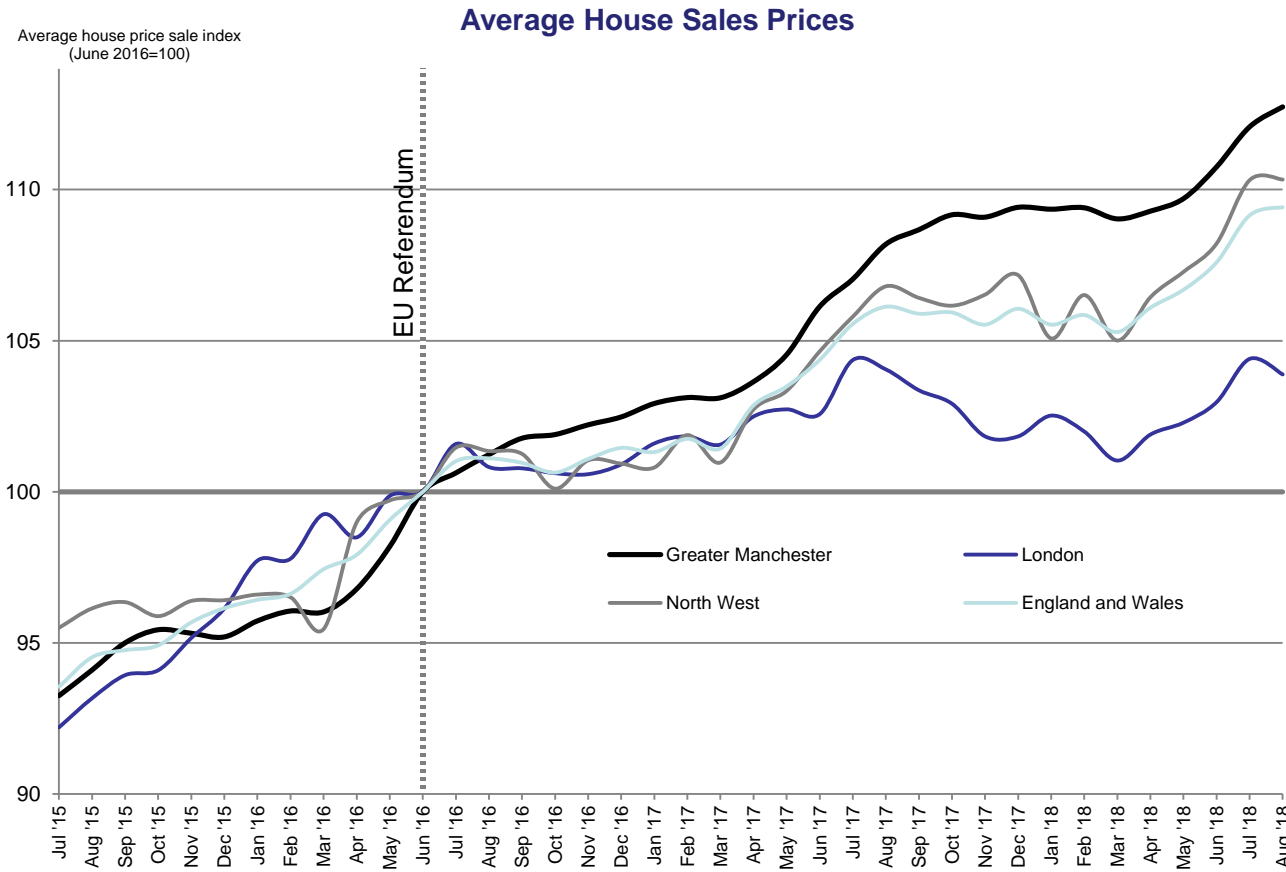
- From 2014-20 the Greater Manchester allocation of ERDF and ESF totalled €405m, for which the European Commission has announced the region will continue to be eligible until 2020/21. **UK organisations have been advised to continue bidding for EU funding of all types, with the UK Government underwriting the continued payment of any successful funding application, even when projects are approved after the UK leaves the EU.** In their recent '[no deal' technical notices](#), the Government has reiterated that they will guarantee any funding secured before 29th March 2019 and continue all allocated 2014-20 ESF and ERDF funding, even in the event of a no deal.

Brexit - Key Dates

25 th November 2018	Potential emergency EU summit during which the UK and EU will hope to sign off on a withdrawal agreement.
13-14 th December 2018	Final EU summit of 2018. A possible fall-back option if the November deadline is not reached.
Late December -Early January 2018	Once the EU and the UK have agreed a withdrawal treaty and an outline sketching their future relations, the deal will be put to the House of Commons for a "meaningful vote".
21 st January 2018	If no deal is agreed, the Prime Minister must announce a 'no deal' by this date giving MPs 14 days to vote on a plan of action, being leaving with no deal, seeking an extension of Article 50, or holding another referendum.
29 th March 2019	Britain's formal exit from the EU, two years following the trigger of Article 50. In the case of a 'no deal', all current EU legislation and agreements would cease to apply from this date in the absence of any other arrangements.
31 st December 2020	Planned end of the proposed Brexit transition period. Until this date, the UK will essentially function as if a member of the EU (including continuing current funding and regulatory arrangements).

Housing sales

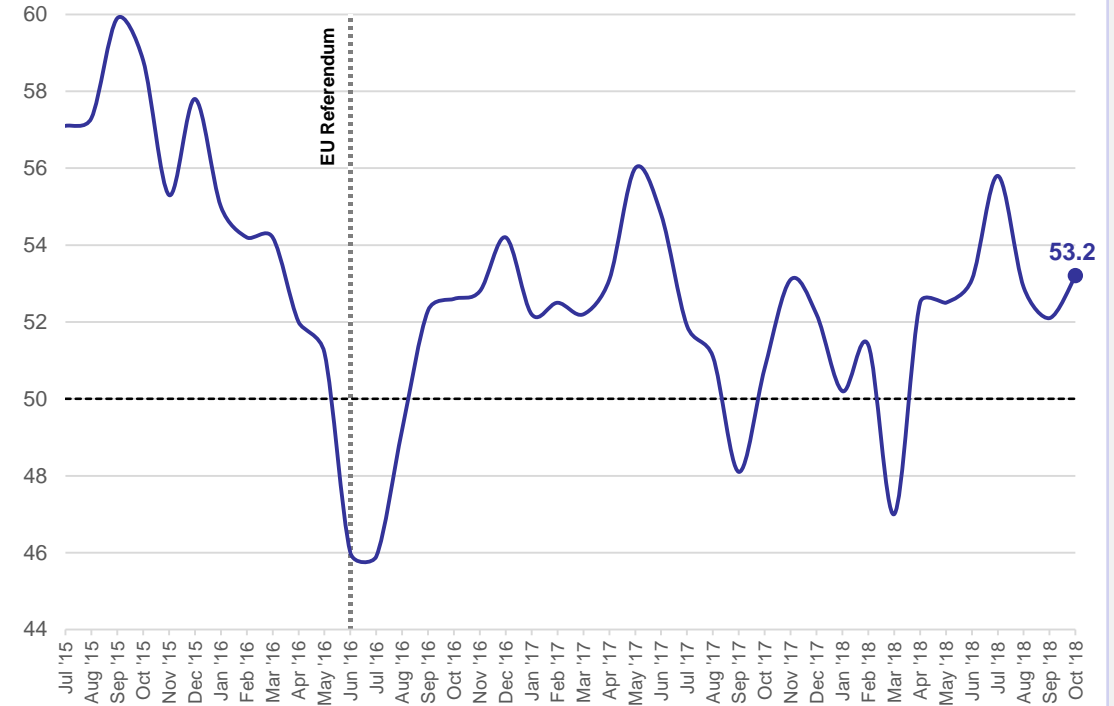
- **August 2018 housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in GM**, with post-referendum trends in house prices roughly in line with pre-referendum trends. London has, however, seen flatter growth since the referendum, and witnessed a slight fall in prices in August. In contrast, house prices in GM **have risen faster than national and regional averages since the referendum**, particularly in the last 6 months.⁽¹⁵⁾



August 2018 Average House Price

Greater Manchester	Since last month	Annual Change	Since EU Referendum
£168,525	+0.6%	+4.2%	+12.7%

IHS/CIPS Construction PMI



- **UK construction companies indicated a sustained increase in business activity during October**, with the UK construction PMI rising to 53.2 – up from 52.1 in September – marking its second-highest level in 16 months.
- However, despite total UK construction activity rising at a stronger pace in October, **optimism regarding the 12-month outlook was at its lowest level for nearly six years**, as the sector reported rising uncertainty about the future of the economy, resulting in slower growth of new orders and purchasing.⁽¹⁶⁾

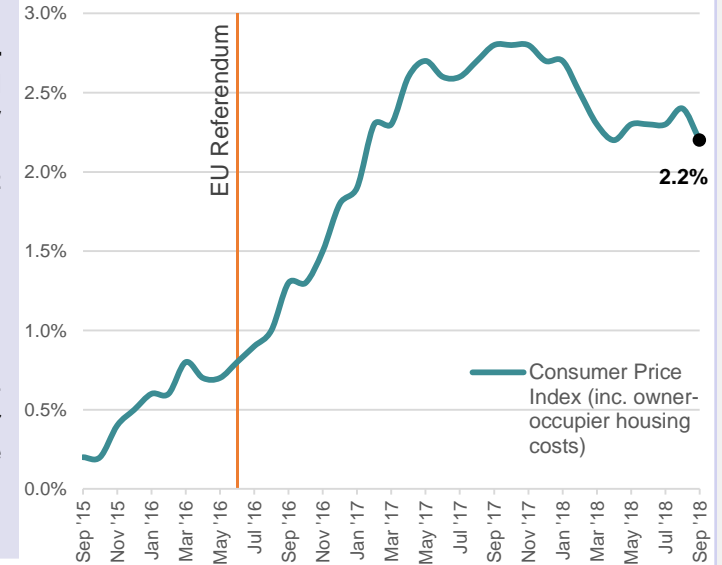
Unemployment and Claimant Count

- 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 up to June 2018, unemployment stood at 4.6% in GM, down from 4.9% in the 12 month period up to March 2018. **However, unemployment in GM still stands above national and regional rates.**⁽¹⁷⁾
- Numbers of people claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in GM have however risen to their highest levels in over four years in September, up 1,080 (2.0%) on the previous month to 55,095 people, with rises in all age groups.
- The total number of claimants is 18.9% (8,765) higher than pre-referendum levels.** As a proportion of the working age population, the number of claimants has also risen to 3.1% from 2.6% in June 2016, mirroring national and regional trends.⁽¹⁸⁾

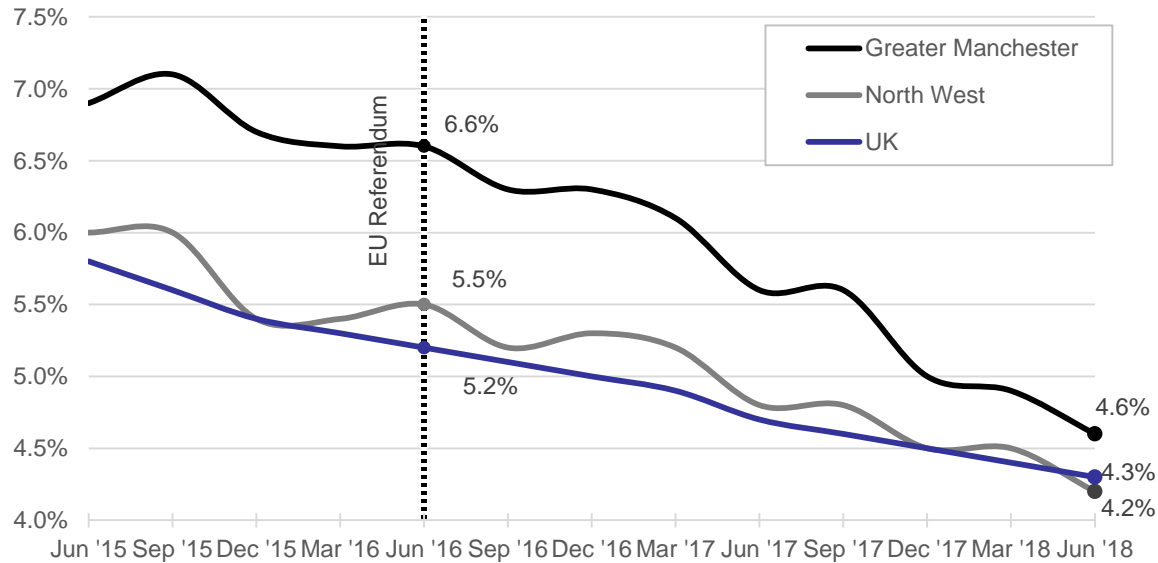
Due to recent changes to unemployment benefits and the roll-out of Universal Credit in GM over the last year, long-term trends in claimant counts should be treated with caution. Greater numbers of people may be moved onto certain types of benefits or be expected to find additional work and may appear in the claimant count. ILO unemployment rates are unaffected.

Household Finances

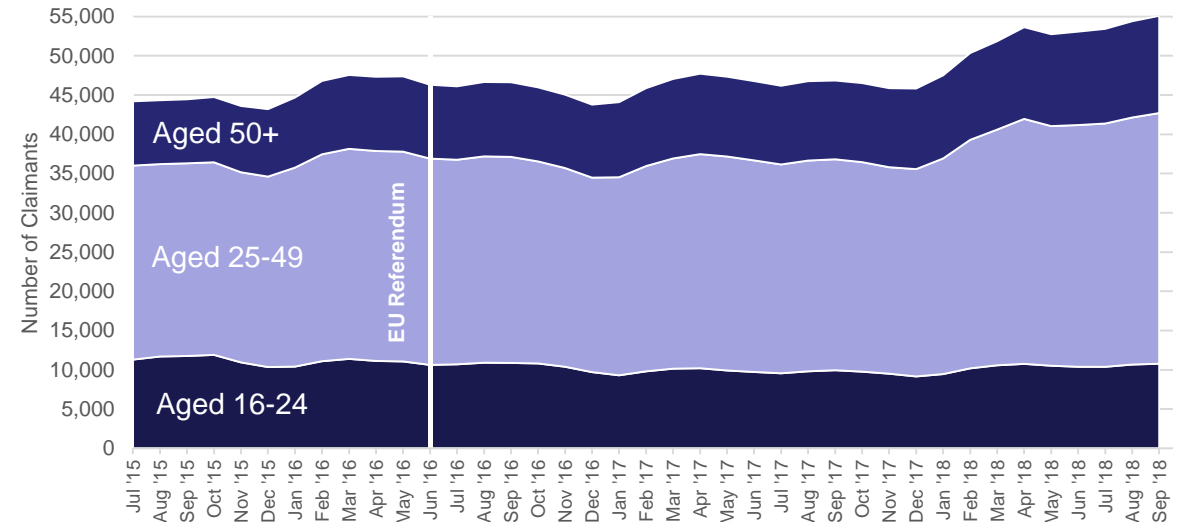
- The Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – reveals a further deterioration in UK household finances, partly driven by weaker employment income growth.** October’s HFI fell to 45.1 from 45.7 in September (below 50 signals deterioration). However, household spending was boosted by savings and unsecured credit.⁽¹⁹⁾
- The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.2% in September 2018, down from 2.4% in August.** The largest downward contribution came from food and non-alcoholic beverages.⁽²⁰⁾



ILO Unemployment Rate (% of economically active population aged 16-64)



Claimant count (JSA and related UC) in GM by age group



Section	Sources
Macro-Economic Trends & Developments	<ol style="list-style-type: none"> ONS (9 November 2018): Statistical bulletin: GDP monthly estimate, UK: September 2018 ONS (9 November 2018): UK trade: September 2018 HMRC (9 November 2018): Overseas Trade Statistics - Non-EU and EU Trade: September 2018 IHS Markit / NatWest UK Regional PMI (12 November 2018): "Broad-based slowdown in output growth across UK regions in October"
Key Sectors & Business Investment	<ol style="list-style-type: none"> Manchester GC Business Growth Hub (end-October 2018 snapshot): Internal Survey of Client Companies Greater Manchester Chamber of Commerce Quarterly Economic Breakfast, 28 September 2018 Markit/CIPS UK Manufacturing PMI (1 November 2018): "UK manufacturing new orders and employment fall for the first time since mid-2016" Markit/CIPS UK Services PMI (5 November 2018): "Weakest expansion of service sector activity since March" ONS (18 October 2018): Retail sales, Great Britain: September 2018
Policy, Trade, & Regulation	<ol style="list-style-type: none"> BBC (14 November 2018): "Brexit: Cabinet backs draft agreement" FT (14 November 2018): "Resignations rock Theresa May's government" BBC (19 November 2018): Brexit plan will stop EU migrants 'jumping the queue' - May FT (14 November 2018): "Brexit treaty: what the EU and UK have agreed" FT (15 November 2018): "Tusk sets date to finalise Brexit deal"
Property & Housing	<ol style="list-style-type: none"> HM Land Registry (14 November 2018): House Price Index Database: September 2018 Markit/CIPS UK Construction PMI (2 November 2018): "UK construction output increases at sharper rate but outlook deteriorates"
Economic Inclusion	<ol style="list-style-type: none"> ONS (2018): Annual Population Survey/Labour Force Survey, accessed November 2018 ONS (2018): Claimant count (combined Job Seekers Allowance and unemployment element of Universal Credit), accessed November 2018 IHS Markit Household Finance Index (22 October 2018): "Household sentiment falls in October despite weakest inflation expectations for two years" ONS (17 October 2018): Consumer price inflation UK: September 2018