

# Greater Manchester Brexit Monitor

Key economic and policy developments

November 2017

**GMCA**

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BURY

MANCHESTER  
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ROCHDALE  
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# Executive Summary

## Headlines

- **The November Monitor provides mixed messages about the health of the UK's economy.** Both the UK Manufacturing and Services Purchasing Managers' Index (PMI) surveys show growth in the economy, in particular manufacturing, which reported rising production and new order volumes, as companies benefit from strong domestic market conditions. However, whilst **UK GDP is estimated to have increased by 0.4% in Q3 (July to Sept) 2017**, a slight improvement on the 0.3% growth posted in Q2, growth is slower than across the Eurozone (0.6 per cent) in the same period. These findings are reflected in the **Chamber of Commerce Quarterly Economic Survey which shows resilience in both the national and Greater Manchester economy.** However, the position is increasingly dependent on the largest firms' export performance (linked to Sterling's depreciation), an effect which the Chamber does not expect to last beyond the medium-term.
- Despite the positive message from PMI survey returns this month, economic commentators are still cautious about the future. **The Bank of England's (BoE) Monetary Policy Committee (MPC) took steps to address rising inflation**, voting 7-2 to raise the interest rate earlier in the month. This was the first increase in over a decade, raising its benchmark interest rate by a quarter of a percentage point to 0.5 per cent, signalling the start of a gradual increase in borrowing costs. The BoE's Quarterly Inflation Report also signalled that two more rate hikes are likely over the next three years in order to return inflation back to its 2 per cent target, which could see rates hit 1 per cent by the end of 2020.
- **In terms of Brexit discussions, Prime Minister Theresa May has said that "real and tangible progress" had been made**, but that the country must be prepared for "every eventuality" – including a 'no-deal' scenario. The Prime Minister also reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a "creative" solution that is "unique" to the UK.

## Key sectors & business investment

- **Research with Growth Company Business Growth Hub clients in the 3 months to the end of October 2017** shows that 61% of firms expected their plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods (Jun-Aug: 63%; Jul-Sep: 58%). Of the remaining firms, 15% said they were unsure what impact Brexit would have on investment plans, (Jun-Aug: 27%, and 18% in Jul-Sep), 15% said they were likely to increase investment (16% in the last monitor), 8% said investment plans were on hold, and 1% envisaged decreasing investment.
- **However, the Growth Company survey also suggested that the EU referendum is increasingly impacting on firms' recruitment intentions.** In the three months to October 2017, 60% of firms said they envisaged they would continue to recruit at the same pace following the referendum result, the lowest level since the referendum. Of the remaining firms, 10% reported that they would continue hiring, but at a decreased pace (9% in the last Monitor), 2% would freeze hiring, 1% would be making redundancies, 17% indicated that they were unsure or declined to answer, and 10% said that they would increase hiring (8% in the last Monitor).

# Executive summary

- **The IHS Markit/CIPS UK Manufacturing PMI rose from 56.0 (revised from 55.9) in September to 56.3 in October** (above 50 = growth). Production and new order volumes rose as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges both well above historical series averages.
- **The IHS Markit/CIPS UK Services PMI increased from 53.6 in September to 55.6 in October.** This month's rise was mainly due to a rebound in new order growth from September's 13-month low amid improved domestic demand and new product launches. Whilst output rose, input costs continued to rise due to higher food prices, energy bills, transport costs, and salaries. There is further caution in the Services survey's new job creation figures - the weakest since March 2017.

## Terms of trade, regulation & access to funding

- **The Government has published two white papers on future trade and customs arrangements.** These papers set out three strategic objectives: ensuring UK-EU trade is as frictionless as possible, avoiding a hard border between Ireland and Northern Ireland, and establishing the UK's own independent international trade policy, but also provide some contingency planning in case the UK leaves the EU without a negotiated settlement.
- **The government has created a new EU Exit and Trade (Domestic Preparedness, Legislation and Devolution) Sub-Committee,** which will oversee domestic policy preparations and implementation of the UK's withdrawal from the European Union. The new Sub-Committee will be chaired by the First Secretary of State.
- **The Chancellor of the Exchequer will present his Autumn Budget to Parliament on 22 November 2017.**

## Property investment, housing and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices,** with average house prices in GM rising by 8.6% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at demand in the office space market for Manchester. Latest figures from the Manchester Office Agents Forum (MOAF) have shown that the Manchester office market showed a substantial increase in Q317, with just over 447,809 sq ft transacted in the city centre alone.

## Economic inclusion

- **Unemployment in GM is slightly higher than that seen prior to the referendum result – increasing from 46,290 in June 2016 to 46,700 in September 2017 (latest).**
- Despite rising consumer prices (CPI index) the latest seasonally adjusted **IHS Markit Household Finance Index (HFI) showed a slight perceived easing of household financial pressures during October,** registering 43.8 in October, up from 42.8 in September.

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# Macro-economic trends and developments

## Macro-economy

- **UK GDP was estimated to have increased by 0.4% in Q3 (July to Sept) 2017, marking a slight improvement on the 0.3% growth posted in Q2.** Services was the largest contributor to GDP growth, expanding by 0.4% with a strong performance in computer programming, motor trades and retail trade. Meanwhile, manufacturing returned to growth after a weak Q2, increasing by 1.0% in Q3. However, construction activity contracted for the second quarter in a row, although the industry still remains above its pre-downturn peak.<sup>(1)</sup>
- **The Bank of England's (BoE) Monetary Policy Committee (MPC) took steps to address rising inflation, voting 7-2 to raise the interest rate earlier in the month.** This was the first increase in over a decade, raising its benchmark by a quarter of a percentage point to 0.5 per cent, signalling the start of a gradual increase in borrowing costs. The BoE's Quarterly Inflation Report also signalled that two more rate hikes are likely over the next three years in order to return inflation back to its 2 per cent target, which could see rates hit 1 per cent by the end of 2020.
- **The UK's deficit on trade in goods and services widened by £6.2 billion in the three months to August 2017 to £13.2 billion,** due to the impact of trade in aircraft, ships and precious metals. Termed 'erratic commodities', these can make a large contribution to trade in goods, but can mask underlying trends in export and import values due to their volatility. Excluding these, the deficit on trade in goods and services widened by £2.9 billion in the three months to August 2017 to £10.8 billion.<sup>(2)</sup>
- **EU trade: The UK was a net importer from the EU in August 2017, with imports exceeding exports by £8.1 billion.** EU Exports for August 2017 were £12.8 billion, a decrease of £0.6 billion (-4%) compared with July 2017, but an increase of £1.5 billion (+14%) compared with 12 months ago. EU Imports for August 2017 were £20.9 billion, unchanged from July 2017, but an increase of £2.0 billion (+10%) compared with a year ago.
- **Non-EU trade: The UK was a net importer in August 2017, with imports exceeding exports by £7.4 billion.** Non-EU Exports for August 2017 were £13.2 billion, a decrease of £3.5 billion (-21%) compared with July 2017, but an increase of £0.9 billion (+8%) compared with a year ago. Non-EU Imports for August 2017 were £20.6 billion, an increase of £2.3 billion (+12%) compared with July 2017, but a decrease of £1.9 billion (-9%) compared with a year ago.<sup>(3)</sup>

## Consumer sentiment

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rose to 2.8% in September 2017, up from 2.7% in August 2017, marking its highest level since March 2012.** The main contributors to the increase in the rate were rising prices for food and recreational goods. These upward effects were, however, partially offset by downward contributions across a range of goods and services, in particular clothing prices.<sup>(4)</sup>
- **September 2017 saw the quantity bought in the retail industry decrease by 0.8% compared with August 2017.** However, the underlying pattern in the retail industry in 2017 is one of growth. Store prices continue to rise across all store types and recorded their highest year-on-year price growth since March 2012 at 3.3% (non-seasonally adjusted) in September 2017. Online sales values also increased year-on-year by 14% (17% of all retail spending).<sup>(5)</sup>

# Key sectors & business investment

## Business Investment

- **Research with Growth Company Business Growth Hub clients in the 3 months to the end of October 2017 shows that 61% of firms expected their plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods (Jun-Aug: 63%; Jul-Sep: 58%). Of the remaining firms, 15% said they were unsure what impact Brexit would have on investment plans, (Jun-Aug: 27%, and 18% in Jul-Sep), 15% said they were likely to increase investment (16% in the last monitor), 8% said investment plans were on hold, and 1% envisaged decreasing investment.**
- **However, the Growth Company survey also suggested that the EU referendum is increasingly impacting on firms' recruitment intentions.** In the three months to October 2017, 60% of firms said they envisaged they would continue to recruit at the same pace following the referendum result, the lowest level since the referendum. Of the remaining firms, 10% reported that they would continue hiring, but at a decreased pace (9% in the last Monitor), 2% would freeze hiring, 1% would be making redundancies, 17% indicated that they were unsure or declined to answer, and 10% said that they would increase hiring (8% in the last Monitor).<sup>(6)</sup>
- **The Chamber of Commerce Quarterly Economic Survey shows resilience in both the national and Greater Manchester economy.** However, the position is increasingly dependent on the largest firms' export performance (linked to Sterling's depreciation), an effect which the Chamber does not expect to last beyond the medium-term..<sup>(7)</sup>

## CIPS Manufacturing PMI to end September 2017



## Manufacturing

- **The IHS Markit/CIPS UK Manufacturing PMI rose from 56.0 (revised from 55.9) in September to 56.3 in October** (above 50 = growth). Production and new order volumes continued to rise as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges well above historical series averages.<sup>(8)</sup>

## CIPS Services PMI to end September 2017



## Services

- **The IHS Markit/CIPS UK Services PMI rose from 53.6 in September to 55.6 in October**, mainly due to a rebound in new order growth from September's 13-month low amid improved domestic demand and new product launches. Whilst output rose, input costs continued to rise due to higher food prices, energy bills, transport costs and salaries. Job creation is the weakest since March, suggesting firms are more cautious about the future.<sup>(9)</sup>

# Trade, regulation and access to funding

## Trade, rules and regulatory developments

- The Government has published two white papers on future trade (Preparing for our future UK trade policy<sup>10</sup>) and customs arrangements (Customs Bill: legislating for the UK's future customs, VAT and excise regimes<sup>11</sup>). The papers set out three strategic objectives: ensuring UK-EU trade is as frictionless as possible, avoiding a hard border between Ireland and Northern Ireland; and establishing the UK's own independent international trade policy, as well as contingency planning in case the UK leaves the EU without a negotiated settlement. The Intellectual Property Office also published an updated report on the future of intellectual property laws following the decision that the UK will leave the European Union (EU).<sup>(12)</sup>
- In terms of Brexit talks, Prime Minister Theresa May has said that "real and tangible progress" had been made, but that the country must be prepared for "every eventuality" – including a 'no-deal' scenario. The Prime Minister confirmed that the UK would remain subject to the rulings of the European Court of Justice during a planned two-year transition period after Britain leaves the EU in March 2019, and reiterated that trade models such as the European Economic Area or the Canadian Comprehensive Economic and Trade Agreement are not an option for any deal, calling instead for a "creative" solution that is "unique" to the UK.<sup>(13)</sup>
- The Government has created a new EU Exit and Trade (Domestic Preparedness, Legislation and Devolution) Sub-Committee, which will oversee domestic policy preparations and implementation of the UK's withdrawal from the European Union. The new Sub-Committee will be chaired by the First Secretary of State.<sup>(14)</sup>
- The Chancellor of the Exchequer will present his Autumn Budget to Parliament on 22 November 2017.<sup>(15)</sup>

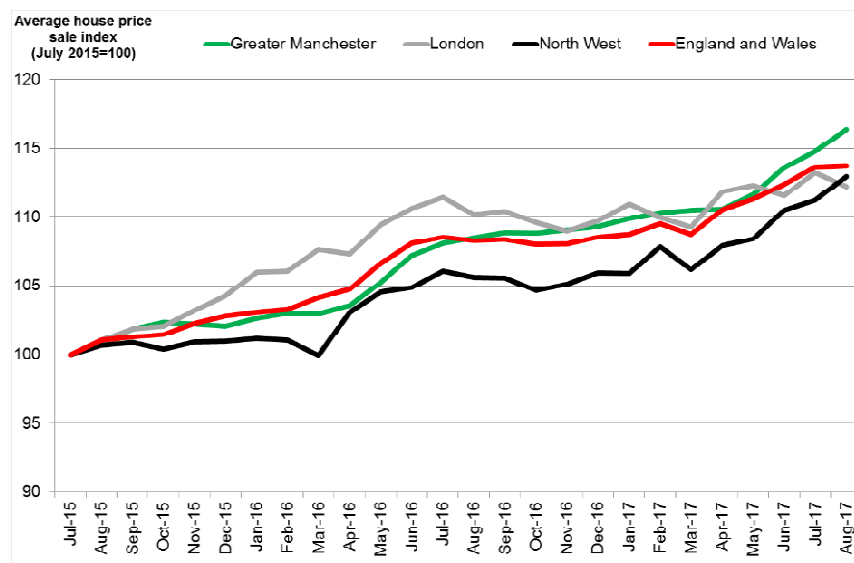
## European Funding

- In a speech on 16 October in Edinburgh, EU Research Commissioner Carlos Moedas reiterated that the Horizon 2020 programme is still fully open to UK researchers. He added that UK opinions are welcome on what the next EU research programme should look like.<sup>(16)</sup> In other EU funding news, Erasmus+, the Lifelong learning programme, released its 2018 calls. The amount of funding available to UK applicants has increased from €148 million (in 2017) to almost €170 million. Erasmus+ supports transnational projects covering all levels of education from school, VET, HE, and adult education.<sup>(17)</sup>

# Property and investment, housing, and planning

- **Housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices**, with average house prices in GM rising by 8.6% on the level recorded in July 2016.
- **Commercial property:** This month's Monitor looks at demand in the office space market for Manchester. Latest figures from the Manchester Office Agents Forum (MOAF) have shown that the Manchester office market showed a substantial increase in Q317, with just over 447,809 sq ft transacted in the city centre alone.

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



- **Housing Index** data from the Land Registry suggest the vote to leave the EU continues to have little impact on house prices, with moderate growth in average residential prices this period.
- **The latest house price data (latest, August 2017) for GM reveals an average price of £162,247**, an increase of 1.4% from the previous month, and growth of 7.3% from August 2016.<sup>(18)</sup>

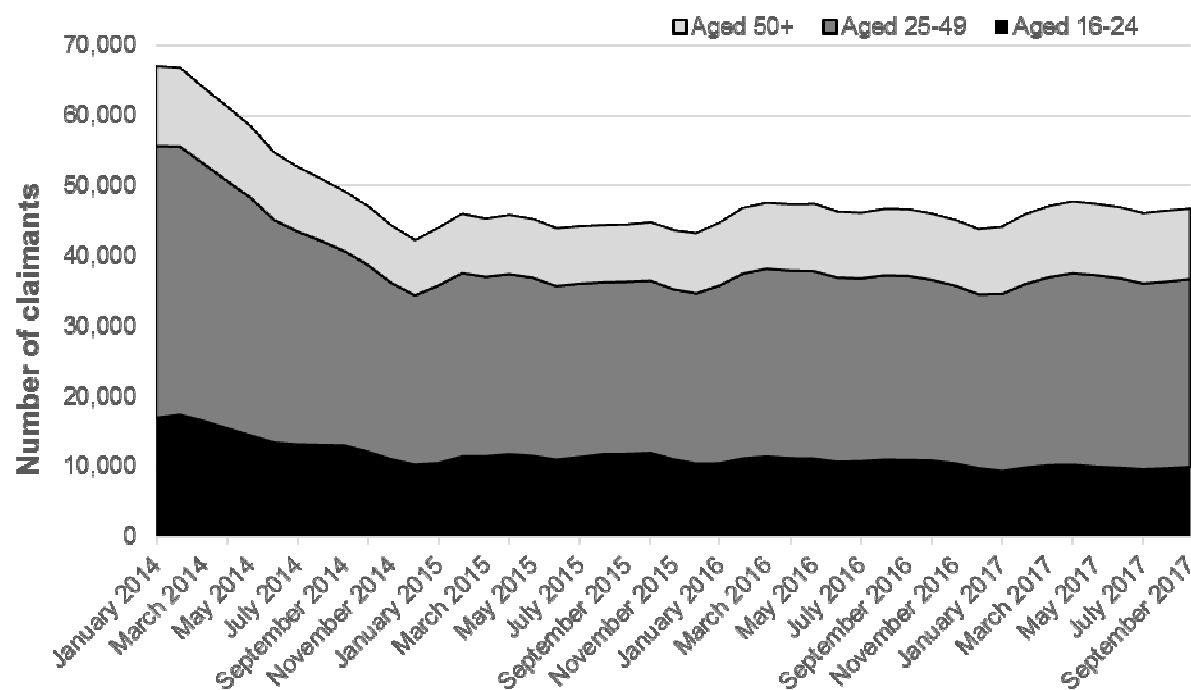
## Commercial Property: Office space

- According to latest figures from the **Manchester Office Agents Forum (MOAF)**, the Manchester office market showed a substantial increase in Q317, with just over 447,809 sq ft transacted in the city centre alone. The Q3 figures represent a 68% increase on the same period last year.
- There were 78 deals in the city centre from July to September, with eight transactions of more than 10,000 sq ft, including existing city centre occupiers relocating due to expansion.
- Outside of the city centre, South Manchester also experienced a successful Q3, with 140,531 sq ft let, a 29% increase on the same period last year.
- Year-to-date this has provided a running total of 472,263 sq ft of deals during 2017, a 45% increase on last year's statistics.
- MOAF notes that although stock is quickly diminishing, there are a number of deals still to fall in by year end, and anticipates that South Manchester's 2017 take-up will be the highest since 2012.
- The combined Salford Quays and Old Trafford take-up figure for Q3 was 112,410 sq ft, a 25% increase on 2016. According to MOAF, the supply of Grade A office space in Salford Quays has become limited.<sup>(19)</sup>

# Economic Inclusion

- **Unemployment in GM is now slightly higher than that seen prior to the referendum result – increasing from 46,290 in June 2016 to 46,700 in September 2017 (latest).** However, unemployment as a proportion of the working age population remains unchanged compared to the same period last year in GM (2.6%) and in the United Kingdom (1.9%), though it has increased in the North West to 2.5% in September, from 2.3% in August.<sup>(20)</sup>
- Despite rising consumer prices (CPI index) the latest seasonally adjusted **IHS Markit Household Finance Index (HFI) showed a slight perceived easing of household financial pressures during October**, registering 43.8 in October, up from 42.8 in September.<sup>(21)</sup>

Claimant count (JSA and out-of-work UC) in GM by age group



Monthly Unemployment by age of resident

- As a proportion of working age residents, the **GM claimant rate for September 2017 (2.6%)** remains above that of the North West (2.5%) and the UK (1.9%).
- **In September 2017, the total claimant count for the 16 to 24 age group increased by 0.7% (70).** However, for the 25 to 49 age group it decreased by 0.2% (65) and for the 50+ age group it decreased by 0.6% (65).
- **Since the referendum result in June 2016, the number of claimants aged 50+ has increased by 6.9% (645),** although the number of claimants aged 16 to 24 has decreased by 6.9% (730).



# Sources (1)

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<b>Trade, regulation and access to funding</b>	<p>10. HMG (9 October 2017): Preparing for our future UK trade policy  <a href="https://www.gov.uk/government/publications/preparing-for-our-future-uk-trade-policy">https://www.gov.uk/government/publications/preparing-for-our-future-uk-trade-policy</a></p> <p>11. HMG (9 October 2017): Customs Bill: legislating for the UK's future customs, VAT and excise regimes  <a href="https://www.gov.uk/government/publications/customs-bill-legislating-for-the-uks-future-customs-vat-and-excise-regimes">https://www.gov.uk/government/publications/customs-bill-legislating-for-the-uks-future-customs-vat-and-excise-regimes</a></p> <p>12. HMG Intellectual Property Office (1 November 2017): IP and BREXIT: The facts  <a href="https://www.gov.uk/government/news/ip-and-brex-it-the-facts">https://www.gov.uk/government/news/ip-and-brex-it-the-facts</a></p> <p>13. BBC (9 October 2017): Theresa May sets out Brexit options including 'no deal'  <a href="http://www.bbc.co.uk/news/uk-politics-41546701">http://www.bbc.co.uk/news/uk-politics-41546701</a></p> <p>14. HMG (31 October 2017): House of Commons Hansard: Written statements  <a href="https://hansard.parliament.uk/commons/2017-10-31/debates/e4ffd041-afbe-4280-89d7-fd02a65378e9/WrittenStatements">https://hansard.parliament.uk/commons/2017-10-31/debates/e4ffd041-afbe-4280-89d7-fd02a65378e9/WrittenStatements</a></p> <p>15. HMG (12 September 2017): Autumn Budget 2017 date confirmed  <a href="https://www.gov.uk/government/news/autumn-budget-2017-date-confirmed">https://www.gov.uk/government/news/autumn-budget-2017-date-confirmed</a></p> <p>16. Science Business (17 October 2017): Brussels, London seek to reassure UK researchers on Horizon 2020 grants  <a href="https://sciencebusiness.net/framework-programmes/news/brussels-london-seek-reassure-uk-researchers-horizon-2020-grants">https://sciencebusiness.net/framework-programmes/news/brussels-london-seek-reassure-uk-researchers-horizon-2020-grants</a></p> <p>17. ERASMUS+ (25 October 2017): 2018 Erasmus+ call published  <a href="https://www.erasmusplus.org.uk/news/2018-call-published">https://www.erasmusplus.org.uk/news/2018-call-published</a></p>
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