GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: 29th March 2018

Subject: Brexit Monitor and Spring Statement

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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 Spring Statement briefing (Appendix 1) and the March Brexit Monitor (Appendix 2)
- Note the content of the GM Brexit impacts report (Appendix 3)

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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 March 8 saw the publication of the Government Brexit analysis material, aiming to quantify the potential impact of leaving the EU on the British economy. The reports suggests that there will be an adverse effect on the economy of the UK and all its regions – with the North West one of the four regions hardest hit under both 'soft' and 'hard' Brexit scenarios (2 to 12% points lower than baseline). The report also highlights that the degree of impact depends on the outcome achieved in the negotiations, and is likely to be greater in areas more exposed to change in trade barriers by nature of their export composition – and in those with a higher dependence on exports as a proportion of the regional economy.

2.2 Revised figures indicate that UK GDP saw 0.4% growth in the fourth quarter (Oct-Dec) of 2017, down by 0.1 percentage point from preliminary estimates. This continues the same 0.4% rate of growth in Q3 2017. As a result, annual GDP growth was estimated to have slowed to 1.7%, marking not only a decline from the 1.9% recorded in 2016, but the lowest outturn since 2012.

2.3 According to the IHS Markit Regional Purchasing Managers' Index (PMI), business activity continued to grow in January 2018 in the North West, but at a slower pace, with the PMI dropping from a three-year high of 60.7 in December to 57.4 (above 50 = growth). This nevertheless still places the North West as third best performing region in the UK after the East Midlands (58.8) and Northern Ireland (58.7) (England average = 54.0).

2.4 The end of February saw the European Commission publishing the 'Draft Withdrawal Agreement between the European Union and the United Kingdom'. The draft covers citizens' rights, separation issues such as goods placed on the market before the withdrawal date, financial settlement, transitional arrangements, institutional provisions; and a protocol on Ireland/Northern Ireland. The draft agreement was provisionally agreed by the EU and UK on 19th March 2018 subject to finalisation on issues such as the Irish border. This agreement is still in draft however and will need consent by a majority vote of EU Parliament and then ratification by the UK.

2.5 Shortly after the publication of the draft withdrawal agreement, the Prime Minister made a speech at the Mansion House, outlining the need for future negotiations need to meet five key “foundations”:

- The agreement with the EU will need reciprocal binding commitments to ensure fair and open competition.
- An arbitration mechanism that is completely independent from the EU and UK to resolve disagreements.
- Ongoing dialogue with the EU, and to ensure the means to consult each other regularly, in particular in areas such as regulation.
- Arrangements for data protection that permit the free flow of data, and effective representation in the EU’s new one-stop-shop for disputes.
- Maintaining links between citizens. Whilst the free movement of people will end, the UK must continue to have access to the skills it needs.

2.6 On Tuesday 13 March 2018 the Chancellor of the Exchequer, Philip Hammond, announced that there is ‘light at the end of the tunnel’ in his Spring Statement as the UK economy is growing slightly faster than predicted by the Office for Budget Responsibility in November (1.5% forecasted growth for 2018, up 0.1 ppt from previous forecasts), borrowing is down, and debt will fall as a share of GDP from 2018-19. There were however no new tax or budget spending changes, now included in the Government’s annual Autumn Budget, and public finances look broadly the same. A briefing on the key announcements from the Spring Statement of relevance to Greater Manchester is included as an Annex to this paper.

2.7 Unemployment in GM has seen a 3.7% spike since December 2017, rising by 1,690 to 47,150 people in January 2018 (latest data). This places unemployment at an 8-month high and 1.6% (860) higher than before the referendum result.

3. EU FUNDING BID TO SUPPORT THE LOCAL INDUSTRIAL STRATEGY

3.1 Greater Manchester has been selected by the European Commission as one of the European Industrial Transition Pilot Regions. Ten European regions (all of a similar population size to Greater Manchester) will take part in this new Commission-led pilot.

3.2 These regions and their largest cities include: Cantabria (Santander) in Spain, Centre-Val de Loire (Orleans/Tours), Grand-est (Strasbourg), and Hauts-de-France (Lille) in France, Lithuania (Vilnius), Slovenia (Llubljana), Norra Mellansverige (Gavle) in Sweden, Piemonte (Turin) in Italy, Saxony (Dresden) in Germany, Wallonia (Namur/Charleroi) in Belgium, and East-North Finland (Oulu/Kuopio).

3.3 Each region will receive hands on support from the European Commission and advisory services up to a value of €200,000, including peer learning and foresight activities organised in partnership with the OECD. An additional grant of up to €300,000 will be made to regions in the second year to deliver the strategy, if sufficient progress is demonstrated.

3.4 The Pilot will support GM with the development and implementation of its local industrial strategy. The technical assistance, as well as the other support services, will provide GM with additional knowledge and expertise, as well as additional capacity to help us to develop the strategy.

4. GREATER MANCHESTER BREXIT IMPACTS REPORT

4.1 On 19th March 2018 the Mayor of Greater Manchester gave evidence to the Housing, Communities and Local Government select committee on Brexit and Local Government which met in Manchester.

4.2 To coincide with the select committee hearing, the GMCA released a report summarising analysis which has been undertaken on the potential cost which could be imposed on key sectors of the Greater Manchester economy when the UK leaves the EU. A copy of the report is provided in Appendix 3.

4.3 This report highlights four steps necessary to manage the risks and take advantage of the opportunities from Brexit:

- The potential impact on Greater Manchester's labour market and supply of skills makes devolution to ensure that the city region's skills system is more responsive to the needs of employers even more vital. This will need to be a core component of the Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, and backed up by the Shared Prosperity Fund. It will need to include the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent;
- A full regional analysis – jointly carried out by Greater Manchester and the Government – of the potential impacts of the Government's scenarios for the future relationship between the UK and EU has become an urgent requirement.;
- Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed; and

- The process of returning powers from the EU must not end at Westminster. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment.

5. RECOMMENDATIONS

5.1 Recommendations appear at the front of this report.

Appendix 2: **Spring Statement – key points**

Summary
The Spring Statement contained no new tax or spending announcements. Instead, it provided an update on the economic and fiscal outlook for the UK, announced some allocations from existing planned spending, and was used to highlight the progress made since the Autumn Statement and launch a number of consultations. Given that it is not long since the November forecast by the Office for Budget Responsibility, the economy and public finances look broadly the same. Overall, the UK economy is growing at a slightly faster rate than predicted in November, borrowing is down and debt will fall as a share of GDP from 2018-19. Growth will be 1.5% this year, 0.1% higher than forecast in November. In his Statement, the Chancellor spoke of 'light of the end of the tunnel' and said that this year's Autumn Budget will set an overall path for public spending for 2020 and beyond, with a Spending Review confirmed for 2019.

OBR forecasts
The main economic news since November has been the continued strengthening of advanced economies around the world. Growth picked up in most in 2017 – from 1.5 per cent in 2016 to 2.3 per cent in the United States and from 1.8 to 2.5 per cent in the euro area. This is in contrast to the UK where the latest data show real GDP growth slowing from 1.9 per cent in 2016 to 1.7 per cent in 2017 and then growth of 1.5 per cent in 2018, slowing a little more in 2019, then picking up modestly over the subsequent three years.

The UK budget deficit is almost £5bn lower this year than expected, but the downward revisions for future years are smaller. Borrowing in the UK is forecast to continue falling from 2018-19 onwards, with the deficit dropping below 2 per cent of GDP next year and below 1 per cent of GDP in the final year of the forecast. The OBR's central forecast implies that the Government's fiscal mandate – for cyclically adjusted borrowing to lie below 2 per cent of GDP in 2020-21 – would be met by a margin of 0.7 per cent of GDP (or around £15bn), unchanged from their November forecast.

CPI inflation reached 3.1 per cent in November 2017, but the OBR forecast that it will come down to around 2 per cent relatively quickly and that it will remain close to that level.

Wage growth is expected to pick up in the short term, partly on the basis of early indications of stronger growth in pay settlements in 2018. But real earnings growth over the next five years is expected to remain subdued, averaging just 0.7 per cent a year. The OBR expect employment growth to slow over the next five years from the strong rates seen in much of the post-crisis period. The unemployment rate is forecast to rise marginally from 2019.

EU / Brexit
Alongside the Spring Statement, the OBR published its analysis of The EU Financial Settlement. The OBR state that the vote to leave the European Union appears to have slowed the economy, but by less than was expected immediately after the referendum – thanks in part to the willingness of consumers to maintain spending by reducing their saving. Using assumptions consistent with their central economic and fiscal forecasts, the OBR estimate the 'divorce bill' from the EU would cost the UK £37.1 billion, with around 75 per cent falling due within our five-year forecast period.

Spending
The Chancellor committed to setting an overall path for public spending for 2020 and beyond in the Autumn Budget with a Spending Review in 2019. He said that if, in the Autumn, the public finances

continue to reflect the improvements that today's report hints at, he would have capacity to enable further increases in public spending and investment in the years ahead.

Digital connectivity
Autumn Statement 2017 launched a £190 million Challenge Fund to help roll out full-fibre to local areas. Spring Statement 2018 allocates the first wave of funding, providing over £95 million for 13 areas across the UK. Greater Manchester has been awarded £25m from Government to significantly upgrade its digital infrastructure – funding that will help deliver "full fibre" broadband technology across the region, trigger subsequent private sector investment of up to £200m, and pave the way for 5G mobile technology.

Housing
Government confirmed it is working with 44 areas on bids into the £4.1 billion Housing Infrastructure Fund. The Housing Growth Partnership, which provides financial support for small housebuilders, will be more than doubled to £220 million. London will receive £1.67 billion to start building a further 27,000 affordable homes by the end of 2021-22. In addition, Government has confirmed a new £100m deal with the West Midlands to build 215,000 new houses by 2030-31. However, the Chancellor said that the Government will be "concluding housing deals with ambitious authorities who have agreed to deliver above their Local Housing Need".

National living Wage and tax free personal allowance rise
The National Living Wage will rise from April 2018 and national minimum wage rates for under 25s and apprentices will also rise. The tax free personal allowance will rise to £11,850 from April 2018.

Business Rates Revaluation brought forward
Further to the Autumn Statement announcement that business revaluations will take place every 3 years rather than every 5 years, it was confirmed that the next revaluation, currently due in 2022, will be brought forward to 2021. This will enable businesses to benefit from the change to three-year revaluations earlier, with the first taking place in 2024.

Transport in cities
£1.7 billion was announced at Autumn Statement 2017 for improving transport in English cities and half of this was given to Combined Authorities with mayors, including £243m for Greater Manchester. The Spring Statement confirmed that the Government is now inviting bids from cities across England for the remaining £840 million.

Future changes to the tax system
The Government is seeking views on how it can use the tax system to reduce plastic waste, with a consultation document published alongside the Budget. £20m from existing departmental budgets now for businesses and universities to stimulate new thinking on the subject. In addition, the Government has also set out its thinking on how the tax system can change to ensure multinational digital businesses pay a fair share of tax and is seeking views on the future of cash and digital payments.

Skills
The government is seeking views on extending the current tax relief to support self-employed people and employees when they fund their own training, to encourage upskilling and retraining. In addition, £50m was announced to help employers pay for T levels, available from April 2018. Up to £80 million of funding will be released to support small businesses in engaging an apprentice.

Greater Manchester Brexit Monitor

Key economic and policy developments

March 2018

Executive summary

Headlines

- **Whilst Brexit negotiations continue to progress, this comes against the background of continuing mixed signals on the state of the economy. According to revised GDP figures, the UK was estimated to have grown by 0.4% in the fourth quarter (Oct-Dec) of 2017**, down by 0.1 percentage point from preliminary estimates. This continues the same 0.4% rate of growth recorded in Q3 last year. Despite higher growth in economic activity in the last two quarters of 2017, **annual GDP growth was estimated to have slowed to 1.7%**, marking not only a decline from the 1.9% recorded in 2016, but the lowest outturn since 2012. **The figures are echoed in PMI, which show growth in both manufacturing and services, albeit slower growth in the former, and a slight uptick in the latter,** owing to increasing competitive pricing strategies. The recent spell of bad weather is also likely to put pressure on GDP growth as sectors like retail, leisure and construction will have to fight hard amid cancellations to manage cash flow and clear backlogs. However, **the main current worry, for most economic commentators, lies with consumer price inflation and in particular consumers' attitudes to borrowing.** These raise bigger immediate questions for the health of the economy.

- February's **Household Finance Index data revealed an accelerated squeeze on UK household finances**, driven by strong inflationary pressures and the slowest rise in employment income since November, both contributing to **a marked reduction in household's appetite for major purchases**. A point identified in **the recent EY Item Club report which shows consumer spending falling to 1.4% in 201 - from 2.9% in 2016.** In addition, **The end of February saw the European Commission publishing the 'Draft Withdrawal Agreement between the European Union and the United Kingdom'.** The draft outlines the UK's orderly withdrawal from the EU and covers citizens' rights, separation issues such as goods placed on the market before the withdrawal date, the financial settlement, transitional arrangements, institutional provisions; and a protocol on Ireland/Northern Ireland. **The draft agreement was provisionally agreed by the EU and UK on 19th March 2018 subject to finalisation on issues such as the Irish border.** This agreement is still in draft however and will need consent by a majority vote of EU Parliament and then ratification by the UK.

- **Shortly after the publication of the draft withdrawal agreement, the Prime Minister made a speech at the Mansion House, outlining the need for future negotiations need to meet five key "foundations":**

  1. The agreement with the EU will need reciprocal binding commitments to ensure **fair and open competition.**
  2. An **arbitration mechanism that is completely independent from the EU and UK** to resolve disagreements.
  3. **Ongoing dialogue with the EU, and to ensure the means to consult each other regularly**, in particular in areas such as regulation.
  4. **Arrangements for data protection** that permit the free flow of data, and effective representation in the EU's new one-stop-shop for disputes.
  5. **Maintaining links between citizens.** Whilst the free movement of people will end, the UK must continue to have access to the skills it needs.

- **The PM conceded that Britain would be affected by its decision to quit the customs union and single market and said that Britain was prepared to mirror high European standards and state-aid rules**. The PM proposed a new customs agreement with the bloc, **stating that the UK did not want to see the introduction of any tariffs or quotas** and **ensure that products only need to have one series of approvals** to ensure the passage of goods in the EU and UK. More details of the Withdrawal Agreement and Prime Minister's Mansion House speech are covered in this Monitor.

- **On Tuesday 13 March 2018 the Chancellor of the Exchequer, Philip Hammond, announced that there is 'light at the end of the tunnel' in his Spring Statement** as the UK economy is growing slightly faster than predicted by the Office for Budget Responsibility in November (1.5% forecasted growth for 2018, up 0.1ppt from previous forecasts), borrowing is down, and debt will fall as a share of GDP from 2018-19. There was however no new tax or budget spending changes, now included in the Government's annual Autumn Budget, and public finances look broadly the same (1)

- **March 8 saw the publication of the Government Brexit analysis material, aiming to quantify the potential impact of leaving the EU on the British economy.** The reports suggests that there will be an adverse effect on the economy of the UK and all its regions – with the North West one of the four regions hardest hit under both a FTA deal, and hard - WTO scenario (-2 to -12% points lower than baseline). The report also highlights that the degree of impact depends on the outcome achieved in the negotiations, and is likely to be greater in areas more exposed to change in trade barriers by nature of their export composition – and in those with a higher dependence on exports as a proportion of the regional economy (2)

Executive summary

Key sectors & business investment

- **Research with Growth Company Business Growth Hub clients in the 3 months to the end of February 2018 shows a continuing rise in uncertainty among businesses,** with 34% of firms unsure what impact Brexit would have on investment plans, and 48% unsure what impact Brexit would have on hiring plans. **This is the fourth consecutive month of rising uncertainty for both measures.**
- According to the **IHS Markit Regional Purchasing Managers' Index** (PMI), business activity continues to grow but at a slower pace in the North West in January 2018, with the PMI dropping from a three-year high of 60.7 in December to 57.4 (above 50 = growth). **This nevertheless still places the North West as third best performing region in the UK after the East Midlands (58.8) and Northern Ireland (58.7) (**England average = 54.0).
- **The IHS Markit/CIPS UK Manufacturing PMI® edged down to 55.2 in February 2018 from January's reading of 55.3, indicating continued but slower growth**. Production increased at the slowest pace for 11 months, with deceleration seen across the consumer, intermediate and investment goods sectors. On the other hand, new orders rose amid stronger domestic demand, and job creation was the second-strongest since mid-2014. **Price pressures for manufacturers remained elevated due to higher cost of commodities and raw materials.**
- **The IHS Markit/CIPS UK Services PMI® rose to 54.5 in February from 53.0 in the previous month. After a weak January, the pick up represented the strongest expansion since October 2017**. Input cost inflation eased to the lowest since August 2016, and prices charged by service sector companies increased at the weakest rate for six months. **These factors were accompanied by firms highlighting efforts to stimulate demand through competitive pricing strategies and the introduction of new promotional initiatives.**

Terms of trade, regulation & access to funding

- **The UK has requested to continue benefitting from the Single Market and Customs Union for a period of "around two years" in response to the European Commission's Draft Withdrawal Agreement.** During this period, (there is disagreement on whether this is up to 31 December 2020 or indefinite), the entire Union acquis will continue to apply to the UK. This means that **the UK would have to comply with the EU's trade policy and would continue to be bound by the Union's exclusive competence, in particular Common Commercial Policy**. As a result, the UK would remain bound, during any transition, by the obligations from all bilateral and multilateral EU-only agreements.

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 9.2% on the level recorded in July 2016. This month's Monitor also looks at office space take-up in Manchester. Data from Cushman and Wakfield **on office stock, take-up levels and rents continue to show Manchester (along with Birmingham) as one of the main office markets outside London**. Office take-up in 2017 has remained fairly stable with a slight uptick. In particular, there is good demand for flexible workspace; and a shortage of speculative development in some of the regional centres which has also supported rising rental levels.

Economic inclusion

- **Unemployment in GM has seen a 3.7% spike since December 2017, rising by 1,690 to 47,150 people in January 2018. This places unemployment at an 8-month high and 1.6% (860) higher than before the referendum result.** February data revealed a sharp and accelerated squeeze on UK household finances, driven by strong inflationary pressures and the slowest rise in employment income since last November, both contributing to a marked reduction in household's appetite for major purchases. **The seasonally adjusted Household Finance Index (HFI) – which tracks Britons' sense of financial wellbeing – fell to 42.2 in February**, below January's 42.9 (an index of below 50 signals deterioration). Moreover, December data revealed that inflation expectations reached a 47-month high.

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Macro-economic trends and developments

Macro-economy

- **UK GDP was estimated to have grown by 0.4% in the fourth quarter (Oct-Dec) of 2017**, revised down by 0.1 percentage point from preliminary estimates, reflecting a small downward revision to the estimated output of the production industries. This continues the same 0.4% rate of growth recorded in Q3.
- The services sector – driven by business services and finance – grew by 0.6% in Q4, while production industries also grew by 0.6%, boosted by a second consecutive quarter of strong growth in manufacturing. However, this was offset by a decline in construction activity, as construction contracted for the third quarter in a row.
- Despite higher growth in economic activity in the last two quarters of 2017, **annual GDP growth was estimated to have slowed to 1.7%**, marking not only a decline from the 1.9% recorded in 2016, but the lowest outturn since 2012.(3)
- **The total UK trade (goods and services) deficit widened by £3.8 billion to £10.8 billion in the three months to December 2017**; excluding erratic commodities, the total deficit narrowed by £1.5 billion to £9.0 billion. This widening of the total trade deficit was driven mainly by a widening of the trade in goods deficit, which came as a result of increase in imports from non-EU countries, alongside decreases in exports to the EU.(4)
- **EU trade: The UK was a net importer from the EU in December 2017, with imports exceeding exports by £7.1 billion.** EU Exports for December 2017 were £13.3 billion, a decrease of £1.5 billion (10%) compared with November 2017, and an increase of £1.2 billion (10%) compared with 12 months ago. EU Imports for December 2017 were £20.5 billion, a decrease of £2.6 billion (11%) compared with November 2017, and an increase of £0.7 billion (3%) compared with a year ago.
- **Non-EU trade: The UK was a net importer in December 2017, with imports exceeding exports by £2.4 billion**. Non-EU Exports for December 2017 were £16.3 billion, an increase of £1.1 billion (7%) compared with November 2017, and a decrease of £3.0 billion (15%) compared with a year ago. Non-EU Imports for December 2017 were £18.7 billion, a decrease of £1.8 billion (9%) compared with November 2017, but an increase of £0.6 billion (3%) compared with a year ago.(5)

Consumer sentiment

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.7% in January 2017, unchanged from 2.8% in December 2017**. Following a steady increase from late 2015, since April 2017 the CPIH rate has levelled off, ranging between 2.6% and 2.8%.(6)
- **The volume (not value) of retail sales grew marginally by 0.1% in January 2018 compared to December 2017, but rose by 1.6% compared with January 2017**. The underlying pattern in the retail industry in January 2018 – as suggested by the three-month on three-month measure – remains one of slow growth, with the quantity bought increasing by 0.1%. However, this is the **weakest recorded growth since April 2017**.(7)

Key sectors & business investment

Business Investment

- **Research with Growth Company Business Growth Hub clients in the 3 months to the end of February 2018 shows a continuing rise in uncertainty among businesses, with 34% of firms unsure what impact Brexit would have on investment plans,** up from 28% in Nov '17 - Jan '18 and 22% in Oct-Dec '17. This marks the fourth consecutive month of rising uncertainty in investment plans. 54% said they expected their investment plans to remain unchanged (Nov-Jan 54%; Oct-Dec 63%), 5% were likely to increase investment (Nov-Jan 6%; Oct-Dec 3%), 2% said investment plans were on hold (Nov-Jan 2%; Oct-Dec 2%), and 3% envisaged decreasing investment (Nov-Jan 4%; Oct-Dec 3%). 2% declined to answer.
- **There was a similar increase in uncertainty among Growth Hub clients' hiring plans, with 48% of firms responding in the 3 months to the end of February 2018 that they were unsure what impact Brexit would have,** up significantly from 37% in Nov '17 - Jan '18 and 25% in Oct-Dec '17, marking a fourth consecutive month of rising uncertainty in hiring plans. 48% said they would continue hiring at the same pace (Nov-Jan 52%, Oct-Dec 58%), 1% of firms reported that they would hire at a decreased pace (Nov-Jan 1%; Oct-Dec 2%), 1% would freeze hiring (Nov-Jan 3%; Oct-Dec 4%), less than 1% would be making redundancies (Nov-Jan <1%; Oct-Dec <1%), and <1% said that they would increase hiring (Nov-Jan <1%; Oct-Dec 3%).(8)
- According to the **IHS Markit Regional Purchasing Managers' Index** (PMI), business activity continues to grow but at a slower pace in the North West in January 2018, with the PMI dropping from a three-year high of 60.7 in December to 57.4 (above 50 = growth). **This nevertheless still places the North West as third best performing region in the UK after the East Midlands (58.8) and Northern Ireland (58.7) (**England average = 54.0).**The North West saw the strongest rise in private sector employment in January along with the East of England,** however also felt increasing inflationary pressures, seeing the steepest rise in average prices charged for goods and services after Wales.(9)

CIPS Manufacturing PMI to end January 2018

- **The IHS Markit/CIPS UK Manufacturing PMI® edged down to 55.2 in February 2018 from January's reading of 55.3, indicating continued but slower growth.** Production increased at the slowest pace for 11 months, with deceleration seen across the consumer, intermediate and investment goods sectors. On the other hand, new orders rose more amid a strength in domestic demand and job creation was the second-strongest since mid-2014. Price pressures for manufacturers remained elevated due to higher cost of commodities and raw materials.(10)

CIPS Services PMI to end January 2018

- **The IHS Markit/CIPS UK Services PMI® rose to 54.5 in February from 53.0 in the previous month. After a weak January, the pick up represented the strongest expansion since October 2017**. Input cost inflation eased to the lowest since August 2016, and prices charged by service sector companies increased at the weakest rate for six months, this was accompanied by firms highlighting efforts to stimulate demand through competitive pricing strategies and new promotional initiatives.(11)

Trade, regulation and access to funding

- **The end of February saw the European Commission publishing the Draft Withdrawal Agreement between the European Union and the United Kingdom.** The draft outlines the UK's orderly withdrawal from the EU and including introductory provisions, citizens' rights, other separation issues such as goods placed on the market before the withdrawal date, the financial settlement, transitional arrangements, and institutional provisions[12] **The majority of the terms of the draft were provisionally agreed by the EU and UK on 19th March 2018, subject to finalisation on issues such as the Irish border.** This agreement is still in draft however and will need consent by a majority vote of EU Parliament and then ratification by the UK. [13]

- Shortly after, at the beginning of March, **The Prime Minister made her speech at the Mansion House setting out a series of key issues – and 5 key tests for the future economic partnership** - to help advance the second phase of Brexit negotiations.[14] **The Prime Minister said Britain was prepared to mirror high European standards and state-aid rules**, admitting that European Court rulings would "continue to affect us", and proposed a new customs agreement with the bloc; and **conceded that Britain would be affected by its decision to quit the customs union and single market –** identifying that there will be trade-offs and compromises that the government will have to make as it tries to forge a deal with the EU. The speech received a positive response from Michel Barnier, the EU's chief Brexit negotiator, who praised it for its "clarity".[15]

Prime Ministers Mansion House Speech (2 March 2018)

- Following on from the Lancaster House Speech from last year[16], where the Prime Minister said that the UK would be outside the EU single market and also likely the customs union, she **reiterated that the UK would leave the single market**, but would not let that departure set back progress in Northern Ireland, nor allow anything to damage the integrity of the Union. The speech also outlined the need to resolve tensions between the key objectives for the exit, including the desire to have freedom to negotiate trade agreements with other countries around the world, the need for "as frictionless a border as possible with the EU"; and that future negotiations need to meet five key "foundations":
    1. **The agreement with the EU will need reciprocal binding commitments to ensure fair and open competition.**
    2. **An arbitration mechanism that is completely independent from the EU and UK to resolve disagreements.**
    3. **Ongoing dialogue with the EU, and to ensure the means to consult each other regularly**.
    4. **Arrangements for data protection that permit free flow of data, and effective representation in the EU's one-stop-shop for disputes.**
    5. **Maintaining links between citizens. Whilst the free movement of people will end, the UK must have access to the skills it needs.**
- Theresa May stated that there was a commitment to remaining part of some EU regulatory agencies (e.g. chemicals, aviation, medicine), but that **there would need to be compromises to minimise risks to the economy**. Here she suggested two main options for customs arrangements:

    - **Option one: "Customs Partnership",** at the border, the UK would mirror the EU's requirements for imports from the rest of the world, applying the same tariffs and the same rules of origin as the EU for those goods arriving in the UK and intended for the EU.

    - **Option two: "Streamlined Customs Arrangement",** where the UK and EU jointly agree a range of measures to minimise frictions to trade, together with specific provisions for Northern Ireland. This would rely on technological solutions to minimise 'friction' in supply chains.

- **The PM also stated the UK did not want to see the introduction of any tariffs or quotas,** and to **ensure that products only need to have one series of approvals** to ensure the passage of goods across the EU and UK. **The Prime Minister showed flexibility over a role for the European Court of Justice, and signalled the UK's willingness to align competition rules with the EU**. However, the speech also stated the need for "mutual recognition", suggesting an openness to maintaining similar standards in goods regulation, but adding that **Britain would demand the right to diverge**.

- There was also **special notes on: Financial Services** (not pass-porting, but a "comprehensive partnership" evolved), **Broadcasting** (where a company based in the UK can be licenced by Ofcom and broadcast into any EU member state and vice versa), the need to secure **a broad energy co-operation with the EU,** including exploring options for the UK's continued participation in the EU's internal energy market; and the commitment from the UK to establishing **a far-reaching science and innovation pact with the EU, facilitating the exchange of ideas and researchers.**

Trade, regulation and access to funding

The Draft Withdrawal Agreement (First published 28 February 2018 - Provisionally agreed 19 March 2018)(13)

- **The draft agreement will be discussed by the European Council (Article 50) and with the Brexit Steering Group of the European Parliament before being transmitted to the UK for negotiation**. **The content is based on the December joint report, translating commitments into legal text.** A final version of the Withdrawal Agreement should be agreed by the EU and the UK by **October 2018** to allow for the timely ratification by the European Parliament, the Council, and the UK, according to its own constitutional requirement. The main headline issues in the Draft Agreement – and key issues/questions arising - are included below. **Please note these are based on EU guidance notes accompanying the non-agreed Feb draft** (17)

- **Consent and ratification?**
  The European Parliament must give its consent to the draft, by a vote of simple majority, including Members of the European Parliament from the UK. The Council will conclude the agreement, acting by a qualified majority representing 72% of the 27 Member States (20 States representing 65% of the EU27 population). **The UK must ratify the agreement according to its own constitutional arrangements.**

- **When will negotiations on the future relationship begin?**
  The European Council (Article 50) of 15 December 2017 stated that while an agreement on **a future relationship can only be finalised and concluded once the United Kingdom has become a third country**, the EU will be ready to engage in preparatory discussions with the aim of understanding of the overall framework for the future relationship - once guidelines are adopted.

- **What rights will citizens have during the transition period?**
  The provisions of the draft Withdrawal Agreement on citizens' rights will apply as of the end of any transitional period. Given that the whole of the EU acquis (law) should continue to apply during the transition period, the EU's position is that all EU citizens arriving in the host State during this period should have exactly the same rights as EU citizens who arrived before the UK's withdrawal. After the end of the transition period, those **EU citizens, and UK citizens who arrive in a Member State after withdrawal, but before the end of the transition period, - according to the draft - should be covered by the personal scope of the Agreement.** With regard to **the rights of British living in Europe,** the draft suggests rights will apply only in the country where they live, and after Brexit they will lose the right to further free movement.

- **Will there be a hard border in Ireland?**
  The draft Agreement is based on the Joint Report of 8 December 2017 which the UK stated its commitment to avoid a hard border, including any physical infrastructure or related checks and controls, and its respect for Ireland's rights and obligations as an EU member.(14) All three options from the December Joint Report remain on the table, however two of the three options can only be made operational in the context of discussions on the future relationship - therefore **the current draft contains a suggested Protocol which sets out how the UK maintains full alignment with those rules of the Internal Market and the Customs Union which, now or in the future, support North-South cooperation**.

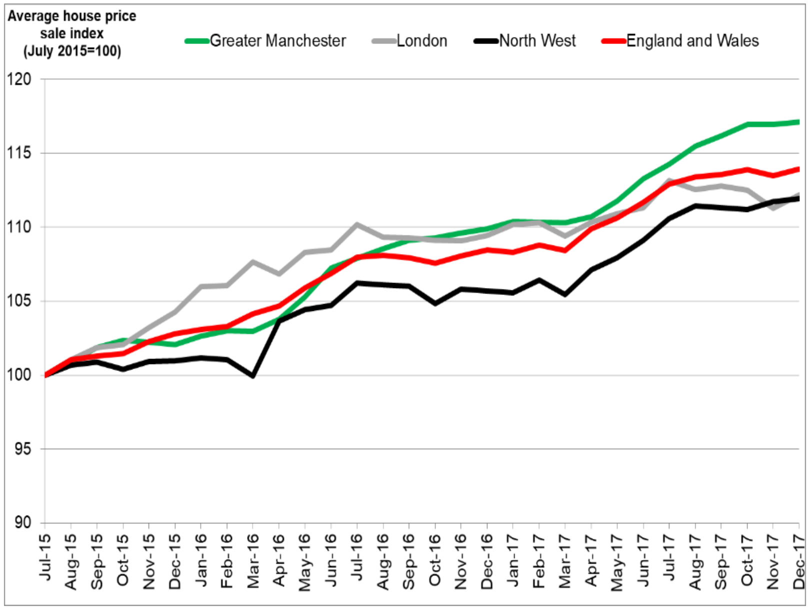
- **What does the Withdrawal Agreement say on the financial settlement?**
  The draft Withdrawal Agreement reflects the December Joint report and contains terms of the financial settlement and includes certain practical modalities, such as payment deadlines, as proposed by the Commission**. This includes the UK and the EU honouring their share of the financing of all the obligations undertaken while the UK was a member of the Union – and during any agreed transition period**.

- **Can the UK negotiate and sign new trade deals with third countries during the transition period?**
  The UK has requested to continue benefitting from the Single Market and Customs Union for a period of "around two years." During this period, (there is disagreement on whether this is up to 31 December 2020 or indefinite), the entire Union acquis will continue to apply to the UK. This means that **the UK will have to comply with the EU's trade policy and will continue to be bound by the Union's exclusive competence, in particular Common Commercial Policy**. As a result, the UK will remain bound, during transition, by the obligations from all bilateral and multilateral EU-only agreements.

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 9.2% on the level recorded in July 2016.
- **Data on office stock, take-up levels and rents continue to show Manchester (along with Birmingham) as one of the main office markets outside London**. Take-up in 2017 has remained fairly stable with a slight uptick. In particular, there is good demand for flexible workspace; and a shortage of speculative development in some of the regional centres has supported rising rental levels.

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 (December 2017) for GM reveals an average price of £163,270**, a marginal increase of 0.1% from the previous month, and growth of 6.6% from December 2016.[18]

Office Space – Manchester and major cities

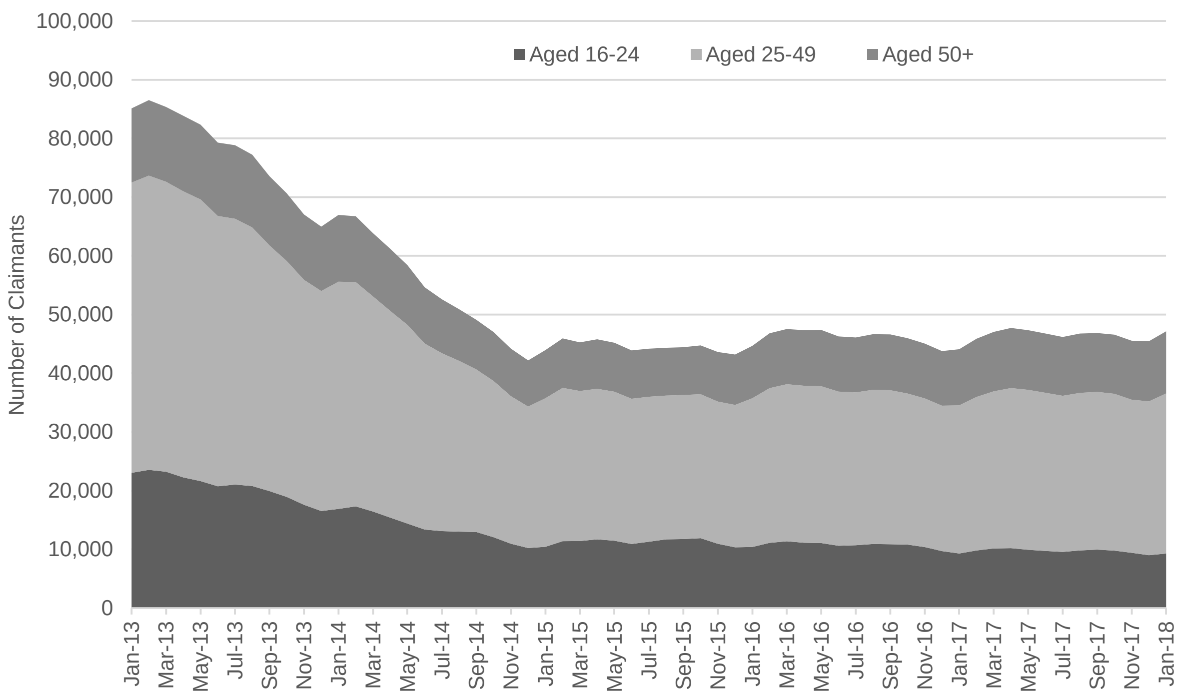
Location (City Centres)	Built Stock (Sqft)	Vacancy Rate (%)	Take-up Year-to-date (Sqft)	Under construc-tion (Sqft)	Prime Rents (Dec'17) (£/Sqft)
London (City)	137.9m	5.1%	6.6m	8.6m	£67.5
Birmingham	18.7m	7.2%	1.0m	1.6m	£33.0
Bristol	13.5m	3.5%	0.6m	0.2m	£32.5
Cardiff	9.5m	6.3%	0.6m	0.6m	£25.0
Edinburgh	11.9m	4.9%	0.7m	0.4m	£33.5
Glasgow	13.9m	13.6%	0.6m	0.2m	£29.5
Leeds	12.5m	10.1%	1.0m	0.1m	£30.0
Manchester	**20.1m**	**14.1%**	**1.2m**	**0.9m**	**£33.5**
Newcastle	8.1m	8.0%	0.2m	0.1m	£23.5
Regional Centres	108.1m	8.9%	5.9m	4.0m	£30.1

- This month's Monitor looks at office space take-up in Manchester compared with other major centres using data from Cushman and Wakefield. The Central London leasing market posted another strong quarter. In the regions, **take-up levels continued to rise, with Birmingham and Manchester leading the highest levels of take-up outside London.**[19]
- As with London, **the flexible workplace sector was a key taker of space in the year, particularly in Birmingham, the Thames Valley and Manchester.** A shortage of speculative development is supporting rental levels and further rental growth was evident over the final quarter of 2017 in some of the key centre markets.

Economic Inclusion

- **Unemployment in GM has seen a 3.7% spike since December 2017, rising by 1,690 to 47,150 people in January 2018. This places unemployment at an 8-month high and 1.6% (860) higher than before the referendum result.** However, unemployment as a proportion of the working age population remains unchanged compared to June 2016 at 2.6%. Compared to the same month last year, however, unemployment as a proportion of the working age population is marginally higher, increasing from 2.5% in January 2017. This is in line with national trends across the UK, where unemployment has risen from 1.9% in January 2017 to 2.0% in January 2018, however is a slightly smaller change than across the North West, where unemployment has risen from 2.3% in January 2017 to 2.5% in January 2017.[20]
- **February data revealed a sharp and accelerated squeeze on UK household finances, driven by strong inflationary pressures and the slowest rise in employment income since last November,** both contributing to a marked reduction in household's appetite for major purchases. **The seasonally adjusted Household Finance Index (HFI) – which tracks Britons' sense of financial wellbeing – fell to 42.2 in February**, below January's 42.9 (an index of below 50 signals deterioration). Moreover, December data revealed that inflation expectations reached a 47-month high.[21]

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 January 2018 (2.6%) remains above that of the North West (2.5%) and the UK (2.0%)**.
- **From December 2017 to January 2018, the total claimant count in GM for all age groups grew. For the 16 to 24 age group it grew by 3.1% (280),** for the 25 to 49 age group by 4.1% (1,070), and for the 50+ age group by 3.3% (240).
- Total claimant count grew by 3.7% (1,690) between December 2017 and January 2018.
- **Since the referendum result in June 2016, the number of claimants aged 50+ has increased by 12.6%** (1,185), although the number of claimants aged 16 to 24 has decreased by 12.5% (1,325). The number of claimants aged 25-49 has risen by 3.8% (1,010).

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Brexit and Greater Manchester

Summary

- **Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth.** The refreshed Greater Manchester Strategy has set out the ambition and priorities for the city region and Greater Manchester already has a wide network of global relationships, encouraging exports and investment.

- This progress need to be built on to ensure that Greater Manchester firms and labour market are able to absorb the disruption caused by Brexit and take advantage of any opportunities.

- **Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed.** Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed.

- There has been some assessment of the potential overall impacts of Brexit on the North West of England with virtually all assessments agreeing that those impacts are negative.

- However, this type of headline assessment does not reveal the potential impacts on firms and sectors – and the spatial implications which they drive. There has been little analysis of the potential impacts on the trading patterns and labour market of Greater Manchester from different potential scenarios.

- **The city region's trade is more reliant on trade with the EU than other parts of the UK,** with the EU accounting for 58 per cent of goods exports from Greater Manchester firms – compared with 42 per cent for England as a whole. Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK.

- The analysis in this paper explores sector and firm effects further by focusing on three areas where Greater Manchester firms and sectors could be exposed:

  i. **The potential impact of non-tariff barriers on trade** by Greater Manchester sectors, where the Government's assessment of the size of the non-tariff barriers can then be applied to goods exports by Greater Manchester sectors. This approach finds that the additional costs from an increase in non-tariff barriers would be £170m per annum for a deal similar to the European Economic Area, £320m for a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. While the impact on services is impossible to quantify from current data sources, it is clear that the actual impact for Greater Manchester firms and sectors would be significantly higher overall than the calculations for goods exports set out here.

  ii. **The potential impact of tariff barriers on trade** by Greater Manchester sectors, where an illustrative 'no deal' scenario to identify the parts of the economy more exposed to risks from the introduction of World Trade Organisation 'Most Favoured Nation' trade rules. This would lead to an average tariff rate of just under 5 per cent across all good, at a cost of up to £150m per annum for Greater Manchester exporters. Again, the impact on service exporters means that the overall impact across Greater Manchester's economy would be higher.

  iii. **The potential impact on the Greater Manchester labour market and access to skills** for employers where it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. They are Distribution, Hotels, and Restaurants, where 26,000 workers are EU nationals; Banking and Finance, where there are 14,000; Manufacturing, where there are 13,000; and Public Admin, Education, and Health, where there are 12,000.

- **There are also likely to be implications for the movement of capital – and therefore for investment in Greater Manchester.** Surveys of Greater Manchester businesses, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

- This analysis points to four steps necessary to manage the risks and take advantage of the opportunities from Brexit:

  i. The potential impact on Greater Manchester's labour market and supply of skills makes devolution to ensure that the city region's skills system is more responsive to the needs of employers even more vital. This will need to be a core component of the Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, and backed up by the Shared Prosperity Fund. It will need to include the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent;

  ii. A full regional analysis – jointly carried out by Greater Manchester and the Government – of the potential impacts of the Government's scenarios for the future relationship between the UK and EU has become an urgent requirement. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK;

  iii. Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed; and

  iv. The process of returning powers from the EU must not end at Westminster. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment, drawing on the experience of the Scottish Government and other devolved authorities.

1 Introduction

1.1 Devolution to Greater Manchester has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. Barriers to investment have been removed, a comprehensive system of business support has been developed, and reform of the skills system has begun. A Spatial Framework is being developed, investment is going into the transport network, employment support schemes have outperformed national equivalents, and the unique integration of health and social care is supporting the city region's workforce. Most importantly, as decisions start to be made locally, all of these areas can be joined up to deliver the ambitions and priorities of the refreshed Greater Manchester Strategy. While there is still a long way to go before the full potential of devolution is achieved, progress has been made.

1.2 The UK's exit from the EU will have significant implications for the Greater Manchester economy – risks from disrupting long-standing trading relationships, alongside the potential opportunities if new trade deals are secured. Those risks arise from both process of transition as the UK leaves the EU and from any new deal which is agreed with the EU if it creates barriers to trade and restricts access to the skills which the Greater Manchester economy needs.

1.3 Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.

1.4 The Government's own economic analysis of the impact of Brexit has shown how the regional impacts of different Brexit scenarios can vary. Under the Government's forecasts, UK GDP is forecast to be 1.5 per cent lower over 15 years if the UK remains a member of the EU's single market, 5 per cent lower if a free trade deal is agreed and 8 per cent lower if the UK leaves the EU without a deal and reverts to World Trade Organisation terms. But the equivalent figures are 2.5 per cent, 8 per cent and 12 per cent for the North West of England, and 3.5 per cent, 11 per cent and 16 per cent for the North East.

1.5 The analysis in this report, assessing some of the implications of Brexit for Greater Manchester's economy, its sectors and firms, shows why that voice in negotiations is so important. It also points to the potential for further devolution of powers to city regions through the Brexit process, and the need for the Shared Prosperity Fund – the future mechanism for regional investment which currently takes place through the EU – to reinforce and not undermine the progress which has been made through the devolution process.

1.6 The next section summarises the ongoing process of monitoring the impact of Brexit which is being carried out by Greater Manchester, and some of the most recent findings. Section 3 sets out the city region's response to Brexit so far. Sections 4 and 5 summarise the approach to assessing the potential impacts on Greater Manchester's firms and sectors, and the main findings from that analysis. The final section sets out the preparations needed to support those firms and sectors through the Brexit process.

2 Monitoring the impact of Brexit

2.1 New Economy Manchester, and now the Greater Manchester Combined Authority (GMCA), have been working with businesses to monitor the impacts of Brexit since the June 2016 referendum. Monthly monitors have been produced and are published monthly.[1]

2.2 As well as monitoring the developments in the negotiations between the UK and EU, and the latest economic data, the Monitors draw on local intelligence from Greater Manchester's businesses about how they are responding. The latest findings include:

- Research with Greater Manchester Business Growth Hub clients in the 3 months to the end of January 2018 shows that 57 per cent of firms expected their investment plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods. However, latest data revealed an increase in uncertainty, with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

- Research with Growth Company Business Growth Hub clients in the 3 months to the end of January 2018 shows that 56 per cent of firms expected their hiring plans to remain the same following the EU referendum result, but firms appeared to become increasingly uncertain about their hiring plans. Latest figures have revealed an increase in the proportion of firms who are unsure what impact Brexit would have on hiring plans, from 26 per cent in Oct-Dec 17 to 33 per cent in Nov 17-Jan 18 – a record high.

2.3 Interviews carried out by the GMCA with large employers in the city region have also identified some of their priorities for the Brexit negotiations. They have been: concerns about customs delays causing additional friction in supply chains, particularly if Rules of Origin become onerous; the potential impacts on cash flows of any changes to VAT rules; firms' ability to attract and retain talent; and the potential divergence of regulations and barriers that would cause to trade. They are also looking at opportunities from the potential reshoring of some supply chains in the UK.

2.4 This process of monitoring and ongoing dialogue with businesses and other employers has informed Greater Manchester's response to Brexit.

1 Available at www.greatermanchester-ca.gov.uk/download/meetings/id/2875/10a_brexit_monthly_monitor.

3 Greater Manchester's response to Brexit

3.1 Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. This progress needs to be built on to ensure that Greater Manchester firms and labour market are able to absorb the disruption caused Brexit and take advantage of any opportunities.

3.2 Greater Manchester already has a wide network of global relationships, encouraging exports and investment. A new Internationalisation Strategy was published in July 2017 to extend and deepen trading relationships while the Business Growth Hub is increasing the number of firms who export – with associated productivity benefits. Innovations such as the GM-China Forum and the new Manchester-India Partnership mean that the city region is well-placed to benefit from new trading links with large high-growth economies.

3.3 Steps are also being taken, as set out in the Greater Manchester Strategy, to strengthen growth and reform services in the city region. These should help to mitigate the impact of Brexit, as far as possible, and ensure any opportunities are grasped. For example, where firms have traditionally filled skilled gaps through migration, they will have a stronger incentive to raise skills in the UK and the Greater Manchester skills system will need to respond. Where powers are returned from the EU, there will be opportunities for further devolution, joining up powers in functional economic areas to raise productivity. The disruption of supply chains across borders could also create opportunities for local firms.

3.4 The Local Industrial Strategy which Greater Manchester is developing in partnership with Government, businesses and other residents will therefore be a key aspect of Greater Manchester's response. This Strategy will be published in Spring 2019 and will address the Grand Challenges set out in the National Industrial Strategy: Artificial Intelligence & Data Economy; Clean Growth; Future of Mobility; and An Ageing Society.

3.5 For this response to be fully effective, it needs to be based on a proper assessment of the potential impacts of Brexit, exploring the implications for firms and sectors in Greater Manchester – and the wider North of England – of potential Brexit deals.

4 Greater Manchester's approach to assessment

4.1 Raising productivity in Greater Manchester can make the city region's economy better prepared for the transition of the UK out of the EU, and the disruption and potential shocks that may bring. However, for individual firms and sectors, the shape of the future trading relationship between the UK and EU – and the regulatory and other requirements that will bring – will be crucial for maintaining their competitiveness and growth.

4.2 While the trade-offs and compromises between different scenarios for the future UK-EU relationship are becoming clearer, the exact model which that relationship will take is still far from certain. There has been some assessment of the potential overall impacts of Brexit on the North West of England. For example, the Greater Manchester Forecasting Model, produced by Oxford Economics, in its most recent analysis (2017) forecast slower growth for the city region than the forecast carried out before the EU referendum (the 2015 forecast), with the lower growth driven by the impacts of Brexit and a wider slow-down in productivity. This was in line with other forecasters and some other regional forecasts are set out in the box.

4.3 However, this type of headline assessment does not reveal the potential impacts on firms and sectors – and the spatial implications which they drive. There has been little analysis of the potential impacts on the trading patterns and labour market of Greater Manchester from different potential scenarios. A deeper assessment of the implications of Brexit for Greater Manchester is required.

4.4 Greater Manchester has offered to work with Central Government to produce this, but no collaborative work has yet been done. Greater Manchester therefore has a responsibility to carry out that assessment and the headline findings are set out here.

4.5 Greater Manchester's firms are greatly exposed to any disruption of established trading relationships with the EU. The city region's trade is more reliant on trade with the EU than other parts of the UK, with the EU accounting for 58 per cent of goods exports from Greater Manchester firms in the latest available data – a greater reliance on the EU as an export market than the average for England as a whole (42 per cent).

4.6 Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK. Barriers to trade are likely to have a significant impact on these supply chains, and on some firms who may not be aware that they are in the supply chains for exporters given that they may be several tiers below the primary exporter. While the surveys of Greater Manchester firms and in depth interviews may pick up some of these effects, they do not give a comprehensive view.

Assessments of the Potential Regional Impacts of Brexit

Virtually all assessments of the regional economic impacts of Brexit agree that those impacts are negative. However, there is some disagreement about whether Greater Manchester and the wider North are likely to be hit harder, or less hard, than other parts of the UK.

The Government's own economic analysis forecast that UK GDP would be 1.5 per cent lower over 15 years if the UK remains a member of the EU's single market, 5 per cent lower if a free trade deal is agreed and 8 per cent lower if the UK leaves the EU without a deal and reverts to World Trade Organisation terms. But the equivalent figures are 2.5 per cent, 8 per cent and 12 per cent for the North West of England, and 3.5 per cent, 11 per cent and 16 per cent for the North East.

Research carried out by academics as part of the ESRC project on 'The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors' is consistent with the Government's analysis, finding that "it is the Midlands and the North of England which are by far the most vulnerable. They are more exposed to Brexit than any other region in Europe. The reason is that the Midlands and north of England are much more dependent on EU markets for their trade than London, the South-East or Scotland".[i] This conclusion is based on using global input-output tables to link trade to value added to bring out the link between local value-added and trade which is obscured when looking at simple measures of gross exports and imports.[ii]

The assessment carried out by Cambridge Econometrics for the Greater London Authority also found a larger impact on the rest of the UK than on London.[iii] They concluded that the impacts on employment and population would be slightly smaller in the rest of the UK, as much of the reduction in migration and population is expected to be in London. But, "the losses in GVA and productivity across all scenarios (compared to what may have happened if the UK remained in the Single Market and Customs Union) are noticeably more severe for the rest of the UK than for London, which implies that the rest of the UK will be much worse off than London following Brexit".

However, a study by the Centre for Economic Performance at the London School of Economics & Political Science, concluded that areas in London and South East would tend to see bigger negative impacts, due to larger impacts from non-tariff barriers than found in other forecasts and because looking at trade exposure ignores the willingness of individuals and firms to substitute away from foreign to domestic supply as trade-costs rise.[iv] Overall, their conclusion was that urban areas would be hardest hit, consistent with the fact that urban areas have their employment concentrated in the sectors that are predicted to be most negatively affected.

i Raquel Ortega-Argiles and Philip McCann, How Brexit will hit different UK regions and industries, February 2018.
ii Wen Chen, Bart Los, Philip McCann, Raquel Ortega-Argilés, Mark Thissen, Frank van Oort, The continental divide? Economic exposure
to Brexit in regions and countries on both sides of The Channel, October 2017.
iii Greater London Authority, Preparing for Brexit, Cambridge Econometrics, January 2018.
iv Swati Dhingra, Stephen Machin, and Henry G. Overman, The Local Economic Effects

4.7 The assessment carried out by academics as part of the ESRC project on 'The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors' has calculated the extent of regional exposures brought about by such impacts on supply chains. This split gross exports into domestic value added and foreign value added based on global input-output tables. By calculating the domestic value added in exports from UK regions to the EU, and dividing that by regional GDP, an indicator of the share of regional GDP exposed to Brexit is reached. This approach found that around a third of Greater Manchester's manufacturing output is exposed to Brexit, and 11.3 per cent of the whole Greater Manchester economy.[2]

4.8 Studies of the impact of Brexit have also tended to focus on the implications for the UK's trade with the EU, rather than the UK's trade with the rest of the world which is currently conducted through EU agreements. These markets are crucial for the city region's exporters – 11 per cent (£603m) of Greater Manchester's goods exports are to the USA and another 4 per cent (£223m) to China. According to *Financial Times* research of the EU treaty database, there are 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to the UK, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. The UK Government is hoping that better and more ambitious agreements will be agreed with countries outside the EU which will increase trade, but there is also the potential for negative impacts if the UK is not able to replicate those trade agreements that the EU currently has with other countries.

4.9 The size of those potential impacts are impossible to quantify from the data sources currently available to Greater Manchester, reinforcing the case for a full analysis with Government of the regional impact of Brexit scenarios. The Government's own analysis of Brexit impacts concluded that trade deals with non-EU countries could – in the most optimistic scenario – add 0.7 per cent to the UK's GDP in the long term. This beneficial effect only offset part of the negative impacts which the Government found resulted from the potential new trade scenarios with the EU (an overall loss of 1.6 per cent of UK GDP with an EEA-type deal; a loss of 4.8 per cent with an FTA-type deal; and a loss of 7.7 per cent with WTO rules following no deal). If the current EU trade deals with other countries were not replicated, then these negative effectives would be larger for the UK and Greater Manchester.

4.10 The analysis in this paper explores sector and firm effects further by focusing on three areas where Greater Manchester firms and sectors cold be exposed:

i. The potential impact of non-tariff barriers on trade by Greater Manchester sectors;
ii. The potential impact of tariff barriers on trade by Greater Manchester sectors; and
iii. The potential impact on the Greater Manchester labour market and access to skills for employers.

4.11 There are also likely to be implications for the movement of capital – and therefore for investment in Greater Manchester. These are impossible to quantify from available data sources, and will depend on any agreement reached between the UK and EU on financial services. However, there are some insights from the surveys of businesses carried out for Greater Manchester's Brexit Monitor. As the most recent finding, set out above, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

2 Wen Chen, Bart Los, Philip McCann, Raquel Ortega-Argilés, Mark Thissen, Frank van Oort, The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel, October 2017.

4.12 The uncertainty, at this stage, around what sort of deal the UK Government is aiming to achieve, and the shape of any final agreement with the EU on the future relationship, makes the analysis of any potential impacts challenging. The assessments therefore draw on the material from the Government's own assessment which have been put into the public domain, and other studies carried out by academic institutions and think tanks. The uncertainty around these, in addition to the obvious difficulties in forecasting future events, means that there is inevitably a range of possible outcomes. But, despite these challenges, such analysis is important for assessing the possible implications for Greater Manchester of different types of deal, and for providing a sense of scale and direction of changes.

4.13 The clear conclusion is that any deal which creates barriers to trade with existing trading partners or reduces the availability of skills for firms, would have a negative impact on the Greater Manchester economy. These could be partially offset in the long-term by the development of new trading relationships. But, there would still be a difficult transition for many firms – not just those involved directly in trading with the EU, but also firms focused on domestic UK markets which are involved in the supply chains for firms involved in cross-border trade. There are also impacts on investment which are related to the uncertainty which is facing firms, whatever the future relationship between the UK and EU.

4.14 The following section sets out the findings from Greater Manchester's analysis.

5 Findings from Greater Manchester's analysis

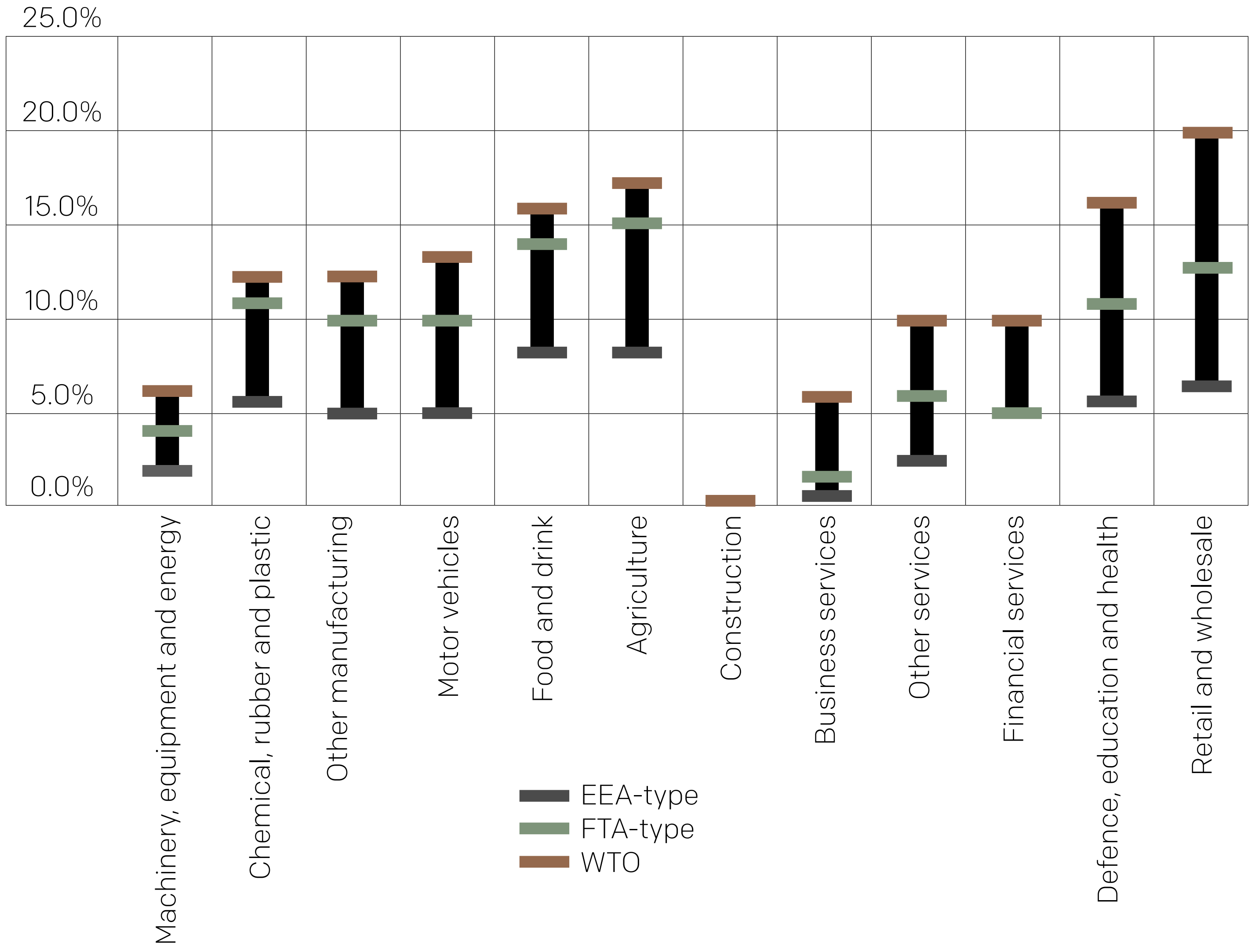
(i) <u>Non-Tariff Barriers</u>

5.1 In monitoring the potential impacts of Brexit, the GMCA has carried out a rolling survey of businesses and in depth interviews with some of Greater Manchester's larger employers – supported by the Manchester Growth Company and the Greater Manchester Chamber of Commerce. This work has found that non-tariff barriers are seen as at least as significant as tariff barriers as a risk to current trading relationships.

5.2 Commitments by the Prime Minister have provided some reassurance that the UK is likely to retain most EU regulatory standards after Brexit, and therefore reduce non-tariff barriers. However, this is obviously subject to negotiation with the EU and may well not apply across all sectors. Analysis from the Business Register and Employment Survey shows that a higher proportion of Greater Manchester's employment is in manufacturing – and particularly food and drink manufacturing and textile manufacturing – than the Great British average. The same is true of retail and business and professional services. Negative economic impacts on these sectors could therefore have a disproportionate impact on employment in Greater Manchester.

5.3 The Government's analysis of the economic implications of Brexit included an assessment of the potential impact of non-tariff barriers under different scenarios. While the final deal negotiated by the Government with the EU may differ from these scenarios, the range produced by the Government is very likely to cover the final outcome. The Government's estimates of non-tariff barrier costs, expressed as 'tariff equivalents' and reproduced from the Government's 'EU Exit Analysis Cross Whitehall Briefing, January 2018' are shown in the Chart.

Chart 1: HM Government Estimates of Non-tariff Barrier Costs as 'Tariff Equivalent'



Source: HM Government, 'EU Exit Analysis Cross Whitehall Briefing, January 2018'

5.4 The Government's assessment of the size of the non-tariff barriers can then be applied to exports by Greater Manchester sectors, to better assess the potential scale of impact for sectors in the city region. Data on exports from Greater Manchester are only available for goods and applying the Government's calculations to that data finds that the additional costs from an increase in non-tariff barriers would be £170m for a deal similar to the European Economic Area, £320m for an a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. The impact is clearly negative and significant.

5.5 However, Greater Manchester also exports services, which make up over 80 per cent of the Greater Manchester economy. These include business, finance and other professional services, education, health and defence, and information and communication. For example, the strength of the higher education sector in Greater Manchester has led to it becoming a successful export sector, with a net benefit to the city region from the cohort of international students beginning courses in 2015-16 of £852m.[3]

5.6 Such services are not only exported directly to the EU, but are also provided to major exporters in other regions of the UK as part of their supply chains. Robust data for services exports are unavailable at the Greater Manchester level, and so potential impacts on services exports cannot be quantified, but it is clear that the actual impact for Greater Manchester firms and sectors would be significantly higher overall than the calculations for goods exports set out here.

(ii) <u>Tariff Barriers</u>

5.7 Avoiding non-tariff barriers is important for all sectors across Greater Manchester, but the introduction of tariffs on trade with the EU would also have a significant impact – particularly for manufacturing. Analysis of the potential impact of trade tariffs on broad sectors of the economy has therefore been carried out. The work uses an illustrative 'no deal' scenario to identify the parts of the economy more exposed to risks from the introduction of World Trade Organisation 'Most Favoured Nation' trade rules. This illustrates the impact if no trade deal is struck between EU and UK. This is not the scenario which the UK Government is aiming for, but is a possibility which the Government is preparing for and gives a sense of the scale of potential impacts.

5.8 If tariffs were introduced on goods exports to the EU in line with World Trade Organisation rules, then they would be charged at an average rate of just under 5 per cent across all goods, at a cost of up to £150m per annum for Greater Manchester exporters.

5.9 The Greater Manchester industries which would be expected to be impacted the most under the no trade deal scenario, would be:

- Miscellaneous Manufactures has a modelled tariff estimate of £45 million per annum;
- Food and Export of Live Animals has a modelled tariff estimate of £45 million per annum;
- Machinery and Transport has a modelled tariff estimate of £25 million per annum; and
- Chemicals has a modelled tariff estimate of £24 million per annum.

5.10 Again, robust data for services exports are unavailable at the Greater Manchester level, and so potential impacts on services exports cannot be quantified. However, given the importance of the service sector to the UK and Greater Manchester's economy, GMCA has identified a number of key capabilities which are exposed to Brexit: Business, financial and professional services; Creative and digital industries; and Healthcare services and life sciences manufacturing.

3 London Economics Report for the Higher Education Policy Institute and Kaplan International Pathways, The costs and benefits of international students by parliamentary constituency, January 2018.

5.11 The Prime Minister's commitment to explore with the EU the terms on which the UK could remain part of the European Medicines Agency (as well as the European Chemicals Agency and European Aviation Safety Agency) is helpful. Her aspiration that UK service providers should not be discriminated against in the EU – and vice versa – is also a good one, even if it is currently far from clear how this will be achieved. However, distancing the UK from the EU's Digital Single Market could limit opportunities for Greater Manchester's thriving digital firms.[4] And the mapping of such sector-based approaches onto Greater Manchester's capabilities reinforces the importance of assessing the place-based impacts of Brexit.

5.12 Across the service sector, the attraction and retention of talent is also a key issue.

(iii) Labour Market Impacts

5.13 Uncertainty over the UK's future immigration rules makes assessment of the labour market impacts of Brexit challenging. However, it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. Greater Manchester commissioned analysis from the Migration Observatory at Oxford University on the proportions of Greater Manchester workers who are EU nationals.[5] Applying these proportions to the latest available data from the Office for National Statistics' Labour Force Survey, the main areas of risk according to the size of the current workforce in Greater Manchester are:

- Distribution, Hotels, and Restaurants, where 26,000 workers are EU nationals;
- Banking and Finance, where 14,000 workers are EU nationals;
- Manufacturing, where 13,000 workers are EU nationals; and
- Public Admin, Education, and Health, where 12,000 workers are EU nationals.

5.14 These figures from official data sources on employment are likely to under-represent the overall potential impact on the labour market. This is because many workers may be seasonal and/or contracted through employment agencies and so will not be included in these data.

5.15 Any skills shortages brought about by Brexit would exacerbate existing challenges in Greater Manchester, where skills – and therefore productivity – are already too low. Investment to make up this gap and a more joined up local approach which could respond to the needs of local firms should already have started if this challenge is to be met in time for Brexit. The risk is that any opportunities for Greater Manchester residents to raise their pay through a tighter labour market could be missed if they are not accompanied by higher skills and productivity.

4 Speech by the Prime Minister, 2 March 2018.
5 The analysis by the Migration Observatory was based on Labour Force Survey (all quarters), using a sample based on individuals living in the relevant geography, in the labour force (aged 16-65), who are employed.

6 Preparing Greater Manchester's firms for Brexit

6.1 The analysis here clearly shows the significant impact on Greater Manchester's firms if the UK's deal with the EU creates barriers to trade – both non-tariff and tariff. Some Greater Manchester sectors are also reliant on the skills which workers from the EU bring – emphasising the importance of making the Greater Manchester skills system more responsive to local employers.

6.2 But it also shows the importance of a place-based assessment of the impacts of Brexit scenarios. The sector mix differs in every city region, meaning that the implications of a UK deal play out in different ways in different places. Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.

6.3 The Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, will be crucial for addressing the risk and grasping the opportunities of Brexit. The potential impact on Greater Manchester's labour market and supply of skills makes devolution to ensure that the city region's skills system is more responsive to the needs of employers even more vital, including the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent.

6.4 The Shared Prosperity Fund, which will replace the regional investment currently carried out by the EU, will need to back up that Local Industrial Strategy. That means developing the fund so that it is based on:

- Multi-year funding – providing flexibility to sequence investments to maximum local effect;
- A place-based single pot – allocated to functional economic areas, so that resources can be allocated within national themes, but prioritised to local productivity priorities and taking a joined-up approach which avoids policy silos;
- Matched funding – with UK national funding which has in the past been used to match EU Structural Funds also brought into the Shared Prosperity Fund;
- Flexible use – so that it can be used for both capital and revenue purposes, and for early intervention and preventions (e.g. school readiness) rather than just tackling problems which arise later. It could then also support innovations such as the local revolving investment funds which have been pioneered in Greater Manchester;
- Funding level – with the amount of funding available to Greater Manchester being at least the level of existing EU Structural Funds and their matched funding.

6.5 As powers are returned from the EU, it is also important that the process does not end at Westminster. A concentration of powers in this way would not only miss out on the opportunities to further devolution to drive growth and reform public services, but would be likely to lead to further disillusionment with the UK's national institutions and their inability to respond to local priorities. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment, drawing on the experience of the Scottish Government and other devolved authorities, and it would be welcome if the offer to the UK Government to be involved in this process were taken up.

Technical Annex

The latest available data for exports from Greater Manchester produced by HMRC are for 2015. The total value of exports from Greater Manchester firms was £5.5bn in that year, a 3 per cent increase from 2014, placing Greater Manchester 15th out of 38 Local Enterprise Partnerships in terms of total exports. Adjusted for working age population, however, Greater Manchester falls to 27th, with an export value per head of working age population of £3.1m, half that for the average across all LEPs (£6.7m). The EU accounted for 58 per cent of goods exports from Greater Manchester firms in 2015, little different to the 59 per cent recorded in 2014. However, the latest figures still represent a greater reliance on the EU as an export market than the average for England as a whole (42 per cent).

The USA was the largest purchaser of exports (by value) from Greater Manchester firms, with £603m (11 per cent) worth of exports heading to the USA. However, of the top ten destinations for Greater Manchester exports, eight were located within the EU, with China (£223m or 4 per cent) the only other top ten partner besides the USA outside of the EU. This underscores the importance of the EU as a trading bloc for Greater Manchester.

Table 1: Major export destinations from Greater Manchester, 2015

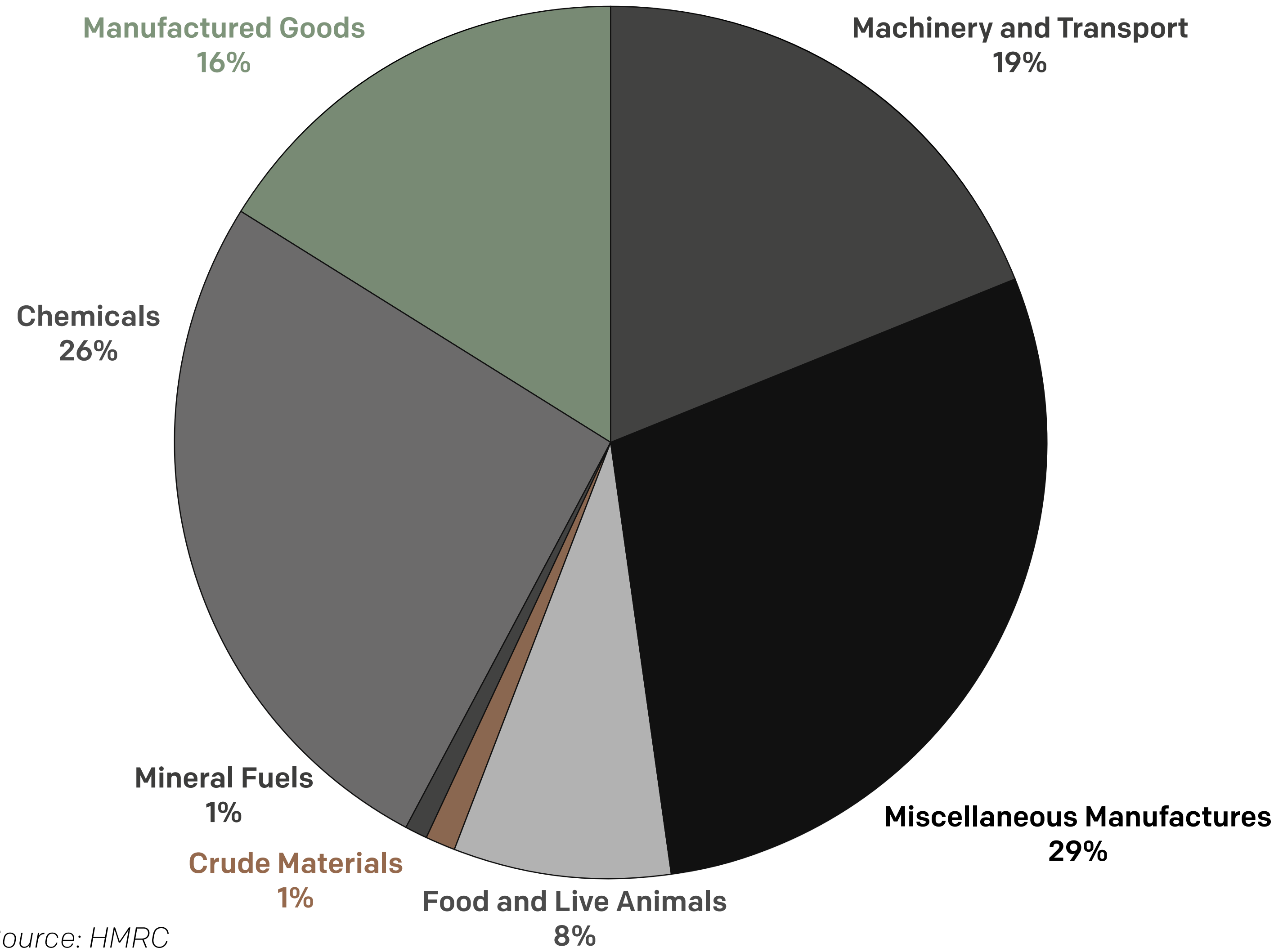
Partner Country	Export Value (£ million)	Share of total export goods
USA	603	11%
Germany	551	10%
Irish Republic	521	9%
Netherlands	411	7%
France	398	7%
Belgium	312	6%
China	223	4%
Italy	192	3%
Spain	177	3%
Poland	156	3%

Source: HMRC

HMRC provide data for the main commodities traded by Greater Manchester, as defined by UN Standard International Trade Classification. These are:

- Chemicals: £1.4bn, (25 per cent of the total value of exports);
- Machinery and Transport: £1.3bn (24 per cent);
- Other Miscellaneous Manufactures: £1.3bn (23 per cent); and
- Manufactured Goods: £0.8bn (14 per cent).

Chart 2: Exports by sector to the EU, 2015



Source: HMRC

In order to estimate the potential impact of tariffs on Greater Manchester exporters, tariffs from the World Trade Organisation schedules were applied to the data for goods exports from the city region provided by HMRC.

This approaches provides a static impact. In the event of the actual introduction of these tariffs, there would then be a dynamic effect as exports would very likely reduce as the introduction of tariffs made goods from Greater Manchester more expensive, and less competitive, in EU markets. These effects would then reduce trade flows and sales by Greater Manchester firms, and also mean that the actual amount paid in tariffs would be lower.

It is estimated that under the scenario where the UK leaves the EU with no trade deal in place, goods exports from Greater Manchester could be impacted by up to £150 million in tariffs, with an average tariff rate of just under 5 per cent. The potential impacts in individual sectors are shown in table 2.

Table 2: Estimates of Tariffs Payable by Greater Manchester Sector Under WTO Rules

Sector	Statistical Value (£ million)	Average Tariff	Tariffs Payable Estimate (£ million)
Food and Live Animals	229	19.6%	45.0
Beverages and Tobacco	-	6.4%	-
Crude Materials	36	3.2%	1.1
Mineral Fuels	31	1.1%	0.3
Animal and Vegetable Oils	-	8.8%	-
Chemicals	784	3.0%	23.9
Manufactured Goods	491	1.9%	9.4
Machinery and Transport	568	4.3%	24.6
Miscellaneous Manufactures	896	5.1%	45.4
Other commodities	-	2.1%	-

Source: GMCA applying assumptions from Civitas national work. (Data on Beverages not available)

In order to calculate the potential impact of non-tariff barriers, the Government's estimates of non-tariff barrier costs, expressed as 'tariff equivalents' were used from the Government's 'EU Exit Analysis Cross Whitehall Briefing, January 2018'. These were then applied to the HMRC data on Greater Manchester exports of goods. This approach found that the additional costs for Greater Manchester sectors from an increase in non-tariff barriers would be £170m per annum for a deal similar to the European Economic Area, £320m for an a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. The impact is clearly negative and significant.