

North West Brexit Monitor

Key economic trends and developments – May 2018

Brexit negotiations continue to push forwards in May, however there is still significant uncertainty for UK businesses and workers as to exactly how the EU and UK's post-Brexit relationship will look. There are mixed signals as to the referendum's impact on the UK economy so far, with GDP growth slowing to a 20-month low in March, and manufacturing and services PMIs indicating continuing although weak growth. The continued after-effect of weather-related disruptions earlier in the year make it difficult to unpick longer trends from short term bumps, however a combination of industry leading surveys, the continuing squeeze on household finances and consumer spending, and recent rises in unemployment give reason for a more cautious outlook in the coming months.

Macro-Economic Trends & Developments

- **According to preliminary estimates, UK GDP grew by 0.1% in the first quarter (Jan-March) of 2018**, compared to 0.4% in the previous quarter (Oct-Dec 2017). **This is the slowest rate of growth since Q4 2012.**
- The growth rate for business activity slowed significantly in the North West for a third consecutive month in March, with the PMI dropping to 53.2 from 56.9 in February, and below pre-referendum levels (55.5). However, **this still places the North West as third best performing English region after the East Midlands (55.2) and South West (54.3).**
- **The UK continued to be a net importer from the EU in February 2018, with imports exceeding exports by £7.5 billion**, roughly the same as January's net difference.
- The Bank of England MPC announced in May that **interest rates were being kept at 0.5%** in light of new **lower projections for GDP growth in 2018, down to 1.4% from 1.8%.**

Policy, Trade, & Regulation

- Early May saw the publication of the Government's response to the Commons Select Science and Technology Committee's March report on *Brexit, Science, and Innovation*. The Government emphasised their commitment to protecting UK science and innovation, but **rejected the committee's request to bring forward the Migration Advisory Committee's conclusions expected later this year.**
- Also in early May, **Theresa May requested government officials to draw up 'revised proposals' for post-Brexit customs arrangements, reigniting discussions around the possibility of an EU-UK customs union.**
- The end of April and start of May saw the **EU's key negotiator Michel Barnier visiting political and business figures in Ireland**, during which he stated that 'significant progress' on the issue of the Northern Irish border will need to be made before the next major EU leaders summit in June.

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Key Sectors & Business Investment

- Purchasing Managers' surveys show that, after hints of stabilising in early 2018, **growth rates in manufacturing continued to slow in April.** The UK Manufacturing PMI fell to 53.9 from 54.9 in March, its lowest level since November 2016.
- **Growth rates in the services sector picked up slightly in April, with the services PMI rising to 52.8 from 51.7 in March.** This rise however only indicates a moderate increase in sector activity, with the rate of growth the second weakest since September 2016.
- **Recent trends in the retail industry suggest faltering sales**, with lower fuel sales due to bad weather earlier this year contributing to the weaker outturn.

Property and Housing

- February housing data from the Land Registry continues to show that the vote to leave the EU has had little impact on house prices. **After a more rapid growth across the North West since March 2017, house price growth has slowed since September in most areas**, with slight falls from December to February in Cumbria and Greater Manchester. **Overall, prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum.**
- **Growth rates in construction activity made a moderate recovery from weather related-disruptions**, with the construction PMI rising to 52.5 in April from 47.0 in March.

Economic inclusion

- **Unemployment in the NW has risen for a fifth consecutive month in March, rising by 3,055 (2.5%) from February to 123,550 people.** This places unemployment at a 45-month high and 17.2% (18,115) higher than pre-referendum levels. Liverpool City Region continues to have the highest rates of unemployment in the North West at 3.3%. A steady rise in Cheshire & Warrington sees rates catch up with Cumbria, at 1.9% (joint lowest).
- **April Household Finance Index (HFI) data** indicates signs of improving incomes and softening of inflationary pressures, although still coupled with further deterioration in cash availability as households reined in debt growth.
- **The Consumer Prices Index** including owner-occupiers' housing costs (CPIH) 12-month inflation rate was 2.3% in March 2018, down from 2.5% in February 2018, indicating a **continued but slowing rise in consumer costs.**

Macro-Economic Trends & Developments

Macro-economy

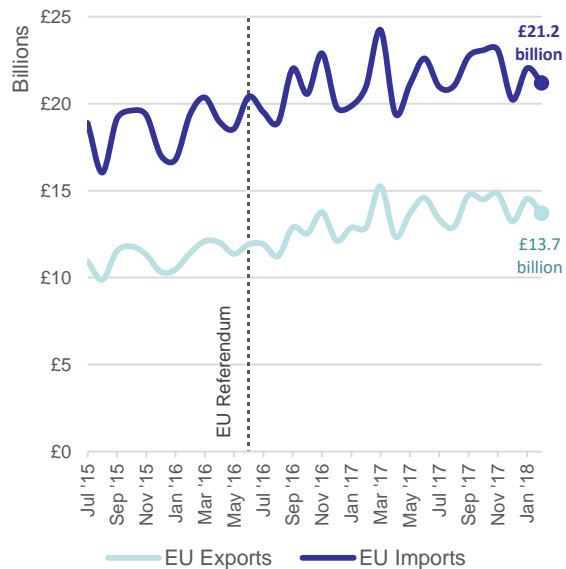
- According to preliminary estimates, UK GDP grew by 0.1% in the first quarter (Jan-March) of 2018, compared to 0.4% in the previous quarter (Oct-Dec 2017). This is the slowest rate of growth since Q4 2012. The service industries were the main driver of growth in this quarter, with falls in construction accounting for the largest downward pull on growth.⁽¹⁾
- On the 10th of May the Bank of England announced that interest rates were being kept at 0.5% after speculation of an increase. This decision came in light of the Bank's lower projections for GDP growth in 2018, down to 1.4% from 1.8%. The Bank emphasises however that this revision is almost entirely due to the severe bad weather experienced in March.⁽²⁾

UK International Trade

- The total UK trade (goods and services) deficit widened by £0.4 billion to £6.4 billion in the three months to February 2018; excluding erratic commodities, the deficit widened by £1.0 billion to £7.5 billion. The widening of the trade in goods deficit was due mainly to a £2.1 billion fall in non-EU goods exports, partially offset by increases of £0.9 billion in EU goods and £0.4 billion in total services exports in the 3 months to February 2018.⁽³⁾

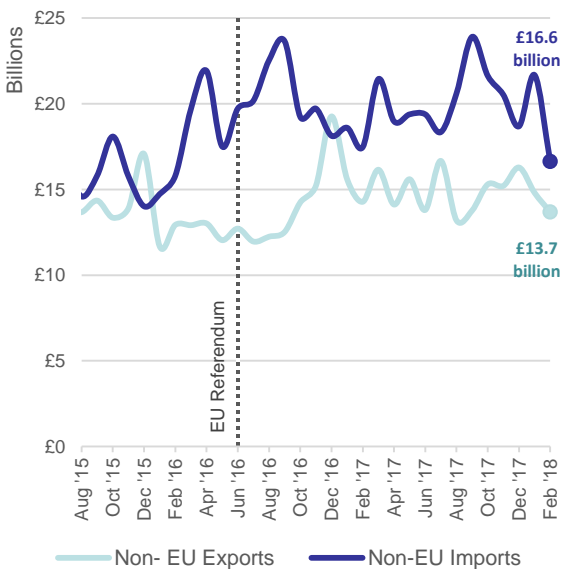
EU Trade

- The UK was a net importer from the EU in February 2018, with imports exceeding exports by £7.5 billion, roughly similar to January's net difference.⁽⁴⁾



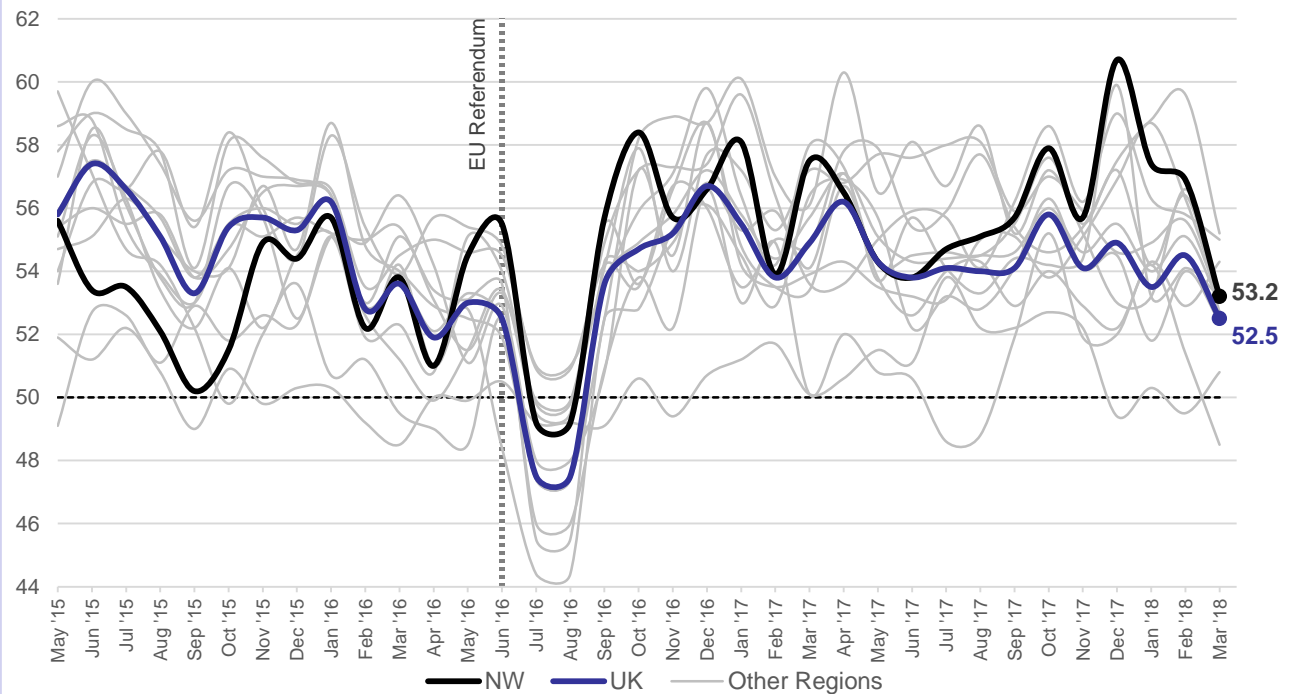
Non-EU Trade

- The UK was a net importer from non-EU nations in February 2018, with imports exceeding exports by £2.9 billion, down from £6.9 billion in January.⁽⁴⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- The growth rate for business activity slowed significantly in the North West for a third consecutive month in March, with the PMI dropping to 53.2 from 56.9 in February, and below pre-referendum levels (55.5) (above 50 = growth). This places the North West as third best performing English region after the East Midlands (55.2) and South West (54.3). All other regions shown in grey.
- Rates of job creation across England slowed generally from February, however March data still indicates a broad-based increase in employment across all English regions. March data also indicated a general decrease in business confidence in the next 12 months outlook across England.⁽⁵⁾



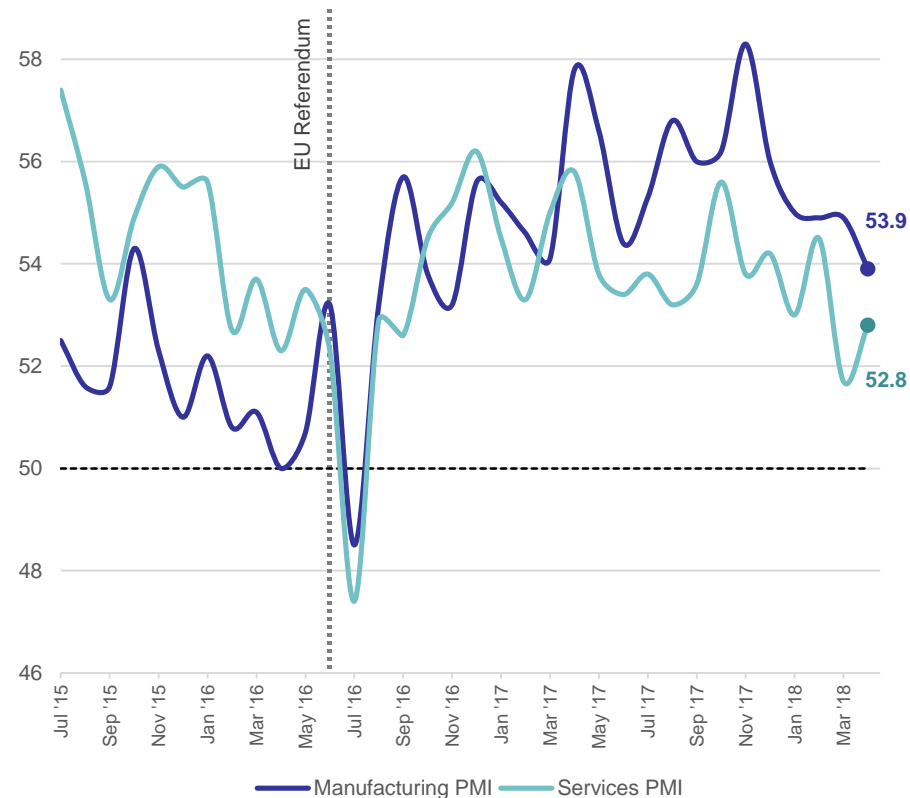
Key Sectors & Business Investment

British Chamber of Commerce

- **The British Chamber of Commerce's** most recent **Quarterly Economic Survey** highlights that UK economic growth remained subdued in the first quarter of 2018 (January to March), despite a strong export performance which is attributed primarily to strong global trading conditions rather than domestic demand.⁽⁶⁾
- Uncertainty, recruitment difficulties, and price pressures are reported as persistent concerns for businesses, although short-term confidence levels remain resilient. This is supported by findings from Greater Manchester's GC Business Growth Hub who report increasing uncertainty in hiring and investment plans in light of Brexit among firms in the region.⁽⁷⁾
- The Chamber reports that the North West saw a +3% increase in the number of service firms reporting improved cash flow, the 4th lowest of all regions and below the national average of +6%.

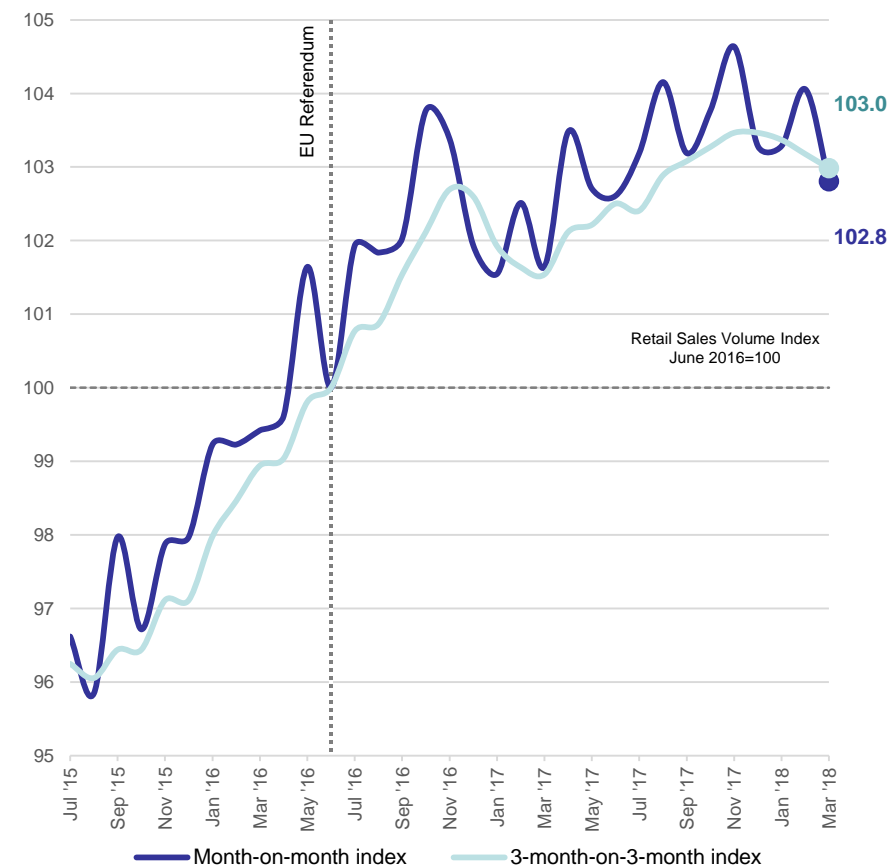
IHS Markit/CIPS Manufacturing & Services PMIs®

- After hints of stabilising in early 2018, growth rates in manufacturing continued to slow in April with UK Manufacturing PMI falling to 53.9 from 54.9 in March (above 50 =growth). Nevertheless, this **still indicates continued growth and stands higher than pre-referendum levels (52.3)**.
- Rates of expansion eased for output, new orders, and employment, in part due to a slower pace of expansion in new work from abroad. Rates of inflation in input costs remain elevated despite easing to a 9-month low.⁽⁸⁾
- **Growth rates in the services sector picked up slightly in April, with the services PMI rising to 52.8 from 51.7 in March.** This rise however only indicates a moderate increase in sector activity, with the rate of growth the second weakest since September 2016.
- Anecdotal evidence indicates reduced consumer demand and ongoing economic uncertainty as driving this slow growth.⁽⁹⁾



Retail Sales

- **The volume (not value) of retail sales fell by 1.2% in February 2018** compared to January 2018, representing a 1.1% increase on February 2017 and a 2.8% increase on June 2016.
- **The underlying recent trend in the retail industry – as suggested by the three-month on three-month measure – is one of faltering sales.** This was particularly acute this month due to a fall in fuel sales, likely a result of recent bad weather affecting travel.⁽¹⁰⁾



Policy, Trade, & Regulation

Government Response to the Commons Select Science and Technology Committee

- Early May saw the publication of the Government's response to the Commons Select Science and Technology Committee's report on *Brexit, Science, and Innovation* (published March 2018).⁽¹¹⁾
- **The initial report welcomed the Government's commitment to supporting UK science and innovation, however expressed concerns over a lack of clarity regarding future access to funding, membership of cooperative and regulatory bodies, and immigration policies.** In particular the report expressed **a need for Government to resolve migration uncertainties for students and those working in science and innovation as soon as possible.**
- The Government response published 4th May re-asserts their commitment to supporting UK science and innovation, although made little progress with regards to new commitments in light of the select committee's report. In particular, **whilst the government highlighted some planned changes to migration policy to support the industry, it made clear it would not be expediting the Migration Advisory Committee**, whose conclusions are expected in September / October.⁽¹²⁾

House of Lords call for UK to remain in the EEA

- On the 9th of May the **House of Lords backed calls for the UK to effectively remain in the EU's single market after Brexit**, backing an amendment to the EU Withdrawal Bill obliging the UK to stay in the European Economic Area (EEA) after it leaves the EU by 245 votes to 218. This means the issue will now return to the commons.
- The Lords also voted to remove the exact date of Brexit (29th March 2019) from the bill, and backed an amendment which means the UK could continue to participate in EU agencies after Brexit.⁽¹³⁾

UK-EU Customs Union

- In early May, discussions were reignited regarding the possibility of a future customs union between the UK and EU, with **Theresa May requesting government officials to draw up 'revised proposals' for post-Brexit customs arrangements.** The Prime Minister indicated the **possibility of pursuing a customs union with the EU**, with the intent of supporting frictionless trade and movement of goods.⁽¹⁴⁾
- This proposal has however seen opposition from certain groups within government, who suggest this would not meet voters' hopes for Brexit expressed during the referendum, would limit the UK's ability to form post-Brexit trade deals, and would create new bureaucracy. Nevertheless, other groups within government have suggested such an arrangement would support the UK economy, and would offer the best solution to the issue of the Northern Ireland-EU border (*see below*).⁽¹⁵⁾
- At the time of writing, this issue has not yet been settled by central government, however **a firm position is expected to be required before the next EU leaders' summit in late June.**

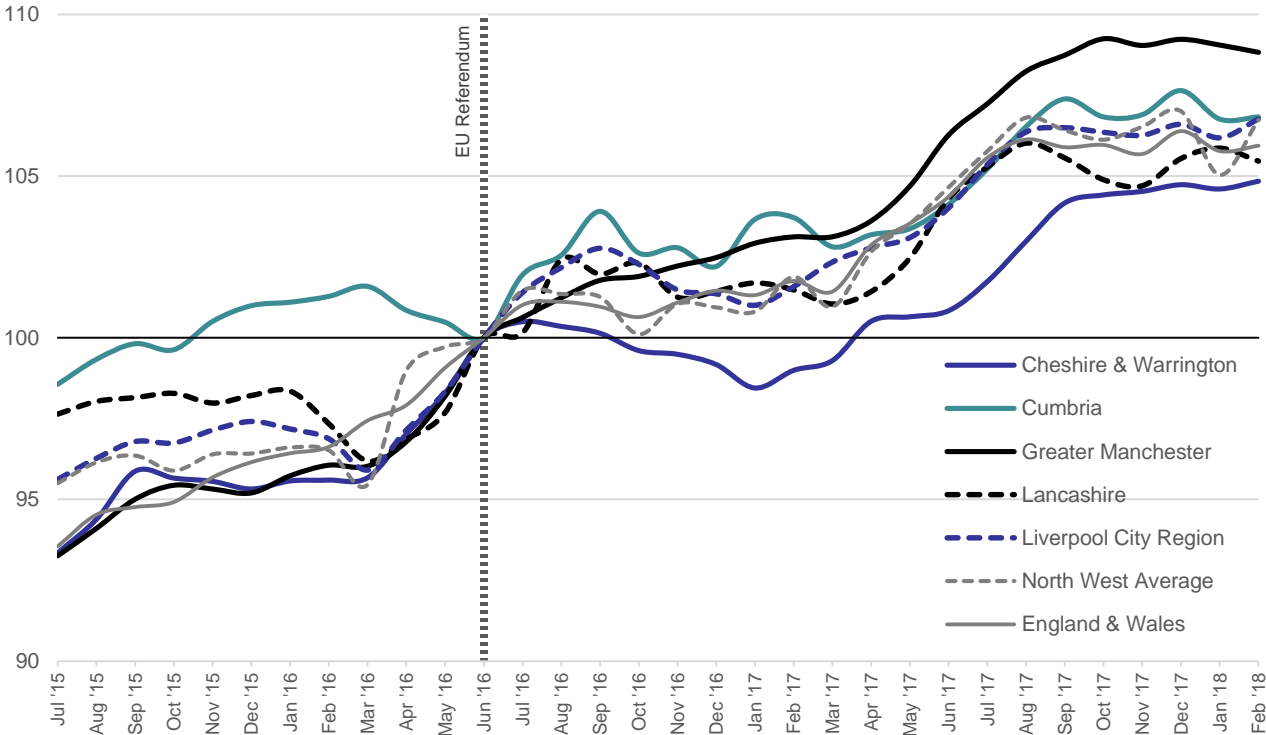
Northern Irish Border

- The end of April and start of May saw the **EU's key negotiator Michel Barnier visiting Ireland, speaking to political and business figures in both Northern Ireland and the Republic of Ireland, as well as making an unannounced visit to the joint border.** During his visit Michel Barnier emphasised that 'significant progress' on the issue of the Northern Irish border will need to be made before the next major EU meeting in June.⁽¹⁶⁾
- Discussions around the UK's future relationship with the EU (in particular on market membership and customs arrangements) have faced continuing challenges due to the unresolved issue of the Northern Ireland–EU border, with all current foreseeable outcomes facing significant opposition from different groups.
- **The most likely possibilities include a 'hard border' between Northern Ireland and the Republic of Ireland** (although there is a question as to how this will meet the requirements of the Belfast Agreement), a **customs border down the Irish Sea between Northern Ireland and mainland Britain** (the current EU 'backstop' arrangement in case a decision is not reached), or a **soft border between NI and RoI as a result of the UK and EU agreeing some form of close customs alignment or union.**

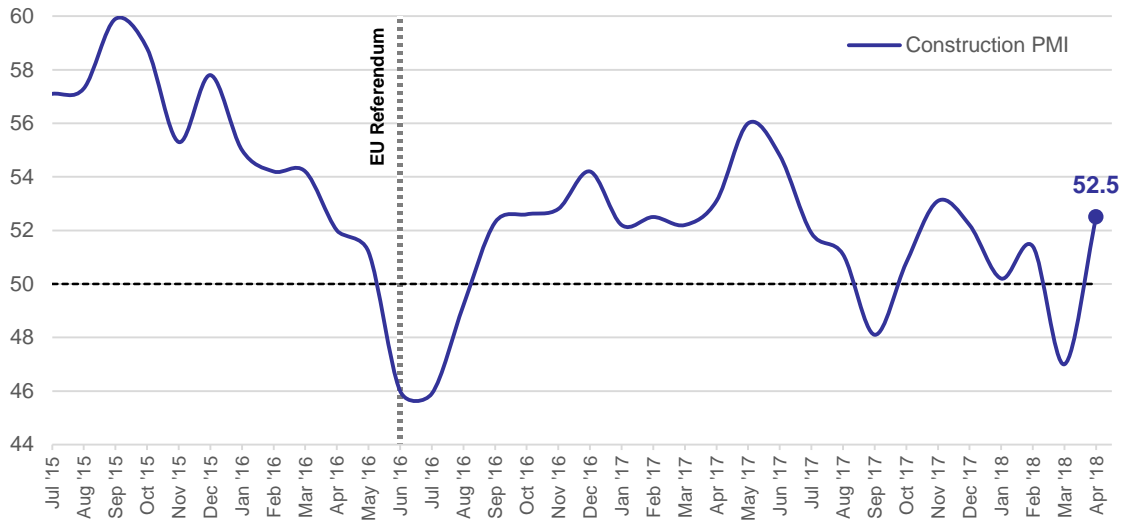
Property & Housing

- February housing data from the Land Registry shows that the vote to leave the EU has had little impact on house prices across the North West**, with post-referendum trends in house prices roughly in line with pre-referendum trends, with the exception of Cheshire & Warrington which saw a drop in house prices up to April 2017. After a period of more rapid growth across the North West since March 2017, house price growth has again slowed since September in most areas, with slight falls from December to February in Cumbria and Greater Manchester. However this is possibly a seasonal pattern with price growth in most areas often flattening during winter. **Overall, prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum.** Only Cheshire & Warrington and Lancashire have seen overall growth below the national average.⁽¹⁷⁾

Average House Prices Sales (Index June 2016=100)



IHS/CIPS Construction PMI



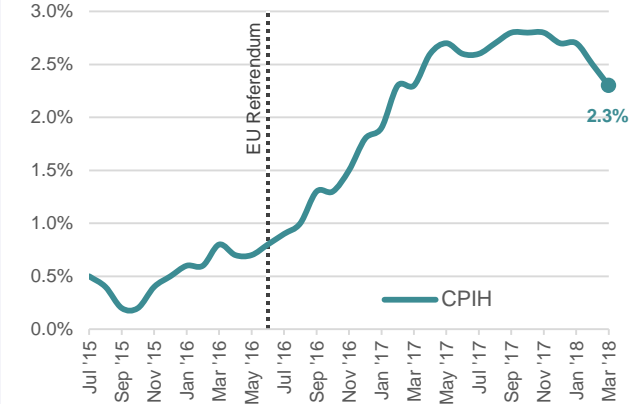
February 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£158,152	+1.6%	+4.8%	+6.7%

- April data indicates construction activity making a moderate recovery from weather related-disruptions, with the construction PMI rising to 52.5 in April from 47.0 in March** (above 50 = growth). This indicates the highest rate of growth since November 2017 and an overall moderate expansion in construction output.⁽¹⁸⁾
- There are signs that underlying demand in the sector remains subdued, with total new work rising only marginally in April.** Anecdotal reports from businesses indicate that this may be due to heightened economic uncertainty and lower confidence amongst some clients.
- Nevertheless, there were positives reported by construction firms in April, with **business optimism rising to its highest level since May 2017**, and an increase in construction jobs at the national level in anticipation of a better second quarter of the year.

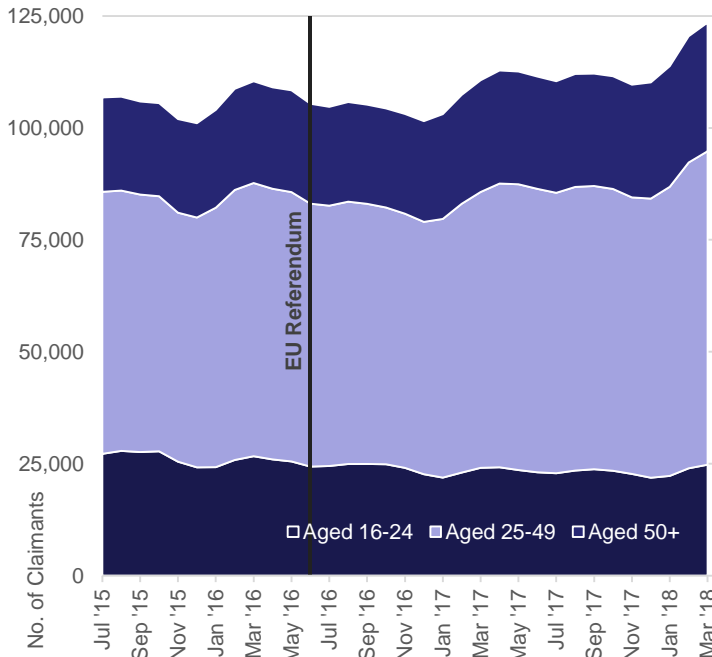
Economic Inclusion

- **Unemployment in the NW has risen for a fifth consecutive month in March, rising by 3,055 (2.5%) from February to 123,550 people.** This places unemployment at a 45-month high and 17.2% (18,115) higher than pre-referendum levels.
- Unemployment as a proportion of the working age population in the NW remains broadly the same in March at 2.7%, although higher than pre-referendum rates (2.3%). This is in line with national trends, with UK rates rising from 1.9% in June 2016 to 2.1% in March 2018. Liverpool City Region continues to have the highest rates of unemployment in the North West at 3.3%. A steady rise in Cheshire & Warrington sees rates catch up with Cumbria, with 1.9% (joint lowest).⁽¹⁹⁾
- **The seasonally adjusted Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – reveals a continued, although slowing, squeeze on UK household finances.** April’s HFI gives a reading of 43.2, up slightly from March’s 43.1 however still indicating worsening household finances (below 50 signals deterioration). Despite this, April HFI data indicates signs of improving incomes and softening of inflationary pressures, although still coupled with further deterioration in cash availability as households reined in debt growth.⁽²⁰⁾

- **The Consumer Prices Index** including owner-occupiers’ housing costs (CPIH) 12-month inflation rate was 2.3% in March 2018, down from 2.5% in February 2018, indicating a **continued but slowing rise in consumer costs**. This nevertheless remains 1.5ppts higher than pre-referendum rates.
- Following a steady increase from late 2015, since April 2017 the CPIH rate has levelled off, and is now giving indications of a **possible downward trend**.⁽²¹⁾



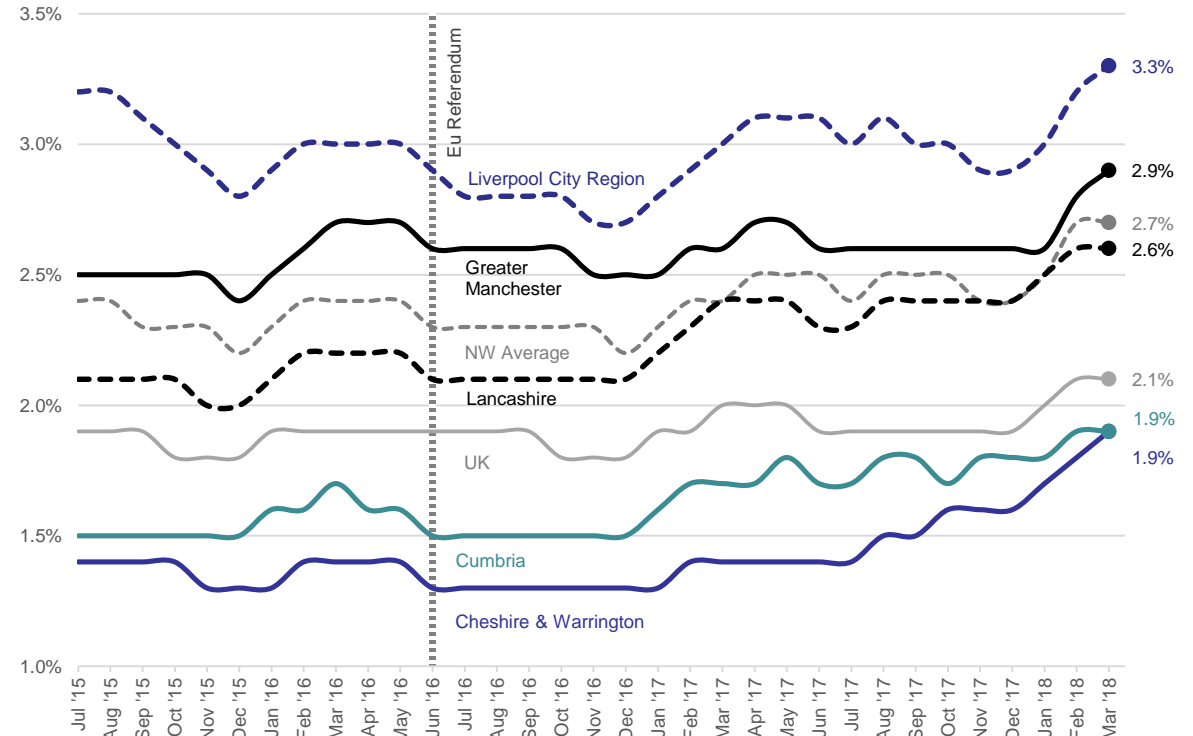
Total claimant count (JSA and out-of-work UC) in the North West by age group



March 2018 Unemployment Change by Age Group (North West)

	16-24	25-49	50+	Total
Since last month	805	1,710	535	3,055
	+3.4%	+2.5%	+1.9%	+2.5%
Since EU Referendum	420	11,290	6,415	18,115
	+1.7%	+19.2%	+28.8%	+17.2%

Claimant rates across the North West (% of working age population)



Sources

Section	Sources
Macro-Economic Trends & Developments	<ol style="list-style-type: none"> 1. ONS (27 April 2018): Statistical bulletin – Gross Domestic Product, preliminary estimate: January to March 2018 2. BBC News (10 May 2018): Interest rates on hold as Bank cuts growth outlook 3. ONS (11 April 2018): UK trade: February 2018 4. HMRC (11 April 2018): Overseas Trade Statistics - Non-EU and EU Trade: February 2018 5. IHS Markit England and Wales Regional PMI (16 April 2018): “Business activity slows across England and Wales in March”
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Policy, Trade, & Regulation	<ol style="list-style-type: none"> 11. Science and Technology Commons Select Committee (21 March 2018): Brexit, science and innovation 12. Science and Technology Commons Select Committee (4 May 2018): Brexit, science and innovation: Government Response to the Committee's Second Report 13. BBC News (9 May 2018): Brexit: Peers call for UK to remain in European Economic Area 14. BBC News (3 May 2018): Brexit: Theresa May requests 'revised' customs proposals 15. BBC News (6 May 2018): UK-EU customs partnership 'still on table' 16. BBC News (30 April 2018): The EU's chief Brexit negotiator begins two-day visit to Ireland
Property & Housing	<ol style="list-style-type: none"> 17. HM Land Registry (February 2018): House Price Index Database, updated 18 April 2018 18. Markit/CIPS UK Construction PMI (2 May 2018): “House building recovery after snow disruption underpins modest construction rebound in April”
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