

North West Brexit Monitor

Key economic trends & developments – October 2018

October 29th marks the presentation of the Chancellor of the Exchequer's 2018 Budget to Parliament – the last Budget before the UK's proposed formal exit from the EU on the 29th March 2019. The UK and the EU have yet to agree on issues such as the Irish border and customs agreements, and Prime Minister Theresa May's talks with the EU in the next few weeks could make the difference between a relatively smooth departure from the bloc and a no-deal exit. Meanwhile, Britain's long hot summer helped boost its economy in the three months to August, according to data published by the Office for National Statistics. The economy grew 0.7% during the three months ending in August, while national statistics also show that the labour market remains robust, driven by growth in full-time jobs. Surveys of local firms' recruitment intentions have also risen this month, reflecting a tighter labour market.

Macro-Economic Trends & Developments

- **The North West** – along with Wales – **jointly led regional business activity growth in September 2018, with the regional PMI for the NW rising to 55.6**, from 54.2 in August (above 50 = growth). This marked a second consecutive month of improvement in the NW, and puts business sentiment in the region back above pre-referendum levels (55.5) for the first time since February 2018.
- **According to monthly estimates from the Office for National Statistics (ONS), UK GDP grew by 0.7% in the three months to August 2018 (Jun-Aug)**, matching the upwardly revised 0.7% growth recorded in the previous three months (May-June). The services sector had a rolling three-month growth of 0.5%, resulting in a large positive contribution to headline GDP growth. The production industries and construction also had positive contributions to GDP growth, with rolling three-month growths of 0.7% and 2.9%, respectively.

Policy, Trade, & Regulation

- **The Chancellor of the Exchequer will present his Budget to Parliament on Monday 29th October 2018 setting out government spending plans over the next year.** This is three weeks earlier than last year, brought forward to fit around Brexit negotiations.
- The EU's Chief Brexit Negotiator Michel Barnier has said that the EU had refined its planned "backstop" solution for Ireland, identifying solutions that would avoid a hard customs border between Northern Ireland and the rest of the UK. The border is continuing to cause issues in negotiations, with extending the UK's transition period being suggested by some in government if it cannot be resolved in time for a timely exit from the EU.
- Secretary of State for Exiting the EU Dominic Raab has announced in a House of Commons statement that any extension of Britain's participation in the customs union— seen as key to guaranteeing no hard border in Ireland — would have to be "temporary, limited and finite".

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Key Sectors & Business Investment

- The end of the third quarter saw a mild improvement in the performance of the UK manufacturing sector, with the **UK Manufacturing PMI rising to 53.8 in September** from an upwardly revised 53.0 in August.
- September data pointed to another solid increase in business activity across the UK service sector, with the rate of growth easing only slightly since August. **The UK services PMI posted 53.9 in September, down from 54.3 in August.**
- **The underlying trend in the retail industry** – as suggested by the three-month on three-month measure – **is one of growing sales, with the quantity bought in the three months to August increasing by 2.0%** when compared with the previous three months, with continued growth across all sectors.
- Despite this, the British Chamber of Commerce's most recent **Quarterly Economic Survey for Q3 2018** indicates a **worrying outlook for the UK economy**, with this year's economic growth predicted to be the lowest since the financial crisis and the Chamber calling on government to address Brexit-related uncertainty and deliver bold action to boost investment and business confidence.

Property and Housing

- **July 2018 housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in the North West**, with post-referendum trends in house prices roughly in line with pre-referendum trends. **Prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum, with Cumbria close behind.** All other areas of the North West have seen total growth below the national average

Economic inclusion

- Trends in unemployment since the referendum broadly reflect previous long-term trends, with an **overall decline in unemployment rates in most areas**. This is with the exception of Lancashire where unemployment rates have risen slightly and Cheshire & Warrington where rates have stayed broadly flat.
- **The Consumer Prices Index and Household Finance Index** both indicate a **continued rise in consumer costs and resultant squeeze on household finances, with living costs rising faster than wages**. Recent rises in costs have been driven in particular by **rising transport costs**.

Macro-Economic Trends & Developments

Macro-economy

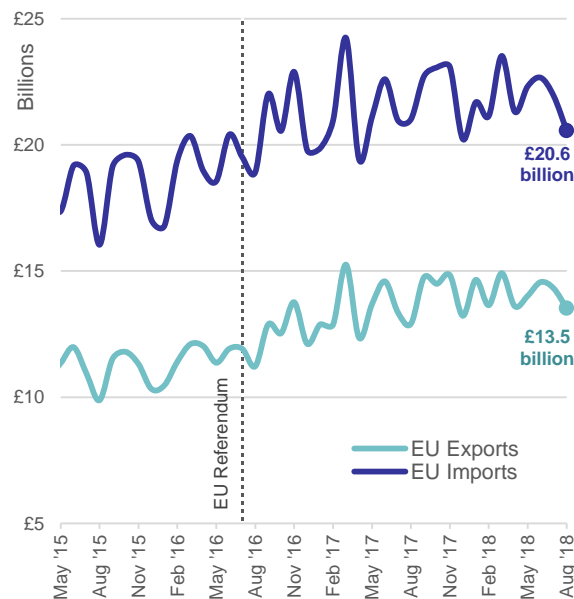
- According to monthly estimates from the Office for National Statistics (ONS), UK GDP grew by 0.7% in the three months to August 2018 (Jun-Aug), matching the upwardly revised 0.7% growth recorded in the previous three months (May-June). The services sector had a rolling three-month growth of 0.5%, resulting in a large positive contribution to headline GDP growth. The production industries and construction also had positive contributions to GDP growth, with rolling three-month growths of 0.7% and 2.9%, respectively.⁽¹⁾
- The Bank of England's Agents Report for Q3 2018 indicated rising (although still modest) consumer spending boosted by good weather, slowing manufacturing output and exports, rising business uncertainty around Brexit (particularly for investment plans), and recruitment difficulties resulting in higher average pay settlements. The Bank also left interest rates on hold at 0.75% in September, although highlighted concerns around 'greater uncertainty' in the future in light of Brexit and the increasing possibility of no deal.^(2,3)

UK International Trade

- The total UK trade deficit (goods and services) narrowed by £4.7 billion to £2.8 billion in the three months to August 2018; this was driven by a £3.5 billion narrowing of the goods deficit, but mitigated somewhat by a £1.1 billion widening of the services surplus.⁽⁴⁾

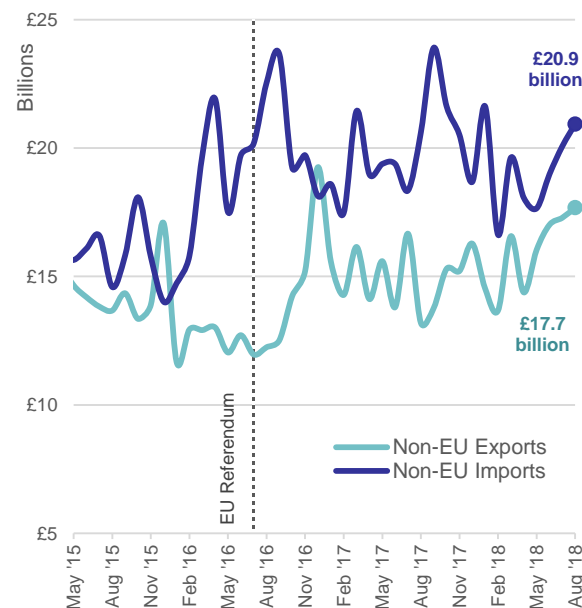
EU Trade

- The UK was a net importer from the EU in August 2018, with imports exceeding exports by approx. £7.0 billion.⁽⁵⁾



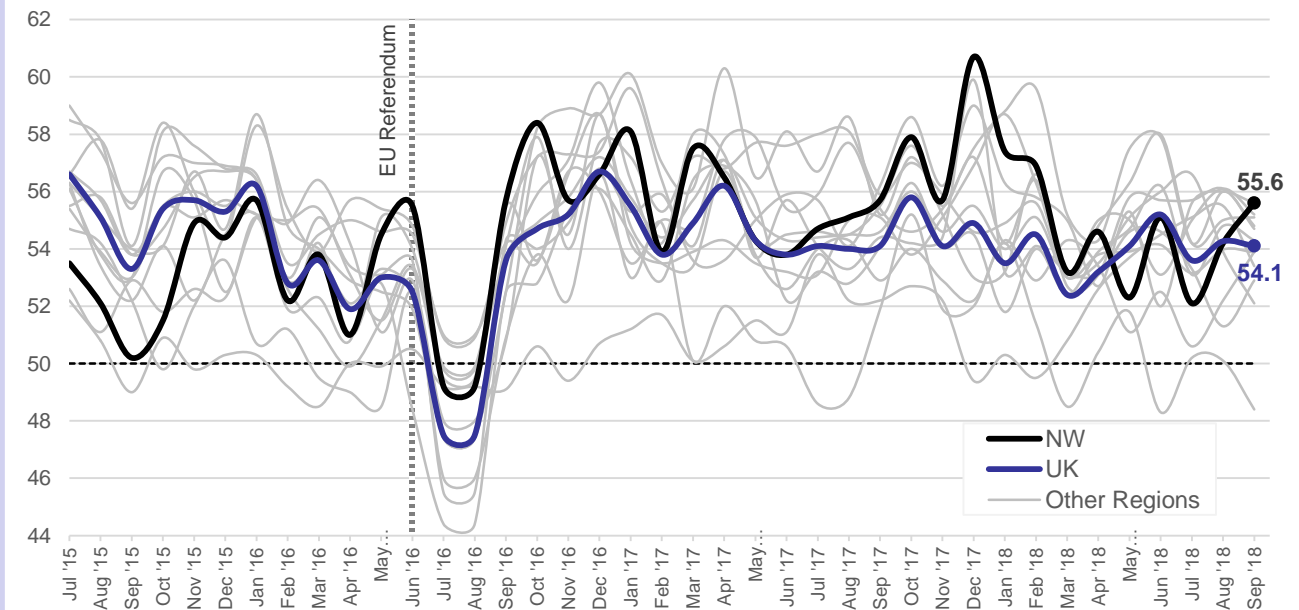
Non-EU Trade

- The UK was a net importer from non-EU nations in August 2018, with imports exceeding exports by approx £3.3 billion.⁽⁵⁾



IHS Markit Regional Purchase Managers' Index (PMI)

- The North West – along with Wales – jointly led regional business activity growth in September 2018, with the regional PMI for the NW rising to 55.6, from 54.2 in August (above 50 = growth). This marked a second consecutive month of improvement in the NW, and puts business sentiment in the region back above pre-referendum levels (55.5) for the first time since February 2018. All other regions shown in grey below.
- Businesses surveyed up and down the country reported a steep rise in their costs in September, due in part to the recent upturn in oil prices and a subsequent increase in the cost of fuel.⁽⁶⁾



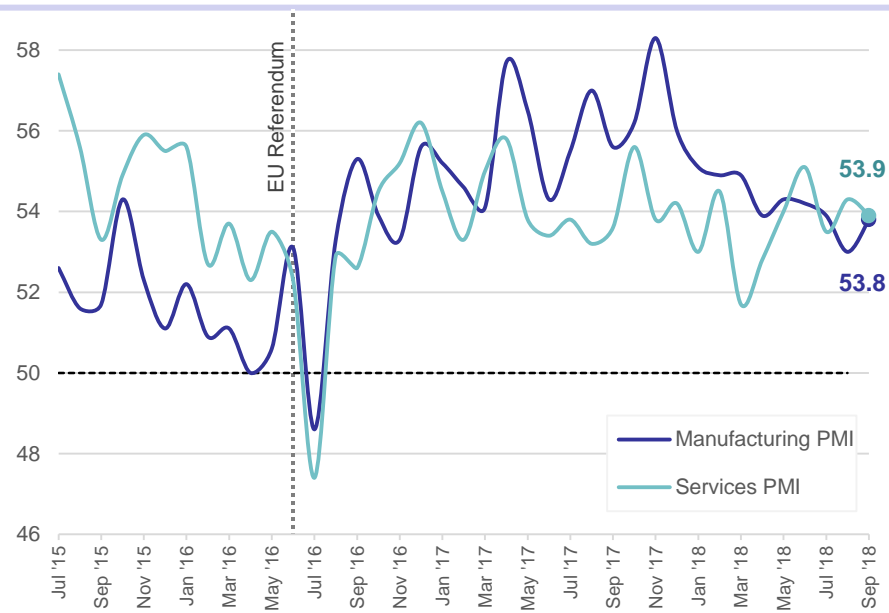
Key Sectors & Business Investment

British Chamber of Commerce

- In late September the **British Chamber of Commerce updated their Business Brexit Risk Register** following the Government's publication of 52 technical notices detailing 'no deal' contingency planning, **maintaining 17 'red-rated', 6 'amber-rated' issues, and upgrading 1 'green-rated' issue**, a small improvement from their previous register update. This register brings together 24 top questions being asked by businesses across the UK, with red and amber ratings indicating that the answers to most key questions remain uncertain. The single 'green-rated' issue that the Chamber feel is now clear is around how businesses will pay import VAT.⁽⁷⁾
- In light of this Brexit-related uncertainty and resultant weaker outlook for trade and investment, in September **the Chamber downgraded their projections for UK GDP growth in 2018 to 1.1% from 1.3%**, and 2019 projection down to 1.3% from 1.4%.⁽⁸⁾
- The Chamber's most recent **Quarterly Economic Survey for Q3 2018** indicates a **worrying outlook for the UK economy**, with this year's economic growth predicted to be the lowest since the financial crisis and the Chamber calling on government to address Brexit-related uncertainty and deliver bold action to boost investment and business confidence. Growth in services and manufacturing are reported to be flatlining, with the **lowest proportion of businesses in 25 years recruiting staff** (with those that are attempting to recruit new staff struggling to fill positions).⁽⁹⁾
- The Chamber's most recent **Quarterly International Trade Outlook** (covering Q1 2018) highlights **significant labour and skills shortages among exporters, particularly in manufacturing**, raising concerns over how Brexit may affect the UK's EU labour force. The report additionally raises concerns around how future EU relations may affect ease of trade.⁽¹⁰⁾

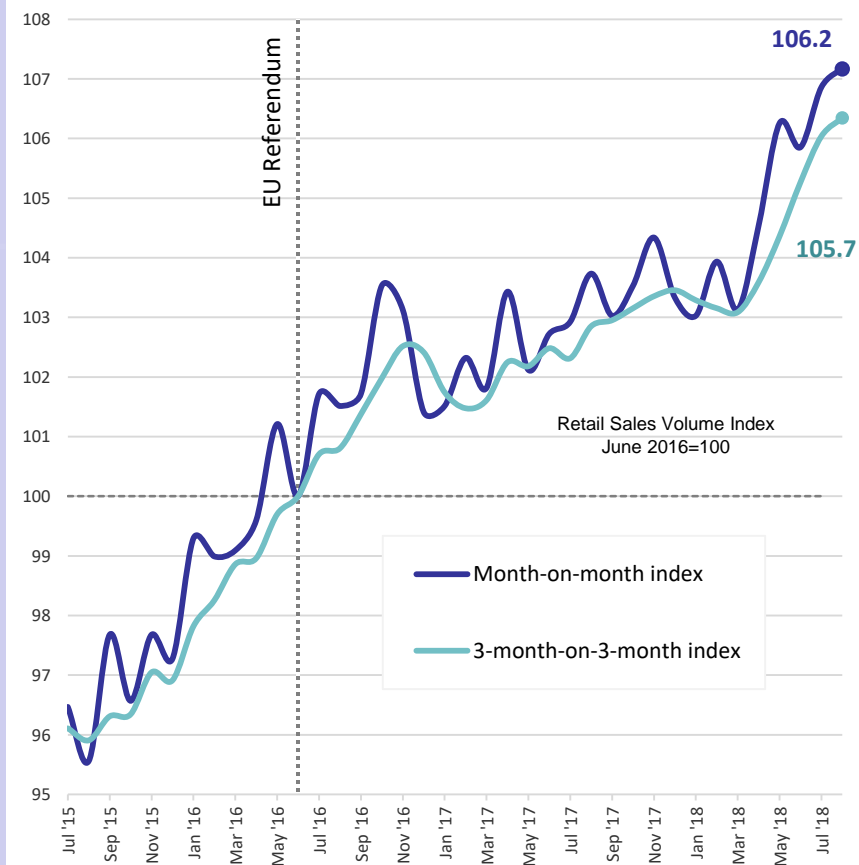
IHS Markit/CIPS Manufacturing & Services PMIs®

- The end of the third quarter saw a mild improvement in the performance of the UK manufacturing sector, with the **UK Manufacturing PMI rising to 53.8 in September** from an upwardly revised 53.0 in August (above 50 = growth).
- Rates of expansion in output and new orders gained traction, while the trend in new export business saw a modest recovery following August's solid contraction. On the price front, rates of input cost and output charge inflation both strengthened.⁽¹¹⁾
- September data pointed to another solid increase in business activity across the UK service sector, with the rate of growth easing only slightly since August. **The UK services PMI posted 53.9 in September, down from 54.3 in August.** However, the latest reading was still above the 50.0 no-change value and slightly stronger than the average in 2018 so far (53.6).⁽¹²⁾



Retail Sales

- The volume (not value) of retail sales grew by 0.3% in August 2018** compared to July 2018, with increases across all sectors except food, clothing and petrol.
- The underlying trend in the retail industry** – as suggested by the three-month on three-month measure – **is one of growing sales, with the quantity bought in the three months to August increasing by 2.0%** when compared with the previous three months, with continued growth across all sectors.⁽¹³⁾



Policy, Trade, & Regulation

Budget

- **The Chancellor of the Exchequer will present his Budget to Parliament on Monday 29th October 2018, three week earlier than last year to fit around Brexit negotiations**, setting out government spending plans over the next year. The plan is expected to address issues raised at the Conservative conference such as ongoing austerity and funding for public services, as well as personal income allowances and the government's universal credit scheme. ⁽¹⁴⁾
- However, the Democratic Unionist Party's 10 Westminster MPs have threatened to vote down the Budget if they are unhappy about the government's Brexit plans. The party has said any post-Brexit customs or regulatory border in the Irish Sea would be unacceptable and that it would oppose the October 29th Budget in response. ⁽¹⁵⁾

Irish Border & Customs Union

- The EU's Chief Brexit Negotiator Michel Barnier has said that **the EU had refined its planned "backstop" solution for Ireland**, identifying solutions that would avoid a hard customs border between Northern Ireland and the rest of the UK. The Irish border is continuing to cause issues in negotiations, with the potential for extending the UK's transition period being suggested if it cannot be resolved in time for a timely exit from the EU. ^(16,17)
- Mr Barnier said that Brussels was sticking to the broad thrust of its backstop plan, which would see Northern Ireland stay in the EU single market and customs union even once the UK has left, but he stressed that the proposals did not pose any territorial or constitutional threat to the UK.
- Secretary of State for Exiting the EU Dominic Raab has announced in a House of Commons statement that any extension of Britain's participation in the customs union – seen as key to guaranteeing no hard border in Ireland – would have to be "temporary, limited and finite". However, Mr Raab's statement will have to be reconciled with an insistence in Brussels that a final deal would have to provide a lasting guarantee that Brexit will not result in a return to a hard north-south border in Ireland. ⁽¹⁸⁾

Brexit: Six Months to Go

- **The Institute for Government has published a paper entitled Brexit: Six Months to Go which looks at the progress made in delivering Brexit since the EU referendum** and what to expect with just six months until the UK is scheduled to exit the EU. The paper examines the three main challenges of negotiation, legislation and implementation.
- The paper notes that the Prime Minister "faces major political hurdles" to realising a "smooth and orderly" Brexit, and highlights that March 2019 "is not the end of Brexit", with the much more difficult task of agreeing a future relationship with the EU and implementing it yet to come following any deal the UK reaches on withdrawal before December 2020. ⁽¹⁹⁾

Future of European Funding in the North West

- From 2014-20 the North West allocation of ERDF and ESF totalled €1.13billion, for which the European Commission has announced the region will continue to be eligible until 2020/21. **UK organisations have been advised to continue bidding for EU funding of all types, with the UK Government underwriting the continued payment of any successful funding application, even when projects are approved after the UK leaves the EU.** In their recent 'no deal' technical notices, the government has reiterated that they will guarantee any funding secured before 29th March 2019 and continue all allocated 2014-20 ESF and ERDF funding, even in the event of a no deal. Current proposals for the EU and UK's future relationship also allow scope for the UK to continue in certain EU funding and science schemes as a 'third country'.

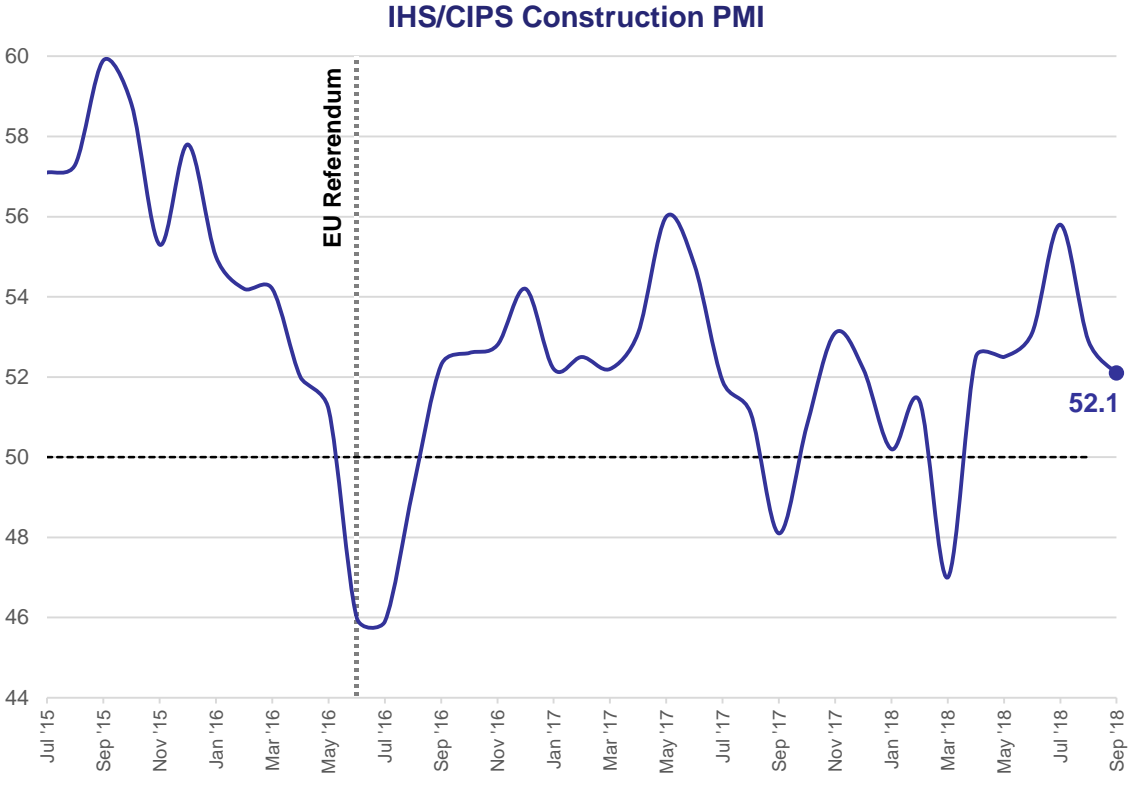
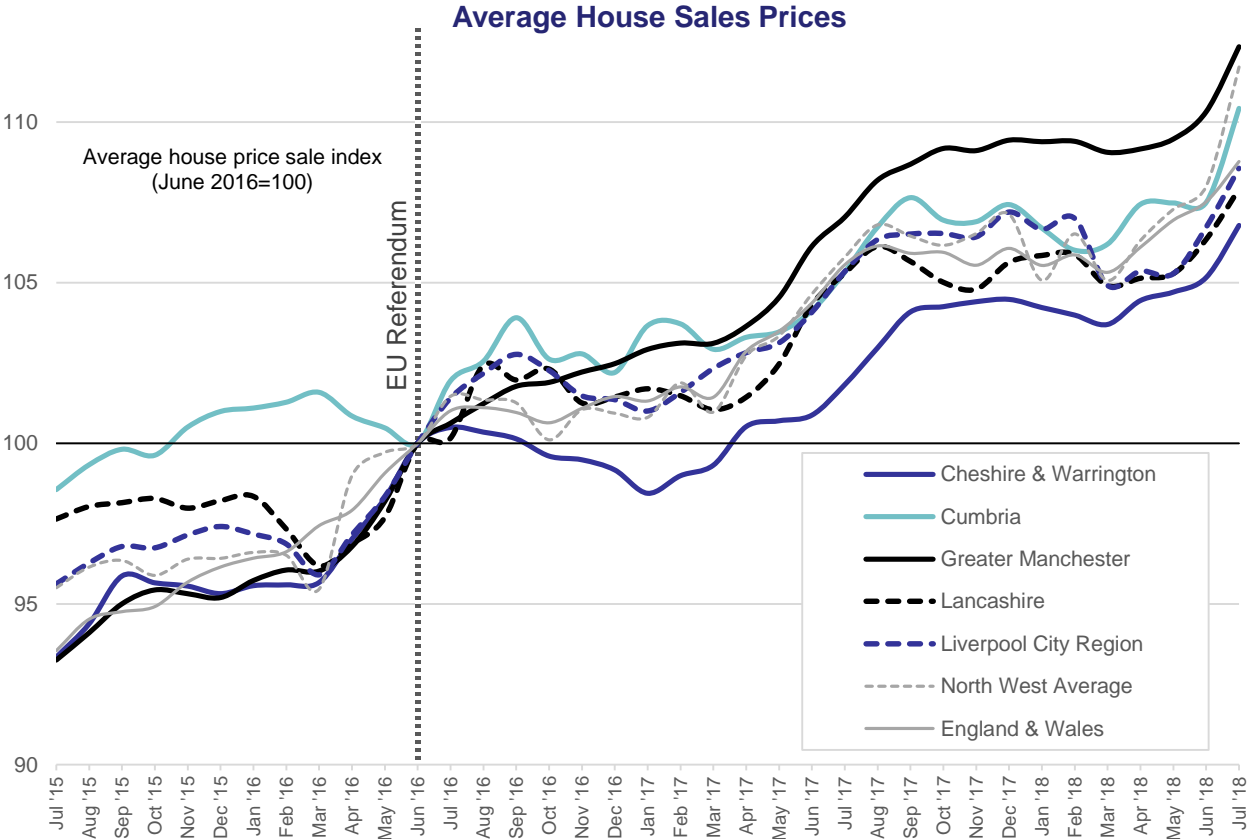
Brexit - Key Dates

18th October 2018	EU summit during which both the UK and EU previously expressed hope to agree an outline of the future UK-EU relationship.
Late October 2018	Deadline previously set by the EU's chief negotiator Michel Barnier as the point by which Brexit negotiations must have concluded to give the EU time to sign off on the deal. It is expected UK parliament will need to have also voted on this final deal prior to this.
13th December 2018	Final EU summit of 2018. A possible fallback option if the October deadline is not reached.
21st January 2018	If no deal is agreed, the Prime Minister must announce a 'no deal' by this date giving MPs 14 days to vote on a plan of action, being leaving with no deal, seeking an extension of Article 50, or holding another referendum.
29th March 2019	Britain's formal exit from the EU, two years following the trigger of Article 50. In the case of a 'no deal', all current EU legislation and agreements would cease to apply from this date in the absence of any other arrangements.
31st December 2020	Planned end of the proposed Brexit transition period. Until this date, the UK will essentially function as if a member of the EU (including continuing current funding and regulatory arrangements).

Property & Housing

Housing sales

July 2018 housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in 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 flat growth since September 2017, house prices across the North West have picked up again since March. This likely reflects a seasonal pattern with price growth often slower during winter. **Prices in Greater Manchester have risen fastest in the North West, above both national and regional averages since the referendum, with Cumbria close behind.** All other areas of the North West have seen total growth below the national average.⁽²⁰⁾



July 2018 Average House Price			
North West	Since last month	Annual Change	Since EU Referendum
£165,529	+3.4%	+5.6%	+11.7%

- The rate of expansion in the construction industry slowed for the second month running, with the UK construction PMI falling to 52.1 in September, down from 52.9 in August. This signalled the weakest growth in output for six months.
- There were mixed signals in terms of the near-term outlook. New order books strengthened to the greatest extent since December 2016, which was coupled with robust job creation. However, overall confidence about the year ahead was among the lowest seen since the start of 2013.⁽²¹⁾

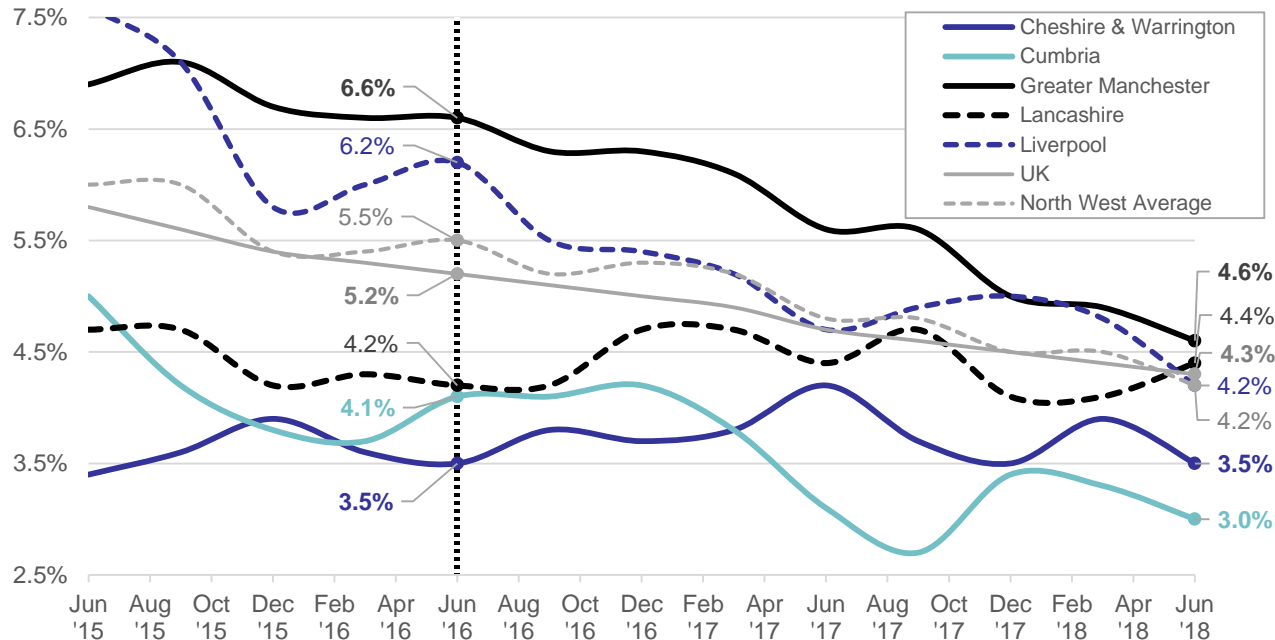
Economic Inclusion

Unemployment and Claimant Count

- Trends in unemployment since the referendum broadly reflect previous long-term trends, with an **overall decline in ILO unemployment rates** (the standard definition of unemployment used by the International Labour Organisation) **in most areas**. This is with the exception of Lancashire where unemployment rates have risen slightly (4.2% pre-referendum to 4.4% latest) and Cheshire & Warrington where rates have stayed broadly flat (3.5% pre-referendum to 3.5% latest), taking it now above Cumbria (3.0%). ⁽²²⁾
- Numbers of people claiming unemployment / underemployment benefits (Job Seekers Allowance and related Universal Credit) in the North West have however risen to their highest levels in over four years in September, up 795 (0.6%) on the previous month to 130,450 people, with rises in all age groups. **The total number of claimants is 23.7% (25,015) higher than pre-referendum levels**. As a proportion of the working age population, the number of claimants has also risen to 2.9% from 2.3% in June 2016, mirroring national and regional trends. ⁽²³⁾

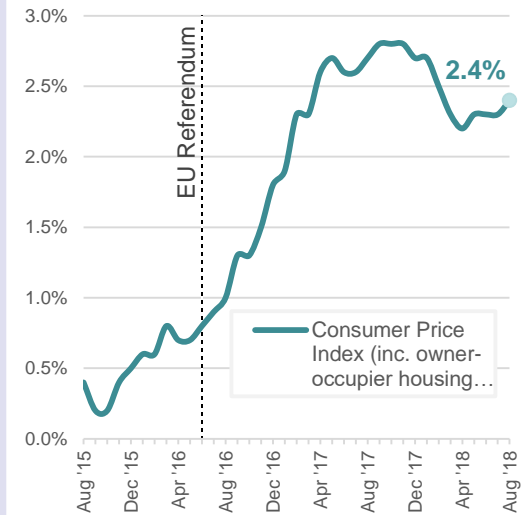
Due to recent changes to unemployment benefits and the roll-out of Universal Credit in different local authorities over the last year, long-term trends in claimant counts should be treated with caution. Greater numbers may be moved onto certain types of benefits or be expected to find additional work and may appear in counts, while total unemployment rates may not change. ILO unemployment rates are unaffected.

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

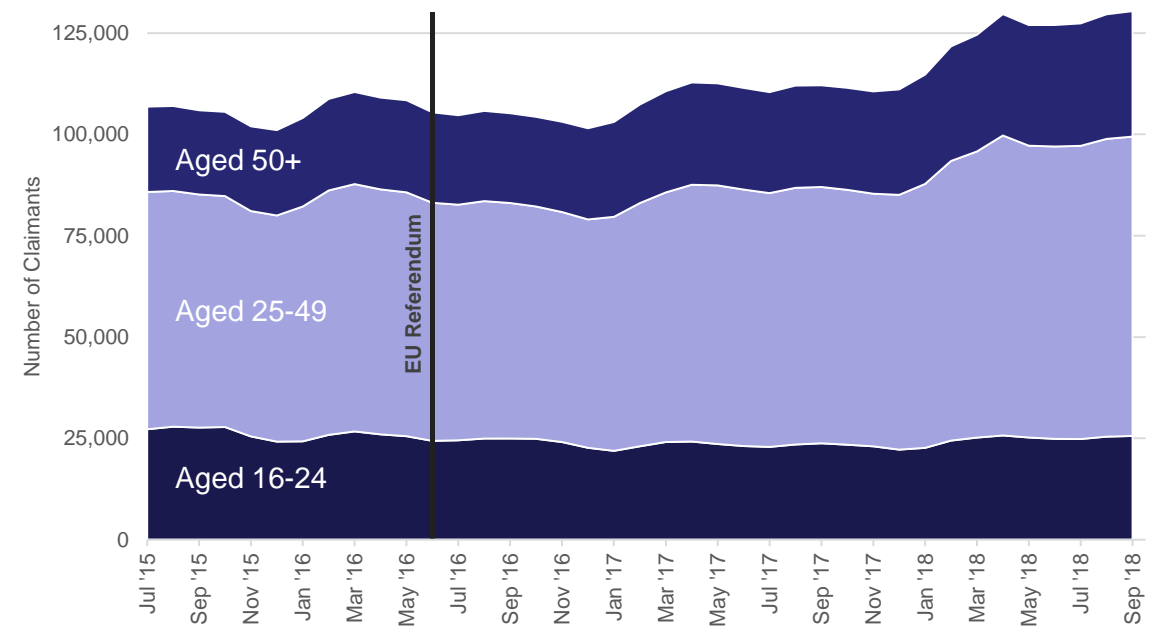


Household Finances

- The Household Finance Index (HFI) – which tracks Britons' sense of financial wellbeing – reveals a continued although relatively softer squeeze on UK household finances.** September's HFI remained at the August level of 45.9 (below 50 signals deterioration). Though employment incomes continued to grow, uncertainty about job security also intensified. ⁽²⁴⁾
- The Consumer Prices Index (CPI-H) 12-month inflation rate was 2.4% in August 2018, up from 2.3% in July, indicating a continuing rise in consumer costs.** Transport fares continued to make the largest upward contribution to inflation. ⁽²⁵⁾



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



Sources

Section	Sources
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