

# North West Brexit Monitor

## Key economic trends and developments – May 2019

*Having already been rejected three times since January, Prime Minister Theresa May now faces a crunch vote on her withdrawal agreement bill in the House of Commons in June, with Brexit secretary Steve Barclay admitting that defeat would render the bill “dead in that form”. However, despite six weeks of cross-party talks, May is unlikely to receive backing from Labour, with the opposition party having warned Theresa May that it will not support her Brexit deal unless the Prime Minister makes more concessions.*

*However, despite the political uncertainty, economic activity has shown signs of picking up. According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in the first quarter of 2019, up from the 0.3% recorded in the previous three-month period, while the UK Services PMI returned above the 50.0 no-change mark in April. That said, April saw the UK Manufacturing PMI fall from March’s 13-month high, while the Claimant Count in the North West rose by 4.5% in February 2019, with increases in all age groups.*

### Macro-Economic Trends & Developments

- **The North West saw the fastest rise in business activity in April 2019, with the regional PMI for the NW rising to a seven-month high of 55.2**, up from 53.7 in March (above 50 = growth). This compared with a UK-wide average of 50.9, with the UK remaining divided into areas of growth and areas of contraction at the start of the second quarter.
- According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in Quarter 1 (Jan to Mar) 2019, up from the 0.3% recorded in the previous three month period, and the 0.2% increase in Quarter 4 (Oct to Dec) 2018. The services sector was the largest contributor to quarterly GDP growth, increasing by 0.3% in Quarter 1 (Jan to Mar) 2019. The production and construction sectors also contributed positively, with growth of 1.4% and 1.0%, respectively.

### Policy, Trade, & Regulation

- **Theresa May has said she will quit as Conservative leader on 7 June, paving the way for a contest to decide a new prime minister**
- Former Foreign Secretary Boris Johnson has declared that he will run for the Conservative party leadership as May prepares to leave office.
- The UK Brexit Secretary Steve Barclay is preparing a paper on whether to step up planning in case the country leaves the EU without a deal ahead of its scheduled departure date of October 31.
- The pound has brushed its lowest level since mid-February as the UK currency tracked a deepening sense among investors that Westminster’s cross-party talks seeking a consensus on a Brexit agreement were faltering.
- The UK and Ireland have signed a deal to maintain their citizens’ rights to travel freely between the two countries after the UK leaves the EU.

### Key Sectors & Business Investment

- **April saw the recent growth fillip at UK manufacturers show signs of petering out, with the UK Manufacturing PMI falling to 53.1**, down from March’s 13-month high of 55.1. Alongside weaker growth in production, new orders and stocks of purchases, the lower PMI level also reflected job losses in the sector. Meanwhile, Brexit stock-building continued, albeit to a lesser extent than in the prior survey month.
- **The UK Services PMI returned above the 50.0 no-change mark in April, rising to 50.4** from March’s 32-month low of 48.9. However, despite a change of direction for service sector activity, survey respondents continued to report that Brexit uncertainty and concerns about the UK economic outlook had encouraged clients to postpone spending decisions.

### Property and Housing

- **February 2019 (latest) 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.

### Economic Inclusion

- Trends in unemployment in the North West 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, with the exception of Lancashire where unemployment rates have risen slightly.
- **The Household Finance Index (HFI) – which tracks Britons’ sense of financial wellbeing – rose to a three-month high of 44.0 in April, from 43.4 in March.** The Index nonetheless remained below the no-change mark of 50.0, indicating pessimism towards current financial prospects among UK households. Meanwhile, **the Consumer Prices Index (CPI-H) 12-month inflation rate was 1.8% in March 2019, unchanged from February.**

# Macro-Economic Trends & Developments

## Macro-economy

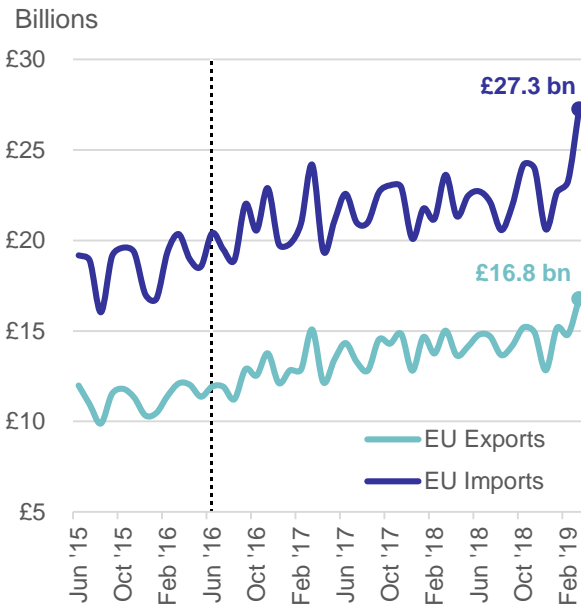
- According to monthly estimates from the Office for National Statistics (ONS), GDP increased by 0.5% in Quarter 1 (Jan to Mar) 2019, up from the 0.3% recorded in the previous three month period, and the 0.2% increase in Quarter 4 (Oct to Dec) 2018. The services sector was the largest contributor to quarterly GDP growth, increasing by 0.3% in Quarter 1 (Jan to Mar) 2019. The production and construction sectors also contributed positively, with growth of 1.4% and 1.0%, respectively. Within production, manufacturing growth was notably strong at 2.2%. However, the strength in quarterly growth was in part due to the low December monthly growth in the base period, which makes the current period look stronger in comparison.<sup>(1)</sup>

## UK International Trade

- The UK's total trade deficit (goods and services) widened by £8.9 billion to £18.3 billion in the three months to March 2019. The trade in goods deficit widened by £6.4 billion to £43.3 billion, while the trade in services surplus narrowed by £2.5 billion to £25.0 billion. Excluding erratic commodities, (such as non-monetary gold), the total trade deficit increased £3.1 billion to £14.5 billion in the period.<sup>(2)</sup>

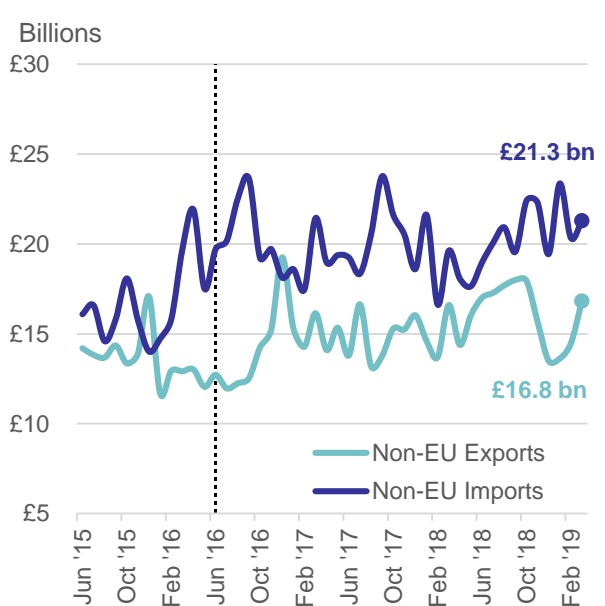
### EU Trade in Goods

- The UK was a net importer of goods from the EU in March 2019, with imports exceeding exports by approximately £10.5 billion.<sup>(3)</sup>



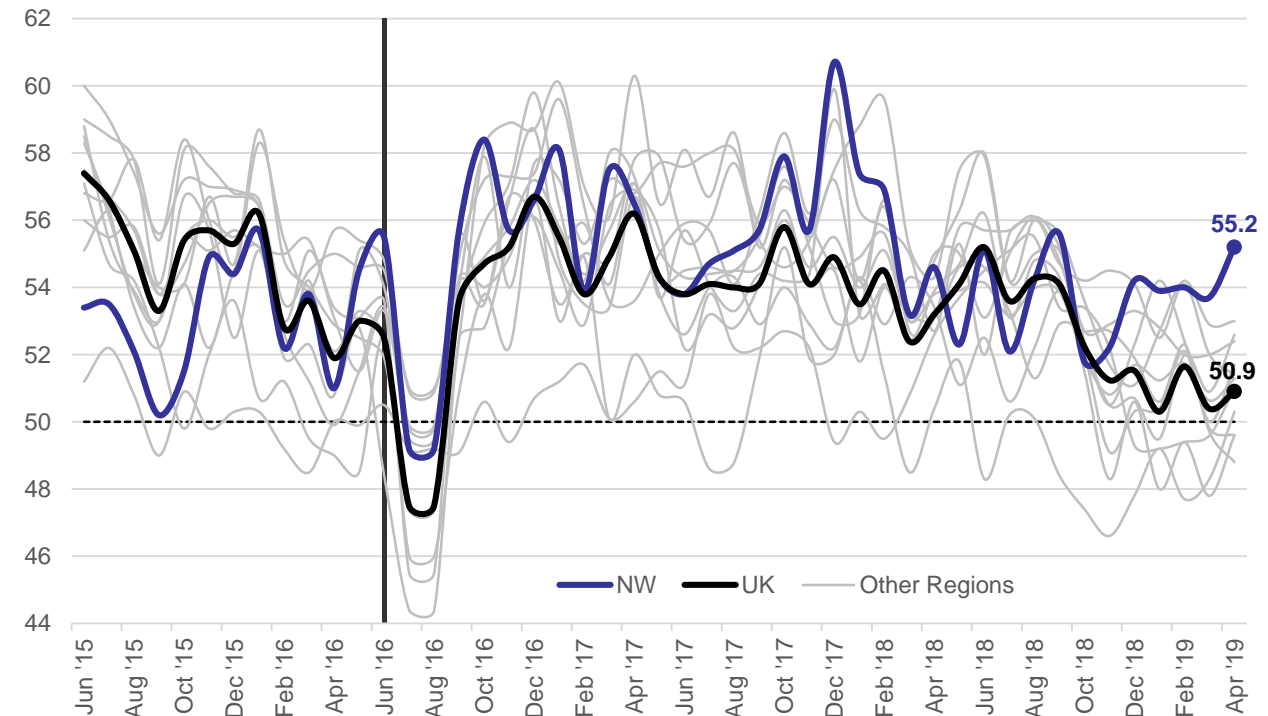
### Non-EU Trade in Goods

- The UK was a net importer of goods from non-EU nations in March 2019, with imports exceeding exports by approximately £4.5 billion.<sup>(3)</sup>



## IHS Markit Regional Purchase Managers' Index (PMI)

- The North West saw the fastest rise in business activity in April 2019, with the regional PMI for the NW rising to a seven-month high of 55.2, up from 53.7 in March (above 50 = growth). This compared with a UK-wide average of 50.9, with the UK remaining divided into areas of growth and areas of contraction at the start of the second quarter. Growth in underlying demand for goods and services remained strong in the North West, but this was accompanied by increases in input prices, with the North West recording the joint-strongest cost pressures in March (with Northern Ireland), despite the rate of increase in the region easing to an 11-month low.<sup>(4)</sup>



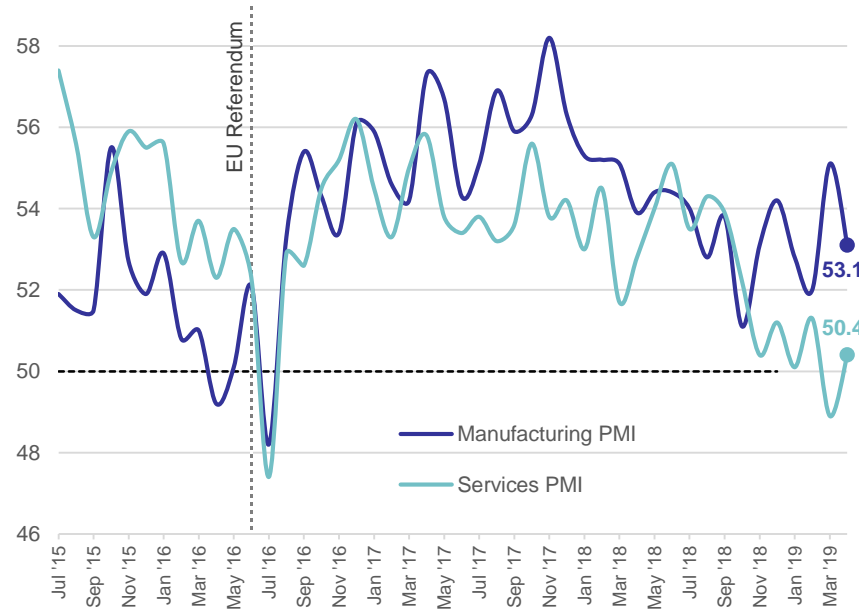
# Key Sectors & Business Investment

## British Chamber of Commerce

- Following the publication of UK government contingency planning, and as negotiations continue, the **British Chamber of Commerce updated their Business Brexit Risk Register** in April listing **15 'red-rated', 6 'amber-rated' issues, and 3 'green-rated' issues**, unchanged from their previous register. 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 three 'green-rated' issues that the Chamber feel are now clear are around how businesses will pay import VAT, access to EU workforce, and industrial standards.<sup>(6)</sup>
- The Chamber's most recent **Quarterly Economic Survey for Q1 2019** suggests that "the ongoing impasse at Westminster is contributing to a sharp slowdown in the real economy across the UK", with the "prospect of a messy and disorderly exit from the EU...weighing heavily on the UK economy" leading to "some of the weakest figures we've seen in nearly a decade".<sup>(7)</sup>
- The Chamber's **Monthly Economic Review** for May has echoed this, with the Chamber's Head of Economics suggesting that "taken together, last month's data suggest that underlying economic conditions in the UK remain subdued, despite the likely uptick in GDP growth in the first quarter".<sup>(8)</sup>
- The Chamber's most recent **Quarterly International Trade Outlook** (covering Q4 2018) reported a **4.1% rise in the BCC/DHL Trade Confidence Index (TCI)** – a measure of the UK's exporting health – compared to the previous quarter. The Trade Outlook reported that this increase reflected increased trade beyond the borders of the EU, but also noted that businesses continue to face pressure in the face of rising costs as Sterling weakness persists.<sup>(9)</sup>

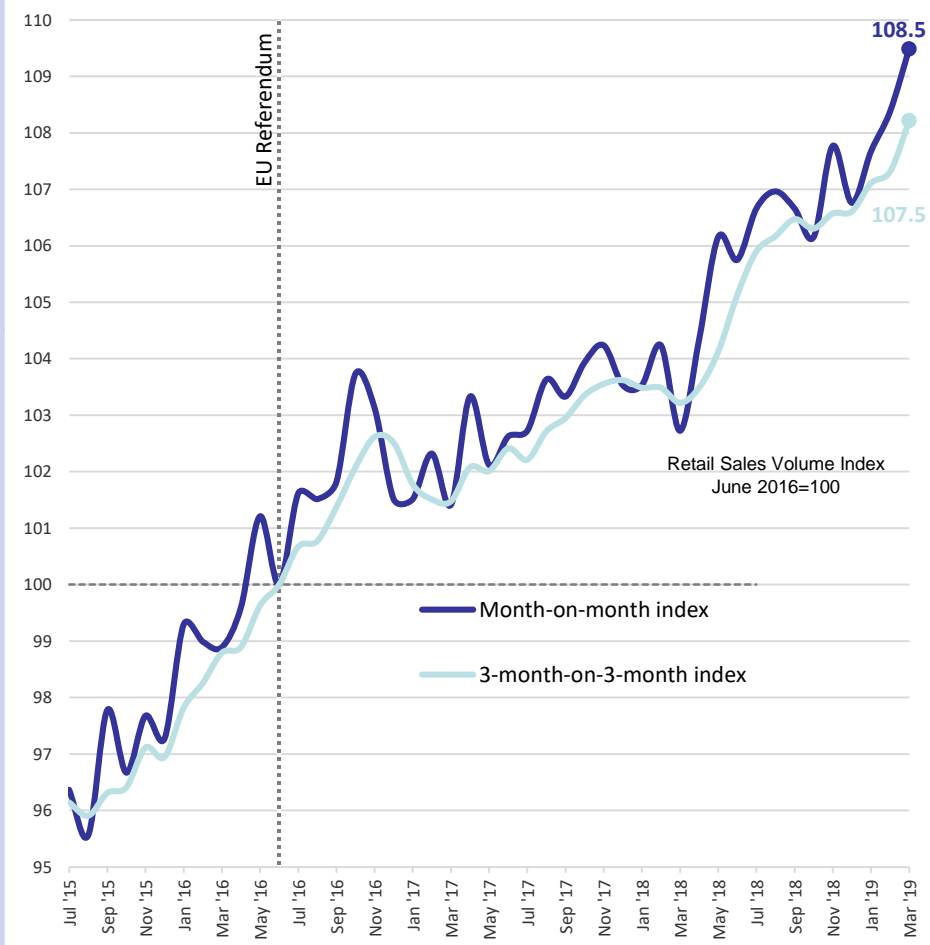
## IHS Markit/CIPS Manufacturing & Services PMIs®

- April saw the recent growth fillip at UK manufacturers show signs of petering out, with the UK Manufacturing PMI falling to 53.1**, down from March's 13-month high of 55.1. Alongside weaker growth in production, new orders and stocks of purchases, the lower PMI level also reflected job losses in the sector. Meanwhile, Brexit stock-building continued, albeit to a lesser extent than in the prior survey month.<sup>(7)</sup>
- The UK Services PMI returned above the 50.0 no-change mark in April, rising to 50.4** from March's 32-month low of 48.9. However, despite a change of direction for service sector activity, the rate of expansion was much softer than on average in 2018. Survey respondents continued to report that Brexit uncertainty and concerns about the UK economic outlook had encouraged clients to postpone spending decisions.<sup>(8)</sup>



## Retail Sales

- The volume (not value) of retail sales increased by 1.1% during March 2019**, marking an acceleration from the 0.4% increase posted in February.
- The underlying trend in the retail industry – as suggested by the three-month on three-month measure – was one of increasing sales, up 1.6% in March** compared with the previous three months.<sup>(9)</sup>



# Policy, Trade, & Regulation

## Withdrawal Agreement and No Deal Preparation

- **Prime Minister Theresa May is asking the House of Commons to vote on her withdrawal agreement bill during the week starting June 3<sup>rd</sup>.** MPs have already rejected Mrs May's Brexit deal three times since January, forcing the UK's exit from the EU to be delayed from March 29<sup>th</sup> until as late as October 31<sup>st</sup>, **and are expected to once again vote the deal down.**
- Brexit Secretary Steve Barclay has admitted that if the bill was rejected by the Commons, the deal struck between Mrs May and Michel Barnier, EU chief negotiator, would be "dead in that form".<sup>(10)</sup>
- Labour's leadership has warned Theresa May it will not support her Brexit deal in the vote in early June unless the prime minister makes more concessions. Labour continues to push for a permanent customs union between the UK and the EU, and has also expressed concerns that May's successor could potentially renege on any compromise Brexit deal agreed by the government and the opposition party.<sup>(11)</sup>
- **Theresa May has said she will quit as Conservative leader on 7 June, paving the way for a contest to decide a new prime minister.**<sup>(12)</sup> Former Foreign Secretary Boris Johnson has declared that he will run for the Conservative party leadership as May prepares to leave office.<sup>(13)</sup>
- The UK Brexit Secretary Steve Barclay is preparing a paper on whether to step up planning in case the country leaves the EU without a deal ahead of its scheduled departure date of October 31<sup>st</sup>.<sup>(14)</sup>
- The pound has brushed its lowest level since mid-February as the UK currency tracked a deepening sense among investors that Westminster's cross-party talks seeking a consensus on a Brexit agreement were faltering.<sup>(15)</sup>
- The UK and Ireland have signed a deal to maintain their citizens' rights to travel freely between the two countries after the UK leaves the EU. The agreement includes a memorandum of understanding guaranteeing reciprocal rights to social security, health services and education in Ireland and the UK after Brexit. It also confirms the rights of the two countries' citizens' to work and vote in local and national parliamentary elections in each other's jurisdiction.<sup>(16)</sup>

## 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, with the UK Government underwriting the continued payment of any successful funding application to ERDF and ESF, as well as a number of other EU programmes where UK can take part as a third country post Brexit. The underwrite will apply even when projects are approved after the UK leaves the EU.
- In their August 2018 'no-deal' technical notices,<sup>(18)</sup> the Government has reiterated that they will guarantee any funding secured before 29<sup>th</sup> March 2019 (the expected leave date at the time) and continue all allocated 2014-20 ESF and ERDF funding, even in the event of a No Deal.
- As part of the final set of No Deal contingency measures, the European Commission has also proposed a draft regulation that would allow the UK to continue participating in EU programmes such as Interreg and Horizon 2020 in 2019. There is a risk that UK participants may not be able to continue working in existing or future EU projects in the event of No Deal. A number of additional technical notes setting out how the guarantee will operate for specific programmes, should there be an agreement, have been issued for Erasmus+, Nuclear research, Horizon 2020, European Social Fund, European Regional Development Fund, LIFE, Connected Europe Facility and the European Territorial Cooperation programmes.<sup>(19)</sup>

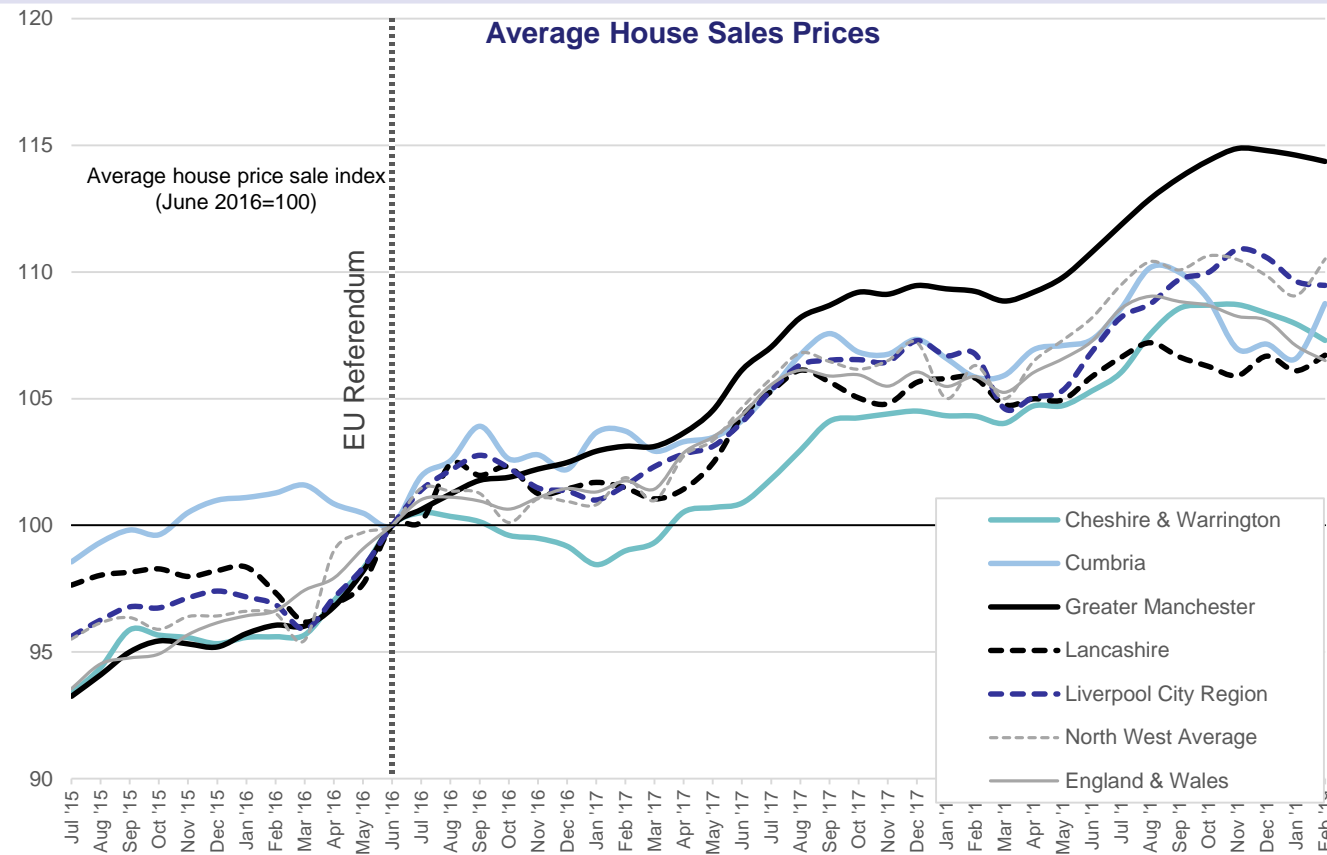
## Brexit - Key Dates

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|---|---|
| <b>23<sup>rd</sup> – 26<sup>th</sup> May 2019</b>     | Dates for the European elections. The UK's participation is necessary if it wishes to remain a member of the EU beyond May 31 <sup>st</sup> .   |
| <b>20<sup>st</sup>-21<sup>st</sup> June 2019</b>      | EU summit. European leaders have pledged to take stock of Brexit progress.  |
| <b>2<sup>nd</sup> July 2019</b>                       | New EU Parliament meets. The UK's failure to leave the EU on schedule means British MEPs are set to return to Brussels.   |
| <b>1<sup>st</sup> August 2019</b>                     | Possible exit if both the UK and the bloc ratify the treaty before the appointed day of October 31 <sup>st</sup>  |
| <b>17<sup>th</sup>-18<sup>th</sup> September 2019</b> | Last scheduled EU summit before the UK's departure day  |
| <b>October 31<sup>st</sup> 2019</b>                   | The new date for the end of the Article 50 process. Unless another agreement is in place, or a new Brexit deal is agreed, the UK will leave the EU with no deal after this date.                                    |
| <b>31<sup>st</sup> December 2020</b>                  | End to transition. Although Britain's departure from the EU has been delayed, the December 31 2020 date for the end of the transition has not been changed  |
| <b>31<sup>st</sup> December 2022</b>                  | Backstop. The provisional withdrawal treaty makes clear that if, at the end of the transition, no deal is in place to avoid a hard border with Northern Ireland, the so-called backstop will automatically kick in. |

# Property & Housing

## Housing sales

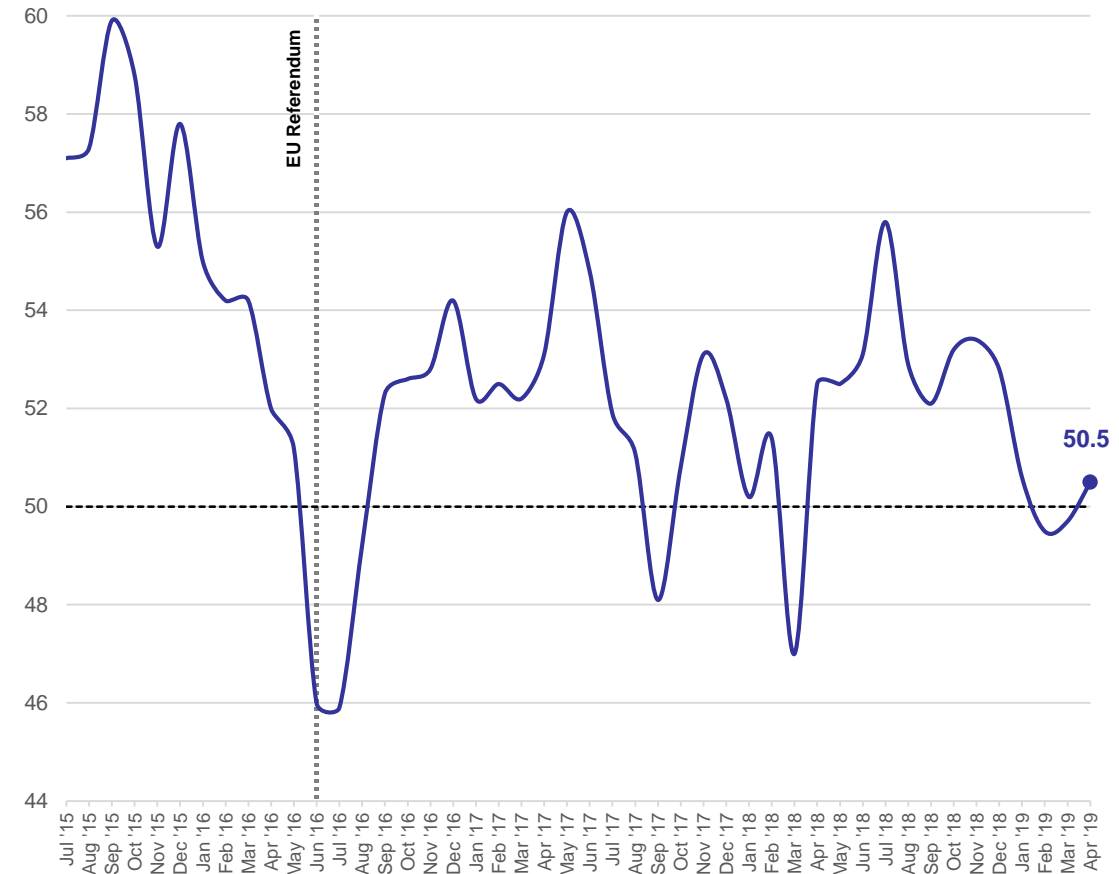
- February 2019 (latest) housing sales data from the Land Registry shows that the vote to leave the EU has had little impact on house prices in the North West, with post-referendum trends in house prices roughly in line with pre-referendum trends, with the exception of Cheshire & Warrington which saw 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 2018. Prices in Greater Manchester have risen fastest in the North West, consistently above both national and regional averages since the referendum.<sup>(24)</sup>



February 2019 Average House Price

| North West | Since last month | Annual Change | Since EU Referendum |
|------------|------------------|---------------|---------------------|
| £163,758   | 1.3%             | +4.0%         | +10.5%              |

## IHS/CIPS Construction PMI



- The UK Construction PMI returned above the 50.0 no-change threshold for the first time since January in April, climbing to 50.5, up from 49.7 in March. The latest reading signalled a modest expansion of overall construction output, which contrasted with the declines seen in each of the previous two months.<sup>(21)</sup>



# Sources

| Section   | Sources  |
|---|--|
| <b>Macro-Economic Trends &amp; Developments</b> | <ol style="list-style-type: none"> <li>1. <a href="#">ONS (10 May 2019): Statistical bulletin: GDP monthly estimate, UK: March 2019</a></li> <li>2. <a href="#">ONS (10 May 2019): UK trade: March 2019</a></li> <li>3. <a href="#">HMRC (10 May 2019): Overseas Trade Statistics - Non-EU and EU Trade: March 2019</a></li> <li>4. <a href="#">IHS Markit/NatWest UK Regional PMI (13 May 2019): "North West remains at top of rankings for business activity growth in April"</a></li> </ol>   |
| <b>Key Sectors &amp; Business Investment</b>    | <ol style="list-style-type: none"> <li>5. Manchester GC Business Growth Hub (end-April 2019 snapshot): Internal Survey of Client Companies</li> <li>6. <a href="#">Greater Manchester Chamber of Commerce Quarterly Economic Survey, Q1 2019</a></li> <li>7. <a href="#">IHS Markit/CIPS UK Manufacturing PMI (1 May 2019): "UK manufacturing upturn slows as new export business falls and pace of stockpiling eases"</a></li> <li>8. <a href="#">IHS Markit/CIPS UK Services PMI (3 May 2019): "Service sector returns to growth in April, but subdued demand continues"</a></li> <li>9. <a href="#">ONS (18 April 2019): Retail sales, Great Britain: March 2019</a></li> </ol>   |
| <b>Policy, Trade, &amp; Regulation</b>          | <ol style="list-style-type: none"> <li>10. <a href="#">FT (15 May 2019): 'Why Theresa May faces defeat on her flagship Brexit bill'</a></li> <li>11. <a href="#">FT (15 May 2019): 'Labour warns Theresa May it will not back Brexit deal in crunch vote'</a></li> <li>12. <a href="#">BBC (24 May 2019): 'Theresa May to resign as prime minister'</a></li> <li>13. <a href="#">FT (16 May 2019): 'Theresa May begins countdown to resignation as UK prime minister'</a></li> <li>14. <a href="#">FT (10 May 2019): 'Fresh no-deal Brexit proposals set to spark cabinet clash'</a></li> <li>15. <a href="#">FT (15 May 2019): 'Sterling touches lowest since February as Brexit uncertainty drags on'</a></li> <li>16. <a href="#">FT (8 May 2019): 'UK and Ireland agree to maintain common travel area after Brexit'</a></li> <li>17. <a href="#">GMCA (10 April 2019): The Mayor of Greater Manchester calls on the city-region to back £50m of European Funding</a></li> <li>18. <a href="#">HMG (2018): How to prepare if the UK leaves the EU with no deal</a></li> <li>19. <a href="#">HMG (2018): The Government's guarantee for EU-funded programmes if there's no Brexit deal</a></li> </ol> |
| <b>Property &amp; Housing</b>                   | <ol style="list-style-type: none"> <li>20. <a href="#">HM Land Registry (20 March 2019): House Price Index Database: February 2019</a></li> <li>21. <a href="#">IHS Markit/CIPS UK Construction PMI (2 May 2019) "House building helps UK construction sector return to growth in April"</a></li> </ol>  |
| <b>Economic Inclusion</b>                       | <ol style="list-style-type: none"> <li>22. <a href="#">ONS (2019): Annual Population Survey/Labour Force Survey, accessed May 2019</a></li> <li>23. <a href="#">DWP (2019): Alternative Claimant Count, accessed May 2019</a></li> <li>24. GMCA Calculation using DWP Alternative Claimant Count data and ONS claimant count denominators</li> <li>25. <a href="#">IHS Markit Household Finance Index (23 April 2019): "Household earnings rise at fastest rate since survey began in 2009"</a></li> <li>26. <a href="#">ONS (17 April 2019): Consumer price inflation UK: March 2019</a></li> </ol>   |