



Regional Monitor July 2018

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

Days since Article 50 activation: 466

Conclusion of Negotiations October 2018

Page | 1

- The WM economy recorded the strongest performance, registering 58 in June compared to 56.3 previously, whereas the EM economy was the next strongest with the PMI improving to 57.9 compared to 57.5 in May.
- New business orders and increased work pipelines have provided the impetus.
- Price pressures remain tight, with regional prices slightly more elevated.
- Resignation of Brexit Minister suggest more delays to Brexit negotiations with government struggling to maintain party unity as Brexit divisions become more acute.
- Enhanced prospects of No deal and immediate reversion to WTO status for EU trade on April exit.

Brexit Update: is it BINO, or does BREXIT still mean BREXIT?

According to the published schedule, negotiations are expected to be concluded by October, in order to enable the ratification process to be completed by Britain's exit from the EU in April next year – although a subsequent two-year transition period is expected to be agreed. However, some 466 days since Article 50 was activated, 745 days since the referendum and realistically with less than 83 days available, the British Cabinet used last weekend to agree its negotiating position to be presented to the EU, with a White Paper planned to be published by the end of this week.

Notwithstanding the apparent consensus reached at the conclusion of the Cabinet summit, by late Sunday the Minister for Exiting the EU, David Davis and one, possibly two, of his junior ministerial colleagues had resigned, potentially threatening to not only destabilise the government but the negotiations as well. Although ostensibly in charge of the negotiation process, it appears that Davis has become



excluded from the negotiations with Prime Minister May preferring to directly delegate responsibility to apolitical civil servants.

This has resulted in a 120-page strategy paper entitled “Facilitated Customs Arrangement”, which most Ministers, including Davis, received only a short time before the weekend meeting. The strategy suggested is an evolution toward a Norway-style Brexit deal encompassing at least part of the single market. This would include a free trade area for goods, effectively ensuring the continuation of the current regulatory and customs framework for manufacturing and agricultural products. Britain would become a rule taker within the ongoing harmonisation process and backed by treaty arrangements. The adjudication of framework would remain within the purview of the European Court of Justice (ECJ). The strategy, however, contains a number of ambiguities, according to press reports, not least how Britain will be able to secure trade access and deals with non-EU partners, or how cross-border services sector activity will be sustained and facilitated. Additionally, there are apparently evident internal contradictions, for instance Britain wants continued frictionless access to the EU market for fish products, whilst at the same time re-establishing control over British waters. Since there has been multilateral co-operation over North Sea resources, the British position seems to be advocating a return to the status quo prior to the 1888 North Sea Fisheries Convention.

Davis has stated that he resigned because he felt uncomfortable with this Soft-Brexit strategy that conceded too much to the EU, breached previous commitments to leave the Single Market and Customs Union and, as it did not offer a resolution to the Northern Ireland border issue, was in all likelihood to be rejected by the EU. The strategy also seems to adopt a piecemeal approach to the Single Market Four Freedoms, a stance already widely rejected by the EU27.

The Prime Minister has moved quickly to stabilise the situation, appointing Dominic Raab, a leave advocate, as the new Brexit Minister. However, with the government scrambling to secure its position with meetings not only with Conservative 1922 Committee of backbenchers, but also Labour MPs favourable to the government’s strategy, it is hard to avoid the impression of chaos at the heart of government.



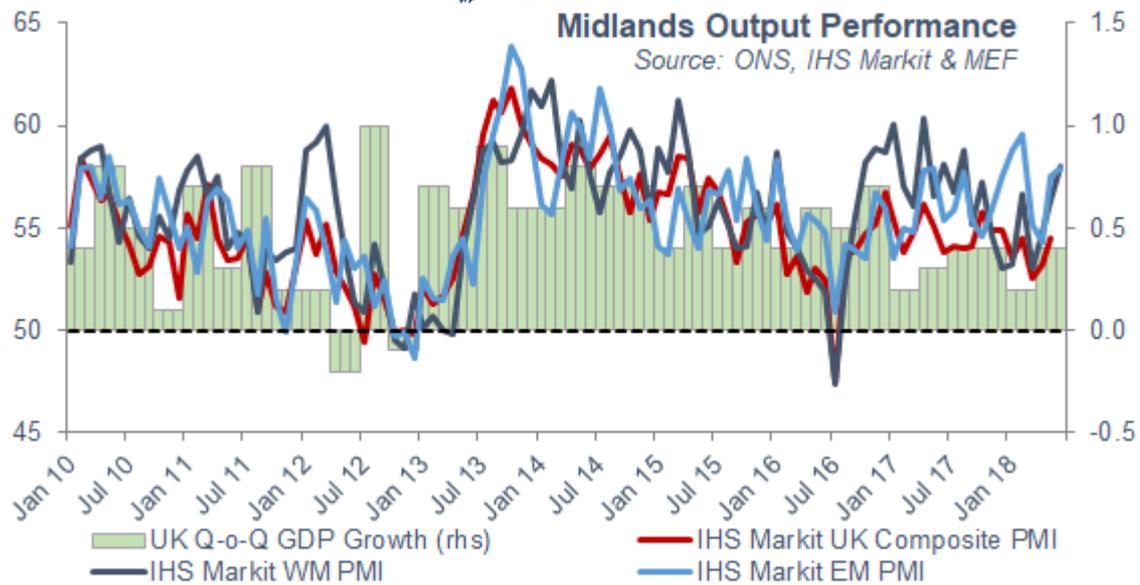
Given the time available to agree a coherent exit agreement, the prospect of no deal being reached is rising and the prospect of Britain reverting to WTO trading arrangements in April 2019 seemingly inevitable.

The contrast with the harmonious and professional approach of the England World Cup team is stark, offering an incisive example of operating internationally. In contrast to a nation divided by Brexit, their approach offers the tantalising, if ephemeral, prospect of an inclusive English identity united in diversity.

In reality, the evident Parliamentary disarray and seeming inability to come up with a coherent response to the Brexit referendum, raises prospects of a change in Prime Minister, or even government, as well as a General Election in the run-up to Brexit, and highlights some serious risks to political stability.

Midlands Economic Prospects

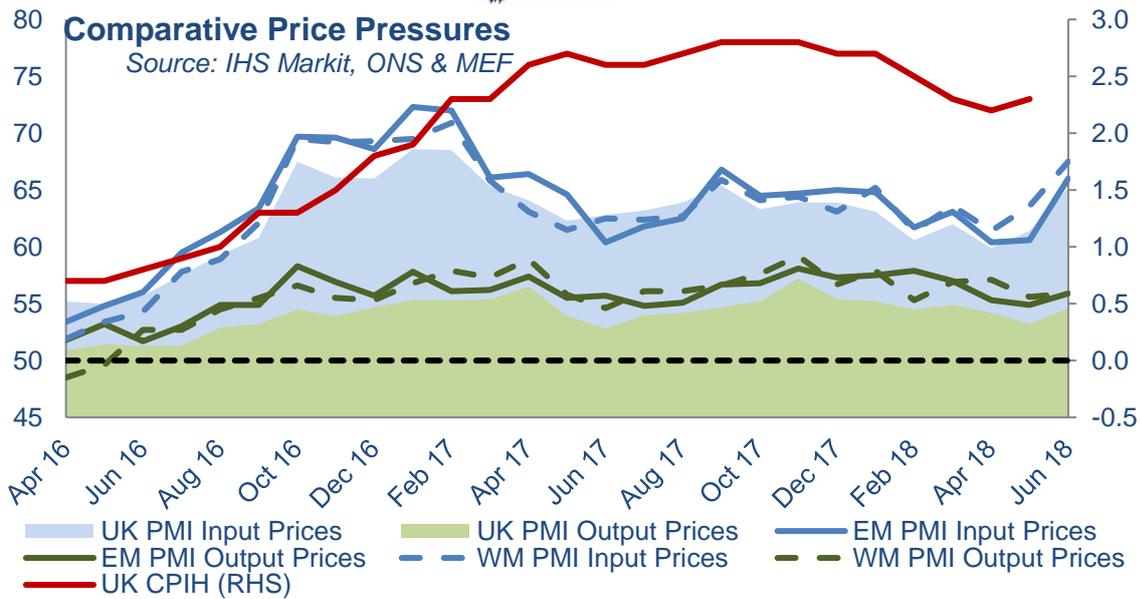
Government instability over Brexit is only one set of political factors that could constrain regional economic prospects. The divisive G7 summit and the antagonisms evident between the participants is but one example of the extreme stresses President Trump's cavalier approach to international relations is having on the post-1948 international settlement. Indeed, Trump's controversial visit to Britain this week is likely to be overshadowed by this week's NATO summit, which may foreshadow its demise. However, of perhaps greater significance, is the currently scheduled Helsinki summit between Trump and Putin, which may entrench an American strategy to establish a tripolar framework comprising the United States, the People's Republic of China and the Russian Federation. At this critical juncture, the divisions within the EU, not just with Britain, have stymied any approach to develop a collective response.



Nevertheless, the Midlands economy continues to perform robustly. According to the latest NatWest EM and WM PMIs in June, both regions were the strongest performers. The WM economy recorded the strongest performance, registering 58 in June compared to 56.3 in the month previous, whereas the EM economy was the next strongest with the PMI improving to 57.9 compared to 57.5 in May. Moreover, once again, both the WM and EM performance was stronger than that recorded nationally, with the UK Composite PMI registering 55.2 in June, firming from 54.5 in May.

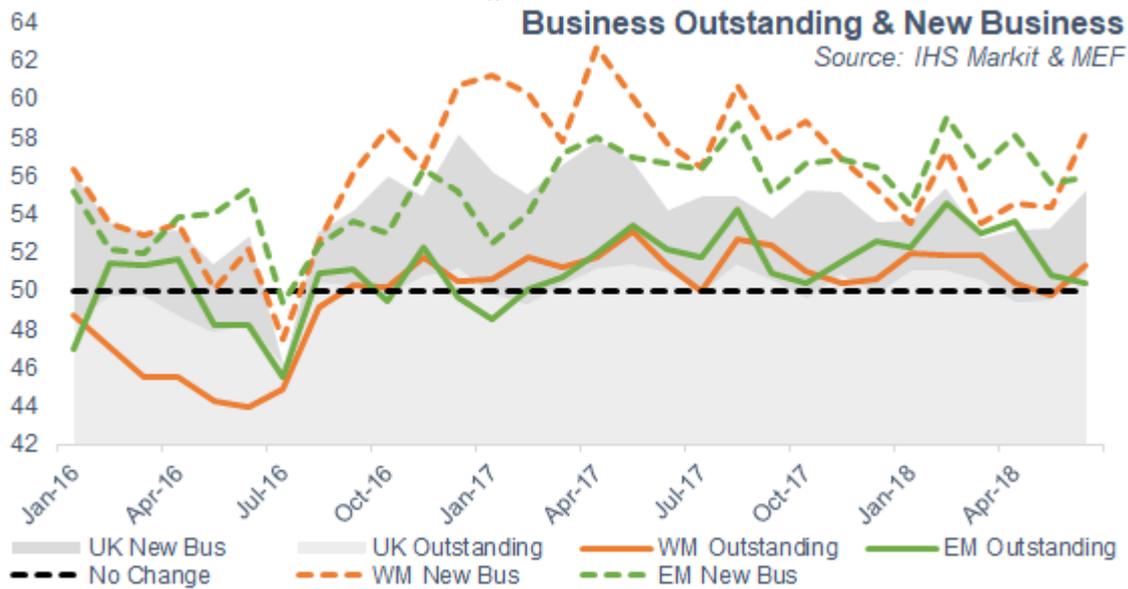
The strengthening of WM economic activity was founded on an increase in new orders and increased work backlogs, in both the manufacturing and services sectors. The increased rate of growth was the fastest since the third quarter of last year. Fresh demand contributed to the acceleration in activity. There is some evidence of capacity constraints, although enterprises continued to increase recruitment. Tightening price pressures continue to be a factor.

Similarly, in the EM, economic activity continued to advance at a four-month high. This was based on the continued strengthening of new orders as well as firming demand. As with the WM, performance in the second quarter continued to improve markedly. However, the rate of new job creation appears to be slowing, and may be a result of tightening cost pressures.

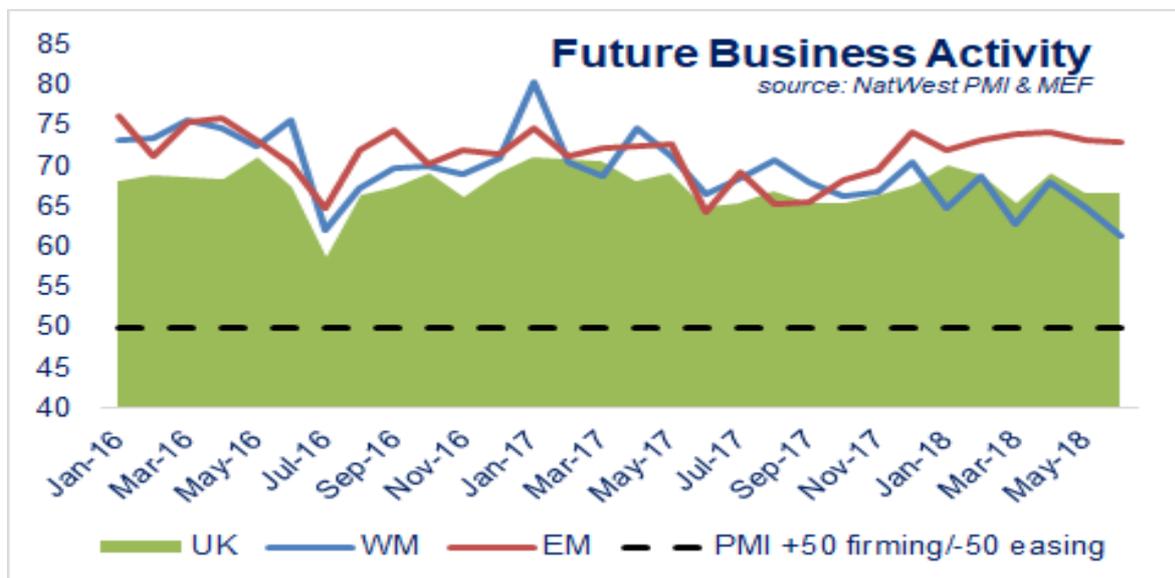


Price pressures, both in terms of input and output costs, do appear to be tightening at a more intense rate than recently registered, with the both the EM and WM recording more acute price pressures than those seen nationally. The recent up-tick in the national CPI, recorded in May, firming to 2.3%, may be a precursor for further strengthening price pressures. The measure, CPI, may also become more volatile as the ONS may move the emphasis of the measure for a retail-basket based measure to a more internet-focussed basket.

”Julian Beer, Deputy Vice-Chancellor at Birmingham City University commented: “The region continues to be the strongest performer nationally, with confidence remaining strong on future business potential. Employment demand appears to be easy, but at elevate levels, with some concern regarding capacity constraints suggesting investment capital demand may firm. As ever, the lack of clarity on the eventual outcome of Brexit, or the process by which it will be actualised, continues to be a factor.”



The improvement in activity in both the EM and WM can be largely attributed to the strengthening of new business demand and the recovery in outstanding work pipelines, aspects in which both regions performed more strongly than nationally.



Notwithstanding the continued lack of clarity over the actual nature of Brexit, despite its imminence, business confidence, as recorded by assessments of anticipated future business, remains robust. Nevertheless, whilst optimism in the EM continues to be much stronger than that nationally, WM confidence levels have eased albeit at elevated levels.

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Notes to the Editor:

Birmingham City University: Centre for Brexit Studies

The Centre for Brexit Studies (CBS) is an academic facility which supports and encourages the existing work on Brexit within Birmingham City University's schools and faculties. It promotes rigorous engagement with the multifaceted aspects of the "Leave" and "Remain" perspectives in order to enhance understanding of the consequences of withdrawing from the EU. Whilst CBS will have a national focus we will also specifically investigate the impact on Birmingham and the surrounding areas. The work of CBS is primarily undertaken by Birmingham City University staff and students, but we will provide collaborative opportunities with interested businesses, professional organisations and civil society. Our work will be accessible to the general public and we will hold conferences, workshops and seminars to disseminate knowledge and encourage discussion on Brexit. The Centre website will also reference member's publications on Brexit issues.

Midlands Economic Forum:

The Midlands Economic Forum is a neutral, independent forum bringing together representatives of the public, private and voluntary sectors to evaluate real trends in the local economy. Midlands Economic Forum is part of the West Midlands Economic Forum Group.

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