Manchester City Council
Report for Information

Report to: Economy Scrutiny Committee – 5 September 2019

Subject: The Impact of Brexit on the Manchester Economy

Report of: Strategic Director (Growth and Development)

Summary

This report provides an update on current evidence about the impact felt by Manchester's economy since the European Union Referendum in 2016, as well as identifying a number of potential risks arising from the decision to leave the European Union. It covers different aspects of Manchester's economy, including job growth; residential, commercial and infrastructure development; and the impact on the city's population, including international student numbers.

Recommendations

The Committee are asked to:

1. Note and comment on the content of the report and in particular note the underlying strengths of the local economy in recent years as well as the risks that Brexit may potentially pose to Manchester in the form of:
   a. Manchester's ability to attract and retain skilled workers;
   b. The movement of people and goods across borders;
   c. A reduction in the funding which the European Union currently makes available for areas such as economic development, science and research; and
   d. Broader negative shocks to the UK's economy.

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

Alignment to the Our Manchester Strategy Outcomes (if applicable)

Manchester Strategy outcomes	Summary of how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Manchester currently has a thriving economy which could be impacted by Brexit in a number of ways, as outlined in this report.
A highly skilled city: world class and home grown talent sustaining the city's economic success	Manchester's skills supply is likely to be impacted by Brexit, with less migration of EU nationals and potentially fewer EU international students.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Manchester's communities' make up may change due to the demographic impacts of Brexit.
A liveable and low carbon city: a destination of choice to live, visit, work	Manchester currently has a flourishing residential and commercial development sector, making Manchester a great place to live. Manchester also has a strong visitor economy, being the 3rd most visited UK destination.
A connected city: world class infrastructure and connectivity to drive growth	Major infrastructure projects could be affected by Brexit in relation to labour and materials costs. Manchester's visitor economy

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

EU Funding Implications Following the EU Referendum Decision, Resources and Governance Scrutiny Committee (December 2016)

The Implications of Brexit, Executive (October 2016)

Implications of Brexit, Executive (July 2016)

Implications of Brexit, Resources and Governance Scrutiny Committee (July 2016)

European Union Referendum – Potential Implications for Manchester of the UK Leaving the EU, Executive (March 2016)

1.0 Introduction

1.1 In April 2019, European Union (EU) leaders granted the United Kingdom (UK) a six month extension to the Brexit process, setting a new deadline of 31 October 2019 in order to ratify the Withdrawal Agreement or prepare to leave the EU with 'no deal'.

1.2 The new Prime Minister Boris Johnson has made clear that the existing Withdrawal Agreement (agreed by the UK and EU on 25 November 2018) will not come back before parliament. As such, if the UK and EU fail to sign a new Withdrawal Agreement, under law the UK will leave the EU on 31 October 2019, with all EU legislation and agreements ceasing to apply to the UK.

1.3 Prior to the EU Referendum, the Executive received a report at their 2 March 2016 meeting on the potential implications for Manchester of the UK leaving the European Union. Following the result of the EU Referendum, the Executive considered a report at their 27 July 2016 meeting on the implications for Manchester and Greater Manchester of Brexit, with a follow up report received at the 19 October 2016 meeting. Reports were also received by the Resources and Governance Scrutiny Committee specifically on EU funding implications at their 21 July and 8 December 2016 meetings.

1.4 It is important to note that there is still a huge level of uncertainty surrounding the Brexit process, both in relation to the manner in which the UK will leave the EU and what the subsequent effects on the UK will be. As such, the likely impact of Brexit on Manchester's economy are still unknown. This report aims to highlight evidence of any impact on the local economy since the EU Referendum in 2016 and what the potential impacts for Manchester could be, given the city's current economic state and the broader UK economy. How Manchester is impacted by Brexit will depend on the terms of the UK's Withdrawal Agreement (if there is one), the UK's future policy on immigration (both EU and non-EU migration) and the terms of any future trade deals between the UK and countries / international trade bodies.

1.5 Subrahmaniam Krishnan Harihara, Head of Research at Greater Manchester Chamber of Commerce, is attending the Committee to discuss the impact of Brexit on existing Manchester businesses.

2.0 Manchester's Economy

2.1 Manchester's current economic position is broadly positive. The city's economic performance continues to exceed both regional and national averages. A new and diversified employment market is emerging in a number of important sectors. There are currently c.425,000 jobs in Manchester, forecast to grow by an additional c.67,600 by 2038[1], mainly in Financial and Professional (20,000 new jobs) and Health (11,300 new jobs) sectors. However, recent commercial announcements suggest that this target may be met and surpassed before 2038.

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[1] Source: GMFM 2018

Examples of recent new investments include:

- Aviva Investors - 1 million sqft of mixed use commercial space at Enterprise City
- The Hut Group - 10,000 jobs at Airport City
- Amazon - 600 jobs at Hanover House
- booking.com - 1,700 jobs at Manchester Goods Yard, including 200 new jobs

2.2 A growing and successful commercial pipeline

2.3 The city centre office market has benefitted from an additional c.435,000m^2 of new Grade A space over the last two years[2]; a further c.480,000m^2 is under construction or planned. City centre offices tend to attract higher numbers of skilled jobs and employers who pay the highest business rates.

2.4 In total in 2018, there was c.215,000m^2 of new commercial space delivered across Manchester, including c.140,000m^2 of new office space; c.30,000m^2 of retail space; c.45,000m^2 of new educational space; and 840 additional hotel rooms (see Appendix 1). High profile completions in 2018 include 17,356m^2 of Grade A office space at Plot 8 - First Street; 8,363m^2 of Grade A office space at Hanover House (NOMA); and the 172 room AC Marriott Hotel at New Cross.

2.5 Looking forward, over 1,000,000m^2 of commercial space is expected to complete over the next three years (see Appendix 2). Over 75% of all floorspace currently in the planning system is in the city centre (mostly offices and hotels), with four of the five largest commercial developments in Manchester planned for the city centre:

- Manchester Engineering Campus Development (on-site) – total of 71,422m^2, including 70,590m^2 education / training and 852m^2 retail
- 2 and 3 Angel Square (approved) – total of 51,213m^2, including 49,622m^2 office and 1,591m^2 retail
- St Michael's (approved) – total of 41,668m^2, including 16,251m^2 office, 3,333m^2 retail and 246 hotel rooms
- Circle Square Phase 1b - Blocks 2 to 4 (on-site) – total of 33,345m^2, including 28,394m^2 office and 4,951m^2 retail

2.6 Outside of the city centre, development is concentrated around Manchester Airport. Industrial uses are more prevalent, including over 70,000m^2 across the first three phases of the proposed development by The Hut Group and a further c.60,000m^2 at ICON (including c.42,000m^2 of industrial space)[3].

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[2] Source: Deloitte Crane Survey

[3] Source: https://www.placenorthwest.co.uk/news/airport-city-momentum-continues-with-460000-sq-ft-shed/

2.7 City centre office market

2.8 Following exceptionally strong completion rates in 2017, last year was a "record breaking year" for Manchester office take-up, with deals totalling over 160,000m^2 agreed[4]. Despite Brexit uncertainty, demand is strong, with recent estimates suggesting that further new Grade A supply is urgently required, with only approximately 6 months take-up available[5].

2.9 Take up has increased in tandem with a significant diversification in occupier profile, with over a quarter of space taken by Consumer Services & Leisure operators, and almost a fifth by Creative Industries. This is a significant change from 2014, when 35% of all take-up was by Professional Services - see Appendix 3. Notable deals include booking.com and Jaguar Land Rover. These growing alternative occupiers allied to emerging sectors - such as Science, Technology, Culture, Digital and Media - have taken advantage of the unique mix of accommodation choice and increasingly significant talent pool available in the city.

2.10 Developments such as NOMA and the redevelopment of St Peter's Square have increased the premium offer with large floor plates for corporate occupiers in headline locations across the city. The growing radius of influence of the Spinningfields Campus is evident at 125 Deansgate, as is the ongoing office-led re-imagination of the area around Brazennose Street and Lincoln Square.

2.11 Future confidence is reflected in the c.480,000m^2 of office space currently under construction or planned in the city centre. However, there are challenges relating to the secondary office market - not least managing demand for space against residential conversions, whilst also maintaining a portfolio of stock suitable for the growing number of alternative occupiers seeking flexible space outside of the higher priced market.

2.12 Some underutilised space is starting to be brought back into use, with office refurbishments accounting for all seven office schemes completed in the last year, including Hanover House (8,363m^2 taken by Amazon) and Windmill Green (formerly London Scottish House). There remains significant demand including from alternative occupiers for flexible workspace. According to Colliers, by 2022 total city centre flexible working space is expected to have grown by over 50% to c.60,000m^2, catering for over 10,000 workers.

2.13 Retail trends

2.14 The continued success of the office market in the city has been somewhat tempered by a decline in retail linked to the growth of online retailing. In terms of comparison goods, the threats to a number of national high street multiples have been well publicised. On the convenience side, gaps have emerged in the city centre with limited new openings and top up shopping increasingly the norm. Nevertheless, the Arndale continues to buck the trend with a series of

[4] Source: CRBE
[5] Source: Cushman & Wakefield - Property Market Outlook 2019

new lets recently announced. The city's food and beverage market continues to flourish, with a growing evening and lunchtime economy and a new business base in the increasingly flexible digital, tech and media sectors.

2.15 Research and the knowledge economy

2.16 Another burgeoning sector within Manchester is the knowledge economy, mainly located in the Oxford Road Corridor - which currently accounts for 20% of the city's economic output[6]. The Oxford Road Corridor has some of the best research and incubation facilities in the country, largely predicated upon research led by the two Higher Education Institutions or the University Hospital NHS Foundation Trust, and the commercial opportunities and agglomeration effects which this generates for knowledge intensive businesses. For example, the discovery of graphene at the University of Manchester directly led to the development of the National Graphene Institute and the Graphene Engineering Innovation Centre in Manchester.

2.17 As such, it is a great concern to the city that vital research links with the EU could be compromised by Brexit. At the start of the year, Prof Dame Nancy Rothwell, President and Vice-Chancellor of the University of Manchester, signed an open letter from Universities UK, Guild HE, the Russell Group, Million Plus and University Alliance – which collectively represent more than 150 higher education providers across the UK, employing c.50,000 EU nationals – to politicians. It warned of the risks to research, staff and students if the UK leaves the EU without a deal describing it as "*an academic, cultural and scientific setback from which it would take decades to recover*."

2.18 European Research Council (ERC) and Marie Skłodowska-Curie Actions schemes fund vital scientific research and will be worth an estimated €1.3 billion to the UK between 2019 and 2021. The UK is currently the most successful country in hosting ERC grantees (ahead of Germany) but would immediately become ineligible in the event of a no deal Brexit. At the University of Manchester, key research programmes are at risk of being disrupted include work life sciences and advanced materials. Therefore, clearly any restrictions on funding for Manchester's universities would also have an impact upon the development of high value-added, high-growth companies and the various major regeneration projects planned that are likely to utilise the research and skills base of the Oxford Road Corridor institutions.

2.19 Skills and employment

2.20 Data compiled by the Office of National Statistics shows that Brexit is already having a significant impact on the wider UK jobs market. The number of EU nationals working in the UK fell by 132,000 to 2.25 million people between the third quarter of 2017 and the third quarter of 2018. This is thought to be driven both by the devaluation of the British Pound (see Section 3), uncertainty about future movement of labour and the broader political climate. Employers are also warning that it is getting harder for firms to hire qualified staff: for

[6] Source: Oxford Road Corridor - Strategic Vision to 2025

February - April 2019, the ONS estimate that there were 846,000 vacancies in the UK, 28,000 more vacancies than one year earlier.

2.21 The Greater Manchester Chamber of Commerce undertakes a Quarterly Economic Survey (QES) with its members, which feeds into the national QES, the UK's largest business confidence survey. The Chamber's June 2019 QES reported that, whilst long-term confidence in Greater Manchester remains strong, employers that were recruiting reported difficulty in finding qualified staff. Further reductions in skilled labour coming from the EU to work in region is likely to exacerbate this further.

2.22 Several of Manchester's sectors currently rely heavily on the employment of skilled EU nationals. If there is a decrease in EU nationals working in the city, the following sectors could face challenges, impacting on Manchester's growth ambitions:

- Distribution, Hotels and Restaurants – according to the Migration Observatory, there are 24,000 EU nationals working in the Distribution, Hotels and Restaurant sector across Greater Manchester, many of whom will be in the city centre and the Airport[7]. With over 5,000 additional rooms approved for development in the city centre alone, the Hotel sector could face a challenge in recruiting staff in the event of a significant reduction in the number of EU nationals coming to work in the city.

- Manufacturing and Construction - using ONS data, the Migration Observatory estimated that the Manufacturing and Construction sector represented the second biggest employer of EU nationals in Greater Manchester, employing c.15,000 people - most of whom are expected to be working in the city centre given the level of development[8]. In June 2019, the Greater Manchester Chamber of Commerce reported that more than 90% of employers that are recruiting in the Construction sector reported difficulties in finding qualified staff[9]. Manchester's residential, commercial and infrastructure pipeline could be affected by a decrease in the employment of EU nationals.

- Public Sector, including Health and Social Care - the city's key public services rely heavily on international workers, with c.13,000 EU nationals working within the Public Admin, Education, and Health sector in Greater Manchester[10]. Data assembled by "Best for Britain" - a pro-second

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[7] Source: https://www.gmcameetings.co.uk/download/meetings/id/4000/8_brexit
[8] Source: Greater Manchester Brexit Economic Impact Analysis - GMCA (14 December 2018) - https://www.gmcameetings.co.uk/download/meetings/id/4000/8_brexit
[9] Source: https://www.gmchamber.co.uk/news-opinions/survey-shows-confidence-in-greater-manchester-despite-brexit-uncertainty/?utm_medium=email&utm_campaign=The%20Brief%20-%20July%203rd&utm_content=The%20Brief%20-%20July%203rd+CID_69d7fd6a96188d14bbb56026b6be7467&utm_source=Email%20marketing%20software&utm_term=READ%20MORE
[10] Source: https://www.gmcameetings.co.uk/download/meetings/id/4000/8_brexit

referendum group[11] - identified that the hospital trusts that responded to Freedom of Information requests recorded a 22% increase in the number of EU nationals leaving their jobs between 2016 and 2017. This is a critical issue for Manchester, with the region's large Health and Social Care sector heavily reliant on EU nationals. Without retaining or replacing these skilled workers, it will be difficult to fully deliver the objectives of the £6bn Health and Social Care budget devolution. Work is currently being undertaken at the city region level to support health and social care workers to complete the EU settlement scheme process; nevertheless, the uncertainty alone is will almost certainly cause some staff to reconsider their position.

- Higher Education - universities reported a more modest increase of 10% in the number of EU nationals leaving jobs at their institutions; however, the number of leavers rose to 26% at the University of Manchester. Reduction in EU nationals could impact our universities' research and teaching capacity going forwards.

2.23 If Manchester is going to maintain and capitalise on its growth opportunities, it is imperative that employers are able to attract and retain the required workers and provide the right training to Manchester residents in order to avoid the risk of a shortage of skills.

2.24 EU Funding Streams

2.25 The city of Manchester has a long and successful history of accessing European funding. These funds have supported investments into skills and employment; regeneration; business support; science and innovation; the shift toward a low carbon economy; and managing climate change.

2.26 In recent years, allocations of European Commission (EC) Structural Funds have been made at a Greater Manchester level, with the current 2014-20 programme valued at €400m of grants from the EC which, when added to local match funding, gives a total programme value of well over €800m of investment.

2.27 The UK government have issued a series of guarantees that funding for current projects will be protected in the event of a no deal Brexit. For future funding, the UK government proposal is for a new funding programme called the UK Shared Prosperity Fund (UKSPF) to replace current EC funding.

2.28 A key area of current EC funding is through transnational research and innovation programmes. These are vital to support our universities and local authorities, and currently fund a range of projects in the Manchester. It is unclear how the UK will continue to be able to participate in these programmes in the event of a no deal Brexit.

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[11] Data from 82 hospital trusts and 116 universities, among other public bodies - https://www.theguardian.com/politics/2018/nov/26/figures-show-rise-in-eu-nationals-exiting-public-sector-after-brexit-vote

2.29 Through the Greater Manchester Combined Authority, the Local Government Association and Core Cities, the Council is engaged in consultations and case-making to influence the development of the UKSPF. To date, the position from central government is unclear but the basic principles we are seeking is for there to be no loss of funding overall and for devolved local decision-making on the use of funds in the future.

3.0 Devaluation of the British Pound and the Impact on Manchester's Economy

3.1 The most significant economic impact of EU Referendum result has been the striking devaluation of the British Pound (see Appendix 4). The consequences of the devaluation differ for different sectors and aspects of the economy. However, generally speaking those that rely on imported goods have faced increases in costs, whereas exporters and overseas investors may have found the UK a more financially attractive place to invest.

3.2 Visitor economy

3.3 Manchester's visitor economy has performed well over recent years, with the total number of international visits to Manchester increasing by 42% over the period 2013 - 2018, compared to the UK growth rate of 16%[12]. Manchester is the third most visited UK destination by international visitors (after London and Edinburgh), with 1.41 million visitors in 2018. Visitors from the EU - particularly Ireland, Germany, Netherlands and Spain - generated the highest volume of international leisure visits, whilst the USA and China represented the highest volume of non-EU visitors.

3.4 Manchester's booming visitor economy generates significant amounts of Gross Value Added (GVA) and employs many residents. The overall value of foreign tourism to the region rose from £475m in 2016 to £668m to 2017 - an increase of £193m - driven mainly by a growth in leisure trips. City centre hotels have become a major component of growth in commercial developments for the city and account for the single fastest growth contributor to Manchester's business rates base, with a 9.4% increase in rates value over last year.

3.5 A significant number of new hotel developments opened in 2018, including the dual-branded Crowne Plaza and Staybridge Suites Manchester (a combined 328 rooms), Hotel Indigo Manchester (187 rooms), AC Hotel (172 rooms), Whitworth Locke (159 rooms) and the Roomzzz Manchester Corn Exchange (114 rooms). This increased room capacity by 10% over the 12 month period.

3.6 Manchester city centre now has a stock count of 10,500 hotel rooms, increasing to 14,000 rooms in the wider Manchester local authority area. Following on from the opening of the 5-star Dakota Manchester hotel (137 rooms) earlier in 2019, the sector's considerable growth is set to continue with

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[12] Source: International Passenger Survey 2018

a number of additional properties due to open this year, including the London Warehouse Aparthotel (166 rooms), The Stock Exchange Hotel (41 rooms), and Staying Cool (41 rooms), with record levels of new rooms then expected to come to market during 2020 and 2021. Despite this unprecedented level of new supply, average occupancy remained at 81% in 2018, reaching 100% at certain points in the year linked to a number of high profile events and instances of high demand[13]. Linked to the success of the hotel sector is business tourism, where Manchester has been proactive in the European market, with approximately 60% of conference business coming through the convention bureau from Europe[14].

3.7 The evolution of the Northern Quarter as a cultural hub for the North links the growth of the visitor economy with the strength of the hospitality sector, hotels and also the short-term lettings market (particularly Airbnb), which has emerged over recent years and has been consolidating in this neighbourhood.

3.8 Manchester Airport served 28.6m passengers in 2018/19. The Airport is due to complete the next phase of its £1bn Transformation Programme in 2020 with an extension to Terminal 2, allowing Manchester to further fulfil its potential as the North's global hub. However, despite welcoming the UK government's and the EU's commitment to maintaining vital air connectivity between the UK and Europe in the event of a no deal Brexit, Manchester Airport Group's CEO Charlie Cornish has raised concerns that "*continued uncertainty about Brexit will ultimately act as a drag on the economy and damage consumer confidence*"[15].

3.9 As well as consumer confidence, perhaps the most significant risk Brexit places on the growth of Manchester's visitor economy is that it is heavily reliant on a significant EU national workforce - not only in hotels (as outlined in Section 2.22) but in the food and beverage sector - which is heavily reliant on visitor trade to the city.

3.10 <u>Overseas investment into developments in Manchester</u>

3.11 The devaluation of the pound following the EU Referendum has led to an increase in development finance from overseas - both from institutional investors and via off-plan sales - which has helped to trigger one of the most significant periods of housebuilding the city has experienced post-war (2,897 new homes built in 2018-19 and a further c.13,000 new homes expected to be completed by 2021-22).

3.12 The city has progressed a number of innovative new partnerships to increase the supply of housing across Manchester. Investment in the Northern Gateway in particular has the potential to unlock large scale, high volume, multi-tenure housing sites, with the potential to grow and diversify the housing offer in a sustainable location close to employment opportunities.

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[13] Source: STR Hotel Performance
[14] Source: http://www.marketingmanchester.com/wp-content/uploads/2019/06/GM-Business-Tourism-Strategy-2019-2025.pdf
[15] Source: https://mediacentre.magairports.com/mag-continues-to-grow-despite-brexit-uncertainty/

3.13 However, with 99 schemes currently under construction across the city (including 45 in the city centre), Manchester's market is increasingly pressured in relation to build costs and competition for construction employees. More developers are having to import materials (in the context of an increasingly weak British Pound) and the ultra-competitive situation is allowing construction workers the freedom to move between sites on the promise of higher wages, with the direct implication of significantly increases labour costs. Overall, it is estimated that build costs have risen by 15% over the last two years alone (from c.£150/sqft to £180/sqft)[16].

3.14 Against this backdrop, Brexit poses a significant risk to Manchester's objectives in relation to residential growth. Greater devaluation of the British Pound would increase material costs further and a reduction of skilled labour from the EU will increase the construction skills shortage.

3.15 Infrastructure Projects

3.16 To improve the city's connectivity and increase productivity, Manchester and the city region are undertaking a number of key infrastructure projects. Amongst others, these include:

- The extension of the Metrolink link to Trafford Park;
- Great Ancoats Street Improvement Scheme;
- Continuing to lobby for High Speed 2 and Northern Powerhouse Rail.

3.17 Infrastructure projects are typically labour-intensive. Like with residential and commercial development, a reduction in the number of EU nationals working in Manchester could give rise to challenges in sourcing the labour required, and could increase costs of labour and materials. As such, it is important to ensure a continued talent pipeline, both upskilling and retraining Manchester residents, and to keep these matters under close review.

3.18 Devaluation – overseas vs domestic sales

3.19 The devaluation of the British Pound has also acted to provide buoyancy to the residential sales market by generating demand from individual overseas buyers attracted to the UK by the opportunity to buy property at a significantly reduced price. Evidence suggests that buyers from China and Japan saved 16% and 27% respectively on the purchase price of a city centre apartment compared to domestic investors buying in Sterling. As a result, overseas investors have been able to carry the additional costs associated with the 3% Stamp Duty Land Tax levied on purchases for second homes.

3.20 In recent years, domestic buyers have been able to benefit from an accessible mortgage market linked to the Bank of England maintaining a very low base

[16] Source: https://www.placenorthwest.co.uk/news/what-went-wrong-at-pochins/

interest rate[17]. Yet, in the past few months this appealing financial climate for owner occupiers has been tempered by the general uncertainty created by Brexit, with agents reporting a drop off in sales activity prior to the UK's initial exit date of 29 March 2019. Official reports suggest the Bank of England's intention is still to gradually increase interest rates closer to the pre-recessionary norm but only if the UK's departure from the EU goes smoothly. However, in the event of a no deal Brexit, the most likely response will be to keep rates at the current low, in order to attempt to provide stimulus to the housing market in the UK by sustaining an affordable borrowing rate.

3.21 Foreign Direct Investment

3.22 Manchester has a strong track record of attracting foreign direct investment (FDI) and has a number of longstanding international relationships. A buoyant economy, strategic development sites and an international airport have made Manchester an attractive investment proposition for investment. The Council continues to work closely with colleagues at MIDAS, the Manchester China Forum and Manchester India Partnership to promote the city and wider region to achieve our international ambitions.

3.23 Figures from the Department for International Trade for 2018/19 show that the North West attracted the fourth most FDI of any UK region (behind London, the South East and the West Midlands), with 142 FDI projects creating 4,663 new jobs[18]. However, the current environment for attracting FDI is incredibly challenging: FDI into the UK went down by 15% in terms of investment projects and 25% in terms of new jobs created from FDI. The uncertainty of Brexit is likely to be having a large impact on the UK's attractiveness; this is likely to remain as future trade relationships continue to be subject to negotiation. It is essential that work continues with Greater Manchester partners to promote the city and region to secure possible investment, and help to alleviate these risks.

4.0 EU and Non-EU Migration

4.1 International immigration has acted as a major accelerator to population growth both nationally and in Manchester for many years. In particular, non-EU immigrant households have tended to have higher birth rates than the indigenous population; it is this natural increase which has driven, and is anticipated to drive, much of Manchester's future population growth in the period to 2021 and beyond. Estimates for 2018[19] indicate that European nationalities make up nearly half of Manchester's non-British residents (46%) but around one quarter are South Asian and the proportion is rising (see Appendix 5).

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[17] At the start of August, the Monetary Policy Committee (MPC) voted unanimously to keep interest rates at 0.75%

[18] Source: https://www.gov.uk/government/statistics/department-for-international-trade-inward-investment-results-2018-to-2019

[19] Source: Annual population survey, Office for National Statistics 2018

4.2 Evidence from colleagues working across the NHS and in local schools suggest that this natural increase is placing greater demands on public services, particularly health and education. In terms of pupil numbers, there are currently more children living in Manchester than at any other point over the past 15 years, with children of Pakistani (16%) and African descent (12%) accounting for the 2nd and 3rd largest cohorts behind White British[20].

4.3 Whilst one indicator of EU migration, migrant workers' registrations for National Insurance numbers, is now lower in Manchester than two years ago, 2016 was the highest level on record and numbers remain consistent with those seen before that date. Within the overall figures, the current EU reduction is being driven by Spain and Poland, with Italy starting to show a decrease in the latest year. However, against these reductions are rising numbers of registrations from Pakistan, China and India, with Iran starting to feature in the twenty leading countries of origin[21].

4.4 Nationally, in the twelve months to June 2018, EU citizens added 74,000 to the UK population, the lowest number since Brexit was announced (provisional figures)[22]. However, non-EU net migration remains stable, with a higher net volume than seen from the EU at any point in the last ten years (+248,000). Gains of 13,000 more than seen in the previous year from non-EU migration balanced out the 13,000 reduction from the EU in the year to June 2018. This level of detail is not available at a local level.

5.0 Manchester's Student Population

5.1 Manchester's universities do not anticipate Brexit reducing the growth in international students coming to the city. In fact, the weakening of the British Pound following the Brexit vote has acted to strengthen demand from non-EU international students due to the significant savings now available on both tuition fees and the cost of living.

5.2 A significant proportion of the international migrants coming into the city are students. Data from the Higher Education Statistics Authority (HESA) reveals that there were 3,435 EU students enrolled at the University of Manchester and Manchester Metropolitan University in 2015/16 immediately prior to the EU referendum. The latest data from HESA for the 2017/18 academic year reveals that this number has actually increased to 3,800 EU students (in part, as a result of commitments given to underwrite EU students' home fee status for the duration of their course).[23]

5.3 The greatest growth has been seen in non-EU international students. Manchester's universities have extensive international recruitment strategies and are looking to respond to the changing demands of a student body which

[20] Source: Pupil Level Annual School Census, January 2018
[21] Source: National Insurance number allocations to adult overseas nationals entering the UK, DWP
[22] Source: Long-term international migration estimates, ONS
[23] There are currently 16,229 international students enrolled at the three Manchester Higher Education Institutions, 77% (12,509) of whom are from non-EU countries, including 5,028 from China and 1,142 from Malaysia.

is increasingly coming from countries such as China, Malaysia, India and Saudi Arabia. In the period from 2010/11 to 2017/18, the total number of non-EU international students enrolled at the University of Manchester and Manchester Metropolitan University has increased by almost a third from 9,824 to 12,781 students (HESA).

5.4 However, Brexit still represents a potential major challenge. In addition to research funding and supply chain issues (see section 2.15), depending on how the UK leaves the EU, a range of problems may arise, linked to enrolments and the movement of staff and students to and from the UK. In the event of a no deal Brexit, there will be an almost certain impact on the fees charged fees to students from the EU studying in the UK[24].

6.0 Impact of No Deal on the UK's Economic Growth

6.1 The major economic headwinds resulting from Brexit and the very real prospect of no deal is already causing an economic shift nationally. In August 2019, the Bank of England has cut its forecasts for UK economic growth over the next two years, revising it down to 1.3% in 2020 from a previous projection of 1.6%. It also warned that a no deal Brexit would hit the economy and trigger a further drop in the value of the British Pound. The Office of National Statistics released figures in August 2019 showing that the UK economy contracted in Q2, the first fall in quarterly GDP since 2012.

6.2 This echoes analysis by the National Institute of Economic and Social Research, who have warned that the UK may already be tipping into recession due to the effects of Brexit. It believes there is around a 25% chance that the economy will have shrunk from April to June this year, and will continue to do so in the following quarter. This independent Office for Budget Responsibility has also warned that a no deal Brexit risks plunging the UK into recession. If the UK leaves the EU without a deal, trade between the UK and EU would automatically revert to World Trade Organisation (WTO) rules. WTO rules mean that, until a Free Trade Agreement is reached, the UK and the EU would have to impose the same tariffs on trade with each other that they impose on other WTO members. There are significant implications of this for Manchester companies who import from or export to the EU, although the UK government has announced a temporary schedule of tariffs in the event of a no deal Brexit, which would mean that 87% of imports by value will be tariff-free[25].

6.3 If the UK does enter recession, there will be wide ranging impacts on the UK economy and consequently Manchester's. Effects are likely to be felt in a number of ways, including employment, development and public sector funding. It is essential to ensure that Manchester's economy remains resilient and diverse to weather any large economic shocks.

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[24] EU undergraduate students studying in the UK are currently subject to home university fees (up to £9,250 per year), rather than international student fees (anywhere between £10,000 and £38,000 per year).

[25] Source: https://www.gov.uk/government/news/temporary-tariff-regime-for-no-deal-brexit-published

7.0 Summary

7.1 Manchester's economy has been resilient over the past decade and there is reason to be optimistic that this will continue in a number of sectors. The emergence of a new and diversified employment market in a number of important sectors - including Technology, Culture and Digital - has given businesses the confidence to continue to invest in Manchester. This is reflected in a growing and successful commercial property pipeline, particularly evident in the city centre's office and hotel market and in the emergence of Manchester Airport as an internationally significant business location in its own right. Similarly, if the British Pound's value remains low, property investment and the cheaper costs of visiting the city will remain attractive internationally.

7.2 However, Manchester's post-industrial growth has in part been facilitated through an increasingly broad and deep labour market, including the movement of workers from the EU and beyond. With this in mind, Manchester is still open to significant risks linked to Brexit if leaving the UK means that the city region struggles to retain and / or attract enough sufficiently skilled workers to continue its growth. Sectors in Manchester that currently employ a large number of EU nationals include Manufacturing and Construction; Distribution, Hotels and Restaurants; and Public Administration, Education and Health.

7.3 It is important to note that, even at this advanced stage, there is no consensus on what the effects of Brexit will be on any aspect of the economy at any level. How Manchester weathers the post-Brexit economic climate will be closely linked to the terms of the UK's departure from the EU, future immigration policy and terms of future trade deals.

7.4 To ensure Manchester can react to any impact from Brexit, it is crucial that the city is resilient, continuing to adapt and respond to wider economic and political change, whilst also continuing to capitalise on the uniquely distinctive attributes that have given Manchester its competitive edge compared to other cities in recent years.

8.0 Recommendations

8.1 Recommendations to the Committee appear at the front of the report.