UK Powerhouse

Brexit Disruption Index – Autumn 2019

Foreword

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Welcome to the latest edition of UK Powerhouse.

Ahead of the latest deadline for Brexit, we've commissioned the Centre for Economic and Business Research (Cebr) to analyse the sectors of the UK economy they expect to be disrupted the most when we leave the EU.

The Brexit Disruption Index examines some of the key factors affecting our economy, and the results from this section make interesting reading.

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The report follows up some of the previous UK Powerhouse studies from earlier this year, which examined the difficult and complex issues of a subject that has divided the country.

In addition to this latest Brexit analysis, the report also provides the latest quarterly analysis of economic growth and job creation in 46 key locations across the UK.

I hope you find this latest report interesting. Please contact a member of our team if you have any questions about how Brexit will affect your business.

Executive Summary

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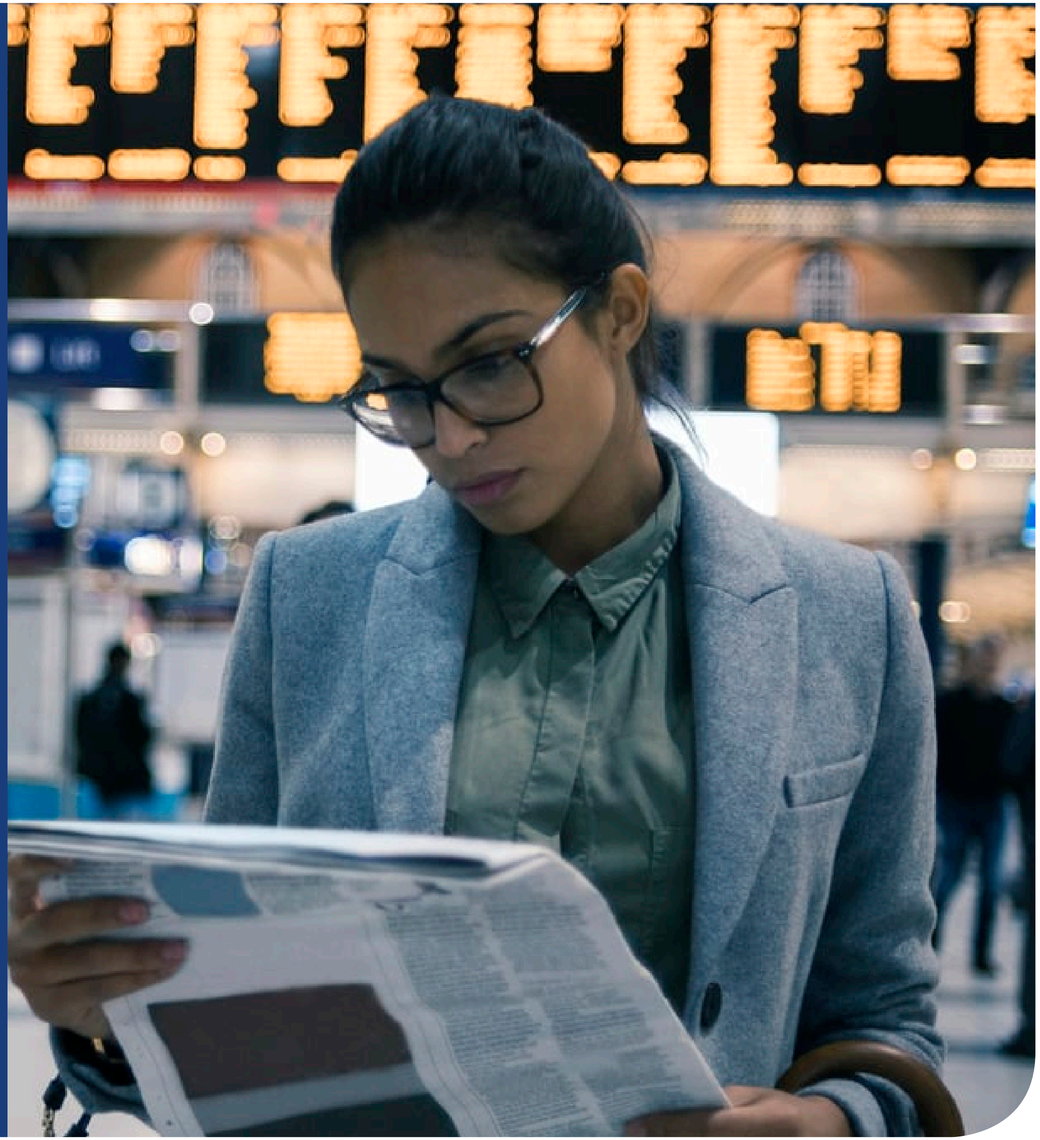
Official economic data sources for the UK's cities are often dated, and fail to provide a reliable snapshot of the UK's localised economies – the last set of regional economic accounts corresponds to the economy in 2017.

To more accurately estimate current economic activity, Cebr has utilised a range of more timely indicators to create a 'nowcast' of gross value added (GVA) and employment for a range of key cities across the UK. The latest outputs of this give us a picture of how the regional economies of the UK performed in Q2 2019.

With the UK posed to leave the EU at the end of October, this report presents a Brexit Disruption Index, which analyses the impact it will have on different industries.

UK Economic Performance

Q2 2019



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UK Economic Performance in Q2 2019

Key facts

7

UK GDP

GDP contracted on a quarterly basis for the first time in seven years, driven by businesses running down stocks that they'd accumulated in the run up to March's Brexit deadline.

Growth cities

Reading, Cambridge and Milton Keynes took the top three positions in the UK Powerhouse table for economic growth. The estimated expansion in output stood at 2.3%, 1.9% and 1.9% respectively.

Midlands engine

Outside the East of England and South East, Birmingham is the fastest growing UK Powerhouse city.

Best for jobs

For employment growth, the fastest growing city is estimated to have been Cambridge, with a 2.2% expansion. The East of England city is home to many large companies that support employment.

After a robust 0.5% quarter-on-quarter expansion in Q1, GDP growth turned negative in the second three months of the year, measuring -0.2%

Compared to the same quarter a year ago, UK GDP increased by 1.2%, which was down from 1.8% in Q1.

Looking at the Q2 economic output by sector, the production and construction sectors were behind the contraction. Following a 1.1% increase in production output in Q1, it fell by 1.4% in second three months.

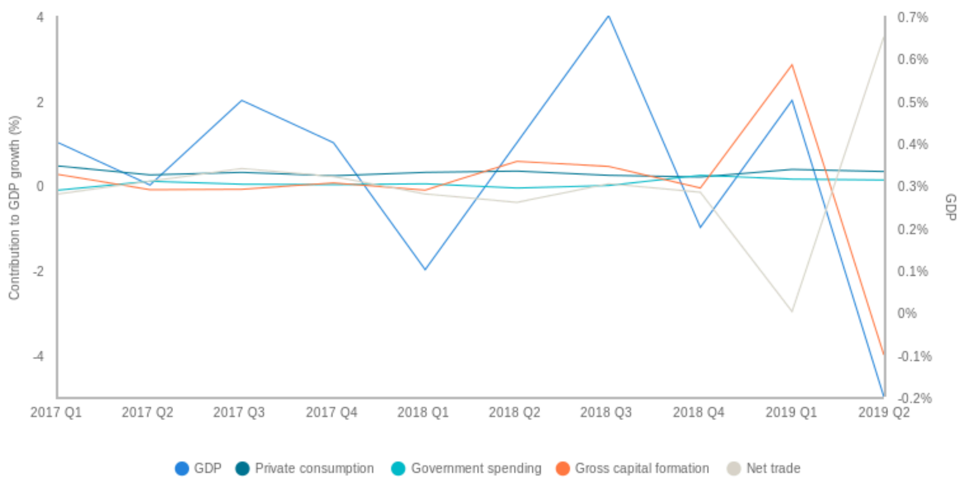
At 0.1%, quarterly services growth was positive, although this was the weakest figure in three years.

Figure 1 shows the expenditure breakdown of GDP into consumer, government and investment spending, as well as the effects of imports and exports.

The anticipated Brexit date in March 2019 had a dramatic impact on net trade and gross capital formation (i.e. investment).

Much of the instability in trade has come from movements of unspecified goods, including non-monetary gold (i.e. privately-owned gold in the form of bullion, coin, semi-manufactured or unwrought gold and scrap). This is offset by gross capital formation, which neutralises the effect on GDP.

Figure 1 - GDP percentage growth (RHS); UK expenditure components percentage contribution to GDP growth (LHS), quarter-on-quarter



Source: Office for National Statistics, Cebr analysis

Gross capital formation was also negatively affected in Q2 by manufacturers running down stocks they'd accumulated in anticipation of the Brexit deadline in March. Private consumption by households and government spending both contributed positively to GDP in Q2.

Employment

The UK's unemployment rate edged up to 3.9% in Q2 – 0.1% higher than in the three months to May.

> Despite this marginal increase, the unemployment rate remains low by historical standards, and is still below the level recorded at this point last year.

The employment rate rebounded to the joint-record high of 76.1% over the same period.

Brexit Disruption Index

Brexit Disruption Index

Key facts

Manufacturing

This sector is most likely to be affected by Brexit as any outcome that restricts freedom of trade will limit the UK's attractiveness as a place to do business, and hurt growth in the industry.

Construction

The high number of non-UK EU nationals working in this sector is likely to compound an already evident skills shortage in an industry which had 28,000 vacancies but only 9,310 individuals enrolled on courses in 2017.

Public administration and defence

This sector is least likely to be disrupted by Brexit due to its relative low share of EU-national workers, compared to other industries.

Consumer

Brexit's impact on business investment and consumers' willingness to spend will affect the consumer sector, where 10.3% of shops stood empty in July this year – the highest level since January 2015.

Finance and insurance

While these industries employ a high number of non-UK EU nationals, who'll be impacted by Brexit, 57% of exports and 66% of imports are to and from non-EU countries, allowing the sector to mitigate the effects of Brexit through its links across countries outside of the EU.

Accommodation and food services

Accommodation and food services can benefit from an increase in tourism – the lower exchange rate has already made travelling to the UK cheaper for tourists and contributed to a 6% increase in visitors from long-haul markets.

Brexit Disruption Index

In the short term, Brexit is going to disrupt the economy, regardless of the exact terms under which the UK leaves the European Union

The UK is structurally integrated with the EU's other member states.

Withdrawing will result in significant disruption for many industries, as cross-border supply chains, investment, the availability of labour, and demand for British goods and services are all affected.

Cebr has identified three key ways in which industries in the UK will be affected by Brexit.

These are:
1. Share of workers in each sector who are non-UK EU nationals – this is important to consider because it's likely that free movement of labour between the UK and the EU will be restricted after Brexit
2. Value of goods exports to the EU by sector – UK businesses could be subject to tariffs on exports to the EU after Brexit
3. Foreign direct investment (FDI) from the EU by sector – many businesses currently receive investment from the EU, and this may be lost after Brexit.

Cebr have also measured each indicator of disruption for the 18 key sectors of the UK economy. Each indicator was scored according to the likelihood that Brexit will disrupt businesses in each sector –100% indicates the sector that will see the most disruption compared to the other sectors, and 0% indicates the least disruption.

Brexit Disruption Index results[1]

	EU nationals working in the UK	Exports to the EU	EU FDI	Brexit Disruption Index
Manufacturing	69%	100%	100%	**90%**
Wholesale, retail, repair of vehicles	56%	100%	80%	**79%**
Admin and support services	79%	2%	28%	**36%**
Accommodation and food services	100%	0%	6%	**35%**
Transport and storage	84%	1%	14%	**33%**
Agriculture, forestry and fishing	65%	1%	5%	**24%**
Professional, scientific, technical	50%	7%	9%	**22%**
Information and communication	42%	3%	13%	**19%**
Construction	50%	0%	2%	**17%**
Financial and insurance	34%	1%	13%	**16%**
Other service activities	34%	1%	5%	**13%**
Water supply, sewerage, waste	27%	2%	6%	**11%**
Health and social work	27%	0%	5%	**11%**
Mining and quarrying	30%	1%	0%	**10%**
Education	23%	0%	5%	**9%**
Electricity, gas, air conditioning supply	7%	0%	16%	**8%**
Real estate activities	7%	0%	6%	**4%**

Source: Office for National Statistics, Eurostat, UK Data Service, Cebr analysis

[1] The latest data was used for each of the indicators, which was 2017 for investment and export data, and Q1 2019 for EU nationals working in the UK.

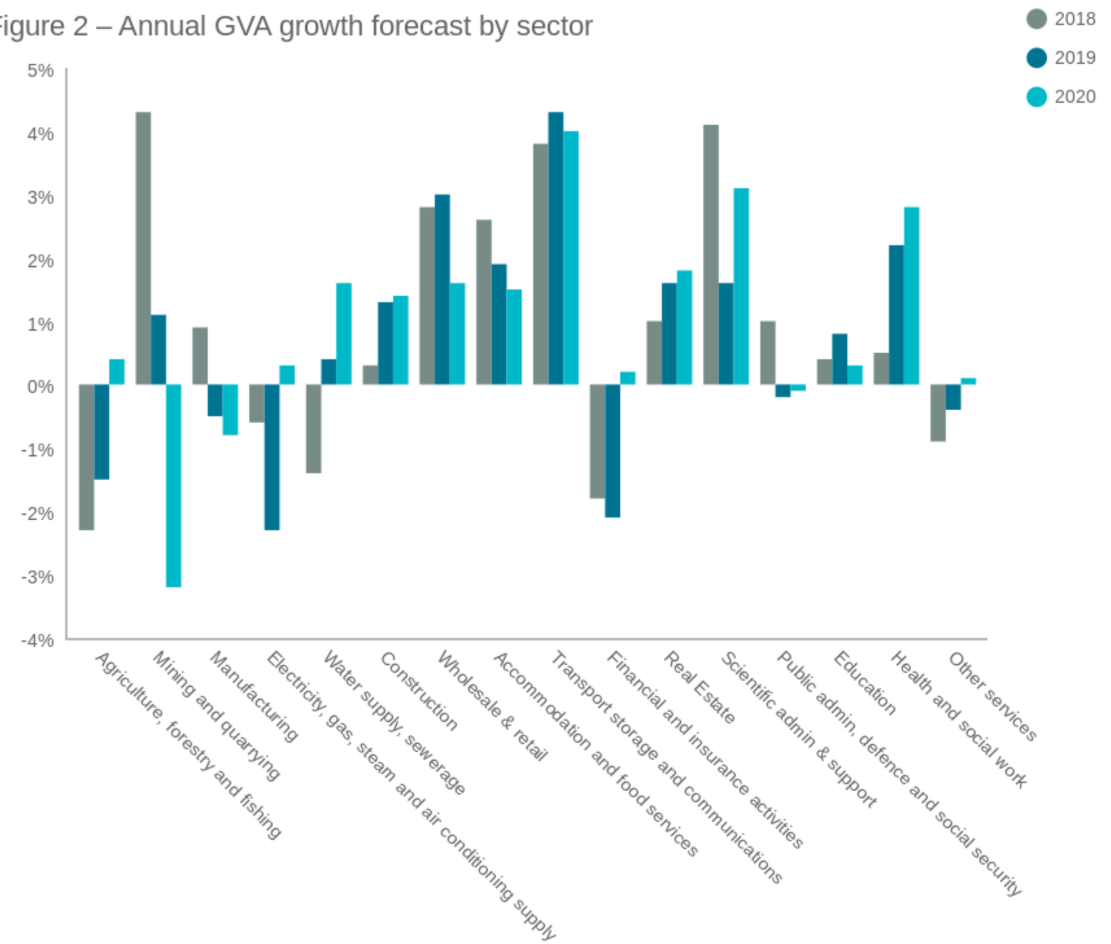


Figure 2 – Annual GVA growth forecast by sector

Source: Office for National Statistics, Cebr analysis

Manufacturing

The manufacturing industry is expected to be the most disrupted by Brexit. Confidence in the industry has fluctuated in the lead-up to each of the Brexit deadlines, moving in tandem with periods of stockpiling.

Before the March 2019 deadline, confidence in the industry edged up in Q1 2019 as businesses ramped up activity to prepare themselves for Brexit.

After a period of decline during which businesses ran down their stockpiles, confidence rose again in Q3 2019, as firms began increasing their stocks ahead of the anticipated October deadline. In the absence of a deal, the increase in confidence is unlikely to be maintained after Brexit.

The industry scores the highest for exports to the EU indicator, an illustration of its close links with the continent.

In 2017, the manufacturing industry exported goods worth over £87 billion to the EU, a significant £26 million more than the next highest exporting industry in the index. It similarly received a noteworthy amount of FDI from the EU, amounting to over €11.6bn in 2017.

The potential for increased tariffs and complications will drive up the cost of doing business with partners in the EU following Brexit. For manufacturing firms outside of the EU who rely on the UK as a gateway into the continent, a Brexit outcome that restricts freedom of trade will further limit the UK's attractiveness as a place to do business. This could in turn hurt growth in the industry.

Cebr predicts:
- 0.5% contraction in 2019
- 0.8% contraction in 2020.

Wholesale, retail and repair of vehicles

Wholesale, retail and repair of vehicles is the second highest ranked industry set to face disruption following Brexit, behind the manufacturing industry.

At present, wholesalers in the EU rely on the ease of trade flows between the borders of member states. With an index scoring of 100% for the exports to the EU indicator, UK wholesalers will be severely affected if Brexit impacts the frictionless trade currently enjoyed by businesses in the industry.

This will also have consequences for firms in the UK that import parts from the across the EU to repair vehicles, many of which will face an increase in costs and possible delays in receiving goods.

The retail sector also expects to be impacted by Brexit, particularly through the impact on business investment and consumers' willingness to spend.

In July this year, the proportion of all shops that stood empty was 10.3%, the highest level since January 2015. The current woes of the high street, as it deals with changing consumer habits and the rising prevalence of online shopping, makes the prospects of a disorderly Brexit even more unfavourable, especially with the risk of trade tariffs after the UK's exit.

Cebr predicts:

- 3% growth in 2019
- 1.6% growth in 2020.

Administration and support services

The administration and support services sector is ranked third overall for the level of disruption expected post-Brexit.

With an index score of 36%, it stands to be exposed to Brexit mainly through one channel: the share of EU nationals working in the industry. The sector scores 79% for this measure, and only two sectors (accommodation and food services, and transport and storage) score higher in the report. After the UK leaves the EU, these workers may lose the right to work in the UK, creating a shortfall of talent until the industry is able to fill the gaps.

The sector also scores 28% for receipt of FDI – the third highest. After Brexit, a restriction of capital flows would put pressure on growth in the industry. If the UK were to leave the EU without a deal, FDI could come to an abrupt halt as investors take a wait and see approach before continuing with any further investment.

The sector is less exposed to Brexit through its exports to the EU, and is ranked sixth overall on this indicator.

Accommodation and food services

Accommodation and food services can potentially benefit from an increase in tourism, driven by a falling pound following a disorderly Brexit.

A lower exchange rate has already made travelling to the UK cheaper for tourists and contributed to a boost in the number of visitors.

According to travel data firm ForwardKeys, summer flight bookings to the UK from long-haul markets were 6% higher this summer than in the same period last year. The rise in the number of visitors will increase demand for accommodation and food services in the UK.

Brexit poses some difficulties for the food services industry. Around 30% of all food consumed in the UK is imported from the EU, and in some cases the EU is the UK's sole provider.

The Food and Drinks Federation has called on the government to suspend or waive competition laws in the event of a no-deal Brexit to allow businesses to work together and coordinate the delivery of goods. Even with a deal, the food services industry could face delays in delivery when importing foodstuffs from the EU.

New standards on food production will also need to be implemented by the UK government, though there's potential for the government to broaden its ties with other countries that previously didn't meet EU standards in this industry.

Cebr predicts:

- 1.9% growth in 2019
- 1.5% growth in 2020.

Transport and storage

The increase in stockpiling as a result of Brexit has led to a shortage in warehouse space, with warehouses at near full capacity as firms prepare for potential supply chain disruptions.

A no-deal Brexit is expected to cause delays in moving goods between the UK and the EU, at least initially, meaning pressure on warehouses after Brexit will be higher than usual. This will also put pressure on wider supply chains.

Brexit is also expected to impact transport, especially affecting the UK's airlines operating in the EU. Low cost carriers have driven the UK's access to the EU market in the aviation sector. They've benefitted from setting up in countries with low labour cost, but could face rising costs after the UK's departure from the EU.

Goods moving between the UK and EU by shipping could also be subject to new duties and taxes, subsequently increasing the cost of shipping services too.

The most significant area of exposure for the industry lies in the 11% share of workers it hires from the EU. This is one of the highest shares of all the industries considered, resulting in a score of 84% for this indicator.

Cebr predicts:
- 4.3% growth in 2019
- 4% growth in 2020.

Agriculture, forestry, and fishing

The UK's agriculture, forestry, and fishing sector is exposed to Brexit through two key channels.

These are:
1. The common agricultural policy (CAP), which the EU member states are part of
2. The relatively high share of workers in the sector, who are non-UK EU nationals.

The CAP provides direct income support payments to EU farmers. To remove any incentive to overproduce, the scheme's payments are based on the amount of land a farmer owns, not how much they produce.

While the British government will continue to support farmers after Brexit, it's likely that the form and structure of the income support will change.

Non-UK EU nationals make up 9% of agriculture sector workers, and they may lose the right to work in the UK after Brexit. The industry receives a high disruption score against the EU nationals working in the UK indicator because of its large share.

But the other two indicators suggest that the sector is less exposed to Brexit, meaning that the sector comes sixth overall on the disruption index.

Cebr predicts:
- 1.5% contraction in 2019
- Positive growth in 2020.

Professional, scientific, and technical

Professional, scientific, and technical activities make up a large part of the UK's overall services industry. It comprises of activities such as research and development, legal activities, and consulting services.

Between 2014 and 2019, the industry saw significant growth of 5.4%. While the sector, as a whole, is far from homogenous, it generally employs a higher share of non-UK EU nationals than other industries, giving it a 50% score on this measure. This drives its overall position on the index, where it comes seventh.

The sector is held back from achieving a higher position by its limited exposure to trade to the EU and receipt of FDI. As a result, Brexit stands to cause relatively less disruption through these channels.

In fact, some parts of the professional industry, such as legal and consulting activities, may find opportunities increase as a result of Brexit, as they're commissioned to help deal with, and adjust to, a changing legal and business landscape.

Given its importance to the UK economy, representative organisations have tried to protect the industry's interests.

The Professional & Business Services Council (PBSC) has actively sought to ensure professional and business services are represented in government policy as a means to secure the sector's future success and growth. Their proposals address matters including accessing and transforming talent, as well as supporting industrial and regional policy, after the UK's departure from the EU.

Information and communication

The information and communication sector in the UK will be exposed to Brexit mainly through one key channel – its access to the single labour market.

Similar to the construction industry, the UK will need to focus investment on training and attracting domestic workers after the UK's exit from the EU in order to maintain the sector's skilled workforce.

Currently, few students continue with ICT studies throughout their school career – in 2017, less than 1% of students in England took computing as an A-level option.

An integral part of business success across many industries relies on ICT. The government's support is necessary to counteract Brexit disruption and ensure that other businesses aren't subsequently affected.

The sector places eighth in the index for most disruption following Brexit. It scores 13% on the EU FDI indicator, and just 3% for its expose to exports to the EU.

Construction

Optimism in the construction industry has been persistently low in the past year, with confidence in the sector remaining negative since Q3 2018.

Brexit, in any form, is set to have a significant impact on the construction industry through one of its most exposed areas – its workforce. The index score for EU nationals working in the industry is 50%, significantly higher than any of the other two indicators for the sector.

The skills gap in the UK has been building up for some time in the construction industry. Figures from 2017 show that training is not keeping up with the demand for labour in the sector. In 2017, there were 9,310 individuals enrolled on courses related to construction, compared to 28,000 vacancies.

With insufficient numbers of workers, the capacity of the UK's construction industry will be limited. In August the building industry saw the biggest fall in new work in over a decade, driven by Brexit uncertainty. The measure of new orders on the IHS Markit/Cips UK construction PMI, where any reading below 50 signals a contraction, fell to 40 – its lowest level since March 2009. Any difficulty in accessing skilled labour from across the EU after Brexit means the slowdown in the industry will be felt more acutely in the longer term.

The construction sector's low ranking of 0% with regards to exports to the EU and 2% for FDI bring down its overall index score to 17%.

Cebr predicts:

- 1.3% growth in 2019
- 1.4% growth in 2020.

Finance and insurance

Adding £132bn to UK GDP, and making up 6.9% of total economic output, financial and insurance activities are an important part of the UK economy, and they'll remain so after Brexit.

After the UK leaves the EU, any policy affecting the free movement of labour will impact the large number of non-UK EU employees working in the industry, with finance scoring 34% on the index for this measure.

Currently, being a member of the EU's single market allows financial services firms in the UK to operate across the whole of the EU. But the EU has made it clear that these so-called passporting rights won't be extended after Brexit, dealing a noticeable blow to the sector.

While the EU market is without a doubt an important one, the majority of exports from the financial services sector are to non-EU countries, and accounted for 57% in 2017. Meanwhile, 66% of all financial services imports are from non-EU countries.

This means the sector, which scores just 13% for the EU foreign investment measure, will be able to mitigate the effects of Brexit through its links across countries outside of the EU.

Another impact of Brexit on the sector will be through changing rules and regulations, as the UK seeks to continue trade in EU member states. Finance and insurance firms who have written contracts before Brexit will be affected through the ability to make and receive claims or payments, affecting their cash flow after Brexit.

Cebr predicts:
- 2.1% contraction in 2019
- 0.2% growth in 2020.

Other services

With 34%, other service activities scores highest on the EU nationals working in the UK indicator, reflecting the importance of these workers in the services industry.

The UK currently enjoys a significant surplus when it comes to international trade in services, a position that will be at risk after the UK leaves the EU.

Under most Brexit options currently discussed, the UK's access to the common market and its ability to export services to the EU under the rules of the common market, will be reduced at the very least. This would decrease EU trade and associated revenue in the industry.

Cebr predicts:
- 0.4% contraction in 2019
- 0.1% growth in 2020.

Water supply, sewerage, and waste

Water policy in the UK is directed by the Water Framework Directive (WFD), which covers flooding, to bathing waters and water services. If the UK were to agree to some integration with the EU after Brexit, there'd be significant stability for the industry.

In the case that no agreement is reached, the UK has a back-up in the form of the Government's 25 Year Environment Plan. This policy addresses water quantity and quality, and specifically mentions meeting or exceeding a number of the measures currently covered as part of the WFD for England.

Other EU water policies, such as the EU's Drinking Water Directive, are based on the World Health Organisation (WHO). If the UK leaves the EU without future arrangements for water policy in place, the UK would likely strive to meet WHO guidelines by maintaining a similar framework.

As a result, the industry can expect a high level of continuity, with new laws, if required, reflecting the standards currently adhered to today. This industry also benefits from a low score of 2% for its share of exports to the EU and 6% for its level of EU investment.

Cebr predicts:

- 0.4% growth in 2019
- 1.6% growth in 2020.

Health and social work

The index suggests that Brexit will affect the health and social work sector most through the impact on EU nationals' ability to work in the sector.

A restriction on the freedom of movement of labour between the EU and UK will be acutely felt across the sector, particularly in areas such as the NHS, which research suggests has a shortage of more than 100,000 staff.[2]

A change in tariffs and trade regulations could also impact the ease with which medicines arrive in the UK. The British Medical Association has long warned of potential shortages to medicine and medical devices if there's a failure to agree a withdrawal deal. This could potentially affect the speed at which the industry is able to develop and offer new treatments to patients in the UK.

Recognised as an important sector of the economy, health and social care remains one of the government's key areas of focus, with domestic investment aimed at addressing the negative consequences of Brexit. Last year, additional funds of £20.5bn over the next five years were promised by former chancellor Philip Hammond.

Cebr predicts:
- 2.2% growth in 2019
- 2.8% growth in 2020.

[2] kingsfund.org.uk

Mining and quarrying

With an index score of just 10%, mining and quarrying is among the industries expected to be least disrupted by Brexit.

Though an international industry, its index score is reflective of its low exposure to the EU. The industry has over 130,600 workers from the EU, making up 5.7% of its workforce – only four other industries have a lower share of non-UK EU employees in their workforce.

As a result, the industry will be comparatively less affected by any impact on the freedom of movement of labour after Brexit, relative to those industries with a higher share of non-UK EU nationals in their workforce.

The mining and quarrying sector is heavily financed out of London and moderately dependent on the EU for its exports. The sector is more heavily reliant on the US market and the health of the Chinese economy, which is a large source of demand for the UK's mining outputs.

The broader issue of EU economic stability, and the actual process of implementing Brexit, could have an effect on the UK's mining and quarrying sector if it leads to deterioration in economic sentiment.

This has been the case before. In 2011, the severity of Greece's debt crisis negatively impacted the metals sector despite the country not having any material influence on metal supply and demand.

Cebr predicts:
- 1.1% growth in 2019
- 3.2% contraction in 2020.

Education

The education sector will largely be affected by Brexit in two ways:
1. The impact on funding
2. The number of EU nationals studying at UK universities.

The UK receives EU investment in areas such as Further and Higher Education to fund research centres at universities.

After Brexit, the sector is likely to see a reduction in these research grants from EU bodies. If this source of finance isn't replaced, there's a risk to the reputation and research quality of universities, as well as longer term financial support from donors and industry.

EU students play a significant role in the education sector, contributing in economic terms through their payment of tuition fees. Fewer EU students studying in the UK will financially impact universities, though they could look to attract more students from non-EU countries.

UK students also benefit from EU membership through access to Erasmus+, a mobility scheme that gives students opportunities to study in the EU. Brexit will impact the ease with which this scheme operates.

Cebr predicts:
- 0.8% growth in 2019
- 0.3% growth in 2020.

Electricity, gas, and air conditioning supply

Only two other sectors score lower than the electricity, gas, air conditioning supply industry, which has an index score of just 8%.

This is because the UK receives relatively little by way of FDI from the EU in this sector, while workers from the EU account for just 3% of its workforce.

One of the most significant impacts of Brexit is likely to be on the infrastructure used to serve the country. Some of the gas and electricity used in the UK is imported through interconnectors (pipes or wires that carry electricity or gas between countries).

Currently, companies can buy and sell from the rest of Europe due to the EU Internal Energy Market, which governs cross-border energy trading. Without a Brexit deal, the UK would leave this market. The EU would then stop governing cross-border electricity flows from interconnectors with the UK, resulting in the need for new trading agreements.

Bilateral agreements with other countries will increase in importance after Brexit. The UK currently imports gas from Norway, and buys gas in liquid form from Qatar. Other similar arrangements with individual member states may be necessary if a deal doesn't maintain access to the Internal Energy Market.

Cebr predicts:
- 2.3% contraction in 2019
- 0.3% growth in 2020.

Real Estate

Of the three measures in the index, the real estate sector will be most affected by Brexit's impact on the UK labour market.

It achieves a score of 7% for this, which is low compared to other industries and indicates that the effect on the supply of labour will be limited.

The sector also has a comparatively small flow of FDI, and scores just 6% for this in the index.

The industry's overall low ranking in the index is mainly driven by its 0% scoring for exports to the EU, meaning it won't need to rely on sales to the EU market to maintain growth.

Instead, it could be affected by a fall in consumers' willingness to spend, especially on large-ticket items, following a disorderly Brexit.

The appetite for demand in the domestic housing market, which itself has been subdued in the lead up to the current Brexit deadline, will be where the sector is most exposed to the UK's departure from the EU.

The real estate sector is one of the few industries expected to see positive growth in each year between 2018 and 2020.

Cebr predicts:

- 1.6% growth in 2019
- 1.8% growth in 2020.

Public administration and defence

Public administration and defence is ranked as the sector least likely to suffer significant disruption following Brexit.

The sector scores 0% for both EU nationals working in the industry and for exports to the EU. While public administration will undoubtedly bear a burden as it manages the cost of adjusting the country's rules and regulations, its relative low share of EU-national workers limits the disruption it faces compared to other industries.

As a member of the EU, the UK receives FDI in this sector, though in relatively small volumes compared to other sectors. The EU investment goes towards defence, as member states work together on a number of related issues, such as research on defence technologies and joint military deployments.

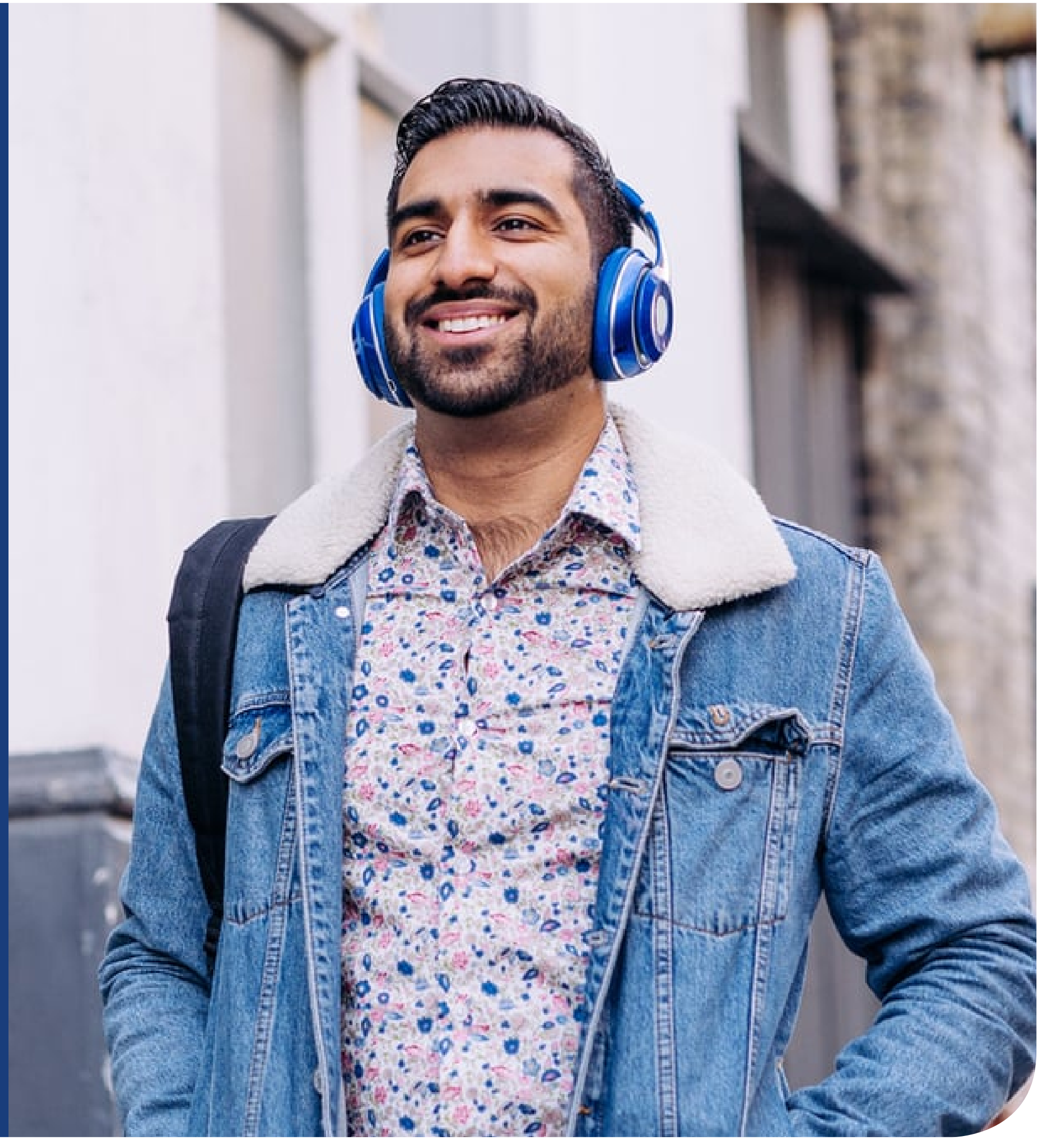
After leaving the EU, the UK is likely to have reduced access to the EU's defence and military structures and systems. Instead, the industry may need to seek a defence co-operation pact with the EU following Brexit.

Cebr predicts:

- 0.2% contraction in 2019
- 0.1% contraction in 2020.

UK Powerhouse

City tracker – Q2 2019



UK Cities in Q2 2019

Powerhouse table – GVA

		GVA Q2 2019, £mn (annualised, constant 2015 prices)	Growth (YoY)
1.	**Reading**	7,000	2.3%
2.	**Cambridge**	9,600	1.9%
3.	**Milton Keynes**	12,300	1.9%
4.	**Peterborough**	5,800	1.8%
5.	**Ipswich**	4,800	1.8%
6.	**Oxford**	9,100	1.6%
7.	**Exeter**	5,100	1.6%
8.	**Southampton**	6,500	1.6%
9.	**Portsmouth**	5,800	1.5%
10.	**Birmingham**	28,000	1.5%
11.	**Bristol**	14,500	1.4%
12.	**Outer London**	131,500	1.4%
13.	**Nottingham**	9,600	1.4%
14.	**Swindon**	7,100	1.4%
15.	**Brighton**	7,800	1.4%
17.	**Manchester**	19,100	1.3%
18.	**Coventry**	8,700	1.3%
19.	**Wakefield**	7,300	1.3%
20.	**London**	418,100	1.3%
21.	**Greater Manchester**	64,800	1.2%
22.	**Inner London**	286,600	1.2%
23.	**Hull**	5,500	1.2%
24.	**Sunderland**	6,100	1.2%
25.	**Bournemouth**	5,000	1.2%
26.	**Glasgow**	19,100	1.2%
27.	**Edinburgh**	23,000	1.1%
28.	**Stoke-on-Trent**	5,300	1.1%
29.	**Rotherham**	4,800	1.1%
30.	**Doncaster**	5,400	1.1%
31.	**Stockport**	7,000	1.1%
32.	**Aberdeen**	13,100	1.1%
33.	**Leeds**	23,100	1.1%
34.	**Derby**	7,100	1.1%
35.	**Newcastle**	10,100	1.0%
36.	**Liverpool**	11,300	1.0%
37.	**York**	5,200	1.0%
38.	**Bradford**	10,000	0.9%
39.	**Leicester**	7,600	0.9%
40.	**Sheffield**	12,200	0.9%
41.	**Wolverhampton**	4,900	0.9%
42.	[illegible]	[illegible]	[illegible]
43.	**Plymouth**	5,300	0.7%

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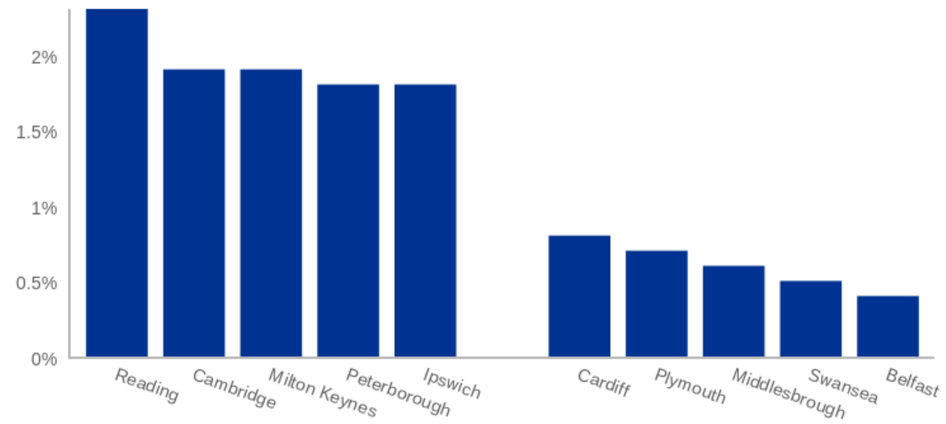
In the second quarter of 2019, Reading, Cambridge and Milton Keynes took the top three positions in the UK Powerhouse table for economic growth, with the estimated expansion in output standing at 2.3%, 1.9% and 1.9%, respectively.

As key centres for the technology and life science industries, they continue to benefit from strong demand for goods and services produced in the cities.

The fourth fastest growing city on the Q2 Powerhouse table is Peterborough. The city is a transport hub, and is a principal stop on the East Coast Main Line, attracting many visitors to the city. It also means that travel time to London is minimal, at only 50 minutes. This enables businesses to collaborate with enterprises in the capital, while benefiting from the lower rents in Peterborough, with the average cost of Grade A office space currently standing around £13.50 per sqft.[3]

Key sectors in Peterborough include advanced engineering and manufacturing, agri-tech, food and drink, digital and creative, energy and environment, and financial services.

Figure 3 - Top and bottom five cities by annual GVA growth, Q2 2019



[3]Colliers

Source: Office for National Statistics, Cebr analysis

Outside the East and South East of England, Birmingham is the fastest growing UK Powerhouse city. The city centre is in the midst of a construction boom, and 2019 is set to be a record-breaking year for office completions.[4] Many businesses have been moving into the new space, including HSBC UK, who moved its HQ to the city at the end of 2018. The tech sector is one of several sectors contributing to growth, with around 3,000 businesses contributing over £2bn to the city's economy.

In the South West, Bristol saw the top growth rate in Q2. The city is a hotspot for investment, with new developments proposed for sites including the Frome Gateway, while the professional services sector continues to attract new businesses. Nearly half of the population has a qualification of NVQ4 level or above (i.e. above A-level equivalent), creating a highly skilled workforce which contributes to the growth of the city.

Out of all the UK Powerhouse cities in the North of England, Manchester comes top for growth, at 1.3% in Q2 2019. The city draws a high-skilled population, as it's the second most popular destination in the UK for recent graduates.[5] Between 2009 and 2017, the city gained 19,050 21 year olds. As the birthplace of the Industrial Revolution, Manchester continues to be a centre of innovation in the UK, with 90 business start-ups per 10,000 people – the highest rate in the country after London. But compared to the capital city, Manchester is a much more affordable place to live and run a business, with the average house price standing at around one third of the cost of houses in London.

The Scottish economy has revealed signs of weakness in Q2. The unemployment rate increased by 0.4% between Q1 and Q2 2019, to stand at 3.6%. Out of the three Scottish cities monitored in the UK Powerhouse report, it's estimated that Glasgow grew at the fastest rate in Q2, at 1.2%. This was followed by Edinburgh, at 1.1%.

Growth in Glasgow may accelerate in the coming years. In August more than £3m of funding was approved for the regeneration of town centres across the Glasgow area. Yet structural issues persist for the city's economy. It has the second highest share of households in social rental properties out of all UK cities, and a relatively low employment rate. The Scottish government recently had to take over management control of Glasgow's Ferguson Marine Engineering, the last civilian shipyard on the river Clyde, after rising costs led to financial collapse. This secured the employment of local workers at the shipyard, but highlights the financial pressure many businesses in the city are under.

In Wales, the fastest growing UK Powerhouse city is estimated to be Cardiff, with 0.8% growth. It was recently announced that the city has been selected as the home of one of five new transport research networks for the development of electric aircrafts, hydrogen-fuelled cars, and technology to clean up polluting freight vehicles. The research network will receive £1m in funding, boosting the economy of the city in the years ahead. Despite this, Cardiff still struggles with a relatively low employment rate and wage level. Structural changes to the city's economy are required to see faster economic growth.

[4]Deloitte crane survey

[5]Centre for Cities, in partnership with the University of Manchester

UK Cities in Q2 2019

Powerhouse table – Employment

		Employment Level (Q2 2019)	Growth (YoY)
1.	**Cambridge**	136,400	2.2%
2.	**Inner London**	3,388,800	2.2%
3.	**Stoke-on-Trent**	121,700	1.8%
4.	**London**	5,091,600	1.7%
5.	**Oxford**	135,700	1.7%
6.	**Exeter**	103,500	1.6%
7.	**Edinburgh**	377,400	1.6%
8.	**Liverpool**	320,900	1.5%
9.	**Cardiff**	250,300	1.4%
10.	**Leeds**	465,200	1.3%
11.	**Belfast**	121,300	1.3%
12.	**Peterborough**	116,700	1.3%
13.	**Bournemouth**	92,800	1.3%
14.	**Manchester**	476,100	1.2%
15.	**Sheffield**	303,400	1.2%
17.	**Swindon**	121,600	1.1%
18.	**Brighton**	148,200	1.1%
19.	**Derby**	149,600	1.0%
20.	**Wolverhampton**	126,000	1.0%
21.	**Greater Manchester**	1,313,900	1.0%
22.	**Coventry**	201,200	0.9%
23.	**Southampton**	153,000	0.9%
24.	**Newcastle**	212,800	0.9%
25.	**Bristol**	354,300	0.8%
26.	**Outer London**	1,702,800	0.8%
27.	**Plymouth**	145,800	0.8%
28.	**Glasgow**	437,400	0.8%
29.	**Rotherham**	106,600	0.8%
30.	**Nottingham**	229,400	0.8%
31.	**Hull**	155,800	0.8%
32.	**York**	121,100	0.7%
33.	**Ipswich**	83,000	0.7%
34.	**Norwich**	137,000	0.7%
35.	**Sunderland**	134,900	0.7%
36.	**Milton Keynes**	155,900	0.6%
37.	**Portsmouth**	115,200	0.6%
38.	**Reading**	121,600	0.5%
39.	**Doncaster**	131,900	0.5%
40.	**Bradford**	215,700	0.5%
41.	[illegible]	[illegible]	[illegible]
42.	**Aberdeen**	178,200	0.3%

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The fastest growing city for employment growth in Q2 2019 is estimated to have been Cambridge, with 2.2% growth. The East of England city is home to many large companies, which support employment. Examples include the globally-competitive pharmaceutical company AstraZeneca Plc, as well as property, ventures, and aerospace and defence company Marshall Group.

Inner London also saw high levels of employment growth in the second quarter of the year. Job creation in London has traditionally been driven by the professional, real estate, scientific, and technical activities sectors. In the past two years, there's also been an increase in public sector employment in the capital, as the government has employed civil servants in the Department for Exiting the EU and the Department for International Trade in the run up to Brexit.

In the North of England, Liverpool performed best for employment growth in the Q2 UK Powerhouse table, recording 1.5% employment growth.

A key source of employment growth in Liverpool is advanced manufacturing, with the sector contributing £3.2bn to the economy.[6] Within the sector, advanced manufacturing is being targeted as a key source of growth, and the Manufacturing Action Plan has been developed to ensure a cohesive approach to growing the industry in the city.

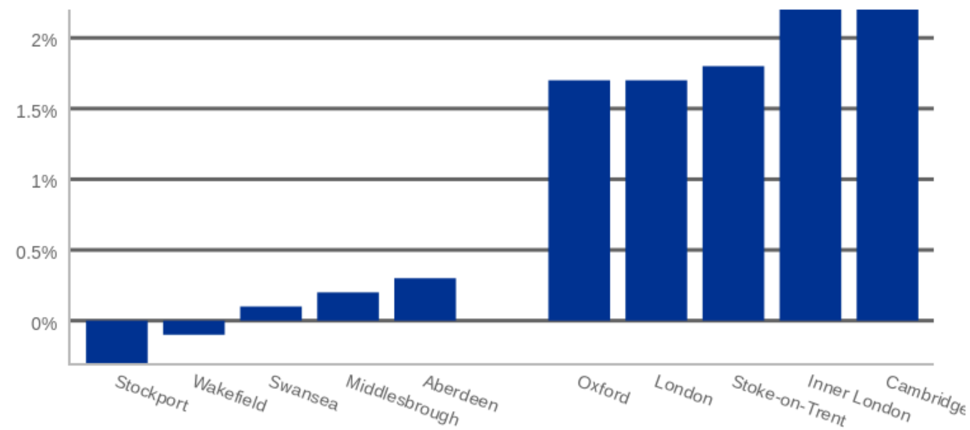
Leeds is another well performing UK Powerhouse city for employment growth in the North of England. Cebr estimates that the rate of job growth in the city was 1.3% in Q2.

Companies which employ over 1,000 workers in Leeds include Asda Group, First Direct, Centrica and Ventura. By sector, financial and business services account for 38% of the city's total output, and it's likely that these businesses are driving employment growth in the city.

Wakefield and Stockport were estimated to have seen a contraction in employment in Q2, with -0.1% and -0.3% employment growth respectively. These cities are likely to have been affected by the national economic slowdown, as many businesses used up the stocks that they accumulated in the lead up to the March Brexit deadline.

[6]Liverpool LEP

Figure 4 - Five fastest and slowest expanding cities by year-on-year employment growth in Q2 2019



Source: Office for National Statistics, Cebr analysis

Methodology

Methodology

All UK Powerhouse forecasts in this report utilise Cebr's central Brexit scenario. Cebr's central forecasts are based on the assumption that the UK will reach an agreement with the EU and that a transitional arrangement will be put in place.

On the immigration policy, we rely on the lower immigration population estimates assuming that a visa system will be implemented for EU nationals, but that the requirements (e.g. the minimum salary, the NHS surcharge payment, the application fees, etc.) would be more relaxed than they currently are for non-EU nationals requiring a visa.

Thank you for reading

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