

Thriving in the Eye of the Brexit Storm

19 February 2019



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Today's Presenters



Dr. Robert Bedford
Economist and Data
Analytics
Robert Bosch



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Senior Economist
The Conference Board
(Moderator)



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Director of Policy &
Chief Economist
Ibec



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Co-Chair of the UK-EU
Relations Committee
British Chamber of
Commerce



Klaas de Vries
Associate Economist
The Conference Board



What you will learn about in this webcast

- Recent updates from the policy discussion
- Impact of Brexit on the economy (with focus on UK, Ireland, Netherlands)
- Impact of Brexit on business decisions, including manufacturing sector
- Question for debate: is there an upside?
- Other policy-related risks in Europe: Italy and France



Recent updates from the negotiation tables

Cabinet ministers tell May: stop using no-deal threat to negotiate

MPs tell PM to rule option out, as Brexit secretary and attorney general hold talks with EU



'We are in God's hands' Juncker says of Brexit

EU would not 'oppose' a UK request for a negotiating extension beyond March deadline

Honda Motor Co Ltd

Honda to shut flagship UK plant in 2021

Japanese carmaker to close the first factory in its 71-year history

AN HOUR AGO

- Honda closure triggers fears of crisis in UK car industry
- Honda faces the real cost of Brexit in a former Spitfire plant
- Honda closure may not be about Brexit, but it is about Brexports



Live / Labour
warned over bigger split as cabinet briefed on latest talks with Brussels - Politics live

Rolling updates as Jeremy Corbyn is warned that more MPs could leave party to join new group

930



REPORTAGE

A la frontière irlandaise, le Brexit réveille le traumatisme des violences passées

Dans le « bandit country », bastion nationaliste irlandais au cœur des violences entre 1969 et 1998, l'idée d'un retour à une frontière, même légère, fait craindre le pire.

Eric Albert (Crossmaglen (Irlande du Nord), envoyé spécial)

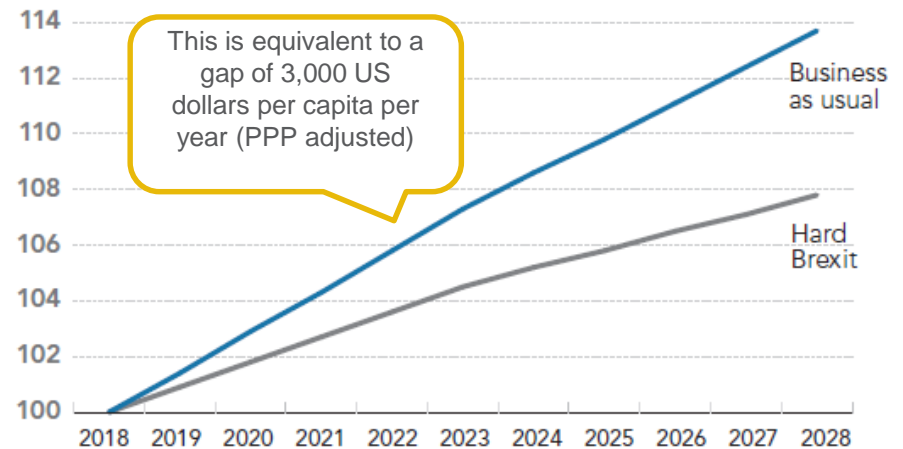


What is the impact of Brexit on the British economy?

- The shock can be deep and the recovery could take a long time
 - ✓ The demand side is affected because of uncertainty
 - ✓ Brexit will be a supply shock as of March 30th
 - ✓ Job losses in the UK can go up to half million jobs

Alternative projection for UK real GDP (2018=100)

A hard Brexit will seriously impact the UK's medium-term potential growth



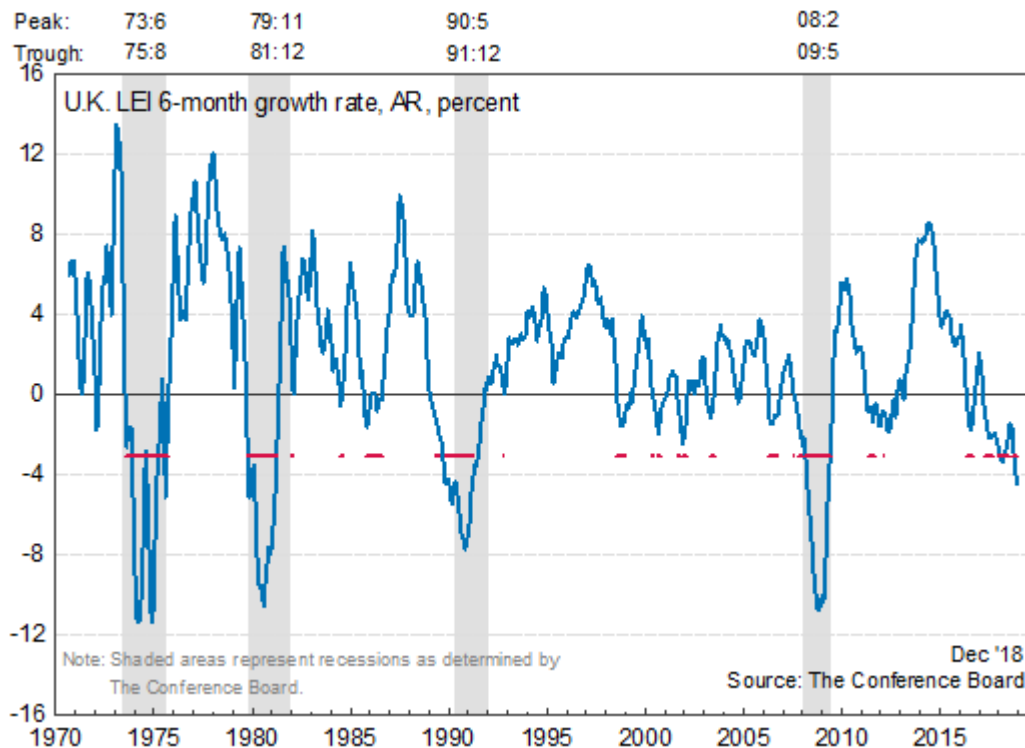
Sources: The Conference Board Total Economy Database™ (adjusted version), November 2018; The Conference Board Global Economic Outlook 2019.

Source: The Conference Board, [Global Economic Outlook 2019](#)



The UK faces a high risk of recession: Brexit comes on top of a maturing business cycle

The Conference Board Leading Economic Index ® - UK



Note: Red dashes represent dates when both the LEI growth rate is below 0 and most components are declining

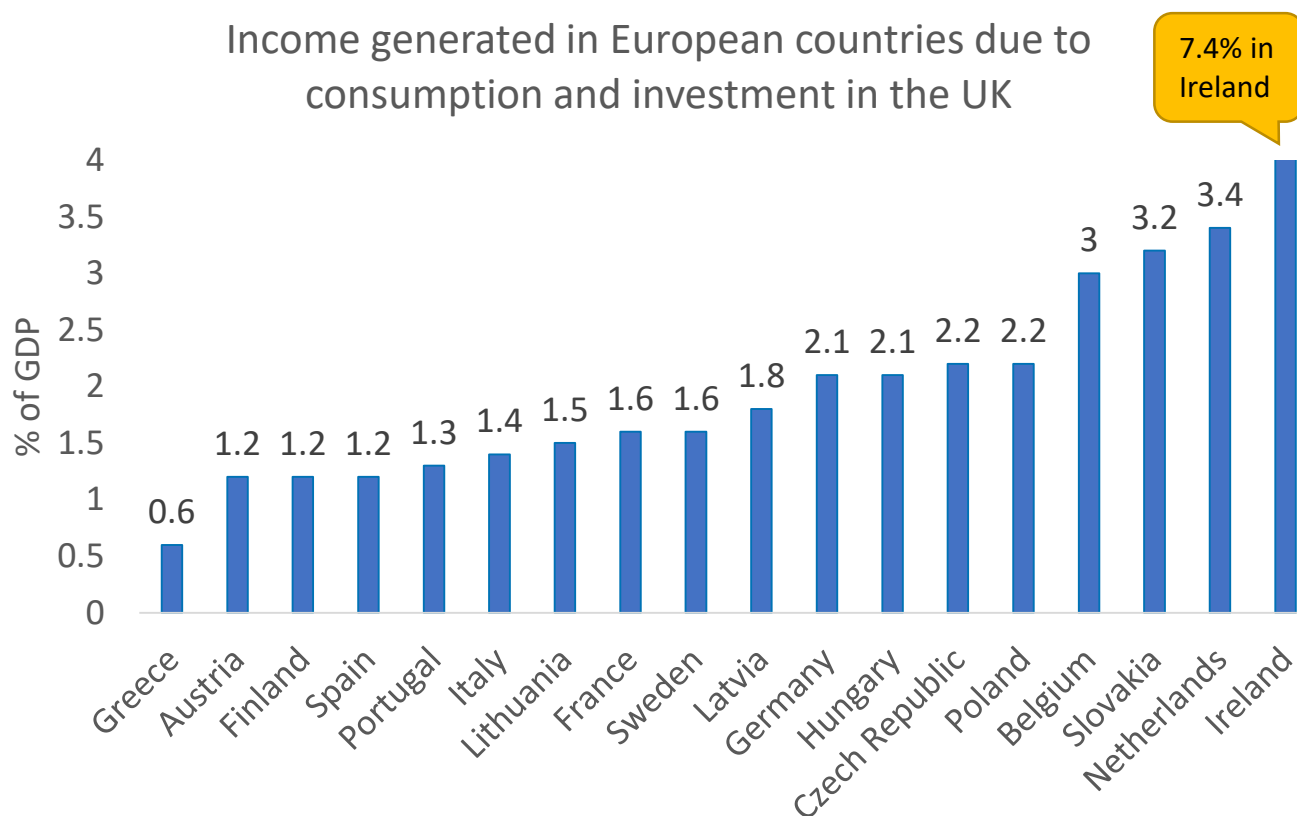
Source: The Conference Board



FT, 19 September 2018



What is the expected impact of Brexit on other European economies? The magnitude of the shock depends on the exposure



Source: The Conference Board, based on WIOD. Exposures refer to the latest data available, 2014.



Ireland has been a globalisation success story

Ireland: A Model of Substance

01. Evolution



02. Global Footprint



03. Full Business Lifecycle



04. World Class Economy



05. Global Hub

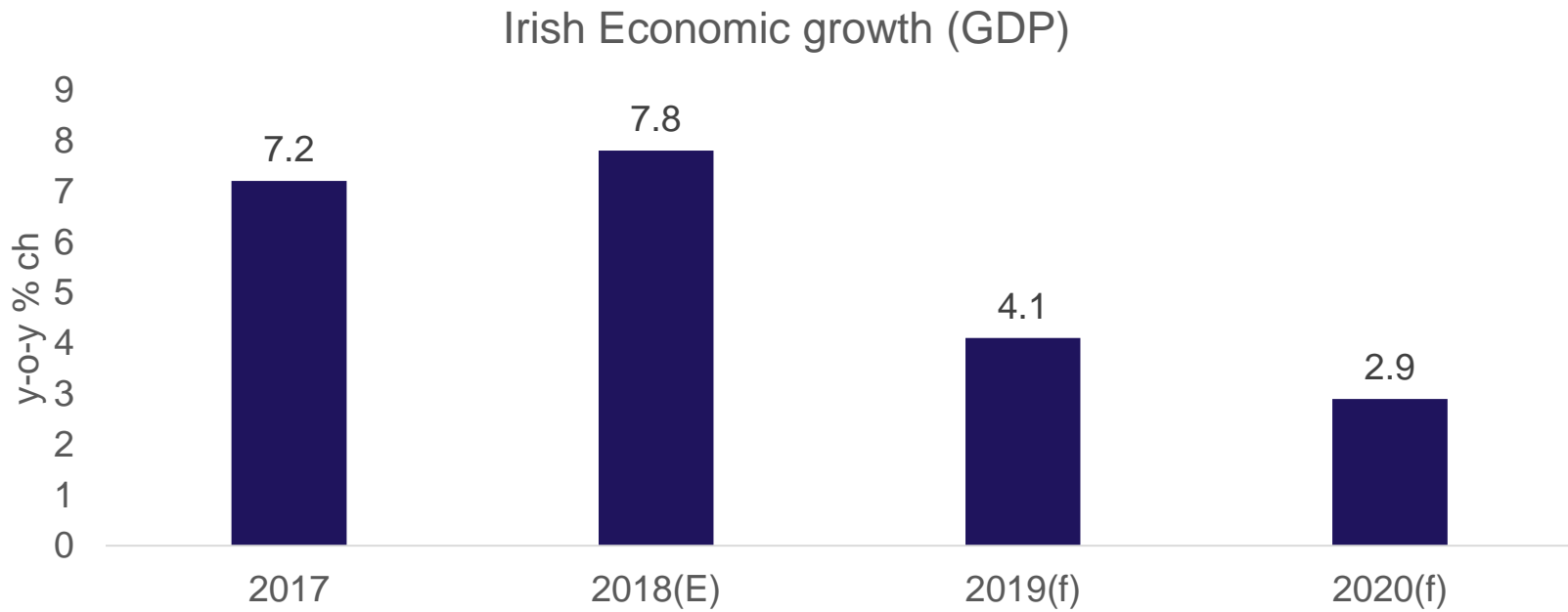


06. Clusters

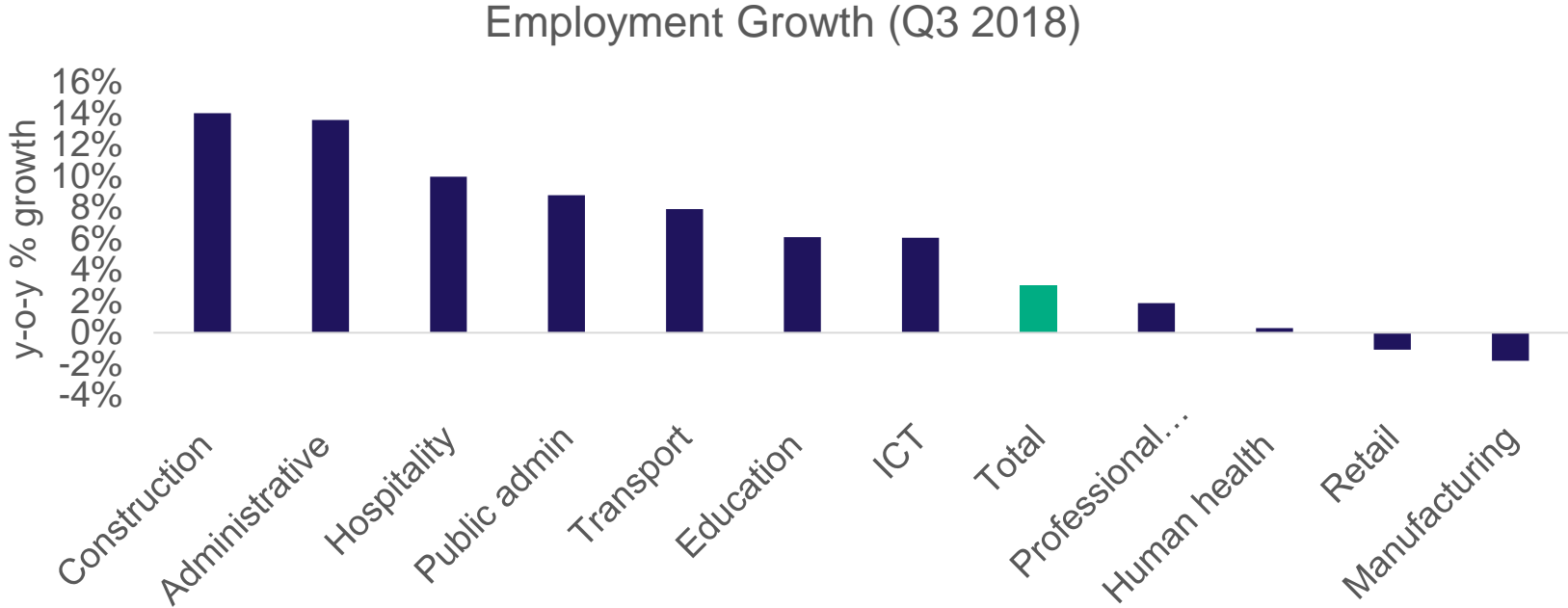


Ireland:
Coast to Coast: 170km

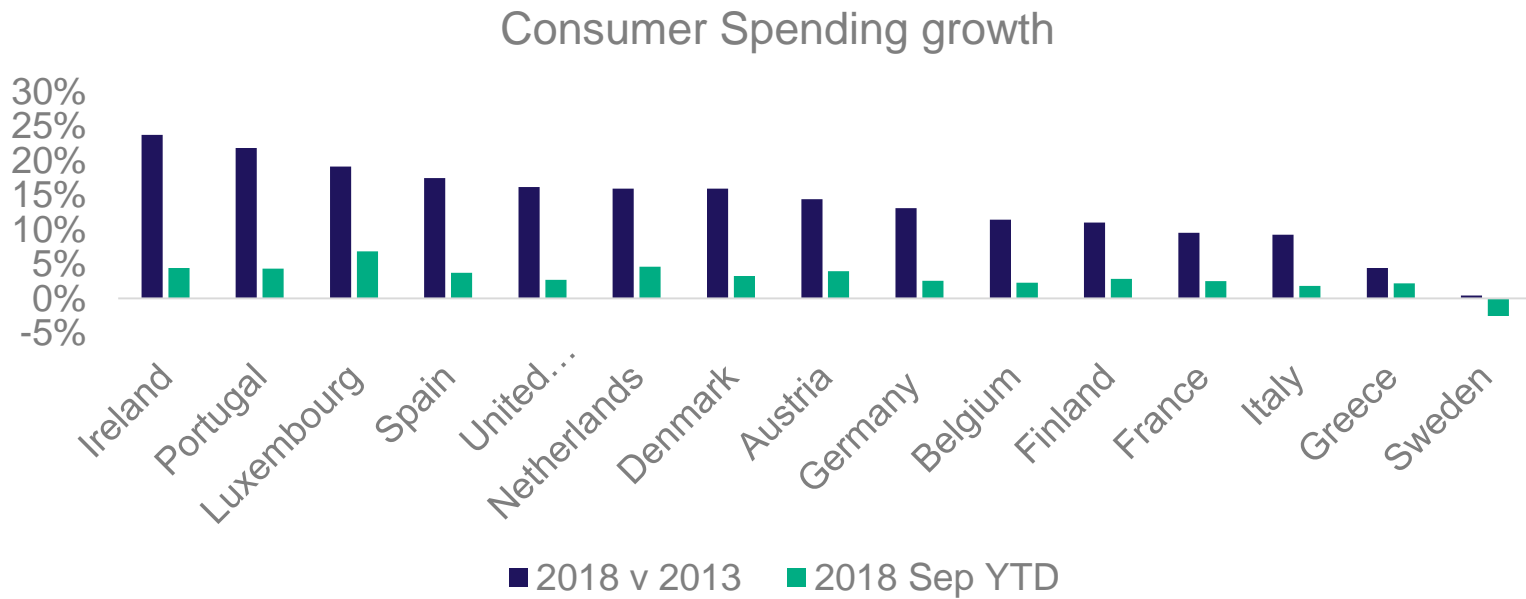
Irish economy facing Brexit from position of strength



The number of people at work is now higher than its 2007 peak

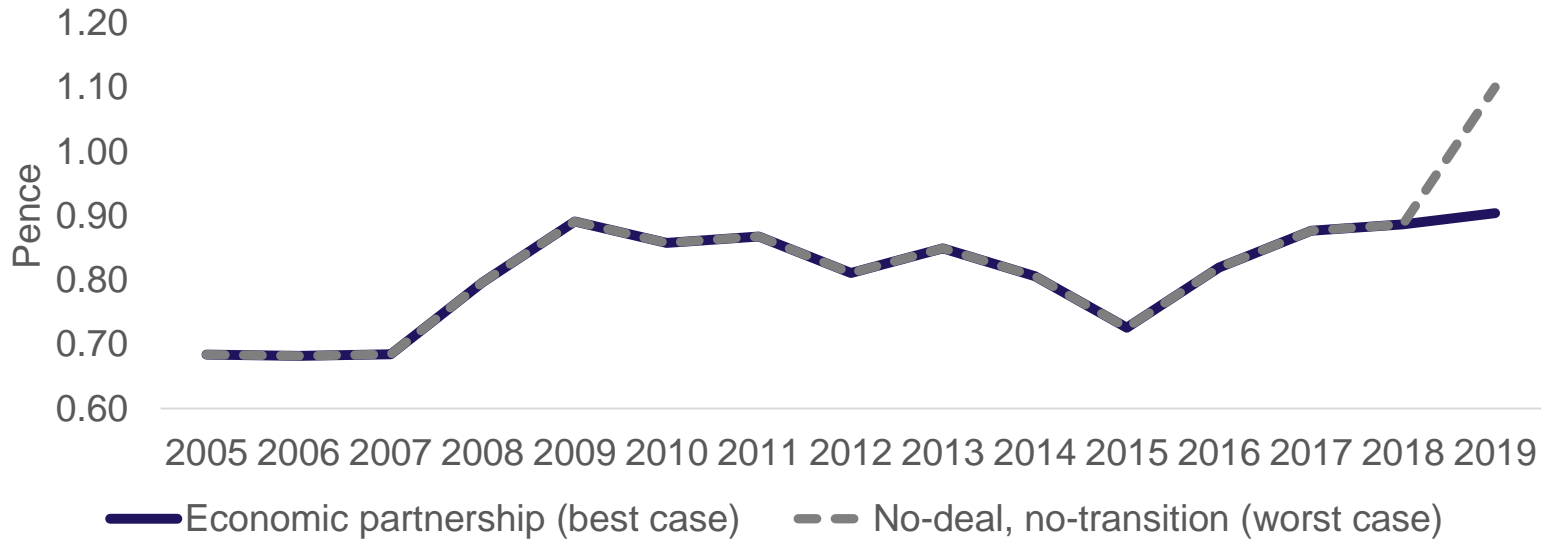


Consumer spending growth



Growth under threat following Brexit

Bank of England Euro-Sterling forecasts under various scenarios



What is the impact of Brexit on the economy? The case of the Netherlands

- Dutch exports to the UK would fall by 17% and the country's GDP would decline by 0.7% in the medium term.
- The agri-food sector has a comparatively high UK exposure, plus it would be subject to high tariffs. The Dutch agri-food sector is estimated to experience a 22% fall in its UK exports. The UK market makes up 12% of total Dutch agri-food exports.
- Access to supply chains for intermediate imports from the UK for Dutch sectors would be curtailed, contributing to an increase in intermediate input costs. All sectors except gas manufacture would see a reduction in their intermediate imports from the UK.
- A few sectors would gain, such as motor vehicles and transport equipment, gas and financial services

Source: OECD (2018)



What is the impact of Brexit on businesses?

Staying in the custom union allows the circulation of goods

The pound will likely remain volatile during the transition period, while the trade agreement is negotiated

Business issues linked to the UK's risk of recession and Brexit

Supply chain & just-in-time	Diverging regulation	Pool of talent and workers	Innovation capacity	Volatility of the Pound	Recession risk in the UK
<ul style="list-style-type: none"> Automotive sector Airplane All manufacturing companies 	<ul style="list-style-type: none"> Pharma – very urgent All sectors with activities in both UK and EU 	<ul style="list-style-type: none"> Retail Food & agriculture Research 	<ul style="list-style-type: none"> UK universities and research institutions, excluded from EU research contracts 	<ul style="list-style-type: none"> Sectors with low margins, such as textiles 	<ul style="list-style-type: none"> B2C that serve the UK market

Divergence in regulation will hit the two sides for sure. What is not clear is when: after 2020? After 2022?

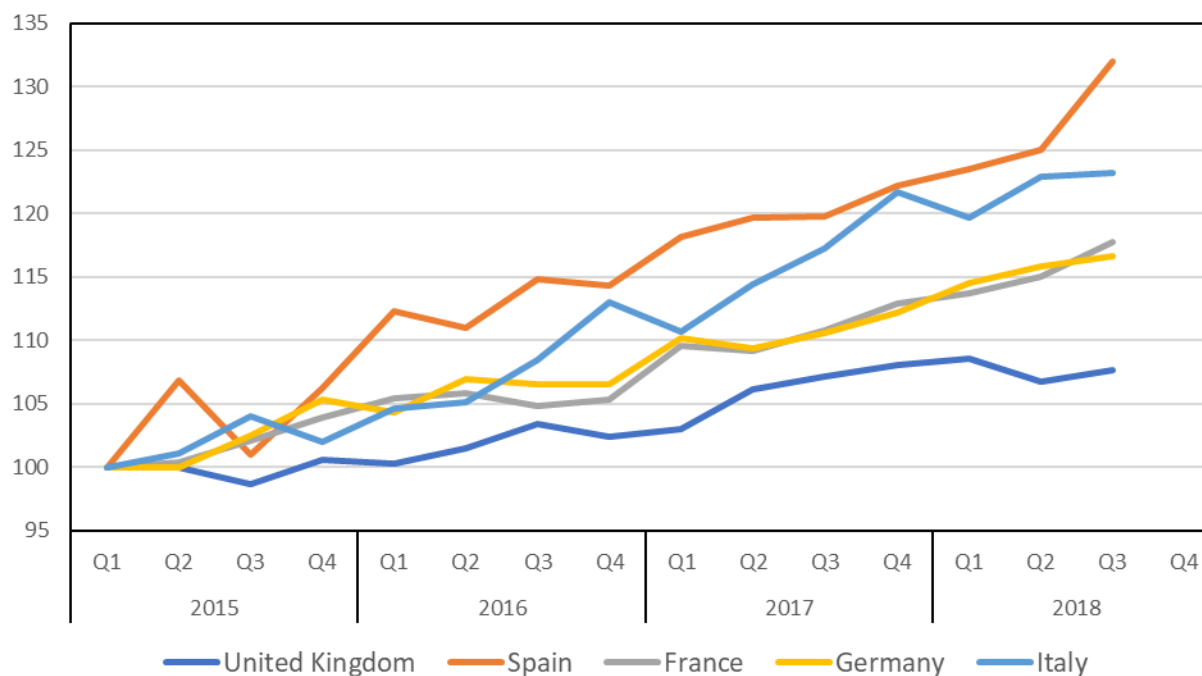
Source: The Conference Board, [Global Economic Outlook 2019](#)



What is the impact of Brexit on business decisions? (UK)

Business investment growth in the UK is lagging behind other European economies

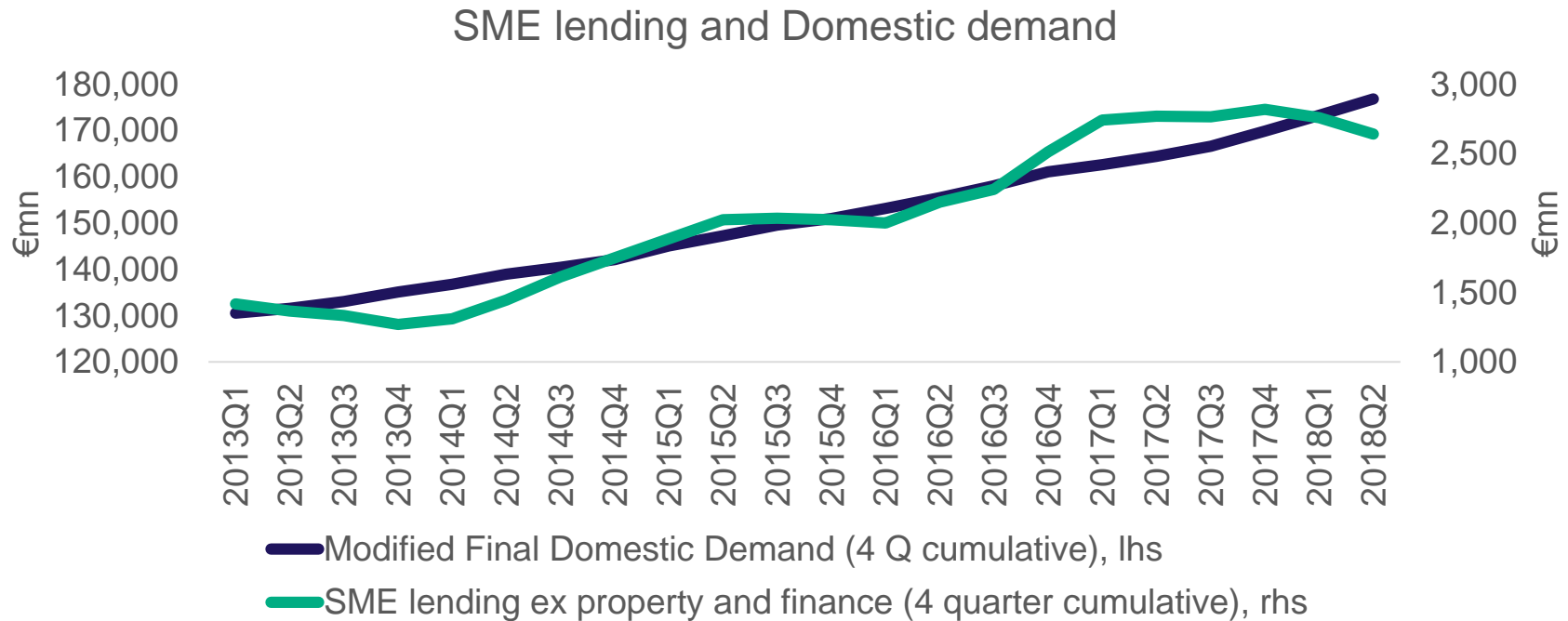
Nominal Investment of non-financial corporations
(2015 Q1 = 100)



Source: Eurostat

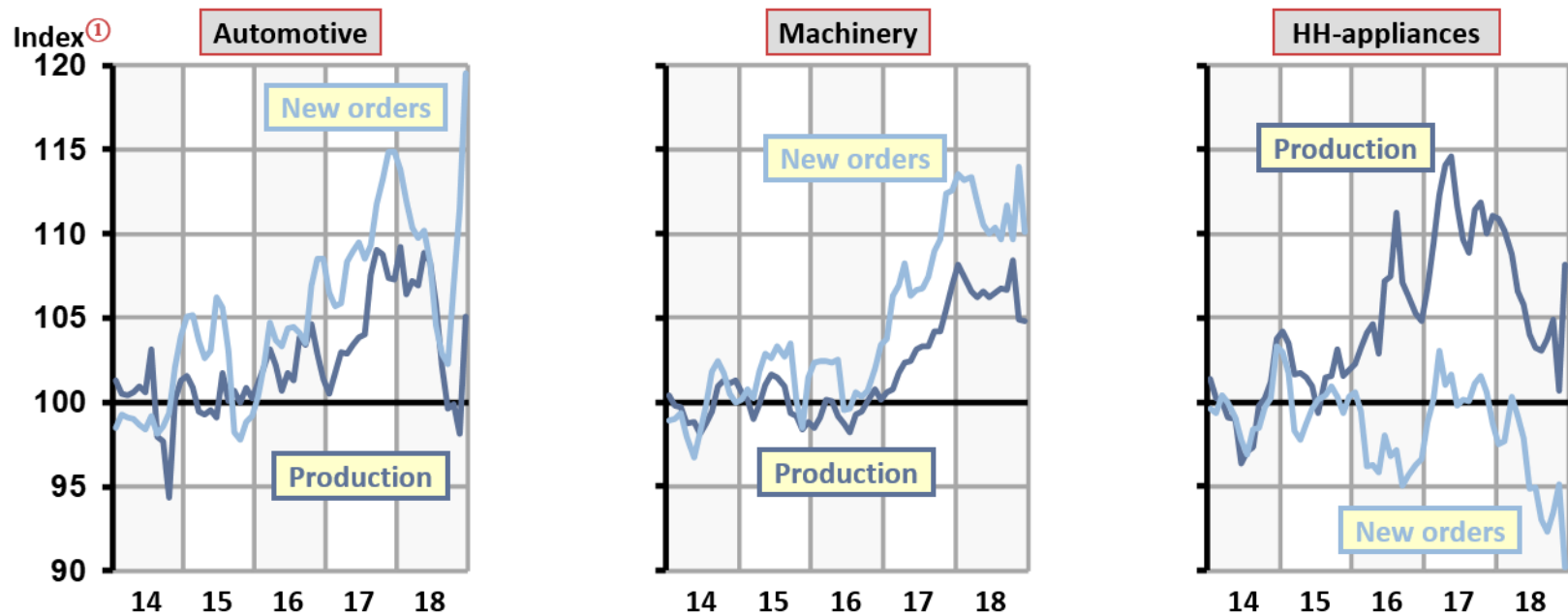


Brexit already impacting on business in Ireland



A closer look at the auto sector

Auto sector recovery amid less upbeat signals elsewhere

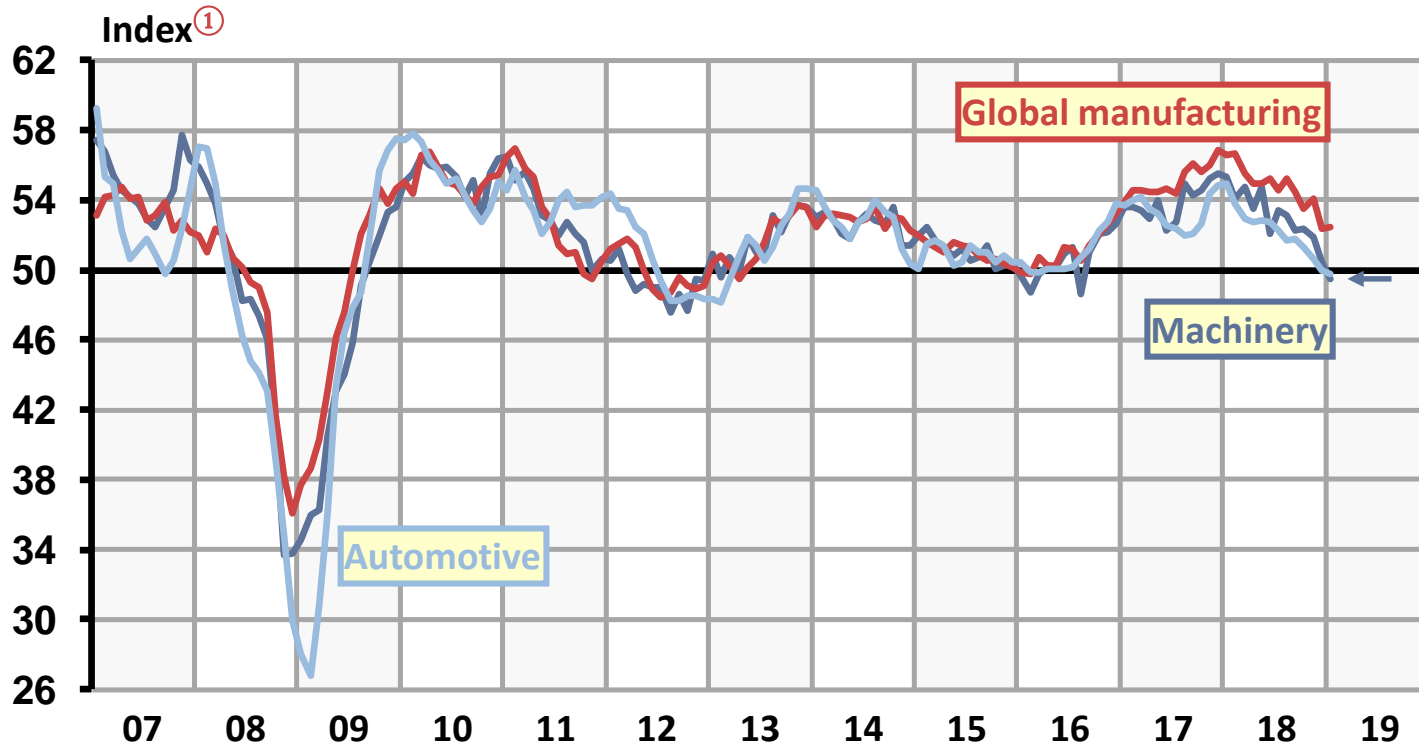


① Index: 2014 = 100

Source: Feri

A closer look at the auto sector

Cyclical headwinds building up especially in RB's main markets

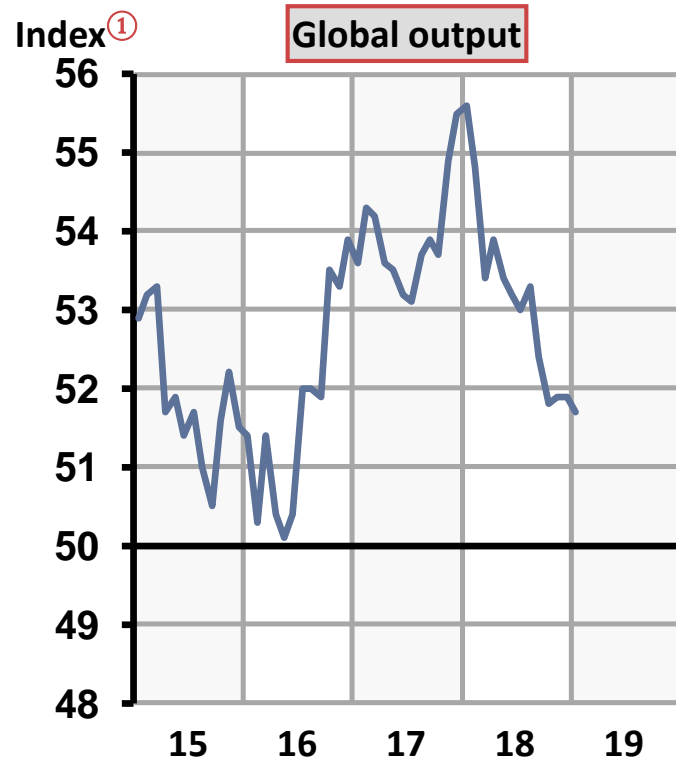


① Purchasing Managers Index: 50 = neutral – sectoral PMI 3-month moving average

Source: Markit, ISM

A closer look at the auto sector

Global PMI components: export orders signal further strains

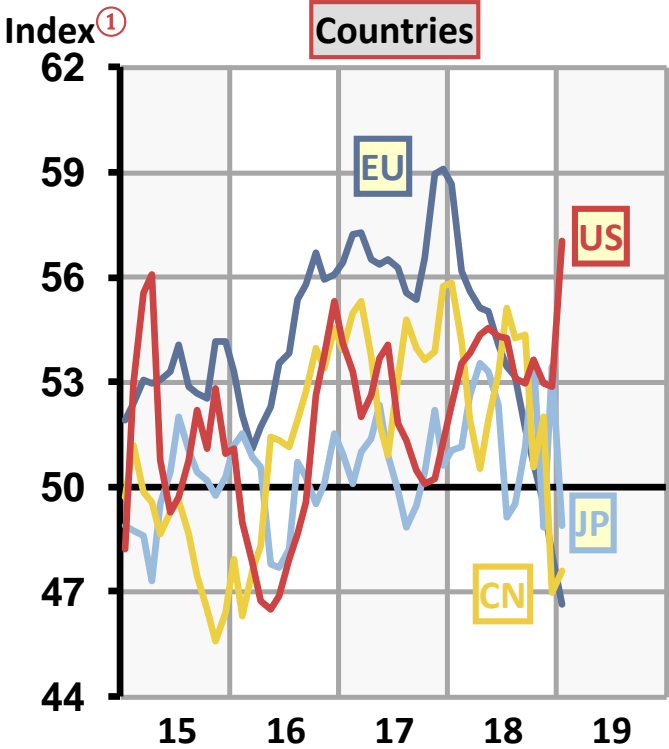
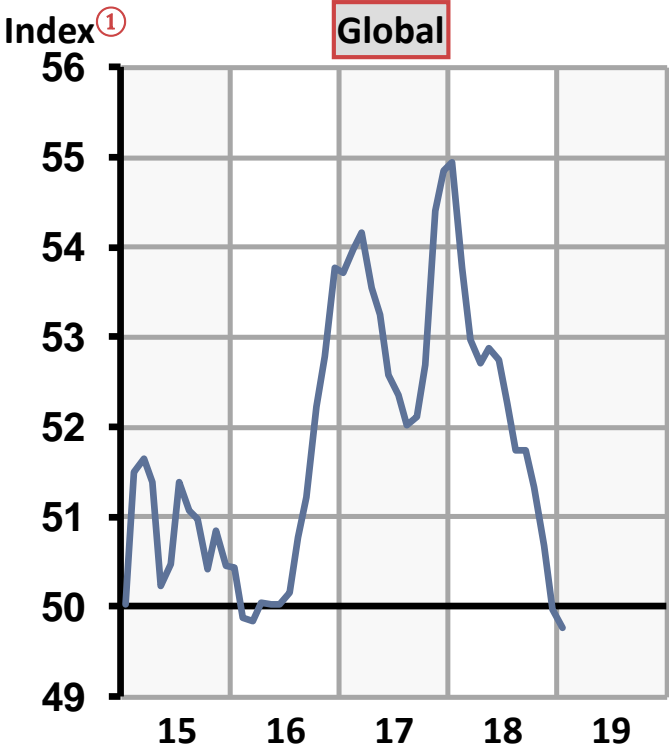


① Purchasing managers index: 50 = neutral, estimates based on EMU, US & JP preliminary reports

Source: Markit

A closer look at the auto sector

Automotive: three out of four volume markets in contraction

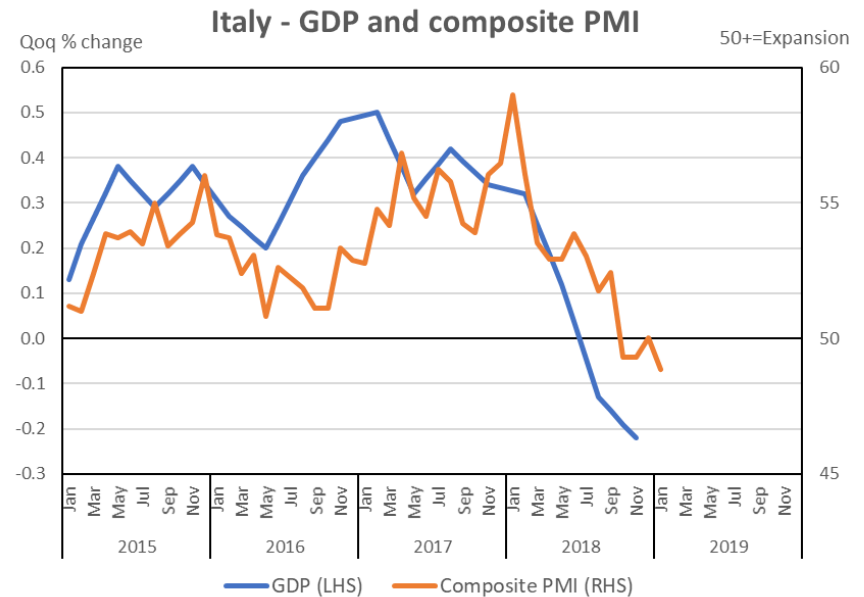
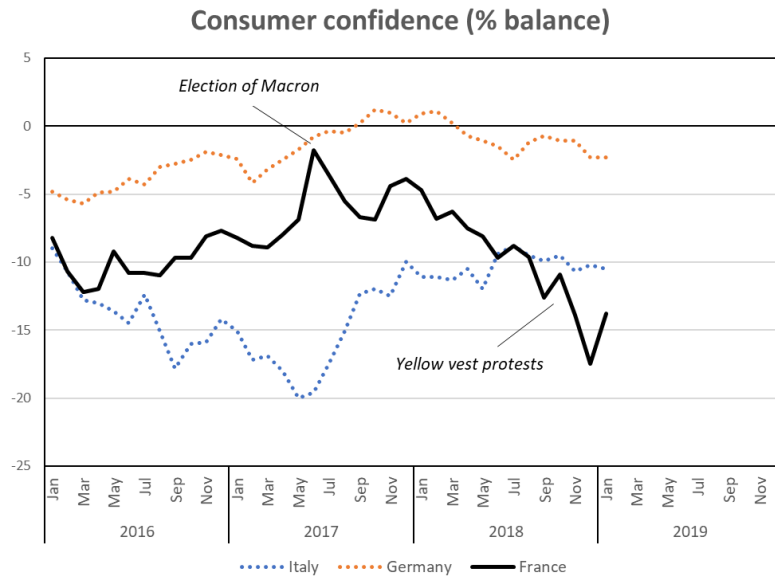


① Purchasing Managers Index: 50 = neutral, countries: 3-month moving average

Source: Markit

Question for everyone:
Are there any upsides in relation to Brexit?

Other risks in Europe and outlook: consumer confidence decreasing in France and business confidence plummeting in Italy



Source: Haver analytics



THE CONFERENCE BOARD GLOBAL ECONOMIC OUTLOOK

Percentage Change							
	2017	2018	2018 Nov.'1	2019	2019 Nov.'1	2019- 2023	2024- 2028
United States*	2.4	3.0	3.1	2.9	3.2	2.2	2.0
Europe	2.4	2.0	2.1	1.6	1.9	1.6	1.2
Japan*	2.1	1.0	1.1	1.1	0.9	1.4	1.3
Other Mature Economies	3.0	2.7	2.8	2.3	2.5	2.9	2.5
All Mature Economies	2.5	2.4	2.4	2.1	2.4	2.0	1.7
China*	4.3	4.1	4.1	3.8	3.8	3.8	3.4
India	6.2	7.5	7.2	6.9	6.8	5.9	5.5
Other developing Asian economies	5.4	5.2	5.2	4.7	4.9	4.9	4.6
Latin America	0.9	0.5	0.3	1.7	1.7	1.9	1.9
Middle East & North Africa	2.4	2.7	2.6	2.9	2.5	3.1	3.0
Sub-Saharan Africa	2.5	2.8	2.6	3.0	2.9	3.8	3.9
Russia, Central Asia and SE Europe	3.7	2.7	2.5	1.0	1.3	2.3	2.2
All emerging and developing economies	3.9	3.9	3.8	3.7	3.7	3.8	3.6
World	3.2	3.2	3.2	3.0	3.1	3.0	2.8
<u>Addenda</u>							
United States (official)	2.2	2.9		2.7			
Japan (official)	1.9	0.8		0.9			
China (official)	6.8	6.6		6.2			


*Includes GDP adjustments following the use of alternative ICT goods prices.

The Conference Board Global Economic Outlook 2019, interim February 2019 update



Thank you!

Click [here](#) to download the Quick Note: Surviving Brexit

THE CONFERENCE BOARD 

Quick Note: Surviving Brexit

What Businesses Need to Know as the Countdown Continues

Ilaria Maselli & Klaas de Vries, The Conference Board

BRUSSELS: 9th January 2019

What Brexit means for your business

Companies are becoming increasingly concerned about Brexit. This Quick Note is designed to frame the key dimensions of the likely scenarios. With uncertainty around Brexit increasing instead of decreasing as Brexit day approaches (March 29, 2019), it is important for businesses to make contingency plans. At the time of writing (January 8) there are three options still on the table. These are:

- The British Parliament approves the agreement approved together with the Council of the European Union (EU). This means that a transitory regime applies until December 2020 (possibly until 2022) and in case no trade agreement is ratified in this period, the UK remains in the EU Custom Union;
- A Hard Brexit, with no agreement with the EU, or minimal crisis measures. The scenario is possible if the UK Parliament rejects the proposal of Theresa May in mid-January;
- UK remains a member of the European Economic Area¹ or of the EU. This is a remote possibility that could result from a second referendum or new elections.

The political situation in the United Kingdom means it remains unclear which outcome is most likely. One thing is clear: business must be ready for various scenarios. In this note we analyze what each option means for companies that have businesses that operate in - or trade with - the UK. This builds on a framework elaborated in The Conference Board's Global Economic Outlook 2019².

We expect Brexit to affect businesses in 6 different ways: supply chains, compliance with regulation, talent, innovation, currency volatility and sales. Discussions with Conference Board members based on this framework indicate that most major European companies will be affected by 4-5 of the six issues identified. One or another type of Brexit solution can therefore make a huge difference for most companies. It's important to check how each dimension affects each company.

Business issues linked to the UK's risk of recession and Brexit					
Supply chain & just-in-time <ul style="list-style-type: none"> • Automotive sector • Airplane • All manufacturing companies 	Diverging regulation <ul style="list-style-type: none"> • Pharma – very urgent • All sectors with activities in both UK and EU 	Pool of talent and workers <ul style="list-style-type: none"> • Retail • Food & agriculture • Research 	Innovation capacity <ul style="list-style-type: none"> • UK universities and research institutions, excluded from EU research contracts 	Volatility of the Pound <ul style="list-style-type: none"> • Sectors with low margins, such as textiles 	Recession risk in the UK <ul style="list-style-type: none"> • B2C that serve the UK market

Source: [Global Economic Outlook 2019: Europe—Thriving in a Slow-growing Europe \(2018\)](#)

¹ This is what many call the "Norway option".
² This note is largely based on [Global Economic Outlook 2019: Europe—Thriving in a Slow-growing Europe \(2018\)](#).

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Upcoming webcasts

- **Transforming Customer Experience in B2B**

February 20, 2019 03:00 PM CET, 09:00 AM ET

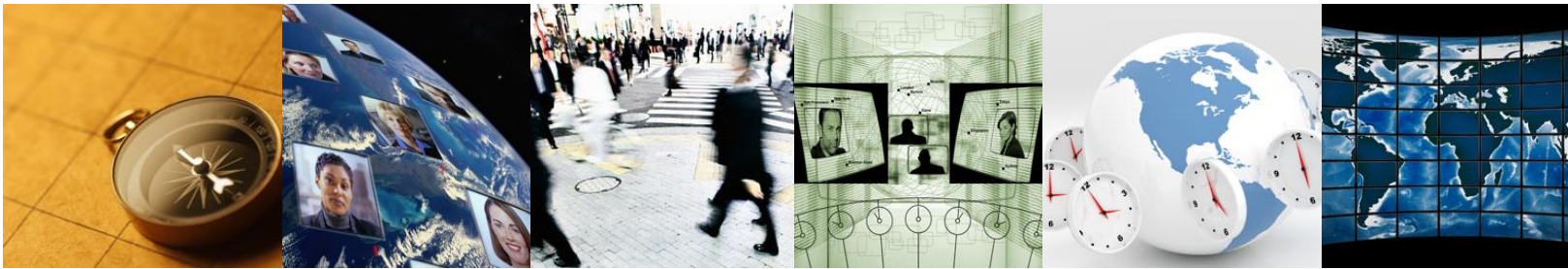
- **Window On Brexit**

February 27, 2019 12:00 PM ET, 05:00 PM CET

- **Economics Watch: Gear Shift: The Fed, Inflation, and Interest Rates in 2019**

March 13, 2019 11:00 AM ET, 03:00 PM UTC





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