EY DKM

Issue 40 | 02 May 2019

# Brexit watch

## Monthly briefing on Brexit developments

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It has been a relatively quiet month by Brexit standards, as most national governments took the Easter break to draw breath and regroup. Early April saw a further extension of the official withdrawal date, which now has the more optimistic timeline of 31 October 2019. However, the new extension agreement is not without its challenges. The UK must contest the European elections, failure to do so will see it leaving the EU without a deal in June 2019. If the Withdrawal Agreement is not ratified by the UK Parliament before the EU elections, further time and resources will be essentially wasted, considering the UK is on course to leave the EU in October 2019.

Fresh calls for independence referendums have surfaced in both Scotland and Wales, adding further tension to the Brexit process. The UK Government is unlikely to renew its stance on Scottish independence given the 2014 referendum result and with a poll in 2018 showing just 19% support for Welsh independence, both outcomes look improbable, however it does add a further dynamic to the political tensions. Furthermore, support for a second referendum, which was once a battle cry of British Labour MPs, appears to be divided. A close ally of the Labour Party leader has outlined that a second referendum is not in fact a red line for the party, which contradicts other reports that suggest Labour MPs are urging the use of the European elections to back a call for a second referendum. Leading parties in both Scotland and Wales would also support a second referendum on Brexit.

While it has been a quiet month on the political front, an extension of the withdrawal date does little for businesses attempting to plan for potential Brexit outcomes. The pushing out of the timeline without any other solid progress brings greater ambiguity for businesses. We are also starting to see Brexit ambiguity impact sporting organisations, which, for the most part, are hampered by funding constraints and therefore unable to plan accordingly for certain Brexit possibilities.


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# 1 Political Developments

## United Kingdom

### Brexit extension approved

Early April saw Theresa May accept an offer from the EU to delay Brexit until 31 October 2019. The caveat of the extension is that if Britain does not approve the Withdrawal Agreement, it must take part in the European elections on 23 May. Failure to take part in the elections would see the UK crash out of the EU on 1 June 2019. Leaders of the remaining 27 Member States are expected to review Brexit progress on 20 June 2019 at a Brussels summit of the European Council.

### Tories rule out early challenge to May

Senior Tories have ruled out an early challenge to Theresa May's leadership. Under existing rules, MPs cannot hold a confidence vote until 12 months after the previous vote, which took place in December 2018. The 1922 Committee, the parliamentary group of the Conservative Party in the House of Commons, has asked for a clear roadmap outlining her future.

### Call for independence referendums

Scotland's First Minister, Nicola Sturgeon, has outlined plans to introduce legislation that would set the rules for a Scottish independence vote if the country is taken out of the EU. Sturgeon wants to hold the referendum by 2021. The Prime Minister's official spokesperson has outlined that Scotland already voted for independence in 2014 and the result should be respected, therefore the position has not changed. Sturgeon believes that her party has a mandate to hold a second independence referendum as a result of the SNP's victory in 2016, when the party manifesto outlined that a second referendum should take place in the event of a material change of circumstances.

Adam Price, leader of Plaid Cymru, had harsh words for the UK Government when speaking about the future of Wales after Brexit. Price said that Wales should hold an independence referendum if Brexit happens without a second Brexit referendum, so that the people could choose an independent Wales at the heart of Europe or a ''forgotten second-class region in a dying British state''. Price had outlined a series of demands whereby an independence referendum may not be called. These included European funding for Wales to be guaranteed, cuts in value added tax for tourism and construction, devolution of powers over air passenger duty, and control over migration policy. However, the Plaid Cymru leader now believes that an independence referendum should be held if the UK leaves the EU without a second referendum.

## Countdown to Brexit

182Days

### Labour MPs call for second referendum

Labour MPs have written to their party's governing body urging them to use the European elections to campaign for a second referendum on Brexit, regardless of whether or not a deal has been reached. However, Rebecca Long-Bailey – a close ally of Jeremy Corbyn – has said that a second referendum is not a red line for the Labour Party and that cross-party talks have been productive so far.

## Ireland (NI & ROI)

### ROI Government to cover cost of EU health insurance for NI citizens

Last month, Simon Coveney stated that, if necessary, the ROI Government would cover the estimated €4 million cost of EU health insurance for NI citizens. The European Health Insurance Card (EHIC) entitles EU citizens to medical care in another member state or Free Trade Economic Association country. If the UK leaves the EU without a deal, UK-issued cards will no longer be valid.

### The implication of Brexit on sport in NI

Peter McCartney, general manager of the North West Cricket Union, believes that Brexit is a concern for many sports organisers. McCartney outlined that currently players can travel without difficulty, and that they are wary of any potential impact on free movement. Players can easily transfer between clubs and leagues and the issue not only affects cricket, but the many other sports operating on an all-island basis. McCartney further advised that any potential pre-planning in a Brexit context is constrained by lack of funding, especially for smaller sports organisations.

## Europe

### No reopening of the Withdrawal Agreement

The European Commission has again ruled out any reopening of the Withdrawal Agreement negotiated with Britain. The current Agreement is seen as "the best solution possible" and therefore it is highly unlikely that it will be reopened for discussion.

# 2 Industry watch

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## Introduction

According to a 2018 report by the European Parliament, the UK is one of the biggest hosts of EU-27 nationals. The UK hosts almost 4 million EU citizens with Irish nationals being the third largest group, touching the 350,000 mark.

However, headwinds such as Brexit and potential restrictions in the movement of workers are likely to widen the skills gap, while simultaneously placing increased pressure on employers. The UK Government's December 2018 White Paper stated that, following Brexit, EU/EEA citizens would face similar treatment to non-EU citizens and therefore will have to apply for a Tier 2 (skilled worker) visa when seeking to work in the country. The Tier 2 visa comes with a set of requirements relating to job description, occupation, salary and availability of workers.

## Data paints the picture

Since the UK announced that it will leave the 28-nation bloc, data highlights a concerning picture. For instance, the net migration of EU nationals to the UK has fallen by approximately 70% since the UK voted to leave. Similarly, from January to March 2018, while 226,000 EU citizens came to the UK, 138,000 EU citizens left the UK. By September 2018, the number of EU nationals working in the UK had fallen to 2.25 million.

In the same vein, construction - a critical industry for the UK economy – has shown a worrying pattern since the Brexit vote, with a 42% decline in new registrations from EU nationals with the Architects Registration Board in the period 2016-2018. Similarly, Pawel Adrjan, economist at Indeed, highlighted that the firm has seen a decline in the search traffic of EU nationals looking for opportunities in the UK, with the largest decrease being from the Republic of Ireland. On the other hand, the global FDI director of Morgan McKinley mentioned that that firm's employment monitor showed a 12-month peak in the volumes of professionals registering for jobs in Ireland (as of November 2018) with the largest sections being UK-based financial services and tech professionals.

## The proposals and opinions

The UK's Migration Advisory Committee (MAC) has proposed a £30,000 salary threshold that will apply to the EU/EEA nationals seeking jobs in the UK after Brexit. This proposal has since come under great scrutiny. As per a study conducted by the Confederation of British Industry (CBI), which speaks on behalf of 190,000 businesses that employ approximately one-third of the private sector workforce, the proposed limit will hurt companies, especially in Northern Ireland, that rely heavily on employing European workers. To put this in perspective, 71% of employees in Northern Ireland earn less than £30,000 per year, and the median private sector wage is £22,016. Another proposal outlined in the white paper is the issuance of temporary work visas to jobseekers, however it is not clear about how this proposal would work in practice.

A King's College initiative, 'UK in a Changing Europe', has conducted research into – among other things – the policy changes proposed by MAC. It concludes that the MAC proposals could lead to a 50% fall in net migration of workers earning over £30,000 in the next ten years.

| Salaries | Net Migration (no policy change) | Change over 10 years (%) | Change over 10 years (#) |
|---|---|---|---|
| EU < £30,000 | 643,897 | -75% | - 482,923 |
| EU >= £30,000 | 231,249 | -50% | - 115,625 |
| ROW < £30,000 | 249,267 | 0% | - |
| ROW >= £30,000 | 226,206 | 20% | 45,241 |
| Total | 1,350,619 | -41% | - 552,307 |

Source: Annual Population Survey and UK in a Changing Europe Analysis

## Conclusion

The post-Brexit migration issue has not reached its conclusion. For instance, the UK has now removed the Tier 2 (General) cap for PhD-level occupations with effect from autumn 2019, which is expected to benefit a large community of PhD migrant workers. This should also benefit non-PhD migrant workers, by freeing space in the Tier 2 visa category quota. On the other hand, in 2018 Ireland outperformed its European counterparts in terms of GDP growth for the fifth year in a row, and has seen a tremendous growth in attracting talent from the EU. As Ireland creeps closer to full employment the immigration of skilled EU nationals will be imperative to business owners. However, undersupply of homes and rising rent rates point towards an infrastructural gap that must be addressed if Ireland is to continue to attract talent.

# 3 Business developments

## The upside lens: challenges leading to new opportunities across the island

If one word could be used to describe the current business climate, 'uncertain' would be a leading contender. However, uncertainty comes in different forms, and the way in which it is approached will often determine the consequences that follow. With uncertainty comes both upside and downside risks – too often only the latter is dwelled upon.

This is certainly applicable in terms of current sentiment: Oxford Economics' (OE) Global Risk Survey showed that the net balance of sentiment – i.e. those citing upside risks (opportunities) for global growth over the next two years, verses those citing downside – was at -65%, showing a heavily pessimistic outlook. This compares to a relatively more sanguine rate of -16% in Q1 2018.

The OE Survey shows that firms are aware of potentially lucrative Brexit outcomes – the top short-term economic upside cited by respondents has been *'recovery in world trade as protectionism fears dissipate'* for three consecutive quarters. This reflects the innovative Brexit-related opportunities being sought out by businesses across both the UK and EU.

UK businesses are coping with the current uncertainty by scouring new markets for new opportunities, according to the Spring 2019 Santander Trade Barometer. Approximately one third of businesses cited looking beyond Europe to expand their customer base. International diversification is now the second most frequently cited Brexit contingency plan, up from ninth place in the Winter 2018 edition. This represents a marked change in attitude, particularly amongst businesses that do not currently export at all, with 58% looking outside the EU for new business.

In Issue 39 of Brexit Watch, we explored how it was mutually beneficial to both the UK and EU nations to seek an amicable outcome to Brexit. Businesses across Europe are aware of the shared risk, and thus this international outlook has also been adopted by EU firms. Trade data shows a 12.9% increase in EU merchandise exports to Canada between October 2017 and July 2018 following the signing of the EU-Canada Comprehensive Economic and Trade Agreement. This is compared to a 3.3 percent increase in EU imports of Canadian merchandise.

This represents a contingency measure which helps mitigate against a no-deal outcome, with few sunk costs. If properly planned and executed, this is a prudent strategy regardless of the Brexit backdrop.

## Businesses cannot afford to succumb to Brexit tunnel vision

With uncertainty abounding, postponements of domestic-oriented decisions, such as recruiting and investment, are inevitable. However, a longer-term outlook is required, or businesses' excessive caution will risk permanently damaging growth and potential. With the Brexit deadline extended, and no indication thus far of an outcome (see table below for the latest EY outlook) - stockpiling and liquidity hoarding will only serve to further damage business confidence.

Unsurprisingly, the unprecedented levels of uncertainty (which have been prolonged by extending the Brexit deadline until October) are affecting UK businesses. Just over half plan to hire new staff in the next 12 months, whilst only 37% plan to invest in product development. In particular, domestic non-exporting businesses showed the most caution, with almost one quarter planning zero investment across the next year. This reinforces the importance of resourcefulness and a positive outlook.

This is certainly the case across the island of Ireland, with InterTradeIreland's Quarter 4 All-island Business Monitor highlighting worryingly low levels of investment – only 4% of businesses plan to undertake R&D investments over the next 12 months.

Santander's 2019 Trailblazers study shows that two of four key characteristics distinguishing the UK's fastest growing businesses from their counterparts are being ready for growth *'focused on opportunity even in the fact of threat'* and investment for tomorrow, *'in people, technology and digital transformation'*. This trend towards liquidity-hoarding and stockpiling, in place of investing in people and potential, could bring negative outturns for the competitiveness and economic prosperity of NI and ROI. In short, the Island of Ireland cannot afford to dwell on the downsides of Brexit.

| | Likelihood | Change since last issue |
|---|---|---|
| WTO (no-deal) | 20% | Less likely |
| FTA | 15% | More likely |
| Single market + customs Union | 10% | More likely |
| Hybrid arrangement | 40% | More likely |
| Remain in EU/EEA | 15% | Less likely |

Source: EY Estimates

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