

# Brexit Watch

Fortnightly briefing on  
Brexit developments

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While Governments and business groups waited with bated breath for a progress update last week, tensions continued to rise around the negotiating table. Unfortunately for those hoping to get a better indication of the UK's plan, officials chose not to provide details of how the hope to address the Irish border issue. The move caused frustration on the EU side, with unnamed sources describing British officials as 'chasing a fantasy.'

The surfacing of political tensions in Spain and Italy are a reminder that the EU has other challenges to meet beyond Brexit.

With the June summit on the horizon, publically, EU officials have used increasingly strong language, most recently Michel Barnier in Portugal. This could be an effort to put additional pressure on the UK to clarify its position.

In contrast to the EU's desired outcome, British MPs and Downing Street have instead rebuked of the EU's strategy and suggested that Brussels should think of the 'interests of the citizens' instead.

Economists have pointed to the continued [ambiguity](#) around Brexit negotiations as a factor in decreased business investment in the latter months of 2017 and Q1 2018. Business investment during this period fell by 0.2%.

Furthermore, Bank of England Governor Mark Carney has warned that due to Brexit the UK economy [is](#) up to 2% lower than it would have been otherwise. He also reported that households are up to £900 worse off. The continued uncertainty surrounding the status of negotiations is unlikely to improve the trend. Given the Bank's forecasting track record, this statement was unsurprisingly met with some criticism.

Until the UK outlines its plans for the border, it is difficult to see what can be done from an Irish perspective - beyond reiterating the need for focus on a free trade agreement. The lack of assurance on what type of deal will be struck is also proving difficult industry, as the private sector tries to ready itself for March 2019. It is hoped that negotiations held in the coming month will be more productive than those in the last.

# 1 Political developments

## Ireland

### Minister for Foreign Affairs and Trade boosts commitment to Good Friday Agreement

Last week the Tánaiste and Minister for Foreign Affairs and Trade, Simon Coveney, announced an [additional](#) €1m to Ireland's reconciliation fund. The increase brings the total fund to €3.7m. The fund has been in existence since 1982 and provides funding to community groups, voluntary organisations and NGOs.

The overarching aim is to foster better understanding between the people, cultures and traditions on the island of Ireland and between Irish and British people. This shows the Tánaiste's commitment to protecting the Good Friday Agreement as Brexit negotiations continue.

### Relationship between Ireland and the UK is being tested

The Tánaiste, earlier this month, pointed to the fact that the relationship between the UK and Ireland is coming under strain. Mr Coveney followed up by saying he does not think everything will be agreed by the end of June. This would suggest that while these are testing times between governments of Europe the lack of clarity around potential negotiations could be heightening tensions.

This [week](#) Mr Coveney flew to Brussels for a meeting with a number of EU foreign affairs ministers. Brexit was not on the agenda to be discussed and thus the official press release did little to quell the increasing air of ambiguity around negotiation outcomes. It does however provide a reminder that Brexit is not the only issue - events in Italy and Spain of recent days only increase this view.

### Barnier Calls for Clarity from the UK

Michel Barnier recently spoke at the congress of International Federation for European Law. Barnier, as the Chief Brexit Negotiator for the EU, reiterated the point that 75 per cent of the text of the Withdrawal Agreement had been agreed. However, the governance of the agreement still has to be discussed, as does a specific solution to the unique situation of the Irish border.

Furthermore, agreement must be reached on a framework for the future relationship between the EU and UK. While Barnier did provide some details focusing on the Withdrawal agreement, a more granular level of clarity must come soon in relation to the Irish border and the trade agreement between the EU and UK.

## Economic Performance

### European Union

Available from [EuroStat](#)

- The euro area recorded a €26.9bn trade surplus with rest of world in Mar 2018. This figure was down 5.6% YoY. Intra-euro area trade fell by 0.6% YoY reaching €170.5bn in Mar 2018
- In Mar 2018 production in construction increased by 0.8% YoY in the euro area and 1.3% in the EU28. Seasonally adjusted production in construction decreased MoM by 0.3% in the euro area and 0.9% in the EU28 in Mar 2018
- In March YoY retail sales increased by 1.8% in the EU28 and 0.8% in the euro area

### Great Britain

Available from the [ONS](#)

- The 12-month growth rate of the Consumer Prices Index (CPI) including owner occupiers' housing costs (CPIH) fell to 2.2% in April 2018, from 2.3% in March 2018
- Business investment was estimated to have fallen to £46.1bn between Q4 2017 and Q1 2018 following a decrease of 0.2%
- The employment rate increased by 0.4pp QoQ to a record high of 32.34m, and by 0.8pp YoY
- Compensation of employees increased by 1.6% in Q1 2018. The highest quarterly rate since Q2 2016

### Recent Statistics

### Republic of Ireland

Available from the [CSO](#)

- The volume of retail sales (seasonally adjusted) increased by 1.5% MoM to April 2018, with a YoY increase of 4.8%
- Average weekly earnings increased by 2.4% YoY during Q1 2018. Increasing from €725.05 to a preliminary estimate of €742.19.
- Labour productivity grew by an average rate of 4.5% from 2000 to 2016, with the industry sector being the fastest growing. In 2016 productivity grew by 2%

### Northern Ireland

Available from [NISRA](#)

- The Labour Force Survey for local districts outlines that Antrim and Newtownabbey has the highest economic activity 80.5% and employment rate (76% 16-64 year olds) of the 11 districts
- Lisburn and Castlereagh have the highest percentage of people that achieved level 4 NQ and above at 40.7%
- Belfast has the highest percentage of economically inactive population at 19%, relative to the overall population

# 1 Political developments

## United Kingdom

### Tensions high for the Prime Minister at both home and abroad

Tensions are high between Theresa May and the EU with Downing Street [recommending](#) the Union desist from 'soundbites and negative anonymous briefings.' The Prime Minister's spokesperson asked for negotiations to be approached with 'the interest of citizens at heart' fighting back against criticisms from Brussels.

Elsewhere, UK Foreign Secretary Boris Johnson continues to [put pressure](#) on his Prime Minister to move the UK 'fully out' of the Customs Union, after the transition. Mr Johnson publically tasked Mrs May to 'get on with it... as fast as reasonably possible' and his recent comments have focused on becoming 'truly global' again as opposed to less European.

### Pro-Brexit Conservatives urge Prime Minister to use divorce bill as leverage

The chair of the pro-Brexit European Research Group has [urged](#) the Prime Minister to relent on the Brexit divorce bill if the EU does not offer a satisfactory trade agreement in return. Conservative back-bencher Jacob Rees-Mogg accused the EU of not compromising while the UK has made 'huge' concessions.

'Basically, the deal is very simple – we are paying a very large amount of money, £40 billion, and in return we want a trade deal... if we don't get the trade deal we want, you don't get the money' he said.

The MP described Mrs May as a 'most impressive and dutiful leader', in spite of his criticism towards her strategy, and that she is [crucial](#) to delivering Brexit and has his full support.

### Nicola Sturgeon calls for even playing field in Scotland's interest

Scottish First Minister Nicola Sturgeon [raised issues](#) about Northern Ireland when she met Michel Barnier on Monday. In contrast to topical concerns regarding the Irish border, Ms Sturgeon believes allowing regulatory alignment between NI and Ireland will cause further problems by giving the former a competitive advantage over Scotland.

Should a deal be struck whereby the North remains in the single market, indigenous businesses will have access both to the EU market and the UK market. The First Minister highlighted her concerns from a Scottish perspective, and acknowledged the 'massive sympathy' felt for the majority of constituents who

voted to remain in the EU. She also acknowledged the sympathy felt for the country in Brussels but that Mr Barnier can only negotiate with the British Prime Minister.

Ms Sturgeon also [gave](#) her 'strong view' that 'time is running out for the UK' to achieve a deal on Brexit and called on the UK Government to move forward with the process.

### Pro-remain Labour members seeking party vote on Brexit, but as yet unprepared

A [source](#) from Labour's Momentum group has said a 'coordinated' effort is not yet in place to facilitate a party debate on Brexit policy. One member explained that 'on an issue as big as this it would be unacceptable if we decided to determine our policy behind closed doors. It would be the worst kind of Blairite approach.'

Deputy leader Tom Watson has said there is no decision yet on whether the final vote on the Withdrawal Bill will have a party whip applied.

## European Union

### Michel Barnier blasts the UK in Portugal speech

The EU's Chief Negotiator has [accused](#) the Prime Minister of playing 'hide and seek' during negotiations, and placing blame on the EU for the negative impacts of Brexit. Speaking in Portugal over the weekend, Michel Barnier made no attempts to hide his frustration with the UK after a tense week of negotiations.

UK officials refused to lay out intentions on how to avoid a hard border, with one EU official subsequently [branding](#) their post-Brexit plans as equivalent to 'chasing a fantasy'.

With respect to the 'red lines' set by the UK, Mr Barnier stated 'it is the United Kingdom that leaves the European Union. It cannot, on leaving, ask us to change who we are and how we operate.'

## Northern Ireland

### Jeremy Corbyn visits the Irish border

Labour leader Jeremy Corbyn visited Northern Ireland last week and [said](#) that NI must have a voice at the table during Brexit negotiations. As part of his trip, Mr Corbyn, met with business leaders and made a public plea for political leaders to 'come together and re-form a Government.' He reasserted that there is to be no hard infrastructure on the border but, in a dig to the British Government, said Cabinet was too divided to achieve a good deal.

# 2 Economic Updates

## Tourism in NI: the silver lining?

May saw the visit of Mel Stride, Financial Secretary to the Treasury, to Belfast. His mission was to acquire an enhanced understanding of the effects of tourism on the Northern Irish economy. This comes swiftly in the wake of the Treasury's consultation, launched in March on VAT and Air Passenger Duty (APD) within the region.

Powers to determine APD were devolved to the Northern Irish assembly in 2013, spurring it on to abolish this tax on long haul flights. However, Westminster retains the powers to set VAT - meaning that Northern Irish hoteliers must incorporate this into their prices. The current rate is more than double the South's 9 per cent hospitality rate, though there are a number of other costs (incl. salaries) which do impact expenses. If NI were to follow suit - or indeed, go further - job creation and increased footfall could follow, assuming that the consumption generated would compensate the lost tax receipts.

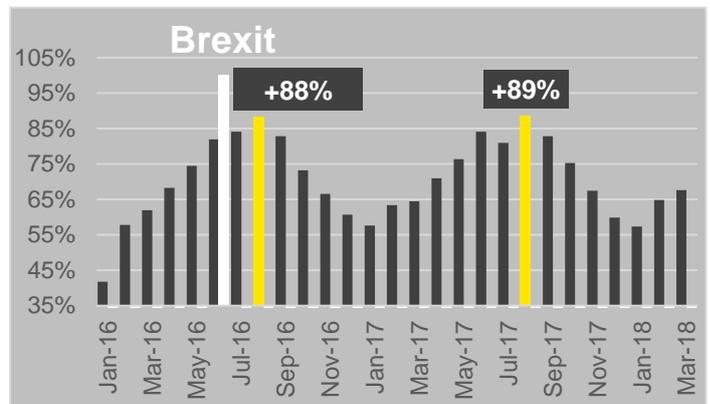
## Delving deeper: tourist trends in Northern Ireland

Tourism performance, despite the tax issue in Northern Ireland is thriving: the Belfast skyline is dotted with cranes building the [1,247 new hotel rooms expected by 2019](#). This marks a 36 per cent increase in capacity - and makes NI the fastest growing region in the UK.

Given the backdrop of steeper taxes, why are tourists coming in their millions? Part of the reason is the pound's devaluation following the Brexit vote. Firstly, cross-border visitors from the South avail of significantly cheaper vacations with exchange rates working in their favour. Secondly, visitors from the UK - including those travelling internally within NI - are discouraged by the uncertainty and expense of holidaying within the euro area, opting instead for staycations.

The North's hospitality trade has reaped the benefits. Hotel room occupancy rates reached a record high of 88 per cent in August 2016 (see figure 1), little over one month following the referendum. August 2017 rates further surpassed this, marking an acceleration in momentum. The expansion of supply to meet this hike in demand shows the region's determination to harness this opportunity.

Figure 1: Northern Ireland Hotel Room Occupancy rates pa (%) January 16 - March 18



Source: Tourism Statistics Branch, NISRA

## Harnessing growth: the challenges

No opportunity comes without its challenges. Whilst 12,000 new jobs were created in the sector in the five year period following 2012, the numbers have plateaued since December 2015 according to the ONS.

This lack of job creation, whilst disappointing, is not owing to employers' desires to minimise cost base but rather a struggle to recruit. The CEO of Hospitality Ulster has warned that labour shortages are 'critical', with [an extra 2,000 chefs alone needed by 2024](#) to accommodate demand and facilitate growth.

Whilst Brexit may have spurred demand in the industry, with close to 30 per cent of the hospitality sector's staff coming from outside NI/ROI according to the Labour Force Survey, any change to migration policy will present a challenge. Migration policies aimed at filling this skills deficit are vital if economic growth is to be realised. Northern Ireland may consider the Republic's example, who in [March this year eased the employment permit criteria](#) to better allow non-EEA applicants to the hospitality sector.

## The domestic demand deficit

Attracting talent to the industry is a great challenge. With unemployment in the region at [3.1 per cent in Q1 2018](#), the industry must work to increase the attractiveness of positions if it is to fill positions.

Bridge to Employment and apprenticeship programmes have been launched to find hundreds of new recruits - if these are successful in retaining participants, they will become part of the solution.

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