UK Market Report

HE Mr Dominic Schroeder, *Her Majesty's Ambassador to the Kingdom of Denmark*

I was delighted to present my credentials as the new British Ambassador to Denmark to Her Majesty Queen Margrethe II earlier in September. It is an honour and a privilege to serve as Ambassador to a country with which the United Kingdom has such a strong, deep and broad relationship. It is my clear aim to do all my team in the Embassy and I can to strengthen, deepen and broaden that relationship.

Of particular interest to readers of this publication will be the economic relationship. In these times, admittedly a little unsettling for some, I am convinced that we have the tools to work together for the prosperity of both our countries. The United Kingdom remains an open, vibrant and engaged trading nation. Our economy continues to grow. We are an exciting investment destination.

I look forward to continued cooperation with the BCCD as we pursue the Embassy's aims and objectives in these areas. I was therefore delighted to have been asked to continue the work of my predecessors as Ambassador and take on the role of Patron of the BCCD. I have gladly accepted that invitation.

British Chamber Q2 2016 Overview

The long-term consequences of the Brexit referendum remain unknown, as so much regarding the future deal between the UK and the EU still remains unresolved.

Economy

The second quarter of 2016 saw growth figures of 0.6%. One of the main growth drivers has been consumer spending, continuing its significant role since the financial crisis. However, concerns have been raised, as this is not necessarily a good thing if consumers are using up their savings and taking out loans, constituting a potential future threat. Furthermore, sterling sharply depreciated following the Brexit vote. From mid-2014 to end-2016, sterling will have fallen by an estimated 25% against the US dollar, potentially providing a boost to UK exports. However, this may constrain consumer spending in the medium run as inflation rises (see Table 1) and real wages fall. In addition, business confidence has suffered due to the uncertainty surrounding the vote, leading to a fall in business investment immediately following the news.

Chancellor of the Exchequer Phillip Hammond has said that the Government will revise its commitment to achieve a budget surplus by 2019-20. This statement comes as increases in public sector borrowing continue to exceed the forecast of the Office of Budget Responsibility. The Bank of England also expanded its quantitative easing program, sending its benchmark interest rate down to 0.25 percent (the lowest in the bank's 322 year history) in order to stimulate the business environment and boost the economy. The bank has indicated that it is willing to cut rates further, even though the effect of further reducing the interest rate is not certain. Thus, a fiscal stimulus might prove necessary.

TABLE 1

UK Key Economic Indicators	2015	2016	2017
Real GDP growth	2.2	2.1	2.3
Inflation, CPI	0.05	0.5	1.4
Gross government debt, share of GDP	89.2	89.8	89
Wages, hourly (£)	21.9	20.5	21.9
Balance of payments, share of GDP	-5.2	-4.4	-3.5
Country share in world import	4.2	4.2	4.1
Private consumption, share of GDP	61.8	61.7	61.4
Population, million	65.2	65.6	66.1
Export of goods & services growth, pct	5.1	1.7	3.4
Import of goods & services growth, pct	3.3	2.3	3.4

Source: Oxford Economics

The UK has long been a world centre for international trade and investment. Whether the City of London will remain the financial hub of Europe is perhaps unknown and may depend on what deal the UK and EU will strike when, and if, Article 50 is triggered. If the UK retains its membership of the Single Market, it can retain its passporting arrangement, and thereby still act as a European hub for financial services. Should the UK end up with third country status, it will lose its passporting privileges. This could mean relocation of many financial institutions to Frankfurt, Dublin or Paris and some might not wait for the outcome of the negotiations. This is uncertain. JP Morgan CEO Jamie Dimon claims that the bank might have to move thousands of employees out of the UK and BCG argues that EU banks will have to inject €40 billion into UK operations after a potential Brexit. In the past century, however, London has retained its position as one of the world's financial centres, despite two World Wars and two Economic Depressions. It now faces yet another crisis.

Politics

The historic vote to leave the EU has witnessed political uncertainty in the UK. Despite polls indicating that the vote would be extremely close, the result still came as a shock to many in the UK and across the world. Many feel that Conservative Prime Minister David Cameron had gambled once too many and was left with little choice once the referendum result was clear. Having failed to persuade enough British voters to vote to Remain in the EU, Mr Cameron resigned on 24 June, the day after the referendum.

Following his resignation, Home Secretary Theresa May announced her candidacy for leadership of the Conservative Party and quickly emerged as a front-runner. On 13 July, Mrs May became only the second female Prime Minister of the UK and wasted little time in making her mark on the Cabinet, removing six of Cameron's cabinet ministers from their posts in a re-shuffle.

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One consequence to businesses of this disruption in the political climate has been the decision by the new Cabinet to delay the final approval for Hinkley Point C nuclear power station, to the dismay of French partners EDF and Chinese investors. Mrs May's political advisor and Chief of Staff Nick Timothy wrote an article in 2015 objecting to the involvement of China in a sector as sensitive as energy; the future of the project seems now in serious doubt. The decision by the new Cabinet to delay approval could be a convenient way to park the project and cause as little loss of face as possible to all parties concerned. This is of course speculation.

Top of the agenda for the new Government, however, are negotiations with the EU regarding the details of the relationship going forward. During a visit to Germany in July, Mrs May indicated that she would not start the official process of leaving the EU by triggering Article 50 of the Lisbon Treaty before 2017. Political analysts have noted that even "Leave" campaigners such as Boris Johnson, who were very vocal about why Britain should leave the EU, have gone very quiet on the subject of triggering Article 50. Comments from the EU have ranged from barely concealed anger and pleas to start negotiations immediately to Angela Merkel's statement that "we are listening to Britain, what it actually wants and then we will give the right response." Many believe that negotiations behind the scenes are already in full swing with the stakes very high for all concerned.

Market and Export Opportunities

Trade data for Danish exports is available until the end of July (see Table2). It is still early to draw any conclusions on the effect of the referendum on Danish exports to the UK, as it took place on 23 June. The figures certainly look stable and comparable to last year's figures; the main components of Danish exports do not appear to have been impacted at this stage.

The tech industry has been one of the fastest growing in the UK in recent years. Government strategies focused on the industry include tax-breaks for companies with fewer than 500 employees that invest in R&D, reduced corporate tax rate on profits derived from patents and intellectual property and tax relief for investors in start-ups. This has fertilised the ground for the technological revolution in the UK, with the tech industry now employing 1.5 million people and growing 32 times faster than the national economy, and at the same time creating jobs at nearly three times the average rate. As a matter-of-fact, tech-related sectors in London and further south have been growing faster than in California. This underlines the fact that the UK is developing into a European technological centre, with Fintech investment in the UK of $5.4 billion in 2010-2015 compared to $4.4 billion in the rest of Europe.

TABLE 2

Danish Exports to the UK	2014	2015	2016
Total Exports of Goods, Million Kr	48202.1	39324.4	5585.6
Growth	-9%	-18%	
Main Sectors, Million Kr			
Food, drinks, tobacco	11350.2	11627.2	1767.2
Raw Materials	797.8	788.5	113.8
Minerals	9544.1	3378.7	163.3
Chemical Products	4584	4387.4	643.7
Processed Goods	4406.6	3399	584.1
Machinery and Transport	11885	9248.3	1246.9
Finished Products	5174.7	5920.8	973.1

Source: Danmarks Statistik

However, Brexit has shocked this industry with 87% of members of Tech London Advocates (an industry group) opposing it. Confidence within the sector has fallen 23%, according to a poll from industry trade body techUK, and TransferWire, one of the UK's top unicorns (start-ups worth more than $1 billion) is considering moving their headquarters. Even though the UK tech industry has proven strong and resilient over the past decade, there are worries that confidence will suffer unless access to the Digital Single Market is maintained, a talented workforce is accessible and international data flows are protected.

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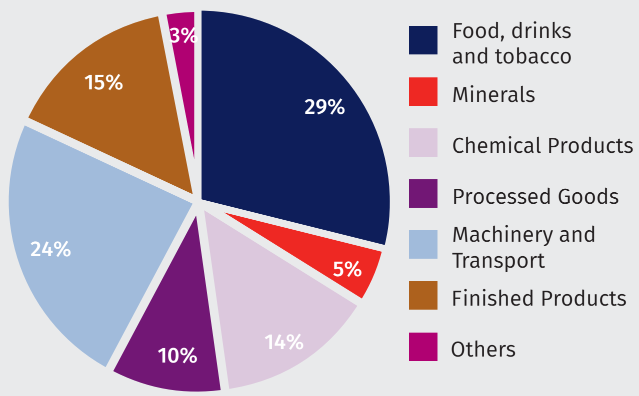
Nevertheless, there is still cause for optimism on behalf of the industry. ARM, a corporation employing 4,000 people, which designs digital chips found in phones and other electronic devices, was recently sold to the Japanese group SoftBank in a £24.3 billion deal. As Prime Minister Theresa May has emphasised, this shows that the UK economy, and indeed the tech economy, is still attractive to foreign investors despite the referendum result. One thing is for sure: the tech industry is expected to be a main growth driver for years to come. However the Brexit negotiations playout, there should be market opportunities for leading Danish tech companies.

Although the UK may seem to have been plunged into a climate of uncertainty following the decision to leave the EU, the current situation may give rise to market opportunities that would not otherwise have been possible. The Adam Smith Foundation, a think tank based in the UK, suggested that the Brexit vote provides an opportunity to "reboot Britain" and in particular, an opportunity to cut corporate tax in stages, with a view to eliminating it completely in the future. New Chancellor Phillip Hammond has many decisions to make in the upcoming autumn statement; up to now, he has not confirmed whether he will follow through on George Osborne's pledge to reduce corporate tax below 15%.

FIGURE 1:

Danish Exports to the UK (Jul 2015 - Jun 2016)



Source: Danmarks Statistik & Danish Ministry of Foreign Affairs

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