UK Market Report

"Leave means Leave"
John Longworth
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HE Mr Dominic Schroeder, *Her Majesty's Ambassador to the Kingdom of Denmark*

I am approaching my first 100 days as British Ambassador to Denmark. A point at which increasingly one is expected to make an assessment. Over the last 100 days I have met a large number of figures and organisations from the worlds of business, politics, defence and security, media and culture. As well as a number of "ordinary" Danes!

I have been impressed by two things. Of course Brexit has been a topic of conversation. People in all walks of life are still trying to get their heads around what it means. But perhaps even more notably, and to me reassuringly, has been the sense of depth, strength, and breadth of the relationship between Denmark and the UK. From our militaries working so closely together, whether in Europe or the Near and Middle East. To an impressive UK engagement with Århus as 2017's City of Culture. Through a deep political understanding and commonality of view, evidenced most clearly by the Prime Minister's visit to Denmark on 10 October.

And last but not least in the field of business. I have visited many companies. Whether in services, shipping, food and agriculture, energy, investment, you name it, the UK/Denmark business relationship has it all and is thriving. I am struck by how much businesses, large or small, British or Danish, want that to continue and to grow. So do I. 100 days in to my tenure my team and I will continue to put our best efforts into making it so. Please do get in touch if you think we can help you.

British Chamber Q3 2016 Overview

Although business surveys in the second half of 2016 do suggest that the vote for Brexit has affected sentiment in the UK, there are signs that the worst fears about the impact on activity are not likely to be realised. Now that the Government has indicated that Article 50 will be triggered no later than March 2017, the timeframe is in place for the negotiations with the UK's most important trading partner.

TABLE 1

UK Key Economic Indicators	2015	2016	2017
Real GDP growth, pct.	2.2	1.8	2.3
Inflation, CPI, pct.	0.1	1.0	1.4
Interest rate, central bank policy	0.5	0.4	0.1
Foreign direct investment, billion (US$)	114.3	72.9	-19.0
Import of goods & services growth, pct. change	2.5	5.8	3.4
Export of goods & services growth, pct. change	4.8	2.7	3.4
Population, million	65.1	65.7	66.1

Source: Oxford Economics

Economy

Following stronger than expected overall growth of 0.6% in the second quarter of 2016, monthly indicators suggest that growth momentum slowed down towards the end of the quarter. This explains the sluggish start to the third quarter. The UK Business Confidence Monitor (BCM) for Q3 2016, published by the Institute of Chartered Accountants in England and Wales (ICAEW), suggests growth of 0.1% in Q3. This slowdown in growth momentum is largely the result of a loss in business and consumer confidence since the referendum, according to the BCM.

" A timeline is now in place for a resolution of the UK's relationship with the EU."

While consumer spending has been a major growth driver in the UK economy and remains robust, there are concerns moving forward in the second half of 2016. Indications point towards employers being unlikely to increase wages as much as previously hoped and inflation has crept up to 1% (see Table 1), constituting a threat to real wages. Business confidence has been negatively impacted by the uncertainty following the referendum; this can help to explain a projected fall in business investment of 2.9% overall in 2016. With the announcement that Article 50 will be triggered no later than March 2017, a large degree of uncertainty has been removed. A timeline is now in place for a resolution of the UK's relationship with the EU and there are reasons to be optimistic that firms have more reason to resume capital expenditure.

Prior to the EU referendum, Bank of England Governor Mark Carney drew criticism from MPs in the wake of the BoE's decision to flag the economic risks of a Leave vote, describing Brexit as "the biggest domestic risk to financial stability". Consequently, the Monetary Policy Committee took decisive action following the referendum and introduced a comprehensive monetary stimulus package at its August meeting. Furthermore, the MPC has stated that there is the possibility to expand this package, which could lead to the Bank Rate being cut from 0.25% to 0.1%. Both the BoE and the Government are trying to protect the British business environment from the potential damage following the Leave vote. Attempts are being made to ensure that the UK business environment remains one of the best in the world.

Politics

It is not news that the UK's future in Europe is clouded by uncertainty. This has been the case since the outcome of the Brexit referendum in June, where 52% of Britons voted to leave the European Union. However, at the recent Conservative party conference, Theresa May gave some degree of certainty. In her stern speech, she stated that "Brexit means Brexit", generating large applause from parts of the audience. She also declared that Article 50 of the EU Lisbon Treaty will be invoked no later than the end of March 2017, meaning that the regular departure will take place in early 2019. However, it seems that the PM does not wish to share any concrete plans for Brexit.

In her speech, she strongly indicated that a "hard Brexit",

including the UK abandoning the four freedoms, was in the making. This provoked resolute reactions from both Germany and France. A large gap is present between the will of the UK and that of the leading EU countries, who have made clear that the UK abandoning the four freedoms also means the UK leaving the Single Market. Responding to Teresa May's speech, French President François Hollande stated that "there must be a threat, there must be a risk, there must be a price, otherwise we will be in negotiations that will not end well and, inevitably, will have economic and humanitarian consequences". This underlines the gap between the will of the UK and that of the EU. The UK has a massive interest in staying in the Single Market, in order to prevent both tariff and non-tariff barriers being put in place between itself and its single biggest export market. On the other hand, Theresa May also has a large interest in, and arguably also a democratic responsibility towards, respecting the concerns of the majority who voted "Leave" with regard to immigration, which entails abandoning the free movement of people.

There is a large interest from the EU's side in not giving the UK any concessions, especially on the four freedoms. For sure, an institution as the EU must to some extent be flexible, but if it becomes too flexible, Member States will start demanding tailored deals picking and choosing the bits they like, and abandoning the parts they do not like. Given the EU leaders current stance, it seems inevitable that May must make a trade-off between keeping the four freedoms and staying in the Single Market or abandoning the freedoms and stepping out of the Single Market, neither of which seem attractive to the May administration from a strategic or economic point of view. Regardless of whether the final result will go one way or the other, we now have some certainty as to when something is going to happen. The only problem is that we do not know what is going to happen.

Market Opportunities

Given the BREXIT circumstances, uncertainty is a factor investors take into consideration even more than usual. Nevertheless, opportunities are present, and economic figures certainly look stable and comparable to last year's figures (see Table 2 & Figure 1). Several sectors have proven attractive, and the Government is taking measures to maintain a favourable business environment. Chancellor of the Exchequer Philip Hammond is set to present his first budget on 23 November in the Autumn Statement, laying out how the Government will use tax and spending plans

TABLE 2

Danish Exports to the UK	2014	2015	2016 (Jan-Sept)
Total Exports of Goods, Million (DKK)	48083.6	39668.6	25506.6
Growth year to year (2014 Index = 100)	100	82.5	64.3
Main Sectors, Million (DKK)			
Food, Drinks, Tobacco	11350.2	11495.0	7178.7
Raw Materials	777.1	789	529.4
Minerals	9537.8	3378.7	851.1
Chemical Products	4594.8	4849.8	3116
Processed Goods	4526.2	3485.2	2588.5
Machinery and Transport	11834	9230	7187.8
Finished Products	5157.7	5920.8	3758.7

Source: Danmarks Statistik

Photo: Hasse Ferrold

to complement the BoE monetary stimulus package and provide a boost to the UK economy.

Speaking in Washington, Mr Hammond gave some hints as to what the Government is planning for the crucial budget when he said: “Now is a good time to invest in genuinely productivity-enhancing infrastructure, and to take advantage of low borrowing costs and our ability to borrow.” This loosening of fiscal policy could mean opportunities for Danish companies in various sectors.

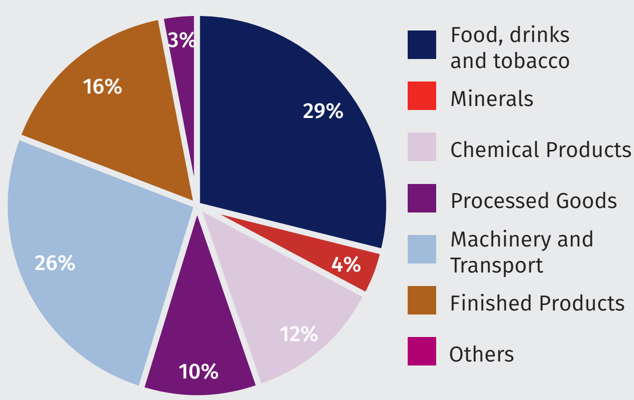
”DONG Energy is currently planning to build the world’s largest offshore wind maintenance hub in Grimsby.”

The renewable energy industry is an area of particular interest for Danish companies, including world leaders in the offshore wind sector. It is interesting to note that businesses based in Yorkshire and the Humber did not report any loss of confidence in the post-Brexit UK BMI; this is surely in part due to the significant levels of investment in the offshore wind industry that is ongoing in the region. DONG Energy is currently planning to build the world’s largest offshore wind maintenance hub in Grimsby, which is located in close proximity to three wind farms off the East coast, one of which is operational while two are still under construction. The new facility at Grimsby’s Royal Dock will feature a marine and helicopter centre and will be served by two new state-of-the-art ships, to facilitate the service requirements to all three offshore farms. DONG Energy UK Chairman Brent Cheshire described the operational hub as “a game-changing industry first, raising the bar for the way we serve offshore wind farms” and representing “a massive vote of confidence to the UK offshore wind industry.”

Another industry which has mirrored the growth of renewable energy in the UK in recent years is the tech industry. At the Conservative Party Conference in Birmingham on 3 October, Philip Hammond provided the tech industry with a boost when he announced an extra £220 million of Government funding to “attract the brightest and best to work here in our high-tech industries.” The funding is being used to support technological innovation in deliverable healthcare interventions, which could present opportunities for Danish pharmaceutical companies renowned for their innovative qualities.

FIGURE 1:

Danish Exports to the UK (September 2015 - September 2016)



Source: Danmarks Statistik

Leave means Leave

John Longworth
Co Chairman, Leave means Leave Campaign
(former Director General of the British Chambers of Commerce)

Britain has voted to leave the EU and our new Prime Minister has committed to make it happen. The new reality for Britain and our EU friends and neighbours is that in 27 months' time, or less, the UK will not be a part of the same club as the other 27 Member States.

As with all change, there will be winners and losers. I believe that this particular example of "creative disruption" will, in aggregate, lead to the UK being a winner, certainly within five years time, provided the UK Government adopt the right policies. At national level, the interesting question is who else amongst the Member States will be winners, either by following suit or by adopting the right policies to make Brexit a "win-win". Britain contributes a great deal to the European family. A nuclear power with a credible military and world class monitoring and security services, we are currently a faithful partner in security matters.

The city of London has deep capital markets and global reach, expertise and connectivity. With top flight universities and research, we have an ability to innovate and our business friendly, economically liberal and outward looking economy is an engine room for growth not only in the UK, but across the continent.

Germany and a few other Northern European countries are the paymasters of the EU. France and Germany combined have great political clout. But together they cannot outvote the rest. The realpolitik of Brexit is that each country will have a different perspective and must look to its own interests, many of which coincide with having good relations with their neighbour, the UK, particularly as Britain becomes the best place in Europe if not the world, to do business and looks increasingly outwards, across the globe.

As for countries, it is also for individual businesses. They must choose whether they wish to be winners or losers. Those who embrace this change, re orientate their outlook and take advantage of the good things that will derive from Brexit in the coming years, in particular a highly competitive currency, will be winners. This applies as much to continental as to homegrown businesses.

Even if the result of Brexit is tariffs (let us hope good sense prevails), the cost of UK generated goods and services will be competitive, the British economy will boom and, at the margins, consumption will switch from continental manufactured goods and services to those produced in Britain.

If we are all going to get the best out of the new reality of Brexit. It is incumbent upon businesses around the EU to make clear to their Governments what sort of settlement is in our collective best interests and for sympathetic Governments on the continent to support a good outcome so that we can all be winners.

Getting the Best Outcome from Brexit

Gary Campkin
Director, Policy & Strategy, TheCityUK

Undoubtedly the political and economic climate around the UK leaving the European Union has created uncertainty – for investors, for industry, for businesses and the customers they serve. The challenge for the Government of negotiating a deal with the EU-27 could also deliver opportunity, if that deal is the right one. From the perspective of my industry – UK-based financial and related professional services – it is a negotiation of great significance, covering a broad range of issues, from our ability to continue passporting, and access the EU Single Market through to the continued flow of skilled labour from the EU and beyond. The right deal isn't about a 'hard' or a 'soft' Brexit; in our view it is about achieving something that is in everyone's best interests – the UK's and the EU-27's, and for the wider global economy.

TheCityUK has been actively engaged in discussions on both sides of the Channel to contribute our perspectives and ensure the priorities of our industry and the millions of customers we serve are heard. We have been encouraged by the willingness we have encountered to listen and understand our concerns. This has been underpinned by a recognition of the role of our industry as a strategic asset for both the UK and the EU. The success of the UK as the leading global financial centre goes back centuries and has included the value we bring to Europe as Europe's financial centre too.

The benefits our industry brings to our economy are clear. We are a major employer – around 2.2 million people work in financial and related professional services across the UK, two-thirds of whom are outside the M25 motorway. We also contribute more in tax and attract more foreign direct investment than any other sector and are intertwined in the everyday lives of businesses and communities around the country.

Following Brexit, if the industry's access to European markets were to be limited, there would likely be a knock-on impact. As recent work we commissioned from Oliver Wyman shows, the extent of this will depend on the shape of the final deal.

There are significant risks around getting the terms of our future relationship with the European Union agreed. But it would be short-sighted to focus solely on the risks of Brexit. The UK is the world's fifth largest economy and is one of the most competitive and innovative. With the right approach, and a strong foundation relationship with the EU and our other partners, there is no reason why Britain cannot continue to be a success in the years ahead. This is also an opportunity for the UK to take the lead in developing next generation trade and investment agreements with partners from the developed and emerging economies.

We will continue to engage with government and other key stakeholders on Brexit in the lead up to March 2017 and beyond, as well as on the many other issues where our industry has a constructive role to play. We do not underestimate the task before us, but nor are we daunted by it. It is in the mutual interests of the UK and the EU to achieve a positive outcome to the process that lies ahead of us. We will play our part in helping to make that happen.

Photo: Kim Dahl

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