

# Assessing the situation

The Brexit Forum met in mid-September to hear an update on the major trends in politics and the economy

The Brexit Forum welcomed the business economist **Andrew Sentence CBE** to a session which provided an update on the economic and political trends that dominated the Brexit landscape in September. Both Forum co-chairs, **Neil Sherlock CBE**, Senior Adviser, **PwC**, and **Angela Hepworth**, Corporate Policy and Regulation Director, **EDF Energy**, also contributed their insight and analysis of the political and business landscape to the meeting.

The beginning of the session focused on the impact of Brexit on the UK economy. It was reported that the value of the pound had fallen and, as a highly sensitive currency, it can be interpreted as a kind of 'Brexit barometer' of the UK economy.

On a sectoral basis, Brexit has had a negative impact on manufacturing, as well as on consumer behaviour, through price increases. Investments are stagnating across the board in the context of slow growth, and one in which big commitments are put on hold.

Regarding the economic prospects, three main points were reported: protectionism has had a strong impact in the context of emerging markets; the global economy has slowed down, including a rise of protectionism (China / US); and the US economy has performed quite well.

UK growth is expected to be 1-to-1.5 percent, which is not viewed as disastrous. (In historical context, the average growth rate in the UK over the past 200 years has been just over two percent.) The threat of recession is very much linked to the world economy and its disrupting effects. However, a no-deal Brexit could cause a recession, worsen the situation, and change the



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current economic forecasts.

On the positive side, consumer spending has recovered to a degree, and the inflation rate – around two percent – and the unemployment rate are respectable. Public spending in the UK is still around 38 percent of GDP.

On the political front, the Conservative government led by PM Boris Johnson are in a minority, and have been unable to call a general election. Moreover, the Benn Act was passed in Parliament, a bill which will lead to an extension if a deal is not agreed at the EU summit (which will take place on October 17). Despite the government rhetoric, it has been pushed by the House of Commons to accept that 'no deal' is not the default legal situation.

In this context, it is clear that the current PM faces more challenges than his predecessor Theresa May. The Prime Minister cannot do much in

such a short time, but he has said that he wants to deliver a deal. The likely outcome will be that he will be forced to ask for an extension, followed by a General Election in November.

A scenario which leads to a second referendum might occur; however, there continues to be polarisation of the political debate and opinion. A recent poll has shown that Brexit has become the number one priority for seventy percent of voters.

For businesses, it is right to plan for no-deal, in the hope that it doesn't happen. It has been noted that in many companies, Brexit 'fatigue' can creep in, partly because many scenarios are difficult to plan, particularly involving workforce and transportation issues.

In terms of the next stages of the process, trade deals/relations will be the most difficult areas to plan and predict, and we could cause shifts in UK productivity. ■