The vote to leave the European Union in June 2016 had an immediate influence on the performance of a range of manufacturing, construction and service sector industries. Although the United Kingdom is scheduled to leave the European Union in March 2019, the UK’s future relationship with the trading bloc remains unclear. IBISWorld has identified five key industries from our collection of over 400 industry reports that have been significantly affected by the referendum result. Taken together, these industries are estimated to generate revenue in excess of £259 billion in 2017-18 and employ approximately 1.4 million staff.

**K66.300 - Fund Management**

*Equity market upturn has inflated industry funds under management (FUM), boosting revenue.*

Following the referendum result, the value of the sterling tumbled, boosting the value of the FTSE 100 by 13.2% to date. The FTSE 100 is comprised of companies that generate the vast majority of their revenue from outside the United Kingdom. When the pound falls, revenue earned abroad is boosted when repatriated back into sterling and in turn, inflates corporate valuations, investment returns and FUM. Meanwhile, global equity markets also edged upwards over the same period, supported by expansionary monetary policy adopted by many central banks.

The stock market uptick has benefited the industries in the financial services sector, particularly those investing a large proportion of their portfolios in equities, as the industry’s revenue is derived from a management fee on total funds under management (FUM) and performance fee on invested assets. With equities accounting for approximately 50% of the industry’s assets, fund management operators are key beneficiaries of this surge.

However, despite the positive outlook, economic woes associated with the vote resulted in investors withdrawing capital from UK equity funds, with outflows recorded every month between June 2016 and September 2017, according to data from the Investment Management Association. This constrained growth in FUM, and subsequently industry revenue.

Meanwhile, pay for employees in the Fund Management industry has flatlined due to rising cost control measures. IBISWorld expects the industry’s average wage to rise by just 0.8% between 2015-16 and 2017-18. In contrast to stagnant domestic remuneration, data from Emolument, the salary benchmarking company, revealed that the global average pay of fund management employees increased by over 5% in 2017 alone. Stagnant wage growth has primarily been due to operators keeping a tight control on their cost base until the effect on businesses of the United Kingdom leaving the European Union becomes clearer.
The Brexit Effect

M71.110 - Architectural Activities

Uncertainty has weighed on the foundations of demand, although residential orders have remained strong.

The Architectural Activities industry’s performance is heavily linked to the strength of commercial and industrial construction markets, as they jointly account for over 40% of industry revenue. The residential construction market is also important, as services provided to this market generate approximately 25% of industry revenue. Economic uncertainty following the EU referendum has limited business confidence and forced businesses to manage capital spending budgets tightly. This weighed on commercial and industrial construction markets. According to data from the Office for National Statistics, the volume of new orders for construction in the private industrial and commercial markets declined after the referendum.

IBISWorld expects this to be primarily responsible for the industry’s fall in revenue from 2016-17, as level of new orders is a strong indicator of demand, since architects are predominantly required during the design phase of projects. Results from a survey published by the Royal Institute of British Architects (RIBA) in February 2017 showed that 60% of the architects who are members of RIBA have seen their projects delayed, cancelled or scaled back, which also highlights the challenges facing the industry. However, although economic uncertainty caused by the referendum result and the 3% increase in stamp duty payable on buy-to-let and second homes from April 2016 has adversely affected the housing market, the number of new orders for construction in the residential market continued to rise and mitigated the fall in overall industry demand. Nevertheless, the housing market has started to show signs of increased pressure, as the number of new orders registered a fall in January 2018.

In addition, the construction sector is highly reliant on EU labour. The above-mentioned survey also revealed that 40% of UK-based EU nationals are considering leaving the United Kingdom due to the uncertainties caused by the referendum vote. IBISWorld expects any reduction in the number of EU nationals working in the industry to lead to labour shortages and higher average wages in the coming years.

C29.100 - Motor Vehicle Manufacturing

Domestic demand has stalled over the past year and the industry faces further speed bumps ahead.

The referendum vote has put the brakes on the Motor Vehicle Manufacturing industry, reflective of the effects felt by the wider manufacturing sector. Although the deterioration in the value of the pound should have boosted exports, as UK-manufactured vehicles became cheaper in overseas markets, industry exports did not expand steadily as domestic manufacturers scaled back production. Operators also raised selling prices to pass on some of the input cost increases to customers, meaning they did not benefit from the full effects of a weaker pound, and was responsible for exports not expanding sharply.

Nevertheless, the weak pound restricted import competition to some extent as vehicles manufactured overseas became more expensive in the domestic market. Meanwhile, economic uncertainties and rising inflationary pressures have caused domestic demand to deteriorate, because businesses and consumers are increasingly reluctant to commit to major spending decisions. In addition, confusion over the government’s policy on diesel vehicles also hampered domestic demand. Data released by the Society of Motor Manufacturers and Traders (SMMT) in January 2018 revealed that in 2017, UK car production fell for the first time since the depth of the financial crisis in 2009, due to a 10% fall in domestic demand.

Additionally, the weakness of the pound following the referendum vote has raised input costs, which has had a detrimental effect on industry profit margins, because firms were unable to fully pass on cost increases to customers.
The Brexit Effect

G47.110 - Supermarkets

Inflationary pressures have affected consumer spending patterns, but the essential nature of many supermarket products has insulated the industry.

The Supermarkets industry, along with many other industries in the wholesale and retail sectors, imports large volumes of products from overseas. Therefore, the fall in the value of the pound has raised purchase costs in many of these industries. Although supermarkets generally have currency hedging mechanisms in place, IBISWorld expects that the depreciation of the pound has increased purchase costs for the industry. This has forced players to pass some of these increases on to consumers through higher selling prices. Higher selling prices have enabled the industry's revenue to expand from 2016-17, after declining in previous years.

Nevertheless, the industry’s profit margin has been adversely affected by the fall in the value of pound, as operators were unable to fully pass on purchase cost increases to consumers due to the continuation of the fierce price war between supermarket chains.

Although rising inflationary pressures have hampered consumer spending, industry demand was not dented due to the essential nature of most products sold by supermarkets. Consumers also chose to trade down to cheaper own-label products, or switch to discounters like Aldi and Lidl. According to data from Kantar Worldpanel in January 2018, Aldi and Lidl were able to attract one million more households over the three months through December 2017, which indicates that they have benefited from spending pressures caused by rising inflation.

Consumers’ Association Which? also released a survey in February 2018, which revealed that Aldi has overtaken upmarket rival Waitrose as Britain’s favourite supermarket, having won over customers with its fresh produce and own-label brands as well as special offers.

L68.310 - Estate Agents

The residential market has slowed considerably, but demand from overseas buyers has been strong.

The Estate Agents industry is largely influenced by the performance of the overall economy, with strong growth generally translating into greater demand for property.

Economic uncertainties, coupled with the 3% increase in stamp duty payable on buy-to-let and second homes from April 2016, caused residential property transactions to decline by double digits in 2016-17. IBISWorld expects this downward trend to continue during the current year. This severely dented demand for industry services because the residential transactions segment is estimated to account for over 40% of revenue. Meanwhile, the Bank of England slashed the base rate by 0.25% in August 2016 to stimulate the economy in the aftermath of the referendum vote, which resulted in mortgage rates dropping further from already historically low levels. This is expected to have dampened the fall in the number of residential property transactions, as mortgage payments became more affordable. However, the base rate was increased in November 2016, and further rate hikes over the coming months could have an adverse effect on residential property transactions.

Economic woes caused by the referendum vote have resulted in businesses becoming more cautious and controlling spending budgets tightly. This had an adverse influence on non-residential lettings and property transactions from domestic clients. On the other hand, the fall in the value of the pound has increased demand for UK property from overseas buyers, particularly for property in London, which somewhat mitigated adverse influences from the residential market. According to research from Savills, investment in commercial property in the City of London is estimated to have hit £12.5 billion in 2017, twice the 10-year average of £6.26 billion.
The Brexit Effect

IBISWorld Industry reports used in this spotlight report:
K66.300  Fund Management in the UK
M71.110  Architectural Activities in the UK
C29.100  Motor Vehicle Manufacturing in the UK
G47.110  Supermarkets in the UK
L68.310  Estate Agents in the UK
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