Counting down to Brexit

As the UK’s withdrawal from the European Union draws ever closer, the threat of a no-deal exit has been brought increasingly into focus.

Understand how Brexit has affected operators in the financial services, agricultural, and manufacturing sectors and discover how a no-deal Brexit would impact industries across the economy.
Counting down to Brexit

The Agricultural Sector

Key points

Labour concerns
The weak pound has already led to labour shortages, and agricultural operators have expressed concerns over any disruptions to the ability of UK farms to utilise migrant labour.

Subsidy schemes
Subsidies became immediately larger upon the depreciation of the pound, but whilst existing levels of funding have been guaranteed through 2022, future funding systems have the capacity to cause significant disruption.

Trade
Farming associations such as the National Farmers’ Union have expressed the importance of securing a free-trade deal with the European Union and ensuring that domestic farmers are not overly exposed to international competition following the UK’s exit.

The UK Agricultural sector in a no-deal scenario: summary

A no-deal Brexit has been roundly excoriated by many agricultural spokespeople, with ‘avoiding a no-deal outcome and any short-term political and economic turmoil’ the first of the NFU Council’s six principles on delivering the best outcome from Brexit for British farmers. As many agricultural products are perishable, approximately two-thirds of exports across the sector are destined for the European Union, with the figure rising to 80% for vegetable exports. The tariff and non-tariff barriers brought about by no-deal Brexit would therefore be highly disruptive.

In addition to raising the cost of British exports, significantly reducing their competitiveness, barriers to trade would also affect the availability of farm inputs, such as medicines, and would end the mutual recognition of certifications, affecting the integrity of organic producers. The NFU has also raised concerns that UK producers could be exposed to global competition from cheaper producers operating under different production standards, which would significantly undermine the sector. Barriers to free movement, meanwhile, would cause difficulties over harvest time, and it is uncertain whether proposed immigration changes would allow the flexibility required to prevent disruption. The government has guaranteed funding at the level of the EU’s Common Agricultural Policy (CAP) through 2022, a domestic guarantee that would hold firm even under a no-deal scenario. Ultimately, the consensus in the agricultural sector is that any Brexit deal will require a transitional deal in order to avoid causing significant disruption and difficulties for UK producers.
Counting down to Brexit

The Manufacturing Sector

Key points

Trade
For many manufacturers, the European Union is the single largest market, and the imposition of any barriers to trade would reverse the currently enjoyed benefits of the weaker pound and significantly reduce competitiveness.

Supply chains
Large manufacturing industries have highly international supply chains, with many using just-in-time inventory practices. Non-tariff barriers could render such systems unviable, having a significant knock-on effect throughout the supply chain.

Regulation
Many manufacturers have called for regulatory harmony, stating that seeking to operate under two separate systems domestically and for exports would increase costs and reduce competitiveness.

Divergence, investment and influence
The relocation of the EMA is the most visible example, but many operators across the manufacturing sector have expressed concerns that withdrawing from the European Union decreases the UK’s ability to shape global regulations in its favour, and also makes the country a less attractive location for international investment.

The UK Manufacturing sector in a no-deal scenario: summary

Manufacturing industries heavily engaged in imports and exports will naturally be the most affected, as tariff and non-tariff barriers would affect international competitiveness. Whilst the United Kingdom has remained a member of the European Union, many manufacturers have benefited from the depreciation of the pound, as this has improved the competitiveness of UK products on global markets. Further weakness in the pound stemming from a no-deal Brexit would not have a similar desired effect, however, as the range of tariff and non-tariff barriers would heavily undermine any advantages that could be obtained through a weaker pound. Most manufacturing associations, such as the SMMT, have stated that it is vital the government ‘secures tariff-free access to European and other global markets’.

Large manufacturers have repeatedly highlighted the threat that non-tariff barriers pose to their supply chains, with the automotive sector stressing that just-in-time production would ‘grind to a halt’. Although this is a more pressing concern for large and globalised industries, like the automotive and aerospace industries, the effects of delays trickle through their extensive supply chains, and all industries with imported inputs would face additional costs and increased delays to some extent.

Finally, regulatory divergence would pose considerable problems regarding ratification and the legality of cross border trade. This is most apparent in the highly regulated chemicals and pharmaceuticals sectors, with the Department for Business, Energy and Industrial Strategy stating that ‘of all the barriers to trade that we have considered, it is regulatory divergence that causes the most concern for all those from whom we have received evidence.’ Overall, as 60% of industries in the manufacturing sector have a high level of exports, such concerns are highly pertinent.
Counting down to Brexit

The Financial Services Sector

Key points

Passporting
The potential loss of passporting rights under a no-deal scenario would have a significant impact on the globalised financial services sector. Although preparations have been taken, uncertainty has continued to weigh on performance.

Equivalence
Whilst third-country ‘equivalence’ is baked into regimes such as MiFID II, this is not comprehensive, and some operators will have to open branches or subsidiaries in the European Union. Market access based on equivalence was not expanded upon in the Draft Withdrawal Agreement.

Regulation
The Financial Conduct Authority has consistently backed regulatory alignment with the European Union following Brexit.

Economic conditions
A downturn in economic conditions, and an expected fall in the value of the pound following a no-deal Brexit would undercut the demand base for the sector as a whole. However, this could boost the value of the FTSE 100 as the average constituent generates around 70% of its revenue from earnings in a foreign currency. This is likely to increase the value of assets under management of funds that have a high exposure to these shares.

Free movement of labour
Many employees in the sector are EU nationals, and concerns have been raised about staffing barriers.

The UK Financial services sector in a no-deal scenario: summary

The UK financial services sector is highly globalised, and its efficient operations are based upon the free trade of services across the European Union. The loss of passporting rights, under which financial institutions may establish branches across the European Union and trade freely across European borders, is the most prominent concern raised by the sector. More than 40% of UK financial services exports are conducted with the European Union, whilst the Fund Management industry (IBISWorld report K66.300) sourced approximately 40% of its assets under management from overseas clients in 2017. A no-deal Brexit, without provisions for cross-border trading or ratified equivalence, would bring a stop to a large number of operations; insurance industries and the Pension Funding industry (IBISWorld report K65.300), for example, would be placed in ‘legal limbo’, unable to pay out to clients living in EU countries. As a result of this potential check on business activity, 35% of companies monitored in EY’s Financial Services most recent Brexit Tracker confirmed intentions to move some of their operations or staff from the United Kingdom to Europe.

Most industry associations have expressed their desire to retain existing regulatory frameworks, such as Solvency II, as without remaining compliant, UK companies would be unable to access the European single market. The Financial Conduct Authority has consistently backed equivalence and regulatory alignment with the European Union following Brexit, as without these financial markets and consumer protection standards would be closed off. Nevertheless, many have criticised a system of third-country equivalence as lacking in comprehension compared to the UK financial sectors’ current operating conditions.

The economic fallout of a no-deal Brexit would hamper demand from a number of key sectors but, as after the depreciation of the pound following the EU referendum result, could boost the value of the FTSE 100, as the average constituent generates around 70% of its revenue from earnings in a foreign currency. Finally, approximately one in five employees in the City of London are EU nationals, according to the ONS, and potential restrictions on free movement would therefore be particularly piercing for the financial services sector.
At IBISWorld, we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high-growth, emerging and shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing and new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximising decisions

Who is IBISWorld?
We are strategists, analysts, researchers and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real-world answers that matter to your business. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and risk intelligence products give you deeply researched answers quickly.

IBISWorld Membership
IBISWorld offers tailored membership packages to meet your needs.