THE ADECCO GROUP

The facts about Brexit

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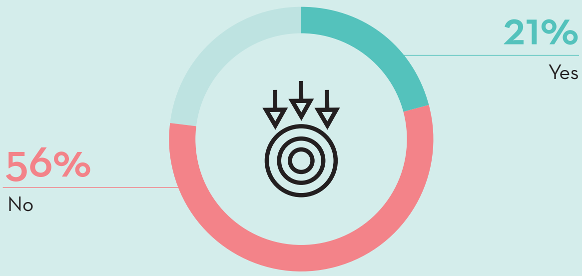
The legal situation

European Union Bill Vote: 498 for, 114 against gives a majority of 384

Will Theresa May achieve her Brexit Goals



On the face of it January 2016 saw some clarity start to be brought to the Brexit situation as the UK Supreme Court ruled that parliament would be required to vote on withdrawing from the European Union.

A vote was then subsequently held, and after a two-day debate where more than 100 MPs spoke, was comfortably passed 498 to 114. Labour leader Jeremy Corbyn had previously said his party would not 'block' Article 50.

The Scottish National Party (SNP) and Plaid Cymru opposed the bill as did the Liberal Democrats, 47 Labour MPs and former Conservative Chancellor Ken Clarke.

Even with this vote behind her only one in five UK voters believe that Prime Minister Theresa May will achieve the goals she wants from Brexit – 56% believe she will not.

Legal Cases

Despite this the government is not free of potential legal obstructions, it still faces a number of legal challenges.

A case brought by campaign group British Influence around Article 127 of the European Economic Area (EEA) has been postponed until February. The case argues that Britain will have to organise extraction from the EEA separately from the EU.

A case is also still being heard in Dublin over whether it would be possible to reverse Article 50 once it is triggered. This is a decision that would ultimately be made by the European Courts.

Jolyon Maugham QC said: "This case seeks to restore agency to our Parliament. If Parliament did change its mind, and if we won the Dublin case, we would not need to go on bended knee to seek the support of the 27.

"We'd be able to do it as right."

Devolved Governments

Scottish First Minister Nicola Sturgeon intends to bring a motion before the Scottish parliament to allow a vote on whether or not they consent to trigger Article 50. She has also consistently said that a move to take the country out of Europe against its will might result in another referendum on Scottish independence.

Whilst commenting on the Supreme Court ruling she said: "This raises fundamental issues above and beyond that of EU membership. Is Scotland content for our future to be dictated by an increasingly right-wing Westminster government with just one MP here – or is it better that we take our future into our own hands? It is becoming ever clearer that this is a choice that Scotland must make."

Prime Minister Theresa May said that while the UK government plans to 'fully engage' with Scotland, Wales and Northern Ireland the devolved governments will not be involved in making the final decisions.

What this means

So far very little has even slowed down government intentions to move ahead with Brexit negotiations let alone dissuade them, it seems unlikely that this will change in the near future. Although employers cannot know what the future has in store for the recruitment market employers should begin to map out any potential threats to their workforce now. What proportion of the workforce is not a UK national and what key skill sets would be affected by losing them?

Economic performance

Markit/CIPS Manufacturing Purchasing Managers Index (PMI)

53.6	▼53.1	▲56.1
November 2016	December 2016 (Predicted)	December 2016

Discussion concerning the overall impact of Brexit on the UK economy still carries on a pace in the media.

Predictions of Performance

Bank of England Governor Mark Carney has been particularly bullish on the subject suggesting that the EU is actually at greater risk than the UK, whilst giving evidence to the Treasury Select Committee.

"I'm not saying there are not financial stability risks to the UK - and there are economic risks to the UK - but there are greater financial stability risks on the continent in the short term for the transition than there are for the UK," he said.

However, he also suggested, in a speech to the London School of Economics, that if the Bank had not cut interest rates after the referendum that unemployment would now be 5.6%, meaning 250,000 less people in work.

Mr Carney's comments may be taken less seriously in some quarters after his chief economist, Andy Haldane, admitted a series of forecasting errors around the financial crash in 2008. Mr Haldane described it as a 'Michael Fish moment' and blamed the failure of economic models to cope with 'irrational behaviour'.

Christine Lagarde, Head of the International Monetary Fund, on the other hand, believes that there is likely to be 'pain' ahead for the UK. She thinks any deal with the EU will 'not be as good' as membership despite strong figures since the vote.

The Chartered Institute for Personnel and Development (CIPD) is predicting a generally slower economy in 2017 - with slower economic growth, increased unemployment, fewer new jobs and a lack of pay rises for most.

Manufacturing Boom?

One area that has surged since the vote has been UK manufacturing. The Markit/CIPS manufacturing purchasing managers index (PMI) reported a 30-month high in growth within the sector during December 2016.

The index jumped from 53.6 to 56.1, completely against predictions of a fall to 53.1 according to a Reuters poll.

Rob Dobson, Senior Economist at IHS Markit, which compiles the survey, said: "The UK manufacturing sector starts 2017 on a strong footing. The headline PMI [Purchasing Managers' Index] hit a two-and-a-half year high in December, with rates of expansion in output and new orders among the fastest seen during the survey's 25-year history."

The pharmaceutical industry is another area for confidence as Novo Nordisk followed competitors Astrazeneca and GlaxoSmithKline by investing in the UK - £115m for a new research centre in Oxford.

However latest figures struggle to match this optimism after output had fallen in October. Martin Beck, Senior Economic adviser for the EY Item Club suggested that domestic demand would fall as inflation rises but that lower import costs and an improving global picture could still be good news.

Richard Hawes, Chief Executive of manufacturing body SMMT, suggested British manufacturers may have been harmed by a European consumer boycott – due to the Brexit vote – cited by the Jaguar Land Rover boss, Ralf Speth, in the autumn.

The British automotive industry has already warned of a fall in sales despite a fifth consecutive year of growth that saw nearly 2.7 million new car registrations in the UK last year.

The SMMT said the eventual Brexit settlement with Europe would be critical, with tariffs likely to add up to £1,500 to the price of an imported car.

Hawes said: "The strength of the market does depend on maintaining good economic and trading conditions so cost of vehicles can remain competitive. We don't want to see tariffs."

UK Labour Market

Since the referendum UK employment has, against expectation, continued to fall but figures reporting in January started to show signs of a slowdown. The number of people in work fell 9,000 in the last quarter. While this is not a disaster and is admittedly coming off an all-time high, it could still be a sign of things to come.

Suren Thiru, Head of Economics at the British Chambers of Commerce, said the UK jobs market was proving resilient and remained "a major bright spot for the UK economy".

John Philpott, Director of theJobsEconomist.org, said the employment figures also revealed tumbling levels of self-employment, part-time working and employment of temporary workers, who had borne the brunt of the slowdown.

"Don't be fooled by headline news of falling unemployment and higher wage growth. The jobs market is at present slowing not growing, as those in precarious work know only too well," he said.

Fathom Consulting said: "We detect a slight softening in the labour market towards the end of last year. Much of the reduction in unemployment reflected a decline in the number of people seeking work, rather than an increase in employment."

This chimes with the comments of Alain Dehaze, CEO of The Adecco Group, who said, whilst at the World Economic Forum in Davos, that he has seen UK clients, especially in London, cutting back on recruitment due to current uncertainty.

What this means

The true impact of the referendum results will likely not be known until a final deal is in place but it seems so far that the extreme scenarios have been avoided. As Ian Brinkley, acting Chief Economist for the Chartered Institute for Personnel and Development (CIPD) said: "The Brexit vote didn't cause the economy to fall off a cliff edge in 2016, but there's been a clear loss of confidence in international markets signalled by the fall in the pound and slowing inward investment", said Ian Brinkley, acting chief economist for the CIPD.

"The single biggest thing that the Government could do to help in 2017 would be to give businesses greater certainty over the direction of travel, the residence status of migrants already in the country and the likely extent of restrictions on new flows of migrants", he said. "We simply cannot afford for businesses to live in limbo."

Relocation intentions

> "I don't believe that the financial centre of Europe will leave the City of London. There are all sorts of reasons why I think the UK will continue to be the financial lungs for Europe."
>
> Jes Staley, CEO, Barclays.

The financial services sector continued to report that is was considering moving at least part of its operations to mainland Europe (depending on the outcome of Brexit negotiations).

A report for the Association for Financial Markets in Europe (AFME) by PwC suggested that due to the complex and lengthy process of transformation programmes that large banks must begin their planning for Brexit now.

Lloyd's of London Chief Executive Inga Beale has already confirmed that the firm will be setting up a subsidiary inside the EU post-Brexit.

This follows similar comments from other financial services companies during January 2016 including HSBC, JP Morgan and UBS. Douglas Flint, Group Chairman of HSBC, specifically warned that it is clarity around Brexit that is required to safeguard London based roles.

"Nobody wants to push the button," Flint added. "The best outcome for everybody is the preservation of the status quo insofar as possible."

This uncertainty has also caused Goldman Sachs to postpone a plan to move more of its global operations and IT activities to a new £350m headquarters in London. CEO Lloyd Blankfein said that they were 'slowing down the decision to avoid moving the business twice'. He also said that New York is 'already a bit of a gainer' from Brexit.

Mr Blankfein also warned that the Prime Minister would need to protect London's status or jobs would be lost to both Paris and Frankfurt. Europlace, the lobbygroup for the French capital, believes that 20,000 jobs could move starting imminently. In fact, they are starting roadshows in England from the start of February for this purpose.

Xavier Rolet, Chief Executive of the London Stock Exchange believes London could lose more than 200,000 if a clear plan is not articulated.

On the other hand, Barclays Chief Executive Jes Staley believes everything will be fine for London: "I don't believe that the financial centre of Europe will leave the City of London. There are all sorts of reasons why I think the UK will continue to be the financial lungs for Europe."

Some movement looks more likely since TheCityUK marked a shift away from demands to retain the passporting system currently in place. A two-page document published in January suggested a bespoke bilateral deal that would still allow for cross-border trading of stocks but might not eventually encompass all financial instruments and products.

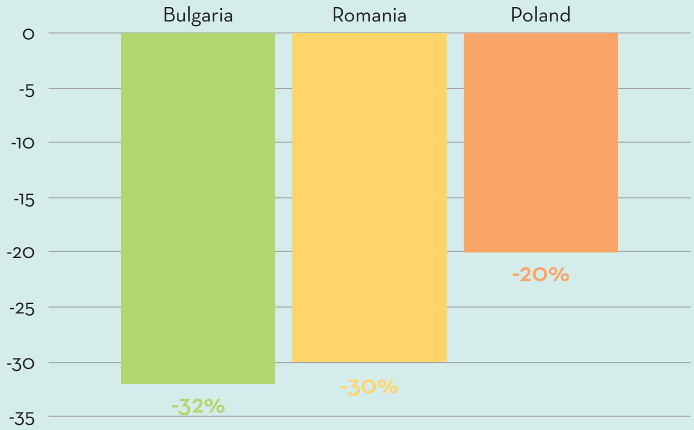
One, non-financial, company that has announced an intention to stay in the UK is film studio Warner Brothers which has committed to keeping its European Headquarters in London by extending the lease until 2034.

What this means

Many large institutions are doing nothing other than scenario planning as they would for a whole range of possible plans right now. They may well look to relocate some functions to the European mainland just as a matter of safety over the next 12 months. This does not mean that London will lose its workforce overnight or even see it reduce significantly – there is also the possibility that some European based financial companies may locate some of their operations in the UK in order to access what it still one of the largest financial hubs in the world.

Skills availability and the movement of labour

Intent of moving to the UK since EU referendum
(Source: GK Strategy)



Another key area where very little certainty has been provided thus far is whether UK businesses will still have access to candidates from the European mainland.

The Confederation of British Industry (CBI) has said access to key skills and labour is vital for a post-Brexit Britain. On the other side of the coin the British Chambers of Commerce (BCC) and Trades Union Conference (TUC) called for 'unequivocal commitment' that EU nationals can remain in the UK.

Marcus Mason, BCC Head of Business, education and skills, said: "It is crucial that the government commits to reassuring EU citizens working in the UK that they will have a permanent right to remain. Such a move would boost business confidence during a period of transition".

During January 2017 the government looked to provide some clarity by announcing, briefly, a plan that would see UK firms pay £1,000 per year for each EU skilled worker they employed. This would have been an extension of the 'immigration skills levy' already being introduced in April staff employed from outside of the EU.

This was retracted later the same day with a government spokesman claiming immigration minister Robert Goodwill had been misinterpreted, Ufi Ibrahim, of the British Hospitality Association, described the proposal as "very worrying for the hospitality and tourism industry. Sir Nicholas Kenyon, Managing Director of London's Barbican Centre has similar fears for the creative arts.

The health and social care sector may also face some problems with just under 5% of all staff in NHS trust and social care groups coming from EU nations. GK Strategy reported that internet searches for these jobs from Poland feel 17% following the referendum.

In fact, GK Strategy recorded that even without any decisions being made yet workers in Bulgaria, Romania and Poland were now over-archingly less likely to consider moving to the UK since the referendum.

Kevin Green, Chief Executive of the Recruitment and Employment Confederation (REC), said the government risks putting the labour market in reverse by curtailing access to skilled labour.

"We must not underestimate the vital role that EU workers play across the economy", he said. "We need more nurses to care for our ageing population, more people with the skills to build houses, and seasonal workers to ensure that farmers can continue to deliver for British customers. The reality is that we have near-full employment; the idea that there are hundreds of thousands of UK nationals waiting in the wings to take these jobs is a fantasy."

What this means

A lowering of access to a range of skills is likely to put pressure on a labour market that is already showing signs of strains. Employers are likely to be forced into a short term decision between raising advertised salaries, leaving roles empty or hiring under-qualified candidates.

Gerwyn Davies, labour market Adviser at the CIPD, said:" Recruitment difficulties are perhaps no surprise given the underlying trend in employment and unemployment, but part of the explanation could lie in the recent sharp slowdown in the supply of EU nationals."

Davies added that it "remains to be seen" how much leeway employers have to raise pay and improve employment conditions to attract more British applicants to apply for low to medium-skilled vacancies.

Despite this logical argument however a study from Cambridge University has suggested that real wages in 2025 may well be similar to those experienced in 2004. "Immigration restrictions will provide the biggest shock to wage bargaining for over a decade," the authors from the Centre of Business Research said. "Even so, we expect real wages to be broadly flat for the next decade.

"Nominal wages will keep pace with rising consumer prices but no more. Real wages in 2025 are expected to be only very slightly above the level in 2004 at the accession of the EU10 member states to the EU.

"It is only later that we expect lower migration to be associated with steady rises in real wages."

The study also warned that any hit to economic growth from Brexit would likely kick in after 2020, when the next general election is scheduled to be held.