



THE ADECCO GROUP

The facts about Brexit

November 2017

What are the chances of the UK leaving the European Union without a deal?

(Source: Reuters)



Progress report

"There is more work to be done" said [Prime Minister Theresa May](#) when she met EU leaders at a summit in Gothenburg in November. EU President Donald Tusk did however say he felt much better following his meeting with Mrs May in the Swedish capital.

Mr Tusk echoed Chief Negotiator Michel Barnier in the assertion that progress must be made by the first week of December if the UK wants to progress talks towards a trade deal before the end of the year.

A Reuters poll published in November suggested that economists believe the current progress means a free trade deal is now the most likely option. The poll suggests the chance of leaving without a deal is now at 25%, down from 30% in October. As part of the progress in negotiations, the UK government prepared 58 sectoral studies on the impact of Brexit. During November the Speaker of the House of Commons John Bercow ordered the government to release these reports within three weeks after the House of Commons voted to do so. At the time of writing this has not happened, but the Department for Exiting the EU had confirmed that it was in the process of preparing to do so.

Divorce bill

During November there was no official agreement on a final figure for the UK divorce bill, but both sides seemed to be edging towards an agreement. The [Irish Foreign Minister, Simon Coveney](#), said that the existing €40 billion offer would not be sufficient.

Officially, Downing Street has described the idea of increasing the financial value as 'speculation', but The Telegraph reported that the final payment figure will be "between €45bn and €55bn, depending on how each side calculates the output from an agreed methodology". That's between around £40bn and £49bn.

British officials note that they are not expected to put a number on a financial offer at this stage by the EU, but that they will have to give an indication of their methodology.

The [Lord Mayor of London, Charles Bowman](#), also urged the UK government not to be too concerned with the value of the single payment compared to the wider value of a potential trade deal. "It's pounds versus the pennies. If we are haggling over the pennies now, then we will miss out on the pounds in the future," Bowman said.

This was also a warning sounded by [Robert Chote, Head of the Office for Budget Responsibility](#), who said that the value of this payment was far smaller

than the wider implications of the impact on future economic growth, and even smaller than the productivity problem the UK currently has.

The Irish border

The European Union has said it will not progress to the second phase of Brexit talks until London provides additional detail of how it will guarantee there be no hard border between Ireland and Northern Ireland.

[Liam Fox, Minister for International Trade](#), believes that may be tricky: "We can't get a final answer to the Irish question until we get an idea of the end state, and until we get into discussions with the European Union on the end state that will be very difficult." This was a view echoed by Republic of Ireland Prime Minister Leo Varadkar, who believes that discussions will be allowed to progress in December providing the UK provides written guarantees.

That said, it doesn't appear to be a view shared by his Foreign Minister Simon Coveney, who believes further clarity is still needed. Mr Coveney also believes that a transition period of closer to five years would be 'a sensible and pragmatic approach'.

The UK has proposed an 'invisible border', meaning there would be no physical checkpoints, with movement tracked using new technology. This month, the House of Commons Exiting the EU Committee called these proposals "untested and to some extent speculative".

Another option that has been suggested is that Northern Ireland would be allowed some free access with Ireland, and instead, the UK creates border controls between Northern Ireland and the rest of the UK. James Brokenshire, Minister for Northern Ireland, has however confirmed that there is no current option for the region to remain in the EU market. The view was echoed by the Democratic Unionist Party (DUP), the party in Northern Ireland with the largest number of MPs currently. [Leader Arlene Foster](#) said she would 'not countenance a border in the Irish Sea'. The DUP has not currently presented a solution that would prove suitable.

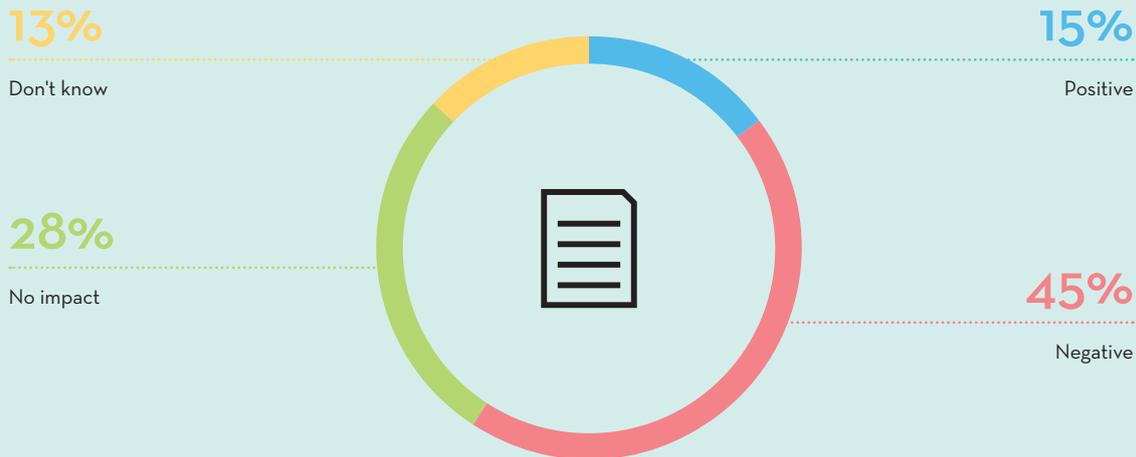
What this means

Continued uncertainty is unlikely to be a positive for the UK labour market, although this has been said for many months now and unemployment is still at the lowest levels on record. It will be very difficult for UK businesses to have an opinion one way or another until a deal is made, but they should certainly be considering all options and contingencies at this point.

Immigration & The Labour Market

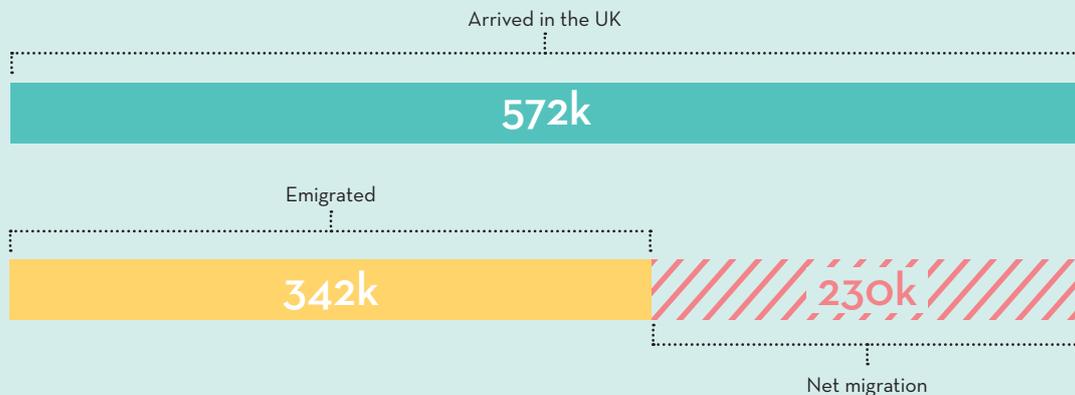
What effect do you expect future EU immigration policy to have on your organisation?

(Source: ADG/CIPD Labour Market Outlook, Autumn 2017)



Migration to/from the UK in the 12 months to June 2017

(Source: Quarterly Migration Statistics, Office for National Statistics, November 2017)



According to The Adecco Group UK&I Brexit Tracker UK, employers do not believe that future EU immigration will have a positive effect on their organisation. Less than one in six (15%) see the change as positive, compared to nearly half (45%) who believe it will hurt them.

The CBI has said that British businesses are as worried about future migration policy as they are about a future trade deal with the continent.

Immigration

In November 2017 the Office for National Statistics (ONS) reported that net migration to the UK had fallen to 230,000 in the 12 months to June. This represents a fall of more than 100,000, or more than a third of the previous total. This was the largest annual decrease on record.

Nicola White, Head of Migration Statistics at the ONS, said: "The decline follows historically high levels of immigration and it is too early to say whether this represents a long-term trend."

She pointed to figures showing that the number of people coming to the UK for a definite job has remained stable, but those coming to "look for work", especially EU citizens, was down 43%.

"These changes suggest that Brexit is likely to be a factor in people's decision to move to or from the UK - but decisions to migrate are complex and other factors are also going to be influencing the figures," she added.

The percentage of EU arrivals who say employment (either already gained or sought) is their purpose is more than twice the level of non-EU arrivals.

Immigration & The Labour Market (cont'd)

Does your organisation have enough information yet to start making decisions about your post-Brexit recruitment strategy?

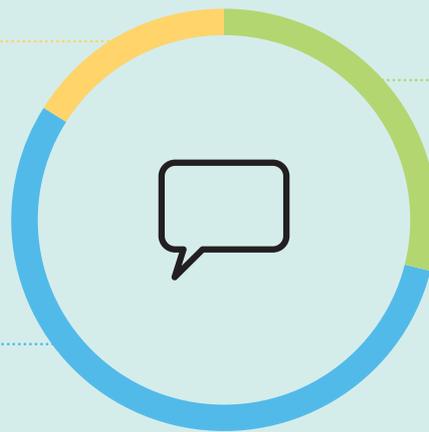
(Source: ADG/CIPD Labour Market Outlook, Autumn 2017)

16%

Don't know

55%

No



29%

Yes

Professor Jonathan Portes, of King's College, London, who works for the research group UK in a Changing Europe, said the statistics showed the country has become a "less attractive place for European migrants".

Lord Green of Deddington, Chairman of Migration Watch UK, said the figures showed a "very welcome reduction in net migration - especially by EU citizens who do not have a job to come to".

It should be remembered that while net migration has fallen it is still positive; meaning that overall the UK population is still growing. The ONS reported the highest number of EU nationals employed in the workforce between July and September 2017: there were 2.38 million EU nationals in the UK workforce; an increase of 112,000 from the year before.

Matt Hughes, ONS Senior Statistician, said: "The number of non-UK nationals in work is still rising, albeit more slowly than in the last couple of years.

"However, this is being driven by EU citizens; the number of non-EU nationals working in the UK has fallen in the last year."

Similarly, analysis from the Nursing and Midwifery Council (NMC) shows a 67% increase in the number of EU nurses leaving the NHS in the last year - more than 4,000 between October 2016 and September 2017. This analysis confirms predictions made earlier in 2017 by the King's Fund think-tank, which predicted the first fall in nurse numbers since 2013.

A survey from NHS Providers found that 85% of NHS Trust leaders are more concerned about staffing levels since the EU referendum; two-thirds are now more concerned about this than their budgets.

A survey by London Tech Advocates found that more than a third of tech companies in London have lost a prospective hire because of uncertainty about immigration following the EU referendum result.

The Bank of England has said that recruitment difficulties have intensified and are above the normal range of activities; as a result they are expecting wage growth in the UK to rise to 3% in 2018. This echoes findings from the Recruitment and Employment Confederation (REC), which found that starting salaries in October rose at the second fastest rate in two years.

A number of commitments have been made to allow the UK to continue to access high-skill talent from Europe.

"We want to ensure that our new partnership with the EU protects the mobility of workers and professionals across the continent," said David Davis.

"Whether this means a bank temporarily moving a worker to an office in Germany or a lawyer visiting a client in Paris, we believe it is in the interests of both sides to see this continue."

At the same time, the government has announced they will double the number of visas available to exceptional workers in areas like digital technology to 2,000.

How are employers reacting?

November continued to see business voice its concerns over the lack of a deal. Britain's five biggest business lobby groups all signed a letter sent to David Davis to urge for a transition deal.

The Director-General of the Institute of Directors (IoD), one of the signatories, told their annual dinner that "all we want for Christmas is progress on Brexit". Stephen Martin said that only one in ten members had currently activated contingency plans, but that half of all members were also building a plan.

Members of the UK automotive industry were also present and asked

Immigration & The Labour Market (cont'd)

How is Brexit affecting supply chains?

(Source: Chartered Institute of Procurement and Supply, November 2017)

UK companies struggling to secure contracts post March 2019

20%

EU27 supply chain managers expect to move some of their supply chain out of the UK as a result of Brexit

63%

UK companies looking to replace their EU suppliers

40%

for 'urgent clarity'. A similar call came from the aerospace industry, who believe they need it by the first quarter of 2018 "at the latest", particularly in relation to continued participation in the European Aviation Safety Agency (Easa), where they will be forced to make applications for 'third-country certification'.

As a reaction, the government announced £2.3 billion in funding for research and development into 'industries of the future', such as artificial intelligence and driverless cars, which it hopes will persuade companies to stay and grow in the UK regardless of the outcome of Brexit negotiations.

One company that seems to have achieved greater clarity is JP Morgan, after [Chief Executive Jamie Dimon](#) met with Theresa May and Chancellor Philip Hammond. Mr Dimon said he felt "the government understands the concern of international firms such as ours, and the economy more broadly."

What's happening now?

According to The Adecco Group Brexit Tracker, 29% of UK employers feel they have enough information to start making decisions about their post-Brexit recruitment strategy.

As was expected, two European agencies have confirmed that they are leaving the UK: the European Medicines Authority will move to Amsterdam, and the European Banking Authority is relocating to Paris.

The French capital will also be one of two European hubs for US investment bank Goldman Sachs, alongside Frankfurt.

Travellers to the continent via train will notice a change, as the Eurotunnel is being renamed Getlink.

In terms of the effect on British businesses, the London Office Crane Survey by Deloitte reported that office construction in the capital fell in the six months to September 2017.

Supply chain issues

A survey from the Chartered Institute of Procurement and Supply (CIPS) found that one in five UK companies involved in supply chains were struggling to secure contracts that run after March 2019. Some 63% of EU27 supply chain managers who work with UK suppliers said they expected to move some of their supply chain out of Britain as a result of Brexit, and 40% of UK companies said they are looking to replace their EU suppliers. McLaren, the advanced automotive group, is one company that has already announced such a move.

[The President-Elect of the Royal Aeronautical Society, Simon Henley](#), said that UK firms were missing out on bids on the Galileo satellite programme because it is funded by the European Union; a view separately held by the Head of Airbus, Katherine Bennett.

Aston Martin has suggested that failure to find a deal on Brexit may cause production to halt in the UK as new cars will no longer have the valid Vehicle Certification Agency (VCA).

Ikea is also experiencing issues with its supply chain, as the cost of imports rose by 13.7% due to the slump in sterling, which the Swedish company countered with a 3.6% rise in prices.

What this means

The impact of the EU referendum is starting to filter through in some areas now, but it is far too early to know if any of these elements are part of longer-term trends, or just short shocks arising from disruption and uncertainty.

Immigration & The Labour Market (cont'd)

Reasons people migrate to the UK

(Source: ONS Quarterly Migration Statistics, November 2017)

