

# CBI BREXIT POLITICAL & ECONOMIC WEBINAR

8 DECEMBER 2017  
10:30 - 11:30



# Looking back and looking ahead to the EU council meeting- on politics, the economy and Brexit



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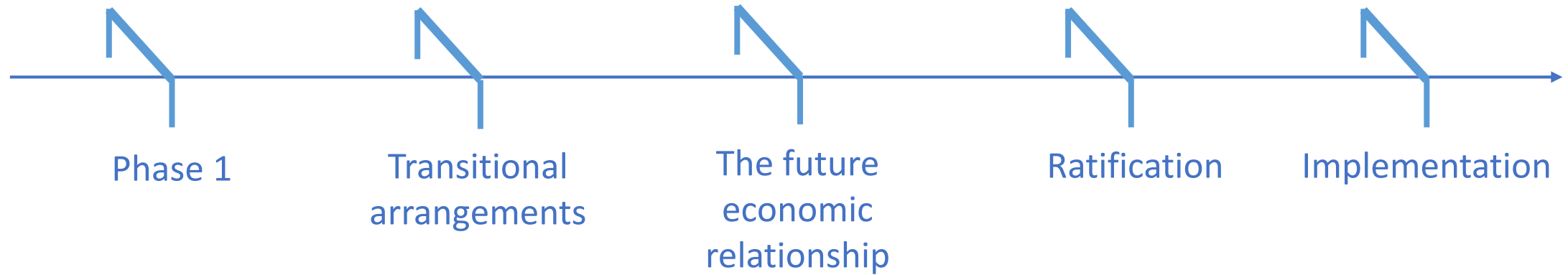
Principal Economist, CBI

## What we will cover today

- |   |  |
|---|--|
| 1 | <b>Update on the progress made at the negotiating table in the build up to the EU Council Meeting</b>  |
| 2 | <b>The view from Brussels and the EU27</b>   |
| 3 | <b>The Economy: analysis and forecast</b>  |
| 4 | <b>Preparing business for Brexit Day 1</b>   |
| 5 | <b>Questions</b> <i>Please submit your anonymous questions during the presentation, by typing them in to the box on the bottom left hand corner of your screen. We will answer these at the end.</i> |

There are a number of political hurdles to overcome during the next few months

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The requirements to get over the first hurdle are well understood:

**Exit issues**

**UK-Ireland**

**Sufficient  
progress on EU  
citizens**

**The financial  
settlement**

# More clarity is needed regarding some aspects of the transitional arrangements



## Uncertainty on end date

- Prime Minister in the Florence Speech: 'about 2 years'
- EU: End transition with the Multiannual Financial Framework

## Agreement on the format

- Remaining in the single market and a customs union in all but name
- All rights and obligations

## Uncertainty over a cliff edge

- The UK will be a third country from March 2019
- How steep will the cliff edge be?

## Agreement on what can be agreed

- "Shared vision", but not legally binding until end of 2019
- Not as solid as businesses would wish

## Uncertainty over purpose

- A bridge to implement the new deal?
- A pause to allow more time for negotiation?



There is no consensus in the UK or EU on what the future economic relationship should look like

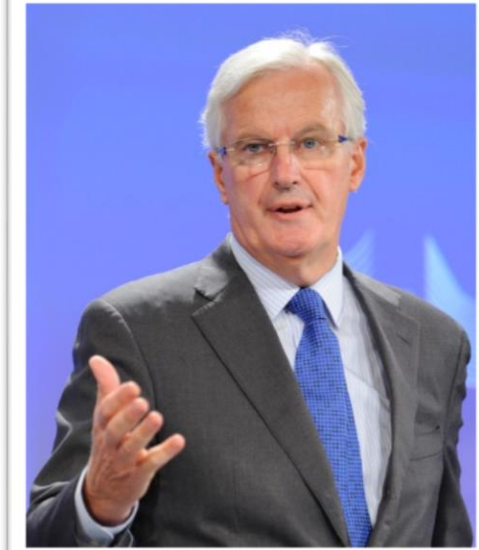
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- **Transition:** To implement new deal
- **By end of 2019:** Full free trade agreement
- **New deal:** FTA with UK as third country



- **Transition:** To implement new deal
- **By end of 2019:** New economic partnership
- **New deal:** Unprecedented regulatory mechanism



- **Transition:** To negotiate new deal
- **By end of 2019:** Heads of terms agreement
- **New deal:** FTA with UK as third country

# The Prime Minister's Florence speech was a positive step forward

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*"There will be areas where we want to **achieve the same goals in the same ways**, because it makes sense for our economies."*

*"There will **be areas of policy and regulation which are outside the scope of our trade and economic relations** where this should be straightforward."*

*"There will be **areas** which do affect our economic relations **where we and our European friends may have different goals.**"*

*"There will be areas which do affect our economic relations where we **share the same goals but want to achieve them through different means.**"*



# The CBI is now undertaking consultation with members about the next steps it should take on the future economic relationship



**1. Continue campaigning on business principles** - Advocating for trade to be as frictionless as possible, the approach to regulation to balance flexibility, access and control, and for no hardening of the border in Northern Ireland

Advantages	Challenges
<ul style="list-style-type: none"><li>• Can encompass views of the whole business community</li><li>• Quite clear to communicate, without the assumptions that come with advocating specific models</li></ul>	<ul style="list-style-type: none"><li>• The debate on the FER will move quickly in the new year</li><li>• The EU wants to have conversations using existing models as a basis</li><li>• Unsustainable if members wants the CBI to campaign on details of the future deal</li></ul>

**2. Campaign to change the conversation** - Advocating for the UK to embrace a “high alignment model” and for the EU to approach the UK as a new “associate country” instead of a third country

Advantages	Challenges
<ul style="list-style-type: none"><li>• Remains high-level and maintains flexibility for the CBI’s preferred relationship to adapt over time, based on the political scenario</li><li>• Simple for businesses to align behind</li><li>• Provides politicians with space to find compromises</li><li>• Can provide detail on important business priorities under these labels</li></ul>	<ul style="list-style-type: none"><li>• The EU wants to have conversations using existing models as a basis</li></ul>

**3. Campaign for a specific model for the future relationship**

Advantages	Challenges
<ul style="list-style-type: none"><li>• Allows CBI to make a stronger, more specific case for business</li><li>• Depends on the model</li></ul>	<ul style="list-style-type: none"><li>• Limits flexibility should political situation change</li><li>• Depends on the model, but could come with political costs</li></ul>

# If the CBI campaigned for a specific model for the future relationship, there are a number of options available

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## 1. Campaigning in support of the Florence model

Advantages	Challenges
<ul style="list-style-type: none"><li>• Reflects both the alignment and the flexibility that the business community is seeking</li><li>• Potentially possible to agree within the year</li></ul>	<ul style="list-style-type: none"><li>• May not be supported by the EU</li><li>• Bespoke agreements are much more challenging to secure</li></ul>

## 2. Campaigning in support of a “CETA+” deal

Advantages	Challenges
<ul style="list-style-type: none"><li>• Works with an existing and well known structure</li><li>• The deal is built for a third country, not one that is already strongly aligned</li></ul>	<ul style="list-style-type: none"><li>• Difficult to secure a lot of regulatory alignment within the CETA model</li><li>• Hard to see how regulatory alignment will update over time</li><li>• To secure more than just the CETA deal will require constantly pushing beyond what has previously been offered</li></ul>

## 3. Campaigning in support of remaining in the single market permanently

Advantages	Challenges
<ul style="list-style-type: none"><li>• Works with an existing and well known structure</li><li>• Delivers the majority of the economic benefits that the business community is looking for</li></ul>	<ul style="list-style-type: none"><li>• Politically very challenging</li><li>• The CBI will have to argue very strongly for continued influence over the rules</li></ul>

...as well as our new relationship with the customs union



# European sister federations joined forces with CBI in calling for “status-quo” transition



The CBI and business groups from across Europe, representing millions of employees, met with the Prime Minister on 13<sup>th</sup> November

*“Business aims to **avoid a cliff edge** and therefore asks for a “status quo – like” transitional arrangement with the UK staying in the **customs union** and **the single market** as this will best provide citizens and businesses with greater certainty.”*

**Emma Marcegaglia, President of BusinessEurope**

*“**Moving to the next phase** will enable discussions to gather momentum, so negotiators can focus on the **future economic relationship**. It’s in everyone’s interests that a good, unique final deal reflects the strength and depth of our existing relationship and integration.”*

**Carolyn Fairbairn, CBI Director-General**

# So far, Europe has been united – but that is starting to change



## France and Germany

- Politics over economics
- Long-term over short-term

## Norway & Switzerland

- Waiting for EU negotiation to finish

## Iceland & Lichtenstein

- Concerned they'll be forgotten by both sides & EEA

## Denmark, Sweden & Finland

- Most emotional
- Keen to see close regulatory cooperation

## Italy and Spain

- Not very interested
- Weary of Franco-German axis

## Republic of Ireland

- Unique and urgent

## Belgium, Luxembourg & Netherlands

- Most prepared
- Economically pragmatic



## Bulgaria, Hungary, Poland, Slovenia & Slovakia

- Economically pragmatic
- May not stand up to France/Germany

## Croatia, Cyprus & Estonia

- Inferiority complex
- Narrow national self-interest

## Czech Republic, Lithuania & Malta

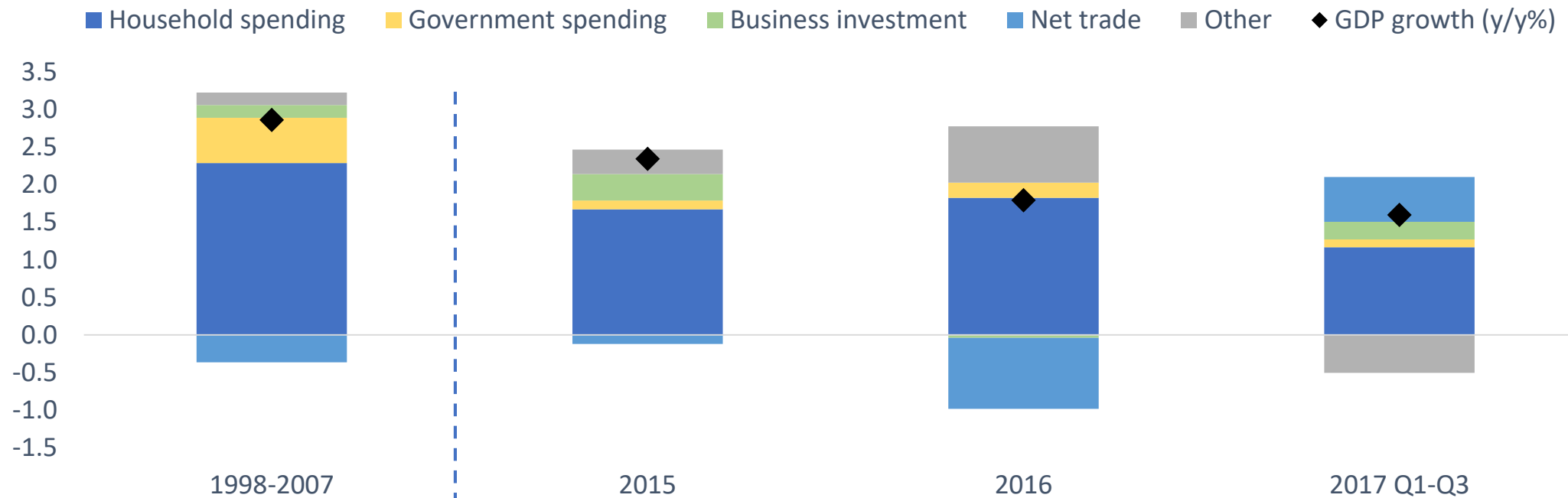
- Active business lobbying



# Economic growth has softened in 2017, but has become more balanced

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GDP growth (y/y%) and contributions (ppts)



*"Other" includes government and residential investment, transfer costs, acquisition of net valuables, stock building and the statistical discrepancy*

Source: ONS, CBI calculations

- Data for the first three quarters of 2017 suggests slower growth in household spending has been partly offset by a bigger contribution from business investment and net trade.

# CBI surveys point to tepid growth in Q4, with a mixed picture across sectors

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	Optimism	Output/Volumes	Prices and Costs	Employment	Investment
Manufacturing	Neutral	Positive	Negative	Positive	Neutral
Retail	Negative	Neutral	Negative	Negative	Positive
Consumer Services	Negative	Negative	Negative	Negative	Neutral
Business and Professional Services	Neutral	Neutral	Negative	Neutral	Neutral
Financial Services	Negative	Positive	Negative	Neutral	Neutral

**Key**

- Positive
- Neutral
- Negative

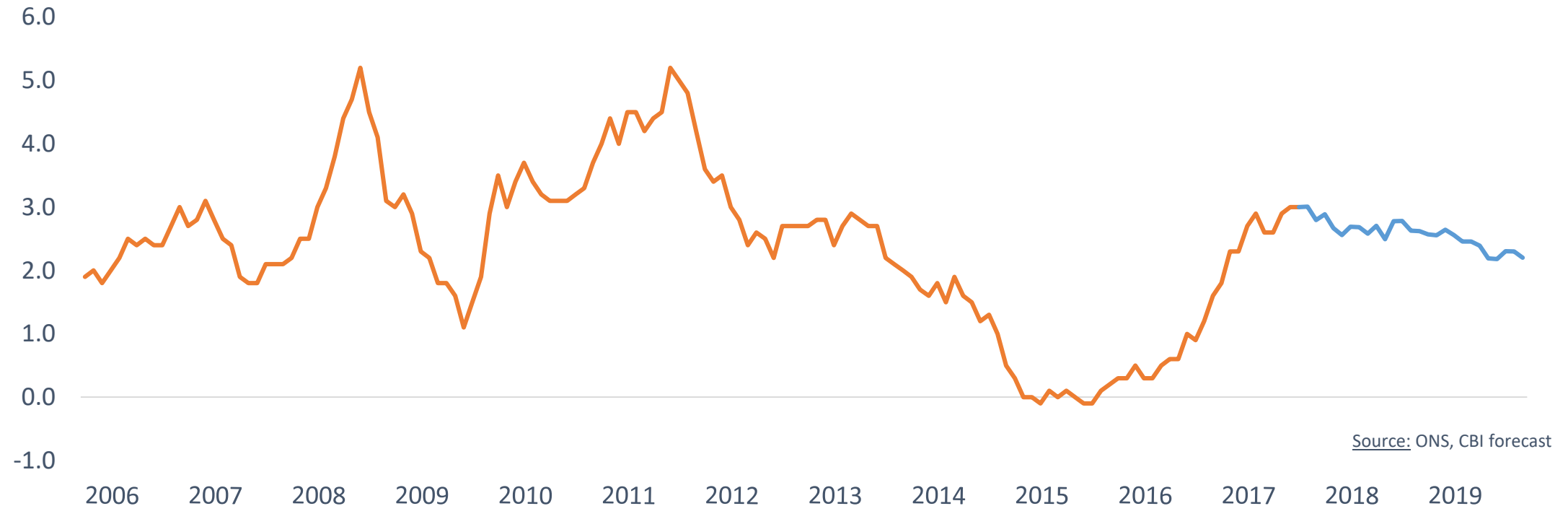
- CBI surveys show that sentiment remains depressed and cost pressures continue to bite
- Consumer-facing firms are being hit by the ongoing squeeze on real household incomes, but the more export-orientated manufacturing is still riding the wave of the lower pound and firm global growth



The lower £ is feeding through to consumer prices, but inflation is close to its peak

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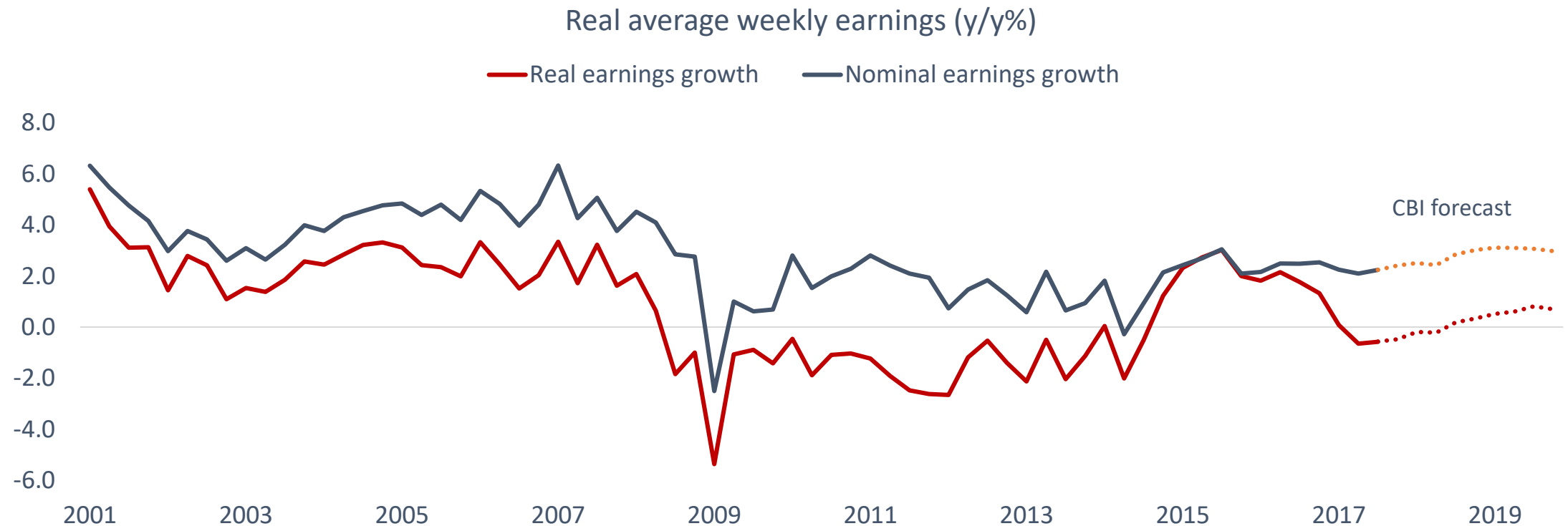
CPI inflation (y/y%) and CBI forecast



- We expect inflation to have peaked (at 3% in October), and thereafter expect it to ease gradually – through it remains above the MPC's 2% target throughout our forecast.

And with wage growth expected to drift up, real earnings growth should turn positive again next year

CBI



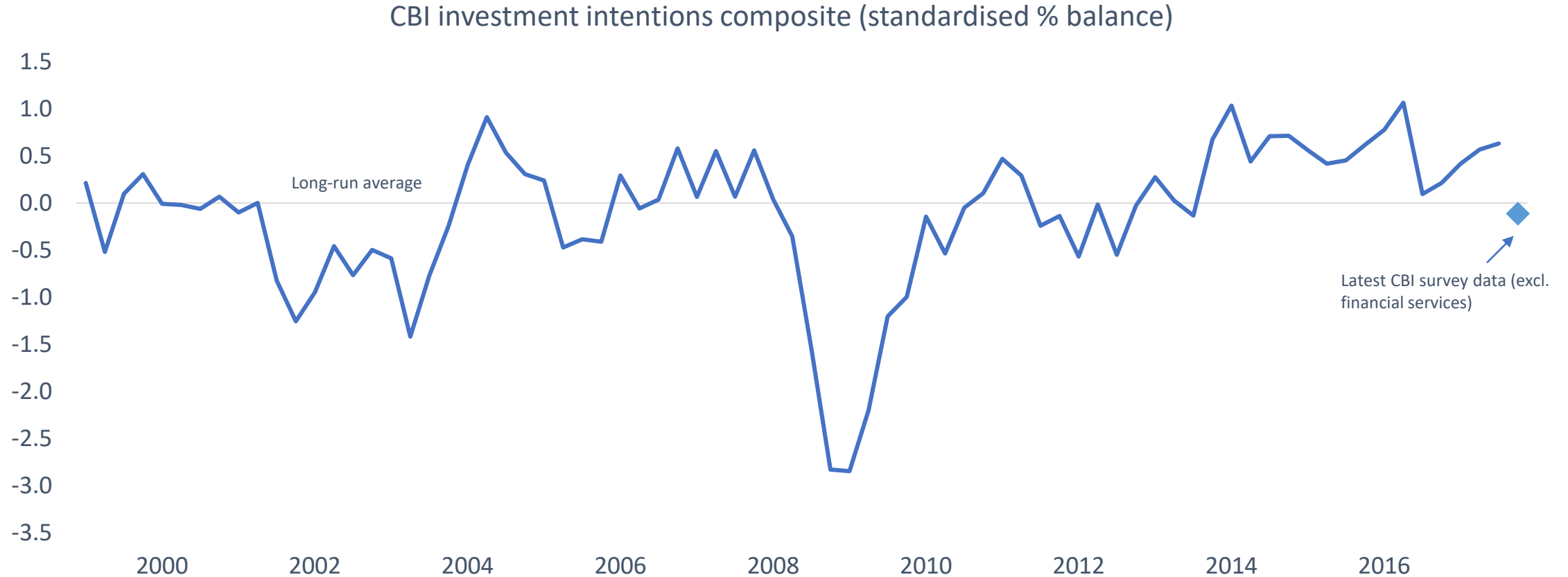
Source: ONS, CBI forecast

- Our surveys suggest labour shortages remain acute, which along with higher inflation is expected to spur a pick up in pay ahead.
- However, real pay growth is set to remain well below pre-crisis norms.



# Investment intentions have softened again, with Brexit uncertainty biting

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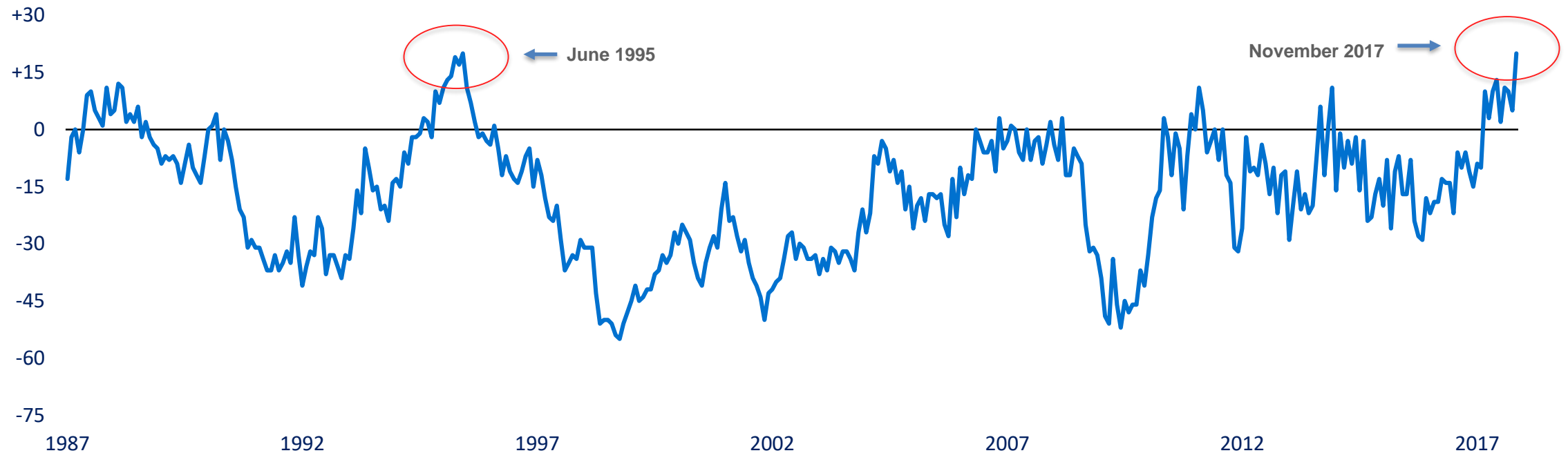


- Our investment intentions data have weakened in recent months, falling close to the long-run average. This implies weak growth in business investment over the year ahead.

# Stronger global growth is feeding through to export order books

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## ITS: Level of export order books (above/below normal)



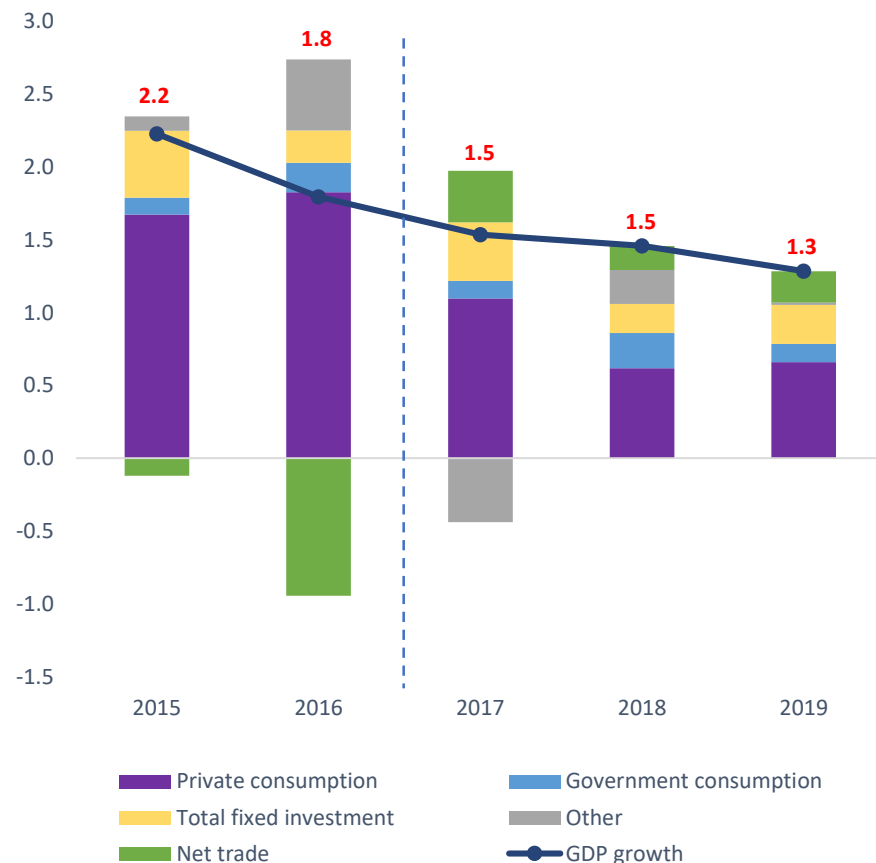
- Our survey data continue to flag strong growth in export orders, with export orders books at their strongest level since 1995 in the three months to November.
- The pick up has been mirrored in ONS data on exports, which have risen by 7% since the referendum



# Forecast summary

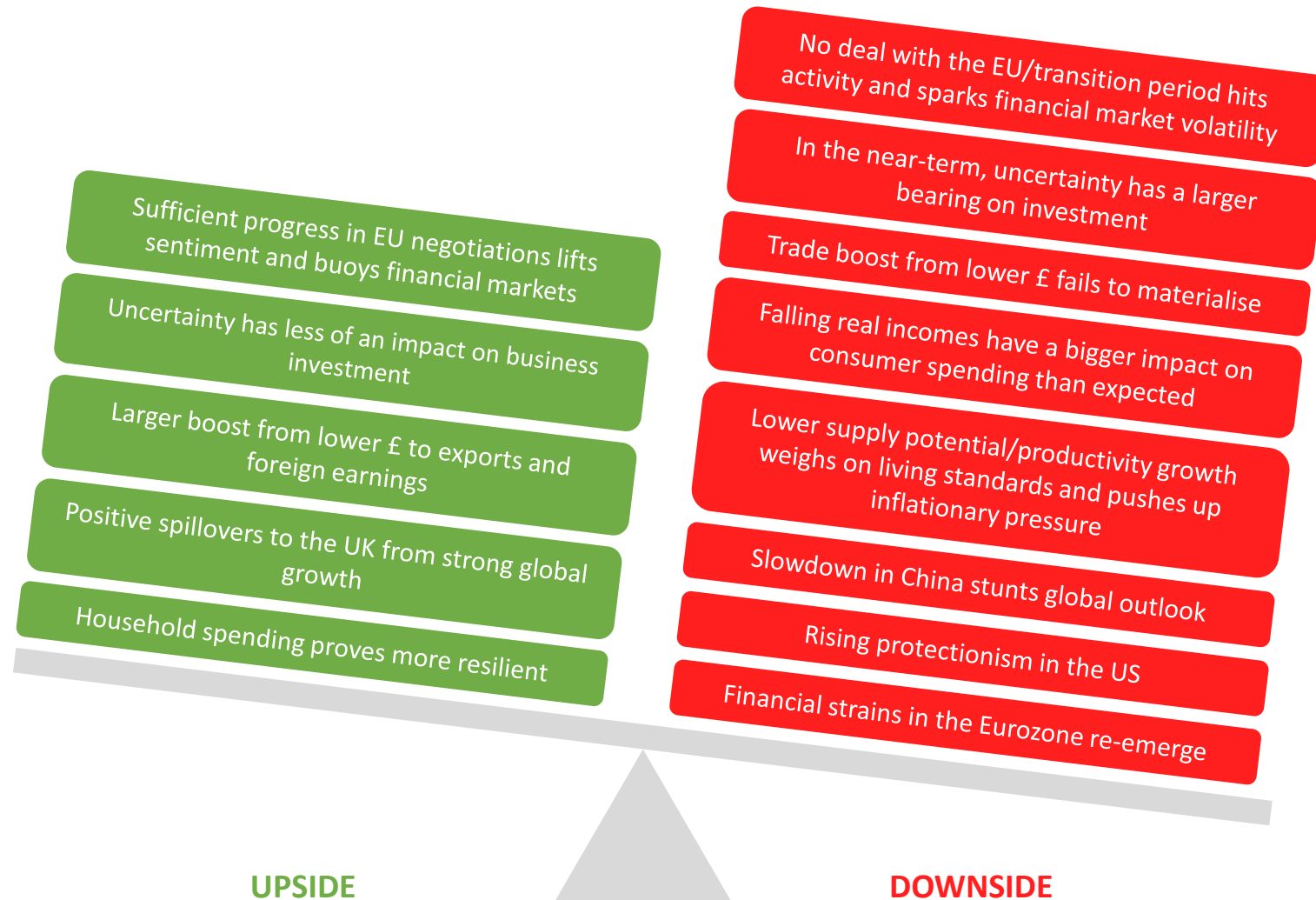
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GDP growth (y/y%) and contributions (ppts)



- Our view of the outlook and the key judgements underpinning our forecast remain broadly unchanged:
  - Real household incomes will be squeezed by relatively high inflation and tepid wage growth, which weighs on household spending.
  - Uncertainty around Brexit weighs on business investment growth, particularly spending on large projects.
  - Net trade delivers a more meaningful boost to the economy, supported by a lower pound and strong global growth.
- On Brexit, our forecast assumes that agreement with the EU on a time-limited transition period is reached sometime in Q1 2018, which is implemented upon the expiry of Article 50 in March 2019. This ensures a smooth transition to a new relationship with the EU.
- The outlook remains subject to a high degree of downside risk – particularly in 2019, where a more disruptive outcome from EU negotiations could lead to a more adverse impact on the economy and financial markets.

# Risks to the outlook tilted to the downside





# Reminder of what we have covered



Please submit your questions in the box in the bottom left corner. All questions are entirely confidential.

## Reminder about some of the topics we've covered today:

1. **The negotiation process** - points of agreement and divergence during phase 1
2. **The Future Economic Relationship** – what comes next
3. **The EU response**- what the CBI is hearing from the EU27
4. **Economic update** - analysis on how the economy and forecast

# Get involved in the CBI's rolling Brexit member programme throughout 2018



## Get involved in our on going policy consultations

On issues relating to trade, regulation, data, immigration, funding

## Sign up to our EU fortnightly update

Sign up to the CBI fortnightly Brexit update to gain the latest insight, intelligence and member opportunities

## Read our flagship reports

- Making a Success of Brexit
- Business priorities for a new migration system.
- A guide to future UK trade negotiations

## Stay up to date with our member briefings

- Briefing on Government's proposals for the UK's future customs agreement with the EU
- Briefing on the Government's proposal for Northern Ireland
- Briefing on the Brexit Process

## Get involved in the CBI's Government Affairs Network

Keep up to date with the shifting politics via our GAN webinars and events.

## Join the CBI's quarterly Brexit webinars series for 2018



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