



# Brexit Monitor Results

Business beyond Covid-19

May 2020

As the global health pandemic continues,  
what news of business sentiment surrounding  
the UK's future trading prospects post-Brexit?

# Brexit Monitor

How is the middle market faring as the UK battles through one of the most uncertain and volatile economic, societal and operating environments since the global economic crisis of 2008/09?

RSM's Brexit Monitor offers a snapshot of business sentiment as the UK prepares to negotiate a deal with the EU and against the backdrop of the challenges presented by the Covid-19 pandemic.

## Methodology

The survey carried out by YouGov is based on 322 interviews with C-suite respondents from middle market firms (with turnovers between £30m and £300m) across manufacturing (50), financial services (57), technology, media and telecoms (TMT) (51), construction (50), consumer (58) and other markets (56).

There were at least 30 respondents in each region: London, South, Central, North East and Yorkshire, North West and Scotland.

Sectors have been weighted to be equal within each region so as to ensure that regional results are not being driven by any one sector in particular. Construction figures for Wave 7 have been weighted to be equal to the average turnover sizes reported by all respondents.

Fieldwork was completed between 5 March 2020 and 23 March 2020.

Chart percentages may exceed 100 per cent due to rounding.

## Key

<b>MAN</b>	Manufacturing	<b>LDN</b>	London
<b>FIN</b>	Financial services	<b>STH</b>	South
<b>TMT</b>	Technology, media and telecoms	<b>CEN</b>	Central
<b>CON</b>	Construction	<b>NW</b>	North West
<b>CSM</b>	Consumer	<b>NEY</b>	North East and Yorkshire
		<b>SCO</b>	Scotland

## Summary

This latest and final edition of the RSM Brexit Monitor shows that most middle market leaders became more optimistic, albeit pre-Covid-19 lockdown, about the impact of Brexit on their business and the UK economy, especially over the longer term.

However, the fact that the survey took place just prior to the UK lock down strongly suggests that views of the full impact of Covid-19 on Brexit and the wider economy had not yet been fully realised.



Overall, sentiment has risen for the first time since Q2 2018, with more middle market business leaders anticipating a positive impact on the economy in the next two years.



The construction sector saw the biggest fall this year, down 29 index points, but still remains the most optimistic about the impact of exiting the European Union on their own business.



The technology, media and telecoms sector remains the most pessimistic about their company's prospects, despite a rise of 10 index points.



Only the central region believes that the UK economy will still be negatively impacted by leaving the European Union in five years' time.



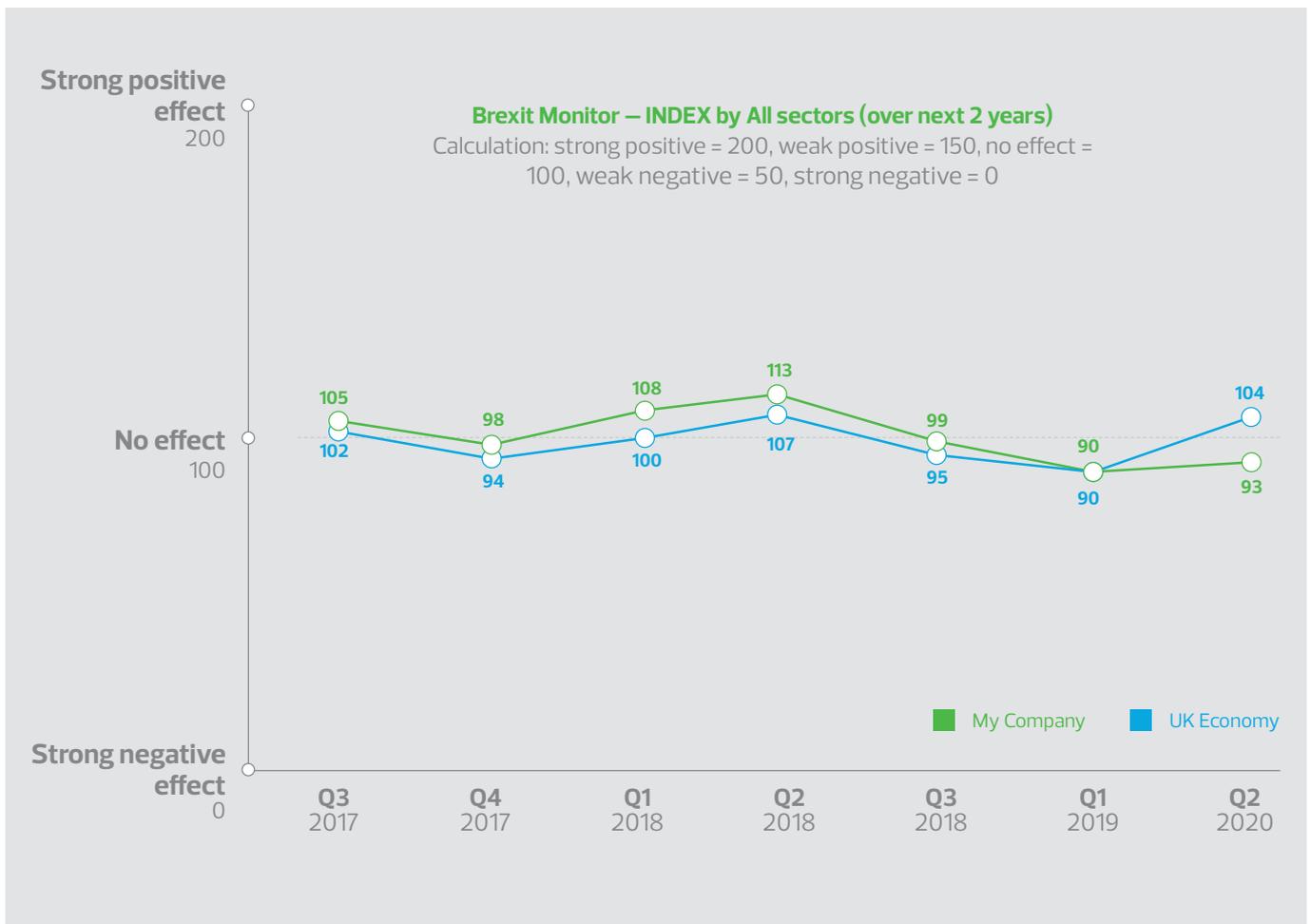
A third of firms have scaled back on recruitment in preparation for a no deal scenario and a similar number have put IT projects on hold.



40 per cent of financial services and TMT companies believe that the proposed points-based system of immigration will make it easier to recruit people.

# Overview

**Q** What effect do you believe the UK exiting the EU will have on your company and the UK economy over the next two years?

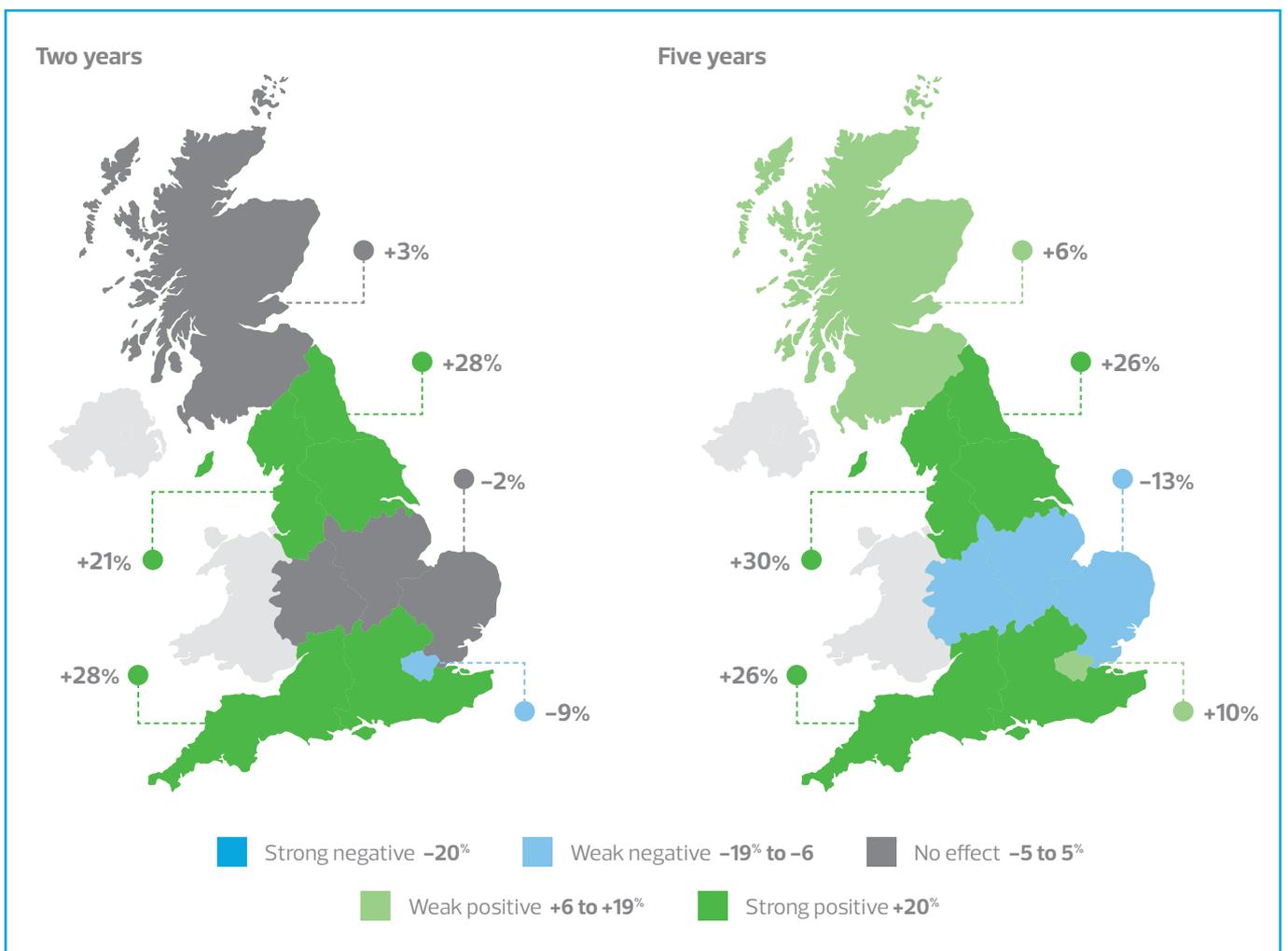


Sentiment on the impact of exiting the EU has risen since the last survey into positive territory, and for the first time since Q2 2018. The tracking index on the UK economy rose to 104 points, the highest for two years. The company index increased to 93 points but still remains negative and generally lower than when this survey began.

In March businesses broadly felt emboldened by the results of the December general election, but this 'Boris' bounce in sentiment proved to be a brief interlude. The full economic effects of Covid-19 will clearly alter how mid-market businesses view their prospects, and that of the economy, in the short to medium term.

– **Simon Hart**  
 RSM Partner, International

### Q What impact do you think the UK exiting the EU will have on the UK economy in the next two and five years?

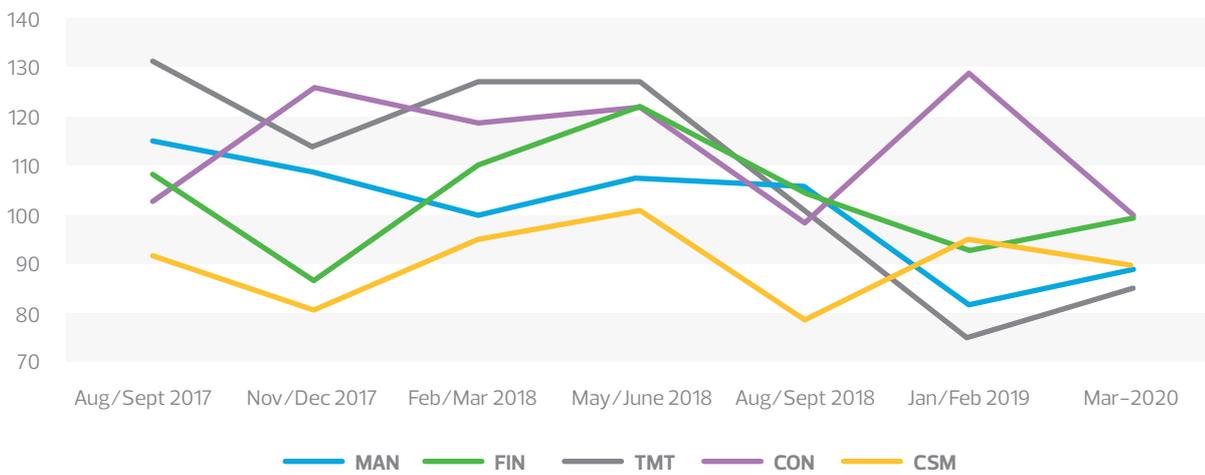


Over the short term most regions are positive about the impact exiting the EU will have on the economy. Only Central and London regions continue to feel pessimistic about having left.

Over a five-year period, London believes that they will see a positive impact. The only region to maintain a negative sentiment in the long term is the Central region.

### Q What effect do you believe the UK exiting the European Union will have on your company in the next two years?

Sentiment since 2017 over impact of Brexit over two years by sector



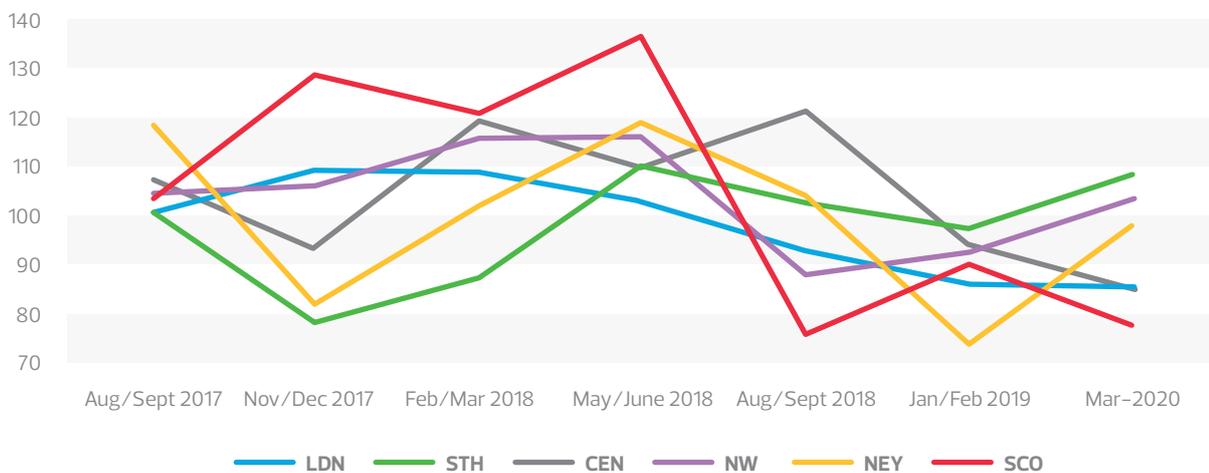
Despite a points increase since the last survey, the TMT sector remains the most pessimistic having previously been one of the more optimistic of the sectors. The manufacturing sector has followed a similar pattern. In contrast, the construction industry has seen a big fall in confidence since the last survey but still remains the most positive sector, along with financial services.

“ The way the tech and manufacturing sectors have seen their prospects evolve since our survey began really stand out. When we started this exercise nearly three years ago, both sectors stood out as the UK's most optimistic areas of industry. How times change. Both sectors will now be hoping for a change in fortunes, not just economically but in terms of favourable policy as the lockdown eases. ”

— **Simon Hart**  
RSM Partner, International

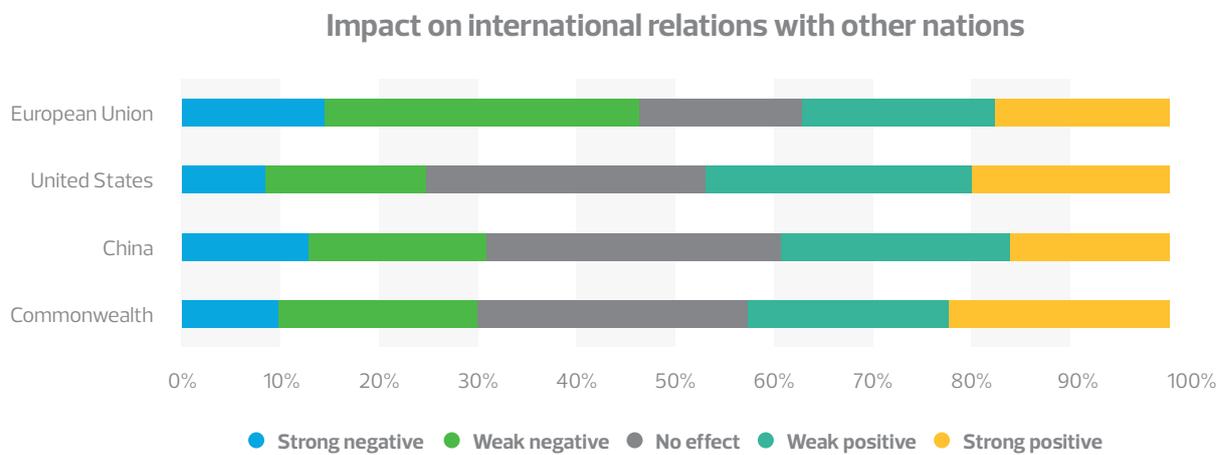
## Q What effect do you believe the UK exiting the European Union will have on your company in the next two years?

Sentiment since 2017 over impact of Brexit over two years by region



Across the country opinion was split on how leaving the EU would impact businesses. The Southern region has gone from among the most pessimistic when the survey began to the most optimistic and along with the North West, the only regions to be net positive overall. Since the last survey, optimism has grown the most in the North East and Yorkshire region. Scotland remains the least optimistic region after the largest fall in the last 12 months.

**Q** What effect do you believe the UK exiting the European Union will have on the UK's future relations with each of the following over the next two years?

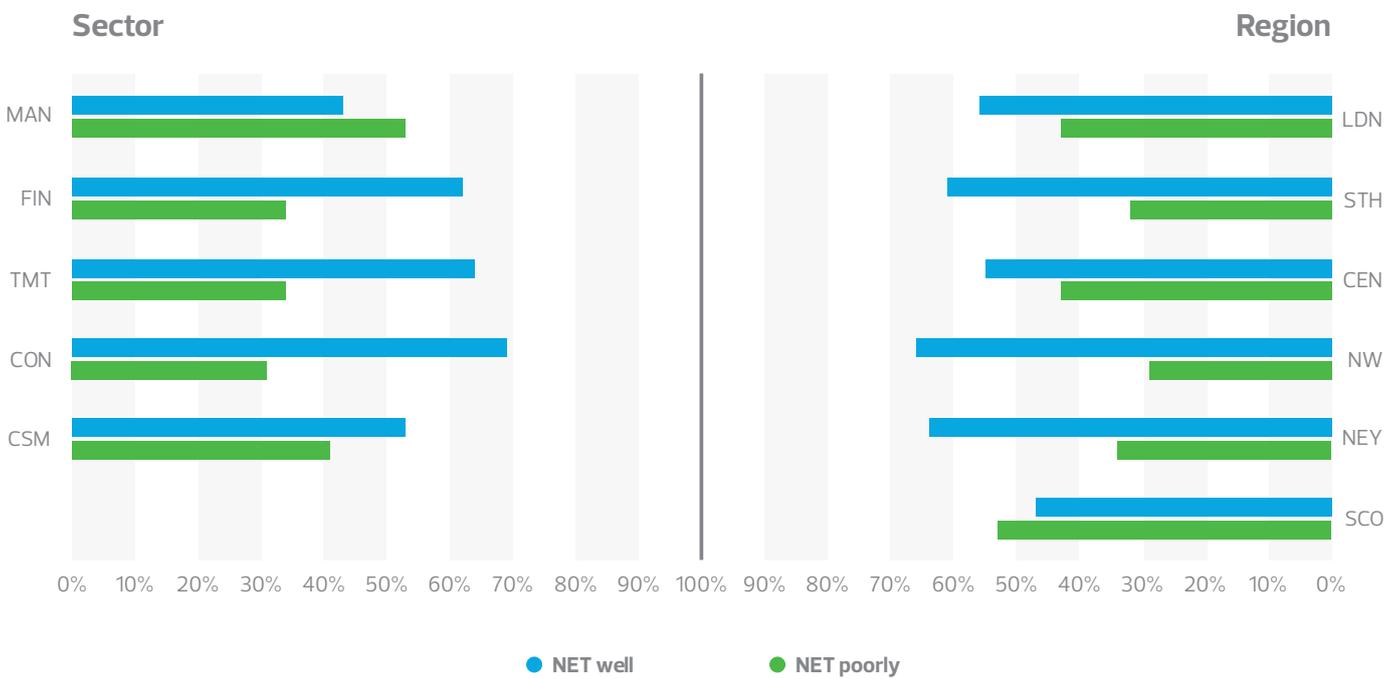


45 per cent of businesses feel pessimistic about future relations with the EU. In contrast there is a shift to positivity over future relations with the US and the Commonwealth.

“ We may well see another shift in sentiment towards each of these trading groups in the short term, not least due to the fast evolving dynamics and challenges presented by the global health pandemic. Negotiations with the US for a future FTA also kicked off in May – a lot's at stake for both sides, and these 6-weekly meetings will fuel differing views on future prospects. ”

– **Simon Hart**  
RSM Partner, International

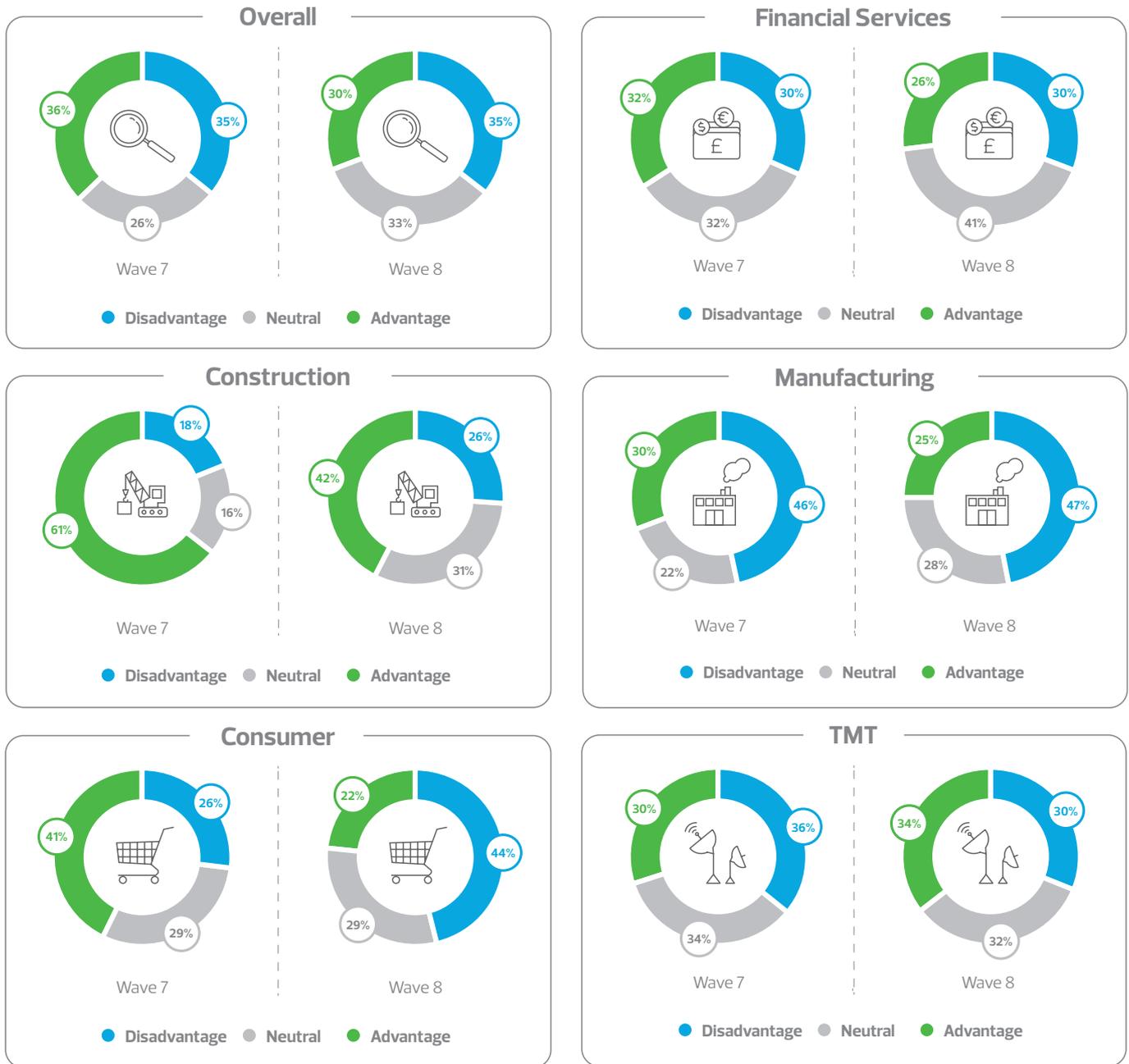
### Q How well is the government representing the views of the middle market in their negotiations with the European Union?



The manufacturing sector does not feel that they are being well represented by the government. However, the construction, TMT, and financial services businesses feel positive about their representation. As do businesses in the North West, North East and Yorkshire, and the Southern regions. Scotland in contrast continues to feel that it is not being well represented.

## No deal scenario

**Q** What impact, if any, would the UK's failure to negotiate a trade deal have on your business's expected turnover?



Overall, there has been no change to the percentage of firms who see no deal as a disadvantage (35 per cent in both waves) but those seeing it as an advantage overall has decreased from 36 per cent to 30 per cent in the last 12 months.

Construction firms are more negative in this wave than in previous waves – those who see the advantage of a no deal are down from 61 per cent to 42 per cent and those who see it as a disadvantage are up from 18 per cent to

26 per cent. However, they continue to be the only sector to see a no deal as an advantage.

Consumer businesses have shifted overall from seeing no deal as an advantage to a negative. Previously the feeling was 41 per cent positive and 26 per cent negative. Now 44 per cent of the sector see it as a negative and only 22 per cent feel positive.

**Q** What impact, if any, would the UK's failure to negotiate a trade deal have on your business's expected turnover?



The Central region has seen a big shift in sentiment. Previously 48 per cent thought that a no deal Brexit would be an advantage, but this has dropped down to 31 per cent.

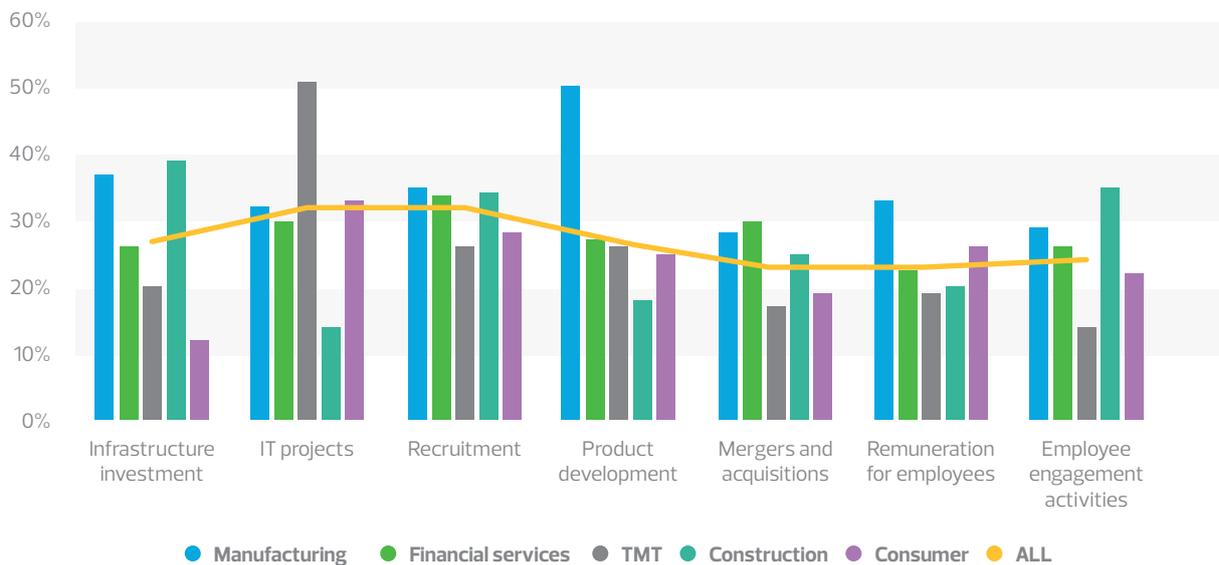
London has also seen a big drop in those seeing no deal as an advantage, down from 42 per cent to 27 per cent. The majority however have swung to neutral.

In contrast the North East and Yorkshire region is more positive now than in previous waves, with a drop in those seeing no deal as a disadvantage down from 46 per cent to 30 per cent and those seeing an advantage growing from 24 per cent to 38 per cent.

## No deal scenario

**Q** Have you had to scale back or put on hold any other aspects of your business in preparation for a 'No Deal' scenario?

Aspects of business put on hold in preparation for no deal



Almost three in ten businesses have scaled back on areas of their business in preparation for a no deal scenario with IT projects (32 per cent) and recruitment (32 per cent) being the most likely areas impacted.

Half of manufacturing firms have put product development on hold and over half of TMT businesses (51 per cent) have scaled back on IT projects. Construction and manufacturing firms are most likely to have scaled back on infrastructure investment (39 per cent).

“Middle market firms had done much to scale back already, but a more extreme and protracted form of contraction and consolidation is likely in the short term. How passive, conservative or brave firms choose to be in the medium to long term will depend not only on the sectors in which they operate, but on their agility in the way that they prepare for future change. Just how businesses look to reactivate and reimagine their operating environments post-lockdown, whilst also considering, strategizing and investing in the 'new normal' will be crucial.

— **Simon Hart**  
RSM Partner, International

# Five-point plan

Our five-point plan considers the far-reaching impact for many businesses, bringing risk through uncertainty, but also creating new opportunities.



## Regulation and compliance

Maintaining compliance with changing regulatory frameworks will be crucial to enabling a business to continue to operate and trade across the EU and non-EU countries as they do now.



## Financial planning and forecasting

Forecasting the impact of decisions and price shock uncertainty will be crucial to maintaining business continuity.



## Trade

Businesses need to consider the potential impact of increased customs duties, greater regulation causing delays to the movement of goods and services, and the effects on cash-flow.



## People and talent management

Changes to UK immigration policy will have a profound effect and businesses should be thinking about how they will continue to recruit and retain the right people to maintain business continuity and make the most of Brexit opportunities.



## Business management

Avoiding disruption to core operations and maintaining business continuity will require careful planning and may involve restructuring the business or acquiring additional entities in different jurisdictions.

### Q Which of the following external shocks or events, if any, do you think pose the greatest potential risk to your business?

Wave 7

Wave 8

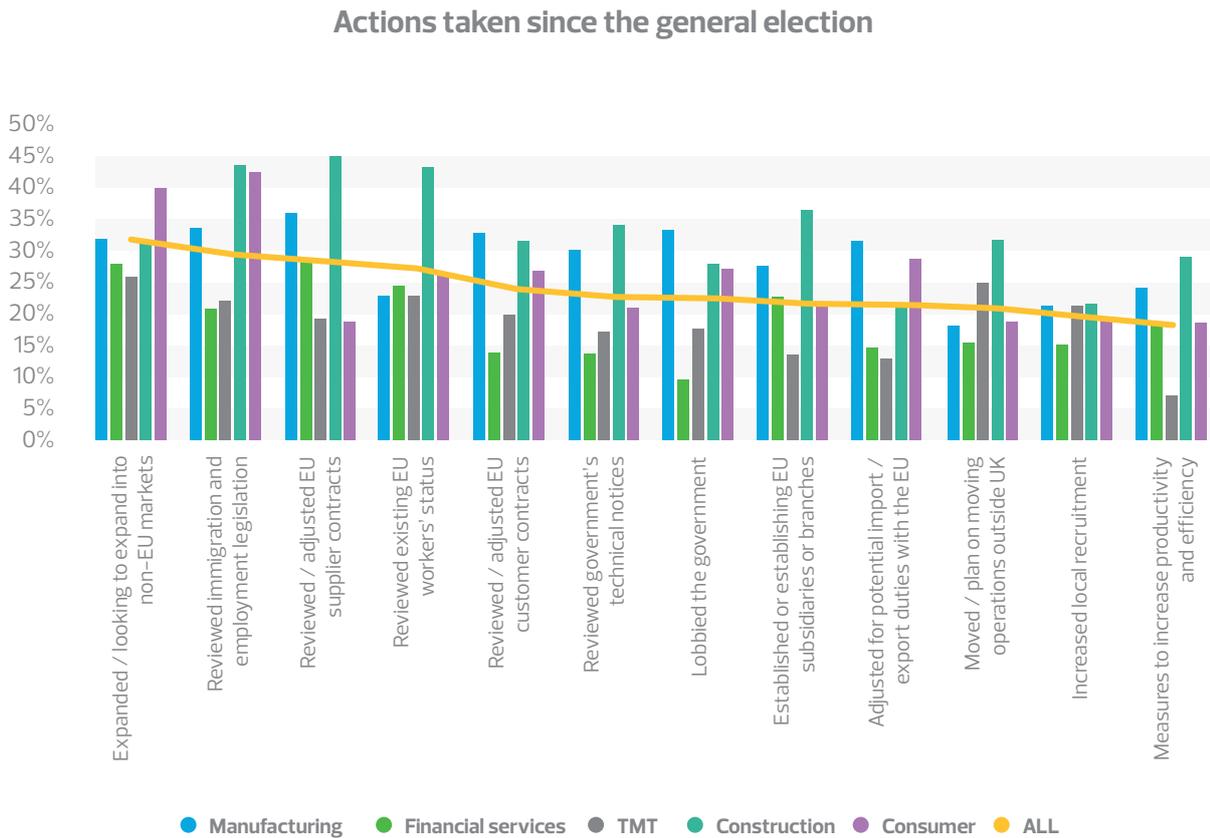


Unsurprisingly, pandemics appear at the top of the list but still only a quarter of businesses feel that this was the biggest risk in the future. It must be noted that the full impact of Covid-19 had perhaps not yet been fully realised by the majority of respondents who will likely have completed the survey just prior to the UK lockdown. One in five businesses note the UK government's failure to negotiate a trade

deal as their biggest concern. A global recession appeared lower down the list of concerns in this wave, but the concern around a Chinese economic downturn has increased.

Other big concerns in the last wave around data/cyber, commodity prices and terrorism are less of an issue this quarter.

## Q What actions, if any, has your business taken since the general election in December 2019?

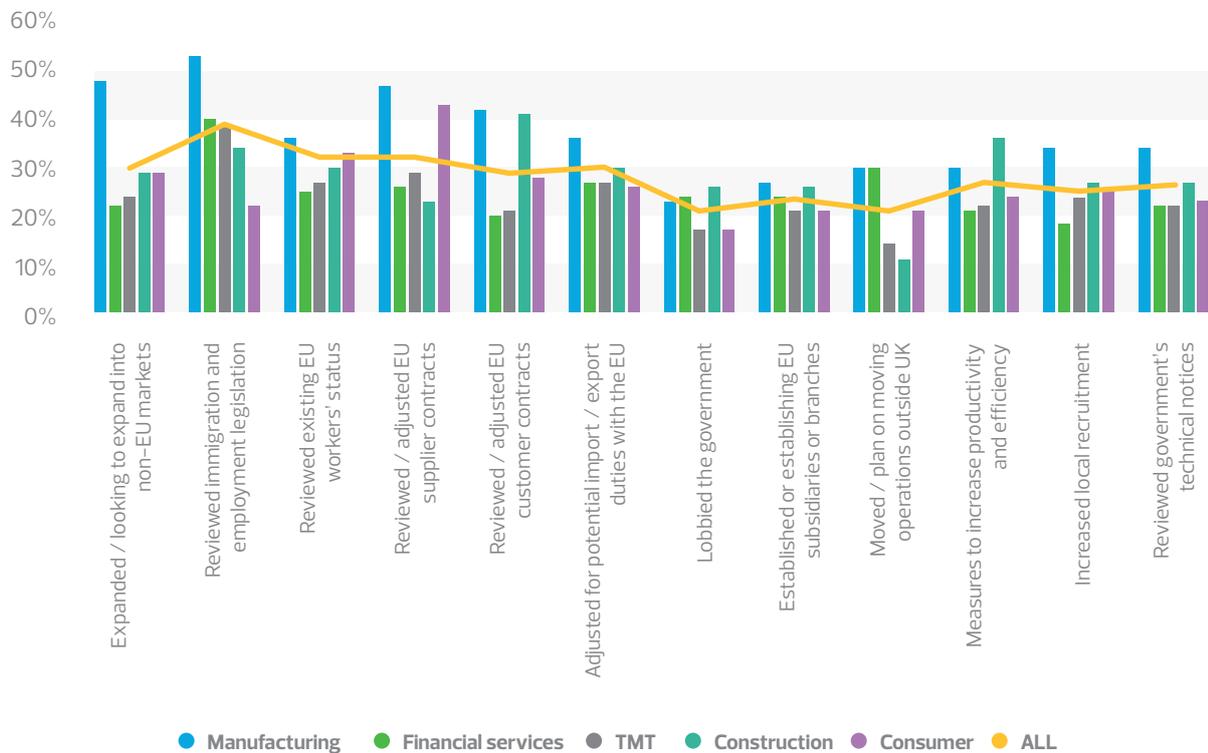


Following the general election in December, the construction sector has been far more active than any other sector, with almost half of businesses in the industry having taken time to review immigration and employment legislation, existing EU workers' status, and EU supplier contracts. The construction sector is also the most likely to have established EU subsidiaries or branches in the last few months.

Overall, more businesses are likely to have expanded, or looked to expand, into non-EU markets. The consumer sector is particularly likely to have taken this option with 40 per cent of businesses having taken action in this area.

## Q What actions, if any, has your business taken since the UK departure from the European Union on 31st January 2020?

Actions taken since the 31st January

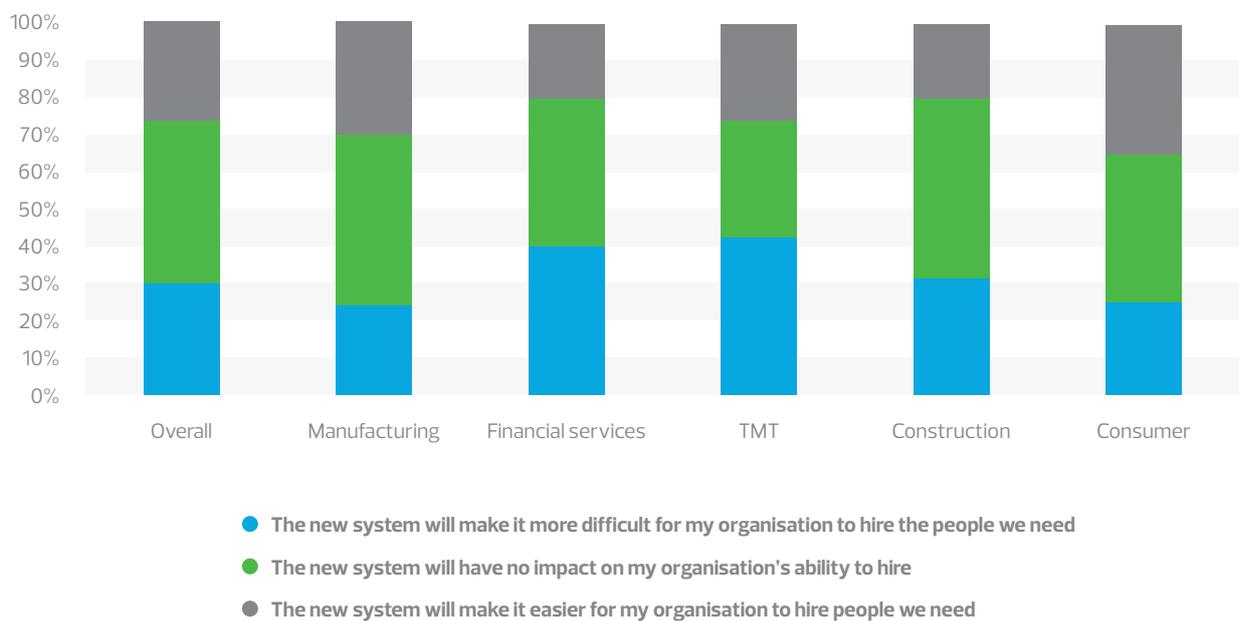


Manufacturing businesses are most likely to have acted since the UK left the European Union at the end of January. 53 per cent have reviewed immigration and employment legislation and 48 per cent have expanded or looked to expand into non-EU markets.

The construction sector is most likely to have taken measures to increase productivity and efficiency in the last two months.

**Q** Thinking about the UK government's proposed points-based system, which of the following views, if any, come closest to yours?

**What is your view on the proposed points-based system?**



Overall, the feeling on the government's proposed points-based system is split, with 29 per cent believing it will make hiring easier, 24 per cent believing it will make hiring more difficult and 40 per cent being neutral.

Across the sectors, 39 per cent of TMT and 36 per cent of financial services businesses believe the new system would make it easier for them to hire. In contrast, 31 per cent of consumer businesses and 28 per cent of manufacturing business think it will make hiring harder.

Q Which of the following, if any, do you feel are the most detrimental effects of being unable to retain staff?



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