



Brexit Monitor Results

March 2019

Brexit Monitor

How is the middle market faring as the UK enters one of the most uncertain and volatile operating environments since the global economic collapse?

RSM's Brexit Monitor offers a snapshot of business sentiment as the UK prepares to leave the EU.

Methodology

The survey carried out by YouGov is based on 316 interviews with C-suite respondents from middle market firms (with turnovers between £30-£300m) across manufacturing (58), financial services (53), technology, media and telecoms (54), construction (51), consumer (52) and other markets (60).

Respondents were based in the following regions: London (71), South (40), Central (77), North East & Yorkshire (43), North West (45) and Scotland (40).

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 17 January 2019 and 14 February 2019.

Chart percentages may exceed 100 per cent due to rounding.

Summary

This quarter the RSM Brexid Monitor shows middle market leaders are becoming increasingly concerned about the impact of Brexid on their business and the UK economy, especially in the next two years.



Overall, sentiment is at its lowest level ever with over half of middle market business leaders expecting the impact of Brexid to be negative.



The TMT sector, which has previously been the most optimistic around their own company's prospects over the short term, sees a large drop in positivity to a low of 75 index points, down from 127 points 6 months ago.



In contrast to other industries, Construction sector sentiment is at an 18-month high with 64 per cent of business leaders believing Brexid will have a positive effect.



63 per cent of businesses would be in favour of a second referendum, up slightly from 60 per cent last quarter.



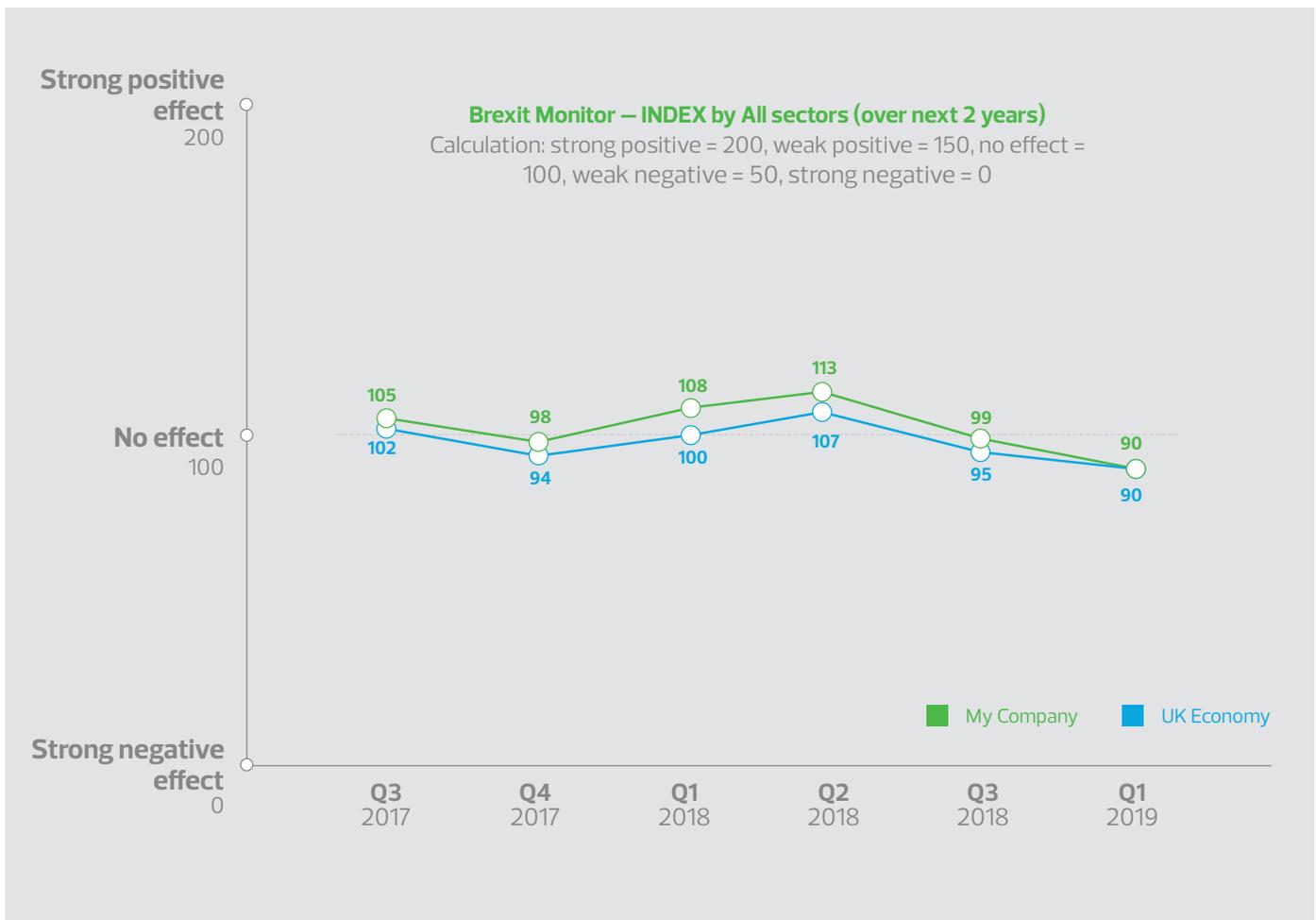
Almost half of business leaders believe that the decision to leave the EU has had a negative impact on the UK's reputation as a good place for investment.



27 per cent of business leaders are finding talent retention a major issue, more than double the number from July 2017.

Overview

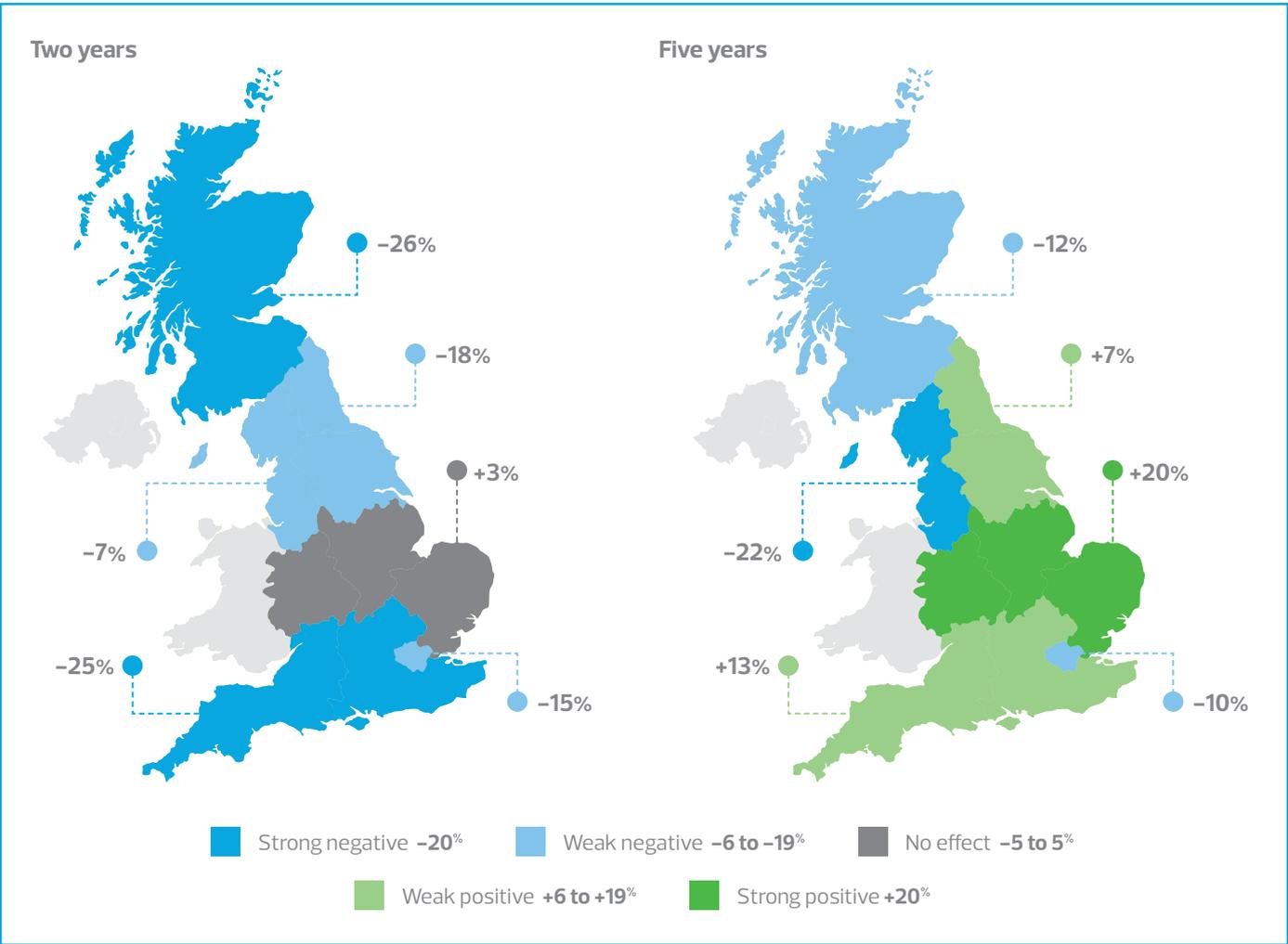
Q What effect do you believe the UK exiting the EU will have on your company and the UK economy over the next two years?



Sentiment continues to fall with the tracking index now down to 90 points for both business and the UK economy. This is the lowest point for both series in the last 18 months since the survey began.

Business sentiment is at its lowest level since our survey began 18 months ago.
Simon Hart, Lead Brexit Partner, RSM.

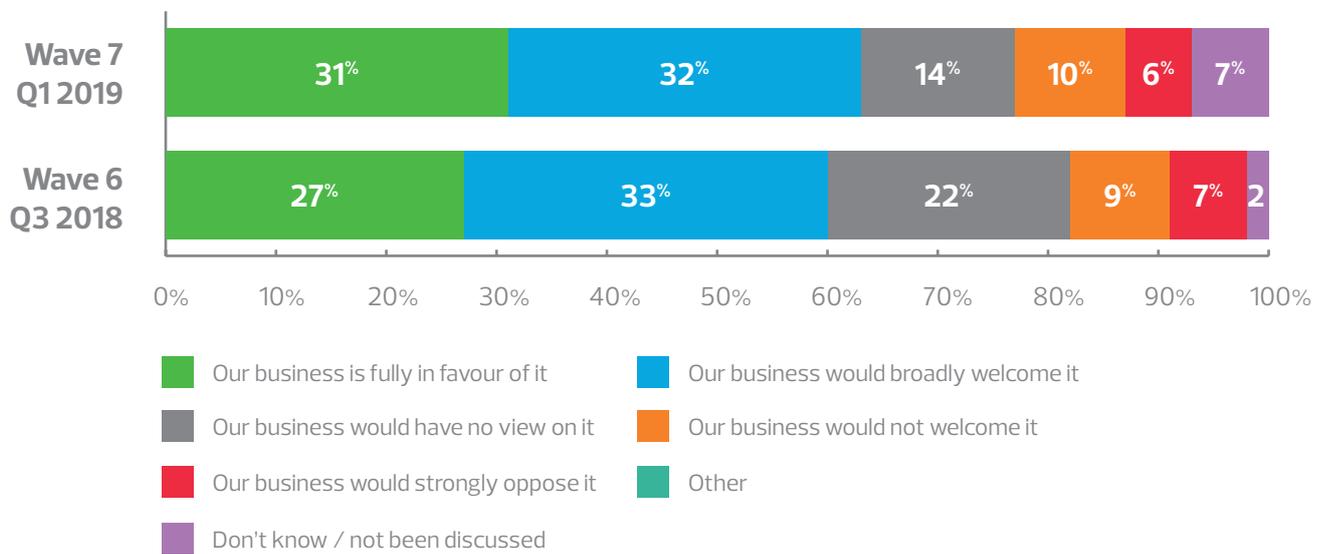
Q What impact do you think the UK exiting the EU will have on the UK economy in the next two and five years:



Over the short term, businesses in London, the South, North-East, North-West and Scotland all feel that the UK economy will be negatively impacted by Brexit. Only the Central region feels that there will be no effect.

Over a five-year period, the Central region feels there will be a positive effect on the economy, with the Southern and North-East regions also believing they will see some positive impact from Brexit. London, Scotland and the North-West feel that there will be no positive effects even over the longer term.

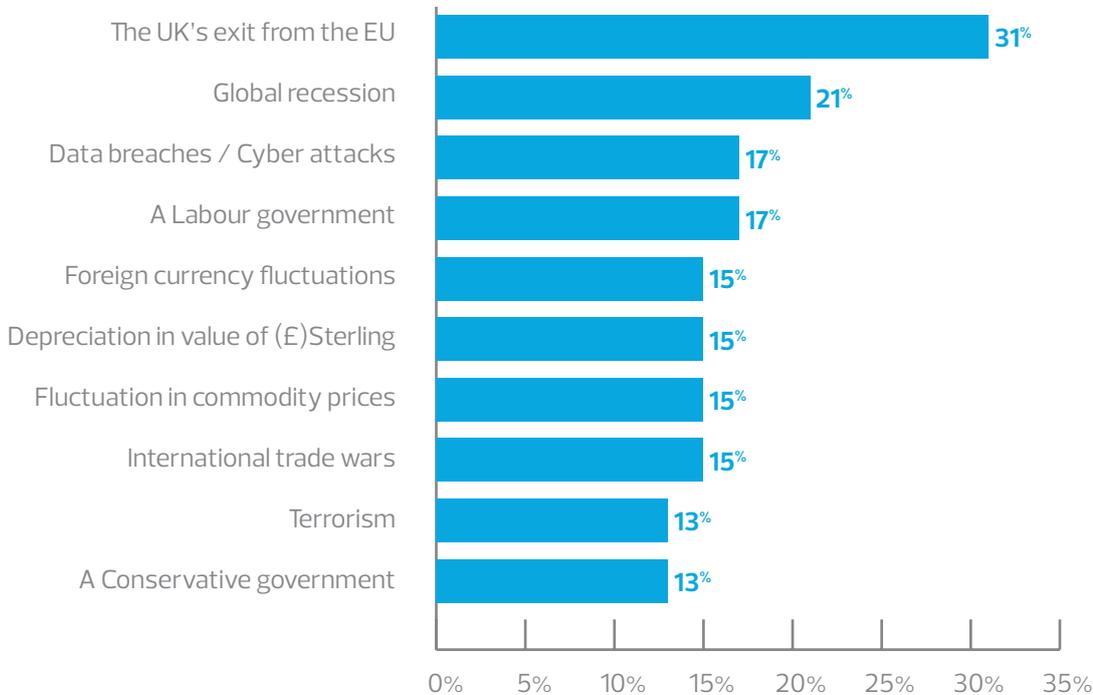
Q What is your view on a potential second referendum on the terms of the UK's exit from the EU?



Q What are the largest potential external risks to business?

31 per cent of firms see Brexit as posing the greatest external risk to their business.

Global recession (21 per cent), cyber-attacks (17 per cent) and a Labour government (17 per cent) are seen as the next biggest concerns.



Five-point plan

Our five-point plan considers the far-reaching impact for many businesses, bringing risk through uncertainty, but also creating new opportunities. As part of our approach we grouped the issues into five key considerations.



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.

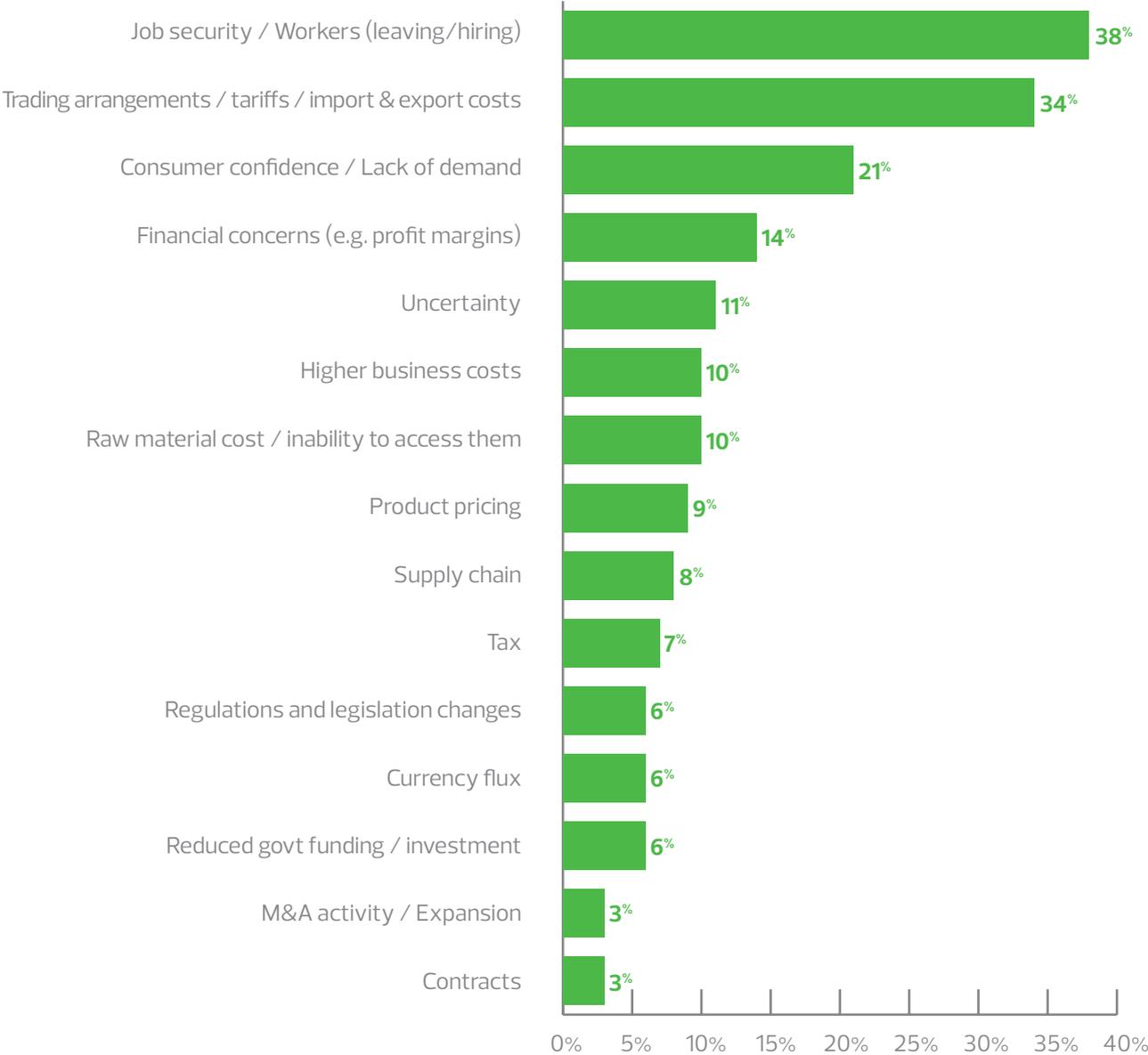


Business management

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.

General Overview

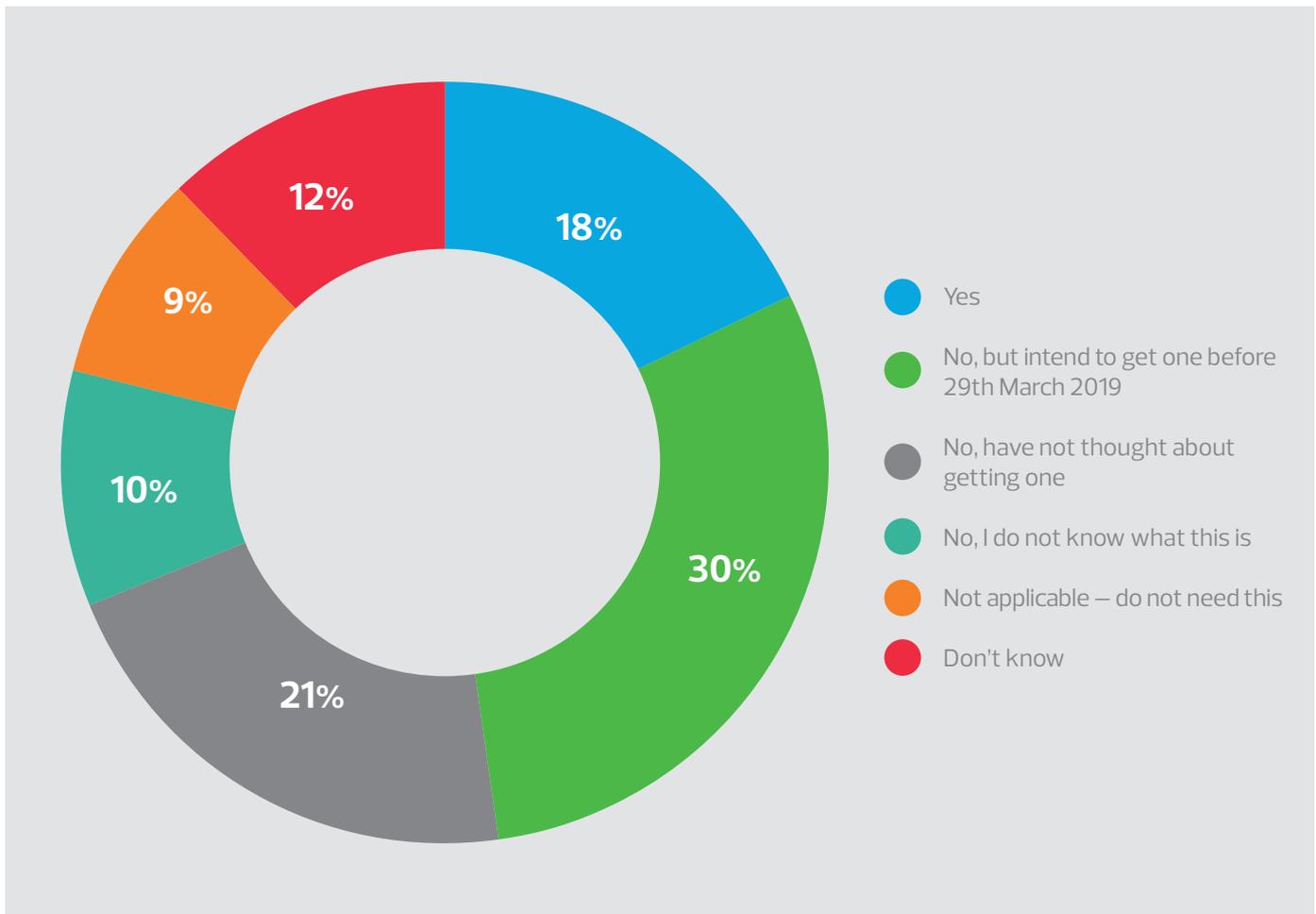
Q What concerns about the impact on your business, if any, do you have in relation to the UK leaving the European Union?



The key concerns amongst business regarding the impact of Brexit are job security and workers leaving (38 per cent) followed by consumer confidence and lack of demand.

Regulation and compliance

Q Do you have an Economic Operator Registration and Identification (EORI) registration number?



Only 18 per cent of companies have applied for an Economic Operator Registration and Identification (EORI) number, with another 30 per cent intending to do so in the next few weeks.

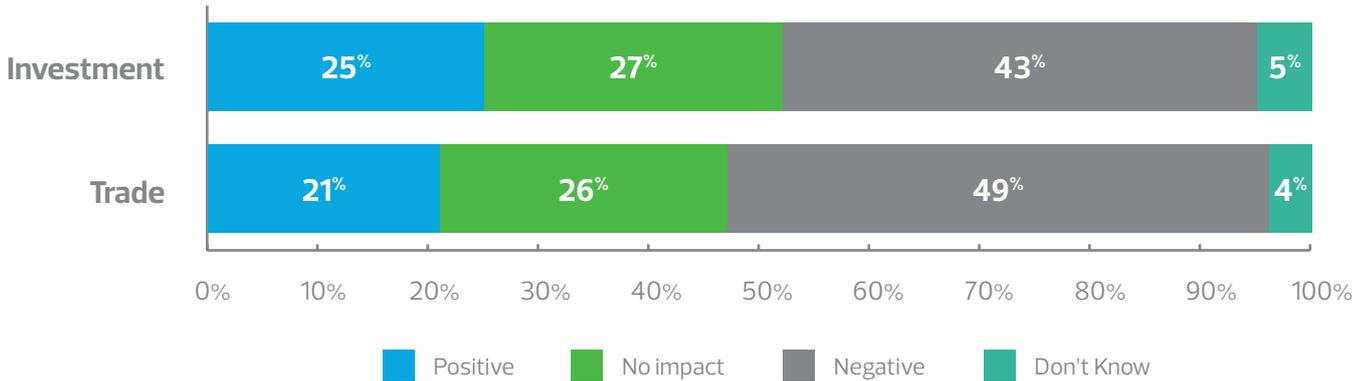
Surprisingly almost a third of businesses have either not considered applying for a registration number or do not know what one is.

Those who trade with the EU and who haven't secured an EORI need to get their skates on as the clock is ticking.

Brad Ashton,
International Trade and Customs Partner, RSM.

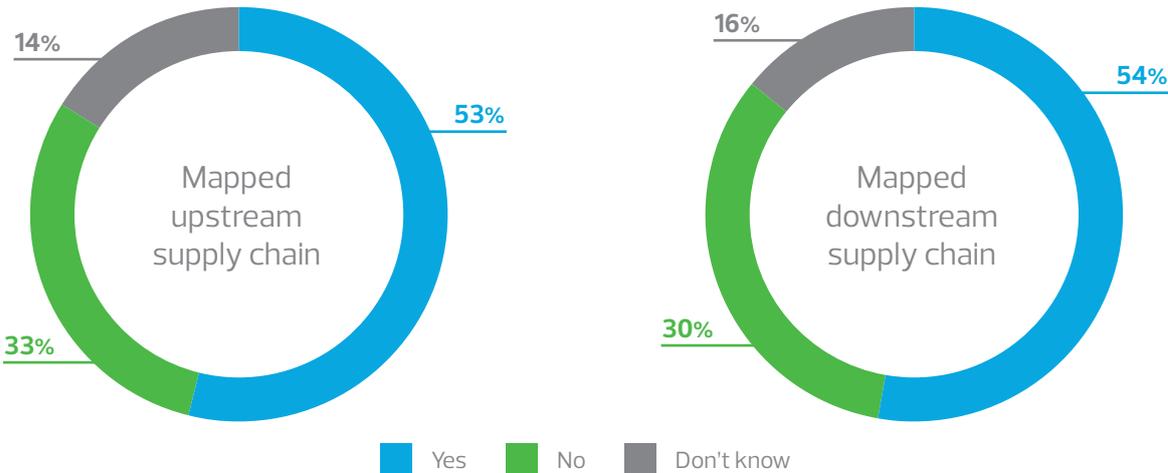
Financial planning and forecasting

Q What impact, if any, do you believe the UK's decision to leave the European Union has had on the reputation of the UK?



Trade

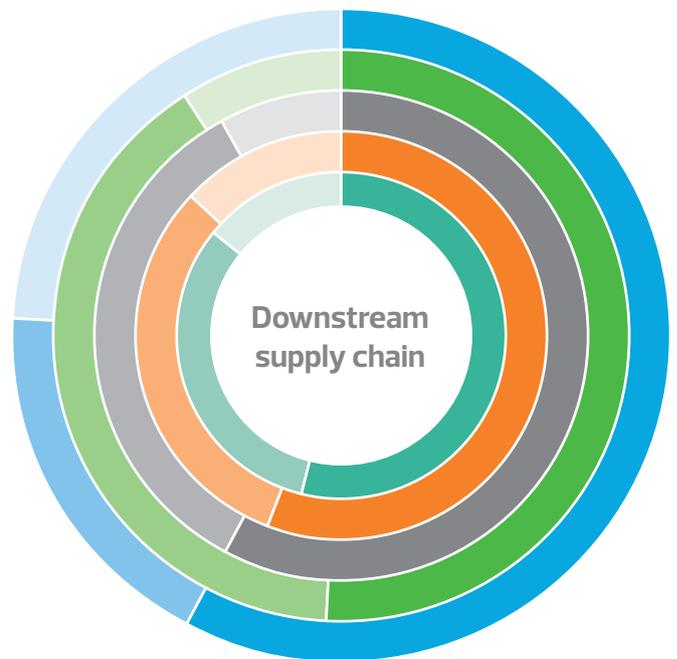
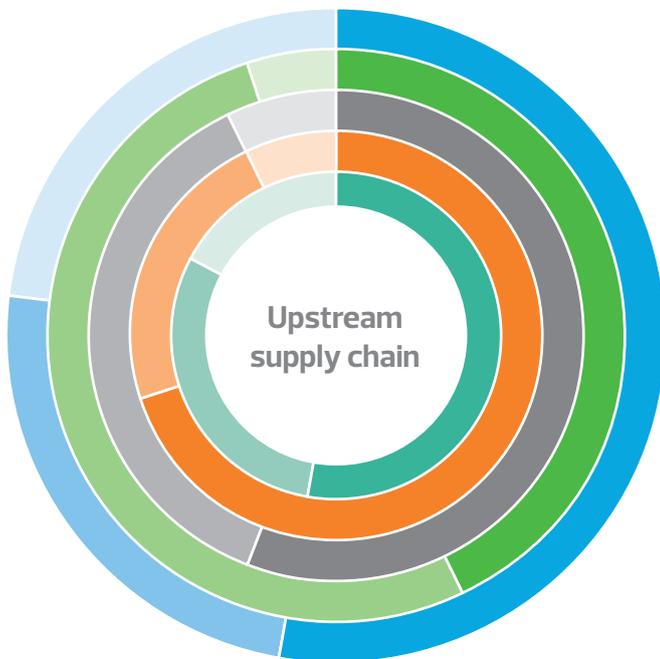
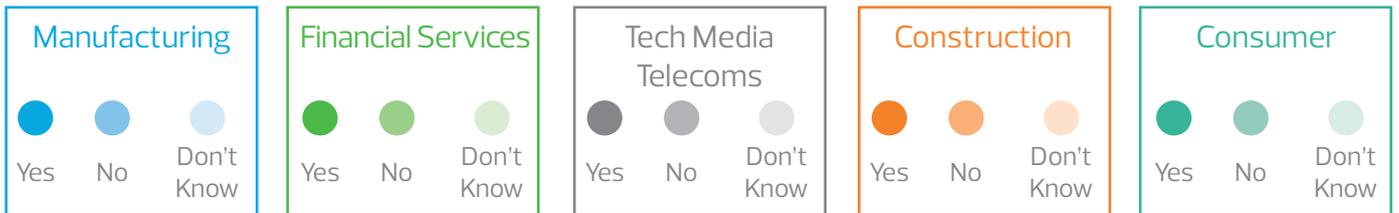
Q Have you mapped out your existing supply chain to identify potential future liabilities upon leaving the EU?



53 per cent of businesses have mapped their upstream supply chain and 54 per cent their downstream supply chain.

Trade

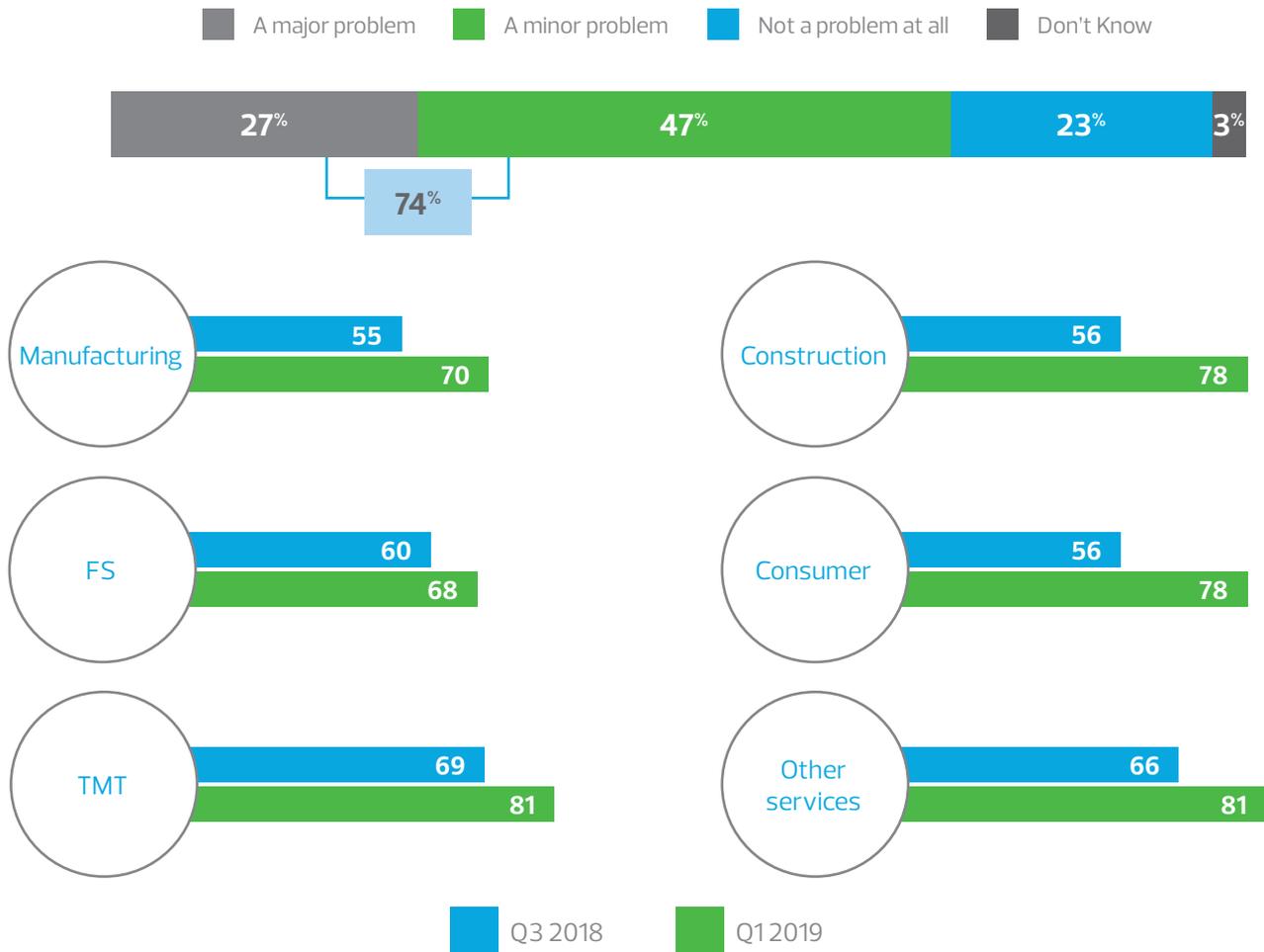
Q Have you mapped out your existing supply chain to identify potential future liabilities upon leaving the EU – by sector?



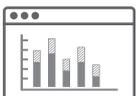
- Construction firms are most likely to have mapped their upstream supply chains.
- TMT businesses are most likely to have mapped downstream, supply chains.
- Almost a quarter of manufacturing companies did not know if their supply chains had been mapped.

People and talent management

Q How much of a problem, if at all, is it for your business to retain talent?



27 per cent of firms now believe staff retention is a major problem compared to 12 per cent in the first survey in Q2 2017



Overall an average of 74 per cent of firms believe retention to be a problem, most notable in the TMT and other services sectors (both showing an above average 81 per cent).



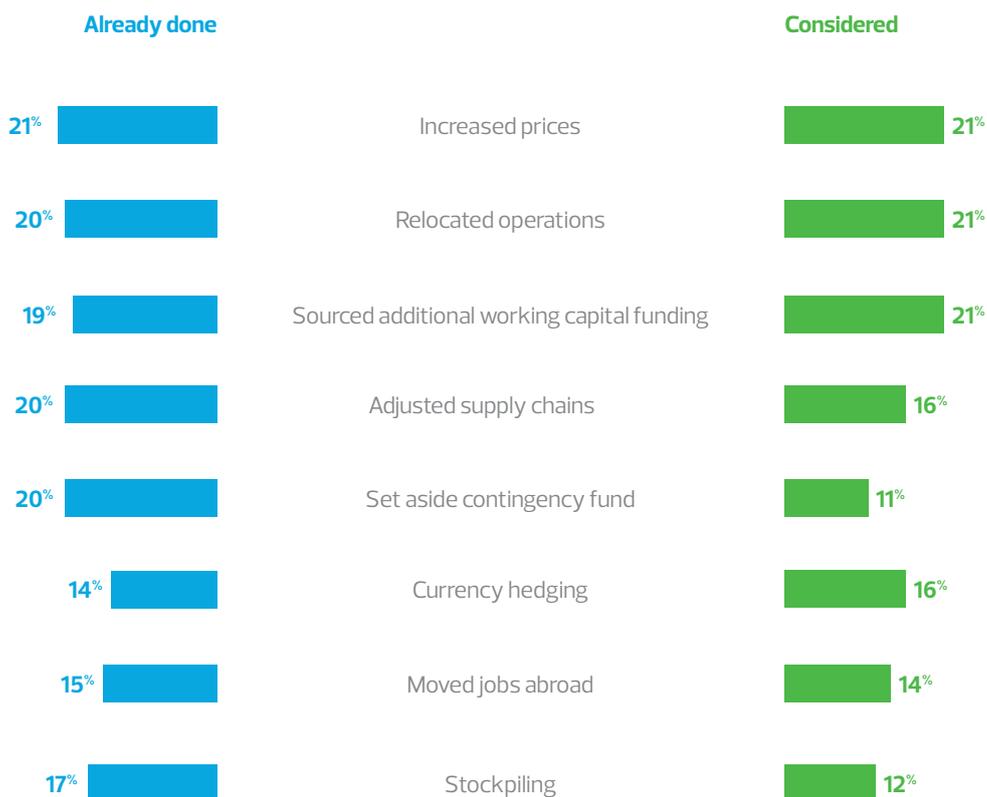
Companies are creating strategies to help them ensure that they have the right people in the right roles:

Notably creating formal development paths for employees (43 per cent of businesses), implementing talent management programmes to develop future leaders (40 per cent) and use of work shadowing programmes (37 per cent).

“The number of businesses who see retaining talent as problematic has more than doubled in less than 18 months.
Steve Sweetlove,
 Partner and Head of HR, RSM.”

Business management

Q Thinking about a 'No Deal' scenario where the government fails to negotiate a deal with the European Union, which of the following actions, if any, have you already done or have considered?



Businesses have started to put plans in place in preparation for a no-deal scenario.

 42 per cent of firms have already increased prices or have considered doing so.

 41 per cent have relocated operations or have considered doing so.

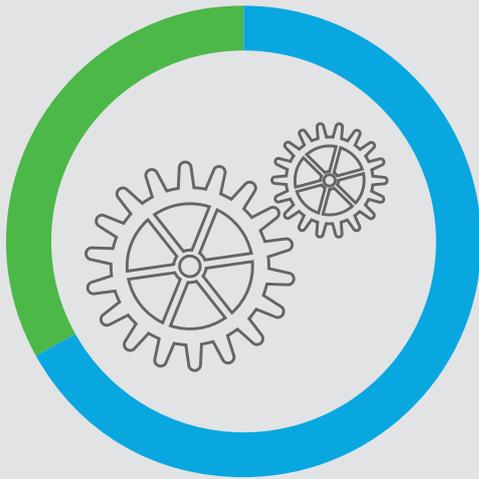
 40 per cent have secured additional working capital or are considering it.

 36 per cent have adjusted or considered adjusting their supply chains.

The closer we get to Brexit, business leaders appear to be taking fewer steps to prepare. A sort of paralysis seems to have set in as people wait to see what happens.
Simon Hart, Brexit Lead Partner, RSM.

Sector analysis

Manufacturing



67 per cent of manufacturers believe that the UK leaving the EU will have a negative impact on their business.



Almost half of manufacturing businesses feel that a no-deal would have a negative impact on their turnover, with 9 per cent believing it to be catastrophic and 37 per cent to be harmful to their business.



A fifth of manufacturers have put IT projects on hold in response to a potential no-deal scenario.



A large number of manufacturing businesses have increased prices (34 per cent) or have considered increasing prices (28 per cent) in response to a potential no-deal scenario.

Financial Services



55 per cent of financial services businesses have obtained or are planning to obtain an Economic Operator Registration and Identification (EORI) registration.



In contrast, 16 per cent of FS firms are unaware of EORI registration.

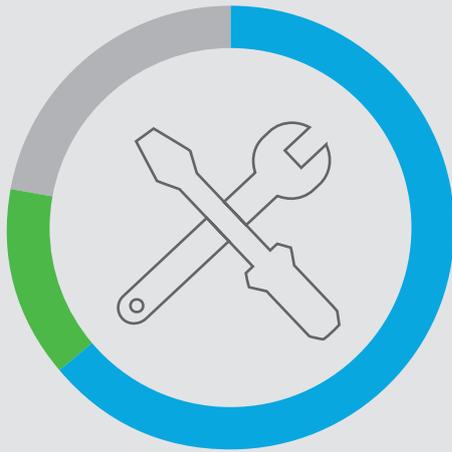


Over a third of financial services businesses (36 per cent) have reviewed or adjusted their EU customer contracts.



29 per cent of financial services firms have considered relocating or moving jobs abroad in preparation for a no-deal scenario, although this does not rank highly as one of the actions actually taken.

Construction



68 per cent of construction businesses feel that Brexit will have a positive impact on their business over the long term; only 14 per cent believing the impact to be negative.



36 per cent of construction firms have already reviewed immigration and employment legislation following the results of the referendum in 2016, the highest of any sector.



40 per cent of construction businesses have reported an increase in the number of EU nationals in their workforce since the EU referendum.



In contrast to other sectors, the biggest potential risk to business from external events for construction firms is seen as currency flux (22 per cent) followed by trade wars (20 per cent).

TMT



The TMT sector, which has previously been the most optimistic around their own company's prospects over the short term, sees a large drop in positivity to a low of 75 index points, down from 127 points 6 months ago



34 per cent of TMT businesses have implemented measures to increase productivity and efficiency since the Brexit result, more than any other sector.



Almost half of TMT business leaders (48 per cent) have scaled back on IT projects in preparation for a no-deal scenario.



26 per cent of TMT businesses have relocated in preparation to a no-deal scenario, and another 22 per cent have considered relocation.

Consumer



Almost a third of consumer businesses have scaled back on recruitment in preparation for a no-deal scenario.



24 per cent of consumer business leaders believe a global recession poses the biggest external threat to the sector, with only 17 per cent believing Brexit to be the biggest threat.



20 per cent of businesses leaders in the consumer sector have adjusted their supply chains in preparation for a no-deal scenario and 14 per cent have begun stockpiling goods.



Consumer sentiment, around the UK economy in the short term, although languishing in negative territory, is at an all-time high since our survey began 18 months ago.

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