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The Deloitte Consumer Review

The Brexit consumer

December 2017

Contents

About this report
In this publication, references to Deloitte are references to Deloitte LLP, the UK affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu

Methodology
The research featured in this report is based on a consumer survey of 1,644 UK adults carried out by an independent market research agency on behalf of Deloitte.

Please visit http://www.deloitte.co.uk/consumerreview for additional content related to the Consumer & Industrial Products industry.

Executive summary

Since the UK voted to leave the EU, the consumer economy has performed above consensus expectations. The decision by the Bank of England to make an emergency rate cut in the immediate aftermath of the referendum supported borrowing and encouraged consumer spending. Consumers have shown resilience in the face of uncertainty, but rising inflation and stagnant wage growth has begun to put a squeeze on consumer spending in the second half of 2017.

As we approach the New Year, will Brexit pressures begin to tell? How will consumers react to the BoE interest rate rise? How will spending be affected? And how will businesses react to changes in consumer behaviour?

Given that, albeit by a small margin, the majority of the general population voted to leave in the first place, and however people voted, their actions through spending, borrowing and saving directly impact the economy, the consumer voice has been strangely absent from the Brexit debate between government, the media and the business world. In this edition of the Deloitte Consumer Review, we look at Brexit in the context of the consumer economy. In an attempt to give consumers a voice, we have undertaken research to ascertain how consumers view the impact of the referendum, what they feel their prospects are post-Brexit and the key challenges facing consumer businesses.

Despite the fact that the economy has exhibited signs of resilience after the EU referendum, media coverage and business commentary could lead us to believe that Brexit is near to the top of the list of issues that consumers are concerned about. However, this is not necessarily borne out in our data which shows that consumers are far more concerned about the state of the NHS, the health of the UK economy and the state of the environment. In fact, Brexit only ranks 6th on consumers' list of potential areas of concern – perhaps as any real effects are yet to be felt by individual consumers.

The National Institute of Economic and Social Research stated in a recent report that it was "almost certain" that voting to leave the EU has damaged living standards, suggesting that households were £600 worse off as a direct result of the referendum. This is due to the fact that had sterling not depreciated and had the economy not slowed, real household income would have increased by two per cent. Our research suggests that consumers do not equate the current pressures on wages and prices directly with the impact of Brexit. Indeed the majority of respondents report no change in their personal financial situation and nor do they expect changes after the UK formally leaves the EU.

In addition, our research highlights that there are still polarised opinions in the country over the impact of the referendum. Consumer sentiment towards both the impact of the result of the referendum and the potential impact of Brexit differ significantly based on factors such as political affiliation, age and geography. As you would expect however, the biggest divide in opinion is between Remain and Leave voters, with Remain more pessimistic than their counterparts who voted to leave.

Although Brexit is seen as the number one risk for UK business and is undoubtedly a unique situation with a significant amount of uncertainty set to remain for some time, it should still be viewed as a business risk like any other – with variables that can be identified, understood and planned for.[1] After the UK formally leaves the EU, as with any business risk, there will be winners and losers, but this should not be based on a lack of readiness. There are steps businesses can take to prepare, by looking at the various scenarios that might play out and understanding their own exposure against these scenarios, businesses can put in place plans for contingency which can be implemented when the likely outcomes become clearer.

For businesses operating in the retail, consumer product, travel, hospitality and leisure, and automotive sectors a 'wait and see' approach to Brexit is no longer a viable option, not least because some actions businesses would need to take to mitigate against certain Brexit impacts could take 12 months or more to implement. Failure to plan sufficiently could lead to threats to an organisation's ability to maintain its core business once the conditions upon which we trade and access labour from the EU change. To prevent this from happening, organisations should assess their business model against potential Brexit impacts by planning for the scenario of maximum change.

Failure to plan sufficiently could lead to threats to an organisation's ability to maintain its core business once the conditions upon which we trade and access labour from the EU change.

Giving the consumer a voice

Amid all the uncertainty created among businesses after the referendum result and the triggering of Article 50, it is easy to lose sight of the impact that Brexit is having on the wider UK population.

Economic uncertainty, exacerbated by Brexit, in conjunction with high inflation and low wage growth over the last year could mean that consumer-facing industries in the UK would be faced with the prospect of slowing demand at a time when they are already facing unprecedented technological disruption and changing consumer behaviour.[2] To provide some clarity on how Brexit has impacted the consumer, we commissioned research in an attempt to understand how Brexit will impact consumer confidence and sentiment, and how its effects are already impacting their finances.[3]

A brief history of Brexit

On 23 June 2016, the UK held a referendum on their membership of the EU which resulted in 51.9 per cent of the participating UK electorate voting to leave the EU.

The result of the referendum came as a shock to many commentators and as a result created short-term turbulence in the markets, as uncertainty gripped both businesses and consumers. The main driver of this uncertainty was a lack of clarity over what post-EU membership would look like for the UK. While membership of the EU guaranteed the free movement of goods, capital, services and labour among member states, the result of the referendum left the UK's future relationship with the EU in relation to those four freedoms in question. This left businesses guessing at what implications this would have on labour markets and trade.

In March 2017, nine months after the referendum, the UK formally triggered Article 50, effectively starting a two-year period of negotiations to agree the terms of the UK's exit from the EU. Alongside this, both sides hope to reach agreement to define the terms of the future EU/UK relationship.

Having triggered Article 50, the UK is scheduled to depart the EU on 29 March, 2019. Since receiving Article 50 notification from the UK, the EU has been steadfast in its position that negotiations around the nature of the future relationship between the EU and the UK, most notably with regards to trade, cannot commence until significant progress on the withdrawal agreement has been made. Until the withdrawal agreement has been finalised and trade negotiations begin we can only hypothesise about what the potential final trade agreement will look like, meaning continued macroeconomic and political uncertainty for both businesses and consumers.

UK government priorities

The UK government has prioritised its ability to control migration and is committed to ending the free movement of people between the UK and the EU. In doing so, the UK government accepts that it can no longer have membership of the Single Market but instead will seek ongoing access through a bespoke free trade agreement. The UK also seeks to return regulatory and legislative authority to UK courts and administrative offices in any post-Brexit outcome.

The UK has also stated that it will not seek to retain membership of the customs union, thus allowing it to negotiate free-trade agreements with other countries.

While the UK intends to negotiate a bilateral free-trade deal to retain access to the single market, such access will not be as comprehensive as membership and it is not yet clear what financial cost or other conditions will be required to secure liberalised trade.

Managing uncertainty

There are some often quoted precedents – in particular the UK becoming a member of the European Economic Area and European Free Trade Association but given that both of these would require some degree of ongoing free movement, based on the current political narrative it would seem we can effectively rule these out.

It appears that the EU-UK Brexit settlement will be a trade-off between bilateral trade and mobility. At this time, it would also appear that the most desirable scenario is to negotiate a bespoke free-trade agreement. However, it is worth noting that trade negotiations are notoriously lengthy often taking many years to negotiate. Despite starting from a position of convergence, it is not clear whether the UK's aim to broker a trade deal quickly can be met and it looks increasingly likely there will be some kind of transitional arrangement put in place. Depending on the progress of negotiations and the nature of the deal sought, there is a small chance that if the UK does not manage to negotiate acceptable terms for a transition period, we may face a period operating under World Trade Organization (WTO) rules. Therefore, with negotiations ongoing, it is advisable for businesses to consider the scenario of maximum change, which would mean trading under WTO rules – even if only temporarily until a bespoke deal can be brokered.

Trading under any alternate arrangement will create a variety of challenges for consumer-facing businesses. Any changes to the free movement of goods, services, capital and labour have the potential to disrupt business operations. How businesses cope with these disruptions will directly impact consumer experience with the price, availability and quality of products all under pressure.

Figure 1. Potential UK-EU trade deal outcomes

			Free movement of EU nationals		UK controls on movement of EU nationals	
		EU	**EEA (Single Market)**	**EFTA**	**Free trade agreement**	**WTO MFN**
			Norway, Leichtenstein, Iceland	**Switzerland**	**Canada**	**Australia**
Controls on EU migration/ free movement		✗	✗	✗	✓	✓
Goods trade	**Tariff Free**	✓	✓	✓	✓	✗
	Rules of origin Compliance	✓	✗	✗	✓	✓
Free trade in financial services		✓	✓	✗	?	✗
Single Market access fee		✗	✗	✗	✓	✓

Key

✗ Does not meet government's aims

✓ Meets government's aims

Assumes UK seeks to maximise trade access & impose significant controls on EU migration

How much of a concern is Brexit for consumers?

Despite the fact that the economy has exhibited signs of resilience after the EU referendum, media coverage and business commentary could lead us to believe that Brexit is near to the top of the list of issues concerning consumers at this time.

The economic backdrop to Brexit

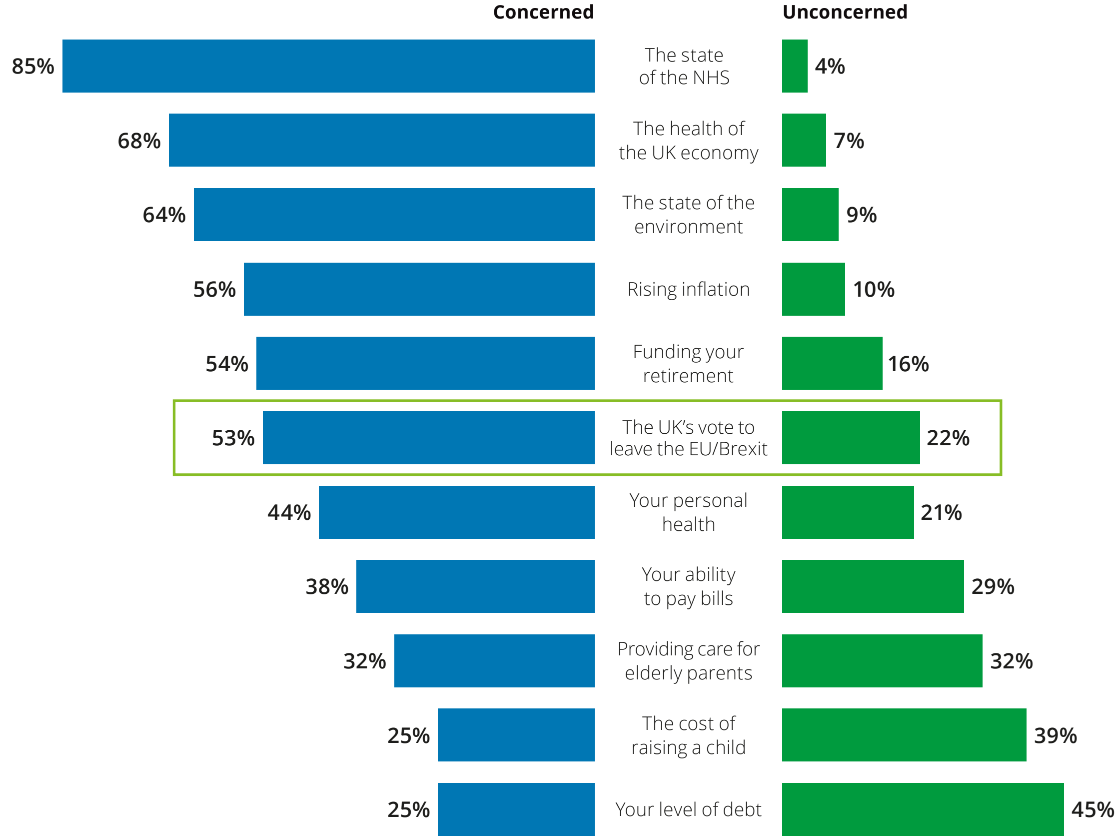
Figures from the Office for National Statistics showed that in 2016 the UK exported £241 billion of goods and services to the EU, accounting for 43.9 per cent of UK exports, while imports to the UK from the EU were worth £312 billion (53.4 per cent of total UK imports).[4] Any change to the terms of this relationship could have a severe impact on the UK economy. However, so far the results have been muted. This is because the referendum and its impacts have taken place against a relatively strong economic backdrop. The global economy is recovering and performing relatively well since the financial crisis and the UK economy has a proven track record of resilience in times of disruption. However, there are signs that the economy is suffering due to increased levels of uncertainty and that economic growth would have been higher, with GDP forecasts for the next two years now below trend and slower than both the US and the EU.

In the immediate aftermath of the referendum, the UK's economy was driven by strong consumer spending, likely to have been supported by the early decision of the Bank of England to reduce interest rates. However, in the second half of 2017, the economy has slowed as consumers feel a squeeze on spending driven by rising inflation and low wage growth. As the impact of Brexit becomes clearer, consumer attitudes and confidence need to be watched carefully as a decline in confidence and spending could have a damaging effect on the economy.

Do consumers care about Brexit?

Our research reinforces the view that consumers have shaken off any negative effect associated with the referendum result. They are far more concerned about the state of the NHS, the health of the UK economy and the state of the environment. In fact, Brexit only ranks 6th on our list of potential areas of concern for the UK consumer. However, it could also be argued that consumer worries about Brexit are expressed partly through the effects it has on the things they directly experience: the economy and inflation.

Figure 2. Factors concerning UK consumers

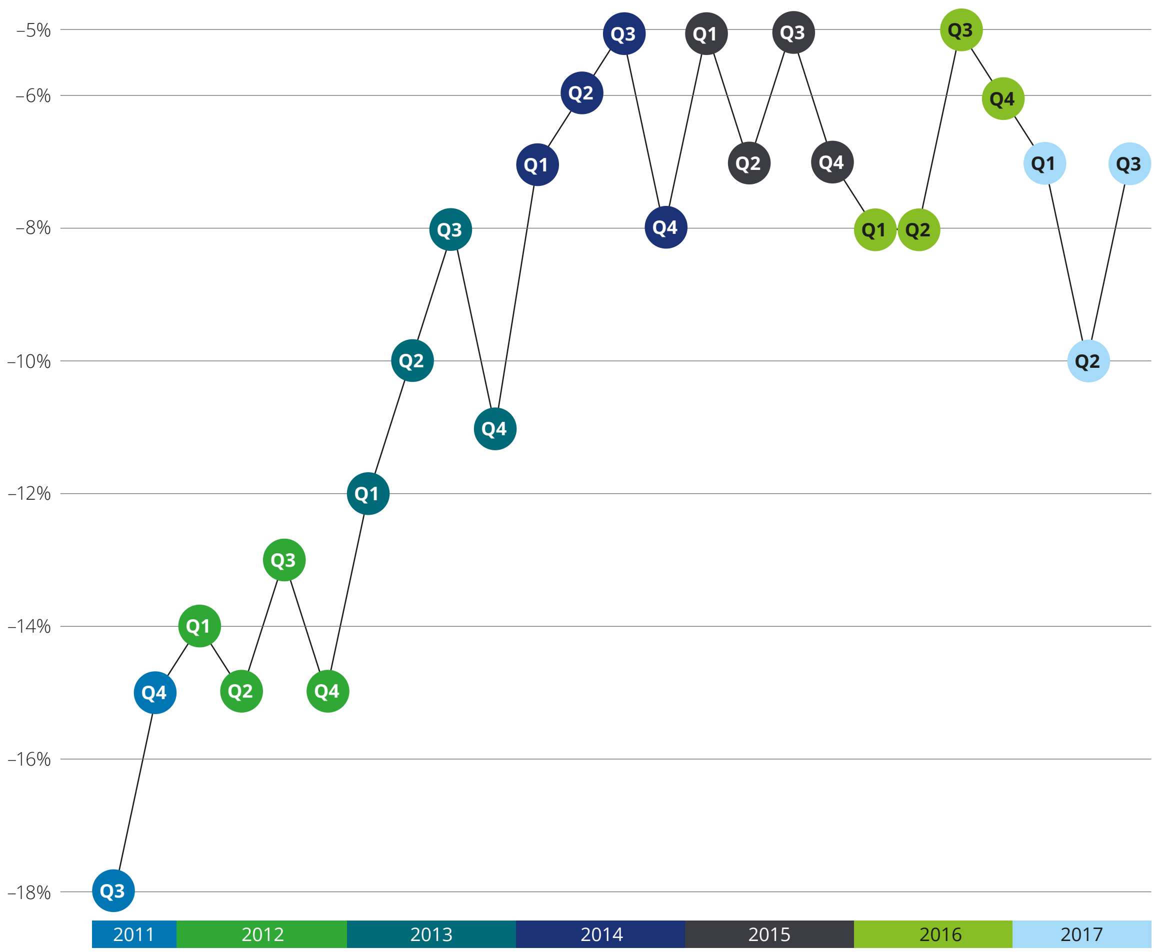


Source: Deloitte

Consumer confidence resilient in the face of uncertainty

Consumer confidence is an important economic indicator that is used to measure how consumers feel about their own personal financial situation and the general state of the economy. It is seen as a predictor of a consumer's economic decisions such as spending activity and spending intentions, and is therefore a useful indicator about the overall state of the economy. Since the EU referendum, Deloitte's own Consumer Tracker presents a mixed picture: in the build up to the referendum, consumer confidence stalled, remaining at a consistent minus eight per cent in Q2 2016. Post-referendum, confidence grew significantly in Q3, before a sharp decline in 2017. In the last quarter, confidence has seen a recovery and is now one percentage point higher than after the referendum at minus seven per cent.[5]

Figure 3. UK consumer confidence



Source: Deloitte Consumer Tracker Q3 2017

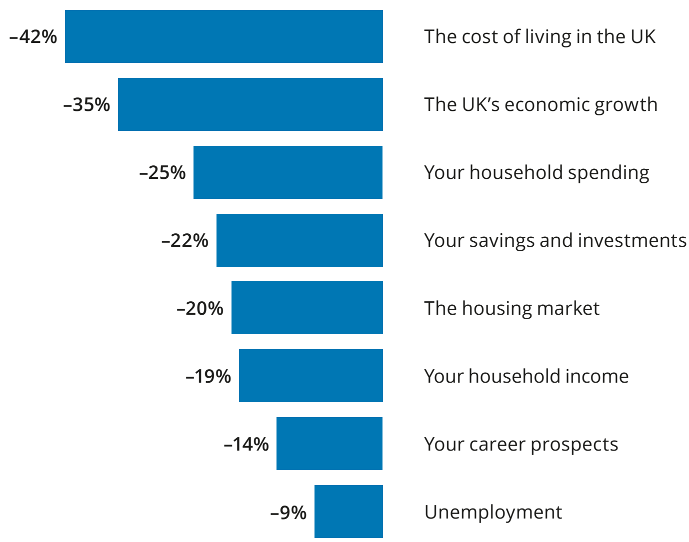
The impact of the referendum on confidence

Consumer confidence is driven by a number of factors including confidence in job security and opportunities, savings and investments, household income and the cost of living. To understand the real impact of the referendum on consumer confidence, we asked respondents whether the result of the referendum has had a positive or negative impact on these factors.

In six of the eight categories used to measure confidence, the majority of consumers believe there has been no change. But the net balance among those that have seen a change is negative across all categories, with respondents particularly pessimistic about the cost of living and UK economic growth over the last year.

Figure 4. UK consumer confidence factors post-referendum

Net % of consumers who thought that the referendum vote to leave the European Union had a positive impact on each of the following areas.



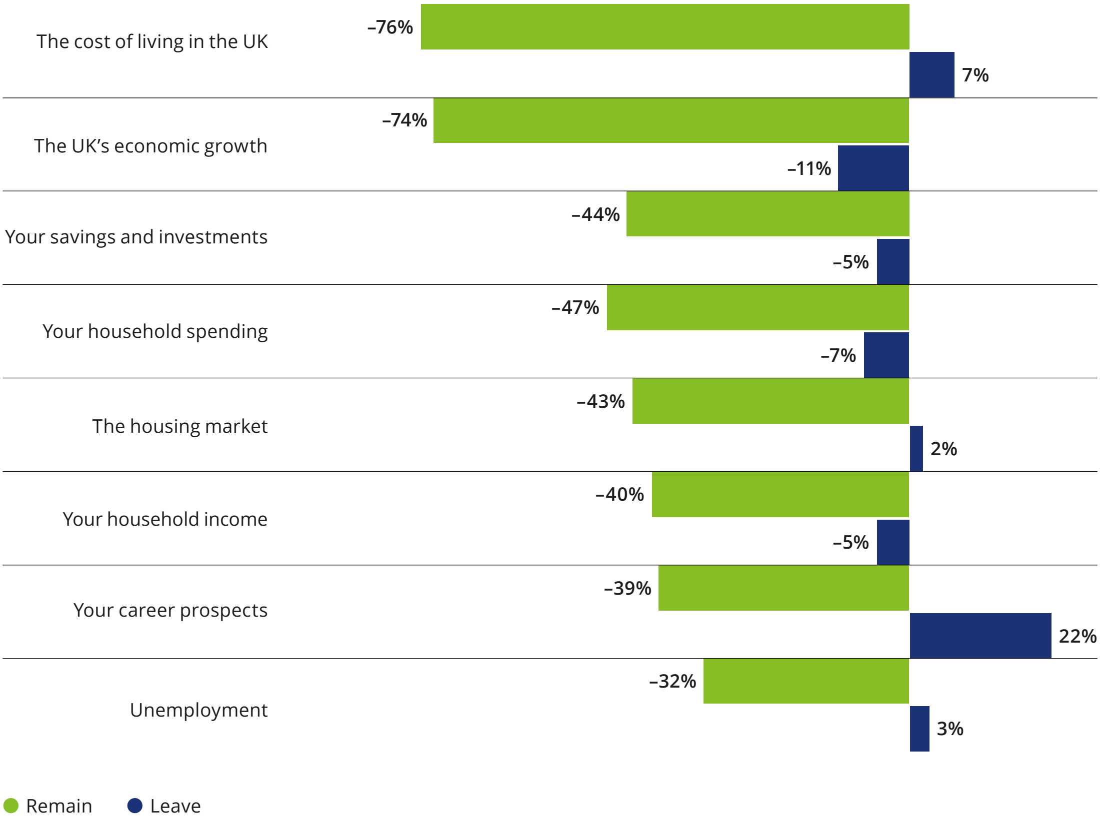
Source: Deloitte

Leave voters more positive

Segmenting the data based on the way that respondents voted in the referendum shows clear differences in opinion in how the impact of referendum is viewed across different subsects of the population.

Where Remain voters have seen change, it is predominantly perceived as being negative. In all eight of the categories, the majority of Leave voters have seen no change. In four of the eight categories, where Leave voters have seen change, the net balance has been positive. Leave voters are particularly optimistic about the impact of the referendum result on unemployment. This is significant because it suggests that any fallout (positive or negative) from the referendum has not been felt significantly enough to change the perceptions and arguments of the opposing sides.

Figure 5. UK consumer confidence factors post-referendum, split by referendum vote



Source: Deloitte

The consumer economy

Since the UK voted to leave the EU, the economy has not suffered the decline that many commentators predicted. However, there has been a tangible impact on personal finances. The National Institute of Economic and Social Research (NIESR) has conducted research showing that British households are each more than £600 a year worse off following the referendum.[6]

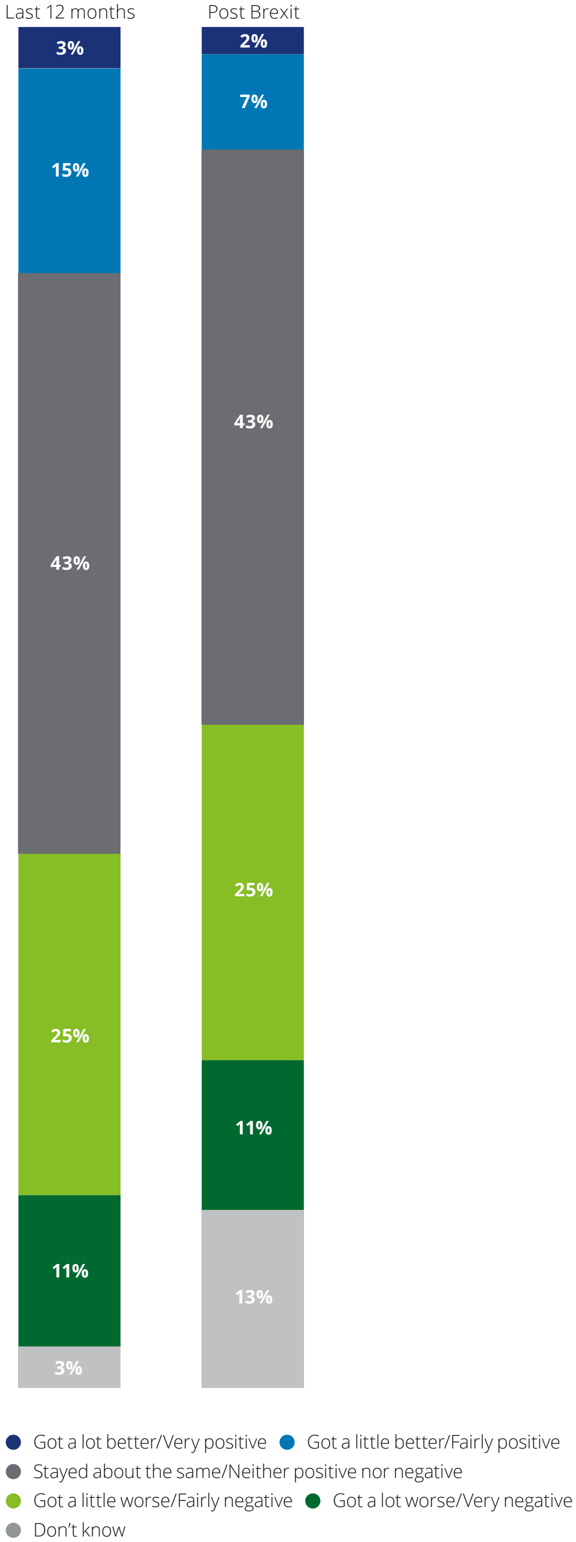
There are also a number of specific macroeconomic factors that consumers do not necessarily connect with Brexit. For example, since the beginning of 2017, inflation has grown well ahead of wages. As a result, consumers are experiencing a spending squeeze as real wage growth declines. With this in mind, we asked consumers how they thought their personal financial situation had changed over the last 12 months and how they thought it would change after the UK formally left the EU.

Overall, responses were mixed with 43 per cent of respondents claiming that their personal financial situation had "stayed about the same", 36 per cent stating that things had either "got a little worse" or "got a lot worse", and 18 per cent stating that things had either "got a little better" or "got a lot better". However, further analysis of the data reveals just how much sentiment differed based on respondents' age, location and political allegiance.

Of the respondents who voted Conservative in the 2017 General Election, only 26 per cent believed that their financial situation had declined in the past 12 months. This is ten percentage points below the overall response, and shows that Conservative voters are feeling significantly more optimistic about their finances than Labour and Liberal Democrat voters of whom over 45 per cent claimed to be worse off.

There is a significant division within the 18-24 age range, with over 60 per cent of respondents claiming some change in their circumstances, compared to only 54 per cent of total respondents. Within the 18-24 year old age range, 29 per cent reported feeling better off and 32 per cent reported feeling worse off.

Figure 6. Personal financial situation



Source: Deloitte

The region that has felt the biggest impact on their finances in the last 12 months is the South (excluding London), where less than 15 per cent of respondents reported feeling better off and 40 per cent reported feeling worse off.

In the second half of 2017, consumer spending has come under significant pressure due to a squeeze on real wages, low levels of savings and high levels of consumer debt.

When asking consumers about the potential future impact of Brexit on their personal finances, the results were remarkably consistent with their views on the last 12 months.

The difference in the outlook of people who voted Leave and those who voted Remain is also consistent with the differences highlighted when considering how the referendum had impacted their personal financial situation over the last 12 months. The results show polarised opinions with a large majority of Leave voters of the view that leaving the EU will have neither a positive nor negative effect on their personal finances (63 per cent), while 65 per cent of Remain voters believe it will have either a fairly negative or very negative impact on their finances.

Personal finances are a major issue for consumers at the moment, with the Financial Conduct Authority's October 2017 Financial Lives survey revealing that 50 per cent of UK consumers show one or more characteristics of potential vulnerability, meaning they would be disproportionately harmed by changes to their personal finances.[7]

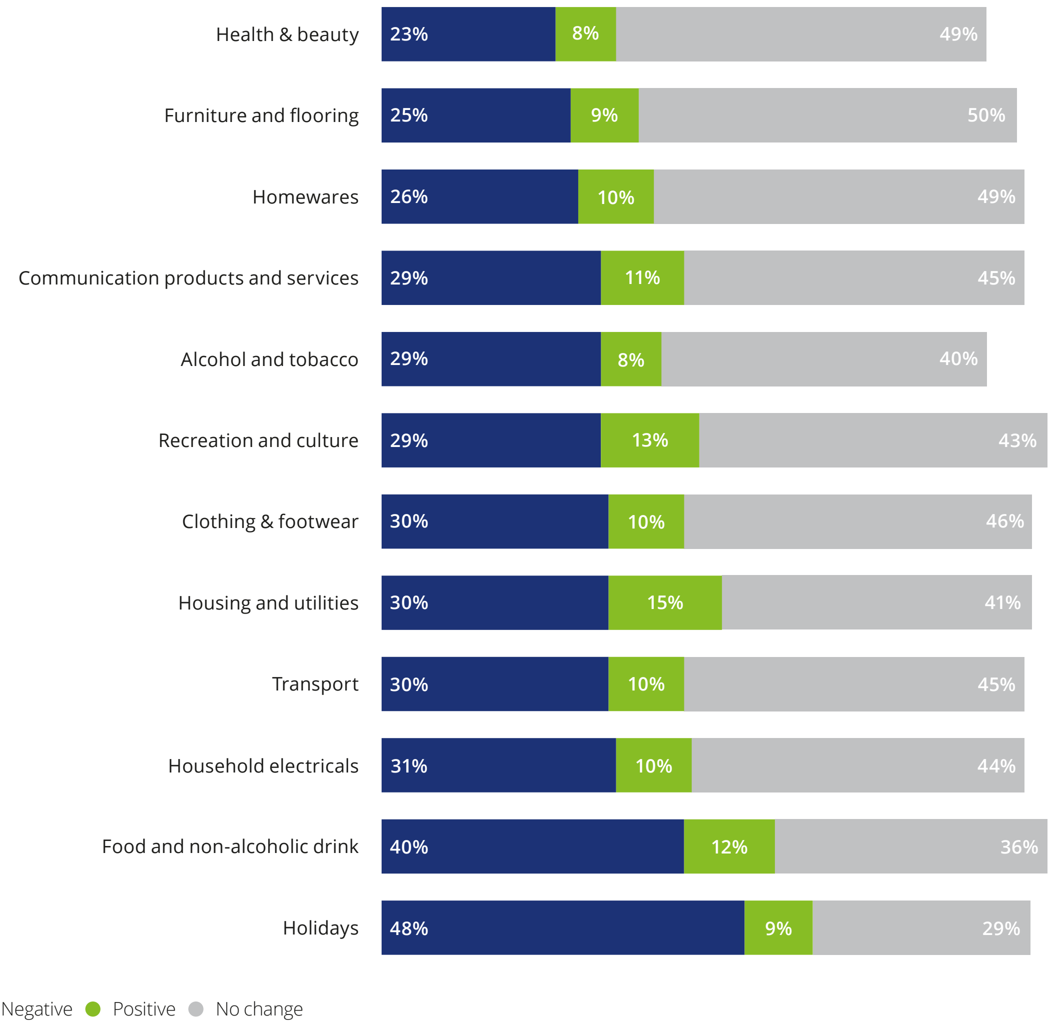
However, consumers are not linking this vulnerability to the impact of Brexit. This could partly be the result of other more visible factors affecting individuals' finances at the moment. The issues that many consumers face over unsecured-debt, low levels of savings, high inflation and low wage growth could reflect deep-seated issues in the economy more related to recent economic crises, and the resulting austerity policies imposed by the government rather than Brexit.

How is Brexit uncertainty impacting consumer spending?

The cost of material goods has increased in the last year as a result of the devaluation of sterling and that given the possible outcomes of UK/EU negotiations, there is an expectation within the business community that they will incur further incremental costs as a result of added complexities around customs duty and tariffs. With this in mind, consumer businesses will be considering the impact that passing on any Brexit related costs to their customers could have on overall consumer spending. We therefore looked at how consumers expected Brexit to impact their spending in the future.

In the second half of 2017, consumer spending has come under significant pressure due to a squeeze on real wages, low levels of savings and high levels of consumer debt. Deloitte research has shown that consumers expect to spend more on essentials and less on discretionary goods in the next three months. We are also seeing the gap between expansionary and defensive shopping behaviours narrow as people buy fewer items and spend more time planning their purchases. Our data provides an insight into whether consumers believe that these visible pressures on spending are driven by issues related to Brexit.[8]

Figure 7. Expected impact on future spending



Source: Deloitte

If businesses expect to pass on increased costs to their customers, they cannot predict how consumers will respond.

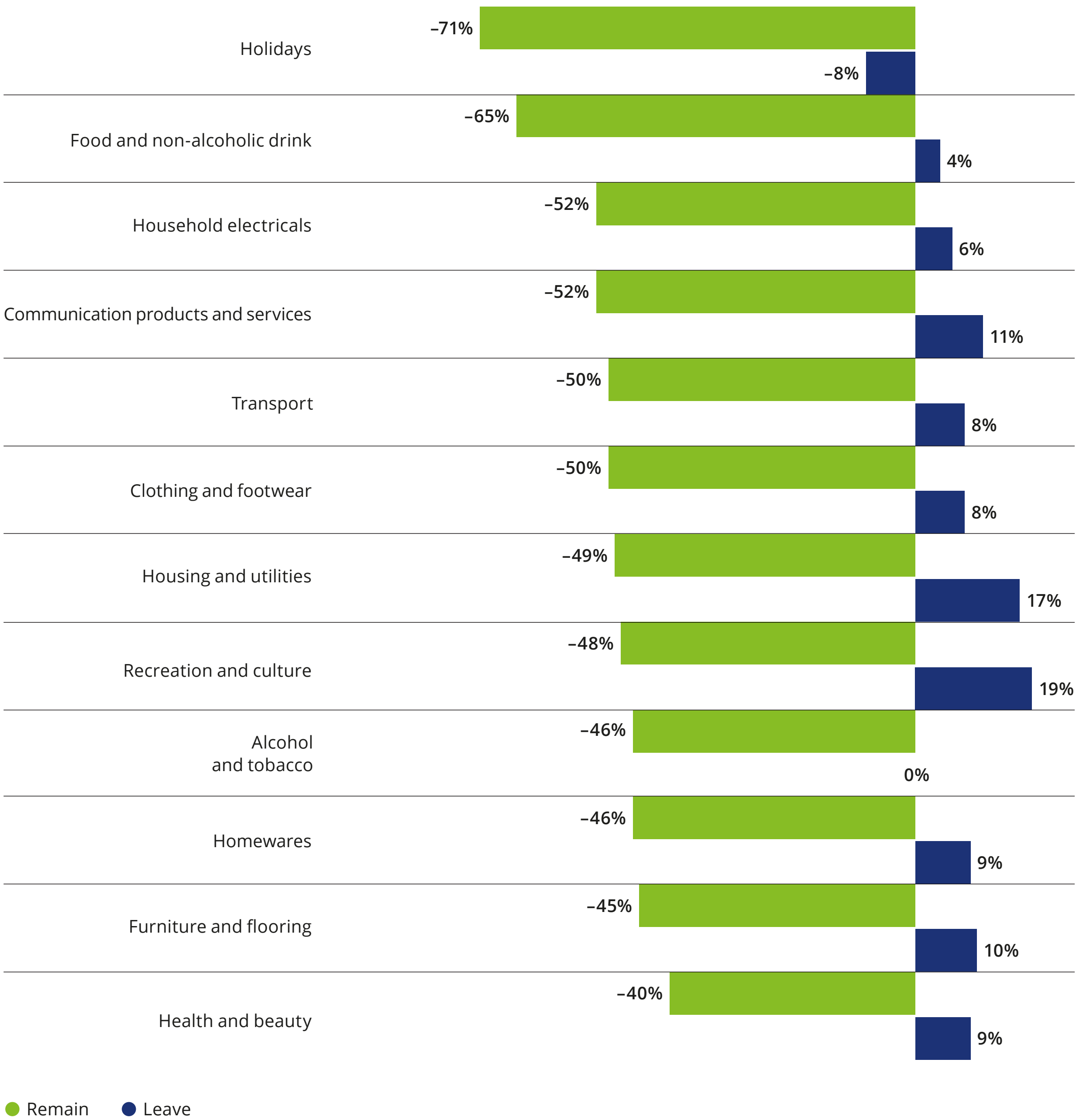
Consumers do not generally expect Brexit to have a positive impact on their spending, while a significant minority expect it to have a negative impact on their spending, with holidays particularly at risk.

The positive or unmoved sentiment is driven by Leave voters and the negative sentiment is driven by Remain voters. Leave voters generally think that Brexit will have no impact on their spending, but those Leave voters who have seen change view it as positive.

These polarising views highlight just one of the challenges that businesses face as they attempt to navigate a landscape in which half the country expect to see a different material outcome to the other half. If businesses expect to pass on increased costs to their customers, they cannot predict how consumers will respond.

Figure 8. UK consumer spending expectations by category post-referendum, split by referendum vote

Net % of consumers who believe it will have a positive impact



Source: Deloitte

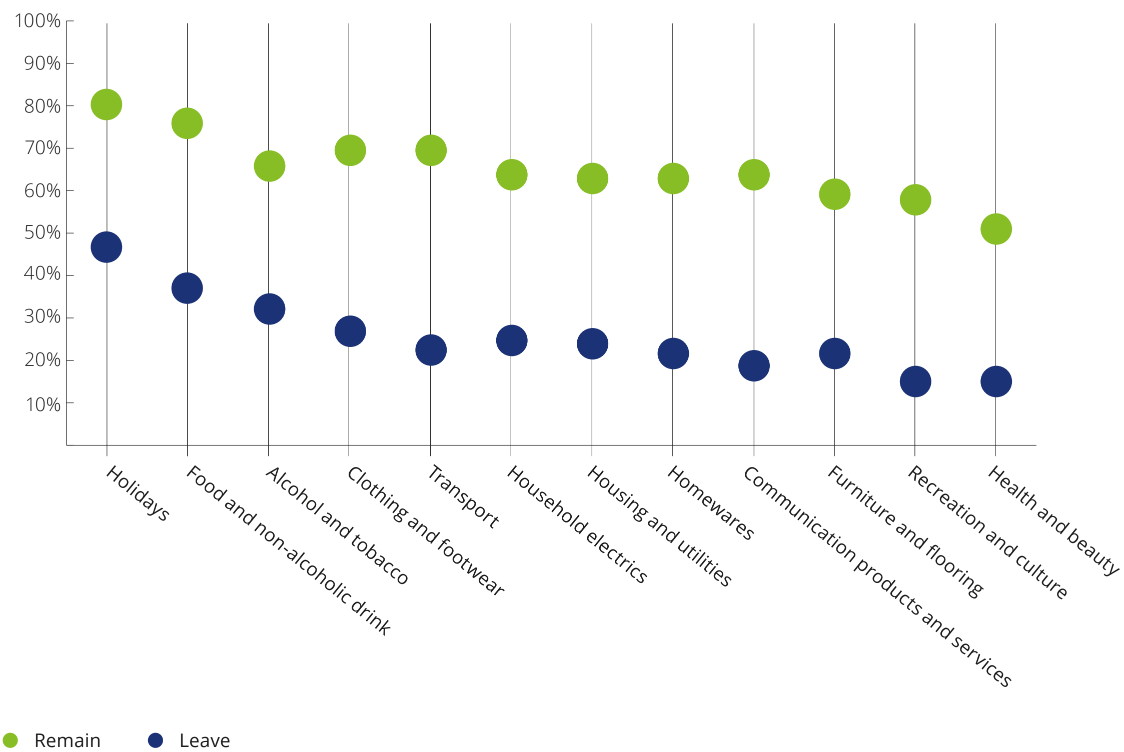
Brexit to add to cost pressures?

Although consumer expectations around the impact of Brexit on spending are mixed, there is greater consensus over the impact of Brexit on the price of goods and services, with over a third of respondents expecting price rises across all categories.

Higher prices for holidays are of particular concern for consumers, with over 60 per cent of respondents expecting an increase. The expected rise in the cost of holidays is no doubt driving consumer expectations that they will spend less on holidays after Brexit. However, outside of holidays there is a noticeable disconnect between consumer views on spending and consumer expectations around price rises. Given the resilience we have seen among consumers over the last year, there may be some expectation amongst consumers that they are able to absorb anticipated price rises. Alternatively, there may be an acceptance that they will have to buy less and trade down to cheaper alternatives in order to spend within their budgets.

The expectations over potential price increases go some way to explaining the polarised views on consumer sentiment and expectations around consumer spending (see figure 9). It is fair to hypothesise that Remain voters expect Brexit to have a negative impact on their spending because they expect goods and services to be more expensive after the UK leaves the EU. In contrast, Leave voters do not appear concerned about the impact of Brexit on their spending because they do not expect to see a material increase in prices.

Figure 9. Expected price rises – referendum vote



Source: Deloitte

What Brexit could mean for consumer-facing industries

An assessment of the post-referendum landscape suggests that both consumers and businesses are yet to feel material impacts. However, with overall consumer confidence weakening and demand starting to contract, the benign economic environment which has so far enabled UK consumers and businesses to shrug off Brexit woes is about to change.

Businesses are feeling less confident than consumers

Our research into consumer sentiment around Brexit has shown that while it is a concern for many, it is not the major concern for the majority of the population. Although there is some degree of uncertainty about how Brexit will impact the consumer, the majority are not feeling a significant change in their circumstances and do not expect this to change after the UK leaves the EU. That being said, the divisions within the population are clear and there is a significant minority that have concerns over the potential negative outcomes associated with Brexit. Our research also highlights that consumers' concerns on Brexit are expressed partly through the effects on things they experience.

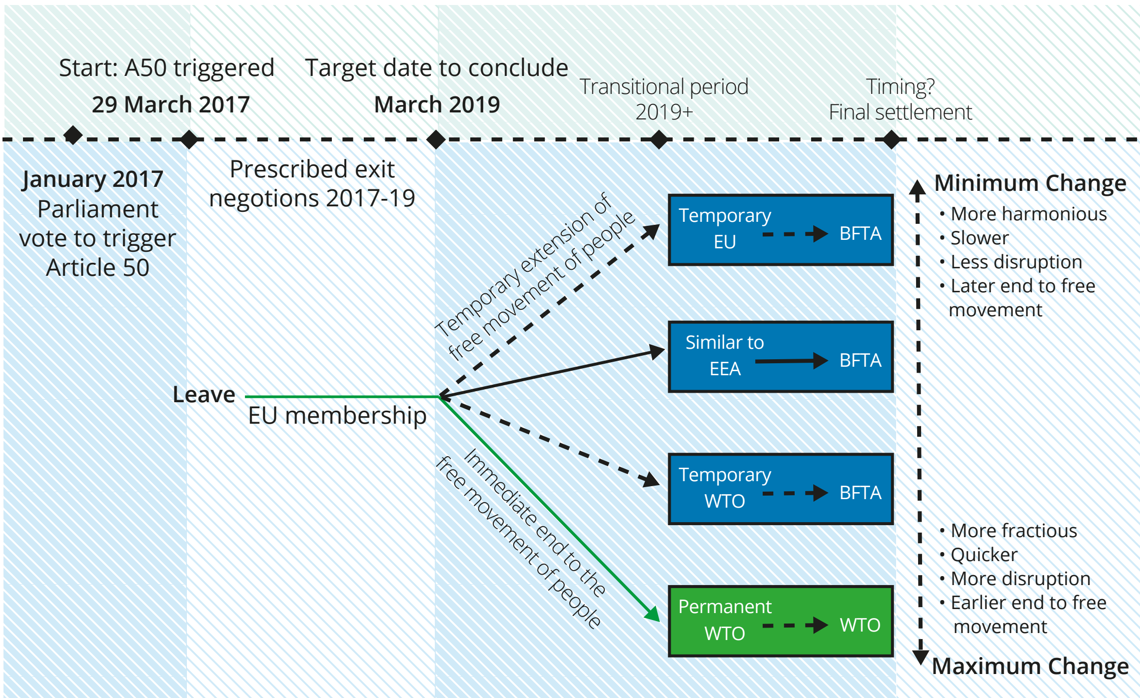
In the immediate aftermath of the referendum Deloitte's CFO Survey indicated a significant drop in risk appetite and a slowdown in capital expenditure. However, the adverse reaction by businesses to the referendum result appears to be mellowing. The government has suggested that it intends to adopt a pro-business stance to counter any negative impact of Brexit and Deloitte's quarterly CFO Survey has seen businesses adjust their view on risk and uncertainty accordingly. However, Brexit is still seen as the number one risk and businesses continue to be cautious over Brexit as they assess the potential outcomes.[9]

Planning for Brexit

Supported by a benign macroeconomic environment the impact of the referendum result on the UK consumer has been fairly muted. Strong levels of consumer confidence and spending have supported economic growth and insulated consumer facing businesses from any major negative impacts at least in the short term. However, with economic conditions changing and operational factors likely to come under increasing pressure, the time for short-termism is over.

As long as the final outcome remains uncertain, many businesses may be reticent to invest significant time and resources in preparing for the fallout. However, given the timescale for the negotiations, and the potential impacts on consumers and business operations, 'wait and see' is no longer a viable strategy, not least because some actions business would need to take to mitigate against certain Brexit impacts could take 12 months or more to implement. While nobody can predict the negotiating outcome, Brexit will require all organisations to consider what impact it might have and in some cases make some big decisions. Some will require lengthy and complicated preparations, and there will be advantages in thinking about this sooner rather than later.

Figure 10. Illustrative scenarios of potential trade agreements



BFTA: Bespoke Free Trade Agreement
WTO: World Trade Organisation
Source: Deloitte

Sector specific challenges and opportunities

Brexit was presented as an opportunity to reduce EU legislation while rethinking our economic model. In the long term, there do appear to be significant opportunities for growth if new trading relationships are opened up. If mutually beneficial trade deals are negotiated with the likes of the US, China, India and Brazil, the consumer could benefit from access to new, potentially cheaper goods. At the same time businesses will be encouraged by new export opportunities and will be able to retool their supply chains, making use of materials, labour and infrastructure in these countries. However, it is likely that any new trade deal will take time to agree and in that time consumer businesses will face unprecedented challenges. Our consumer research suggests that while the majority of consumers do not expect Brexit to impact them negatively, these disruptive challenges have the potential to affect the consumer directly in the form of price increases, decreased availability, and lower levels of quality and customer experience if not managed correctly. On the following pages we examine the key challenges being faced at a sector specific level, as well as opportunities.

If mutually beneficial trade deals are negotiated with the likes of the US, China, India and Brazil, the consumer could benefit from access to new, potentially cheaper goods.

Consumer Packaged Goods

Our research highlights that consumers have yet to change their buying behaviour as a result of the EU referendum vote, but that they are concerned about future price rises and a significant minority expect this to impact their spending. So how will this impact the consumer product sector?

Many of the large CPG businesses servicing the UK are UK-based, often using locally sourced materials and with a focus on domestic production. Changes to legislation as a result of Brexit will have little negative impact on these organisations. In fact, there is an opportunity for UK manufacturers and brands to increase market share relative to imported goods, if the price of the latter rise.

For those CPG business that have more complex supply chains then the situation is different. Following Brexit it is likely that it will be more difficult to move goods between markets. Potential trade barriers and increased bureaucracy could lead to supply chains becoming more inefficient and the timeframe for getting goods from country of origin to destination possibly increasing. This will likely lead to higher prices and potentially impact the availability of goods imported from the EU. Organisations that operate a just-in-time supply chain or trade in perishable goods are at particular risk as delays to delivery of goods become more likely. However, there are steps that consumer product businesses can take to mitigate this, for example, businesses will need to manage supply chains proactively (possibly through enhanced forecasting or smarter systems) and introduce processes to ensure that supply chain disruption is managed effectively.

The cost of moving goods to the UK for manufacture or distribution, or from the UK, will also almost certainly increase, either as a result of tariffs, operational requirements (such as the need to declare goods from the EU as imports), increased labour costs or currency fluctuations. Businesses should be assessing the potential supply chain cost impact and judging whether to pass these costs on to the customer, or absorb the costs themselves. The potential increase in costs of material goods could lead to businesses looking at alternative sourcing options or considering product configuration changes. These changes may lead to a decline in quality of the products that come to market but may also have a positive effect for the consumer by creating more options or better value.

Businesses also face a challenge to their physical network configuration. A change in labour costs, material costs and/or fuel costs will shift the production/distribution cost ratio used to determine factory locations and outputs. As a result for some international companies the role of UK factories in a wider existing network may come under threat but for others it could lead to a greater investment in UK based manufacturing capability to serve the domestic market.

In the scenario of most change, UK exports to the EU could become significantly more expensive due to tariffs, although this would vary by category. However, this could be partly offset by the depreciation of sterling and this scenario would also open up the opportunity for the UK to negotiate its own trade terms with markets outside of the UK opening up new export opportunities.

Retail

Many of the UK's largest retail companies are inextricably linked to their CPG suppliers. This means that they suffer from many of the same challenges to their supply chain operations and costs. Should their suppliers raise prices then retailers will be faced with a dilemma of whether to pass these increases on to consumers, try and absorb them, or look at alternative sources to help them keep prices low for price-conscious consumers.

However, it is clear that retail businesses will also suffer from additional disruption that they need to manage themselves. One area of concern for retailers is the likely changes to existing customs duties and procedures. Retailers are exploring ways of reducing the impact of this disruption by creating customs warehouses, implementing special regimes and working with third party fulfilment companies to reduce costs and lessen the administrative burden. However, in this sense Brexit is also having a positive impact on the sector by prompting retailers to review existing arrangements, eliminate inefficiencies and create supply chains that are more agile.

As a sector, the retail industry is also at the 'coal face' in terms of how post-Brexit consumer spending will impact businesses. Any fall in consumer confidence could have an adverse impact on consumer spending, particularly on discretionary goods, meaning that retailers focused on selling big-ticket items like consumer electronics would be under the greatest pressure.

However, there are opportunities for sub-sectors at both ends of the retail industry to prosper if consumer spending patterns change. For example, discount and value retailers may see their demand offset and import-cost inflation, while luxury retailers may benefit from tourism 'dollars' due to the devaluation of sterling.

Brexit could also prompt more UK retailers to look to international markets and consumers for growth. UK retailers have already seen an increase in orders from overseas consumers following the depreciation of sterling according to research from Global-e, as UK retailers now represent greater value.[10] An increased focus on International expansion may well follow as UK retailers look to leverage the strength of their brands and tap into fast growing retail markets such as Asia and Africa.

Retailers are exploring ways of reducing the impact of this disruption by creating customs warehouses, implementing special regimes and working with third party fulfilment companies to reduce costs and lessen the administrative burden.

Travel and Aviation

Our consumer research shows that spending on holidays is the area where consumers are most likely to have cut back since the referendum vote and also an area where they expect to spend less post-Brexit. UK inbound tourism has benefited from the depreciation of sterling making the UK more attractive to overseas visitors, while the outbound market might suffer as holidays within the EU now appear more expensive.

However, the impact of Brexit on consumer demand is hard to predict. If UK consumers spend less on overseas holidays their spending in the domestic market could go up, and if currency fluctuations continue to favour overseas visitors, then the UK could become an increasingly attractive destination for both EU and non-EU holidaymakers looking to take advantage of the exchange rate.

Post-Brexit, the majority of businesses in the travel industry will be exposed to the same risks as other industries. Potential changes to customs duties and processes as well as restrictions on the movement of labour could impact material costs across their supply chains, while any change in consumer confidence and spending patterns could hit their bottom line.

Travel and aviation also suffers from a set of unique risks and pressures due to the high levels of regulation within the travel sector. For example, the UK aviation industry operates under a number of direct EU regulations controlling how airlines are owned and operated. In leaving the EU, UK airlines will no longer enjoy automatic access to the single EU aviation market meaning that their right to operate to, from and within the EU would necessitate new agreements. UK airlines will also be exposed to the potential risk of no longer being part of existing agreements between the EU and other nations. Renegotiation of these agreements could lead to increased complexity and costs that may ultimately have to be passed on to the consumer.

In addition to exposure to regulatory risks, airlines are also highly exposed to currency fluctuations and changes to customs duties and taxation. For example, airlines wishing to purchase planes from an EU based manufacturer could have to pay increased customs duty, while refueling in EU countries will also become more expensive.

Brexit also exposes consumers to risk as it pertains to consumer protection laws. The UK's involvement and adherence to The Package Travel Directive (which provides financial protection and a guarantee of repatriation in the event of company failure) and EU261 (which has established common rules on compensation and assistance available to passengers in the event of delays and denial of boarding) is unclear and any changes to how UK operated airlines handle consumer protection could have an impact on consumers.

In addition to an increase in costs, the combination of risks that airlines are exposed to mean that consumers options are as fewer routes are available. UK consumers might also lose the medical insurance cover they currently enjoy through the European Health Insurance card.

The fallout from Brexit on aviation also needs to be viewed in the context of how it impacts other industries that are reliant on the airline industry. An increase in price and fewer available routes could have a knock on effect on business travellers and their movement across the EU, while both importers and exporters that use airlines could be exposed to higher costs.

Automotive

Loss of access to the single market would expose the UK automotive industry to high levels of risk. The single market has been critical to the competitiveness and success of the UK automotive sector by providing access to skilled labour, fostering innovation and R&D, and encouraging trade across the EU.

Trade is a major concern for the automotive industry with over a half of all cars exported from the UK going to the EU market and over 80 per cent of imports coming from the EU. Any barriers to doing business with the EU could cause a significant slowdown in sales.

The automotive industry operates complex supply chains that make use of the tariff-free movement of goods across EU borders. The industry is therefore under real threat of increased costs and disruption to their manufacturing process as delivery times across the supply chain are delayed due to the increased complexity of cross-border trade.

In addition to the movement of goods, potential restrictions to the free movement of people in the EU is also likely to have a negative impact on the automotive industry. This is because restrictions over the movement of people make it more challenging for UK car manufacturers to attract and retain the best talent.

Innovation and R&D is under threat from a variety of factors. Labour continues to be an issue as the placement of R&D programmes are frequently influenced by the talent pool of skilled workers. Existing research programmes will come under threat as R&D funding from European sources is likely to be cut or disrupted, while leaving the single market will mean future UK participation in EU research programmes is less likely. At a time when the industry is making strides in electric cars and driverless technology, it is unclear if or how the UK will respond to this threat to R&D programmes.

As well as impacting businesses, the UK consumer will also be directly affected. For example, one in three newly registered vehicles in the UK is a German export. Cost increases associated with changes to customs duties could see prices increase by thousands of pounds hitting the UK consumer in the pocket. However, this may well create an opportunity for brands that manufacture cars in the UK to increase market share as imported cars become more expensive. Just as with UK brands in other sectors, the opportunity to negotiate bilateral agreements with other markets outside of the EU, could open up new export opportunities particularly for luxury or premium brands.

In addition to the movement of goods, potential restrictions to the free movement of people in the EU is also likely to have a negative impact on the automotive industry.

The Brexit workers

For many business leaders across the consumer facing industries workforce mobility is a key priority as they prepare for the UK's departure from the EU. For the many UK businesses that rely on overseas workers, a future system that still enables access to both skilled and unskilled labour would be optimal.

The retail, leisure and agricultural sectors are all heavily reliant on workers from the EU, for example it is estimated that 98% of seasonal agricultural workers in the UK are recruited from elsewhere in the EU.[11] Due to the seasonal nature of demand and low levels of unemployment in the UK, the agricultural and horticultural sectors would likely be subject to an acute labour shortage if no longer able to access these workers. This could also have implications across the supply chain as the cost of goods and ingredients would increase on the back of higher labour costs.

The leisure industry is also facing challenges over a potential labour shortage post Brexit. According to the Caterer, the average salaries for waiting staff are raising at almost twice the rate of average earnings as many businesses struggle to fill vacancies.[12] Tighter controls on workforce mobility could potentially exacerbate this situation.

Retail trade body the British Retail Consortium has argued that UK retailers would also stand to lose out from greater restrictions on workforce mobility.[13] Although EU workers account for just 6% of the retail workforce they are concentrated in the warehouse and logistics functions, which is becoming an increasingly competitive area given the growth of online. In fact their data suggests that over a fifth of their members have already seen staff from the EU leave.

For the many UK businesses that rely on overseas workers, a future system that still enables access to both skilled and unskilled labour would be optimal.

Endnotes

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