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5 years after the Brexit referendum: UK on the path to recovery in turbulent times

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On 23 June 2016, the British voted to leave the European Union by a narrow majority of 52 per cent, triggering political upheaval. Five years of tough negotiations later, the exit is a reality. After the UK left the Union at the end of 2020, the country is no longer a member of the EU Customs Union and the Single Market since 1 January 2021.

The initial assessment is mixed. The hopes of Brexit supporters for rapid economic growth thanks to the country's separation from the EU have not been fulfilled so far, partly due to Corona. However, the catastrophe feared by Brexit opponents has also failed to materialise. Politically, Brexit is likely to continue to cause unrest for some time, but economically, the UK is on a good path.

The economy is picking up after Corona and lockdowns – but so is inflation

After a pandemic-related decline in Q1, the UK's economy is expected to recover significantly in the second quarter. According to current forecasts by the Confederation of British Industries (CBI), the UK's gross domestic product (GDP) could return to pre-pandemic levels by the end of this year. The CBI experts forecast GDP growth of 8.2 per cent this year, followed by 6.1 per cent next year. Above all, domestic demand, which has increased with the reopening of shops and restaurants, could boost the economy, experts expect.

Business sentiment also remains good. The German Purchasing Manager's Index compiled by the IHS Markit Institute recently fell in June, but from a high level. The index fell by 1.2 points to 61.7, however, it is the highest it has been since the survey began in 1998 according to Markit.

The British labour market has also shown signs of recovery recently. Employment rose for the sixth consecutive month in May, with the employment rate now at 75.2 per cent, according to the Office for National Statistics (ONS). At 28.5 million, however, employment was still a good half million below the level before the Corona pandemic. At the same time, the unemployment rate fell to 4.7 per cent. IHS Markit surveys point to a continuation of the labour market recovery. In the surveys, many companies reported a high willingness to hire new staff.

However, this is also contrasted by inflation fears that are growing with the recovery. In May, consumer prices were 2.1 per cent higher than in the previous year. This is the strongest inflation since July 2019, according to the ONS. Other developed nations are also currently seeing rising inflation rates amid increasing energy prices and the recovery thanks to steadily progressing Corona vaccination programmes. Markit economists also blame rising prices of intermediate goods and commodities on supply chain issues.

Export industry, agriculture and many employers suffering from the exit

On the industry side, the assessment is also mixed. While domestic demand is booming, the export industry is naturally feeling the impact of the exit from the EU single market and the associated trade difficulties. For the first time since records began in 1997, Britain traded more with non-EU countries than with the Community in Q1.

The automotive industry, for example, which depends on seamless supply chains, is suffering from a flood of new regulations for the exchange of goods. The food industry has also recently suffered heavy losses. In the first quarter of this year alone, British food exports to the EU fell by 47 per cent compared to the previous year.

In addition, some sectors have also lost important workers from the EU area with the EU exit and the associated difficulties regarding labour and residence permits. Since the reopening of pubs and restaurants after the lockdown, restaurateurs have had increasing problems finding suitable staff. July also marks the end of a transitional period that had until now guaranteed EU citizens the right to live and work in Britain as well as access to the health system. Many businesspeople are now calling for more liberal regulations in order to be able to continue employing EU citizens.

Finally, Brexit opponents also fear an exodus of companies from the financial metropolis of London. The City is still the undisputed number one among Europe's financial centres. But studies are already pointing towards migration movements from which Frankfurt could benefit.

At any rate, the general economic recovery was noticeable on the London stock exchange itself this year. By the end of June, the British share index FTSE had risen more than 8 per cent. On other markets, however, it went up even more strongly: the Euro-Stoxx-50 of the eurozone's most important companies showed a plus of more than 15 per cent and the German DAX of more than 13 per cent in the same period. The British pound, on the other hand, was able to widen the gap against the euro considerably over the course of the year.

Brexit divides population, politicians, Northern Ireland and perhaps also Scotland

Politically, however, Brexit continues to be hotly disputed and to divide the country. According to the latest polls, Brexit opponents and supporters are currently more or less evenly balanced among the population, with the fissures also running within the Conservative Party. Prime Minister Boris Johnson, for example, on the occasion of the anniversary of the Brexit referendum, remained confident of the present course: "If we now recover from this pandemic, we will use the true potential of our regained sovereignty to unite and raise our entire United Kingdom to a higher level". Johnson's party colleague and ex-vice-governor Michael Heseltine, on the other hand, spoke of "ominous prospects" – for the fishing industry, agriculture, London's financial centre, for example, but also for peace in Northern Ireland.

Due to the Brexit agreement, Northern Ireland is de facto still part of the EU single market and the customs union, but this has created a goods border with the rest of the kingdom. Some observers therefore see the peace process in Northern Ireland at risk, for others this has made a referendum for reunification with the Republic of Ireland more likely. In Scotland, too, a referendum on secession from the United Kingdom and a return to the EU could come in a few years. The Scottish head of government, Nicola Sturgeon, is generally aiming for such a referendum, but is likely to wait a little longer.

How to invest in UK stocks?

Those who are betting on a resurgence of the European economy, including Great Britain, can use ERSTE RESPONSIBLE STOCK EUROPE in their investment. This fund focuses on high-quality, high-growth shares of companies that are pioneers in terms of environmental, social and corporate governance aspects. British equities currently account for around 20 percent of the portfolio. The higher fluctuation intensity for equity funds must be taken into account.

Source: Refinitiv Datastream, Note: Past performance is no reliable indicator for future performance.

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A blog post by APA Finance together with Erste AM Communications.