Brexit and Trump: should I stay or should I go?

Speech at the Mingle Minded Network Event 28 March 2017

Chief Project Manager, Theresa May, is on time with invoking Article 50 but there is no guaranteed maximum price - either direct or opportunity (and is a two year contract long enough?)

On the former, the Mingle-Minded team was clearly prescient in picking today to meet - because tomorrow - 28 March with two days spare - the Prime Minister will invoke Article 50 which begins the formal process of the UK leaving the EU. Later today, too, the Scottish Parliament is also expected to vote in favour of a second independence referendum.

The potential cost, however, is open ended - either directly in terms of filling the pockets of the EU Exchequer with perhaps up to £50 or 60 billion; or, indeed, the opportunity costs of higher inflation, rising Government borrowing costs and a potentially lower level of economic activity in the near term. There is also the narrowness of the Brexit vote to consider.

Democracies - like takeover bids - need only one vote over 50% either in favour of or against an edict for it to become law - or for a company to be acquired. In the case of Brexit, 53% of voters voted 'leave' against 48% 'remain'; and 13 million people, or 28% of those who could vote, sat on their hands.

By region, it is similarly divisive with 60% of Londoners voting 'remain' and 60% of West Midlanders voting 'leave'. At the same time, Scotland, Northern Ireland - and Gibraltar - very significantly voted 'remain', whilst Wales very narrowly voted 'leave'.

It is the same by age with a clear majority of those aged under 35 voting 'remain' and an equally clear majority of those aged over 45 voting 'leave'.

There is a similar split on pay where the poorest households on incomes of less than £20,000 per year supported leaving the EU. The same is true of unemployed people, the low-skilled and those with no qualifications. For example, support for 'leave' was 30 percentage points higher among those with GCSE qualifications or below than it was for people with a degree.

The UK is a deeply divided nation - and deeply inequitable. This is a long term, self-perpetuating socio-economic issue which requires a long term, self-perpetuating socio-economic solution.

More immediately and more secularly, what is going to happen in the short term to the economy and our great construction industry, which is larger than auto making and aero-space?

Since 23 June, nothing has really changed other than the fall in the value of the British Pound (i.e. circa 12% against the Euro since 23 June; and minus 20% from it 2015 peak) i.e. we are still a member of the EU; and the Pound is a leading indicator not a lagging one.

As Ben Broadbent, Deputy Governor of the Bank of England said: “either the currency market is right about the consequences of Brexit, in which case the UK’s trading relationships will become less favourable; or it’s wrong, in which case Sterling is likely to recover”.

The question now is the one you might be asked when you order breakfast in a hotel: “hard”; “soft”; or “scrambled”.

A ‘hard Brexit’ - where the UK gives up access to the single market, the full customs union and freedom of movement - is probably the front runner, while soft is a comprise on all of the above. Switzerland and Norway are often mentioned as blue prints as is “Canada +”. This refers to the Comprehensive Economic and Trade Agreement or CETA, which will eliminate nearly all tariffs between Canada and the EU.

Although Canada+ is the model, the UK would need some significant variations. Financial Services, for example, would need to play a much larger role in any Anglo-EU deal, given the size and importance of the London market to both sides. But CETA is over 1,600 pages long and has taken eight years to negotiate; and while the European Parliament voted in favour of it on 15 February 2017, it now reverts to the EU national parliaments - which must approve CETA before it can take full effect.

Article 50 allows two years for the leaving country to negotiate an exit deal, but any deal must be approved by a “qualified majority” of EU members and can be vetoed by the European Parliament. May commentators believe, too, that it can’t be done in two years

Assuming a hard Brexit, there will be an inevitable period of uncertainty and negative implications for the likes of exports, financial services and inward investment. And it remains unclear whether the extent and speed of new trade deals being agreed could offset any losses from leaving the single market. This challenge also comes when the UK has it lowest number of civil servants (400,000) since the 1940s.

Similarly, inflation is already rising and there is expected to be no real average earnings growth for perhaps a decade or two (how do people know this?). It is highly tenable, too, that UK consumers will finally stop spending. Last year, they accounted for 90% of the growth in GDP while the Government chipped in the rest and business investment actually fell for the first time since 2009. Domestic interest rates could also rise which would add further pressure on disposable incomes and raise the cost of Government borrowing.

Thus, it is best to beware of benign GDP forecasts of between 1.5 and 2.0% per annum for the next three years i.e. the BoE and OBR. Neither has a good track record, as we know; and growth may not even achieve this level.

Nor does this bode well for construction activity and Lord Stunnell, the Liberal Peer leading the review into the impact of Brexit on the UK construction industry, has said output could fall 9% on a hard Brexit.

But this is an extreme view. Experian has a more balanced take with expected annual growth in UK construction output of circa 1 or 2% this year, next year and in 2019 in real terms (and, yes, this compares with average per annum output growth of 5.1% in the three years 2014, 15 and 16).

Work mix will also be important with Infrastructure being the life and soul of the party including guests Water (Thames Tideway), Electricity (Wylfa and Hinckley) Rail (HS2) and Roads the most voluble.

Similarly, Sir John Armitt, who heads the Brexit Leadership Group, claims that there is a potential £500 billion of private investment waiting to be invested in UK infrastructure over the next 10 years. However, he has also said that the Government should establish an Infrastructure Investment Bank to replace the European Investment Bank which has been a critical anchor for investors.

In other areas, the Public Sector construction output will be constrained on all fronts, while the Industrial and Commercial building cycles have already peaked, in any event. This leaves private housebuilding output which, after a purple patch over the past four years (real growth of 14% per annum 2013 through 2016), will continue to rise but at a slower rate this year, next year and in 2019. Such a lull, though, will be temporary and by way of a case study, too, check out what has happened to UK Housebuilders share prices: they fell 40% in the two days after Brexit and, by last Thursday, they had recovered all of that. They are my buff pin-up boys.

On a similarly bright note, Richard Jeffrey, an esteemed UK economist, said recently that as far as he knew, the UK had not been towed out in to the middle of the Atlantic and left.

The EU is a very important market for the UK, but so too is the UK for the EU. For example, BMW accounts for 10% of the cars built in the UK - plus imports - and the UK is reputedly the Group’s most profitable international market. Is it going to walk away from that? On a broader plane, Apple, Deutsche Bank, Toyota, Nissan, Siemens and Saatchi are all very, very recent investors in the UK. At the same time, the sovereign state of Qatar (which already has £40 billion invested here) is back in town this week and has agreed to invest a further £5 billion over the next three to five years.

The UK - which remains comfortably a top 3 European economy and a top 6 Worldwide - is a key financial and trading cornerstone of Europe.

In my view, too, the Remain campaign only preached fear, rather than what it saw as the benefits of its EU membership (and Hilary did something similar in the US election). Negativity breed negativity and it is vital now we look forward and focus on the positives. Indeed, four or five years from now we will wonder what all the fuss was about. In the meantime, be commercial and be a good citizen; and pay down debt.

Finally, did you know that Theresa May has appointed Roy Hodgson as her right had man. He has a fantastic record of leaving Europe swiftly.

The Donald

Turning to the US, I think we can safely say that they are in a bugger's muddle. Nor could you make it up that Donald Trump would be President of the United States of America; although The Simpsons said it would happen back in 2000. To be fair, too, if you saw Trump on TV on the night he won, he couldn't believe it either. And, I don't think this has stopped i.e. the man continues to campaign rather than run the Country. Someone should tell him.

It was also a close poll there too.

In the US, if you win the "electoral colleges" (a complex delegate counting system) in New York State, California and Florida, then you are President. Hilary won New York and California but lost Florida to Donald. This massive State together with great swathes of conservative and middle America won the day for Trump based on the delegate votes: 302 to 227 (with 7 going to independents). However, he polled 2.9 million actual people votes less than Hilary - which is 2.1% of the total.

As with the UK, a close call has proved divisive within the population and once again it has been split regionally, by age, gender, income band and education. In turn this has led to liberal political rallies across the US, lamenting the Trump victory. In terms of voter turnout, though, while the UK's 72% may have been seen as disappointing, the US's 55% is woeful.

In terms of the building industry, unlike in the 1980s - when, to paraphrase the iconic advert for the Hanson conglomerate, a lot of firms from over here were doing rather well over there - the UK construction sector's exposure to the US market is limited these days. Out of the major listed contractors only Balfour Beatty, Keller and Ashtead (which is in plant hire) retain a significant exposure to the US market, while no UK housebuilders operate across the Atlantic following Taylor Wimpey's late noughties withdrawal. In addition, a small number of building materials stocks are active there including Wolseley, Ibstock, Low & Bonar and Tyman plus consultants such as Mott MacDonald, Gleeds, WSP (Anglo-Canadian), RPS and Atkins all have boots on the ground, while other big names in the UK such as Aecom and Halcrow are US-owned. Finally, the US remains an important market for high-profile architecture practices such as Foster + Partners, which is currently finishing off Apple's headquarters in California.

Maintaining healthy trading links is vital too - and while Asian investment into UK property may have made headlines in recent years, the US remains by far the largest foreign investor, accounting for 27% of all inward investment in property last year.

But probably the main issue for our industry is the impact that the US election will have on the broader business climate, international trade and the strength - or otherwise - of the US dollar, the World's reserve currency.

The UK needs the US both as a friend and an export market, it has always been important but now that the UK is exiting the EU, it is doubly so.

To date, however, Mr Trump has shown himself to be inward looking, xenophobic, paranoid and misogynist. Not to mention, myopic, undemocratic and truthful. Ironically, though, such a stance will help US domestic industries including those owned by Brits.

And, he has also incurred the wrath of the Senate and Congress, even (or especially) from members of his own party; and the censure of senior law and legislation makers (and his son in law is now being investigated by the FBI for dodgy links to Russia). There is a sporting chance, too, that Trump won't serve four years. This could come about three ways: the President might well be impeached; or he could be assassinated; or he could resign (don't rule it out).

The World is a dangerous place, if Trump sees out four years, this will rush by - and much of Trump's putative legislation will find itself stymied by the Senate and Congress. We might then find ourselves with Mark Zuckerberg as President……

And I will leave you with some humour:

What is Donald Trump's favourite song? White Christmas

What is Donald Trump's favourite move? Minority Report

What happens when Donald Trump takes Viagra? He grows taller

Thank you

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