

# OEMs react to UK vote to leave EU

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## Comments reflect the many levels of uncertainty that face the country and the wider European region.

On the morning (24 June) after the United Kingdom electorate voted to leave the European Union, OEMs have reacted to the decision. Jaguar Land Rover (JLR) has said that it will remain committed to all its manufacturing sites and investment decisions. A spokeswoman for the company was quoted by Reuters as saying, "Europe is a key strategic market for our business... we remain absolutely committed to our customers in the EU."



BMW Group has also said that it will be business as usual for its UK operations. The company was quoted as saying that "while it is clear there will now be a period of uncertainty, there will be no immediate change to our operations in the UK". However, it added, "Today, we know that many of the relevant conditions for supplying the European market will have to be re-negotiated, but of course we cannot say what this means for our UK operations until those future regulatory and legislative arrangements are agreed". On this note, it said that it would "not speculate" on these negotiations nor the impact that it would have on its UK operations.

The chief executive officer (CEO) of Aston Martin, Andy Palmer, suggested that the automaker may need to enact changes. The senior executive was quoted by Reuters as saying, "We acknowledge the decision and the rule of democracy... Aston Martin will now orientate its business to deliver our mid-term plan in the context of the exit and the market volatility that may exist during the period of transition." Nevertheless, he said that a weaker pound should "partially offset" the increased instability. Even so, Palmer went on to say, "As the UK could now be subject to new trade tariff barriers, we also anticipate the need for additional productivity and efficiency in the medium term" and that the UK government must now "maintain economic stability and secure a deal with the EU which safeguards UK automotive interests – this includes securing tariff-free access to European and other global markets."

In addition, General Motors' (GM) Opel arm – which sells vehicles branded as Vauxhall in the UK as well as manufacturing light vehicles at two sites – has said called on free access to continue. It stated, "It is also important that business continues to benefit from the free movement of goods and people during this period." The company went on to say, "We fully support the UK remaining part of the European Economic Area [EEA]."

Groupe PSA has told Reuters that it is now looking at changes to its UK pricing following a currency market reaction to the decision. A spokesman for the automaker said, "Our teams are looking at different scenarios for price adjustments to our brands' models to respond swiftly to the markets' reaction," with a suggestion that increases would be made to defend profitability.

There have also been comments from Asia where some of the big Japanese OEMs with plants in UK – Nissan, Toyota and Honda – are based. Reuters quoted an official at a global automaker with manufacturing capacity in the UK, speaking on condition of anonymity, as saying, "We don't have any choice but to be more cautious with our investment decisions, including moves like whether to produce a new or significantly redesigned vehicle model in the UK." A second executive reiterated that the "big question for automakers... is what kind of trade deals with the EU would be negotiated. That is the big unknown." The same person added, "Obviously, trading deals to be worked out subsequently could be a worse situation than we have now, or better, or all the same. We don't know, and that's the problem."

Toyota has officially come out as saying that it "will closely monitor and analyse the impact on our business operations in the UK, and how we can maintain competitiveness and secure sustainable growth together with the U.K. automotive industry and other stakeholders."

Furthermore, the Korea Automobile Manufacturers Association (KAMA) also voiced its concern about import tariffs in to the country. Kim Tae-nyen, vice-president of the organisation, said, "This could inevitably undermine the price competitiveness of South Korean automakers in UK, as opposed to Japanese and German rivals which have production bases there."

However, South Korea's Hyundai Motor has said that its own exposure to the UK is "small compared to other key

markets such as the US and China." A spokesperson for the automaker added before vote counting ended that "the exit, a surprise if confirmed, makes things complicated for us".

## Outlook and implications

The initial response by OEMs reflects the wide range of uncertainties that have been created by this decision.

IHS's view on the macroeconomic impact to the country from this situation, put together by its chief UK and European economist, Howard Archer, is that the vote to leave the EU is bad news for the UK economy, certainly in the near and medium term. Even supporters of the 'Leave' campaign have acknowledged that there will be a near-term hit to the economy from heightened uncertainty affecting business and consumer activity, as well as from financial market turmoil. The financial markets have certainly taken the view in the near term at least. Sterling has plunged to a 30-year low against the dollar, while the FTSE share price index is suffering substantial losses.

Following the UK's decision to leave the EU, IHS is substantially cutting its GDP growth forecasts to 1.5% (from 2.0%) for 2016, 0.2% (from 2.4%) for 2017, and 1.3% (from 2.3%) for 2018. Major economic and political uncertainty is expected to be a fact of life for some considerable time, likely weighing down markedly on business and household confidence and behaviour, so dampening corporate investment, employment, and consumer spending. Weaker asset markets and tighter credit conditions are seen further hampering UK growth, while the housing market could suffer a marked downturn. Financial sector activity in the City of London may well be hit quickly. Foreign investment in the United Kingdom is expected to suffer (both direct and portfolio). Additionally, while the sharp fall of sterling following the vote should help UK exports, it will likely push up inflation, thereby squeezing consumer purchasing power and lifting companies' input costs. Furthermore, the UK's decision to leave the EU will undoubtedly dampen European growth, which will hamper UK exports despite a weaker pound.

Economic uncertainties relate not only to what will happen after the UK leaves the EU, but also to when exactly the divorce will occur. The UK will exit two years from when it formally notifies the EU that it is leaving under Article 50 of the Lisbon Treaty. However, the 'Leave' side has indicated that notification may not occur until 2018 given the time needed to negotiate trade and other agreements with the European Union, especially given a need to also negotiate many trade agreements with non-EU countries. This delayed exit, though, could prove unacceptable to EU countries. The more messy and antagonistic the negotiations with the EU prove to be (particularly over new trade agreements and access to the European single market), the more the UK economy is likely to suffer during 2016–18. IHS suspects that UK negotiations with the EU will prove difficult, given that EU leaders will not want to set the precedent of an easy withdrawal for other countries that could reconsider their status, such as Denmark. Mitigating this, the EU will be keen to protect its significant trade surplus with the UK.

Over the long term, how the UK economy fares outside the EU depends on many factors. This notably includes the extent of the trade agreements that are reached not only with the EU but also with other regions/countries; how much the UK is affected by non-trade barriers when exporting to the EU; the amount of deregulation that is undertaken in the UK; what immigration policy is followed; how the City of London's role as a dominant financial centre is impacted; and how foreign direct investment into the UK is affected. It could take five to 10 years for all of these matters to be sorted. In the meantime, there is a very real risk that Scotland at least could leave the United Kingdom. This would substantially aggravate political and economic instability.

IHS expects the Bank of England to cut interest rates from 0.50% to 0.25% before long and it could also very well resuscitate quantitative easing. We suspect that growth will become the main concern within the Bank of England. The central bank's monetary policy committee (MPC) will be prepared to look through any near-term spike in inflation from a weakened pound. The Bank of England will likely take the view that the weakened growth outlook means it will be harder to hit the 2.0% inflation target in two years' time. Of course, the Bank of England's position may well be made even harder if there is a sharp flight of capital from the UK after the EU exit vote, thereby exerting pressure for higher interest rates to attract the inward investment that is needed to finance the large current account deficit.

From an automotive perspective, IHS Automotive anticipates that this will lead to a reduction in our current light-vehicle sales forecast in relation to the factors above. This would be on top of an already forecasted decline for the market in 2017 after a tremendous run of growth. We also see production being hit in response to the reduction in UK sales, while the potential for slower growth in the Eurozone could cause a secondary effect on light vehicle sales in Europe, resulting in an additional pull back in production levels during 2017. IHS Automotive will bring further updates to our forecast as the situation develops and will be made available through the Same Day Analysis service.



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