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Bank of Ireland   
**economic pulse**  
June 2017

 Pulse Insights  
Brexit

# Pulse Insights

## Brexit

### June 2017

“With the withdrawal negotiations just starting and bumps in the road to be expected, it will be some time before there is clarity on what the final deal might look like, assuming there is one.”

Dr Loretta O’Sullivan,  
Group Chief Economist, Bank of Ireland

This time last year, the UK held a referendum on its membership of the EU and voted to leave the bloc.

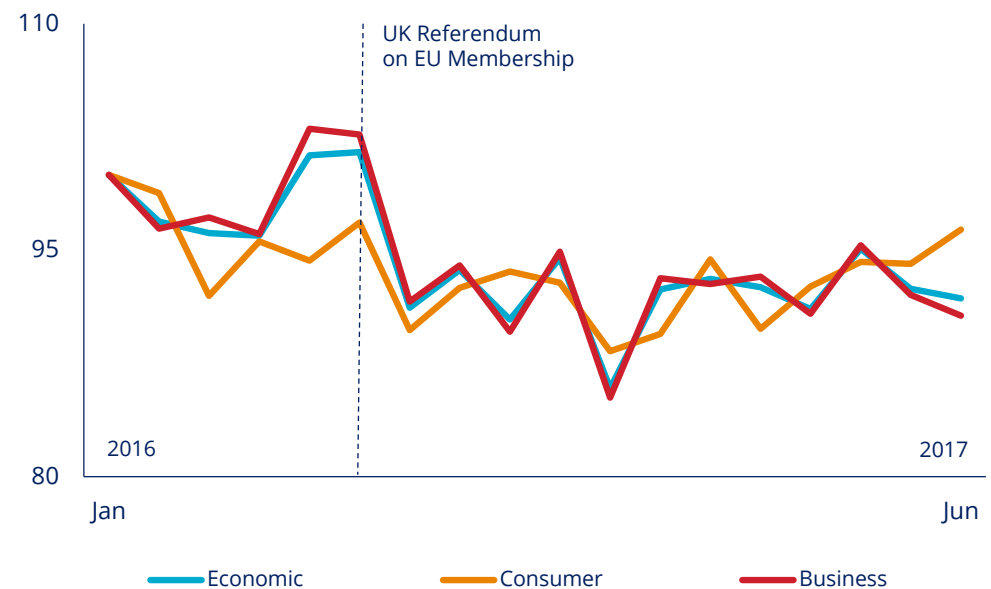
Two clear consequences of that decision have been a fall in the value of sterling and a rise in uncertainty. The first is a headwind for Irish firms selling into the UK market, while the second has led to some softening in consumer and business sentiment.

12 months on from the referendum and the pound is down some 13% against the euro, with the Economic Pulse also off its pre-Brexit levels.

### KEY POINTS

- Economic Pulse falls sharply in the aftermath of the referendum result
- Consumer and business confidence hit
- And still off pre-Brexit levels

### PULSE TRENDS



# Pulse Insights

## Brexit

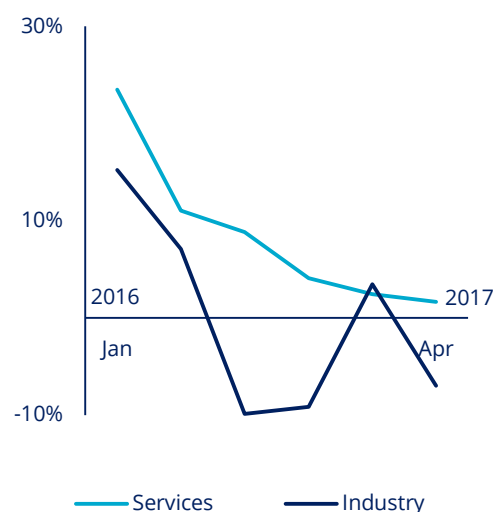
June 2017

“The weak pound is a headwind for exporters to the UK and the Economic Pulse data show some softening in competitiveness over the past year or so.”

Dr Loretta O’Sullivan,  
Group Chief Economist, Bank of Ireland

### Competitive Position on EU Markets

Balance, Past 3 Months



### €/£ Exchange Rate



### WEAKER POUND

Having fallen in advance of the referendum, sterling depreciated further against the euro following the Brexit vote and after the Bank of England eased monetary policy last August. It reached a near 7-year low of 91.5p in October, before recovering some ground. The inconclusive outcome of the UK general election has weighed on the currency since early June of this year however, with the pound currently standing at around 88p. Looking ahead, sterling remains vulnerable, though the possibility of a rate hike by the Bank of England - whose tolerance for above target inflation looks to be waning - may cap the downside.

As a small open economy, Ireland is vulnerable to adverse movements in exchange rates and the weak pound looks to be taking its toll on the competitiveness of firms in the industry and services sectors. Economic Pulse data point to a general deterioration on this front since the start of 2016, especially for firms selling into the EU which includes the UK. For these markets, the balance between firms reporting an improvement in their competitive position and those reporting a loss has weakened considerably, particularly in the case of industry.

Against this background, an eye to the cost base and a focus on non-price factors impacting competitiveness such as R&D and quality improvements will be important.

# Pulse Insights

## Brexit

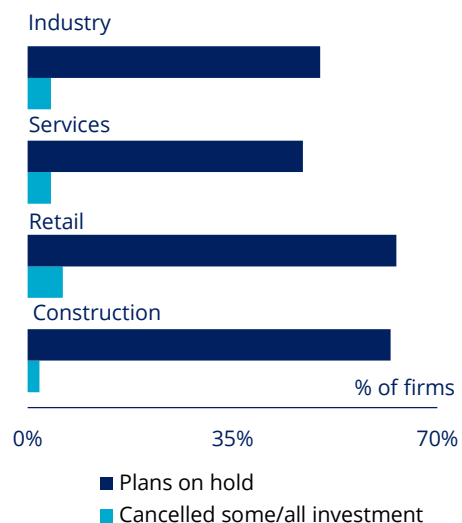
June 2017

“With Brexit related uncertainty continuing, a large number of firms are adopting a ‘wait and see’ approach to investment decisions.”

Dr Loretta O’Sullivan,  
Group Chief Economist, Bank of Ireland

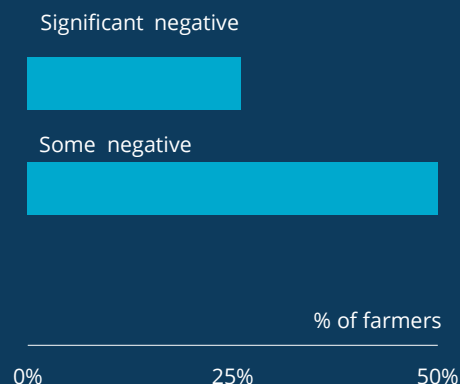
### Brexit Impact on Investment Decisions\*

This Year  
March 2017



### Brexit Impact on Farming Business\*

Next 12 Months  
April 2017



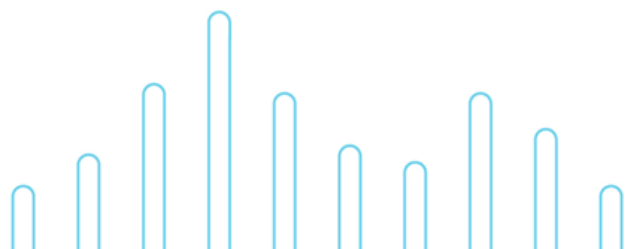
### GREATER UNCERTAINTY

Economic theory suggests that uncertainty can dampen activity and especially investment. This is because decisions to go ahead with new projects or hire staff typically involve some element of irreversible costs. So when uncertainty is high, there is an incentive to postpone or cancel plans until the situation settles down or new information becomes available.

Economic Pulse research conducted with Irish firms for whom Brexit is a live issue suggests this is happening on the ground. When asked about the impact of the UK’s decision to leave the EU on their investment plans for this year, one in two businesses in the industry and services sectors and three in five in retail and construction said that have pressed the pause button and are adopting a ‘wait and see’ approach. A further 4% have cancelled some or all of their planned investment. And reflecting the importance of the UK market for agricultural produce, a majority of farmers expect Brexit to have a negative impact on their business.

Policy steps including the government’s push for transitional arrangements should help reduce some of this uncertainty. Measures to mitigate its effects such as supports for vulnerable sectors also have a role to play, as does reframing the narrative so that the focus is not just on challenges but on potential opportunities as well.

\* Analysis excludes respondents that indicated that Brexit is not relevant for their business



## Background

“The Economic Pulse provides a timely, comprehensive and robust picture of the economic environment and consumer and business confidence in Ireland.”

Dr Loretta O’Sullivan,  
Group Chief Economist, Bank of Ireland

### THE ECONOMIC PULSE

The Economic Pulse is a new indicator for Ireland based on a series of surveys. Each month households and firms are asked for their views on a wide range of topics including the economy, their financial situation, spending plans, house price expectations, business activity and hiring intentions. Key business sectors such as industry, services, retail and construction are covered, as well as regions. The information gathered is combined into high level indices, with responses to individual questions also provided along with analysis and insights.

### METHODOLOGY

Ipsos MRBI are undertaking the fieldwork for the surveys on behalf of Bank of Ireland. A best practice approach to data collection and methodology has been adopted within a harmonised EU framework.

1000 households, 500 firms in industry, 800 services firms, 500 retailers and 250 construction firms participate in the surveys each month.

### USING THE INFORMATION

Business and consumer surveys provide essential information for economic surveillance, short-term forecasting and research.

They are also useful for policymakers, as well as helping firms with business planning.

Survey data are a key complement to official statistics, with high frequency and timeliness among their main qualities.

### THE EU DIMENSION

Bank of Ireland is partnering with the European Commission on the surveys. The data collected will feed into the Joint Harmonised EU Programme of Business and Consumer Surveys. This is a Europe-wide sentiment study which has been running since the 1960s. The data generated within this framework are particularly useful for monitoring economic developments at EU and Euro area level and also allow the situation in Ireland to be compared with that of other Member States.

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**Note:** Balances are calculated as the difference between positive and negative responses (using weighted averages for questions with multiple options).

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