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GOVERNMENT

Brexit referendum poses economic questions short- and long-term for luxury spend

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As the United Kingdom prepares to vote on the European Union referendum on June 23, what impact would an exit have on luxury?

Recent polls have shown a majority support for exiting the EU, with undecided voters swaying heavily in that direction and upending initial projections. The uncertainty that Britain's exit would cause for the nation, Europe and the U.S. suggests challenges and eroded confidence among consumers in the short-term, with longer-term effects difficult to project.

"As the UK heads towards its EU membership referendum, there remains much uncertainty over both the outcome and the implications of a vote to leave," said Sarah Boumphrey, global lead economies and consumers at Euromonitor International.

"In fact uncertainty is the key challenge in regard to Brexit, and this uncertainty will contribute to falls in business and consumer confidence as well as delays to investment decisions, contributing to a weak currency," she said.

"The protracted nature of any exit negotiations which could take up to two years adds to this uncertainty and makes it difficult to assess the economic impact of a vote to leave."

The road not taken

Europe is currently in the midst of a struggle over public policy with regard to the influx of immigrants fleeing ISIL and other terrorist organizations in the Middle East and North Africa. With the threat of terrorism feeling credible in light of so many recent attacks, most notably a series of attacks in Paris on Nov. 13, numerous EU countries have seen a surge in the popularity of far-right politicians.

Compounding citizens' fears of terrorism, the European economy is experiencing declining growth and is embittered by the handling of Greece's debt crisis and an irascible Russia. With France particularly troubled by economic problems and the rise of reactionary politicians, the UK and Germany are the two largest players in the EU.

Burberry ad featuring Naomi Campbell

Partisans in favor of an exit argue that because EU leaders are appointed rather than elected, undermining the nation's democracy. The UK also pays more money in membership fees than it receives, with money being redistributed to countries in need or used for aide and development elsewhere, meaning membership has a monetary cost.

Exiting the EU would also allow Britain to set its own policies on immigration. In light of the 6 million refugees from Syria alone displaced by ISIL, Britain's exit could relieve the country of a share of its rehousing responsibility.

Proponents of the remain vote, however, note that membership fees, 13 billion in 2015, or $18.5 billion U.S. dollar at current exchange rates, that do not come back in direct investment are made up in trade. They argue that job losses and delayed investments in the UK would be felt quickly, and trade barriers between the liberated UK and the EU could be drastic.

Indeed, Euromonitor International predicts that by 2021, UK unemployment would surpass 6 percent if the nation exits, compared to 5.7 percent otherwise. Even 10 years on, the model shows higher unemployment if the UK leaves.

"One of the concerns that Brexit raised was the fact that banks may relocate their headquarters in other European markets," said Hana Ben-Shabat, partner in the retail and consumer practice of A.T. Kearney, a global strategy and management consulting firm. "This could impact sales of luxury goods significantly since many luxury consumers are employed by this industry.

"In addition, as the pound weakens we could see more Europeans buying in the UK due to a favorable exchange rate," she said. "In high end luxury this always attract a parallel / grey market. To avoid that, we could see prices increases in UK pounds, which will make products more expensive to the locals."

"Remain" supporters also argue the UK could lose its status as a world leader and would lose access to common criminal databases, thereby becoming more vulnerable to terrorism.

A handful of British brands have spoken on the topic. Vivienne Westwood posted a photo on Instagram of herself wearing a shirt urging citizens to register to vote. In February, Christopher Bailey, current CEO/creative director of Burberry joined business leaders in signing a letter stating, "Britain will be stronger, safer and better off remaining a member of the EU."

Vivienne Westwood Instagram photo

Writing for The New York Times, Vanessa Friedman reports that 90 percent of polled designers of the British Fashion Council favor the Remain vote.

Brexit would mark the first time a country has withdrawn from the European Union, setting a precedent that other nations might follow. There is speculation that Scotland could pass a referendum to secede from the UK with hopes of re-joining the EU.

But that influence would not be limited to Europe; the impact on the U.S. would be dramatic as well. The creation of the EU is the U.S.'s most successful foreign policy, the result of enormous amounts of money used to bolster trade relations after World War II under the assumptions that productive trading partners will not war with one another.

The U.S. is also negotiating with the EU and the Transatlantic Trade and Investment Partnership (TTIP). The TTIP aims to set policies and laws in trade, implicitly with the hope of doing so before China attains the power to set such rules on its own. The UK has long been one of the U.S.'s closest and most powerful allies, and its absence from the EU could delay the TTIP.

Whether or not more countries withdraw from the EU or not, that the UK pays more in dues than is re-invested in the economy means that it is a larger contributor to policy regarding Africa, the Middle East and Russia. The U.S. may be called upon to step up its investment if the UK falters.

Brexit is not the first or only sign that the world is entering a protectionist era: that is typified by the potential U.S. presidency of Donald Trump, and the escalating conservatism and nationalism visible in France, Poland, Austria and, increasingly, Germany. But the ripples from Brexit would reverberate more visibly on the economy.

The long and winding road
A decrease in consumer confidence would cause a decrease in spending. While this may be insulated somewhat for the wealthiest of personal luxury goods buyers, aspirationals would be most likely to close their wallets.

Additionally, expansion into or from the UK could become more difficult for brands, and the impact of trade deals with the U.S. or with China will also have an impact on tourism and spending. An exit would likely precede a blow to free trade and currency devaluation, with costs increasing on all materials sourced from the EU for British brands and vice versa.

Also, increased taxes and visa issues for Europeans working in Britain could further complicate matters, triggering price increases that brands may be forced to pass onto unconfident consumers. Euromonitor projects real GDP growth decline of a cumulative 2 percent over five years, concentrated most heavily on 2017. Baseline growth rates would not be achieved again until 2023.

The uncertainty of an exit and the drawn-out procedure would also negatively impact asset prices, market activity, corporate investment, consumer spending and tourism.

Already the possibility of an exit is impacting the UK's markets. Despite asking prices on homes dropping 10 percent, demand has decreased, and the city's annual growth rate slowed to a mere tenth of a percent in May, its lowest rate since October 2009 (see story).