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GOVERNMENT

Following Brexit, what is the outlook for British luxury?

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London. Image credit: Burberry

By SARAH JONES

More than three years since the United Kingdom voted to leave the European Union, the nation has officially made its exit. However, uncertainty still surrounds the break-up.

Brexit was finalized on Jan. 31, but there are still negotiations ahead through the end of the year that will decide the fate of trade laws and regulations about borders and immigration. While a no-deal Brexit was avoided, it remains to be seen what type of relationship the U.K. will have with the E.U. in the future.

"Brexit uncertainty continues to overshadow the U.K., although the results of the snap general election has meant that Boris Johnson mandate to leave the E.U. in 2020 has gone ahead as planned," said Flur Roberts, head of luxury goods at Euromonitor International. "Inbound tourism and luxury goods sales are expected to benefit from the ongoing uncertainty thanks to the weakness of sterling.

"The economic uncertainty and currency fluctuations caused by the Brexit vote and the subsequent negotiations benefited luxury brands in the last few years as luxury goods continued to see growth in most categories, except for cars which were adversely affected by currency instability," she said. "Tourism coupled with rising domestic consumption continued to drive luxury goods sales in the U.K. in 2019, because of the weaker pound value which encouraged spending in the U.K. rather than abroad but also because London has maintained its status as an international luxury shopping destination.

"However, despite all this dynamism, all the uncertainties surrounding the reality of the U.K. leaving the E.U., in tandem with consumers increasingly shifting towards optimizing their purchases, creates a worrying prospect for the momentum of luxury goods growth in the U.K., as while the luxury industry is still expected to grow in the near future, it will likely be at a much slower rate than it has been."

Parting plans

The U.K.'s referendum on Brexit passed on June 23, 2016, ushering in a multi-year process to tether the more than four-decade ties between the nation and the European Union. David Cameron, who was the prime minister as Brexit

was passed, resigned to make way for new leadership to helm the process.

In March 2017, then prime minister Theresa May triggered Article 50 of the Lisbon Treaty, formally beginning the process of leaving the European Union. This kicked off negotiations, with the break up slated to be a two-year process (see story).

Getting a Brexit deal passed proved to be an insurmountable feat for the prime minister. After trying several times to gain approval from Parliament, and a delay on the official Brexit date, Ms. May resigned in May 2019 (see story).

Ms. May's successor, Boris Johnson, was one of the architects of Brexit. With his ascension, worries increased that there would be a no-deal exit from the E.U., since he was adamant about leaving on the Oct. 31 deadline, regardless of whether there was a deal in place or not (see story).

Last fall, Brexit was eventually delayed a final time for Jan. 31, for almost a year after it was initially set to happen.

Mr. Johnson's Conservative Party then proceeded to pick up 47 additional seats in Parliament in December, paving the way for an easier passing of a Brexit deal.

As of Jan. 31 at 11 p.m. U.K. time, the nation is no longer officially part of the E.U.

For the next 11 months, the U.K. will be in a transition period as Mr. Johnson works out final deals with the bloc. While some things have changed, such as the U.K. losing its seats in the E.U. Parliament, others will remain during the rest of the year.

For instance, there is still free movement of U.K. citizens throughout the E.U.

As of now, the U.K. is grandfathered into the single market trade deal. However, the country will need to negotiate a new trade deal with the E.U.

Forty-two percent of British luxury goods are exported to the E.U., putting trade at the top of the minds for British luxury organization Walpole.

"The distribution chains are also completely interwoven with a system of partners and retailers moving products across the capitals and cities to both physical stores and digital players," said Walpole in a statement. "Particularly important for the high-end and luxury sector is the network of European capitals of London, Paris, Milan, Madrid, Geneva and Berlin, which play a huge role in attracting tourists from around the world.

"There is no doubt that trade challenges lie ahead," it said. "Not least, the introduction of friction in the form of tariffs or of new administrative burdens around the movement of goods and delivery of services will be an unwelcome and additional cost on luxury businesses used to trading freely across the channel."

Burberry's autumn/winter 2019 campaign. Image courtesy of Burberry

Another factor affecting business is how closed or open borders will be between the E.U. member states and the U.K. Many British companies rely on talent from other parts of Europe, which could be cut off.

This will also affect how easy it is for travelers to come and go.

"Brexit uncertainty is set to drag on into 2020," Ms. Roberts said. "Despite Boris Johnson agreeing an amended version of Theresa May's Brexit deal with the E.U., and parliament supporting the Brexit Withdrawal Agreement for the first time, he failed to push the deal through parliament before the Oct. 31, 2019 deadline, resulting in a third Brexit extension.

"The exact timing of Brexit will impact the travel industry in the short term," she said. "Currently 'Brexit Day' is in the middle of the peak season for booking summer holidays. However, with no deal yet agreed, the next few months may see a lot of uncertainty leading to U.K. consumers postponing booking travel. This was the case in early 2019 when consumers preferred to wait to book until a Brexit deal or rather extension was reached.

"This resulted in declining revenues and subsequent price-discounting, which was one factor contributing to the demise of travel retailer Thomas Cook. However, if a final Brexit deal can be reached, as early as possible in the pre-summer booking season, then the impact will be limited, especially as demand for travel from the U.K. is otherwise resilient.

"Should uncertainties over Brexit linger, this could have a negative impact on the full year 2020. In response to a no-deal Brexit being postponed, sterling has already begun to strengthen against other currencies including the U.S. dollar and euro. This impact will be felt most strongly on U.K. outbound travel, as British consumers' spending power will be increased.

"An early Brexit deal is likely to strengthen sterling even further, which combined with improved consumer confidence, is likely to bode well for outbound travel sales. But a lot of uncertainty remains for the both the luxury goods and luxury hospitality and travel industry until Brexit is finally in place."

Boon to business

The British luxury business is growing at more than double the rate of the United Kingdom's overall economy, a promising sign as uncertainty around Brexit continues.

According to a new report from Walpole, Britain's luxury business has achieved almost 50 percent growth in the four years from 2013 to 2017. Propelled by exports, tourism and manufacturing, the luxury industry is now worth 48 billion pounds, or $60.9 billion at current exchange, to the U.K.'s economy (see story).

"British luxury brands need to continue to offer customers great customer service, loyalty, quality and craftsmanship and continue to offer the aspirational consumer the best experience of shopping and owing luxury goods," Ms. Roberts said.

"They need to ensure that there geographic reach is not depend on any given market or region," she said. "They also need to make shopping in London or the U.K. as attractive and aspiration as possible.

"They need to make sure that they have a strong online/digital presence for global consumers and a great online/digital shopping experience that includes the last mile service which is paramount to the end experience and makes for stronger loyalty and returning customers."

Immediately following Brexit, residential real estate was on an upswing, with a 22.1 percent rise in the number of new prospective buyers, according to real estate consultancy Knight Frank.

Knight Frank's Prime Central London Sales Index for August revealed the increase in interest since the European Union referendum compared to 2015. Buyers' interests in the area were growing despite the dramatization of Brexit, with users viewing listings online 20.8 percent more since the previous year (see story).

For the real estate business, Britain's imminent departure from the E.U. also boosted luxury transactions.

"In the 10 working days following the general election, Knight Frank carried out more exchanges in prime central London than any 10-day period since December 2016," said Tom Bill, head of London residential research at Knight Frank. "Furthermore, the number of new prospective buyers registering with Knight Frank in London rose to its highest weekly total in more than 15 years in the second week of January.

"Activity levels in London are now at their strongest level since 2014, suggesting any impact from Brexit to date has been largely absorbed in the capital," he said. "The reasons for the uptick transcend Brexit and include the relatively benign global economic backdrop, ultra-low mortgage rates, the currency discount and the fact prime residential markets have re-priced in response to political uncertainty and tax changes.

"However, this is unlikely to have any meaningful effect on prices in the near-term or the gradual recovery that has been taking place in sales numbers. Uncertainty over Brexit has not disappeared, questions remain over the trajectory of the global economy and there is the prospect of further property tax changes."