



The Daily Dish

# The U.S. Eyeing Brexit

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## Eakinomics: The U.S. Eyeing Brexit

It makes sense that U.K. firms are worried about a “hard” Brexit — a March 29 exit from the EU with no treaty to manage future economic relations. It makes sense that EU firms worry about Brexit. But the *Financial Times* reports that “Corporate America is sounding an alarm over mounting Brexit risks, beefing up warnings to investors as boardrooms worry that a disorderly departure threatens international business.” Corporate America has been watching Brexit for years. Why are they flagging these to investors now? What are the potential concerns?

At the broadest level, Brexit disruption could contribute to reduced global economic activity. Economies around the globe — China, Japan, and Europe — are already slowing. U.S. multinationals have a direct interest in poorer economic performance in foreign markets; the remainder of the U.S. business community will feel the domestic repercussions of slower growth. At the next layer down are those for which the U.K. is a significant market. In the immediate aftermath of a hard Brexit, many anticipate a significant decline in the pound. This would make U.S. products more expensive in the U.K., hurting sales. At the same time, any profits earned in the U.K. will contribute less to the U.S. bottom line.

For some industries, there is very little that can be done to manage Brexit risk. Diminished tourist travel will be what it will be, for example. In other instances, firms have been taking precautions against the impact of Brexit. Among the industries most likely to suffer over the long term is U.K. financial services. U.S. financial services firms have used the U.K. as their entry point to the EU market. With Brexit looming, CNBC reports that “Financial services companies have moved assets worth \$1 trillion from the U.K. to the rest of Europe since the Brexit referendum, a new study from audit firm EY estimates.” And it is not just assets that are being moved to Europe; operations will be transferred as well. According to CNBC, “Thirty percent of the companies EY followed had confirmed at least one European location where they would either move operations or add employees. Dublin, Paris, Frankfurt and Luxembourg were the locations gaining the most popularity. According to EY, more than 7,000 financial services jobs stood to be transferred from London to Europe, with around 2,000 new jobs set to be hired in European financial hubs over the U.K. capital.”

Brexit is not a significant threat to the U.S. economic outlook, but it is real headwind that firms are beginning to recognize and manage.