



Greater Manchester
Chamber of Commerce
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DUFF & PHELPS

Valuation and Corporate Finance Advisors

A Greater Manchester Business Perspective on Post-Referendum UK

A Duff & Phelps study in association with
the Greater Manchester Chamber of
Commerce and its members



Foreword

The last quarter has seen a great deal of change for British businesses to contend with. Firstly, the vote to leave the European Union, which for some may have come as a surprise and for others a welcome opportunity to redefine the UK. Secondly the swift change in Prime Minister, the new Cabinet and all that ensues. Finally the financial implications, with the immediate impact on the volatility of the stock market, the value of the sterling and interest rates.

Despite what could justifiably be construed as challenging circumstances for businesses operating in the Greater Manchester area, the research we carried out in association with the Greater Manchester Chamber of Commerce demonstrates that businesses are upbeat in the main and are feeling resilient to the uncertainty around them. In the report that follows, we drill into some of the reasons we see behind that, based on the extensive and often frank conversations we have with business owners in the local area.

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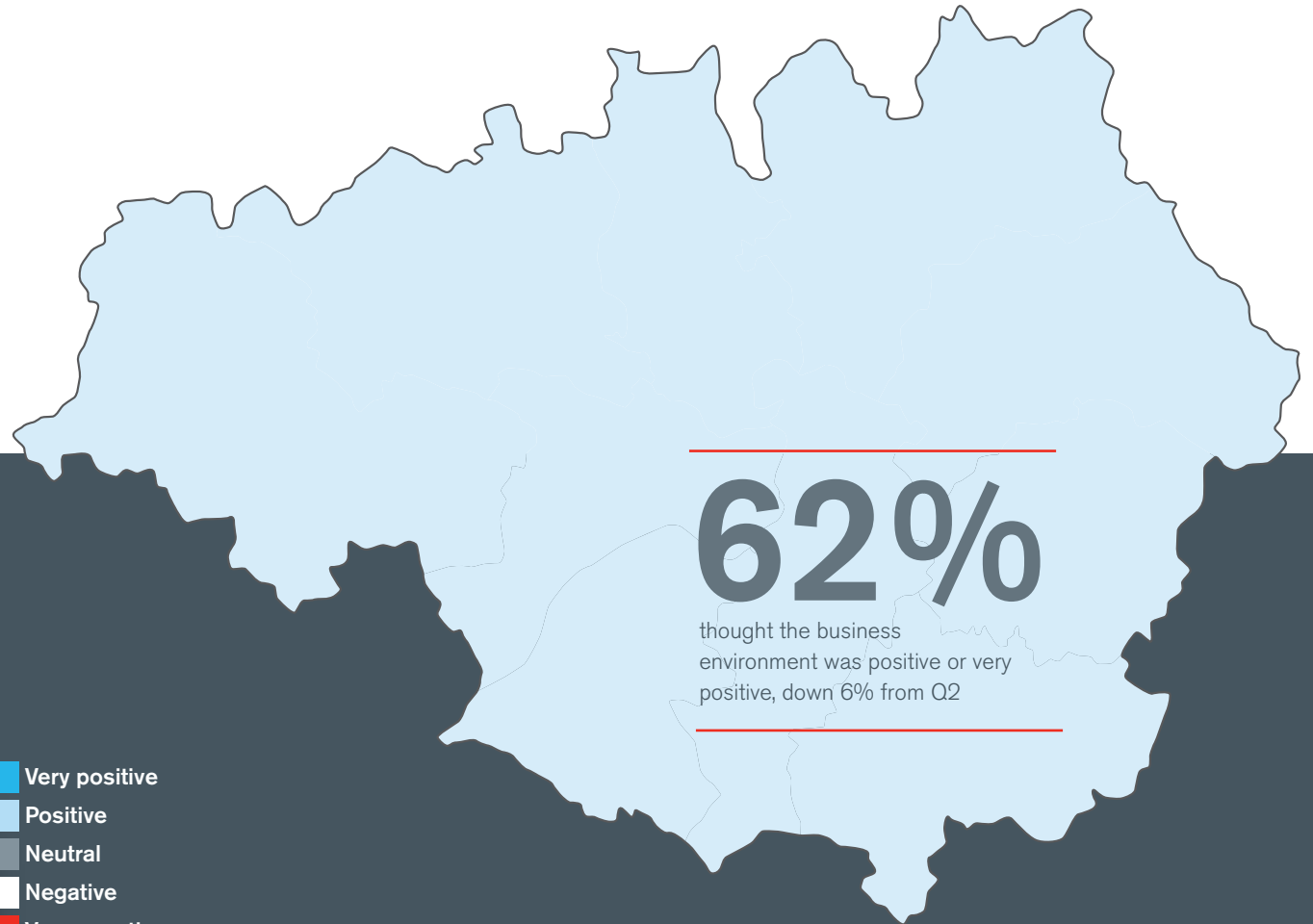
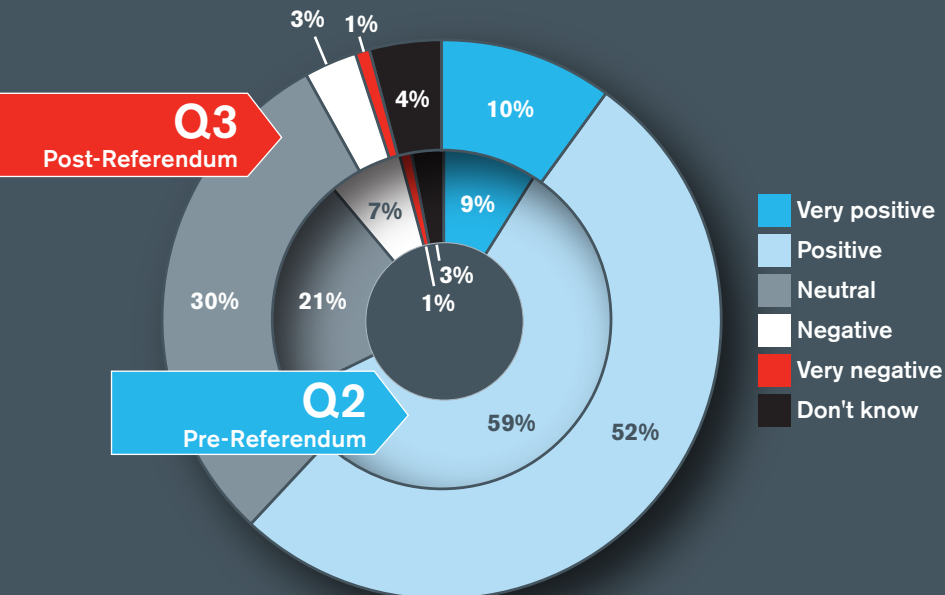
By Duff & Phelps, polled by the Greater Manchester Chamber of Commerce and its members. The collection periods for the surveys were 23 May to 15 June (Q2) and 22 August to 14 September (Q3), 2016 inclusive. Approximately 341 businesses, together employing 50,429 people responded to each survey. The results in this report were researched by Christian Spence, Head of Research & Policy at the Greater Manchester Chamber of Commerce.

Greater Manchester in a Post-Referendum UK

What could be considered as one of the greatest surprises of the new reality, being in a post-Brexit world is that respondent confidence in the environment for businesses in Greater Manchester has remained neutral since the vote to leave.

In our Q2 survey, which was conducted before the EU Referendum, 68% thought the business environment was positive or very positive whilst in Q3 following the vote, this fell only marginally to 62%. At the other end of the spectrum, negative or very negative perception of the market dropped to 4% from 8% in Q2 ahead of the referendum.

How would you describe the current environment for business in Greater Manchester?



Furthermore 33% of respondents believe that the business environment will improve over the next six months, which hasn't moved significantly from the 37% that thought the local economy would improve in Q2.

“ Despite the initial uncertainty around the UK economy's future following the EU Referendum, businesses in the Greater Manchester region overwhelmingly believe that the environment will improve or stay the same. What we see in the market is that SMEs continue to focus on business as usual, rather than getting distracted by political turmoil. ”

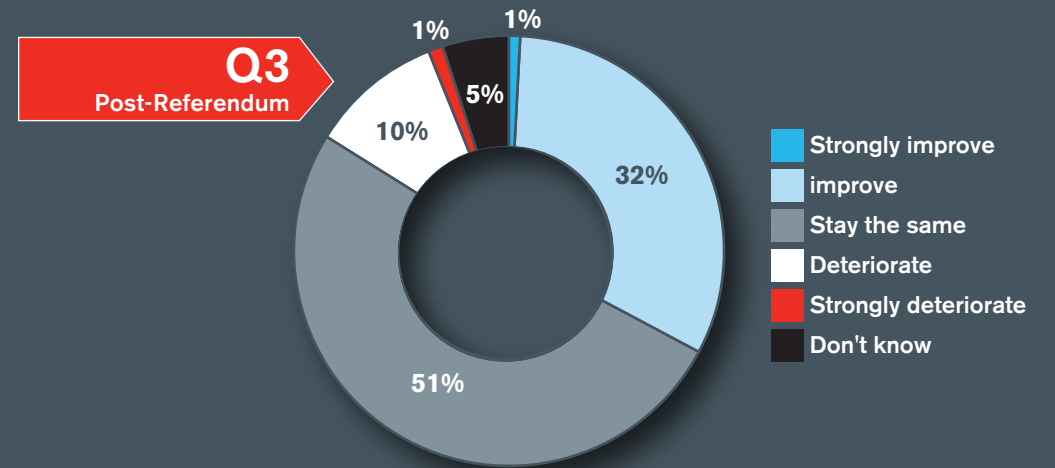
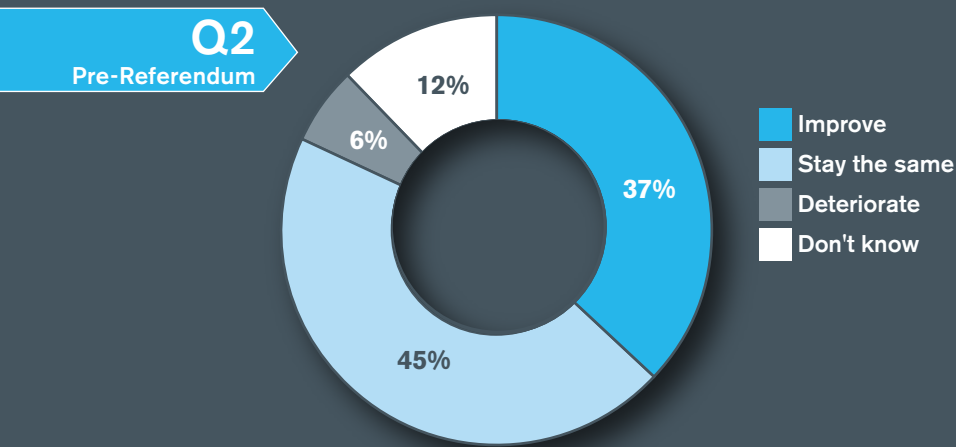
Steve Muncaster, Managing Director at Duff & Phelps

33%

believe that the business environment will improve over the next six months

How do you think that the environment for business in Greater Manchester will change over the next six months?

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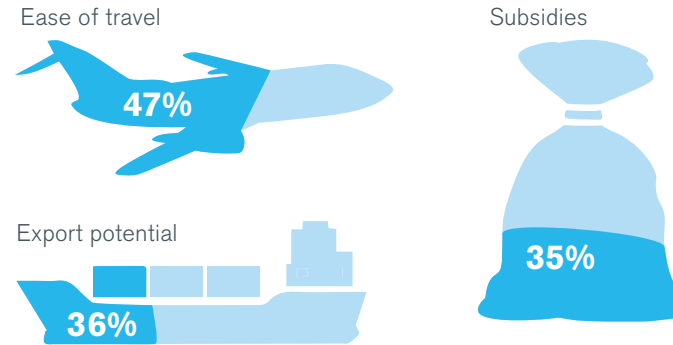


There are anticipated further upsides from the vote to Brexit; 38% cited reduced regulation as a positive outcome they anticipate, 28% believe independent trade agreements will be better and 15% of respondents believe that access to other markets will be better outside the European Union.

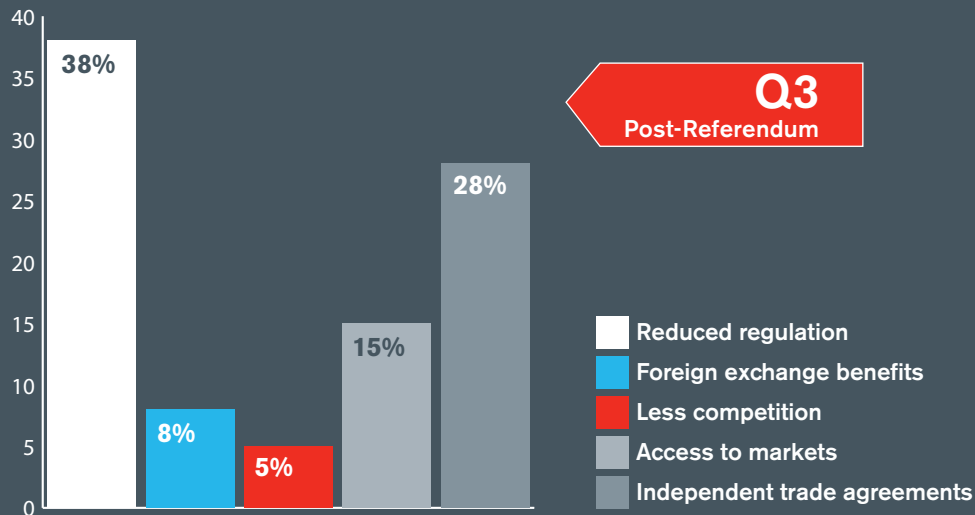
“ While businesses have pointed out the ease of travel and export potential as the key benefits of EU membership, a significant number of SMEs are hopeful that a post-Brexit UK will be able to reduce burdensome regulation that will help local business flourish. On the points of export and travel, it is worth pointing out that no decisions have been made as yet, and the rules may in the end not be too different from the status quo. ”

David Fleming, Managing Director at Duff & Phelps

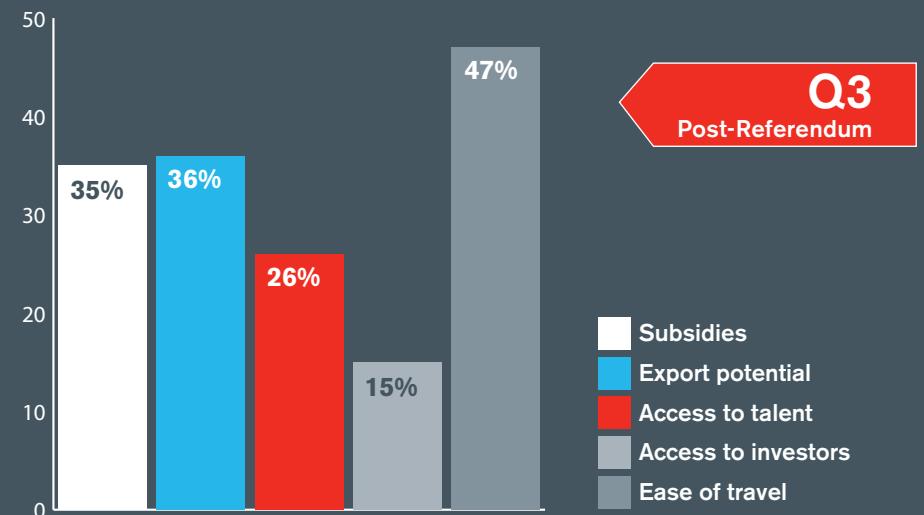
Respondents of the Q3 survey acknowledged some of the benefits of being part of the European Union include:



In what ways do you think not being part of the EU will help the local economy?



In what ways do you think that being part of the EU has helped the local economy?



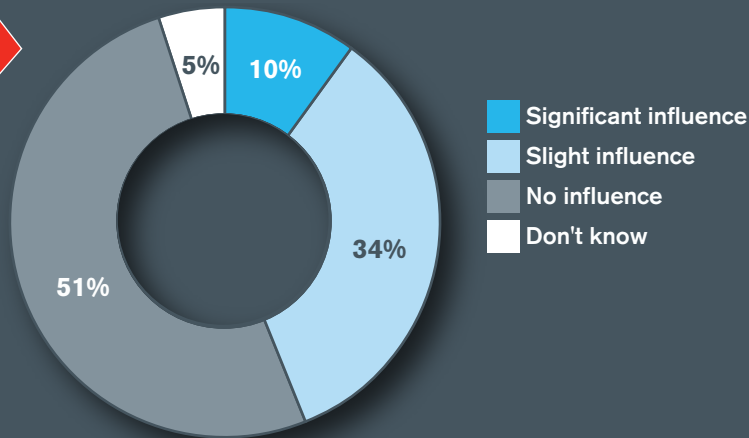
When asked about how the Brexit vote impacts their decisions, over half (51%) said it has had no effect on their **investment intentions**, and 72% claimed their company's **decision making** was also unaffected.

51%

said the Brexit vote has had no effect on their investment intentions

To what extent, if any, has the EU referendum result on June 23 influenced your business's investment intentions?

Q3
Post-Referendum



Sarah Bell, Managing Director at Duff & Phelps, said,

“ It's clear that businesses were concerned in Q2 by the lack of understanding as to which way the vote would go. Although now there are still many questions around how and when Britain will formally leave the European Union, in the short term at least, businesses have returned to a 'business as usual' frame of mind and continue to invest. ”



Most companies are experiencing continuing domestic demand for their goods or services, with more than a quarter perceiving an increase in orders and advanced bookings, suggesting that there remains a strong pipeline of activity.

Some businesses are also the beneficiaries of the falling value of sterling. Of those that have international customers, 27% have seen demand increase as their goods and services have become comparatively cheaper as the value of the pound has decreased, and have a robust ongoing pipeline as advanced orders and bookings have also increased for nearly a quarter of businesses.

The flipside of this, is that those that are importing goods and services from abroad are finding the fluctuations harder to contend with as costs of items increase.

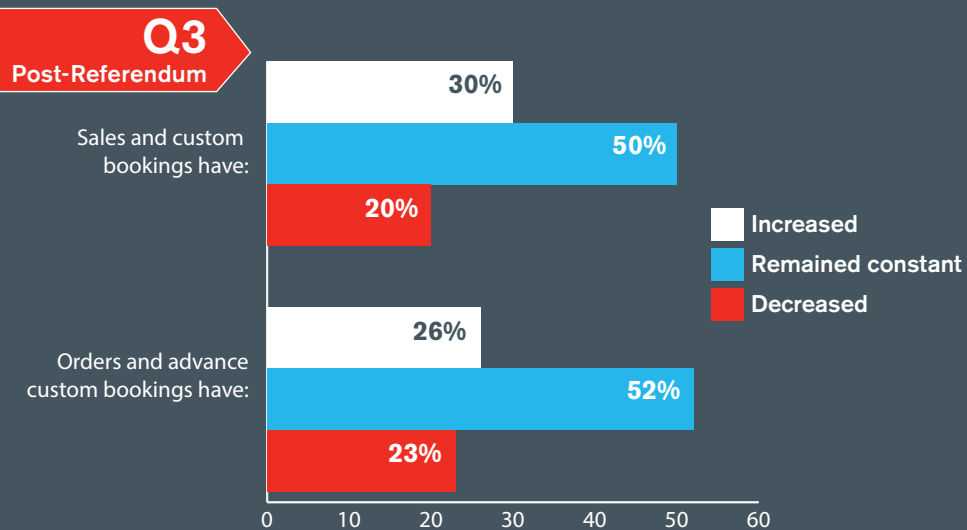
“ Retailers in Greater Manchester have undoubtedly had an immediate benefit from overseas visitors buying goods, particularly when a football match is on, but with inflation forecast to increase to 4% – to which a large contributory factor is the falling pound – by the end of 2017 this will put a squeeze on shoppers in the UK and therefore this benefit will be relatively short lived. ”

Philip Duffy, Managing Director at Duff & Phelps

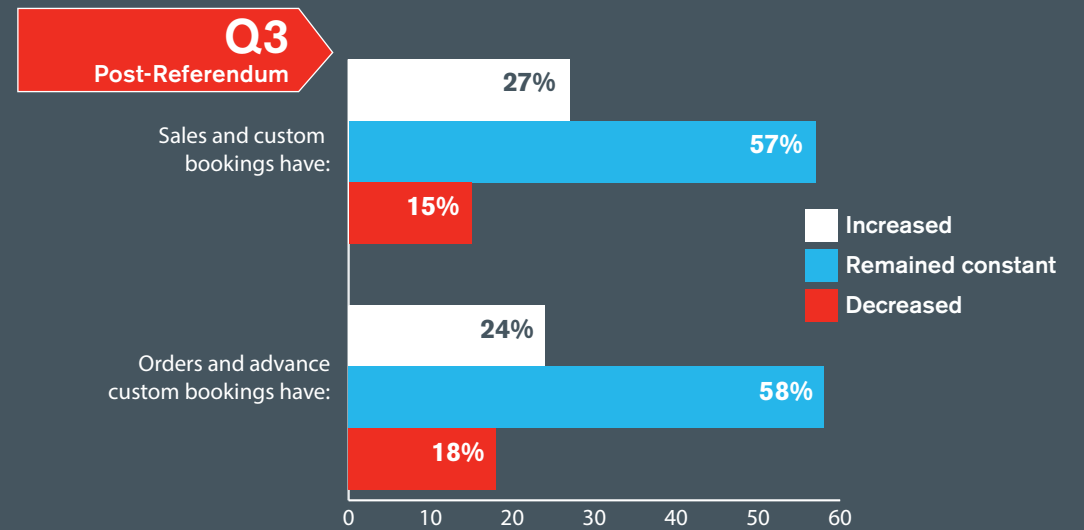
27%

of those with international customers have seen demand increase

DOMESTIC DEMAND: For businesses involved in the UK market, excluding seasonal variations, over the past three months...



INTERNATIONAL DEMAND: For businesses involved in the OVERSEAS market, excluding seasonal variations, over the past three months...



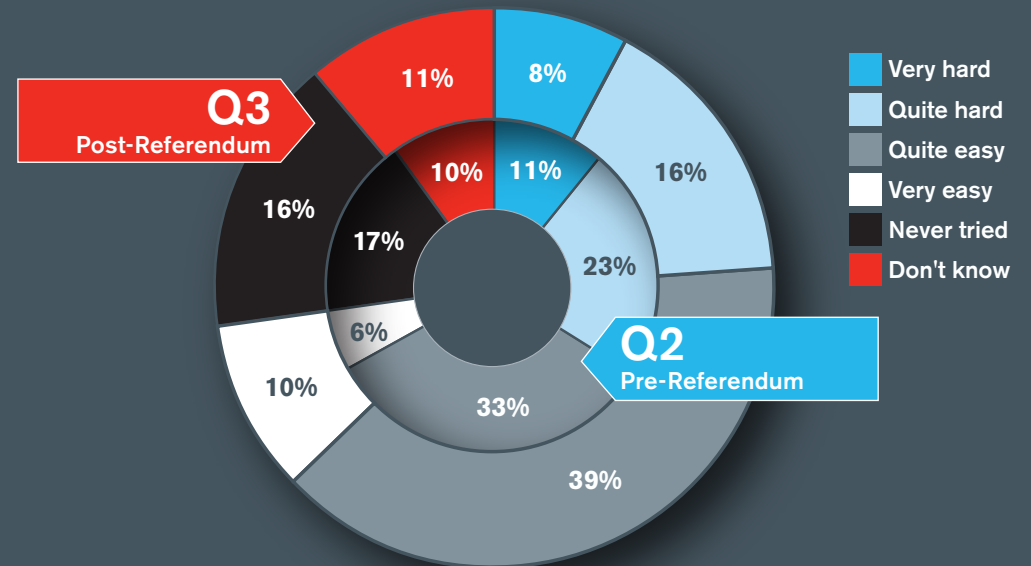
Paul Smith, Managing Director at Duff & Phelps, who works closely with companies advising them on how to prepare and deal with funding issues, commented on the results of the survey:

“ It is encouraging to see that over the past three months the percentage of companies saying that they found it very hard or quite hard to access funding has fallen to 24% from 33%. A contributing factor for the rise in cash and funding options is the emergence of challenger banks, or alternative lenders such as peer-to-peer lenders, which have become more established as a source for funding among the business community. While this new and different range of funding options provides a welcome boost in liquidity, it is important that SMEs receive support and guidance to find the most appropriate funding structure for their businesses. ”

Helping to mitigate some of the additional cash flow issues that companies are facing post-Brexit, access to funding has become easier. Increasingly companies are finding funding easier to source, with 49% in Q3 saying that they found it easy or very easy, up from 39% in Q2. In Q3, only 24% found it very hard or quite hard to access funding in Q3 compared with 33% in Q2.

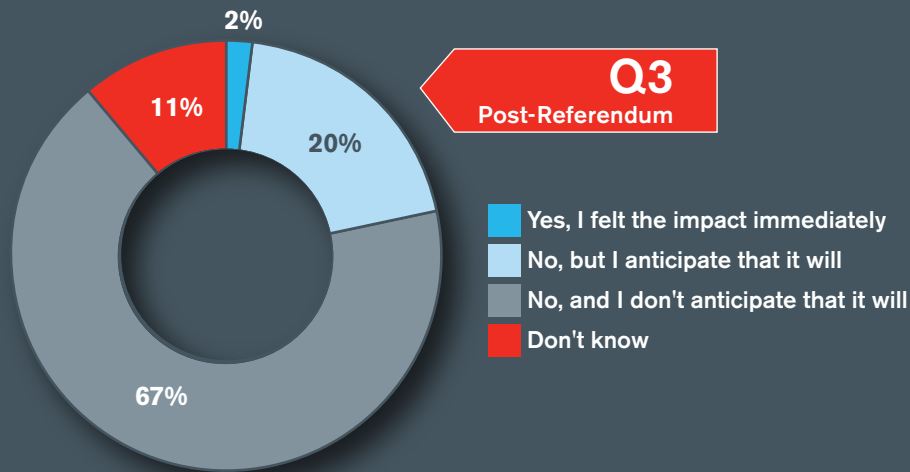
Funding has become 10% easier to access since the last quarter.

How easy do you find it to access funding?



Moreover, and perhaps unsurprisingly in view of the increased availability of financing, only 2% said that they have felt the impact of the interest rate cut post-referendum, 67% said that it has not had an impact and they don't anticipate that it will.

Has the cut to interest rates had an impact on your financing?



Steve Clancy, Managing Director at Duff & Phelps comments:

“ Some SMEs that have an import component and have not hedged on currency, like grocers or smaller manufacturers, have felt the immediate impact of currency fluctuations in tangible ways when purchasing goods or services from outside of the country. Companies that had been savvy will have some currency hedging in place, but this will not last forever and we need businesses to face facts that a volatile or decreased value of the pound could be the new reality. SMEs need to start thinking now about planning for these conditions in negotiating with their suppliers, managing overheads or passing on some of the higher costs for the longer term. On the upside, as UK products and services become more competitive, exporters should see a corresponding uptick in orders going forward. ”

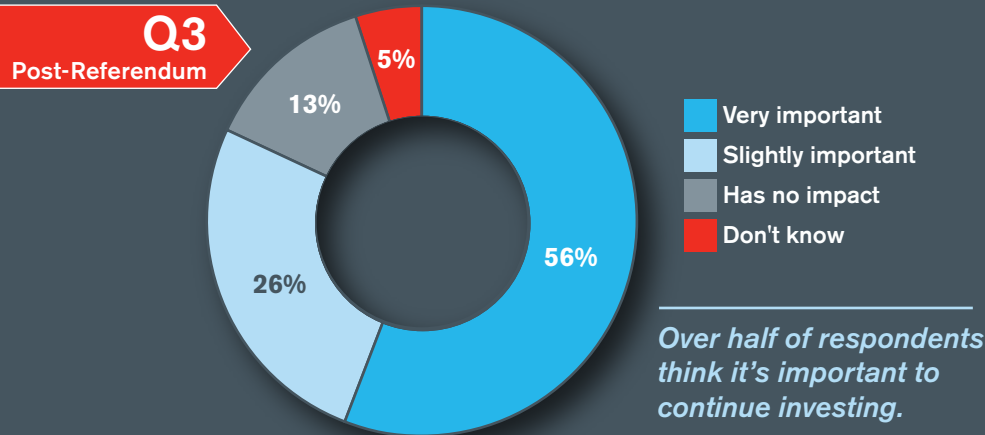
Devolution

With a view to the recent vote against devolution in the North East, and given that 82% have not felt any impact on their business from Devolution to date, you'd be forgiven for thinking that businesses in Greater Manchester wouldn't be too concerned with the process. However, over four-fifths (82%) believe that it is very important or slightly important for the investment and devolution programme outlined by the previous Chancellor for the Northern Powerhouse to continue.

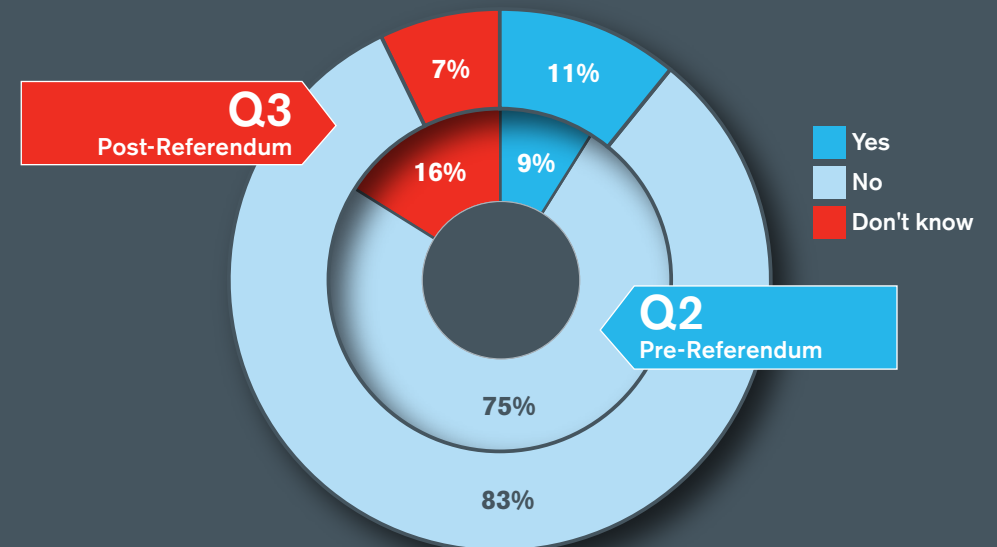
82%
are in favour
of devolution

Emphasis on investment in the Northern Powerhouse has grown following the vote to leave the European Union. In Q2 only 9% said that Mayoral Development Corporations for regeneration and development would have a high impact on their business, which increased to 18% in Q3, demonstrating the focus placed on replacing funding provided by the European Union in the region. Interest has also grown on planning laws being devolved, with 35% of respondents saying greater local powers over planning would have a high impact on their business in Q3, up from 16% in Q2.

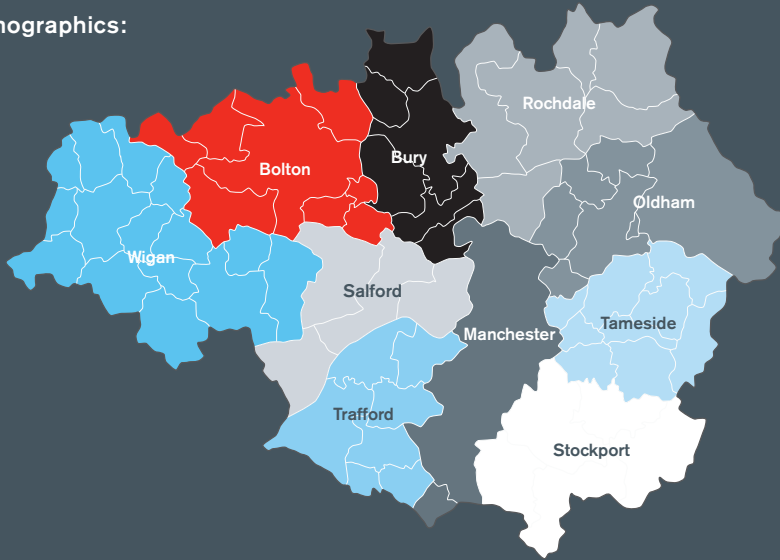
Given the uncertainty over the future of the Northern Powerhouse, how important do you think it is for the investment and devolution programme to continue?



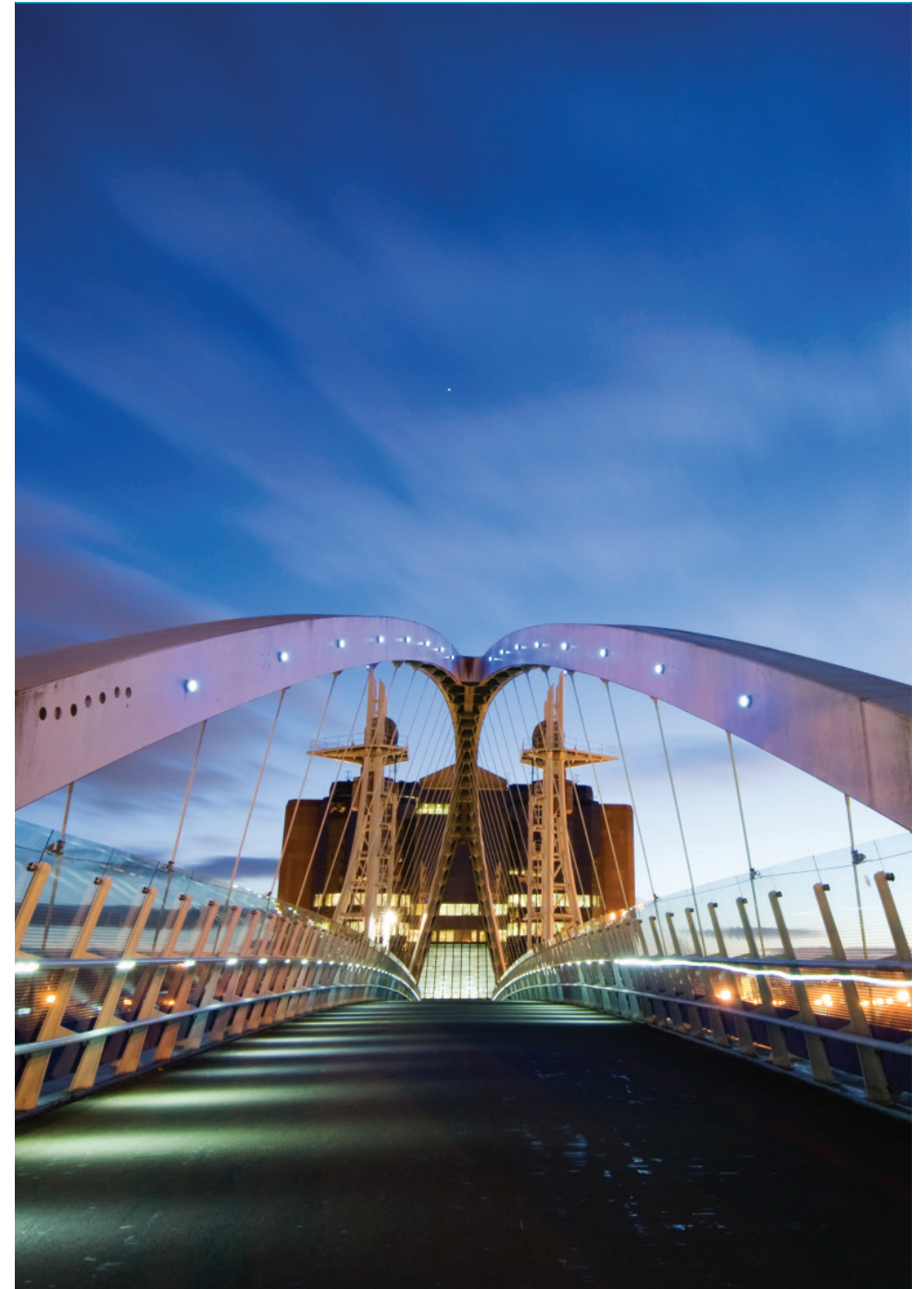
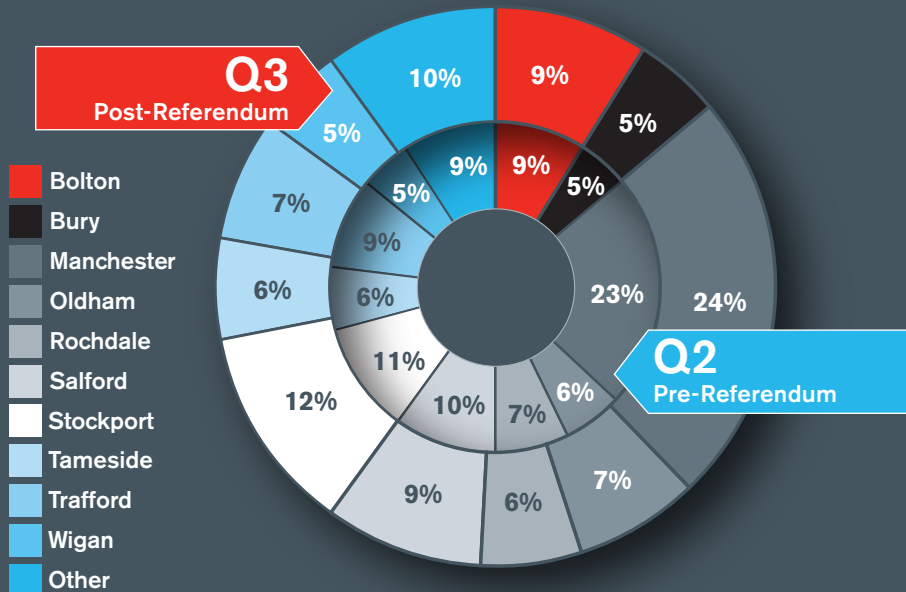
Have you felt any impact on your business of the government's devolution process?



Demographics:



What authority area is your business located in?



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About Duff & Phelps

Duff & Phelps is the premier global valuation and corporate finance advisor with expertise in complex valuation, disputes and investigations, M&A, real estate, restructuring, and compliance and regulatory consulting. The firm's more than 2,000 employees serve a diverse range of clients from offices around the world.

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