

March 7, 2016

## UNITED KINGDOM

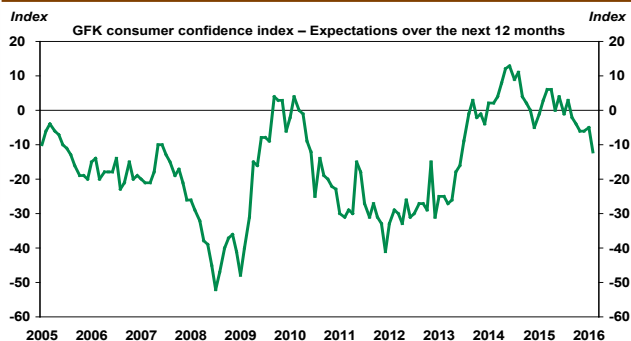
### Brexit: A new source of uncertainty

Following up on a promise made in the U.K.'s 2015 general election, the government of David Cameron has decided to hold a referendum on Thursday, June 23, 2016. The question will be: "Should the United Kingdom remain a member of the European Union or leave the European Union?" After negotiations which, according to the government, made satisfactory improvements to the United Kingdom's political position within the European Union (EU), Prime Minister Cameron is already campaigning for the "Remain a member of the European Union" camp. However, a number of influential members of the Conservative government are already coming out in favour of the "Leave the European Union" option. The debate over the United Kingdom's place within the EU has been going on for some time and a major faction in the Conservative Party has long been skeptical of the European project. The Prime Minister promised this consultation mainly to appease that faction. The risks of seeing a result that favours withdrawing from the EU should not be underestimated: some recent surveys are even giving the option a slight majority. However, the number of undecided voters remains high (up to 25% according to some surveys).

Europe is not all that popular in the United Kingdom, a situation exacerbated by the British economy's better performance. Since the recession ended in mid-2009, the U.K.'s real GDP has grown 13.4%, compared with the euro zone's 5.5%. Its jobless rate is half of the EU's, appealing to the continent's workers. The political and social problems arising from thorny issues like the sovereign debt crisis, the Greek crisis and the migrant situation have also fuelled criticism of the EU. Note that, in the last while, British exports are primarily going to non-EU nations.

On the other hand, the Prime Minister is highlighting the risks of exiting. Although the political ties with Brussels are a burden, the EU remains a major trade partner. Some European voices are warning that a Brexit does not automatically mean another free trade agreement with the

#### British consumer confidence has eroded recently



Sources: Datastream, GfK and Desjardins, Economic Studies

rest of Europe, a situation that could hurt British industry. Of course, the other EU nations would also be hurt by a loss of access to the British market. London's financial sector is also concerned about losing its position as Europe's leading financial centre, even though the United Kingdom has never belonged to the euro zone.

**Implications:** The looming referendum on the U.K.'s participation in the EU is yet another source of international uncertainty, in addition to weak oil prices and slower emerging economies. The financial markets have already responded: the pound is down almost 10% from its August 2015 peak. The British also seem nervous, as consumer confidence has slumped to its lowest point since the summer of 2013. If the referendum results favour leaving the EU, there would be reason to wonder whether other countries will follow suit, further sapping a union that is already showing signs of weakness.

**Francis Généreux**  
Senior Economist

**François Dupuis**  
Vice-President and Chief Economist

**Mathieu D'Anjou**  
Senior Economist

**Benoît P. Durocher**  
Senior Economist

**Francis Généreux**  
Senior Economist

**Jimmy Jean**  
Senior Economist

**Hendrix Vachon**  
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)