

## **Brexit: the impact on global, UK and European business**

What were the drivers? What's wrong?

Two Brexits in one week! (EU and football!)



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## About the author



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These companies are part of the CEEMEA Business Group, which is an advisory and consultancy service, which Danny runs with a small team of long-standing senior colleagues. The services of the Group include written position papers, presentation slides and private client meetings as well as in-house presentations. He is also invited to make some 60 speeches/presentations by clients across the world on global business trends, business operations, emerging markets, corporate best practice.

His speaking ability covers global corporate business trends, corporate Best Practice and specialisations in BRIC (Brazil, Russia, India and China), USA, Europe, East-Central Europe, Russia, Mid-East & Africa and emerging markets. Danny writes a monthly business report for his clients doing business in Russia and he visits Moscow every 2-3 weeks.

For 23 years (until the closure of the Vienna office) Danny was Senior Vice President of the CEE/Russia region at The Economist Group.

Danny has exceptional skill sets in global business strategy, business in emerging markets and CEEMEA and hands-operational knowledge of business operations, distribution, partnerships, investments and human resource issues.

He has worked on a personal basis with hundreds of companies operating in emerging markets for 23 years and has personal contacts with most senior western MNCs operating in the CEEMEA region and beyond. He makes frequent presentations at CEO and Board level (over 100). He has personal friendships with leading executives in many of the leading companies of the world.

He holds and has held a number of non-executive and advisory board memberships with companies in the services, IT and executive search sectors. He is currently a member of the Global Advisory Board of the US company Aecom chaired by former UK Prime Minister Sir John Major.

Dr Thorniley was educated at Oxford University. He holds a Bachelor of Arts degree, a diploma and a doctorate degree in Soviet political economy.

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This paper is in two parts and will be followed by a full global report in 3-4 weeks' time which will assess the underlying fundamental issues facing the global economy.

The two parts of this shorter report look at

- 1) the hard facts and economic business consequences of Brexit for the global economy, the EU and the UK and
- 2) examines in brief the disturbing topic of uncontrolled migration which when combined with long-term austerity programs is at the root of Brexit and much else.

(A note to football/soccer fans: One Brexit in one week could appear an accident, but two Brexits in one week looks like carelessness! ☺)

#### Food for thought:

##### **6 years austerity + uncontrolled migration = Brexit**

- UK median real wages in 2013 were the same as in 1979 (a period of 34 years).
- UK real wages were negative by -10% in 2008-2013 – the worst numbers for 500 years with the possible exception of the Depression of 1867.
- Real wages paid to skilled labourers have fallen by -10% in the last 6 years.
- 17% of UK citizens are self-employed in the UK, the highest number in 40 years and the wages of the self-employed have fallen by -25% since 2008.
- Some 33.7% of total UK employees are part-timers or self-employed, the highest number on record and these people do not have full benefits and are precarious and part of the “precariat”.
- In the UK half of people below the poverty line, who number 13mn, actually have jobs!
- Net migration into the UK in 2015 at some 320,000 was the highest number on record; the second highest number was in 2014; the numbers have risen steadily for the last decade.

Sadly, these economic and migration numbers can be replicated for the Eurozone and the economic ones for the USA.

## Introduction

Everyone knows that no one knows what's going to happen to the UK in the next two years and this of course applies to the next two weeks and two months. The day after the Brexit vote with the UK stock market down just 3.5% and the pound down 8% suggested the storm could be weathered but political risk is now added to the equation and the markets are likely to prove extremely volatile in the short term. This may require global intervention from the main central banks. My own view is that in 12-18 months the UK will be bumbling along with GDP growth lower than prior to Brexit but still positive with the pound relatively stable at about -8% to 12% from its pre-Brexit average. Even today (Monday 27 June) UK gilts (bonds) are in high demand and yields close to record lows as global investors look for security...even in UK gilts!

There is of course immensely growing risk to the EU and Eurozone and it does not surprise that while UK stocks were down -3.5% on Friday, EU stocks were down -8% with Italian and Spanish ones down by -10%. On Monday European stocks were down again along with US ones but both the UK and US stock markets are still around or above their previous 12 month's average after these two miserable days.

BUT the economic and political risk to the EU and Eurozone has never been higher and is more elevated than during the 2008-09 crisis and during the many episodes of possible Brexit.

If the populations of Europe were allowed a free vote today, the EU and Eurozone would be finished by tomorrow.

### The reasons why Britain left the EU and why the EU could implode are the following:

- 1) Deep, obsessive austerity programs destroyed GDP growth (or spread growth unevenly across the country in the case of the UK) and deepened and lengthened the crisis. Most commentators and the IMF now accept this.
- 2) Such austerity destroyed job security and created a new “precarariat” society (precarious) of part-timers and self-employed or put in economic jargon: “the unequal effects of globalisation and “social dumping” in post-industrial communities”.
- 3) Real wages (after inflation) have been flat or negative or below-par in the UK, EU and the USA for the last 5-10-25 years (this is the key economic factor behind social and political alienation: Brexit, Austrian presidential elections, Donald Trump, Marine le Pen).
- 4) Parents have seen the future of their children eroded with no decent outlook for pensions, jobs, welfare.
- 5) People have become more disgusted by manifest corporate and governmental corruption (“taxes are for poor people”), rising social inequality.

These are key factors which have damaged consumer confidence for the last 8 years and also undermined FINAL DEMAND. This is why most companies have not been able to find sustainable, organic sales growth and have never recovered properly from the 2008-09 crisis.

But these commercial and corporate consequences have now morphed into deep and vicious political consequences. Because added to the above mix of financial and economic factors (the gunpowder) has been added the “spark” (uncontrolled migration).

- 6) **It is uncontrolled migration and the perception that the political elites are comfortable with it or cannot prevent it that alienates large swathes and actual majorities of the electorate.**

It is also becoming clear that many large parts of the electorate across the developed world (USA, EU, UK) have an intense loathing and antipathy to the established elites and political establishment: the centre-right and centre-left parties have lost their legitimacy and prerogative to rule. Hence why elections across Europe are now so fragmented and why Bernie Sanders and Donald Trump have done well in the USA.

It is this combination (economic insecurity and uncontrolled migration), which caused Brexit and has the potential to destroy the EU and Eurozone. More on this below in the final section of this report.

### The factors that will define the medium-term outcome and the extent of any downturn:

- 1) The timing for implementing Article 50 for leaving the EU is definitely in the hands of the UK government so they can control “the start date for departure”. This helps control the process.
- 2) The UK government will conduct twin-track but separate negotiations with the EU
  - a. discussion on the practicalities of leaving: mutual debts, unravelling legislation and this has a two-year period from the start date and will probably take that long but
  - b. the negotiations for creating new relationship could prove sticky and take 2-5 years or even longer for a final, final resolution.
- 3) Much will depend on whether the UK is accepted into
  - a) Membership of the European Economic Area which would permit membership of the single market (such as Norway). This is the preferred option of the establishment and City. But it requires “free movement of labour” which is what Brexit was designed to prevent for most voters and also sizeable payments to the EU budget. Several senior UK politicians are now pushing for this.
  - b) The second alternative of a separate free trade area in goods such as Canada could take much longer and excludes financial services and includes non-tariff barriers.
  - c) While the third option of ticking along using WTO legislation entails fewer benefits to the UK, tariffs and also excludes financials and services.

Without a free trade agreement or a special Association (and the latter looks unlikely and the former not probable at the moment), then the economic consequences will be noticeable.

## What are the consequences of Brexit for the global economy and business?

- 1) Global growth was already fragile, prior to Brexit and last month the World Bank downgraded its own estimate for 2016 for global growth from the consensus figure of 3.0% to a radically lower 2.4%. This seemed a bit extreme and I was looking at 2.7%. But Brexit certainly will entail weaker trade and investment globally and will undermine confidence. Global growth for 2016 could manage 2.4/2.5% on a central scenario. 2017 will probably now need downgrading from 2.9% to 2.7% before climbing back to 3.0% in 2018. This is both the central and best case scenario.

But if a domino effect starts in the EU or political risk heightens more than in our central scenario, then global growth in 2017 could stumble to 2.0% or less which would feel like a recession.

- 2) Much depends on the EU and Eurozone outlook. We have harboured doubts about Eurozone sustainable growth for years. Even in 2016 when the region is in a sweet spot with low oil, low inflation and a weaker Euro, the Eurozone can barely manage 1.6%.

We think Brexit will shave off 0.2% this year and take the region down to 1.4% in 2016 and the figure will remain at 1.2% or 1.3% in 2017. Again all risks are to the downside and if another country opts for a referendum or Exit or even PM Renzi in Italy loses his October referendum on constitutional reform (sounds familiar?), then confidence and investment will collapse and the Eurozone could easily tumble to 0.5% growth or land in a formal recession at -1.0% or worse. This is not our central scenario. But last week the probability of Eurozone recession or sub -1% growth was just 10% and now it is 45%.

Germany and the Eurozone need to respond with a stimulus packages of massive investment in infrastructure (Germany is one of the worst investing countries in the OECD) and creation of real jobs, with massive training programs that lead to real, full-time and long-term jobs sponsored, if need be, by state subsidies, with massive investment into IT and R&D. This can easily be funded by debt while money is so incredibly cheap and supported by well-financed and well-structured PPP projects (and not ones where the state is ripped off).

It is doubtful that the EU establishment has the sense or competence to do this. It is more likely that a bunch of tired looking, grey-haired old men will utter the same delusional platitudes that have caused sub-par growth for 8 years and youth unemployment of 25% across the continent with youth unemployment in the peripheral countries at 48%. The economic and political mismanagement of the EU and Eurozone is chronic and tragic. The appalling Jean-Claude Juncker, president of the unelected and fumbling European Commission is surely the worst and most detached politician on the planet today (reportedly by other EU politicians and allegedly he drinks large amounts of alcohol).

On the political side, the European external borders need to be controlled by the EU's Frontex which laughably 10 months after the migration crisis of summer 2015, remains Mickey Mouse and underfunded, an organisationally crippled institution.

- 3) Presumably the oil price will suffer (marginally in the central scenario and less well in the worst case) from downward pressure as global GDP growth falters. The current consensus for the oil price is \$47 to \$55 for the next 12 months and this remains plausible perhaps on the downside but the price could be supported upwards by weaker global supply.
- 4) Interest rates will remain lower for longer. US rates may not now rise at all in 2016 or by one increase at most in the autumn. The UK will probably cut rates (see below) and Eurozone rates will remain at zero and negative in real terms for the next 2-5 years.
- 5) In the rush to safety, yields on most bonds of developed economies have collapsed to record lows in recent months and, given increased global risk, will likely remain very low.
- 6) FX rates: the pound will be weaker than before and the Euro ought to weaken versus the dollar. At the moment (today!) we do not forecast a long-term pound sterling collapse but more a noticeable correction and softening.

## What are the consequences of Brexit for the UK economy and business?

The threats to the EU and Eurozone are probably larger and more critical than those to the UK (see above and below).

### GDP growth

GDP was relatively good for the UK in 2014-15 compared with weak growth in the EU and around the world: GDP was up 2.2% in 2013 and rose well in 2014 by 2.9% and then slowed to 2.2% in 2015. But GDP was decelerating already in late 2015 and the Brexit prelude saw growth slow down further in 2016 and trended at just 2.0% in Q1 of 2016.

The consensus for 2106 was also 2.0% but we anticipate weaker investment in the second half of this year and thus GDP will come in about 1.5% or even 1.3% this year.

All sorts of factors – falling confidence, weaker domestic investment, postponed foreign investment, higher inflation and a weaker pound – will ensure that GDP growth in 2017 will decelerate from the expected 2.2% to a level ranging from 0.3% to 0.9% depending on how negotiations proceed with the EU and what the trends are after 6-9 months of volatility.

In 2018-2022 instead of trending at 2.1%, we anticipate mid-term growth of 1.4% to 1.6% or slightly higher.

We are presuming here a central scenario where negotiations with the EU do not unravel and that there will be fiscal stimulus from the government (and not sustained austerity) along with monetary stimulus from the Bank of England.

If the government maintains austerity, then the economy will sink to zero growth or recession or -1.0% (we also presume that Chancellor Osborne will be out of office in the coming months).

### Inflation

Inflation will rise but was going to anyway and from low levels.

Inflation was close to flat/zero last year (2015) and was just 0.3% in the first 4 months of 2016. Even without Brexit inflation was expected to pick up to an average 0.8% this year and to 1.5% in 2017. But we are unsure how much the pound will decline (see below) and if the pound is actually more resilient than expected and if growth decelerates which it must, then weaker demand will see inflation under control.

Summary: inflation could spike but from low levels and as inflation was flat in 2015, we anticipate a rise to 1.3% this year and to 1.8% next year (2017). There is upside risk to 2.5% or even 2.8% in 2017 but we think the inflationary “threat” may be overdone.

We do not think there is any serious risk of hyper-inflation or even prices rising by more than 3-4% in the central scenario.

### Which types of companies affected?

By law, nothing much will change in the coming weeks and months for companies based in the UK and possibly this corporate interregnum could last 2-3 years. That’s the good news. But of course uncertainty and volatility will undermine confidence and investment.

It will be the massive level of uncertainty which will most undermine all sectors of business for the next 18 months.

Large infrastructure projects and major new investments in construction, utilities and energy will find it harder to find buyers and new investors. But those investors who aim for the domestic market may argue that “over

the next 5-10 years the UK will remain one of the top 3-4 markets in Europe for its own market and we want to be there”.

Inward investment for the purely UK domestic market may hold up but of course even these investors will have to factor in a weaker market and one detached from the EU depending on any final trade agreement. But certainly those investors where business is predicated on extensive UK-EU supply chains will have to factor in uncertainty for the next 2-4 years while new arrangements are sorted.

The automotive industry will probably be hit by weaker consumption as consumers delay purchases and by future issues in 3-4 years regarding pan-European supply chains. This will depend on the deal that is finally concluded between the UK and EU. Estimates suggest car sales could fall -5% to -15% in the next 12 months.

Retail sales have been under pressure, as they are globally, and much UK consumption has been financed on credit (given that wages are so poor) and with presumably weaker growth and slightly higher inflation, therefore retail sales will slumber but again we do not envisage any deep collapse, rather softer progress in what is a very price competitive market anyway.

Several CEOs have argued that their portfolio contains a lot of sales to the US and that with the stronger dollar, profits from such sales when repatriated, will benefit the UK-based balance sheet. This applies to many companies across sectors including pharmaceuticals.

Overall exports will benefit from a lower pound and presumably a relatively lower cost base in the UK. But we note that the FX-export benefit will be more than negatively compensated by weaker investment and soft consumer and business confidence.

Having spoken with many CEOs and senior international managers in recent days (I was in the UK by chance when the referendum took place), overall I would summarise the middle-case scenario as not critically bad for most companies but certainly not good either, and the majority feel they will hunker down and be able to manage to survive or do better: as the famous World War II postcard stated: “Don’t panic and carry on”.

## Stock markets

Anything could happen in the coming weeks and months but long-term over 18 months the UK markets could stabilise at a level of -5% on the last year’s average or float at -5% the global stock market trends (whatever they may be). The consensus and we do not envisage a stock market collapse in a middle case.

## Interest rates

The key Bank rate remains at its lowest level since 1869 at 0.5%. We expect Governor Carney to support growth and confidence by reducing the rate to 0.25% or even to zero over the next weeks and months dependent on the severity of the downturn in growth and global/European confidence.

If the pound were to slump more than we expect, then he may be slightly reluctant to cut rates so much.

## The pound sterling

The pound will be weaker but it has not really collapsed yet. The pound on Friday night after the referendum was -6% on its January 2016 figure versus the Euro BUT was above its multi-year averages against the Euro. Versus the dollar the pound is down just 5-8% on January 2016 and -12% on multi-year levels. We should remember that the pound spiked upwards in recent weeks on the presumption of a Remain vote (!) and that most currencies have slipped badly against the US dollar in the last 2-3 years.

The weaker pound will of course help UK exporters but they will be faced like all companies with a weaker mood in confidence and investment and perhaps by increased political turmoil and risk.



Finally, house prices will probably drop -5% to -10% outside London and by higher margins at the high end as some oligarchs and Arab investors turn elsewhere. But lower house prices and lower interest rates will help first-time buyers and younger purchasers.

### A couple of weak links?

Despite all the Chancellor's efforts and austerity cuts the UK budget deficit last year was still -4.4% and the expectation was that this would be reduced to zero by 2019. This surely now looks politically unattainable and we estimate that the deficit will hover around -2% to -3% for several years. Government debt as a percentage of GDP at around 90% is very close to the Eurozone average.

The current account deficit is also known to be quite elevated at -5.2% was expected to remain at about -5% until 2018. There is a small positive chance that the weaker pound will encourage exports and reduce this deficit to -3% by 2018-19. Financing the deficit ought to be little problem as long as demand for UK/pound sterling assets remains as good as they are today or decline only moderately.

### The state of Britain

The only certainties are that the next weeks and months will be filled with uncertainty and volatility; the economy will certainly weaken and the only question is by how much (my hunch is moderately and manageably); most corporates will experience weaker business over the next 2-3 years but again perhaps at manageable levels as business adjusts to the new normals. But risks for the UK and the Eurozone and the global economy are all to the downside for sure.

We argue below that the issue of migration (the perception of uncontrolled migration) took the UK out of Europe and is currently and literally ripping the UK apart:

- The UK is leaving the EU
- The UK PM has resigned (and the manager of the England football team has also resigned --- perhaps this is the first time in UK history where this situation applies! ☺)
- The Conservative party is in extreme conflict
- The Labour party is on the verge of implosion
- There will probably be a national general election in the next 18-24 months
- Scotland will probably secede from the United Kingdom in 2-4 years
- And, less in the news is the growing possibility of a mini civil war or renewed terrorism in Ireland over the creation of a new "hard border" between north and south. The Irish nationalist party Sinn Fein has already called for a unification referendum.

The Brexit vote has scorched the deepening political faultlines across the country and the growing alienation of the people away from Westminster. The vote has also split the country by regions against London, by class lines, by educational levels, by cultural affiliation and by age and generation.

### What is the impact on Russia and the CEE region?

- Directly not much actually. Traditionally the UK has not done much business proportionately with the CEE region and the same applies to Russia. Direct investment from the UK is often moderate or small.
- The rouble has in fact strengthened a little in recent days even with the oil price flat at about \$48-49 and most CEE currencies have declined by only 2-3% in recent days.
- The core CEE markets have experienced an excellent 2-3 year stretch and the only real risk for them is any serious collapse in the Eurozone and of course the chance of this happening has risen but, as we note above, this is not a central scenario for now. If 0.2% to 0.3% is clocked off Eurozone growth, then GDP growth will be clipped marginally in the CEE markets also by about the same scale. Given that these markets are growing well in range of 2.0% to 4.0%, this is something most of them should be able to absorb without too much trouble.

- Russia is only really vulnerable if Brexit hits the oil price along with global growth and then all our scenarios from our Russia reports would come into play. As long as the oil price fluctuates above \$45, then the rouble can retain some moderate strength and the consequences for the Russian economy would be muted.
- We repeat of course that all this applies in our central scenario.

## Conclusion and some home truths

### And what was it really all about?

#### **I am surprised there has not been a social revolution in the UK.**

Who said this in 2011? Some disappointed radical revolutionary? No, it was Sir Mervyn King, the then Governor of the Bank of England. Well there was no social revolution in the UK in 2011 but there was last week.

Mervyn King, who also condemned the excesses of the financial sector and damned prevalent “casino banking”, was surprised because the damage caused by the financial crisis, which was then followed by excessive and obsessive austerity programs in the UK and Eurozone, ought to have caused more of a social and political reaction.

The austerity policies of the UK and EU have destroyed job security and undermined real wages over the last 5 and 20 years (also in the USA –see above). People feel they have been mistreated economically and financially. They feel that their elected representatives have abandoned them and are more concerned about the welfare of a minority running the banking sector or with a minority of foreign migrants; they see that no one was punished for the financial crash of 2008-09; they witness growing social global and regional inequality and manifest corruption and tax avoidance (“Taxes are for poor people”) as exemplified most recently in the Panama Papers, and they see the financial security of their children eroded.

#### **This is the gunpowder; the spark is migration. The UK left the EU because of migration.**

Of course there were many factors but the perception of uncontrolled migration was the decisive factor for Brexit.

The following remarks are not pleasant and represent analysis and do not necessarily reflect my personal opinions. I state this to avoid any possible criminal prosecution under EU or Austrian laws or UK laws for “hate crimes” or “hate speak”.

Large sections of British citizens (white working class and lower middle class) especially in the north, north-east, eastern UK and the midlands and combined with middle class and lower middle class voters in the south, south-east and central England do not want any fresh immigration of Black, African, Middle eastern, Arab, Muslim migrants into the UK nor do they welcome migrants from south-eastern Europe.

Mass migration into the UK started to climb significantly from 2004 and this was something the “left- behind segments” of British society never voted for and never accepted.

They got their revenge last week.

Accusing people who think like this of being stupid, ignorant, fat racist fools is not constructive and often does not attract their vote, as we have seen. But unless European governments understand this, the political and social outlook for the EU is bitterly bleak.

Global migration, at its highest levels since 1945 and which we all know is part of globalisation and the political implosion of the Middle East, is the ticking time bomb of the 21<sup>st</sup> century. UK and European politicians have failed miserably in addressing it both in terms of communicating with people and

addressing their fears and at the practical level of setting sensible policies and ensuring competent control of borders. It is not racist to ask to discuss the issue of migration and to ask to debate whether multiculturalism is good or bad and to ask what the fiscal cost is.

The fiscal cost of migration is hardly ever discussed but my own investigations from public sources suggest that 100,000 migrants costs a government one billion Euros each year. This is a bit of a guesstimate but seems about right when the German budget allocated 15bn Euros for migration purposes after receiving over one million migrants in 2015.

Last October EU Commissioner Tusk (someone who has not covered himself in glory in recent years) stated that:

The EU does not control its external borders.

This was a frightening and shocking confession. What is perhaps even worse is that the same applies today. Aside from seeking to “bribe” and buy-off an increasingly authoritarian Turkish regime, little has been done effectively. Of course countries have taken unilateral actions and closed borders and including Austria and Sweden: if Sweden, a rich, affluent, liberal, tolerant society cannot make migration work and employs its army to close the border, what hope is there for other societies?

But I am genuinely sorry to say that much of the blame lies at the doorstep of German Chancellor Angela Merkel (a competent and decent person). Her administration though was the one fixated on obsessive austerity which undermined the economic and social relations of the EU and then in the autumn 2015 she made the most catastrophic decision of the 21<sup>st</sup> century (to date) by announcing German open borders (if only for one week before back-tracking). The rest of the continent is now paying for that totally ad hoc, unconsidered emotional decision and announcement. The EU institutions have failed to function and proven incapable of ensuring a viable migration policy with efficient border controls. The laws for migration set up in a different age after the Second World War need rescinding and modification; instead we have had delusional wishful thinking and anyone who raises any questions is accused of racism or of being a member of the Ku Klux Klan!

The Chancellor’s’ behaviour last autumn is all the more off-hand given that in October 2010 Angela Merkel stated the following:

Multiculturalism has failed totally. The idea that people from different ethnic groups working successfully side by side is wrong.

The Brexit decision and the close result in the Austrian presidential election and the rise of Donald Trump and new populist parties in Sweden, the Netherlands, Denmark, Greece, Spain, Italy and even Germany, stem in largest part from metropolitan, liberal, middle class and detached established elites ignoring the wishes and aspirations of millions of grass-root voters.

The political system is ruptured.

In the UK Brexit referendum, the Remain side focussed on the economic risk and reeled out dozens of global officials and leaders who warned the British people of economic collapse if Brexit won. But as one UK politician commented: “They are not listening, they don’t care. This is not about money, it’s about race”.

Yes, and it’s something more as well: in a globalised economy where hundreds of millions have been left behind and are faced with patronising and frequently corrupt and venal leadership, the electorate wanted to “send a message” to this detached establishment. This was pay-back time.

The key issue in the UK revolved around viscerally-held, atavistic, nativist, nationalist, patriotic values which were entirely related to questions of culture and national identity.

A mini example of this now being recognised is that just this week members of parliament from the British Labour Party rebelled against their left-wing party leader Jeremy Corbyn. This internal political revolt was instigated by his remarks last weekend that he “accepts open migration with all its benefits”. But his parliamentary party colleagues now realise that if this is their party’s policy, then, after being eliminated last

year in Scotland, they would be wiped out in their northern and central heartlands of white, working class voters. Without Scotland it is very unlikely that Labour will ever form a UK government again; without their working class heartlands they lose their raison d'être. Related to our comments, one very senior Labour adviser notes: "Labour movement activists have to stop dodging working-class objections to low-wage inward migration or assuming it can all be resolved by an appeal to anti-racism".

The populist, nationalist party UKIP, led by Nigel Farage, gained 4 million votes in the general election last year and looks set to increase that number substantially next time. Labour politicians are also rebelling now because the possibility of an early general election in the next 18 months is a growing possibility.

It is clear from the above and recent elections in Austria, Germany, Italy, Spain and upcoming ones in France that the traditional parties of the centre-left and centre-right have lost their legitimacy with large swathes of the UK and European electorate. The rise of Donald Trump to become the Republican presidential nominee is another example of the collapse of the traditional political elites.

If the Eurocrats and bureaucrats and political, metropolitan elites of the EU do not recognise the visceral, atavistic nature of the migration question, then the EU will splinter in the next 3-5 years. This disturbing conclusion has been supported recently by an internal report of the German Finance Ministry which accepts the growing possibility of "Austria, the Netherlands, Denmark, Sweden, Hungary and even France voting to leave the EU in the coming years". The sad reflection is that ruling European governments now have to keep their people away from the voting booths.

As ever, I hope you have found this report useful and if you have any queries or comments do get in touch at [danielthorniley@dt-gbc.com](mailto:danielthorniley@dt-gbc.com).

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