Deal or no-deal? – What can the middle class expect?

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A never-ending Brexit. Following the agreement between Brussels and London to extend the deadline until the end of October, negotiations are still going on. But a no-deal scenario is still on the cards. Medium-sized companies are suffering from uncertainty – and are proving to be astonishingly resilient.

If business is 50% psychology, the nerves of medium-sized businesses must be completely raw. After all, the economic situation in 2019 is difficult, even without Brexit: punitive tariffs between commercial powers, slower growth in China and Italy's burden of debt, to name just the biggest risks. And now there's also the possibility of a no-deal Brexit. Will it plunge Britain into a recession? What will happen to medium-sized companies? And how are businesses dealing with the uncertainty?

The second-hand machine industry is rarely the centre of attention. Perhaps it's because it's been thoroughly shaped by medium-sized enterprises. Even important players on the market, such as industry operator Surplex, have around 200 employees and an annual turnover of almost €100 million. However, all companies in the industry, including smaller dealers and industrial auction houses, successfully export within the EU and worldwide. For instance, Surplex has branches in nine European countries including the United Kingdom. The German parent company based in Düsseldorf sells most of all industrial goods within the EU. By the same token, its subsidiary Surplex UK also exports a large proportion of its machines to the EU – and this trend is increasing. A functional single market is the backbone of the European machine trade. But this could soon stop at the Channel. Will the logistics chain collapse? Will lorries clog up roads for miles? Will air and maritime traffic be affected? The industry is trying to adapt to Brexit. But the big question is still the same: deal or no-deal?

Daniel Jankowiak, head of Customs and Exports Control at Surplex, is sceptical: “If future trade is carried out to WTO standards, machine exports to the UK might no longer take just a few days, but months.” As well as considerable delays when transporting goods, he is also expecting new legal hurdles. Jankowiak finds that slightly ironic: after all, Brexiteers have constantly been complaining about the bureaucracy in Brussels. But a no-deal Brexit would make the value of uniform regulations, standards and laws immediately clear, for example when exporting dual-use goods such as high-precision machine tools.

On the other side of the Channel, the situation is being viewed more positively than expected. John Heath, Acquisition Manager for Surplex UK (London), is familiar with the worries of British medium-sized companies. His job is to support businesses being restructured or facing insolvency in selling their excess stock. Heath has been surprised by the resilience of British SMEs: the number of companies declaring bankruptcy may have gone up by 0.5% in the last few months, but he says that isn’t a consequence of Brexit. Businesses in the construction and retail industries, which have had to struggle with digitalisation, have been most affected. Manufacturing companies, such as those involved in metalwork and woodwork, haven’t shown a significant increase in cases of insolvency.

Other experts have painted a mixed picture. According to general opinion, investments and exports have dropped because of Brexit. On the other hand, the employment market seems to be developing positively. According to surveys, 75% of British SMEs want to take on new employees over the next year. Mike Cherry from the Federation of Small Businesses wants to emphasise that it's how Brexit plays out that will be decisive for its development. Dr Ross Brown from the Centre for Responsible Banking and Finance, even thinks it's possible for some individual companies to benefit from a no-deal Brexit.

However, one industry that is very unlikely to profit from a no-deal Brexit is the British automotive industry. Even without Brexit, the industry is under pressure. According to a study by the University of Oxford, trade disputes with the USA, environmental issues and structural problems have led to investments decreasing by 80% over the last few years. A no-deal exit from the single market would give rise to the threat of economic freefall. Vehicle production could take a hit of up to 50% by 2025. This would have dramatic consequences for the employment market and the affected regions, especially northeast England, Scotland and Wales. The question is whether a deal or no-deal Brexit could be the decisive factor for the fate of the British automotive industry.

The bottom line is that a soft Brexit, with London and Brussels coordinating future trade regulations, would be easier for SMEs to handle. Companies have adapted to Brexit and are operating successfully in difficult conditions. On the other hand, a hard Brexit, which would lead to trade relationships according to WTO standards, would have serious impacts, not only for SMEs, but the British economy as a whole. As such, the Confederation of British Industry (CBI) has warned that Britain's GDP could sink by 8% if this is the case.

For an SME like Surplex, a no-deal Brexit would lead to higher costs, delays in machine transport and longer and more complicated authorisation procedures. It would throw a spanner in the works in an already unstable situation. Even if you consider the positive impacts of a no-deal Brexit, such as cheap exchange rates and a greater range of second-hand machines, the negative effects clearly outweigh them. Increased costs and more bureaucracy are always detrimental for growth. That is why we should avoid a no-deal situation. Fortunately, a political majority for this worst case scenario isn't in sight. Yet a desire to return to economic rationality is currently becoming more and more popular all over Europe.