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Brexit may stall business investment

Experts uncertain of long-term impact

By [Dustin Walsh](#)



Photo by Tomohiro Ohsumi/Bloomberg A European Union flag, left, and a British Union Flag, also known as a Union Jack, stand at a foreign exchange brokerage in Tokyo, Japan, on Friday after Britain voted to leave the EU.

United Kingdom voters' choice Thursday to leave the European Union sent markets into a tizzy. But the lasting global effects of the "Brexit," particularly in Southeast Michigan, are foggier than a spring morning on the English Channel.

What is certain is that the British exit from the EU introduces uncertainty that will affect businesses' investment decisions and planning in coming months.

Locally, the impact hit hard. Troy-based **Delphi Automotive plc**, which is incorporated in the U.K., watched its shares plummet more than 12 percent — losing \$2.35 billion in market value. Bloomfield Hills-based **Penske Automotive Group Inc.**'s shares fell more than 10 percent.

"The big picture here is that (Brexit) creates a very large amount of uncertainty about what happens next," said Kyle Handley,

assistant professor of business economics and public policy at the **University of Michigan**. "We don't know how this is going to play out, but it's likely this is going to cast a damper on investment and decisions for Michigan businesses with operations in the U.K. and the EU."

U.K.'s exit strategy from the EU — which operates as a 28-country (soon to be 27) bargaining chip for trade agreements, immigration policy, etc. — will take years to play out, Handley said.

The U.K. will begin to renegotiate trade deals with the EU. It currently operates with complete free trade, zero tariffs, among the EU member nations. The U.S., which has no free trade agreement with the EU, operates under the **World Trade Organization** standards with the member countries, paying an average of 5.3 percent tariff on U.S. products imported to those nations.

"This is what the U.K. faces," Handley said. "I'm sure the U.K. would like to replicate its current deal, but the EU has more bargaining power. Michigan companies operating in the U.K. may now feel that's not where they want to be because it'll be more expensive to export products and services."

General Motors Co., which operates its Vauxhall unit in Luton, England, said in a statement that expedited negotiations are critical to minimize impact to the automaker.

"It is important for GM's local operations that negotiations on the U.K.'s future relationship with the EU are concluded in a timely manner," the brand said in a statement to *Automotive News Europe*. "It is also important that business continues to benefit from the free movement of goods and people during this period. Communication on the development of the future relationship with the EU should also be clear and transparent."

Delphi generates about 5 percent, or \$758 million, of its global revenue from the U.K., it said in an emailed statement to *Crain's*.

"Given the volatility created by the Brexit vote, we will continue to monitor the potential impacts on our business, including the impact from foreign exchange movements," it said in the statement.

Southfield-based **IHS Automotive Inc.** cut its 2017 U.K. auto sales forecast Friday down 220,000 units to 260,000 units from its projection in early June of down just 105,000 units after a long period of growth.

Penske Automotive's stock price dropped to its lowest levels since February in the wake of Britain's vote.

"It's been a crazy night and morning," Tony Pordon, Penske executive vice president of investor relations and corporate development, told *Automotive News* on Friday. "Everybody is just speculating. The simple fact is, this is unprecedented, so we don't know how it's going to affect us."

In 2015, Penske dealerships in the U.K. contributed just more than \$6 billion in revenue, or nearly one-third of the company's total. Roughly 30 percent to 35 percent of profits in Penske's auto retail business come from U.K. dealerships, Pordon said. Penske has 94 dealerships there, largely representing British and European luxury brands.

Charles Chesbrough, executive director of strategy, research and senior economist at Southfield-based **Original Equipment Suppliers Association**, said every decision about U.K. investment from U.S. firms will be under review as negotiations ensue.

"Uncertainty is an investment killer," Chesbrough said. "Until the dust settles and new trade arrangements are signed, I can't image auto companies will consider significant investments in the U.K. So ... plans under consideration will likely be left on hold. Current investments will not likely change over the near term, but depending on what final agreements are, certainly there is the possibility that manufacturing will move out of the U.K. if duties are implemented."

Jeff Van Winkle, partner at Detroit-based law firm **Clark Hill PLC**, said a current client is pulling a \$5 million investment in a project north of London and moving it to Ireland.

"I'm waiting for the call right now for them to pull the trigger," Van Winkle said Friday. "Unless a business has a compelling reason, they're not going to invest in the U.K. If they plan to grow, they are going to do it somewhere else."

However, Charles Ballard, professor of economics at **Michigan State University**, said the Brexit won't be the cause of a major recession — predicting the global economy to slip only two-tenths of a percent — unless others join the U.K. in leaving the union.

"By itself, I don't believe that's enough to trigger a global recession," Ballard said. "But combined with China not growing as fast, and worries about the U.S. economy after last month's jobs report, this is a worry. What if other countries pull out of the EU? Brexit is only a medium-sized snowball, but if it starts to roll downhill and gets bigger and bigger, the damage to the world economy could be much bigger than the immediate damage caused by Brexit."

Scotland, which voted down its own independence from the U.K. in 2014, may do the opposite and vote to leave the U.K. and join the EU, Nicola Sturgeon, first prime minister of Scotland, told the BBC Friday.

Sean McAlinden, vice president for strategic studies and chief economist for Ann Arbor-based **Center for Automotive Research**, believes the markets are overreacting and business will readjust as usual.

"The U.K. and the auto industry have survived much tougher challenges than a happier English public," he said. (The) effect on Michigan is restricted to panicky financial markets for a while and cheaper oil and gasoline. Auto sales were going to be off this month anyway. The Dow Jones will be down 3 percent to 4 percent for a week maybe."

- *Automotive News contributed to this report.*

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