Brexit: What next after the 'meaningful vote' delay

The Prime Minister has postponed the Parliamentary vote on Brexit and will return to Brussels to seek concessions on the Irish backstop. But with limited scope for renegotiation, finding a solution that gains Parliamentary approval will remain challenging. This makes for a more volatile period for the economy and markets

Theresa May holds cabinet meeting

Source: Shutterstock

Faced with the prospect of a potentially huge Parliamentary defeat on her Brexit deal, Theresa May has decided to pull Tuesday's critical vote.

Saying anything concrete about the Brexit timeline for the next few days is, to put it mildly, difficult. That said, out of the various possible scenarios, we think **three are more likely to materialise** in the immediate aftermath of Monday's developments.

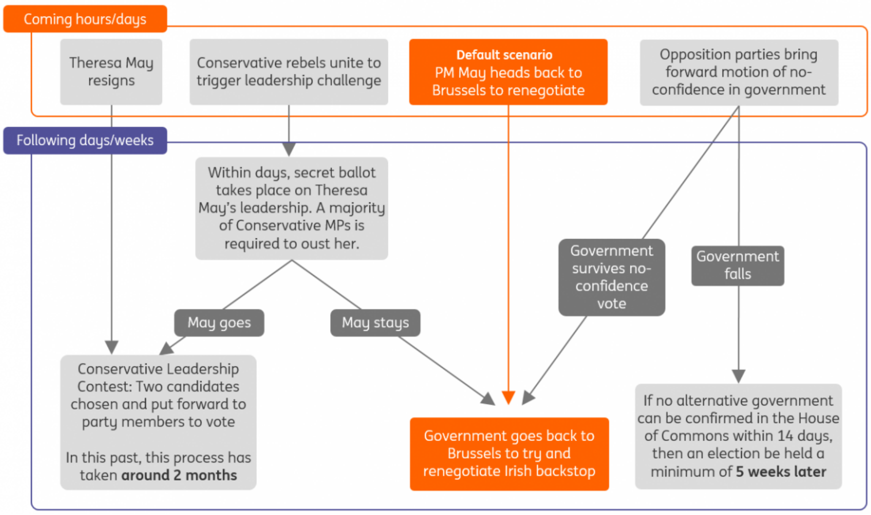
In short, barring a push for a fresh election or Conservative leadership challenge, Theresa May will return to Brussels to renegotiate on the backstop - although it's not clear that EU leaders will be prepared to budge.

In our view, this means there is very limited scope for a 'quick win' that would give Parliament sufficient reassurance, and we think there's an increasing possibility that the

House of Commons vote will be postponed until after Christmas, and potentially much later into 1Q19. In doing so, the Prime Minister may be partially hoping that by pushing the vote closer to March 2019, the economic risks (and market volatility) associated with 'no deal' will appear more imminent and will help focus minds in Parliament.

However, there are no guarantees this will be enough to gather support for her deal. In the end, we think there is an increasing probability that Parliament will push the government towards the 'Norway Plus' model, or even potentially a second referendum, to secure approval and thus avoid 'no deal'.

Possible Brexit scenarios for coming days and weeks



Source: ING

1 A no confidence vote in the government

Over the next few days, there could be an attempt by the opposition to force a general election. This would require the opposition Labour Party to initiate a vote of no confidence in the government, and would require a majority of MPs to support it. This would need some Conservative and/or Democratic Unionist Party (DUP) MPs to say they have no confidence in the government, which still seems like a tall order, despite all the recent unease.

Labour leaders may also be acutely aware that, if any vote of no confidence were to fail (thus ruling out an election), it would likely place immense pressure on the party to back a second referendum. Despite some prominent Labour figures talking up the chances of this, it's not immediately clear whether the Labour party as a whole is prepared to actively back a second vote at this stage, particularly given that many of its MPs represent staunch Leave-supporting constituencies.

But if a no-confidence motion were to pass, then an election would be triggered if no alternative government can be confirmed in the House of Commons within 14 days. While this could happen in as little as five weeks, the article 50 period may still need to be extended, given that by that stage time will be running very short to find a Brexit strategy that can unite a newly elected

Parliament.

2 A Conservative leadership challenge

Secondly, calls for a leadership challenge are inevitably likely to grow. This has of course been mooted several times over the past few months, but thus far the threshold of 48 MPs required to trigger a no-confidence vote in the leader hasn't been met. That could change over coming hours, although if enough letters come in, there's no guarantee Theresa May would lose a leadership challenge, given that over 150 Conservative lawmakers would need to agree.

If she were to lose, however, then a leadership contest would be initiated and the various contenders would be whittled down until the two most popular candidates amongst Conservative MPs are left. The choice would then be put to party members, and based on historical races, this typically takes around two months to complete (factoring in time for hustings, printing and posting ballot papers, etc). As in the case of an election, this would take us much closer to March 2019, and assuming the new leader would want to hold their own renegotiation on the deal, would also likely require an article 50 extension.

3 May heads back to the EU to renegotiate the Irish backstop

Barring either of the above scenarios materialising, then Theresa May has signalled she will return to Brussels to seek further concessions on the Irish backstop. More specifically, the government will push for stronger legal reassurances that the backstop will never be needed in reality. initiated seems like a big ask, given that if the UK were to have a legal way of avoiding the backstop - be it through a unilateral exit mechanism or other legal means - then EU leaders would likely feel it would not represent a strong enough insurance policy against a hard border.

In other words, aside from a few stronger political statements, it's unlikely that the EU will be prepared to sufficiently change the deal to meet Parliament's demands.

So while May is set to hold meetings in Brussels this week, our feeling is that this could result in the vote being pushed back until well after Christmas. Here, it's worth noting that the Prime Minister has already fulfilled the original requirement for her to report back to lawmakers by 21 January, having already informed Parliament about the agreement-in-principle a few weeks ago.

This means that the only true deadline in this process is 28 March - although to avoid extending the article 50 period beyond then, the agreement would need to be ratified before 26 February, to meet a Parliamentary requirement for it to be laid down 21 sitting days before coming into effect.

As discussed in the introduction, we think it might not be until much closer to this date before we know for sure that 'no deal' has been avoided, and in the end Parliament may push the Prime Minister towards a Norway-style deal, or even potentially a second referendum, in order to secure approval from MPs.

What does this mean for the economy?

A sharp fall in last week's UK services PMI demonstrated fairly clearly that concerns about 'no deal' are beginning to have a tangible impact on growth. With the vote increasingly likely to be pushed back into the new year, we suspect this weaker momentum will persist over the winter.

It seems likely that we'll see increased signs of firms activating contingency plans over the next few weeks. Various surveys suggest that a sizable proportion of companies are yet to take firm action on Brexit. For instance, a recent CBI survey found that only 41% of firms had carried out some kind of contingency plans so far.

There is also increasing evidence that this sentiment is beginning to weigh on consumer activity. Consumer confidence has slipped below post-Brexit levels, driven by concerns about the general economic situation. This is likely to have played a role in the weaker footfall seen around Black Friday (although a trend towards online shopping will have also been a key factor) and it makes for a tricky Christmas trading period for retailers.

Throwing all of this together, we expect economic growth to slow to 0.2/0.3% in the fourth quarter, halving the rate of expansion seen in the third quarter.

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