

# BREXIT: THE IMPACT OF EXCHANGE RATE VOLATILITY

## Sterling vs Euro Exchange Rates

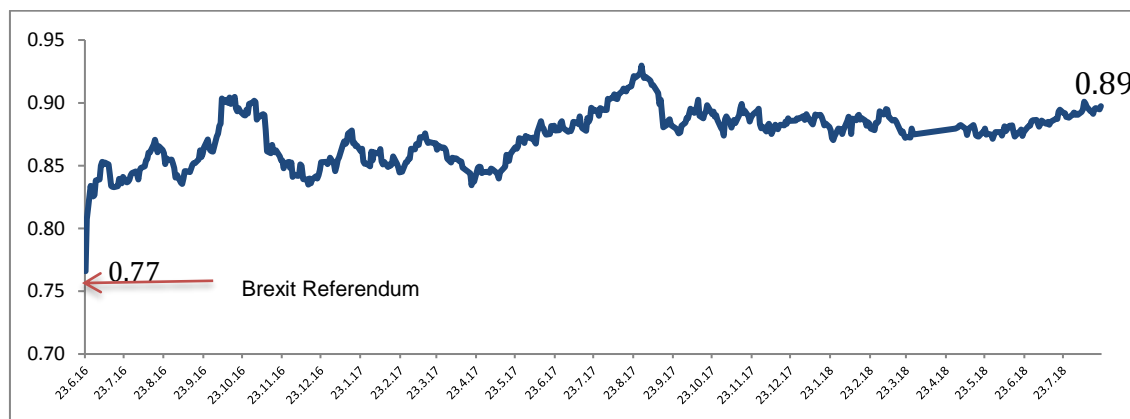


Figure 1: Stf:€ daily exchange rate 23<sup>rd</sup> June 2016 to 21<sup>st</sup> August 2018

The Sterling:Euro exchange rate was relatively stable in the first half of the year. However, since our last update in June, there has been further weakening as concerns mount about the lack of progress in Brexit negotiations and the prospect of a *No Deal Brexit* emerging as a stronger possibility.

Research by bodies such as IBEC and Bord Bia suggests that many Irish businesses start to feel the pinch when sterling rises above 90p.<sup>1</sup> Since the end of July, Sterling has hovered around this key benchmark level.

It is difficult to predict Sterling's trajectory in the coming months as the deadline for Brexit approaches. The prospect of a *No Deal Brexit* may focus the energies of the British and EU negotiators on achieving a satisfactory resolution. On the other hand, the movement to re-visit the referendum may gain momentum, which will further delay the conclusion of this project for good or ill.

<sup>1</sup> <https://www.irishtimes.com/business/markets/sterling-slides-to-nine-month-low-as-brexit-fears-rise-1.3589722>

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## Impact of Exchange Rates on Tourism Goods

Sterling's weakness increases the cost of the British tourist's trip in Ireland. This is demonstrated by tracking the cost of tourist items over time.

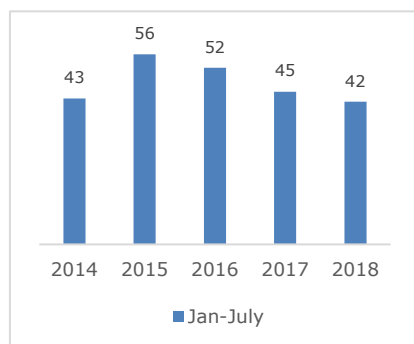
Since April 2017, based on exchange rates alone, the cost of accommodation for a British tourist has increased by £13 or 5%. It should be noted this 5% cost increase does not factor in any accommodation price inflation.

Month	Average Cost	What it costs the British Tourist St£							
		Apr 17	May	Jun	July	April 18	May	June	July
Exchange Rate	€	0.85	0.86	0.88	0.89	0.87	0.88	0.88	0.89
Accommodation	337	286	288	295	298	294	296	296	299
2 course meal	23	19	20	20	20	20	20	20	20
Bottle of house wine	24	20	20	21	21	21	21	21	21

Table 1: Impact of Sterling exchange rates on prices<sup>2</sup>

Factoring in *price* inflation, in July 2018, British tourists, on average, paid 13% more for accommodation than they did in April 2017.

## Value for Money Perceptions among British Tourists



In the year to July, British tourists' rating of good value for money has dropped for the third successive year and is at its lowest point in the last five years.

While exchange rates play a part in the deterioration of the positive rating of value, rising costs of tourist goods and services are no doubt a factor also.

Figure 2: % British tourists rating of Value for Money as good/very good by January – July 2014-2018 (unweighted data)

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Prepared by Fáilte Ireland's Research Unit

<sup>2</sup> Source: Fáilte Ireland, Accommodation = weekend in 3\*Hotel for 2 adults(2nights including breakfast), 2 course meal(dinner) –set menu/early bird (€€€€€ on TripAdvisor), Bottle of wine - house or cheapest