



The **UK** in a **Changing Europe**

Brexit and the UK economy
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Pre-referendum forecasts

- Sharp fall in the exchange rate
- Falls in equity and house prices
- Hit to business and consumer confidence
- Rise in interest rates/financing costs/risk premium
- Rise in unemployment

What have we learned?

Economic growth The UK has lagged peers since the Brexit vote

Gross domestic product, rebased (Q2 2016 = 100)

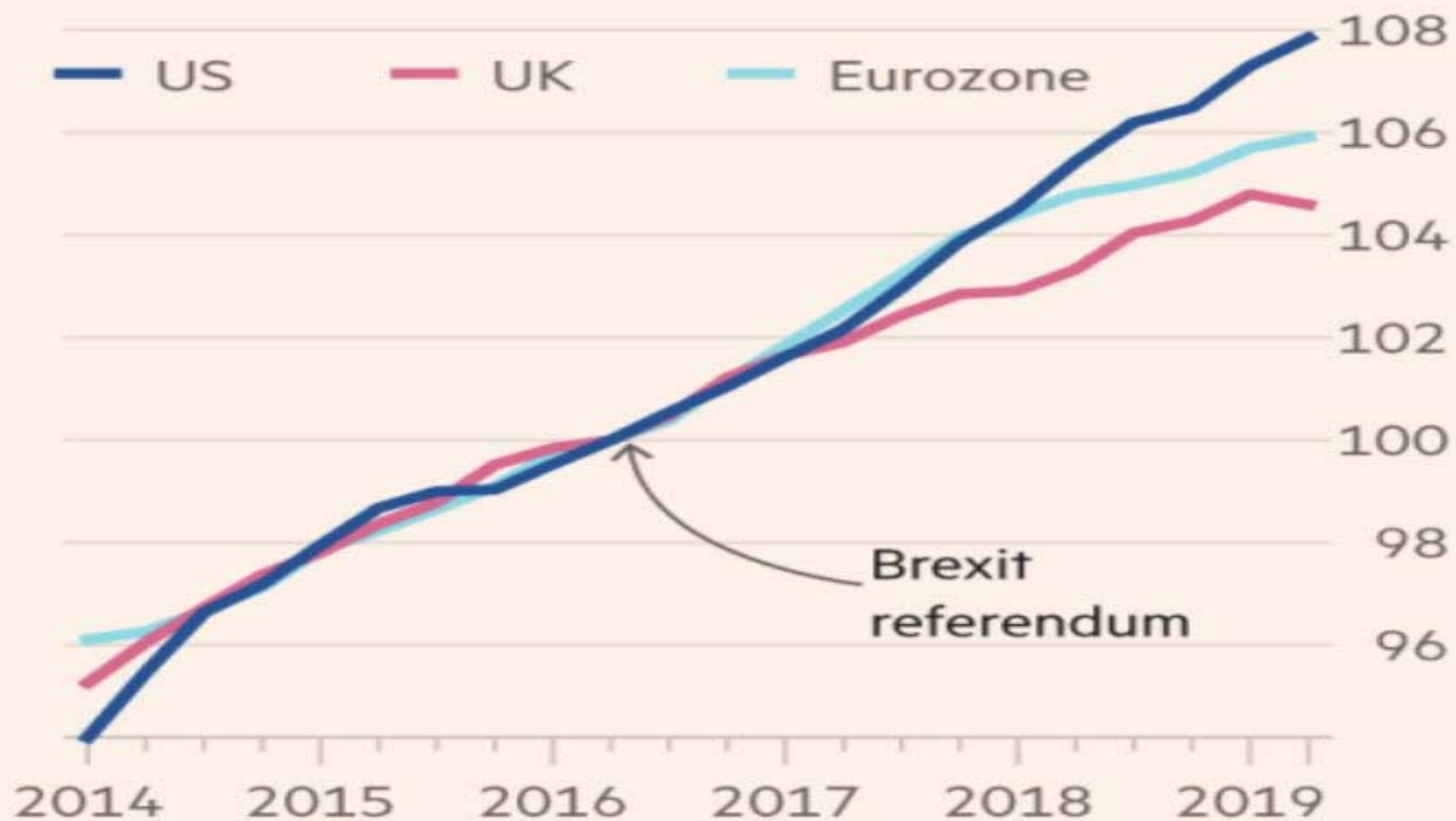
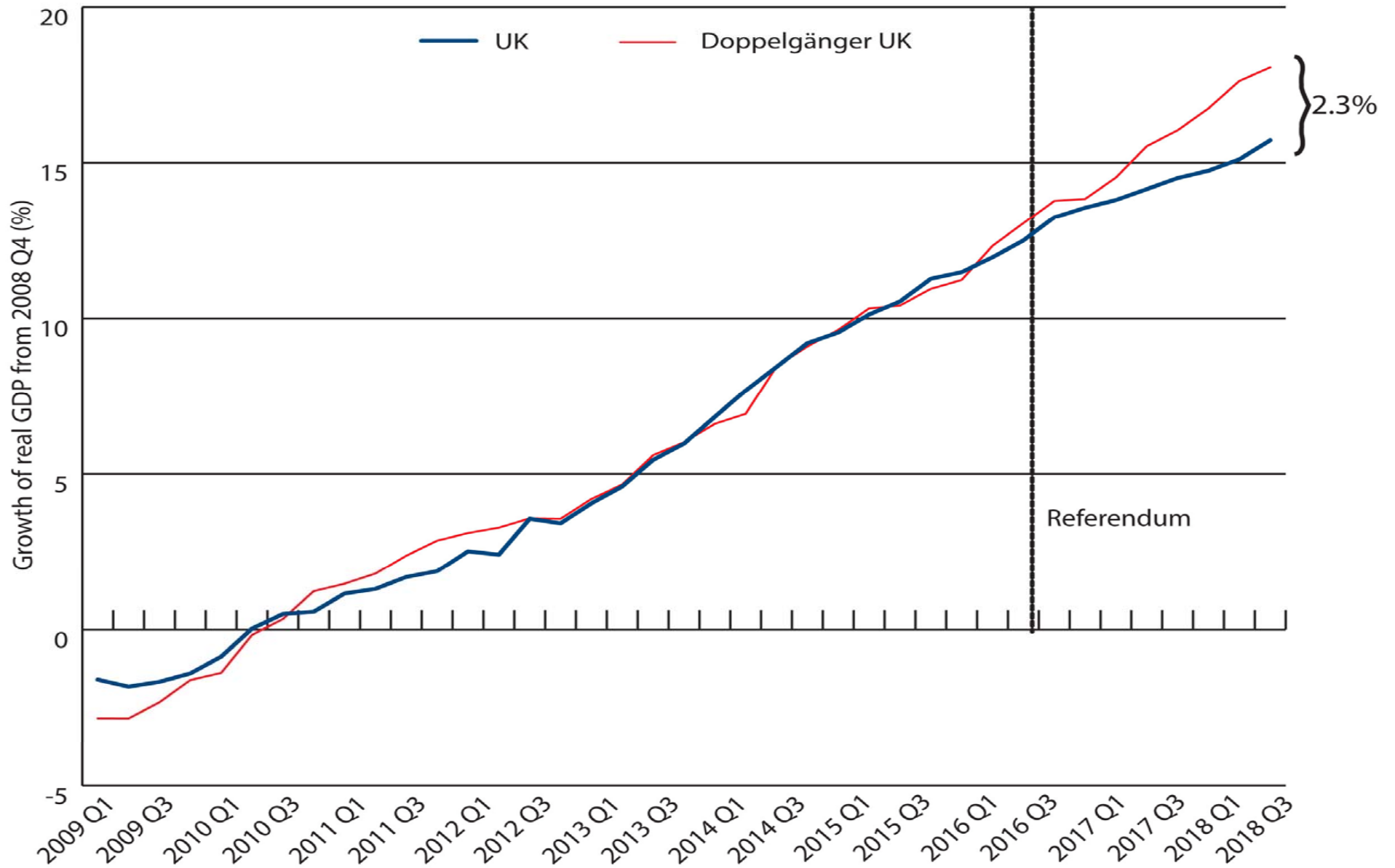


Chart 1: The cost of Brexit to Q3 2018



Source: CER.

Scenarios

- Government committed to renegotiate Withdrawal Agreement; and, failing that, to pursue No Deal/ “WTO Brexit”.
- Possible scenarios:
 - Successful (largely cosmetic) renegotiation, deal passed. Reduces uncertainty in short term but future relationship remains undefined. [10%]
 - No Deal/”WTO Brexit”. Sharp hit to consumer and business confidence, possible (likely?) recession [40%]
 - Parliament blocks No Deal [50%], leading to either:
 - General election [40%], resulting in either No Deal [20%] or second referendum [20%]
 - Second referendum [10%]
 - Raises uncertainty in short run. *Might* reduce in medium run
- No realistic scenario avoids high level of political and economic uncertainty in at least short/medium term

Modelling Brexit

- The weather is not the climate – short versus long term modelling
- No Deal
- Long-term economic impacts
 - Trade
 - Migration
 - Productivity
 - Third country trade deals, changes to regulation
 - Conceptual issues around counterfactual analysis – the Brexit reset?

Long run economic impacts: government analysis

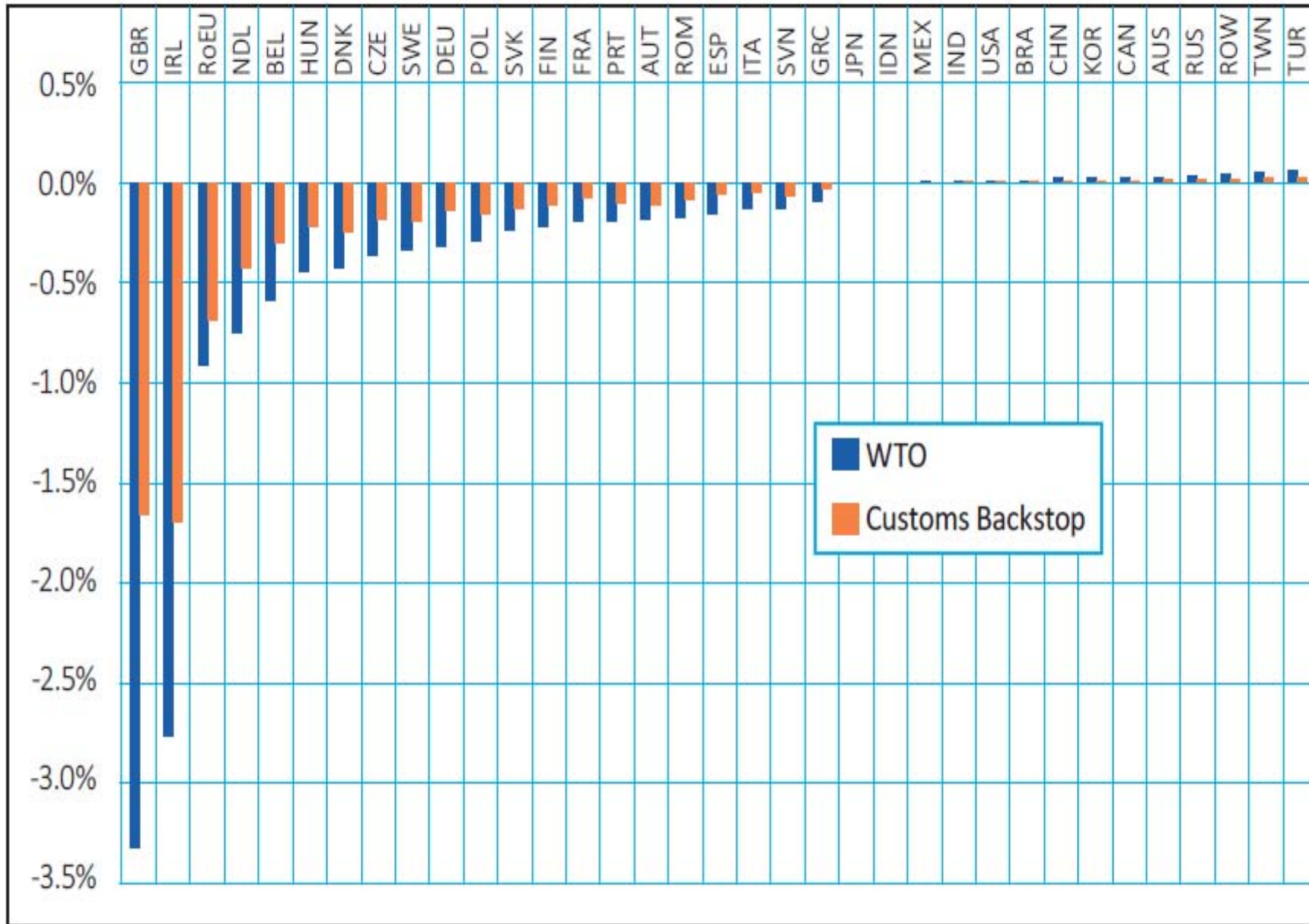
Compared to today's arrangements (per cent change)		Modelled no deal	Modelled average FTA	Modelled EEA-type	Modelled White Paper	
					<i>Modelled White Paper</i>	<i>Modelled White Paper with 50 per cent NTB sensitivity¹¹</i>
No change to migration arrangements	GDP	-7.7 (-9.0 to -6.3)	-4.9 (-6.4 to -3.4)	-1.4 (-2.4 to -0.9)	-0.6 (-1.3 to -0.1)	-2.1
	GDP per capita	-7.6 (-8.9 to -6.2)	-4.9 (-6.4 to -3.4)	-1.4 (-2.3 to -0.9)	-0.6 (-1.3 to -0.1)	-2.1
Zero net inflows of EEA workers	GDP	-9.3 (-10.7 to -8.0)	-6.7 (-8.1 to -5.1)	N/A ¹²	-2.5 (-3.1 to -1.9)	-3.9
	GDP per capita	-8.1 (-9.5 to -6.8)	-5.4 (-6.9 to -3.9)	N/A	-1.2 (-1.9 to -0.7)	-2.7

Long run impacts: CEP/UKandEU analysis

Income per capita effects for the UK

	Change in UK income per capita (relative to remaining in the EU)	
	Without productivity adjustment	With productivity adjustment
Deal	-1.7%	-4.9%
WTO	-3.3%	-8.1%

Income per capita effects by country



Source: CEP calculations

Immigration: Modelled impact of WP proposals

	2009-17 arrivals currently resident (000s)	Average salary	Impact of policy change	Forecast net migration over 10 years (000s)	Impact of policy change (000s)
EU, earning less than £30,000	598	£18,804	-75%	166	-498
EU, earning more than £30,000	220	£49,237	-50%	122	-122
Non-EU, earning less than £30,000	263	£18,920	0%	292	0
Non-EU, earning more than £30,000	235	£50,157	25%	326	65
Total	1,316	£29,514		907	-555

Source: Labour Force Survey/Annual Population Survey, authors calculations

Domestic policy agenda..

- Brexit highlighted some key socio-economic and political issues:
 - “left behind” areas/bifurcated economy
 - Cultural divides (authoritarian/liberal, London/metropolitan vs “England”, etc)
- Key challenge for next government(s) [regardless of Brexit} will be how they address them across various policy dimensions:
 - Public spending
 - Labour markets/skills
 - Immigration

Early signs not encouraging..



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