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

<table>
<thead>
<tr>
<th>Compared to today's arrangements (per cent change)</th>
<th>Modelled no deal</th>
<th>Modelled average FTA</th>
<th>Modelled EEA-type</th>
<th>Modelled White Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No change to migration arrangements</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>-7.7 (-9.0 to -6.3)</td>
<td>-4.9 (-6.4 to -3.4)</td>
<td>-1.4 (-2.4 to -0.9)</td>
<td>-0.6 (-1.3 to -0.1)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-7.6 (-8.9 to -6.2)</td>
<td>-4.9 (-6.4 to -3.4)</td>
<td>-1.4 (-2.3 to -0.9)</td>
<td>-0.6 (-1.3 to -0.1)</td>
</tr>
<tr>
<td><strong>Zero net inflows of EEA workers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>-9.3 (-10.7 to -8.0)</td>
<td>-6.7 (-8.1 to -5.1)</td>
<td>N/A^12</td>
<td>-2.5 (-3.1 to -1.9)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-8.1 (-9.5 to -6.8)</td>
<td>-5.4 (-6.9 to -3.9)</td>
<td>N/A</td>
<td>-1.2 (-1.9 to -0.7)</td>
</tr>
</tbody>
</table>
### Income per capita effects for the UK

<table>
<thead>
<tr>
<th></th>
<th>Change in UK income per capita</th>
<th>(relative to remaining in the EU)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Without productivity adjustment</td>
<td>With productivity adjustment</td>
</tr>
<tr>
<td>Deal</td>
<td>-1.7%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>WTO</td>
<td>-3.3%</td>
<td>-8.1%</td>
</tr>
</tbody>
</table>
Income per capita effects by country

Source: CEP calculations
## Immigration: Modelled impact of WP proposals

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

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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