The impact of Brexit on the UK economy

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Sarah Hall, Professor of Economic Geography at the University of Nottingham, charts the impact of Brexit on the UK economy and identifies opportunities for future developments

Since the UK left the EU at the end of the Brexit transition period, the terms of UK-EU trade have been governed through the EU-UK Trade and Cooperation Agreement (TCA). It is still relatively early in implementing the TCA to assess its economic impacts on the UK economy fully. Assessing the implications of the TCA is also complicated because it has been implemented in the wake of the COVID-19 pandemic and the Russian invasion of Ukraine.

However, there is growing interest, both politically and publicly in understanding the impacts of the TCA particularly given the ongoing sluggish UK economic growth rates and low productivity since the 2007-08 financial crisis.

Untangling the economic impacts of COVID-19 and the war in Ukraine from Brexit is critical if the economic effects of the UK's new trading arrangements with the EU and the rest of the world are to be fully understood.

More research and data are being conducted across various disciplines, including economics, sociology, legal studies and geography, that aim to precisely do that. Examining some of these research highlights provides a valuable starting point for beginning to understand the impact of Brexit on the UK economy.

Impacts of Brexit on the UK economy predictions

Before examining the real-world impacts of the TCA, it is helpful to step back and set out what economists anticipated the impacts of Brexit on the UK economy to be. This is important because, during the period of EU membership since 1973, UK economic growth and GDP per capita grew as the economy developed greater trade and capital flows with the EU alongside greater migration.

This gave rise to arguments from leading economists that reduced access to the EU's single market, alongside uncertainty, which would likely reduce international investment into the UK, would likely lead to lower wages, a lower sterling rate and the need for higher taxes or reduced investment in public spending.

Crucially, however, the economic benefits of EU single market membership were not distributed evenly across the UK. Whilst London and the South-East benefited from marked increases in financial and related professional services activity in particular, provincial regions did not see the same GDP growth. As such, the period of UK EU membership did not reverse the long-term pattern of marked regional differences in economic performance across the UK (Hall 2009).

Research has argued that voters living in places that had not benefitted from rising GDP at the national level, which were also often the places that were most impacted by austerity policies in the 2000s were influenced by these experiences and registered this in part through a Leave vote.

The role of economic experts

However, the role of economic experts, and forecasting in particular, has been the subject of continued debate and criticism since the Brexit referendum in 2016. In part, this stems from early initial forecasts of the economic impacts of Brexit that predicted a negative economic impact that would be felt relatively quickly, driven by negative impacts on financial markets, consumer and business confidence.

The most negative elements of these initial forecasts did not materialise by enlarge. On the one hand, the pound did fall mainly as expected, but the predicted house price fall did not materialise. Similarly, the labour market remained relatively strong, with a slight fall in unemployment.

However, the longer-term predictions made during the referendum, particularly concerning the impacts on trade and migration, have been more accurate. The nature of the TCA itself needs to be set out to understand these impacts. Broadly, the TCA does more to liberalise goods trade between the UK and the EU than it does for services trade.

This is significant because services have historically been a strength for the UK economy whilst goods have dominated the EU. The TCA provides zero tariffs and quotas on goods but very little around the mutual recognition of regulatory standards or to support labour mobility, which is essential in services.

In terms of goods trade, following the implementation of the TCA, research shows a 25% decrease in UK imports from the EU compared to imports from the rest of the world. Their research suggests a smaller and more temporary decrease in UK exports to the EU. However, they report a considerable reduction in the number of trade relationships between UK exports and their EU counterparts. This suggests that smaller firms may have been more likely to decrease their exporting activity to the EU than larger firms, who may have had more capacity to address any additional costs they incurred with exporting to the EU.

Regarding services trade, data quality is not as strong as for goods. In services, there is evidence of a decline in UK services exports to the EU in the immediate period post-referendum, before the implementation of the TCA. This has been placed at around 6% in 2019. In terms of financial services in particular, which are especially important in the UK, there is evidence that approximately 10% of total banking assets have moved to the EU, with a smaller proportion of jobs relocating.

Early economic impacts of Brexit on the UK economy

Taken together, this analysis suggests that the early economic impacts of Brexit on the UK economy do not neatly follow the estimates made by economists immediately following the referendum.

There have been negative impacts on trade, which can be largely separated from the effects of COVID-19 and the War on Ukraine. Crucially, the devil is in the detail, with such changes varying significantly by economic sector and location in the UK. Whilst Brexit is only in its early stages economically, it is clear that its impacts are sectorally and regionally variegated.

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