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Local Economic Effects of Brexit: Factsheet

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- Approximately half of all the UK's international trade is with the European Union (EU). As Brexit will most likely lead to increased costs of doing business with our largest and closest trade partners, the UK is predicted to experience negative economic consequences.

- CEP research predicts annual costs of £850 per household under a 'soft Brexit' and £1,700 per household under a 'hard Brexit,' compared to the current level of integration with the EU. This negative impact is driven by a combination of increasing non-tariff barriers (such as port checks, rules of origin, operating licences) in the future, and, in the hard Brexit case, the introduction of import tariffs between the UK and the EU. The costs net out the fiscal savings from membership fees after Brexit, and they are marginally lower in scenarios where the UK signs a free trade agreement with the United States or unilaterally cuts all import tariffs to zero.

- By taking the sectoral impacts of this model and combining them with local authority employment shares across sectors, it is possible to estimate the local economic effects of Brexit.

- The results predict that all local authorities experience an economic loss under both scenarios. Average losses to economic activity stand at 1.14% and 2.12% per annum under the soft and hard scenarios respectively.

- Under a hard Brexit, the variation in the size of the negative impacts is much larger, and this is driven by the fact that certain local authorities have high employment shares in sectors that are predicted to be badly hit by Brexit.

- Figure 1 presents the gross value added impacts by local authority. Areas in London and the South East are predicted to see the largest decline in economic activity, measured by gross value added of the area, with three of the top ten worst hit local authorities in Greater London (City of London, Tower Hamlets and Islington) and nine of the top ten located in the South East. Most of these areas have large employment shares in service sector industries such as financial intermediation, which are predicted to experience relatively greater losses.

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- Areas most exposed under a hard Brexit are also the most exposed under a soft Brexit.

- The least affected areas do not show as strong a pattern as those worst hit, though aside from Hounslow and Crawley (which are both dominated by the air industry), the South East is not at all represented.

- While the North and the Midlands are estimated to perform less badly after Brexit, the model does not imply that these areas will adjust better in the long run. For example, while London was set to be one of the worst hit areas during the financial crisis, its skill composition and diversified local economy meant it displayed greater resilience and was able to bounce back quicker.

- Our results show that the local authorities expected to experience bigger negative effects on their local economy from Brexit have a higher proportion of people who voted remain. This relationship is most clear under the hard Brexit scenario, and suggests that areas voted in line with their relative economic interest. That said, we should reiterate that all areas are predicted to face some form of economic loss.

- Furthermore, we find that areas that are predicted to face the least bad impacts are those that are poorer to start with, and these areas may have greater relative difficulty bouncing back after being hit by a negative shock.

Figure 1: Maps of percentage decreases in local authority gross value added