HM Treasury estimates on the impact of leaving the EU on the UK Economy

The Treasury document takes a very reasonable approach on estimating the short-run impact on the UK economy in the event of Brexit. My own estimates contained here from a couple of weeks ago (http://www.policyuncertainty.com/brexit.html) actually predict an even larger negative impact.

The reason Brexit would be so damaging is that there is massive uncertainty over what our European and Global trade relationships would be post the EU. No country has ever exited the EU, so this process is a jump in the dark. Moreover, nobody has much of an idea over what our domestic regulatory landscape would be after leaving the EU. Hence, Brexit would cast a black cloud of uncertainty over the UK leading to a recession and painful recovery, exactly what the UK does not need now when is it fighting to recover from the last recession. It reminds me of the old saying “never kick a man when he’s down”.

My view is UK citizens would start paying a high price for exit starting the morning after the vote goes ahead. In particular:

- Lost jobs – the jump in uncertainty will lead to a slowdown in hiring and investment in industries connected with trade and Europe. For example, hotels, restaurants, manufacturing, financial services, agriculture and even universities.
- Higher mortgages – the higher risk and recession would raise credit likely pushing up mortgage rates. For people on floating rates mortgages their monthly bills would rise from July onwards
- Falling house prices – the economic slowdown would likely cut house prices.
- More expensive travel - the pound will drop in value by maybe 10% to 20%, so travel abroad (e.g. summer holidays) would become more expensive.
- Higher prices – the UK imports much of its food and goods (cars, televisions, phones etc) and these will all rise in price when the pound drops.

Not surprisingly every economist I know – Americans and European – believes Brexit will be a bad mistake for the UK, leading to large loss of jobs and money for the British.

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