BREXIT HIT LOOMS FOR INDUSTRIES THAT ESCAPED WORST OF PANDEMIC
Analysis shows that rushing Brexit could broaden worsening business conditions

Businesses that have escaped the worst effects of the economic fallout from the Covid-19 pandemic are typically in sectors which are more likely to feel the impacts of Brexit, a new analysis finds.

The report Covid-19 and Brexit: Real-time updates on business performance in the United Kingdom published today by the LSE’s Centre for Economic Performance (CEP) shows that sectors which entail more human contact such as airlines, restaurants, hotels and arts and entertainment have been hardest hit. Meanwhile those sectors that rely more on business-to-business demand, and which can be delivered virtually, have been less hard hit - these sectors include ICT services and professional, technical and scientific industries such as accounting, legal activities and scientific research.

Report authors, Josh De Lyon and Dr Swati Dhingra, show that sectors affected by Brexit are generally different to those currently impacted by Covid-19. When comparing the effects of Covid-19 with the predicted future effect of increased trade barriers with the EU, there is some evidence that those less hit by Covid-19 are likely to be harder hit by Brexit. Electrical and Optical Equipment and Chemicals and Chemical Products are examples of such sectors.

A closer look shows the experiences of sectors differs a lot. Sectors such as Hotels and Restaurants and Inland Transport have been hit hard by Covid-19 due to the introduction of social distancing measures. The former is predicted to see little change from trade rules with the EU while the latter will be significantly negatively affected by a no-deal Brexit and therefore would experience a double hit.

The analysis uses data from the real-time business survey of member and non-member firms collected by the Confederation of British Industry (CBI). This shows how business performance and expectations have varied in April, May and June 2020.

It reveals:

- As many as 80 per cent of businesses reported a reduction of business volumes in June relative to before the pandemic, with 40 per cent reporting a reduction in employment.
- Business expectations improved slightly in June relative to May and April, but 60 per cent of businesses still expect their output to fall in the next three months.
- In June, 60 per cent of businesses said they expected to reduce employment in the next three months.
Josh De Lyon, research assistant at CEP, said: “As the impacts of Covid-19 on different types of business become clearer, the government must move beyond its broad assessment of Brexit impacts to much more finely tuned plans that account for the differences in market conditions and constraints faced by UK businesses in the biggest slowdown of our lifetime.”

Dr Swati Dhingra, CEP associate and Associate Professor in Economics at LSE, said: “The large negative hit from the pandemic has reduced the capacity of the UK economy to take further shocks. The UK is highly integrated with Europe and these links are likely to be even more important throughout the pandemic. The slowdown of the world economy has also cast another shadow on the idea of a ‘Global Britain’ unlocking a higher trade potential outside of the EU.

“Our analysis shows that the sectors that will be affected by Brexit and those that are suffering from the Covid-19 pandemic and lockdown are generally different from each other. Rushing Brexit through this year without a new deal in place would therefore broaden the set of sectors that see worsening business conditions.”

The report concludes that government policies to stimulate demand, support workers to remain in employment or find new employment, and to support businesses remain essential.

The full report can be read here: Covid-19 and Brexit: Real-time updates on business performance in the United Kingdom

Notes to editors

1. The Centre for Economic Performance (CEP) is an independent research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world. www.cep.lse.ac.uk

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