Covid-19 and Brexit: Real-time updates on business performance in the United Kingdom

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A CEP Covid-19 analysis

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CEP COVID-19 ANALYSIS

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The views expressed in this article are those of its authors and not those of the CBI.

Summary

• We report economic trends using monthly business survey data for the United Kingdom to assess the sectoral impacts of Covid-19 and how they relate to the impacts of Brexit.
• 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 and 60 per cent expect to reduce employment.
• Government policies to stimulate demand, support workers to remain in employment or find new employment, and to support businesses remain essential for maintaining economic activity.
• There are large differences across sectors of the economy.
• In-person service sectors like Accommodation and Food, Transport and Storage (which includes air and passenger travel), and Arts and Entertainment have suffered the most.
• Sectors with more flexible working arrangements and those less reliant on in-person consumer demand have been hit less hard. These include Information and Communication services, and Professional, Technical and Scientific industries.
• Different sectoral impacts imply that many firms and workers are faced with reduced returns to their accumulated sectoral knowledge.
• The sectors that have been hit by Covid-19 are generally different to the sectors that are affected by Brexit. This is the case when comparing the effects of Covid-19 with the actual impacts of Brexit since the referendum and when looking at the long-term sector projections from leaving the EU.
• The spread of Covid-19 has dramatically changed the economic landscape in the UK, meaning that detailed sectoral assessments on the impacts of Brexit are even more essential. These should be used to inform the negotiations and future domestic and foreign policy.
Introduction

Nearly four months have passed since the UK went into lockdown to restrict the spread of Covid-19. The health effects have been severe, and an inevitable consequence of the lockdown was a huge 20 per cent decline in GDP in April – the worst recession in more than three centuries. Government spending on economic policies has also been unprecedentedly large, with £193 billion of additional spending committed.

In this article, we use confidential real-time business survey data collected by the Confederation of British Industry (CBI). The CBI is the UK’s leading business organisation and speaks for 190,000 businesses. The surveys provide a wealth of information on business performance and expectations among members and non-members of the CBI. We study how business performance has evolved in the three months since lockdown, and how these effects vary across sectors. We also discuss the role of government policy in mitigating the economic costs of the virus.

Alongside dealing with the largest economic downturn in recent history, the UK is also negotiating its exit from the European Union – its largest trading partner. It has turned down an extension to the transition period and will leave the EU at the end of 2020. Brexit will have a profound impact on the UK economy: numerous studies, including those of the government itself, have shown that the long-run economic effect of Brexit will be negative (HM Government 2018; Treasury 2016; Dhingra et al. 2017). The structure of economic activity in the UK will also inevitably change as trade, investment and migration barriers with the EU rise. The adjustment of workers and firms to this new structure is unlikely to be smooth (De Lyon and Pessoa 2020) and the global pandemic has only increased insecurity.

Transitions from one industry to another can be difficult and costly for workers and businesses. Experience in a particular sector leads to a build-up of sector-specific skills and capital investments which may not be easily transferable to other sectors. Understanding the sectoral impacts of Covid-19 and Brexit – which sectors are growing and which are declining - is therefore important in designing policies for smooth firm and worker adjustments. Both Covid and Brexit are complex economic shocks which will cause varying supply-side effects (such as from the ability to work during social distancing) and demand-side effects (such as from changes in trade barriers with the EU).

We compare which sectors have been most affected by Covid-19 with those affected by Brexit, using a variety of measures which include actual sectoral performance since the EU referendum and projected sectoral impacts from studies of long-term economic performance after exiting the EU. By all measures, we find that, in general, the sectors affected by Covid-19 are different to those affected by Brexit. This means that, together, the two forces will impact a wider set of sectors.

Business activity continues to fall but expectations begin to pick up slightly

Most businesses reported a fall in their volume of business between April and June 2020. The top left panel of Figure 1 shows that 80 per cent of businesses reported that their output had fallen in June relative to the past three months. By this measure, the situation has worsened in May and June relative to April, the most recent month for which GDP data is available. The findings here are similar in magnitude to those of the ONS Business Impact of Covid-19 Survey, which finds that 11 percent of
businesses have temporarily ceased trading, and of those still trading, 58 percent reported a decrease in output (ONS, 2020a).

Business expectations have begun to pick up since April, as shown in the top right panel of Figure 1. Business expectations affect employment practices and investment in both physical and human capital. It is therefore reassuring that expectations are gradually improving.

This has come, though, at a time when more firms have cut employment, although the numbers are lower than for output reductions. This is likely to reflect the relative success of the extensive Job Retention Scheme, which will cost £62.2 billion this year (OBR 2020). But despite this, the share of businesses that expect to cut employment in the coming months has not fallen. Even now, 60 per cent of firms say that their employment is set to fall. With the recovery predicted to be gradual (OBR 2020), labour demand will remain depressed and the extent to which these employment cuts materialise will reflect the success of new government allocation of another £30 billion towards its Plan for Jobs, including the Job Retention Bonus and Kickstart schemes. The Job Retention Bonus offers a fixed £1,000 subsidy to employers for each furloughed worker they bring back to work. It is likely to incentivise employers to bring back those on low pay but, because it is a fixed value, is not an effective incentive for those on higher pay. Furthermore, there has been a lack of support for the self-employed, who have been hit hardest by the pandemic (Blundell and Machin 2020). Firms have also reduced employment by sharply cutting the number of new vacancies (Costa Dias et al 2020). Policy should not only focus on maintaining existing matches between employers and employees; it should also acknowledge the importance of mobility across sectors and occupations.
Notes: The graphs plot firms’ responses to questions of the form: “Excluding seasonal variations, what has been the trend over the past three months with regard to your volume of business?” where firms are asked about trends in their volume of business or employment in the past or next three months.¹

The effects differ across sectors

Covid-19 has harmed all sectors of the economy. Yet there is some variation in the extent to which each broad sector has been affected by the spread of the pandemic and lockdown. Figure 2 shows this variation across industries for May and June 2020. For each sector, the top faded bars show data for May while the bottom bolder bars represent June. In previous work, we compared how businesses fared in April 2020 relative to their pre-period trends (De Lyon and Dhingra 2020a). There has been little change in business activity within each sector when comparing data for May and June, but there are stark differences in the performance of businesses across sectors. Generally, we see that sectors requiring in-person demand such as Accommodation and Food services, Transport and Storage including air and passenger travel, and Arts and Entertainment have been the hardest hit, with up to 100 per cent of business reporting a fall in activity. Meanwhile, sectors that generally rely more on

¹ CBI has conducted monthly surveys of its members and non-members for decades, and the data provides a broadly representative coverage of businesses across the UK (De Lyon and Dhingra, Forthcoming). The surveys cover all sectors of the economy, although we do not report information on the financial services sector due to differences in methodology of the primary survey.
business-to-business demand and can be delivered remotely have been less hard hit. These include Information and Communication services, and Professional, Technical and Scientific industries. These patterns across industries are consistent with the findings of Bloom et al (2020) who use the Decision Maker Panel (DMP), and the Office for National Statistics from the Business Impact of Covid-19 Survey (ONS, 2020a). Our results focus on changes in output for firms that were trading before the onset of the pandemic. On top of this, Duncan et al (2020) show that registrations of new businesses have fallen since the onset of the pandemic, and the cross-industry patterns look broadly similar.

These patterns provide some justification for recently announced temporary VAT cuts and discounts for restaurants, hotels and attractions. The government is hoping that this £4 billion scheme will stimulate demand - encouraging greater footfall and increasing spending. The success of the scheme in promoting consumption will depend on VAT being passed through to lower prices, and for consumers to be incentivised by these lower prices to change their behaviour. Previous research suggests that, in normal times, consumer spending does increase in response to VAT cuts (Crossley et al. 2009). Yet analysis of detailed product-level price data for previous VAT changes in the UK (Davies 2020) suggests that many firms passed on the cut, only for prices to rise again a couple of months later. Furthermore, concerns over personal safety in public places may offset the effect of these policies on demand. The trends shown in Figure 2 also provide supporting evidence of need for the £1.6 billion package to support the arts sector, and more generally policies that target particular sectors can be promoted if the government wants to target Covid-affected sectors.

Figure 2: Trends in business volume in the past three months by sector in May and June 2020

Notes: The graph plots firms’ responses to the question: “Excluding seasonal variations, what has been the trend over the past three months with regard to your volume of business?”
The variation across sectors is even more pronounced when examining expectations of future business activity, as shown in Figure 3. The same sectoral pattern emerges, with in-person services most affected, and professional and technological services less affected. Now, however, we see clear differences in the extent to which expectations have changed from May to June across industries. The IT, other services, real estate and professional and scientific services have all shown significant improvements in the expectations for the next three months, while more in-person services remain more sceptical of their business conditions picking up.

Figure 3: Expectations of business volumes in the next three months by sector for May and June 2020

Employment trends also vary substantially across sectors. Figure 4 shows that the hardest hit sectors in terms of output have also been most likely to cut employment, with large jumps in the proportion of firms reporting cuts in June. This pattern is mirrored in the expectations of future employment changes shown in Figure 5. The most recent official data suggests that aggregate employment has fallen by 650,000 between March and June (ONS, 2020b). Analysis of our firm-level micro data suggests that businesses with a higher proportion of furloughed staff were more likely to report falls in employment, even controlling for their business volume trend and main industry. This suggests that the furlough scheme has not been entirely successful at maintaining employment levels, most likely due to a drop-off of workers on temporary contracts, who are highly exposed to the sharp worsening of labour market conditions.
It is likely that as the Job Retention Scheme is scaled back, unemployment will rise and the extent of layoffs will vary by sector. The extent to which workers are harmed by these layoffs will depend on labour demand in relatively less-affected sectors, and the extent to which workers are mobile across types of jobs, industries, and regions. The government has identified younger workers as the most vulnerable to displacement and has established the £2 billion Kickstart scheme, which funds six-month work placements for 16 to 24-year-olds on universal credit. But by offering funding as fixed-value subsidies to employers, the scheme is likely to increase low-pay, temporary work. It is not clear that the scheme will benefit young workers after the six-month period, especially if the economic recovery is slow (Bell et al 2020).

The government has also introduced new policies aimed at supporting the unemployed, such as increasing resources in job centres and expanding or extending existing schemes. But in the Chancellor’s speech, there was little mention of schemes such as retraining, which will be essential as the structure of the economy shifts and is doubly important given the simultaneous impacts of Brexit. Unemployment is expected to more than double within a year to between 8 and 9 per cent in 2020. It is therefore vital that workers are supported back into good quality, secure employment in the coming months (Institute for the Future of Work 2020; Elliot Major and Machin 2020; Pissarides 2020).

Figure 4: Trends in employment in the past three months by sector in May and June 2020

![Figure 4: Trends in employment in the past three months by sector in May and June 2020](image)

Notes: The graph plots firms’ responses to the question: “Excluding seasonal variations, what has been the trend over the past three months with regard to numbers employed?”
Figure 5: Expectations of employment in the next three months by sector for May and June

Notes: The graphs plot firms’ responses to the question: “Excluding seasonal variations, what are the expected trends for the next three months with regard to numbers employed?”

We also find that changes in output and employment do not vary greatly with the size of the firm, as measured by its total employment. This could reflect the government’s policies to support businesses of all sizes. Evidence from Denmark suggests that firms were more likely to take up aid in sectors that were harder hit, and that targeted policies can be effective in helping firms stay afloat and maintain employment levels (Bennedsen et al. 2020). In March, the Chancellor Rishi Sunak set out plans for £330 billion of loan guarantees. Of this, just £1 billion was for small businesses while the remainder was commercial paper for large businesses. In April, many small businesses had been unable to take out support and the policy was revised to offer 100 per cent state guarantee on up to 25 per cent of turnover up to £50,000. The scheme provides crucial support to small businesses at a time of limited credit and very few alternative employment opportunities, but banks have estimated that up to 50 per cent of businesses could default on these loans. Our data for June suggests that 15 per cent of small businesses have taken up the Bounce Back loan scheme, compared with 46 per cent who reported cash flow problems.²

² Small businesses are defined as those with fewer than 100 employees, except in the manufacturing sector where it is defined as fewer than 200 due to data limitations in the manufacturing survey.
Covid-19 and Brexit

The economic effects of Brexit have been well documented. As of the first quarter of 2019, Brexit is estimated to have reduced UK GDP by 2.1 per cent (Born et al 2019). Workers more exposed to the depreciation of the pound on the night of the referendum experienced a fall in wages and employer-provided training (Costa et al 2020), while the depreciation also caused a 2.9 per cent rise in the cost of living (Breinlich et al 2019). The threat of increased trade barriers and policy uncertainty has reduced trade flows (Crowley et al 2019, Graziano et al 2019) and foreign direct investment has fallen (Breinlich et al 2020). Looking to the long run effects, the government’s own Brexit model predicts that the increase in trade barriers between the UK and the EU will cause a reduction in long-run UK GDP of 4.9 per cent if a trade deal is agreed, or 7.6 per cent if a deal is not agreed, with the numbers increasing if reductions in EU migration are accounted for (HM Government 2018).

The economic effects of Brexit will differ across sectors of the economy. Our analysis of the survey data shows that the sectors affected by Brexit are generally different to those currently impacted by Covid-19. Some sectors that have been only moderately hit by the onset of Covid-19 and the implementation of lockdown measures have, and will be, affected by Brexit. This relationship holds for three different measures of industry exposure to Brexit described in Box 1, each capturing different mechanisms of the impacts of Brexit. This analysis updates our previous work (De Lyon and Dhingra 2020b) to incorporate more periods of data and therefore significantly more observations to capture the industry-level effects of Covid-19.

Table 1 shows the correlation coefficients for the industry level measure of the effects of Covid-19 with three measures of the economic effects of Brexit. The measure for the impact of Covid-19 by industry is the percentage of businesses reporting a rise in business activity minus the percentage reporting a fall. We de-trend the measure to account for seasonality and pre-existing trends, but the results are almost always qualitatively robust to not weighting or de-trending.

The correlation between the sectors hit by Covid-19 and Brexit is close to zero for measures of actual impacts of the Brexit vote. This means that generally, Brexit is affecting different sectors to those hit by Covid-19. The third measure - predicted future sectoral impacts from reduced integration with the EU - shows some negative correlation with the sectoral impacts from Covid-19. Although this correlation is not statistically significant at conventional levels, this negative correlation provides some tentative evidence to suggest that sectors less hit by Covid-19 will actually be more hit by Brexit in the long run. This negative correlation becomes stronger and statistically significant if we give more weight to industries that are larger.

Overall, the correlations show that the two forces of Covid-19 and Brexit are impacting more sectors of the economy than each would in isolation.
Table 1: Correlation coefficients for changes in business volume in April-June 2020 with three measures of the current and future effects of Brexit

<table>
<thead>
<tr>
<th>Measure</th>
<th>CBI Business Volume (Covid)</th>
<th>Industry Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate Import Depreciation</td>
<td>0.03</td>
<td>55</td>
</tr>
<tr>
<td>Brexit Uncertainty</td>
<td>0.13</td>
<td>10</td>
</tr>
<tr>
<td>CEP Trade Model Forecast</td>
<td>-0.26</td>
<td>25</td>
</tr>
</tbody>
</table>

Notes: The net change in volume of business is the percentage of businesses reporting an increase in volumes in April, May or June 2020 relative to the past three months minus the percentage reporting a decrease. The measure is then de-trended by subtracting the corresponding measure for 2019 to account for pre-existing trends. Responses are weighted by firm-size according to employment. We correlate this variable with three measures of Brexit effects. First is the intermediate import value-weighted measure of depreciation on the night of the referendum (Costa et al, 2020). Second is the long-term industry-level forecast of the CEP trade model (Dhingra et al, 2017) and third is the measure of Brexit uncertainty reported by firms (Bloom et al, 2019). Correlations use the relative rankings of each industry for each measure. In general, the key findings are not sensitive to the weighting or de-trending.
To explore these cross-sectoral correlations in detail, Table 2 presents the full ranking of sectors according to how positively (top) or negatively (bottom) they have been performing in April-June 2020 relative to the past three months and their trend of business volumes a year before. By subtracting the trend from the previous year, it is possible for the percentage to be less than -100, as is seen for the case of inland transport. We colour each row according to the predicted long-term effect of Brexit – with green being the least negatively (or positively) affected sectors and red being most negatively affected with blue being those in between. The two measures are very different in nature and their magnitudes should not be compared: the measure of exposure to Covid-19 is a statistic constructed using our firm-level survey data from the CBI while the Brexit measure is the predicted effect of a state-of-the-art trade model. Instead, we focus on comparing the relative rankings of sectors. The table shows in further detail that there is no clear correlation between the sectors most affected by Covid-19 and those predicted to be hardest hit by increasing trade barriers due to Brexit. If anything, there are more red rows in the top half of the table, showing sectors that are expected to see bigger negative impacts from Brexit have been relatively less hit by Covid currently.

Table 2: Change in business volume in April-June and predicted effect of Brexit by industry

<table>
<thead>
<tr>
<th>Industry Name</th>
<th>Net Increase in Business Volume, April-June 2020</th>
<th>Brexit Predicted Effect (CEP Trade Model)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Supporting and Auxiliary Transport Activities</td>
<td>33.9%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>32.9%</td>
<td>-12.5%</td>
</tr>
<tr>
<td>Wood &amp; Wood Products</td>
<td>23.9%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>-9.1%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>-29.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Retail Trade, Excluding Motor Vehicles</td>
<td>-41.5%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Electrical and Optical Equipment</td>
<td>-53.5%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Food, Beverages and Tobacco</td>
<td>-56.6%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Textiles and Leather</td>
<td>-58.7%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>-62.0%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Chemicals and Chemical Products</td>
<td>-70.0%</td>
<td>-15.1%</td>
</tr>
<tr>
<td>Other Business Activities, and Renting of Machinery and Equipment</td>
<td>-70.2%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Other Machinery</td>
<td>-71.2%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Water Transport</td>
<td>-73.6%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>-75.4%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Basic Metals and Fabricated Metal</td>
<td>-76.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Wholesale and Commission Trade, including Motor Vehicles</td>
<td>-76.9%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Post and Telecommunications</td>
<td>-77.1%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>-88.6%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Recreation, Community, Social and Personal Services</td>
<td>-91.2%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Pulp, Paper, Printing and Publishing</td>
<td>-95.9%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Other Non-Metallic Minerals</td>
<td>-99.7%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Inland Transport</td>
<td>-104.3%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Rubber and Plastics</td>
<td>-123.7%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

Notes: Industries are ranked in terms of net increase in business volume in April-June 2020. The net change in volume of business is the percentage of businesses reporting an increase in volumes in April, May or June 2020 relative to the past three months minus the percentage reporting a decrease. The measure is then de-trended by subtracting the corresponding measure for 2019 to account for pre-existing trends. Responses are weighted by firm-size according to employment. The rows are shaded according to the predicted long-term effect of Brexit.
Brexit (Dhingra et al, 2017): green for top, blue for middle, and red for most negatively affected. Sectors with fewer than 5 businesses in the data in April-June 2020 are omitted.
In many ways, it is not surprising that the sectors impacted by Brexit are generally different to those impacted by Covid-19. Both are complex shocks that will impact the economy in numerous ways. The rapid spread of Covid-19 has caused countries across the world to enter lockdown, causing the largest world economic downturn in a century (Gopinath 2020). This has had a huge impact on the functioning of economies on both the demand and supply sides (del Rio-Chanona et al. 2020). Some sectors, such as in-person services, have ceased completely and will only gradually recover as consumers remain cautious over health concerns. There are huge differences in the ability of workers to work from home across sectors. Our data suggests that just 8 per cent of workers in the Accommodation and Food sector are able to work from home, while over 80 per cent of workers can perform their jobs remotely in the Information and Communication sector. The data suggests that other sectors, such as parts of manufacturing, have needed to increase output meet urgent needs arising from the pandemic. But even these sectors face huge risks, with the value of world trade collapsing, state aid rules relaxing, and complex global supply chains being re-evaluated.

Economically, Brexit will mainly involve increases in trade, investment and migration barriers with the European Union, the costs from which are very unlikely to be offset by new trade agreements with other countries (Dhingra et al 2017, Treasury 2016). Tariff and non-tariff barriers that may arise in sectors like automotive, food and professional and financial services could significantly affect the structure and size of the UK economy in the long run, as well as create costly short-term adjustments. Some sectors will undoubtedly be strongly affected by both Covid-19 and Brexit. For example, the automotive sector is experiencing a sharp contraction in demand – like other sectors – but also has complex global supply chains. Much of UK employment in automotive manufacturing is at foreign-owned plants. The spread of Covid-19 is reportedly making multinationals re-evaluate their international supply chains. For the UK automotive sector, this comes as an additional hit on top of Brexit, where the prospect of increased trade barriers and non-tariff barriers such as rules of origin restrictions, have already reduced investment in the sector and is predicted to cause further reductions in the long term as the barriers are introduced (Dhingra et al., 2017b).

The effects are not restricted to goods sectors. World trade is set to fall dramatically as a result of the pandemic and the ensuing economic downturn (Zymek 2020). The UK’s trade in services has recently fallen by more than its trade in goods (ONS 2020c). The services sector also looks set to be largely neglected from the future agreement between the UK and EU. If services are not covered in detail in the agreement, Brexit will cause a further hit to tradable service sectors. The economic effects could be sizable as employment in tradable service occupations and industries in the UK is likely to exceed that of goods (Jensen 2011). Furthermore, the UK has a comparative advantage in services and over 50 percent of both imports and exports were with the EU in 2018 (ONS 2020d). Services are not subject to tariffs when they are internationally traded. Instead, services trade agreements must cover alignments on regulations across domestic and foreign providers. This means that deep provisions in the services sector can be difficult to negotiate and particularly at a time when governments across the world might be targeting services sectors for domestic employment creation due to the pandemic.

The changed circumstances due to the pandemic make the need for detailed sectoral analysis even more important. It is clear that some sectors are going to see a reduction in market access after the UK’s exit from the EU. While they may have withstood a bit of a setback in trade with the EU, a much harder hit at a time of a national and a global slowdown may push them towards being unviable. A
large literature in international trade has shown that sectoral mobility of workers is low and sectoral shocks can push many workers towards long-term unemployment and earning losses (see Muendler 2017 for a review and De Lyon and Pessoa 2020 for evidence from the UK). More worryingly, policies to compensate and re-train affected workers have had limited success, making transitions difficult to achieve. The current conditions in these industries will be useful in drawing up Brexit plans that are informed by existing circumstances.

Putting it all together

The spread of Covid-19 and the lockdown have had huge effects on all sectors of the economy. There is an inevitable trade-off between measures to prevent the spread of the virus, such as lockdown, and economic output. Policymakers must ensure that they achieve the right balance, as the lockdown eases and the economy gradually recovers.

The effect of Covid-19 on the economic structure of economies will be persistent (Barrero, Bloom and Davis, 2020), as will the effects of Brexit, meaning that workers and firms will have to adjust to new occupations and industries. Government policies such as the pandemic spending packages, domestic policy, and the details of the future relationship with the EU will reshape the future of the UK economy. Sectors differ in how these two forces affect them, and this means that firms and workers are faced with very different returns to their accumulated sector-specific knowledge. Detailed sectoral impact assessments therefore provide important insights into firm and worker adjustments to these big economic changes facing the UK. The impacts of Covid-19 and Brexit are spread differently across sectors, which means that together, the two forces will impact a wider set of sectors.

As early as 2017, the government had announced that Brexit negotiations would be guided by granular impact assessments across sectors. Sound impact assessments are crucial for good policy design and this is what the government had rightly put forward. Yet the most detailed quantitative impact analysis available from the Government to date gives details for just 10 broad sector categories. This makes the evidence too scant to adequately guide policymaking and it is unsurprising that the new policies that the government has announced in its Brexit plans, such as the tariff schedule published recently, have little justification on why certain policy objectives have been chosen.

The key policy insight from our analysis is that sectoral impacts from Covid-19 and Brexit are different. Granular sectoral impact assessments must be undertaken to reflect the changed economic landscape from Covid-19 domestically and internationally. The UK’s new trade policy after it exits the European Unions and its industrial strategy must reflect the necessities of being in a post-Brexit UK which is placed in a post-Covid world economy.
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