

# Brexit Economics

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# Introduction

- 1 Modelling May's deal
- 2 Consumer price effects of Brexit vote

# May's deal vs no deal

- May's deal
  - Permanent Customs Union
  - Leave Single Market
  - NTBs increase more for services than for goods
- No deal
  - WTO tariffs
  - Leave Single Market and Customs Union
  - Greater NTBs than Deal scenario, particularly for goods

# Quantifying changes to trade barriers

|                   | <b>Tariffs</b> | <b>Non-tariff barriers</b><br>Relative to EU-US<br>reducible NTBs |          | <b>Future integration</b><br>Share of reducible<br>NTBs affected |          |
|-------------------|----------------|---|----------|--|----------|
|                   | Goods          | Goods   | Services | Goods  | Services |
| <b>WTO</b>        | MFN            | 3/4   | 3/4      | 3/4  | 3/4      |
| <b>May's deal</b> | 0              | 1/4   | 2/3      | 1/4  | 2/3      |

# Quantifying changes to trade barriers

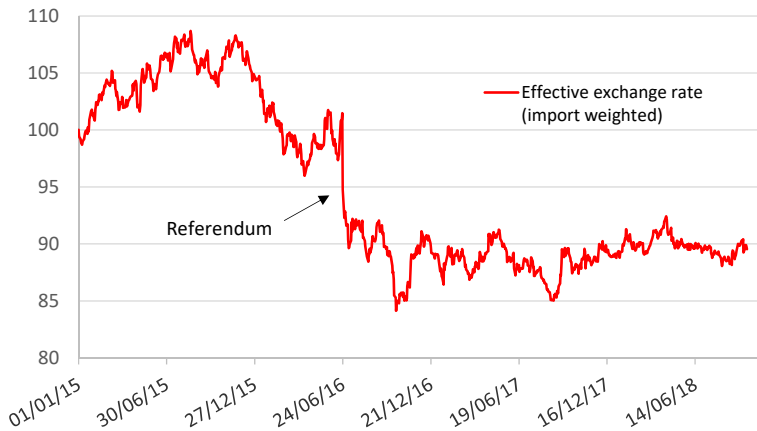
|                   | <b>Tariffs</b> | <b>Non-tariff barriers</b> |          | <b>Future integration</b> |          |
|-------------------|----------------|----------------------------|----------|---------------------------|----------|
|                   | Goods          | Goods                      | Services | Goods                     | Services |
| <b>WTO</b>        | MFN            | 8.3%                       | 8.3%     | 12.7%                     | 12.7%    |
| <b>May's deal</b> | 0              | 2.8%                       | 7.3%     | 4.2%                      | 11.2%    |

## Income per capita effects for the UK

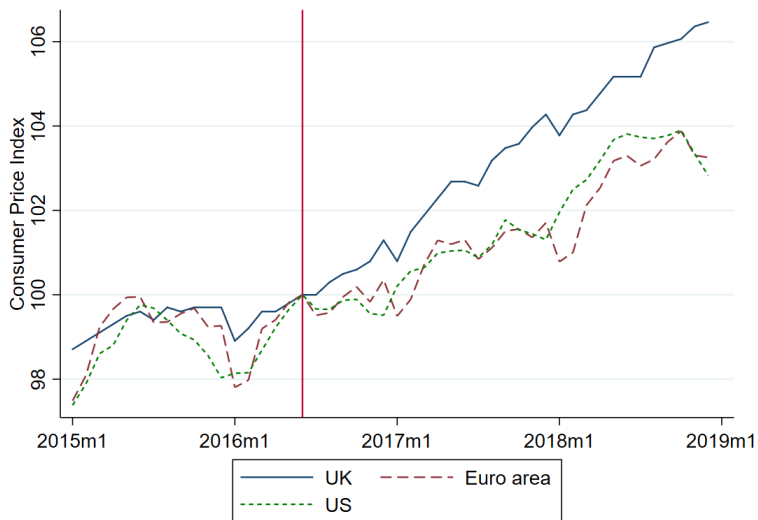
|      | Change in UK income per capita (relative to remaining in the EU) |                              |
|------|--|------------------------------|
|      | Without productivity adjustment                                  | With productivity adjustment |
| Deal | -1.7%  | -4.9%                        |
| WTO  | -3.3%  | -8.1%                        |

Source: CEP calculations. Assumed elasticity of income per capita to trade equals 0.5.

# Value of sterling



# Consumer prices

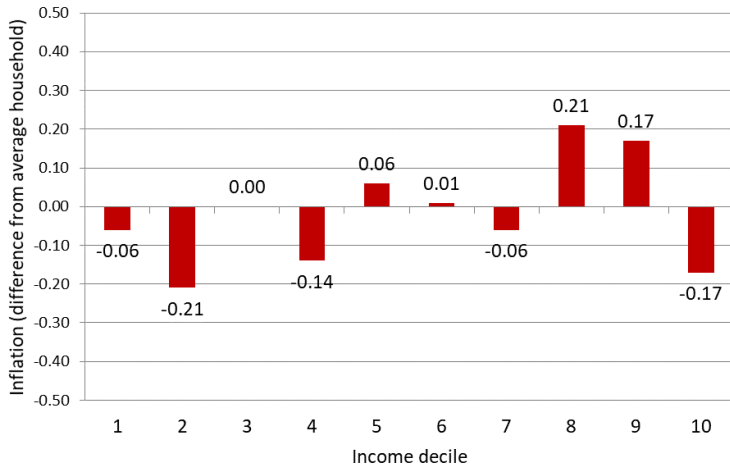




- Brexit depreciation led to higher inflation for products with larger share of imports in consumer expenditure
- Aggregate implications
  - Brexit vote increased consumer prices in June 2018 by **3.9%**
  - Equivalent to **1152 pounds per year** higher expenditure for average UK household
  - Or **602 million pounds per week** higher expenditure for aggregate UK

# Income deciles

Inflation costs of Brexit vote evenly shared across the income distribution



# Regions

Scotland, Wales and Northern Ireland hit hardest – higher expenditure on food, drink, and fuel, lower expenditure on rent

