

Too soon to blame Brexit for the slowdown in the pace of the UK's recovery?

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Is the economic slowdown that we are seeing after the initial bouncebackable a worrying sign for the UK economy? Growth slowed down to 0.8% in May from 2 % in April according to official ONS statistics, despite the easing of restrictions on the month. This was due mainly to shortages of inputs into the manufacturing sector affecting industrial production. This may have been a temporary effect. But the June output surveys also show that authoring the further opening up of the economy meant the overall picture remains a positive one, the pace of overall economy output growth also slowed with June composite PMIs below those in May. And footfall data and latest retail sales also indicate that recent exuberance when pubs opened up indoors too has faded away somewhat. The run up to the football Euro final has helped but these bounces are never sustainable. The further easing in mid July should help but the rises in Covid cases and the confusion that exists in relation to isolation and returns from overseas trips is still bedevilling the industry and could dent consumer confidence causing serious concerned about the sustainability of the economy particularly . And it is quite likely that post Brexit issues which have been a drag on growth for some time will eventually become more pronounced.

In fact they already are. We are seeing it in the staff shortages that have developed and in particular in London which in construction for example had a much greater share of overall workers from the EU than was the average across the country. There are leaders in the hospitality sector bemoaning the loss of EU labour and asking for special visas to allow workers to arrive. Similarly in agriculture and in many other sectors where the absence of those workers is being felt in higher wages and closure of premises for parts of the day, particularly in restaurants, as staff cannot be found to keep places open throughout the day.

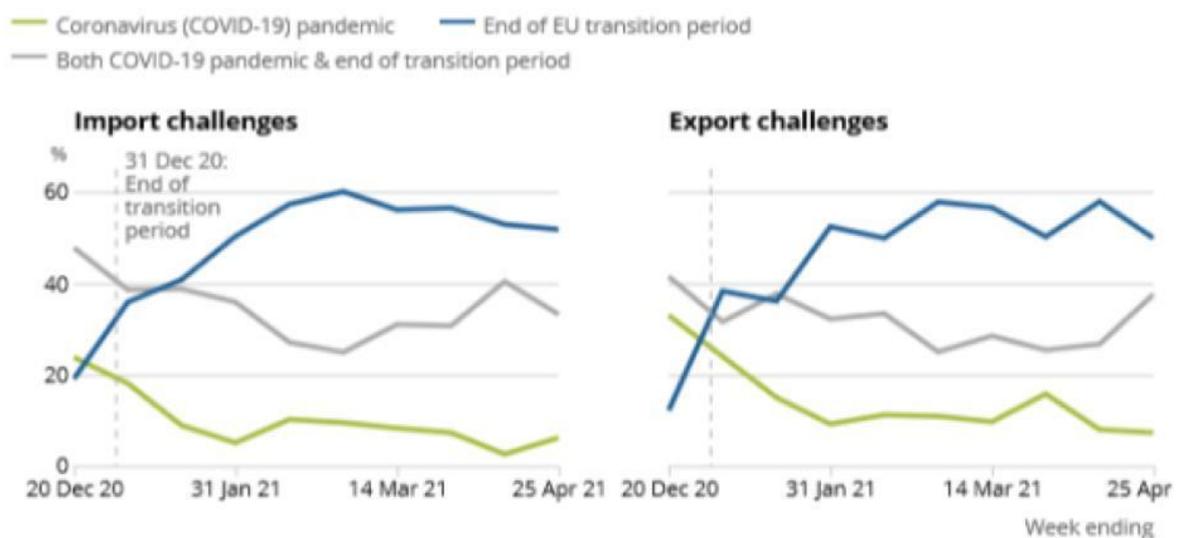
According to the Jobs website [Indeed](#), the number of EU citizens seeking work in the UK has fell by 36% post Brexit if you compare May 2021 with the average levels of 2019. The drop in hospitality was some 30% and that for warehousing staff fell by 41%. There was very little drop by comparison in the interest from workers from Ireland or non-EU countries

On trade the [Centre for European Reform](#) compared the UK to similar countries elsewhere and found that we had already lost some 10% of our trade with the EU more or less permanently even before the end of the transition period in December 2020. And though the trade coverage since has centred on so called 'teething' problems since a new trading regime came into place and more recently on issues linked to the Northern Ireland protocol and exports of medicines and chilled sausages from Great Britain, the overall data for the first quarter were clear. Since the introduction of requirements for form filling and SPS (sanitary and phytosanitary) regulations and rules of origin checks for exports on January 1, 2021, total trade in goods with EU countries, excluding precious metals, fell by 20.3% between Q 4 ,2020 and Q 1, 2021, while that with non-EU countries fell by 0.4%. Yes things have improved and goods trade volumes overall seem now to be just a few percentage points below where they were a year ago – but in reality those figures should have been considerably higher given that the EU remains the UK's biggest trading partner in an environment where world trade is rising strongly and global merchandise trade volumes are at record highs.

While data for service trade is more difficult to get in a timely way, the emergence of serious non-tariff barriers since the Trade and Cooperation Partnership (TCA) came into effect will have dampened service exports to the EU too. [According to a recent study](#) UK service exports, 42% of

which pre pandemic and pre Brexit went to the EU may have been as £113b lower in the four years 2016 to 2019 than they would otherwise have been had the Brexit vote not happened.

What is more the ONS had been tracking the experiences of importers and exporters to the EU since the transition period to try and disaggregate the impact of the pandemic from the Brexit effect. [The results are very interesting](#). On the export side, as the economies slowly recovered and Europe started opening up more, the percentage of firms surveyed by the ONS saw a fall from 20% to almost zero in relation to the pandemic over the period to the end of April. The percentage of those who reported problems attributed to the end of the transition period instead rose strongly from same level of 20% to somewhere between 50% and 60%. Interestingly the import side was equally affected by Brexit issues even though the UK has had no checks to speak of for inwards traffic at the border for the first few months of the year- and has in any case now postponed the introduction of checks for a further six months to the end of the year. While more importers saw the impact of he pandemic reduced as European economies started to recover, though admittedly unevenly, the percentage reporting post transition difficulties also saw a sharp increase from under 20% to hit 60% though coming down after to a still high mid 50s. In May and June the main extra challenge reported by exporters from the UK was additional paperwork compared to normal expectations, closely followed more recently by rising transportation costs.



Source: Office for National Statistics - Business Insights and Conditions Survey

Some of these problems will hopefully ease in the months ahead as compromises are reached between the UK and the EU. But the scarring effects may well end up running for much longer.