GMCA GREATER MANCHESTER COMBINED AUTHORITY

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Date:	18th December 2020
Subject:	Greater Manchester preparations for EU exit and updated analysis on the possible economic impacts
Report of:	Councillor Elise Wilson, Portfolio Lead for Economy and Jim Taylor, Portfolio Lead Chief Executive for Business & Economy

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PURPOSE OF REPORT:

To provide GMCA with an update on the coordination of activities across Greater Manchester to prepare for the end of the transition period on 31st December 2020. The report provides an overview of the current position regarding GM activity around the International Strategy and EU funding update. Finally, the report includes a detailed analysis of possible economic impacts arising from Brexit.

RECOMMENDATIONS:

GMCA are requested to:

1. Note and provide comment of the work underway by the GM Brexit Readiness Group to understand the impacts arising from EU exit and to coordinate responses across the city-region.

2. Note and provide comment on the work underway on the GM International Strategy and ongoing partnership working with EU nations to develop GM opportunities in the future.

3. Note and provide comment on the update provided regarding EU funding sources.

4. Review, note and provide comment on the refreshed economic analysis undertaken and possible implications for the Greater Manchester economy.

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Equalities Implications:

The UK's exit from the EU will have impacts for all people in Greater Manchester, with the possibility of most significant negative impacts on members of society who are employed in some of the sectors most likely to be impacted. Depending on the outcome of the trade negotiations it is also possible tariffs and charges will be applied to goods and services, along with risks around availability of goods and services, should these occur it is likely the greatest impact of this will be felt by more vulnerable sectors of society.

Climate change impact and mitigation measures:

Currently no arising climate change impacts, future impacts will depend on the nature of any deal agreed with the EU.

Risk Management:

N/A

Legal considerations:

N/A

Financial Consequences – Revenue:

The UK's exit from the EU will have an impact on a range of funding sources, currently provided to Greater Manchester via the EU. It is currently not clear the levels to which these funding sources will be replaced by UK administered funds, or if the UK will buy into any of the 2021-2028 EU funding programmes as third member state (such as Norway, Iceland or Switzerland).

Financial Consequences – Capital:

The UK's exit from the EU will have an impact on a range of funding sources, currently provided to Greater Manchester via the EU. It is currently not clear the levels to which these funding sources will be replaced by UK administered funds.

Number of attachments to the report: N/A

Comments/recommendations from Overview & Scrutiny Committee

Will be considered by O&S Committees in December

BACKGROUND PAPERS:

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		
GM Transport Committee	Overview & Scrutiny Committee	

1. UPDATE ON NATIONAL POSITION

1.1 At the time of writing, negotiations with the EU are ongoing. The Prime Minister has travelled to Brussels to continue face to face discussions with the EU Commission President, Ursula von der Leyen with the hope of reaching a deal.

1.2 The two leaders have agreed negotiations will now continue until Sunday. Downing Street has said prior to the Brussels meeting, if there is progress and goodwill, formal negotiations could be expected to resume on Friday, after the European Council Summit meeting on Thursday.

1.3 Disagreements remain on fishing rights, business competition rules and how any deal reached will be policed. Progresses have been reported with apparent agreement reached on specific trade arrangements for Northern Ireland, meaning the UK has now dropped plans to override sections in the internal market and taxation bills, which would have potentially broken international law.

1.4 A verbal update on changes in the national position can be provided at the GMCA meeting.

2. GREATER MANCHESTER PREPARATIONS

2.1 The GMCA has reconvened the GM Brexit Readiness Group, which is meeting monthly to consider possible impacts arising from Brexit and to ensure necessary preparatory actions are being undertaken. The membership of the Group includes: GMCA, Local Authorities, AGMA Resilience Unit, GMP, Growth Company, NHS, GMCVO, Manchester Airport and TfGM.

2.2 The Brexit Readiness Group is considering impacts in the following areas, ensuring alignment to the national planning scenarios:

- **Borders** – Ensuring Manchester Airport is prepared for changes required relating to passengers and freight. Minimising disruption and delays through the airport. Ensuring signage and wayfinding is clear. Ongoing conversations with relevant Government Departments and joint working with Border Force.
- **Transport & Infrastructure** – Ongoing dialogue with transport operators to ensure preparations are in place. Consideration has been given to any necessary changes regarding waste management.
- **Health & Social Care** – Preparations build on Covid response activities, ensuring staff and supplies are available and contingencies are in place should issues arise.
- **Food & Water** – No shortages in food supply are envisaged. There is a possibility of food price increases linked to availability and demand, but food supply chains,

networks and retailers are now more prepared and understand possible pinch points following the Covid outbreak.

- **Energy** – No issues are currently envisaged. Ongoing dialogue with utilities providers.
- **Civil Contingency Planning** – Aligned to national planning. The concurrent issues arising from Covid, winter and Brexit are being considered and ensuring agencies have capacity to respond.
- **Business & Economy** – Ongoing preparatory advice and support being provided to businesses to ensure necessary actions have been taken before 31st December.
- **Law & Order and Community Tensions** – Policing demands are currently high due to ongoing Covid response. GMP planning in line with NPCC guidance.
- **Community Impacts** – Possible impacts arising for low income groups, networked visibility of issues and development of responses being undertaken as part of Humanitarian Assistance Group activities.
- **Engagement with Government** – No current requests for specific reporting requirements outside of those being provided related to Covid response. Dialogue with relevant government departments is happening as part of business as usual across agencies.
- **Skills** – Detailed analysis of the immigration policy was provided to November meeting of GMCA (and is included below). The EU Settlement Scheme is open until June 2021. All agencies identifying and supporting staff to apply where appropriate. Local Authorities and their partners may need to provide support to ensure applications are completed for vulnerable adults and children in care.
- **Higher Education** – Ongoing engagement with universities to understand possible impacts arising, including EU student and teacher numbers, and changes to access to international collaboration research projects and funding.
- **Funding and cross-border partnerships** – Uncertainty remains regarding future funding access and availability. The International Strategy has been developed to support development of cross-border partnerships and wider activities, forming a significant part of GM's response (see sections 3 and 4 below)
- **Organisational Readiness** – All organisations engaged in the GM Brexit Readiness are considering their own operations and ensuring these can continue following the end of the transition period.
- **Data** – Ongoing dialogue with DCMS. Ensuring continued flow of data to and from the EU following Brexit.
- **Communications** - Updated information on GMCA website and shared amongst Local Authority communications teams. Ensuring up to date signposting information is available so businesses and citizens know where to access the information they need.

3. GREATER MANCHESTER INTERNATIONAL STRATEGY

3.1 Following the publication of the GM International Strategy in October, a 12 month implementation plan has been developed. The Strategy and its delivery plan are part

of the response of Greater Manchester to the most emerging challenges brought about by Covid and the end of the EU transition period. It focuses around eight priorities – trade, investment, international students, visitor economy, research partnerships, connectivity, reputation and promotion, and city-region diplomacy.

3.2 The team has also initiated discussions with a number of foreign governments and global city. Many countries are investing in the bilateral relations with the UK post Brexit and are willing to work with regions and cities to develop or to deepen the relations with the UK. To highlight this month are:

- Virtual event hosted by Mayor Andy Burnham and Mayor Steve Rotherham with the British Ambassador to Ireland, Minister Graham Stuart, Irish Ambassador to the UK, Tánaiste Leo Varadkar and Irish Minister of Foreign Affairs Simon Coveney
- New GM-Japan Steering Group meeting established to progress the commitments made between Japanese Ambassador and the Mayor at the GM-Japan event in October. This will include seizing the opportunities emerging from the new free trade agreement and building culture and people to people links.

3.3 Further updates on the activities being delivered under the International Strategy will be provided to the GMCA as the work develops.

4. EU FUNDING UPDATE

4.1 UK-EU negotiations on Horizon Europe (€80bn) continues. The programme (2021-2027) is the largest R&D&I public funded programme in the globe. Non-EU countries can also participate as associated members, Switzerland and Israel have been participating as full associated partners for a number of financial periods, other countries such as Japan or Canada have been involved in elements of previous programmes. The EC has proposed a UK contribution to the programme based on its gross domestic product as a share of EU GDP, which currently stands at 18%. The UK wants a "downward correction mechanism" to compensate the government if UK participants come away with less than it puts in. The EC has been reluctant to accept such condition so far.

4.2 The UK Government has already indicated that is willing to participate in part of the future Erasmus+ programme or to develop a UK-wide domestic alternative to support "outward global HE education mobilities". This UK student mobility programme was included in the Spending Review but no mention has been made yet about the level of funding and if inbound students from abroad would also be financially supported. The UK will not continue being part of the other elements of Erasmus+ which have been supporting schools, colleges and adult education projects.

4.3 The UK has confirmed it will not continue with the Territorial Cooperation Programmes (ETC) - INTERREG, URBACT and ESPON - other than the PEACE programme that covers the border regions of Ireland and Northern Ireland. In June 2020 members of the ETC UK received an email suggesting the Government may consider including ETC type activity in the UK Shared Prosperity Fund.

5. REFRESHED ECONOMIC ANALYSIS FOR GREATER MANCHESTER

5.1 INTRODUCTION TO ANALYSIS

5.2 The Greater Manchester Combined Authority has completed a wide range of prior analysis of Brexit and the implications for the Greater Manchester economy. These have focused on the trade and labour market impacts of various Brexit scenarios and analysis of specific Government policy announcement and developments in negotiations.

5.3 This analysis builds on previous research findings to reflect the most recent data and policy announcements in relation to Brexit. The report also aims to summarise relevant forecasts and analysis from Government and elsewhere and assess their relevance for Greater Manchester.

5.4 As such uncertainty remains regarding the outcome of the negotiations, this paper aims to provide the foundations for rapid analysis of any deal (or none) as soon as it emerges. Where there is greater certainty (such as in the Government's visa policy), more detailed analysis has been undertaken.

6. INTERNATIONAL TRADE

Key messages

- The total value of exports from Greater Manchester firms was £6,584m in 2019, a 3% decrease from 2018.
- GM's export value per head of working age population is less than half of that of the UK average.
- The EU accounted for 58% of exports from GM firms in 2019, little different from the 59% recorded in 2018. However, the latest figures still represent a greater reliance on the EU as an export market than the average for England (52%).
- As a single destination, Germany was the largest purchaser of exports from GM firms in 2019, with £805m (12%). Of the top ten destinations for GM exports, eight were located within the EU, with the USA (£641m or 10%) and China (£253m or 4%) the only top ten partners outside the EU.
- HMRC provide data for the main types of goods exported by GM firms. In 2019 data these were: Machinery and Transport (£1,842m or 28%); Miscellaneous manufactured articles (£1,518m or 23%); and Chemicals (£1,292m or 20%)

6.1 The analysis in this chapter looks at available international trade data in Greater Manchester to examine the economy's sectoral composition, key export partners and how it compares to

other areas of the UK. This analysis identifies GM's relative strengths and weaknesses in international trade to give some insight into the GM economy's exposure to the impacts arising at the end of the transition period.

Value of exports

6.2 The total value of exports from GM firms was £6,584m in 2019, a 3% decrease from 2018. This placed GM 15th out of 40 UK NUTS2 regions in terms of total export value. GM's export value per head of working age population is less than half the UK average.

Figure 1: Export of goods, GM, North West and all NUTS2 regions, 2019

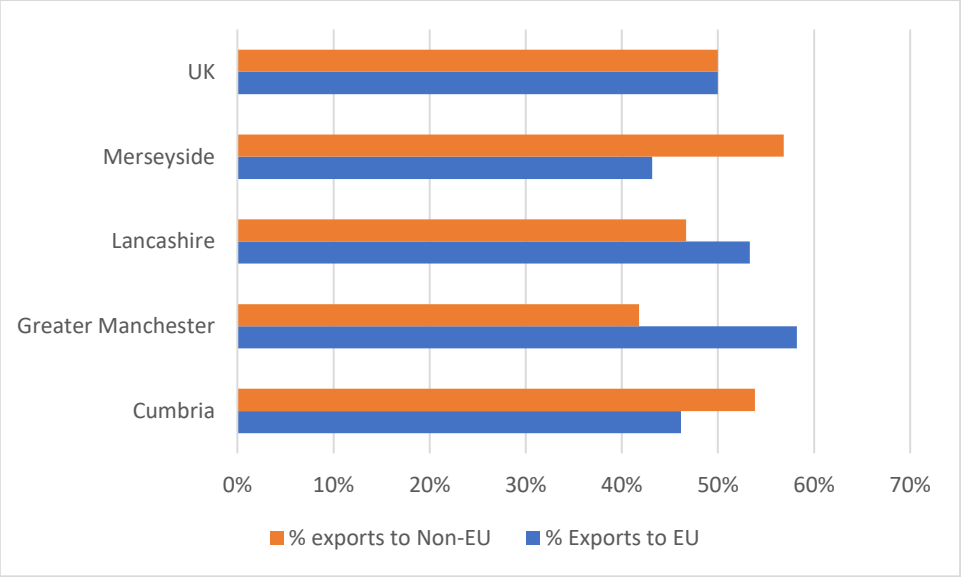
NUTS2 Region	Export value (£million)	Value per head of working age population (£)
Greater Manchester	6,584	3,651
North West	27,345	5,996
UK	347,831	8,336

Source: HMRC

Source of trade

6.3 The EU accounted for 58% of exports from GM firms in 2019, little difference from the 59% recorded in 2018. However, the latest figures still represent a greater reliance on the EU as an export market than for the UK as a whole - the average share of exports to the EU across all NUTS2 regions was 50% in 2019. Of the 40 NUTS2 regions in the UK only seven had a higher proportion of their exports going to the EU. The value of GM exports to the EU decreased by 4% in 2019, while exports to non-EU countries decreased by 1%.

Figure 2: Share of EU and Non-EU exports (value) GM and other LEP areas, 2019



6.4 Germany was the largest purchaser of exports from GM firms in 2019, with £805m (12%) worth of exports. Of the top ten destinations for GM exports, eight were located within the EU, with the USA (£641m or 10%) and China (£253m or 4%) the only top ten partners outside the EU.

Figure 3: Major export destinations, 2019

Rank	Partner Country	Export value (£million)	Share of total export goods
1	Germany	805	12%
2	Irish Republic	680	10%
3	USA	641	10%
4	France	466	7%
5	Netherlands	308	5%
6	Italy	263	4%
7	Belgium	260	4%
8	China	253	4%
9	Spain	234	4%
10	Poland	161	2%

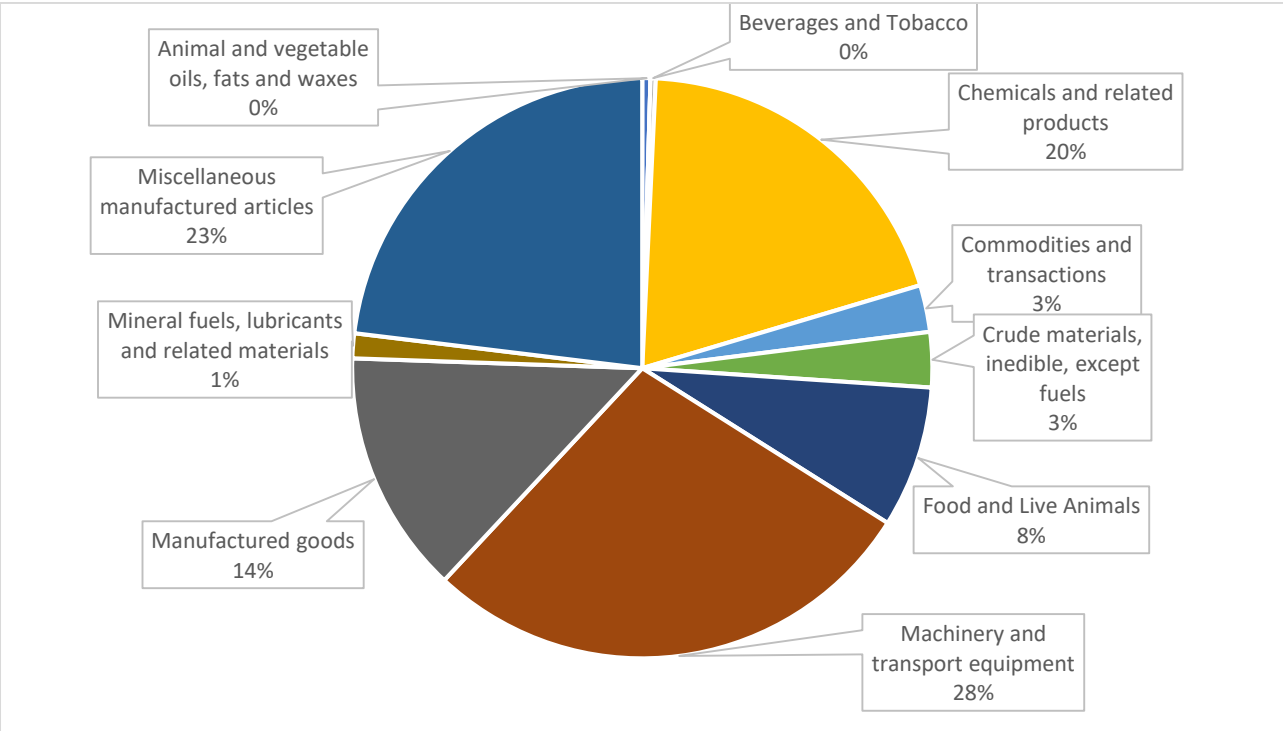
Source: HMRC

6.5 GM export markets are slightly less more diverse and less concentrated than the average across NUTS2 areas. The top ten nations purchasing GM exports in 2019 accounted for 62% of total export values compared to the England average of 64%. A greater diversity in export destinations may give GM a slight advantage over other areas of the UK with more concentrated purchasers of export goods if EU exit causes disruption to export routes, which is likely to occur in the short term due to changes in customs and border crossing rules.

6.6 **Exports by sector (goods traded)**

6.7 Machinery and Transport Equipment were GM's biggest export in terms of value in 2019, accounting for £1,842m or 28% of exported goods. This was followed by Miscellaneous Manufactured Articles (£1,518m or 23%) and Chemicals and related products (£1,292m or 20%). Exports of other Manufactured Articles totaled £894m or 14% of total exports.

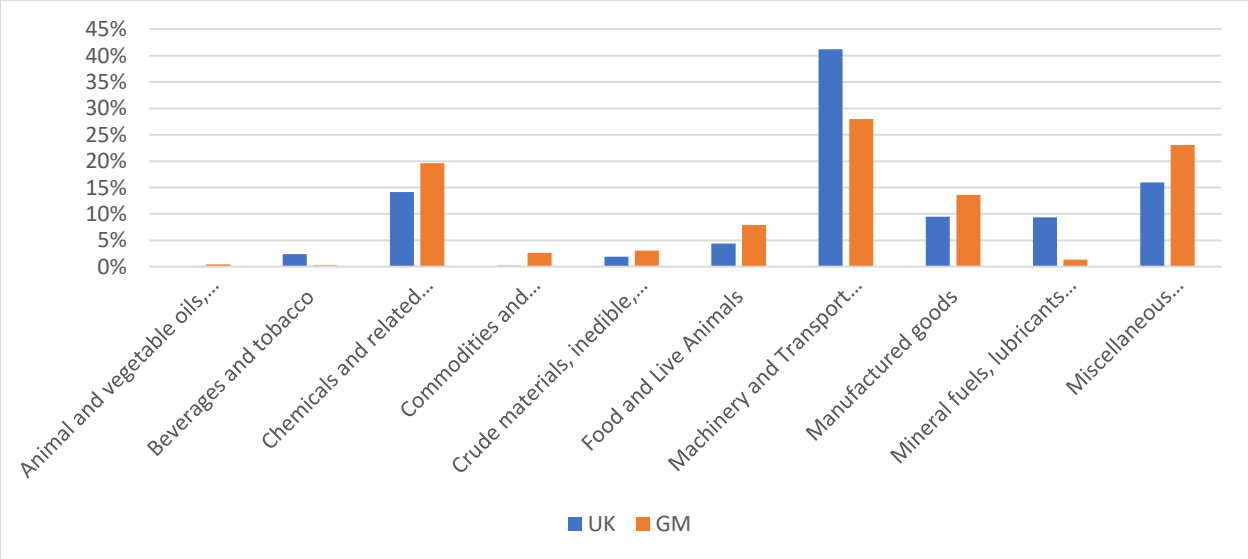
Figure 3: Exports by sector, 2019



Source: HMRC

6.8 As shown in Figure 4, compared to the UK as a whole, GM has a larger proportion of its exports concentrated in Chemicals and related products, Manufactured goods, Miscellaneous manufactured articles, Crude materials and Commodities. As stated previously, at this stage, it is not clear of the effects on the exports of these individual goods of an any proposed trade deal with the EU. As such, it is not possible to assess the impact upon them until the terms of deal are announced.

Figure 4: Exports by sector – comparison with UK, 2019



Source: HMRC

Profile of exporters

6.9 Evidence from the GM Business Survey 2020 shows that around one in seven GM businesses (14%) reported that they exported. This figure matches that observed in the 2017 survey (14%) but is below the proportion of businesses exporting in the 2016 survey (20%). There have been minor changes in the wording of the relevant survey questions and changes in the way the survey has been targeted at businesses which may be influencing these results. Therefore, caution should be applied in interpreting the apparent decrease since 2016 as reflective of a true trend. In addition, the advent of Covid-19 emergency and related lockdown restrictions which came into force in March brought a premature end to the data collection process. As a result, the 2020 survey achieved a response sample of 534 completed surveys, some way short of previous surveys.

Characteristics of exporters in Greater Manchester

6.10 GM Business Survey 2020 reveals the characteristics of firms that are most likely to be exporters:

- The Creative and Digital sector has the highest proportion of exporters (26%), followed by manufacturing (20%);
- More likely to be in Manchester (23%), Trafford (16%) and Stockport (15%);
- Less likely to report turnover growth in the past year but significantly more likely to have reported employment growth.
- No more likely to be training their staff or experiencing hard-to-fill vacancies.
- Marginally more likely to be involved in innovation activities (84% against 81%).
- Less likely to have sought business support (14% against 22%).

6.11 The survey shows that both the number of exporting businesses and their sectors vary across GM's 10 districts. This indicates that any policy to protect GM's exporters post-Brexit must consider the variety of exporting businesses across GM.

Potential barriers to trade

6.12 Research from independent think tank Civitas has estimated that if the UK were to leave the EU without a trade deal, and thus trade between the UK and EU was conducted under WTO Most Favoured Nations (MFN) terms, UK exporters could face the potential impact of £5.2 billion in tariffs on goods being sold to the EU. Building on this analysis, it is estimated that under the scenario where the UK leaves the EU with no trade deal in place, GM could be impacted by £200 million in tariffs, with an average rate of 4.9% across all goods.

6.13 Due to Greater Manchester's sectoral composition it is more likely to be affected by tariffs for certain goods than the UK as a whole. GM businesses would be disproportionately affected by tariffs on Food and Live Animals, Chemicals, Commodities and transactions, Crude Materials, Manufactured goods and miscellaneous manufactured articles which form a greater

proportion of GM's exports compared to the UK. Food and Live Animals forms 8% of GM's exports (4% for the UK), Chemicals forms 20% (14% for the UK), Commodities forms 3% (less than 1% for the UK), Crude Materials forms 3% (2% for the UK) Manufactured goods forms 14% (9% for the UK) and miscellaneous manufactured articles forms 23% (16% for the UK). In all other sectors, GM is less exposed to the effect of tariffs.

Figure 5: Tariff impacts on goods exported by GM firms

Sector	Statistical Value (£ million)	Average Tariff	Tariffs Payable Estimate (£ million)
Food and Live Animals	364	19.6%	71.3
Beverages and Tobacco	9	6.4%	0.58
Crude Materials	46	3.2%	1.5
Mineral Fuels	67	1.1%	0.7
Animal and Vegetable Oils	25	8.8%	2.2
Chemicals	738	3.0%	22.1
Manufactured Goods	585	1.9%	11.1
Machinery and Transport	814	4.3%	35.0
Miscellaneous Manufactures	1008	5.1%	51.4
Other commodities	172	2.1%	3.6

Source: HMRC

7. LABOUR MARKET IMPACTS

Key messages

- According to the ONS Annual Population survey, GM had an estimated population aged 16 to 64 of 1.8 million people in 2019. Of this population, 1.6 million were British by nationality and of the remaining 208,000 residents, 89,000 were EU nationals (5%) and 119,000 were from countries outside of the EU (7%).
- The number of non-EU residents in GM has fallen by 20,000 since 2016. The number of EU residents has been more stable decreasing by 6,000 residents.
- Manchester and Salford had the highest proportion of residents aged 16-64 born in the EU at 7% and 9% respectively; these were the only two local authorities in GM above the national average.
- The sectors of the GM economy with the highest levels of EU workers and therefore most exposed to changes in EU migration rules are Retail and Wholesale Trade,

Accommodation & Food Service, Business, Financial and Professional Services and Manufacturing

- Low-skilled jobs are likely to be most vulnerable to the introduction of the points-based immigration system because of the minimum salary requirements to qualify for a visa.

7.1 This section recaps the analysis provided to November GMCA meeting on the UK's points-based immigration system to be introduced on 1 January 2021 and its likely impact on the GM labour market.

UK's points-based immigration system

7.2 The points-based immigration system will be introduced to coincide with the end of the transition arrangements following the UK's departure from the European Union. The system will treat EU and non-EU citizens equally, applying the same tests to their eligibility for a working visa in the UK. Whilst the changes to the system represent a relatively minor adjustment to the rules for non- EU workers, they are a significant departure for EU workers who previously enjoyed free movement as part of the UK's membership of the EU.

7.3 The revised visa system requires migrants to accrue 70 points in order to be able to apply for a visa to work in the UK. The points allocations are outlined in the table below, with some characteristics required for all applicants, and some 'tradeable' to meet the 70 point threshold. Effectively, this requires that all migrants will need to have a job offer with a salary of £25,600 or greater unless they are in a Migration Advisory Committee shortage occupation or have a PhD.

7.4 The new rules represent a slight liberalisation of rules for those applying for visas from outside of the EU. Changes include:

- The required skill level of an applicant's job offer is reduced from RQF6 (equivalent to a Bachelor's degree) to RQF3 (equivalent to A-levels)
- The minimum salary requirement of the job offer is reduced from £30,000 to £25,600 in most cases
- The national cap on the number of skilled migrants coming to the UK is removed. This previously capped the number of non-EU migrants granted visas to work in the UK at 20,700 per year
- The 'resident labour market test' is removed. This previously required any job offered to a migrant from outside the EU to have been advertised to settled residents for a minimum of 28 days.

7.5 In addition to requiring EU workers to meet the same visa requirements as non-EU residents, the policy also mandates that migrants will only be entitled to access income-related benefits after indefinite leave to remain is granted, usually after five years. Currently, EU nationals in the UK can claim benefits if they are "economically active".

7.6 EU citizens already resident in the UK will be eligible to stay and work in the UK through the Settlement Scheme for EU citizens. They will not be required to re-apply using the points-based system.

POTENTIAL IMPACTS OF THE POINTS-BASED IMMIGRATION SYSTEM ON THE GM ECONOMY

7.7 Non-UK nationals currently living and/or working in GM represent an important component of the local and regional economies. Not only do they represent key employees in terms of skills or sectors in which they work, but they are also consumers, generating demand for local businesses to fulfil.

7.8 According to the ONS Annual Population survey, GM had an estimated population aged 16 to 64 of 1.8 million people in 2019. Of this population, 1.6 million were British by nationality and of the remaining 208,000 residents, 89,000 were EU nationals (5%) and 119,000 were from countries outside of the EU (7%). This represented a smaller percentage of the population than the UK average of 7% for EU nationals but GM had a greater proportion of non-EU nationals than the UK average (5%).

7.9 Within GM, Manchester and Salford had the highest proportion of residents aged 16-64 born in the EU at 7% and 9% respectively; these were the only two local authorities in GM above the national average.

7.10 The number of non-EU residents has fallen by 20,000 since 2016 when previous analysis was undertaken. The number of EU residents has been more stable decreasing by 6,000 residents.

7.11 As shown in the November GMCA paper analysis, the sectors in GM most at risk of potential labour shortages, according to the size of the current EU workforce in Greater Manchester, are:

- Retail and Wholesale Trade, and Accommodation & Food Services, where an estimated 26,000 workers are EU nationals;
- Business, Financial and Professional Services, where an estimated 17,000 workers are EU nationals;
- Manufacturing, where an estimated 13,000 workers are EU nationals.
- Public Administration, Education, and Health & Social Care, where an estimated 12,000 workers are EU nationals;

7.12 These figures are likely to under-represent the overall potential impact on the labour market, because many workers who are seasonal and/or contracted through employment agencies will not be included in these data, and low-skilled jobs are likely to be most vulnerable to the introduction of the points-based immigration system.

7.13 As previously highlighted the impacts of the immigration system will play out differently in different parts of the UK, as well as in different parts of GM. The composition of different local

economies matters, both in terms of industry sectors and the characteristics of the local workforce.

7.14 The proposed changes to immigration policy will also have implications for non-EU nationals applying to work in the UK after 2021. As non-EU nationals generally outnumber EU nationals in the GM labour force across most industries in GM, this may help to offset some of the impact of the comparatively more restrictive rules for EU nationals, at least in certain sectors.

8. FORECASTS AND OTHER ANALYSIS

Key messages

- The government's official analysis estimates potential GDP impacts from EU exit to be -9.3% in the worst-case scenario and -0.6% in the best-case scenario.
- In the best-case scenario, the North West could lose around 2% of economic growth. In the worst-case scenario, where the UK leaves the EU without a deal and reverts to WTO rules, the North West could lose around 12% of economic growth.
- Brexit is predicted to reduce GVA in Greater Manchester by between -1.25% and -2.28%.

FORECASTS FOR THE UK ECONOMY

8.1 The Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook report November 2020 analysed what impact a no deal Brexit might have on the UK economy on top of the impact from the coronavirus crisis. The OBR's central forecast estimates that leaving the EU with a typical free trade agreement would cause a 4% long run loss of output. Under a no-deal scenario, real GDP would be reduced by a further 2% in 2021 due to temporary disruptions to cross-border trade.

8.2 The OBR predicts that short term disruption to trade in the no deal scenario would reduce over the course of the year but the long-term hit to productivity would cause a further 1.5% loss to output on top of the 4% predicted by the central forecast over 5 years. The OBR lists 5 key factors that will cause this negative impact on GDP:

- Border Disruption
- Other short run effects on supply and demand caused in part by heightened uncertainty and tighter credit conditions
- Less capital deepening due to lower business investment
- Lower productivity due to a reduction in trade intensity
- A rise in structural unemployment as more resources need to be reallocated from declining to expanding sectors than under a free trade agreement.

8.3 Detailed analysis of the possible long term impacts on the economy were undertaken in 2018. This analysis combined the estimated impact of the change in trade policy, the modelled illustrative changes in migration and potential economic benefit of greater flexibility over UK regulations. The detailed analysis is included at Annex A.

9. RECOMMENDATIONS

9.1 Recommendations appear at the front of this report.

ANNEX A - FORECASTS AND OTHER ANALYSIS

Key messages

- The government's official analysis estimates potential GDP impacts from EU exit to be -9.3% in the worst-case scenario and -0.6% in the best-case scenario.
- In the best-case scenario, where EEA membership is retained, the North West could lose around 2% of economic growth. In the worst-case scenario, where the UK leaves the EU without a deal and reverts to WTO rules, the North West could lose around 12% of economic growth.
- Brexit is predicted to reduce GVA in Greater Manchester by between -1.25% and -2.28%.

1. FORECASTS FOR THE UK ECONOMY

1.1 The Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook report November 2020 analysed what impact a no deal Brexit might have on the UK economy on top of the impact from the coronavirus crisis. The OBR's central forecast estimates that leaving the EU with a typical free trade agreement would cause a 4% long run loss of output. Under a no-deal scenario, real GDP would be reduced by a further 2% in 2021 due to temporary disruptions to cross-border trade.

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- Less capital deepening due to lower business investment
- Lower productivity due to a reduction in trade intensity
- A rise in structural unemployment as more resources need to be reallocated from declining to expanding sectors than under a free trade agreement.

2. EU EXIT LONG TERM IMPACT ON THE ECONOMY

2.1 In 2018, the government published its report on the economic impact of Brexit 'EU Exit: Long-term economic analysis'. The analysis combines the estimated impact of the change in trade policy, the modelled illustrative changes in migration and potential economic benefit of greater flexibility over UK regulations.

2.2 A range of factors determine changes in economic output in the modelled scenarios, including both tariff and non-tariff trade barriers, migration, regulation and an independent trade policy. The government's analysis indicates that new costs on trade

between the UK and EU are the main driver of changes in economic output in all modelled scenarios. Changes in migration make a smaller but significant contribution.

2.3 Figure 1 below shows the impact on GDP and GDP per capita of 4 modelled exit scenarios including a no deal exit. The table also shows the difference in impact for each scenario if there would be no change to migration arrangements and if there was a net zero inflow of workers from the European Economic Area (EEA). The modelled scenarios show that a no deal would have the greatest impact on GDP: -7.7% with no change to migration arrangements and -9.3% with a net zero inflow of EEA workers. The government's modelled white paper scenario would have the least impact on GDP: -0.6% with no change to migration arrangements and -2.5% with a net zero inflow of EEA workers.

Figure 1: Summary of overall GDP and GDP per capita impacts of combined trade, migration and regulation effects compared to today's arrangements

Compared to today's arrangements (per cent change)		Modelled no deal	Modelled average FTA	Modelled EEA-type	Modelled White Paper	
					Modelled White Paper	*Modelled White Paper with 50 per cent NTB sensitivity*[171]
No change to migration arrangements	**GDP**	-7.7 (-9.0 to -6.3)	-4.9 (-6.4 to -3.4)	-1.4 (-2.4 to -0.9)	-0.6 (-1.3 to -0.1)	-2.1
	GDP per capita[172]	-7.6 (-8.9 to -6.2)	-4.9 (-6.4 to -3.4)	-1.4 (-2.3 to -0.9)	-0.6 (-1.3 to -0.1)	-2.1
Zero net inflows of EEA workers	**GDP**	-9.3 (-10.7 to -8.0)	-6.7 (-8.1 to -5.1)	*N/A*[173]	-2.5 (-3.1 to -1.9)	-3.9
	GDP per capita	-8.1 (-9.5 to -6.8)	-5.4 (-6.9 to -3.9)	*N/A*[174]	-1.2 (-1.9 to -0.7)	-2.7

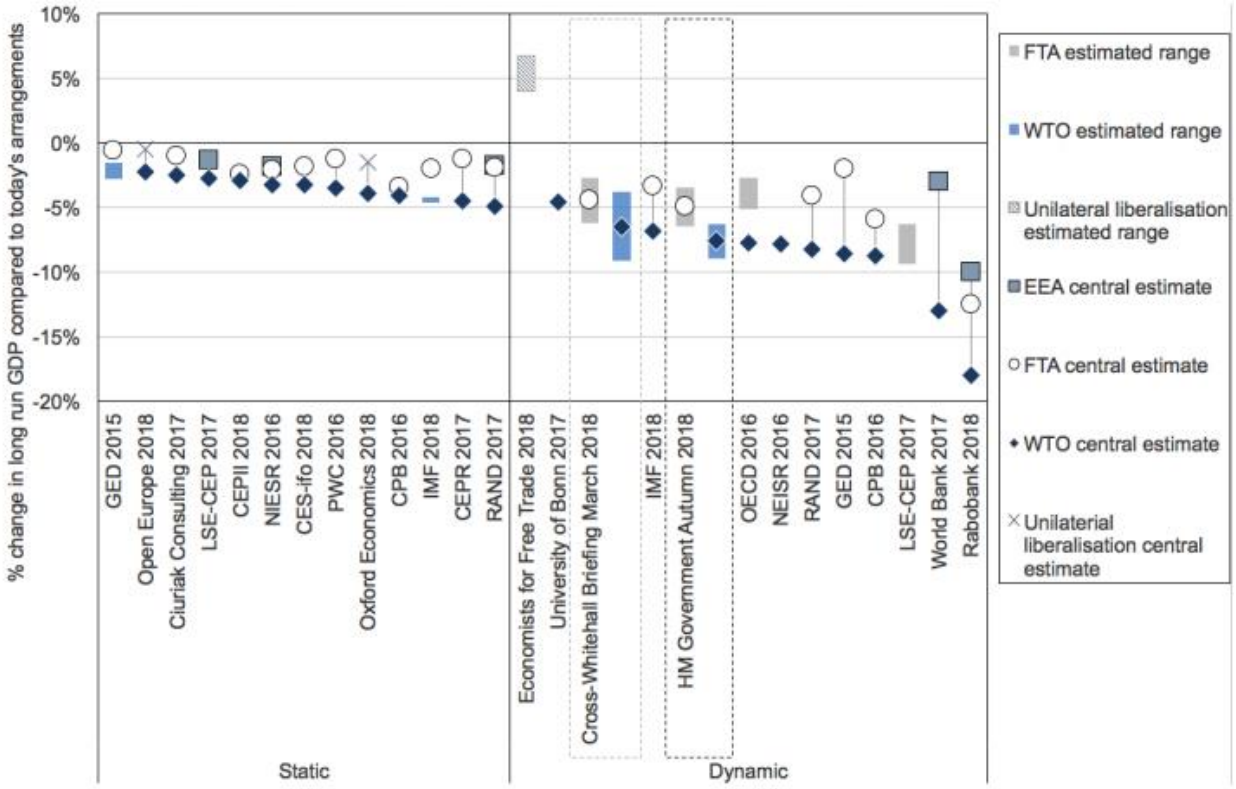
Source: HM Government 'EU Exit: Long-term economic analysis' (2018)

3. Independent EU Exit analysis

3.1 Figure 2 below shows a range of estimates from 26 different studies into the impact of EU exit on the UK economy. There are two types of study, 'static' models which focus on a limited set of effects and 'dynamic' models which allow for a wider range of effects including productivity, foreign direct investment or capital accumulation.

3.2 The 'static' modelled studies find the potential impact on GDP to be between -1.5% and -4.9%. The 'dynamic' modelled studies find the potential impact on GDP to be between -2.6% and -18%. In all the studies, the greatest impact on GDP would be a no deal scenario where the UK's trading relationship with the EU reverts to World Trade Organisation (WTO) rules. This is in line with the findings of the government's own analysis.

Figure 2: Summary of total impacts on GDP from external trade modelling compared to Government analysis

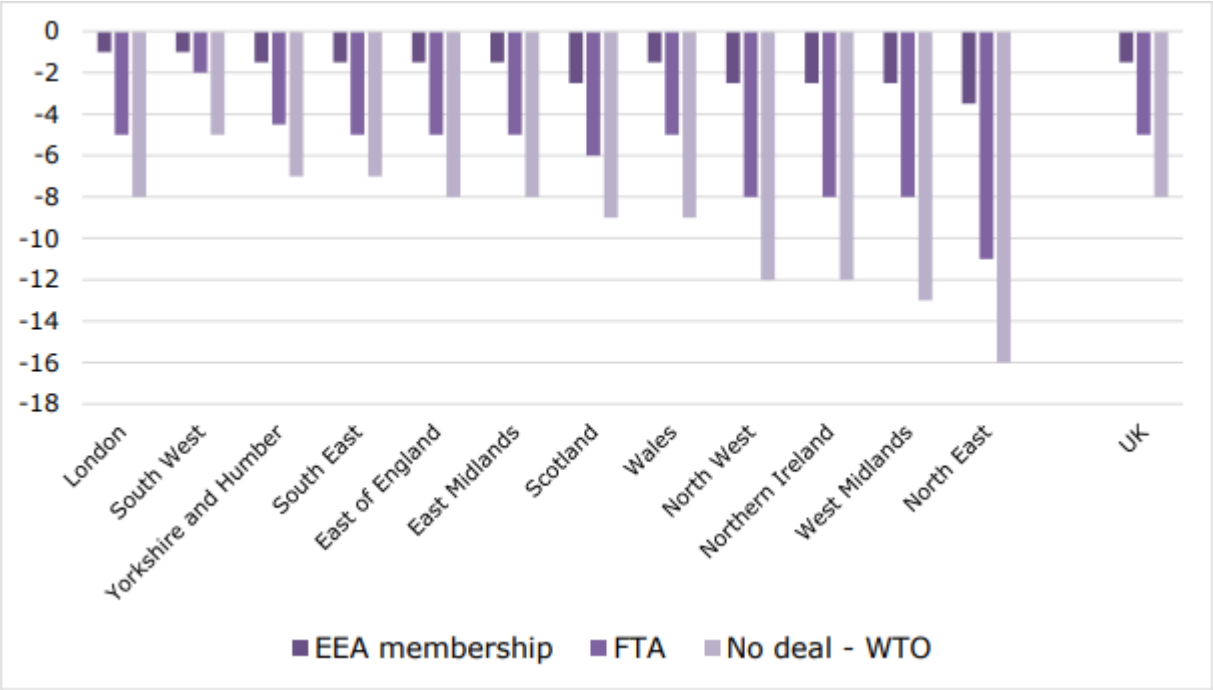


Source: HM Government 'EU Exit: Long-term economic analysis' (2018)

4. Regional impact

4.1 Figure 3 overleaf presents UK Government estimates of the effects of different EU exit scenarios by region. Under all scenarios, the North East, West Midlands, Northern Ireland and North West are predicted to be the most severely impacted. Regions that are predicted to have the greatest impact on their economic growth are those that have a higher dependence on exports and therefore a greater exposure to changes in trade barriers. In the best-case scenario, where EEA membership is retained, the North West could lose around 2% of economic growth. In the worst-case scenario, where the UK leaves the EU without a deal and reverts to WTO rules, the North West could lose around 12% of economic growth.

Figure 3: Provisional growth projections under three Brexit scenarios: Gross Value Added in 2033 compared to retaining status quo



Source: House of Commons Exiting the EU Committee (2018)

4.2 There is limited research into the impact of EU exit at sub-regional level. However, the LSE Centre for Economic Performance has produced estimates of the likely change in GVA under two scenarios: 'Soft' and 'Hard' Brexit. The study first predicted the impact of Brexit on individual sectors, then used these underlying predictions to predict local authority level effects based on their employment concentration across sectors. The study found that in line with national estimates, the average local authority level effect is negative in both scenarios. Figure 4 below shows the estimates for each local authority in Greater Manchester.

Figure 4: Brexit impact by local authority

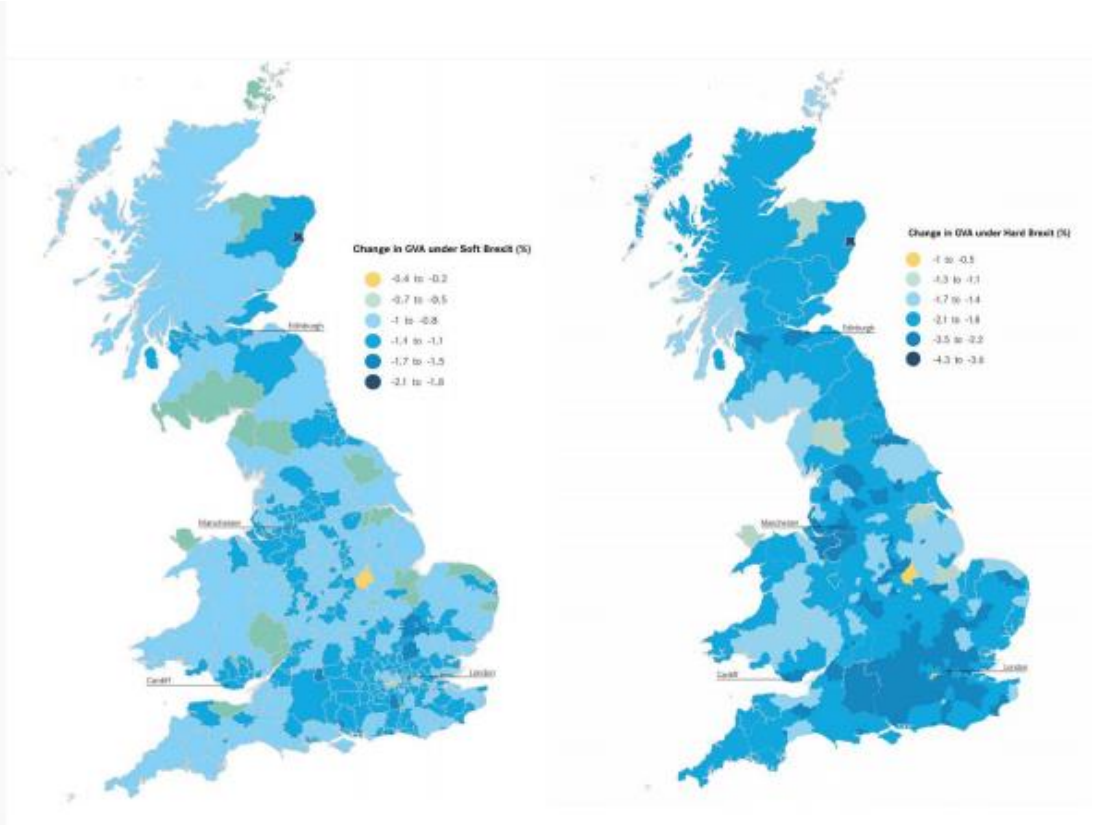
Local Authority	Change in GVA under 'soft' Brexit (%)	Change in GVA under 'hard' Brexit (%)
Bury	-1.3	-2.4
Bolton	-1.2	-2.2
Manchester	-1.3	-2.4
Oldham	-1.2	-2.0
Rochdale	-1.3	-2.2
Salford	-1.4	-2.7
Stockport	-1.3	-2.4
Tameside	-1.1	-1.9
Trafford	-1.3	-2.6
Wigan	-1.1	-2.0

Source: LSE Centre for Economic Performance 'The Local Economic Effects of Brexit' (2017)

4.3 Figure 5 overleaf shows how these findings compare with other local authorities across Great Britain. The study found that areas in the south will be broadly more affected by EU exit than areas in the north. The map also suggests that urban local authorities tend to be more negatively affected due to their employment being concentrated in the sectors likely to be most affected by Brexit. This deviates from Government predictions discussed above, which suggest that the biggest impact will be outside the south of England.

4.4 The differing views on the precise impact of EU exit on different areas of the UK shows the difficulty in making predictions about the exact impact of Brexit. Different methodologies have led organisations to separate conclusions on the geographical impact of Brexit. This is further complicated by the uncertainty around the conditions under which the UK will leave the European Union. Without knowing the precise details of the UK's deal with the EU or whether the UK will leave without a deal, analysis remains somewhat speculative. However, despite different methodologies and disagreement on the precise impact of Brexit, all studies discussed in this paper have found that leaving the European Union will have a negative impact on GVA in the future.

Figure 5: Maps of percentage decreases in GVA across local authority areas.



Source: LSE Centre for Economic Performance 'The Local Economic Effects of Brexit' (2017