



Brexit and potential economic impact

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August 2016

Agenda

- The current context, Brexit, uncertainty and variety!
- The mechanisms of impact
- Outlooks (for what they are worth)
- Concluding remarks



The current context, Brexit, uncertainty and variety!

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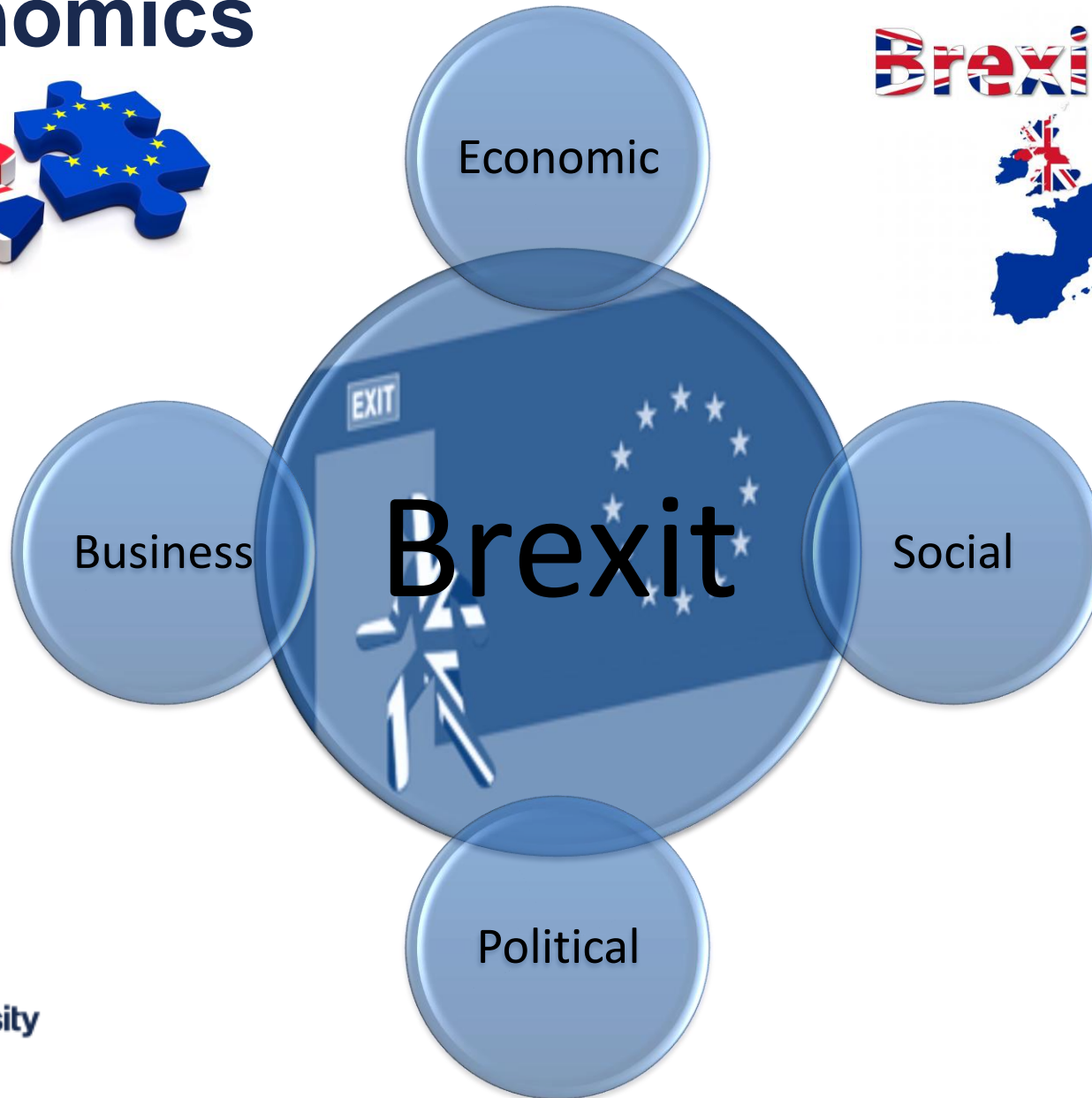
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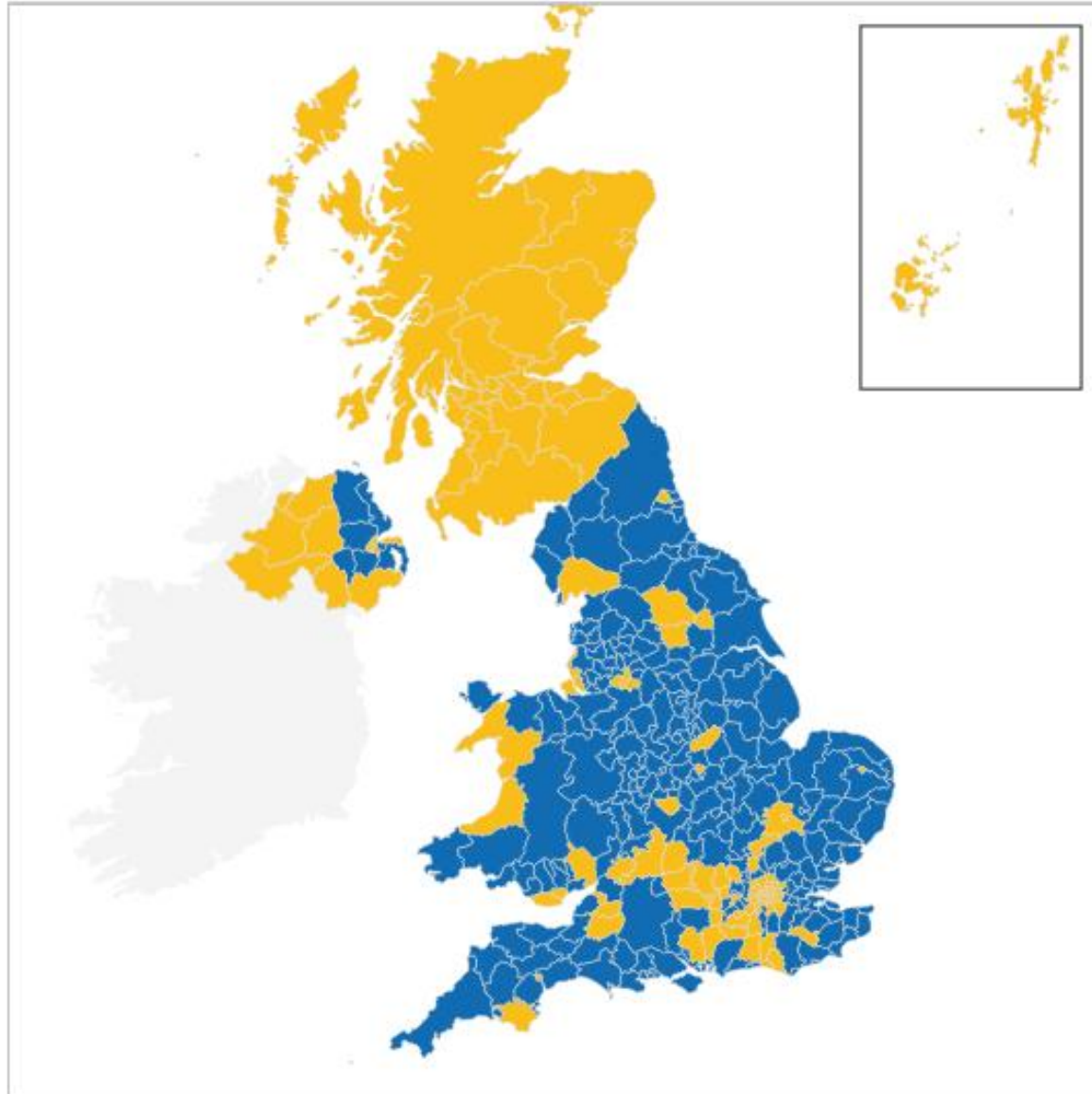
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The debate was much more than economics

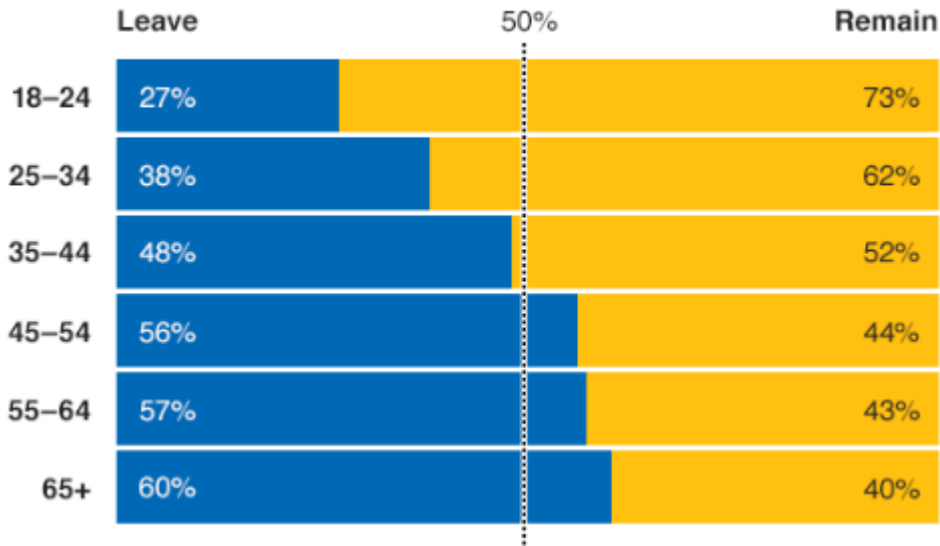


A divide of nations

Key: ■ Majority leave ■ Majority remain ■ Tie ■ Undeclared



Age and qualifications the key



Source: BBC

		Remain	Leave
2015 vote	Conservatives	39	61
	Labour	65	35
	Liberal Democrat	68	32
	UKIP	5	95
	Green	80	20
Age	18-24	71	29
	24-49	54	46
	50-64	40	60
	65+	36	64
Education	GCSE or lower	30	70
	A level	50	50
	Higher below degree	48	52
	Degree	68	32

YouGov | yougov.com

June 23-24, 2016

Of the 30 areas with the...

most elderly people,
27 voted Leave

fewest graduates,
28 voted Leave

most people
identifying as English,
all 30 voted Leave

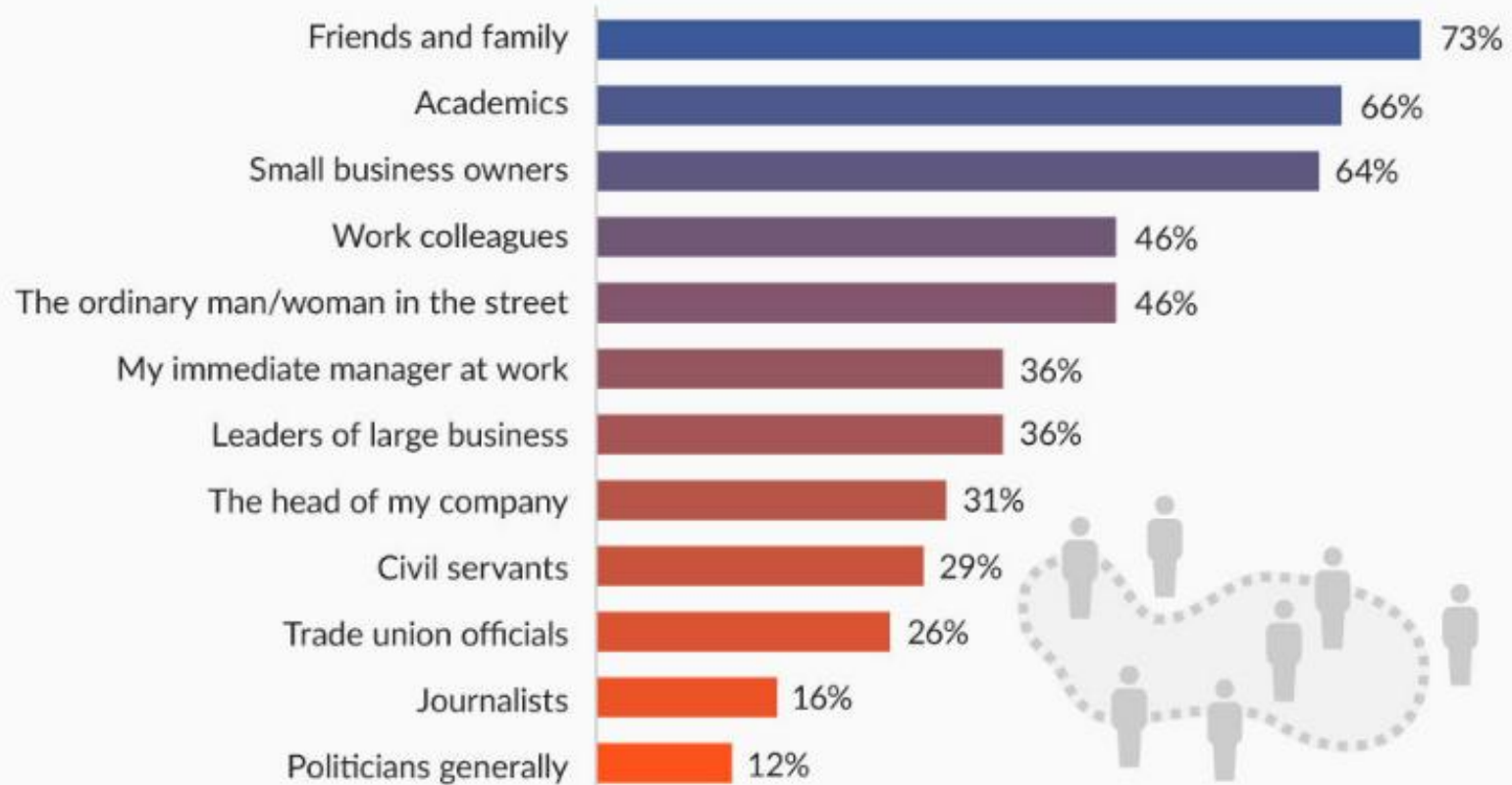


Source: BBC

Nobody believed the politicians

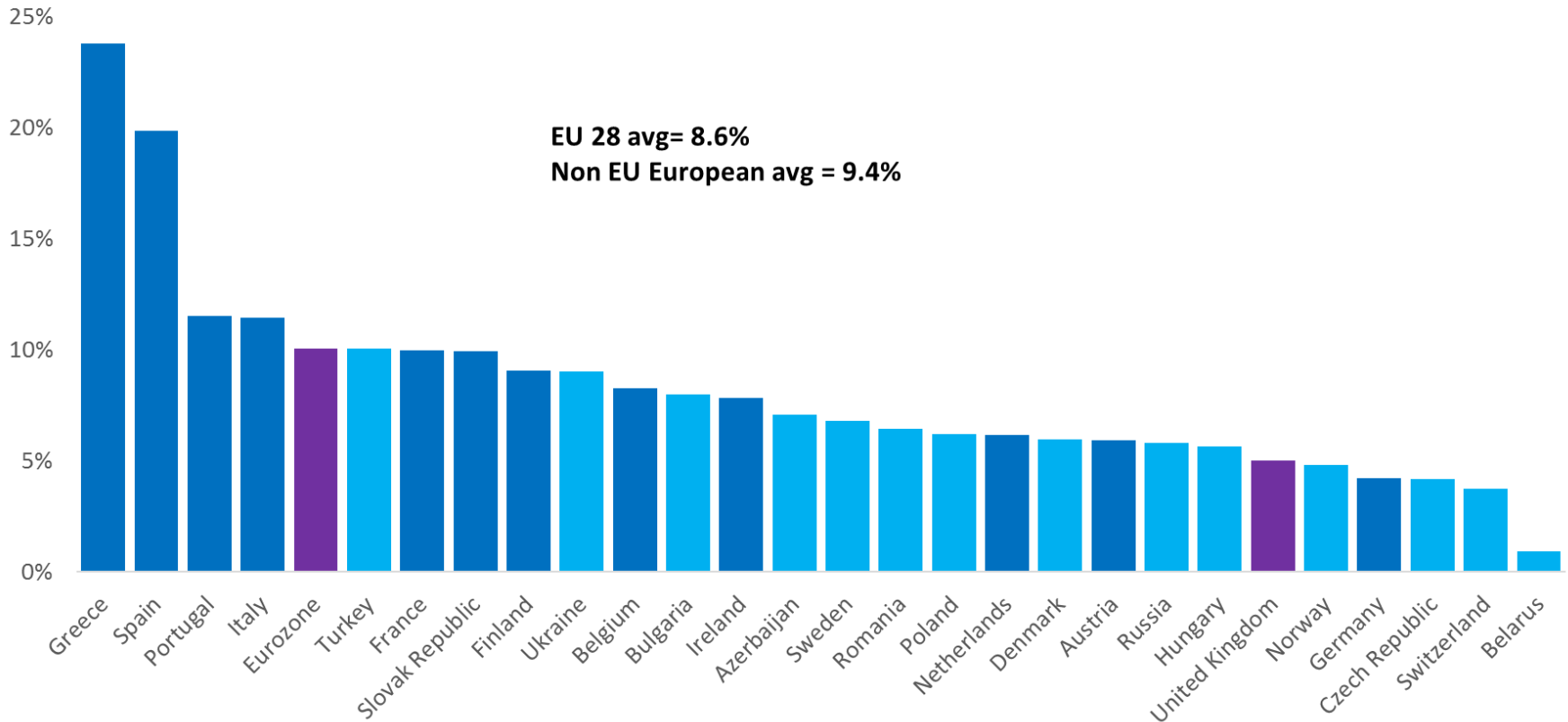
Brexit issues: family beats politicians for trust

"Who do you trust on issues relating to the referendum on EU membership?"



Europe is still fraught with challenges

Selected major european economies, ILO unemployment rate, 2016



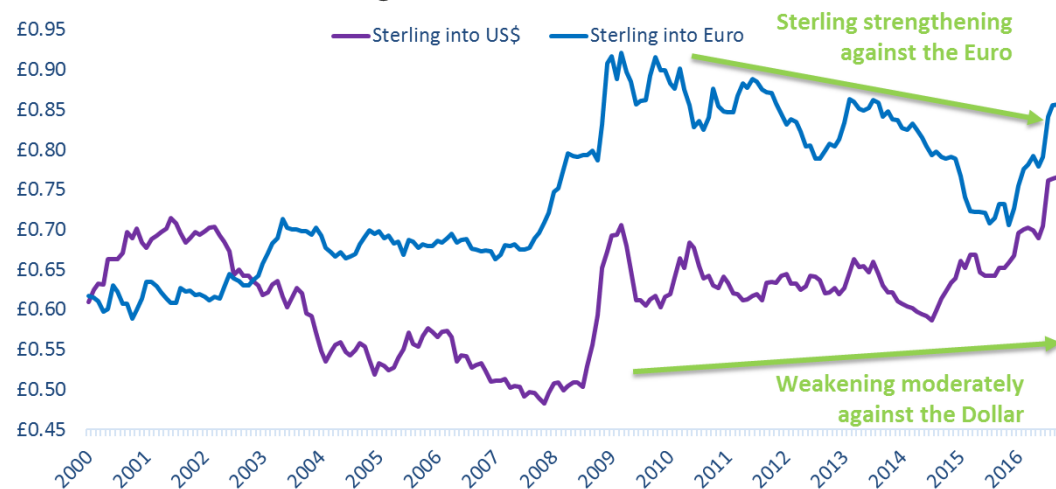
The early indications of the response

FTSE 100 up 13% over last 12 months and devalued currency good news?



Source: FTSE 100 & Trading Economics

Sterling vs. Euro & Dollar, 2000-2016

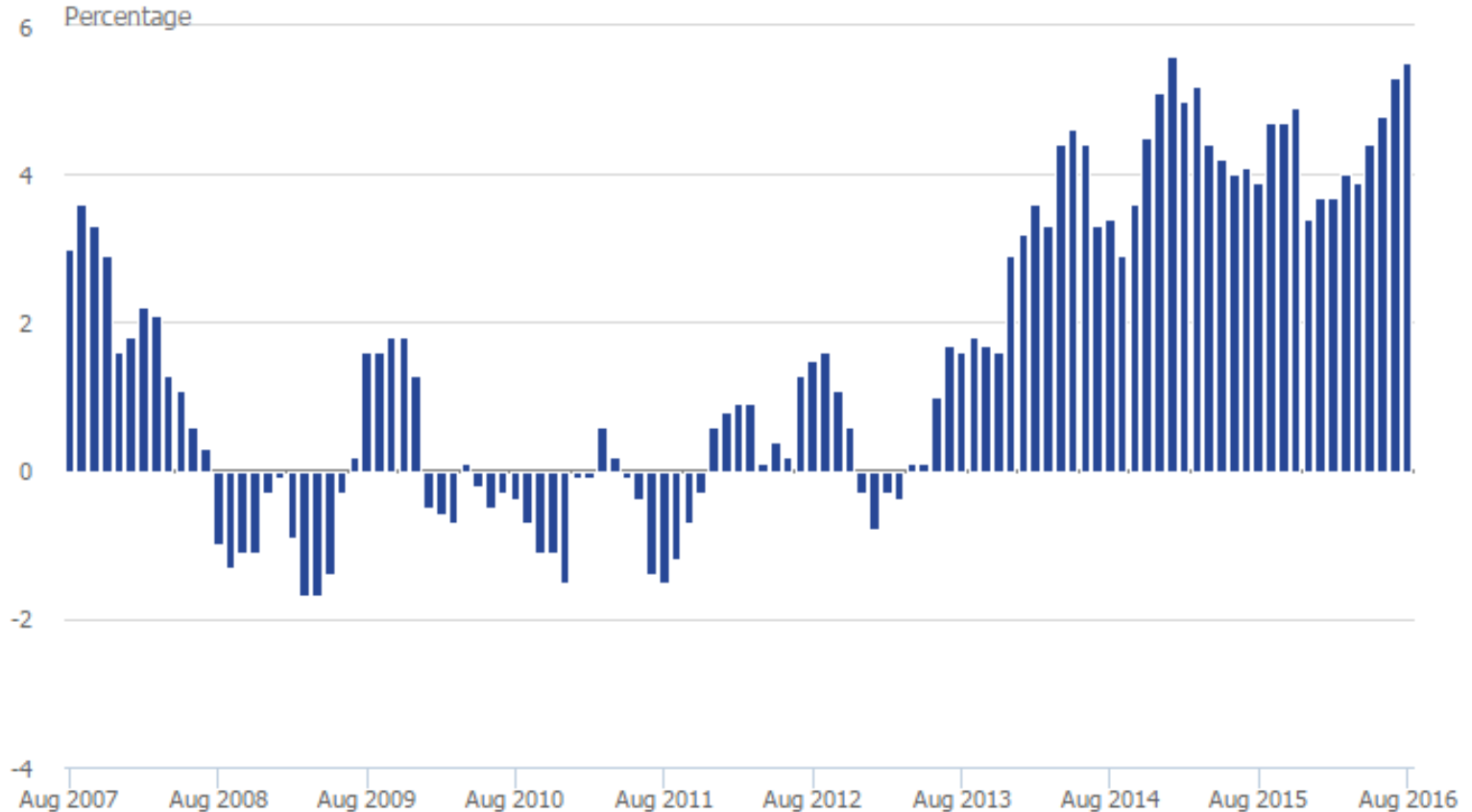


Source: BoE



Retail sales positive in post referendum data

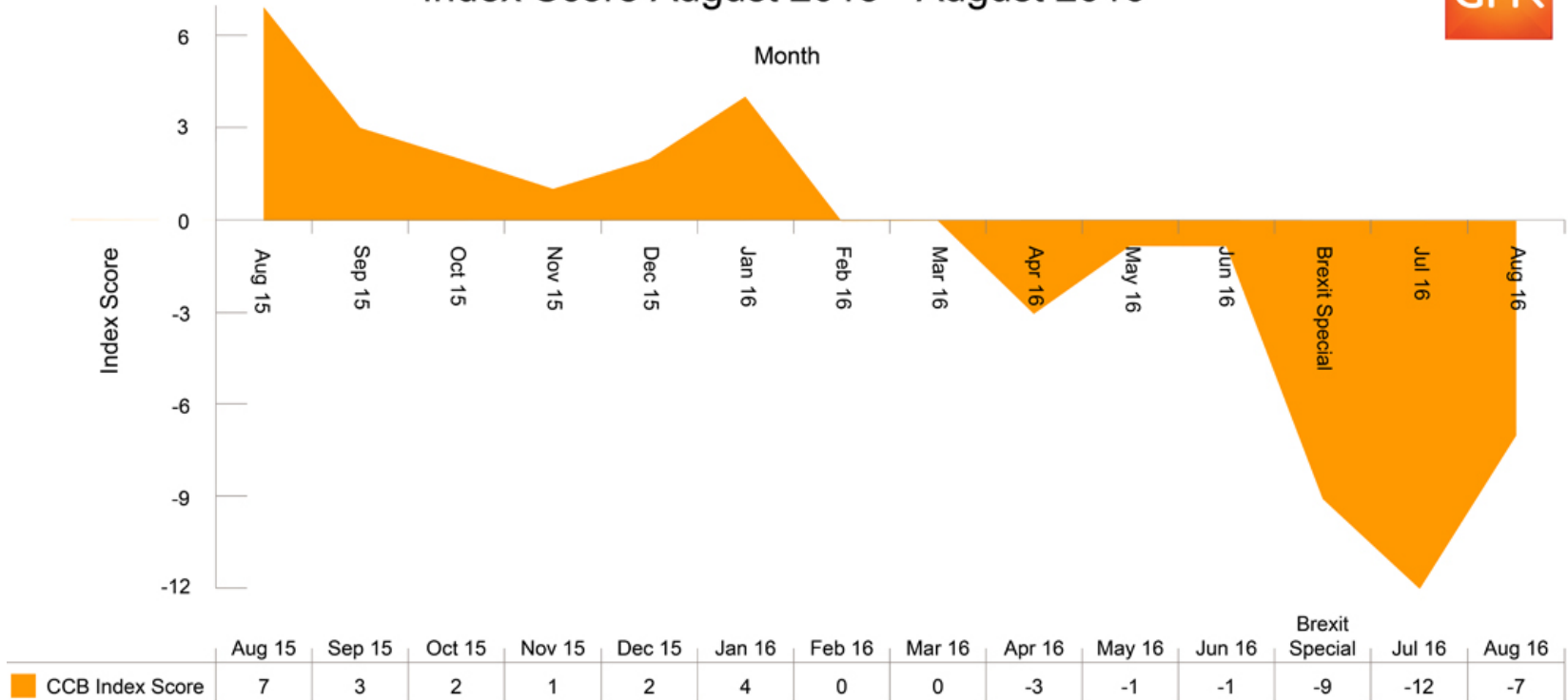
Great Britain



Consumer confidence remains an issue



Index Score August 2015 - August 2016



Source: GfK Consumer Confidence Barometer on behalf of the European Commission (August 2016)





Mechanisms of impact

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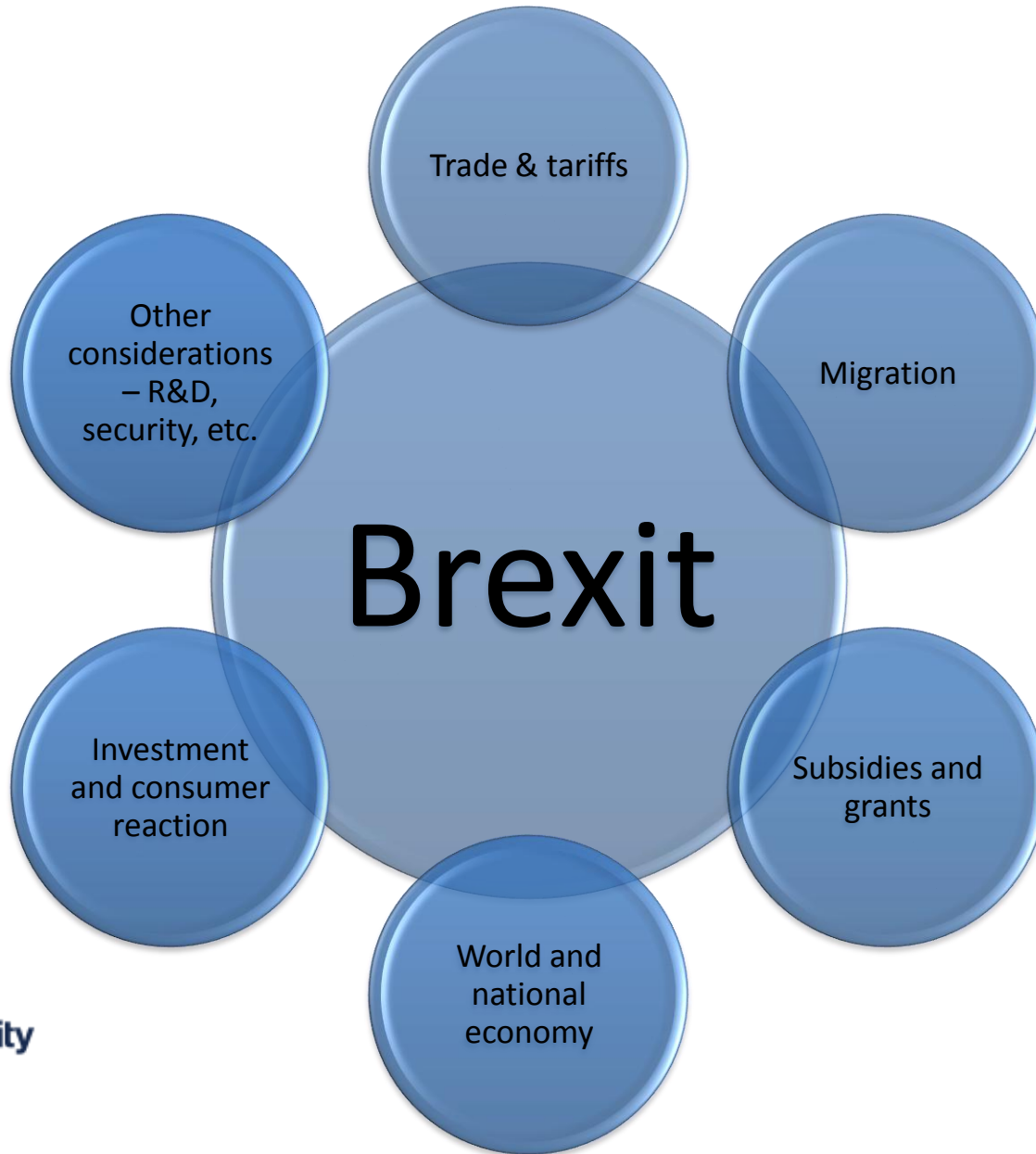
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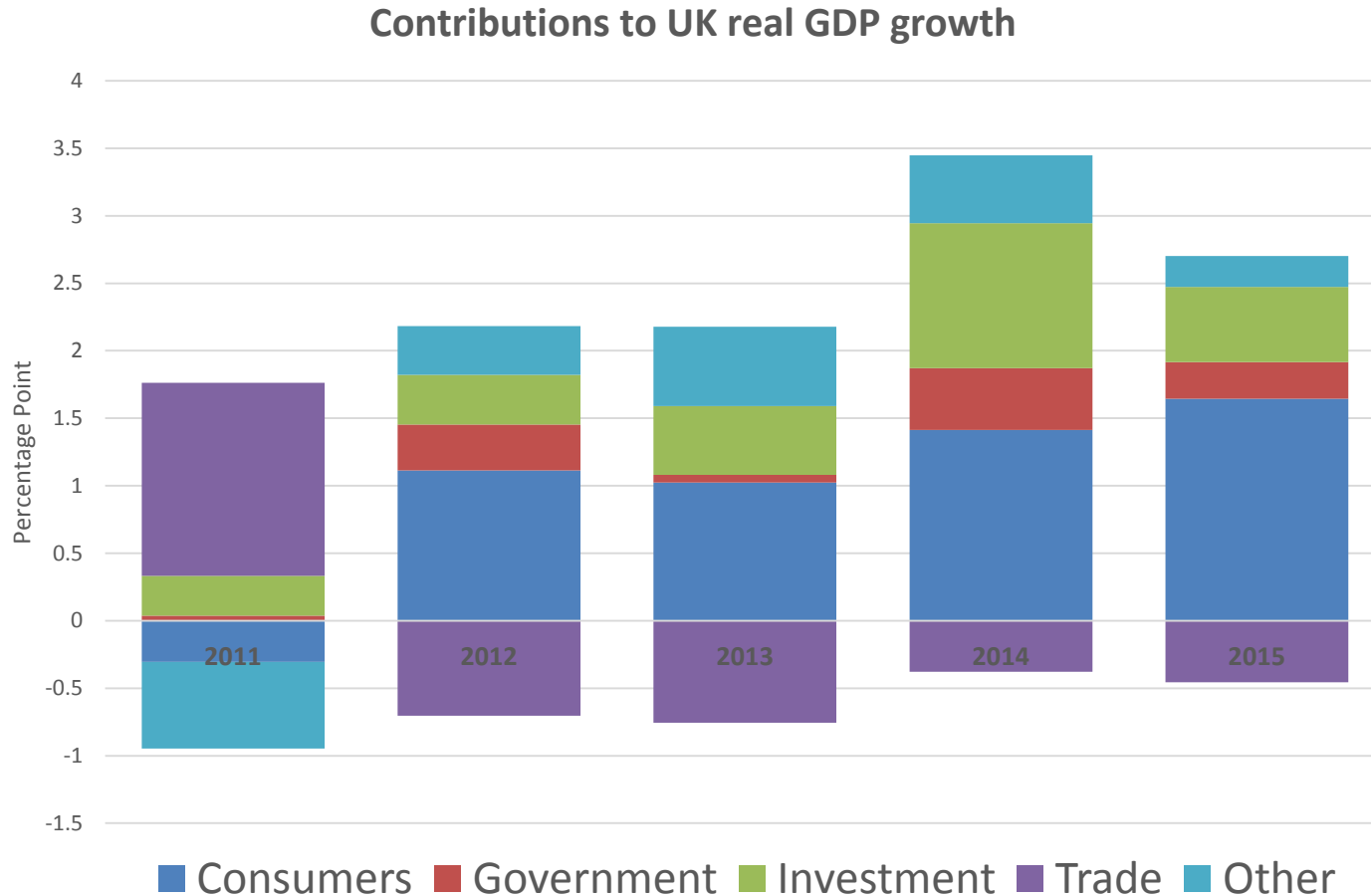
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Issues to consider

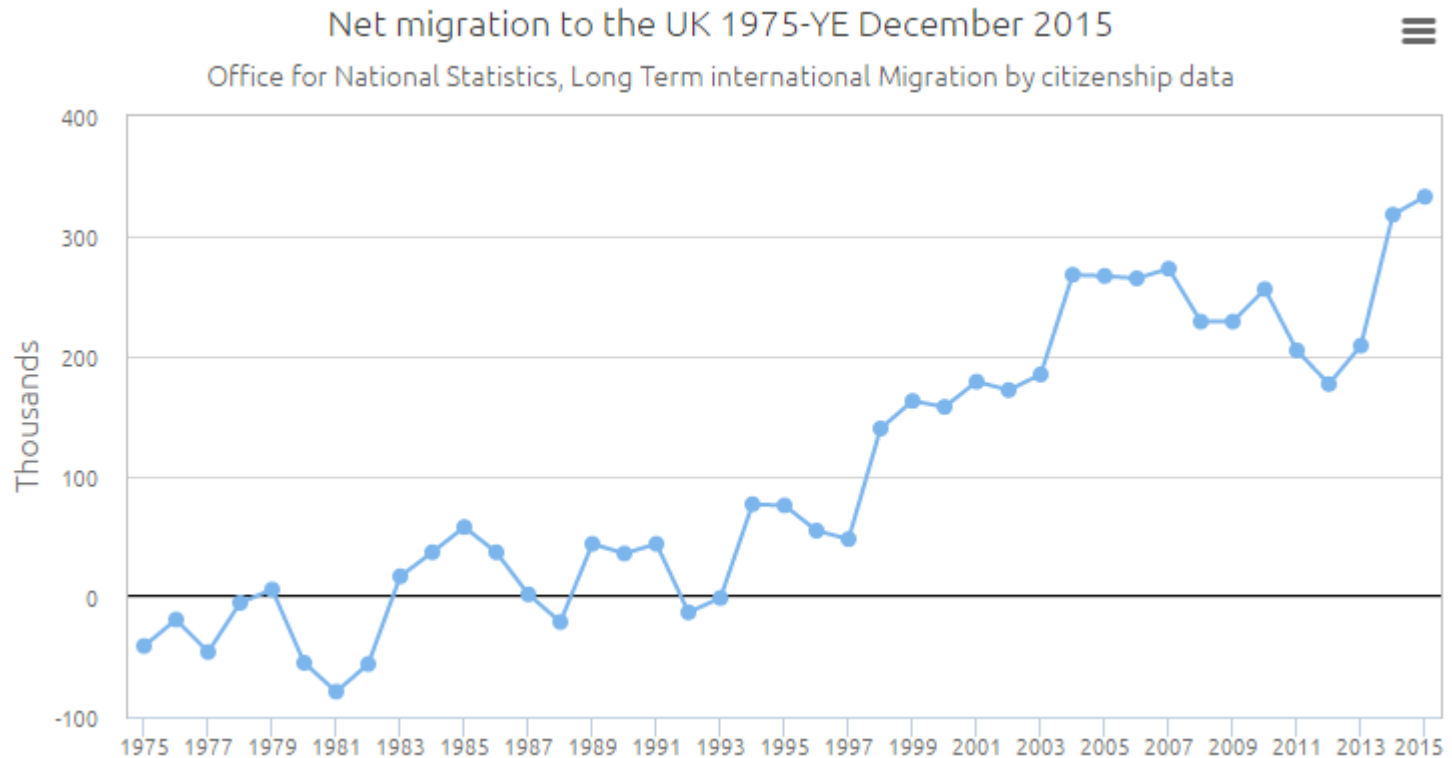


Consumers are the critical part of the UK story



Consumer dependency critical to UK performance. Rising interest rates pose a significant threat

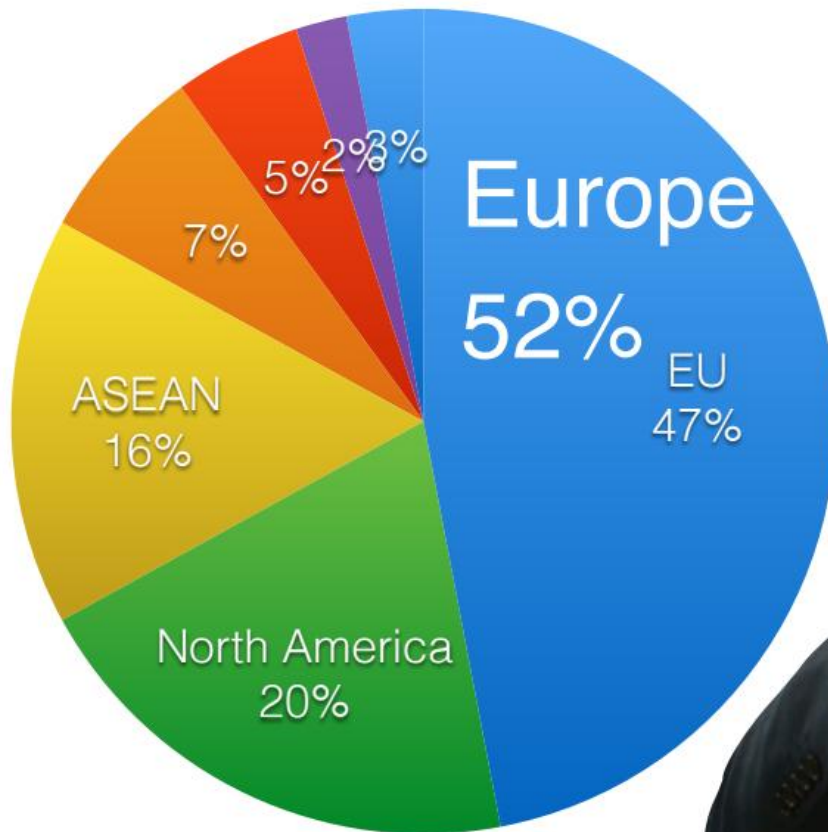
More Non-EU than EU migration



2015	All Citiznships	British	Non-British	EU	Non-EU
Immigration	630,000	83,000	547,000	270,000	277,000
Emigration	297,000	123,000	174,000	85,000	89,000
Net Migration	333,000	-39,000	373,000	184,000	188,000



52% of UK Exports go to the EU...



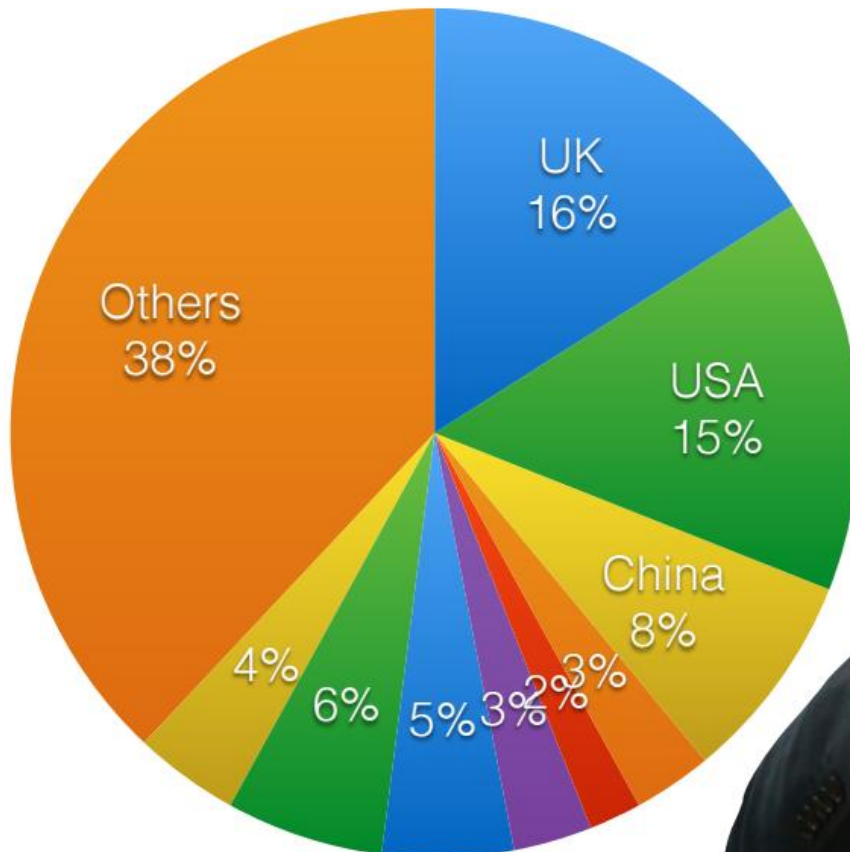
The EU accounts for 47% of UK exports ...

A wider Europe accounts for 52% of UK exports ...



16% of EU exports to the UK

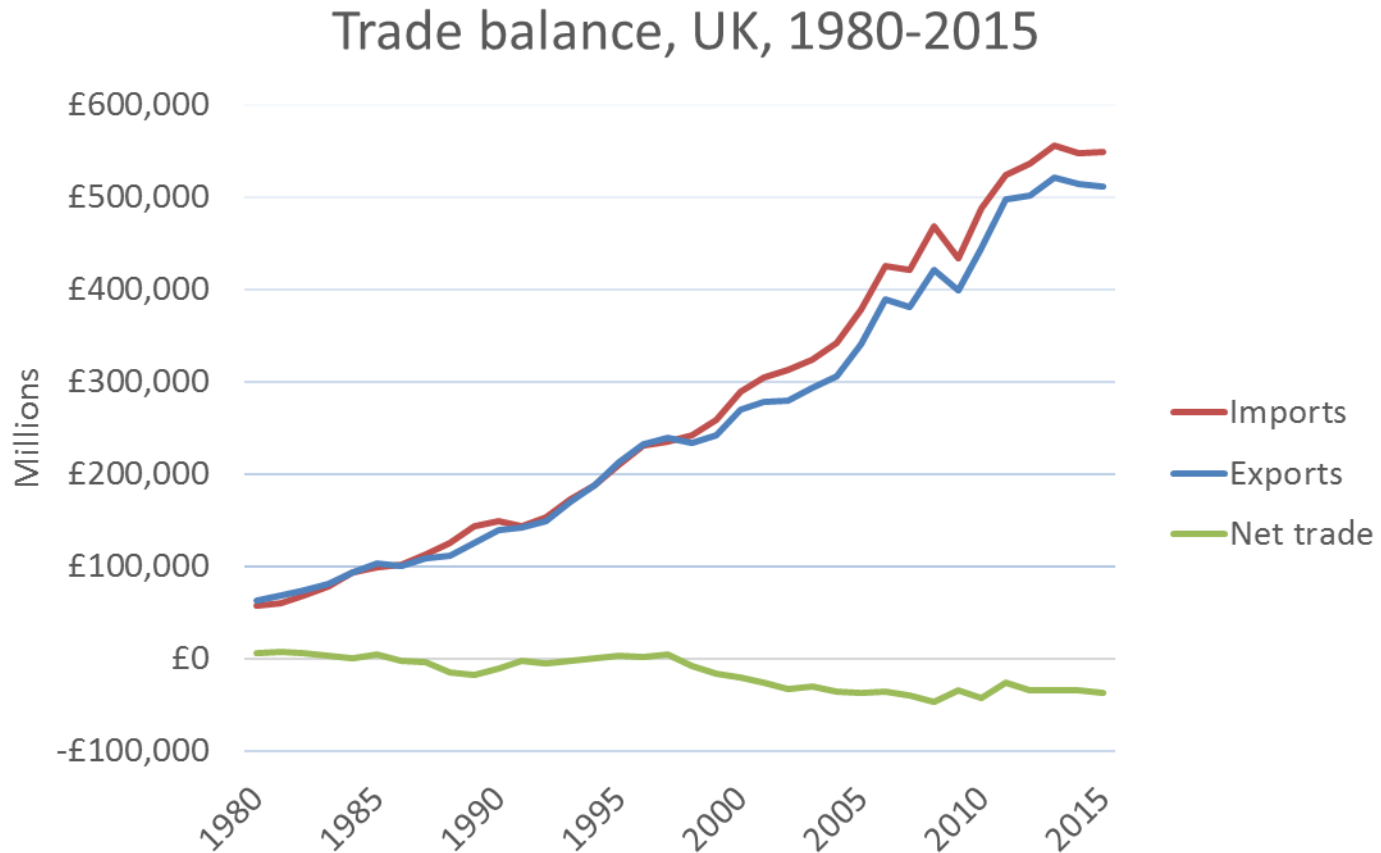
- UK
- USA
- China
- Japan
- Korea
- Norway
- Russia
- Switzerland
- Turkey
- Others



The UK accounts for 16% of EU exports ...



Trade a long standing problem

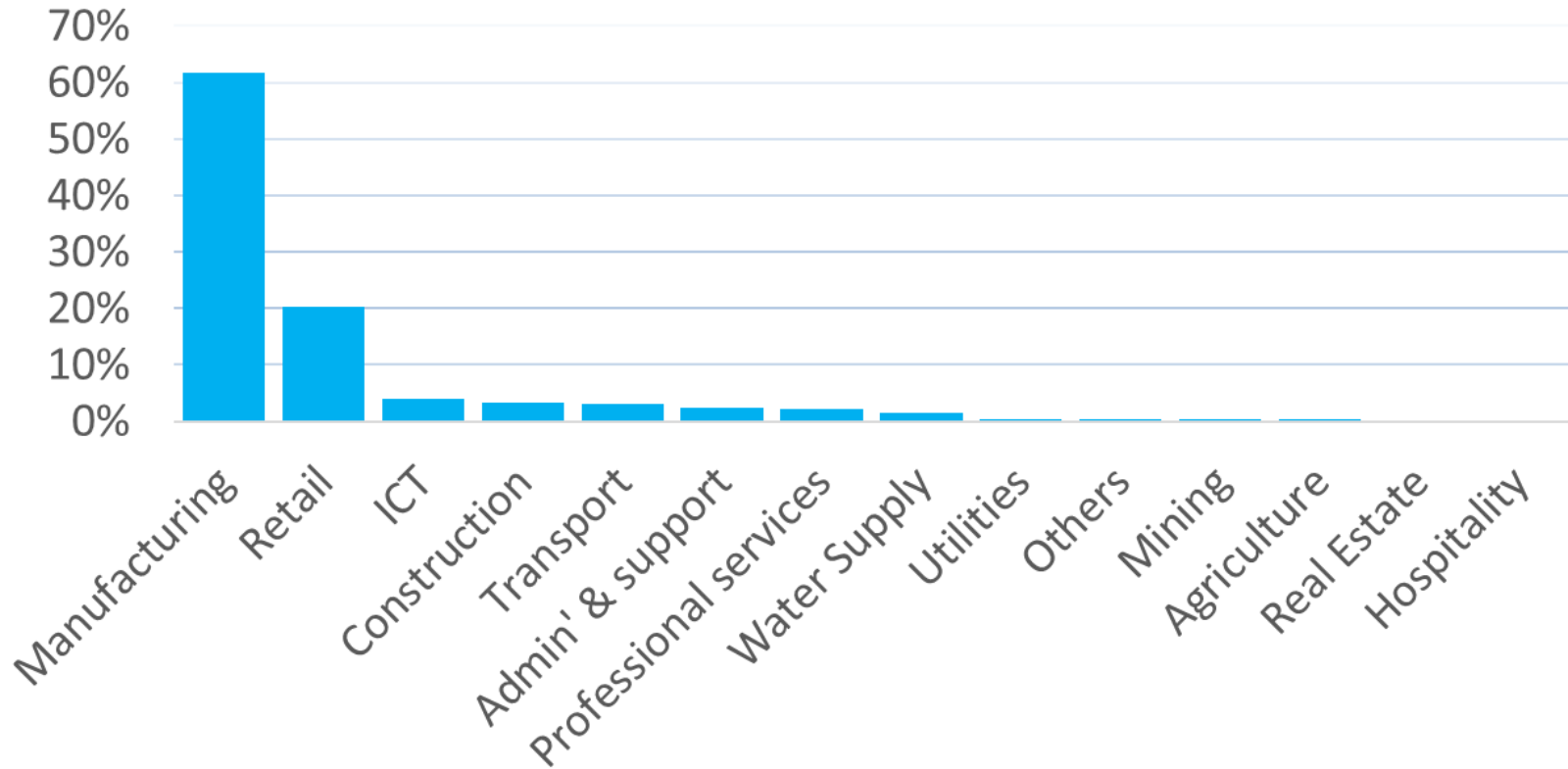


NI export exposure: Exports account for £9.76Bn- up 7.1% since 2011

Broad destination sales (£m)					
	2011	2012	2013	2014	2011-2014 growth
Turnover	61,530	62,067	64,514	65,800	6.9%
NI Sales	41,022	41,159	42,517	43,345	5.7%
GB Sales	11,392	11,612	12,051	12,694	11.4%
ROI Sales	3,330	3,428	3,716	3,599	8.1%
REU Sales	2,044	1,911	2,177	2,174	6.3%
ROW Sales	3,741	3,956	4,053	3,988	6.6%
External Sales	20,508	20,907	21,997	22,455	9.5%
Exports	9,116	9,295	9,946	9,761	7.1%

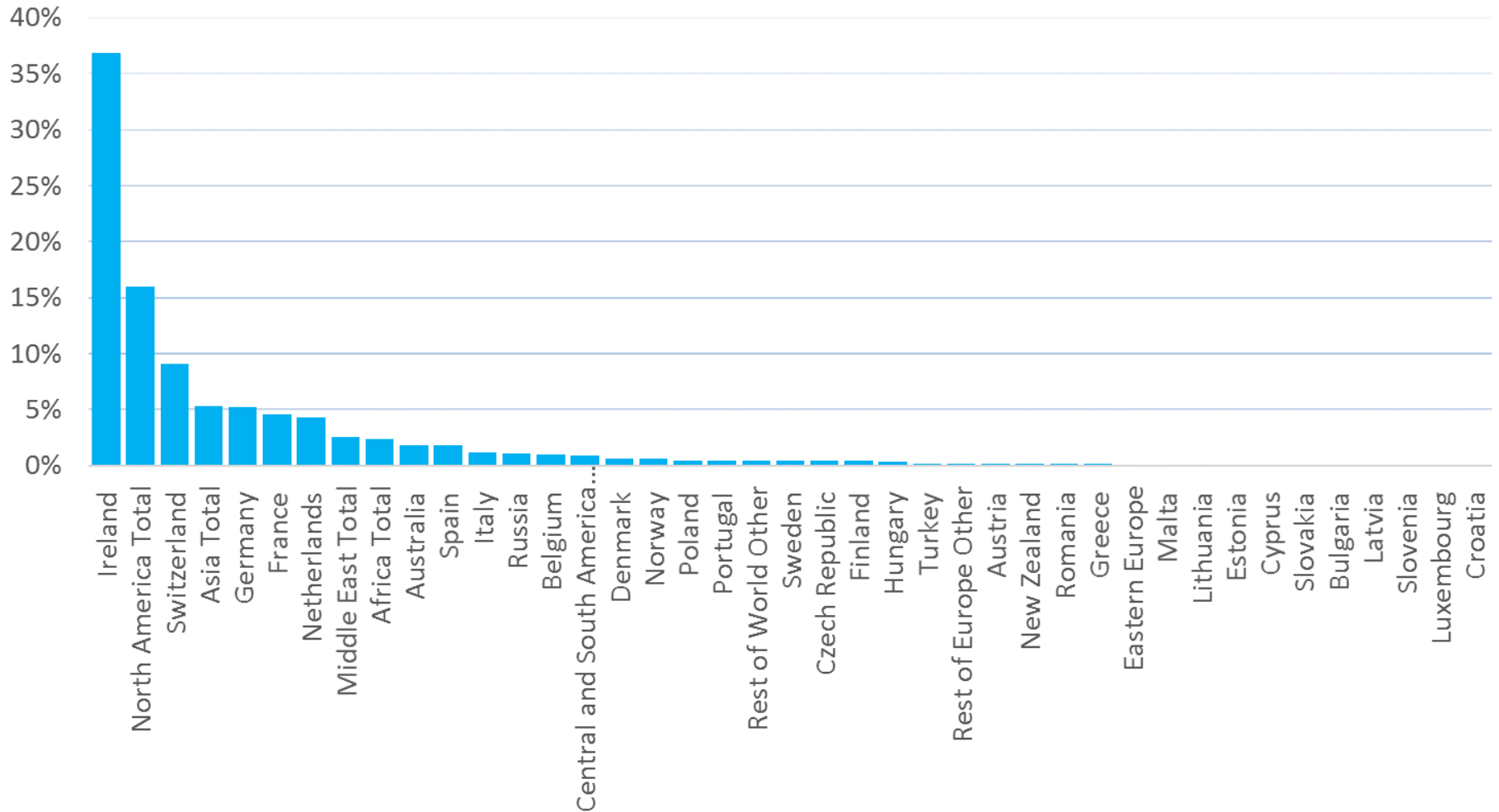
Manufacturing makes up 60% of exports

Exports by sector as share of total exports, NI, 2014



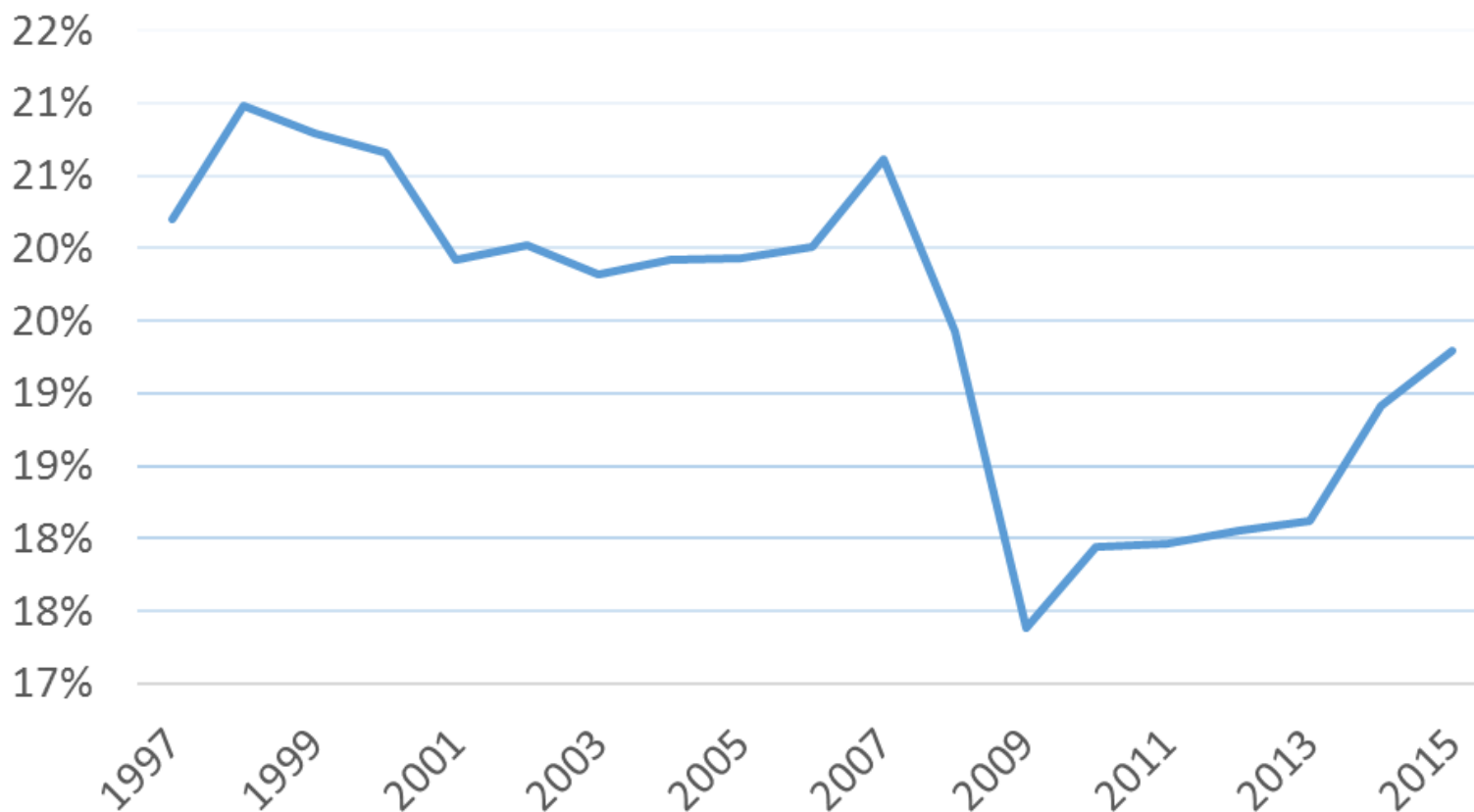
Ireland accounts for 37% of NI exports (£3.6Bn)

Exports to destination by share of total exports, NI, 2014



Capital investment falling from a low height

Capital investment as % real GDP, UK, 1997-2015





Outlooks for what they are worth

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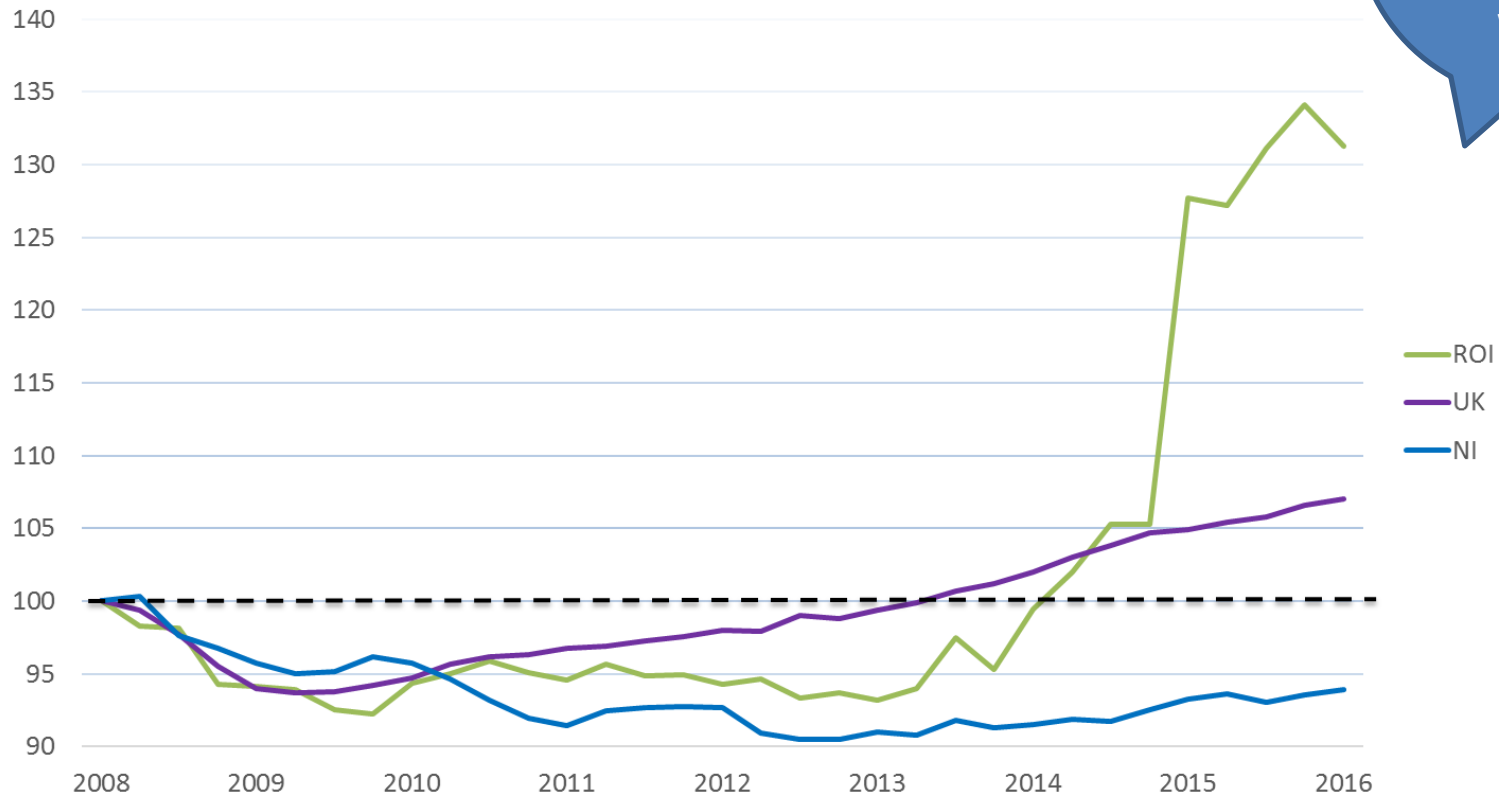
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Context in economic growth striking

Irish GDP outstrips rivals

Comparison of NICEI with GDP for UK & ROI, 2008-2015 (2008 Q1 =100)



But yet government did not win majority-why?

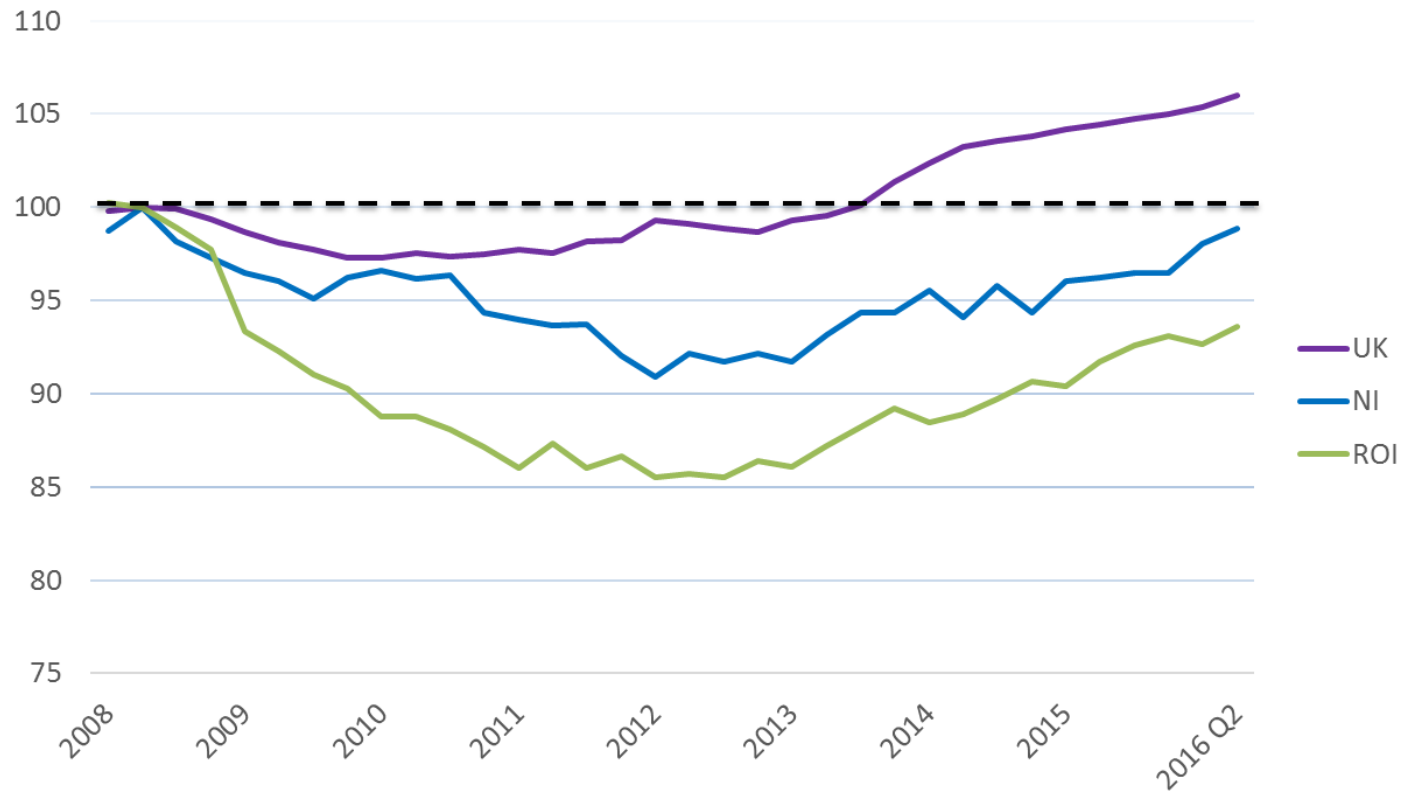


The Northern Ireland Composite Economic Index (NICEI) is an experimental quarterly measure of the performance of the NI economy based on available official statistics. This measure of output allows comparison of GDP in the UK and the Republic of Ireland

Job market is improving

Labour market – Irish performance more modest

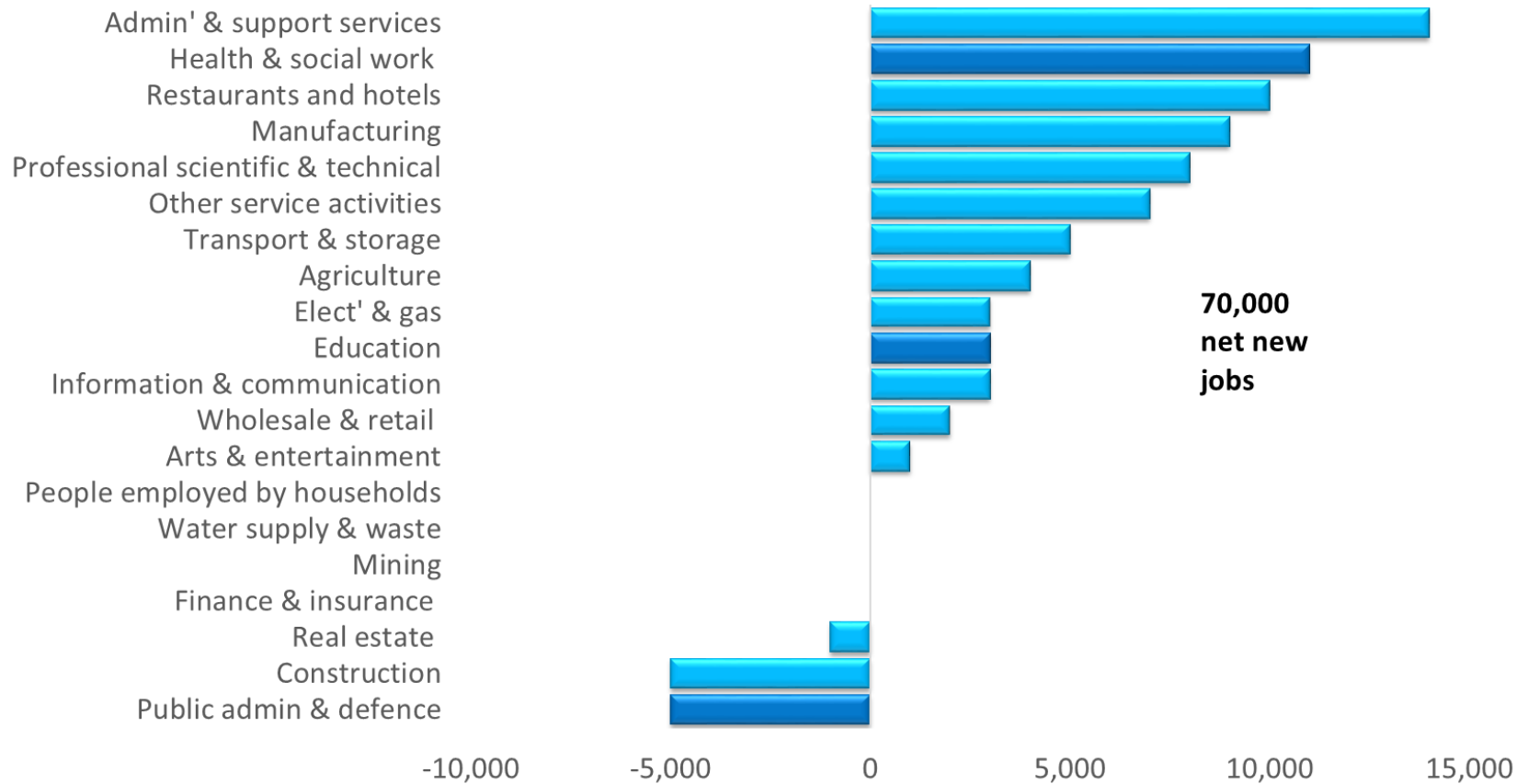
Quarterly employment index, NI, UK & ROI, 2008-2016
(2008 Q2 =100)



NI local labour market improving

With an eclectic mix of success

Employment change by industry, NI, Q1 12 - Q2 16



Is a UK recession coming? Forecasters not sure!

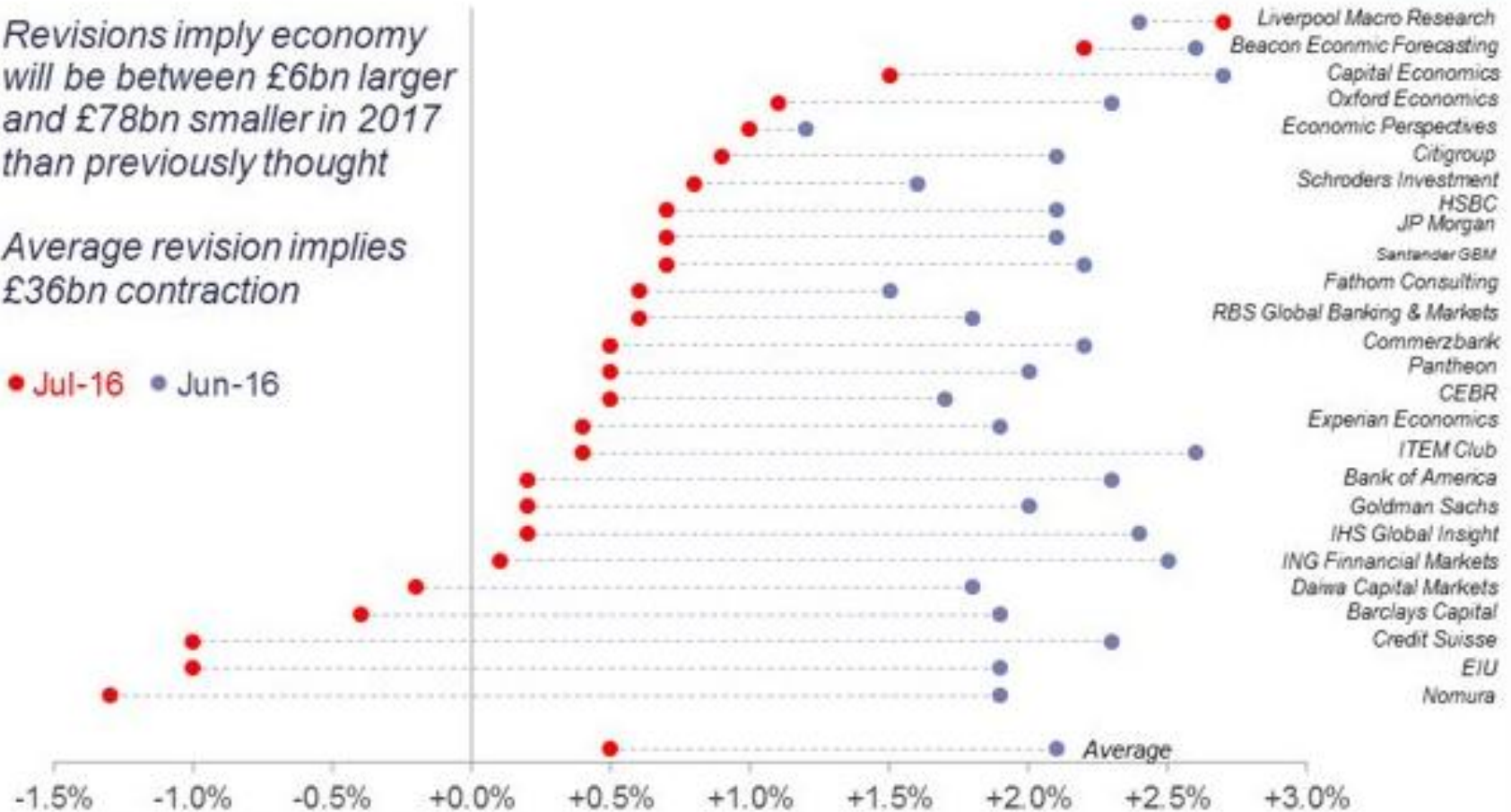
Independent forecast for **GDP growth in 2017** before and after EU referendum



Revisions imply economy will be between £6bn larger and £78bn smaller in 2017 than previously thought

Average revision implies £36bn contraction

● Jul-16 ● Jun-16



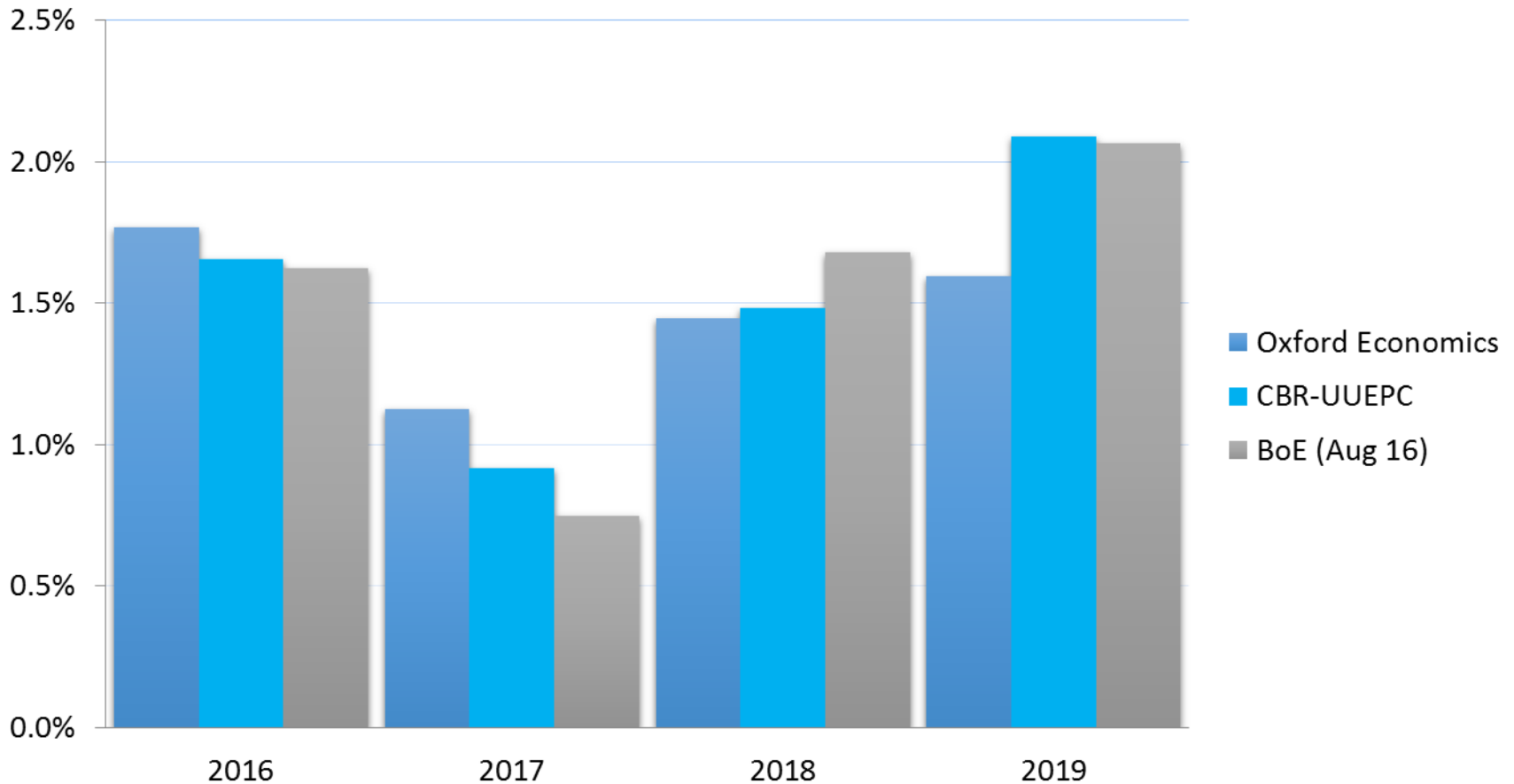
Source: RF analysis of HMT, *Forecasts for the UK economy*

Longer term market consensus?



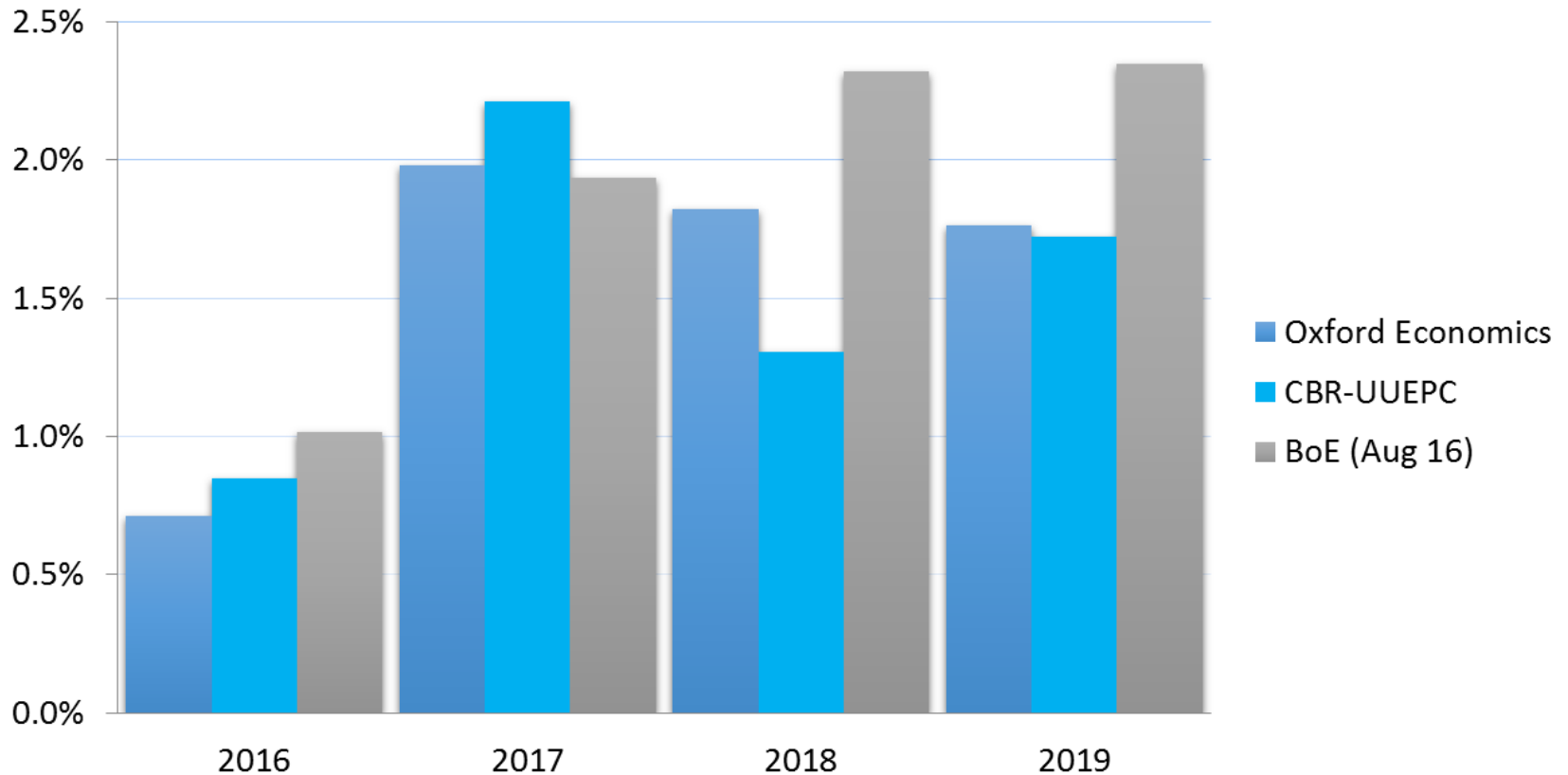
Variance in forecaster's outlooks

Oxford Economics vs. CBR-UUEPC Real GDP growth, UK, 2016-2019



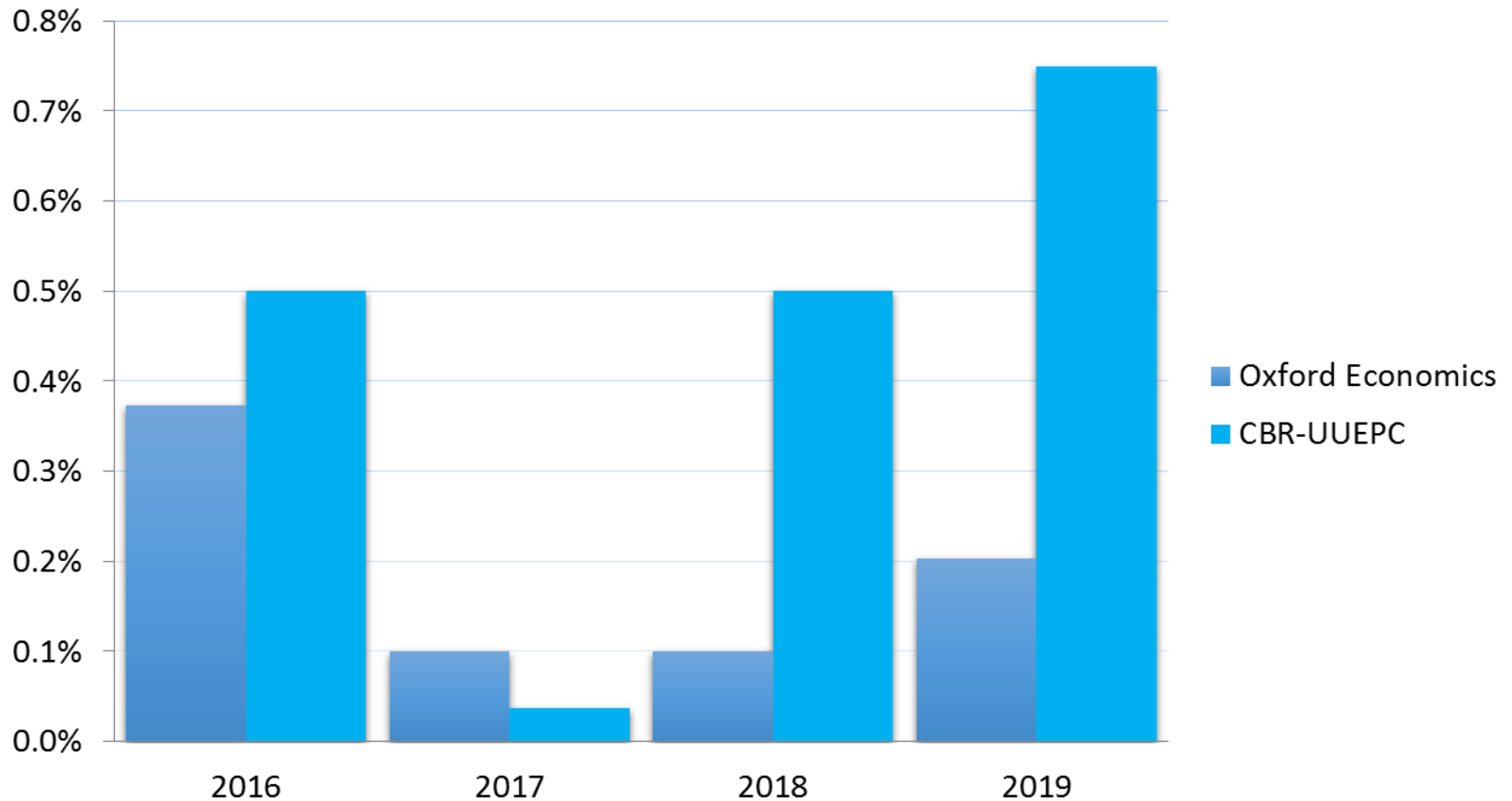
Variance in forecaster's outlooks

Oxford Economics vs. CBR-UUEPC : Consumer price index % per annum, UK, 2016-2019



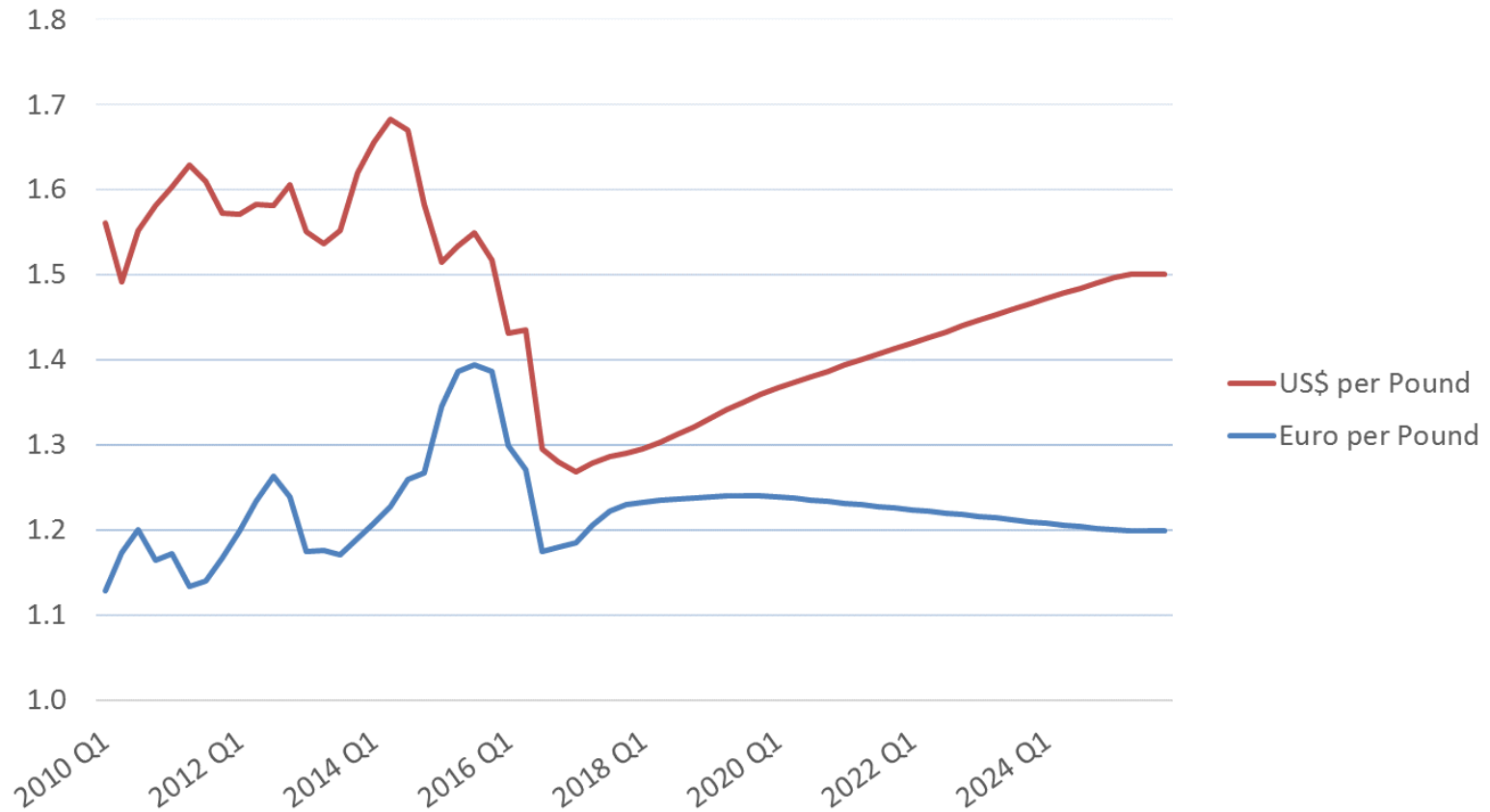
Variance in forecaster's outlooks

Oxford Economics vs. CBR-UUEPC : Base rates, UK, 2016-2019



Exchange rate expectations (Oxford Economics)

Euro and USD exchange rate vs. Sterling, 2010-2025





The Northern Ireland Policy Challenge

Professor Neil Gibson

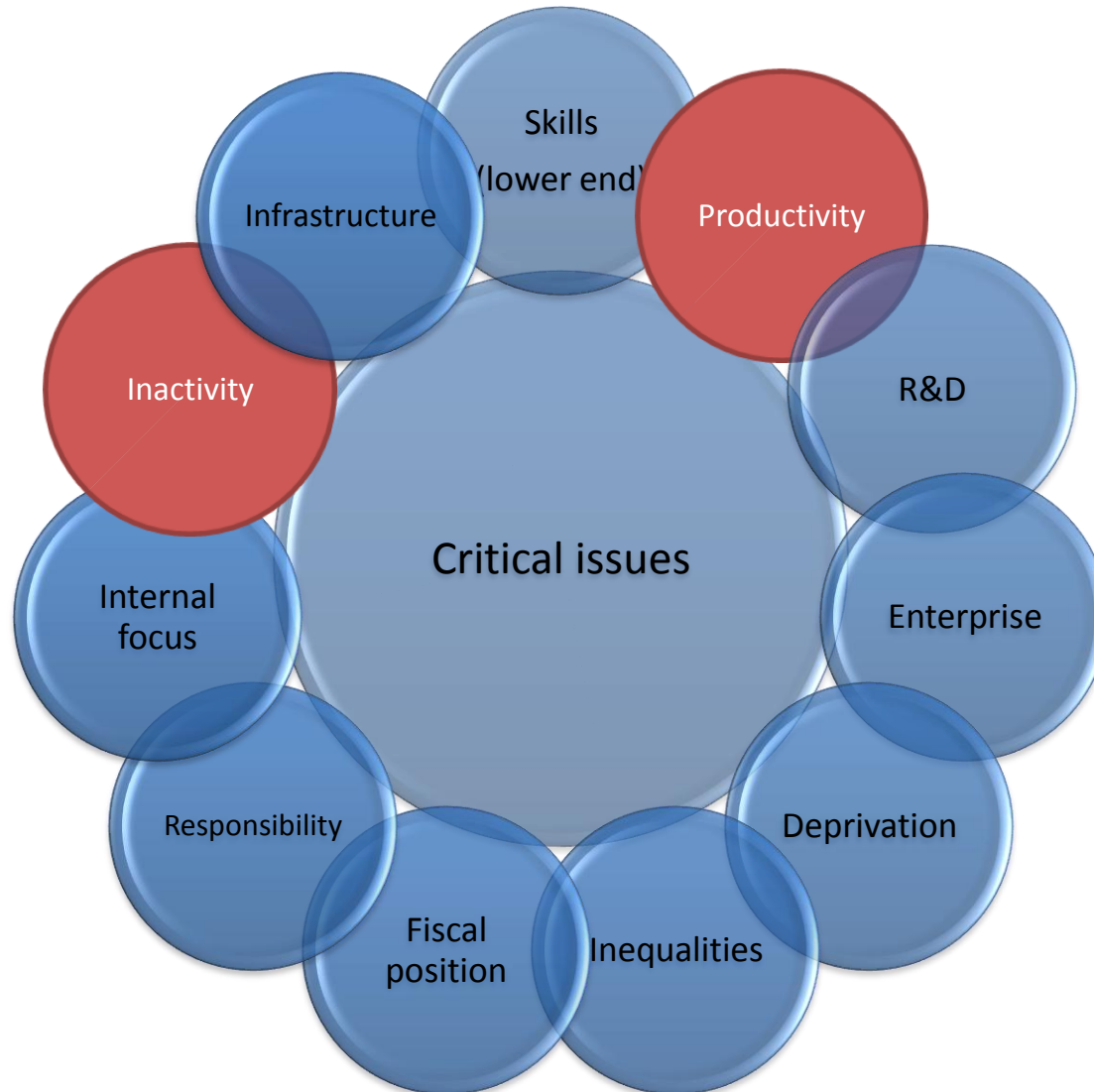
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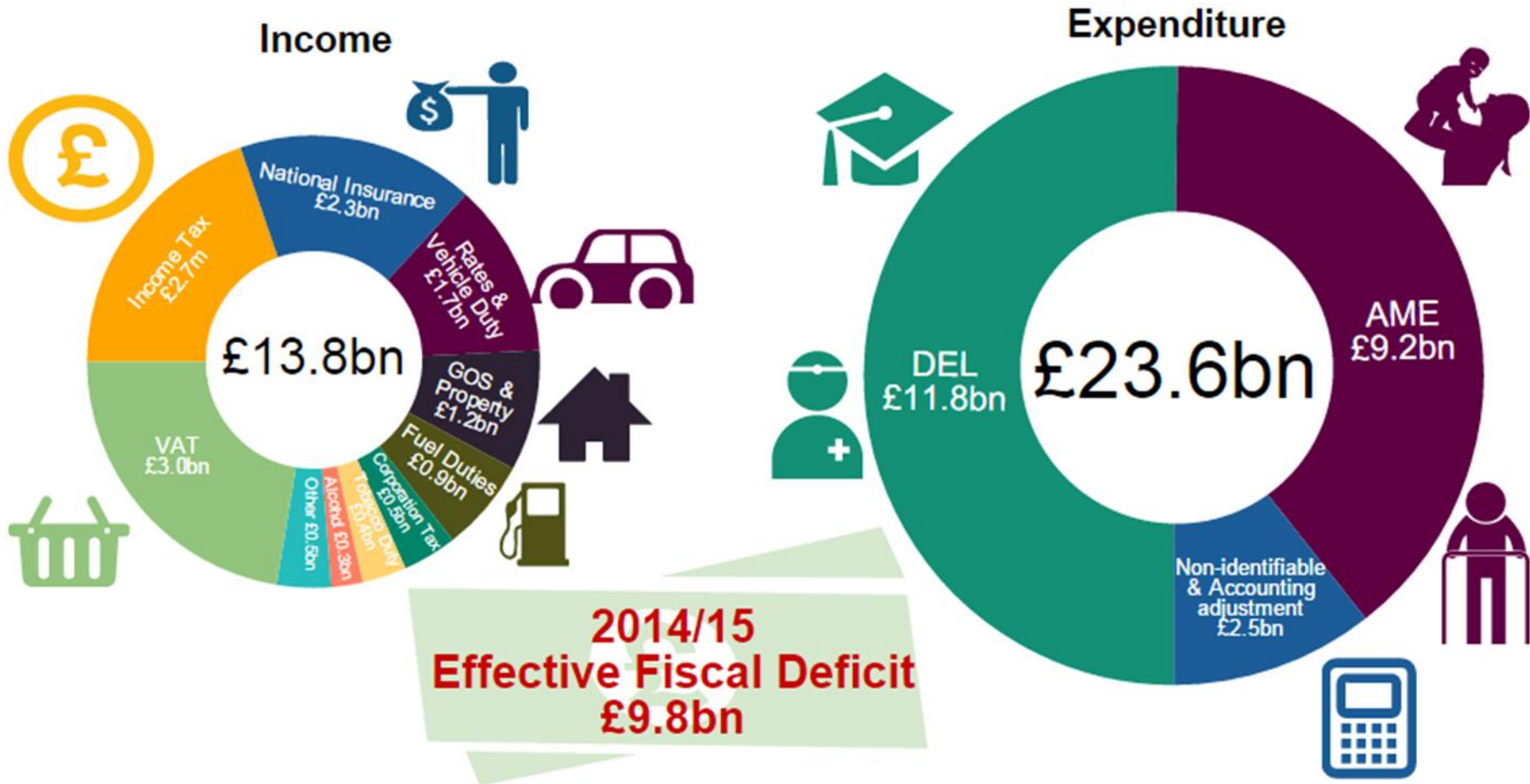
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NI economic challenges are well known

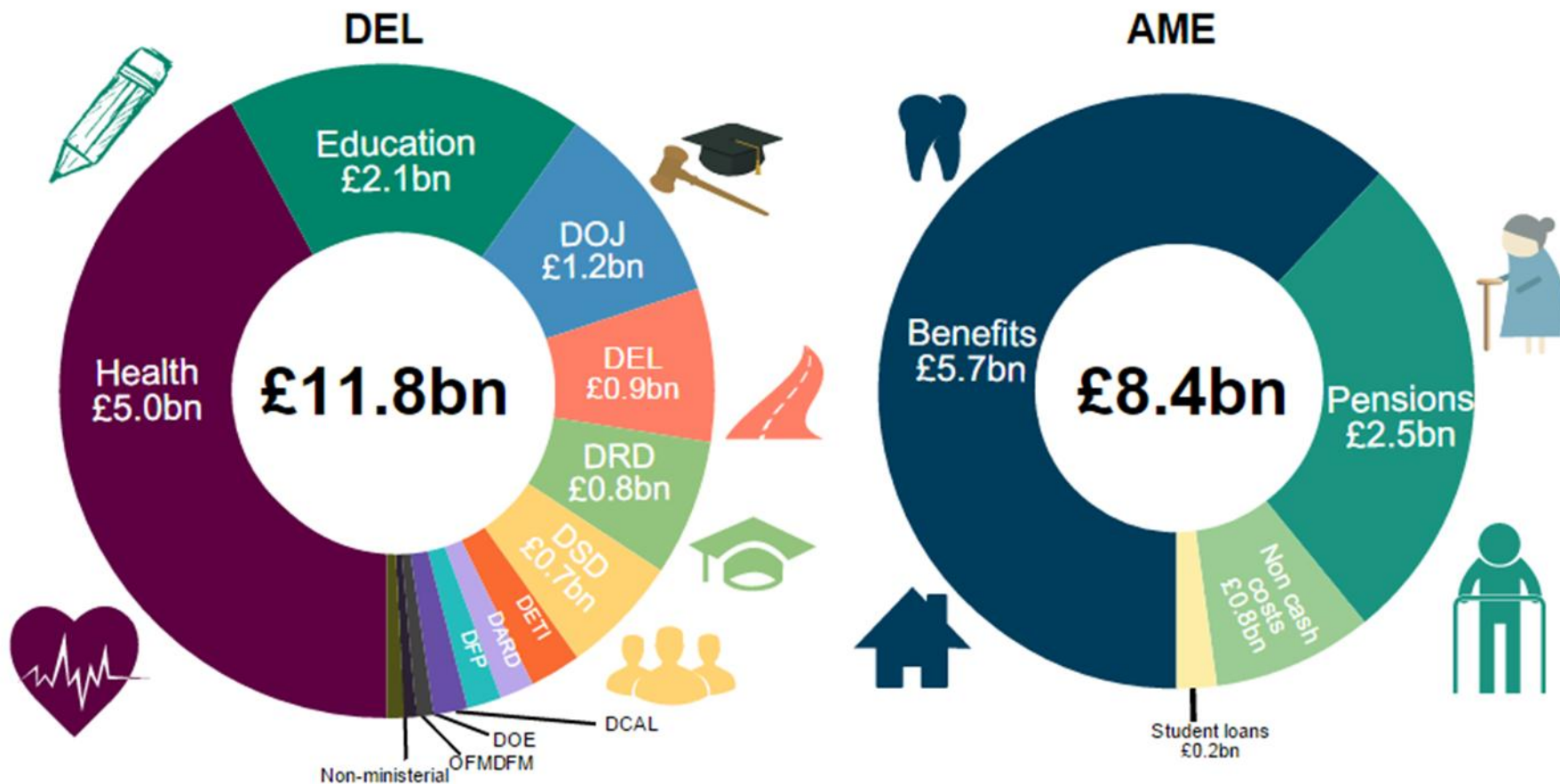


Fiscal position in context



Source: HMRC, NI Executive, PESA

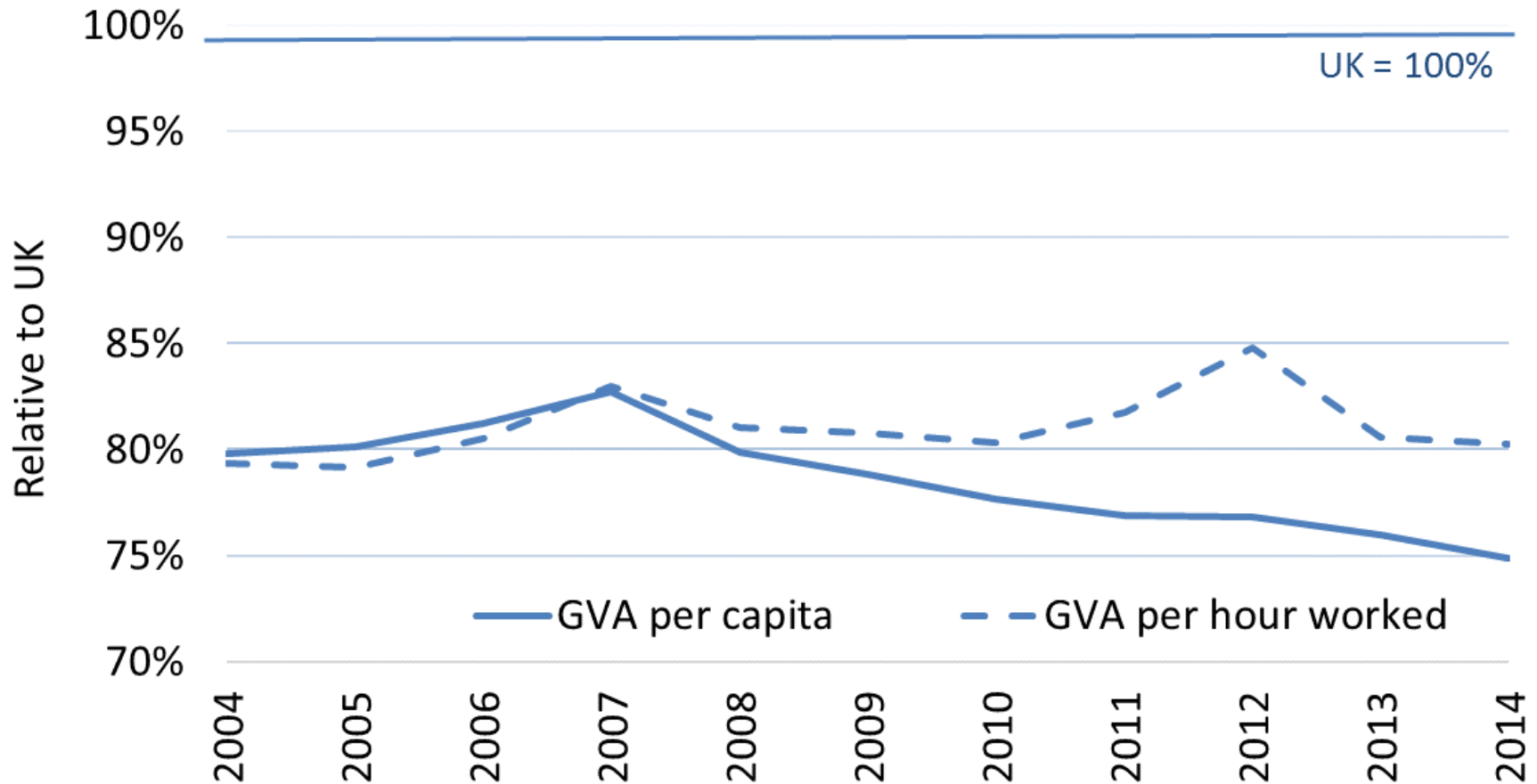
Tough questions on health, welfare & education



Source: NI Executive (2015-16)

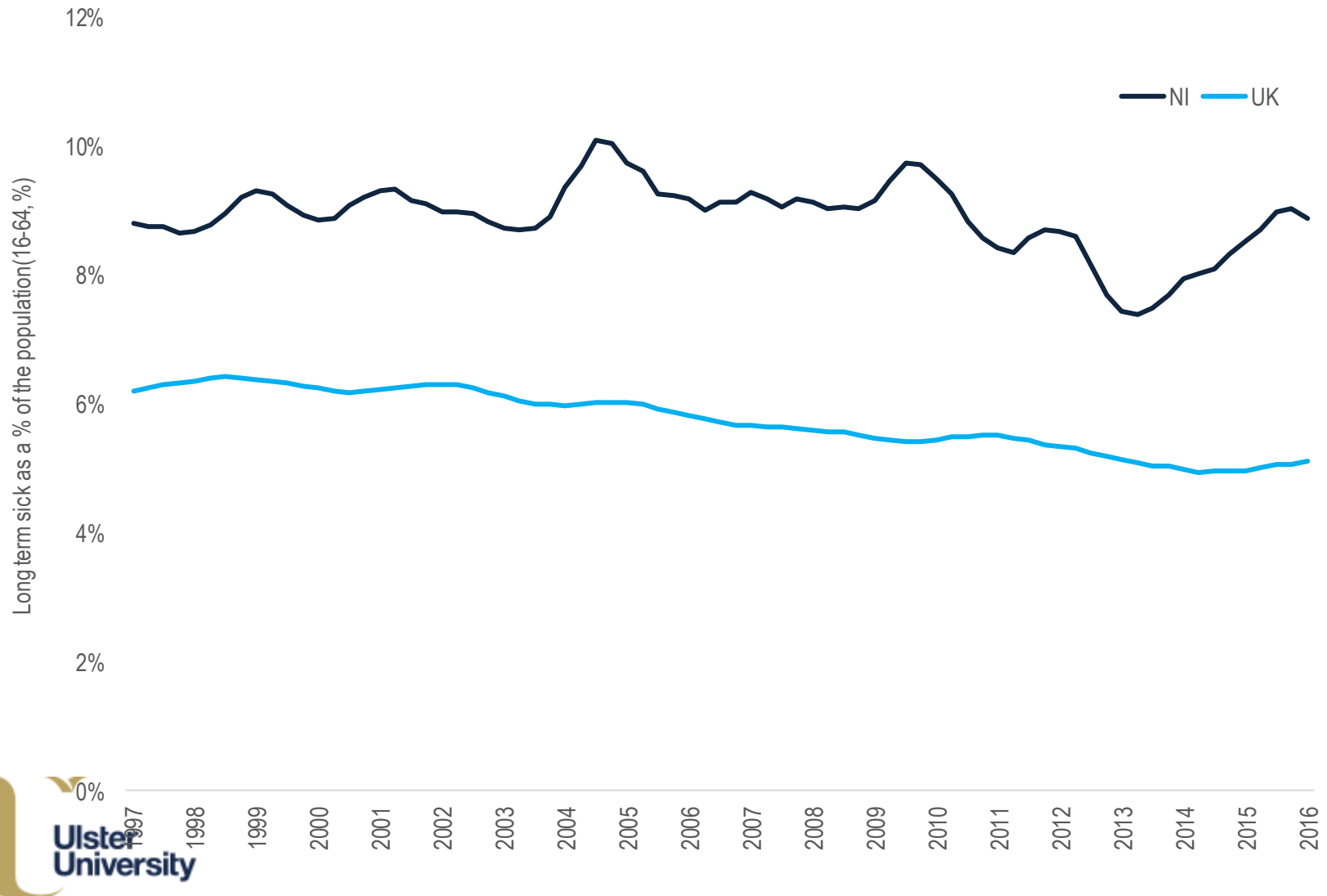
Note: Figures may not sum due to rounding

Wealth and productivity falling further behind the UK

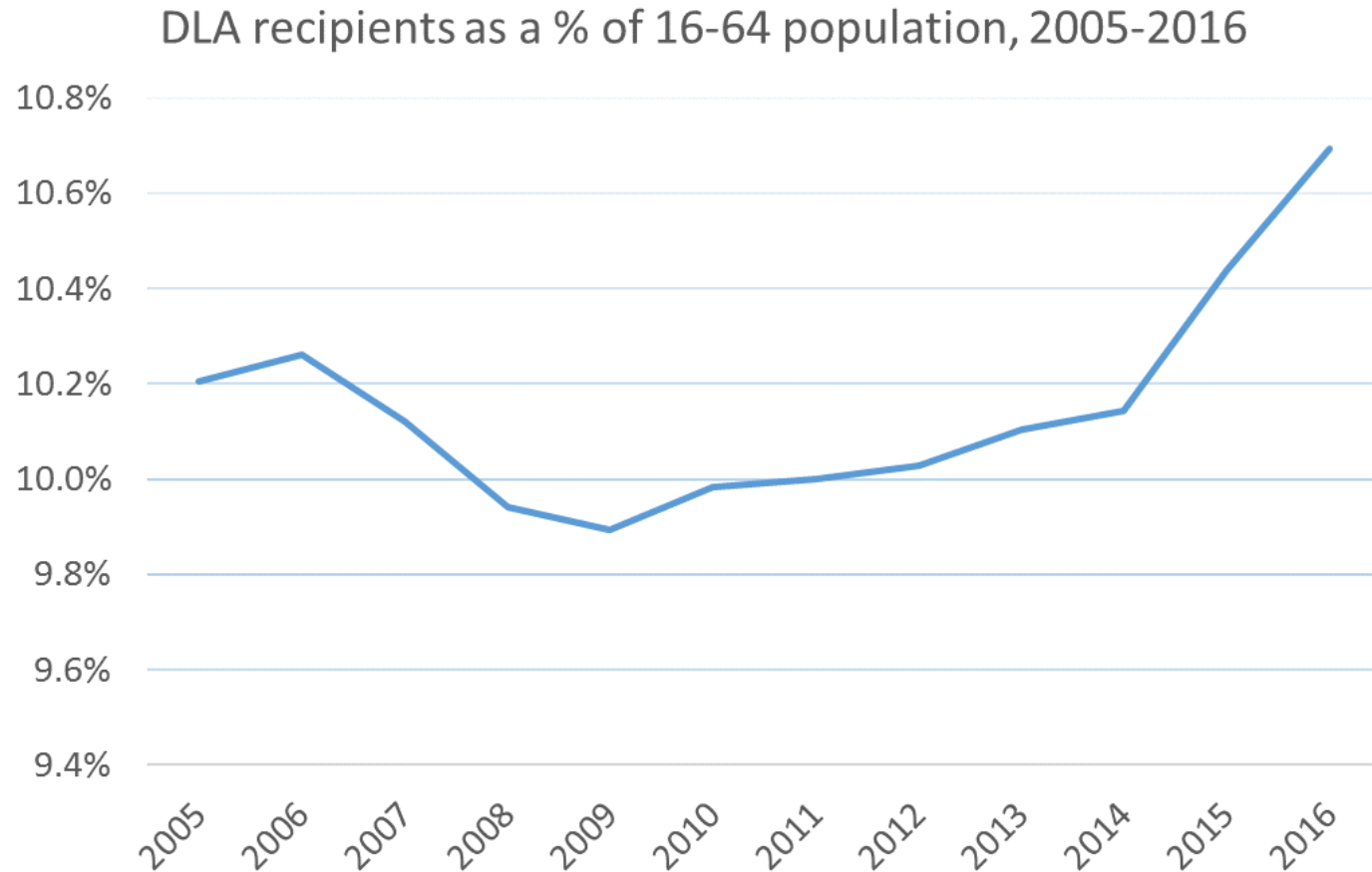


Long term sickness the big question?

Long term sick as a % of the 16-64 population, 1997-2015 (4 quarter rolling average)



DLA also a big welfare problem



Personal reflections

- The outcome will only be as bad as govt, business and consumers let it be
- Firms already deal with price differentials and exchange rate risk – even with tariffs (which may not occur) trade will still take place
- Trade deals should not be as hard as made out (as already have one with most countries that could be mimicked and most of the others are small in relative importance)
- Press has been sensationalist and some of the forecasts have been based on frankly baseless assumptions (no offsetting trade gains for EU losses for example)
- UK has deflated currency, will import inflation, may ease austerity and has no longer to comply with state aid rules (amongst others) – this is not necessarily a bad set of economic changes
- Ireland is now the only (major) English speaking investment location in the EU – surely some benefits to come from that
- Modern technology should allow for a very fluid border
- It is in no-one's interest to make unfavourable trade deals
- But it will not be a painless adjustment and there will be losers

Thank you



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