

The impact of Brexit on the Northern Irish economy

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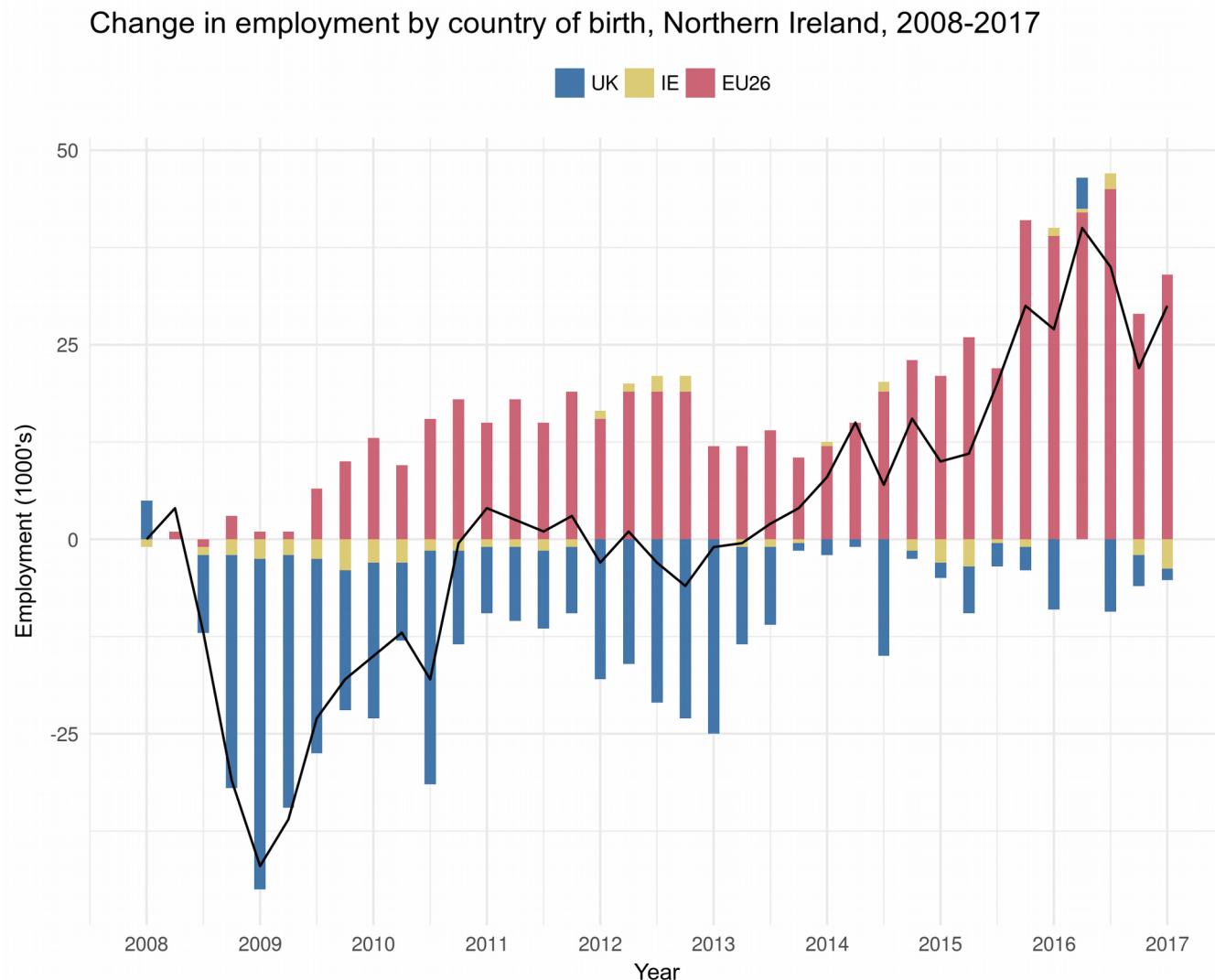
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Presentation overview

- **Brexit:** Process of Britain leaving the European Union (EU).
- Northern Ireland (NI) has been a significant beneficiary of EU membership:
 - Solid economic performance has had a positive impact on **peace**; and
 - **Supported economically, socially and politically by the European Single Market** and a legal framework that enabled people, trade and investment to flow freely across the border.
- Investigate the impact of Brexit on **three key areas** of the NI economy:
 - **Labour:** Migration & demography;
 - **Trade:** Imports & exports; and
 - **Investment:** FDI.

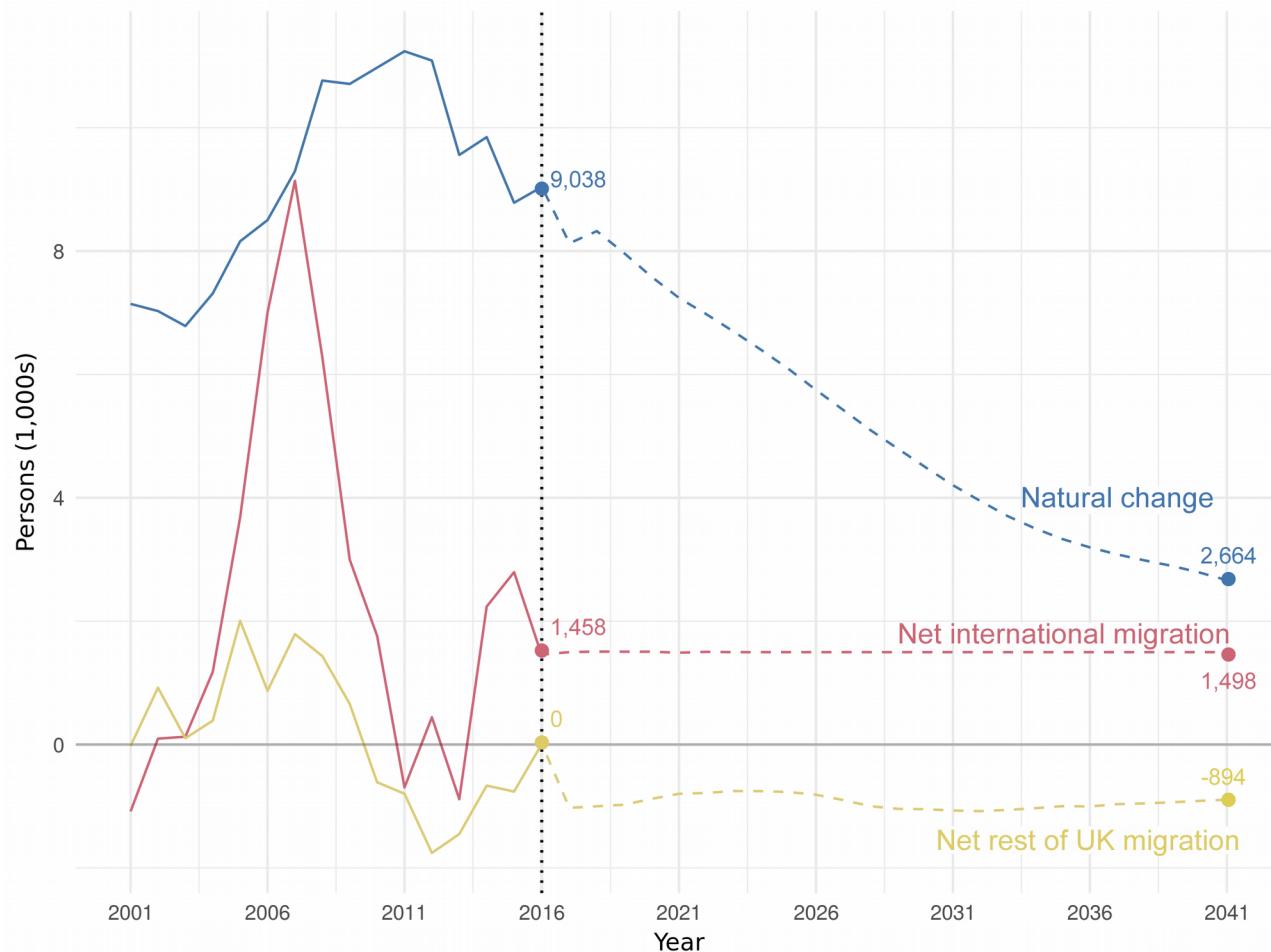
Labour: Contribution to employment

- The global financial crisis (2007-2009) brought with it a structural change to the make-up of the NI labour market.
- Over the past decade **migrant workers** from EU economies have **driven employment in NI** beyond the pre-crisis levels.
- Increasingly **filling skills gaps** through all levels of occupational complexity.



Labour: Principal projections

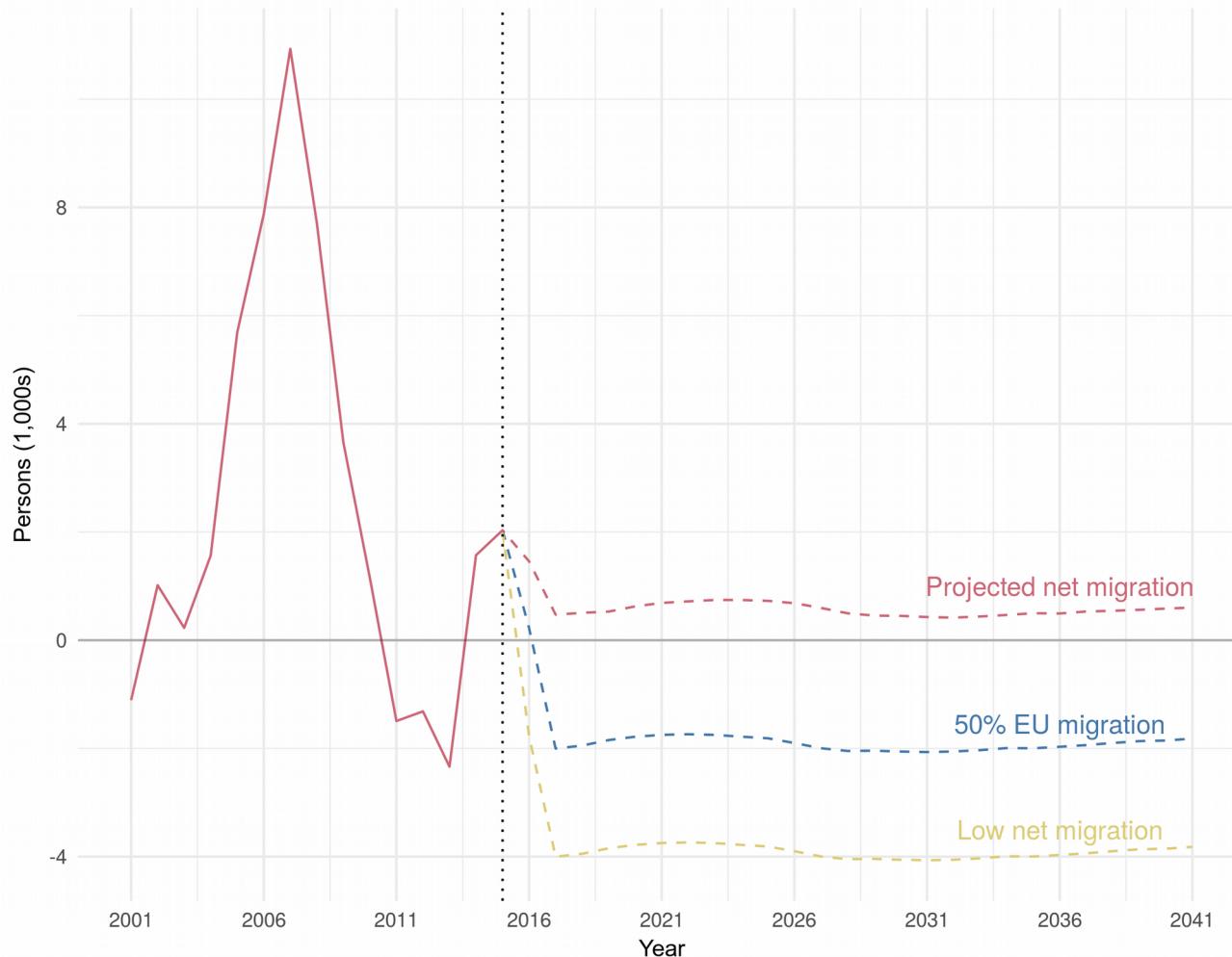
Actual and projected natural change and net international and rest of UK migration in Northern Ireland



- Population research from the ONS predicts **declining natural change (births-deaths)** to NI population.
- The projection suggests a **sustained brain drain** from NI to the rest of the UK.
- However, **positive international inflows**, particularly from the EU26, would boost NI labour market.

Labour: Projection variants

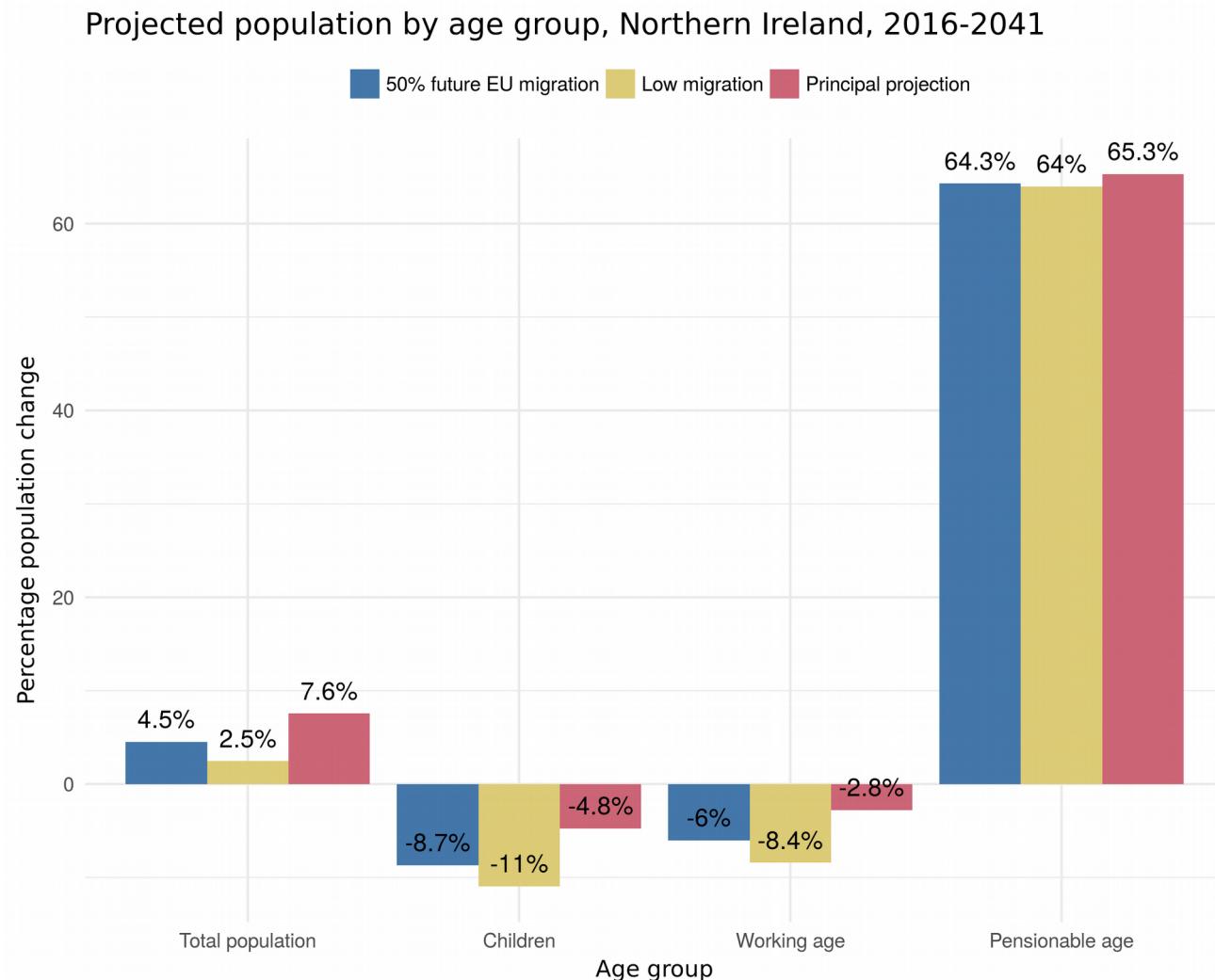
Northern Irish net overseas migration, historical and projections, 2001-2041



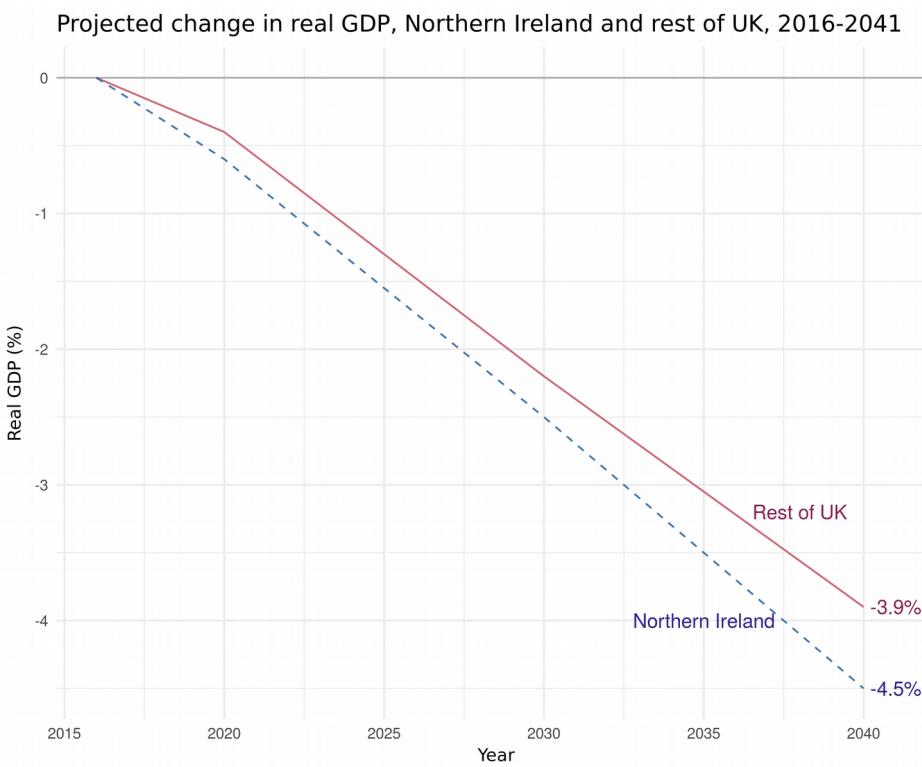
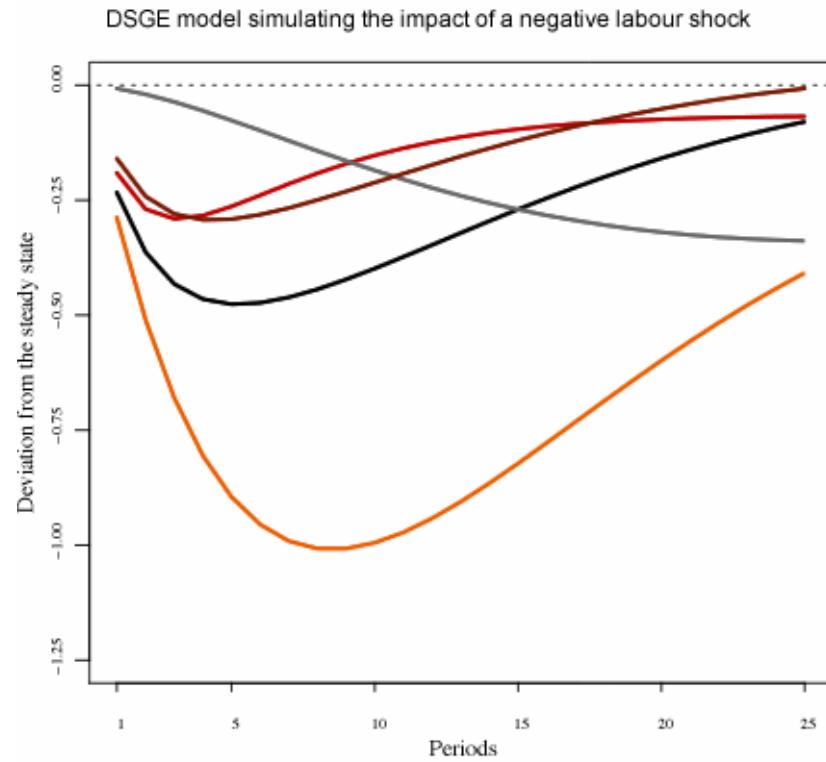
- Further research from the ONS provides migration **projection variants** for NI.
- Particularly, the consequence of Brexit converges to a **low net migration** variant.
- Suggests a future in which outflows from current migrants and the brain drain shock the NI population.

Labour: Age group projections

- On aggregate, natural change is expected to exceed net migration.
- **Declining working age population**, which is exacerbated by the projected reduced migration.
- Increased proportion of the population will be of pensionable age, placing **strain on Government budget**.



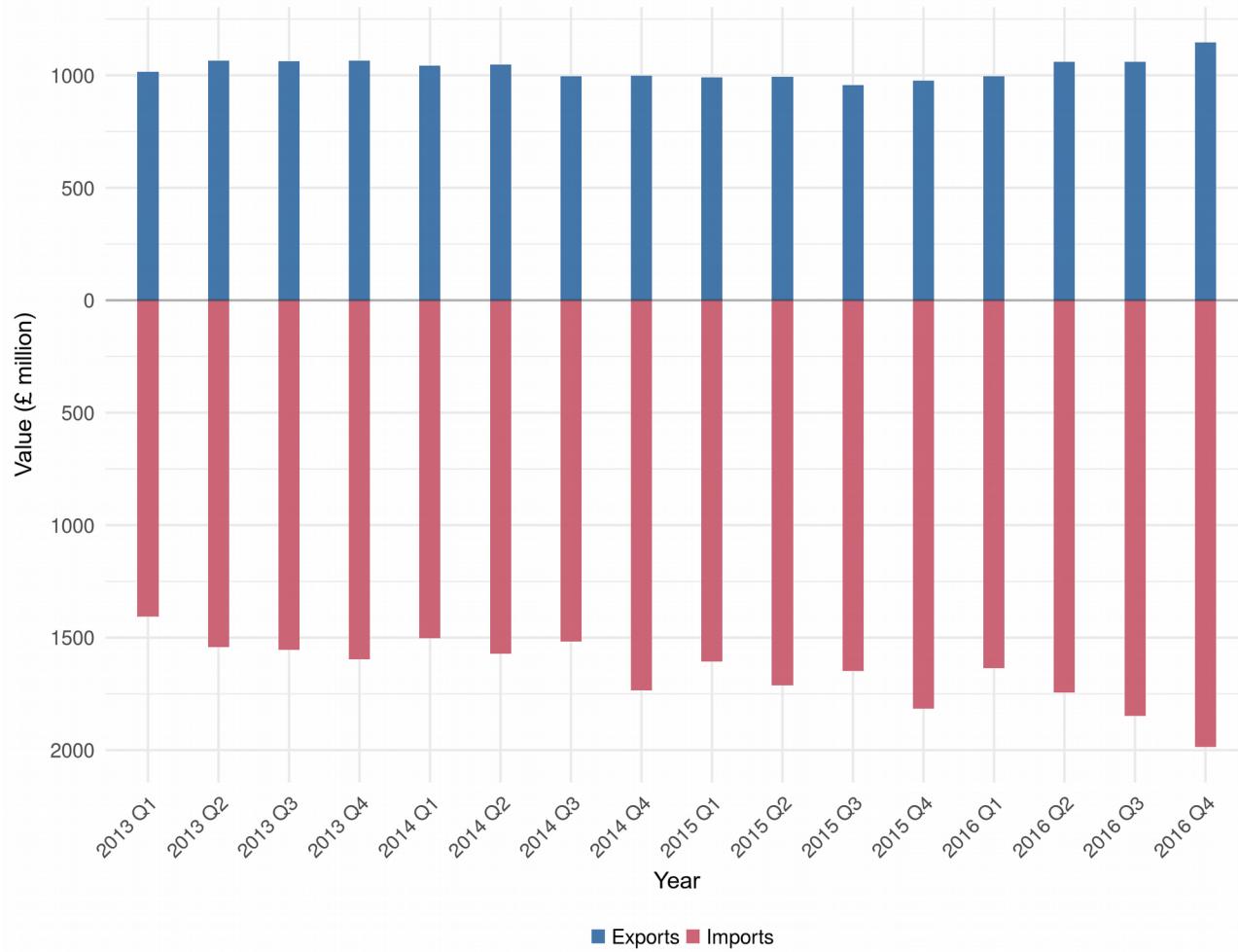
Labour: Impact on real GDP



- Structural change to the Northern Irish labour market generates a **new long-run steady state with a falling real GDP**.
- Leads to: (1) Fall in taxation and Government revenue; (2) Reduction in derived domestic demand; and (3) Further reduction in internal investment & FDI.

Trade: Imports & exports with EU

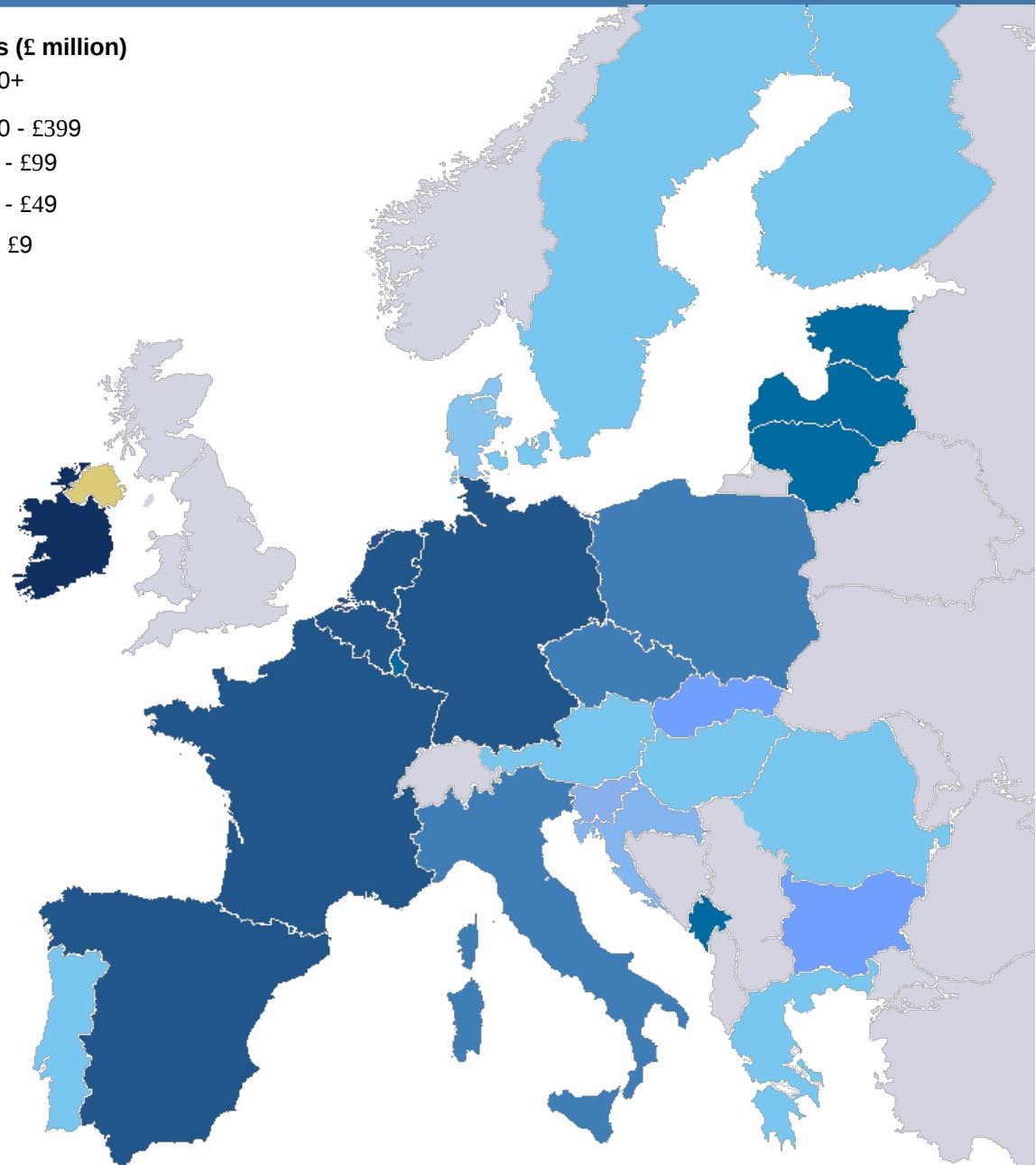
Value of Northern Irish imports and exports to rest of EU, 2013-2016



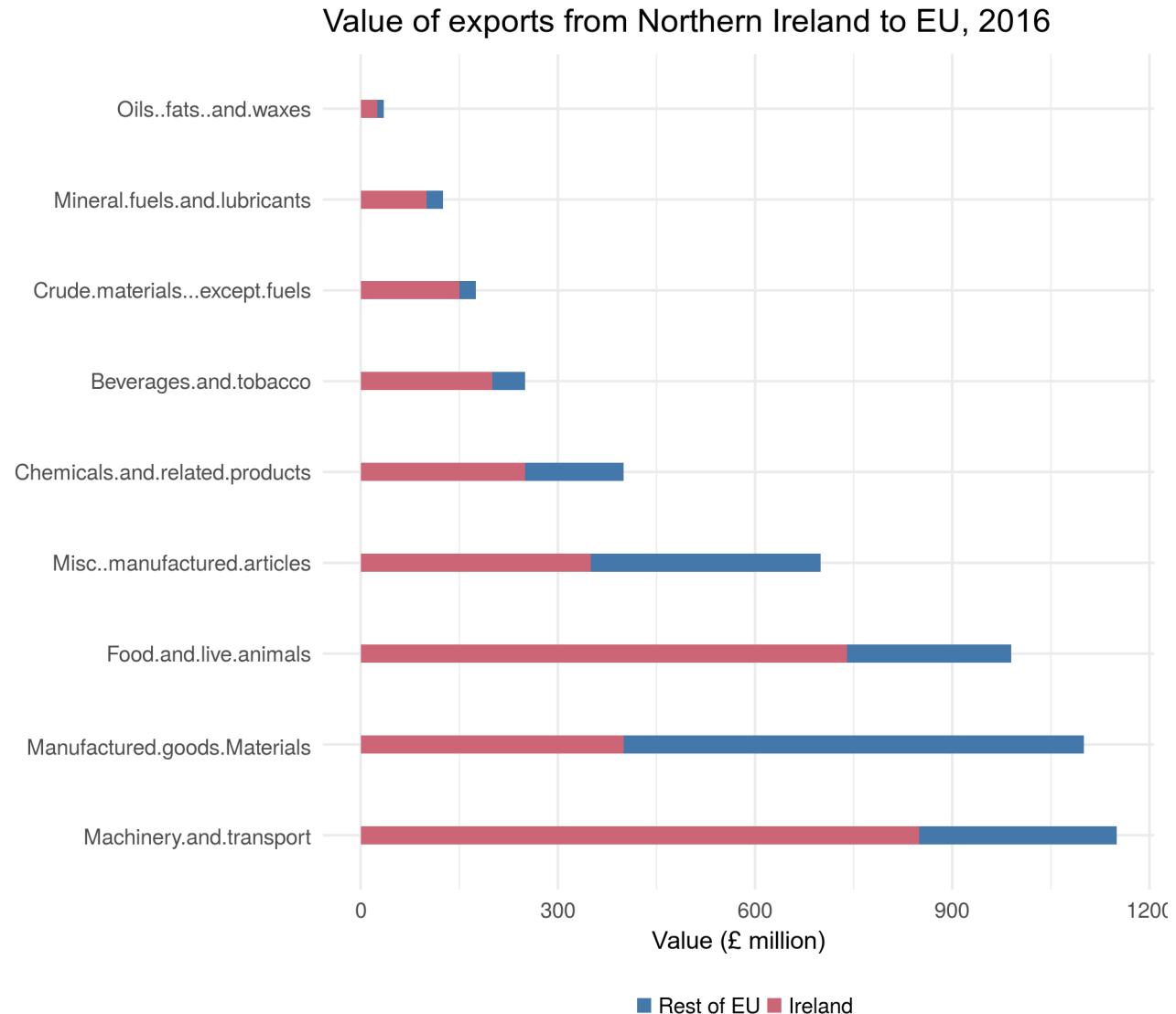
- Currently, NI **exports to non-UK economies** is valued at £11.4bn.
- With **trade to EU economies** valued at £6.6bn.
- Ireland is NI's largest export market at £4bn.
- Steady increase of NI's **dependence** on other EU economies.
- Evidence of a **relatively inelastic demand for imports** in the face of a weakening currency.

Trade: Other EU countries

- Ireland is NI's largest export market (£4bn).
- However, NI exports to GB in 2016 accounted for 59% of all external sales, compared to only 12% of exports to Ireland.
- **Post-Brexit trade regime remains uncertain**, with Norwegian and Canadian-style trade regimes rejected.
- Adding increased frictions to trade exacerbate **transaction costs** and an **unwillingness to set contracts**.



Trade: Top exporting sectors

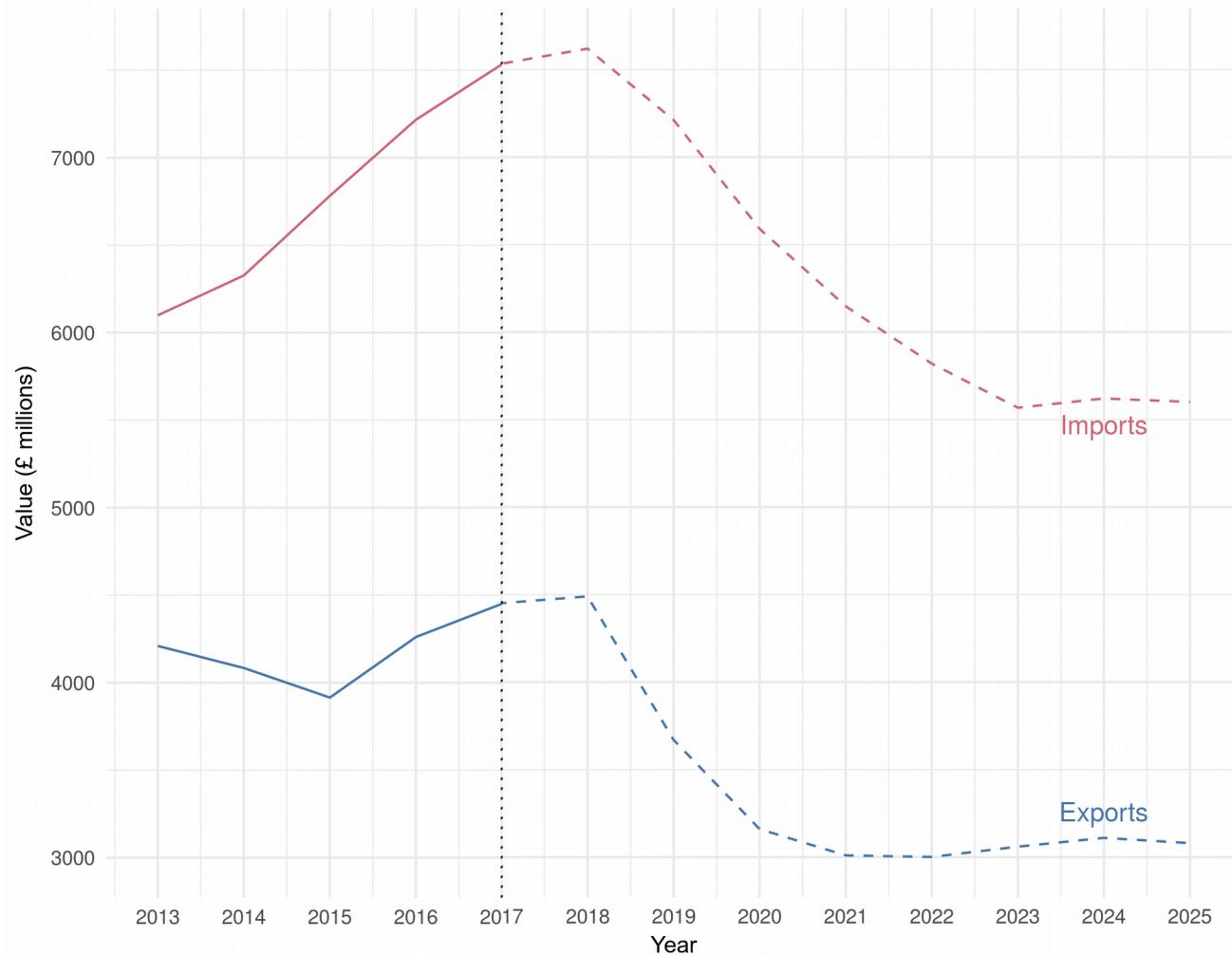


- ‘*Machinery & Transport Equipment*’ is NI’s largest export sector, comprising ~38% of total exports to the EU.
- Combined, the **top three sectors make up 70% of all exports** from NI to the EU.
- These sectors are most prone to border frictions, **uncertainties** and are **willing to move**.

Trade: Predictions

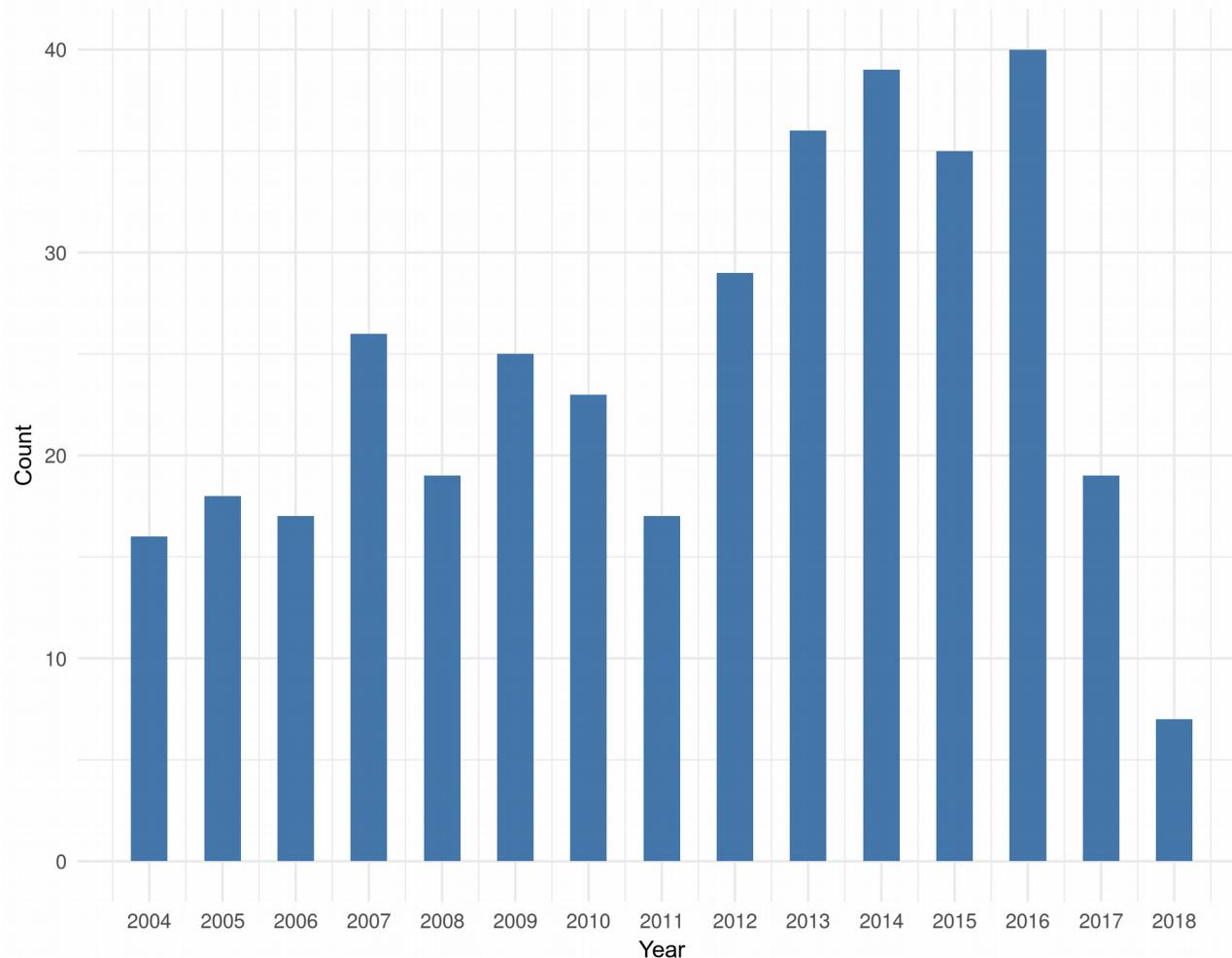
- Assuming away rigidities (e.g. contracts and sticky prices) we project a **significant drop in both imports and exports.**
- This is heightened with **increased transaction costs** from cross-border trade with Ireland.
- Alongside **reduced competitiveness** and **low internal demand**, this is reflected in a **fall in real GDP.**

Projected EU imports and exports, Northern Ireland, 2013-2025



Investment: Fall in FDI projects

Number of Foreign Direct Investment projects in Northern Ireland, 2004-2018



- According to INI, Belfast remains a top destination for FinTech, cyber security R&D and general software projects.
- However, EY's **Attractiveness Survey** showed that **FDI projects fell by ~54% in 2017.**
- **Political instability** and uncertainty of Brexit have diminished performance.

Concluding points

- Key points we *know*:
 - **Labour.** NI needs a migration system that both protects current EU and international immigrant workers and facilitates business to access the skills it needs to sustain itself and grow.
 - **Trade.** Apart from internal trade with the rest of the UK, Ireland remains NI's biggest export market. The impact of a 'hard' border will add significant frictions to this market; further reducing both imports and exports.
 - **Investment.** FDI projects have already fallen in anticipation of Brexit; this mindset could lead to a **self-fulfilling prophecy**.
- Preliminary *predicted* insights highlight:
 - **Structural change** in demography & labour market, increased **transaction costs** to international trade and **uncertainty** for investment.
 - **Institutional shock** negatively impacting **long-run aggregate supply**, **real GDP**, **business opportunities** and **Government revenue**.

Any questions?