

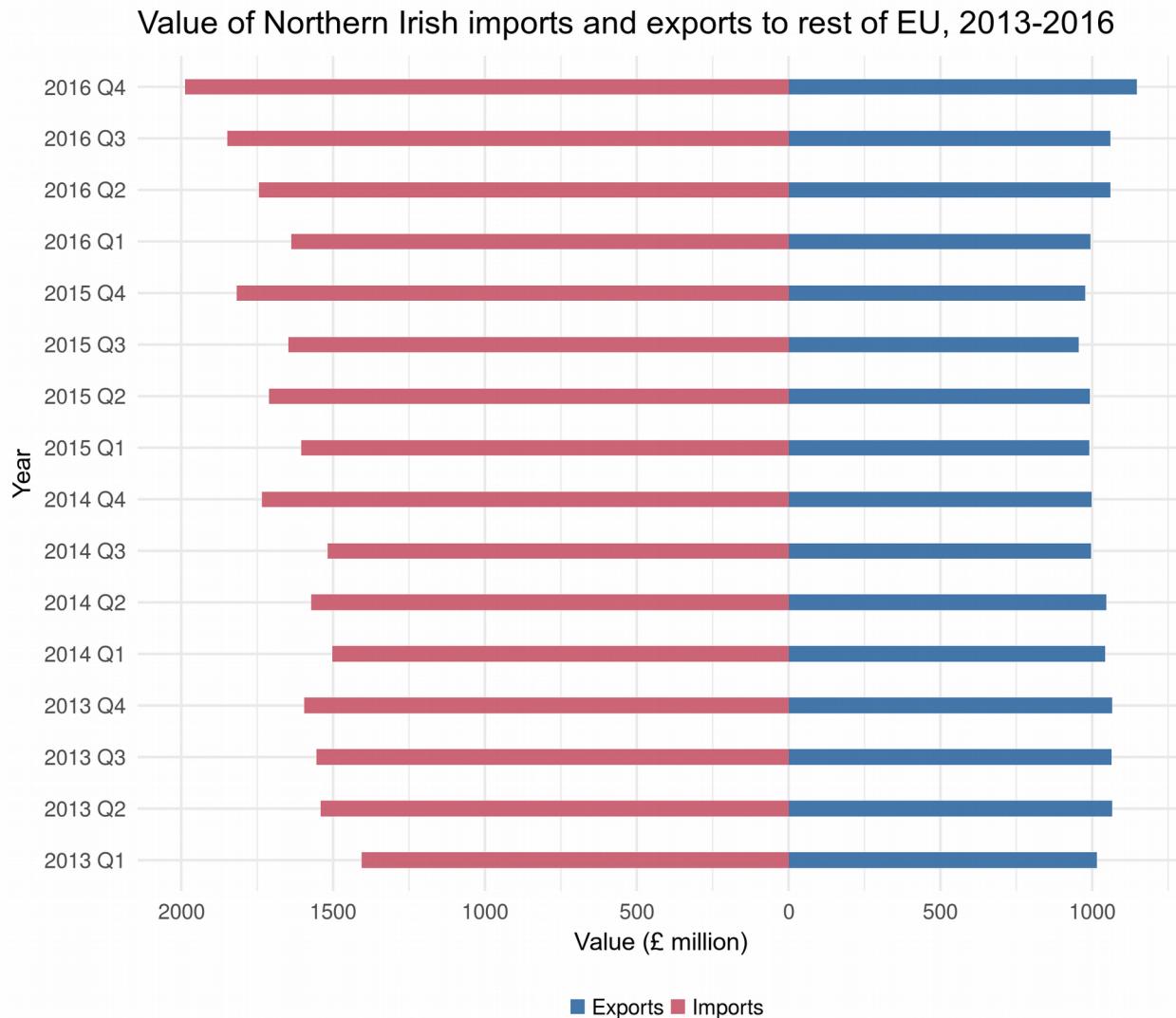
# The impact of Brexit on the Northern Irish economy

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# Presentation outline

- Overview of the impact of Brexit on three main areas of the Northern Irish economy:
  - Trade: imports and exports;
  - Labour: migration & the labour market; and
  - Investment: FDI & entrepreneurship.
- Aim to provide some insight on the predicted consequence of Brexit to these areas using CGE and DSGE models.
- The initial results highlight:
  - A significant negative impact to real GDP and Government revenue reducing their fiscal abilities; and
  - The emergence of a new long-run economic steady-state.

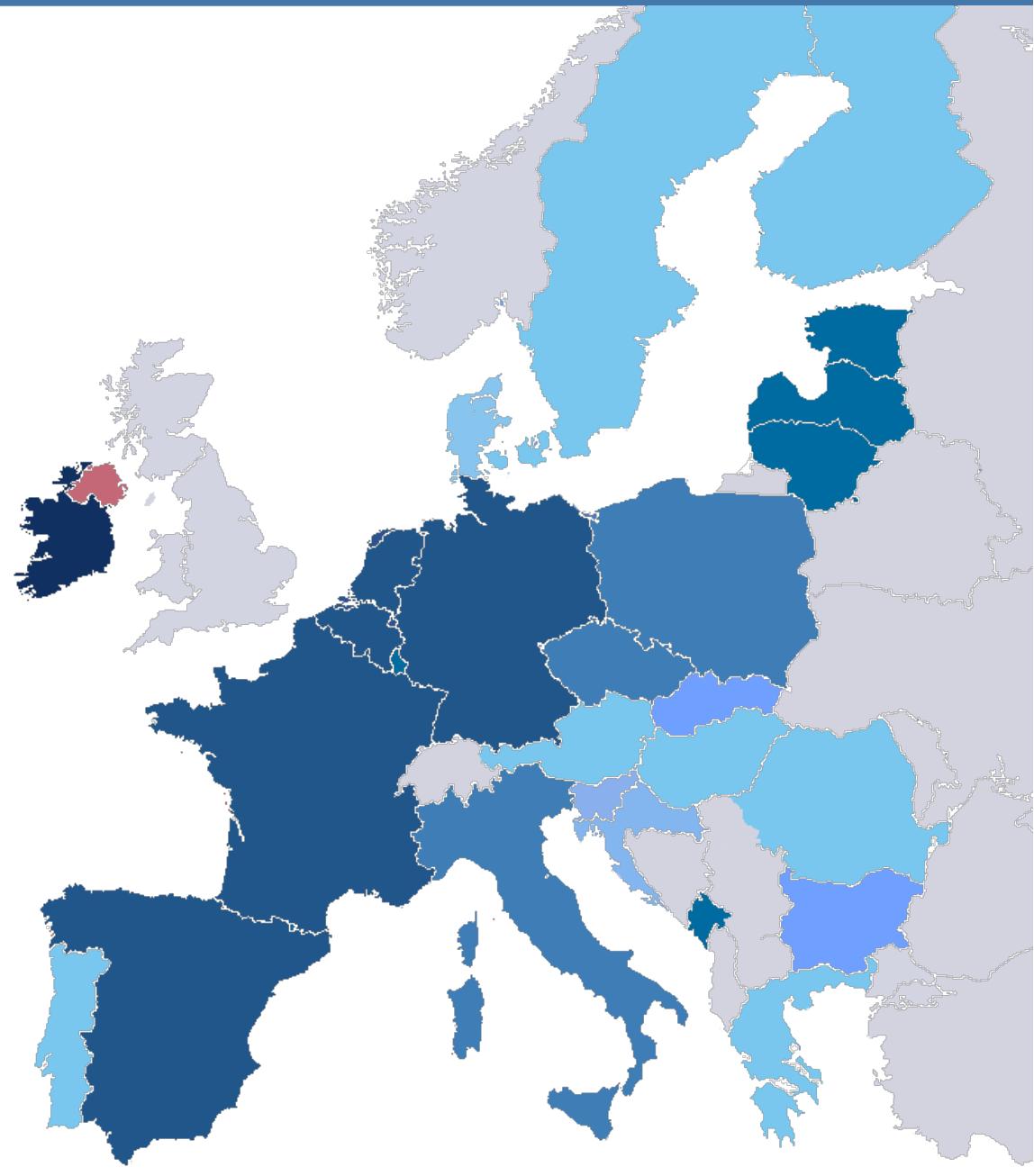
# Trade: Imports & exports



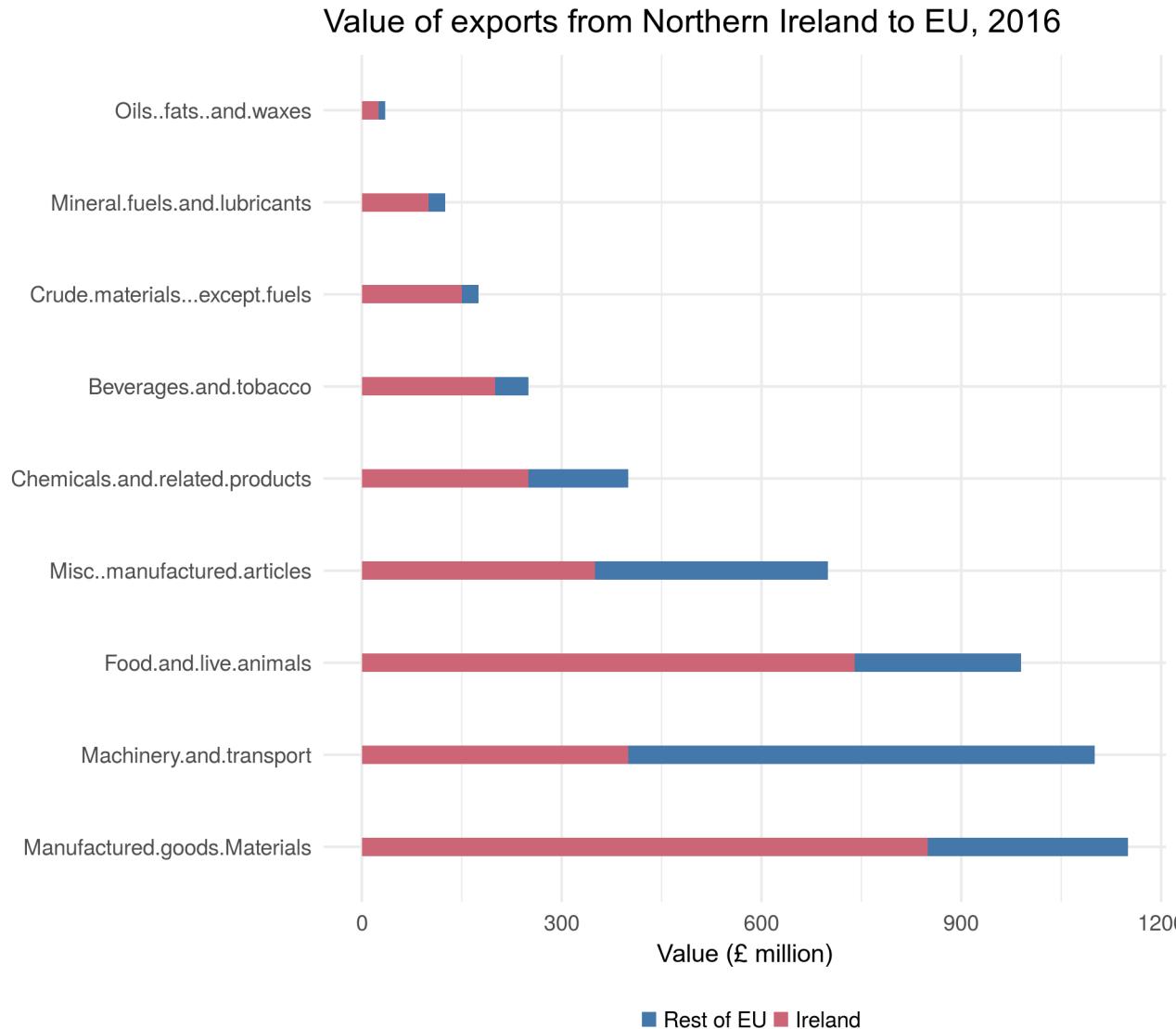
- In 2016, NI exports to non-UK EU economies was valued at £11.4bn.
- Over time there has been a steady increase of Northern Ireland's dependence on other EU markets.
- Particularly with respect to the demand for imports; even with a weakening currency.

# Trade: Other EU countries

- Northern Ireland's largest export market is Ireland.
- Exports to Ireland valued at £4.0bn, rest of EU valued at £2.6bn, and the rest of the world valued at £4.8bn.
- However, NI exports to GB in 2016 accounted for 59% of all external sales, compared to only 12% of exports to Ireland.



# Trade: Top exporting sectors



- The largest export sector is '*Machinery and Transport Equipment*' – 38% of total exports to the EU.
- Combined, the top three sectors make up 70% of all exports from Northern Ireland to the EU.
- These industries are most prone to border and currency issues.

# Trade: Big and small business

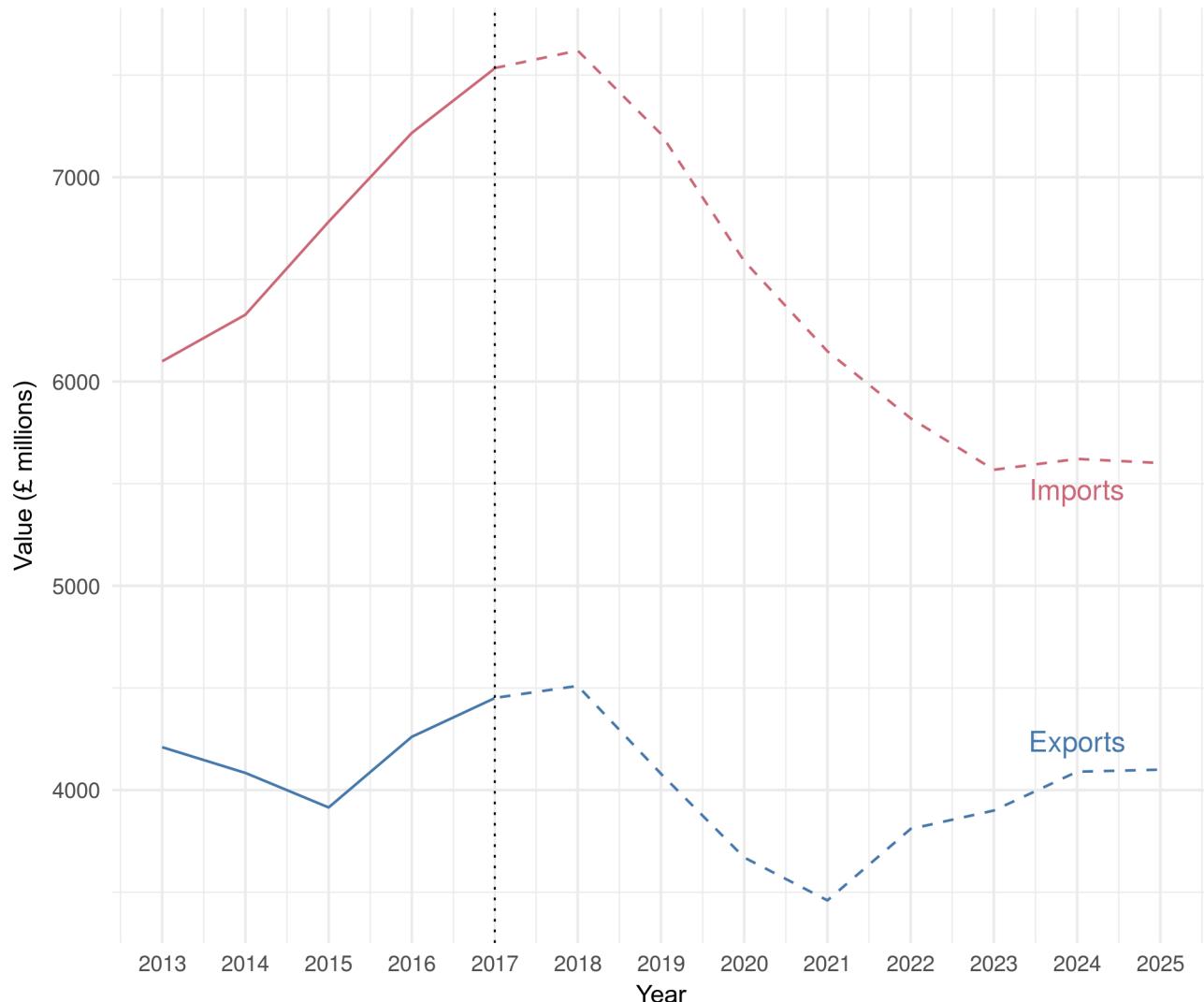


- Small businesses are most at risk to demand and supply-side shocks.
- SME's account for ~92.9% of all businesses that export to EU countries and ~42.1% of the total value of exports.

# Trade: Predictions

- Assuming away rigidities (e.g. contracts and sticky prices) we project a significant drop in both imports and exports.
- This is particularly heightened when increased frictions are added for cross-border trade with Ireland.
- Alongside reduced consumption and low internal demand, this is reflected in a fall in real GDP.

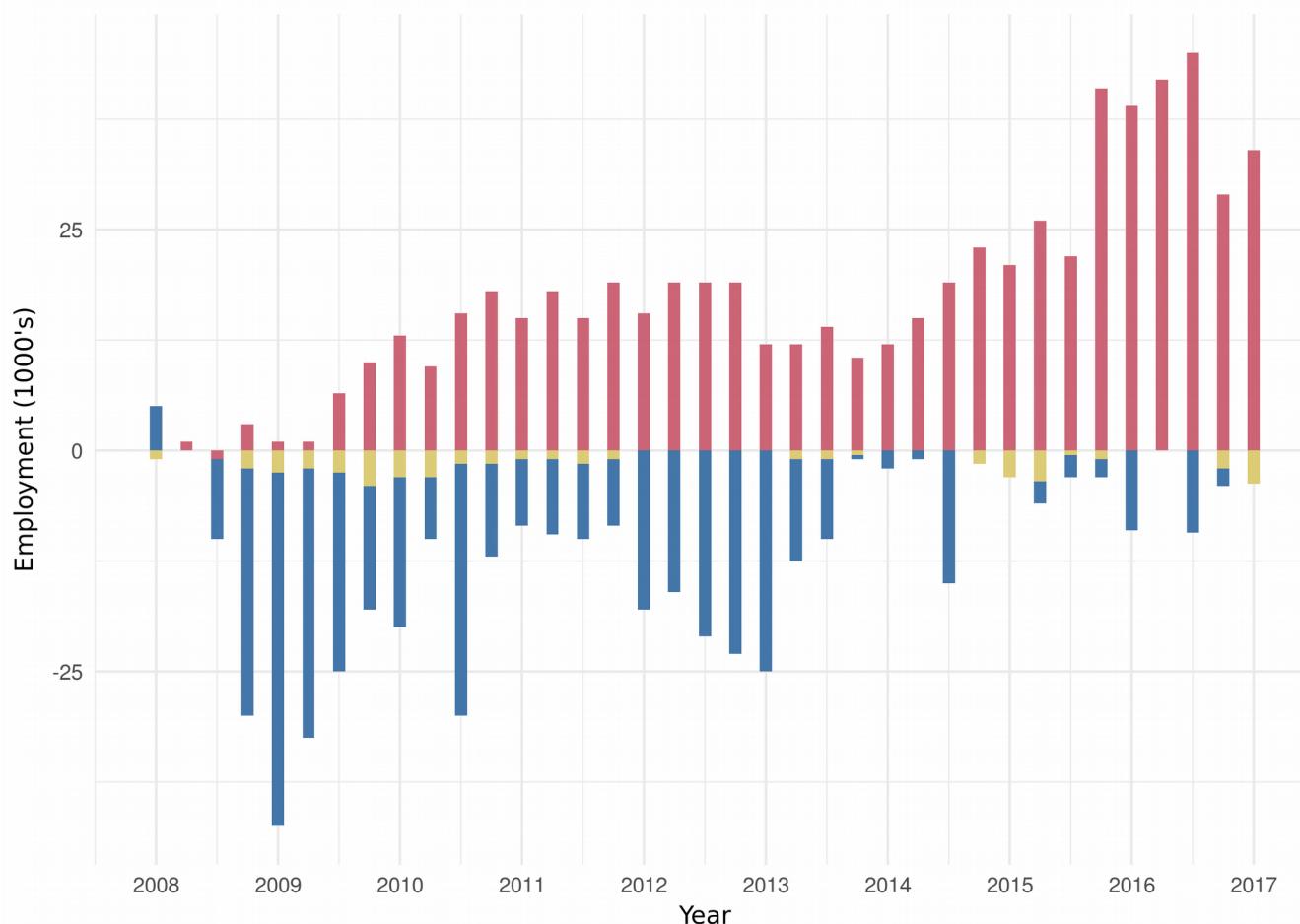
Projected EU imports and exports, Northern Ireland, 2013-2025



# Labour: Contribution to employment

Change in employment by country of birth, Northern Ireland, 2008-2017

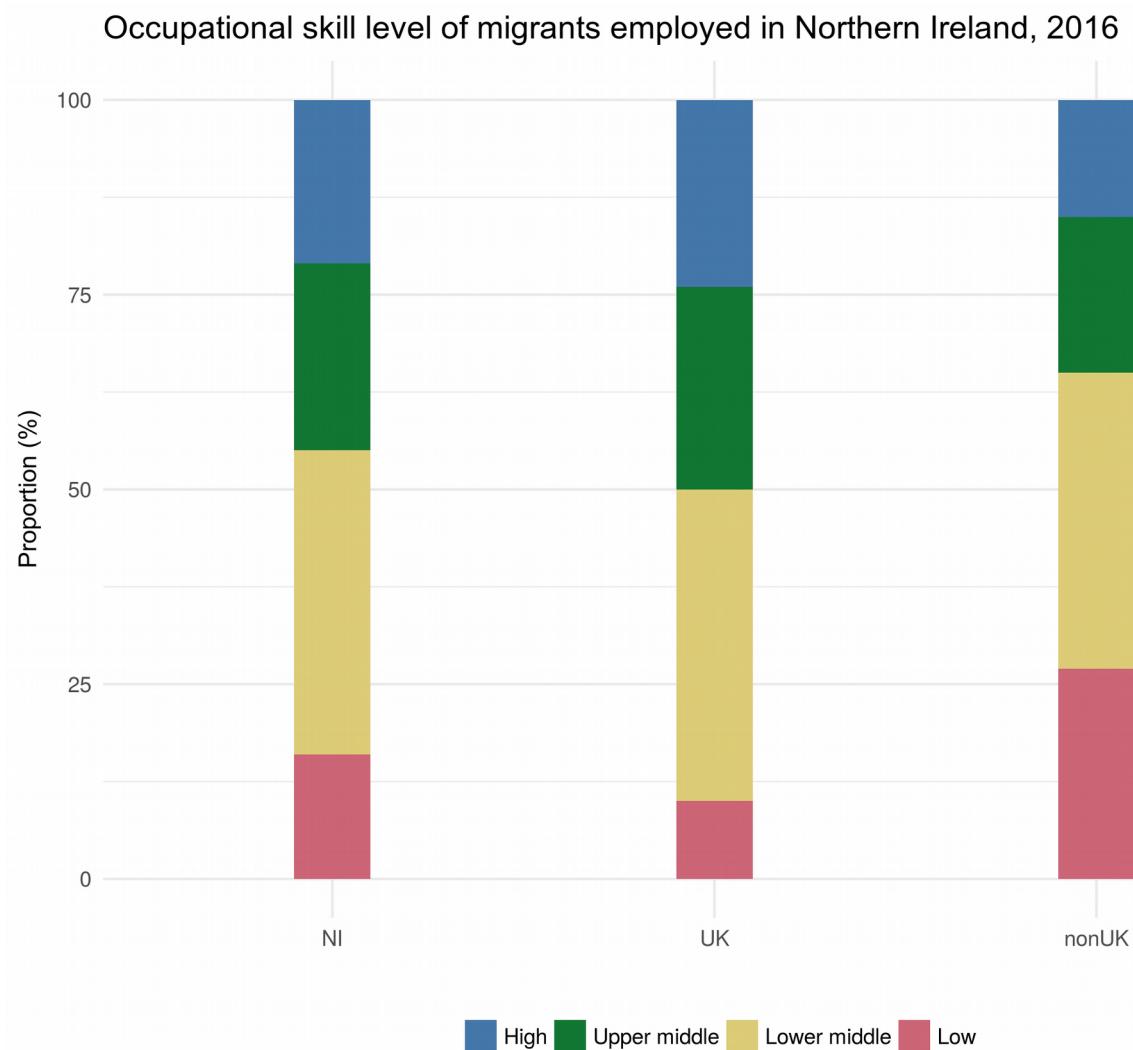
UK IE EU26



- Employment fell by 40,000 between 2008 Q1 and 2009 Q2 due to financial crisis.
- Over the past decade migrants from EU26 economies driven employment in NI beyond the pre-crisis levels.
- Since 2014 employment has risen by more than 40,000 due to migration.

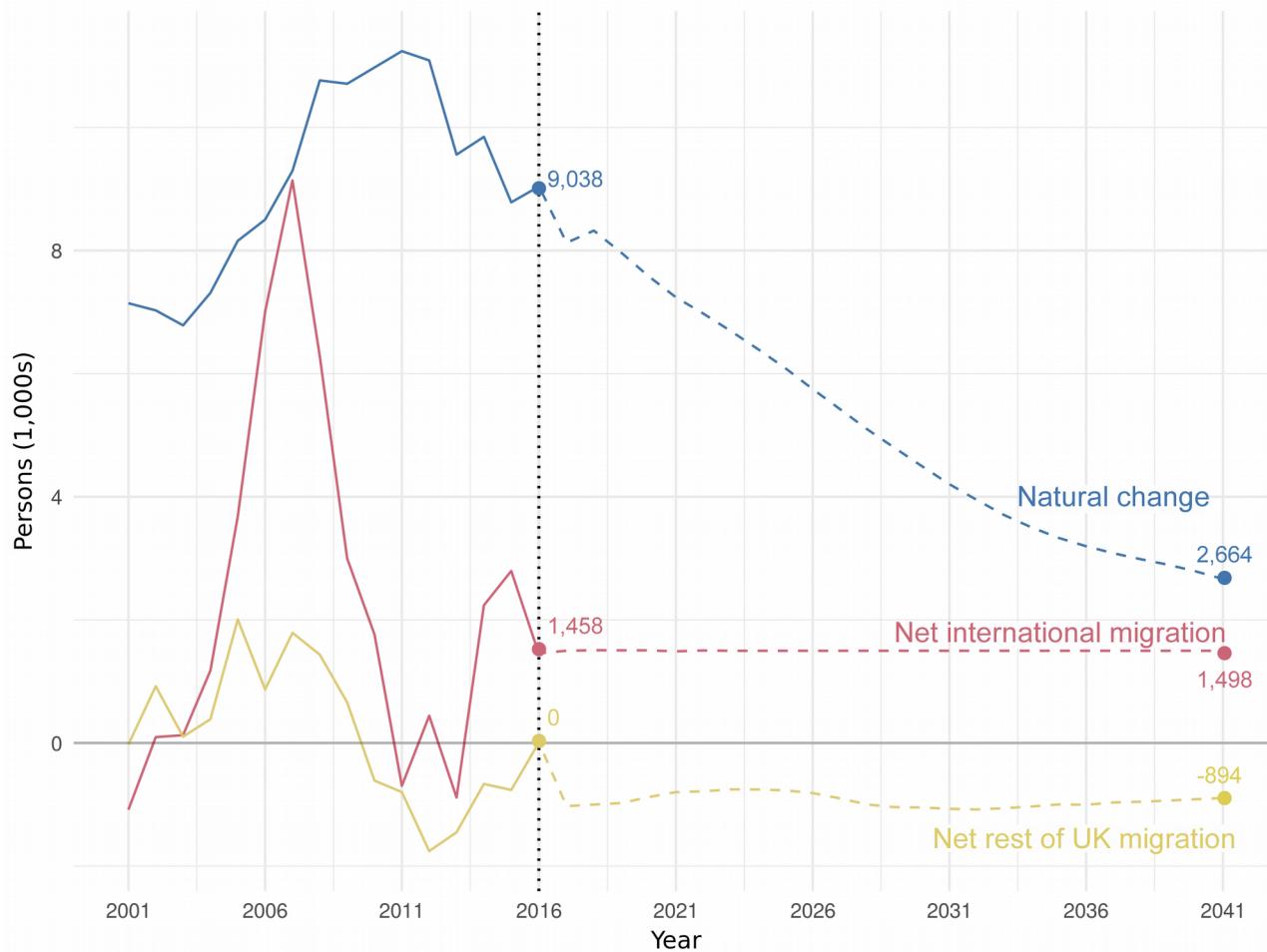
# Labour: Skills gap

- Foreign and domestic companies already concerned of a skills gap in NI.
- Migration fills skills gaps in both lower and upper levels of employment.
- Not much evidence to suggest that migrants from outside UK compete for the same jobs as economically active members of GB.



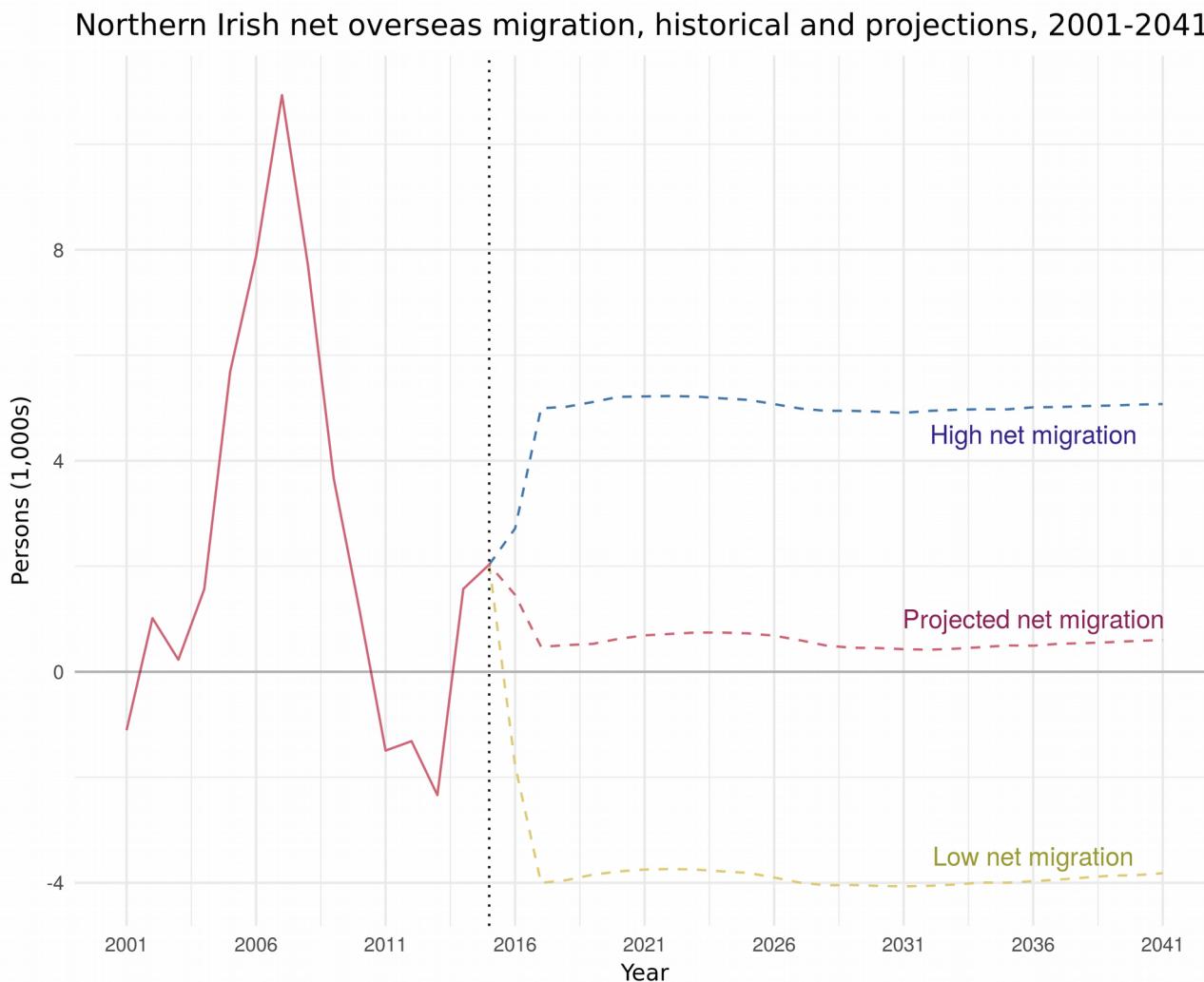
# Labour: Pre-Brexit projections

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



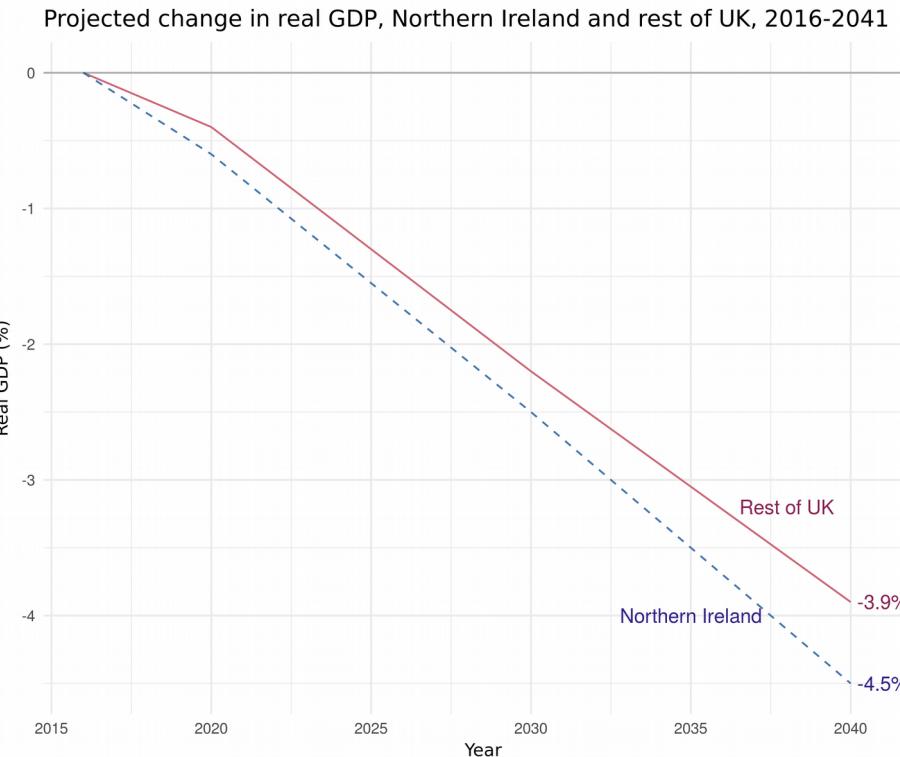
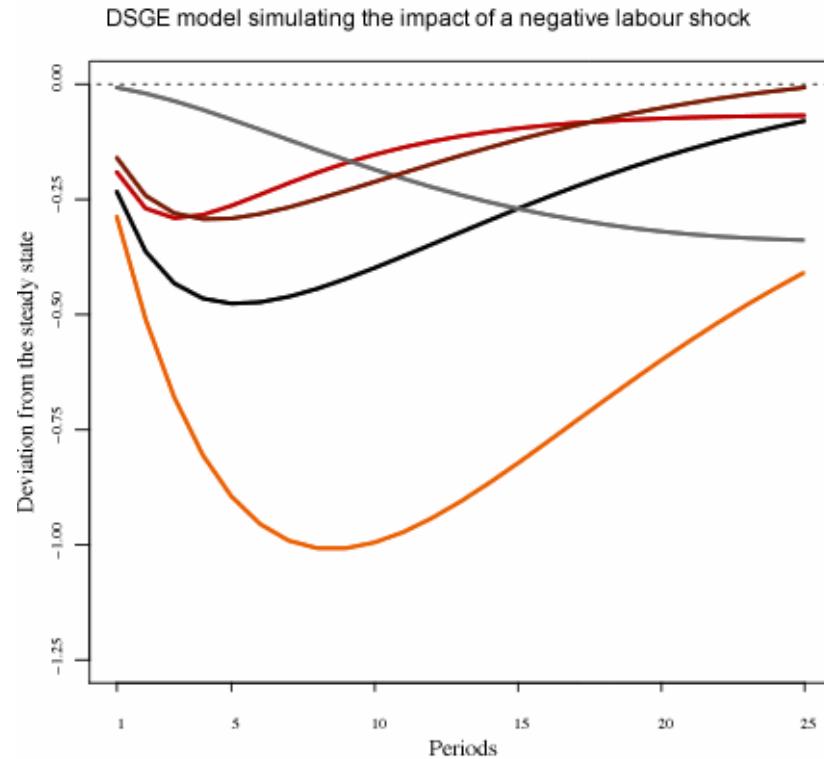
- Pre-Brexit research from the ONS predicts declining natural change (*births-deaths*) to NI population.
- The Figure suggests a sustained ‘brain drain’ of the NI population to the rest of the UK.
- However, positive international inflows, particularly from the EU26, boosts NI population.

# Labour: Post-Brexit projections



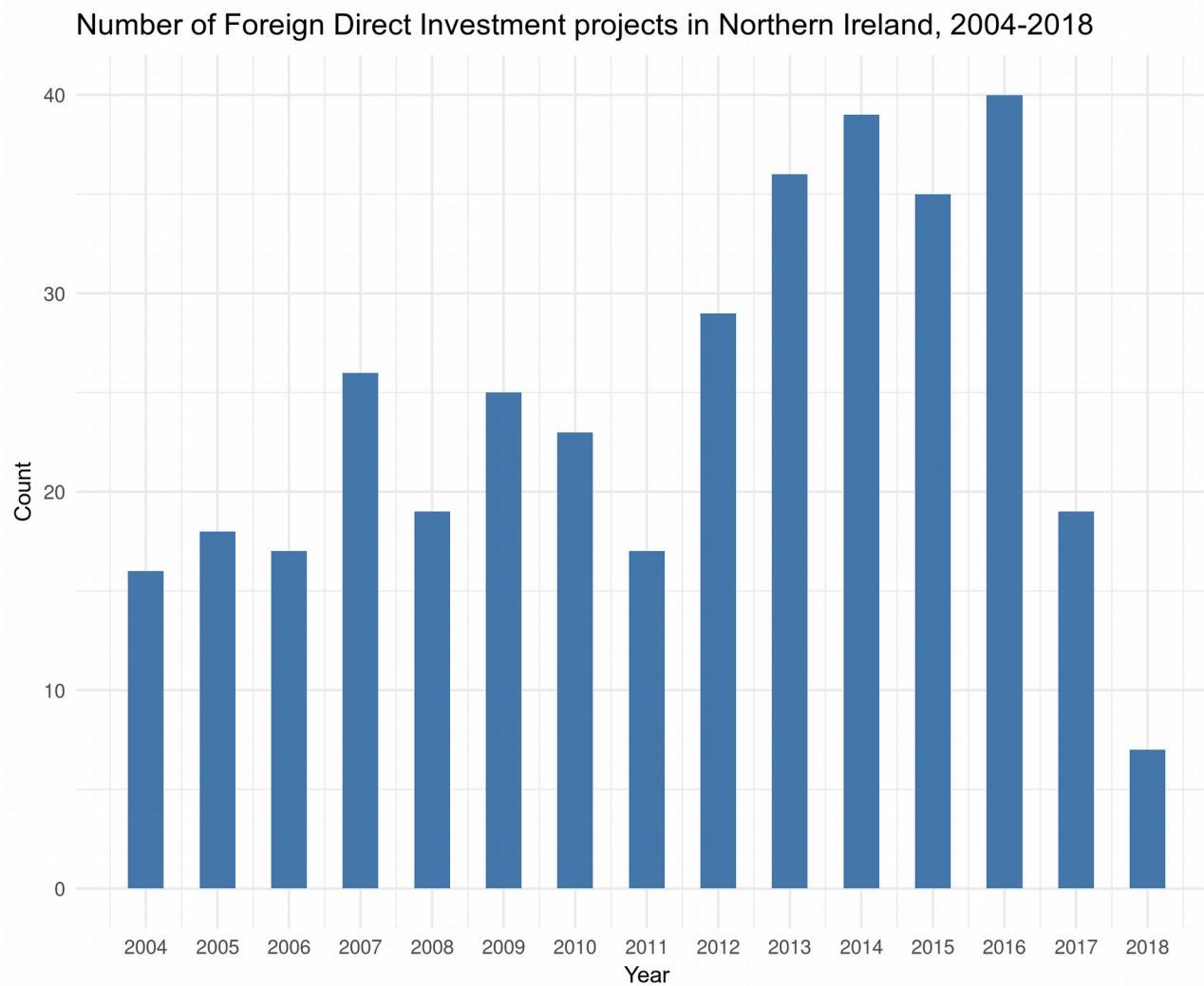
- Post-Brexit research from the ONS provides differing net migration projections for NI.
- Particularly, the consequence of Brexit leads to a significant ‘low net migration’ variant.
- Suggests a future in which outflows from current migrants and the brain drain lower the NI population.

# Labour: Impact on real GDP



- Structural change to the Northern Irish labour market generates a new long-run steady state with a lower real GDP.
- Leads to: A fall in taxation and Government revenue; reduction in derived domestic demand; and further reduction in internal investment and FDI.

# Investment: Fall in FDI projects



- 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*:
  - **Trade.** Apart from internal trade with the rest of the UK, Ireland remains NI's biggest export market: valued at £4.0bn per year. The impact of a 'hard' border will add significant frictions to this market, reducing both imports and exports.
  - **Migration.** NI employment has become increasingly reliant on labour from EU26 and less on labour from the rest of the UK.
  - **Investment.** FDI projects have already fallen in anticipation of Brexit; this mindset could lead to a self-fulfilling prophecy.
- The *projected* outcome of Brexit:
  - It's difficult to know the exact impact that Brexit will have on the Northern Irish economy. Particularly since the terms of severance are still undecided.
  - However, further stigmatising ourselves from the global economic network can only lead to negative impacts.