What impact could Brexit have on the North West and what might be the next steps?

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Agenda

• Measurement or speculation?
• Areas of potential impact
• Areas for consideration
• Possible outcomes
• Summary – all scenarios at this point
• Next steps for the North West
Measurement or speculation?
Long and short term estimates of the impact of Brexit are negative for the UK...

Forecasts for 2017 GDP growth in the UK, before and after the Referendum
… and while forecasters believe Northern Ireland will avoid recession the risks are on the downside…

NI GDP Growth Forecasts

Source:
- UUEPC Winter 2016 Outlook
- Ulster Bank (August 2016)
- Oxford Economics (November 2016)
- Danske Bank/Oxford Economics Quarterly Sectoral Forecasts Q3 2016
- PwC NI Economic Outlook 2016 (Nov 2016)
…while in the Republic strong growth continues but tapering off

Source:
- Dept of Finance Monthly Bulletin (Nov 2016)
- ESRI Economic Outlook (Dec 2016)
- Oxford Economics (Nov 2016)
- Davy Stockbrokers Economic Monthly (Oct 2016)
- OECD Economic Forecast (Nov 2016)
The ‘leave’ map of the UK reflects deep concerns..

Source: BBC
...with a lack of belief in politicians...

**Brexit issues: family beats politicians for trust**

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

- Friends and family: 73%
- Academics: 66%
- Small business owners: 64%
- Work colleagues: 46%
- The ordinary man/woman in the street: 46%
- My immediate manager at work: 36%
- Leaders of large business: 36%
- The head of my company: 31%
- Civil servants: 29%
- Trade union officials: 26%
- Journalists: 16%
- Politicians generally: 12%

Source: Ipsos Mori
...and unconvincing economic arguments

Selected major European economies, ILO unemployment rate, 2016

EU 28 avg = 8.6%
Non EU European avg = 9.4%

Source: Oxford Economics
And why might that be? Weak wage growth in the recovery…
...and globally the real income debate is driving major change
Since the referendum the early data shows business continues...

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Change since Brexit vote</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>(13%)</td>
</tr>
<tr>
<td>Sterling into USD</td>
<td>(18%)</td>
</tr>
<tr>
<td>Sterling into Euro</td>
<td>DOWN (13%)</td>
</tr>
<tr>
<td>Retail sales (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>Consumer confidence (Jun vs. Sept)</td>
<td></td>
</tr>
<tr>
<td>Economic Surprise Index (Jun vs. Sept)</td>
<td></td>
</tr>
<tr>
<td>Claimant unemployment (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>New car sales (YoY to Aug 2016)</td>
<td></td>
</tr>
<tr>
<td>PMI: Output/Business activity (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>PMI: New business (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>PMI: Backlogs (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>PMI: Employment (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>PMI: Input costs (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>PMI: Price charged (Jun vs. Oct)</td>
<td></td>
</tr>
<tr>
<td>PMI: New export business (Jun vs. Oct)</td>
<td></td>
</tr>
</tbody>
</table>

Source:
FTSE 100: London Stock Exchange (14/11/2016)
Retail sales: DWS
Consumer confidence: GfK
Economic Surprise Index: Ulster Bank on behalf of Bloomberg
Claimant Unemployment: DWS
New car sales: SMMT
PMI: Ulster Bank (September vs. June 2016)
And while firms on the island are worried, they are not making plans…

What difference will leaving the EU have on the UK economy?

<table>
<thead>
<tr>
<th>Category</th>
<th>Weaker</th>
<th>Make no difference</th>
<th>Stronger</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-island</td>
<td>57%</td>
<td>30%</td>
<td>13%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>53%</td>
<td>40%</td>
<td>7%</td>
</tr>
<tr>
<td>Business Services</td>
<td>64%</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>Construction</td>
<td>53%</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>Retail</td>
<td>64%</td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>45%</td>
<td>41%</td>
<td>14%</td>
</tr>
<tr>
<td>Micro</td>
<td>56%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Small</td>
<td>63%</td>
<td>27%</td>
<td>10%</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>66%</td>
<td>26%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Have you made plans to deal with a Brexit?

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-island</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Business Services</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Construction</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Retail</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>2%</td>
<td>98%</td>
</tr>
<tr>
<td>Micro</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Small</td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>9%</td>
<td>91%</td>
</tr>
</tbody>
</table>

Source: InterTradeIreland Business Monitor Q3 2016
And notably more pronounced worries in the Republic …

Source: InterTradeIreland Business Monitor Q3 2016
...perhaps because the exchange rate the most striking short term impact

Source: BoE (15/11/2016)
Areas of potential impact
Areas in which Brexit might impact

- Trade
- Agri and Fisheries Sectors
- Investment (inward and existing)
- Funding (various EU streams)
- Tourism
- Consumer spending and shopping
- Migration (cross-border and inward)
- Political economy of the Border

BREXIT

Ulster University
Some initial thoughts on the North West…

- **Asymmetry of concerns** in Donegal and Derry City & Strabane
  - Plummeting Sterling down almost 20% against the Euro and at its lowest level for 31 years against the dollar at the end of October – by end of November rallied but OBR expectation of long term devaluation
  - Question of access to the UK/GB market and what that means to firms

- **Different perspectives by sector, size and ownership** of businesses

- North West faces an **internal and an external Brexit** issue – cross-border and off-island flows
Areas for consideration
Trade – cross-border and export sales

€3bn in goods…dominated by food & drink

while 30% of exports go off the island into Brexit-impacted markets
Trade – exports off the island

...30% of exports going to a Brexit-impacted market...

Source: Invest NI Client companies
Trade – some thoughts
Considerations for the North West

- Need to better understand the trade dependencies at the enterprise level – consultation evidence of differing orientations of FDI and indigenous firms.
- Need to better understand the sectoral exposure – clear that agri-food sector is key one but need to analyse how exposed Donegal and DC&S are in the most risk-exposed sectors (food & drink, traditional manufacturing, pharmachem, materials manufacturing).
- Focus not only on the short term impacts of currency fluctuation but also the longer term issues around diversification and pathways to exporting given the dependence on a small number of geographic markets on both sides of the border which needs to be shaken up
- Too few exporters also – need to diversify the export base (products / services sold as well as markets).

Source: Invest NI Client companies
Agri-food, fisheries and other sectors…

More challenging times ahead…?

- Farm incomes on both sides of the border have been in trouble for a number of years – Donegal part of a poorer North West and both parts highly dependent on SFP/CAP
- In fishing 2/3rd of the landings and 40% of the value comes into Donegal’s ports – dependent on access to fishing beds (blue & red)
- Cross-border and Ireland/GB trade flows are currently essential and high levels of uncertainty around tariffs or not, prices, etc.

Sources: Revenue, Profile of Farming Sector
Map from Sean O’Donoghue
DAERA, Farm Incomes 2014/15
Agri-food, fisheries and other sectors…

Considerations for the North West

• **Integrated all-island nature** of these industries – supply chain flows in both directions (especially in dairy, beef, seafood collectively worth €520m in 2015) – and subject to 20-45% tariffs under WTO rules

• Ireland/UK trade in three above accounts for more than half of dairy and beef sectoral exports and 15% of seafood – therefore a very high dependence on UK market.

• **Reliance of both industries on EU and non-EU migrant labour** both for ‘extraction’ and processing – serious consideration given to whether this is a case of cost, willingness or skills

• Recognising that many of the farm, fishing and indeed seafood/agri-food enterprises **are small in scale and of a low turnover** making them more exposed to the risk of change

• Need to understand this at an enterprise-level and what supports might be needed.
FDI – some stats

Good success in the North West but risks ahead?

Ranking of investor’s motives for investing in EU countries

<table>
<thead>
<tr>
<th>Determinants of location choice of FDI</th>
<th>EU investors</th>
<th>Non-EU investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low corporation tax rates</td>
<td>**</td>
<td>***</td>
</tr>
<tr>
<td>Market size</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>Market potential (access to SEM)</td>
<td>**</td>
<td>***</td>
</tr>
<tr>
<td>Common language</td>
<td>*</td>
<td>**</td>
</tr>
<tr>
<td>Proximity</td>
<td>*</td>
<td>**</td>
</tr>
<tr>
<td>Low costs/High skills</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td>R&amp;D intensity</td>
<td>*</td>
<td>**</td>
</tr>
<tr>
<td>Trade costs</td>
<td>***</td>
<td>**</td>
</tr>
</tbody>
</table>

Risks to FDI job creation in each UK region of not joining the Single Market

- High
- Medium
- Low

- Northern Ireland
- Scotland
- South East
- Wales
- North East
- East of England
- Yorkshire & Humberside
- North West
- South West
- East Midlands
- West Midlands
- UK average
FDI – some thoughts
Considerations for the North West

• **Locational choices for FDI** from ESRI research across the EU definitively come down to lower Corporation Tax rates, market size, access to the Single Market, ‘proximity’ to the investor, low costs and high R&D capacity

• For NI and DC&S a **decision whether or not to reduce CT to 12.5%** needs to be made quickly or not at all and will need to be combined with a proposition around market size being the UK market, costs and R&D/HE strengths

• For Donegal certainty around CT rates, access to the Single Market, and growing strength of the R&D base will be key

• For the North West as a whole **connectivity needs to be improved** as does business innovation and market size will need to be addressed.
EU Funding– some stats

EU funding not huge in terms of total budgets but crucial to cross-border cooperation

<table>
<thead>
<tr>
<th>Programme funds for NI</th>
<th>Managing Authority</th>
<th>Allocation (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment for Growth and Jobs (ERDF)</td>
<td>DfE</td>
<td>€308.0</td>
</tr>
<tr>
<td>European Social Fund</td>
<td>DfE</td>
<td>€205.2</td>
</tr>
<tr>
<td>PEACE IV</td>
<td>SEUPB</td>
<td>€229.1</td>
</tr>
<tr>
<td>Interreg VA</td>
<td>SEUPB</td>
<td>€240.3</td>
</tr>
<tr>
<td>CAP (Direct Payments)</td>
<td>DAERA</td>
<td>€2,299.0</td>
</tr>
<tr>
<td>CAP (Rural Development Programme)</td>
<td>DAERA</td>
<td>€228.0</td>
</tr>
<tr>
<td>Fisheries Fund</td>
<td>DAERA</td>
<td>€23.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>€3,533.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No of projects led by Councils</th>
<th>Total NW Funding (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTERREG IIIA</td>
<td>9 (out of 37 in NW)</td>
</tr>
<tr>
<td>INTERREG IVA</td>
<td>6 (out of 7 in NW)</td>
</tr>
<tr>
<td>INTERREG VA</td>
<td>Bid for</td>
</tr>
</tbody>
</table>
EU funding – some thoughts
Considerations for the Councils

• Importance of **accurately assessing what is the full extent of EU funding** across the DC&S council area (in addition to direct Council funding) on, for example:
  • Urban regeneration and rural development projects
  • Economic development programmes under ERDF and ESF
  • Community and voluntary sector initiatives through Peace, ESF, RDP, etc.
  • Higher and Further Education including research funding, ERASMUS, ESF, etc
  • Infrastructure projects which included an element of EU funding (e.g. Science Park)
• What is the **extent of cross-border funding that is dependent on partnerships** into NI?
• What are the guarantees worth and will the UK government step in to replace EU funding beyond 2020? If so, in what areas (agriculture, community and voluntary sector, cross-border, etc)?
• **Are alternative funding sources** available and how sustainable can projects be without this?
Tourism – some stats

Successes here but still under-developed tourism markets in terms of attracting overseas visitors

Place of Origin of Donegal visitors

- Republic of Ireland: 52%
- UK: 14%
- Mainland Europe: 9%
- North America: 8%
- Other: 9%

Reason for visiting Donegal

- Holiday: 45%
- Visiting Friends/Relatives: 37%
- Business: 12%
- Other: 6%

Place of Origin of DC&S visitors

- Northern Ireland: 38%
- GB: 37%
- Republic of Ireland & Other: 10%
- Mainland Europe: 9%
- North America: 6%

Reason for visiting DC&S

- Holiday: 33%
- Visiting Friends/Relatives: 33%
- Business: 21%
- Other: 6%

Source: Fáilte Ireland, Tourism NI & UUEPC
Tourism – some thoughts

Considerations for the North West

• The need to grow tourism numbers remains key – DC&S are showing good growth based on recent large events (City of Culture, etc) while Donegal is benefitting from the ‘Wild Atlantic Way’ but both remain destinations that can be further developed.

• A critical factor in achieving this success is to continue to grow the proportion of foreign visitors to the island of Ireland travelling north and west – in particular from Mainland Europe.

• Therefore ease of movement across the border is an important outcome from Brexit negotiations to help achieve the Council’s tourism ambitions.
Cross-border shopping – some thoughts

Considerations for the North West

• The fluctuations are nothing new – related to taxes, exchange rates and competitiveness within the retail sector (less of an issue now) and may well be affected by increasing inflation in NI – not as bad as 2008 but the rise a sharp one.

• These flows are a zero-sum game for the North West as a whole and need to be treated in this way by the Councils in the region – from past experience almost 60% of cross-border shoppers came from within a 30 mile distance of the border.

• Can a regional shopping destination as a whole be considered? Linked to tourism and craft/artisan trails?
Migration – some stats

Region receives less than 5% of new migrant population but crucial to some sectors

Region of origin of National Insurance Applications to Derry City & Strabane

<table>
<thead>
<tr>
<th>Region of origin</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>77%</td>
</tr>
<tr>
<td>Non-EU</td>
<td>1%</td>
</tr>
<tr>
<td>Asia</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: DWP / ONS

 Shares of foreign nationals by employment: RoI

0% 10% 20% 30%

Other
Administrative
Manufacturing
Agriculture
Accomodation
Wholesale & retail
Other services
Transport
ICT
Utilities
Arts and recreation
Education
Health
Construction
Public admin
Mining
Professional services

Financial, insurance and real estate activities

Agriculture, forestry and fishing (A)

Share of foreign nationals by employment:

Source: Labour Force Survey, UUEPC

Note: 'Other' is households as employers and extraterritorial employers
Migration – cross-border commuting

DC&S and Donegal the only part of the island where cross-border commuting is predominantly South/North

29% of the total of 14,800 moving across the Derry/Donegal border

Source: All-Island Research Observatory using Census 2011 data
Migration – some thoughts

Considerations for the North West

- **Attracting people from outside** the North West to live, work, invest and study there must be a key strategic aim for the region, whether for its local HE institutions, its FDI businesses or for its future start-up businesses.

- Policies to **support skills-based migration and cross-border commuting** will continued to be essential for some sectors (eg; Health, education, etc)

- The North West must agree on what type of border and migration policies will not only suit its current needs but also its future goals
Possible outcomes
How do the baseline forecasts look?

Donegal, baseline employment, 2002 - 2030

Derry & Strabane DC, baseline employment, 2002 - 2030

Source: UUEPC/ D&SDC inputs

Note: Forecasts are provisional
UUEPC forecasts are at the modest end – could it be worse?

Donegal, baseline vs lower, 2002 - 2030

Derry & Strabane, baseline vs lower, 2002 - 2030

Source: UUEPC
Note: Forecasts are provisional
Short term impacts – scaling the effects

Donegal net loss

Retail in Donegal (8,100 jobs)
-15% 1,300 jobs

Hospitality in Donegal (5,400 jobs)
-15% 800 jobs

Multiplier 1.5
6,800 jobs

Multiplier 1.5
4,600 jobs

Multiplier 1.5
6,100 jobs

-2,000

4,200 jobs

-1,200

D&SDC net gain

Retail in D&SDC (10,700 jobs)
+15% 1,600 jobs

Hospitality in D&SDC (3,900 jobs)
+15% 600 jobs

Multiplier 1.5
2,400 jobs

Multiplier 1.5
4,800 jobs

Multiplier 1.5
13,100 jobs

Multiplier 1.5
4,500 jobs

Multiplier 1.5
12,300 jobs

1,500

700 jobs

1,300 jobs

800 jobs

1,600 jobs

300 jobs

900 jobs
What of the upside?

- The falling currency will help redress the UK’s very poor trade performance and support NI exporters
- Holiday makers and shoppers will be drawn to NI
- Ireland is now the only (major) English speaking in EU investment location
- Twin plants are likely to be required for many investors
- Some trade deals will be better for particular sectors / firms
- Perhaps real incomes will rise due to some constraint on labour (but be wary of more off-shoring)
- Many firms will freshen up their export strategy and seek new markets
- Perhaps EU will look at some much needed reform on key policies (and even debate the thorny issue of migration)
- A range of flexible, but varied and diverse economies, should be able to trade effectively and efficiently surely?
- Technology can perhaps enable a very fluid border and even that would create business for some
All scenario at this point but what of next steps for the North West
Admit that you can’t know what comes next…and that events may dictate

- **Admitting uncertainty**
  - “The truth about the impact of Brexit is that it is uncertain, beyond the ability of any human being to forecast and almost entirely dependent on how the process will be managed. ‘Don’t know’ is the technically correct answer.” (Wolfgang Munchau, 28/11/2016)
  - Is this an occasion when avoiding ‘set in stone’ action plans might be the best option?

- **Dictated by events…?**
  - The next few years will be the classic machine of moving parts – some of these shaped by election results, who is in the EU presidency at any time, and what happens in the global economy.
  - The call to be ‘close to the negotiations’ needs to be taken seriously but the question for Councils and other stakeholders in the North West will be how…
Plan…Monitor…Seek Opportunities

- **Plan**
  - Two Councils and other stakeholders should avoid the temptation to (re)act in haste. Without good information, poor decisions could result.
  - The focus should be on jointly understanding the specific detailed issues that may affect locally based businesses (especially exporters or those dependent on foreign skilled labour). And to understand how these issues will differ across sectors (eg: agri-food, fisheries, etc).
  - To understand the Councils will need to continue consulting – in particular with central governments but not ignoring the local base

- **Monitor and communicate**
  - Close attention to the UK’s exit negotiations (and the EU response) will be critical in shaping Council’s future strategies.
  - Need to communicate coordinated ‘Brexit updates’ to stakeholders
Plan…Monitor…Seek Opportunities

- **Seek Opportunity**
  - Can the border become a bridge to EU funding opportunities for the two Council areas – is there an opportunity for a continuing EU Support Programme backed by the Irish and NI governments?
  
  - Again can the border be a bridge to FDI opportunities based within the North West with market access to the EU and drawing on a commuting labour pool?
Hard to determine impact

• With the divorce agreed but the terms of settlement not yet discussed never mind agreed it is hard to make precise predictions
• Many of the complex interactions are impossible to estimates and at this point everything must be considered possible scenarios
• Early estimates suggest a range of possible impacts with worst case estimates suggesting c8,000 jobs lost
• But – we must never forget that the current economic outcomes for many people has not left them pleased with their lot – whether in the EU or not. Growth is hard fought, and not reaching everyone. Complaints about the EU (just as complaints against local government) have legitimacy and it would be unwise to dismiss them out of hand
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