

Brexit vs. Future Productivity:

Which Matters More for the UK?

At the time of writing, the range of possible Brexit outcomes and the effect on the European economy is still wide – use scenarios to gauge impacts.

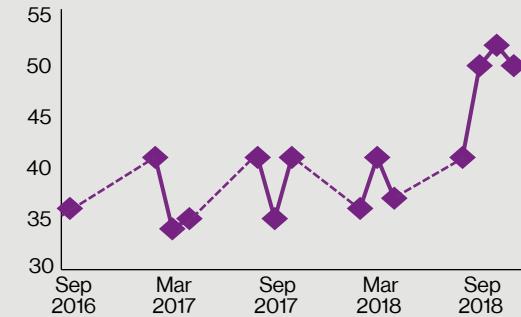
Figure 1. The range of Brexit outcomes

	Probability from betting markets
Continued uncertainty: The UK does not leave the EU by 29 March 2019	81%
Another UK-EU referendum	31%
A 2019 referendum and the UK votes to remain	25%
The UK to leave the EU with No Brexit Deal	25%

Source: Odds Checker, as of 24/1/19

Businesses in the UK also report that Brexit is a major and rising source of uncertainty; we agree – we don't know what Brexit outcome will transpire.

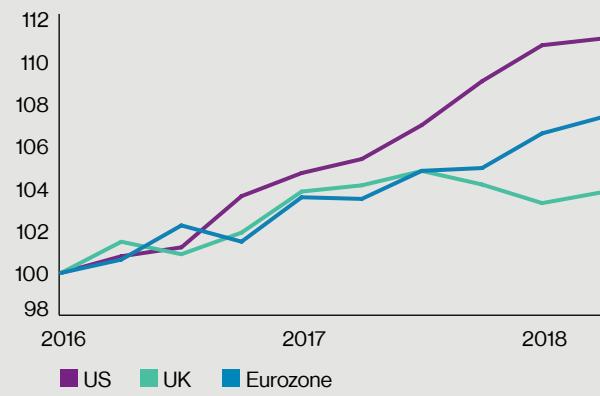
Figure 2. Percentage of UK businesses citing Brexit as a major source of uncertainty



Source: DMP and Bank of England Calculations; Survey responses from around 3,000 businesses – the percentage of CEOs and CFOs that cited Brexit as at least one of the top three current sources of uncertainty

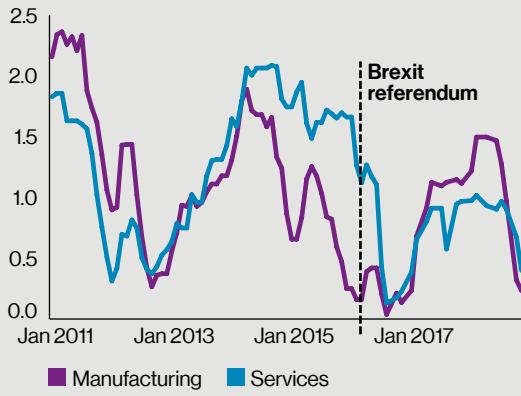
Uncertainty over the UK's future global trading relationships has caused businesses to delay their investment spending...

Figure 3. Real Business Fixed Investment



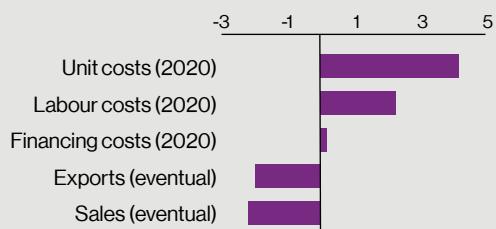
and surveys of UK businesses suggest weaker corporate spending will continue, putting pressure on employment and incomes.

Figure 4. UK Business Investment Intentions



UK businesses expect the effects of Brexit to increase costs over 2019/20 and to lower sales by 2.5% on average in the long-run.

Figure 5. Businesses' expectations for changes in costs, exports and sales



% change, excluding financing costs which is percentage point change
Source: Bloom, Chen, Mizen – Decision Making Panel

Brexit-related slowing in future UK productivity, would add to the steep decline in productivity growth that has already occurred in recent years in the US, Eurozone, and especially the UK...

Figure 6. The causes of post-financial crisis low productivity in the UK

The size of the Financial sector (relative to the economy) prior to the financial crisis and its subsequent contraction due to deleveraging

Low wage growth has supported employment growth rather than investment spending

Capital investment is a critical driver of productivity; UK investment has been low, which has contributed to declines in productivity growth in manufacturing and information and communication services sectors

Slow to adopt technology and digitisation

Brexit and future UK productivity

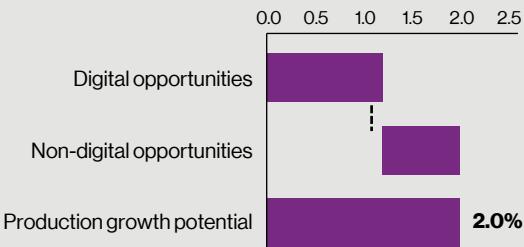
-0.5%

is the estimated long run effect on future UK productivity from the loss of competitiveness resulting from Brexit. Research has shown that the most productive industries in the UK export more to the EU and/or use more imports from the EU in their production processes. These industries expect bigger pressures on future sales, which is likely to flow through into lower UK productivity.

Source: Bloom, Chen, Mizen (2018)

but long-run productivity growth improvements unrelated to Brexit could deliver improvements in UK productivity growth of up to two percentage points, or roughly 4x the likely drag on productivity growth due to Brexit-related uncertainty. Therefore, whilst economically Brexit has a cost, there is potential to offset that through shifts in policy.

Figure 7. Potential for UK productivity growth p.a.



Source: McKinsey Global Institute

Productivity opportunities exist through digital and physical infrastructure investment, access to capital, building workforce skills, and good public policy, although the obstacles are considerable. More time spent on addressing these critical areas could significantly improve outcomes for the UK economy, savers and society.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has over 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.



willistowerswatson.com/social-media

Copyright © 2019 Willis Towers Watson. All rights reserved.
wttv-HP-2019-0142

willistowerswatson.com

Willis Towers Watson