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UK POWERHOUSE

The Brexit Economy

November 2018

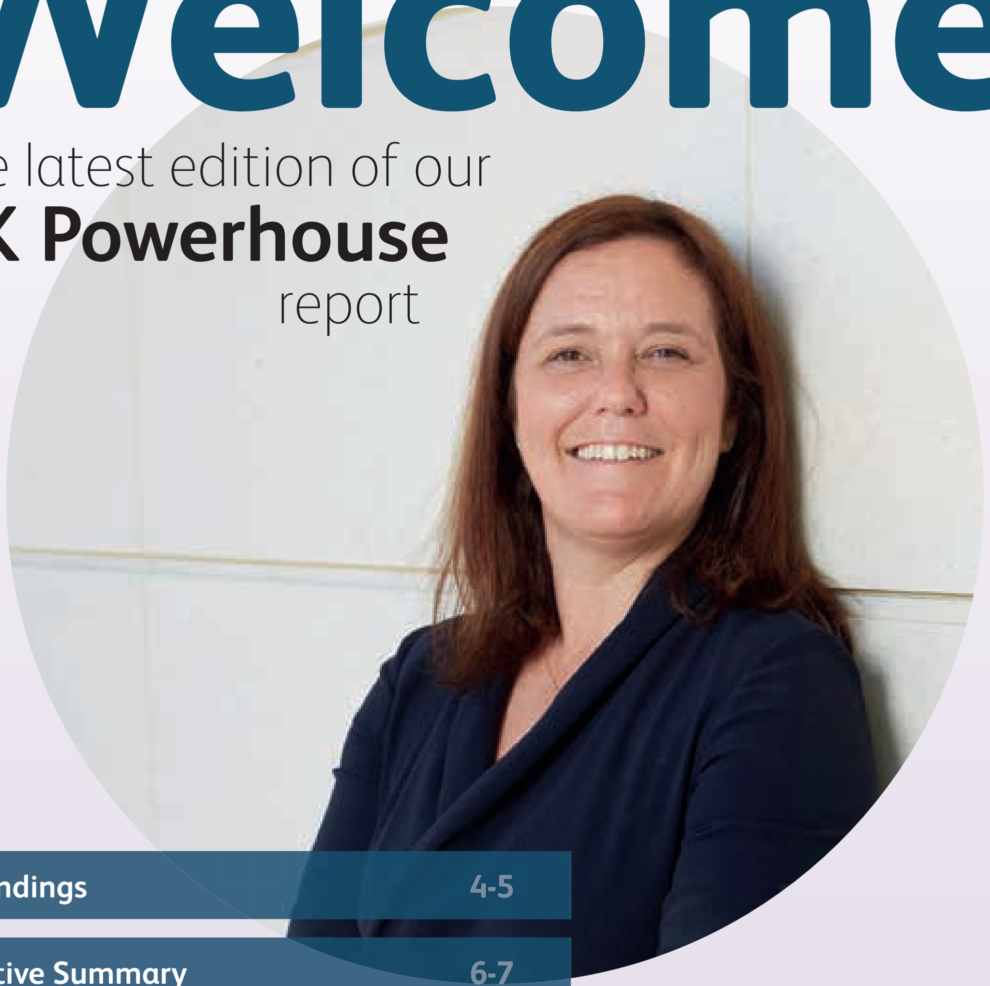
Cebr

Welcome

to the latest edition of our

UK Powerhouse

report



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This latest report is the first of three which look specifically at Brexit.

Once again, we have teamed up with the Centre for Economics and Business Research (Cebr). Over the next six months, we'll provide you with valuable information and insight to help you and your business.

This report shows how our 46 Powerhouse locations performed in Q2 2018. Perhaps more significantly, however, it also predicts how they'll do in the months following our expected exit from the EU. We'll be updating this with a more detailed analysis in January and then again after March 2019 deadline.

There continues to be a great deal of uncertainty in relation to Brexit, and also a lot of negativity about what the impact will be. Time will tell, but one thing the last decade has taught us is that despite the hugely disruptive force of the financial crisis, the UK economy has been incredibly resilient and adaptable.

It's vital that the challenges we now face are tackled head on and that any new opportunities that emerge are taken advantage of. The UK is a global powerhouse, and we need to stay positive and work together to ensure this remains the case.

We will of course maintain a global focus throughout the period when the Brexit plans emerge and begin to be implemented. Irwin Mitchell's commitment to the international markets is demonstrated by our longstanding memberships of the Bridge Group and Avrio Advocati, together with our recent appointment to First Law international (FLI), a global network of over 80 law firms giving us access to over 14,000 lawyers worldwide.

As lawyers who want to help your business grow and succeed, wherever in the world that you choose to do business, we know we have a responsibility to provide valuable support. In addition to providing insight into wider economic issues, our lawyers are working hard to understand and anticipate the key issues for you, so they can offer practical advice in a timely manner.

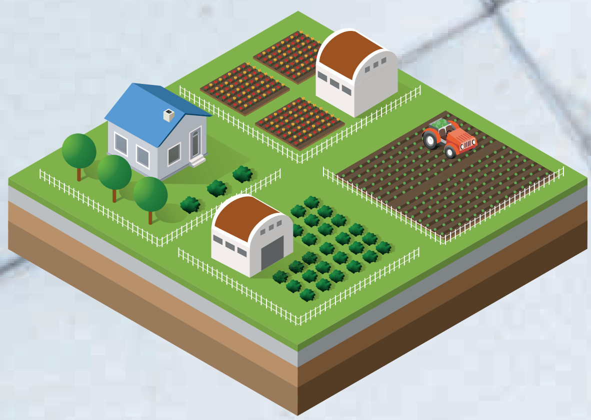
This insight will be incorporated into future reports and will also be available on our website.

I hope you find this report of interest – if you have any comments or would like to discuss, please get in touch.

Key findings

Looking ahead to Q2 2019, when the UK is set to have left the EU under current plans, Cambridge will top the Powerhouse table for GVA growth.

Farming and agribusiness in the UK will lose significant subsidies from the EU's Common Agricultural Policy, with particular impact in the South of England, Northern Ireland and Wales.



Foreign Direct Investment to the UK may be reduced in the short term.

The services sector can adapt to Brexit quickly if it makes use of its global links outside of the EU.

London and other tourist cities could see a rise in visits from tourists in the event of an even more devalued pound.

After Brexit, Manchester and Leeds will provide opportunities for growth in the knowledge-intensive business services sector.

Executive summary

Irwin Mitchell's **Powerhouse Tracker**

Official economic data sources for the UK's cities are often dated, and fail to provide a reliable snapshot of the UK's localised economies – the last set of regional economic accounts corresponds to the economy in 2016. To more accurately estimate current economic activity, Cebr has utilised a range of more timely indicators to create a 'nowcast' of GVA and employment for a range of key cities across the UK. The latest outputs of this give us a picture of how the regional economies of the UK performed in Q2 2018. In this City Tracker report, we also give a city forecast to Q2 2019 and provide commentary on Brexit.

Key Facts

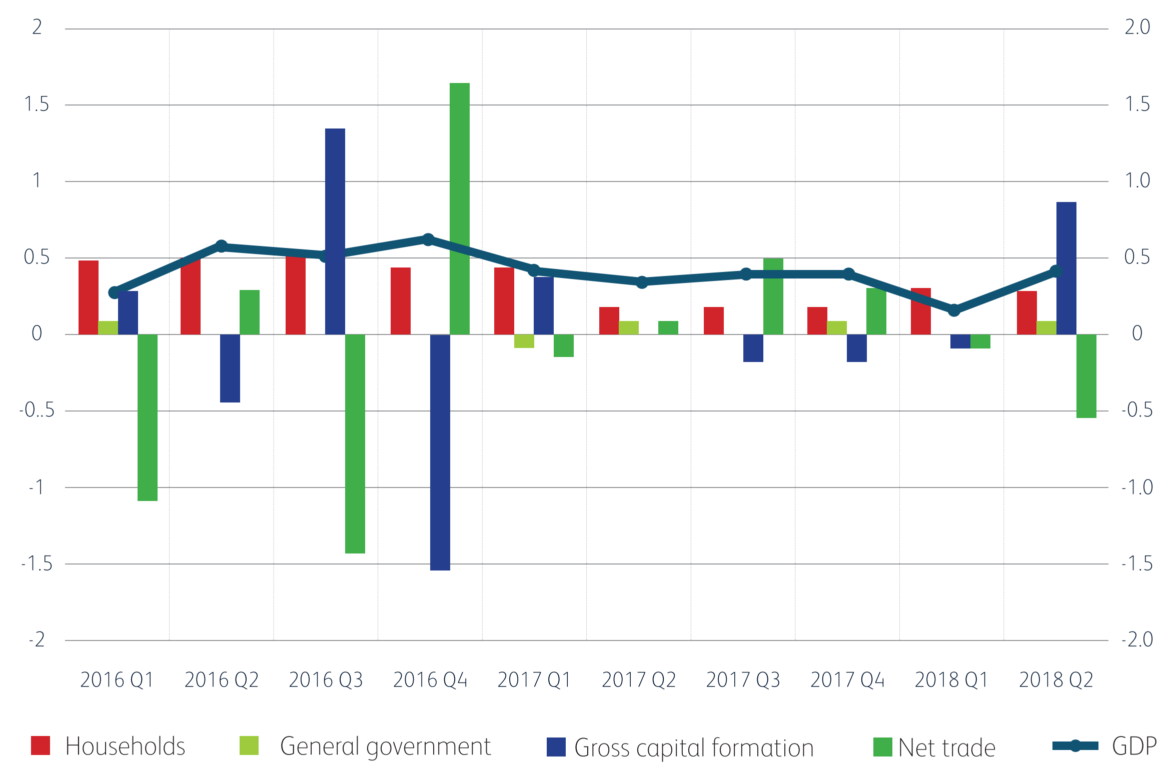
- UK GDP growth stood at 1.2 % year-on-year in Q2 2018
- The unemployment rate was 4.0 % on average across the country in Q2
- Reading, Milton Keynes and Cambridge saw the fastest GVA growth rates in Q2 2018
- Meanwhile, Leeds, Oxford and Manchester had the highest employment growth rates
- Looking ahead to Q2 2019, when the UK is set to have left the EU under current plans, Cambridge will top the Powerhouse table for GVA growth.

UK economy:
GDP growth picks up again in Q2

The UK economy grew by 0.4 % between Q1 and Q2 2018, and by 1.2 % in the year to Q2 2018. In particular the services sector drove growth, contributing 0.4 percentage points to quarter-on-quarter growth, with retail sales contributing to the boost. Retail sales performed well in Q2 due to the World Cup and better than expected weather.

Looking at the expenditure approach to GDP, there was a particular contribution from gross capital formation (GCF), which includes spending on machinery and equipment, transport equipment, software and new dwellings. GCF provided 0.8 % to quarter-on-quarter GDP growth. However, it was offset by negative contributions from government expenditure and net trade.

Figure 1 - GDP percentage growth (right-hand side); UK expenditure components percentage contribution to GDP growth (left-hand side), quarter-on-quarter



Source: Office for National Statistics, Cebr analysis

The labour market continued to tighten in Q2, with 4.0 % unemployment and the number of people in employment increasing by 42,000 in Q2 compared to the previous quarter. This increase was insufficient to materially impact the employment rate though, which stood at 75.6 % – unchanged from Q1.

UK Cities in Q2 2018

Powerhouse Table

GVA

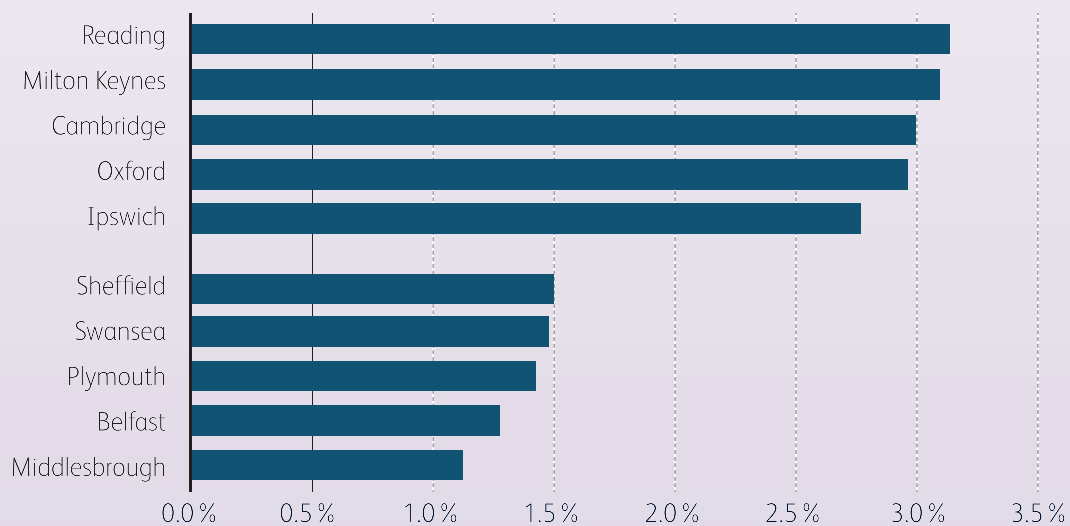
League table ranking		GVA Q2 2018, £millions (Annualised, constant 2013 prices)	Growth (YoY)
1	**Reading**	**6,900**	**3.2%**
2	**Milton Keynes**	**11,700**	**3.1%**
3	**Cambridge**	**8,900**	**3.0%**
4	**Oxford**	**8,400**	**3.0%**
5	**Ipswich**	**4,500**	**2.8%**
6	**Outer London**	**124,300**	**2.7%**
7	**London**	**377,500**	**2.7%**
8	**Inner London**	**253,200**	**2.7%**
9	**Norwich**	**2,700**	**2.6%**
10	**Southampton**	**5,800**	**2.6%**
11	Peterborough	5,300	2.4%
12	Brighton	7,100	2.4%
13	Portsmouth	5,400	2.3%
14	Stockport	5,700	2.3%
15	Manchester	17,000	2.3%
16	Bournemouth	4,600	2.3%
17	Rotherham	4,300	2.3%
18	York	4,700	2.2%
19	Doncaster	4,900	2.2%
20	Bristol	13,400	2.2%
21	Swindon	6,600	2.2%
22	Wakefield	6,700	2.1%
23	Leeds	21,200	2.1%
24	Exeter	3,900	2.1%
25	Nottingham	8,600	2.1%
26	Glasgow	19,600	2.1%
27	Greater Manchester	59,400	2.1%
28	Edinburgh	18,400	2.1%
29	Birmingham	24,800	2.1%
30	Newcastle	9,200	2.0%
31	Aberdeen	11,000	2.0%
32	Stoke-on-Trent	5,000	1.9%
33	Liverpool	10,500	1.9%
34	Sunderland	5,500	1.8%
35	Coventry	7,900	1.8%
36	Hull	5,300	1.8%
37	Derby	6,700	1.7%
38	Cardiff	9,700	1.6%
39	Leicester	7,200	1.6%
40	Wolverhampton	4,400	1.6%
41	Bradford	9,400	1.5%
42	Sheffield	11,200	1.5%
43	Swansea	4,400	1.5%
44	Plymouth	5,000	1.3%
45	Belfast	9,900	1.3%
46	Middlesbrough	3,200	1.2%

On average, across the Powerhouse cities, GVA annual growth was 2.1 % in Q2 2018, with the top city – Reading – far exceeding that, with a 3.2 % rise in GVA over the year. Milton Keynes and Cambridge joined Reading in the top three cities for GVA growth in Q2. Oxford and Ipswich follow in fourth and fifth place respectively.

Reading is also forecast to see the second fastest growth in Q2 2019. The city benefits from a rapidly expanding tech sector. Support networks such as ConnectTVT, which was launched to promote Reading as a cluster for business, also help attract tech companies to the city. In 2017, there were 58,000 jobs in tech in Reading. Looking forward, the city is set to benefit from Crossrail when it opens in the autumn of next year, which will link Reading to central London.

Stockport is the fastest expanding economy out of the Powerhouse cities in the North West, with GVA growing by 2.3 % in the year to Q2 2018. The city is also expected to grow by 1.3 % in the year to Q2 2019. Recent infrastructure developments have helped sustain growth in the city centre. In Yorkshire and the Humber, Rotherham is the fastest growing city, with growth of 2.3 % in the year to Q2 2018. Economic growth in Rotherham has been stimulated recently by a new university campus worth £10.5 million, which opened in September 2018, for degrees accredited by Hull University and Sheffield Hallam University. Although the opening occurred in Q3, the construction of the site has been stimulating the local construction industry for the past few quarters.

Figure 2 - Top and bottom five cities by annual GVA growth, Q2 2018



Source: Office for National Statistics, Cebr analysis

Bournemouth was the fastest growing Powerhouse city in the South West. The city boasts a large service sector, being the home to JP Morgan's back offices which employ 4,000 people. In addition, hot weather in May and June will have driven consumer spending in the seaside town, as more families holidayed in the UK. Furthermore, if Brexit causes the pound to depreciate after the UK leaves the EU, Bournemouth may benefit further from British people staying within the country for their holidays.

Nottingham is the fastest expanding city in the Midlands, with 2.1 % GVA growth in the year to Q2 2018. Nottingham is home to two large universities with more than 48,000 students between them, who contribute a significant amount to the local economy. Nottingham also benefits from growth across the rest of the Midlands.

Middlesbrough and Belfast performed poorly in in Q2 2018 when compared to the other locations covered in the report, with 1.2 % and 1.3 % respective GVA growth rates. The employment rate in Middlesbrough is one of the lowest for cities in the UK at 69 % in 2017, which will be limiting economic growth. In addition, the share of the population with a post A-level equivalent qualification is low, at only 31.7 %, which means the supply of skilled workers in the city is limited. Middlesbrough could be negatively affected in the coming year if trade with the EU is dampened by Brexit. 17 % of the city's GVA output comes from manufacturing and production, which are key exports. Looking ahead to Q2 2019, growth is expected to fall by 0.7 % to stand at 0.5 %.

Belfast GVA growth in Q2 2019 is forecast to stand at 0.4 %. The Northern Irish economy could be hit by Brexit, with the current political issue of how the Irish border will be dealt with causing turbulence in the region.

UK Cities in Q2 2018
Powerhouse Table

Employment

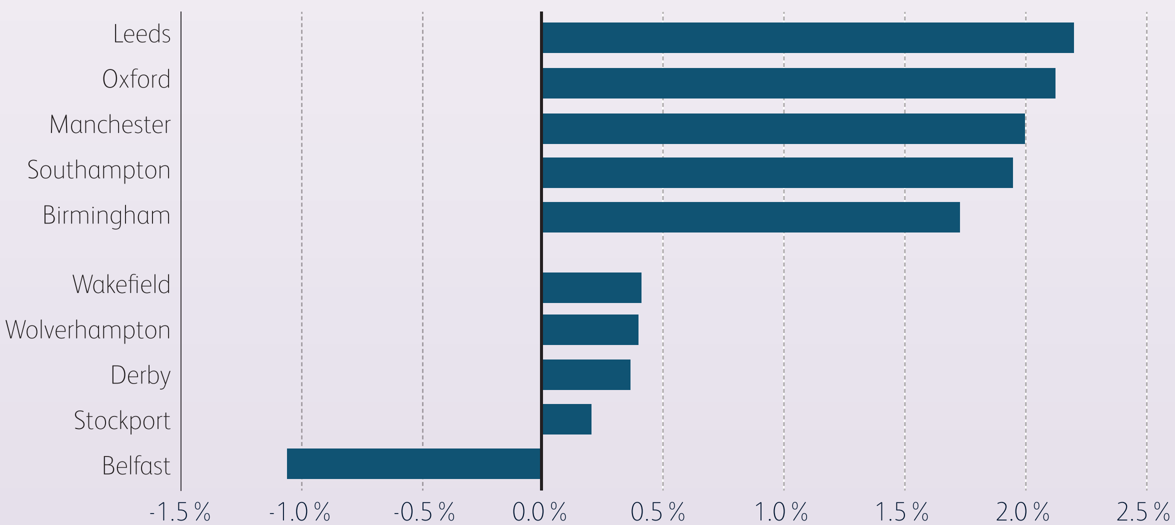
League table ranking		Employment Level, Q2 2018	Annual % Change
1	**Leeds**	**473,600**	**2.3%**
2	**Oxford**	**137,300**	**2.2%**
3	**Manchester**	**473,200**	**2.0%**
4	**Southampton**	**162,400**	**1.9%**
5	**Birmingham**	**581,800**	**1.7%**
6	**Exeter**	**113,800**	**1.7%**
7	**Cambridge**	**136,400**	**1.7%**
8	**Milton Keynes**	**159,000**	**1.7%**
9	**Stoke-on-Trent**	**114,000**	**1.6%**
10	**Outer London**	**1,827,600**	**1.6%**
11	London	5,149,200	1.5%
12	Inner London	3,321,600	1.5%
13	Newcastle	222,700	1.5%
14	Glasgow	438,200	1.4%
15	Sheffield	297,200	1.4%
16	Swindon	121,000	1.4%
17	Greater Manchester	1,308,200	1.4%
18	Liverpool	314,700	1.4%
19	Bournemouth	95,200	1.4%
20	Rotherham	107,000	1.4%
21	Brighton	158,300	1.3%
22	Portsmouth	126,500	1.3%
23	Reading	125,200	1.3%
24	Cardiff	226,000	1.2%
25	Peterborough	114,700	1.1%
26	Middlesbrough	80,100	1.1%
27	Bradford	224,200	1.1%
28	Hull	150,600	1.1%
29	Swansea	115,900	1.1%
30	Leicester	214,900	1.0%
31	York	111,600	1.0%
32	Plymouth	149,000	0.9%
33	Sunderland	134,700	0.9%
34	Edinburgh	358,200	0.8%
35	Bristol	340,300	0.8%
36	Coventry	189,600	0.8%
37	Aberdeen	181,200	0.8%
38	Nottingham	214,600	0.8%
39	Doncaster	126,900	0.6%
40	Norwich	134,200	0.6%
41	Ipswich	78,900	0.5%
42	Wakefield	145,000	0.4%
43	Wolverhampton	117,100	0.4%
44	Derby	134,700	0.3%
45	Stockport	118,700	0.2%
46	Belfast	133,700	-1.1%

Turning to the Powerhouse tables for employment growth, Leeds is in top position in Q2 2018 and is second in Q2 2019, with 2.3 % growth and 2.0 % growth respectively. The Yorkshire city has a diverse economy, with a large number of jobs in financial and business services, but also a significant number of workers in retail, leisure and the visitor economy, construction, manufacturing, and the creative and digital industries.

Oxford is the top performing city in the South East and is home to a number of large employers, including BMW, the University of Oxford and Oxford University Press. These have all contributed to Oxford seeing the second highest employment growth out of the Powerhouse cities in Q2 2018, of 2.2 %. However, this growth is forecast to fall to 1.6 % by Q2 2019.

Birmingham has seen the fastest employment growth in the Midlands in the year to Q2 2018. The city has been pursuing a policy to reduce youth unemployment recently, which is of particular importance for Birmingham, where approximately 40 % of the city's population is under 30. The city secured funding from the EU for a Youth Employment Initiative in 2016, which has been supporting the rate of employment growth recently. However, support from the EU will end when the UK leaves the EU.

Figure 3 - Five fastest and slowest expanding cities by year-on-year employment growth in Q2 2018



Source: Office for National Statistics, Cebr analysis

Newcastle is another city which performed well in Q2 2018 in comparison to the rest of its region, with faster employment growth in the North Eastern city than in Middlesbrough and Sunderland. The city is set to continue to see robust employment growth in Q2 2019, with 1.3 % growth forecast. A £25m laboratory complex with the potential to create hundreds of jobs will open before the end of this year, which will stimulate part of this expected employment growth.

The Brexit Economy

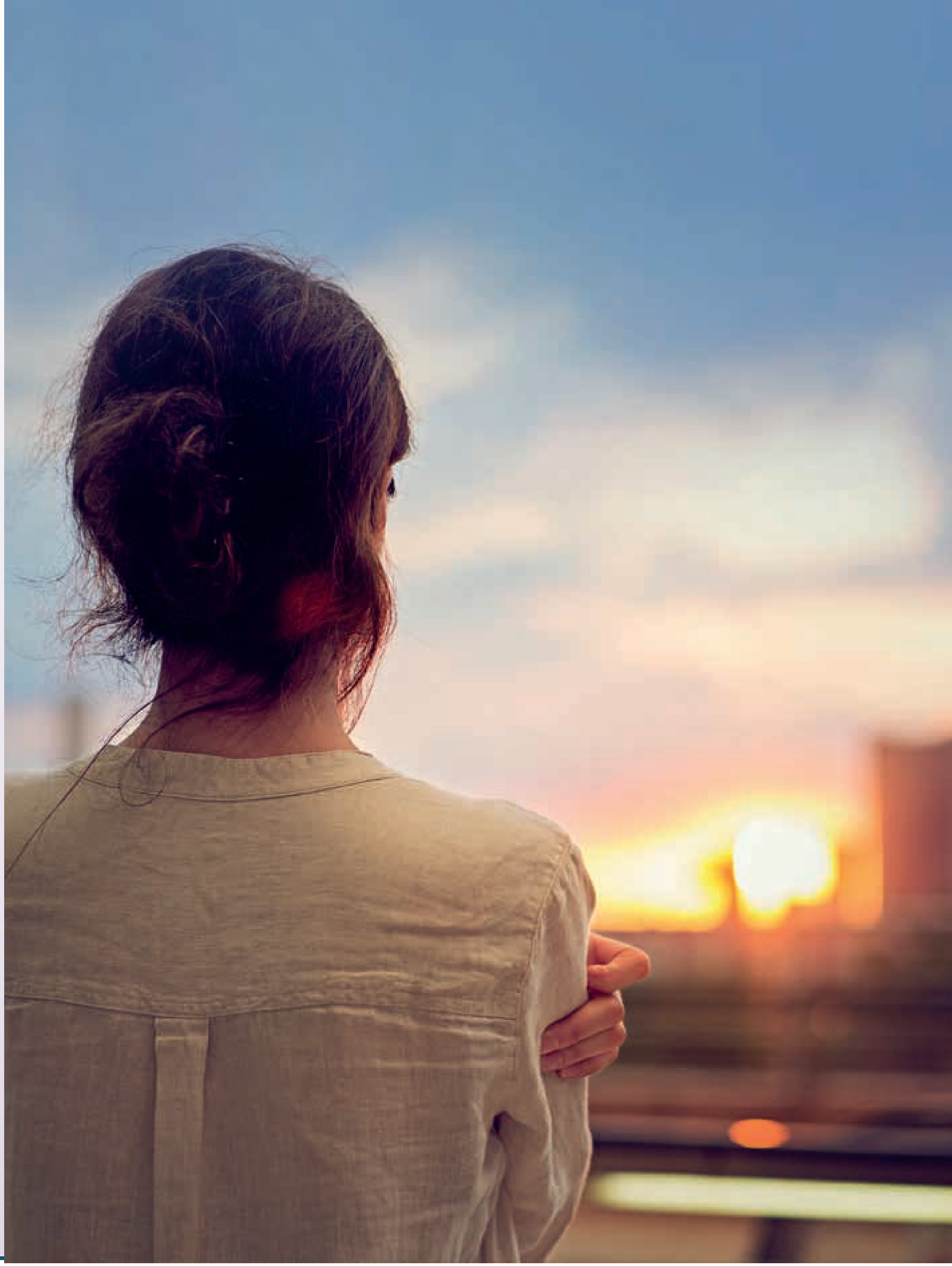
The economic impact of Brexit was widely debated even before the UK officially voted to leave the EU in 2016. While the discussion rages on, there can be little doubt that, at least in the short to medium term, widespread costs will be incurred as the UK moves to a new status quo. Subsequent studies since the leave vote have estimated that over 2.5 million jobs, and an approximate £140 billion of economic activity per year are at risk, highlighting the nature of the ongoing negotiations.

In the last couple of years, the UK's growth has been stifled compared to usual performance. In particular, compared to other developed nations, the UK has not performed as well as it might have expected to without the Leave vote. More recently, though, there has been some good news. The UK has enjoyed record levels of low unemployment, at 4% on average. Although inflation remains slightly above its 2% target, at 2.2%, wages have kept pace in recent months, resulting in positive real wage growth for households and consequently increased disposable income. Though the UK economy appears to be in a good position, some of the positive signs we have seen were driven by good weather in the summer, as well as increased spending during the World Cup. It remains to be seen if this momentum will continue.

Brexit also brings with it some changes that could impact all of these aggregate measures. One of the most talked about is the loss of free, cross-border trade. As part of the EU, the UK only has limited border formalities on its trade, allowing goods to clear customs swiftly at little to no cost to businesses. After Brexit, this will probably no longer be the case.

Although the UK's relationship with the EU after Brexit has not been clearly defined, some form of customs regulation could be implemented on trade. This could range from paperwork and bureaucracy, to physical inspections of goods. These increased costs will most likely discourage trade and prevent investment in the UK. Also, in the event that the exchange rate falls and the pound becomes less competitive against other major currencies, foreign imports will be more expensive after Brexit, all things remaining equal. We already experienced this, after the pound's fall in the aftermath of the Brexit vote. If local output doesn't provide cheaper alternatives to fill the void, or wages don't increase in line with the potential imported inflation, households will be worse off.

Although a number of models have been created in an attempt to measure the effect of various Brexit scenarios, they often fall short of conveying the nuances and varying impacts of Brexit across the UK's diverse regions and the opportunities available to them as they adapt. The composition of trade and production in each region means they can expect to see different economic outcomes after March 2019.



UK Cities in Q2 2019
Powerhouse Table

GVA

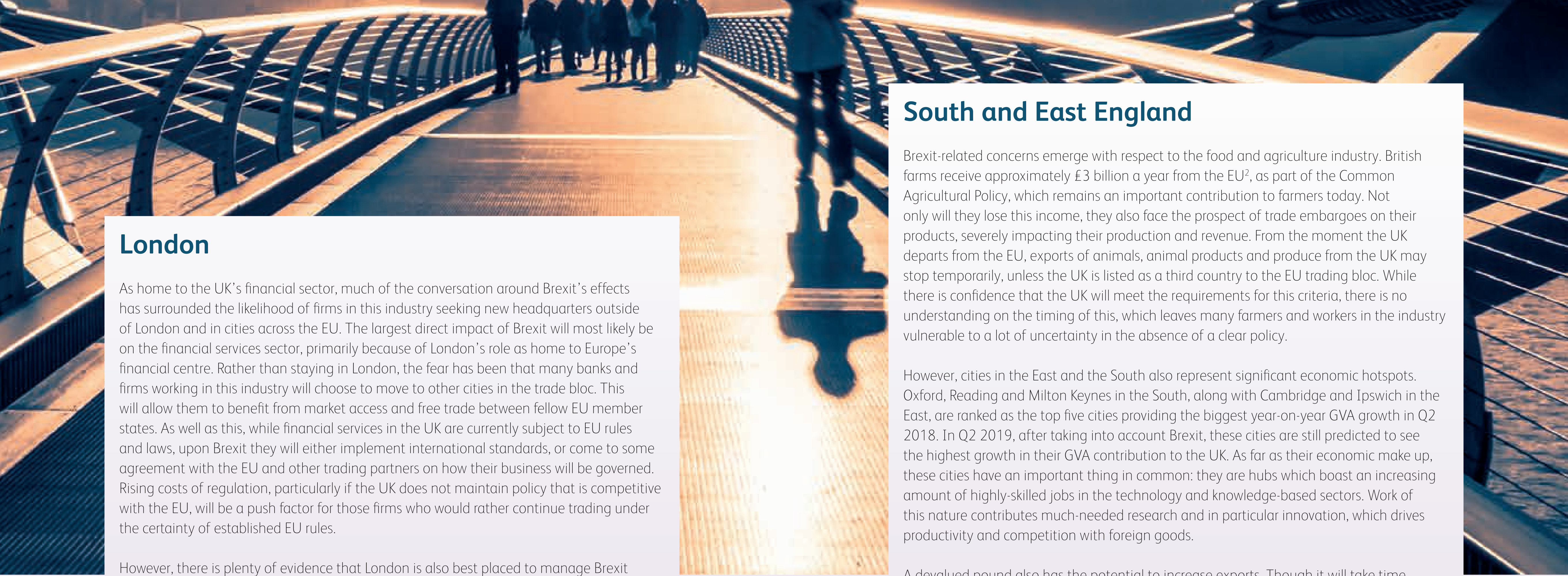
League table ranking		GVA Q2 2019, £millions (Annualised, constant 2013 prices)	Growth (YoY)
1	**Cambridge**	**9,100**	**2.0%**
2	**Reading**	**7,000**	**1.9%**
3	**Milton Keynes**	**11,900**	**1.9%**
4	**Oxford**	**8,600**	**1.8%**
5	**Ipswich**	**4,500**	**1.6%**
6	**Peterborough**	**5,400**	**1.6%**
7	**Exeter**	**3,900**	**1.5%**
8	**Aberdeen**	**11,200**	**1.5%**
9	**Southampton**	**5,900**	**1.5%**
10	**Portsmouth**	**5,500**	**1.5%**
11	Norwich	2,700	1.4%
12	Brighton	7,200	1.4%
13	Stockport	5,800	1.3%
14	Coventry	8,000	1.3%
15	York	4,800	1.2%
16	Wakefield	6,800	1.2%
17	Bournemouth	4,700	1.2%
18	Outer London	125,800	1.2%
19	Swindon	6,700	1.2%
20	London	382,000	1.2%
21	Nottingham	8,700	1.2%
22	Inner London	256,300	1.2%
23	Rotherham	4,300	1.2%
24	Doncaster	5,000	1.2%
25	Sunderland	5,600	1.1%
26	Birmingham	25,000	1.1%
27	Glasgow	19,900	1.1%
28	Manchester	17,100	1.1%
29	Greater Manchester	60,100	1.0%
30	Leicester	7,300	1.0%
31	Bristol	13,500	1.0%
32	Leeds	21,400	1.0%
33	Stoke-on-Trent	5,000	1.0%
34	Hull	5,300	0.9%
35	Edinburgh	18,600	0.9%
36	Newcastle	9,300	0.9%
37	Derby	6,800	0.9%
38	Liverpool	10,600	0.8%
39	Bradford	9,500	0.8%
40	Cardiff	9,800	0.8%
41	Wolverhampton	4,400	0.8%
42	Sheffield	11,300	0.7%
43	Plymouth	5,000	0.6%
44	Swansea	4,400	0.5%
45	Middlesbrough	3,200	0.5%
46	Belfast	10,000	0.4%

UK Cities in Q2 2019

Powerhouse Table

Employment

League table ranking		Employment Level, Q2 2019	Annual % Change
1	**Exeter**	**116,100**	**2.0%**
2	**Leeds**	**482,900**	**2.0%**
3	**Stoke-on-Trent**	**116,000**	**1.7%**
4	**Outer London**	**1,857,900**	**1.7%**
5	**Oxford**	**139,600**	**1.6%**
6	**Birmingham**	**590,900**	**1.6%**
7	**Cambridge**	**138,400**	**1.5%**
8	**Manchester**	**480,100**	**1.5%**
9	**London**	**5,222,700**	**1.4%**
10	**Bournemouth**	**96,500**	**1.4%**
11	Liverpool	319,100	1.4%
12	Southampton	164,700	1.4%
13	Brighton	160,500	1.4%
14	Newcastle	225,700	1.3%
15	Sheffield	301,200	1.3%
16	Inner London	3,364,700	1.3%
17	Glasgow	443,500	1.2%
18	Peterborough	116,100	1.2%
19	Portsmouth	128,000	1.2%
20	Middlesbrough	81,000	1.1%
21	Swindon	122,300	1.1%
22	Rotherham	108,200	1.1%
23	Greater Manchester	1,321,800	1.0%
24	Reading	126,500	1.0%
25	Plymouth	150,400	1.0%
26	Bradford	226,300	0.9%
27	Bristol	343,400	0.9%
28	Cardiff	228,100	0.9%
29	Nottingham	216,500	0.9%
30	Hull	151,800	0.8%
31	Edinburgh	361,200	0.8%
32	Leicester	216,500	0.7%
33	Belfast	134,600	0.7%
34	Coventry	190,900	0.7%
35	Milton Keynes	160,100	0.7%
36	Aberdeen	182,300	0.6%
37	Sunderland	135,400	0.6%
38	Ipswich	79,300	0.5%
39	Derby	135,200	0.4%
40	Norwich	134,700	0.3%
41	Swansea	116,100	0.2%
42	Doncaster	127,000	0.1%
43	Wolverhampton	117,200	0.1%
44	Stockport	118,700	0.0%
45	Wakefield	144,800	-0.2%
46	York	111,000	-0.5%



London

As home to the UK's financial sector, much of the conversation around Brexit's effects has surrounded the likelihood of firms in this industry seeking new headquarters outside of London and in cities across the EU. The largest direct impact of Brexit will most likely be on the financial services sector, primarily because of London's role as home to Europe's financial centre. Rather than staying in London, the fear has been that many banks and firms working in this industry will choose to move to other cities in the trade bloc. This will allow them to benefit from market access and free trade between fellow EU member states. As well as this, while financial services in the UK are currently subject to EU rules and laws, upon Brexit they will either implement international standards, or come to some agreement with the EU and other trading partners on how their business will be governed. Rising costs of regulation, particularly if the UK does not maintain policy that is competitive with the EU, will be a push factor for those firms who would rather continue trading under the certainty of established EU rules.

However, there is plenty of evidence that London is also best placed to manage Brexit and adapt to the expected changes that will arise. In Q2 2019, London's GVA is expected to stand at £382 billion. No other city comes close to this figure, and it is likely that even following Brexit, London will remain the UK's most productive and economically prosperous area for a number of reasons. Firstly, unlike many other parts of the UK, the financial services sector based in the capital city is extremely world-focussed, benefitting from significant interaction with the global economy outside of the EU. The breadth and depth of this sector's businesses means it has customers across the globe who will still be attracted to the city and the long-standing services it offers. These established trade links may be a consideration that prevents businesses relocating their headquarters to other parts of Europe. Not only this, but in the face of a devalued pound, London will become an even more attractive destination for tourists. With 19.1 million[1] visits to the city last year according to ONS figures, future tourism growth will continue to encourage employment in the services sector in Q2 2019. A weaker currency also means that towns and cities could potentially see a rise in domestic tourism, as households find it more expensive to travel abroad.

[1] Travel Trends: 2016. https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/articles/traveltrends/2016

South and East England

Brexit-related concerns emerge with respect to the food and agriculture industry. British farms receive approximately £3 billion a year from the EU[2], as part of the Common Agricultural Policy, which remains an important contribution to farmers today. Not only will they lose this income, they also face the prospect of trade embargoes on their products, severely impacting their production and revenue. From the moment the UK departs from the EU, exports of animals, animal products and produce from the UK may stop temporarily, unless the UK is listed as a third country to the EU trading bloc. While there is confidence that the UK will meet the requirements for this criteria, there is no understanding on the timing of this, which leaves many farmers and workers in the industry vulnerable to a lot of uncertainty in the absence of a clear policy.

However, cities in the East and the South also represent significant economic hotspots. Oxford, Reading and Milton Keynes in the South, along with Cambridge and Ipswich in the East, are ranked as the top five cities providing the biggest year-on-year GVA growth in Q2 2018. In Q2 2019, after taking into account Brexit, these cities are still predicted to see the highest growth in their GVA contribution to the UK. As far as their economic make up, these cities have an important thing in common: they are hubs which boast an increasing amount of highly-skilled jobs in the technology and knowledge-based sectors. Work of this nature contributes much-needed research and in particular innovation, which drives productivity and competition with foreign goods.

A devalued pound also has the potential to increase exports. Though it will take time for businesses to respond, sectors such as technology would be far more competitive on foreign markets. Seaside towns such as Bournemouth, on the southern coast of England, could also face an increasing number of domestic visitors in summer months, as they turn their attention away from more expensive trips abroad to domestic locations during the holiday season.

The East-West rail link, and other similar projects, also offer great opportunity for the UK as it links cities and towns within the southern regions. Oxford, Cambridge, Milton Keynes and Ipswich stand to benefit directly from this new railway, connecting two of the UK's most prominent university cities by train for the first time in 50 years. Reading, as part of the Crossrail project, will see yet more connections with the capital and Heathrow, the UK's biggest airport. These connections make it far easier for labour across the southern region to travel with ease for employment and business reasons, particularly important when free movement of labour from the EU is curtailed.

Because of the diversity in services offered across the South and East regions, there are many examples that give reason for optimism in the area's ability to adapt and respond to the changing nature of trade come March 2019. Though a difficult period could arise in the short-term, the medium to long-term prospects are not all negative.

[2] http://blogs.lse.ac.uk/brexit/2017/05/26/britains-farmers-get-3bn-a-year-from-the-inefficient-cap-that-has-to-change/

The Midlands

The commercial make-up of the Midlands, and the industries that call it home, highlights one of the biggest risks faced by the region. Manufacturing is a big contributor to the region's GVA, and in particular the automotive sector has been identified as one of the industries that will be highly impacted by the UK's departure from the EU. Where the UK has seen a large surge in car manufacturing over the last 10 years, this is expected to be reduced post-Brexit. The Society of Motor Manufacturers & Traders (SMMT)[3] reports that 53.9% of all the cars assembled in the UK in 2017 were exported to the EU. Meanwhile, 65% of all British-built automotive components were sold to the EU. The sector added £20.2 billion to the UK economy in 2017 and accounted for 12.8% of all the UK's exports. For automotive companies, which are big employers across the Midlands in particular, these potential threats to their business will have knock-on effects for the region. This could come as a big blow for cities such as Derby, where 16,000 people are employed at Rolls-Royce. In fact, following job cuts at Rolls-Royce earlier in the year, any potential negative impact on employment arising as a result of Brexit would only add to the woes of one of the slowest expanding cities in Q2 2018.

The demographics of the region present another channel through which Brexit will hit the area, as potential changes raise the risk of pressures on the working population. As free movement of labour is curtailed, London and the South will be able to rely on their pull factors, such as higher wages, to attract more workers from across the UK. Some of them may very well be from the Midlands. The ONS reports that in 2016, the East Midlands had the highest rate of people migrating to its region (31.9 moves per 1,000 population) in the country. This direction of migration could be reversed if southern regions that relied on migrant labour began to employ workers from other regions to make up for a shortfall. The industry in the Midlands, for the most part, is also not widely different to its industrial days, leaving little room for significant expansion, unlike the services sector in the South of England. This potential shift in migration highlights an important demographic risk that has not been discussed much in Brexit debates to date.

[3] SMMT Motor Industry Facts 2018. https://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-Motor-Industry-Facts-June-2018.pdf

Yorkshire, the North East & the North West

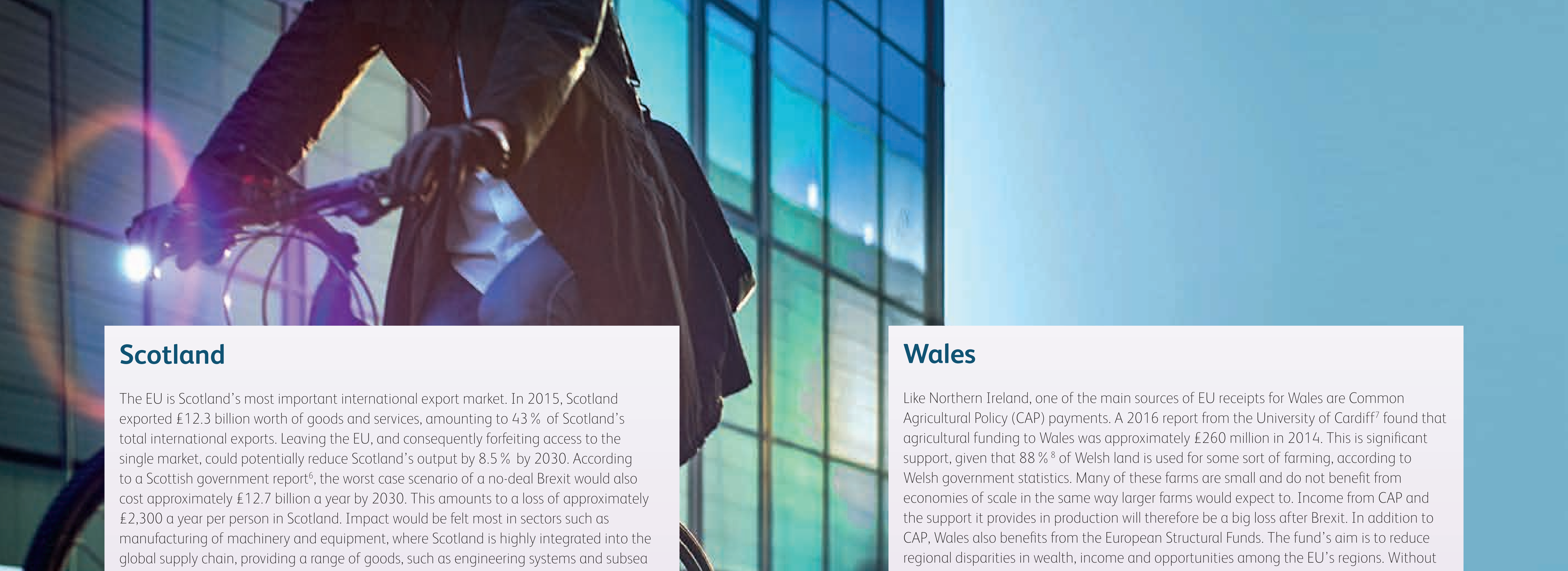
Brexit could also throw the regulation of the chemical and plastics sector into flux, which has a large base in the North East of England. The Process Industries of North East England[4] is an organisation that works with and supports the chemical-using industries in the region. They account for over 1,400 companies involved directly in the supply chain, employing 190,000 people. The sector also exports approximately £12 billion a year, making it one of the UK's most important net exporting regions in the industry. With uncertainty on how the sector will be governed after Brexit, businesses will be nervous in committing to additional developments. Although the government aims to keep the current legislation in place, no exact details have been provided, causing concern that the UK will not always be in line with future EU decisions. If a divergence in regulation between the UK and EU occurred post-Brexit, it would lead to future disadvantage to the domestic sector due to the lack of synchronisation. Cities such as Newcastle will be highly impacted – one of only six locations in the UK to be given Science City status, it could suffer competitively if regulation in the industry is deemed to be sub-par to the EU.

However, the North West and Yorkshire may be able to rely on some robust cities that will be better placed to adapt to the changing economic landscape following Brexit. Though vulnerable to Brexit, these cities are also more dynamic and boast a more diverse economic base. Manchester in the North West and Leeds in Yorkshire are forecast to have the second and eighth fastest growing employment in Q2 2019. The two cities attract employment in the knowledge-intensive business services sector, acting as hubs for these business services in the area. The region is also beginning to attract more firms in the digital tech sector. Much of this is concentrated in the North West in cities such as Manchester, further contributing to the high employment increase the city expects to see. Liverpool is also recognised as one of the more economically diverse cities in the UK, and boasts an increasingly important factor of growth for the knowledge-intensive sector: graduate retention. This stood at 83.4%[5] in 2017, and provides a source of young workers to the labour force.

While these regions do present some important opportunities for long-term growth, much of this appears to be concentrated in cities that are already well-established. This is in contrast to the regions in southern England, where economic activity has seen expansion into other cities in the area, supported by growing transport links. The UK post-Brexit will therefore want to focus on how investment can be used to encourage increased growth across the country.

[4] NEPIC. https://www.nepic.co.uk/industry/

[5] Raikes L (2017) State of the North 2017: The Millennial Powerhouse, IPPR. http://www.ippr.org/ publications/state-of-the-north-2017



Scotland

The EU is Scotland's most important international export market. In 2015, Scotland exported £12.3 billion worth of goods and services, amounting to 43 % of Scotland's total international exports. Leaving the EU, and consequently forfeiting access to the single market, could potentially reduce Scotland's output by 8.5 % by 2030. According to a Scottish government report[6], the worst case scenario of a no-deal Brexit would also cost approximately £12.7 billion a year by 2030. This amounts to a loss of approximately £2,300 a year per person in Scotland. Impact would be felt most in sectors such as manufacturing of machinery and equipment, where Scotland is highly integrated into the global supply chain, providing a range of goods, such as engineering systems and subsea and drilling equipment.

Brexit also looks set to destabilise the Foreign Direct Investment (FDI) received by Scotland. The country has been a major recipient of FDI since 2002, which has been an important source of jobs. Estimates show that since 2002, the level of FDI into Scotland has supported approximately 43,000 jobs, particularly in research and development. Between 2012 and 2016, Scotland was consistently ranked the most attractive region outside of London for foreign investment in the UK. When Scotland's relationship with the EU changes, investors may become cautious in maintaining their levels of FDI, waiting instead to see how the economy adapts. Potential new investors will also re-evaluate any investment projects, creating the risk that future flows of FDI will move elsewhere.

[6] Scottish Government: Scotland's place in Europe - People, Jobs and Investment (2018). https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2018/01/scotlands-place-europe-people-jobs-investment/documents/00530160-pdf/00530160-pdf/govscot % 3Adocument

Wales

Like Northern Ireland, one of the main sources of EU receipts for Wales are Common Agricultural Policy (CAP) payments. A 2016 report from the University of Cardiff[7] found that agricultural funding to Wales was approximately £260 million in 2014. This is significant support, given that 88 %[8] of Welsh land is used for some sort of farming, according to Welsh government statistics. Many of these farms are small and do not benefit from economies of scale in the same way larger farms would expect to. Income from CAP and the support it provides in production will therefore be a big loss after Brexit. In addition to CAP, Wales also benefits from the European Structural Funds. The fund's aim is to reduce regional disparities in wealth, income and opportunities among the EU's regions. Without this income, Wales will be at a disadvantage in promoting wealth creation across its economy.

There will also be risks for Cardiff after Brexit, but not due to pressures on farming. Unlike the majority of Wales, its main export is financial and professional services. Nearshoring – the relocation activities back to the UK that had previously been sent offshore – has led to increased growth for the city. Outside of Greater London, it was the city with the fifth largest workforce in the sector. But given Cardiff's GVA is predicted to grow just 0.8 % in Q2 2019, it would be one of the slowest growing cities in the UK. A bad Brexit deal would add more downward pressure to the city's economic outlook.

[7] Wales and the EU Referendum: Estimating Wales' Net Contribution to the European Union. http://sites.cardiff.ac.uk/wgc/files/2016/05/Estimating-Wales % E2 % 80 % 99-Net-Contribution-to-the-European-Union.pdf

[8] Welsh agricultural statistics 2016. https://gov.wales/docs/statistics/2018/180130-welsh-agricultural-statistics-2016-ency.pdf

Key Contacts

The overall impacts of Brexit, particularly in the long-term, prove difficult to quantify and measure without clear guidelines and a deal in place. Whatever happens, the UK will ultimately be responsible for managing and securing its own trade deals. Though there are clear opportunities in the medium- to long-term, these will have to be balanced alongside the short-term risks, which will be realised shortly after the UK's official departure.

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A report for Irwin Mitchell

Cebr

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The report does not necessarily reflect the views of Irwin Mitchell.

London, November 2018

Methodological Note
Cebr's forecasts are based on the assumption that the UK and the EU are able to form a compromise and sign a partial free trade agreement (FTA), covering at least the most important goods traded. It is unlikely that such an FTA can be agreed on in time, before the UK needs to leave the EU in 2019. We therefore assume that a transitional arrangement will be put in place that allows a continuation of the current relationship without any major disruptions until an FTA is agreed on around 2021. On the immigration policy, we rely on the lower immigration population estimates assuming that a visa system will be implemented for EU nationals, but that the requirements (e.g. the minimum salary, the NHS surcharge payment, the application fees etc.) would be more relaxed than they currently are for non-EU nationals requiring a visa.

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