GLASGOW
CITY REGION

BREXIT ECONOMIC BRIEFING
3 February 2021

Brexit Economic Note

THE UK GOVERNMENT HAS NOW SECURED A TRADING DEAL WITH THE EU.

There is still a lot of uncertainty on how the UK will trade with the EU in the future, not least on the future rules for services. As 86% of the Region's jobs are in the services sector, this is clearly a key issue which will need monitored closely.

This briefing note reviews emerging analyses on what the Brexit deal could potentially mean for the Scottish and Glasgow City Region (GCR) economies and includes:

- Estimated long-term sectoral impacts
- Potential labour market impacts in GCR
- Brexit implications on COVID-19 recovery plans

The UK-EU Trade Agreement Covers Three Broad Areas

	THE DEAL	IMPLICATIONS
GOODS	• Tariff-free and quota-free trade in goods • New checks at borders • New restrictions on animal food products	• Non-tariff barriers will be a major source of concern • New landscape of paperwork will add additional costs to businesses
SERVICES	• Loss of right to access EU markets and additional restrictions • No automatic recognition of professional qualifications	• Uncertainty on the scale of reduction in access for Services • It will be harder for people with qualifications gained in the UK to sell their services in the EU
NO FREE MOVEMENT	• 'Skilled Worker' Visa- available for jobs that require an A level equivalent qualification and have a minimum salary of £25,600 • 'Shortage occupation list'- less strict rules for those in particular sectors (for example, Health)	• Restriction of workers in particular sectors could result in labour shortages

Scottish Economy: Projected Sectoral Impacts

THE SCOTTISH GOVERNMENT ASSESSED THE LONG-TERM IMPACT OF A FTA BREXIT ON 21 SECTORS OF THE SCOTTISH ECONOMY.

Percentage Decline by Sector

- The Goods sectors (top-left cluster are projected to be the most directly impacted, due to higher costs (for example, paperwork, safety checks). Chemicals and Pharmaceuticals, Mining and Quarrying and Textiles, Woods and Leather manufacturing are estimated to see the largest % declines

Largest Economic Impacts

- Due to their relative size, falls in Wholesale and Retail (12%), Professional Services (8%) and Financial Services (7%) are predicted to have the largest contributions to the fall in Scottish GVA.

EU Migration Impacts

- Scotland will have a larger fall than UK averages in some sectors*, as restrictions on EU migration is anticipated to have a greater impact in Scotland.**

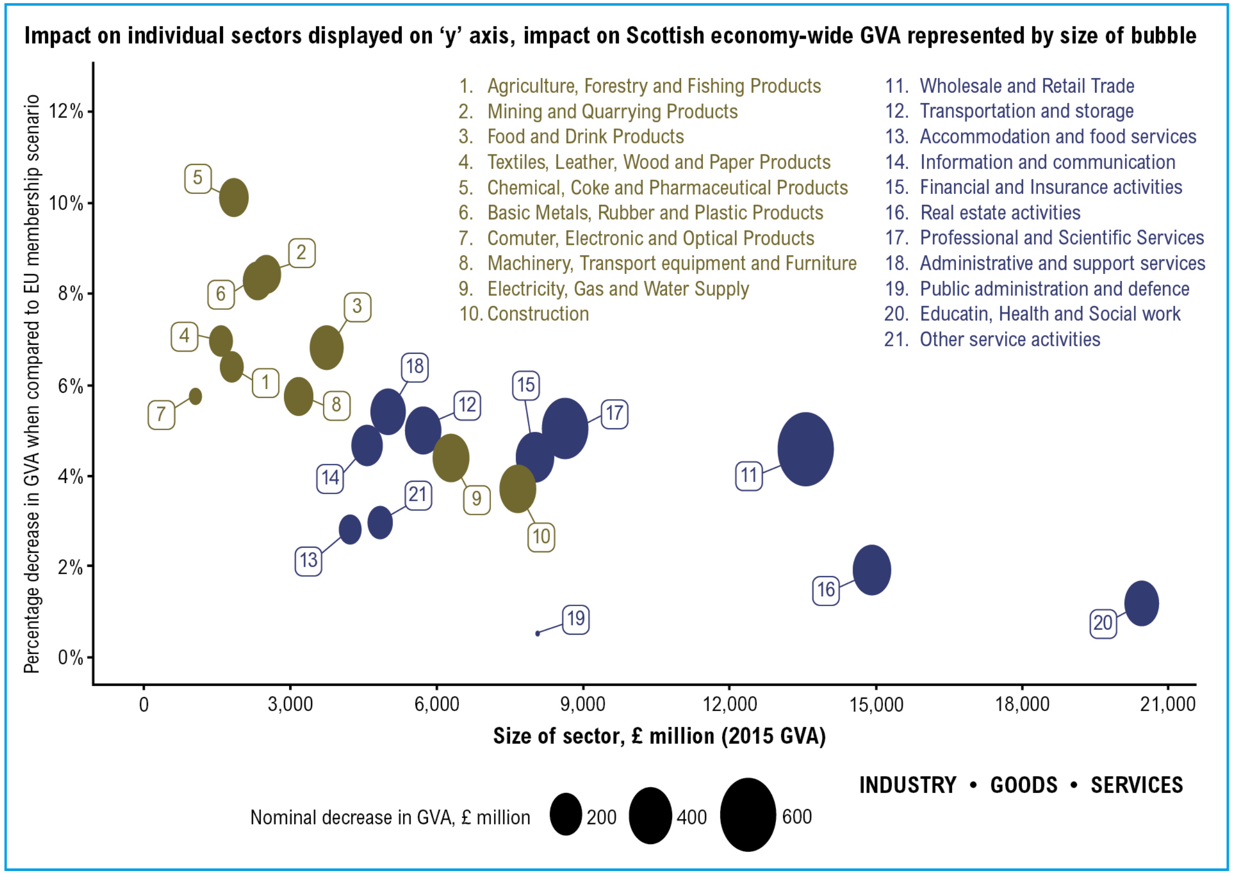

Chart 1: Brexit sectoral impacts

*See Appendix 1

**this expectation comes directly from comparing the ONS high migration population projection (assumed EU freedom of movement scenario) with the ONS principal population projection (assumed restricted EU migration scenario).

Scottish Economy Emerging Business Impacts: Skills Shortages?

THERE WERE APPROXIMATELY 12,000 JOBS (INELIGIBLE) WITHIN GLASGOW CITY REGION HELD BY EU MIGRANTS (AGED 16+) THAT HAD RECENTLY ARRIVED TO THE UK.

INDUSTRY	Share of Employment held by Recently Arrived EU Migrant Workers in Ineligible Jobs (<5 Years), 16+	Estimated Glasgow City Region Ineligible Jobs held by Recently Arrived EU Migrants Aged 16+ (2019)
Manufacture of food products	8.3%	830
Accomodation	6.7%	740
Warehousing and support activities for transportation	6.2%	930
Food and beverage service activities	3.2%	1,440
Office administrative, office support and other business support activities	3.0%	570
Postal and courier activities	2.7%	160
Service to buildings and landscape activities	2.4%	840
Land transport and transport via pipelines	2.1%	290
Retail trade, except of motor vehicles and motorcycles	-	-
Waste collection, treatment and disposal activities, materials recovery	1.2%	50

Table 1: Top 10 industries with the highest share of employment in occupations that are ineligible for skilled worker visas: Glasgow City Region, 2019.

Scottish Economy Emerging Business Impacts: Adaptability

THE CURRENT OUTLOOK

- **Differential impact:** There are mixed views from businesses regarding Brexit readiness and expected economic impact.

"Scottish banking is much more domestically focused than it was before the 2008 financial crisis and the insurance sectors is also seen relatively shielded from Brexit impacts."

- **Primary sectors:** Other industries, like the seafood sector, are struggling to escape the economic repercussions of new paperwork.

THE FUTURE OUTLOOK

- **Business optimism:** Research from Grant Thornton suggests that 32% of Scottish businesses predict that Brexit will have a positive impact on their business activity.
- **COVID-19 impacts:** For the next 6 months business leaders are more concerned about the negative impact of COVID-19 restrictions to trade, with 28% saying further lockdown restrictions would be negative for business, versus 22% for Brexit.


Scotland's financial sector ready for Brexit, says trade body

Industry urged to focus on post-pandemic recovery and climate change

Financial Times, 22 December 2020.

GCR Labour Market Impacts: Skill Shortages

THERE ARE A SIGNIFICANT NUMBER OF NON UK WORKERS IN THE GCR ECONOMY. THE NEW RULES MAY EXACERBATE EXISTING SKILLS SHORTAGES.

CURRENT SKILL CHALLENGES

The scale of the skills challenge: According to SDS's Regional Skills Assessment (RSA) for Glasgow College Region, in 2018;

- 8% of vacancies were unfilled due to skill shortages, higher than the national average of 6%.

This could get worse if there is lack of access to EU migrant labour

IMPACT ON KEY SECTORS

- **Dependence on non-UK workers:** Many successful sectors in Scotland rely upon migrant labour. On an aggregated sectoral basis, the Scottish Government has quantified the proportion of employment that comes from non-UK nationals in Scotland.
- **GCR estimates:** Applying these proportions to Glasgow City Region, estimates that there are approximately 84,850 non-UK nationals employed in the GCR economy.

SECTOR	Percentage of all Scottish employment in sector from non-UK nationals	GCR jobs 2019	Estimated non-UK nationals in GCR jobs 2019
A: Agriculture and fishing	9.0	2,250	203
B,D,E: Energy and water	6.0	15,000	900
C: Manufacturing	7.5	52,000	3,900
F: Construction	5.9	51,000	3,009
G,I: Distribution, hotels and restaurants	12.5	172,000	21,500
H,J: Transport and communication	7.2	69,000	4,968
K-N: Banking, finance and insurance etc	8.9	199,000	17,711
O-Q: Public admin, education and health	7.4	261,000	19,314
of which Health and social care (86,87,88)	8.2	138,000	11,316
R-U: Other services	5.8	35,000	2,030

Table 2: Proportion of non-UK nationals in employment in Scotland applied to GCR

GCR Labour Market Impacts: EU Exports Exposure

ONGOING UNCERTAINTY IS LIKELY TO AFFECT BUSINESS INVESTMENT AND SLOW DOWN RECRUITMENT IN THE SHORT-TERM.

GCRs EU EXPORT CHALLENGES

- **Jobs supported by trade with the EU:** FAI analysis suggests that there are **25,000 job in GCR** supported directly by EU exports - **approximately 68% are jobs in Service industries.**
- This does not mean these jobs will be lost due to Brexit, but highlights the scale of jobs that are supported by demand from the EU.
- **Ongoing uncertainty:** There is still a lot of uncertainty about how the Brexit deal is going to play out in the labour market, but research by Bloom et al (2018) suggests that ongoing uncertainty is likely to be reflected in reduced employment growth and business investment.

JOBS DIRECTLY SUPPORTED BY TRADE WITH THE EU

SECTOR	GLASGOW CITY	GCR	SCOTLAND
Agriculture, Forestry and Fishing	0	0	3,000
Non-manufacturing production	100	200	2,000
Manufacturing	3,000	7,000	26,000
Construction	200	500	1,000
Services	9,000	17,000	48,000
of which Business Services and Finance	4,000	7,000	18,000
TOTAL	**12,000**	**25,000**	**80,000**

Table 3: Industry breakdown of jobs directly supported by trade with the EU (rounded to nearest thousand, unless <1000)-FAI analysis (2018)

Future Prospects - Brexit

DESPITE ONGOING CHALLENGES, BREXIT IS LIKELY TO BRING NEW OPPORTUNITIES TO LOCAL RESIDENTS.

RISK

- **Reduction in employment growth:** There is still a lot of uncertainty around how the future relationship between the UK and EU is going to play out in the labour market. However research suggests that ongoing uncertainty and higher trade costs have a negative impact on employment growth.
- **Business Relocation:** Recent CIPD surveys indicate that 11% of employers (many of them large construction firms and call centres) are considering or have decided to transfer part of their or all other operations outside the UK, as a result of Brexit.

OPPORTUNITIES

- **Skill Shortages:** It is likely that businesses will face challenges in recruitment. Skills shortages present an opportunity to local residents.
- **Fair Work:** CIPD's Labour Market Outlook report suggests that employers will address recruitment difficulties by adopting more inclusive practices and will offer other non-financial benefits such as flexible working.
- **Business Optimism:** Business surveys suggest that businesses remain optimistic about new opportunities with alternative trading partners.

End of Free Movement Implications for Post- COVID-19 Economic Recovery

RESTRICTING IMMIGRATION COULD PUT BRAKES ON RECOVERY.

COVID-19 SECTOR IMPACTS

- PwC anticipates that most sectors will return to growth in 2021, including hard hit sectors like retail and hospitality, plus also the construction sector – partly driven by infrastructure investment.

LABOUR MARKET IMPACTS

- The RF argues that in the medium-to-long term, as the economy recovers and the labour market improves, firms may feel a labour supply pinch. In the short-term, SDSs Labour Market Data shows that December vacancy rates in GCR remained stubbornly high. These vacancies, prevalent in occupations such as Social Care and Administration, remain high despite recent increases in unemployment.

COVID-19 RECOVERY IMPACTS

- Post-COVID-19 recovery in various sectors might prove difficult if employers face skills shortages in the local labour market and can’t fill vacancies with migrant labour.

General

https://www.bbc.co.uk/news/55252388

https://www.insider.co.uk/news/scottish-mid-market-split-impacts-2318237

https://www.ft.com/content/c761bd58-6638-4fa7-8a1f-35e9d29d3279

https://www.gov.scot/news/bad-brexit-deal-for-scotland-1/

https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/02/state-economy-february-2019/documents/brexit-scottish-sectoral-economic-impact-analysis/brexit-scottish-sectoral-economic-impact-analysis/govscot%3Adocument/00546072.pdf

https://www.gov.scot/publications/sectoral-impact-analysis-brexit-readiness-assessment/pages/3/

https://voxeu.org/article/rising-brexit-uncertainty-has-reduced-investment-and-employment

https://www.sbs.strath.ac.uk/economics/fraser/20181002/Brexit_and_the_Glasgow_City_Region.pdf

https://www.icaew.com/technical/economy/economic-insight/business-confidence-monitor-regional/scotland

https://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication/ESSExcel

https://www.cipd.co.uk/news-views/brexit-hub/workforce-trends

http://www.skillsdevelopmentscotland.co.uk/media/47097/rsa-infographic-glasgow-college-region.pdf

https://www.resolutionfoundation.org/publications/home-and-away/

https://ukandeu.ac.uk/the-role-of-migration-in-the-uks-post-covid-recovery/

https://www.bbc.co.uk/news/uk-scotland-55646778

https://www.pwc.co.uk/services/economics/insights/uk-economic-update-covid-19.html

https://www.ippr.org/research/publications/post-brexit-migration

https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-shortage-occupation-list

https://voxeu.org/article/brexit-uncertainty-has-fallen-uk-general-election

https://digitalpublications.parliament.scot/ResearchBriefings/Report/2018/3/20/The-impact-of-Brexit-on-Scotland-s-Growth-Sectors-1

https://www.insider.co.uk/news/scottish-mid-market-split-impacts-23182372

https://www.gov.scot/publications/eu-uk-negotiations-outcome-analysis/#People

https://www.heraldscotland.com/business_hq/18969740.brexit-trade-deal-business-reaction-concerns-remain-border-disruption/

CHARTS AND TABLES

Chart 1: Scottish Government , BREXIT SECTORAL IMPACT ANALYSIS, February 2019

Table 1: Resolution Foundation Report, Home and Away., pp.26

Table 2: Intelligence Hub Analysis

Table 3: Fraser of Allander Institute, Brexit and the Glasgow City Region, October 2018

Scottish Government Modelling Estimates: Sectoral Impacts

SECTOR	SCOTLAND	REST OF UK	GVA IMPACT INDEX
1. Chemical, Coke and Pharmaceutical	-10.1%	-8.4%	1.2
2. Mining and Quarrying	-8.3%	-9.4%	0.9
3. Basic Metals, Rubber and Plastic	-8.3%	-6.3%	1.3
4. Textiles, Leather, Wood and Paper	-6.9%	-6.4%	1.1
5. Food and Drink	-6.8%	-5.8%	1.2
6. Agriculture, Forestry and Fishing	-6.4%	-6.1%	1.1
7. Computer, Electronic and Optical	-5.7%	-4.4%	1.3
8. Machinery, Transport equipment and Furniture	-5.7%	-5.3%	1.1
9. Administrative and support services	-5.4%	-4.5%	1.2
10. Professional and Scientific Services	-5.0%	-3.5%	1.4