

Brexit: Taking stock after a chaotic month

Trade disruption could deliver a sizeable hit to UK manufacturing output this quarter, while lingering uncertainty and potential instability surrounding the future of the UK-EU trade deal will keep a lid on investment during the post-Covid recovery



Cargo trucks are parked up at Dover Ferry Terminal, Kent, UK

Source: Shutterstock

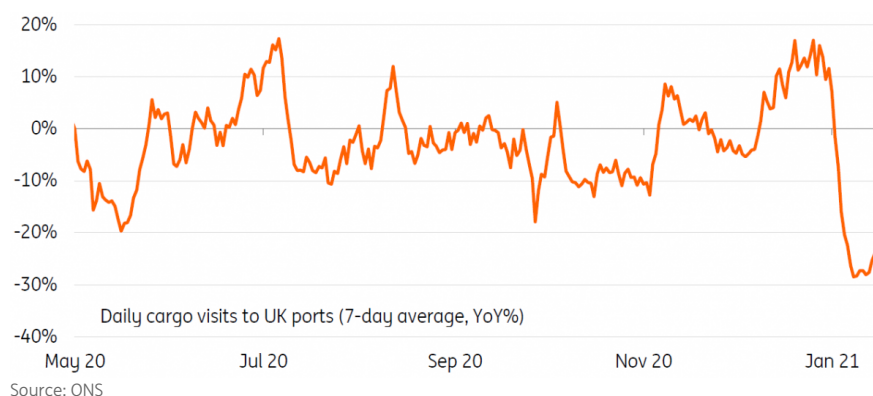
Despite a lack of lorry queues, the disruption has been huge

This article is an abridged version of our more detailed recent update - [Brexit and the impact of new trade ties on the UK outlook](#)

The dust has begun to settle on the new UK-EU trade deal, where initial pre-Christmas relief has quickly given way to widespread reports of disruption. The deal achieved tariff-free trade, but the UK's exit from the single market and customs union has heralded large - and abrupt - changes to the way the UK trades with Europe.

So what's been happening? Well firstly, it's pretty clear that trade between the EU and UK has slowed noticeably since the start of the year. New ONS data shows fewer visits by ships to UK ports, while there have also been fewer lorries crossing the Channel.

Visits by cargo ships are much lower than usual



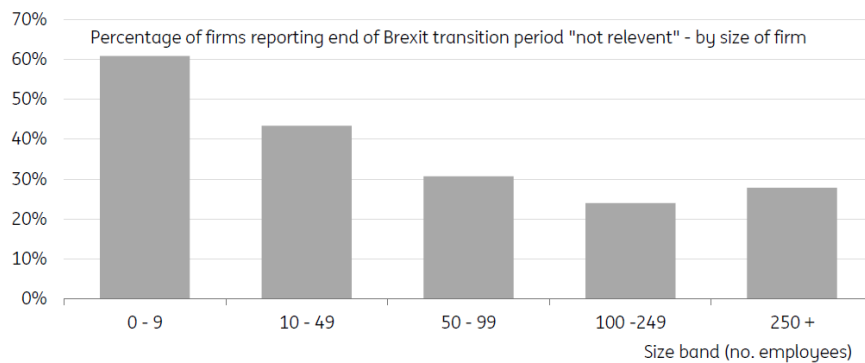
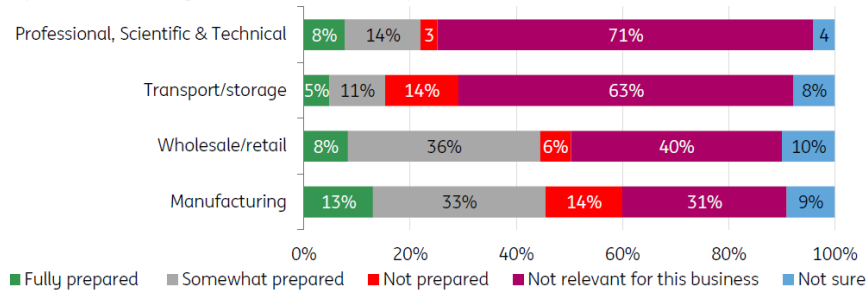
Partly this is because firms stockpiled during 2020, opting to 'wait-and-see' what happens in the first few weeks of January (and therefore traffic will inevitably build again over coming days). But increasingly it is also because many firms are struggling to adapt to the new trade barriers, not least because the pandemic has limited the ability of businesses (particularly small-medium enterprises) to prepare.

While it's true the outlines of the trade deal have been known for months, in many cases staff involved in the preparations will have been furloughed. Smaller businesses also often won't have had access to legal and consultancy resources to help them work through the consequences for their business.

All of this has been amplified by transport issues. Some hauliers have been reluctant to carry multiple firms' loads together in one shipment - particularly for food - given the added challenges it poses for collating paperwork and clearing customs.

How prepared were firms for these new changes?

Overall, how prepared is your business for the end of the EU transition period?
(Proportion of firms, weighted - 14-23 December responses)



Source: ONS Business Impact of Coronavirus survey
Data taken from survey wave 20

Manufacturing production is likely to fall this quarter

In short, the situation is fairly bleak. But working out the magnitude of the impact on the wider economy is less straightforward, not least because Covid-19 continues to dominate the statistics.

One thing that looks inevitable is a fall in manufacturing production in January - perhaps in the region of 3-4%. That's partly because the situation is unlikely to resolve itself quickly - and in fact may become worse in the short-term as border traffic builds up once again. Net trade is also likely to weigh on GDP through this year, assuming imports recover as lockdowns are unwound but exports take much longer to recover.

The longer-term impact: Uncertain and potentially unstable

We think there are three potential long-term implications of the new trading relationship.

- Firstly, given the new costs of customs declarations and transportation are here to stay - some British, Europe-facing firms will ultimately no longer be profitable, and some will be forced to move more parts of their operation overseas. That will inevitably reduce investment in the UK and will add further pressure to unemployment (which already looks set to rise through 2021).
- Secondly, given Covid-19 travel curbs, the impact on services is only likely to become fully visible after the pandemic. This is where the UK's competitive advantage lies, and it is also where arguably life outside the single market is more complex.
- Finally, what will happen to the UK-EU relationship in the long term? Domestic politics will likely make it difficult for a future UK government to push for closer ties. And instead the

bigger question is whether the deal will stand the test of time. In part, this depends on how the UK decides to shape policy surrounding the 'level playing field'. Future divergence on state aid or labour laws could see market access partially rescinded, for example via tariffs.

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