



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Brexit and its effects on EU and UK labor markets

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Aspects of „labor-market effects of Brexit“

- Effects of Brexit might be looked at from **two distinct angles**:
 - Effects on **migration**
 - **Indirect effects via effects on trade and economic growth**
(e.g. labor demand as „derived demand“)
 - Interaction between the two effects

- Article tries to cover both.
- Labor market effects are **rarely dealt with explicitly** (especially indirect effects)
- Some adverse labor market effects are most severe in the **short- to medium run**
(but literature focuses on the long run) → Need to talk about short-run

EU-27 and UK labor markets in comparison

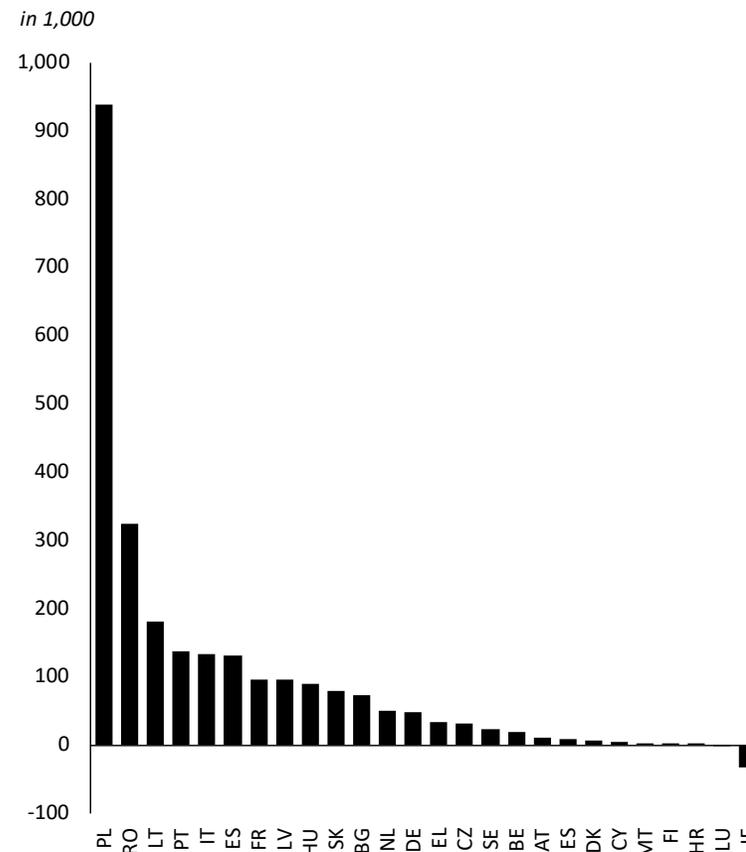
	EU-27	UK
<i>Demographics:</i>		
Total population (in millions)	446.1	66.3
Working-age (15-64 years) population (in millions)	285.6	41.7
Share (percent) of non-nationals (total population)	7.4	9.5
Share of EU-27 nationals in the UK (total population)	-	5.5
Share of UK nationals in the EU-27 (total population)	0.2	-
<i>Labor markets:</i>		
Participation rate (15-64 years)	73.1	77.9
Labor force (in millions)	208.8	32.5
Employment (in millions)	193.3	31.1
Share of foreign workers in labor force	8.3	11.3
Unemployment rate	7.4	4.1
Unemployment rate of foreign workers	12.5	4.6

- A large population and labor market leaves the EU.
- UK has higher labor immigration than EU on average, to a large extent from EU-27.
- UK citizens constitute only small share of population in EU-27 countries.
- UK appears to have integrated foreign labor relatively well.

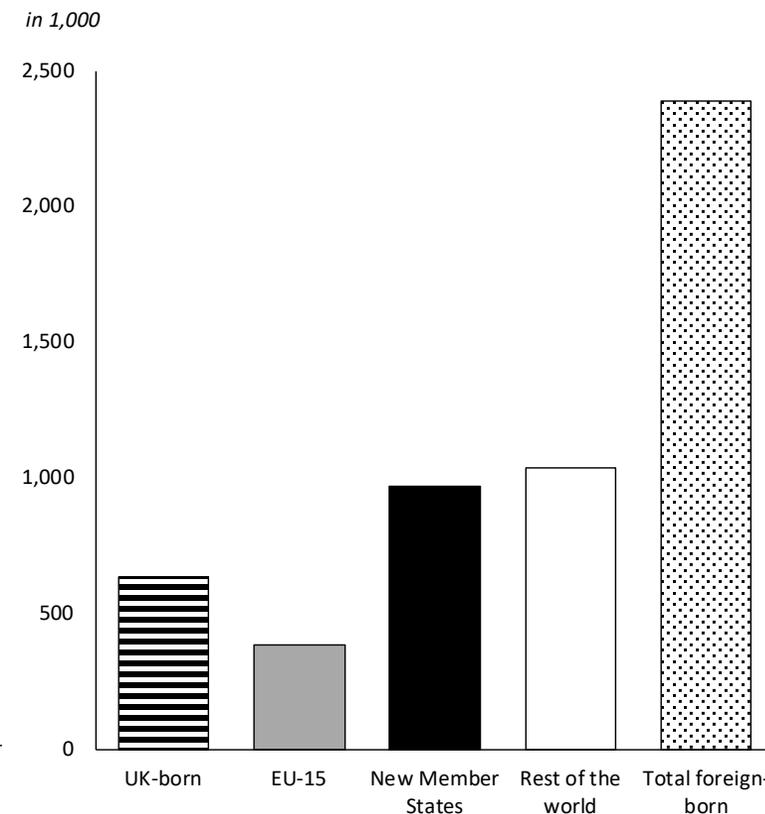
EU-27 migration to the UK

- Immigration from outside Europe to the UK has been important for a long time.
- Large-scale immigration from the EU is a relatively recent phenomenon
- Driven by
 - EU accession of New Member States in 2004 and 2007 (PL, RO, LT).
 - also by euro area crisis (IT, PT, ES)
- High net immigration hides both large gross immigration and gross emigration flows.

Total population growth by nationality 2004 - 2017



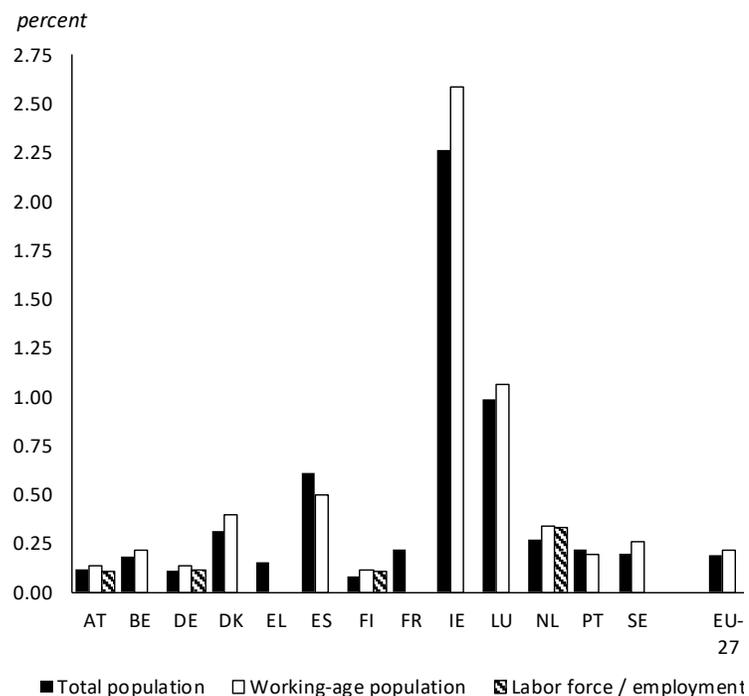
Labor force 2006 - 2018 growth by categories (by country of birth)



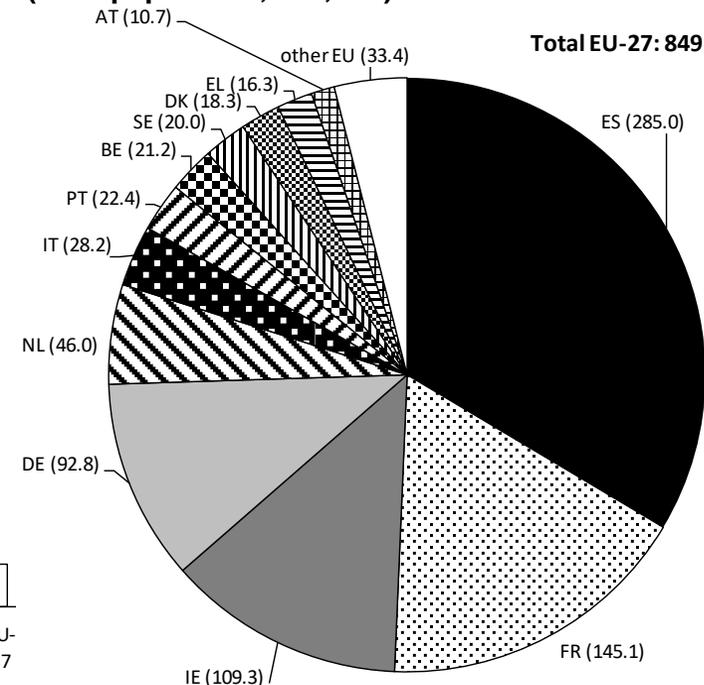
UK migration to the EU-27

- In **relative terms**, UK migration to EU-27 countries rather small (exception IE).
- In **absolute terms**, relatively large UK populations in ES, FR, IE and DE.
- **Less dynamic** than migration in opposite direction.

Share of UK citizens in EU-27 countries in the population or the labor force (2018)



Absolute numbers of UK citizens 2018 (total population; in 1,000)



Migration and Brexit

- **No overall negative wage and employment effects on UK-born workers** (Migration Advisory Committee, 2018).
 - However, limited evidence of small negative effects on wages and employment of lower-skilled workers.
- And yet, **immigration was one of the defining issues of the leave campaign** (e. g. irrational fears of mass immigration from Turkey).
- **Free movement of labor will almost certainly end** (cf. UK Government White Paper of 2018).
 - EU workers in UK **who already have a job can remain** (and *vice versa*; even in case of a „no-deal Brexit“).
 - But **smaller future migration flows**.
 - Large gross emigration from recent years could imply **declining absolute numbers of EU-27 workers and citizens in UK** in the near future.

How populists lie:

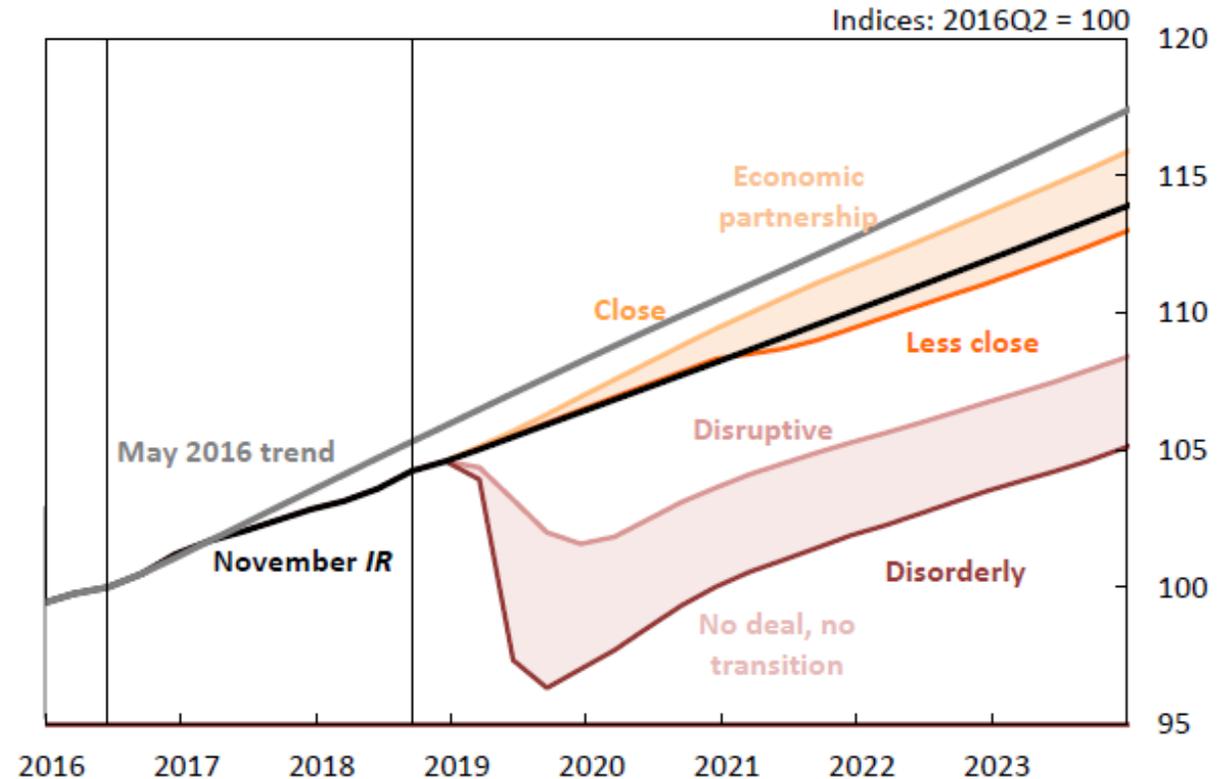


(Taken from http://www.voteleavetakecontrol.org/why_vote_leave.html)

Indirect effects of Brexit on labor markets via trade and GDP (1)

- **High uncertainty** of economic effects: Not only model uncertainty but also uncertainty about the policy change.
- Negative economic effects (i.e. GDP losses) of a „**hard Brexit**“ (WTO rules) compared to a „**soft Brexit**“ (FTA with EU) in the **long-run**.
- „**No-deal**“ **Brexit** (no ratification of November 2018 [or other] agreement) makes **short-run frictions** (i.e. a recession) likely.
 - Especially in **abrupt / disorderly** case.
 - Preparations could provide cushion / sufficient?

Chart A: GDP in EU withdrawal scenarios



Source: Bank of England (2018)

Indirect effects on labor markets (2): Dependent on time horizon

- **Long-run economic (trade & GDP) effects:** Large number of studies (see references in other contributions):
 - **Negative effects, larger for the UK** and countries with close trade links to it
 - **Restrictive immigration** regime in UK **may hamper economic growth** (UK Government 2018b: immigration freeze could itself lead to GDP loss of 1.8 percent).
- **Long-run labor-market effects:**
 - Lower **employment growth, lower real wage growth**
 - **Higher equilibrium (structural) unemployment** for an extended period of time (reallocation processes in affected economies).
- **Short to medium-run economic and labor market effects:**
 - Lower exports and more expensive imports: **negative demand and supply shock**
 - Supply shock in UK reinforced by **sterling depreciation**
 - **Policy response?** (Expansive fiscal policy? Restrictive monetary policy?)
 - **Decrease of employment and real wages, unemployment increases sharply** in short run

Indirect effects on labor markets (3): Some numbers (at last!)

Source	Soft Brexit		Hard Brexit	
	UK	EU-27	UK	EU-27
Long-term effects (relative to baseline in percent):				
<u>Employment effects:</u>				
IMF (2018)	-	-0.3	-	-0.7
Brautzsch and Holtemüller (2019)	-	-	-	-0.2
<u>Real wage effects:</u>				
Felbermayr et al. (2018)	-1.0	-0.2	-3.4	-0.6
<u>Effects on the unemployment rate (in percentage points):</u>				
Hantsche et al. (2018)	+0.05 pp.	-	+0.1 pp.	-
Medium-run effects (after 5 years):				
<u>Effects on net immigration (annual inflows in 1,000):</u>				
Bank of England (2018)	+100	-	+30 to -100	-
<u>Effects on the unemployment rate (in percentage points):</u>				
Bank of England (2018)	close to zero	-	+0.5 to +1.0 pp.	-
Short-run effects (after 1-3 years):				
<u>Effects on the unemployment rate (in percentage points):</u>				
Oberhofer and Pfaffermayr (2017)	+0.5 pp.	close to zero	+1.1 pp.	+0.1 pp.
Hantsche et al. (2018)	+0.7 pp.	-	+1.2 pp.	-
Bank of England (2018)	close to zero	-	+1.8 to +3.5 pp.	-

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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