

‘Assessing the economic implications of Brexit and coronavirus’ - SMF methodological note

Economic impact of ending the transition period

In order to conduct analysis on the economic impact of either gaining an FTA or leaving the EU without a deal we conducted a thorough literature review. Where possible we have used official analysis of the impact of either trade policy scenario. There is no substantial analysis of the impact either option would have on different sectors or industries in the UK. Based upon evidence produced by the government and other sources we have devised our own magnitude of impact scale, ‘mild’, ‘medium’ and ‘severe’. In mildly impacted industries we envision the negative impact of either outcome to be small in magnitude, for medium impacted sectors the magnitude of negative impact is higher but not as high as in severely impacted sectors.

The regional analysis is based upon evidence produced by HM Government. These areas are not ranked using our magnitude of impact scale as the data includes the raw data on how a region’s Gross Value Added (GVA) may be impacted.

Economic impact of coronavirus

Our analysis focused on the long term economic impact of coronavirus on different sectors and industries in the UK. We forecasted the severity of this impact based on a detailed literature review of sectoral responses to previous recessions, polling data on consumer behaviour and likely long term consequences of social distancing measures. Evidence of this literature is referenced in the sectoral impact section of Chapter 3. The severity of impact attributed to each sector follows the aforementioned ‘mild’, ‘medium’ and ‘severe’ relative scale (as seen in Table 10). We expect that sectors forecasted as mild will face a lesser negative impact of a coronavirus-related downturn relative to severe and moderate sectors. This scale is conceptual and does not attribute raw figures to the impact groupings.

The regional analysis forecasts the extent to which regional and local economies rely on sectors facing the greatest negative economic impact of coronavirus (i.e. severe or moderate sectors). The raw data shows the GVA contribution of these sectors to regional and local economies, signalling the extent to which areas are exposed to a severe economic hit. Additionally, we include raw data from Nomis on local labour markets to show the magnitude of jobs that rely on severely and moderately impacted sectors.

Double impact; coronavirus and ending the transition period

In the final chapter of this report we focus on the double economic impact of ending the transition period and the coronavirus pandemic. This uses the same magnitude of impact scale as mentioned previously. Using the mild, medium and severe scale, the industries are ranked into nine categories from ‘mild & mild’ to ‘severe & severe’ under Brexit and coronavirus.

The regions are ranked on a scale from 1 to 24 depending on the predicted impact from an FTA or failing to secure a deal (WTO terms) and then put into six groups of four based on this ranking. We then compare the regional impact of either future trade policy with our regional coronavirus impact to create a weighted index. The same scale applies across either trade policy option. Finally, we use local area data to create a weighted index of severity with respect to the industrial composition of local GVA or the labour market. This is then divided into five quintiles, with Q1 representing the lowest impact and Q5 representing the highest. The same scale applies across either trade policy option.