

Cynulliad Cenedlaethol Cymru | National Assembly for Wales

Y Pwyllgor Materion Allanol a Deddfwriaeth Ychwanegol | External Affairs and Additional Legislation Committee

Y goblygiadau i Gymru wrth i Brydain adael yr Undeb Ewropeaidd | Implications for Wales of Britain exiting the European Union

IOB 05

Ymateb gan Prifysgol Caerdydd, Patrick Minford

Evidence from Cardiff University, Patrick Minford

Senedd Seminar

A Brexit options and controversy

B The UK outlook post-Brexit

World Forecast Detail

Growth of Real GNP

							Consen sus
	2013	2014	2015	2016	2017	2018	2017
USA	1.5	2.4	2.4	2.1	2.4	2.5	2.3
UK	2.2	2.9	2.2	2.3	2.6	2.7	0.6
Germany	0.3	1.6	1.7	1.8	1.5	1.6	1.2(E- zone1.2)

Why is Consensus so gloomy?

- Long term assume Brexit protectionist, inward-looking, interventionist
- Short term add arbitrary negative 'uncertainty' effects
- BUT long term Brexit liberal free trade
- Short term: uncertainty moderate, max in Q2 (growth 0.6% up from Q1, 0.4%)
- Latest info: general growth, next slide; early surveys 'echo' media

Recent UK data (1)

- GDP growth: 0.6% Q2. Our projection for Q3: 0.6%.
- Purch Managers Indices August(Markit/CIPS): Manufacturing 53.3; Construction, 49.2; Services, 52.9
- Retail sales volume July: 5.9% up year-on-year (yoy); August 6.2%. 1.6% latest 3 months up on previous (6.6% annualised).
- Car Sales August +3.3% yoy

Recent UK Data (2)

- Employment: Apr-Jun employment rate 74.5%, up 1.1% yoy. Unemployment rate, 4.9% August (down 0.7% yoy).
- Money and credit: Broad Money/Lending (M4ex) July 6.9% yoy (annual rate 3 mths 14.7%).
- Net credit card lending July, £291 million, 20% up yoy
- House prices, August: 0.6% up on July, 5.6% up yoy (v 5.2% in July).

Problems of EU protection/regulation/free unskilled migration

- Agriculture: current tariff-equivalent c 20%
- Manufacturing : similar, c 20% mainly non-tariff barriers
- Long Run Effects: raises UK prices to consumers, distorts production
- Regulation: corporatist, social objectives, anti-finance, energy-interventionist
- Average adult unskilled immigrant costs £3500 pa to UK taxpayer- £3.5 bn pa (0.2% of GDP)

Brexit options

- EEA/Norway/EU-lite: in Single Market (SM)- require EU regulation, free migration, EU trade barriers.
- WTO unilateral free trade: outside SM, UK control of regs, borders and trade barriers
- Respects Brexit Vote and is Optimal
- Push by producers for EU-lite BUT this leaves EU costs in place

Main LR costs of EU (Minford et al-

Should Britain leave the EU? 2nd edn, Edward Elgar, 2015)

Table 1: A survey of costs from EU membership

	(% of GDP)
Net UK contribution	0.5
Costs of Common Agricultural Policy and of EU protection of manufacturing	4.0
Regulations	6-25
Bail-out transfers	2-9
Effects of EU regulations on growth to 2035	0.5% p.a.
Effect of joining the euro on economic volatility	doubling of volatility

Key Short Run Effects of Brexit

- Interest rates rise; exchange rate falls
- Growth no change in short term; faster in long term as higher competitiveness and switch to sectors with comparative advantage
- Real wages, employment, investment rise
- Inflation higher
- Current account improves

Table 2: UK forecast summary - post-Brexit

	2014	2015	2016	2017	2018	2019	2020
GDP Growth	3.1	2.2	2.3	2.6	2.7	2.8	3.2
Inflation CPI	1.7	0.2	1.2	1.9	3.1	3.0	2.1
Wage Growth	1.2	2.4	2.9	3.9	6.2	6.2	4.6
Unemployment (Mill.)	1.1	0.9	0.8	0.8	0.7	0.7	0.7
Exchange Rate	87.1	91.6	81.5	77.9	75.7	74.3	73.8
3 Month Interest Rate	0.6	0.6	0.4	1.0	2.5	3.5	3.0
5 Year Interest Rate	1.8	1.3	0.9	1.2	1.5	2.5	3.0
Current Balance (£bn)	-99.9	-91	-89.0	-77.7	-65.1	-41.1	-31.0
PSBR (£bn)	85.8	71.2	68.5	56.5	38.5	28.0	12.7