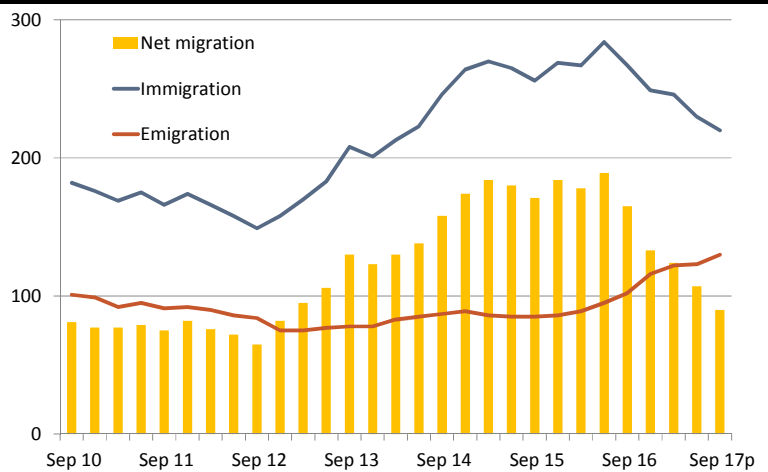




23 February 2018

UK-EU migration: people vote with their feet

UK: Migration to and from the EU27 (thousands)



Thousands quarterly, rolling four-quarter sums. 2017 data are provisional. Source: Office of National Statistics.

- Brexit is “working” already:** Since the UK voted in June 2016 to leave the EU, net migration from the EU into the UK has fallen sharply. In the year to September 2017, net migration from the EU into the UK dropped below 100,000 for the first time since 2012. While the number of people coming to the UK from the EU is declining, the number of people leaving is rising. When a place loses its appeal, people vote with their feet. The relative improvement in the economies of continental Europe, the weaker GBP and the UK’s less-welcoming stance on immigration since the Brexit vote have made the UK a lot less attractive than before.
- A supply-side constraint:** Immigrants bring new skills and increase competition and diversity within the labour market, boosting productivity. EU migrants working in the UK have higher employment rates than native workers and tend to be more skilled. That raises per-capita GDP in the UK and makes it easier for the UK to reduce its fiscal deficit and provide better public services. With the UK labour market at full employment, the lower inflow of migrants constrains the UK’s supply potential. This adds to inflationary pressures and strengthens the case for rate hikes in the UK, even though demand growth is lagging behind that of the US and the Eurozone.
- Migration and trade – the critical link:** Being a member of the EU is a package deal. The EU sees the four freedoms of the single market as indivisible. Therefore, the more the UK restricts free movement of labour after Brexit, the more the EU27 will restrict the scope for preferential access to the EU market for services and goods in the future. If the UK decides on a restrictive migration policy with the EU27, it will damage its supply side in two ways: 1) by reducing growth in its labour supply, and 2) by losing easy access to its biggest market, the EU27. On the other hand, if the UK decides to stay close to the status quo of free movement of labour, the potential scope for close future trade ties with the EU will remain large. This is the big choice the UK has to make.
- The political silver lining of falling EU net migration:** Although total net migration increased slightly in Q3 2017 due to higher inflows of non-EU migrants, that EU27 net migration is falling sharply can help to make the political Brexit calculus a little easier for the UK. It puts the UK government under less pressure than before to introduce restrictive migration policies in order to satisfy some voters’ demands for reduced inflows of workers from the EU.
- Decision time:** Yesterday, UK Prime Minister Theresa May, along with her cabinet, spent the day at her country residence, Chequers, to discuss the UK’s strategy for negotiating future trade ties with the EU. We expect May to lay out the details of these plans in a speech in the coming days. So far, the UK’s side has not provided any of the critical details required to prepare the ground for future trade. The two most important issues in this regard are the UK’s future policy on EU migration and some solution to preserve the seamless Irish border after Brexit.
- Tough choices ahead for the UK:** Unless the UK offers up solutions to these key issues, we expect the EU to put forward a template for future trade that probably resembles no more than a basic free trade deal akin to the EU-Canada deal. If the UK wants to do better than that, it needs to come up with its own ideas fast. The clock is ticking.

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