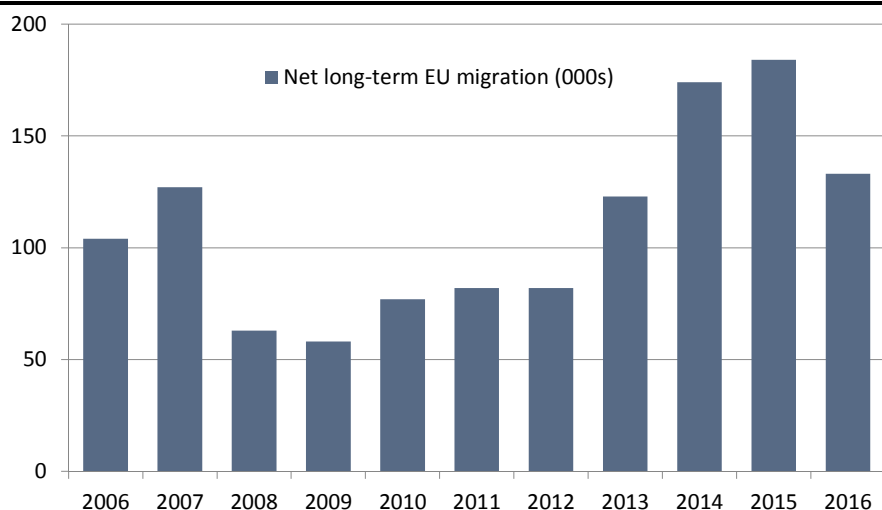


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2 June 2017

People vote with their feet: UK net migration

In 2016 net migration from the EU into the UK declined for the first time in seven years



Annual data. Source: ONS. 2016 are provisional rolling year data for Q1, Q2, Q3 and Q4 2016. All other data are final calendar year estimates

- Look, it is happening:** In a way, Brexit seems to be working its “magic” already. In 2016, net migration from the EU into the UK fell for the first time in seven years (see chart). The decline was mainly driven by the fall in net migration from the eight eastern European countries that joined the EU in 2004. Is this a one-off or the start of a trend? Although we cannot be sure yet, it could well be the latter. The relative improvement in the economies of continental Europe, the weaker GBP and the UK’s less-welcoming stance on migration since the Brexit vote, probably make the UK a lot less attractive than before, to put it mildly. When a place loses its appeal, people vote with their feet.
- The economic effects of migration:** Migrants 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 and makes it easier for the UK to reduce its fiscal deficit and provide better public services. Unfortunately, these economic facts were missing in the Brexit debate.
- Lower immigration will constrain long-run supply:** The UK added nearly 400k jobs in the 12 months to March 2017. EU migrants accounted for 45% of that increase. With the labour market at full employment, a continued fall in net migration would worsen labour supply shortages and constrain firms’ ability to raise production. If the UK really did reduce net immigration to the “tens of thousands” as Prime Minister Theresa May promises, this would have a dramatic effect on the long-run supply of labour and potential growth of real GDP. In our base case, Brexit could reduce trend growth to 1.8% from the pre-Brexit rate of 2.2%. In the case of a hard Brexit, this trend growth could fall to 1.5%.
- For the UK, Brexit is a negative sum game:** The more the UK restricts free movement of labour after Brexit, the more the EU27 will restrict the UK’s access to the single market. If the UK takes a liberal approach to migration policy, it can retain access to the large supply of workers from the EU while preserving a high level of access to the biggest common market in the world. But if the UK decides to place heavy restrictions on EU migration, it will suffer badly from a self-inflicted wound of cutting its supply of labour and losing its privileged access to the single market.
- Tough choices ahead for the UK:** Brexit negotiations will begin in June 2017, ending in March 2019. Negotiations will be difficult. The stances of both the UK and the EU27 have hardened recently. By late 2018, the UK could face a tough choice between a hard Brexit or accept the potentially unfavourable terms – maintaining free movement of labour – of a transitional deal largely set by the EU27. Further falls in EU net migration could make this choice easier.
- The potential silver lining:** How will migration into Britain change after Brexit? Nobody really knows just yet. But if last year’s drop in EU net migration continues in the coming years, the UK government could find it easier to divert the Brexit debate from its current nonsensical and destructive focus on migration onto what really counts – a good trade deal with the UK’s major partner, the EU27.

Economics

Chart of the week



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