

Twitter Thread by [Thomas Sampson](#)

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A few thoughts on how Brexit is likely to affect the UK economy in 2021 - with the caveat that much remains uncertain 1/

Most important change on January 1st will be higher trade costs due to creation of UK-EU customs border plus restrictions on what services trade is allowed

Costs from regulatory divergence likely to be at least as important as border costs in the long run, but not immediately 2/

Expect disruption & delays at the border for the first few months

However, I do not anticipate shortages of essential goods, as imports can be expedited if needed, e.g. air freight, priority customs processing 3/

Delays will become shorter and more predictable as firms learn what paperwork is needed and customs capacity improves. Important for just-in-time supply chains where predictability is more important than speed 4/

Contrary to government claims, many costs will be permanent:

- Red tape, e.g. need for customs workers wastes resources & lowers productivity wasting resources
- Tariffs (if no deal)
- Rules of origin (if deal)
- Lost market access for services

<https://t.co/07wNehNn7z> 5/

Fwiw I get told that economics and process considerations (haulage, logistics, manufacturing etc) play limited role in [#brexit](#) inner circle decision-making. Belief it'll be messy but business will adjust. Q is more short term political embarrassment. 2/2

— Peter Foster ([@pmdfoster](#)) [December 13, 2020](#)

Border costs will raise import prices & make it harder for UK firms to export to EU. UK-EU trade will grow less quickly

Consumer price rises likely to be moderate (low single digits?) but will gradually erode living standards similar to post-referendum <https://t.co/l7Zyegk7MZ> 6/

Cost of living

Leave vote caused sterling to fall by around 10% raising import costs & consumer prices

Breinlich, Leromain, [@DennisNovy](#) & I estimate depreciation increased cost of living by 2.9% by Q2 2018, costing average household £3870 per year <https://t.co/FsI5enIGfk> 4/

— Thomas Sampson ([@thom_sampson](#)) [June 22, 2020](#)

Tariffs are low or zero in most sectors, but some industries would be hit hard by no deal, e.g. cars, clothing, meat & dairy. Loses concentrated on small groups, can trigger political backlash & have high salience

<https://t.co/d2r6M1GlvB> 7/

Which industries are most exposed to EU tariffs under no deal?

12 sectors (HS 4 digit) have exports to the EU above £3350 million & would face an average EU tariff (ad-valorem equivalent) of at least 10% under no deal

Motor vehicles, clothing, meat & dairy feature prominently

— Thomas Sampson ([@thom_sampson](#)) [December 7, 2020](#)

Aggregate effects of Brexit will be swamped by Covid in 2021, as vaccine roll-out and end of social distancing lead to strong recovery. But Brexit will still exert a drag on economic growth that will become more apparent as time passes. 8/

For casual observers, border disruption & possible impact of tariffs on car industry & agriculture likely to be most visible immediate economic impacts 9/

Monetary policy: Brexit mostly irrelevant due to overwhelming importance of Covid in determining path of policy.

And, as the Bank of England has noted, monetary policy cannot offset the impact of a permanent negative supply shock 10/

Fiscal policy: subsidies can be targeted to hardest hit. I favour compensating losers from trade policy, but remember that compensation merely redistributes the costs to tax payers rather than solving underlying problem of higher trade costs 11/

<https://t.co/2ZULlclotu>

Further reading

Excellent [@UKandEU](#) report on implications of new deal. [@anandMenon1](#) [@jdportes](#) [@jillongovt](#): <https://t.co/OV0XXk5ypk>

Interesting [@JohnSpringford](#) [@tomashirstecon](#) piece on interactions between Brexit & Covid:
<https://t.co/pgasjQHwzw>