SPEAKING NOTE: PEOPLE'S VOTE EVENT

I have been asked to say a few words about the methodology we have used in this study.

There are essentially two steps:

First, what will change as a result of leaving the EU and moving on to a new trading relationship with the EU.

Second, how those changes will feed through the economy.

On the first, there are a number of key factors to take into account, including how the changed relationship with the EU will affect trade, foreign direct investment, productivity and migration, other things equal.

For trade, we rely on a range of evidence of how trade has been affected when countries have <u>joined</u> the EU and other trading relationships. One important finding from this literature is that being in the Single Market provides a significant boost to trade. Leaving it is likely to detract from trade, especially trade in services. Detailed evidence (chart 7 in our report) looking at how moving to Canada-style or WTO-style trade suggests that this is vastly inferior to being in the Single Market. On a scale of 1-10, if market access obtained when in the EU is 10, then for the financial services industry, being in a Canada style deal the score is 2. This suggests to us that there would be a large hit to services trade from being outside the Single Market.

We would also expect to see an adverse effect on foreign direct investment and productivity. We know that a large number of businesses come to the UK partly as a base from which to export to the Single Market. Some of that inward investment, together with the ideas and competitive edge that comes with it is likely to be lost when we leave.

These changes are not expected to occur overnight, but are likely to become significant over time.

The second step in our calculations is how to work out how these changes feed through the economy. For this we use our global macroeconomic model, NiGEM, which is used for this sort of analysis by finance ministries and central banks around the world.

What we have done is to construct a scenario where the UK stays in the EU after all and then calculate the impact relative to that 'stay' case of the changes to trade, investment, migration and so on that I have just mentioned.

It is important to say that the model builds in some of the adjustment mechanisms that we believe are a feature of the UK economy. For example, we would expect the exchange rate to be lower in these scenarios and this would compensate somewhat for less good access to the EU market. And lower investment in the UK would also be associated with lower imports to the UK. Similarly while there would be a rise in unemployment in the short term as a consequence of leaving the EU, we would not expect this to last as eventually workers will price themselves back into work by accepting lower real wages.

Two final comments.

First, as an institution that comments regularly on the UK economy, NIESR has carried out several previous analyses of Brexit depending on the form that it was expected to take. These have all used broadly the same approach and not been very different from those produced by most other institutions such as HM Treasury, OECD and IMF.

Second, there is a lot of uncertainty about the economic impact of Brexit. These estimates represent our considered view of the effects, but the precise magnitude is uncertain. I am nevertheless confident that the economic effect is adverse because of a worsening of the terms on which the UK trades with a highly developed market on its doorstep. Higher impediments to services trade in particular make it less attractive to sell services from the UK and that will discourage investment and mean that UK workers will be less productive than they would have been if the UK had stayed in the EU.