# UK faces economic decline as post-Brexit trade slump deepens



A recent report by the Centre for European Reform, authored by Anton Spisak, has sparked renewed concern regarding the UK's economic trajectory in the wake of Brexit. Titled "A Perfect Storm," the report paints a troubling picture, revealing that the UK's trade performance has not only stagnated but has experienced a severe downturn since the UK's departure from the European Union. Despite previous optimism surrounding a potential "Brexit reset," the hard data suggests a grim reality: without significant intervention, the UK risks a prolonged period of economic decline.

For many, the initial aftermath of Brexit was masked by the disruptions caused by the COVID-19 pandemic, which delayed the realisation of the full impact on trade. However, as the report indicates, the post-Brexit landscape has proven particularly hostile for UK exports. The Office for Budget Responsibility's analysis post-referendum closely mirrors Spisak's findings, underscoring a clear correlation between reduced trade and diminishing productivity, ultimately leading to a substantial decline in national wealth.

Since 2020, UK trade has endured a catastrophic slump. Reports suggest that by early 2024, UK goods exports were about 20% lower than in 2019. If they had followed the growth trends of comparable economies like the G7 or the EU-27, they would have been approximately 30% higher. This downturn has broader implications; post-Brexit trade performance is not just a local issue but has reverberated across global markets, affecting supply chains and diminishing competitiveness on multiple fronts. As industry analysts note, significant deterrents in trade with the EU have inevitably escalated costs for British manufacturers, further exacerbating the decline in export attractiveness.

Emerging data supports Spisak’s assertions, highlighting a particular stagnation in trade dynamism. Between 2019 and 2024, UK trade volume experienced an alarming growth rate of merely 0.3% annually. This is starkly contrasted by other major economies, which have seen comparatively robust growth. While recent trade agreements with countries such as India and the United States have provided glimmers of hope, the overall impact on the UK's trade performance has been modest at best, with significant hurdles remaining in trading with the EU due to persistent trade barriers.

The government’s fiscal strategy is also under fire, with borrowing soaring amid stagnant wage growth and insufficient tax revenues. As Brexit was intended to ultimately bolster the economy, it has instead created an environment where exports have become a net drag on GDP growth, subtracting nearly 0.5% annually since 2020. Such results raise pressing questions concerning the efficacy of the UK’s economic policy in the current climate.

To further complicate matters, the UK's labour productivity fell by 0.6% in 2024, remaining below pre-pandemic levels. Investment in capital and skills development has lagged, prompting warnings from economists about the long-term implications on economic growth and living standards. As productivity stagnates, the potential for innovation and business investment diminishes significantly, indicating that the full scope of Brexit's impact extends beyond trade figures alone.

Moreover, Brexit's outcome has inadvertently created a surge in immigration, contrary to what many proponents of the departure anticipated. The complexities surrounding the ending of free movement raised new challenges for labour shortages across various sectors.

Looking forward, there is a pressing need for the UK government to recalibrate its focus towards trade if it hopes to rejuvenate economic growth. Compounded by increased global protectionism and instability, a strategy that overlooks the foundational role of trade in driving competitiveness is doomed to further fail. Spisak succinctly highlights that while a reset in UK-EU relations was a positive step, it is far from sufficient to reverse the ongoing economic decline. Experts now concur that more radical measures, potentially involving closer economic ties with the EU, could be integral to restoring the UK's trading dynamism and prosperity.

As the nation grapples with the implications of its past decisions and current realities, it is clear that confronting the consequences of Brexit head-on—rather than seeking comfort in outdated narratives—is essential for altering its course towards a more prosperous future. Without a reevaluation of its trade policies and relationships, particularly with the EU, the UK risks entrenching itself in a long-lasting period of economic malaise.

## Reference Map:

* Paragraph 1 – [[1]](https://www.theneweuropean.co.uk/jonty-bloom-is-the-uk-doomed/), [[4]](https://apnews.com/article/8a8b87fb3ddd9e9ac278469c291f97c1)
* Paragraph 2 – [[1]](https://www.theneweuropean.co.uk/jonty-bloom-is-the-uk-doomed/), [[2]](https://www.ft.com/content/8b535707-2671-4a2f-878e-1c0c48ec2616), [[3]](https://www.ft.com/content/c045713c-ab8c-44df-adb0-c7fffa05cfb9)
* Paragraph 3 – [[4]](https://apnews.com/article/8a8b87fb3ddd9e9ac278469c291f97c1), [[6]](https://www.productivity.ac.uk/research/unbound-uk-trade-post-brexit/)
* Paragraph 4 – [[5]](https://www.lemonde.fr/en/economy/article/2024/05/03/the-gradual-erosion-of-british-trade-since-brexit_6670322_19.html), [[6]](https://www.productivity.ac.uk/research/unbound-uk-trade-post-brexit/)
* Paragraph 5 – [[3]](https://www.ft.com/content/c045713c-ab8c-44df-adb0-c7fffa05cfb9), [[7]](https://www.ecb.europa.eu/press/economic-bulletin/articles/2023/html/ecb.ebart202303_01~3af23c5f5a.mt.html)
* Paragraph 6 – [[2]](https://www.ft.com/content/8b535707-2671-4a2f-878e-1c0c48ec2616), [[4]](https://apnews.com/article/8a8b87fb3ddd9e9ac278469c291f97c1)
* Paragraph 7 – [[1]](https://www.theneweuropean.co.uk/jonty-bloom-is-the-uk-doomed/), [[6]](https://www.productivity.ac.uk/research/unbound-uk-trade-post-brexit/)

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## Bibliography

1. <https://www.theneweuropean.co.uk/jonty-bloom-is-the-uk-doomed/> - Please view link - unable to able to access data
2. <https://www.ft.com/content/8b535707-2671-4a2f-878e-1c0c48ec2616> - Despite recent trade deals with the US, India, and the EU, the UK's trade performance remains alarmingly weak. Between 2019 and 2024, UK trade volume grew by a mere 0.3% annually—far behind other major economies like the US, EU, and Japan. This downturn, especially in goods exports which dropped 20%, has turned exports into a net drag on economic growth. The decline was similar in both EU and non-EU markets, likely due to disrupted supply chains reducing UK competitiveness. While new US tariffs provide relative advantages to UK exporters, they still face high trade barriers compared to domestic competitors. The EU deal includes some agrifood simplifications, but its economic impact is modest. Overall, the UK faces a critical loss of trade dynamism and competitiveness, demanding a renewed focus on strengthening economic fundamentals and possibly deeper European economic integration to reverse its decline.
3. <https://www.ft.com/content/c045713c-ab8c-44df-adb0-c7fffa05cfb9> - In 2024, UK private sector productivity fell by 0.6%, dropping below pre-pandemic (2019) and pre-financial crisis (2007) levels, according to the Office for National Statistics (ONS). Total factor productivity, which excludes government activities, was 0.7% below 2019 levels and 1.2% below 2007, highlighting a critical challenge for Chancellor Rachel Reeves amid government efforts to boost economic growth and living standards. Unlike the UK, U.S. labor productivity increased significantly over the same period. Analysts attribute the UK's weak productivity to insufficient investments in capital and skills development. Professors and economists warned that subdued investment in infrastructure, R&D, and digital tools has hindered growth, despite improvements in education and labor availability. The Office for Budget Responsibility (OBR) may soon revise down its optimistic UK productivity growth forecasts, potentially reducing fiscal headroom by £20bn if long-term projections are cut from 1% to 0.8% growth per year. While sectors like professional and technical services contributed positively in 2024, overall labor productivity declined for the third consecutive year. These trends underscore profound structural issues in the UK economy compared to better-performing advanced nations.
4. <https://apnews.com/article/8a8b87fb3ddd9e9ac278469c291f97c1> - On the fifth anniversary of the UK's departure from the EU, the full impact of Brexit is still unfolding. The split left the UK divided, with ongoing economic, social, and political effects. Brexit removed the UK from the EU’s single market and customs union, bringing new trade barriers and economic challenges. While some businesses managed to adapt, others struggled or had to relocate. Despite supporters' hopes for new trade deals to offset losses, the overall economic impact remains negative, with a forecasted 15% decrease in long-term trade. Additionally, immigration has increased post-Brexit, contrary to expectations. With the election of Prime Minister Keir Starmer, the UK aims for improved but limited relations with the EU. However, significant rapprochement remains unlikely in the near term due to unresolved tensions and broader geopolitical challenges.
5. <https://www.lemonde.fr/en/economy/article/2024/05/03/the-gradual-erosion-of-british-trade-since-brexit_6670322_19.html> - Since Brexit, British trade has experienced a gradual decline. Eight years post-referendum and several years since exiting the EU and the single market, new border controls have been implemented, significantly affecting trade. In April 2024, British customs began physical checks on plant and animal products, causing discontent among small businesses due to additional costs. These checks were postponed multiple times for fear of border chaos. The added costs could amount to £330 million annually, marginally increasing food inflation by 0.2% over three years. Trade barriers have impacted both exports and imports, resulting in a 10% decline in goods trade by the end of 2023 compared to pre-pandemic levels, while other G7 countries saw growth. Surprisingly, this decline was not limited to EU trade but extended globally. Economists believe this could be linked to disrupted supply chains and reduced investment post-referendum. Administrative complications and future trade policy uncertainties are also contributing factors. While goods trade struggles, UK services, particularly financial services, have thrived, showing a 12% increase since 2019. However, the net effect of Brexit includes reduced overall trade and lower investment, with the UK displaying weak economic growth compared to many EU countries.
6. <https://www.productivity.ac.uk/research/unbound-uk-trade-post-brexit/> - This study provides a comprehensive analysis of the significant and persistent impact of the Trade and Cooperation Agreement (TCA) on UK-EU trade relations, three years after the UK’s departure from the EU Single Market and Customs Union. The findings reveal a sharp decline in both UK exports and imports with the EU, underscoring the enduring challenges posed by Brexit on the UK’s trade competitiveness. Between 2021 and 2023, monthly data show a 27% drop in UK exports and a 32% reduction in imports to and from the EU. Even when considering annual data to smooth short-term fluctuations, the declines remain substantial—17% for exports and 23% for imports. The analysis indicates that exports primarily declined at the extensive margin, with a 33% reduction in the variety of goods exported, while the intensive margin remained stable. Conversely, imports adjusted predominantly at the intensive margin, declining by 28%, with the variety of imported goods remaining stable. The contraction in export varieties highlights a significant reduction in the range of goods the UK trades with the EU. Robustness checks confirm these findings, indicating the profound and ongoing stifling effects of the TCA on UK-EU trade. The analysis reveals a heavily disrupted and weakening UK-EU supply chain post-TCA, evident across consumer, intermediate, and capital goods. The significant decline in consumer goods exports to the EU and corresponding UK imports suggests a disentanglement of the UK from EU value chains, with a shift towards local production. Despite the TCA’s dampening effect on UK exports, the UK remains dependent on the EU for intermediate and capital goods. The study highlights that the negative impacts of the TCA have intensified over time, with 2023 showing more pronounced trade declines than previous years. This suggests that the transition in UK-EU trade relations post-Brexit is not merely a short-term disruption but reflects deeper structural changes likely to persist. The analysis also uncovers considerable heterogeneity in the TCA’s impact across different goods categories, countries, and sectors. Smaller and more distant EU economies have been more adversely affected by the reduction in UK export varieties, while larger economies like Germany and France have experienced relatively smaller declines. This indicates a decoupling of the UK from EU markets for final goods, with a shift in UK supply chains towards more geographically proximate and smaller trading partners within the EU. Sector-specific analysis reveals that non-tariff measures (NTMs), particularly in agriculture and food products, have significantly impacted the extensive margins of exports. Industries with larger-scale production and lower product concentration have fared better, while those with higher product differentiation and concentration have experienced more substantial declines.
7. <https://www.ecb.europa.eu/press/economic-bulletin/articles/2023/html/ecb.ebart202303_01~3af23c5f5a.mt.html> - Almost two and a half years after the United Kingdom’s exit from the EU’s Single Market and the EU Customs Union, there is increasing evidence that Brexit has had negative effects on UK trade and the UK labour market. On the trade side, after controlling for pandemic-related effects, Brexit appears to have caused a significant decline in EU-UK trade in both directions, which, however, may recover to some extent over time, once UK and EU firms have fully adjusted to the new environment. The share of trade in GDP terms has also declined and a number of small and medium-sized UK companies have withdrawn from external trade with the EU. Regarding the labour market, there is evidence that the end of free movement for EU citizens has also contributed to the recent surge in labour shortages, particularly in sectors with lower-skilled workers. However, there have also been other, and potentially more important, drivers of the decline in UK labour force participation. Considerable uncertainty remains regarding the long-run impacts, including the extent to which the slowdown in EU trade and EU migration could weigh on potential labour supply and future productivity.