

THE COSTS OF BREXIT

Reports about the UK's economic death may turn out to be greatly exaggerated. But Brexit has taken a toll on fixed capital formation.

The other day, The New York Times columnist Thomas L. Friedman¹ commented that the UK "is a country that's determined to commit economic suicide but can't even agree on how to kill itself". Well, although painfully slow, the decision-making process in London seems to be coming to terms, and the probability of a pragmatic end to the Brexit drama appears to be on the rise (see also [CIO Flash: Good-bye Brexit?](#)). Hence, Mark Twain might remark, reports about the UK's economic death may turn out to be greatly exaggerated.

The lack of much economic pain so far might help to explain the awkward path to a reasonable outcome. In fact, the UK economy keeps featuring quite low unemployment rates. According to Eurostat, only 3.8% of the British labor force is out of a job. Using the same definition, only Germany and the Netherlands fare better in Europe. For France, the number is 8.8%, twice the UK level, while Spain and Italy are recording double-digit numbers. In hindsight, doomsday

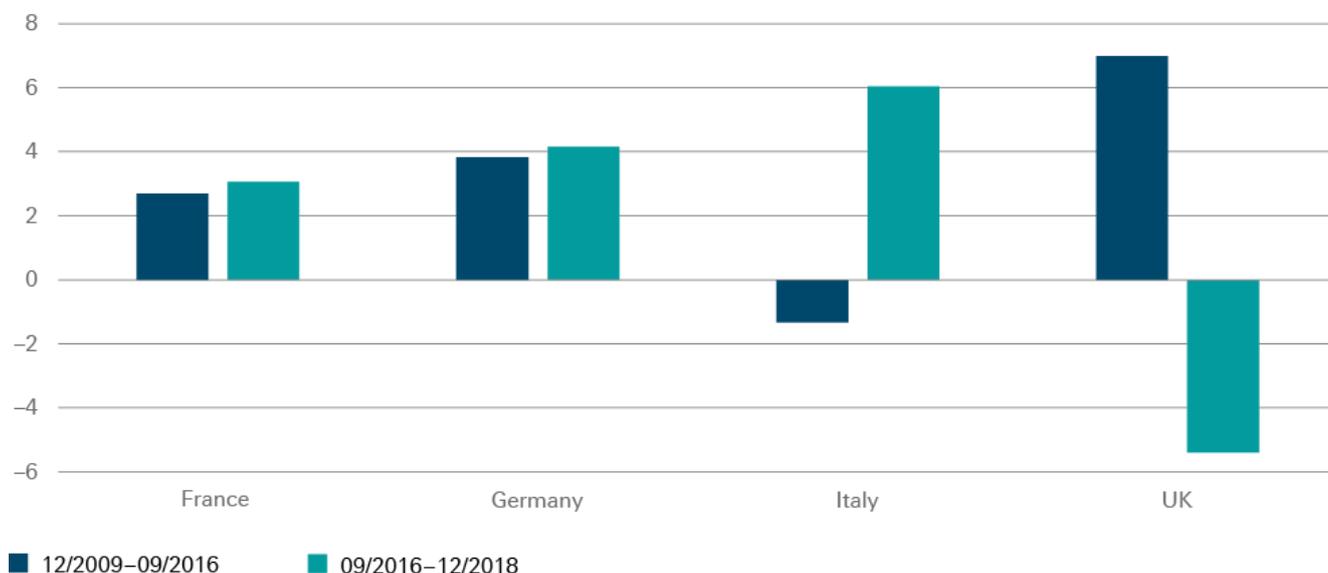
predictions of the UK's sudden collapse after an exit vote at the referendum in June 2016 turned out to be wrong. So where's the pain, one is tempted to ask?

A look at investment spending, however, reveals a worrying development. Since the referendum, UK's fixed capital formation is almost flat. Compared to some of its larger peers across the channel, the UK has dropped from the top to the bottom. Adjusted for inflation, British investments in machinery and equipment have been shrinking by a 5.4% annualized rate since the referendum, down from a growth rate of 7% before, as our "Chart of the Week" shows. Other European countries in the meanwhile keep accelerating, in the case of Italy catching up for the drop during the crisis.

As today's investments help determine tomorrow's jobs, production potential and labor income that does not bode well for the UK in the years to come.

¹ <https://www.nytimes.com/2019/04/02/opinion/brexit-news.html>

growth of investments in machinery and equipment in %, annualized



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/3/19

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GLOSSARY

Brexit

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

U.K.'s EU Referendum

U.K.'s EU referendum held on June 23, 2016 in which the citizens of UK voted for an exit of the UK from the EU, with a majority of 52%.

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