

PROPONOMICS

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BREXIT AND THE LONDON ECONOMY

The number of people in employment in London has risen nearly four per cent since last year's referendum. It is time for a reality check on 'Brexodus'.

Headlines

Major banks have announced the locations for their post-Brexit EU trading hubs, but the job numbers involved have been less than predicted

To date there is no sign of deterioration in employment levels in London, with evidence that even financial firms are recruiting

The key issue is whether the relocations to Europe are great enough to create a net fall in office-based employment

This comes at a time when tech and creative industries remain in expansion mode in London



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Recent months have seen a run of announcements from banks and insurers operating in London on where they plan to open their new post-Brexit EU trading hubs, assuming the final deal between the UK and the EU requires them to relocate functions. This has reawakened fears of a 'Brexodus', whereby firms move jobs out of the UK in order to maintain access to the European single market. The proposed relocations in most cases involve relatively small numbers of jobs – typically in the low hundreds, not the thousands originally feared.

The overall impact on London's employment market has so far been negligible – as mentioned, total employment is rising (see figure 1) and unemployment falling, with some industries engaged in rapid expansion. In the first half of 2017 alone, 23,000 Technology, Media and Telecoms (TMT) jobs were created in London, according to ONS.

Indeed, the ONS figures actually point to a small increase in financial and insurance employment in the capital – up 7,000

in H1 2017. After all, not everyone in London's financial sector is servicing EU-based clients, which brings us to an important point. None of the big banks or insurers are planning to quit the UK entirely. Summer 2017 saw Deutsche Bank pre-let over 560,000 sq ft at 21 Moorfields because they still expect to maintain a large UK presence after Brexit; likewise Wells Fargo, who acquired the 230,000 sq ft 33 Central immediately after the vote to leave the EU.

However, some banks have recently warned they will step up the pace of relocations if the UK government cannot provide more certainty on post-Brexit trading by Q1 2018. In effect, the question facing the property market is: will the number of Brexit relocations outweigh the pace of recruiting, either by other industries, or indeed unaffected parts of finance?

A recent survey by Reuters of over 120 of the largest financial and insurance firms operating in the UK found that in the event of a hard Brexit, an estimated 10,000 jobs could leave Britain.

FIGURE 1

People in employment in London



Source: ONS

This study is significant as it included the 20 global investment banks who earned the most fees in the EMEA region. If we assume 90% will be London-based roles, that suggests 9,000 jobs lost in the capital, which could be matched by an equivalent figure from dependent support industries, so 18,000 in total.

Experian Economics are forecasting that London industries that are office-based (e.g. the professions, TMT, finance, civil service, etc) will see a net 50,000 increase in jobs in 2018 and 2019. Even if we exclude finance and insurance from the forecast (ignoring the job creation we know is occurring in this

sector), we still have a net increase in employment of 42,000. This more than overshadows the 18,000 Brexit job losses.

The news reports of individual banks planning to move x number of jobs are effectively meaningless, as it is the net impact on the jobs market that counts. All this comes with the caveat that we do not know what is ahead on the twisting road of the Brexit negotiations, as there is still time for politicians to drop the ball. However, unless there is evidence that a worst case scenario is emerging, the Brexit job relocations will in our view be overshadowed by future employment growth.

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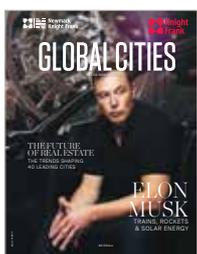
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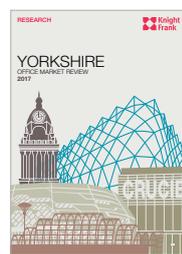
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