**Here's what a no deal Brexit would mean for the British economy**

Will Martin
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Reuters/Henry NichollsA woman holds a placard as she joins EU supporters, calling on the government to give Britons a vote on the final Brexit deal, participating in the 'People's Vote' march in central London, Britain June 23, 2018

- **Capital Economics' Vicky Redwood examined the potential economic impact of a no deal Brexit on the UK.**
- **The UK should skirt around a recession in 2019, but growth would take a major hit, she said.**
- **"Although the more extreme warnings about the short-term impact of a 'no-deal' Brexit on the economy are overdone, there is little doubt that it could deal a reasonable blow to GDP growth next year," Redwood wrote to clients on Wednesday.**

The prospect of a no deal Brexit reared its head again this week, as the government admitted it is stockpiling food and medicines in preparation for such an occurrence, and Trade Minister Liam Fox told Business Insider that Britain should "leave without a deal" if one has not been secured by the end of the Article 50 period.

Warnings abound about the possibility of shortages of goods, the grounding of flights, and chaos at borders if no deal does materialise, but what would happen to the UK economy as a whole?

Writing this week, Vicky Redwood, global economist at Capital Economics, argued that while "more extreme" warnings about the economic hit of no deal are being "overblown," a significant impact negative impact could still be expected.

"Although the more extreme warnings about the short-term impact of a 'no-deal' Brexit on the economy are overdone, there is little doubt that it could deal a reasonable blow to GDP growth next year," Redwood wrote to clients.

In the longer run, Redwood said, it is very difficult to predict what the economic impact would be, but there would be significant negatives in the short tem.

"Whether a no-deal scenario had a good, bad, or little impact on the economy in the long run would depend on many things, including how successful the UK was at striking new trade deals and whether there was an exodus of financial institutions from the UK. But the short-run effect would surely be bad," she told clients.

Redwood did not go into specific detail in terms of forecasts, but said that a no deal Brexit could "plausibly knock a percentage point or so off growth next year."

One of the reasons for that, Redwood argued, is that no deal would inevitably have a major negative impact on the price of the pound.

"On the plus side, this would cushion the impact on exporters," she wrote. "But it would also push up inflation, renewing the squeeze on consumers' real incomes seen after the pound fell following the EU referendum in June 2016."

Real wages for UK workers dropped significantly in the 18 months after the referendum as inflation rose to 3% but wage growth remained around 2%. Britain is a consumer focused economy, so when regular workers are earning less, and therefore not spending on non-necessity items, the economy at large suffering.

Such an issue could be compounded, Redwood said, by the UK "imposing import tariffs on the EU, raising import prices."

Furthermore, business leaders have largely argued for the softest Brexit possible, so no deal would likely represent a major dent to business confidence overall.

"Admittedly, the nosedive in sentiment and GDP growth that was widely expected after referendum never happened," Redwood said. The chart below shows that expected nosedive.

Capital Economics

"But that was partly because of hopes that the UK would reach an agreement to replicate the current free trade arrangements."

Redwood is, however, much less pessimistic than some forecasters, saying that it is unlikely a no deal Brexit will "plunge the UK into recession."

One reason for that, she said, is that Britain wouldn't need to pay anything to Brussels on exiting.

"Remember that leaving without a deal would mean that the UK wouldn't have to pay its (front-loaded) Brexit 'divorce bill' of £40bn odd, equivalent to around 2% of GDP. This money could be used to offset the adverse effects on the economy."

Redwood also sees Britain falling back on WTO rules for trade as "not the end of the world."

"As far as trade is concerned, reverting to World Trade Organisation (WTO) rules would not be the end of the world. While the UK would face the EU's Common External Tariff on its exports to the EU, tariff rates are on average low at 4%," she concluded.

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