

# Economic impact of Brexit on London and UK industrial sectors

## Key information

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## Contents

[Overview and key points](#)

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## Overview and key points

In a nationwide referendum nearly ten years ago, the UK voted to leave the European Union (EU) after 43 years of membership in the EU and its predecessor, the European Economic Community (EEC). Various studies have re-examined the decision's economic impacts and revised its overall impact. This analysis by GLA Economics revisits the subject and seeks to analyse the sectoral impacts of this decision on several key economic outcomes - including growth, employment, wages and productivity - while also specifically exploring whether the end of freedom of movement undermined these economic outcomes at the aggregate and sectoral level.

### Key points:

- The analysis finds that on aggregate, and since 2016, the UK economy appears to have settled onto a level about 5% below the path implied by the six major EU economies (Germany, France, Italy, Spain, Netherlands and Poland). Meanwhile, employment has in fact grown since 2016- in part a result of the increase in net migration following the introduction of the points-based immigration system. Nevertheless, real wages and productivity in the UK considerably underperformed the EU economies, with all these effects materialising after the Referendum itself rather than just after the coming into effect of the Trade and Cooperation Agreement in 2021.
- Sectors that relied more heavily on EU-national workers (e.g., accommodation and food services and retail) did not see their output reduce significantly compared to the same sectors in EU economies, but their employment and total real wage levels dropped relative to the EU's. There is also no evidence of sustainable productivity gains due to increased investment or capital deepening in these sectors since 2016.

- While these aggregate outcomes cannot be attributed solely to Brexit, they are consistent with Brexit acting as a negative structural shock to the UK economy, contributing to weaker productivity and wage performance relative to comparable EU economies in the post-2016 period.
- London remains the UK's most productive economic region by a considerable margin, with its contribution to national output increasing over the past decade to reach nearly 25%.
  - As these sectors employ nearly 60% of London's workforce and comprise nearly half of its GVA, the employment and wage effects in particular are considerable for London's economy. Therefore, Brexit has curtailed London's potential to perform even better, in particular when it comes to productivity and nominal wage growth.
- That said, while these outcomes cannot be attributed solely to Brexit, they are consistent with Brexit acting as a negative structural shock to the UK economy, contributing to weaker productivity and wage performance relative to comparable EU economies in the post-2016 period.

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[Back to table of contents](#)