

# United Kingdom

## Second quarter export surge, too good to be true?

- Buoyant official trade data paint a contrasting picture compared to downbeat business surveys
- Q2 export surge should bolster GDP but seems at odds with appreciation of sterling and weak global economic growth

A surge in overseas trade, with goods exports growing at their fastest rate for nearly a decade, looks to have boosted the UK economy in the second quarter. But is the upturn too good to be true?

Although widening in June, Britain's trade deficit in goods narrowed over the second quarter as a whole, according to the Office for National Statistics, down to £27.44bn from £30.42bn in the first three months of the year. Including services, the deficit fell to £4.81bn, down sharply from £7.50bn in the first quarter and its lowest for four years.

### Export surge

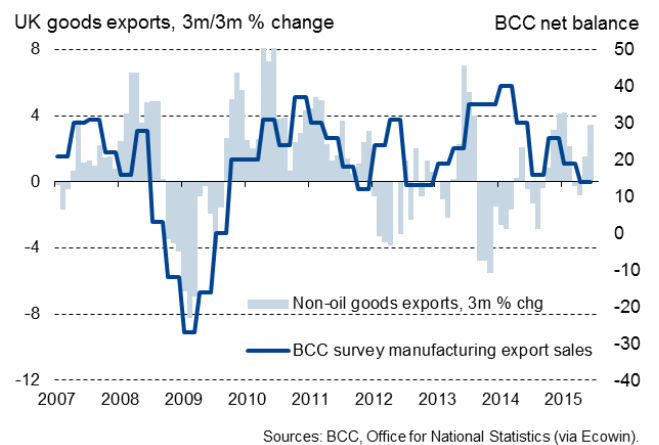
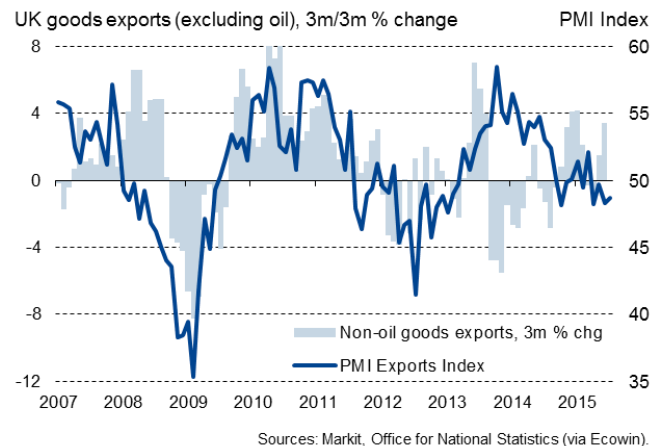
The second quarter improvement was largely due to a 6.6% surge in goods export volumes (a 4.3% rise in value terms), the biggest increase since the first quarter of 2006, while imports rose just 0.5%. Even excluding the volatile trade in oil, exports were up 6.9% (3.5% in value terms) in the second quarter.

News that the UK is enjoying the largest rise in exports for almost a decade comes as a surprise, given the appreciation of sterling and weakness of overseas economic growth.

The pound has risen to its highest since 2008 on a trade weighted basis during the second quarter, up over 8% so far this year. The stronger pound makes exports more expensive. It also makes imports cheaper. The appreciating currency therefore tends to be accompanied by a downturn in exports and an upturn in imports, which is the opposite of what the data are showing at the moment.

At the same time that sterling has appreciated, the pace of economic growth has been disappointing in many countries. [PMI survey data](#) show the global economy to be expanding at a modest annual rate of 2%, with emerging markets growing at a relatively meagre 4% expansion – suggesting these previously fast-growing markets remain a shadow of their pre-crisis selves in terms of the demand they are creating.

### Exports: official v survey data



The eurozone, the UK's largest export market, is recovering but showing only subdued growth. The single-currency area's economy is likely to have expanded by just 0.4% in the second quarter.

Faced with disappointingly weak global economic growth and a rapid appreciation of its currency, the UK would expect to see exporters under pressure rather than enjoying surging growth, meaning it's wise to take the official data with a pinch of salt. Such caution is especially warranted as the business surveys, including those from Markit and the BCC, show exporters struggling in recent months. The PMI signalled falling exports throughout the second quarter with the downturn continuing into July. The BCC's export measure meanwhile fell to one of the lowest

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seen since the financial crisis in the three months to June.

The surveys clearly suggest that exporters are enduring a far tougher time in the battle to win overseas sales than indicated by the official data, in what is not the first time that the official data have diverged from the surveys. We note that the ONS release includes the warning: “Due to a series of errors during 2014, the UK Statistics Authority suspended the National Statistics designation of UK Trade on 14 November 2014”.

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