

# United Kingdom

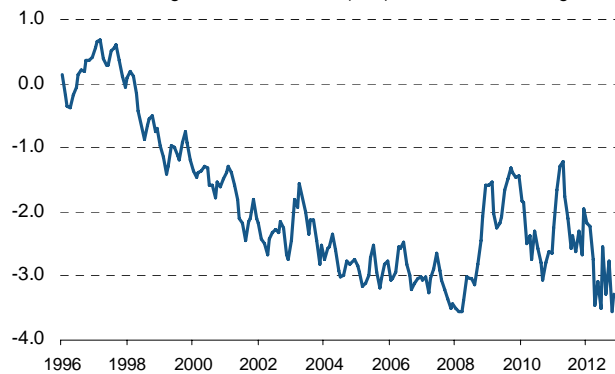
## Trade deficit narrows as rising goods exports add to signs of manufacturing revival

- Trade deficit narrows as exports rise
- Deficit remains historically high and likely to act as drag on growth in fourth quarter
- Surveys point to ongoing improvement in goods export trend as global growth revives

An upturn in goods exports in November adds to signs that the manufacturing economy showed signs of improving in the final quarter of last year. However, the trade deficit looks likely to have risen compared to the third quarter, and remains very high by historical standards, thereby acting as a drag on economic growth and adding to the possibility that the UK contracted at the end of last year.

### Trade balance

UK trade balance, goods and services (£bn), three-month average



Source: Office for National Statistics (via Ecowin).

The UK's trade deficit fell from £3.73bn in October to £3.47bn in November. The deficit has averaged £3.6bn so far in the fourth quarter, up from £2.8bn in the third quarter and an average of £3.0bn in the first nine months of the year.

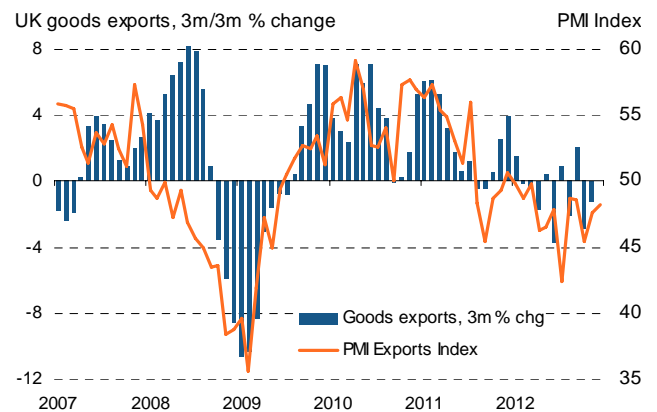
The goods deficit was slightly larger than expected but showed a welcome narrowing, falling from £9.49bn in October to £9.16bn, which was slightly ahead of analysts expectations of £9.05bn.

The services surplus meanwhile fell slightly from £5.76bn to £5.70bn, its lowest since June.

### Trade improvement led by goods exports

The overall improvement in the trade position was led by a 2.9% increase in goods exports, which more than reversed a 2.4% decline in October to push exports volumes up to their highest for four months. The monthly data are volatile, however, and looking at the three month trend in goods exports, the quarterly rate of decline merely eased from 2.9% in October to 1.2% in November. Nevertheless, a further improvement is also signalled for December: last month's survey of purchasing managers pointed to a further easing in the rate of decline of UK goods exports, which contributed to the largest improvement in manufacturing business conditions for 15 months. The slower rate of loss of exports was linked to signs of firmer demand in key overseas markets, as signalled by the worldwide PMIs recording the strongest upturn in the global economy for nine months in December.

### Manufacturing exports



Sources: Markit, Office for National Statistics (via Ecowin).

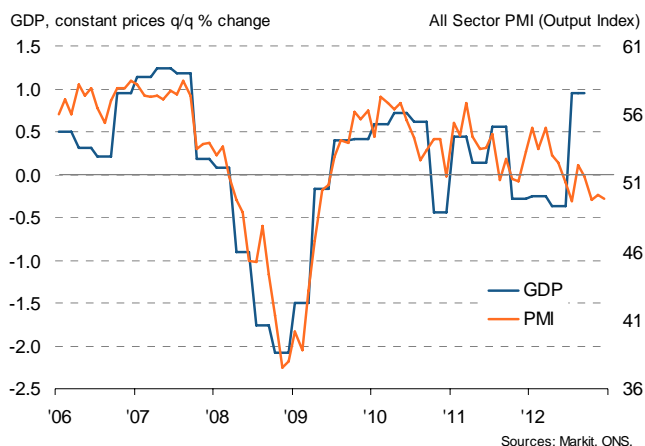
Surveys showed the global upturn at the end of last year was led by the US and emerging markets, though the Eurozone economic downturn also showed signs of easing. Despite this easing, North America and emerging markets nevertheless look likely to continue to act as the main sources of sales for UK exporters throughout the first half of the coming year at least,

and weak demand from the Eurozone is set to act as a drag on UK economic growth for some time to come.

### Falling imports point to weak domestic demand

However, just as exporters are benefitting from improving economic conditions abroad, the domestic economy is faltering. The service sector contracted for the first time in two years in December, according to the PMI, raising the possibility that the economy contracted again in the fourth quarter. This weakness of the service sector is corroborated by the reduction in the trade surplus on services, while the weakening of domestic demand in the final quarter of last year is hinted at by a 0.9% decline in imports in the three months to November compared to the previous three months – the largest decline since July,

#### UK GDP and the PMI



### Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)