Markit Economic Research
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United Kingdom

Trade deficit widens but buoyant surveys cast doubt on slump in official exports

- **Trade deficit widened to £8.924bn in April, largest since January**
- **Goods exports down 1.5% compared to March**
- **Data contrast with surging business survey export indicators**

A further marked deterioration in UK export performance, according to official trade data, sits in marked contrast to buoyant survey data. While the surveys indicate that firms are having great success in winning export sales, which should help boost GDP in the second quarter, the official data suggest that exports are slumping, down 6% on a year ago so far in 2014.

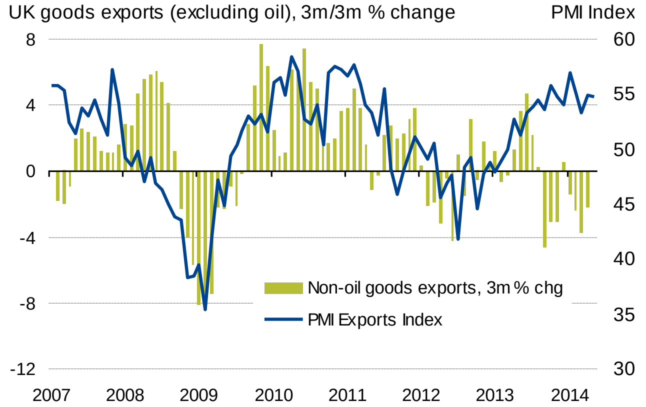
The Office for National Statistics was unable to offer any reason as to why export performance has deteriorated so markedly over the past year; a period in which the global economy has been recovering, which would normally boost overseas sales (especially when coupled with a still-weak pound, relative to prior to the financial crisis*). In contrast, anecdotal evidence from the survey responses indicate that manufacturers are benefitting from reviving growth in the euro area, alongside good sales to the US, Japan and Middle East in particular.

Exports fall

According to the ONS data, goods exports fell 1.5% in April, despite a 1.3% rise to EU countries. That was after the data were corrected for omissions relating to oil exports. The ONS noted that “while the omissions will be addressed in the next UK Trade release, to be published on 10 July 2014, it is important to remind users that there could be other data revisions at that time that could impact on the overall picture.”

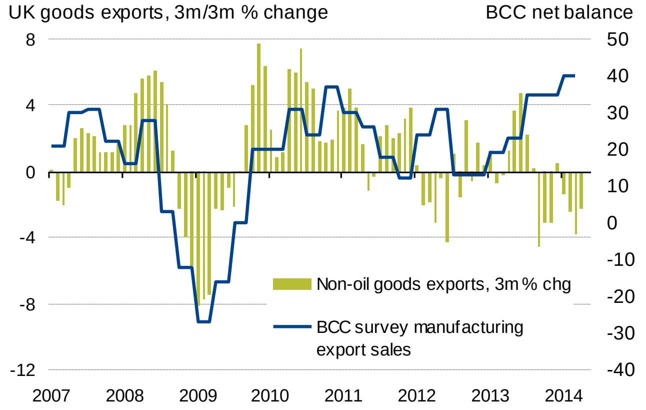
These omissions further strengthen our scepticism of the official trade data, which since last August have shown a marked deterioration in UK goods exports. So far this year, goods exports are running approximately 6% lower than in the same period of last year. This depressing picture of export performance sits in stark contrast to the upbeat business surveys from both Markit/CIPS and the British Chambers of Commerce.

Non-oil goods exports v PMI survey



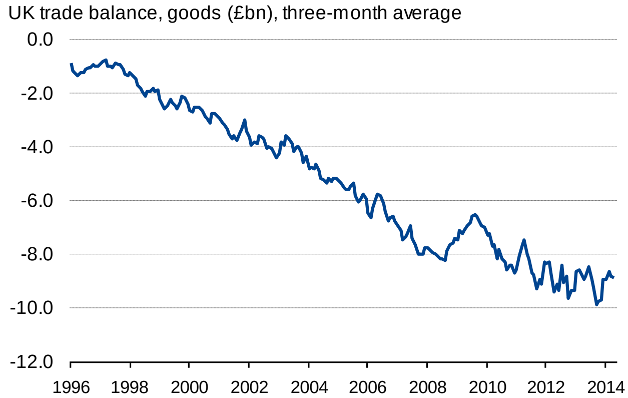
Sources: Markit, Office for National Statistics (via Ecowin).

Non-oil goods exports v BCC survey



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

Trade deficit



Source: Office for National Statistics (via Ecowin).

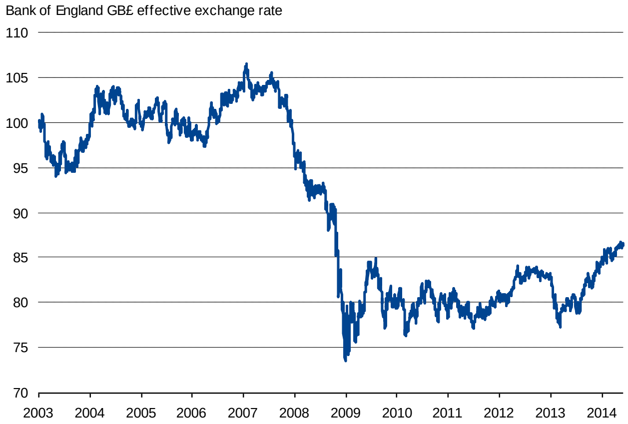
Buoyant business surveys

The Markit PMI, for example, has shown rising exports to have provided a major boost to UK manufacturing since early last year, a trend which has continued right up to May, according to data released earlier this week. The quarterly BCC survey has been sending an even more buoyant picture of trade performance. In the first quarter, the survey's measure of manufacturing export sales rose to the highest in two decades.

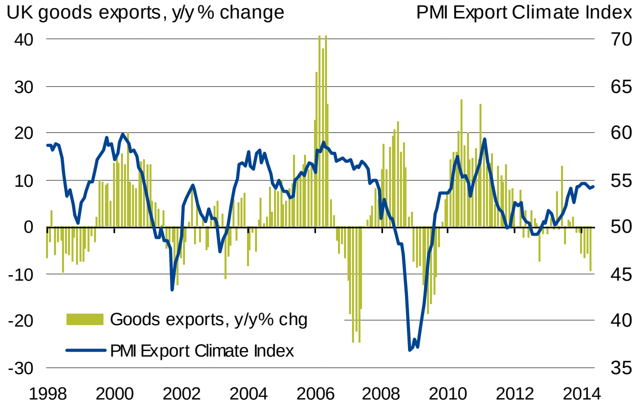
Manufacturers are reporting to the business survey compilers that their exports are booming: the message from both surveys is that goods exports have been growing at a quarterly rate of approximately 5% in recent months, not contracting at rate of around 3%, as signalled by the official data.

This discrepancy between the official data and the various surveys is unusual, and we hope that the omissions to the official trade data go some way to solve this riddle and rectify a situation where the government's numbers may be significantly misrepresenting the strength of UK manufacturers' export performance.

Exchange rate



Exports and the export climate (a trade weighted PMI-based index of demand in the UK's export markets)



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

* Although the pound has strengthened against a trade-weighted basket of currencies by 9% since the end of July last year, it remains 19% below its pre-crisis peak.

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