Markit Economic Research

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United Kingdom

UK trade deficit widens in May as modest export growth offset by rising imports

- **Trade deficit in goods widened to £9.2bn in May**
- **Trade likely acted as drag on economy in Q2**
- **Goods exports rose a mere 0.6% in May**

A modest rise in exports in May was offset by a stronger increase in imports, causing the deficit to widen and suggesting that UK trade acted as a drag on the economy during the second quarter.

Deficit widens

The UK's trade deficit worsened in May, which the Office for National Statistics mainly linked to large imports of aircraft. Imports of goods rose 1.7% during the month while exports rose just 0.6%. The goods deficit swelled from £8.8 billion in April to £9.2 billion in May as a result, its highest since January.

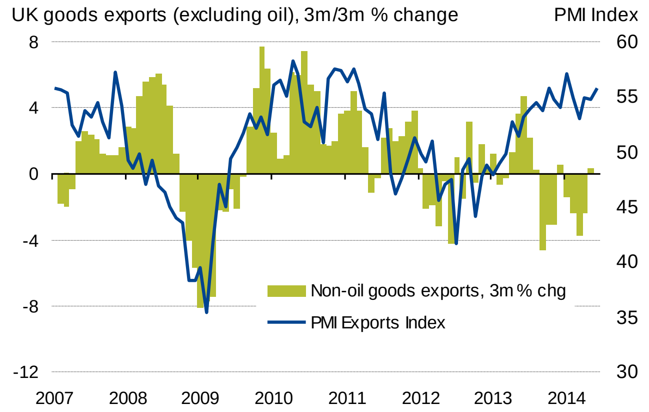
The overall trade deficit, including services, rose from £2.1 billion to £2.4 billion. In the second quarter so far, total imports are up 0.3% compared to the first three months of the year while exports of both goods and services are down 0.7%.

The 0.6% rise in goods exports in May provided some encouraging news, especially as exports had fallen in six of the prior eight months. The upturn was also better than might have been expected, given the high number of holiday days taken on the European continent in May. With incidences of public holidays falling on Thursdays, many workers will have also taken the Friday off as well, meaning a stronger than usual downturn for the month. Export sales to Europe, especially of components to other producers, will have suffered as a result.

Survey gulf with official data

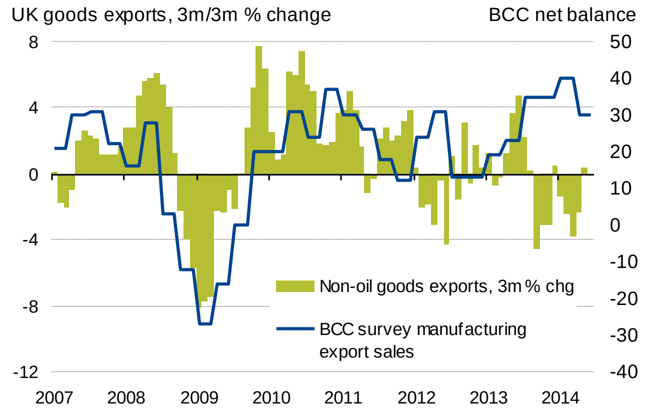
There nevertheless remains a wide gulf between what the buoyant business surveys are telling us about export performance and the message from the official data. The export measures from both the Markit PMI and the British Chambers of Commerce surveys are running at levels consistent with goods exports growing at a quarterly rate of approximately 4% in the second quarter. By comparison, the official data are so far signalling a mere 0.5% quarterly increase for the second quarter (albeit an improvement on the 3.8%

Non-oil goods exports v PMI survey



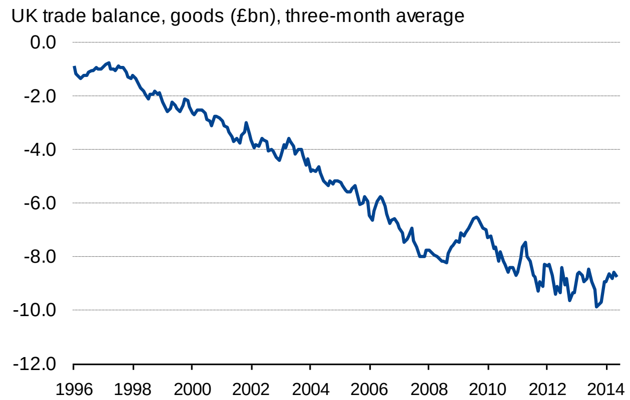
Sources: Markit, Office for National Statistics (via Ecowin).

Non-oil goods exports v BCC survey



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

Trade deficit



Source: Office for National Statistics (via Ecowin).

decline registered in the opening quarter).

It's hard to square the message from the official data with the surveys. Certainly the survey data sit more in line with the official data on manufacturing output over the past year. Despite a surprise 1.3% drop in production in May, output remains a buoyant 3.7% higher than a year ago. It's hard to see how such growth is being sustained without healthy export sales.

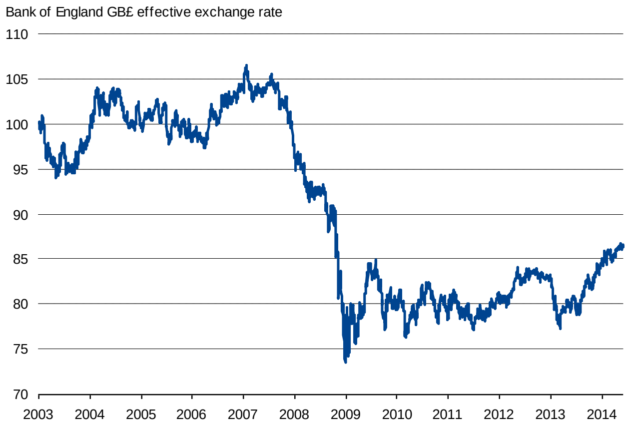
Good outlook

On balance, it is likely that exports should strengthen in coming months, albeit with any rise tempered by sterling's appreciation.

With worldwide PMI surveys signalling the strongest global economic growth for three years in June, with the US growing strongly, Japan stabilising, emerging markets showing signs of life and the eurozone recovering, albeit hesitantly, we would expect export sales to pick up again at the end of the second quarter. Further growth should be expected into the second half of the year.

The concern is that sterling's appreciation, with the pound rising to its highest since 2008 on a trade weighted basis, makes it tougher for UK exporters to gain a share of this growing global market. On the other hand, although sterling has gained around 10% over the past year, it remains roughly 20% below pre-crisis levels, which means UK exporters retain a decent competitive advantage.

Exchange rate



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