

# United Kingdom

## UK trade deficit worsens on exports downturn

- Trade deficit in goods widens to £9.4bn in June
- Exports drop 1.6%, imports fall 0.4%
- Deficit including services rises from £2.4bn to £2.5bn

The UK's trade deficit worsened again in June, meaning the country's economic recovery remains reliant on domestic demand. The trade situation could also worsen further, as overseas sales are hit by rising geopolitical risk aversion and sterling's appreciation.

Official data from the ONS showed the UK's trade deficit in goods widening from £9.2bn in June to £9.4bn in July. The deterioration was caused by exports falling 1.6% while imports fell just 0.4%. If the £7bn surplus in trade in services included, the deficit rose from £2.4bn to £2.5bn.

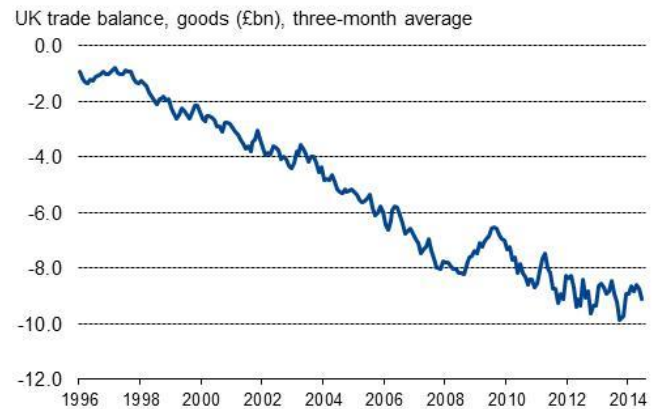
The trade figures are some of the worst seen in recent history, and likely to worsen further in July after PMI survey data showed manufacturing expanding at the slowest rate for a year in July, caused primarily by a deterioration in export growth.

### Exports hit by double-whammy

Exporters are being hit on two fronts. First, an appreciating exchange rate, which has risen 10% over the past year, is making UK-produced goods more expensive abroad. Second, already weak demand in many overseas markets is being hit further by growing uncertainty about the Ukraine crisis, especially in northern Europe. Escalating geopolitical events in Gaza and Iraq add to the sense that global risk aversion is creeping higher, which will inevitably mean slower economic growth.

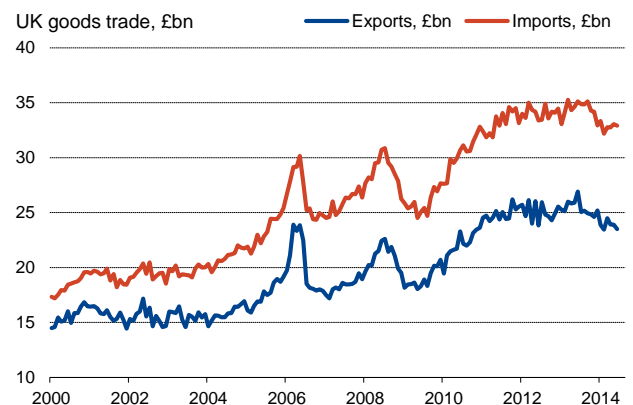
With the stronger exchange rate also making imported goods more attractively priced in the UK, a fall in exports is likely to be accompanied by rising imports, meaning trade could act as a drag on the economy in the second half of the year, causing economic growth to slow.

### UK goods trade deficit



Source: Office for National Statistics (via Ecowin).

### Imports and exports (goods)



Source: Office for National Statistics (via Ecowin).

### Trade weighted exchange rate



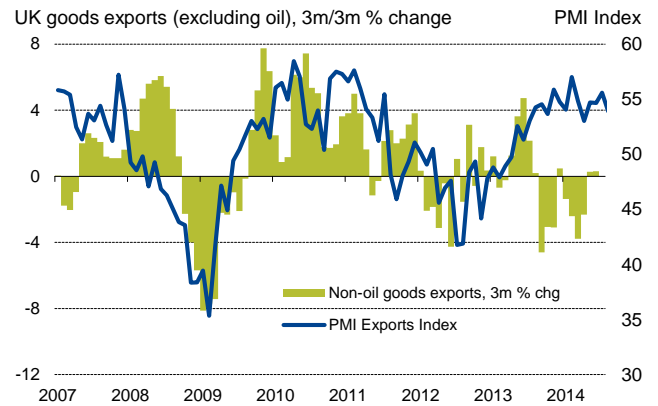
## Export divergence

There remains a wide and unexplained divergence between survey data on exports from the Markit/CIPS PMI and the British Chambers of Commerce compared to the official data. Both surveys have shown strong export sales over the past year, contrasting with the deterioration seen in the official export numbers.

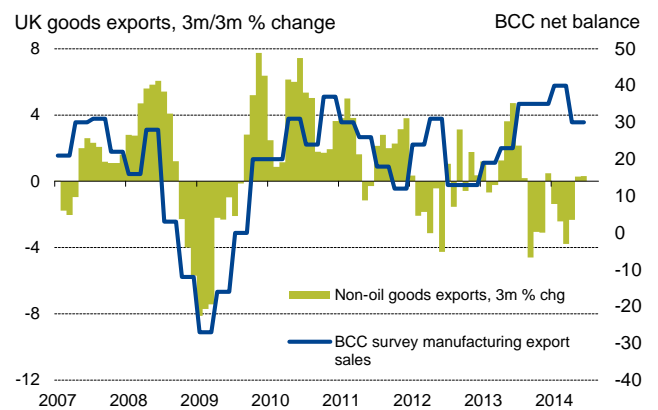
The surveys suggest that much of the manufacturing recovery seen over the past year has in part been fuelled by rising sales to overseas markets, and in particular the reviving Eurozone economies as well as the US and Middle East. It is surprising that the official data on exports collapsed just at a time when global economic growth was picking up.

A possible (though purely speculative) cause of the divergence is that the surveys tend to reflect the volume of exports whereas the official data measure values. This would suggest that companies are selling large numbers of goods abroad but at greatly discounted prices.

### PMI and official export data compared



### BCC survey and official export data compared



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