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UK'S MANUFACTURING EXPORT GROWTH STUTTERS WHILE SERVICE SECTOR EXPORTS FALL

- UK businesses face challenges as pace of manufacturing export growth drops in the last quarter of 2018, although some growth remains
- Consumer goods the best-performing export category for UK manufacturers in the final months of 2018 – helping offset automotive sector weakness
- Supply chain challenges and rise in stockpiling driven by disruption concerns associated with the UK's planned exit from the EU

The Lloyds Bank UK International Trade Index, compiled in partnership with IHS Markit, reveals the views of UK businesses on export opportunities. The Index highlights export growth opportunities for UK manufacturing firms weakened to a near three-year low in Q4 2018. Meanwhile, exports in the service sector fell, ending four years of growth.

Political uncertainty at home and abroad, along with weakening economic growth in key markets were cited as the drivers for the export downturn.

The UK International Trade Index is based on data from IHS Markit's Purchasing Managers' Index[®] (PMI[®]) surveys. The PMI data measures UK export growth in the manufacturing and service sectors, demand conditions in over 40 UK export markets and lead times in global supply chains. Using these findings, the Index offers insights into the mind-set of the UK's business community.

Exports in consumer goods help offset automotive sector weakness

Exports of consumer goods held up well, with growth in the 'other manufacturing' sector – which includes sports and leisure equipment and furniture – faring best. The sector rose from 51.8 in Q3 2018 to 55.1 in Q4. The Index can range from 0 to 100, with any reading above 50 signalling growth, while below 50 signifies contraction.

Hot on its heels, food and drink and textiles and clothing also performed well, posting 52.5 and 55.0 respectively.

It was a different story for the transport sector which was the worst performer. Changes to diesel regulation and slowing Chinese demand were cited as the drivers of this turn in fortunes. The Index for UK automotive export sales posted a quarterly reading of 46.2, with export growth continuing the decline seen since Q2 2018. Basic metals exports have also been hit by global uncertainty, posting an Index of 48.3 in the final quarter of last year.

With such mixed economic growth diversification is key

Business-to-business service firms, including those in advertising, market research and engineering services, bucked the weaker export trend with strong demand reported in Asia-Pacific and the Gulf states.

The Index measuring UK service exports fell in Q4 2018 to 48.8, down 2.1 points since Q3 and ending a four-year period of sustained growth. More than a third of service providers who noted falling export orders in December referenced uncertainty in the EU as a contributing factor.

Strong economic growth in exports to the Netherlands, Ireland and Spain in the final three months of the year presented bright spots for UK exporters, contrasting with softer export growth conditions in China, France and Germany.

Larger manufacturing firms, those with more than 250 employees, who typically have more diverse overseas export markets showed greater resilience to the geopolitical headwinds with a reading of 52.2 in Q4. In contrast, small (less than 50 employees) and medium-sized companies (50-250 employees) reported an overall fall in new export orders at the end of last year with Q4 readings of 47.3 and 49.2 respectively.

Rise in stockpiling for UK firms

The threat of future input shortages and its potential to cause production disruption led UK manufacturers to ramp up stockpiling efforts in Q4. Increased stockpiling activity will increase financial pressures for firms looking to export in the year ahead. The UK Manufacturing PMI Index for purchases of stocks ramped up to 53.7 for the month of December, jumping from 51.1 in the previous month.

In the last quarter, UK manufacturers started to experience some improvements in supplier lead times and bottlenecks after the worst period of delays since 2011, according to the International Supply Chain Index. The improvement in supplier lead times seen from Q3 2018 likely reflects the combination of enhanced capacity among suppliers, who previously had been playing catch-up following the surge in European economic growth in 2017, and the recent slowdown in demand for raw materials and products across the region.

Gwynne Master, Managing Director and Global Head of Trade for Lloyds Bank Global Transaction Banking, said: *“We should be mindful of the impact of fluctuating trading conditions and global and domestic political uncertainty on the UK’s exporters.*

“Against this backdrop of challenging conditions, it’s encouraging to see international demand for UK consumer goods sustain the longest period of manufacturing export order growth since the financial crash, even if the pace of growth has weakened.

“The UK International Trade Index findings underline why exporters can benefit from doing business in a diverse range of overseas markets. Exporting to a mixture of different countries would help, for example, a business offset the impact of a Chinese downturn if they were also exposed to the Netherlands, Ireland or Spain which are all showing real strength.

“With a year of likely change ahead of us, it’s important that the UK’s business community is equipped with the expert insight and support they need to flourish. As part of our commitment to being by the side of UK businesses, our teams are on hand up and down the country to help businesses develop export strategies that enable them to reach their full potential.”

Lloyds Bank’s International Trade Portal can help current and prospective exporters understand the best market for their products or services, the trading requirements and conditions they face. The International Trade Portal is available at www.lloydsbanktrade.com/.

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Once the embargo is lifted, you will be able to download the full report via www.lloydsbank.com/commercialbanking

Notes to editors

- The Lloyds Bank International Trade Index, written in partnership with IHS Markit, sheds light on international trade conditions to help British businesses trade internationally and navigate export



markets. It brings together key export growth and supply chain indicators to provide timely insights into the challenges and opportunities for exporting.

- **Methodology:** The UK International Trade Index is compiled by IHS Markit and based on the results of surveys covering over 25,000 purchasing executives in over 40 countries. Together these countries account for an estimated 95% of global manufacturing output and more than 75% of global service sector gross value added. Questions are asked about real events and are not opinion based. An index reading above 50.0 indicates an increase in the variable since the previous month and below 50.0 a decrease. All charts and commentary relate to a quarterly rolling average of monthly index readings.

The UK Manufacturing PMI[®] is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a representative panel of around 600 manufacturers. The UK Services PMI[®] is compiled by IHS Markit based on original survey data collected from a representative panel of around 700 companies based in the UK service sector. The panels are stratified by detailed sector and company workforce size, based on contributions to GDP. Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. Data is presented in the form of diffusion indices, where the index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

Underlying survey data is not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Lloyds Bank Commercial Banking

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About PMI

Purchasing Managers' Index[®] (PMI[®]) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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