

Navigator

Now, next and how for business

United Kingdom report



United Kingdom

Some silver linings in the Brexit clouds

Brexit continues to be a dominating factor impacting the UK trade outlook. Yet, despite potential disruption to UK trade relationships post-EU membership, the latest HSBC survey reveals largely positive expectations for trade in the short term, with respondents' optimism reflecting a healthy global economic environment. Longer-term, the UK should gain from its strong position as a service provider.

Short-Term Snapshot

The UK economy performed better in 2017 than many forecasters had expected. Exports made a strong contribution, as exporters find themselves in a "sweet spot"— enjoying the benefits of a weak pound and buoyant demand in the UK's principal markets and not yet facing potential new trade barriers that may follow the UK's formal exit from the EU in March 2019.

The nearing of Brexit does not appear to be putting much of a dampener on business sentiment regarding trade, at least in the near term. Almost three quarters (72%) of UK companies expect trade volumes to increase over the next 12 months — just a little below the global average of 77%, which reflects projections for strong growth in emerging-markets.

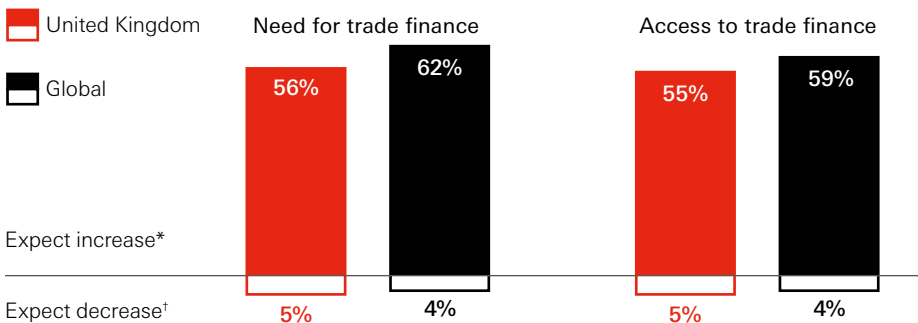
UK businesses view the US, Germany, and France as the most important target markets for expanding their business, and these advanced economies are doing well, too. Indeed, survey respondents consider the favourable economic environment the primary driver of trade growth, ahead of increasing demand for individual products and greater use of technology.

Action points for business

- ◆ Firms should be ready to exploit another year of healthy growth in key trade partners...
- ◆ ...but exporters should also recognise they're in a "sweet spot" that won't last indefinitely.

The economy's better-than-expected performance in 2017 was partly an export story.

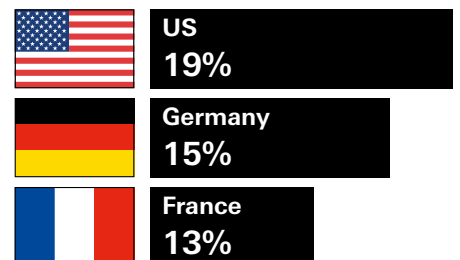
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
 †Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



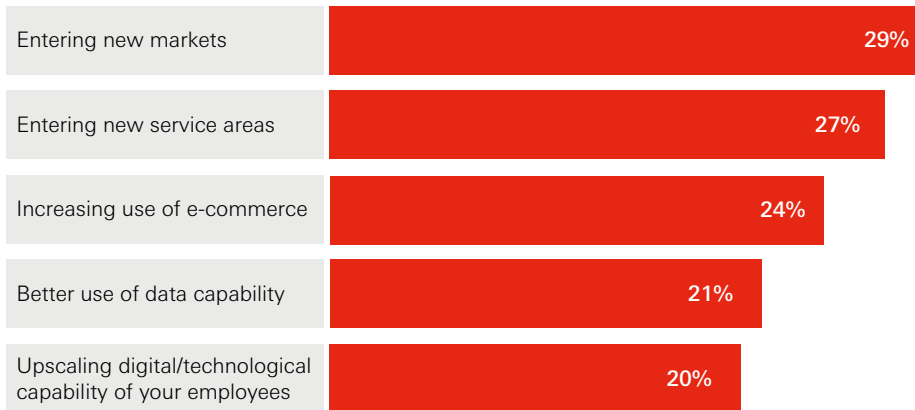
Source: TNS Kantar

With trade volumes expected to grow, a majority (56%) of UK businesses anticipate needing more trade finance, and 55% think their access to trade finance will improve. The biggest perceived barriers to finance are exchange-rate volatility and the political environment.

The services sector accounts for almost 40% of UK exports. However, last year, service exports grew more slowly than goods exports – potentially a result of goods (being more price-sensitive) benefitting from a weaker pound. Just over half of UK services firms (53%) expect to see trade increase in the next 12 months – only a little below the global average. UK businesses expect growth to be driven by firms entering new markets and by the benefits of digitisation, while geographically, they see emerging economies as the most promising source of rising services exports.

UK firms are largely positive about near-term prospects.

How do you plan to grow your services business?



Source: TNS Kantar

In some respects, UK firms are upbeat about the opportunity for technology to enable international trade. More than three quarters (76%) think easier access to data will create a more level playing field with overseas competitors. Yet, at the same time, a clear majority of companies think big data capabilities and data regulation will create barriers to competition and cross-border trade (68% and 73% respectively).

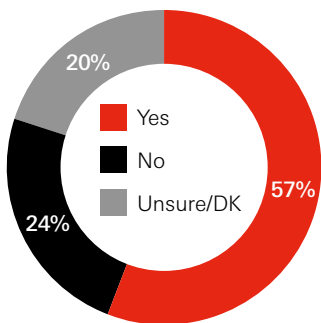


Trade Policy Developments

The date on which the UK formally leaves the EU is fast approaching. So the country's central trade policies will be instrumental in determining new relationships with its European neighbours, and exploiting new-found freedoms to liberalise trade with countries in the rest of the world.

As 57% of UK businesses surveyed say governments have become more protective of domestic firms, companies are already building Brexit and US trade policy shifts into their trade outlooks. Just under one-third of UK businesses think the cost of doing business has increased, whilst 28% believe opportunities for international business have dwindled. However, the UK's trade relationships with the EU and US have not fundamentally changed, so far.

Are governments becoming more protective of their domestic business?



Note: may not total 100% due to rounding
Source: TNS Kantar

Top 3 impacts of protective policies on my business

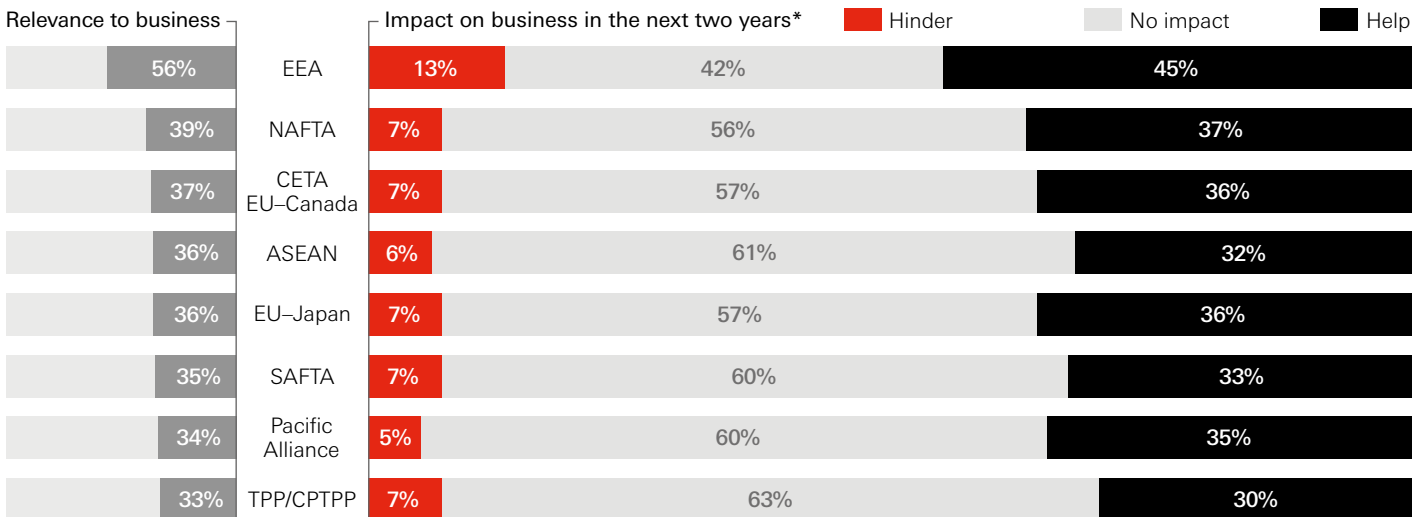


Source: TNS Kantar

Action points for business

- ◆ Firms should examine their supply chains to ensure they understand the risks and potential costs associated with alternative Brexit outcomes.
- ◆ As the UK looks to forge new trade deals, is your firm positioned to take advantage of expansion opportunities outside Europe?

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

Uncertainty around what a post-EU future holds for UK businesses is perhaps reflected in the disparate views recorded – as 38% of UK companies are expecting Brexit to have a negative impact while 28% think it will have no impact, and 33% anticipate a positive impact. The results suggest companies are reasonably confident that the UK will reach a trade deal with the EU and will subsequently pursue trade liberalisation with non-EU partners. A deal with the US could potentially be significant, given that the weight of the US in the global economy and the opportunity to leverage already close UK-US trading links. But other possibilities mooted in the press, such as UK participation in the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), may be considered less relevant by UK firms, given the currently modest (albeit rising) level of UK trade exposure.

Concerns about protectionism have grown, yet opinions about Brexit diverge.

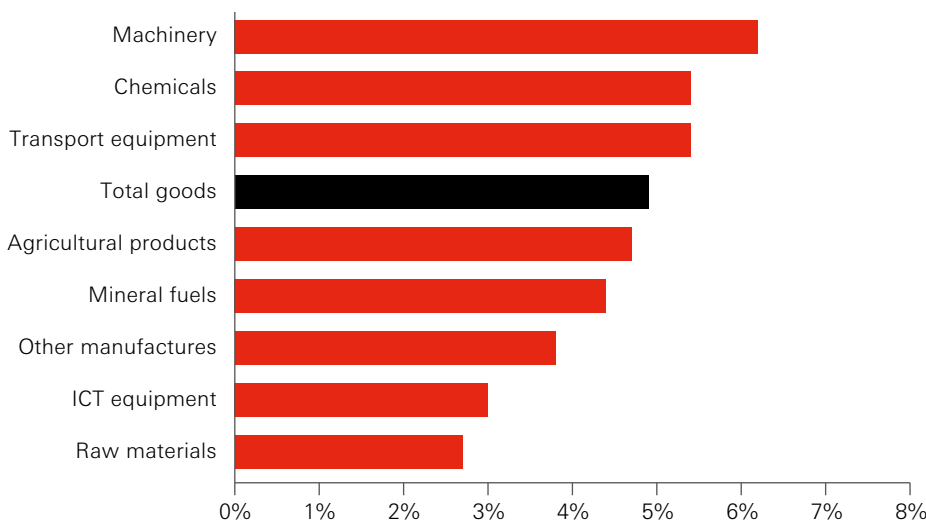
Long-Term Outlook for Trade

We expect the UK to agree a multi-year transition deal with the EU beginning in March 2019, implying that UK trade will not see an immediate impact from Brexit. Our projections assume that a free-trade agreement follows that transition period, but there remains the potential for new non-tariff barriers, such as additional regulatory requirements. If so, this suggests that goods and services exports to the UK’s near-neighbours will grow more slowly over the next decade, and UK trade will shift more rapidly toward other markets. As the UK is a mature economy, its goods and services exports are unlikely to change radically; machinery, transport equipment, and pharmaceuticals will continue to dominate goods trade. The UK’s expertise in many service sectors, particularly business-to-business (B2B) and financial services, coupled with a growing middle class in emerging economies, suggest that services will account for a growing share of total export volume. However, with emerging economies becoming more sophisticated, competition for UK firms from indigenous service providers is likely to increase.

Emerging economies will buy more UK goods

Unsurprisingly for a country with a mature industrial structure, the types of goods that the UK sells abroad shouldn’t change much over the next decade or so. According to our forecast, industrial machinery, transport equipment, and pharmaceuticals should remain in the top three, respectively, in terms of their share of goods exports through 2030. The first two categories are forecast to contribute most to export growth, with pharmaceuticals gradually supplanting petroleum and petroleum products in third place as North Sea production declines. Since the EU accounts for 40–60% of the UK’s total machinery, transport, and pharma exports, the possibility of a ‘hard’ Brexit—with the resulting trade barriers—poses obvious risks.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- ◆ Firms should anticipate longer-term trade frictions arising from Brexit and the potential need to focus sales on alternative markets.
- ◆ Has your firm considered the appropriate entry method (e.g., acquisition, organic growth, franchising) to exploit opportunities in new markets?
- ◆ Can your company adapt to the cultural, product, and regulatory differences in rapidly growing Asian economies?

Goods trade is unlikely to see much shift, although Brexit is likely to speed realignment toward non-EU markets.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	USA	USA
2	Germany	Germany
3	France	France
4	Ireland	China
5	China	Ireland

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Meanwhile, emerging economies look set to be the prime source of growth for UK goods exports. Our projections show sales to China, India and the UAE rising most rapidly over the longer term, with shipments growing 6–8% per year from 2021 to 2030. Among more advanced economies, Ireland is poised to be the fastest-growing market for UK exports, generating annual sales growth of around 5% over the same period. Mature economies will continue buying the bulk of UK exports by value. By that measure, the US, Germany, and France in 2030 are likely to retain their current position as the top three export destinations. Amongst the 24 trading partners covered in the HSBC Trade Forecast, we expect China will rise from fifth to fourth place as an importer of UK goods, while Ireland takes fifth place.

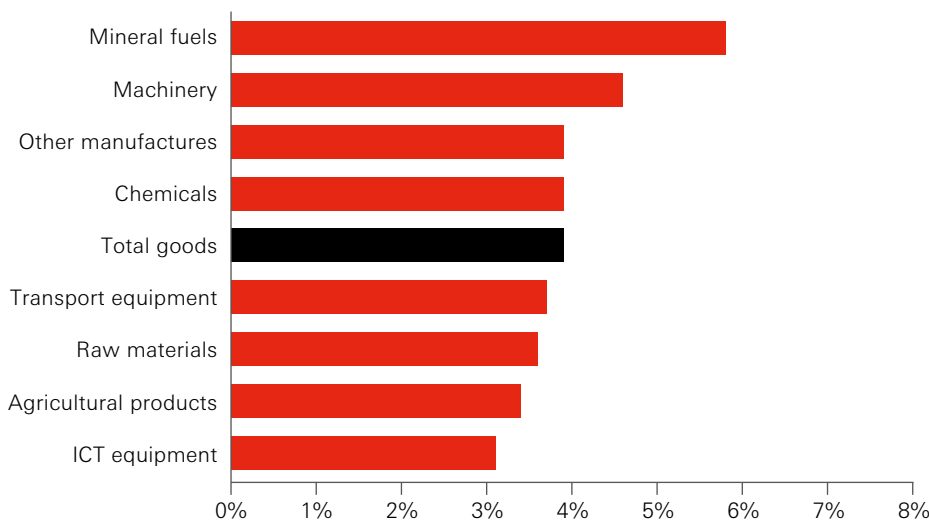
Emerging economies will drive growth in goods exports.

Brexit has ambiguous implications for goods imports

Like goods exports, goods imports are unlikely to shift much by product category. HSBC’s projections see industrial machinery and transport equipment accounting for around one-third of import growth from 2021 to 2030; by the end of that period, these two sectors should also contribute most to the absolute value of UK imports.

The post-Brexit implications for goods imports are ambiguous. On the one hand, the potential for trade frictions with the EU may encourage supply-chain expansion within the UK and push some importers toward domestic suppliers. On the other hand, if trade barriers make the UK a less attractive place to produce for the EU market, some UK-based production could move abroad, and the UK could wind up importing products it had previously produced domestically.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

In terms of where the UK sources its goods imports, purchases from emerging economies should rise fastest in the period to 2030. Imports from Bangladesh, Vietnam, India, and China are forecast to increase by 7–8% per year. Clothing and apparel will drive import growth from the first two countries, while imports from China and India will shift from products like textiles and basic chemical products toward higher-value-added goods. In terms of absolute value, we expect the sources of UK imports to see little change through to 2030, with Germany, China, the US, and France retaining the top four places they held in 2016. By 2030, Poland should overtake Ireland to move into fifth position.

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	Germany	Germany
2	China	China
3	USA	USA
4	France	France
5	Ireland	Poland

Note: Ranking among the 24 trade partners covered in the forecast

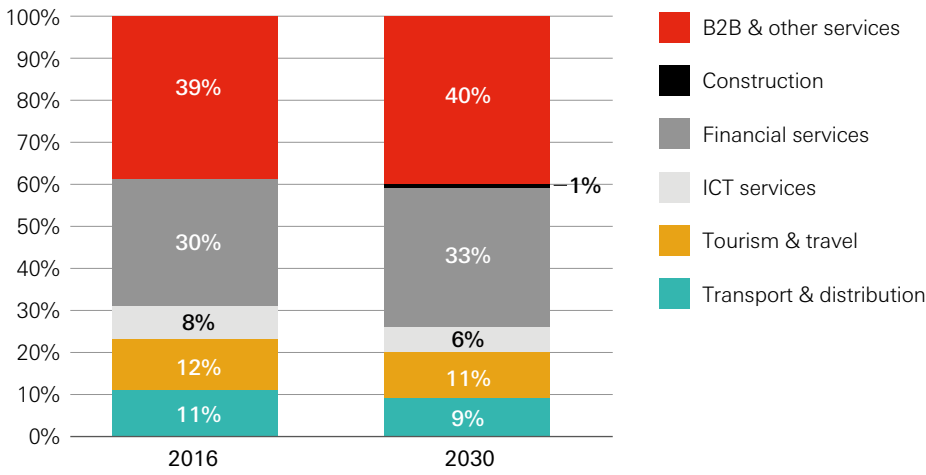
Source: Oxford Economics

UK imports from the emerging economies of Asia will show the fastest growth.

Rising services demand bodes well for the UK

The UK is the world’s second-largest exporter of services, specialising in B2B and financial services. We expect these two sub-sectors will remain the biggest contributors to service exports through 2030 and to account for the largest share of service export growth over the period. Since face-to-face contact is often important in service delivery, the UK holds an advantage in being the home of the global lingua franca, especially since the number of English speakers worldwide is growing. However, the latter trend could be a double-edged sword: In some areas such as B2B and ICT, UK providers are likely to face increased competition. This is particularly true of India, with its large tertiary-educated workforce and widespread proficiency in English.

Sectoral shares in total services exports



Source: Oxford Economics

Geographically, we expect developed economies to remain the principal buyers of UK services exports. The US, Germany, and France should hold onto the top three slots over the next decade, collectively accounting for close to 30% of total UK sales in 2030. However, the strongest demand growth won’t come from mature economies. Sales to India and China are likely to grow the fastest, with UK service exports there projected to rise by around 10% per year. Indeed, UK service exports to China and India are forecast to roughly triple by the end of the next decade, while UK service exports globally rise by 130%.

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	USA	USA
2	Germany	Germany
3	France	France
4	Ireland	Ireland
5	Japan	Australia

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

The US, Germany, and France should remain the biggest buyers of UK service exports in 2030.

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- ◆ For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- ◆ For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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