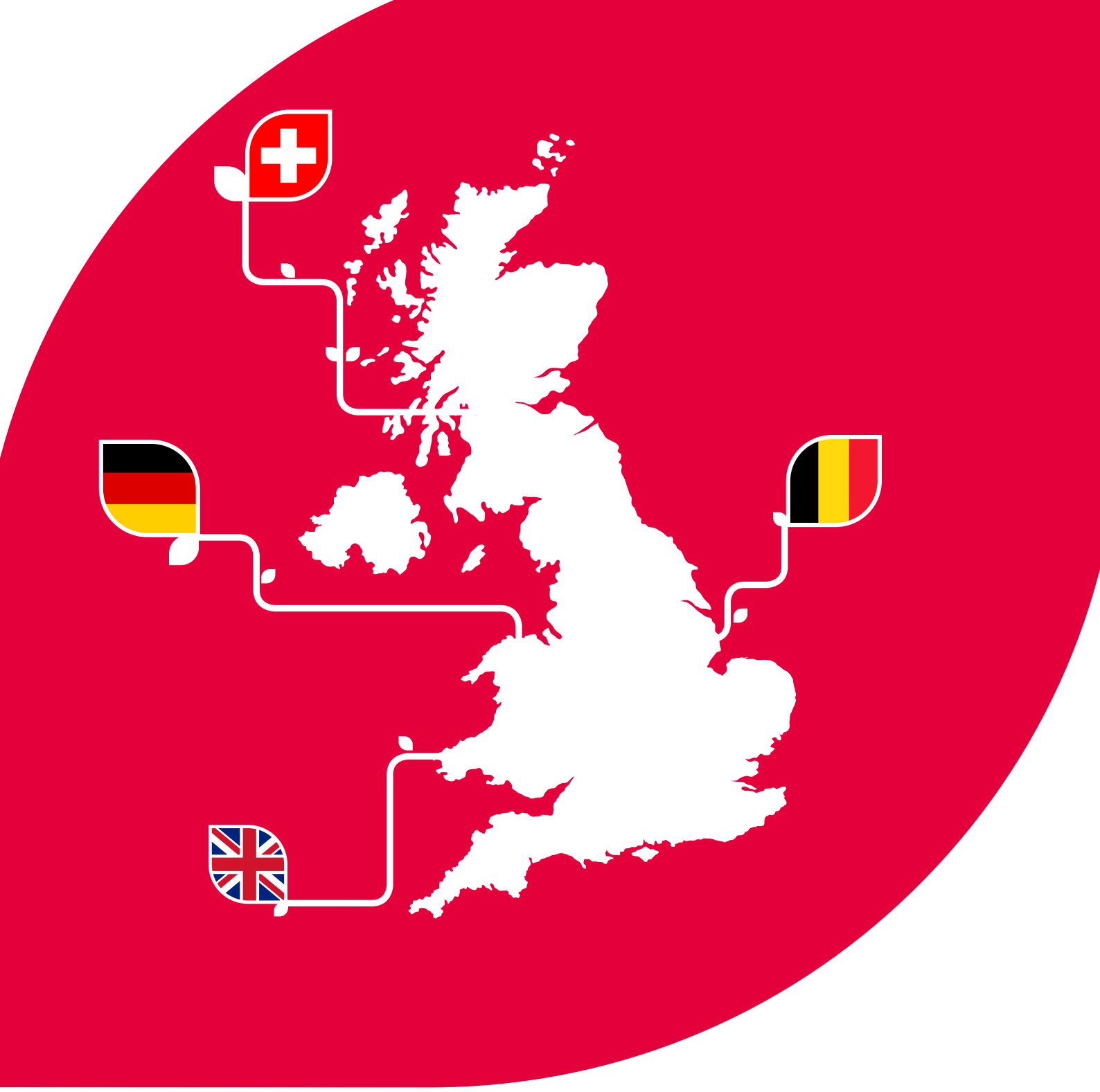


QUARTERLY INTERNATIONAL TRADE OUTLOOK Q2 2017

BRITISH CHAMBERS OF COMMERCE
IN PARTNERSHIP WITH DHL

British Chambers of Commerce

DHL

FOREWORD: **BCC & DHL**

Adam Marshall – Director General, British Chambers of Commerce

Our latest Quarterly International Trade Outlook shows that exporters continue to report solid performances overall - but are conscious of the potential impact of changing conditions in the wider economy.

The volume of trade documentation issued by accredited Chambers of Commerce fell slightly during the quarter, but still stands at its third highest level on record - suggesting that there is a healthy flow of shipments from the UK to export destinations around the world. Yet exchange rates, inflation and its impact on the cost of raw materials, and ongoing skills shortages, are all issues that businesses are keeping a watchful eye on.

While companies understand that the government can't precisely control currency fluctuations on a day to day basis, the government does need to be mindful of the impact their policy pronouncements can have on markets. There are areas of the business environment which can be improved to boost confidence, and create the conditions for real economic growth. More action is needed to solve the substantial recruitment difficulties that plague firms in both sectors, and hold exporters back from expanding. Visible, tangible investment in our physical and digital infrastructure would also increase the potential of UK firms to connect with customers around the world - as well as overall confidence.

Export support, too, needs a boost. The government must work with business to strengthen practical on-the-ground support for UK firms that need a helping hand to get into new markets and reach new partners, including face-to-face advice and support. Revitalising the UK's trade missions and support for businesses to attend trade fairs, as well as expanded front-line assistance, would help get more of our businesses trading competitively on the global stage.

Ian Wilson – CEO, DHL Express UK & Ireland

For the last 12 months UK exporters have been embracing the opportunity that the fall in the pound has presented – making their products and services more competitive in the international marketplace.

This continued strong export performance is reflected in this latest Quarterly International Trade Outlook. However, the report also shows that despite this short-term opportunity, businesses are increasingly concerned about what lies on the economic horizon.

This report brings to light a number of different factors that are currently on the minds of UK exporters. 68% of manufacturers report exchange rates as a concern, and over a third of exporters are concerned about inflation and rising costs of raw materials. Access to the right talent is an issue for a large proportion of both the manufacturing and service sectors - something which was also highlighted in the recent DHL report 'The Supply Chain Talent Shortage: From Gap to Crisis'. Combined, these concerns serve as a stark reminder that more needs to be done to secure the future of UK exporters.

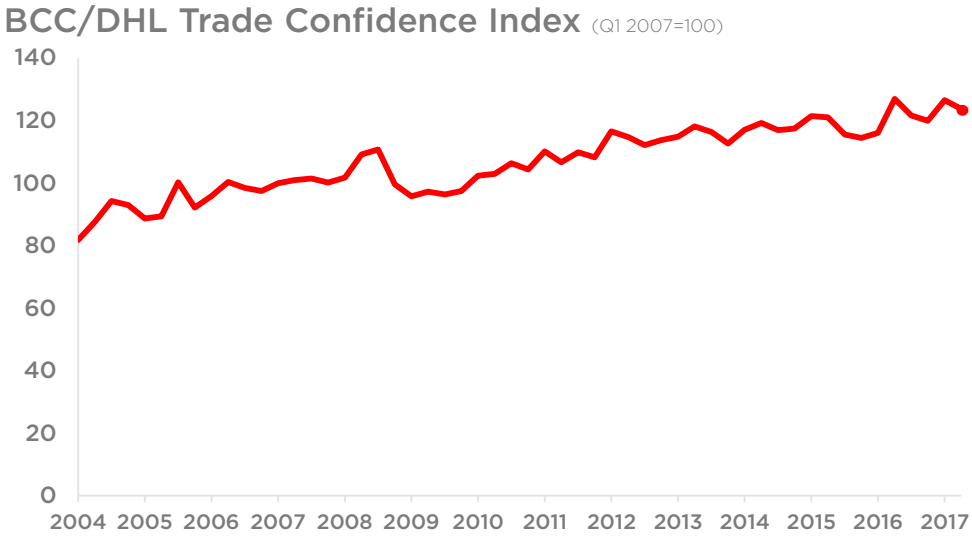
At DHL we will continue to support businesses large and small, new and experienced, to get their goods overseas as seamlessly as possible. As we begin negotiations for our departure from the European Union, the UK government must ensure that the concerns of businesses are acknowledged and that the necessary infrastructure is put in place to ensure Britain continues to be truly global - maintaining and further developing our country's international trading links.

BCC/DHL **TRADE CONFIDENCE INDEX**

BCC/DHL Trade Confidence Index

The BCC/DHL Trade Confidence Index (TCI)* is a measure of the UK's exporting health. By analysing trends in the volume of trade documentation issued by accredited Chambers of Commerce, the TCI provides insight into the UK's trade with countries outside of the European Union, particularly high growth markets such as Asia and Africa.

The Trade Confidence Index currently stands at 123.72. This represents a quarterly decrease of 2.2% on Q1 2017 and a yearly decrease of 2.5% from Q2 2016.



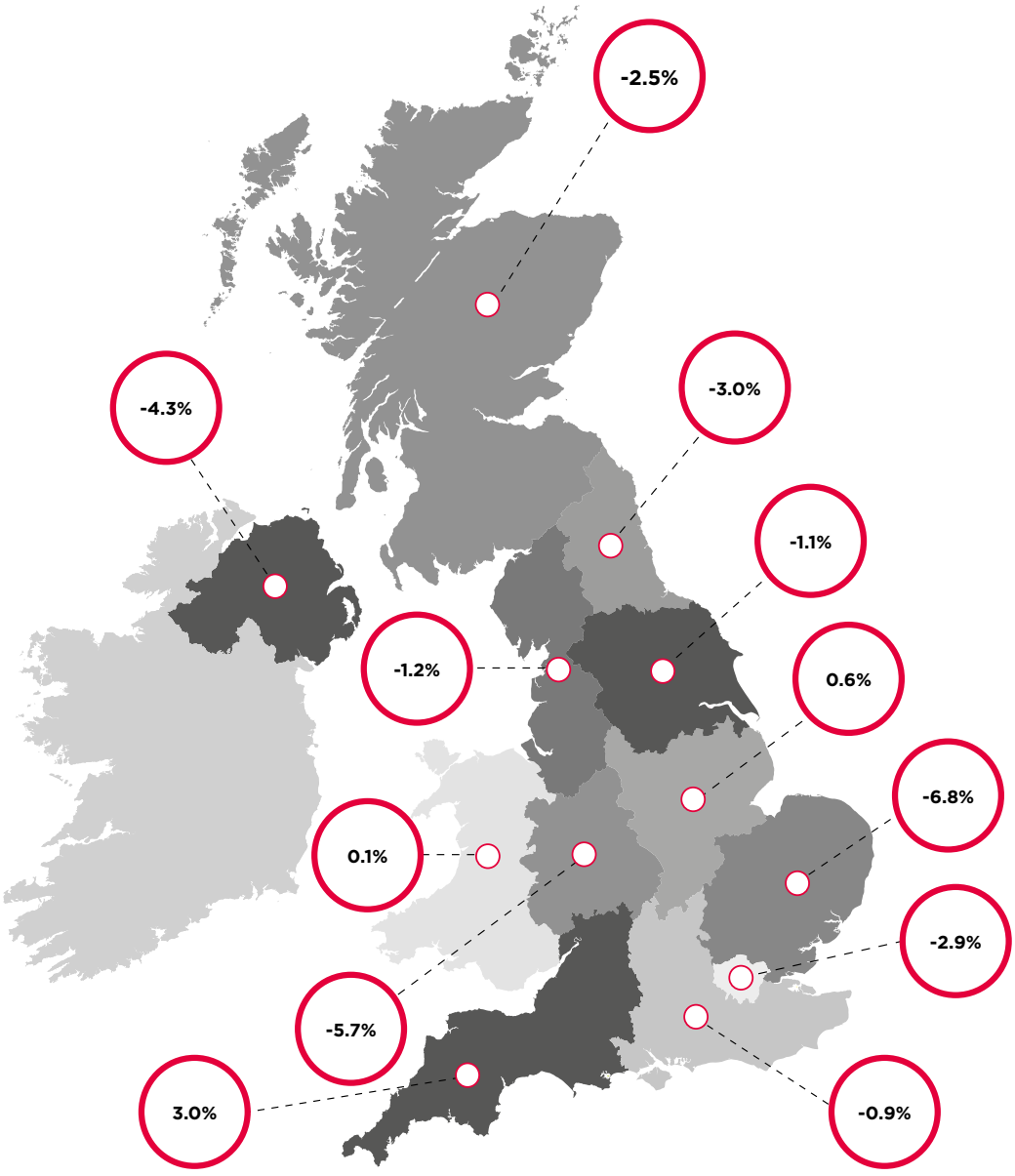
*The index is calculated using the volume of trade documents issued by accredited Chambers of Commerce across the UK. Many types of exports require supporting commercial documentation. Chambers of Commerce issue documentation required for exports outside the EU and as a result have amassed significant data on UK goods exports. The TCI uses data collected from this process to show both an index of documentation and regional comparisons of exporting activity.

REGIONAL **TRADE CONFIDENCE INDEX**

Trade documentation growth by regions and nations

The Trade Confidence Index, a measure of the volume of trade documentation issued nationally, decreased by 2.2% on Q1 2017, and decreased by 2.5% on Q2 2016. The index now stands at 123.72

After a large increase in Q1 2017, most regions have seen a slight decline in Q2, with only the South West, East Midlands, and Wales experiencing growth. The largest quarter-on-quarter declines in export documentation were the East of England (-6.8%), the West Midlands (-5.7%), and Northern Ireland (-4.3%).



SURVEY DATA: **EXPORT SALES**

Firms report mild overall growth in export sales in Q2

The Quarterly International Trade Outlook survey, based on the responses of over 3,500 exporting businesses, shows that the number of businesses reporting improved export sales largely remained unchanged from Q1.

In the manufacturing sector, the balance* of firms reporting improvements in export sales over the previous three months rose to +27% in Q2 2017 from +26% in Q1 2017. This means that 27% more firms reported an increase over a decrease. The balance of manufacturers reporting improved export orders fell to +20% from +22% in Q1.

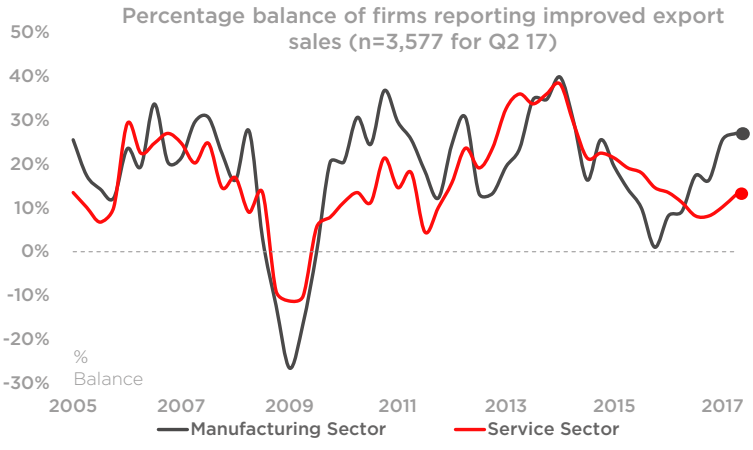
The services sector saw mild growth following a slowdown starting in Q2 2016, with the balance of firms reporting improvements increasing to +13% from +10% in Q1. For export orders, the balance increased for firms in the services sector, to +9% from +5%.

+27%
of manufacturers report improved export sales in Q2

+13%
of service firms report improved export sales in Q2

*Balance figures are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases. A score above 0% indicates growth while a score below 0% indicates contraction.

Service sector begins slow return to historical growth trend



The adjacent graph shows the balance of firms from both the manufacturing and services sectors reporting an increase in export sales against those reporting a decrease since 2005.

Comparing export sales balances for the manufacturing sector across the UK's regions and nations, the strongest Q2 2017 performances were in the South West at +43%, followed by Scotland and the West Midlands, both at +38%. In the service sector, the highest balances were recorded in Yorkshire & the Humber at +24%, the South West (+21%), and the West Midlands (+20%).

SURVEY DATA: **EXCHANGE RATES**

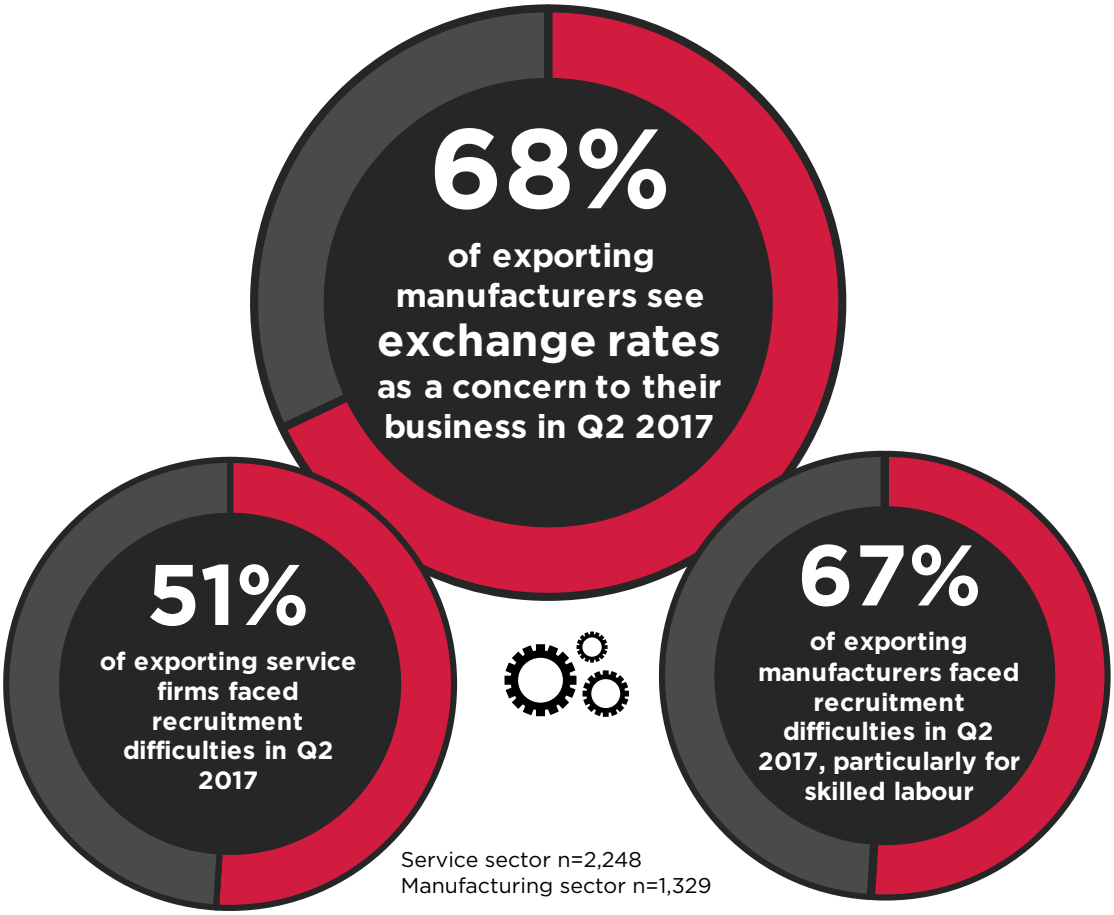
Exporting manufacturers see exchange rates as a key concern

The Quarterly International Trade Outlook survey shows that while export sales remained steady during Q2 2017, there are a number of economic factors that are giving businesses cause for concern.

As the pound continues to fluctuate, the findings of the survey show that 68% of manufacturers who export consider exchange rates as a concern to their business.

Recruitment difficulties are high for exporters in both sectors, with 67% in manufacturing and 51% in services reporting problems finding the right people. Access to skilled manual or technical labour was a particular issue for exporters in the manufacturing sector (69%).

Just over a third of exporters are concerned about inflation (36% in manufacturing and 33% in services). The results also show that 39% of exporting manufacturers expect the price of their products to increase over the next three months. Of these, 81% say this is due to the pressure from the cost of raw materials.



Service sector n=2,248
Manufacturing sector n=1,329

TRADE & ECONOMIC **OUTLOOK**

Trade and economic outlook

The Global Economy

The International Monetary Fund (IMF) forecasts global growth of 3.5% in 2017 and 3.6% in 2018. The US economy, the world's largest, grew by an annualised rate of 1.4% in Q1 2017, lower than the growth of 2.1% recorded in Q4. China's economy, the world's second-largest, grew at an annual rate of 6.9% in Q2 2017, higher than the government's current growth target of 6.5%. The Eurozone economy grew by 0.6% in the first quarter of 2017, up from the 0.5% growth recorded in the previous quarter.

The first official estimate of economic growth revealed that the UK economy grew by 0.3% in Q2 2017, up from the 0.2% growth recorded in the previous quarter. The UK economy grew by 1.8% in 2016 as a whole.

The BCC currently expects the UK economy to grow by 1.5% in 2017 and by 1.3% in 2018.

International Trade

The World Trade Organisation (WTO) is currently expecting world trade growth of between 1.8% and 3.6% in 2017. In 2018, the WTO is forecasting global trade growth between 2.1% and 4%. The UK trade deficit in goods and services was £3.1 billion in May 2017, a widening of £1 billion from April.

The BCC currently expects that UK exports will grow by 3.1% in 2017 and by 2.9% in 2018.

BCC UK Growth Forecast for 2017

1.5%

IMF 2017 Global Growth Forecast

3.5%

UK trade deficit

£3.1bn

in May 2017

FACT SHEET: **BELGIUM**

+32

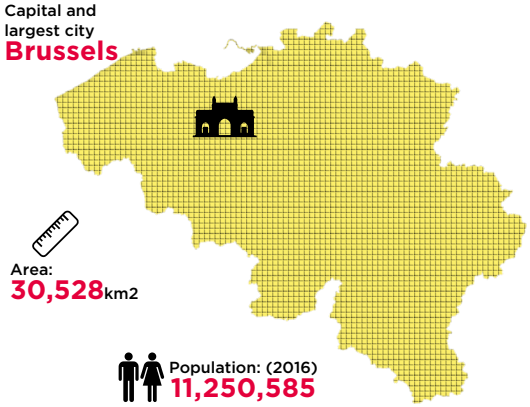
Dutch, French and German

10 provinces

Euro (EUR)

Why Belgium?

Capital and largest city
Brussels



Area:
30,528km2

Population: (2016)
11,250,585

With a high number of English speakers, and a highly developed economy, Belgium is an ideal gateway for UK exports to Europe.

Belgium has a wealthy, open, and competitive market with opportunities in many sectors. Its many different languages and cultures emulates the wider European continent and makes Belgium a great test market. In 2015, UK exports to Belgium were ranked 9th highest in the world by value.

Economic snapshot (% annual growth rate)	2016	2017	2018
GDP	1.2	1.6	1.5
Export of goods and services	6.1	4.8	3.9
Import of goods and services	5.3	4.7	4.0
Inflation	1.8	2.0	1.7
Current account balance (% of GDP)	1.0	0.9	1.1
Population (millions)	11.3	11.4	11.4

Source: International Monetary Fund, World Economic Outlook Database

Opportunities for UK businesses

Areas of interest include chemicals and life sciences, energy efficiency, ICT including e-health, security, construction, PPP projects, sustainable and specialist building products, food & drink: convenience, snacks, spirits, seafood, ethnic foods, healthy and organic foods.

Strengths of the Belgian market include

- Proximity and a strong and long standing trade relationship with UK
- English is widely spoken
- Population with a high disposable income

Cultural tips

- Straightforward business culture - developing personal relationships is important
- Gift giving is not customary among businesses in Belgium
- Punctuality is important

Fact box

- Cross-border e-commerce has a growth rate of around 25% per annum, a rate rarely available in most traditional retail markets.
- More than 60% of all European trade is among European countries.
- Around 20% of cross-border purchases are worth over USD 200 – a higher share than in domestic e-commerce markets.

Source: http://www.dhl.com/content/dam/Campaigns/Express_Campaigns/Local_Campaigns/apem/express_campaign_spice_trade_apem_en.pdf

BRITISH CHAMBER
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FACT SHEET: **GERMANY**

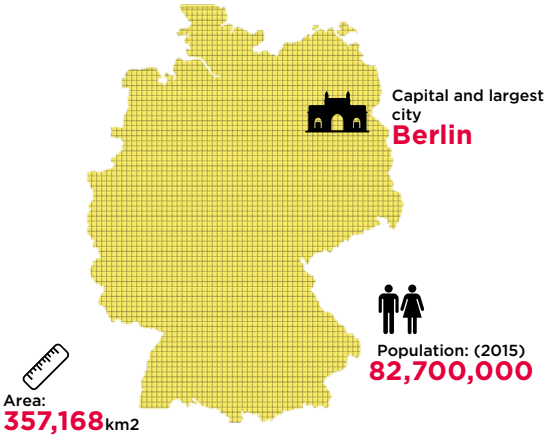
+49

German

16 states

Euro (EUR)

Why Germany?



Germany is Britain´s largest European trading partner and with a GDP of around $3.5 billion, it is the fourth biggest economy in the world.

Nearly 2,500 German firms do business in the UK and more than 1,200 British firms operate in Germany. Figures from the Bundesbank show bilateral British-German trade to be the fourth largest of all German bilateral trade relationships, after the US, the Netherlands and France.

Economic snapshot (% annual growth rate)	2016	2017	2018
GDP	1.8	1.6	1.5
Export of goods and services	2.6	3.8	4.0
Import of goods and services	3.7	4.0	4.5
Inflation	0.4	2.0	1.7
Current account balance (% of GDP)	8.5	8.2	8.0
Population (millions)	82.7	83.0	83.2

Source: International Monetary Fund, World Economic Outlook Database

Opportunities for UK businesses

Areas of interest include automotive, pharmaceutical, biotech, financial services, design, and other services. Many UK companies are either already exporting products or supplying parts and services in these sectors.

Strengths of the German market include

- Very advanced, diversified, and stable economy
- Among the most productive workforce in the world as measured by output per hour
- Ranks fourth in the world according to the UN's Human Development Index (HDI)

Cultural tips

- Very strong culture of structure and planning
- Gift giving is not common among businesses
- Time is managed very carefully

Fact box

- Motivations for consumers to shop cross-border differ by country. Google's Consumer Barometer found that 40% of German consumers shop cross border as they believe it offers better availability of products.
- Consumer research shows that 18% of consumers expect delivery from and within Europe in less than three days.

Source: http://www.dhl.com/content/dam/Campaigns/Express_Campaigns/Local_Campaigns/apem/express_campaign_spice_trade_apem_en.pdf

British Chamber of Commerce in Germany

Germany
British Chamber of Commerce in Germany

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FACT SHEET: SWITZERLAND

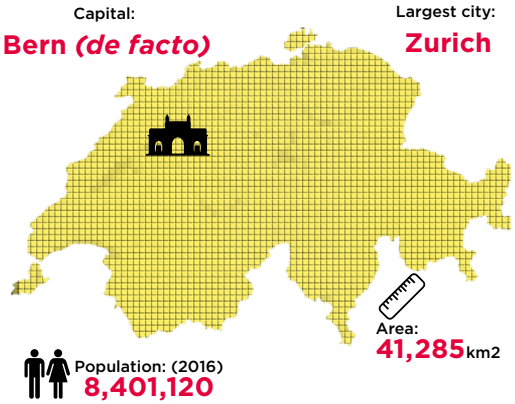
+41

German, French, Italian and Romansh

26 cantons

Swiss Franc (CHF)

Why Switzerland?



Switerzland has among one of the most developed and stable economies on earth. With the second highest nominal GDP per capita in the world, Switzerland has a very high standard of living with low unemployment.

In 2015, around 12% of Switzerland's imports were from the UK, making the UK the second largest import country of origin after Germany. According to the Economic Complexity Index, Switzerland has the second most complex economy in the world.

Economic snapshot (% annual growth rate)	2016	2017	2018
GDP	1.3	1.4	1.6
Export of goods and services	4.6	3.1	2.3
Import of goods and services	2.7	3.1	2.2
Inflation	-0.4	0.4	0.7
Current account balance (% of GDP)	12.0	10.8	10.5
Population (millions)	8.4	8.4	8.5

Source: International Monetary Fund, World Economic Outlook Database

Opportunities for UK businesses

The top goods exported to Switzerland by UK businesses in 2015 included chemicals and plastics, electronic equipment, medical equipment, metals, pharmaceuticals, precious metals, watches and jewellery, and vehicles.

Strengths of the Swiss market include

- Centrally located in Europe with a multicultural population
- Highly educated workforce with high levels of productivity
- English is widely spoken

Cultural tips

- The Swiss market is highly regulated with variance to EU standards
- Swiss business culture is based on consensus so decision-making can be slow
- Culture and style can vary between the German, Italian, and French-speaking areas of Switzerland

Essential customs tips

De-minimis value (duty free allowance): $30USD

When importing coffee and tea products to Switzerland, if the shipment exceeds 20kgs (44lbs) an import licence is required. A EUR1 form is also needed if it originates from a country within the European Free Trade Association (EFTA). Wines originating from EFTA countries also require a EUR1 form and will be subject to duties (32USD/kg) for all shipments above 14% alcohol by volume.

Accredited Chambers of Commerce across the UK stand ready to help your businesses trade internationally.

FACILITATING TRADE

The British Chambers of Commerce (BCC) sits at the heart of a network comprising 52 Accredited Chambers of Commerce in the UK, as well as a fast-growing Global Business Network of Chambers in nearly 40 countries, supporting two-way trade between the UK and the rest of the world.

In the UK, our network brings together over 75,000 member businesses, and engages with a further 200,000 non-member companies each year. Chambers help exporters navigate their way through the ever-changing regulations for each country that can be time-consuming to get right and costly to get wrong.

Chambers can help a company to evaluate their company's products and services for export, help them to select markets that could be successful and help to make sure that they have the infrastructure in place to support their exporting ambition. We don't want businesses to fall at the first hurdle, so our experts guide companies on how to become export ready.

WORKING ACROSS INSTITUTIONS

The BCC is also uniquely placed to engage with business organisations across the globe through the World Trade Organisation, the World Customs Organisation and the World Chambers Federation where the UK plays a leading role representing the interest of UK exporters and importers. An international network of Chambers of Commerce across the world is also utilised through local Chambers who have MOUs in place to provide a soft landing for UK businesses in key trading locations.

British Chambers of Commerce in the UK are authorised by Government to act as trade documentation issuing bodies, and have over 350 experts who advise exporters on documentation requirements.

British Chambers of Commerce

www.britishchambers.org.uk

Twitter: @britishchambers
Follow British Chambers of Commerce on LinkedIn and Google+

For information and advice on international trade visit
www.exportbritain.org.uk

About the British Chambers of Commerce

The British Chambers of Commerce (BCC) is a dynamic and independent business network with accredited Chambers in every nation and region of the UK, and in key markets around the world.

Accredited Chambers are at the heart of local business communities, helping thousands of companies - of every size and sector - to grow and thrive. Together with our fast-growing global network, Chambers provide practical advice and support to British companies trading around the world.

Chambers help businesses connect, belong, and succeed. For over 150 years, our business has been helping UK business grow.

For more information about this report, contact:

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About DHL Express

DHL Express is the global market leader in the international express business, specialising in time and day critical shipments to all corners of the world. The DHL Express network is composed of more than 220 countries and territories and has a global workforce of approximately 100,000 Certified International Specialists.

DHL Express UK works closely with the SME market to help businesses grow internationally through export. DHL provides advice to businesses that are new to international trade and continues to support businesses throughout their export journey.

For further information, visit: www.dhl.co.uk

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www.exportbritain.org.uk