COMMERCIAL BANKING

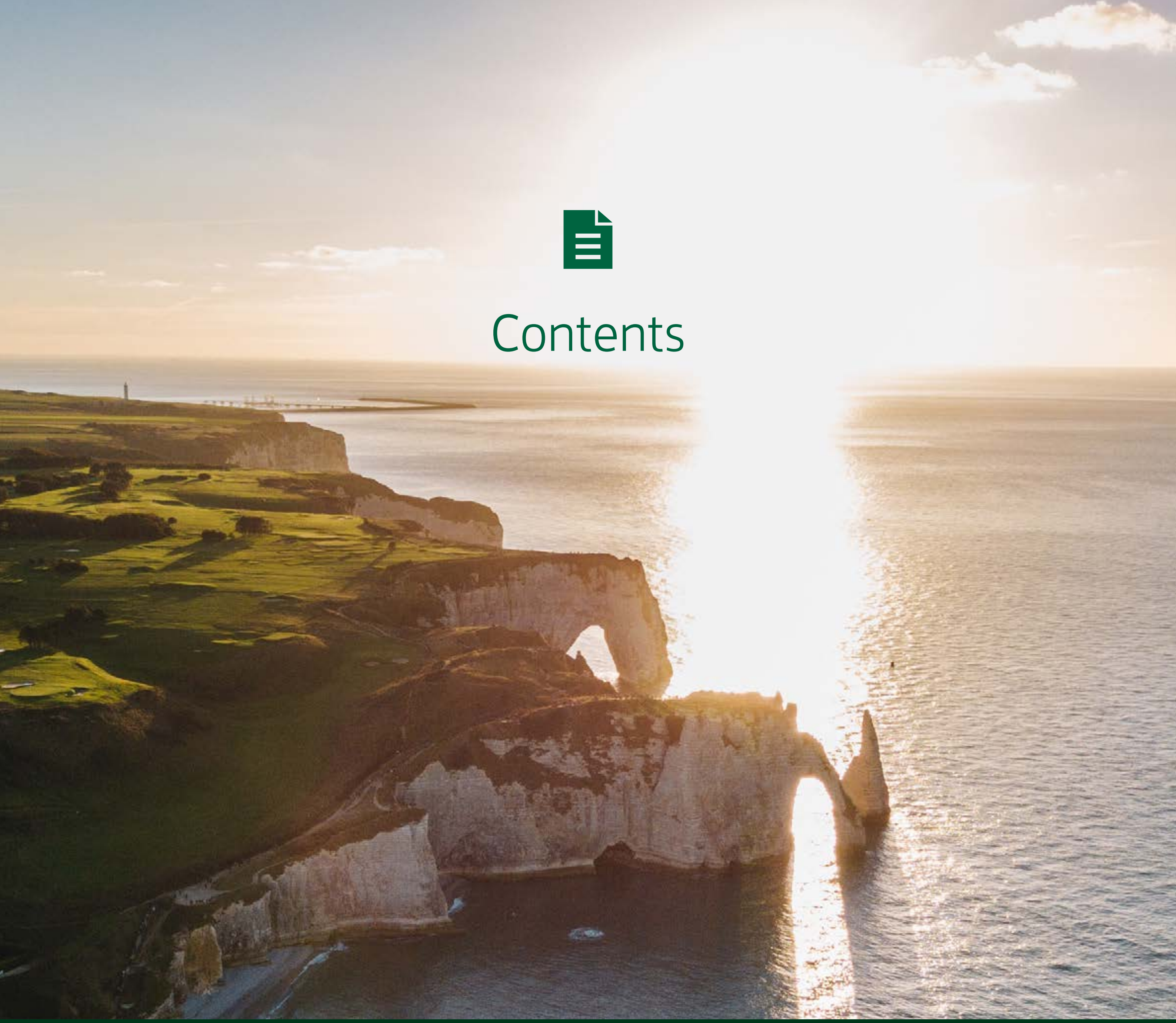
The UK International Trade Index

Insights into UK trade with the rest of the world

January 2019

By the side of business

LLOYDS BANK



Contents

Introduction

EDWARD THURMAN

Managing Director
Head of Global Transaction Banking, Lloyds Bank Commercial Banking

GWYNNE MASTER

Managing Director
Head of Trade, Global Transaction Banking, Lloyds Bank Commercial Banking

> It's only through exporting that British firms will be able to tap into changing global patterns

Welcome to the Lloyds Bank UK International Trade Index. This quarterly series, written in partnership with IHS Markit, is a spotlight on real-time international trade conditions to help British companies navigate global markets.

While the UK has a long history of international trade, never have the challenges and opportunities of exporting been more important for British businesses. In 2017 the UK was the sixth largest exporter of goods and services in the world[1]. With the release of the government's export strategy last year the ambition was set to grow exports as a percentage of GDP from 30% to 35%.

The government's strategy calculates that approximately 90% of global economic growth in the next 10 to 15 years is expected to be generated outside the EU[2]. The report acknowledges that it is only through exporting that British firms will be able to tap into changing global growth patterns. Understanding these global trade trends is critical and that's why we created this report, using the data source that the Bank of England considers the most accurate forecast of UK economic performance.

China has made headlines recently as global markets have reacted to slowing growth and then to planned stimulus. However, government data shows that growth opportunities exist, not only with some of our current large trading partners, but with a range of markets, particularly in Asia. A look at the summary of UK exports in our appendix highlights these growth opportunities in context. Another consequence of recent political tensions has been stockpiling, particularly for UK firms, adding to the financial pressures in the year ahead for companies looking to export.

Data also shows that smaller companies find exporting more of a challenge. Hence the government is focused on initiatives, like grants to attend international trade shows. Lloyds Bank has also set a target of helping 15,000 new exporters trade by 2020 and have partnered with the Department for International Trade to create an award winning[3] International Trade Portal – a free resource which you can access at www.lloydsbanktrade.com.

Our UK International Trade Index brings together key export growth and supply chain indicators to provide timely insights into the challenges and opportunities for exporting. Since the release of our first report many of the themes have made the news, highlighting the value of this data set as a leading indicator to help British companies adapt and identify opportunity for future trade.

We hope that this report provides food for thought, informing your business and export strategy. If you have any questions or ambitions to expand your business through a new market, please contact your relationship manager or the editors – their details are on page 18.

Key UK Trade Index movements

Indices [4]	As at Q4 2018	Δ since Q3 2018
Goods Exports	50.4	-0.6
Services Exports	48.8	-2.1
Export Climate	52.9	-1.7
Global Lead-times	44.3	+2.1

[1] IMF BoP Data 2017
[2] DIT Calculation based on IMF 2018, World Economic Outlook
[3] Global Finance Magazine's Innovators Trade Finance Award, 2017
[4] Any reading above 50.0 signals improving growth. Below 50.0 indicates deterioration.

Summary

KEY FINDINGS

- New export orders at UK manufacturing firms continue to grow, but at the slowest rate since Q1 2016
- Weaker global economic growth, trade frictions and automotive sector disruptions all contribute to loss of export momentum in Q4
- Increased stockpiling by UK manufacturers, as supplier lead times improve in Europe and US
- UK service sector signals a fall in exports, ending a four-year period of growth, as firms look to new markets in the US and Asia

“Slower growth in China and a rapid shift in buying preferences are big themes for automotive exporters”

The UK's strong export growth begins to run out of steam and stock levels build across British manufacturers

The fact that trade tensions have dominated so much of the media in the last year illustrates the importance of interconnected economies and global supply chains.

This quarterly report is designed to support British businesses navigate these challenges. It draws on a unique set of data, based on IHS Markit's Purchasing Managers' Index® (PMI®) surveys, including new service sector export orders.

The core of this report is focused on four indices. These measure UK export growth for manufacturing and service sectors, demand conditions in over 40 UK export markets and lead times in global supply chains. This gives us near real-time insight into current and future UK international trade conditions.

Manufacturers report export headwinds

Our survey data reveals that new export orders for UK manufacturers increased over the final three months of 2018. UK manufacturers have experienced the longest period of export growth since 2008. However, the rate of growth has slowed again at the end of last year and is now much softer than the peak in Q3 2017.

A myriad of challenges have surfaced for British exporters over the past year, including a surge in global trade tensions, domestic political uncertainty, as well as regulatory changes affecting the automotive sector and its supply chain. The near-stalling of export orders reported by goods producers in Q4 suggests that these events have all taken their toll on the UK manufacturing sector.

A breakdown of new export orders indicates that global trade headwinds have been felt the most in the intermediate goods sector, especially basic metals. Transport was the worst performing category overall in the final three months of last year, with exports remaining on their sharpest decline since 2013. Production disruptions due to changing emissions regulations will subside this year, but slower growth in China and a rapid shift in buying habits from diesel engines look set to remain big themes for automotive exporters in 2019.

Exports of consumer goods, such as leisure goods, have held up well and export growth within this category accelerated in the last quarter of 2018. British exporters of consumer goods have outperformed for much of the past two years, buoyed by stronger labour market conditions and rising household incomes in emerging markets.

Larger firms, with more diverse overseas export markets, have shown greater resilience to the geopolitical headwinds in contrast to small and medium-sized companies who reported an overall fall in new export orders at the end of last year.

The total number of UK companies of all sizes who export, has been increasing consistently since the global financial crisis. However, our latest data suggests that the number of smaller companies exporting has reduced further from historic highs reached at the beginning of 2018.

Service exports fall for first time in four years

Mirroring the trends for goods exports, the new UK Services Export Business Index points to a loss of momentum since Q3 2018. The latest reading signals that a four-year run of growth ended in the final quarter of 2018.

A number service providers noted that a combination of domestic political uncertainty and slower economic growth in the euro area had dented demand from European clients. British firms once again commented on efforts to expand into new markets outside of the EU, particularly Asia Pacific and the Persian Gulf, which helped the business-to-business service sector to continue to grow exports in Q4.

The proportion of service companies exporting varies widely across different sub-sectors. However, in spite of short term challenges the overall proportion of service firms exporting was little changed. Our data indicates that technology services have achieved the largest increase in the number of firms exporting since the index began in 2014.

Weak overseas growth dampens outlook

As an indicator of future demand for UK exports, our report examines economic conditions in key UK export markets. This trade-weighted index reveals that while the outlook for UK exports is still positive, overall growth has slowed. Resilient US economic growth was more than offset by a slowdown in business expansion across the EU, particularly Germany and France, and China at the end of last year.

Global supply chains start to catch up with backlogs, while UK firms increase stockpiling

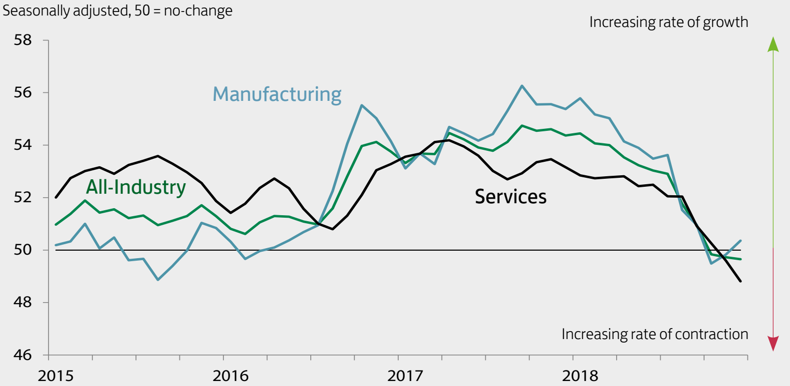
In the last quarter of 2018 UK manufacturers have started to see a turnaround in supplier lead times and bottlenecks after the worst period of delays since 2011. This is particularly the case in Europe and the US as European economic growth slows and the US adapts to new trucking regulation.

Bottlenecks nonetheless persist, with our index singling out shortages of electronics components in Q4 2018. Stockpiling efforts have led to shortages of transportation capacity, according to survey respondents. While the US has seen some stockpiling in response to trade tensions, UK companies continue to stockpile at one of the fastest rates on record.

New Export Orders Index

UK export sales growth

Seasonally adjusted, 50 = no-change

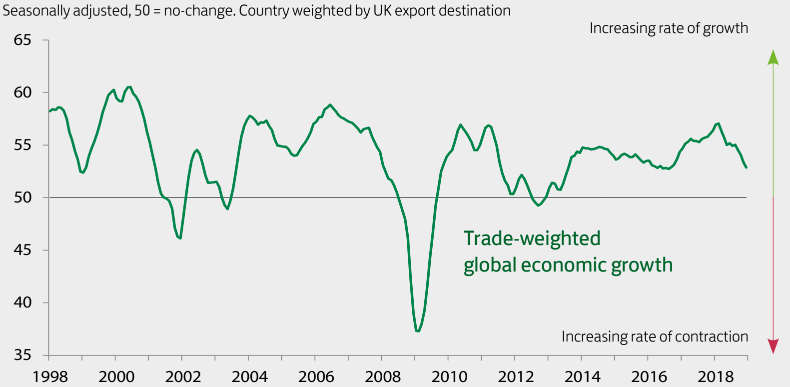


Sources: Lloyds Bank, IHS Markit PMI®

UK Export Climate Index

UK trade-weighted international economic growth

Seasonally adjusted, 50 = no-change. Country weighted by UK export destination

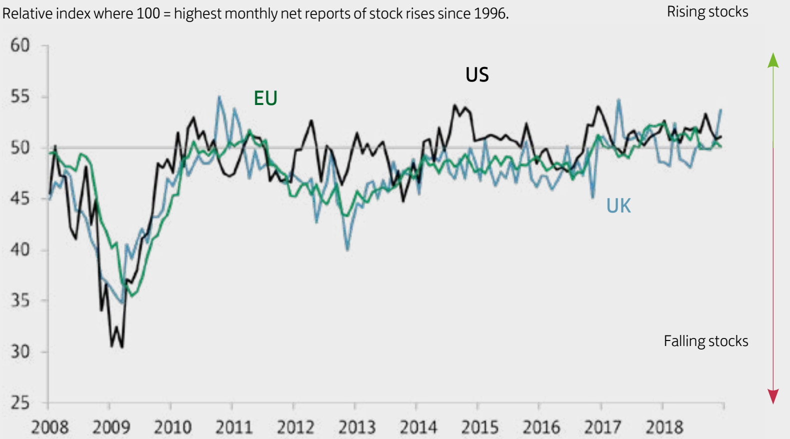


Sources: Lloyds Bank, IHS Markit PMI®

UK Manufacturing Sector: stocks of purchases

Monthly comparison of stocks of purchases

Relative index where 100 = highest monthly net reports of stock rises since 1996.



Sources: Lloyds Bank, IHS Markit PMI®

Manufacturing Export Orders Index

KEY FINDINGS

- Historic phase of export growth continues, but at a slower pace in Q4
- Improving demand from US clients is widely reported, in contrast to weaker demand from China and the EU
- Consumer goods are the best performing area of export sales, supported by solid growth in food, drink and leisure goods
- Manufacturers of intermediate goods, such as timber, paper and basic metals continue to report lower export sales
- Survey respondents note that global trade frictions and domestic political uncertainty have held back some international demand

In the final quarter of 2018 manufacturers report slowing export growth driven by automotive sector weakness

The Manufacturing Export Orders Index is a measure of the strength of new export sales reported by a panel of UK firms for the past twenty years. This allows us to understand export sales growth in nine manufacturing industry sub-sectors, report growth trends by company size and measure the proportion of UK manufacturers that are exporting.

UK manufacturers achieved another overall increase in new export sales during the final quarter of 2018. This is highlighted by the UK Manufacturing Export Orders Index posting 50.4 in Q4, down from 51.0 in Q3 but still in growth territory. Any reading above 50.0 signals an increase in reported exports.

Modest export growth in the fourth quarter

Manufacturing exports have been growing for the past three years, which is the longest period of growth since the global financial crisis in 2008. However, the survey data indicates slowing export growth over the past year for this sector that employs almost three million people[3]. The six-and-a-half-year peak last autumn was driven by accelerating euro area economic growth and sterling exchange rate depreciation.

The latest data points to a modest rise in new work from abroad, but the pace of growth eased in comparison to Q3 and was the slowest recorded over any quarter since Q1 2016. UK manufacturers reported a number of headwinds in the final three months of 2018, with global trade tensions, automotive sector weakness and domestic political uncertainty the most widely cited. Companies reporting a rise in export sales often noted stronger US economic conditions and successful efforts to diversify into new overseas markets.

Global trade hit by geopolitical headwinds

The fall-out from global trade tensions, most notably US tariffs on metals and US-China friction, has negatively impacted on worldwide business confidence. The result has been slowing export demand; an indirect effect has been higher prices for steel-intensive materials and heightened uncertainty across international supply chains. Reflecting these negative undercurrents, the basic metals sub-sector was one of the worst performing areas for UK manufacturing exports during Q4 2018.

Automotive sector exports continue on weakest trend since the start of 2013

An additional headwind cited by UK manufacturers was ongoing regulatory changes across the automotive sector, which has combined with more subdued demand from key emerging markets including China. The transition to new vehicle emissions testing standards and shift in buying habits away from diesel engines has weighed on production schedules across Europe.

Consumer demand for new cars has also weakened in response to the uncertain near-term outlook. Against this backdrop it is of little surprise that the UK transport sector, which directly employs nearly 300,000 people[4], was one of four manufacturing sub-sectors to experience an overall decline in new exports. The second half of last year saw the worst phase of export sales since 2013.

Political uncertainty holds back growth

The third major constraint on export sales is the impact of domestic political uncertainty, according to survey participants. Manufacturers commented that some European clients have adopted a wait-and-see approach to long-term contract agreements. Components producers appear to have been hard hit by rising political uncertainty. A breakdown of exports by broad

Key PMI® movements

Indices [1]	As at Q4 2018	Δ since Q3 2018
Total manufacturing	50.4	-0.6
Other Manufacturing	55.1	+3.3
Textiles and Clothing	55.0	-4.1
Food and Drink	52.5	-0.3
Mechanical Engineering[2]	51.7	-1.7
Electrical and Optical	50.0	+0.6
Chemicals and Plastics	49.7	-3.0
Timber and Paper	49.2	-1.2
Basic Metals	48.3	+0.3
Transport	46.2	+0.4

[1] Quarterly averages. Any reading above 50.0 indicates an increase in export sales
[2] Including sports and leisure equipment, jewellery, and furniture
[3] ONS Employment by Industry August 2018.
[4] ONS BRES 2017.

industry sector revealed that intermediate goods declined at the second-fastest pace since early-2016 (index at 48.5 in Q4). In contrast, the textile and clothing sector saw another quarter of solid export growth, although the rate of growth fell from Q3.

Chinese regulation weighs on timber and paper

The timber and paper sector saw a fall in export sales in Q4, and this decline may reflect new regulation in China limiting imports of certain recyclable pulps. While wood exports saw stable growth up to the autumn of 2018[1], it's paper and wood pulp that make up the majority of UK exports within this category.

Consumer products drive up exports in the final quarter

Consumer-oriented areas of the manufacturing sector were the main engine of new export order growth in Q4 2018. A key long-term growth driver for food and drink is rising household income in emerging markets. Export demand for consumer products was also supported by a competitive boost from the weak sterling exchange rate and sustained job creation in major developed markets. Other Manufacturing was the best performing area and saw the greatest rebound since Q3 2017. This category is dominated by consumer-related products (particularly leisure goods).

Mechanical engineering was another bright spot for exports in Q4, driven by reports of robust sales in Asia. However, overall export orders in the capital goods sector lost momentum towards the end of 2018 amid lower global business investment patterns.

Long-term rise in number of UK exporters

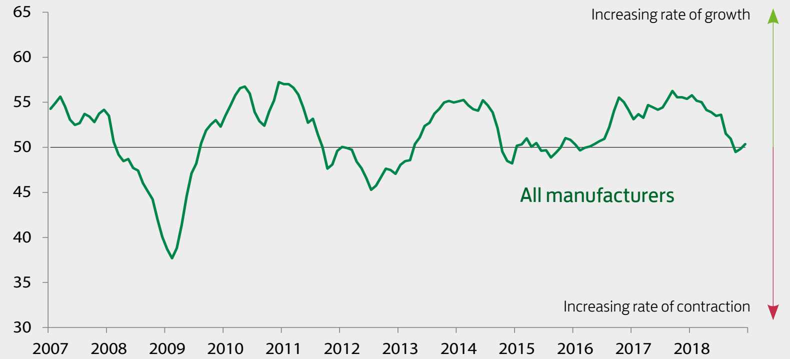
From survey responses, there has been steady growth in the number of UK manufacturers exporting over the past decade. That said, the number of small manufacturers exporting has fallen over the last few months from the record high of early-2018. This shows the sensitivity of smaller exporters to economic uncertainty and the need for ongoing support.

Export sales growth at large manufacturers contrasted with reductions at small and medium-sized enterprises in Q4 2018. This resilience may reflect a greater pool of corporate know-how and resources to navigate global trade frictions, as well as a more geographically diverse client base.

New Export Orders Index

Monthly UK manufacturing export sales growth

Seasonally adjusted, 50 = no-change

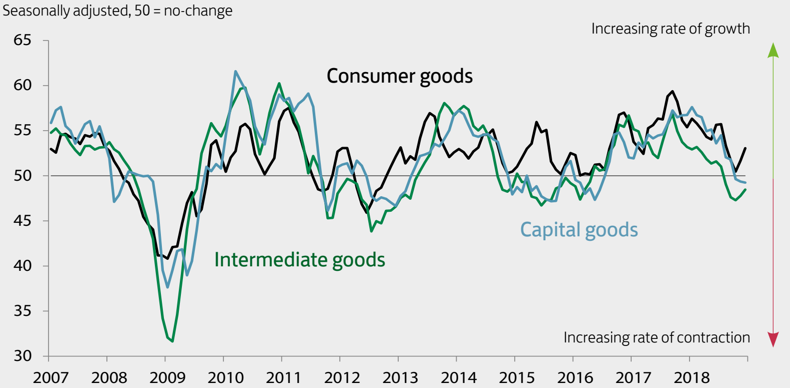


Sources: Lloyds Bank, IHS Markit PMI®

Export breakdown by broad industry sector

Monthly UK manufacturing export sales growth

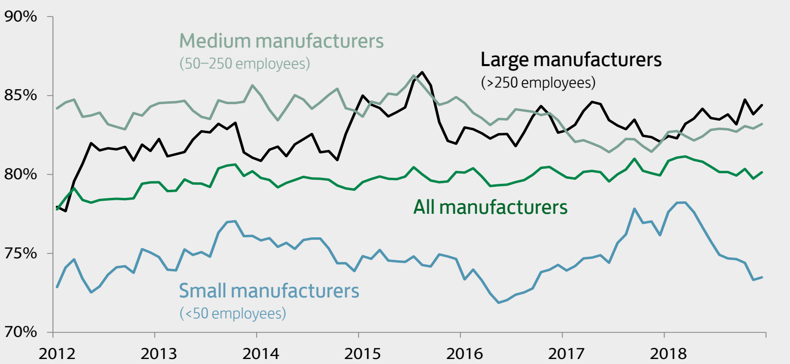
Seasonally adjusted, 50 = no-change



Sources: Lloyds Bank, IHS Markit PMI®

Proportion of companies exporting, by size

Percentage of companies reporting export orders in each month



Sources: Lloyds Bank, IHS Markit PMI®

[1] Based on HMRC Overseas Trade Statistics to August 2018

Services Export Business Index

New business from abroad declines in the final quarter of 2018, ending four years of sustained expansion, although the business-to-business sector holds up well

KEY FINDINGS

- Service firms report falling export sales for the first time since the index began in Q3 2014
- Finance and technology sub-sectors are strong exporters historically, but experience declines in Q4 2018
- The business-to-business sector shows resilience in Q4, with exports up fractionally
- Reports from survey respondents link softer demand to weaker European economic growth and domestic political uncertainty
- Service providers comment on efforts to expand into new external markets, especially in the US and Asia

We asked firms from the UK services industry to report on whether new work received from abroad is higher, the same, or lower than the previous month. This is a new measure, designed to provide an early indication of export sales in an industry critical to the UK economy.

Weaker export sales reported in the fourth quarter

Survey data for the final quarter of 2018 pointed to a marginal reduction in new export business at UK service providers. At 48.8, the seasonally adjusted index was down from 50.9 in Q3 and below the 50.0 'no-change' value for the first time since the series began in the third quarter of 2014.

The loss of momentum recorded at the end of last year continued the pattern seen since export sales growth peaked in early-2017.

Service providers, which have historically shown less volatility in exports compared to manufacturers, noted that slower economic growth across the euro area was a key factor holding back new work from abroad. There were also reports that political uncertainty has delayed spending decisions and dented confidence among some European clients.

New markets help offset euro area weakness

Service companies continued to report successful attempts to expand outside EU markets, including the US and the Asia-Pacific region. A number of respondents also commented that the weak sterling exchange rate had helped to support sales efforts in developed markets.

Key PMI® movements

New Export Sales[1]	As at Q4 2018	Δ since Q3 2018
Total Services	48.8	-2.1
Business-to-business	50.2	+0.5
Financial Intermediation	46.3	-4.3
Technology Services	45.7	-4.2
Transport and Comms	44.7	-4.1

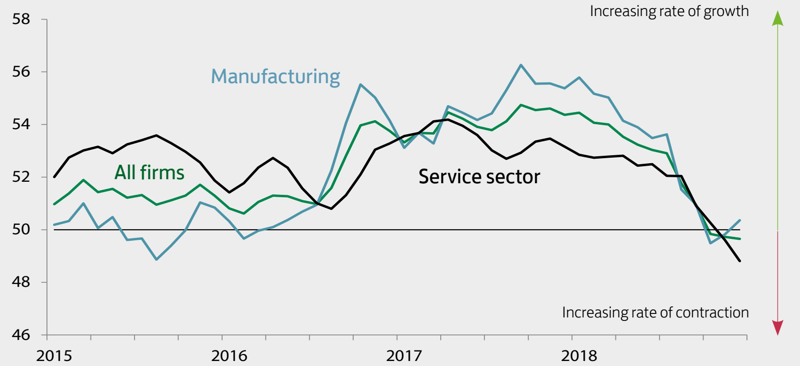
[1] Quarterly averages. Any reading above 50.0 indicates an increase in export sales.

No breakdown available for hotels, restaurants and catering and other personal/consumer services.

New Export Business Index

UK services export sales growth

Seasonally adjusted, 50 = no-change



Sources: Lloyds Bank, IHS Markit PMI®

Service providers often cited strong demand from clients in Asia Pacific and the Persian Gulf

Business-to-business services outperform
The strongest sub-sector in the final quarter of 2018 was business-to-business services, with new work from abroad rising slightly since Q3. Service providers in this category, which includes advertising, market research, engineering services and private security firms, often cited strong demand from clients in Asia Pacific and Persian Gulf countries.

Technology businesses signalled a difficult end to last year, with new business from abroad falling at the fastest pace since the index began in 2014. This contrasts with the strong growth seen in this area of the service economy for much of the past four years. Some technology firms linked the slowing trend in the final quarter of 2018 to subdued business confidence and their sensitivity to weaker corporate spending in Europe.

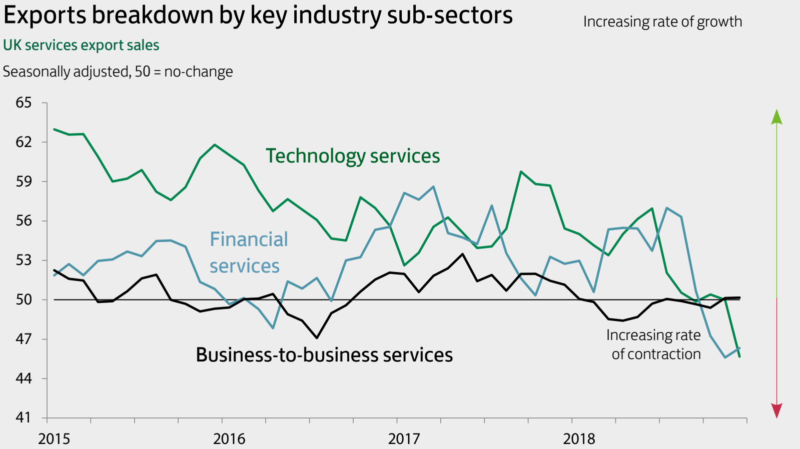
A similar pattern was seen in financial services, with export sales declining since Q3 and reversing the strong growth seen in the first half of 2018. Anecdotal evidence from survey respondents in this sub-sector cited regulatory changes in overseas markets as a factor that had weighed on their new work received from abroad.

Number of service firms exporting is little-changed
Despite companies citing political uncertainty as a factor holding back sales in some European markets, latest data signalled a broadly stable proportion of exporting firms in the UK service economy. Technology services recorded the highest proportion of exporters in Q4 (78.9%). In contrast, firms in the financial services sub-sector remain comparatively domestic-focussed with less than half exporting in Q4 (38.6%).

Exports breakdown by key industry sub-sectors

UK services export sales

Seasonally adjusted, 50 = no-change



Sources: Lloyds Bank, IHS Markit PMI®

UK Export Climate Index

KEY FINDINGS

- UK Export Climate Index signals slowest pace of economic growth for two years in key UK export markets
- Manufacturing-led slowdown in China intensifies during Q4, while Germany's loss of momentum drives weakest EU growth for five years
- Solid upturn in the US, while further afield demand conditions strengthened in South Korea, Japan, Singapore, and Australia

Key PMI® movements

UK Export Climate Index[1]	As at Q4 2018	Δ since Q3 2018
Total	52.9	-1.7
EU	53.3	-1.9
Non-EU	52.5	-1.5
Composite Business Activity Index[1]		
Germany	52.4	-2.5
France	52.4	-1.6
USA	54.7	-0.1
China	51.5	-0.6

[1] Quarterly averages. Any readings above 50.0 indicates economic growth. IHS Markit PMI®

Export opportunities remain positive in the fourth quarter although a number of key UK trading partners experience slower economic growth

At 52.9 in Q4, the UK Export Climate Index continued to signal greater external demand for goods and services. However, the latest reading was down from 54.5 in Q3 and pointed to the weakest overall improvement in the UK export climate since Q3 2016.

Of the largest overseas markets for British exporters, softer growth conditions were centred on China, France and Germany at the end of 2018.

This is a new measure of global economic demand conditions from the perspective of British exporters. We have constructed a single-figure UK Export Climate Index by bringing together real-time national output data from Purchasing Managers' Index® (PMI®) surveys in 40 countries worldwide.

Each country's relative importance to the UK as an export destination is reflected in the trade weights behind the headline index. The export climate index therefore provides a real-time barometer of global demand for British goods and services. A reading above 50.0 signals an overall improvement in economic conditions in UK export markets.

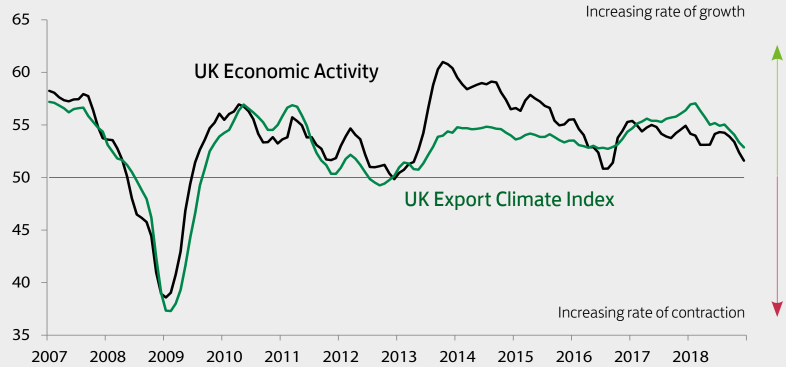
Resilient growth in the US, but China slows

The global economy continued to grow during Q4, although survey data showed an overall loss of momentum across overseas markets. This was despite solid economic growth in the US, which is the UK's largest export destination outside the EU. Meanwhile, China saw a considerable slowdown since Q3, with its stalling manufacturing sector offsetting stronger growth from service providers at the end of 2018.

UK Export Climate Index

UK trade-weighted international economic growth

Seasonally adjusted, 50 = no-change. Country weighted by UK export destination



Sources: Lloyds Bank, IHS Markit PMI®

Softer growth conditions were centred on China, France and Germany at the end of 2018

The soft patch for the Chinese manufacturers was partly linked to ongoing reductions in export orders in the wake of escalating trade frictions with the US.

Elsewhere, data showed the downturn in Turkey remained intense during the last quarter of 2018. In contrast, conditions in South Korea stabilised, while Japan, Singapore, Australia and India all saw their economies strengthen from Q3. Growth was sustained in Canada, though it moved to a lower gear.

Mixed growth patterns within the EU
Regardless of political uncertainty, the UK's largest export market is the EU, and growth within this bloc was maintained in Q4. However, weaker demand conditions in Germany and France meant that growth across the EU markets as a whole was the least marked since Q3 2013.

The Netherlands and Ireland were the brightest spots, with strong growth conditions signalled by the survey data in Q4. Spain also remained among the fastest-growing of the UK's key euro area export markets.

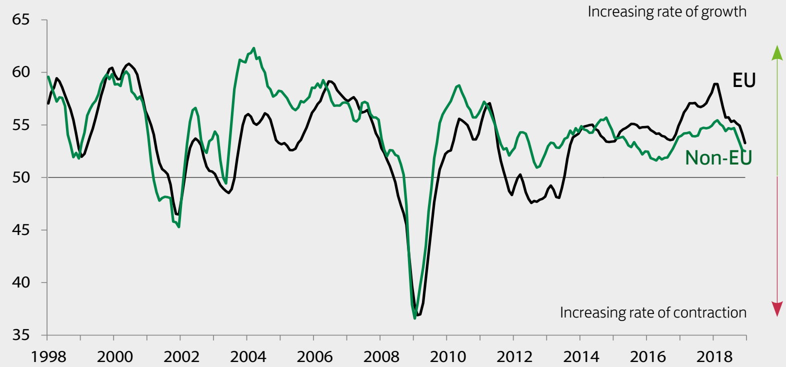
At the other end of the scale, business expansion in France was the slowest for two years, while Germany saw its weakest economic performance since Q2 2013.

The manufacturing-led slowdown in Germany weighed on neighbouring Poland and the Czech Republic in Q4. Italy also saw its private sector economy lose momentum, registering its worst performance since the end of 2014.

UK Export Climate Index, EU vs. Non-EU

Trade-weighted international economic growth

Seasonally adjusted, 50 = no-change. Country weighted by UK export destination



Sources: Lloyds Bank, IHS Markit PMI®

International Supply Chain Index

KEY FINDINGS

- Supplier lead-times and bottlenecks ease across the globe as capacity catches up with demand
- Lead times from Europe remain at historically high levels
- By company size, large UK manufacturers with global footprints face more bottlenecks than SMEs
- Manufacturers of electrical and optical products report steepest increases in lead-times on inputs, linked to continued global supply shortages
- UK and US manufacturers report increased stockpiling efforts as political uncertainty and trade tensions escalate

International supply chain pressures show signs of improvement as stockpiling ramps up

At 44.3 in Q4 2018, the International Supply Chain Index remained below its long-run average of 46.9, thereby indicating the continuation of strong pressure on international supply chains by historic standards. However, the latest reading represented an improvement from 42.2 in the third quarter of last year.

The International Supply Chain Index is a trade-weighted measure of conditions across the UK's global supply network. This means that the contribution of each nation to the headline index is designed to reflect its importance as a supplier of goods imported into the UK.

The Index can range from 0 to 100, with any reading below 50 signalling worsening lead times, with a growing number of delays and constraints across international supply chains. The further below the 50 mark, the greater the pressure on supply chains, which impact on prices, production capabilities and working capital for UK firms.

Supply pressures soften in Europe and the US

The improvement in supplier lead times seen from Q3 2018 was led by developments in the EU where, although lead-times remain a challenge, there have been signs of easing pressure. This likely reflects the combination of two main factors: 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.

That said, the incidence of delivery delays in Europe remained higher than in any other broad region. Special factors, such as low Rhine water levels, which impacted business across Austria, Germany and the Netherlands, and the 'yellow vest' protests in France, were partly to blame for worsening supplier performances in Q4.

Although lead times continued to lengthen in North America it was to a lesser extent than earlier in the year. During the summer, supply pressures reached a peak following changes to trucking regulations.

Large firms most exposed to delays

The interconnection of the UK's largest businesses with international supply chains leaves them particularly exposed to global developments. This was confirmed by the latest data which showed that those manufacturers employing at least 250 members of staff were the worst affected by delays on purchased items, more so than SMEs.

Shortages of electrical components continue

Similar to the picture in Q3, the sector that saw the highest incidence of delivery delays was electrical and optical. One of the main issues remained a global shortage of electronic components, with the number of surveyed UK manufacturers reporting shortages of electrical items up again in Q4, and close to the highest since early-2011.

Other items where supply tightened from the third quarter included food, packaging and polymers.

UK Stockpiling increases

The threat of future input shortages and its potential to cause disruption to production has led UK manufacturers to ramp up stockpiling efforts in recent months.

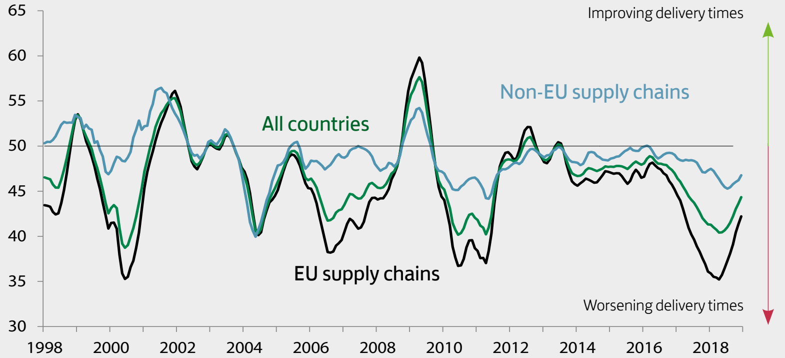
Survey data showed inventories of raw materials and semi-finished goods rising at one of the quickest rates seen since the IHS Markit UK Manufacturing PMI began in 1992. While it is unusual to see stock levels jump when business conditions are slowing, the UK PMI index for stocks of purchases ramped up to 53.7 for the month of December, jumping from 51.1 in the previous month. This stockpiling may have contributed to reports of a lack of available transport, which were at an elevate level during the fourth quarter.

In North America overall stock build-up was only marginally up, however sectors such as basic materials were hit by worries about the implementation of further tariffs and have been increasing their stocks of purchases continuously over the past one and a half years hitting a historic high in September.

UK International Supply Chain Index

Monthly comparison of supplier delivery times

Seasonally adjusted, below 50 = longer delivery times. Country weighted by UK import origin.

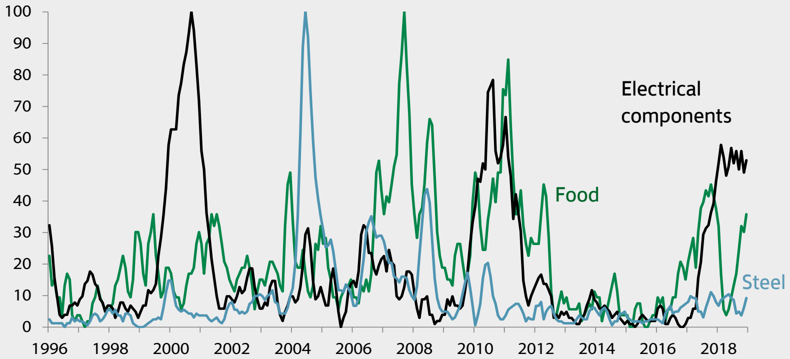


Sources: Lloyds Bank, IHS Markit PMI®

UK Manufacturing Sector: items reported in short supply

Monthly comparison of supply shortages

Relative index where 100 = highest monthly number of reported shortages since 1996.

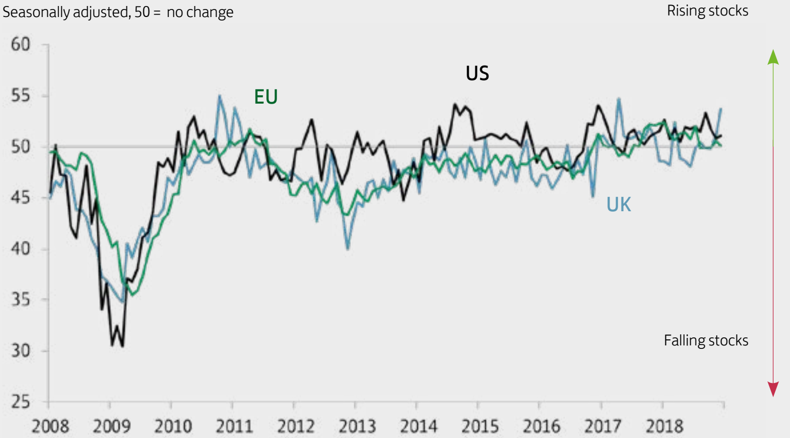


Sources: Lloyds Bank, IHS Markit PMI®

UK Manufacturing Sector: stocks of purchases

Monthly comparison of stocks of purchases

Seasonally adjusted, 50 = no change



Sources: Lloyds Bank, IHS Markit PMI®

Goods Exported by Region

HM Revenue & Customs' (HMRC) regional export data points to slowing growth propped up by Scotland and the petroleum industry, while pharmaceutical exports fall

For the year ending Q3 2018 UK exports grew 4%, a slower pace than the 5.5% in the previous quarterly year end. Scotland and the Midlands drove this annual growth, with only Northern Ireland and the East of England reducing exports. This buoyant performance however masked the fact that the majority of regions posted minimal or negative quarterly growth in the third quarter of 2018 with Scotland propping up the figures with 12% growth on the previous quarter.

Of our key trading partners a strong third quarter saw the United States remain relatively flat for the year ending Q3 2018 with exports to Germany shrinking 2.3% for the year. The Netherlands and the Irish Republic however, grew robustly year-on-year at 20.6% and 10.2% respectively. Custom from China continues to grow at 1.9% with the Midlands their largest exporting region, accounting for 28% of the UK's total export value. Hong Kong and Japan also saw large increases (11.9% and 7.6% annual growth respectively) to cement themselves in our top 20 export markets.

Of the UK's largest export products, car exports posted a quarterly fall but maintained 1.9% annual growth, while petroleum products increased by 22.2% year on year. Along with robust growth in jet engines this offset the fall in pharmaceutical exports by 8.7%.

Scotland's export growth continues to be largely driven by petroleum products (up nearly 11%), with declining exports to China and Germany more than offset by a significant increase to the Netherlands, a key European shipping hub, and a smaller increase to South Korea. Scotland's other top two exports also continued to perform well as beverages and power generating machinery recorded annual increases of 3.8% and 17.4% respectively, with key beverage growth markets in India, Japan and Singapore.

The East of England saw exports fall 1%, driven by the primary export – medicines. Two of its top three markets saw falling exports: the US, with an 8.6% fall in medicine exports and Belgium, posting declining exports in both gas and cars. Medicine exports to both Canada and the Irish Republish ramped up however to offset the decline.

The North of England, shrugged off declining exports to its two largest markets; the US (14% reduction) and Germany (1.7%), with increases of at least 6% in exports to ten of its top fifteen markets. Petroleum grew just over 12% primarily to the Netherlands and Nigeria to offset reductions in medicines and car exports.

Wales' increase in exports to the Irish Republic (36%), driven largely by petroleum products, helped overcome reduced trade with its top three markets of Germany (-1.1%), France (-2.4%), and the US (-2.5%). Iron and steel exports posted strong growth to a range of European destinations.

While the Midlands continued only modest growth of car exports (1%) the majority of the regions manufacturing export products saw robust year-on-year growth with, power generating and industrial machinery posting 15% and 12% gains respectively. Key export growth locations for these products included France, Hong Kong, Japan and Singapore. The Midlands is the only region with an Asian country in its top three export markets, driven by car exports to China.

In the South of England petroleum product exports grew the fastest with a 64.7% annual surge, driven by China, giving a much needed boost to counter the fall in medicine exports (down 25%), largely to the US. Growth in car (9.6%), train and aircraft exports also helped keep the region's growth in the black.

The export of non-ferrous metals, mainly platinum, from London grew 37.5% in the year, largely to India and Hong Kong, becoming the third largest export product for the region. Petroleum exports to the Netherlands also jumped, offsetting reductions in clothing exports to Germany and telecoms apparatus (phones) to France.

NORTHERN IRELAND
(£8.63bn p.a., -0.2% growth p.a.)

Top 5 Markets (£bn p.a.,% growth p.a.)
Republic of Ireland (£3.13bn, 13.1%)
USA (£1.02bn, -38.4%)
Canada (£0.47bn, 8.1%)
Germany (£0.44bn, 8.3%)
France (£0.40bn, -8.4%)
Other Growth Markets (£bn p.a., % growth p.a.)
Morocco (£0.06bn, 155.8%)
Singapore (£0.09bn, 44%)
Thailand (£0.22bn, 40.7%)

SCOTLAND
(£29.59bn p.a., 6.2% growth p.a.)

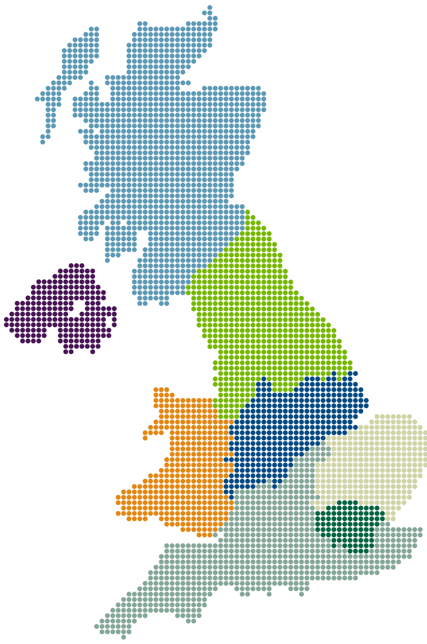
Top 5 Markets (£bn p.a., % growth p.a.)
Netherlands (£5.84bn, 56.6%)
USA (£3.55bn, 6.7%)
Germany (£2.54bn, -10%)
France (£1.61bn, -2.3%)
Republic of Ireland (£1.52bn, 31.4%)
Other Growth Markets (£bn p.a., % growth p.a.)
South Korea (£0.83bn, 56.6%)
Hong Kong (£0.39bn, 30%)
India (£0.64bn, 29.2%)

NORTH OF ENGLAND
(£59.29bn p.a., 2.1% growth p.a.)

Top 5 Markets (£bn p.a., % growth p.a.)
USA (£6.26bn, -13.9%)
Germany (£5.92bn, -1.7%)
Netherlands (£5.18bn, 12.2%)
France (£3.67bn, 5.9%)
Republic of Ireland (£3.49bn, 7.9%)
Other Growth Markets (£bn p.a., % growth p.a.)
Oman (£0.71bn, 65.6%)
Canada (£1.01bn, 50.6%)
Australia (£1.00bn, 23.7%)

MIDLANDS
(£55.68bn p.a., 6.1% growth p.a.)

Top 5 Markets (£bn p.a., % growth p.a.)
USA (£8.79bn, 7%)
Germany (£6.00bn, 0%)
China (£4.46bn, 3%)
France (£4.20bn, 16%)
Republic of Ireland (£2.84bn, 8%)
Other Growth Markets (£bn p.a., % growth p.a.)
South Korea (£1.00bn, 29%)
Poland (£0.90bn, 24%)
Singapore (£1.38bn, 18%)



EAST OF ENGLAND
(£28.19bn p.a., -1% growth p.a.)

Top 5 Markets (£bn p.a., % growth p.a.)
USA (£3.61bn, -8.6%)
Germany (£3.03bn, 4.4%)
Belgium (£1.90bn, -14.5%)
Netherlands (£1.88bn, -2.9%)
Republic of Ireland (£1.70bn, 11.2%)
Other Growth Markets (£bn p.a., % growth p.a.)
Canada (£0.49bn, 40.8%)
Turkey (£0.63bn, 18.3%)
Canada (£0.40bn, 17.4%)

WALES
(£16.1bn p.a., 3.0% growth p.a.)

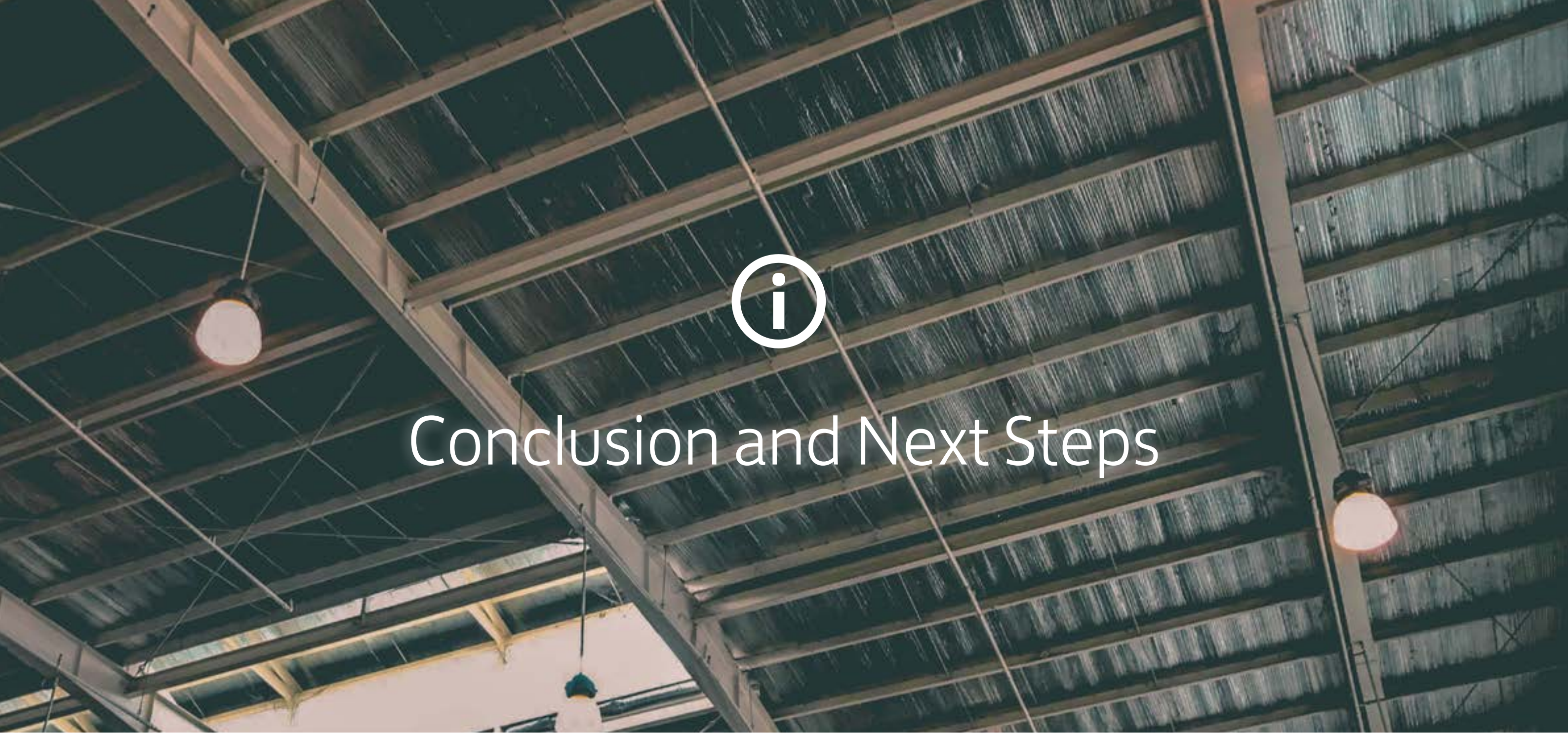
Top 5 Markets (£bn p.a., % growth p.a.)
Germany (£3.18bn, -1.1%)
France (£2.66bn, -2.4%)
USA (£2.32bn, -2.5%)
Republic of Ireland (£1.31bn, 36%)
Netherlands (£0.73bn, 5.1%)
Other Growth Markets (£bn p.a., % growth p.a.)
Japan (£0.25bn, 31.8%)
Hong Kong (£0.18bn, 26.8%)
Singapore (£0.21bn, 21.7%)

SOUTH OF ENGLAND
(£67.33bn p.a., 3.8% growth p.a.)

Top 5 Markets (£bn p.a., % growth p.a.)
USA (£10.53bn, -2.6%)
Germany (£7.15bn, -2.3%)
France (£5.35bn, 3.2%)
Netherlands (£4.11bn, 15.5%)
China (£3.84bn, 80.3%)
Other Growth Markets (£bn p.a., % growth p.a.)
Japan (£1.99bn, 19.6%)
India (£0.95bn, 10.9%)
Hong Kong (£1.21bn, 10.2%)

LONDON
(£37.08bn p.a., 2.2% growth p.a.)

Top 5 Markets (£bn p.a., % growth p.a.)
USA (£5.83bn, 6.8%)
Germany (£3.04bn, -3.9%)
Netherlands (£2.88bn, 45.4%)
Hong Kong (£2.80bn, 10.7%)
France (£2.23bn, -6.9%)
Other Growth Markets (£bn p.a., % growth p.a.)
India (£0.96bn, 94.3%)
Saudi Arabia (£0.45bn, 24.2%)
Belgium (£0.86bn, 10.7%)



Conclusion and Next Steps

A time for change

The last quarter of 2018 presented a number of challenges for UK exporters as political events at home and abroad dominated media coverage and business agendas. Economic growth in this climate is difficult to predict and unsurprisingly the data suggests that larger companies, with access to more diversified markets, fare better.

The UK government is focused on helping British firms navigate new markets and export more, and so are we. With the right data, insights and knowledge firms of all sizes have opportunities to sell their products in growing markets across the globe. The action required is clear but to succeed firms need to be informed and supported to take these new risks.

The US economy continues to perform well and UK exports have rebounded in the last quarter. The Republic of Ireland and the Netherlands are continuing to boom as European partners while Hong Kong, Canada, and India have emerged as growing importers of UK goods.

The Lloyds Bank International Trade Portal can help you better understand these markets, from a list of key contacts and importers, including contact details, to the legal and administrative necessities. Our trade specialists are also on hand to support you through the process and manage the risk of new trading partners, building exporting confidence.

Stockpiling is another theme in our latest data which clearly impacts the cashflow of UK companies exporting. If you are increasing stock levels speak to us about how asset or invoice finance can unlock the cash tied up in your balance sheet to support your growth ambitions in the coming year.

Lloyds Bank International Trade Portal

www.lloydsbanktrade.com

Lloyds Bank Economics and Markets updates

Subscribe to our suite of economic reports and market intelligence briefings

resources.lloydsbank.com/economics-and-market-insight

Powerful Business Insight

Discover articles covering a range of topics at www.lloydsbank.com/insight

Appendix: UK Exports in Context

In order to give context to any analysis on UK exports and regional trade, it is useful to understand the nominal trade figures. The following tables are based on HMRC's regional export data for the third quarter in 2018 and highlight the UK's top twenty key trading partners and broad export products.

Nominal annual and quarterly growth figures highlight trends such as the fall in pharmaceutical exports, and the relative value of the UK's rise in trade with India and the European shipping hub's in the Netherlands and Republic of Ireland.

COUNTRY	TOTAL (£BN)	12 MONTH CHANGE (£BN)	Q2 TO Q3 2018 CHANGE (£BN)
USA	46.66	0.08	0.53
Germany	34.95	-0.82	-0.11
Netherlands	24.61	4.20	0.24
France	23.76	0.82	-0.22
Republic of Ireland	20.80	1.92	0.17
China	15.99	0.30	0.12
Belgium	14.20	0.66	0.56
Italy	10.29	0.20	-0.20
Spain	10.18	-0.09	-0.21
Hong Kong	7.36	0.78	0.15
South Korea	6.17	0.40	0.20
UAE	6.08	-1.30	0.14
Japan	6.04	0.42	0.23
Switzerland	5.62	-0.34	-0.25
Sweden	5.46	0.36	-0.18
Canada	5.43	0.56	-0.16
Poland	5.04	0.30	-0.07
Turkey	4.99	0.28	-0.08
India	4.79	0.91	0.14
Singapore	4.77	0.18	-0.07
Other	72.41	3.00	0.26
TOTAL	**335.58**	**12.82**	**1.19**

EXPORT	TOTAL (£BN)	12 MONTH CHANGE (£BN)	Q2 TO Q3 2018 CHANGE (£BN)
Road Vehicles	40.92	0.77	-0.40
Petroleum	28.52	5.18	1.64
Power Generating Machinery (e.g. engines)	26.52	1.54	0.60
Pharmaceuticals	26.58	-2.29	-0.35
Miscellaneous Manufacturing	24.05	0.83	-0.38
Other Transport (trains, aircraft, etc.)	21.34	-0.54	-0.57
General Industrial Machinery	16.71	0.69	0.06
Electrical Machinery Appliances	14.02	0.80	0.08
Professional and Scientific Instruments	13.74	0.12	0.06
Non-ferrous Metals (e.g. platinum)	9.07	1.45	0.04
Specialised Industrial Machinery	8.41	0.73	-0.24
Organic Chemicals	8.30	0.25	-0.25
Beverages	7.43	0.19	0.23
Special Transactions (commodities etc.)	7.25	1.39	0.13
Clothing	6.60	-0.05	0.18
Telecomms and Sound Recording	6.54	-0.64	0.11
Manufactures of Metal	6.09	0.29	-0.02
Toiletries and Perfumes	5.97	0.06	0.00
Chemical Materials	5.65	0.32	-0.07
Office Machines (computers)	6.63	0.30	-0.02
Other	62.47	1.44	0.37
TOTAL	**335.58**	**12.82**	**1.19**

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.

Regional export analysis on pages 14 and 15 is based on HMRC Regional Trade statistics (RTS) which provides a breakdown of export flows between regions of the UK and other countries. Regional exports are categorised by Standard International Trade Classification at division level 2. The data is not available for all partner countries and not all trade can be assigned to one of the English regions.

Our analysis looks at the year ending in the third quarter of 2018, which is the latest set of regional data, to identify the top export locations and products by region. Growth analysis is based on comparison with the year ending in the third quarter of 2017. The material growth countries identified are the fastest growing export locations year on year who are also one of the top twenty current export locations by value. This methodology aims to filter out countries where exports are growing rapidly from a low base and identify the drivers of growth over the short to medium term.

The editors

We would like to hear your views and answer any questions that you have regarding the content of this report.
Please contact either your Relationship Manager or one of the editors listed below.

LLEWELYN MULLOOLY

Director, Working Capital,
Global Transaction Banking,
Lloyds Bank

T: +44 755 477 3787
E: llewelyn.mullooly@lloydsbanking.com

ADAM RAW

Managing Director, Client Propositions,
Global Transaction Banking,
Lloyds Bank

T: +44 207 158 2874
E: adam.raw@lloydsbanking.com

TIM MOORE

Associate Director,
Economic Indices,
IHS Markit

T: +44 149 146 1067
E: tim.moore@ihsmarkit.com

IMPORTANT INFORMATION

This document has been prepared for information purposes only and must not be distributed, in whole or in part, to any person without the prior consent of Lloyds Bank plc (together with its affiliates, "Lloyds Bank"). This document should be regarded as a marketing communication, it is not intended to be investment research and has not been prepared in accordance with legal requirements to promote the independence of investment research and should not necessarily be considered objective or unbiased. This document is not independent from Lloyds Bank's proprietary interests, which may conflict with your interests. The authors of this document may know the nature of Lloyds Bank's proprietary interests or strategies; Lloyds Bank may engage in transactions in a manner inconsistent with the views expressed in this document; and Lloyds Bank's salespeople, traders and other professionals may provide oral or written market commentary or strategies to clients which may conflict with the opinions expressed in this document. Securities services offered in the United States are offered by Lloyds Securities Inc., a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority.

Any views, opinions or forecast expressed in this document represent the views or opinions of the author and are not intended to be, and should not be viewed as advice or a recommendation. Lloyds Bank makes no representation and gives no advice in respect of legal, regulatory, tax or accounting matters in any applicable jurisdiction. You should make your own independent evaluation, based on your own knowledge and experience and any professional advice which you may have sought, on the applicability and relevance of the information contained in this document.

The material contained in this document has been prepared on the basis of publicly available information believed to be reliable and whilst Lloyds Bank has exercised reasonable care in its preparation, no representation or warranty, as to the accuracy, reliability or completeness of the information, express or implied, is given. This document is current at the date of publication and the content is subject to change without notice. We do not accept any obligation to any recipient to update or correct this information. Lloyds Bank, its directors, officers and employees are not responsible and accept no liability for the impact of reliance on, or any decisions made based upon, the information, views, forecasts or opinion expressed.

Lloyds Banking Group plc and its subsidiaries may participate in benchmarks in any one or more of the following capacities; as administrator, submitter or user. Benchmarks may be referenced by Lloyds Banking Group plc for internal purposes or used to reference products, services or transactions which we provide or carry out with you. More information about Lloyds Banking Group plc's participation in benchmarks is set out in the Benchmark Transparency Statement which is available on our website.

This document has been prepared by Lloyds Bank. Lloyds Bank is a trading name of Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc. Lloyds Bank plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Bank of Scotland plc. Registered Office: The Mound, Edinburgh EH1 1YZ. Registered in Scotland no. SC327000. Lloyds Bank Corporate Markets plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 10399850. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 119278, 169628 and 763256 respectively.

Lloyds Bank Corporate Markets plc, Singapore Branch. Registered Office: 138 Market Street #21-01 Capitagreen, Singapore 048946. Registered in Singapore UEN: T18FC0067A. Licensed and regulated by the Monetary Authority of Singapore. Your contractual counterparty will be Lloyds Bank Corporate Markets plc if you enter into any product or transaction with us in Singapore.

About IHS Markit

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.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

Find out more

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

Calls may be monitored or recorded in case we need to check we have carried out your instructions correctly and to help improve our quality of service. Please note that any data sent via e-mail is not secure and could be read by others.

Speak to your Relationship Manager

lloydsbank.com/commercialbanking

uk.linkedin.com/company/lloyds-bank-commercial-banking

twitter.com/lloydsbankbiz

LLOYDS BANK

PMI® By IHS Markit

January 2019