

QUARTERLY INTERNATIONAL TRADE OUTLOOK **Q2 2018**

BRITISH CHAMBERS OF COMMERCE
IN PARTNERSHIP WITH DHL





FOREWORD: **BCC & DHL**

Adam Marshall - Director General, British Chambers of Commerce



This edition of our Quarterly International Trade Outlook finds many exporters are performing well but economic and political factors are having an impact on their operations. Tensions with key trading partners and increased uncertainty around the world can have a real bearing on the confidence and profitability of businesses here in the UK.

Exchange rates in particular emerged as a key concern for exporters, especially in the manufacturing sector. While the fall in sterling has helped many exporters to boost sales and orders abroad, it has also meant an increase in the cost of some imported components.

Despite the current climate and concerns of exporters, our research shows that goods shipments to non-EU markets across the globe remain fairly stable. The BCC/DHL Trade Confidence Index decreased slightly on the quarter, but still stands higher than the same quarter in the previous year, proving the pervasive adaptability and responsiveness of business.

That said, the UK government should help to reassure and support firms wherever possible, starting with the delivery of an economy-first Brexit deal and by improving conditions in the domestic business environment to help remove unnecessary obstacles to growth.

Ian Wilson - CEO, DHL Express UK & Ireland



The resilience of UK exporters is highlighted with this quarter's Trade Confidence Index. Despite being a slight decline on the previous quarter, the index remains up year on year and it is encouraging to see it stands at the fifth highest level on record. This strong performance also reflects what I hear from our customers and, at DHL Express, we continue to support an abundance of energetic, internationally-focused UK entrepreneurs to take their businesses to the world.

The uncertain climate exporters are operating in and the challenges faced cannot be overlooked, but with all uncertainty comes opportunity - and continuing to trade internationally and expanding your portfolio of markets (and market segments) still provides the best way to spread business risk and ensure long-term revenue and profitability growth.

The growing labour shortage continues to be a very real hurdle that is impacting a vast number of sectors. Amidst challenging and unpredictable times, industry and government must work closely to ensure that we identify and develop UK talent in order to future-proof our businesses for what lies ahead.



BCC/DHL TRADE CONFIDENCE INDEX

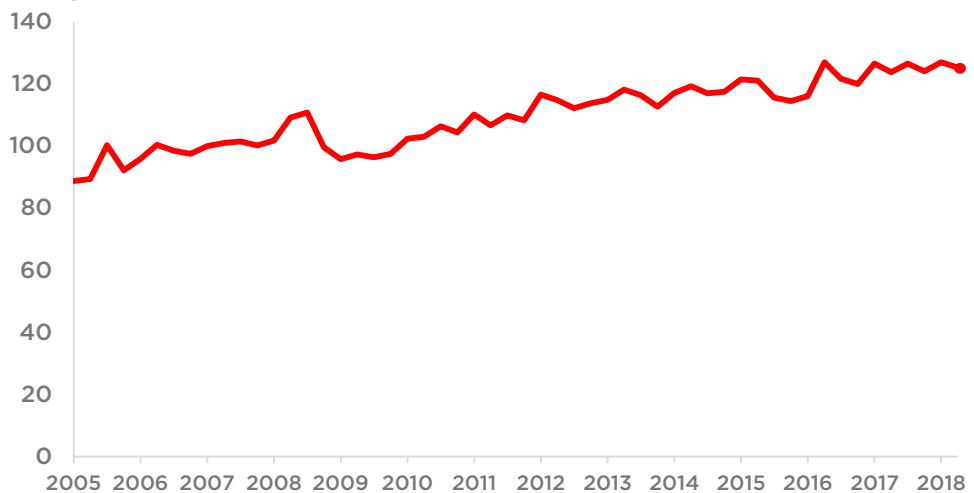
BCC/DHL Trade Confidence Index

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 125.26. This represents a quarterly decrease of 1.3% on Q1 2018 and a yearly increase of 1.3% from Q2 2017.

BCC/DHL Trade Confidence Index (Q1 2007=100)



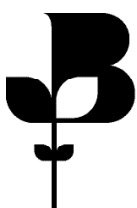
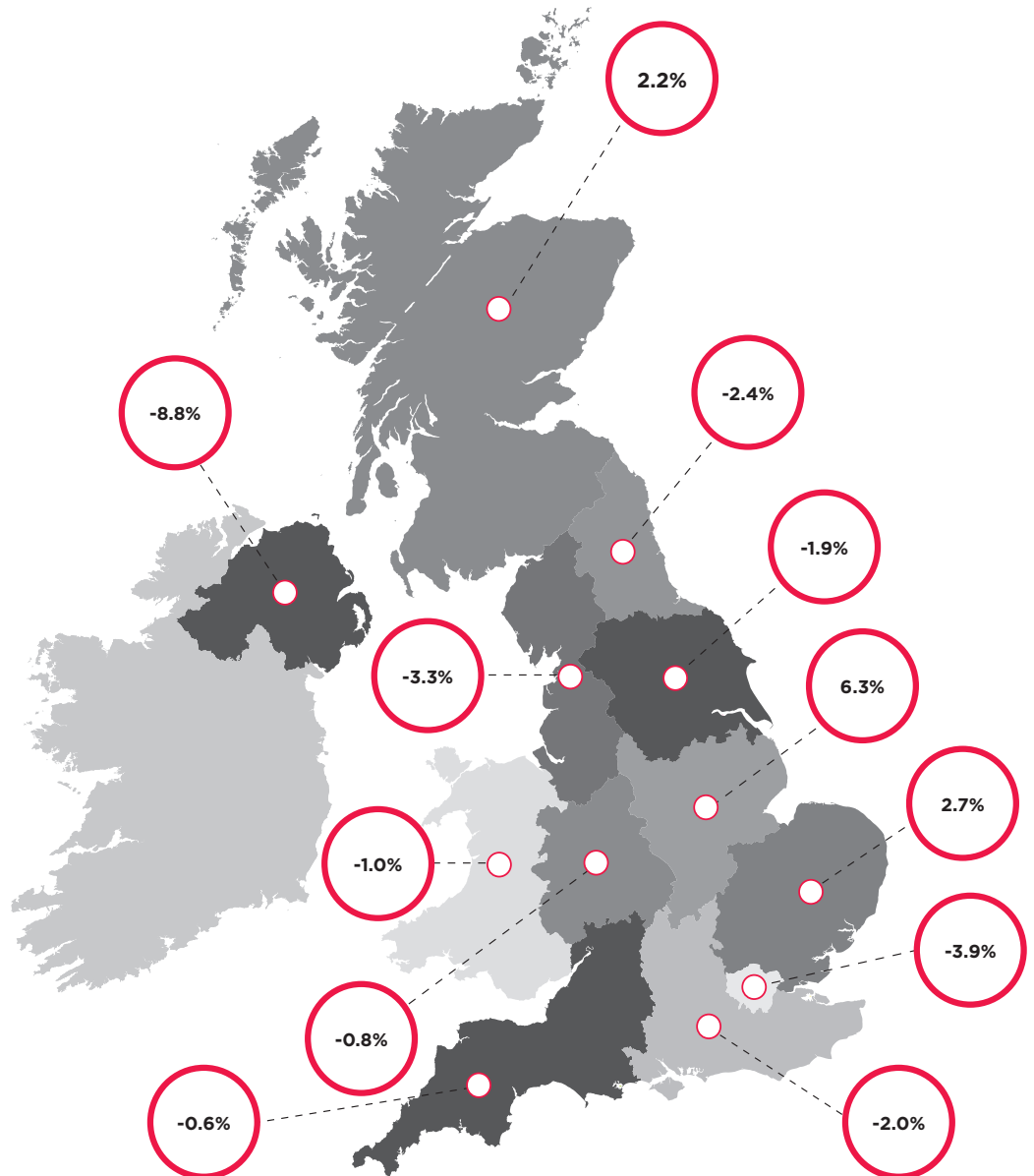
*The index is calculated using the volume of trade documents issued by accredited Chambers of Commerce across the UK. Many types of exports require supporting commercial documentation. Chambers of Commerce issue documentation required for exports outside the EU and as a result have amassed significant 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 1.3% on Q1 2018 but increased by 1.3% on Q2 2018. The index now stands at 125.26. Most UK regions and nations saw a slight quarterly decline in the volume of trade documents issued. The largest quarter-on-quarter increases were in the East Midlands (6.3%), the East of England (2.7%) and Scotland (2.2%).



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Commerce

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SURVEY DATA: EXPORT SALES

Exporters confident that sales will improve

The Quarterly International Trade Outlook survey, based on the responses of over 2,600 exporters, shows that export sales and turnover confidence were buoyant in Q2 2018.

39% of exporting manufacturers saw an increase in export orders over the last three months, and 30% of exporting service firms also reported an increase

The majority of exporters are also confident that turnover will increase over the next twelve months, with 62% of exporting manufacturers and 60% of exporting service firms expecting to see an increase,



Recruitment difficulties still persist for both sectors



The Quarterly International Trade Outlook survey also shows that the escalating labour shortage in the UK is also having a serious impact on exporters.

In Q2 2018, 77% of exporting manufacturers and 67% of services firms attempted to recruit. However, of those, 69% and 60% respectively said they faced difficulties finding the right staff. For manufacturers, skilled manual and technical positions were the most difficult to recruit for (67%).



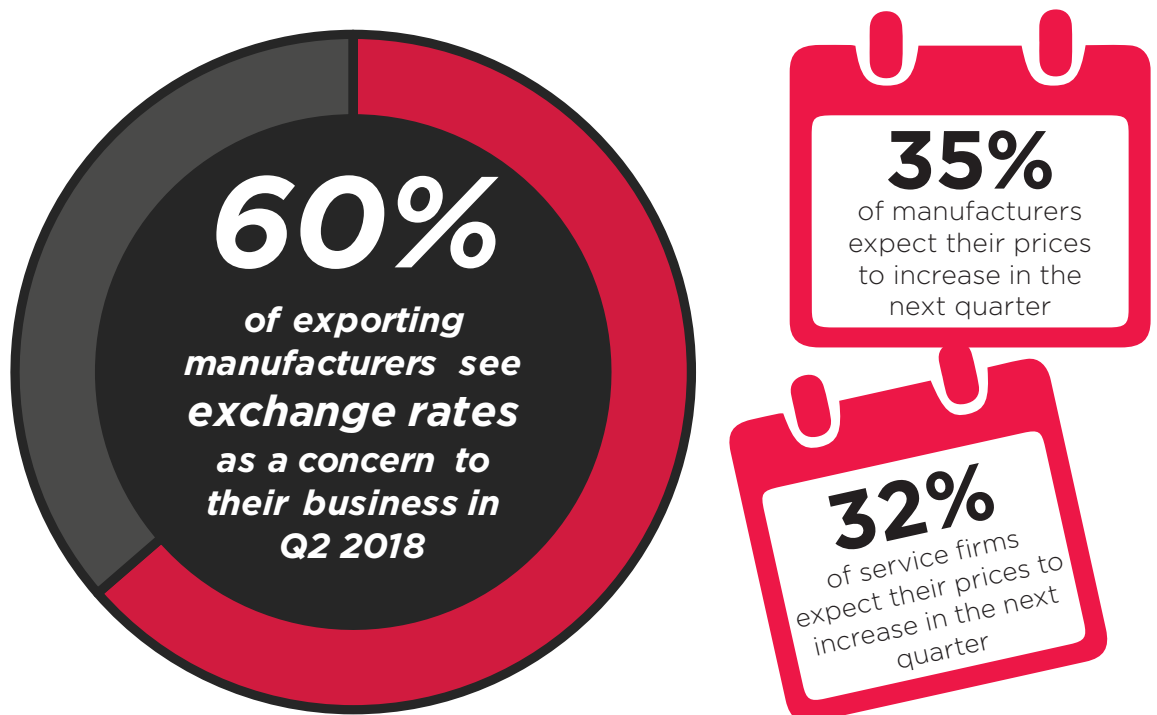


SURVEY DATA: EXCHANGE RATES

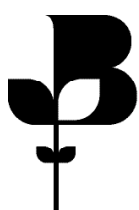
Sterling volatility still an ongoing concern for exporters

In Q2 2018, the survey found that confidence in future operations remains strong, but external economic and political factors are having an impact. The results show 60% of exporting manufacturers were more concerned about exchange rates in the second quarter of the year than in the previous three months. There was also increased concern among 43% of service exporters, highlighting the broad impact of the weakness of the pound.

The findings indicate that price pressures eased slightly on exporters during the second quarter of the year, with 35% of manufacturers and 32% service firms expecting their prices to increase. Those manufacturers under pressure to raise prices report the cost of raw materials as the leading factor (81%). Service firms believe the cost of raw materials (39%) and other overheads (51%) are the leading sources of cost pressure.



Service sector exporters n=1,633
Manufacturing sector exporters n=1,043



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TRADE & ECONOMIC OUTLOOK



Trade and economic outlook

The Global Economy

The International Monetary Fund (IMF) has upgraded its outlook for the global economy for 2018 to 3.9%, unchanged from its previous forecast. The US economy grew at an annualised rate of 4.1% in Q2 2018. This is the fastest rate of growth since Q3 2014 and almost double the growth of 2.2% recorded in Q1. The Eurozone economy grew by 0.4% in Q2 2018, unchanged from the previous quarter. China's economy grew at an annual rate of 6.7 in Q2 2018. While this was down slightly from the growth of 6.8% in the previous quarter, it was higher than the government's growth target of 6.5%.

The first official estimate of economic growth revealed that the UK economy grew by 0.4% in Q1 2018, up from the 0.2% growth recorded in the previous quarter. The BCC currently expects that the UK economy to grow by 1.3% in 2018, by 1.4% in 2019 and by 1.6% in 2020.

International Trade

The World Trade Organisation currently forecasts world trade growth of 4.7% this year, before slowing to 4% in 2019. The UK's trade deficit (goods and services) widened by £4.7 billion to £8.6 billion in Q2 2018. This was due to a combination of declining goods exports and rising goods imports. The UK's trade surplus in services widened by £0.7 billion over the same period. The BCC currently expects the UK exports will grow by 2.8% in 2018 and by 2.9% in 2019.



BCC UK Growth
Forecast for 2018



1.3%

IMF 2018 Global
Growth Forecast

4.7%

UK trade deficit
£8.6bn
in Q2 2018



FACT SHEET: AUSTRALIA

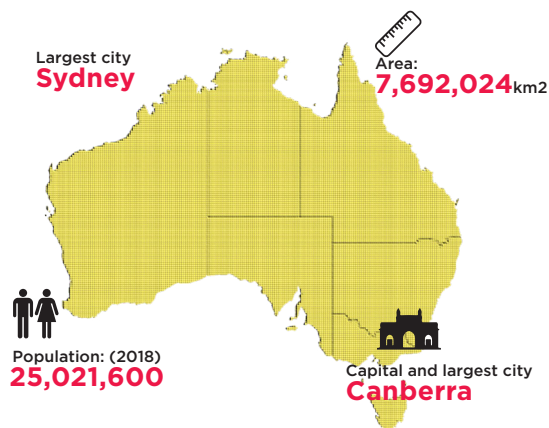
Why Australia?

+61

English

6 states
10 territories

Australian
Dollar (AUD)



Australia has experienced almost 27 years of uninterrupted economic growth, which is the lengthiest period in the OECD (Austrade, 2017).

It is the world's 13th largest economy, with high levels of disposable income per capita. The UK is Australia's second most prominent source of foreign investment, and fifth largest trading partner (DFAT, 2018).

Economic snapshot (% annual growth rate)	2018	2019	2020
GDP	3.0	3.1	2.9
Export of goods and services	7.1	7.9	6.5
Import of goods and services	6.0	6.2	5.7
Inflation	2.2	2.4	2.5
Current account balance (% of GDP)	-1.9	-2.3	-2.5

Source: International Monetary Fund, World Economic Outlook Database

Opportunities for UK businesses

The principal drivers of economic growth are raw minerals and natural gas. However, the economy is currently rebalancing toward the services sector. This creates new possibilities for commercial engagement for exporters of medical equipment, pharmaceutical products, research and educational resources, and financial services.

Strengths of the Australian market include

- Shared language and culture, as well as the largest British migrant population of any country.
- Well-educated and affluent population.
- Similar legislative, business, intellectual property, and financial practices to those of the UK.

Cultural tips

- Australians are informal in their social and business practices, and tend to address business associates on a first-name basis.
- There is a preference for plain, direct language in business and social interactions.

Customs information



De minimus value: 1000 AUD



Australia have strict customs rules when it comes to foodstuffs and plant and animal materials. Shipments containing foodstuffs must contain an accurate description of said foodstuff, vague or ambiguous descriptions will not be accepted and will result in quarantine delays. All plant or animal materials will result in 24-36 hour delays for quarantine inspections, including Teas containing citrus or fruit rind which may not be shipped with an import permit.



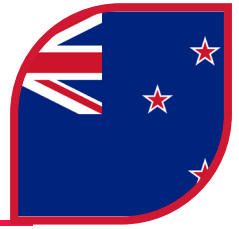
Australia

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http://britishchamber.com



FACT SHEET: NEW ZEALAND

Why New Zealand?

- +64
- English
- 16 regions
- New Zealand Dollar (NZD)

Population: (2018)
4,894,360



New Zealand has the most favourable business environment out of the 190 economies measured in the World Bank's Ease of Doing Business Rankings 2017.

With a GDP per capita of \$40886 (USD), it is a prosperous, well-regulated economy that is open to international trade (OECD, 2018). The United Kingdom is New Zealand's fifth largest trading partner, which reflects a longstanding history of close cultural ties and commercial exchange.

Economic snapshot (% annual growth rate)	2018	2019	2020
GDP	2.9	2.9	3.0
Export of goods and services	2.9	4.1	4.4
Import of goods and services	8.3	5.6	4.5
Inflation	1.7	2.1	2.0
Current account balance (% of GDP)	-2.6	-3.0	-2.8

Source: International Monetary Fund, World Economic Outlook Database

Opportunities for UK businesses

Agriculture constitutes the largest proportion of New Zealand's exports, creating opportunities for UK businesses involved in biotechnology, farming equipment, and agri-tech research. The rapid growth of Auckland, the rebuild of Christchurch, and the government's prioritisation of housing and infrastructure has generated strong demand for goods and services in construction.

Strengths of the New Zealand market include

- Ranks first on Transparency International's Corruption Perceptions Index 2017, out of 180 countries.
- New Zealand places first of 190 countries on the World Bank's Ease of Doing Business 2017 rankings.
- High level of regulatory convergence with the UK.

Cultural tips

- New Zealanders are informal in their social and business practices, and tend to address business associates on a first-name basis
- There is a preference for plain, direct language in business and social interactions.
- New Zealanders frequently greet interlocutors with the Maori 'kia ora'.

Customs information



De minimus value: 400 NZD



All shipments containing alcoholic beverages are subject to a high duty and tax rate and no de minimis applies, therefore duties and taxes can be charged no matter the value of the shipment. The percentage of the alcohol and the volume of liquid is required.



New Zealand

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FACT SHEET: SOUTH KOREA



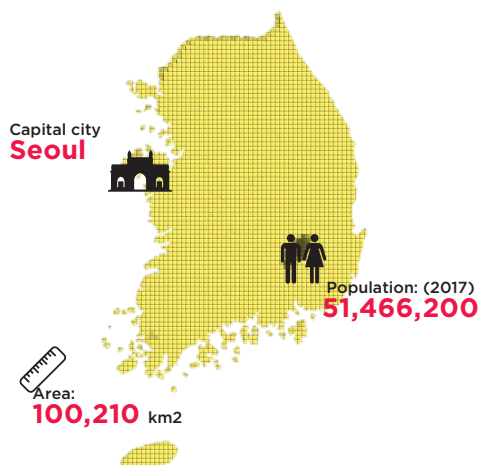
Why South Korea?

+82

Korean

9 provinces

South Korean Won (KRW)



There have been exceptional advances in the South Korean economy in recent decades, with per capita income increasing from 6% of the OECD average in 1970 to 89% in 2017 (OECD, 2018).

This was driven by a strong emphasis on trade, prudent macroeconomic policies, and sustained investment in human and physical capital.

Economic snapshot (% annual growth rate)	2018	2019	2020
GDP	3.0	2.9	2.8
Export of goods and services	4.6	4.4	3.7
Import of goods and services	4.4	4.5	4.0
Inflation	1.7	1.9	2.0
Current account balance (% of GDP)	5.5	5.8	5.8

Source: International Monetary Fund, World Economic Outlook Database

Opportunities for UK businesses

The amount of commercial engagement between the UK and Korea has increased markedly since the signing of the EU-South Korea Free Trade Agreement in 2011, and is now estimated to be worth over £500 million to UK business annually. The main UK exports to South Korea are nuclear machinery, vehicles, medical instruments and pharmaceutical products, fashion and cosmetic consumer goods, and financial services.



South Korea

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Strengths of the South Korean market include

- South Korea places fourth on the World Bank's Ease of Doing Business 2017 rankings.
- The EU-South Korean FTA 2011 facilitates bilateral trade and investment.
- Highest level of broadband penetration and 4G use in the world.

Cultural tips

- South Korea's numerical system differs from that of the UK, so it is important to ensure that numbers are fully understood by all participants in negotiations
- In business interactions, it is polite to greet your interlocutor with a slight bow followed by a handshake
- There is an expectation of rapid delivery in Korea.

Customs information

De minimus value: Duty and VAT free if Cost, Insurance and Freight value is less than 150000 KRW

Cosmetics made from cow products must be accompanied by a certificate of non-Bovine Spongiform Encephalopathy product, obtained from the Korea Food & Drug Administration stating the shipment is free from mad cow disease.

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 53 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 countries where it can be time-consuming to get right and costly to get wrong.

Chambers can help a company to evaluate their 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 memoranda of understanding in place to provide a soft landing for UK businesses in key trading locations.

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



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For information and advice on international trade visit www.britishchambers.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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