



Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 203 465 2672

UK-EU TRADE: UNCERTAIN OUTLOOK AFTER SUDDEN BREXIT STOP

Berenberg Macro View

Brexit hurts. Although it is still early days for the new UK-EU relationship, the January data on UK trade paint a clear picture: while the free trade agreement for goods that the UK and EU signed late last year has mostly brought an end to four and a half years of uncertainty, it does not hold a candle to free trade without paperwork and other non-tariff barriers that the UK once enjoyed as part of the single market.

The slump in cross border flows of goods in January between the UK and the EU highlights the negative impact of rising costs and frictions to trade now that the UK has left the EU Single Market.

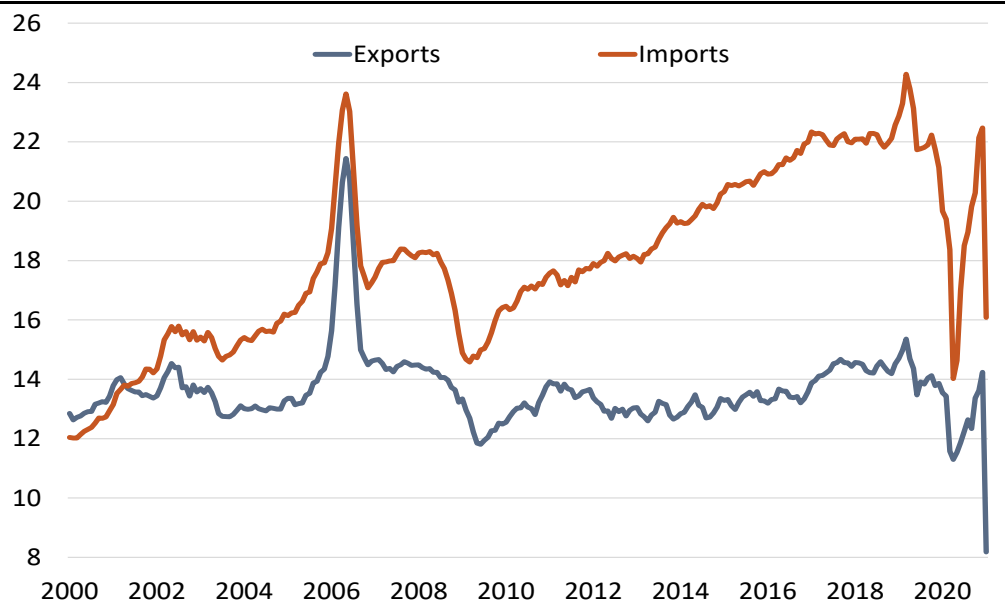
- The volume of UK goods exports to the EU collapsed 42.5% mom in January. Imports of goods slumped by a less bad, but still horrific, 28.4%. Comparing December to January, good exports to the EU declined by €6.0bn (from £14.2bn to £8.2bn). Goods imports declined by slightly more (from £22.5bn to £16.1bn) – Chart 1. The result is that the overall goods trade balance with the EU slightly improved in January – although this is no consolation given the sizeable loss of business caused by the sudden collapse in UK-EU commerce. See Table 1 for a detailed breakdown by major category of goods trade.
- The shock goes well beyond any reversal of Brexit-related stockpiling which had contributed to trade in H2 2020. It also goes well beyond any potential pandemic related disruptions to global trade or the slump in January domestic demand due to lockdowns in the UK and across Europe – presumably, that would also show up as a comparable hit to non-EU trade. However, goods exports to non-EU countries actually rose by 8.9% mom while imports dropped by 14.7%.
- Due to a lack of detailed monthly data and because global services trade is significantly impaired by ongoing pandemic restrictions to travel and the like, the immediate impact of leaving the single market on the services sector is hard to gauge. In January, total UK services exports declined 0.9% mom while imports fell by 2.4%. January services exports were 29.0% lower than a year ago while imports were 36.9% lower. The impact of leaving the single market on services may become more visible once restrictions are eased over the coming months and the sector recovers.
- The outlook for UK-EU trade is highly uncertain. In Chart 2, we highly the potential scale of the hit to goods trade in Q1 if UK-EU commerce remained at January 2021 levels through February and March. As a % of GDP, goods exports to the EU would decline from 7.3% in Q4 2020 to 4.6% in Q1 2021 while imports would drop from 12.0% to 9.2%. This should be viewed as an unlikely worst case scenario, in our view. The Brexit related drop in UK-EU trade is likely to be a combination of two factors: 1) initial administrative problems with the implementation of the new UK-EU border - which should ease over time; and 2) a permanent supply shock to cross border trade which pushes costs higher and reduces consumer demand for final goods and producer demand for materials and semi-finished goods.



MACRO NEWS

- UK-EU trade will likely rebound somewhat in February and March from the initial shock and hence Q1 should be better than the January data may imply. Thereafter, UK-EU trade should recover in line with the broader European economic rebound - likely from spring onwards. But UK-EU trade may remain below the level that it was at when the UK was in the EU Single Market for a long time to come and may fall further over time as a share of total trade. For just how long will depend upon which of the two above-mentioned factors dominates. Thereafter, from a lower base, the volume of trade between the UK and the EU will likely rise on trend as both economies grow over time.
- That UK-EU relations seem to be souring badly adds to the uncertain outlook. Tensions are rising over the politically sensitive 'Irish protocol'. The EU is currently threatening legal action after the UK unilaterally decided to extend the grace period on the checks it is legally bound to perform on trade between Northern Ireland and Great Britain. This is a sensitive issue that could affect other elements of UK-EU relations and trade. If the EU perceives that the UK is shirking its legal commitments – pertaining to both the Brexit and future relationship agreements which London has ratified - then Brussels may react by levying retaliatory tariffs and, more importantly, taking an even harder line on the City of London's future access to the EU market.

Chart 1: Volume of goods trade with the EU (£ bn, 2018)

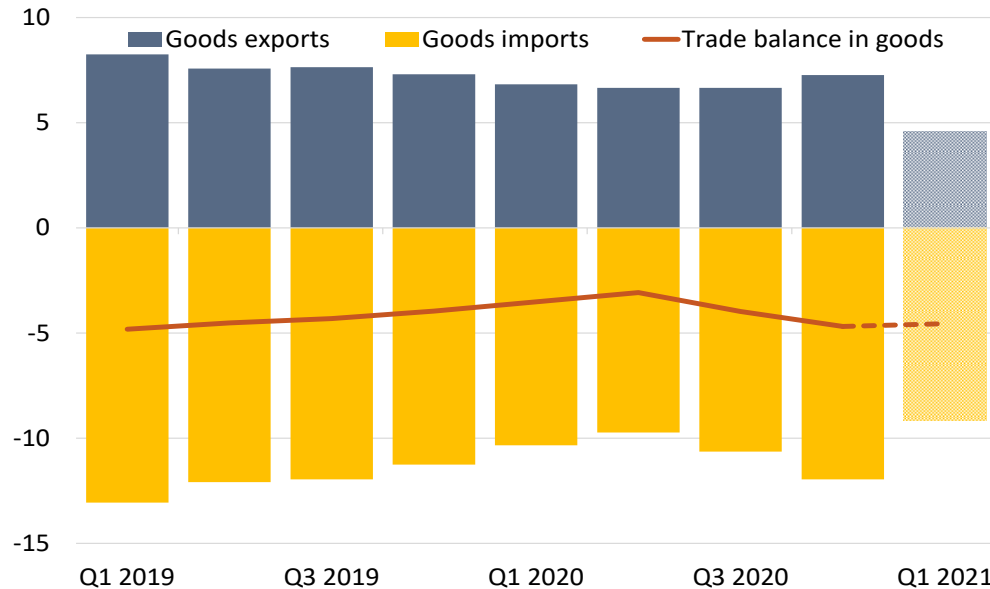


Three month moving average up to January 2020. Source: ONS



MACRO NEWS

Chart 2: Scenario for Q1 2021 UK-EU goods trade (% GDP)



Q1 2021 scenario based on UK-EU goods trade remaining at January 2021 levels through February and March. Source: ONS, Berenberg calculations

Table 1: Breakdown of UK-EU goods trade by major category

	£ bn, 2018	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Monthly change (%)	Change vs 2020 average (%)
Food and live animals (exports)	0,81	0,79	0,78	0,77	0,77	0,82	0,89	0,88	0,86	0,88	0,92	1,01	0,35	0,35	-65,18	-58,57
Food and live animals (imports)	2,19	2,11	2,18	2,20	2,29	2,28	2,28	2,27	2,34	2,32	2,40	2,40	1,83	1,83	-23,79	-19,58
<i>Food and live animals (balance)</i>	<i>-1,38</i>	<i>-1,32</i>	<i>-1,40</i>	<i>-1,43</i>	<i>-1,51</i>	<i>-1,45</i>	<i>-1,38</i>	<i>-1,39</i>	<i>-1,48</i>	<i>-1,44</i>	<i>-1,48</i>	<i>-1,39</i>	<i>-1,47</i>	<i>-1,47</i>	<i>6,43</i>	<i>3,73</i>
Beverages and tobacco (exports)	0,25	0,21	0,21	0,19	0,17	0,20	0,23	0,24	0,25	0,23	0,24	0,22	0,13	0,13	-39,91	-39,07
Beverages and tobacco (imports)	0,60	0,58	0,59	0,58	0,60	0,61	0,65	0,65	0,66	0,68	0,68	0,63	0,56	0,56	-11,08	-10,07
<i>Beverages and tobacco (balance)</i>	<i>-0,35</i>	<i>-0,37</i>	<i>-0,38</i>	<i>-0,40</i>	<i>-0,43</i>	<i>-0,41</i>	<i>-0,42</i>	<i>-0,41</i>	<i>-0,41</i>	<i>-0,45</i>	<i>-0,44</i>	<i>-0,41</i>	<i>-0,43</i>	<i>-0,43</i>	<i>4,65</i>	<i>5,68</i>
Crude materials (exports)	0,21	0,22	0,21	0,15	0,18	0,19	0,21	0,21	0,22	0,23	0,24	0,25	0,18	0,18	-29,03	-15,89
Crude materials (imports)	0,45	0,56	0,44	0,37	0,36	0,44	0,47	0,52	0,56	0,59	0,59	0,63	0,44	0,44	-30,02	-10,67
<i>Crude materials (balance)</i>	<i>-0,24</i>	<i>-0,34</i>	<i>-0,23</i>	<i>-0,21</i>	<i>-0,18</i>	<i>-0,25</i>	<i>-0,26</i>	<i>-0,31</i>	<i>-0,33</i>	<i>-0,36</i>	<i>-0,35</i>	<i>-0,39</i>	<i>-0,27</i>	<i>-0,27</i>	<i>-30,65</i>	<i>-6,86</i>
Fuels (exports)	1,99	2,25	2,04	2,42	2,46	1,63	2,05	1,94	1,86	1,98	1,90	2,32	1,15	1,15	-50,54	-44,60
Fuels (imports)	0,65	0,52	0,63	0,54	0,54	0,63	0,56	0,66	0,66	0,67	0,63	0,71	0,68	0,68	-4,38	9,65
<i>Fuels (balance)</i>	<i>1,34</i>	<i>1,72</i>	<i>1,41</i>	<i>1,89</i>	<i>1,91</i>	<i>1,00</i>	<i>1,50</i>	<i>1,28</i>	<i>1,19</i>	<i>1,31</i>	<i>1,26</i>	<i>1,61</i>	<i>0,47</i>	<i>0,47</i>	<i>-70,81</i>	<i>-67,63</i>
Animal and vegetable oils and fats (exports)	0,04	0,04	0,04	0,04	0,04	0,04	0,04	0,04	0,04	0,03	0,03	0,04	0,04	0,02	-57,50	-53,42
Animal and vegetable oils and fats (imports)	0,06	0,06	0,06	0,07	0,06	0,06	0,07	0,07	0,06	0,06	0,06	0,06	0,06	0,05	-22,58	-23,40
<i>Animal and vegetable oils and fats (balance)</i>	<i>-0,02</i>	<i>-0,02</i>	<i>-0,02</i>	<i>-0,03</i>	<i>-0,02</i>	<i>-0,02</i>	<i>-0,04</i>	<i>-0,03</i>	<i>-0,03</i>	<i>-0,03</i>	<i>-0,03</i>	<i>-0,02</i>	<i>-0,03</i>	<i>-0,03</i>	<i>40,91</i>	<i>18,47</i>
Chemicals (exports)	2,08	2,22	2,18	2,56	2,59	2,13	2,10	2,23	2,23	2,54	2,63	2,76	1,13	1,13	-59,25	-52,20
Chemicals (imports)	3,27	3,01	3,42	3,22	3,16	2,97	3,13	3,16	3,09	3,54	4,38	4,23	2,77	2,77	-34,37	-17,95
<i>Chemicals (balance)</i>	<i>-1,19</i>	<i>-0,79</i>	<i>-1,24</i>	<i>-0,66</i>	<i>-0,57</i>	<i>-0,83</i>	<i>-1,03</i>	<i>-0,94</i>	<i>-0,86</i>	<i>-1,00</i>	<i>-1,75</i>	<i>-1,47</i>	<i>-1,65</i>	<i>-1,65</i>	<i>12,48</i>	<i>60,56</i>
Material manufactures (exports)	1,38	1,32	1,21	1,03	1,10	1,15	1,20	1,40	1,21	1,41	1,48	1,58	0,92	0,92	-41,88	-28,90
Material manufactures (imports)	2,26	2,23	2,13	1,62	1,61	2,04	2,10	2,08	2,15	2,25	2,38	2,50	1,81	1,81	-27,62	-14,27
<i>Material manufactures (balance)</i>	<i>-0,88</i>	<i>-0,90</i>	<i>-0,92</i>	<i>-0,59</i>	<i>-0,52</i>	<i>-0,89</i>	<i>-0,90</i>	<i>-0,69</i>	<i>-0,94</i>	<i>-0,84</i>	<i>-0,90</i>	<i>-0,93</i>	<i>-0,90</i>	<i>-0,90</i>	<i>-3,35</i>	<i>8,62</i>
Machinery and transport equipment (exports)	4,75	4,62	3,44	2,30	2,55	3,68	3,77	3,98	4,00	4,25	4,38	4,30	3,09	3,09	-28,05	-19,36
Machinery and transport equipment (imports)	7,47	7,73	6,70	3,89	4,31	5,93	6,90	7,04	7,72	7,54	8,36	8,64	6,06	6,06	-29,84	-11,55
<i>Machinery and transport equipment (balance)</i>	<i>-2,72</i>	<i>-3,12</i>	<i>-3,26</i>	<i>-1,59</i>	<i>-1,76</i>	<i>-2,25</i>	<i>-3,14</i>	<i>-3,06</i>	<i>-3,72</i>	<i>-3,29</i>	<i>-3,98</i>	<i>-4,34</i>	<i>-2,97</i>	<i>-2,97</i>	<i>-31,62</i>	<i>-1,63</i>
Miscellaneous manufactures (exports)	1,76	1,76	1,44	1,24	1,39	1,52	1,75	1,71	1,68	1,80	1,80	1,76	1,05	1,05	-40,43	-35,91
Miscellaneous manufactures (imports)	2,64	2,56	2,20	1,53	1,67	2,02	2,32	2,48	2,53	2,60	2,61	2,62	1,87	1,87	-28,60	-19,35
<i>Miscellaneous manufactures (balance)</i>	<i>-0,88</i>	<i>-0,81</i>	<i>-0,76</i>	<i>-0,29</i>	<i>-0,29</i>	<i>-0,50</i>	<i>-0,56</i>	<i>-0,78</i>	<i>-0,86</i>	<i>-0,80</i>	<i>-0,81</i>	<i>-0,86</i>	<i>-0,82</i>	<i>-0,82</i>	<i>-4,42</i>	<i>20,25</i>

Source: ONS



BERENBERG
PARTNERSHIP SINCE 1590

MACRO NEWS

Disclaimer

This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as “the Bank”). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors

The preparation of this document is subject to regulation in the United Kingdom. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America

This document has been prepared exclusively by the Bank. Although Berenberg Capital Markets, LLC (“BCM”), an affiliate of the Bank and registered US broker-dealer, distributes this document to certain investors, BCM does not provide input into its contents, nor does this document constitute research of BCM. In addition, this document is meant exclusively for institutional investors and market professionals, but not for retail investors or private customers. It is not for distribution to or the use of retail investors or private customers. BCM accepts responsibility for this research document’s contents and institutional investors receiving this research and wishing to effect any transactions in any security discussed herein should do so through BCM and not the Bank. Please contact Berenberg Capital Markets, LLC (+1 646 949 9000) if you require additional information.

Copyright

The Bank reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the Bank’s prior written consent.

© 2021 Joh. Berenberg, Gossler & Co. KG