

Economics

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UK – Trade Deficit Lower Than Expected

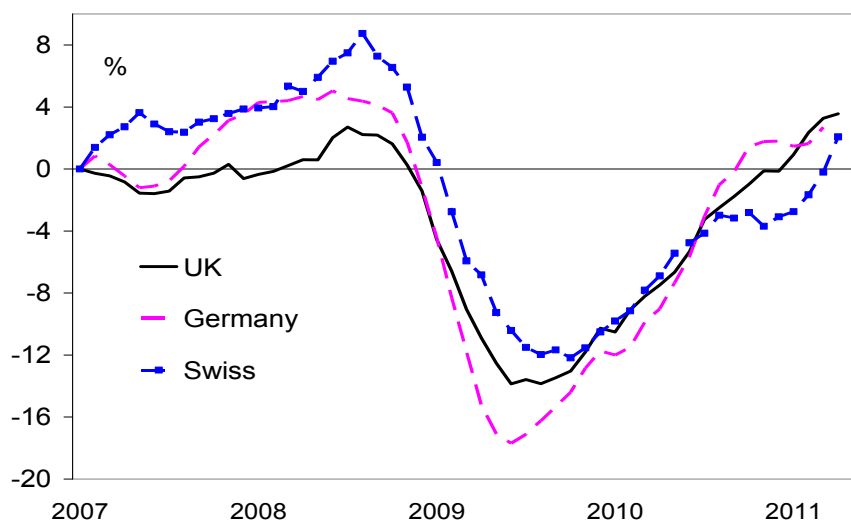
- The deficit on goods and services trade was stable at £2.8bn in April, with the March deficit revised down from £3.0bn to £2.8bn, keeping the deficit on the recent narrowing trend. We and consensus had expected a £3.0bn deficit. Both import and export volumes fell MoM, but over the last year as a whole there is a clear trend of export performance: in the last three months, export volumes (ex oil and erratics) rose 13.4% YoY whereas import volumes rose just 5.5%. YoY export volume growth in recent months has been around the highest levels in the last 30 years (excluding periods when data was distorted by MTIC-related fraud). Indeed, the UK's export performance in the recession and recovery has been similar to trends in Germany and Switzerland – the countries usually regarded as Europe's export leaders.
- As well as the strength in exports, recent months have also seen a marked slowdown in import growth, probably reflecting in part slower domestic demand and reduced stockbuilding but also perhaps some beginnings of import substitution in favour of domestic firms.
- With solid export growth and markedly softer imports, these data provide further signs that the necessary rebalancing of the economy away from domestic demand and towards net trade is under way – and likely to continue.

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Figure 1. UK, Germany and Switzerland, Cumulative Change in Export Volumes Since Jan-2007 (6-month average), 2007-11



Sources: ONS, Datastream and Citi Investment Research and Analysis

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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