

HSBC Global Connections

Trade Forecast Update: UK

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses in the UK

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- The UK's trade growth from 2012 to 2026 will be 59.01%
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- UK companies to increase trade activity annually by 2.1% over the next 15 years
- Growth will be fuelled by the bio-pharmaceutical sector where forecast export growth is 9.19% and import growth from the USA is forecast at 8.63%, both annually to 2016

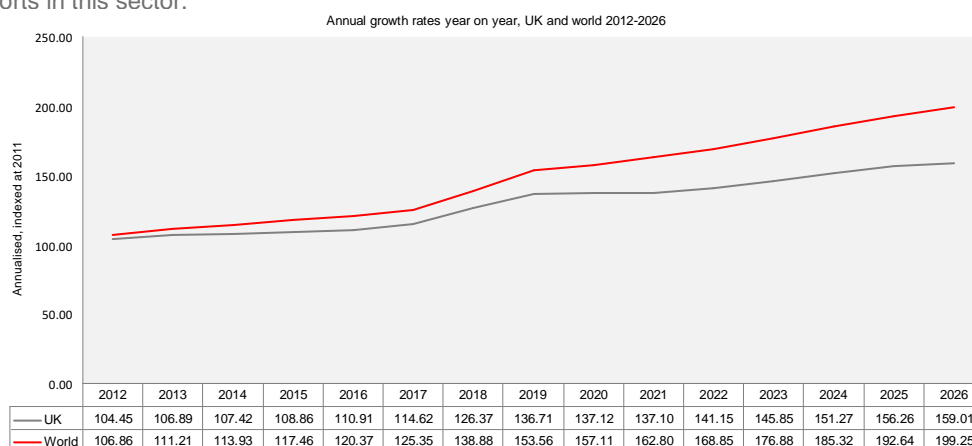
Global trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

UK's trade outlook

The Trade Forecast predicts that trade in the UK over the next 15 years will grow by 59.01% with annualised total trade growth over the next 15 years predicted to be 2.10% and is the rate at which companies will need to increase their international activities if they are to keep pace with this change. UK trade growth will increase significantly from five to 15 years time at 3.34% following a predicted contraction at an annualised rate of -0.43% over the next five years as the country attempts to prevent the contagion from the eurozone crisis and recover from a crisis of its own. 2012 is set to be a challenging year for the UK as despite the priority placed on increasing trade generate growth, the close trade ties of the UK with countries within the eurozone means that progress is slower than expected. The service industry, on which the UK is largely dependent, showed only modest growth in the third quarter as new business growth slowed. Further, the deficit in the trade in goods rose to £8.6 billion as lower demand led to lower exports and domestic demand for oil and chemicals led to a sharp increase in imports.

The UK's trade index, will increase fairly steadily over the next 15 years, but will, at an increasing rate, remain below the growth index for the world. However, the Trade Forecast predicts that the UK will increase its motor vehicle exports to China by 15.10% over the next five years and, as one of the largest global sectors this represents an exciting trade growth opportunity for specialist suppliers into the sector and suggests that the UK is reducing its dependency on European markets for exports in this sector.



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

The UK's largest export partners are Germany, the USA, Ireland and France. Export trade with Germany and the USA is forecast to increase annually over the next five years at the modest rates of 0.89% and 0.50%, respectively. Three out of five of the smaller but rapidly growing export destinations are in Latin America and are centred around commodity trade in oil and agriculture. Cambodia and Vietnam are forecast to grow annually as export destinations at a rate of 11.06% and 9.76%, respectively, reflecting supply chains in the textile sector particularly in high end machinery and the import of artificial fibres.

The Trade Forecast predicts that imports from China will increase by 4.84% annually over the next five years but traditional routes are changing with India forecast to grow as an import partner faster than China (5.20% compared to 4.84%). Imports from Qatar, Paraguay and Nigeria are set to increase annually over the next five years at 17.78%, 12.69% and 10.26%, respectively, albeit from a lower base. Closer to home, Poland is a large and fast growing import partner mainly due to imports of cars and computers which, over the next five years, are forecast to grow at an annualised rate of 8.75% and 17.79%.

UK's Current Largest Export and Import Partners				UK's Emerging Growth Export and Import Partners			
UK's Largest (2012) Export Partners Ordered by Value	CAGR (2012 - 2016)	UK's Largest (2012) Import Partners Ordered by Value	CAGR (2012 - 2016)	Emerging Growth Exporters	%	Emerging Growth Import Partners	%
Germany (5)	0.89%	China (2)	4.84%	Paraguay	12.34%	Qatar	17.78%
USA (7)	0.50%	Germany (7)	1.43%	Chile	11.33%	Cayman Islands	15.44%
Ireland (9)	-0.77%	Netherlands (4)	2.44%	Cambodia	11.06%	Rwanda	13.39%
France (6)	0.67%	France (9)	0.74%	Vietnam	9.76%	Paraguay	12.69%
Netherlands (3)	2.65%	USA (5)	1.86%	Bolivia	9.62%	Georgia	12.53%
Belgium (4)	1.15%	Belgium (6)	1.74%	Brazil	8.56%	Nigeria	10.26%
Spain (8)	-0.18%	Italy (10)	-0.09%	China	8.41%	Cambodia	9.61%
Italy (10)	-1.02%	Ireland (3)	2.81%	Ethiopia	8.22%	Slovakia	8.77%
China (1)	7.26%	Spain (8)	0.08%	Peru	7.74%	Libya	8.50%
Switzerland (2)	3.64%	Poland (1)	7.11%	Morocco	7.59%	Lithuania	7.37%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base. CAGR stands for compound annual growth rate.

Sector watch

The table below shows UK's fastest growing export and import sectors by partner:

UK's Fastest Growing Export and Import Sectors by Partner (2012-2016)					
Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Motor vehicles for transport of persons (except buses)	China	15.10%	Petroleum gases and other gaseous hydrocarbons	Netherlands	11.53%
Turbo-jets, turbo-propellers/other gas turbine engines	Singapore	9.12%	Petroleum oils, oils from bituminous minerals, crude	Libya	11.08%
Motor vehicles for transport of persons (except buses)	Russian Federation	6.62%	Heterocyclics, nitrogen hetero atom only, nucleic acid	Ireland	10.87%
Petroleum gases and other gaseous hydrocarbons	Belgium	5.39%	Jerseys, pullovers, cardigans, etc, knit or crochet	China	10.66%
Petroleum gases and other gaseous hydrocarbons	Ireland	4.93%	Petroleum oils, oils from bituminous minerals, crude	Nigeria	10.59%
Heterocyclics, nitrogen hetero atom only, nucleic acid	USA	4.15%	Printing and ancillary machinery	Netherlands	10.52%
Medicaments, therapeutic, prophylactic use, in dosage	Spain	4.13%	Radio and TV transmitters, television cameras	Hungary	9.87%
Medicaments, therapeutic, prophylactic use, in dosage	Netherlands	3.41%	Oils petroleum, bituminous, distillates, except crude	Sweden	9.77%
Petroleum oils, oils from bituminous minerals, crude	Germany	2.82%	Radio and TV transmitters, television cameras	China	9.64%
Oils petroleum, bituminous, distillates, except crude	Netherlands	1.97%	Television receivers, video monitors, projectors	Slovakia	9.43%

N.B. The fastest growing import and export sectors by partner are developed from the UK's top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

The sector opportunity

Bio-pharmaceutical: The medicine and pharmaceuticals sector in the UK is world class and global in its reach, with demand for medicine and pharmaceuticals increasing rapidly around the world. Its markets are particularly strong in Europe and North America and, accordingly, exports are forecast to grow annually over the next five years to Spain at 4.13%, to the Netherlands at 3.41% to the USA by 1.59% and to Germany by 1.49%. Imports within the sector from the USA are forecast to increase by 8.83% annually to 2016 and imports of medicines from Spain by 6.84% over the same period. In emerging economies demand is increasingly being met by Indian pharmaceutical companies who have innovative solutions to service those markets but the UK has the opportunity to partner with other key European markets which are strong in this sector e.g. France and Germany to fulfill this demand. Businesses seeking to internationalise in this sector are aware of this global challenge and must grow their activities at nearly 3% annually to keep up with the pace of change.

Oil and Gas: The UK oil and gas sector represents six out of the top 15 emerging export sectors and five out of the top 15 import sectors by country. It is a dominant sector in the UK and will remain so with forecast growth in exports at 2.85% annually to 2016 and in imports at 4.08% for non-crude oil and 5% for crude oil over the next five years. The sector is highly innovative and fuels related niche sectors in oil platform technology and shipping. Businesses need to work with the largest energy companies and smaller niche businesses, especially in countries like Turkey and Poland where expertise and internationalisation are growing quickly.

Automobiles: The motor vehicles sector is the country's second-largest export sector and is vital to UK growth. Two of the UK's fastest growing export sector partners are predicted to be in automobiles - exports to China are set to grow by 15.10% and to Russia by 6.62% annually over the next five years. In both cases, this represents increased exports of cars as UK manufacturers open up these trade corridors. Trade routes in automobiles are generally well established and businesses within the automotive sector are familiar with global supply chains however there are opportunities for the UK to strengthen its offer partnering with emerging European markets such as Poland to compete on a global scale. UK automotive businesses will have to increase their international activities by at least 2.18% annually in order to keep up with the pace of change.

HSBC Global Connections Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics.

The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

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