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PRESS RELEASE

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UK FOOD AND DRINK SECTOR BUCKS TREND AS PANDEMIC SEES INTERNATIONAL TRADE FALL IN Q1

The Lloyds Bank International Trade Index shows:

- UK exports fell in Q1 2020 as impact of coronavirus hit global supply chains.
- Growth in food and drink exports softened the slowdown for UK manufacturing
- The sharpest drop in manufacturing exports occurred in March, when international efforts to halt the spread of coronavirus across the globe accelerated.
- UK services exports fell at fastest rate since 2014, although financial services a bright spot.
- Seven-year run of global economic expansion ends in Q1 2020.
- Flash PMI data for April shows fall in economic output exceeding lowest levels since global financial crisis.

Food and drink businesses defied an overall drop in UK exports during the first quarter of 2020 as supply chain disruption and international efforts to combat coronavirus hit overseas sales of goods and services, according to the Lloyds Bank International Trade Index.

The Index, compiled in partnership with IHS Markit saw UK manufacturing exports fall for the fourth quarter in a row between January and March, at 46.8 for new manufacturing exports in Q1, down from 47.9 in Q4 2019. The sharpest drop occurred in March, when the Index dropped from 47.8 in February to 43 in March – the fastest monthly downturn since 2012.

Food and drink was the only manufacturing sub-sector to buck this trend, with exports growing for the first time since Q2 2019 between January and March to 50.5.

The sector's performance was underpinned by strong demand in key export markets, such as the USA and Ireland, and the easing of global trade tensions from 2019, when higher US trade tariffs on European products, such as whisky, wine and cheese and uncertainty over the UK's departure from the EU caused UK food and drink exports to fall.

In March, UK manufacturers experienced delivery delays and reduced availability of key inputs on an unprecedented scale since 1998, with a supply chain pressure reading of 33.



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Historic lows for UK services exports

Meanwhile, in Q1 2020 UK services businesses saw the sharpest quarterly drop in new overseas work since the Index began in 2014 at 42.7 down from 46.5 in Q4 2020. The fall was driven by a slump in international travel, with services exports related to transport (39.9) and hospitality and leisure (11.8) most acutely affected.

Financial services, however, outperformed the sector at large during the first quarter of this year with a reading of 51.5, with new business from overseas increasing at the fastest rate since Q3 2019. Firms surveyed attributed this growth to greater clarity over the UK's departure from the EU, but some said international clients were still delaying spending decisions due to coronavirus.

Economic output free falls, but early signs of Chinese recovery

Further data from the Bank's UK Export Climate Index, compiled from Flash PMI surveys for Australia, the Eurozone, Japan and the United States point to a severe downturn in business activity during April, with the fall in economic output exceeding lowest levels since the global financial crisis. These provisional figures highlight the prospect of a further reduction in UK exports during the second quarter of 2020.

In addition, the CPB World Trade Index suggests that global export volumes have decreased the fastest in 20 years, with developed markets and international supply chains suffering due to lockdown measures to stop the spread of the virus.

The International Trade Index also noted the end of a seven-year run of global economic expansion during the first quarter of 2020 at 46 in Q1 2020, down from 50.3 in Q4 2019.

The Index reading for March alone was 37.3, showing the impact of emergency measures to combat coronavirus on demand for UK exports in key markets.

However, after posting a reading of 27.5 in February, mainland China jumped to 46.7 in March – indicating early signs of renewed demand for UK exports as the country's lockdown restrictions eased.

Gwynne Master, managing director and global head of trade for Lloyds Bank Global Transaction Banking, said:

"The China shutdown sent shudders through the global economy and complex global supply chains, with an unprecedented knock-on impact for UK exporters. Performance and good growth levels in the UK food and drink sector as well as the financial services industry in Q1 are sources of encouragement."

"It is reassuring that China, one of the first major economies to gradually return to work, is showing signs of an economic recovery. We are closely observing supply chain pressures when movement restrictions are eased across Europe and the UK. Lloyds Bank has a crucial role to play, providing support to businesses to enhance cash and working capital solutions through trade solutions. We are committed to helping Britain trade, mitigating trade risk and enhancing liquidity now and in the months ahead."

Notes to editors



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For further information:

<https://resources.lloydsbank.com/economics-and-market-insights/UK-ITI-April-2020.pdf>

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The Lloyds Bank International Trade Index, written in partnership with IHS Markit, sheds light on international trade conditions to help British businesses trade internationally and navigate export markets. It brings together key export growth and supply chain indicators to provide timely insights into the challenges and opportunities for exporting. 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.