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PRESS RELEASE

BRITISH BUSINESSES REDRAW GLOBAL TRADE FOOTPRINT

18% of exporters diverting trade away from the EU

£50 billion of exports diverted to non-EU countries since the Brexit referendum

*** One third of exporters still plan to trade with new markets***

British businesses are creating a new trading footprint around the world, according to a new report, *A New World for Global British Business*, by Lloyds Bank and Aston Business School released today.

As the UK prepares to conclude its exit from the European Union, nearly one in five British exporters (18%) have already changed trading partners to divert business outside the EU¹, showing that businesses are actively looking at new export markets. An estimated £50 billion of exports have been diverted since the Brexit referendum result in June 2016²

Aston Business School analysed 340,000 quarterly export transactions made by 26,000 UK exporters over a five-year period, finding that relative growth in export values towards the EU countries have decreased by an average of 8.7% per year³. This is driven solely by Brexit uncertainty as those diverting trade beyond the EU have primarily opened up trade relationships with established emerging markets within the BRICS (Brazil, Russia, India, China, South Africa). Firms have also diverted trade to countries the UK has traditionally strong relationships with, including Commonwealth nations Australia and New Zealand.

Separate polling of 1,200 British businesses undertaken in October for the report finds 24% of all UK businesses and 29% of exporters have reviewed and made changes to their supply chain because of Brexit and 26% of exporters say they have diversified to create new opportunities outside the EU.

Gwynne Master, Global Head of Trade for Lloyds Bank, said: “While the clock is counting down to the end of the UK’s post-EU transition period, British businesses are building toward the future and forging new opportunities around the world. These findings are the start of a new chapter in the story of global British business and trade. This year in particular, our business customers have faced a myriad of challenges not least of which is the global pandemic. Despite



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this businesses are taking big strategic steps that will change the shape of their import and export business and the future of this great trading nation for years and decades to come .”

The report found plans are underway for further expansion beyond the EU. According to the polling, a third of exporters (34%) and one in six (16%) of all businesses plan to expand into new markets around the world. It also highlights business continuity plans, with 17% of exporters and 13% of all businesses saying they are stockpiling to ensure continuity of service post Brexit. The biggest shifts in trade diversion were by firms who export the least, which switched as much as 46% of new export growth to non-EU markets. For the next quartile up, this figure was 19%. Yet the analysis found that it was primarily firms who have the highest export values which were benefiting from the changes.

The research suggests that in some cases they might have taken the place of those trading less - potentially due to their ability to better manage, absorb and diversify the potential risks of a post Brexit world, and the likelihood that they are highly productive firms which export multiple products or services. This is shown through the increase in growth in export values towards both intra and extra- EU countries despite there being a slow down of the exporting of new products and destinations within the EU as a whole.

Jun Du, Professor of Economics at Aston Business School and Director of the Lloyds Banking Group Centre for Business Prosperity, said: “The shift in diversion we found goes against conventional ‘trade gravity’ models, in which countries geographically close to each other tend to do more trade. Instead from the referendum through to today we see exporters exploring new trading partners around the world. Our concern lies with the vulnerabilities faced by businesses that export less, forging these paths while lacking the infrastructure and scale of multinational firms as this reverse in trade gravity typically means higher costs and greater risk exposure. More needs to be done to help British businesses of all sizes navigate the future of international trade.”

While evidence suggests trade diversion is already underway and British businesses are preparing for the unknown, insights from key business leaders tell us that there are still many key lessons to be learned. Mitigating risks, managing overseas expansion and building understanding and awareness are all central to the success of opening up new trading opportunities beyond the EU in our post Brexit world.



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¹ The Business Barometer results provide early signals about UK economic trends. The research is carried out monthly on behalf of Lloyds Bank by BDRG Continental. This survey was conducted with 1,200 companies from 1-15 October covering all sectors and regions of the UK. The results are reweighted to match proportions by size, sector and region of the total business population, as published by the Department for Business, Energy and Industrial Strategy and the Office for National Statistics.

² Aston Business School estimates that approximately £50bn in export value has been diverted away from the EU since the Brexit referendum result in June 2016. This is based on an annual trade diversion value of approximately £10.5bn, calculated from June 2016 to December 2018 and the assumption that trade diversion follows the same trend as before to end 2020 [which comes to £47.25bn in total].

³ The Aston Business School analysis is based on HMRC firm trade transaction-level data for the period 2012-2018, differentiating between export flows towards intra EU- countries and extra - EU countries. This amounts to 340,000 quarterly export transaction records by more than 26,000 UK exporters

Notes to editors

Lloyds Bank has invested significantly in its trade solutions - building out its network and connectivity, technology, and trade experts - to support ambitious British businesses in building resilience and growth around the world. The bank has built a new tailor-made network providing customers with access to every key trading location in the world. With £3billion worth of investment in technology across the group since 2018, the bank has launched a one-of-a-kind International Trade Portal – a powerful insight and research tool – connecting business to opportunity; invested in a state-of-the-art Trade Platform to develop and deploy innovative client solutions, supported by its UK based Trade Service centre of excellence and built the Lloyds Trade Tracker - an easy to use app created in-house with customers - to track transactional trade data at the click of a button.