Planning for Brexit is providing a temporary boost to British imports

Initially scheduled to take effect on 29th March 2019, the departure of the United Kingdom from the European Union (EU) has been delayed until 31st October 2019, with no guarantee that a trade agreement will be reached by that deadline. While trade between the United Kingdom and its partners is expected to suffer as a result of Brexit, regardless of the outcome of negotiations, Brexit appears to have affected trade before even taking effect. Probably acting in anticipation of the Brexit deadline set at the end of Q1 2019, British businesses in the manufacturing sector expanded their inventory with massive purchases from other European countries, bolstering French exports in particular.

In late 2018 and early 2019, British businesses accumulated substantial inventory of imported products in preparation for Brexit

As the deadline of 29th March 2019 approached, initially set as the date on which the United Kingdom would leave the European Union, more and more British businesses reported that Brexit was a major source of uncertainty in the surveys conducted by the Bank of England (*Graph 1*).

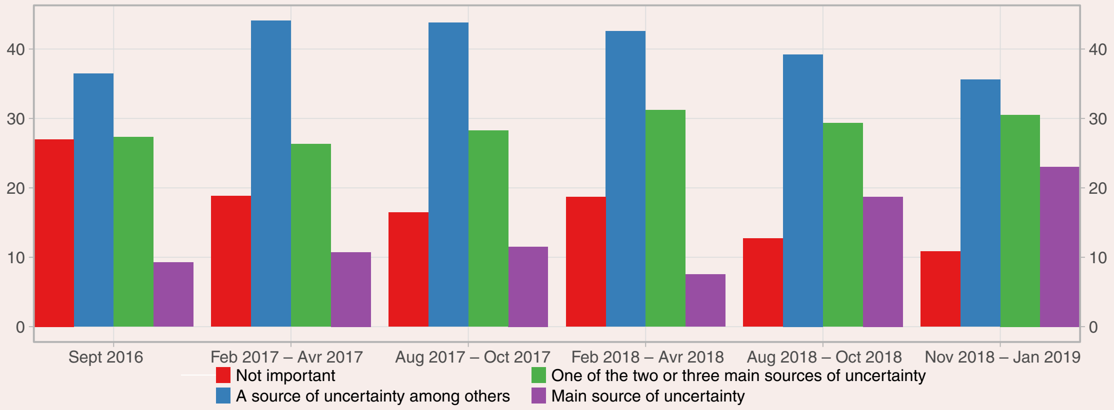
Anticipating an increase in customs duties and potential disruption to supply chains in the event of a no-deal Brexit, more than half of the businesses surveyed decided to increase their inventory levels. This was the response most frequently reported by businesses in the survey on Brexit preparations conducted in January by the Bank of England. In particular, according to the Markit institute, the balances of opinion of purchasing managers in the manufacturing sector regarding existing inventory of inputs and finished products leapt up in Q1 2019 (*Graph 2*).

The stocks estimated in the national accounts therefore rose sharply in Q1 2019: inventory change contributed approximately 2.3 points to the increase in British GDP, the highest level seen since Q2 2012, just before the Olympic Games in London.

Meanwhile in early 2019, British imports of goods and services in volume as measured in the national accounts picked up pace considerably, growing by +10.8% compared with the preceding quarter. This

1 - More than half of British businesses considered Brexit to be a major source of uncertainty in January 2019

in %

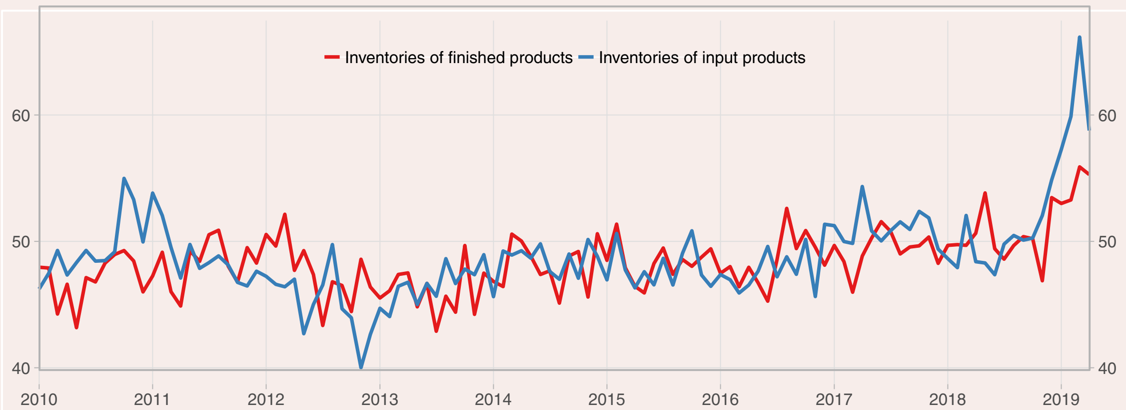


Note: responses to the question 'To what extent has the referendum on the United Kingdom leaving the EU affected the level of uncertainty facing your business? Please select one answer only."

Source: The Bank of England's 'Decision Maker Panel'

2- In early 2019, businesses reported a sharp increase in inventory

in %



Source: Markit'

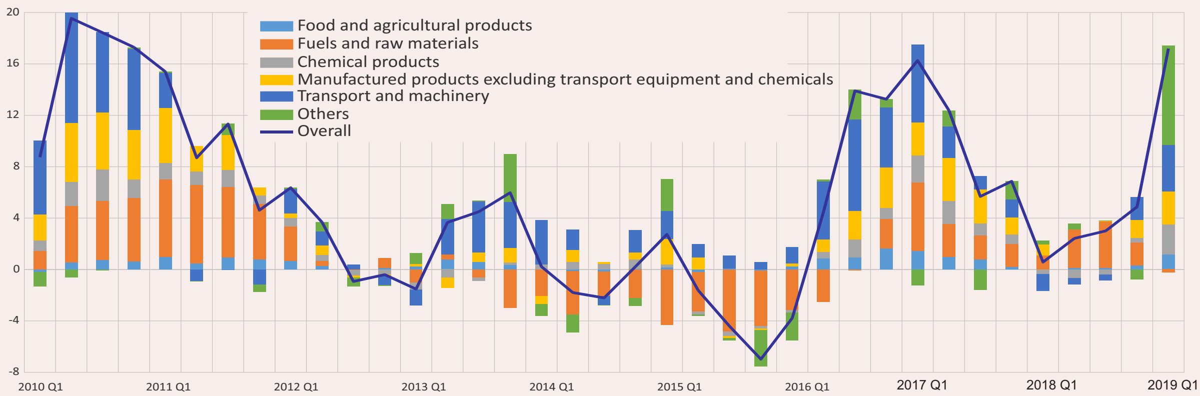
was the biggest jump recorded since 1981. According to Her Majesty's Revenue and Customs, imports of goods in value terms also picked up pace to grow by +17.2% year on year in Q1 2019, up from +4.9% in late 2018 (*Graph 3*). This is the strongest rate of growth recorded since early 2017, when imports in value were boosted by the depreciation of the pound following the referendum result. This acceleration, which has affected trade with the EU and the rest of the world, has been driven largely by stockable goods such as chemical products (+2.3 points), other manufactured goods (+6.2 points) and food products (+1.2 points).

Conversely, the United Kingdom's exports saw no exceptional increase over the same period.

All of the United Kingdom's trading partners benefited from the exceptional increase in British imports in Q1 2019

As the fourth biggest supplier of UK imports (*Table 1*), the USA looks to have been the primary beneficiary of these Brexit anticipation effects (*Graph 4*). In early 2019, US exports to the United Kingdom increased by 49.6% year on year, with British companies increasing their inventory of American products before potential increases in customs duties and resulting disruptions to supply chains. Indeed, Brexit would not only affect customs duties between the United Kingdom and EU member states. By leaving the EU, the United Kingdom would no longer be covered by the preferential terms of trade negotiated by the EU with the rest of the world. The effects of Brexit therefore seem to have extended to trade between the United Kingdom and trading partners outside the EU such as the USA and China. These countries seem to be benefiting from the same anticipation effects as EU member states. Moreover, it is possible that other anticipation effects unrelated to Brexit were also at play in this period, particularly the escalation of the trade war between China and the USA.

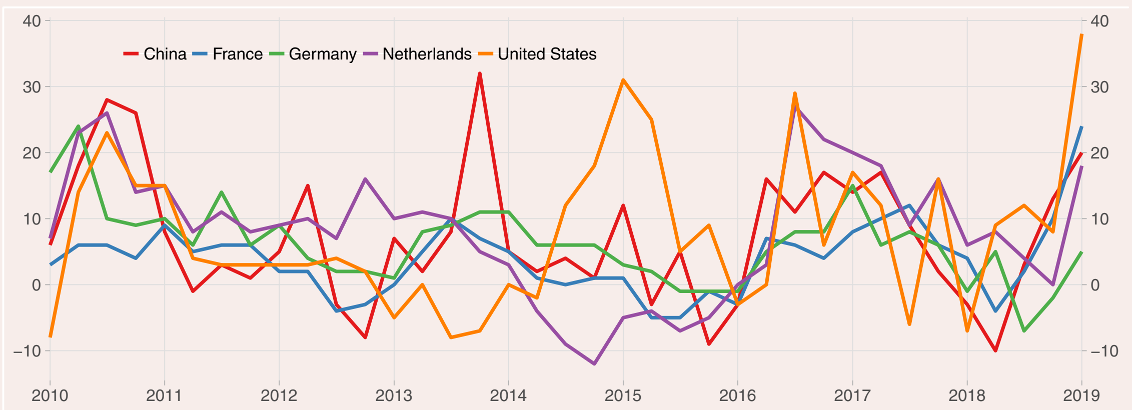
3 - British imports grew considerably in early 2019



Source: Markit

4 - Imports to the United Kingdom from principal trading partners

in %



Source: Markit

Table 1- The United Kingdom's main suppliers in 2018

	Country's share of British imports by value in 2018 (in %)
Germany	13.9
China	9.0
Netherlands	8.6
United-States	8.6
France	5.8
Belgium	5.5
Norway	4.1
Italy	3.9
Spain	3.4
Ireland	2.9

Source: Office for National Statistics (ONS), British customs

France, as the fifth largest supplier to the UK, also benefited from the dynamism of British imports in Q1 2019 (+23.3%, *Graph 5*). In particular, deliveries of chemical and pharmaceutical products (+3.4 points) and other manufacturing products (+18.0 points) have played a significant role in this increase. Food and agricultural goods also contributed +2.0 points to the growth of French exports to the United Kingdom.

Chinese exports to the United Kingdom also enjoyed a substantial boost in early 2019: they accelerated by +19.8% year on year, their most dynamic performance since 2013 (*Graph 4*).

The Netherlands, third largest supplier to the United Kingdom, have also benefited from the apparent effects of Brexit planning: in Q1, British imports of Dutch products grew by 17.7% compared with the previous year, when Dutch trade with the UK had actually been shrinking since 2017. Deliveries of chemical products (+14.8 points) and other manufactured products (+4.3 points) have made the greatest contribution to this upturn.

For Italy and Spain, respectively the 7th and 9th largest suppliers to the United Kingdom, effects of Brexit have been significant since Q4 2018 (+12.1% for Spain and +8,5% for Italy). In Q1 2019, British imports increase at a similar pace.

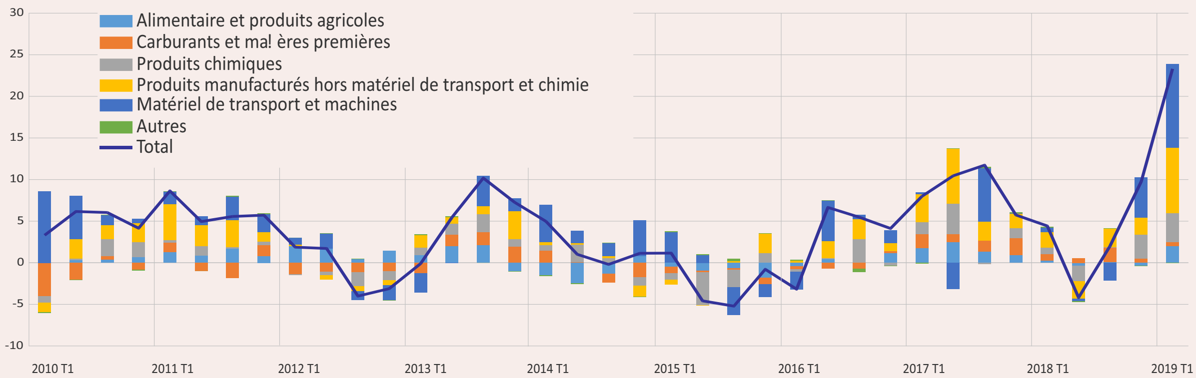
Other countries have benefited less from the acceleration of British imports in Q1 2019. Germany, second largest supplier of the United Kingdom, saw only a slight rebound in its cross-channel exports in Q1 2019, although the uncertainty surrounding Brexit does seem to have contributed to the recovery of German trade with the United Kingdom. After a tough end to 2018 for the automobile sector (adapting to new anti-pollution regulations) and the chemical industry (problems navigating on the Rhine), German exports to the United Kingdom saw a modest rebound in early 2019: they grew by 4.7% compared with the previous years, after shrinking in two successive quarters, by 7.1% then 1.8%, according to UK customs figures. This increase was primarily driven by imports of manufactured goods (+1.9 points) and chemical products (+1.6 points).

Belgian exports to the UK also increased by just 5.1% year on year to Q1 2019.

In response to concerns about Brexit and its consequences for trade flows and supply chains to production facilities, British businesses therefore appear to have opted for a strategy of massive inventory accumulation. In early 2019 they significantly ramped up their purchasing of manufactured goods, particularly transport equipment and chemical products, from multiple partners simultaneously. In reaction, they are expected to sell off their stocks in Q2 2019 and these variations should contribute –1.1 points to the GDP growth. In April, imports of goods in value decreased by 9.9% compared to March. ■

5 - Evolution of French exports to the United Kingdom

in %



Source: Markit

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