



EUROPEAN EXPORT INDEX

Q4 2017

BDO EXPORT INDEX - KEY FIGURES

The BDO Export Indices are composite indicators which provide snapshots of the export markets in Europe's five largest economies - Germany, UK, France, Italy & Spain - together accounting for around 70% of EU GDP, as well as the EU as a whole. Using data from a range of European surveys over the past quarter, the headline figures in this edition refer to the export outlook for the forth quarter (October - December) of 2017.

Summary and key findings















KEY: ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months



✗ = below 100; ✗✗ = below 100 and (joint) lowest in 12 months

 = upward monthly movement

 = downward monthly movement

BDO EXPORT INDEX - KEY NATIONAL FIGURES

Index	Country	Movement in quarter	Index level
Export Growth Index	EU		98.8 in Q4
	UK		110.3 in Q4
	Germany		101.7 in Q4
	France		101.9 in Q4
	Spain		100.8 in Q4
	Italy		101.2 in Q4
Export Inflation Index	EU		105.3 in Q4
	UK		105.1 in Q4
	Germany		116.5 in Q4
	France		99.7 in Q4
	Spain		101.0 in Q4
	Italy		103.4 in Q4

KEY:  = rise from previous quarter
 = fall from previous quarter

EUROPEAN EXPORT INDEX

Key Findings

The BDO EU Export Growth Index picked up in Q4, indicating faster export growth is anticipated in the 28-country block.

In Q3, EU export growth climbed above 95 indicating growth returned to positive territory. This quarter's reading, of 98.8, points towards a strengthening of export growth in the trade block, as it benefits from an upswing in global trade. The Index remained just below 100 though, meaning the growth in exports is less than that seen over the long-run, on average.

All of the EU's five largest economies are set to see above-average export growth in the fourth quarter, each registering index scores higher than 100. Export growth is set to accelerate in Italy, France and the UK, while a slowdown is expected in Germany and Spain.

The UK is set to be the fastest growing in terms of annual export growth, with an index score of 110.3. UK exports grew by 13% year-on-year in Q3 and this month's index points to an improved performance.

The BDO Export Inflation Indices, which look at the rates of annual export price growth across the EU as a whole and in the five largest European economies, showed export inflation is expected to continue to slow across the EU in Q4, though with some notable exceptions.

Germany, Spain and the UK are all set to see accelerating export price growth while lower export inflation is anticipated in France and Italy.

Germany is set to show the sharpest acceleration in export inflation, as higher fuel costs impact the economy's large manufacturing sector. UK export inflation is expected to rise in Q4, with the index climbing 1.0 point to 105.1.

The EU Export Inflation Index stands at 105.3 in quarter four, down 2.3 points on quarter three, indicating export inflation is set to slow. Export price growth spiked at the beginning of 2017 and has been on a downward trajectory ever since.

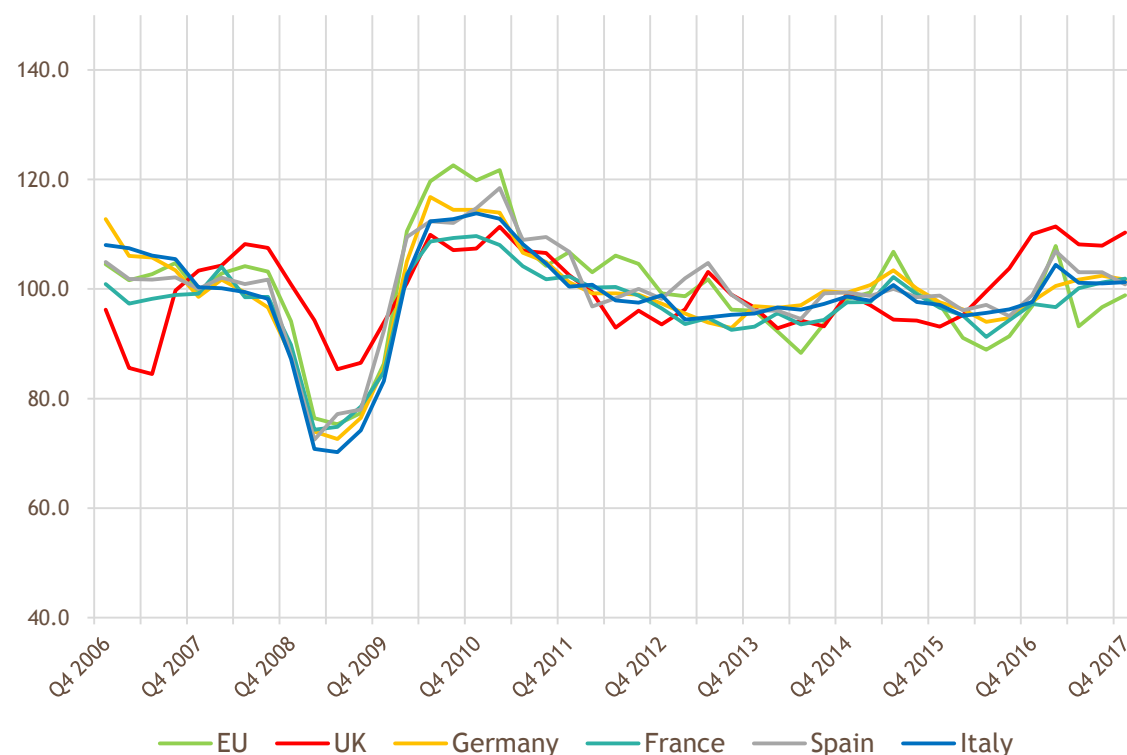
In this quarter's In Focus section, we look at the impact of the EU referendum on overseas investment into the UK.

UPSWING IN GLOBAL TRADE SUPPORTS EU EXPORT GROWTH

- The BDO Export Growth Indices chart annual growth in total exports of Europe's five largest economies and the EU.
- The BDO EU Export Growth Index stood at 98.8 over Q4 2017 signalling faster growth is anticipated in the final three months of 2017, than in the previous quarter.
- Annual EU export growth returned to positive territory in the third quarter, as the index climbed to 96.7 from 93.2 in the second quarter.
- Although this quarter's reading is below 100 - signalling that Q4 export growth is set to be less than that seen on average over the long run - the index's upward trajectory bodes well for future quarters.
- Survey results show EU exporters are at their most optimistic in six years, as the EU has benefitted from the upswing in global trade seen this year.
- The World Trade Organisation issued a strong upward revision to their forecast for 2017 trade growth. The volume of world trade is now forecast to grow 3.6% in 2017, up from a previous estimate of 2.4%. Stronger-than-expected growth is driven by Asia and North America, where import demand is recovering from weak 2016 results.

BDO EXPORT GROWTH INDEX

100 = long-run average growth for EU exports. Greater than 95 = positive growth



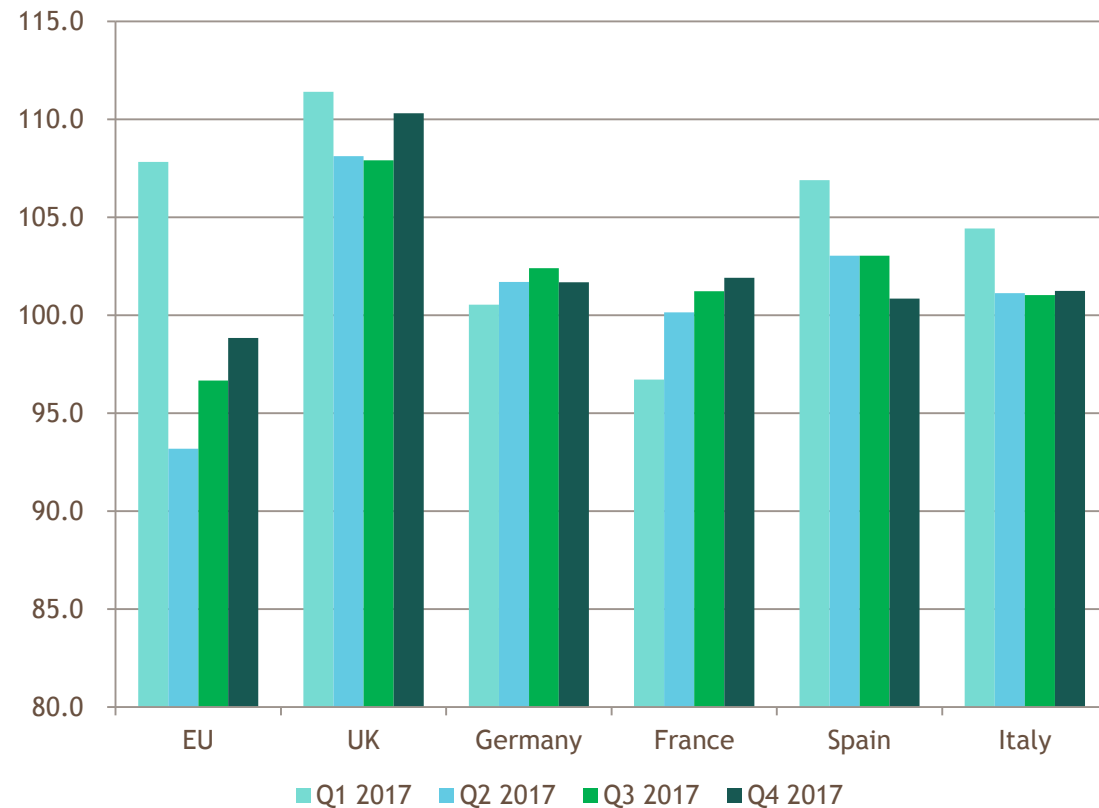
Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

UK EXPORTERS SET TO OUTSHINE EU COUNTERPARTS

- All of the EU's five largest economies are set to see above-average export growth in the fourth quarter, each registering index scores higher than 100. Italy, France, and the UK are set for an acceleration in export growth while a slowdown is anticipated in Spain and Germany.
- The UK saw export growth of 13% year-on-year in Q3. As the BDO UK Export Index climbed 2.4 points to 110.3, exports are set for a further improved performance in Q4.
- Spain, which recorded the second highest index score in Q3, fell 2.2 points this quarter. Exports grew by 8% year-on-year in the third quarter but given the fall seen this quarter, slower growth is expected.
- The BDO German Export Index declined to 101.7 in Q4 but export growth in the EU's largest economy is expected to be the second fastest in the final three months of the year. The suggestion of a slowdown is in line with official statistics for October which show that German export volumes declined by 0.4% month-on-month. Given the growth already achieved this year though, volumes are still set to expand.
- Across all EU member states as a whole, export growth is set to accelerate. However, unlike its five largest economies, the exports from the trade bloc are expected to grow at a slower rate than seen in the long run on average.

BDO EXPORT GROWTH INDEX (NATIONAL)

100 = long-run average growth for EU exports. Greater than 95 = positive growth



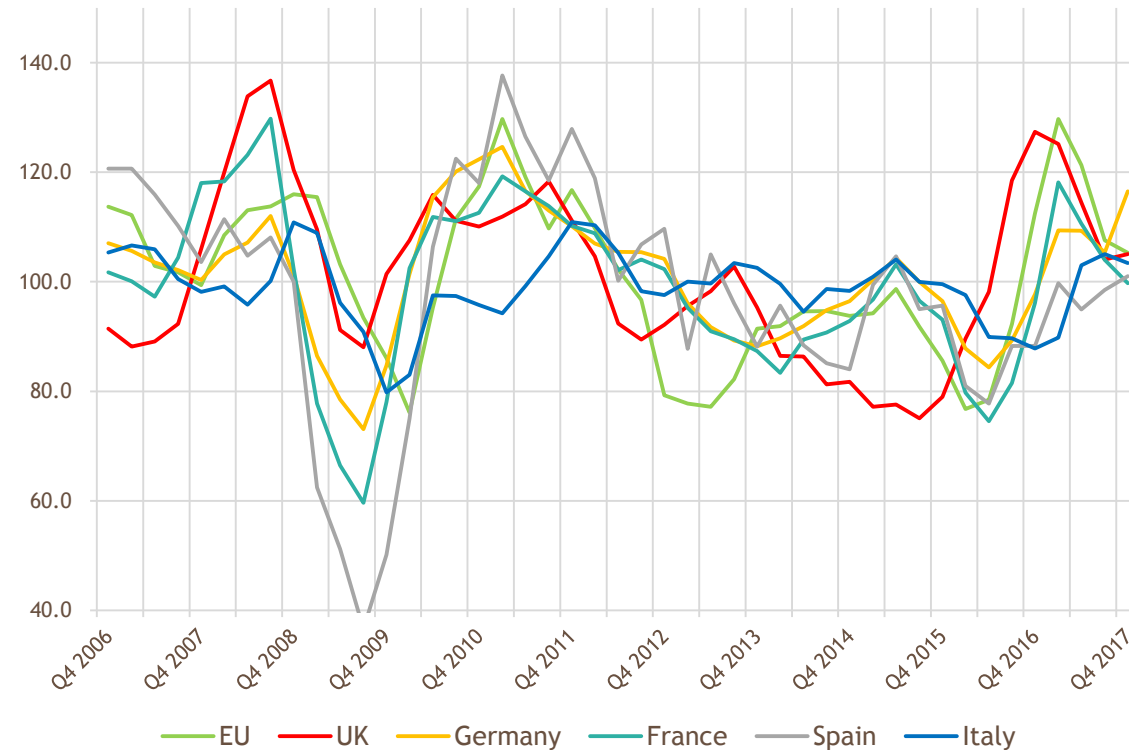
Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

EU EXPORT INFLATION SET TO CONTINUE ITS SLIDE IN Q4

- The BDO Export Inflation Index shows the rate of year-on-year growth in export prices across the EU and its five largest economies.
- The BDO EU Export Inflation Index stands at 105.3 in quarter four, down 2.3 points on quarter three.
- As the chart illustrates, export price growth spiked at beginning of 2017 and has been on a downward trajectory ever since.
- Export Prices in the block grew by less than 2% in July to September. As the Index has declined since, we anticipate a slight slowdown in export inflation in the final quarter of the year - well below the 5.3% registered in Q1 2017.
- The healthy growth in exports seen this year, particularly in the EU's largest economies has supported inflation somewhat. With higher export growth forecast by the BDO Export Growth Index, this trend is set to continue. Rising oil prices are also expected to support export inflation moving forward.

BDO EXPORT INFLATION INDEX

100 = average trend growth. Greater than 95 = positive growth

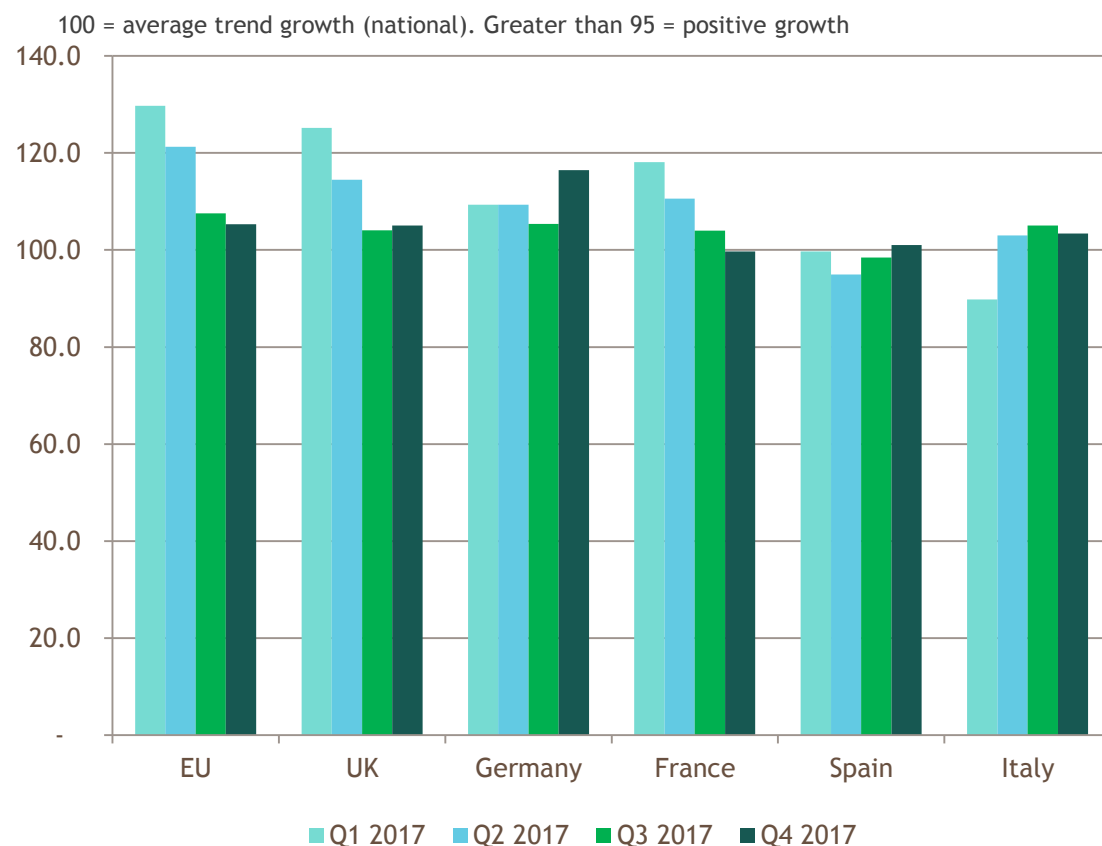


Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

OIL PRICES CONTRIBUTE TO HIGHER GERMAN EXPORT INFLATION

- Germany, Spain and the UK are all set to see accelerating export price growth in the last quarter of the year. A slowdown in export prices is anticipated in the EU as a whole, as well as in France and Italy.
- Oil prices have registered year-on-year rises in recent months, increasing producer costs and export prices. This is one of the factors which is expected to drive export costs in quarter four.
- The largest pick up in export inflation is expected in Germany, as the BDO German Export Inflation Index climbed 11.1 points to 116.5 in Q4.
- Manufacturing, which is particularly energy intensive, makes up a large share of the German economy and a significant part of exports, so the country is particularly susceptible to oil price rises.
- The UK is set to see higher export inflation in Q4, as the index increased 1.0 point to 105.1 in Q4. As well as rising oil prices, UK exporters have been faced with a weakening currency, making imported inputs more costly.
- Export inflation in Spain is also expected to continue to climb in the fourth quarter of 2017. The index registered 101.0 in Q4, up 2.5 points on the previous quarter.
- France is set for a decline in the rate of export inflation, as the index fell 4.3 points this quarter. At 99.7, the country is the only one of Europe's five largest economies where below-trend export inflation is forecast.

BDO EXPORT INFLATION INDEX (NATIONAL)

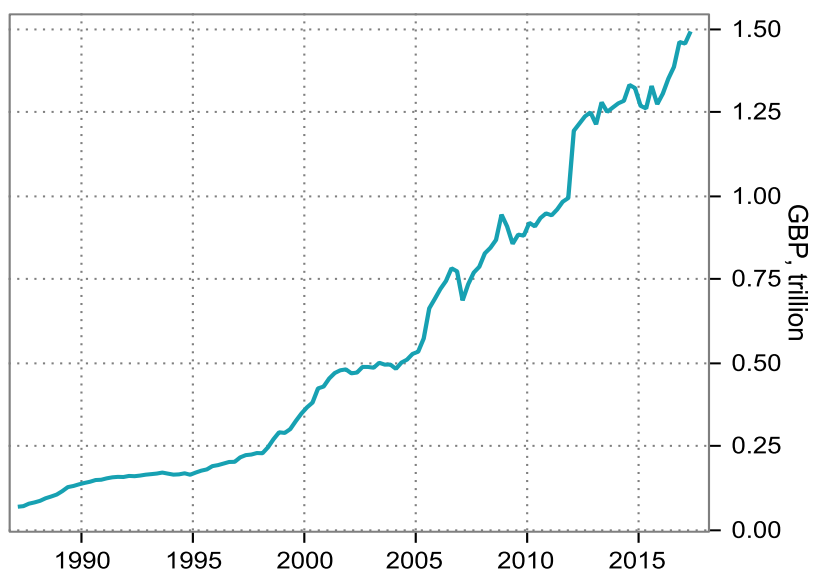


Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

IN FOCUS: STERLING WEAKNESS BOOSTS FDI IN THE WAKE OF THE BREXIT REFERENDUM

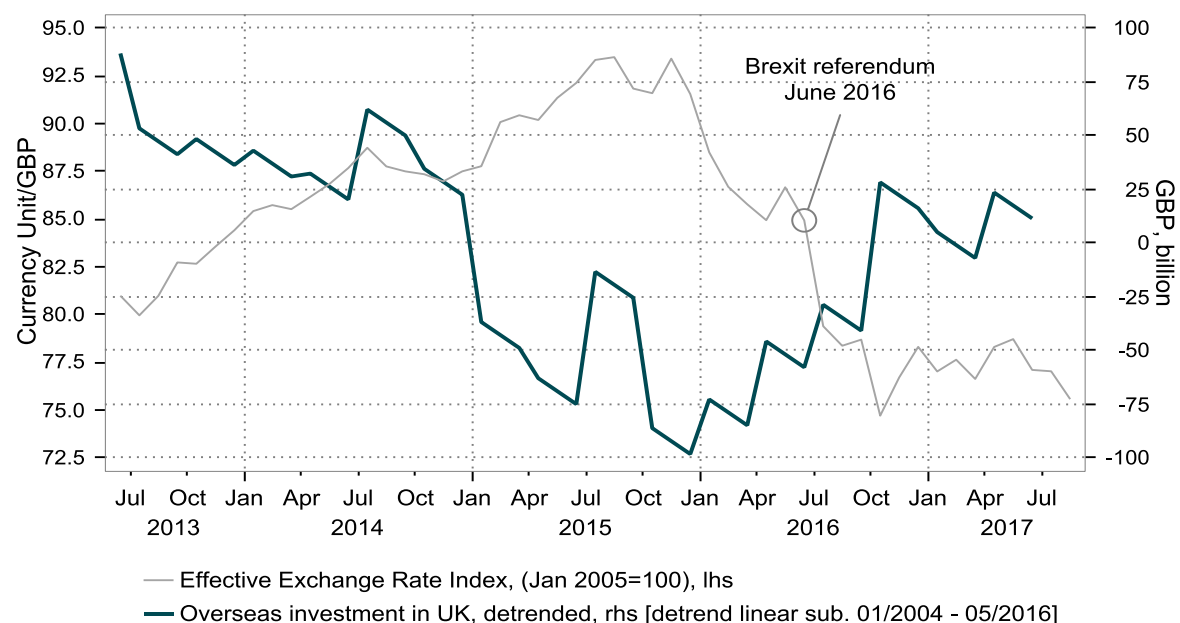
- Foreign direct investment (FDI) is classified as investment by overseas investors in businesses in which they have a certain degree of control.
- Foreign direct investment in UK businesses was £1,493 billion in Q2 2017, up slightly from £1,456 billion in the previous quarter.
- As illustrated in Figure 1, FDI inflows have been steadily increasing over time. By removing this upward trend we can look at the relative changes in FDI more to analyse the impact of external shocks more clearly.
- This is shown in Figure 2, where the trade-weighted value of sterling is graphed alongside FDI inflows, with the long-term directional element (the trend) removed.

Figure 1 Overseas investment in the UK



- Following the EU referendum sterling depreciated sharply. This made investing in UK firms cheaper. As shown in Figure 2, as the sterling weakened, foreign direct investment in UK businesses picked up.
- As well as movements in the exchange rate, FDI inflows are influenced by investors' confidence in the UK's future economic growth. This has become uncertain lately, with reduced clarity around the nature of the UK's future trade arrangements and downgraded growth projections. Yet, despite this, since the sterling depreciation FDI inflows have seen a relative increase.
- It is worth noting though that despite this seemingly Brexit-induced increase in FDI, total investment growth has fallen in the wake of the vote. Investment growth has been 0.4% QoQ on average in the year since the vote, down from 0.9% QoQ in the previous year.

Figure 2 Sterling exchange rate and de-trended FDI



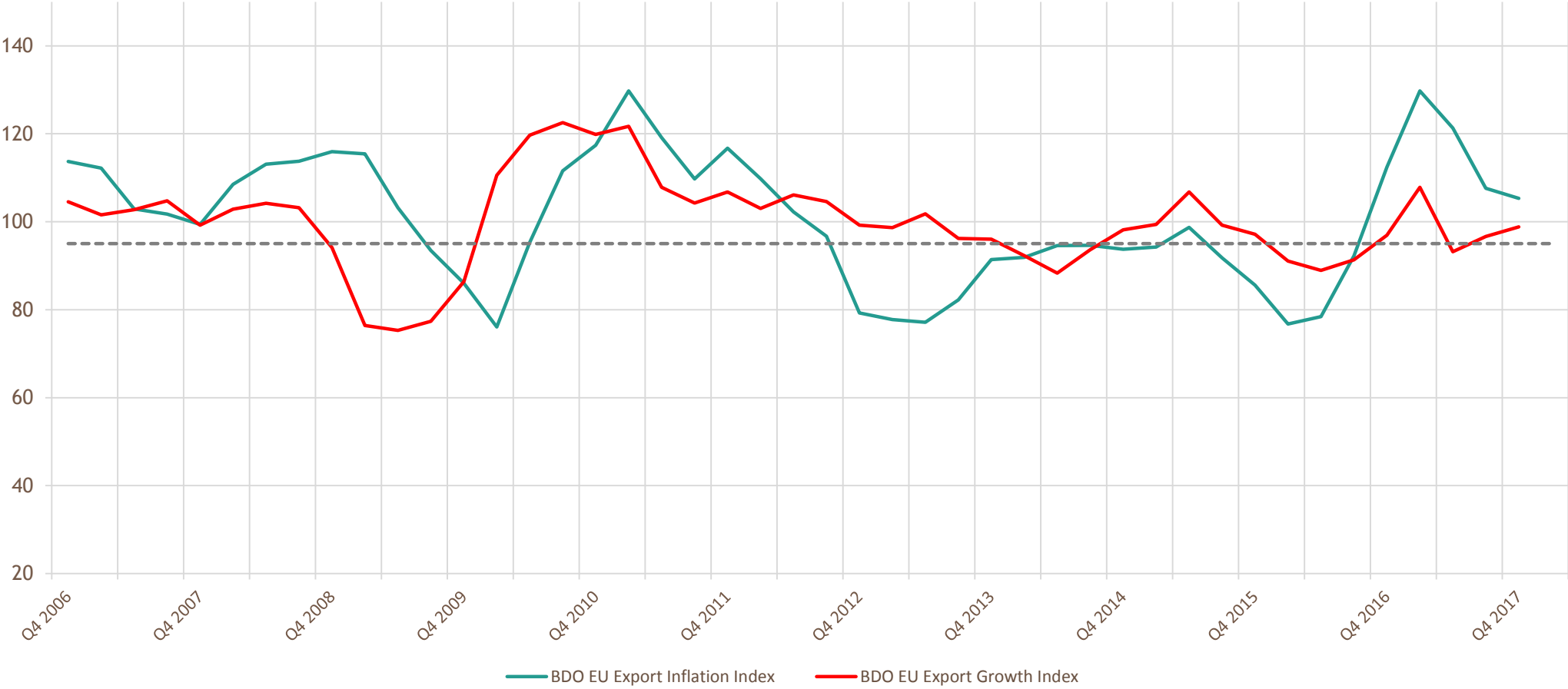
EXPORT INDICES BY COUNTRY

		Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
BDO Export Growth Index	EU	92.3	88.3	93.6	98.2	99.4	106.8	99.2	97.2	91.1	88.9	91.4	96.9	107.8	93.2	96.7	98.8
	UK	92.8	94.3	93.2	99.1	97.0	94.4	94.2	93.1	95.2	99.5	103.7	110.0	111.4	108.1	107.9	110.3
	Germany	96.6	97.1	99.6	99.3	100.7	103.4	100.1	97.6	96.3	94.0	94.7	97.8	100.5	101.7	102.4	101.7
	France	95.6	93.6	94.3	97.6	97.6	102.2	99.0	96.6	95.2	91.2	94.3	97.3	96.7	100.1	101.2	101.9
	Spain	96.0	94.5	99.2	99.4	98.7	100.0	98.5	98.8	96.1	97.1	95.1	98.9	106.9	103.0	103.0	100.8
	Italy	96.6	96.2	97.3	98.6	97.8	100.7	97.6	97.1	95.1	95.7	96.3	97.6	104.4	101.1	101.0	101.2
BDO Export Inflation Index	EU	91.9	94.6	94.6	93.7	94.2	98.7	91.8	85.6	76.7	78.4	92.2	112.4	129.7	121.3	107.6	105.3
	UK	86.5	86.3	81.3	81.7	77.2	77.6	75.0	79.0	89.6	98.1	118.5	127.4	125.2	114.5	104.0	105.1
	Germany	89.7	91.9	94.8	96.5	100.4	104.3	100.0	96.4	87.8	84.4	89.3	97.7	109.3	109.3	105.4	116.5
	France	83.3	89.4	90.7	92.8	96.7	103.2	96.5	93.1	79.7	74.5	81.5	96.1	118.1	110.6	104.0	99.7
	Spain	95.6	88.4	85.1	84.0	99.4	104.6	95.0	95.6	81.0	77.8	88.3	88.3	99.7	94.9	98.5	101.0
	Italy	99.6	94.5	98.7	98.3	100.9	104.1	100.0	99.5	97.6	89.9	89.7	87.8	89.8	103.0	105.0	103.4

APPENDIX: EXPORT INFLATION TO EASE IN Q4

BDO INDICES

100 = average trend growth. Greater than 95 = positive growth



Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

METHOD NOTES

The BDO quarterly European Export Indices are delivered on behalf of BDO LLP by the Centre for Economics and Business Research, a leading independent economics consultancy. Cebr has particular strengths in all forms of macroeconomic and market forecasting for the UK and European economies and in the use of business survey techniques.

The indices are calculated by combining a range of up-to-date business surveys and hard economic data, from a European and country-specific sources to 'nowcast' annual growth in the current quarter. Using surveyed data from sources including the European Commission, IFO, CBI, ISTAT & the Bank of England, as well as trade statistics from the UN and national statistical agencies, Cebr forecasts the level of annual growth in both total exports and export prices

The surveys and historic hard data are combined and correlated against a time series of trade data, individually for export growth and export price growth. Cebr then calculates the strength of the relationship between these variables and the dependent variable, respectively export growth and export price growth for each of the two indices. The variables are then weighted together based on their correlations and strength of relationship. Using this, Cebr nowcasts the current level of export price growth and total value of exports in the current quarter. While there may be some data from months within the quarter of release, a nowcasting exercise is used to project whole quarter figures.

Once a quarterly figure has been calculated, the annual growth rate from the same quarter in the previous year is derived. Finally, the growth rate is scaled into an index with 100 as the average long-term growth trend and 95 as the level dividing expansion from contraction.

The process is repeated for all of the five largest economies in Europe, and the combined European Union. Long-term growth, represented by a reading of 100 in the index, is calculated at a EU level for exports and at a national level for export prices.

The results are useful not only as snapshots of the current trends in the export markets of Europe's largest economies, but also as indicators of turning points and leading indicators of growth.



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