

Navigator

Now, next and how for business

United Kingdom



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UK firms bullish about international trade prospects

Despite the UK's formal exit from the EU looming next March and global trade protectionism on the rise, the latest HSBC Navigator survey suggests that UK firms are in a robust mood about the short-term trade outlook, aided by decent global growth. But, unsurprisingly, exit from the EU continues to weigh more on the sentiment of UK businesses than that of their global counterparts.

What is happening now

UK sentiment is broadly in line with the upbeat global mood

The UK economy has demonstrated an unusual degree of volatility during 2018, with periods of unseasonably bad and good weather successively dragging on and boosting activity. Underlying GDP growth has remained mediocre, averaging around 0.4% per quarter. On the trade front, what was a very buoyant year for UK export growth in 2017 has deflated somewhat, reflecting a softer performance from the global economy, particularly the Eurozone, and some recovery in the pound from its 2017 lows. But for now, firms engaged in international trade are still benefiting from the "sweet spot" provided by a relatively weak currency but, as yet, no additional post-Brexit trade barriers.

Four out of five respondents (80%) believe the outlook for international trade is positive, citing healthy global economic growth as the main reason for this optimism. But for those companies with a negative perception of the future, almost three-fifths saw Brexit as the biggest drag. France and Germany were ranked second and third in terms of markets where firms are looking to expand, with the US in first place (Fig. 1). Overall, 80% of UK firms are confident that their company will succeed in the current trading environment, very close to the global average of 81%.

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Ensure you have given adequate thought to the implications of Brexit to ensure your business continues to thrive after the UK leaves the European Union – for advice on how to get your business Brexit-ready, visit our dedicated webpage at <https://www.business.hsbc.com/brexit>
- ◆ How often are you reviewing the changing impacts that Brexit could have on you and your business?

Policy Developments

UK firms are picking up on protectionist vibes

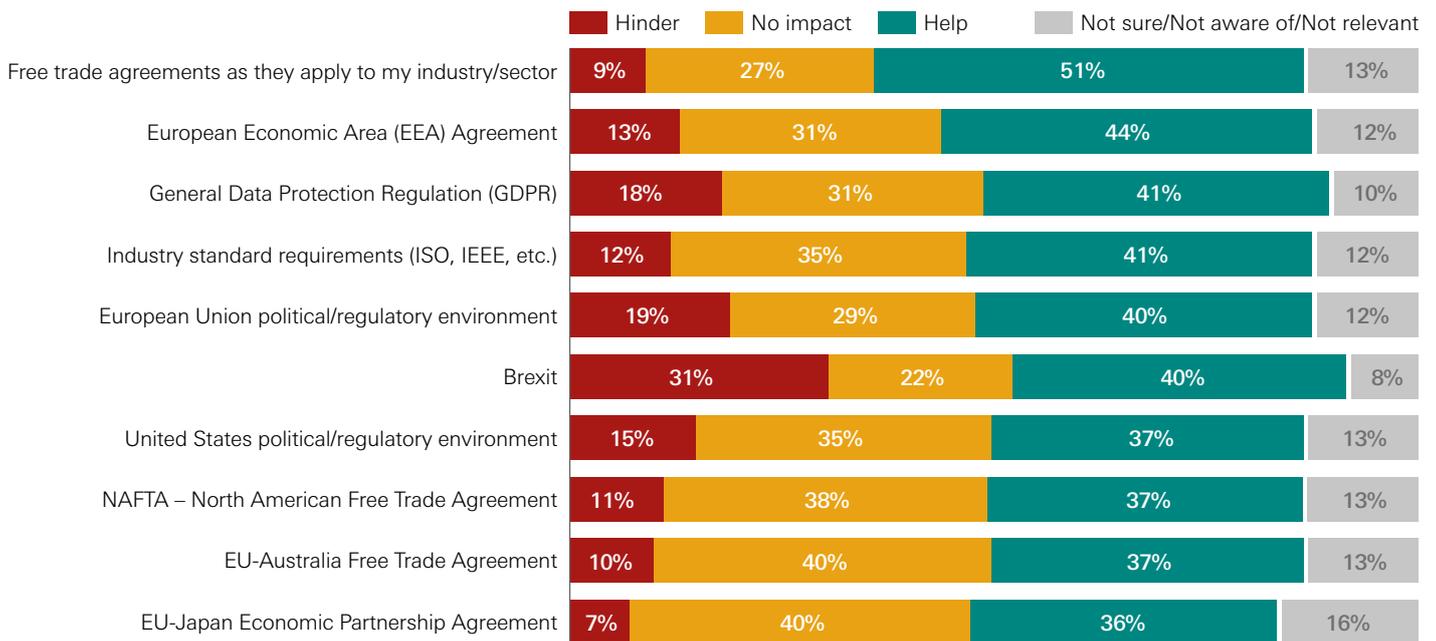
Two-thirds of UK businesses surveyed consider governments are becoming more protective of domestic firms. This share is up nine percentage points from our last survey, conducted in late 2017, suggesting that the actual and feared consequences of rising global trade protectionism and Brexit are becoming more apparent. That said, the UK result is only slightly above the global average of 63%, perhaps reflecting the UK’s relatively limited exposure to the collateral damage from a US-China trade war. On the regulatory front, UK firms are more nuanced than a simple ‘regulation is bad’ view. Although 34% of firms see regulation as an extra cost burden, a quarter perceived regulation as a positive for competitiveness.

As illustrated in Fig. 2, just over half (51%) of firms think that free-trade agreements will have a positive impact on their business over the next three years, suggesting some confidence that the UK will be able to maintain a degree of free trade with the EU and perhaps achieve free-trade agreements further afield after exiting the EU. UK companies are polarised on Brexit with 40% seeing it as a positive, 31% as a negative and 22% expecting no impact. Whilst 43% of French businesses believe Brexit will be positive, 21% expect a negative impact and 28% don’t think it will impact them at all. Across the border in Germany, 27% believe Brexit will be positive for them, 31% expect Brexit will have a negative effect on their business activities and 30% don’t think it will impact them.

How your business can respond

- ◆ Identify how directly and indirectly exposed your sales and downstream supply chains are to US and Chinese tariffs
- ◆ Has your firm reviewed how improved usage of alternative data sets could potentially boost your competitive advantage?
- ◆ Do you know how data can positively influence visibility of your supply-chain and in turn how sustainable your supply chain may be?

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Low unemployment and Brexit may be prompting increased focus on skills

In the near-future, growing market share is identified as the key focus for shaping company direction by just under a third of UK companies (Fig. 3). Firms are also intending to focus on productivity and skills development, which may be reflective of the challenges posed by a tight labour market (with the unemployment rate at a 43-year low) and declining inward migration, particularly from the EU (a trend which may well intensify post-Brexit).

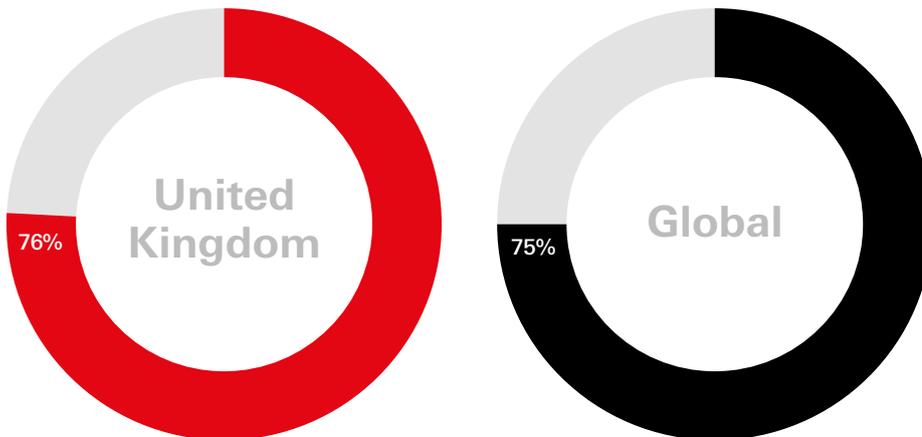
Meanwhile, data innovation is playing an important role in advancing firms' strategies. Just over three-quarters (76%) of UK firms surveyed use data to optimise performance (Fig. 4). The use of operational data was most common (used by 47% of firms), followed by market, transactional and customer data respectively. Interestingly, increasing emphasis on digitisation was more marked among firms between five and ten years old compared to newer firms, perhaps because technology is more a fact of life for the latter. In terms of opportunities arising from digitisation, the 'internet of things', more efficient manufacturing and meeting customers' demands for privacy and transparency are viewed as the most significant. Increased regulation on data compliance, customer demand for transparency and privacy, and AI/automation are identified as key challenges.

Fig. 3: Top 3 actions for future company direction



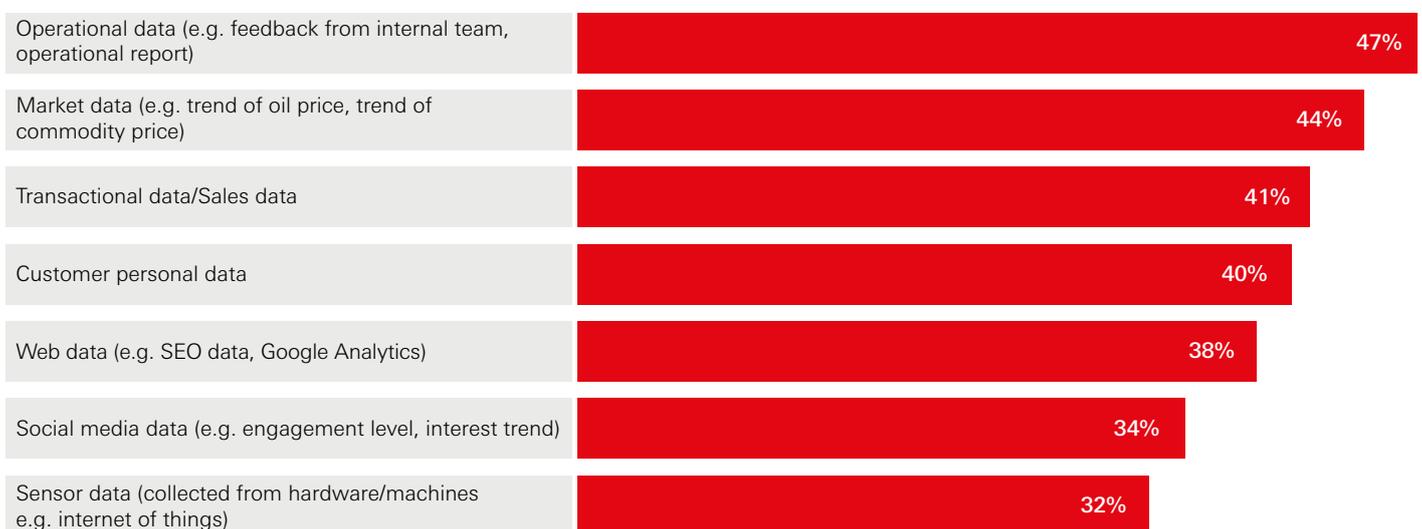
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



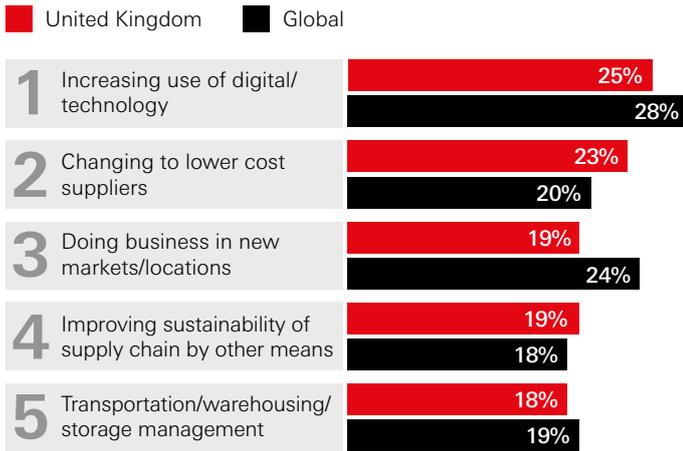
Source: TNS Kantar

Brexit influences may be at work in supply chain ambitions

One in four UK firms surveyed in both the manufacturing and services sectors said that increasing their use of technology was a key change planned for supply chains (Fig. 5 and 6). Changing to lower cost suppliers and doing business in new markets were the next most mentioned changes, perhaps prompted by Brexit and the impetus this provides to reshoring some activities and seeking expansion in non-EU markets. Cost reduction was a key objective of these changes among a third of firms in both sectors, with improving revenue and profits also figuring.

Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

Top 5 objectives behind the changes

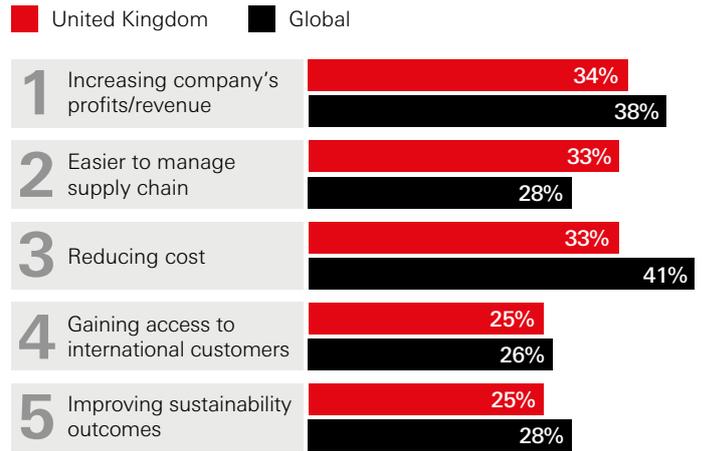
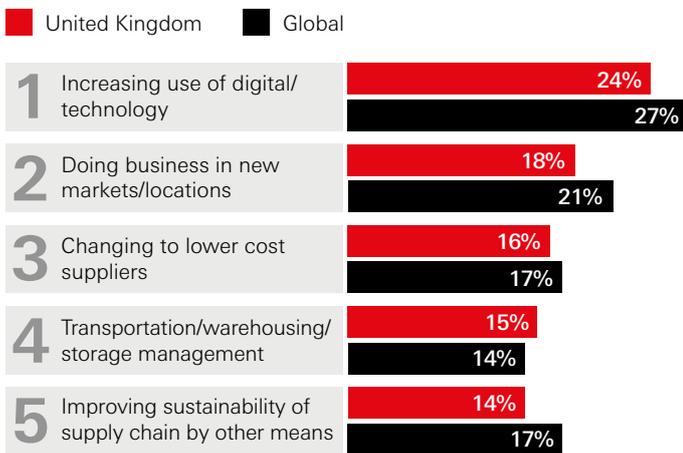


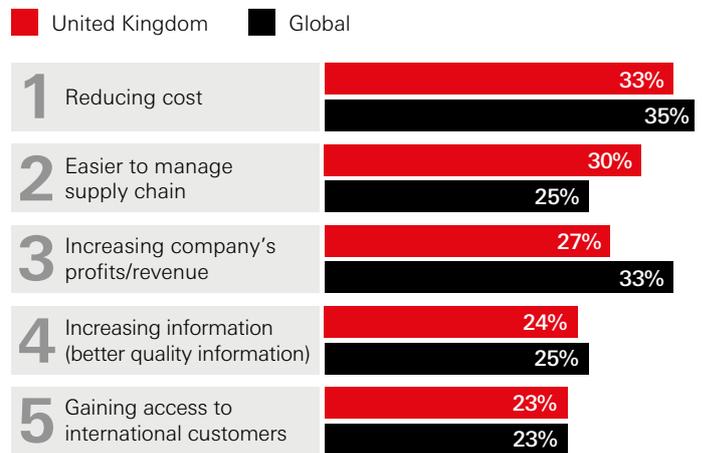
Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

Top 5 objectives behind the changes



Ensuring environmental and ethical sustainability also figures highly among UK firms. When asked about sustainability issues, 69% of manufacturing businesses and 60% of services firms claimed that this cause is important to them and that they are either on par or ahead of their peers in their focus on sustainability.

About HSBC Navigator UK

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 500 businesses surveyed in the UK. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six-week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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