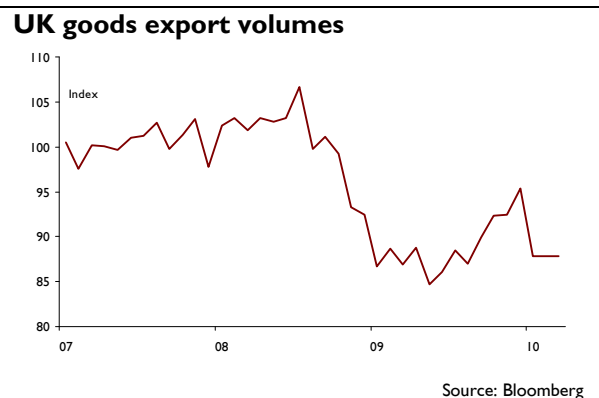


**UK Exports to Give a Boost to Recovery**

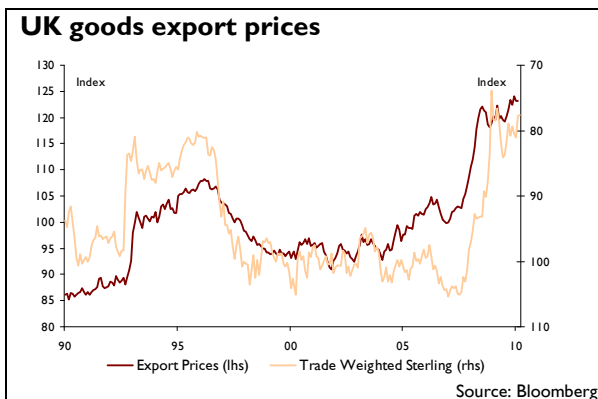
So far UK goods exporters have primarily benefited from the marked depreciation of sterling over the past three years through higher margins. But a sustained recovery in world demand, combined with the allure of those increased margins, should boost export volumes as well over the next couple of years. This should in turn make a positive contribution to recovery in the UK economy.

Since the start of 2007 sterling has lost around 25% of its value on a trade-weighted basis. A weaker pound should provide considerable support to UK exports and enable trade to contribute positively to economic recovery. Sterling's weakness means UK companies can cut prices overseas, increasing their competitiveness, while still receiving the same sterling value for each unit sold. It has happened before - the export share of UK companies was boosted significantly following the somewhat smaller 1992 depreciation as the pound was forced out of the European Exchange Rate Mechanism.

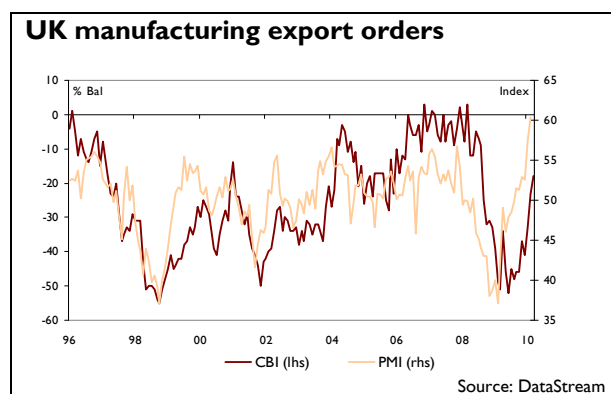
overseas. Some of that increase may reflect rising costs, but it is likely that profit margins in the export sector have benefited enormously.



Over time, higher margins should encourage existing exporters to increase production and other companies to enter the export sector, boosting export volumes. So far, goods export volumes have increased only 4% from their low a year ago. This may reflect weak domestic demand in Europe, which is the destination for 55% of the UK's exports.



So far UK companies have not fully passed through the decline in sterling, allowing the sterling price of UK exports to increase by 23% since the start of 2007. In other words, exporters have used virtually all of sterling's 26% depreciation to improve margins rather than cut prices to gain market share



A sustained increase in UK goods exports will require resources to be redirected towards that sector of the UK's manufacturing base. There may be factors that will limit how quickly that can occur.

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First, a rebalancing towards the export sector may require a change in the mix of skills held by the UK labour force. Second, it may be necessary for capital to be redirected toward export-oriented industries. With the financial sector currently impaired that process may only occur slowly.

Nevertheless, both the CBI survey and the Purchasing Managers' Index have seen a marked increase in manufacturing export orders over the past twelve months. Consequently, we expect export volumes to improve further in the months ahead.

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