



# Brexit is leaving imprints

## German exports to the UK on the decline

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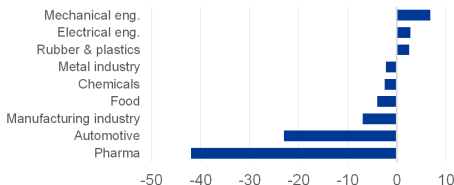
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Dropping for the third consecutive year in 2018, nominal German exports to the UK were down by over 7% compared with 2015, the year preceding the Brexit referendum. The depreciation of the pound sterling and economic uncertainty in the UK were the key drivers behind the downturn. On the sectoral level, the pharmaceutical industry suffered the sharpest declines. In this sector, German exports to the UK look set to have nose-dived by more than 40% between 2015 and 2018, whereas auto exports to the UK plunged by over 20% in the same period.

### German automotive and pharma industry suffer most from Brexit

Change in German goods exports to UK, 2018\* vs. 2015, %



\* Estimates based on data for the first ten months of 2018

Sources: Federal Statistical Office, Deutsche Bank Research

In 2015, the year preceding the British referendum on the exit from the EU, the UK accounted for 7.5% of German goods exports. Back then, the country took third rank in the list of Germany's key export markets – behind the US and France. By 2018, German exports to the UK had declined for the third year in a row, falling by over 7% on 2015 in nominal terms. By contrast, aggregate German goods exports in the period from 2015 to 2018 likely rose by around 11% (final annual data for 2018 is not yet available). Accounting for "only" around 6% of total German exports, the UK has been surpassed by China and the Netherlands in the ranking of Germany's major export markets.

There are numerous reasons why German goods exports to the UK are on the decline. First, the euro appreciated by over 20% versus the pound sterling between 2015 and 2018 (annual averages) and, as a consequence, German exports to the UK have become more expensive. Secondly, the Brexit resolution and the ongoing discussion about the regulatory details of its implementation have resulted in economic uncertainty, dampening investment and overall economic growth in the UK.

On the sectoral level, German exports diverged widely, with the pharmaceutical industry suffering the sharpest declines. Here, exports to the UK look set to have collapsed by over 40% between 2015 and 2018, as the sector was hard hit by the exchange rate effect, given the UK's competitive pharmaceutical industry, which in many instances allows British consumers to choose among alternative domestic products, if prices of imported drugs go up. In 2015, more than 10% of German pharmaceutical exports still went to the UK. By 2018, however, the UK's market share had halved.

Exports of German auto industry to the UK plummeted by over 20% from 2015 to 2018. This decline can also be ascribed to the demand cycle, as car sales in the UK had reached a peak after rising steadily in the years preceding the Brexit



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resolution. Against this backdrop, new car registrations would probably also have declined in 2017 and 2018 without the Brexit resolution.

The chemical industry as well as food and metals have suffered only moderate declines in their export activities with the UK since 2015. In the same period, mechanical and electrical engineering even reported nominal increases, which shows that the price elasticity of demand for specialised machinery or electronic capital goods – the focal point of German producers – is limited. Given the challenging political and economic environment and the associated reluctance to invest in the UK, however, the positive performance of mechanical and electrical engineering comes as a surprise.

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