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<http://www.wsj.com/articles/u-k-trade-deficit-narrowed-after-brexit-1473412204>

ECONOMY

U.K. Trade Deficit Narrowed After Brexit

Weaker pound may have boosted exports but officials caution it may be too early to be sure

Measuring the U.K.’s Economic Health

The WSJ will be tracking how some key indicators move in the aftermath of the Brexit referendum, when Britons voted to leave the EU.
See more indicators »
(<https://graphics.wsj.com/uk-watch/>)

Since the Brexit vote, this indicator has:

- Moved lower
- Stayed the same
- Moved higher

Balance of trade



By Wiktor Szary and Jason Douglas
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LONDON—The U.K.’s trade deficit with the rest of the world narrowed in July, official data showed Friday, a sign the weakened pound may be aiding exports following the country’s vote to leave the European Union.

The U.K.’s deficit in goods trade narrowed to £11.8 billion (\$15.7 billion) in July from a revised £12.9 billion in June, the Office for National Statistics said, in line with forecasts from economists polled by The Wall Street Journal.

The improved trade balance adds to a recent string of rosier-than-expected data—including on services, manufacturing and consumer confidence—which have suggested the world’s fifth-biggest economy may be bouncing back from the post-referendum slump.

But many economists caution it is still too early to say whether the economy will avoid a slowdown, with uncertainty over the U.K.’s future ties to its biggest trading partner likely weighing on economic prospects for some time to come. However, some analysts say that an improved trade balance could have a positive impact on the U.K.’s growth prospects.

The decrease in trade deficit was driven both by a fall in imports and a rise in exports, data showed, suggesting that the weakened pound may have played a role in the adjustment. Sterling fell sharply in the immediate aftermath of the referendum, losing some 10% against the U.S. dollar. Manufacturer surveys have suggested that this gave a boost to exports, as British products became cheaper for overseas buyers. The weakened pound may have also dampened the U.K. demand for imports.

ONS officials, however, cautioned it is too early to be sure, and some economists were skeptical as to the pound’s exact role.

“Don’t mistake volatility for a Brexit boost,” said Samuel Tombs, chief U.K. economist at Pantheon Macroeconomics, a research firm.

“The lesson from the past is that it takes at least a year for sterling depreciations to boost net trade, as it takes time for firms to renegotiate contacts and exporters to invest in new capacity.”

Mr. Tombs said in a note.

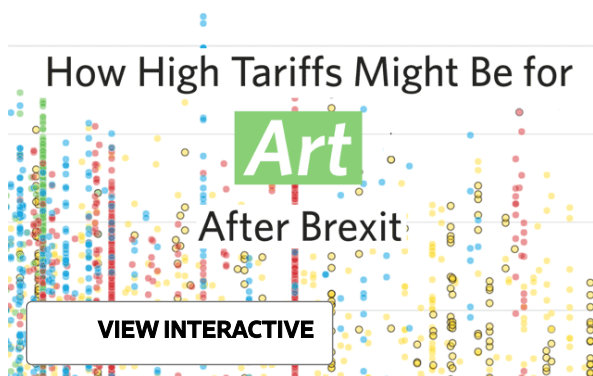
The U.K.'s imports shrank by £0.3 billion to £36.6 billion, while exports grew by 0.8 billion to £24.8 billion, the data showed. Including services, the nation's overall deficit with the rest of the world narrowed to £4.5 billion in July from £5.6 billion in June. The shortfall narrowed both with other EU countries and those outside the bloc.

Speaking earlier this month at a summit of world leaders, British Prime Minister Theresa May said the U.K. is still open for business following the Brexit vote and is looking to establish new trade relations around the globe. "As we forge a new global role for the U.K., we can and will seize the opportunities that Brexit presents, and make a success of it," she said.

As Britain prepares to extricate itself from the EU, its largest trading partner, the trade data will likely become a closely watched indicator of the government's success in forging and strengthening the U.K.'s global economic relations. But economists warn it may be months before any clear pattern emerges.

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Trade After Brexit



A 2013 photo of the Scottish Whisky Experience near Edinburgh Castle. A weaker pound may be boosting goods exports, but it is too early to be sure. PHOTO: ZUMA PRESS

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