

Exports may not rescue UK economy: study

30 September 2008

Hopes that the plunging pound may boost UK exports have been questioned by new research into currency movements.

The research from GEP — the Globalisation and Economic Policy Centre at The University of Nottingham — challenges expectations that UK firms might increase overseas sales thanks to sterling's recent plunge to a two-year low against the Euro.

Following the largest-ever study of its kind into currency movements, the research shows the sinking pound might have almost no effect whatsoever on the UK's manufacturing exports.

A team of academics studied the exchange-rate movements and export patterns of more than 23,000 UK manufacturing firms over a 17-year period up to 2004.

They found shifts in rates had only a modest impact on total manufacturing exports, mainly among domestic companies.

Multinationals' export levels were not affected at all — and currency movements did not influence firms' decisions on entering or leaving a market.

Dr Richard Kneller, one of the report's authors, said: "When sterling was very strong you heard people arguing that was why we had such a large trade gap.

"But the drop in the pound now is not going to persuade British manufacturers to get out their foreign phrasebooks and start trying to sell overseas.

"You would expect a strong pound to be bad for exports and a weak pound to lead to much greater exports, but this research paints a different picture — not helped by the fact that economies in Britain's main export market, Europe, are also struggling.

"It will come as a disappointment to some people,

but a falling pound is certainly not the magic bullet that they may be looking for.

"The current movements in sterling are towards the upper end of the changes that took place during our sample window and would suggest that it might increase total sales for the firm by just over one per cent. While not large, in a climate of deteriorating economic conditions any good news on sales will probably be very welcome."

GEP, which is based at The University of Nottingham, is the major centre in Europe studying the effects of globalisation and economic policy and one of the leading facilities of its kind in the world.

Its academics have advised the likes of the Treasury, the World Bank and the Organisation of Economic Co-operation and Development.

The OECD predicted earlier this month that — uniquely among G7 countries — the UK will fall into recession before the end of 2008.

GEP's findings also coincide with the United Nations Conference on Trade and Development's (UNCTAD) "gloomy outlook" for the global economy.

Predicting world output will grow by just three per cent in 2008, UNCTAD warned "abrupt exchange-rate adjustments" could add to the "current turmoil".

Provided by University of Nottingham

APA citation: Exports may not rescue UK economy: study (2008, September 30) retrieved 6 December 2021 from <https://phys.org/news/2008-09-exports-uk-economy.html>

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