



German Exports to the UK: declining since the Brexit referendum in 2016

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The rules defining trade between Germany and the United Kingdom (UK) have not changed despite Brexit. Nevertheless, there is a clear downward trend in German exports of goods to the UK since the referendum in June 2016. The strongest reductions are visible in the motor vehicle and pharmaceutical industries. In contrast, German exports to its other main export destinations and to the world as a whole have been on the rise for the same period up until the COVID-19 pandemic.

At the end of January 2020 the UK exited from the European Union. The trade relationship is expected to remain unchanged during a transitional period lasting until the end of 2020. After that, an exit of the UK from the European single market and customs union is probable and would lead to higher trade costs for both sides.

This would bring consequences for German exporters. In 2018, the UK was the fifth most important export partner of the German economy. It is estimated that roughly 460 000 jobs in Germany are directly and indirectly connected to exports to the UK [as study by Sekou Keita, Ignat Stepanok and Ehsan Vallizadeh from 2020 shows](#). It is therefore important to follow the development of trade flows between the two economies.

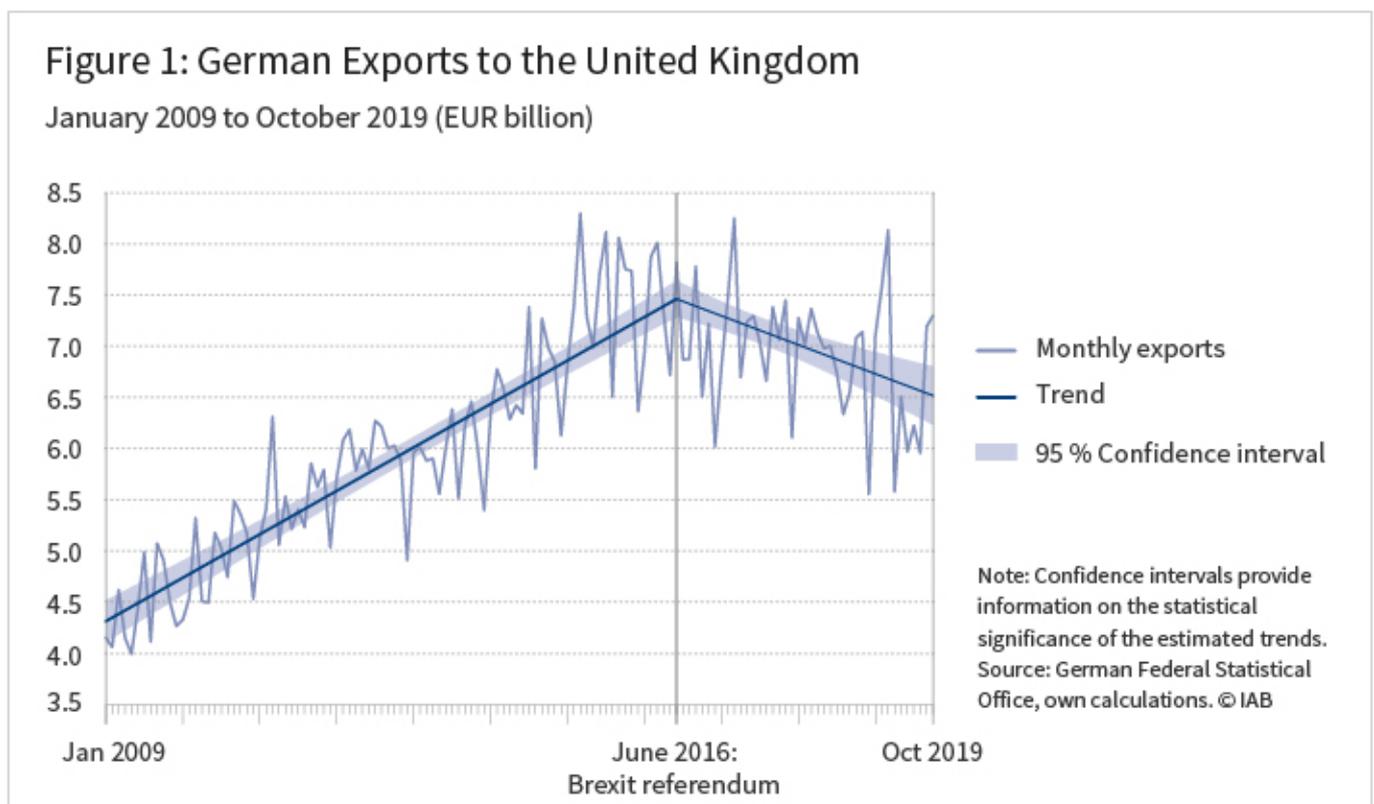
Quelle:

<https://www.iab-forum.de/en/german-exports-to-the-uk-declining-since-the-brexit-referendum-in-2016/> | 1

Since the UK referendum in June 2016, there have been no changes in the rules shaping trade between the EU and the UK. Despite this, the value of German exports to the UK is on a downward trend since then (see Figure 1). This can be seen as a sign of the rising uncertainty for exporters. A sizeable portion of international trade is organized in global value chains. Rising uncertainty can motivate internationally active firms to restructure their networks well in advance before new rules are implemented. In a [study from 2019, Nicholas Bloom and co-authors](#) show that a higher level of uncertainty in the UK has already left a mark on investment decisions of firms there.

The British pound has depreciated considerably vis-à-vis the Euro

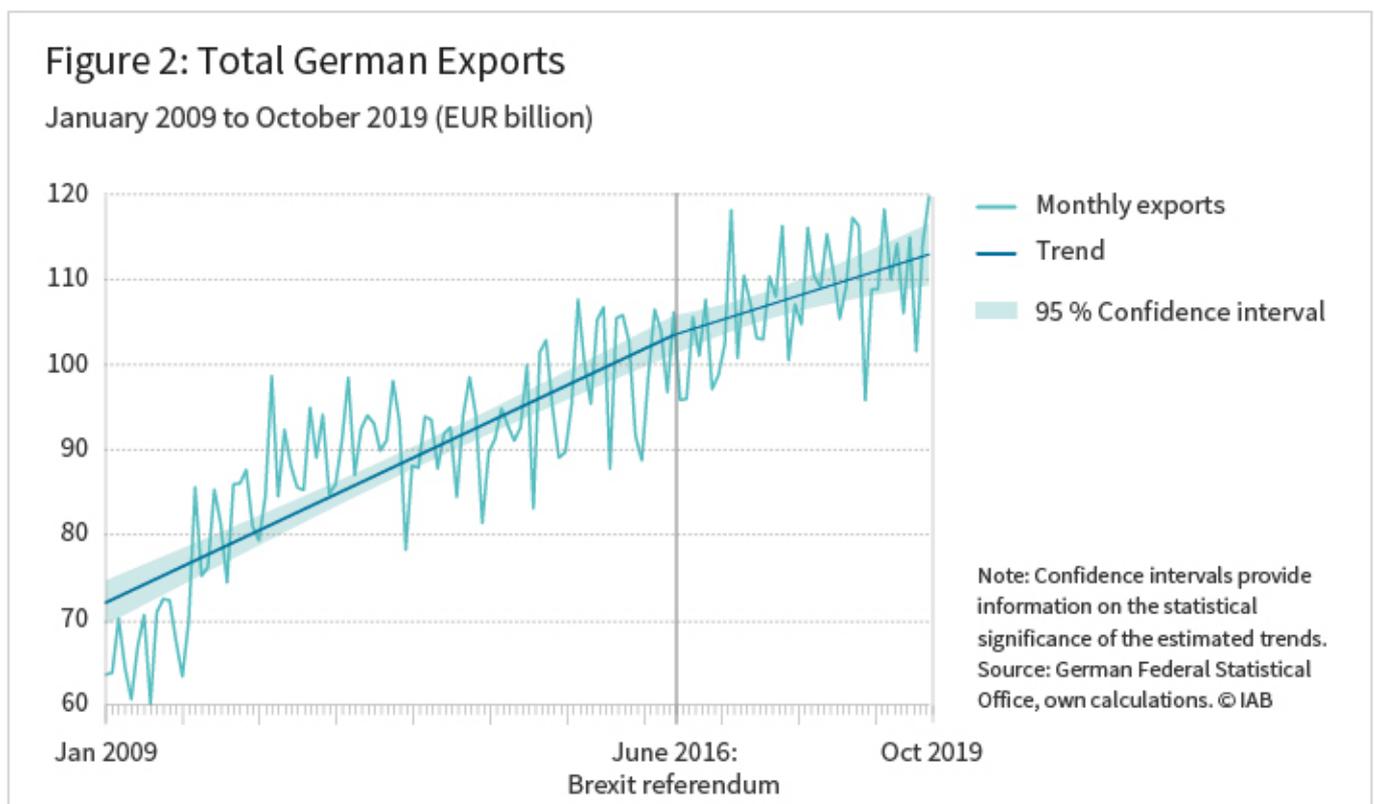
The depreciating pound sterling can be another reason for the falling German exports. Its value decreased considerably and rapidly against the Euro after the referendum and has remained at a relatively lower level since. This makes German products more expensive on the UK market and can reduce demand for them, especially if local production is an available substitute.



Total German exports to the world have increased considerably after 2016

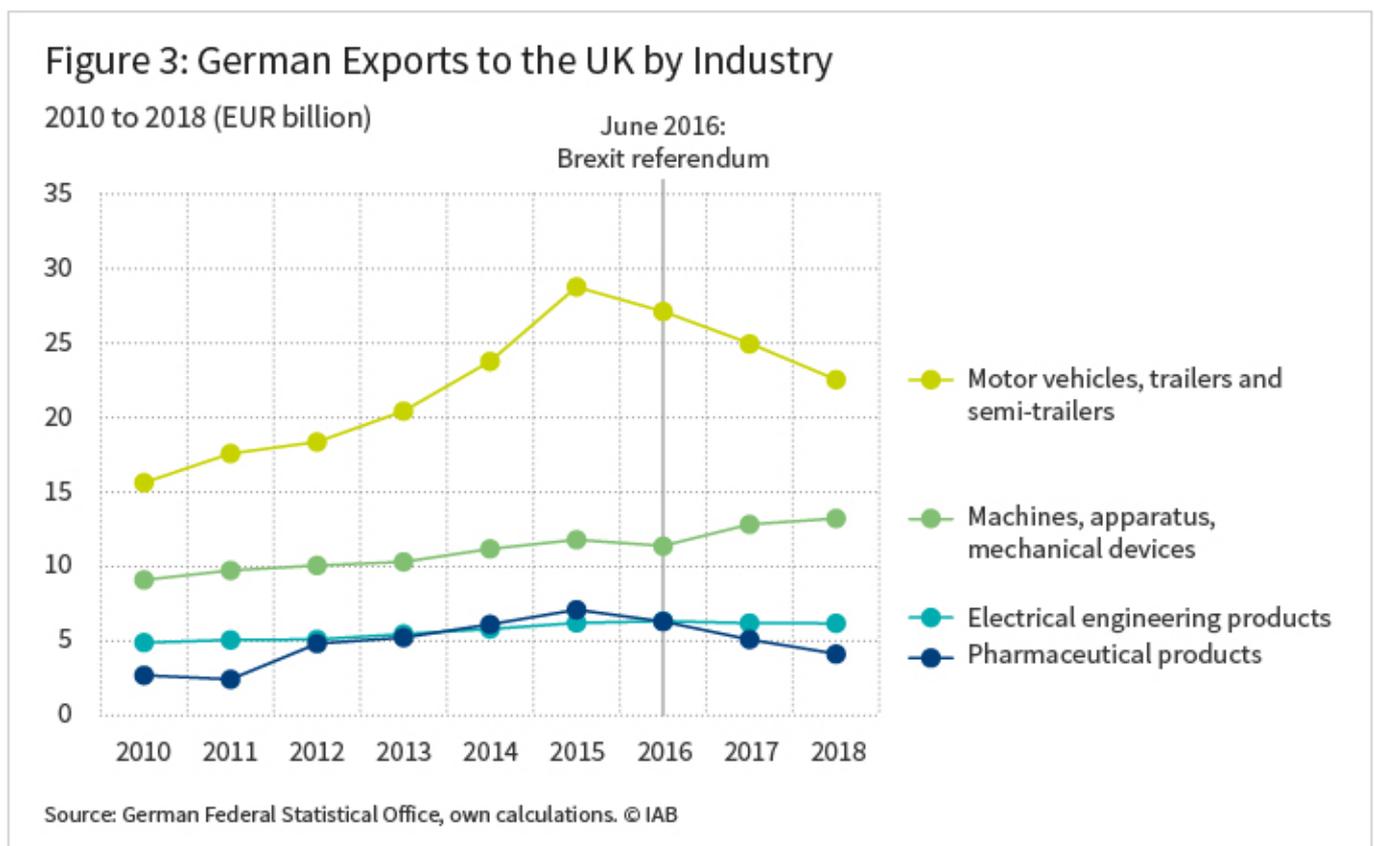
German exports to the UK have been steadily rising before the 2016 referendum, a clear downward trend sets in after that. Beside the uncertainty related to Brexit and the depreciating pound, one can think of other potential explanations for the changing trend. Falling exports could be driven by a global trade slowdown for instance. If German exports to the entire world were declining, then exports to the UK would be no exception but rather part of a broader downward trend.

However, total German exports to the world have been on the rise since 2016. The trend is visible in Figure 2 despite the fair amount of volatility of monthly data. A closer look at exports to the largest trading partners of Germany (USA, France, China and the Netherlands) reveals a similar picture, a rise in exports both before and after the time of the referendum in the UK. Declining exports to the UK after 2016 have been compensated by rising exports to the rest of the world. After the onset of the coronavirus pandemic the expectation is of a change in trend and declining exports also to other countries.



The development of exports differs across sectors

The development of exports to the UK varies across sectors. German exports to the UK for some sectors even show an increase in value. Figure 3 shows the annual development of the value of exports to the UK in Euros for the four largest export sectors. While exports in machines, apparatus and mechanical devices increased by roughly two billion euros from 2016 to 2018, motor vehicles and pharmaceutical products saw the largest reductions in absolute numbers, amounting to 5 billion euros and 2 billion euros, respectively. Over the same period, the value of exported electrical engineering products have been roughly constant.



Concluding remarks

While exchange rate effects have very likely played a role in shaping German exports to the UK, uncertainty about the future trade relationship may also explain a part of the decreasing trend after 2016. International trade is organized in global value chains, where many intermediate parts are sourced from producers in different countries and later assembled in a

final plant. This organization of trade depends heavily on predictable and stable rules for international trade.

The Brexit referendum has caused so far a lot of uncertainty, not only about what the new trade rules will look like, but also about the timing of their implementation. It is very likely that global value chains are being reshaped as a result of this uncertainty. More research is needed in order to explain the trends. Despite the higher uncertainty around future trade with the UK, total German exports to the world have been on the rise since 2016 up until the COVID-19 pandemic.

Literature

Bloom, Nicholas; Bunn, Philip; Chen, Scarlet; Mizen, Paul; Smietanka, Pawel, & Thwaites, Gregory (2019): [The impact of Brexit on UK firms](#), National Bureau of Economic Research Working Paper No. w26218.

Keita, Sekou; Stepanok, Ignat; Vallizadeh, Ehsan (2020): [Beschäftigungsrelevanz des Handels mit dem Vereinigten Königreich: Exportabhängige Arbeitsplätze sind über Branchen und Regionen ungleich verteilt](#). IAB-Kurzbericht 1/2020.