



Don't bank on a falling pound to boost exports

Exchange Rates and Exports: Evidence from Manufacturing Firms in the UK

By Richard Kneller and David Greenaway

The pound's record lows will not necessarily help Britain's economic recovery by boosting exports, according to new research.

Many commentators are arguing that the falling exchange-rate should lead to an increase in exports by UK firms.

But economists have warned sterling's weakness might not fuel a surge.

This research – the largest study of its kind – discovered currency movements actually have almost no effect on the UK's manufacturing exports.

Shifts in rates have only a modest impact on total manufacturing exports, mainly among domestic companies.

Multinationals' export levels are not affected at all, and currency movements do not influence firms' decisions on entering or leaving a market.

Research basis

Researchers looked at the exchange-rate movements and export patterns of more than 23,000 manufacturing firms over a 17-year period up to 2004.

The study represented the first analysis of its kind involving a large panel of companies in the UK, the world's fifth-largest exporter.

The research offered a new way of examining the export behaviour of multinationals by investigating whether foreign/domestic ownership was a significant factor in a company's response to exchange-rate movements.

Key findings

- Currency movements have almost no effect on the UK's manufacturing exports.
- Changes in rates have only a modest impact on total manufacturing exports, mainly among domestic companies.
- Multinationals' export levels are not affected at all – and currency movements do not influence firms' decisions on entering or leaving a market.
- On average exports account for just 5.6% of a domestic UK manufacturer's business.
- This means that on average a 10-point change in the exchange rate index will make about half a per cent difference to total sales for a firm.

Comments and implications

Study co-author Dr Richard Kneller said: "When sterling was very strong you heard some people arguing that was why we had such a large trade gap.

"But our research suggests a drop in the pound isn't necessarily going to persuade British manufacturers to mount export campaigns.

"You would expect a strong pound to be bad for exports and a weak pound to lead to much greater exports, but our findings paint a different picture.

"Much as it might come as a surprise, a falling pound is certainly not the magic bullet some people may be looking for.

"Of course, the overall picture isn't helped by the fact that the economies in Britain's main export market, Europe, are also struggling."

About GEP

Based at the University of Nottingham and substantially funded by grants from the Leverhulme Trust, GEP is the major centre in Europe studying the impacts of globalisation and economic policy.

In January 2008 it opened GEP in Malaysia at the University of Nottingham's purpose-built Semenyih campus, 30km from Kuala Lumpur. In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise. Its academics have advised the Treasury, the OECD, the World Bank and the WTO.

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Study authors

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Dr Richard Kneller joined GEP as a Research Fellow in 2001 and became an Associate Professor in 2007.

Before coming to Nottingham he worked as a Senior Research Officer at the National Institute of Economic and Social Research.

His research interests include cross-country comparisons of productivity and economic growth, as well as firm-level adjustments to globalisation. His current work includes the causes and consequences of exporting and decisions on foreign direct investment.

David Greenaway

Professor David Greenaway is Vice-Chancellor of the University of Nottingham, a Professor of Economics and the founder and former Director of GEP. His research interests lie primarily in the fields of exporting and productivity, cross-border investment, international trade and economic development.

David has been Chair of the Armed Forces Pay Review Body since 2004 and is also a member of the Senior Salaries Review Body, a governor of the National Institute of Economic and Social Research, Chair of the Scientific Advisory Council at the Institut für Weltwirtschaft, University of Kiel, and a member of the Scientific Committee of the European Trade Study Group. He has been a consultant to the World Bank, UNIDO, UNCTAD, the European Commission, GATT, UNECE and the Treasury.

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