

Parting Exchange: Part Two

In this special report, IBISWorld assesses those manufacturing industries most heavily affected by the rise and fall of the exchange rate.

The weak pound has stemmed decline for a number of industries threatened by international competition

IBISWorld has already discussed the largest exporting industries in the United Kingdom by total value, but exchange rate fluctuation is more of a concern for firms that generate a higher share of revenue from exports, as opposed to the largest exporters. The Spirit Production industry (IBISWorld report C11.010) straddles both concerns, with £6.3 billion in exports, boosted by re-export activity, to stand at more than 100% of revenue. As a discretionary purchase, spirit exports have benefited considerably from the weaker pound, with Scotch whisky exports alone rising by 9% in 2017. Whilst industry operators have raised concerns as to longer-term trading conditions, the current strength of the pound is entirely suitable for ongoing growth.

In the manufacturing sector, the industry perhaps most exposed to exchange rate fluctuations is the Motorcycle Manufacturing industry (IBISWorld report C30.910). Industry exports jumped by 34.8% in 2016-17, allowing revenue to expand by more than

25%. Many international dealers have placed increased orders as a result of the weaker pound, and the lag time between orders and delivery is expected to sustain activity for some time. Any tariffs on industry goods would erode the advantages pertaining to the weaker pound, whilst operators would still face higher input costs, with purchases currently accounting for 74.7% of revenue. Consequently, the Motorcycle Industry Association has stated that a two-year transitional deal is highly important, and that a comprehensive free-trade agreement is vital to ongoing success. In the meantime, fluctuations in the exchange rate will continue to have a significant impact on order numbers.

The United Kingdom has a 40% share of Europe's electronics design industry, with expertise in a number of key areas, including integrated circuits and semiconductors. The Electronic Component Manufacturing and Consumer Electronics Manufacturing industries (IBISWorld reports C26.110 and C26.400)

Manufacturing Industries most affected by currency fluctuations

Industry Code	Industry Title	Exchange Rate KED weighting	2018-19 Revenue (£million)
C30.910	Motorcycle Manufacturing	-40	615.0
C11.010	Spirit Production	-35	5,597.9
C28.150	Bearing & Gear Manufacturing	-35	1,198.3
C26.110	Electronic Component Manufacturing	-30	1869.1
C26.400	Consumer Electronics Manufacturing	-30	678.6
C24.510	Iron Casting	20	417.2

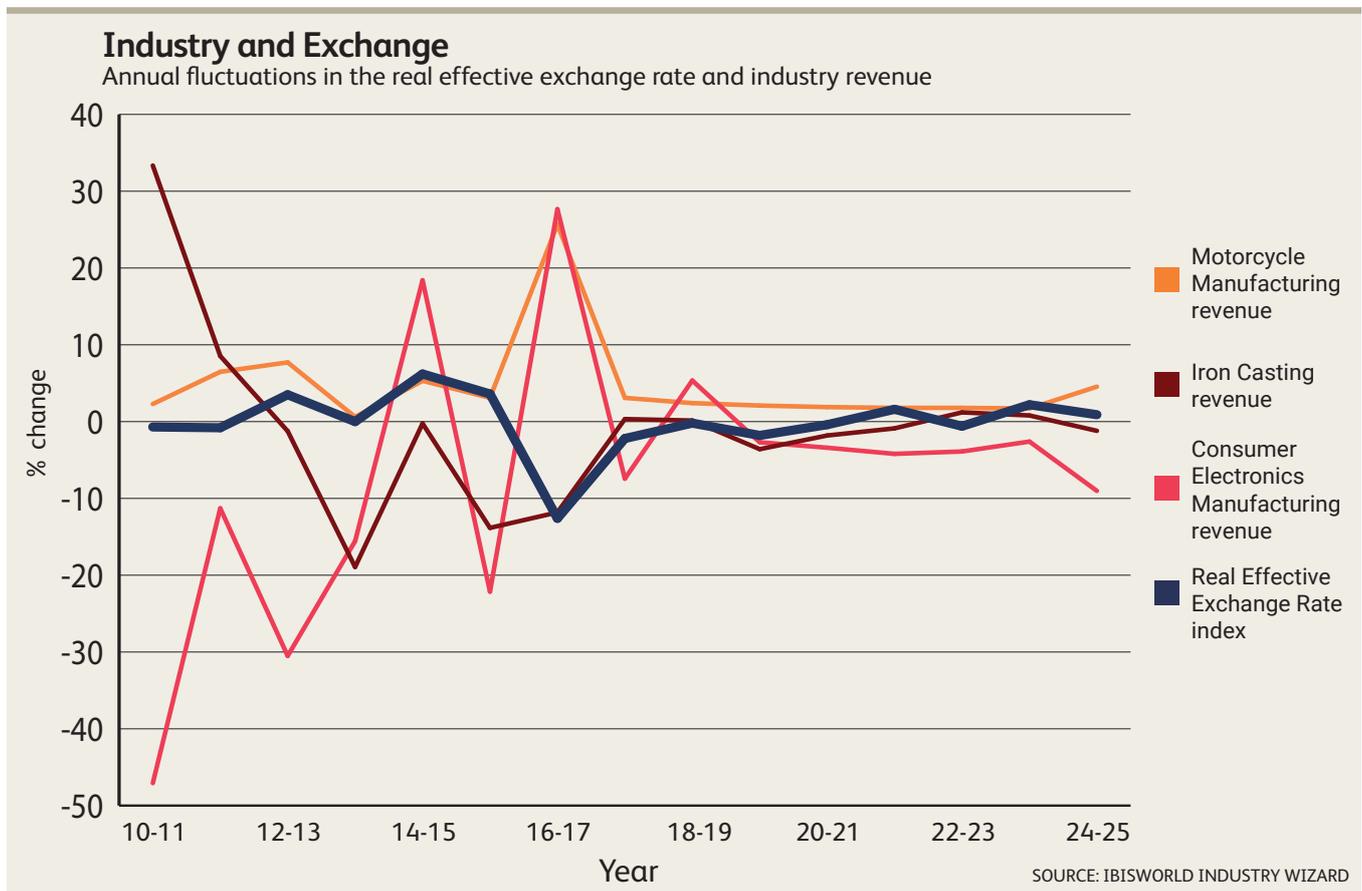
SOURCE: IBISWORLD INDUSTRY WIZARD

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are pivotal parts of this, with exchange rates playing a key role in their performance. The Consumer Electronics Manufacturing industry was a headline beneficiary of the weaker pound, with exports rising by 18.5% in 2016-17, although this figure is distorted by a high level of re-export activity. This high level has been sustained since then as, although higher costs have narrowed margins to 2.8%, operators have reaped the benefits of improved competitiveness in a highly globalised market.

Interestingly, although electronic component exports were boosted by 8% in 2016-17, they have declined since, owing to the considerable pressures the industry faces internationally. Further depreciation could sustain the competitive viability of under-pressure industry operators, whilst appreciation could well lead the industry back to the volatility and levels of decline recorded prior to 2016.

Although the value-added nature of UK products has ensured that for many firms, the weak pound has been a boon to exports, the Iron Casting industry (IBISWorld report C24.510) and the Bearing and Gear Manufacturing industry (IBISWorld report C28.150) are symbolic of those for which rising input costs are more of a concern than attractive export prospects. Dollar-denominated metals are vital for the Bearing and Gear Manufacturing industry, for example, whilst many other key inputs are sourced from within the European Union. Dollar-denominated inputs are also vital for the Iron Casting industry, given the enervated state of the domestic iron and steel production, although casters have counteracted this by using a high percentage (98% in the case of Saint-Gobain) of domestically acquired recycled scrap, thereby mitigating the effect of input price rises and allowing them to take advantage of favourable export conditions.



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More generally, the upturn in exports has been highly beneficial for certain transport industries, with exchange rate fluctuations having a considerable impact on the performance of the Freight Air Transport and Sea and Coastal Freight Water Transport industries (IBISWorld reports H51.210 and H50.200). Both industries recorded volatile and declining revenue prior to 2016-17, but have recorded steady growth since. Any strengthening of the pound could return these industries to the difficult operating conditions recorded through the beginning of the past five-year period. Despite increased purchase costs, mainly

relating to fuel, ongoing weakness in the pound is expected to support continued growth, as long as no new barriers to trade are erected.

Ultimately, whilst it will be the form of the UK's exit that has the most significant effect on UK manufacturers, any currency fluctuations in the meantime can have a profound impact. Whether boosting exports and the auxiliary industries supporting them, or increasing or releasing pressure on tight margins and international supply chains, the effects of political developments on the exchange rate leaves the performance of a number of industries in the balance.

IBISWorld Industry reports used in this special report:

C11.010	Spirit Production in the UK
C24.510	Iron Casting in the UK
C26.110	Electronic Component Manufacturing in the UK
C26.400	Consumer Electronics Manufacturing in the UK
C28.150	Bearing & Gear Manufacturing in the UK
C30.910	Motorcycle Manufacturing in the UK

Motoring along?

The sharp fall in the value of the pound has boosted a number of export-led industries, but has posed a threat to many firms' margins

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Exports and Inputs



Motorcycle exports rose 34.8% in 2016-17, and the MCIA has stated that free trade is vital to success



Up to 98% of iron inputs are domestically sourced scrap, as iron casters contend with high input costs



Sea and air freight transport industries have cast off decline since 2016-17 as export transport has boomed

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 - Arm yourself with the latest industry intelligence
 - Assess competitive threats from existing and new entrants
 - Benchmark your performance against the competition
 - Make speedy market-ready, profit-maximising decisions
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