Double dip recession still feared but UK exporters bullish about the future

Increase in importers and exporters confidence in international trading conditions

- TCI reports 67% confidence in international trading conditions
- Travelex Confidence Index has increased by 6 points to 108 since April
- Slight increase in confidence (1%) that longer-term international trading conditions will improve over the next 6-12 months. Up to 57% in May

Importer and exporter confidence in UK economy slumps 8%

- 30% feel that the UK economic situation has worsened over the past 6 months.
- Importers and exporters confidence in the UK economic climate has fallen 8% since March 2010
- In a separate survey conducted to supplement the TCI, 46% importers and exporters said they were concerned the UK would fall back into recession.

Importers and exporters increasingly confident in an export-led recovery

- There was a 2% increase in May in the number of exporters and importers who felt confident of an export led recovery, increasing from 49% in April to 51% in May

David Sear, Global Managing Director at Travelex Global Business Payments, comments:

“The 8% slump in importers’ and exporters’ confidence in the UK economy suggests that our economy is not out of the woods yet. However, whilst recovery continues to be rocky, the index shows that UK exporters are confident we can export our way out of it. Their optimism really highlights the level of self confidence and self-belief UK entrepreneurs have in their businesses, despite ongoing economic turbulence.

“UK importers and exporters increased confidence in international trading conditions clearly contrasts their depressed assessment of the UK economic climate. The threat of swingeing spending cuts, higher taxes and the ongoing turmoil in Europe are clearly the main drivers behind this.

“Certainly, a double dip recession remains a distinct possibility as the UK economy faces some major headwinds. Despite this, we have seen increasing resilience in importer and exporter confidence when it comes to international trading conditions. SME importers and exporters are clearly positioning themselves as the growth leaders for the UK economy.

“In the upcoming months, we will be closely monitoring whether healthy economic growth and confidence in international trading conditions can be sustained when stimulative measures are withdrawn from the UK economy.”

* Figures based on survey findings amongst Travelex customers. Conducted by TNS-RI on behalf of Travelex in May
Double dip recession still feared but UK exporters still bullish about the future

Current Situation Index

- Increase in the proportion of importers and exporters who feel UK economic climate has worsened-

The proportion of importers and exporters who feel that the UK economic situation has worsened over the past 6 months increased 8% in May. This now stands at 30%, compared to 22% in March. This suggests that an element of caution has crept back into the minds of exporters and importers since the general election, as concern over ongoing turbulence in the Eurozone, Britain’s largest trading partner, and the UK’s ballooning fiscal deficit escalates.

- But they remain confident that economic growth can be sustained in the long term -

Conversely, confidence in the sustainability of economic recovery increased in May to 62% (from 59% in April.) The main driver behind this revival can be credited in part to the weakness of the pound in May, which will have inspired exporter confidence in the economic outlook. Industrial Production figures announced in May were also very positive, with UK industrial production rising at its fastest pace in almost a decade. This suggested that economic growth in the UK was much stronger than originally thought at the beginning of 2010 and will have contributed to their optimistic economic outlook.

- Increase in the number of businesses finding it difficult to obtain credit -

Attitude towards credit was fairly downbeat in May, as the number of importers and exporters who had said it was “very easy” to obtain credit for their business in March was down 2% in May to 19%. There was also a noticeable 5 point reduction in the number of businesses who said it was “fairly easy” to obtain credit, falling to 38% in May. This echoes other industry measures that suggest there are still difficulties in securing credit as banks remain extremely risk-averse. This applies not only to the UK, but also in the U.S and Eurozone.

International Trade Index

- Increased confidence in an export-led economic recovery -

Attitudes towards an export-led economic recovery remained optimistic in May. Since March 2010, importer and exporter sentiment on an export-led recovery has surged 9%, rising to 51% in May. This confirms that businesses on the ground are finally starting to feel the effects of the Bank of England’s insistence that a weaker pound will boost export levels in the UK. Positive trade figures in February 2010, showing a big jump in UK exports, will also have added to their confidence.

- Increased confidence in international trading conditions -

Confidence in international trading conditions amongst importers and exporters was fairly buoyant in May, increasing 2% to 67% after the general election. Confidence may have been somewhat restored by a post-election honeymoon period for the new Coalition Government, as businesses look forward to the changes a new government may bring. Positive industrial production figures and a weaker pound may have enhanced confidence here also.

-Importers remain confident in May despite depreciating value of pound-

Importer sentiment remained stable in May, despite the weakness of the pound. For the second month running, it stayed at 57%.

- Increase in number of exporters who felt weak pound had a negative impact on their business -

Looking back, the proportion of exporters who felt the weak pound had had a neither positive or negative impact on their business was down 4% in May to 51%. This is most likely due to the fact that whilst the pound is weak against most major currencies, the ongoing sovereign debt crisis in Greece means that the euro is equally weak. It is the tale of two underperforming currencies.

travelexbusiness.com/uk

Media enquiries:
Jessica Buttress, 0208 415 4204, jessica.buttress@travelex.com
Expectations index

Over a half (57%) of UK importers and exporters believe that international trading conditions will improve over the next 6 to 12 months. This rose 1% from 56% in April. Such optimism can perhaps be attributed to the fact that exporters feel a continued weaker pound can only sustain international trading conditions.

An increasing number of businesses felt confident that they would see a growth in the international trade aspect of their business over the next 12 months. This jumped 6% to 52% in May.

Sir Andrew Cahn
CEO at UK Trade and Investment, comments:

“Export markets offer British firms tremendous opportunities, and it’s good to see confidence returning.

“Europe and the US remain key markets for UK firms, as the Travelex Confidence Index confirms, but companies are increasingly seeing real growth prospects in the Middle East, Asia and Latin America.

“While exporting is not easy, many firms underestimate the potential demand for British products and services.”
Feedback from the importers and exporters interviewed in May:

“We are determined to grow and grow rapidly despite the economic conditions. We have developed a world class product and we are being designed into major projects internationally. We are also going to invest in extensive customer service which is obviously absolutely crucial to winning and maintaining international business.” Importer & exporter, Business Services, England

“Manufacturing costs in the UK are far higher than anywhere else, but we’re supposed to compete. There’s no importation tax that evens up the difference, at which point in time any locally produced goods cannot compete with outsourced goods.” Exporter, Manufacturing, England

“They need to keep the air fare prices down because it helps us export in competition with the local suppliers. A stable currency market would be helpful and beating the banks up so they actually lend money to highly credit rated small businesses like ours.” Importer & exporter, Business Services, England

“We’ve seen a definite downturn at the start of this year - we weren’t really affected at the start of the economic crisis but as I say, from the start of this year we’ve had an awful lot less work” Importer, Construction, England

“We are determined to grow and grow rapidly despite the trade conditions. We have developed a world class product and we are being designed into major projects internationally. We are also going to invest in extensive customer service which is obviously absolutely crucial to winning and maintaining international business” Importer & exporter, Business Services, England

“I could be here all day on the soapbox. My biggest concern is the government spending cuts in the next six months to a year - I think it’s going to have a negative effect on the UK economic climate.” Exporter, Manufacturing, Wales

“Generally we’ve benefited from the depreciation of sterling but we should remain apprehensive about sovereign debt impact on banks, when countries run out of money when there’s a fiscal deficits in country the value of government bond can depreciate and that can adversely affect banks” Importer & exporter, Manufacturing, England
Travelex Confidence Index (TCI)
Research took place on the 10\textsuperscript{th} – 24\textsuperscript{th} May 2010

The Travelex Confidence Index increased 6 points in May from 102 to 108. Whilst importers and exporters feel that the UK economic situation has worsened over the past six months, most foresee growth in international trade in the upcoming months.

Sub-indices
The Travelex Confidence Index measures the views and sentiments of the UK’s importers and exporters across three sub-indices.

The International Trade Index
The International Trade Index measures importers and exporters views on international trade conditions and general economic growth.

The number of importers and exporters who are confident of an export led recovery rose 9% in May to 51%. The number of importers and exporters with increased confidence in international trade conditions rose 2% to 67%.

The Current Situation Index
The Current situation Index measures importers and exporters views on current government policies and availability of business credit.

The number of importers and exporters that feel the economic situation has worsened rose 8% to 30%. however, the proportion of businesses who were confident of continued economic growth rose 2% to 62%.
The Expectations Index

The Expectations index measures importers and exporters views on whether international trade conditions will improve in 12 months and whether their business will see growth in its international activity.

The number of importers and exporters who were confident international trade conditions will continue to improve rose 1% in May to 57%.

An increasing number of businesses expect to see growth in the international trade aspect of their business. This rose 6% to 52% in May.
Demographics

Business location

England 83
Wales 3
Scotland 4
Other 11

Other = Office HQ based overseas or Northern Ireland but still registered as a UK business

Industry sector

Manufacturing 48
Construction 6
Fuel, Utilities & Mining 12
Wholesale/Retail Trade 22
Hotels & Restaurants 33
Transport/Storage 1
Communications 3
Real Estate 1
Business Services 6
Health/Social work 2
Recreational/Personal Services 2
Other 7

(travelexbusiness.com/uk)

Media enquiries:
Jessica Buttress, 0208 415 4204, jessica.buttress@travelex.com
Overseas customers and suppliers

<table>
<thead>
<tr>
<th>Region</th>
<th>March</th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>32</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td>82</td>
<td>78</td>
</tr>
<tr>
<td>North America (USA)</td>
<td>28</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>South America</td>
<td>7</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>North Africa</td>
<td>12</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>South Africa</td>
<td>11</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>13</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>New Zealand</td>
<td>11</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>8</td>
<td>11</td>
</tr>
</tbody>
</table>

About the Travelex Confidence Index (TCI)

The Travelex Confidence Index measures the news and sentiment of UK exporters and importers.

The index is based on the responses to three core question areas – the respondents’ appraisal of current international trade & economic conditions, respondents’ appraisal regarding ability to obtain credit and respondents’ expectation of the future international trade conditions in 6-12 months.

For more information on the TCI visit [www.travelexbusiness.com/uk/confidence-index](http://www.travelexbusiness.com/uk/confidence-index)

About Travelex Global Business Payments

Travelex Global Business Payments is a global foreign exchange specialist providing the payment and receipt of domestic and international funds for businesses of all sizes. For more than 30 years, Travelex Global Business Payments has provided clients with sophisticated market knowledge, leading edge technologies and practical and innovative solutions tailored to individual requirements.

Every year, Travelex Global Business Payments processes payments around the world over 35,000 businesses to 1 million beneficiaries.

---

*The index depicts data from the first 3 waves of the Travelex Confidence Index (March – May 2010). The data and/or definitions of each index may be subject to change in subsequent months as indices are reviewed.*

*This report has been prepared solely for informational purposes and does not purport to provide any financial, investment or professional advice. Travelex makes no representation, warranty or condition of any kind, expressed or implied, in this report.*