



## BREXIT

### Effect and currency forecasts

After Britain's exit from the EU, the pound suffered a sharp devaluation, decreasing from 1.48 to 1.34 GBP/USD (-10.4%) during the post-referendum week. Later on, in July, the UK currency recorded the lowest level in the last thirty years (1.29 GBP/USD and 1.16 GBP/EUR) before a slight recovery. Currently the exchange rate settles around 1.31 GBP/USD and 1.19 GBP/EUR.

The main financial institutions forecast a further general depreciation of the pound in the next three months to 1.29 USD and 1.17 EUR.

### Effect and macroeconomic forecasts

While the British economy gained momentum in the second quarter 2016 (+2.2%), in the last month the growth has slowed sharply. The composite PMI\* index fell below the 50-point threshold (equivalent to an economic contraction) in July, the lowest level ever from the 2009 crisis. In the immediate future it is expected a decline of the British GDP (-0.4%) during the third quarter. Even the IMF has cut UK growth forecasts on both 2016 and 2017. The Bank of England has reacted cautiously and decided to maintain unchanged the cost of money (0.5%), considering whether to loosen it to 0.25% in August.

### UK trade in the leather sectors

The UK trade in leather and fashion leather products worth 9.7 billion € per year, 5.4 of which are related to (incoming or outgoing) flows with the EU. Nearly 7 of the above 9.7 billion are related exclusively to imports, disadvantaged by the mentioned currency effect. The total UK exports of hides, skins and leather amount to 466 million € (half of it towards the EU) and is primarily composed by raw hides/skins (55%, China and Italy as the first clients) and finished leather (36%, US and Germany the major destinations). About the import (221 million €), 75% is referred to finished leather (more than a half from Italy), 17% raw hides/skins (almost all from Ireland), 8% semi-finished materials.

In leather products for fashion (footwear, leather goods, clothing), the British trade balance is strongly negative: 6.7 billion € of imports (53% of which originated from non-EU countries) against 2.3 of export (more than 80% toward the EU). Imports relate mainly to footwear (81% of the total), of which one third comes directly from China, 18% from the commercial intermediation of Netherlands and Belgium, 9% from Italy; the rest of it (1 billion €) is mainly leather goods. Export also focuses on shoes (1.9 billion €) and almost totally concerns European destinations (Germany, Ireland, Netherlands, France, Italy).

\* *Purchasing Manager Index* - it measures the confidence level expressed by corporate purchasing managers