

# Dutch exporters still feeling the effects of Brexit stockpiling

Stockpiling ahead of Brexit is still impacting Dutch exporters. We look at how the trends are changing, how uncertainty continues to weigh on exporters, and what we can expect in 2020



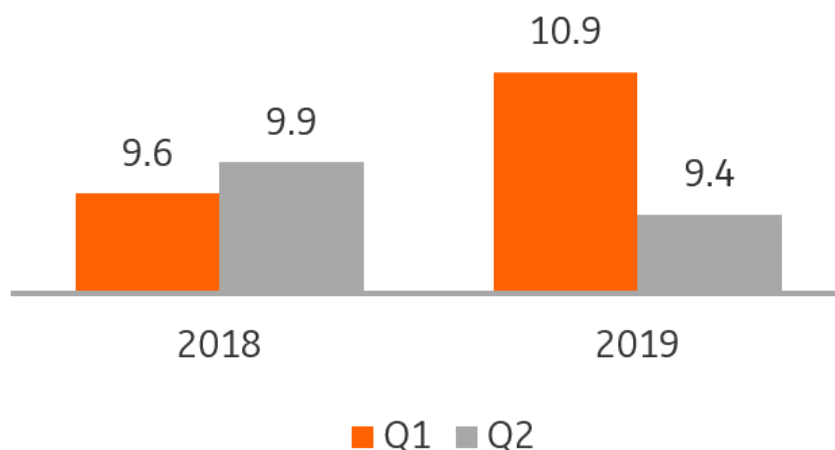
Loading a container ship in Rotterdam

## In a nutshell

- The uncertainty surrounding Brexit has been a driver for British companies and the general public to build up extra stocks. In response to additional demand, Dutch exports to the UK rose to a record high in Q1 2019 followed by a sharp decline in Q2.
- Over the last two months, this pattern has been repeating itself, although the effect is less pronounced than it was earlier this year. Partly because stocks built up back then have not yet been completely run down.
- Future stock reductions will put temporary pressure on Dutch trade in goods with the United Kingdom.

## Total export value of goods, in billions of euros

Dutch exports to the UK peaked in the first quarter of 2019 and dropped again in the second



Source: Statistics Netherlands, processed by the ING Economics Department

## Dutch exports fluctuate sharply due to British stockpiling

The British stockpiling frenzy in the run-up to the original Brexit date (29 March 2019) meant Dutch exports to the United Kingdom rose to a record high in the first quarter of 2019. Exports then fell sharply again in the second quarter. We've seen a similar pattern in the run-up to the latest, now passed, deadline of 31 October 2019. However, the effect on exports will be less pronounced than in the first half of 2019 as companies were better prepared, stocks built up back then have not yet been used up, and the general scarcity of additional storage space in the UK.

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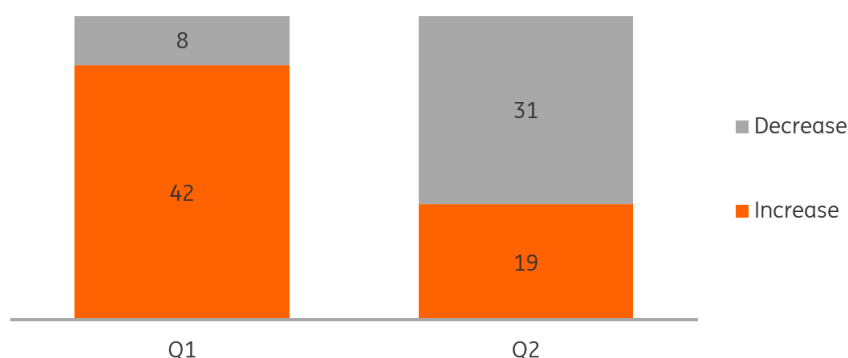
*The effect of additional stockpiling is clearly visible in Dutch exports*

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In the first quarter of 2019, the total value of Dutch goods exports to the United Kingdom amounted to nearly 11 billion euros, more than ever before. Compared to the previous year, this was an increase of 1.3 billion euros. An estimated 850 million euros of that increase is due to stockpiling in the UK. This amount has been adjusted for the general development of the UK economy, currency effects and a steep increase in natural gas exports in January and February. In the second quarter, exports were just half a billion lower than a year previously. This was because previously built-up stocks were being used up in addition to new imports. The export peak created a lot of extra activity in the Dutch seaports; for example, ferry transport ('roll-on roll-off') in the port of Rotterdam increased by 20% (year-on-year) in March. In the United Kingdom, the increased need for storage capacity translated into higher prices and limited availability of space in warehouses and distribution centres, along with other effects.

## Exports of more than forty key products rose in the first quarter of 2019

The trends in exports of the fifty main export categories (SITC) compared with a year earlier



Source: Statistics Netherlands, processed by the ING Economics Department

## Two underlying reasons for the stockpiling trend

Two mechanisms are prompting British companies (and the general public) to opt to hold larger stocks as a precaution.

1. The first is the fear of shortages of basic necessities such as medicines and foodstuffs. If shortages were to arise, this would quickly give rise to panic and cause further disruption to supply chains. Businesses and consumers have been taking preventative measures by buying extra stock (known as 'shortage gaming').
2. The second mechanism is the anticipation of possible price increases through the introduction of import tariffs and the occurrence of obstacles in supply chains ('forward buying'). Another factor here is that transport from the EU to customers in the United Kingdom following Brexit will, in most cases, take longer due to additional checks.

A wide range of goods is exported from the Netherlands to the United Kingdom. These include food products, chemical products, vehicles, and mobile phones. Most of the fifty most important exports showed an increase in exports in the first quarter of this year and a decrease in the second quarter.

## Medicines and tobacco products are particularly prominent

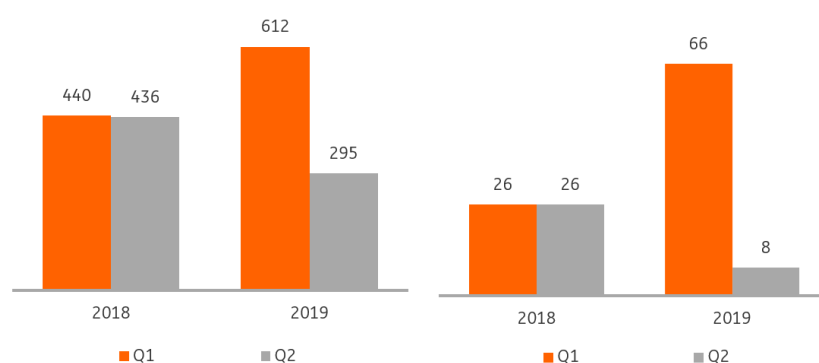
Medicines and tobacco products are among the export goods for which stockpiling effects are most clearly visible. In the case of medicines, their critical importance for public health and the fear of shortages are the main reasons for building up extra supplies. The situation is different for tobacco products, for which possible future price increases due to import tariffs are an important driver of stockpiling. In addition, they are both products with long shelf lives that are also easy to store. The additional costs of renting storage space will, therefore, be recouped relatively sooner than with other export goods.

Products such as flowers, fruit, and vegetables are less suitable for stockpiling due to their limited

shelf life. Exports of products such as machinery, transport equipment, and consumer electronics also appear to be relatively unsusceptible to stockpiling. In addition to the costs of storage, stock production is also expensive and makes great demands on working capital. Additional stocks of electricity and natural gas are difficult to store and, for these products, fluctuations in supply and demand have a much greater impact on export dynamics than Brexit.

## Medicines and tobacco products

The export of medicines is generally even, but show a significant peak and decline in 2019 (LHS). Tobacco product exports rose sharply in 1Q 2019 (RHS).



Source: Statistics Netherlands, processed by the ING Economics Department

## Stockpiling cycle repeats itself

The pattern of stockpiling and using up stocks is expected to repeat itself in the last few months of 2019. In September, for example, there were already signs that exports to the United Kingdom were on the increase again in the run-up to 31 October. Ferry transport from the port of Rotterdam increased, for example. Export data for October is expected to largely fall into this pattern, although the need to stockpile faded when a decision on a further extension was reached.

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*Using up inventories will add to pressure on Dutch trade with the UK in 2020*

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As it can take some time to use up stocks, the British need for imports is expected to be lower in late 2019 and early 2020. However, this effect may be overshadowed by the new economic reality in the aftermath of Brexit in which British economic growth, import tariffs, and non-tariff barriers to trade will also make their mark on export trends. In particular, increasing trade barriers could prompt British companies with EU customers and EU-based companies with British customers to maintain higher stock levels on a more structural basis. By keeping stocks geographically closer to their customers, they can continue to guarantee short lead times even after the British withdrawal from the EU.

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