

Global Britain in focus: the UK's export performance

How we're doing and what to watch out for

Introduction

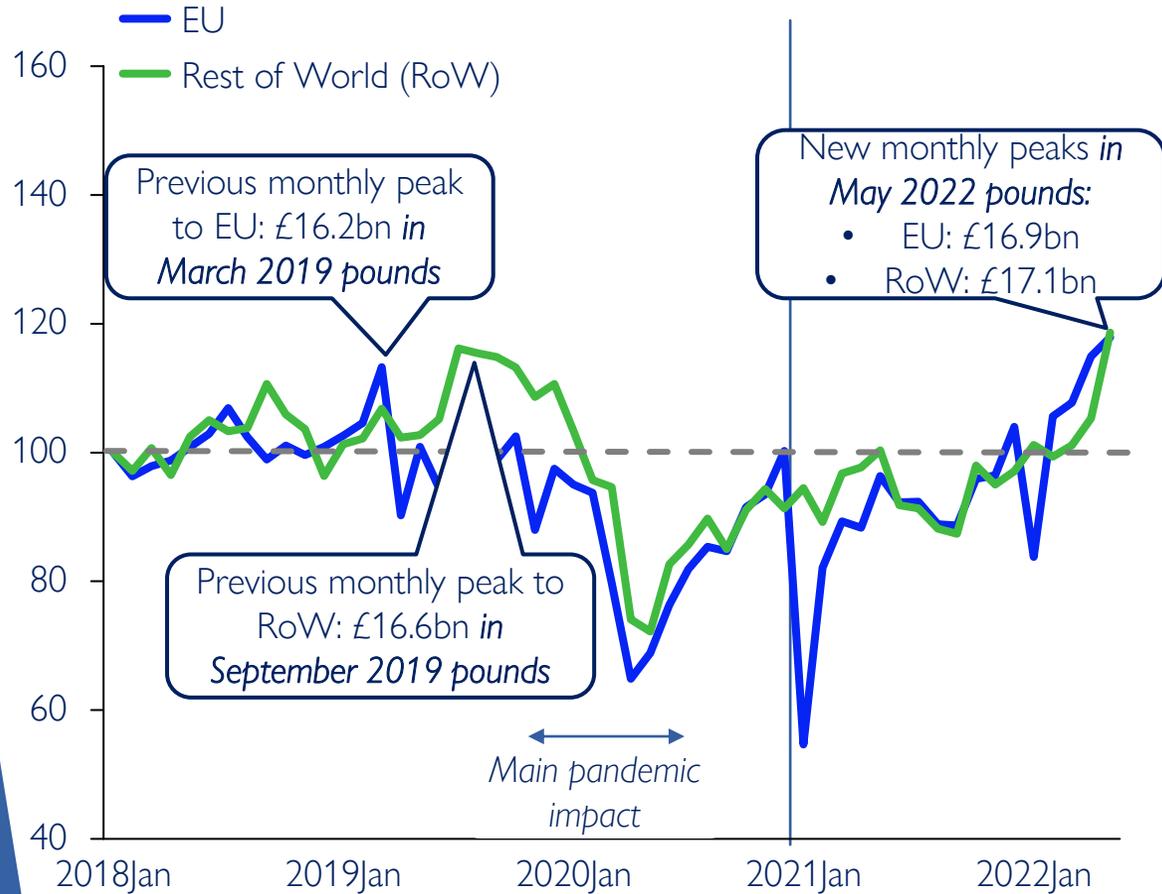
- ▶ Free trade is a principle that all Conservatives support. When unencumbered by tariffs and non-tariff barriers (NTBs) at and behind the border, businesses can more easily sell their goods and services across borders. This allows nations to sell goods and services in which they are advantaged while importing those at which they are less skilled. Through this free exchange, specialisation increases productivity and therefore improves output and living standards.
- ▶ Indeed, a key aspect of “Global Britain” is increased openness to trade: the purpose of the UK’s independent trade policy is to maximise opportunities for UK businesses to trade goods and services with non-EU markets.
- ▶ The measure of success of that policy, therefore, is the extent to which UK trade in goods and services is growing. The trade working group of the Conservative European Forum (CEF) aims to track that performance and provide a clearer understanding of the factors driving it.
- ▶ Readers may have read that the value of the UK’s goods exports has reached record levels.
- ▶ They may also be aware of academic studies claiming that the UK’s goods exports have underperformed.
- ▶ We illustrate how these claims can be true at the same time.
- ▶ We further provide an at-a-glance view of the growth of the UK’s goods exports compared to that of peer nations’ goods exports.

Executive summary

- ▶ Following the falls seen in 2021, the UK's goods exports are growing, but their growth is lagging that of peer nations' goods exports.
- ▶ The UK's goods exports reached a record monthly level *at current market prices only* in May 2022.
- ▶ Adjusted for inflation, however, UK goods exports have yet to recover pre-pandemic levels, while those of comparable nations have long since surged past those levels. This implies:
 - ▶ That the volume of goods exported remains below pre-pandemic levels;
 - ▶ That the UK's share of global goods exports is well below pre-pandemic levels and still falling.
- ▶ The UK's merchandise exports at current prices in April 2022 were 6% ahead of the level from January 2018, the last "normal" year according to the Office for National Statistics (ONS). However, the EU's were 28% ahead and the US' 30% ahead. The UK's goods exports overall in Q1 2022 were 1% ahead of Q1 2018 levels while the EU's and US' were both 18% ahead.
- ▶ A thorough comparison of the performance of services exports will be possible only with more quarters of UK and peer country data.
- ▶ It is still to be seen whether new independent free trade agreements (FTAs) can put the UK's trade performance back on track.
- ▶ A constrained ability to export brings economic costs both directly through loss of exports and indirectly through lost business investment resulting from the relative unattractiveness of the UK as an export platform.

UK goods exports

Monthly goods exports (Jan 2018 = 100)* at current market prices

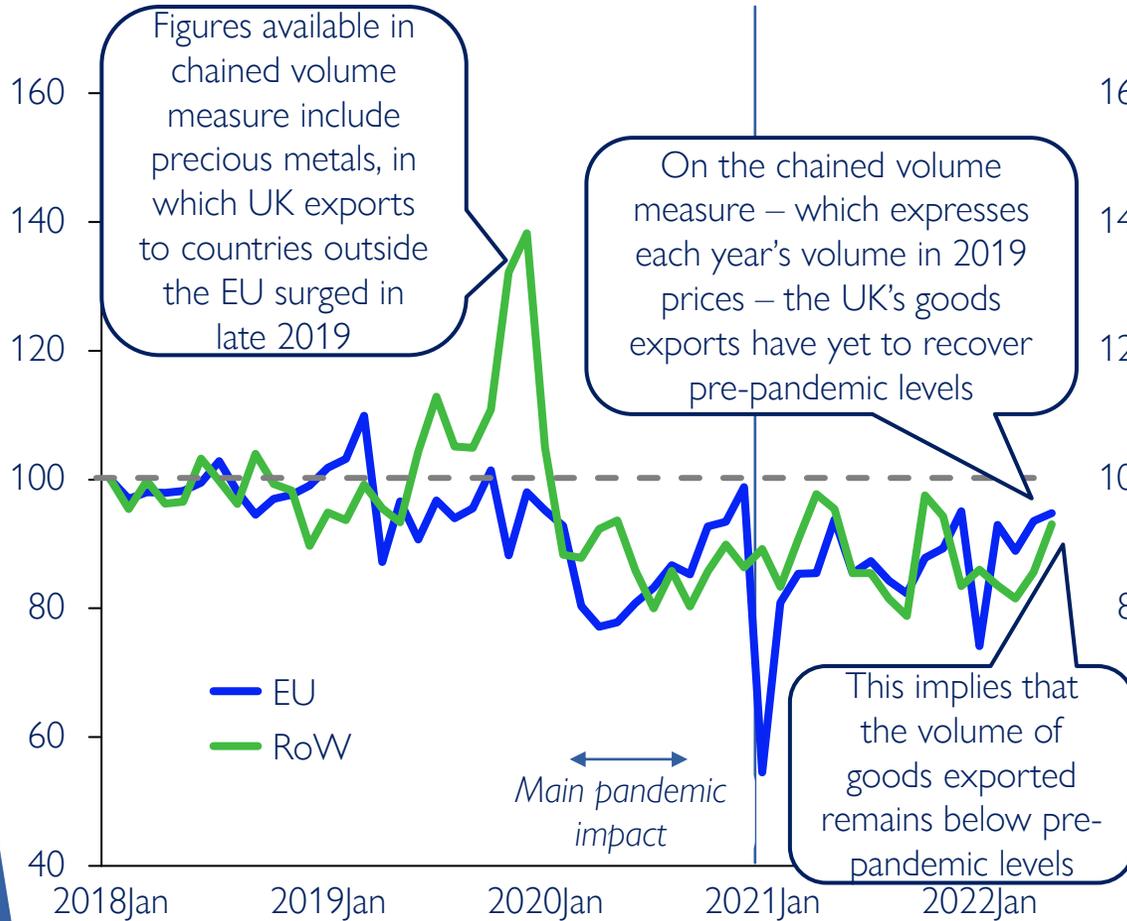


Commentary

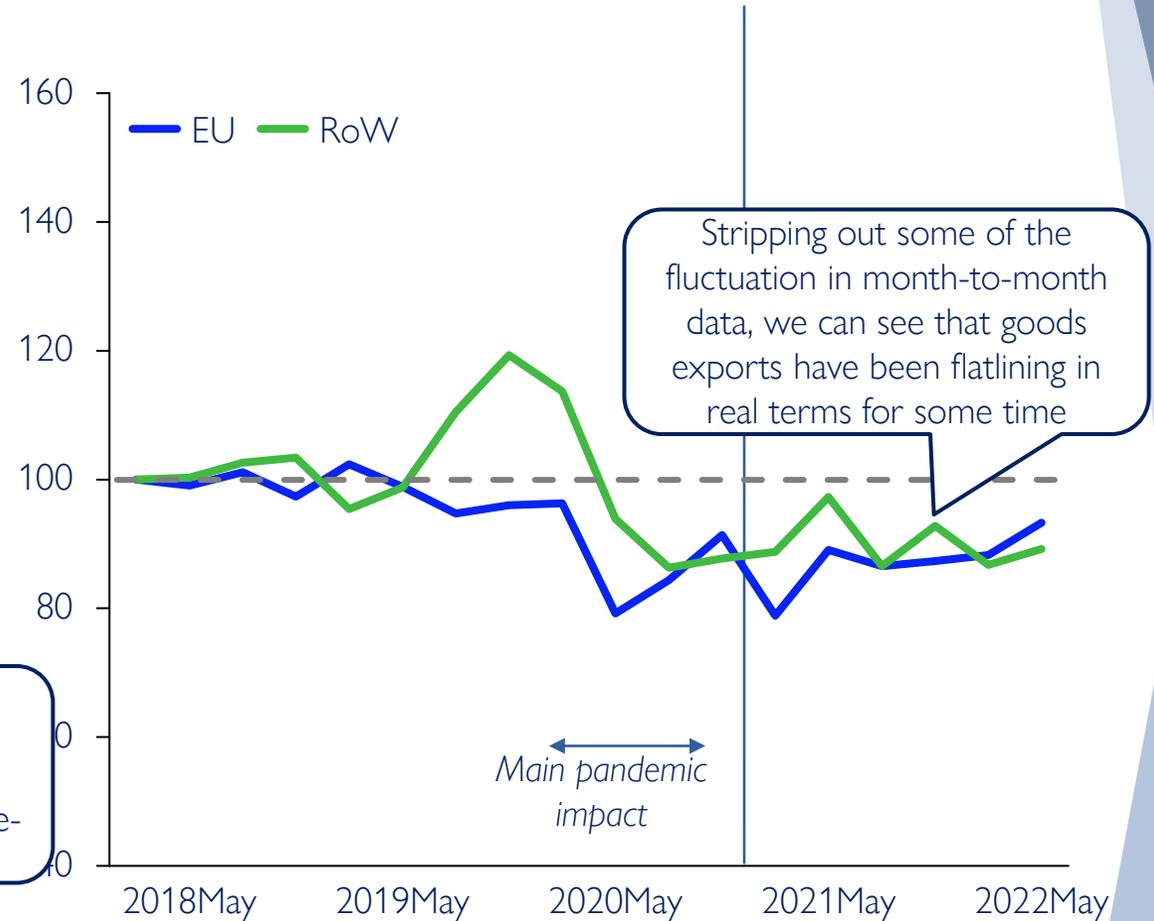
- ▶ The May 2022 record value of exports was a record *at current market prices only*.
- ▶ This distinction does not matter in times of low inflation, but inflation is currently at 30-40 year highs in the UK and in most of the developed nations to which the UK exports
- ▶ This has increased the value of any given unit of goods.
- ▶ The price of oil, the UK's largest goods export, has also risen as a result of Russia's invasion of Ukraine.
- ▶ On the next page, we show UK goods exports in real terms: adjusted for inflation.
- ▶ As inflation is affecting all developed economies, it is always useful to compare the UK's performance to that of its peers: see subsequent pages.

UK goods exports adjusted for inflation

Monthly goods exports* on chained volume measure

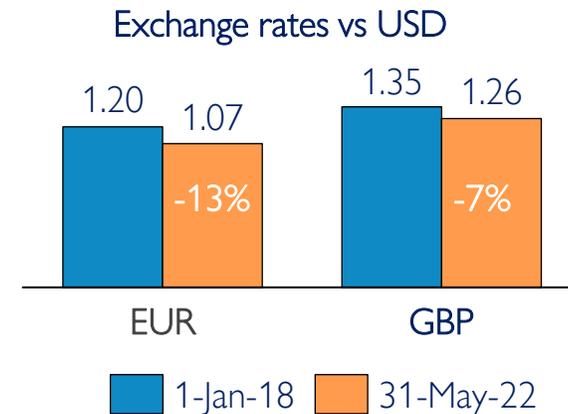


Trailing 3 months** goods exports on chained volume measure



UK export performance relative to peers

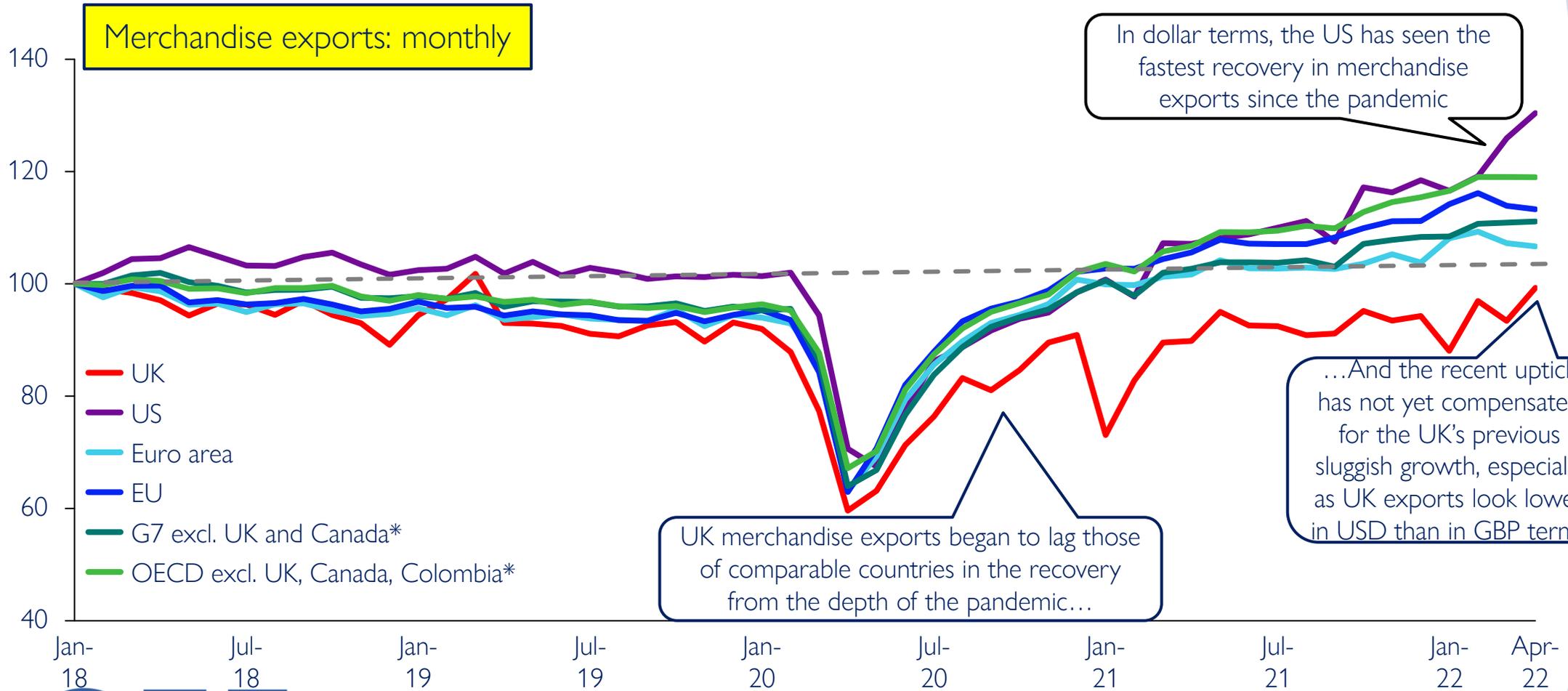
- ▶ As global economies grow over time, trade *should* increase, everything else being equal. To assess UK trade performance, what matters is how UK trade is increasing *relative to that of its peers, other developed nations*.
- ▶ The Organisation for Economic Cooperation and Development (OECD) collects data on the goods and services exports and imports of its 38 member nations, the world's major developed economies. The 38 include all G7 countries including the UK and US, plus most EU countries.
- ▶ There is one OECD data series – international merchandise trade statistics (IMTS) – that is available monthly; this covers most goods trade and covers exports through April 2022. The comprehensive goods exports and imports series – which includes the ONS' exact goods exports figure for the UK – is available quarterly. The most recent complete data set covers Q1 2022.
- ▶ The OECD makes the data available in US dollars for each country and for blocs such as the G7 and the whole OECD. However, this is sensitive to changes in the exchange rate vis-à-vis the dollar, so is not always directly comparable from one time period to the next.
- ▶ It is therefore important to look, where possible, at the OECD's data both in countries' own currencies and in US dollars. Trade and exchange rates are inter-linked.
- ▶ This is especially important over our comparison time period, during which the pound has depreciated by 7% and the euro by 13% against the dollar (see graph to the right).



Source: xe.com

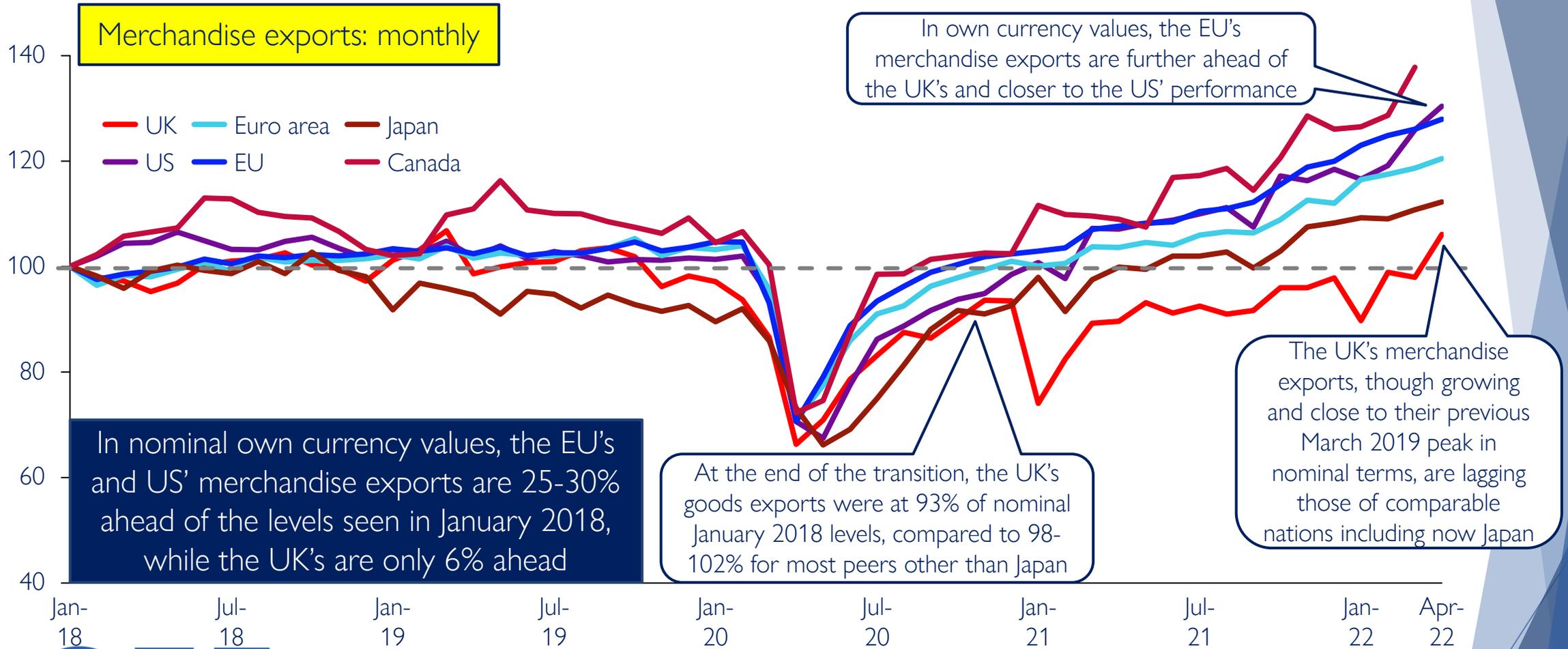
Goods exports since 2018: UK vs peers

Monthly merchandise exports (USD, seasonally adjusted, current market prices): Jan 2018 = 100



Goods exports since 2018: UK vs peers

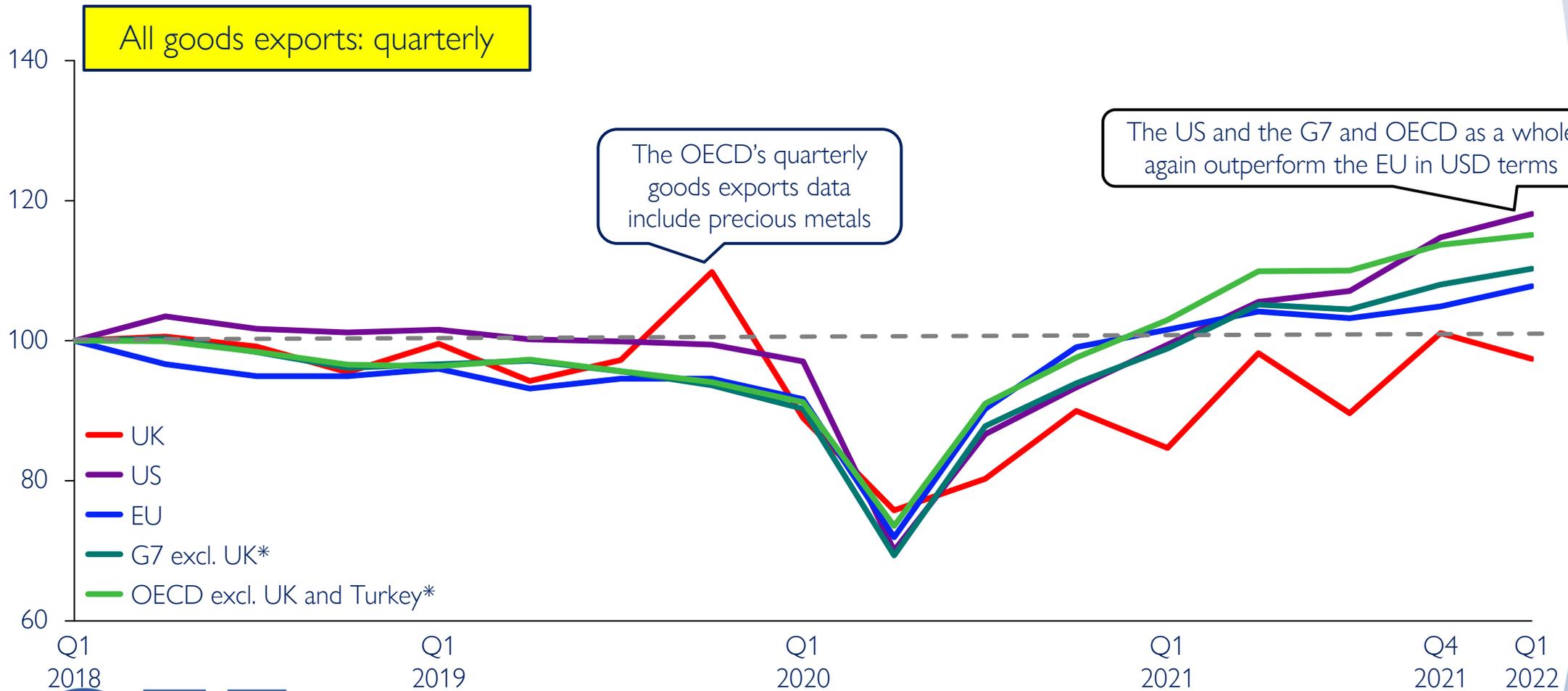
Monthly merchandise exports (own currency, seasonally adjusted, current market prices): Jan 2018 = 100



Source: Organisation for Economic Cooperation & Development (OECD)
Monthly International Merchandise Trade (IMTS) series

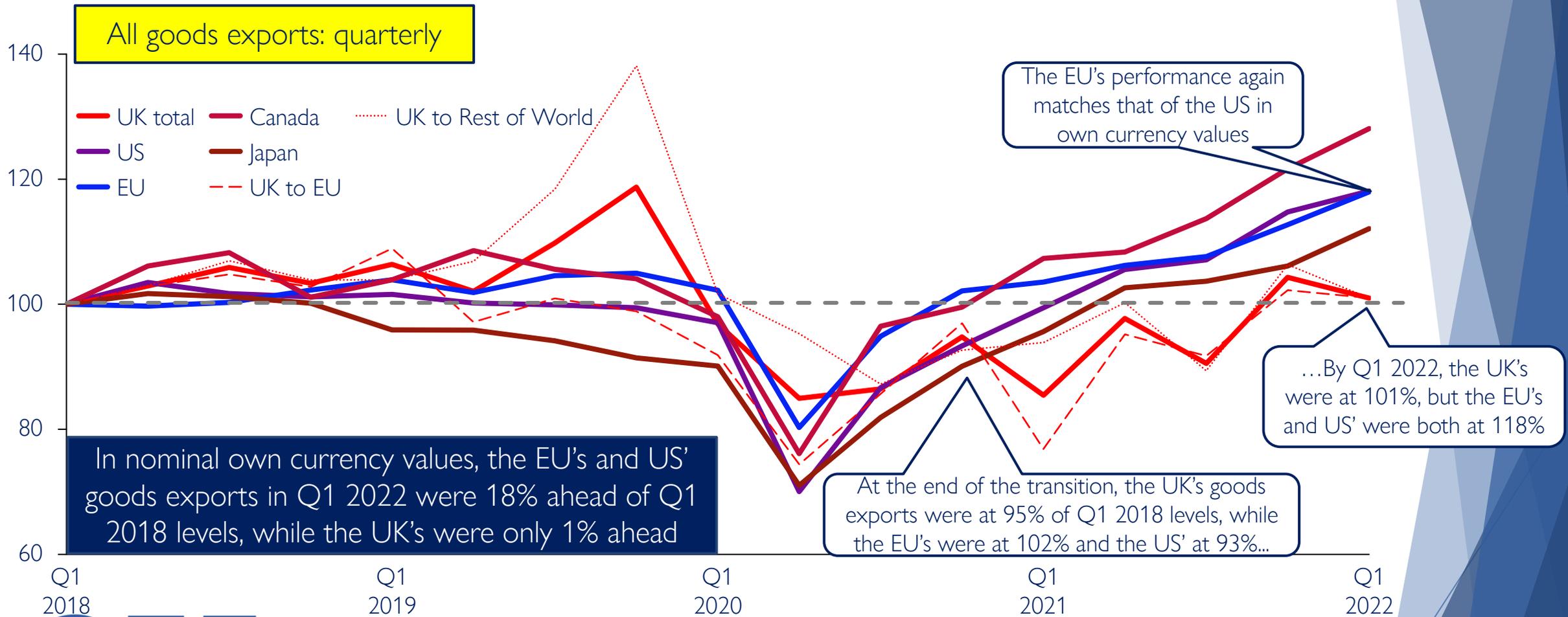
Goods exports since 2018: UK vs peers

Quarterly goods exports (USD, seasonally adjusted, current market prices): Q1 2018 = 100



Goods exports since 2018: UK vs peers

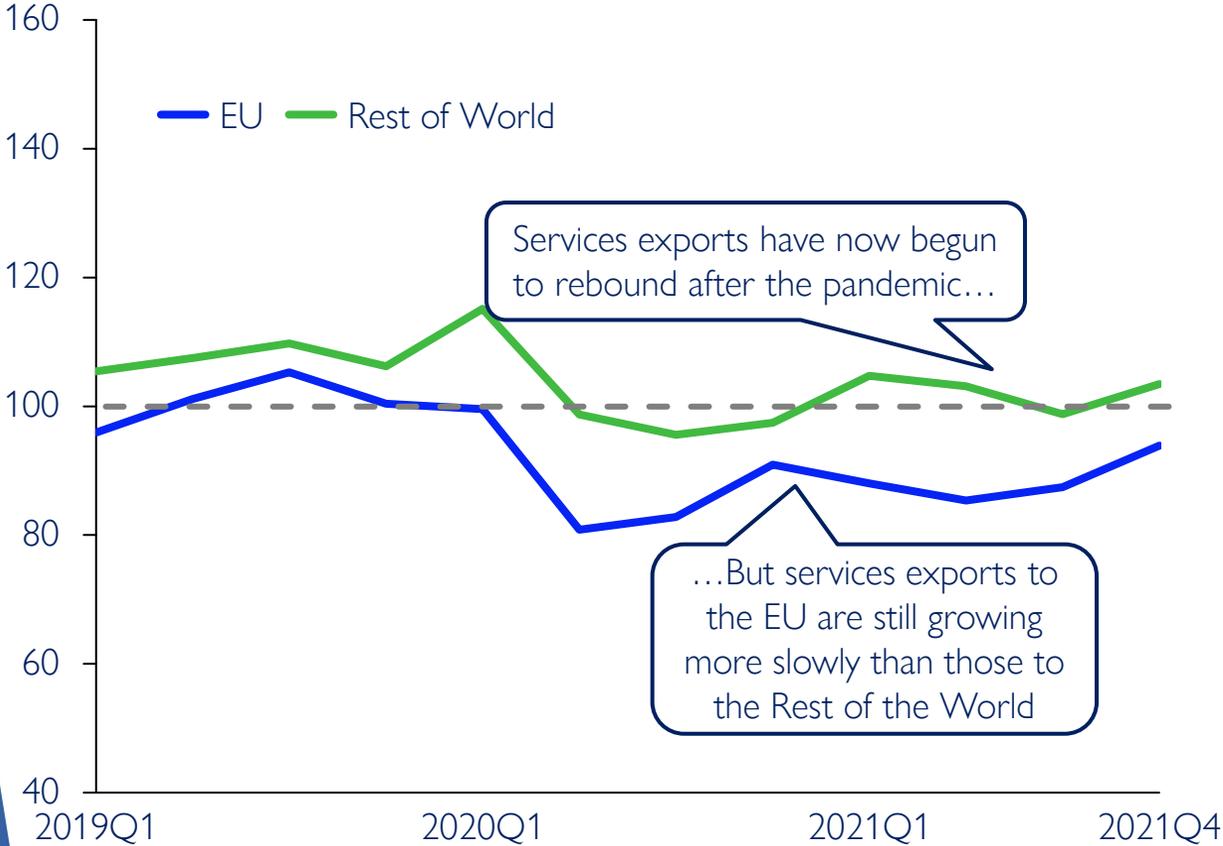
Quarterly goods exports (own currency, seasonally adjusted, current market prices): Q1 2018 = 100



Source: Organisation for Economic Cooperation & Development (OECD) quarterly balance of payments series

UK services exports

Services exports at current market prices*

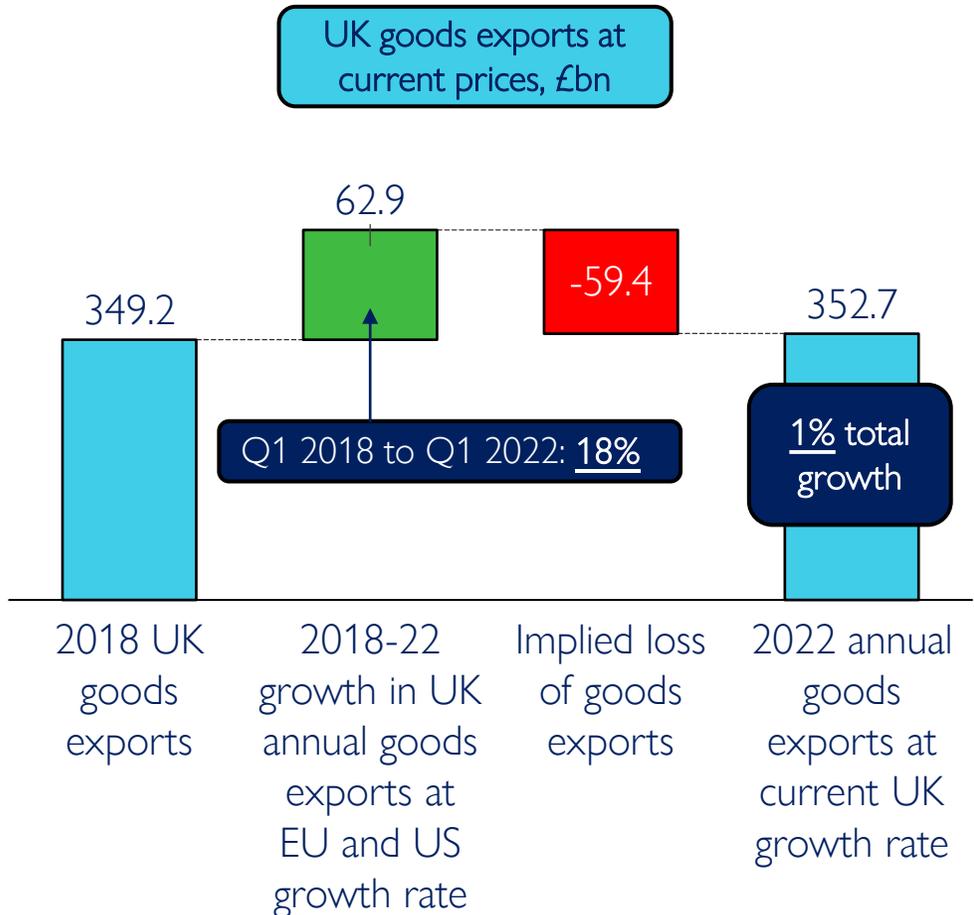


Commentary

- ▶ Services exports are critical to the UK, which is the world's 2nd largest services exporter, eclipsed only by the world's largest economy, the US.
- ▶ Figures on services trade arrive with more of a time lag than do those for goods trade.
- ▶ Travel, transportation, and hospitality exports are still depressed due to global pandemic effects.
- ▶ Comprehensive international comparisons will therefore have to wait for more quarters of data both from the UK and from peer nations.

* Quarterly, not seasonally adjusted, GBP, same quarter (to address lack of seasonal adjustment) in 2018=100

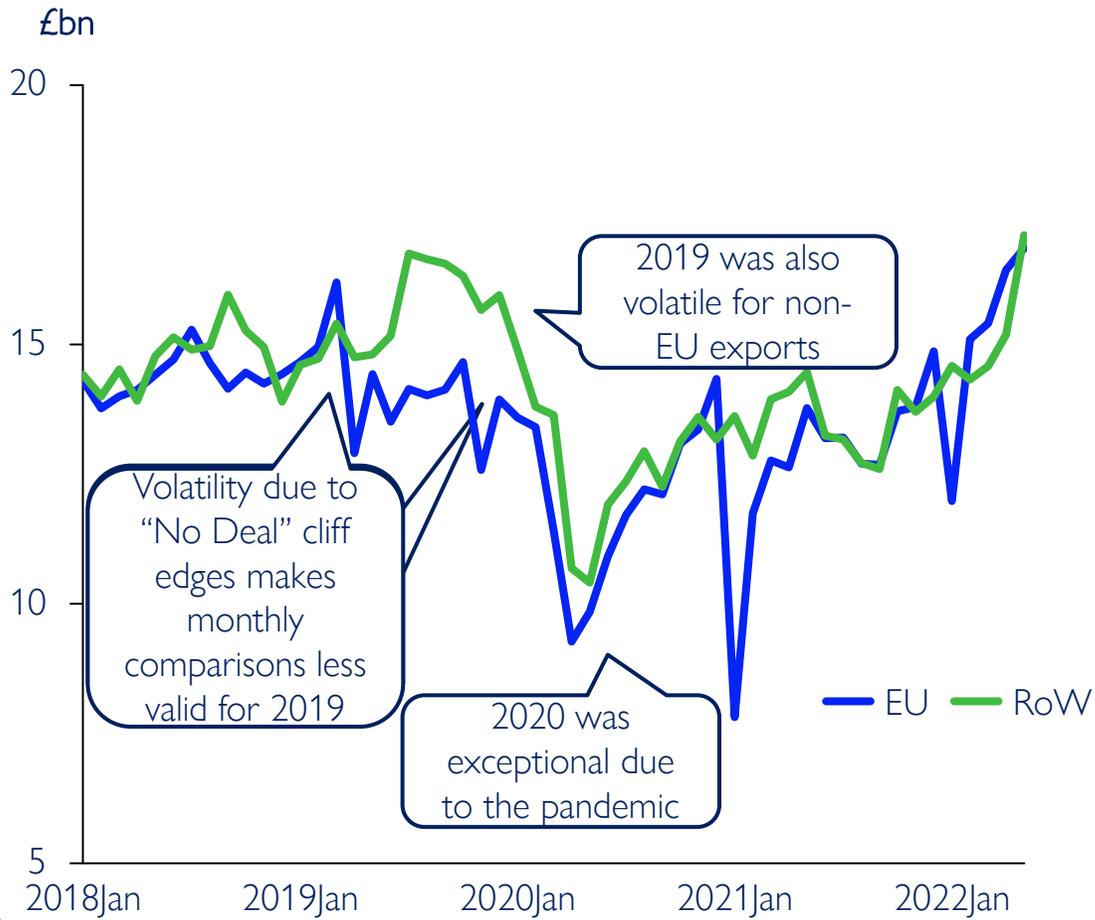
What does this mean for the economy?



- ▶ Exports make a positive contribution to GDP: £59bn equates to 2.6% of the UK's GDP of approximately £2.2trn.
- ▶ By comparison, the UK lost 3.3% of GDP in 2009 at the depth of the financial crisis.
- ▶ Overall, the relationship between trade volumes and GDP is complex. The UK's imports – not covered here – are also lagging those of peers, indicating a loss of *trade intensity*: *trade as a proportion of GDP*. Imports are a subtraction from GDP, but they are necessary both for businesses as inputs and for consumers to acquire goods that they cannot buy from domestic suppliers.
- ▶ There are further long-run indirect economic costs to lost exports: because the UK becomes less attractive, for example, as an export platform.

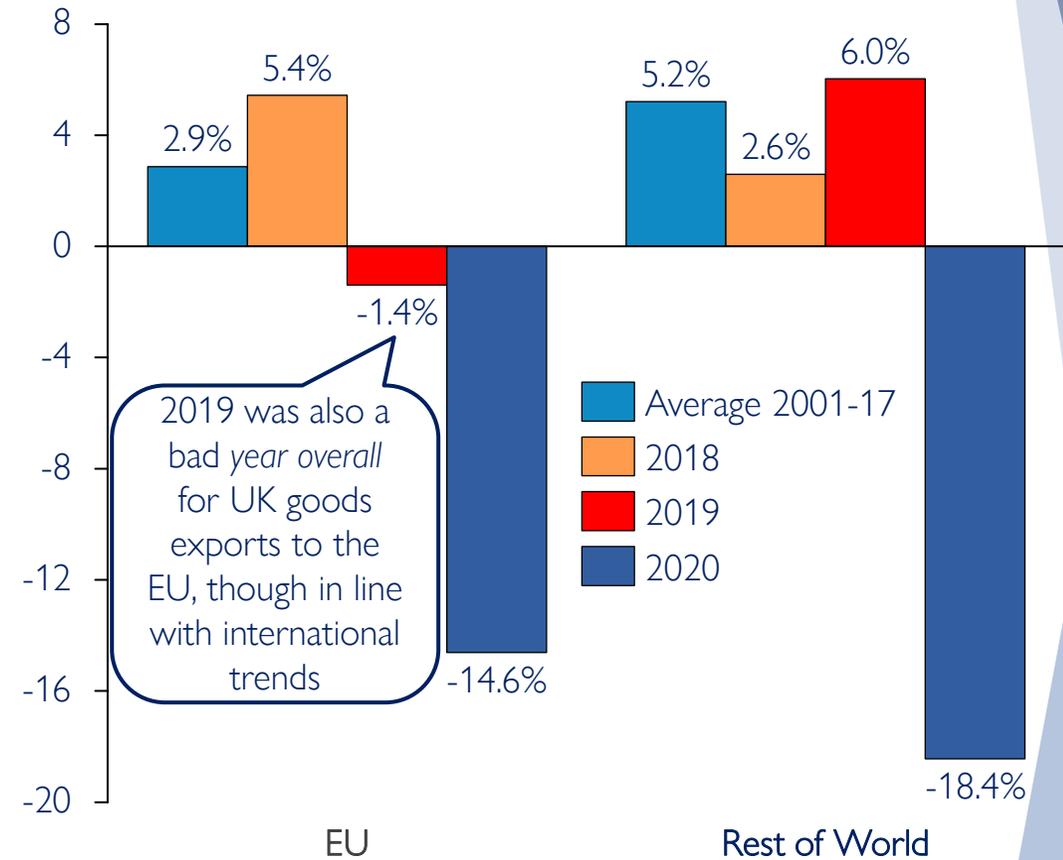
Why does the ONS recommend 2018 as a base year for comparison?

UK goods exports 2018 to 2022, current market prices



UK goods exports: Long-term comparison

Annual total: % change on previous year



Further reading

- ▶ [Department for International Trade, Trade and Investment Core Statistics Book, 20 June 2022](#)
- ▶ [Centre for European Reform, John Springford, What can we know about the cost of Brexit so far? 9 June 2022](#)
- ▶ [Express, UK trade has shrunk since Brexit while EU thrives - data, Liam Doyle, 14 December 2021](#)
- ▶ [Financial Times, The deafening silence over Brexit's economic fallout, George Parker and Chris Giles, 20 June 2022](#)
- ▶ [Financial Times, UK trade performance falls to worst level on record in first quarter, Chris Giles and Nick Paterson, 30 June 2022](#)
- ▶ [London School for Economics, Brexit: the major trade disruption came after the UK-EU agreement took effect in 2021, Rebecca Freeman, Kalina Manova, Thomas Prayer, and Thomas Sampson, 26 April 2022](#)
- ▶ [Office for National Statistics, GDP quarterly national accounts, UK: January to March 2022, 30 June 2022](#)
- ▶ [Organisation for Economic Co-operation and Development, G20 International Trade Statistics, 24 May 2022](#)
- ▶ [Peterson Institute for International Economics, The UK and the global economy after Brexit, Adam S. Posen, 27 April 2022](#)
- ▶ [Reaction Life, How the Remainer media still get Brexit wrong – and why it matters, Julian Jessop, 1 July 2022](#)
- ▶ [UK Trade Policy Observatory, The UK-EU Trade and Cooperation Agreement \(TCA\) one year on: trade in goods, Nicolo Tamberi, 11 February 2022](#)

About Conservative European Forum (CEF)

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The Conservative European Forum (CEF) was launched in January 2021 by Rt Hon. Sir David Lidington KCB CBE and Stephen Hammond MP. CEF is committed to strengthening political, economic, social, environmental and security cooperation between the UK and the democracies of Europe. Closer strategic cooperation, to tackle shared challenges, will make all parties safer, more prosperous and more influential on the world stage.