



12 October 2010

## Mixed news from the trade front

The Office for National Statistics' [latest release on international trade](#) shows the UK's deficit on trade in goods and services shrank from £5.0 billion in July to £4.6 billion in August because, although exports fell, imports fell by more.

Trade data are, however, among the most erratic of economic statistics, and it is important to focus on the underlying trends. These suggest exports and imports were still growing at a healthy pace. Export volumes of goods were 10.4% higher in the first eight months of the year than in the same months of 2009; import volumes were 11.0% higher over the same period. There is no hint here of a significant slowdown in the pace of economic activity, either in our main export markets or in the UK.

The Office for Budget Responsibility – along with the Government and the Bank of England – hope that net trade can contribute significantly to the UK's economic recovery. Its [last forecast](#) showed export growth significantly outstripping import growth in each of the next five years (note the OBR's figures are for goods and services, not just goods).

### OBR forecast (June 2010 Budget)

	2010	2011	2012	2013	2014	2015
Exports of goods and services (% change)	4.3	5.5	6.3	6.1	5.9	5.7
Imports of goods and services (% change)	5.6	2.1	2.7	3.6	4.0	4.2
Contribution of net trade to growth (% points)	-0.5	0.9	0.9	0.7	0.5	0.5

If this forecast turns out to be wrong, it may be that it underestimates import growth, rather than overstating export growth. Assuming the global economic recovery is sustained, achieving an average of 5.9 per cent annual growth in exports between 2010 and 2015 should be possible for the UK. But if private sector demand in the UK - consumer spending and business investment spending – improve over the next few years, limiting import growth to an average of 3.3 per cent will be difficult.

Hopefully, the UK economy will rebalance in coming years, with more growth coming from net trade than in the recent past, but it may not do so to the extent hoped for by the OBR.