

Article

# Why has the UK trade in goods deficit widened in real terms?

The UK trade in goods deficit in real terms widened from £14.7 billion in 1998 to £130.7 billion in 2017. This article uses new country-by-commodity data to explore which countries and commodities explain the widening of the trade in goods deficit.

Contact:  
James Wells  
trade@ons.gov.uk  
+44 (0)1633 455582

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## Table of contents

1. [Introduction](#)
2. [The widening UK trade in goods deficit in real terms is mostly due to trade with the EU](#)
3. [The UK operated a trade in goods surplus with nine of the EU 27 in current prices in 1998 compared with four in 2017](#)
4. [Three countries accounted for 67.5% of the widening trade in goods balance with the EU in current prices](#)
5. [The worsening trade balance with the EU in current prices was due mainly to rising imports](#)
6. [Explore UK trade in goods country-by-commodity data in current prices with our interactive tools](#)
7. [Authors](#)

# 1 . Introduction

We have embarked upon and are delivering against an ambitious [UK trade development plan](#), providing more detail about the UK's trading relationships, using improved data sources processed by our new trade IT system.

This article uses country and commodity data first published in July 2018 to look at why the UK trade in goods deficit has widened in real terms over the past 20 years, in terms of the goods we trade.

The overall trade in goods balance widened from a £14.7 billion deficit in 1998 to a £130.7 billion deficit in 2017 in real terms. Disaggregating the trade in goods balance shows this widening was primarily due to our trade with the EU.

From 1998 to 2000 the UK had an average £3.5 billion trade in goods surplus with the EU. In 2001 the surplus turned into a deficit and by 2017 the trade balance with the EU was £93.7 billion in deficit with most EU countries contributing to the deficit.

Trade with Germany, the Netherlands and Belgium accounted for £36.3 billion (67.5%) of the £53.8 billion widening of the trade in goods deficit with the EU between 2011 and 2017. Rising imports of cars and chemicals were the largest contributors to the widening goods deficit with these three EU countries across the period. In addition the fuels balance worsened with these countries over the period, mainly due to falling exports.

Our new data shows trade by 234 countries and 125 goods. You can explore it through our easy-to-use [interactive trade maps](#). Alternatively you can access the data through detailed datasets published alongside our [monthly trade bulletin](#).

Users should note this article does not look at trade in services, which shows a different picture. The UK economy is currently dominated by services. This is reflected in our trade in services balance, which is in surplus. We are planning to publish another article in November 2018 looking at our trade in services surplus by country and by service type. This will use new detailed quarterly services data that we will publish for the first time on 24 October 2018.

## 2 . The widening UK trade in goods deficit in real terms is mostly due to trade with the EU

This section presents the total trade in goods balance with the EU and countries outside of the EU in real terms using chained volume measures (CVM). A CVM is a measure that has had the effect of inflation removed, providing an indication of the "real" level of change.

Figure 1 shows the UK trade in goods balance for total trade and trade with the EU and countries outside of the EU using our new regional CVM estimates.

The UK operated a total trade in goods deficit in CVM terms for all years in the period 1998 to 2017. The deficit also widened over the period, from a deficit of £14.7 billion in 1998 to a deficit of £130.7 billion in 2017.

The widening of the trade in goods deficit since 2001 was due mostly to a worsening in the trade in goods balance with the EU. From 1998 to 2000, the UK operated an average trade in goods surplus of £3.5 billion with EU countries. From 2001 to 2017, the trade in goods deficit with EU countries widened from £4.1 billion to £93.7 billion.

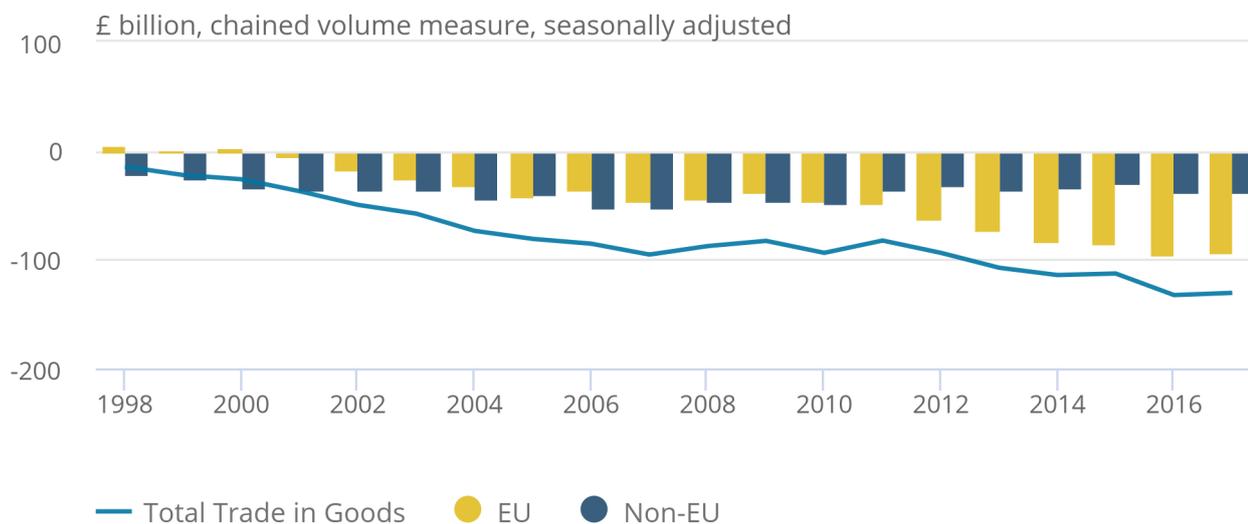
The trade in goods deficit with the EU was generally smaller compared with countries outside of the EU up until 2011, but since 2011 the deficit with EU countries has exceeded that with non-EU countries and has nearly doubled from £47.1 billion in 2011 to £93.7 billion in 2017.

The widening of the goods deficit with EU countries between 1998 and 2017 was primarily due to increasing imports. Imports from EU countries increased from £117.5 billion in 1998 to £245.9 billion in 2017, while exports increased from £122.1 billion to £152.3 billion over the same period.

The UK also operated a CVM trade in goods deficit with countries outside of the EU from 1998 to 2017. The deficit with countries outside of the EU widened from £21.2 billion in 1998 to £37.0 billion in 2017. Imports from non-EU countries increased from £104.6 billion in 1998 to £203.8 billion in 2017, while exports increased from £83.4 billion to £166.8 billion over the same period.

**Figure 1: Trade in goods balances, by total trade and region, chained volume measure, 1998 to 2017**

Figure 1: Trade in goods balances, by total trade and region, chained volume measure, 1998 to 2017



Source: Office for National Statistics

Notes:

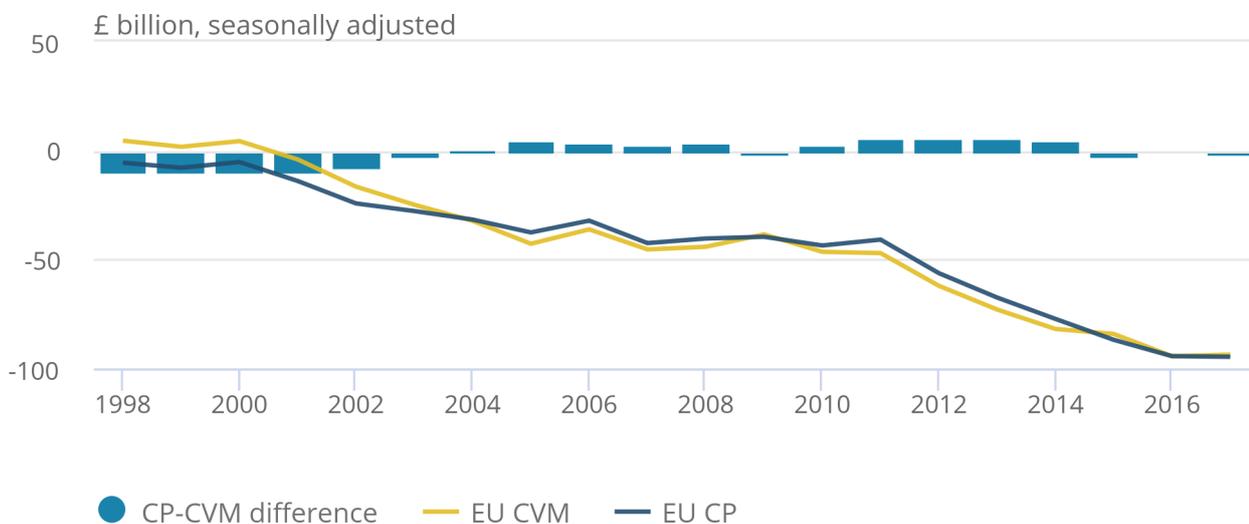
1. Chained volume measures (CVMs) are not additive for years prior to the base year (2016); for example, for all years prior to 2016 the sum of the components, EU and non-EU balances, may not sum exactly to the total balance.
2. The EU definition includes all of the other 27 member countries of the EU; users should note that prior to EU enlargement, some of the countries listed were not members of the EU.
3. The following countries joined the EU as part of the 2004 enlargement: Poland, Czech Republic, Malta, Hungary, Lithuania, Estonia and Latvia. Romania and Bulgaria joined the EU in 2007 while Croatia joined in 2013.

Figure 2 shows the trade in goods balance with EU countries in both CVM and current price terms. The difference between the CVM balance and current price balance is the price effect. Both including (current price) and excluding the price effect (CVM), the balance follows a broadly similar trend over the period.

The trade in goods deficit with EU countries in current price terms widened from a £5.6 billion deficit in 1998 to a £94.7 billion deficit in 2017. In comparison, the trade in goods deficit with EU countries in CVM terms moved from a £4.5 billion surplus to £93.7 billion deficit in CVM terms across the same period.

**Figure 2: Total trade in goods balances with EU countries, current price and chained volume measure, 1998 to 2017**

Figure 2: Total trade in goods balances with EU countries, current price and chained volume measure, 1998 to 2017



Source: Office for National Statistics

### 3 . The UK operated a trade in goods surplus with nine of the EU 27 in current prices in 1998 compared with four in 2017

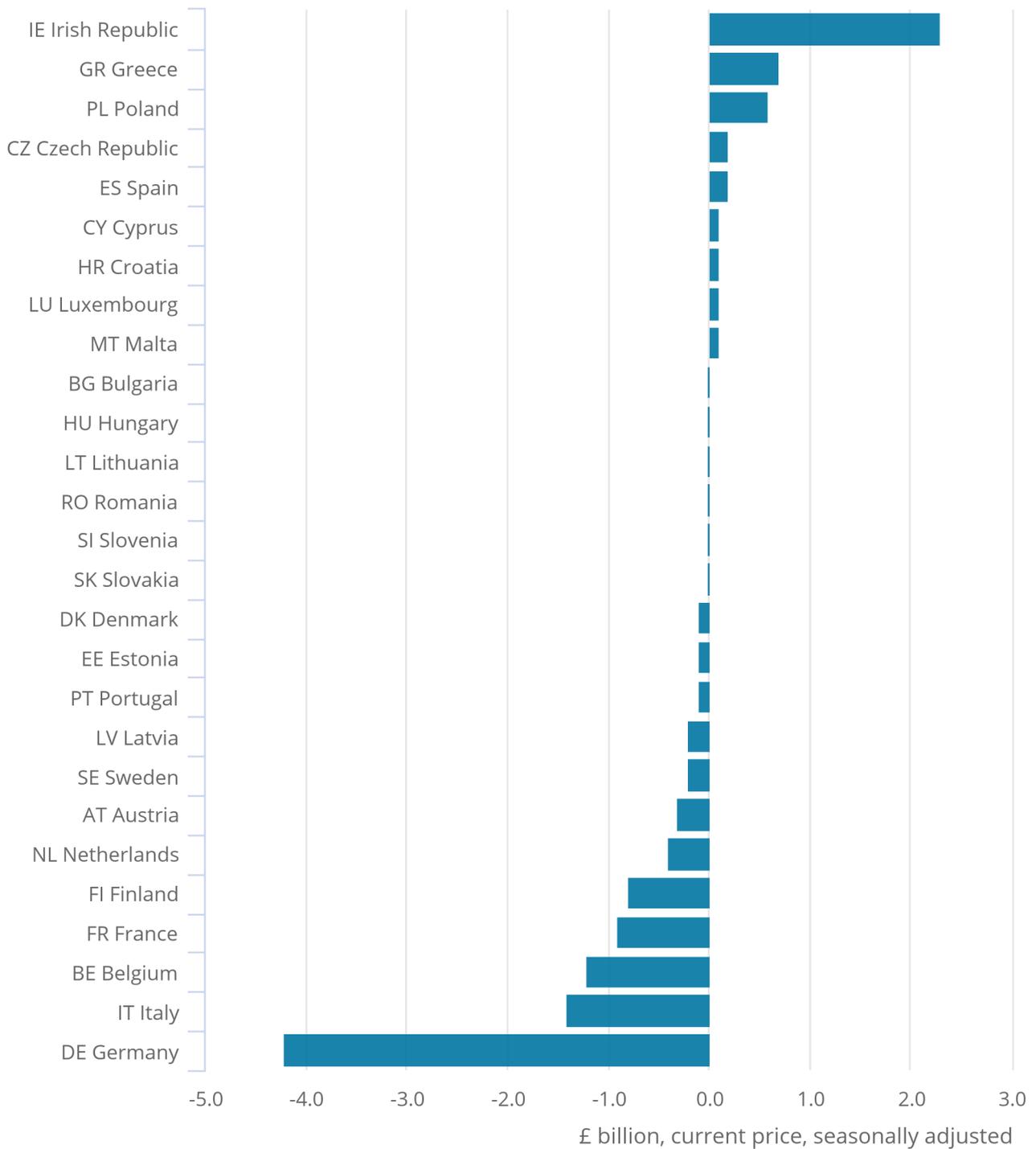
Figures 3 and 4 show the trade in goods balance with EU countries in 1998 and 2017 in current prices respectively. In 1998, the UK operated a trade in goods surplus with nine of the EU 27 countries compared with four in 2017.

The UK improved its trade in goods balance with Ireland and Malta across the period. The surplus with Ireland widened from £2.3 billion in 1998 to £6.0 billion in 2017; the balance with Malta widened from £0.1 billion to £0.3 billion over the same period. The UK trade in goods balance worsened with the remaining EU countries.

The largest contributors to the widening of the trade in goods balance between 1998 and 2017 were Germany, the Netherlands and Belgium; the UK trade in goods balance widened by £27.5 billion, £18.1 billion and £10.2 billion respectively with these countries.

Figure 3: UK trade in goods balance by EU country, current price, 1998

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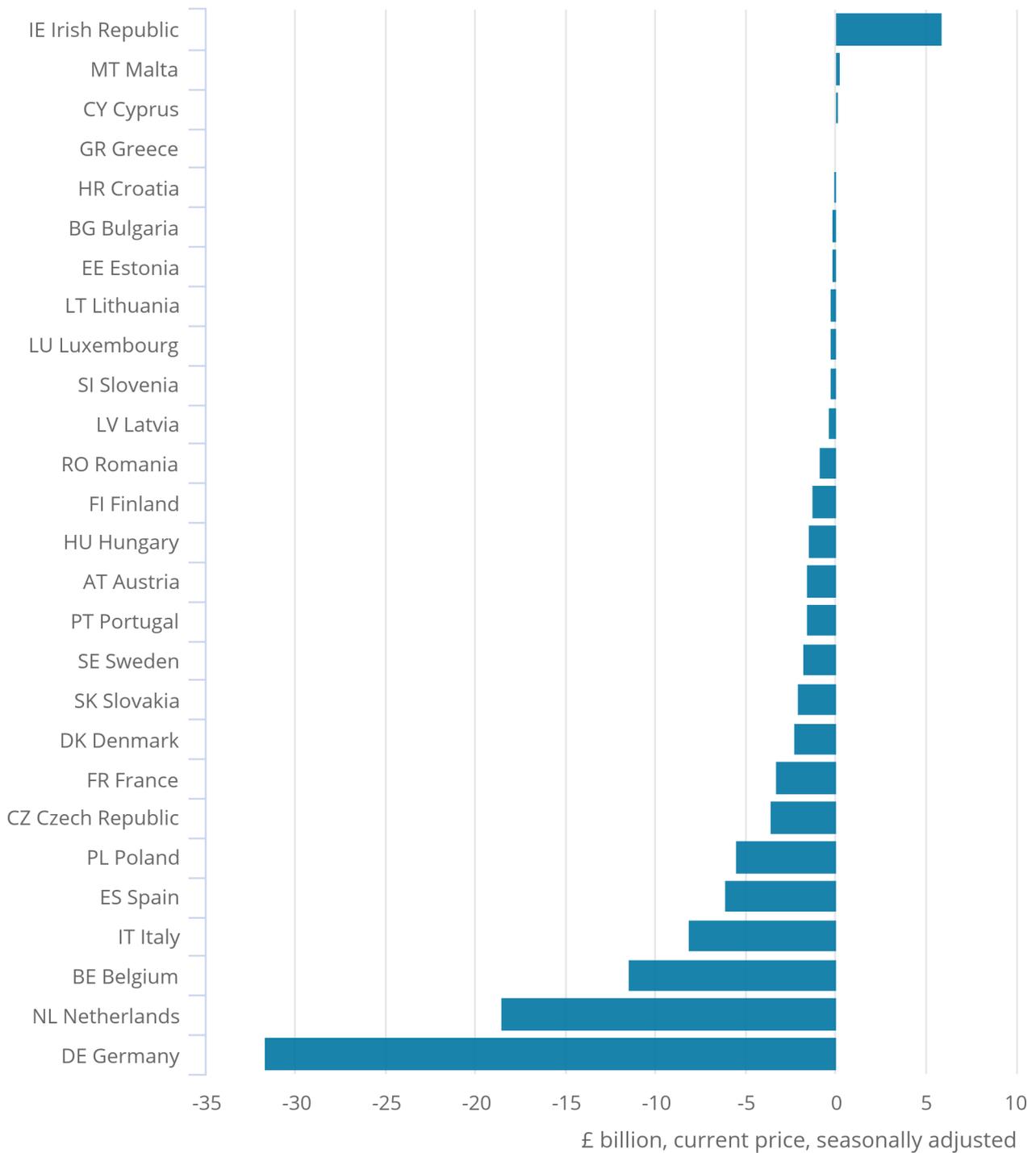
**Source: Office for National Statistics**

**Notes:**

1. The EU definition includes all of the other 27 member countries of the EU; users should note that prior to EU enlargement, some of the countries listed were not members of the EU.
2. The following countries joined the EU as part of the 2004 enlargement: Poland, Czech Republic, Malta, Hungary, Lithuania, Estonia and Latvia. Romania and Bulgaria joined the EU in 2007 while Croatia joined in 2013.

Figure 4: UK trade in goods balance by EU country, current price, 2017

Figure 4: UK trade in goods balance by EU country, current price, 2017



## 4 . Three countries accounted for 67.5% of the widening trade in goods balance with the EU in current prices

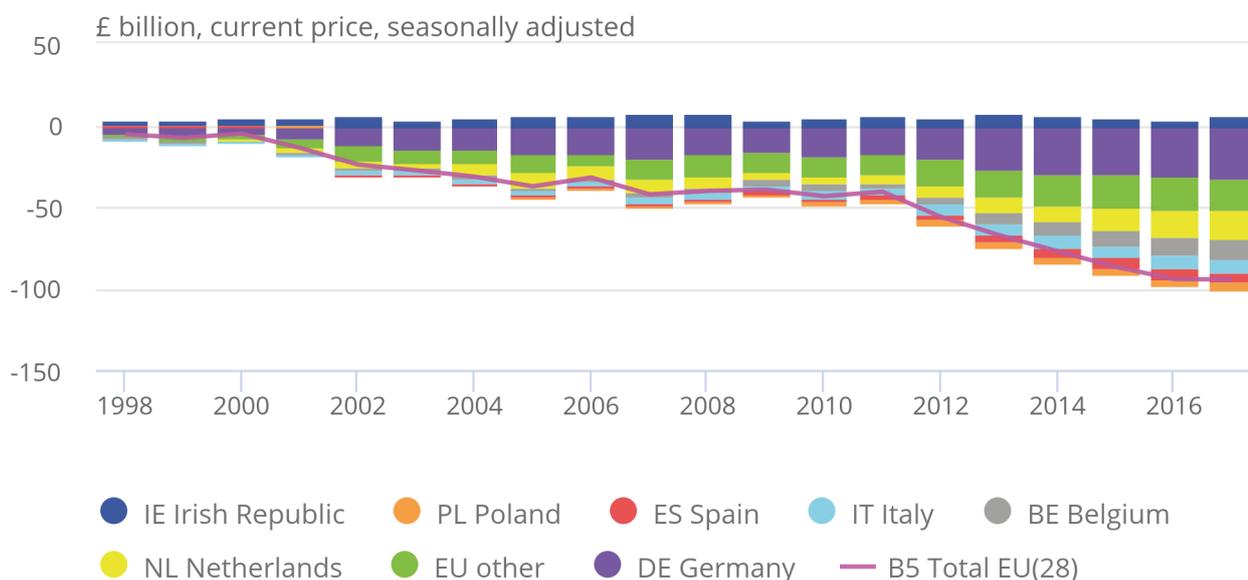
Figure 5 shows the trade in goods balance with EU countries between 1998 and 2017 in current prices.

The only EU countries with which the UK held a trade in goods surplus over £1.0 billion between 1998 and 2017 were Ireland (all years), France (2006) and Greece (2008 and 2009).

Between 2011 and 2017, £36.3 billion (67.5%) of the £53.8 billion widening in the trade in goods deficit was due to widening deficits with Germany (£14.6 billion), the Netherlands (£13.5 billion) and Belgium (£8.3 billion).

**Figure 5: Trade in goods balance with EU countries, current price, 1998 to 2017**

Figure 5: Trade in goods balance with EU countries, current price, 1998 to 2017



Source: Office for National Statistics

**Notes:**

1. "Other" denotes the balance of all remaining EU 27 countries excluding the seven listed.
2. The seven listed are those with the largest balances in absolute terms as of 2017.

## 5 . The worsening trade balance with the EU in current prices was due mainly to rising imports

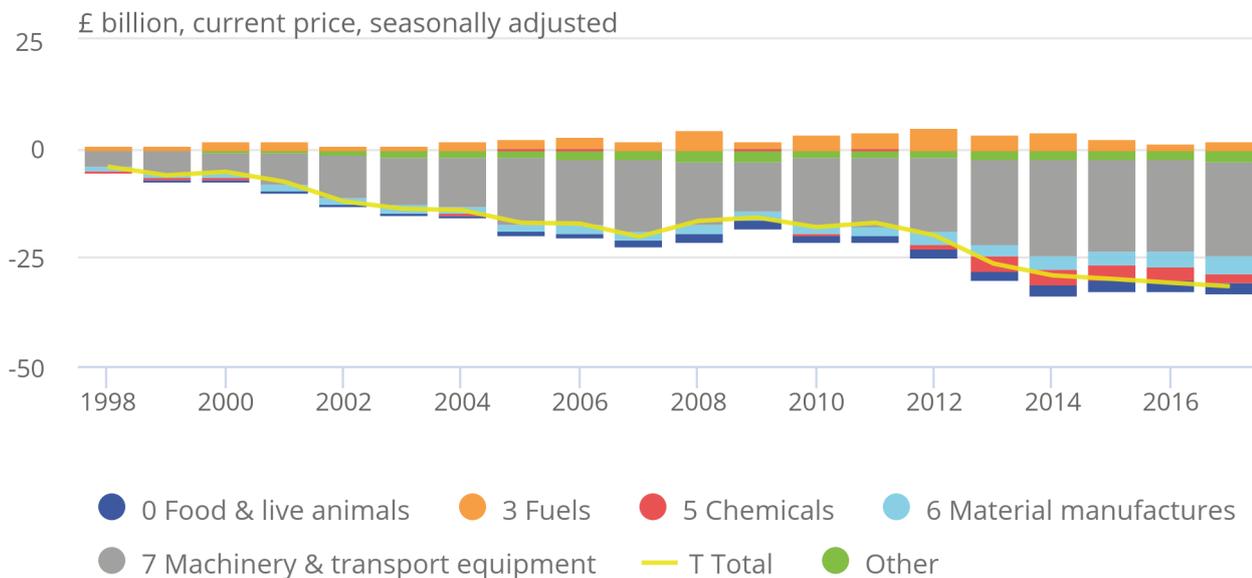
This section uses our new country-by-commodity dataset to explore what commodities were mostly responsible for the widening of the trade in goods deficit with Germany, the Netherlands and Belgium; three countries that were responsible for 67.5% of the widening of the UK trade deficit in current prices between 2011 and 2017.

Figure 6 shows the UK trade in goods balance with Germany in current prices. The total trade in goods deficit with Germany widened by £14.6 billion, from £17.1 billion to £31.7 billion, between 2011 and 2017. The largest commodity contributing to the widening was a £6.1 billion widening in the trade balance for machinery and transport equipment.

Imports of machinery and transport equipment increased by £9.9 billion between 2011 and 2017, compared with a lesser £3.9 billion increase in exports; cars represented £5.0 billion of the £9.9 billion increase in imports.

**Figure 6: UK trade in goods balance with Germany by leading commodities, current price, 1998 to 2017**

Figure 6: UK trade in goods balance with Germany by leading commodities, current price, 1998 to 2017



Source: Office for National Statistics

Notes:

1. "Other" denotes the balance of all remaining commodity groups excluding those listed.
2. The commodity groups listed are those with five the largest balances in absolute terms as of 2017.

Figure 7 shows the trade in goods balance with the Netherlands in current prices. The total trade in goods deficit with the Netherlands widened by £13.5 billion, from £5.0 billion to £18.5 billion, between 2011 and 2017. Imports rose by £11.4 billion over the period, while exports fell by £2.1 billion.

The largest commodities contributing to the widening deficit between 2011 and 2017 were machinery and transport equipment, and chemicals; the deficit in machinery and transport equipment widened by £4.7 billion, while the chemicals deficit widened by £4.2 billion over the period.

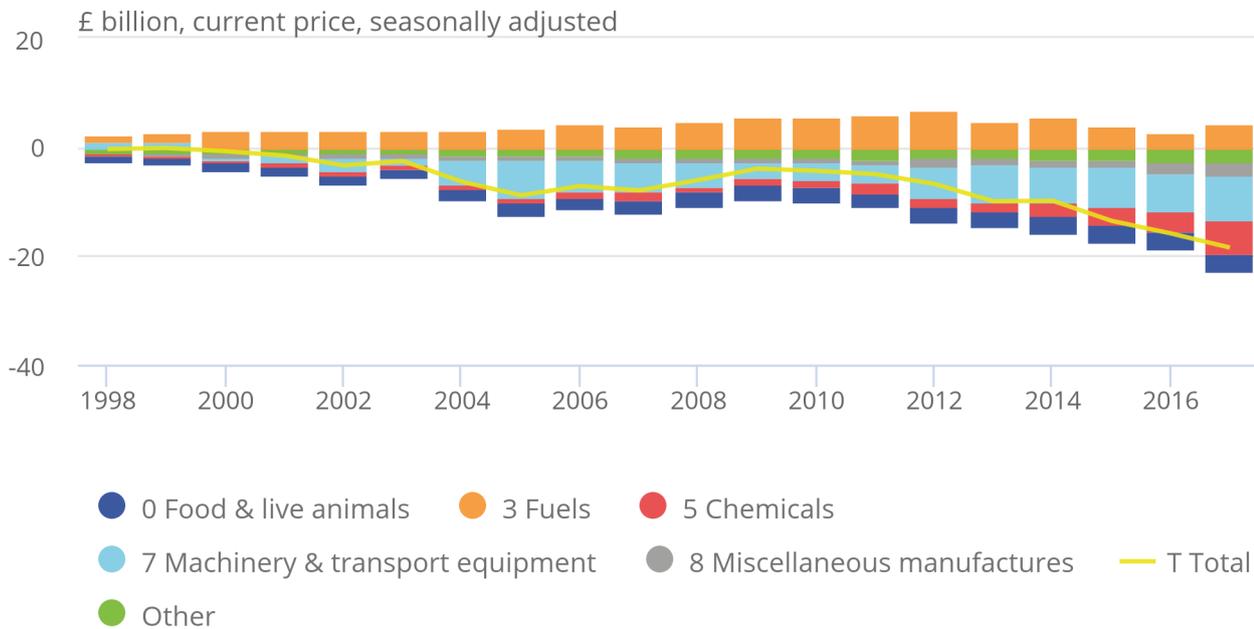
Imports of machinery and transport equipment increased £4.4 billion between 2011 and 2017, while exports fell by £0.3 billion. Of the £4.4 billion increase in imports, £2.4 billion was electrical machinery.

The widening in the deficit in chemicals was the result of a £4.7 billion increase in imports, while exports increased by a much lesser £0.5 billion; of the £4.7 billion increase in imports, £4.2 billion was due to medicinal and pharmaceutical products.

When analysing trade figures for the Netherlands, users should note the possible existence of the “Rotterdam effect”, whereby goods initially exported to the Netherlands are subsequently re-exported to another country. This might overstate the share of exports going to the Netherlands, although it is not possible to say with certainty how much this might be or which countries any overstatement should be allocated to. Please see our [article exploring the Rotterdam effect published in 2015](#).

**Figure 7: UK trade in goods balance with the Netherlands by leading commodities, current price, 1998 to 2017**

Figure 7: UK trade in goods balance with the Netherlands by leading commodities, current price, 1998 to 2017



Source: Office for National Statistics

Notes:

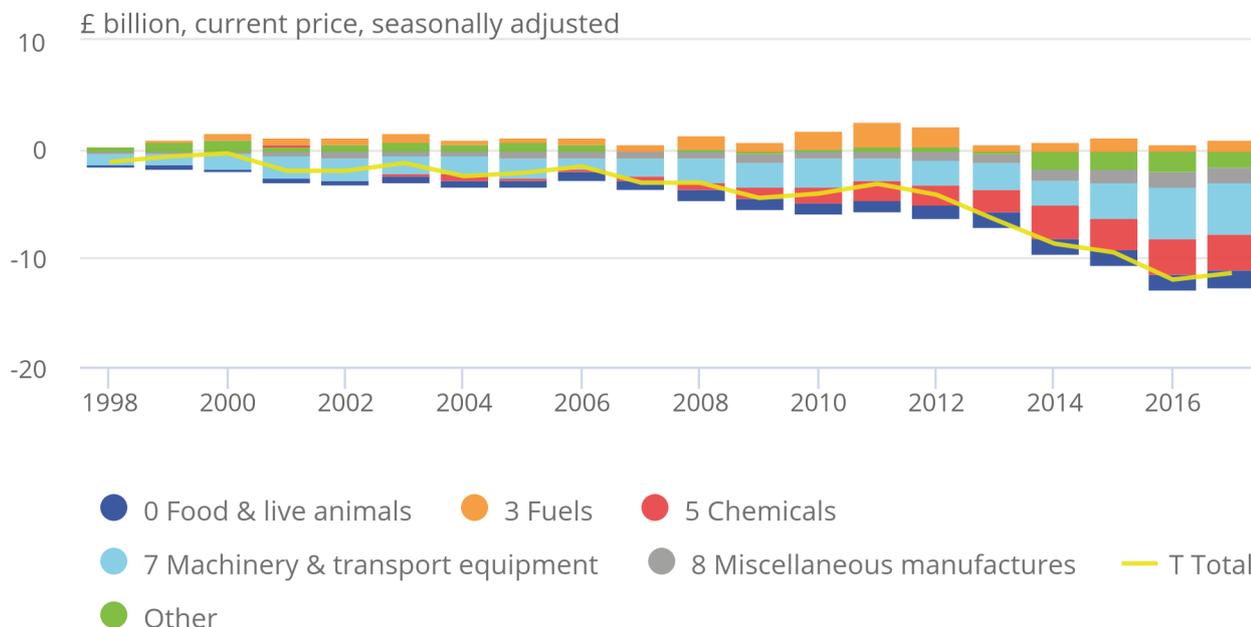
1. "Other" denotes the balance of all remaining commodity groups excluding those listed.
2. The commodity groups listed are those with the five largest balances in absolute terms as of 2017.

Figure 8 shows the trade in goods balance with Belgium in current prices. From 2011 to 2017, the goods balance with Belgium widened by £8.3 billion, from £3.2 billion to £11.4 billion. This was due primarily to a £6.0 billion increase in imports as exports fell by £2.2 billion over the period.

Of the £6.0 billion increase in imports between 2011 and 2017, £2.3 billion was due to cars, whilst £1.1 billion was due to medicinal and pharmaceutical products.

**Figure 8: UK trade in goods balance with Belgium by leading commodities, current price, 1998 to 2017**

Figure 8: UK trade in goods balance with Belgium by leading commodities, current price, 1998 to 2017



Source: Figure 8: UK trade in goods balance with Belgium by leading commodities

Notes:

1. "Other" denotes the balance of all remaining commodity groups excluding those listed.
2. The commodity groups listed are those with the five largest balances in absolute terms as of 2017.

## 6 . Explore UK trade in goods country-by-commodity data in current prices with our interactive tools

For more information about our methods and how we compile these statistics, please see [Trade in goods, country-by-commodity experimental data: 2011 to 2016](#). Users should note that the data published alongside this release are no longer experimental.

What goods does the UK trade with the rest of the world? Our data breaks down UK trade in goods with 234 countries by 125 commodities.

Use our map to get a better understanding of UK trade in goods with a particular country. Select a country by hovering over it or using the drop-down menu.

What about trade in a particular commodity? What percentage of UK car exports goes to the EU? Where does the UK's imported tea and coffee come from?

Use our interactive tools to understand UK trade of a particular commodity.

Select a commodity from the drop-down menu, or click through the levels to explore the data.

## **7 . Authors**

William Flynn and James Wells