Handout with charts

The economic costs of restricting trade: the experience of the UK

Speech by Ben Broadbent

Given at the Federal Reserve Bank of Kansas City 46th Economic Symposium, Jackson Hole, Wyoming

26 August 2023
Chart 1: European gas prices rose very steeply last year

Sources: Bloomberg Finance L.P. and Bank calculations.

Chart 2: In contrast to pre-GFC trend UK import prices rose dramatically at the start of the 2020s

Sources: ONS, FRED and Bank calculations.

US bars weighted by ratio of US import share of output to UK import share of output in volume terms, for comparability with UK bars.
Chart 3: Marked divergence in consumer spending

Sources: Refinitiv Eikon Datastream and Bank calculations.

Chart 4: Wage growth has been higher in countries where import prices rose more

Sources: Eurostat, OECD, ONS and Bank calculations.

Percent change in (import deflator / GDP deflator) is adjusted by country’s import share of output. For Greece, wage data for 2023 Q1 not available so wage growth calculated over 2021Q3-2022Q4.
Chart 5: Trade levelled off after the global financial crisis

GVC trade, per cent of world trade

<table>
<thead>
<tr>
<th>Year</th>
<th>GVC Trade</th>
<th>World Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>35</td>
<td>30</td>
</tr>
<tr>
<td>1980</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>1990</td>
<td>45</td>
<td>20</td>
</tr>
</tbody>
</table>

Sources: ONS, World Bank Development Indicators, Borin and Mancini (2019) as reported in World Development Report (2020) and Antras (2020), and Bank calculations.

Chart 6: UK import prices fell steeply during the phase of rapid globalisation, relative to domestic wages, but then stabilised

Index, 2007 = 100

<table>
<thead>
<tr>
<th>Year</th>
<th>Import Prices</th>
<th>World Trade Openness</th>
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<tbody>
<tr>
<td>1988</td>
<td>106</td>
<td>200</td>
</tr>
<tr>
<td>1992</td>
<td>98</td>
<td>190</td>
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<td>2017</td>
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<td>140</td>
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<tr>
<td>2022</td>
<td>50</td>
<td>130</td>
</tr>
</tbody>
</table>

Sources: ONS, World Bank Development Indicators and Bank calculations.
Chart 7: Pandemic not just about supply of goods: it also boosted demand

Sources: OECD Quarterly National Accounts, IMF World Economic Outlook and Bank calculations.

Chart 8: Inflation in tradable goods prices has been declining for some time

Source: Refinitiv Eikon Datastream, JPM Global PMI index and Bank calculations.
Chart 9: In the UK time series openness and volatility of growth have been negatively correlated

Sources: ONS, Thomas and Dimsdale’s Millennium of UK data (2017) and Bank calculations.
Output volatility is the standard deviation of real UK GDP growth over the previous 10 years.

Chart 10: Domestic prices, including wage costs, have accelerated significantly over the past two years

Sources: ONS, Bank of England and Bank calculations.
The unemployment rate did not increase materially during the pandemic thanks to government support.
Chart 11: Labour market may now be re-normalising

Sources: ONS and Bank calculations.

Chart 12: Deceleration in wholesale core goods prices likely to be reflected in retail goods inflation in coming months

Sources: ONS and Bank calculations.
Chart 13: Shock to real import prices now unwinding

Sources: ONS and Bank calculations.
Dotted line is a projection to the end of 2023 consistent with the MPC’s August 2023 forecast.

Chart 14: Surveys suggest wage growth will weaken

Sources: ONS, Recruitment and Employment Confederation (REC) and Bank calculations.
‘Underlying’ measure of wages removes pandemic-related compositional effects. REC indicator of staff permanent staff salaries is mean-variance adjusted to match wage growth over 2002-19. REC indicator 12-month lag gives best correlation with 12-month wage growth over 2002-19.