UK trade deficit hits a record £27.9 billion fuelled by soaring energy prices

The UK's trade deficit hit a record £27.9 billion in the biggest jump since 1997, fuelled by soaring energy costs after Russia's invasion of Ukraine and the wider effects of inflation.

Imports increased by £14.3 billion to reach £206.6 billion in the second quarter, while exports were up by £12.3 billion to £178.6 billion. The total trade deficit excluding precious metals came in at 4.5% of the UK's gross domestic product (GDP), the value of all the goods and services its economy produces.

Sanctions against Moscow wiped out fuel imports in June, which reached zero, while the total value of monthly imports from Russia fell to the lowest on record at £33 million, down from around around £1.8 billion in January and February, as the impact of the measures bit deeper.

The demise of Russian energy imports meant imports of fuels from the EU in June rose by £400 million, with a £500 million rise in imports from non-EU nations, particularly oil from the US and gas from Norway. But UK exports were also helped by the return of a high volume of gas back to the continent from British storage facilities as European countries replenished their stocks ahead of the winter.

"The continued growth of the UK's trade deficit in goods and services is yet another flashing light for our economic health," said Jack Sirett, Head of Dealing at global financial services firm Ebury.

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Machinery and transport equipment imports from the EU in the second quarter reached £3.4 billion, leading the trend according to the data from the Office for National Statistics and offsetting a rise in exports of chemicals and medicinal and pharmaceutical products to the the EU. The ONS also said jewellery exports fell, notably to Qatar and Switzerland.

Removing the effect of inflation, the total trade deficit, excluding precious metals, narrowed by £2.4 billion to £22.6 billion in the second quarter, the ONS said.

Official data also showed the size of the UK economy shrank in the second quarter as consumers' spending power took a hit from soaring inflation and the cost of living crisis. GDP fell 0.1% in the period, turning around from a 0.7% rise in the previous quarter.

The end of the contribution to the data from the NHS's Test and Trace programme for Covid came as a temporary factor in the numbers, but the with the impact of inflation and the war in Ukraine set to have a longer lasting impact, City commentators were expecting further gloom.

" A downturn in the near future is now all but inevitable and priced in, to an extent, said Ben Seager-Scott, head of multi-asset funds at Evelyn Partners. “But current indications are that it could be relatively mild. However, cooling consumer activity as well as the tough global backdrop could change things pretty quickly, and we have yet to see the impact of the cost-of-living crisis.”