

UK Trade Deficit: no improvement in sight

Over the last five years the UK has been practically in balance on its trade with the world outside the EU, but in substantial deficit with the EU. In the next three years the Treasury sees no improvement in the overall UK deficit with the world.

- The UK current account (i.e. trade) deficit with the whole world, having been practically zero in 1997, increased rapidly in Labour's first term, and remained high thereafter. Between 2003 and 2007 it almost tripled. According to HM Treasury it will shrink somewhat in 2008 to around **£40 billion**, but remain at that level until 2011, despite the significant devaluation of sterling against both the dollar and the euro. *Table 1*

Table 1: UK Current Account Deficit 2003 - 2011

Year	'03	'04	'05	'06	'07	'08	'09	'10	'11
£ bn	18.5	25.0	32.5	45.0	53.0	41.75	41.0	41.5	39.25

Source: 2003 - 2007:ONS: *The Pink Book 2008*;

2008 - 2011: HM Treasury: *2008 Pre-Budget Report*

- Cumulatively, over the period 2003 - 2007, the UK deficit with EU-26 accounted for 95% of the deficit with the whole world. Cumulatively, on its trade with the world outside the EU, the UK has been almost in balance. *Table 2*

Table 2: UK Current Account Balance with EU-26 and Rest Of World

	2003	2004	2005	2006	2007	Cumul. 03 - 07
Balance UK/EU-26 £ bn	(22.1)	(28.8)	(39.5)	(34.7)	(39.6)	(164.7)
Balance UK/Rest of World £ bn	+4.0	+3.6	+6.8	(10.4)	(13.0)	(9.0)
Balance UK/Whole World £ bn	(18.3)	(25.2)	(32.7)	(45.0)	(52.6)	(173.6)
UK-EU 26 Deficit as proportion of UK-World Deficit	120%	114%	121%	77%	75%	95%

- On its trade with EU-26 and the Rest of the World, the UK was in surplus in 2007 in Services & Income, but in deficit in Goods and Transfers. *Table 3*

Table 3: UK Current Account in 2007: £bn

	Goods	Services	Income	Transfers	Total
Exports:-					
To EU-26	128	59	117	10	314
To Rest of World	93	88	169	6	356
Exports to World	221	147	286	16	670
Imports:-					
From EU-26	169	55	114	15	353
From Rest of World	141	51	163	14	369
Imports from World	310	106	277	29	722
Balances:-					
With EU-26	(41)	5	3	(6)	(40)
With Rest of World	(48)	37	6	(8)	(13)
With World	(89)	42	9	(14)	(53)

- In 2007, the biggest single component of UK exports worldwide was receipts of Income (£286 bn), well ahead of exports of Goods (£221 bn). *Table 3*

- In 2007, UK exports of Goods worldwide (£221 bn) accounted for under a third of all its exports worldwide (£670 bn). *Table 3*

- In 2007, UK imports of Goods from the whole world (£310 bn) accounted for 43% of her total imports (all categories) from the whole world (£722 bn) *Table 3*

- In 2007, the UK deficit in trade in Goods worldwide was a **remarkable £89 bn**. The deficit in trade in Goods with Germany alone was £20 bn. For every £100 of goods the UK exported to Germany, it imported from Germany £180 of goods. (Data not shown here but in *The Pink Book 2008*).

Table 4: Balances: Largest Surpluses and Deficits in 2007: £bn

Surpluses	USA	13
	Ireland	10
	Luxembourg	5
	Australia	5
	Switzerland	3
Deficits	Germany	(26)
	China & Hong Kong	(17)
	Norway	(10)
	EU Institutions	(7)
	Netherlands	(6)

- In 2007 the UK was in overall deficit with twenty of its twenty-six EU partners. The biggest deficit in the EU (and the world) was with Germany. The UK's biggest surplus, as usual, was with the USA. *Table 4*

- The UK continues to be a significant exporter of finished manufactured goods. UK exports of oil and oil products accounted for ten per cent of her total goods exports in 2007, (and only three per cent of her total exports of all categories worldwide). **Table 5**

Table 5: Goods Exports by Type in 2007

	£ bn	%
Finished manuf. goods	109	49
Semi-manuf. goods	68	31
Crude oil & oil prods	23	10
Food, drink, tobacco	12	5
Other	9	4
Total	221	100

- Within the Services category in 2007, exports categorized as “financial” accounted for under 30% of all exports of Services **Table 6**

Table 6: Services Exports by Type in 2007

	£ bn	%
Financial	43	29
Other business	41	28
Travel	19	13
Transportation	16	11
Other	29	19
Total	148	100

- Exports (i.e. receipts) of Income in 2007 were weighted – perhaps heavily – to the activities of the City. Analysed by type of investor, banks accounted for 53% of the UK’s total receipts of Income worldwide **Tables 7 & 8**

Table 7: Receipts of Income by Type in 2007

	£ bn	%
Earnings on Direct Investment Abroad	85	30
Earnings on Portfolio Investment Abroad	66	23
Earnings on Other Investments Abroad	134	47
Total	286	100

Notes & Data Sources

1. *The Pink Book 2008, 24.10.08, www.statistics.gov.uk > Virtual Bookshelf > Economy > United Kingdom Balance of Payments > The Pink Book*
2. *2008 Pre-Budget Report, 24.11.08, www.hm-treasury.gov.uk > Pre-Budget Report 2008*
3. Payments to and from supra- and international organisations, and remittances by expatriates, which are included in “Transfers”, are not strictly “Trade”, but a large proportion of them are trade-related (for example, HM Government justifies UK net payments to the EU on the grounds that “the UK needs to be in the EU for trade”).
4. The data above is not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortions (see *Global Britain Briefing Note No 52, “UK plc’s Export Growth is Coming from Outside the EU”, 21st November 2008*)

Table 8: Receipts of Income by Investor in 2007

	£ bn	%
Banks	151	53
Private non-bank companies	133	47
Other	2	-
Total	286	100

Table 9: Receipts of Transfers in 2007

	£ bn	%
From EU Institutions	7	44
From other	9	56
Total	16	100

FOUNDERS:

Lord Stoddart of Swindon (Independent Labour) - Lord Pearson of Rannoch (Independent Conservative)
 Lord Harris of High Cross (1924 - 2006)
 (Cross-Bencher)