

Balance of trade affected by change of accounting

The January trade figures were disappointing, showing a marked fall in exports to the EU which has caused some concerns by those who did not study the figures. The ONS has decided to change the basis for compiling the import and export figures, and by its own admission there was a one off hit to reported exports to the EU by delaying the dates of record.

During the first year after leaving the EU customs union both exports and imports were higher for non EU than EU. In the first half of 2021 we had a welcome balance in total trade, with a strong services surplus offsetting the usual large goods and food deficit. EU trade continued to be in deficit and the rest of the world in surplus. In the second half the trade deficit we were used to in the EU returned, with a total deficit of £24 bn for the six months. The top five imports are vehicles, medicines, gas, non ferrous metals and oil.

The strains on the balance of payments will increase this year given the high oil and gas prices. It underwrites the need to extract more of our own oil and gas. The government has said it has now shifted policy on this and I look forward to the executive decisions being taken to make this a reality. The UK offsets a substantial part of the vehicles deficit by strong exports of UK made vehicles mainly to non EU markets. It will be important to invest in and retain a strong car industry as EVs become more common. It should be a welcome challenge to the UK motor sector to seek to make and sell attractive products to home consumers that can substitute for the high volumes of EU vehicles still coming in.

The balance of payments was still sandbagged in the last quarter of 2021 by a large £5.8bn payment to the EU. One of the big balance of payments wins from Brexit will be the ending of these payments. It is a pity the UK offered such an attractive deal to the EU on payments after exit, as this has slowed down getting the benefits.