

Services in the UK balance of payments

This article, another in a series of explanatory articles designed for the general reader, describes and analyses the contribution of the services account to the UK balance of payments.

- *Since the late 1960s, services have been replacing interest, profits and dividends as the major contributor to the 'invisibles' surplus.*
- *Growth of the services surplus was particularly rapid from 1973 to about 1978, reflecting in part buoyant overseas incomes and trade and sharply improving UK price competitiveness. Financial and 'other' services made a significant contribution to this growth, as did the combined travel and civil aviation surplus up to 1977.*
- *Subsequently, the surplus has risen more moderately, and this slower growth may continue for the next few years.*
- *'Other' services have continued to grow strongly since 1978, but the surplus on travel and civil aviation halved between 1978 and 1980.*
- *The sea transport account has remained, perhaps fortuitously, remarkably close to balance.*
- *In real terms, the surplus has recently been contracting.*

Introduction

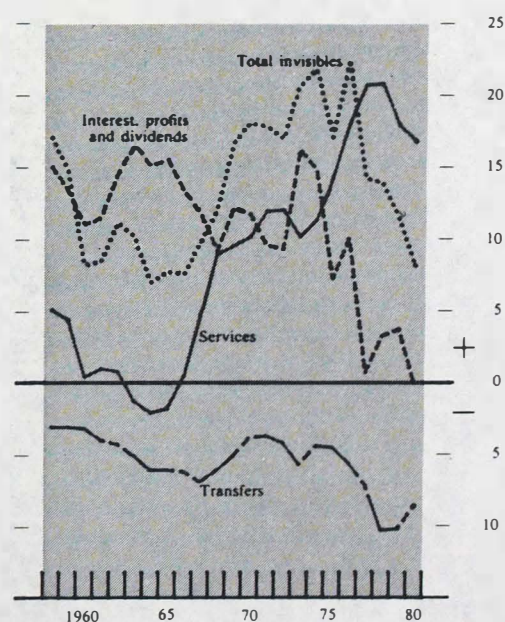
Historically, the current account of the United Kingdom's balance of payments has been characterised by a deficit on visible trade and a surplus on invisibles: indeed, since 1816, there appear to have been only six annual surpluses on visible trade (all of them modest by comparison with the gross figures) and only two deficits on invisibles.⁽¹⁾ Such has been the strength of the invisibles account that, over the same period, there have been only twenty-seven annual deficits on current account—over half of them since the Second World War.

Fully consistent balance of payments statistics have been available only since 1958. Within this more recent period, the invisibles surplus showed remarkable growth from the mid-1960s to the mid-1970s, though there has been some tailing off in the surplus since 1976 (see Chart 1). Until the mid-1970s, the surplus on *interest, profits and dividends* (IPD) each year amounted to some 10%–15% of the average of invisibles credits and debits and was the mainstay of the invisibles account. In 1977, however, this surplus fell sharply and it has not subsequently recovered. The main factor has been the rapid increase in earnings of overseas oil companies operating in the North Sea: in earlier years, heavy exploration expenses meant small profits; more recently, profits have risen rapidly as production has built up.⁽²⁾ *Transfers* have been consistently in deficit, accentuated in recent years by the rise in net government transfers to the

European Community as the transitional arrangements for phasing in the UK contribution came to an end; in 1980, however, the receipt of an advanced payment of budgetary

Chart 1
Components of the invisibles account

Balance as percentage of average trade in invisibles



(1) This excludes the war years 1939–45. For historical data from 1816 to 1938, see B R Mitchell and P Deane, *Abstract of British historical statistics* (Cambridge: Cambridge University Press, 1962), pages 333–35.

(2) To the extent that these profits are not remitted, there are offsetting credits in the capital account.

rebates from the Community, negotiated in May 1980, helped to reverse this deterioration.

Over the past decade as a whole, the most consistent contribution to the surplus on invisibles has come from services. Although the services account appears, historically, to have been in healthy surplus, it had reverted to approximate balance by the mid-1950s and remained so until the mid-1960s; from that point, a surplus re-emerged which subsequently increased sharply, though the growth rate tapered off towards the end of the 1970s. Current estimates put the services surplus in 1980 at as much as £4¼ billion. As a proportion of the average of invisibles credits and debits, the services surplus grew from near zero in 1966 to over 20% in 1977 and 1978, before falling back somewhat in 1979 and 1980. Since the late 1960s, the services account has been replacing IPD as the major contributor to the invisibles surplus (see Chart 1).

The relatively favourable performance of the services sector, even over the past two to three years, when the United Kingdom's competitiveness in international trade has deteriorated, is in contrast to the performance of the other major component of the current account—trade in manufactures. In the mid-1960s, the surplus on such trade represented some 40% of the average of visible exports and imports; by 1970, that proportion had fallen to some 30%, and by 1978 to 15%; in the most recent two years, the proportion has been only some 6% and 12% respectively.

This article reviews some of the key features of the services account, considers the economic factors that may have influenced the account over the past twenty years, and offers some assessment of prospects.

Overview

The services account includes both the provision of services by residents of the United Kingdom to non-residents (credits or exports) and that by non-residents to residents (debits or imports). Table A summarises the contribution made by each major component to the growth of the account over the period 1960–80. The most notable features include:

- The emergence of, and strong growth in, a net surplus on services from the mid-1960s, despite a continued deficit on government services;
- a substantial rise in the net surpluses on financial and 'other' services;
- significant growth in the surplus on travel account until 1977, after which a sharp rise in debits has almost eliminated the surplus;
- the consistent near balance on the sea transport account, despite the large size of credits and debits (which, nevertheless, have declined as a proportion of total services credits and debits).

The last three features are reviewed below. First, however, changes in the overall net surplus are examined with a view to distinguishing the separate contribution of the price and volume components.⁽¹⁾ Between 1970 and 1978, the overall net surplus (the value surplus) rose by some £3¼ billion. Most of this reflected growth in the volume surplus (see Chart 2 and the box on the next page). By contrast, the value surplus grew by only about £½ billion between 1978 and 1980. Without price effects, the contraction of the volume surplus which occurred over that period would have reduced the value surplus substantially: only price effects—mostly the impact of rapidly improving

Table A
Components of the services account

£ millions
Percentage shares in italics

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Credits									
Government	45 3	46 3	51 1	139 2	215 2	241 2	318 3	342 2	397 2
Travel	169 12	193 11	432 13	1,218 15	1,768 17	2,352 20	2,507 20	2,797 19	2,965 19
Civil aviation	96 7	162 9	316 9	780 10	1,049 10	1,203 10	1,455 11	1,755 13	2,210 14
Sea transport	637 45	749 43	1,357 39	2,651 34	3,233 32	3,433 29	3,149 25	3,804 26	3,816 24
Financial and allied(a)	116 8	94 5	439 13	1,025 13	1,302 13	1,391 12	1,542 12	1,601 11	1,595 10
Other	356 25	505 29	849 25	2,054 26	2,672 26	3,224 27	3,671 29	4,206 29	4,826 31
Total credits	1,419	1,749	3,444	7,867	10,239	11,844	12,642	14,505	15,809
Debits									
Government	233 17	315 18	360 12	709 11	882 11	965 11	1,016 11	1,141 11	1,188 10
Travel	186 13	290 16	382 13	917 14	1,068 14	1,186 14	1,549 17	2,109 20	2,757 24
Civil aviation	78 6	134 7	270 9	675 11	840 11	984 11	1,176 13	1,467 14	1,815 15
Sea transport	671 47	748 42	1,437 49	2,568 41	3,161 40	3,350 39	3,167 36	3,683 35	3,681 32
Other	243 17	311 17	514 17	1,479 23	1,845 24	2,105 25	2,023 23	2,066 20	2,180 19
Total debits	1,411	1,798	2,963	6,348	7,796	8,590	8,931	10,466	11,621
Balance									
Government	-188	-269	-309	-570	-667	-724	-698	-799	-791
Travel	-17	-97	50	301	700	1,166	958	688	208
Civil aviation	18	28	46	105	209	219	279	288	395
Sea transport	-34	1	-80	83	72	83	-18	121	135
Financial and allied	116	94	439	1,025	1,302	1,391	1,542	1,601	1,595
Other	113	194	335	575	827	1,119	1,648	2,140	2,646
Balance on all services	8	-49	481	1,519	2,443	3,254	3,711	4,039	4,188

(a) Net of payments overseas.

(1) The price component reflects changes both in the terms of trade (the ratio of export prices to import prices) and in the general level of prices of services, a distinction which is important when the account is not in balance. When the account is in surplus, equal changes in both export and import prices will increase the surplus; this is quite distinct from the effects of any change in the price of exports relative to imports, and is potentially important in a period of general inflation.

terms of trade, reflecting the combination of the appreciation in sterling and the faster rate of growth of prices in the United Kingdom than overseas—kept the value surplus rising.

Data relating to some categories of services are subject to large margins of error and to long-term revision, because they are based on the results of surveys, some of which are carried out only infrequently; indeed, purely notional estimates have occasionally to be used. The distinction between volume and price is even more suspect. 'Although there are some areas where figures for volume exist alongside those for value (thus enabling a constant price series to be produced easily) the most usual case is for value only to be known.'⁽¹⁾ Consequently, the estimates of the value of services and, more particularly, the split between volume and price, where this is used, must be treated with great caution. Data deficiencies are nowhere more serious than in the financial and 'other' services accounts, many of whose components are estimated from infrequent and sometimes very out-of-date surveys. Volume data in this area are particularly suspect.

Price and volume components of changes in the services surplus

In any period, the services balance (*SB*) may be represented as:

$$SB = p_x x - p_m m$$

where p_x and p_m are the prices of exports (x) and imports (m) respectively.

The change in the services balances (ΔSB) may be broken down into price (Δp_c) and volume (Δv_c) components in either of two ways:

$$\Delta p_c = x_0 \Delta p_x - m_0 \Delta p_m \text{ and } \Delta v_c = p_{x_1} \Delta x - p_{m_1} \Delta m \quad (1)$$

$$\Delta p_c = x_1 \Delta p_x - m_1 \Delta p_m \text{ and } \Delta v_c = p_{x_0} \Delta x - p_{m_0} \Delta m \quad (2)$$

In case 1, the price effect is calculated using base period volumes and the change in volumes is valued at current period prices. In case 2, the price effect is calculated using current period volumes and the change in volumes valued at base period prices. Since the two methods give rather different results for the first period, the volume and price components of the total change shown below are taken to be the average of the results from the two methods.

£ billions

	Total change	of which contribution of	
		Volume	Price
1970-78	+3½	+2	+1½
1978-80	+½	-1½	+2½

The boom in financial and 'other' services

Financial services

Financial earnings⁽²⁾ arise, in about equal proportions, from the provision by UK companies of insurance, banking, commodity trading and other merchanting, and brokerage services to overseas residents; a further, but smaller, source is the provision of legal services to overseas clients (see

Chart 2
Price and volume influences on the services surplus

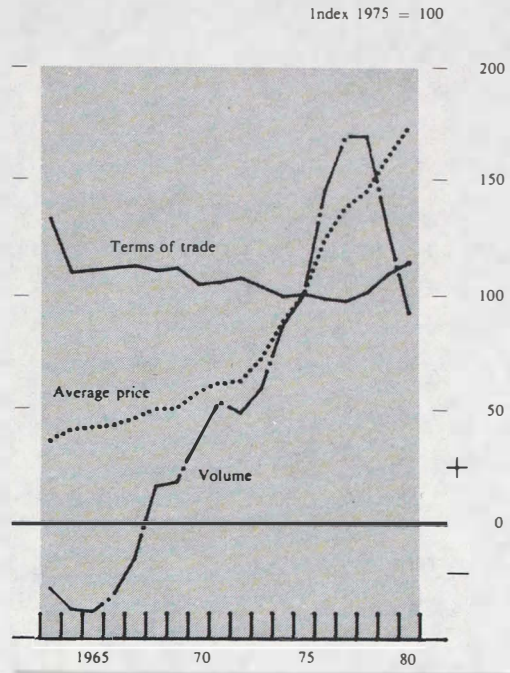


Table B). Total financial earnings are estimated to have increased at an annual average rate of about 14% over the 1970s, though much more slowly towards the end of the period. It seems likely that the real rate of growth was only some 5% a year until 1976 and that real earnings have been falling at about 5% a year on average since then.

Banking earnings consist, in the main, of banking charges and commissions, arbitrage and underwriting commissions, but exclude net receipts of interest earned on external claims and liabilities. At an average 23% a year, their rate of growth over the 1970s was faster than that of other financial earnings (though data for recent years are suspect, because the last survey, on which the estimation procedures are based, was conducted in 1976).

Earnings of the Baltic Exchange, the Stock Exchange, Lloyd's Register of Shipping, and the gold and silver bullion dealers and foreign exchange brokers together make up the brokerage earnings identified in the table. This category includes a wide variety of earnings such as commissions, brokerage, and agency, underwriting, management and registration fees. Receipts rose by about 16% a year on average during the 1970s.

A similar rate of growth was recorded in earnings from commodity trading and other merchanting (although data here are based mainly on infrequent surveys). These receipts comprise: first, the net flows arising from the dealings of all UK residents on foreign commodities futures markets and the dealing of non-residents on UK markets

(1) Central Statistical Office, *United Kingdom Balance of Payments 1981 Edition* (the 'Pink Book'), page 30. The 'Pink Book' contains estimates for all services data, and details the many sources from which the data are derived. Data in this article are consistent with the 1981 edition.

(2) Earnings in this account are net of expenses, and exclude both services rendered by UK head offices to related enterprises overseas (recorded under 'other' services) and profits of related enterprises overseas and receipts of interest and dividends (recorded in the IPD accounts). Thus there are no debit entries for these services in the official statistics.

Table B
Financial and 'other' services
 £ millions

	1970	1975	1976	1977	1978	1979	1980
Financial services(a)							
Insurance	210	323	506	599	643	576	445
Banking	48	177	243	293	312	344	383
Commodity trading and other merchandising	87	299	309	230	295	298	340
Brokerage	85	207	215	233	248	331	366
Solicitors	9	19	29	36	44	52	61
Total	439	1,025	1,302	1,391	1,542	1,601	1,595
'Other' services(a)							
Part I							
Commissions on foreign trade	1	-30	-12	17	69	115	..
Telecommunications and postal services	-6	-26	-26	-24	-10	-84	48
Films and television	12	14	14	42	49	41	43
Inter/intra company royalties and services	38	59	104	47	37	177	254
Advertising and agency expenses	-68	-92	-95	-80	-70	-73	..
Other	36	85	171	167	225	276	386
Total	13	10	156	169	300	452	731
Part II							
Gross construction and consultancy earnings, research and development(b)	173	564	736	950	1,117	1,182	1,240
Gross expenditure by overseas students and journalists(b)	63	177	193	250	275	304	396
Gross expenditure by overseas governments and non-territorial organisations(b)	103	294	344	409	451	562	645
Oil and natural gas services(a)	-17	-470	-602	-659	-495	-360	-366
Total	322	565	671	950	1,348	1,688	1,915
Financial and other services balance	774	1,600	2,129	2,510	3,190	3,741	4,241

.. not available.

(a) Net of payments overseas.

(b) The corresponding debits, which are small, are included in 'other' in Part I.

(these flows include commissions, premiums paid for options and the settlement of differences); and second, the earnings of UK firms from physical trade in commodities and other goods between third countries (commissions on brokerage and agency business and merchandising receipts).

Insurance earnings, which are net of claims and expenses, recorded the slowest rate of growth within financial services, rising on average by only just over 8% a year and actually declining after 1978. In 1980, real insurance earnings were little different from those in 1970.

'Other' services

'Other' services, which include many heterogeneous components, are divided into two groups in the table. Part I comprises those components which, though they may have grown in gross terms, have in net terms contributed relatively little to movements in the services surplus. Part II identifies the accounts which have contributed significantly to movements in the surplus.

Within credits, there has been strong growth in net earnings of building, civil engineering and process engineering contractors and from consultants' fees earned both inside and outside the building and civil engineering industry. Together, these earnings have increased by some 23% a year over the decade and, even in real terms, may have nearly trebled over that period. Although no geographical details are available, it is likely that much of this rapid expansion derives from technical services provided to the governments of oil exporting countries which, after successive oil price rises, have increased their pace of economic development. The fact that most of the real

growth in these earnings has occurred in the latter half of the decade—that is, since the first oil price shock—supports this conclusion.

Expenditure in the United Kingdom by overseas governments (mainly on diplomatic representation in London) and military forces (largely the expenditure in the UK private sector of the US military authorities and their personnel) has grown on average by 20% a year during the 1970s and in real terms has probably nearly doubled. Expenditure of overseas students and journalists has also increased by about 20% a year.

On the debits side of the 'other' services account, there has been little growth except in imports of services for oil and natural gas exploration in the North Sea. Imports of these services grew particularly rapidly in the earlier days of North Sea development between 1973 and 1977, but have levelled off since then. In the early days, exploration was particularly intensive, and the import of such services as the hire of drilling rigs and marine support vessels, consultancies, diving and survey services mounted rapidly. After 1977, as North Sea investment began to decline and the proportion of total services in the North Sea supplied by British companies increased, the volume of payments on North Sea account levelled off. The absence of growth in other services debits means that, by and large, the growth in UK demand for such services has been met from domestic sources.

Influences on credits

As might be expected, both financial and 'other' services credits appear to respond to growth in world incomes

and trade. There is also some evidence that price competitiveness is an influence. Although the scope for substitution between financial centres for some of the specialist financial services and for other services which are specific to the United Kingdom (for example, foreign governments' diplomatic expenditure) is very limited, substitution is possible in the more basic and widely available financial services⁽¹⁾ and in certain other services such as construction. The strong growth in world incomes and trade and, during the world recession of the mid-1970s and after, sharply improving UK price competitiveness, seem to have maintained the growth in the volume of credits in the early part of the decade and up to 1978. Thereafter, with world incomes growing more slowly and with deteriorating UK price competitiveness, volume turned down.

The rise and fall of the travel and civil aviation surplus

On the credits side, the travel services account comprises the personal expenditure of overseas residents in the United Kingdom, and the civil aviation account covers receipts by British airlines from overseas residents and disbursements by overseas airlines in the United Kingdom. Since probably some two thirds of civil aviation receipts represent UK airlines' passenger revenue from overseas visitors to the United Kingdom and overseas airlines' disbursements in the United Kingdom (which in turn would result largely from the carriage of passengers), the travel and civil aviation accounts are clearly closely related. Similar considerations apply to imports, where the travel account represents the personal expenditure of UK residents overseas, and the civil aviation account comprises overseas airlines' receipts from UK residents and disbursements by UK airlines overseas.

The emergence of a substantial surplus on the combined accounts (£1¼ billion by 1977) reflected in part the impact of the much stronger growth in overseas incomes relative to those in the United Kingdom; in addition the sharp rise in import penetration of the UK market will have encouraged business visits to the United Kingdom. Moreover, favourable movements in UK price competitiveness,⁽²⁾ at least until about 1977, increased the attractiveness of the United Kingdom to both domestic and overseas tourists.

After 1977, the position was reversed. Real personal disposable income rose rapidly in the United Kingdom, at least until recently. But the growth in overseas travel by UK residents was even more rapid, primarily because this strong growth in incomes (to which foreign travel by UK residents may be particularly responsive) coincided with a dramatic deterioration in UK price competitiveness. At the same time, the combination of relatively weak growth of world incomes and adverse movements in UK

competitiveness prevented any growth in travel and civil aviation credits in real terms. Although, as noted above, price effects over much of this period worked to offset the impact of the deterioration in net volumes, the combined surplus on travel and civil aviation account was halved between 1977 and 1980.

The stability of net shipping earnings⁽³⁾

Sea transport credits comprise earnings of UK shipping operators in respect of freight receipts from cross trading⁽⁴⁾ and from carrying UK exports, receipts from the chartering out of ships to foreign operators, and passenger receipts collected abroad; they also include disbursements in the United Kingdom by overseas operators. Debits consist of earnings of overseas shipping operators from carrying UK imports and UK passengers; they also include payments to foreign shipping operators by UK operators chartering in foreign ships and disbursements by UK shipping operators abroad.

Despite their gross size (see Table A), net sea transport earnings have tended to remain, in value terms, close to balance over a long period. This is perhaps surprising, for the following two reasons.

First, the market is highly diversified, with three traditional sub-markets:

- Liners operate along pre-determined routes at pre-scheduled times. The majority of liner operators belong to liner 'conferences', which regulate competition in certain areas or along certain routes, mainly by fixing common freight tariffs for all members.
- In the charter market, vessels are chartered by operators for specific periods or for particular voyages. This market is close to perfect since there are many owners and operators and wide knowledge of rates. Consequently, charter rates are more volatile than liner freight rates.
- Tankers form a specialised market: the oil companies satisfy a proportion of their requirements from their own fleets and the remainder from vessels chartered in on time or voyage charter.

Second, there have been significant structural changes over the past decade. Internationally, the slower growth of world trade, the increase in 'flag of convenience' fleets, the efforts within the United Nations Conference on Trade and Development to secure for developing countries the right to carry a larger proportion of their trade in their own fleets, the escalation in oil prices and the world tanker glut, have all made the shipping industry a tougher and more competitive business. The build-up of production from the the North Sea oilfields has had a significant impact on the tanker account.

(1) The growth of the offshore banking centres over the 1970s provides some evidence here.

(2) A measure of UK price competitiveness in this account is the ratio of prices faced by travellers in the United Kingdom to prices faced by travellers overseas.

(3) This section has benefited from consultations with officials of the General Council of British Shipping, whose co-operation is gratefully acknowledged.

(4) Trade between countries other than the United Kingdom.

Table C
Sea transport services

£ millions

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Part I											
Credits:											
UK operators' freight receipts:											
UK exports	194	234	209	247	356	400	477	565	507	524	546
Cross-trades	848	1,023	928	1,215	1,413	1,205	1,527	1,594	1,427	1,812	1,776
UK operators' passenger fare receipts	65	77	88	81	92	122	141	162	170	202	237
	1,107	1,334	1,225	1,543	1,861	1,727	2,145	2,321	2,104	2,538	2,559
Debits:											
UK operators' disbursements and charter payments	1,057	1,260	1,186	1,439	1,862	1,748	2,140	2,268	1,955	2,173	2,116
Balance	50	74	39	104	- 1	- 21	5	53	149	365	443
Part II											
Credits:											
Overseas operators' disbursements	145	174	191	230	293	364	437	500	532	617	672
Debits:											
Overseas operators' freight receipts from UK imports	361	390	475	690	877	766	965	1,030	1,160	1,436	1,477
Overseas operators' passenger fare receipts	19	23	27	31	37	54	56	52	52	74	88
	380	413	502	721	914	820	1,021	1,082	1,212	1,510	1,565
Balance	- 235	- 239	- 311	- 491	- 621	- 456	- 584	- 582	- 680	- 893	- 893
UK operators' charter receipts	105	107	191	282	511	560	651	612	513	649	585
Sea transport balance	- 80	- 58	- 81	- 105	- 111	83	72	83	- 18	121	135

Moreover, within the UK merchant fleet itself, important changes have taken place. In 1970, some 56% of the UK fleet (by gross registered tonnage) comprised tankers, about 20% cargo liners, some 16% bulk carriers (broadly larger dry cargo and ore/bulk/oil carriers) and about 6% tramps (dry cargo vessels not providing a regular service and smaller ore/bulk/oil carriers). By 1980, the proportion of tankers in the UK fleet had risen to about 65%; bulk carriers accounted for 20% of the fleet and the new container vessels for over 4%; cargo liners had fallen to under 7% and tramps to about 2%. The contribution of container vessels, in particular, to net sea transport receipts increased markedly over the decade.

There is some evidence that sea transport credits are influenced by the general level of UK trade and by the size of the UK fleet in relation to that of the world fleet; the relative size of the UK fleet has declined significantly over the past decade from some 11½% in 1970 to about 6½% in 1980, although in absolute terms the decline began only in 1975. The profitability of UK operators may also have some effect, although this is a difficult concept to measure in this account. In addition, freight and charter rates and the sterling exchange rate will tend to have a direct impact on the price, and therefore the value, of sea transport credits, as well as any indirect impact on the volume through their influence on shipping profitability. Probable influences on the debits side are the volume of UK imports, freight and charter rates and the sterling exchange rate.

Changes in sea transport credits may, to some extent, be offset by changes on the debits side of the account, and vice versa. A full treatment of this complex subject would require considerable disaggregation of the account, but the following points stand out.

First, credits include UK operators' earnings from freighting UK exports and cross-trades and from carrying passengers both on ships owned by UK operators and on

ships chartered in by them; debits include UK operators' payments abroad for chartering in ships and their other disbursements abroad. These credit and debit entries arise from roughly the same activities—UK operators carrying freight and passengers in their own ships or in those chartered in. Moreover liners, whose freight rates tend to be relatively stable, provide a large proportion of freight receipts. On the payments side, port charges of all kinds also tend to be fairly stable, although the cost of bunkers has risen dramatically and rates paid on vessels chartered in can be fairly volatile. Thus there is a prior expectation that the growth in these entries on either side of the account may be very broadly in line. The figures (see Table C, Part I) tend to bear out this conclusion: over the 1970s, growth of receipts averaged about 8¾% a year, and growth of debits about 7¼%; receipts and payments remained broadly in balance, at least until the most recent two years.

Second, credits include overseas operators' disbursements in the United Kingdom and debits include payments to overseas operators for freighting UK imports and carrying passengers. Most disbursements by overseas operators in the United Kingdom arise in the course of their freighting of UK trade—both imports and exports. Thus, although overseas operators may sometimes carry exports from the United Kingdom without bringing in imports, one might expect overseas operators' disbursements and freighting payments to overseas operators to grow at roughly the same rate. The figures (see Table C, Part II) seem to support this: receipts grew, on average, at over 16% a year and payments at over 15%. But because in 1970 payments were much larger than receipts, the deficit in this part of the account has been growing by over 14% a year.

The one item which appears to have no offsets is receipts by UK operators from chartering out ships. Most vessels chartered out by UK operators appear to be employed in cross-trading, so that it is not obvious that any debit entry would tend to offset these receipts. In addition, charter

rates, and thus charter receipts, are volatile. Thus it may be fortuitous that charter receipts have risen just sufficiently to approximately offset the mounting deficit in Part II of the table and thus to hold the total sea transport account in rough balance. There appear, therefore, to be no fundamental structural features which will ensure that the account will stay in balance over a long period.

Indeed, the account could move into permanent deficit. Consider, for example, the effects of a continued decline in the UK fleet. Part I of Table C might move into deficit as UK operators' freight receipts were earned less from UK-owned vessels and more from chartered-in vessels, for which charter payments would need to be made. Part II of the account might move more heavily into deficit as credits and debits expanded at roughly the same rate. If UK imports grew further, the deficit might widen even more. Finally, chartering-out receipts might fall as the number of UK vessels available for chartering out declined.

Prospects

The services surplus has, in recent years, come under some pressures, particularly in volume terms. Whether these pressures will persist depends in part on the likely profile of activity in the United Kingdom and the rest of the world and on the path of price competitiveness, as well as on the other special factors outlined above. The likely scale of economic recovery, both world-wide and in the United Kingdom, is currently difficult to assess, but recovery is expected to be slow. In the United Kingdom, real personal disposable income has come under some pressure, and 'effective' competitiveness⁽¹⁾ has been deteriorating for some time. Overall, the value surplus may grow relatively slowly over the next two to three years. Any growth is likely to arise more from the impact of a strongly rising average price of services on an account which is already in surplus than from much improvement in the real surplus.

(1) 'Effective' competitiveness is a measure of competitiveness which takes account of the lagged feedthrough of current competitiveness into the account.