

Article

The impacts of EU exit and coronavirus (COVID-19) on UK trade in services: July 2021

An analysis of UK trade in services in the context of the ongoing coronavirus (COVID-19) pandemic and the end of the EU transition period on 31 December 2020.

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1 . Main points

- UK service exports and imports have declined since Quarter 1 (January to March) 2019, with trade with EU countries falling more than trade with non-EU countries.
- The share of total service imports from EU countries fell by around 9.0% to 37.9% in the two years to Quarter 1 2021, while the share of total service exports fell by around 1.3% to 36.5% over the same period.
- The proportion of businesses citing coronavirus (COVID-19) as a challenge increased in mid-2021 compared to the beginning of 2021, while the proportion citing EU exit fell over the same period; this is also reflected in the results of the International Trade in Services Survey, which suggests coronavirus had a bigger impact on falling trade in services.
- Service types that are reliant on the movement of people, such as travel, transportation, manufacturing, maintenance and repair, and construction were impacted most by the coronavirus pandemic.
- Exports of legal, accounting and management services to non-EU countries increased in Quarter 1 2021 when compared with Quarter 1 2019, driven by trade with the United States, while exports to the EU fell over the same period.
- EU imports of financial services fell to 25.3% of world total financial services in Quarter 1 2021 compared with Quarter 1 2019, while the composition of exports remained stable.

2 . Exports and imports of services

Across 2020 and into early 2021 there has been a noticeable change in UK trade, much of which is likely to be due to the fall in world trade and disruption to global supply chains as a result of the coronavirus pandemic and global recession. There may also be some impact from EU exit and related uncertainty, although it should be noted that these are only initial post-transition period estimates; it is too early for any conclusions to be reached about longer term trends or impacts.

Previous articles showed [trade in services has been severely impacted by the pandemic](#) with imports and exports seeing large falls driven by lockdown restrictions. Compared with Quarter 1 (January to March) 2019, imports and exports fell 24.2% and 11.7% respectively. While it is difficult to fully disentangle the impacts of EU exit and coronavirus, we can look at official estimates and draw upon a range of business indicators to analyse movements at a more disaggregated level.

For most of the official estimates analysis, 2021 comparisons are made with the equivalent 2019 quarter. Unlike trade in goods, which was impacted by previous EU exit dates and/or commodity stockpiling, 2019 was a relatively stable trade pattern for services data and we advise users to make comparisons with this year.

Figure 1: UK service exports and imports have declined since pre-coronavirus pandemic Quarter 1 2019, with trade with the EU countries falling more so than trade with non-EU countries

Exports and imports of services, world, EU, and non-EU, Quarter 1 (January to March) 2017 to Quarter 1 (January to March) 2021

Download the data

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In Quarter 1 2021, total service exports decreased by 11.7% compared with pre-pandemic levels in Quarter 1 2019, with imports decreasing by 24.2% over the same period. Exports to and imports from the EU have experienced larger declines in trade compared with non-EU countries, with service exports to EU countries having decreased by 14.7% and imports by 38.8% in Quarter 1 2021 compared with Quarter 1 2019. Compared with the same period, services trade with non-EU countries experienced declines to a much lesser degree, with exports to non-EU countries having declined by 9.9% and imports by 11.3%.

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New questions have recently been added to the Business Insights and Conditions Survey (BICS) to focus specifically on trade in services. These questions provide some evidence that businesses conducting international trade in services have experienced challenges exporting and importing because of both the coronavirus pandemic and the end of the EU transition period, although we advise caution on interpreting trends with only two data periods currently available and a low sample size.

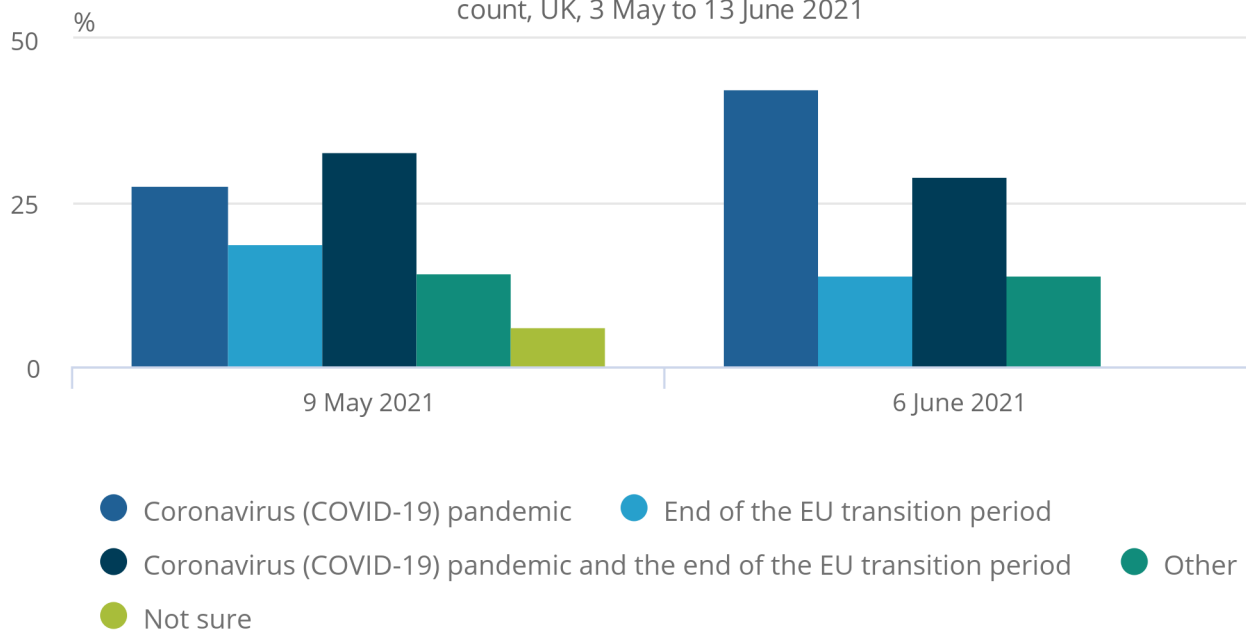
Figure 2 shows the proportion of businesses reporting coronavirus as a main cause of changes in international trade increased from 27.6% to 42.5% between early May 2021 and early June 2021. In the same period, the proportion of businesses citing EU exit as a main cause slightly fell from 18.8% to 13.9%. This could indicate some of the larger declines in international trade in services with EU countries may be linked to the third wave of COVID-19.

Figure 2: The proportion of businesses reporting the coronavirus pandemic as the main cause of changes in their international trade in services increased between early May and early June 2021

Percentage of businesses not permanently stopped trading and who have internationally traded in services in the last 12 months and whose trade in services is different to normal, weighted by count, UK, 3 May to 13 June 2021

Figure 2: The proportion of businesses reporting the coronavirus pandemic as the main cause of changes in their international trade in services increased between early May and early June 2021

Percentage of businesses not permanently stopped trading and who have internationally traded in services in the last 12 months and whose trade in services is different to normal, weighted by count, UK, 3 May to 13 June 2021



Source: Office for National Statistics – Business Insights and Conditions Survey

Notes:

1. Responses to the BICS question: ‘What was the main reason for this change in international trade in services?’
2. Businesses which have not permanently stopped trading, have traded internationally in the last 12 months, and whose international trade in services is different to normal.
3. Caution should be taken when interpreting these results as only a small number of businesses responded.

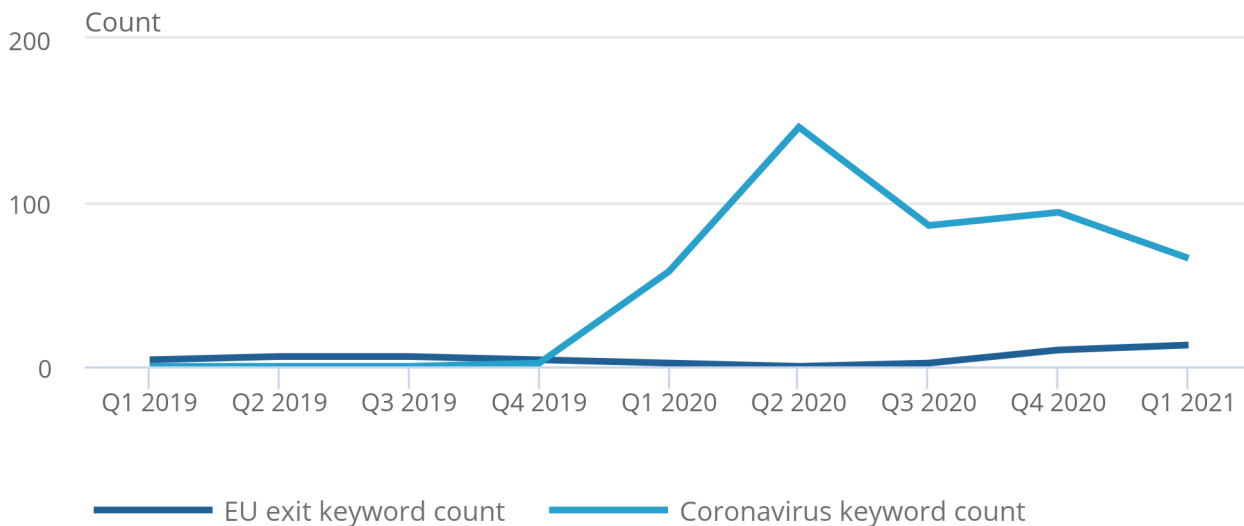
Additional indications are available from respondents to the quarterly International Trade in Services (ITIS) Survey. Respondents often provide commentary detailing the reasons for changes in their reported trade. These comments may highlight the level of impact that the coronavirus pandemic and EU exit have had on trade in services. Comments suggest that the coronavirus pandemic is most noticeably impacting services products such as intellectual property, telecommunications and computer services, accountancy, construction, and heritage and recreational services. Respondents commenting on EU exit largely reported seeing a detrimental impact in business because of either having to restructure or relocate aspects of the business to other European countries. These were most noticeable from responders in financial and computer services.

Figure 3: Respondents to the quarterly International Trade in Services Survey comment on coronavirus to a much greater extent than EU exit

International Trade in Services Survey count of respondent comments by key words, Quarter 1 (January to March) 2019 to Quarter 1 (January to March) 2021

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International Trade in Services Survey count of respondent comments by key words, Quarter 1 (January to March) 2019 to Quarter 1 (January to March) 2021



Source: Office for National Statistics- International Trade in Services Survey

The coronavirus pandemic led to significant changes in UK trade in services, with national lockdowns imposing travel restrictions on businesses. Furthermore, the end of the EU transition period on 31 December 2020 also brought about new requirements for visa and work permits, which may impact business travel to EU countries.

Reduced international travel is likely to have had a major impact on UK businesses’ ability to trade in services. According to [modes of supply data from 2019](#) some service types are reliant on movement of people to be able to trade (modes 2 and 4), including manufacturing, maintenance and repair, and construction services, as well as transport and travel services. However, other service types conduct large amounts of trade remotely and do not involve physical movement of people across borders (mode 1), such as insurance and pension services, financial services, other business services, and intellectual property services.

Figure 4 shows that total exports of insurance and pension services, financial services, and other business services where trading via mode 1 is prevalent, 90%, 86% and 84% respectively, have seen net increases of exports in Quarter 1 2021 compared with Quarter 1 2019. Although exports of intellectual property services are also largely exported via mode 1 there is a decline over the same period, suggesting an overall fall in demand for intellectual property services over this period, particularly from non-EU countries.

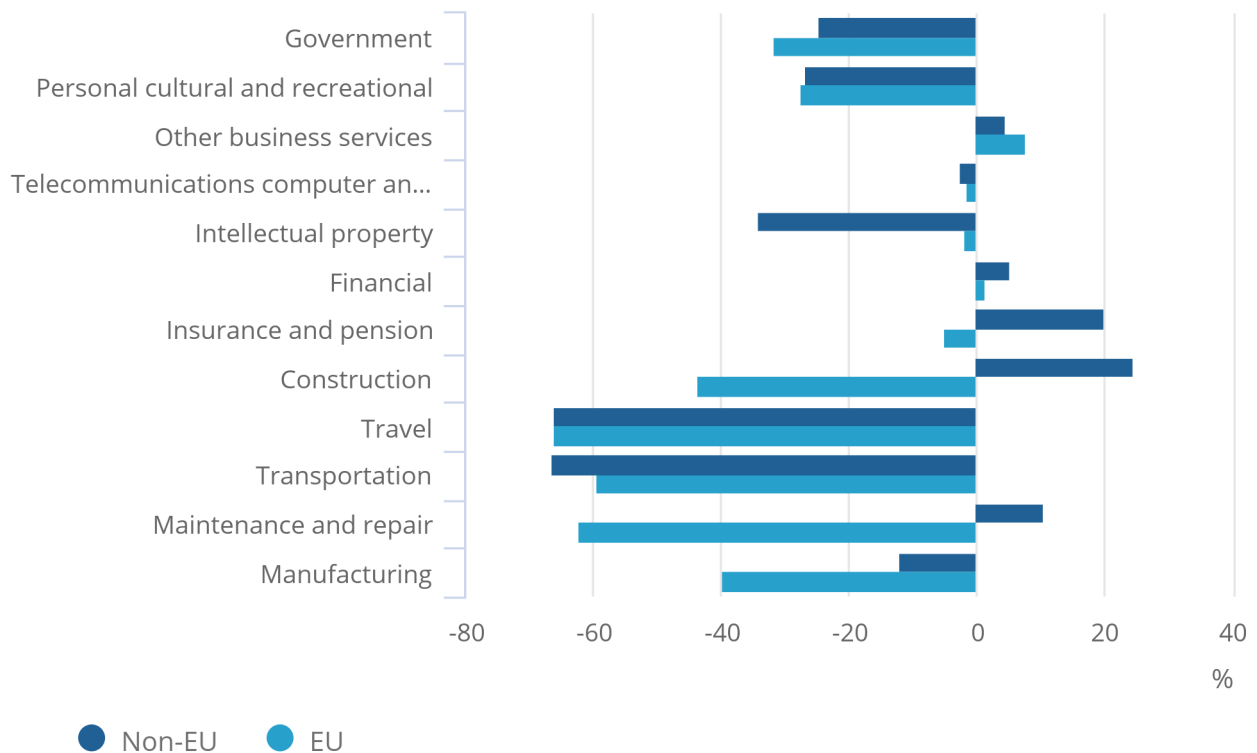
Furthermore, exports of insurance and pension services to the EU have showed a decline, suggesting other factors are having more of an impact. Exports of services with very high levels of trade conducted via the movement of people such as manufacturing (62%), maintenance and repair (62%), and construction services (72%) have seen overall declines over the same period. Similarly, imports of other business services have increased over this period, with 2019 estimates suggesting a high level of mode 1 trade (71%). Imports of financial services have, however, declined over this period despite having a high level of mode 1 trade (78%), suggesting factors other than the pandemic have impacted import of these services, possibly including factors around EU exit.

Figure 4: Exports of travel and transport services make up a much smaller composition of UK services trade in Quarter 1 2021 compared with Quarter 1 2019

The change in composition of UK exports of services, Quarter 1 (January to March) 2019 and Quarter 1 (January to March) 2021

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The change in composition of UK exports of services, Quarter 1 (January to March) 2019 and Quarter 1 (January to March) 2021



Source: Office for National Statistics - UK trade in services: service type by partner country, non-seasonally adjusted

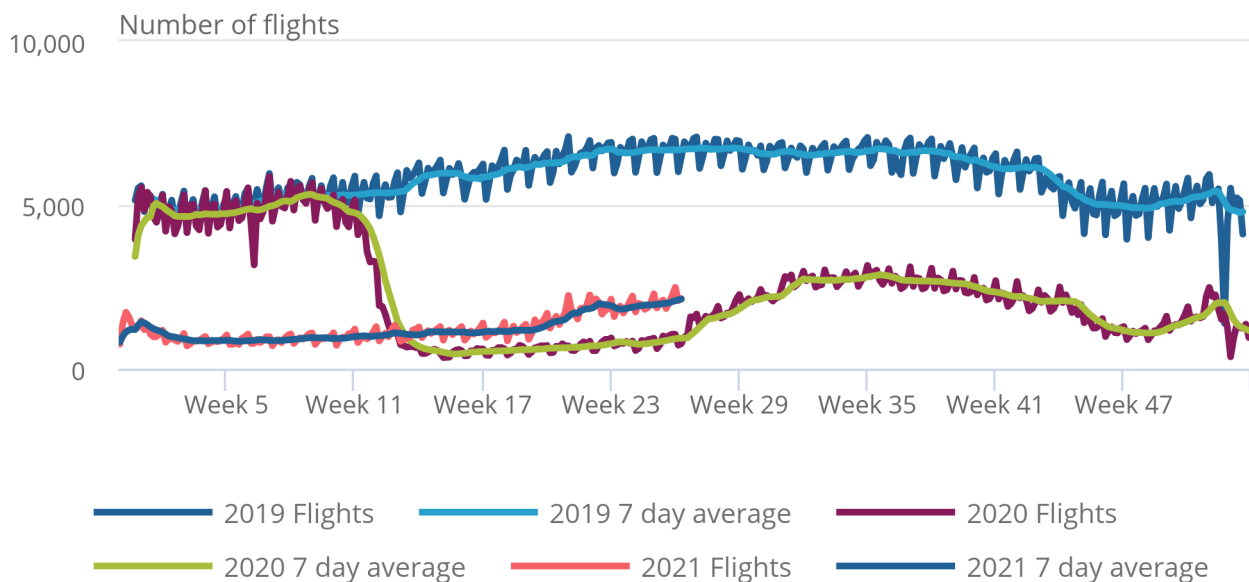
Figure 4 also shows travel services have experienced some of the highest falls in exports to both EU and non-EU countries between Quarter 1 2019 and Quarter 1 2021. This is likely an impact of the coronavirus pandemic, with data from the European Organisation for the Safety of Air Navigation on the number of flights from, to and within the UK showing that in 2019 the total number of flights ranged from approximately 5,000 to 6,500 per day between the quieter and busier months. However, when the first national lockdown was announced in the UK (23 March 2020), the total number of flights fell to a low of 500 flights per day during the start of April 2020. The total number of flights increased over different points of the year in 2020 and 2021, but this recovery has been hampered by subsequent lockdowns and restrictions on travel.

Figure 5: The total number of flights from, to and within the UK, has not recovered to pre-pandemic levels

Number of daily flights, non-seasonally adjusted, and seven-day moving average

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Number of daily flights, non-seasonally adjusted, and seven-day moving average



Source: European Organisation for the Safety of Air Navigation (EUROCONTROL)

Notes:

1. The fall in February 2020 coincides with storm Ciara.
2. The falls in December and January coincide with Christmas Eve, Christmas Day, New Year's Eve and New Year's Day.

3 . Trade in services with EU countries

Changes to the EU and non-EU composition of exports and imports of services are evident, with the composition of exports to EU countries having declined by 1.3% in Quarter 1 (January to March) 2021 to 36.5% of total service exports since Quarter 1 2019, and imports declining by 9.0% to 37.9% of total service imports.

While coronavirus (COVID-19) appears to have had the greatest impact on reduced level of trade in services, the end of the EU transition period brought about important changes to trade regulations governing trade in services between the UK and the EU. Following the end of the transition period on 31 December 2020, new rules have been introduced governing the UK's relationship with the EU. The agreed rules, known as core commitments, are outlined in the [EU-UK Trade and Cooperation Agreement \(TCA\)](#), which allow firms from both parties to sell services to and invest in each other without discrimination. However, reservations give EU members the reserved right not to follow the core commitments, which may contribute to the observed changes to international trade in services.

Figure 6: The share of UK service exports and imports to EU countries was at its lowest level in Quarter 1 2021 since Quarter 1 2016

UK service exports and imports to EU and non-EU countries as a percentage share of total UK service exports and imports, Quarter 1 (January to March) 2016 to Quarter 1 (January to March) 2021

Download the data

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In terms of business travel, workers may require visas or work permits when travelling to the EU for certain business purposes, for which there are [specific rules](#). The impact of this requirement is, however, likely to be masked by coronavirus-related travel restrictions, meaning the real impact of this rule change may not become evident for some time.

Workers must also ensure that their professional qualifications are recognised in EU member states where they wish to operate and must currently be negotiated on a country-by-country and profession-specific basis. Some of the services impacted by this change include legal, accounting, engineering and architectural services. However, the impact of this could be temporary since a mechanism is in place through which the UK and EU may agree ways to recognise professional qualifications, as mentioned in the [summary of the UK's new relationship with the EU](#).

In comparison with Quarter 1 2019, exports of legal, accounting and management services to EU countries decreased £0.04 billion (1.3%) in Quarter 1 2021 while exports to non-EU countries increased £1.7 billion (34.6%) over the same period. During this time, exports to the United States increased £1.2 billion; the [large proportion of services with the United States traded remotely](#) is likely to be an important contributing factor to the limited impact on exports of services to the United States.

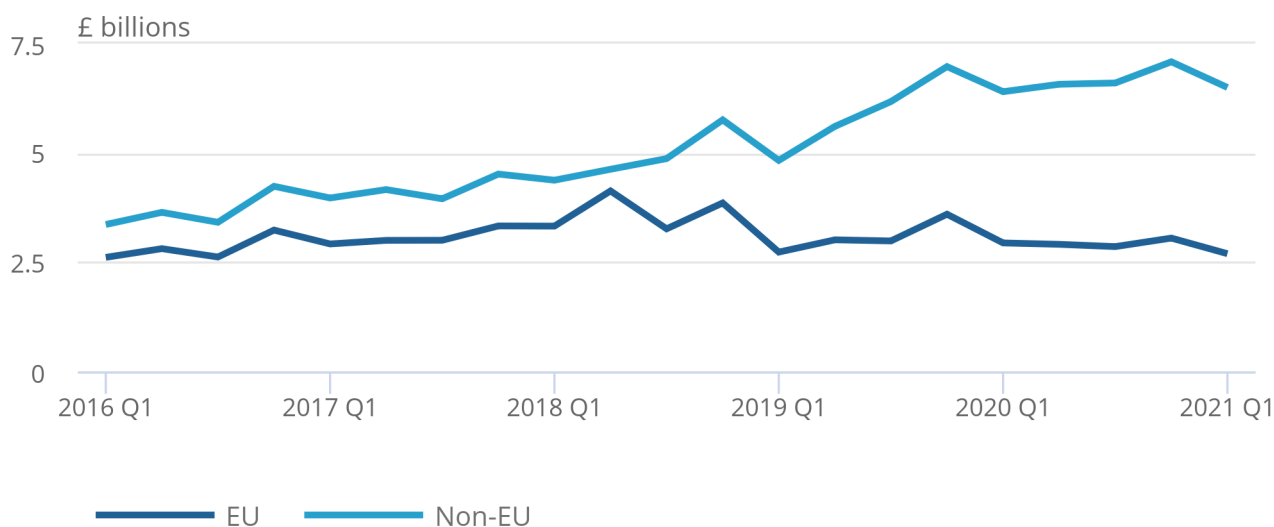
Exports of architectural, engineering, scientific and other technical services to EU countries increased £0.05 billion (9.8%) between Quarter 1 2019 and Quarter 1 2021 while exports to non-EU countries decreased £0.7 billion (27.5%) over the same period.

Figure 7: Non-EU exports of legal, accounting, management, consulting and public relations increased by £1.7 billion (34.6%) in Quarter 1 2021 compared with Quarter 1 2019

Exports of legal, accounting, management consulting and public relations services, Quarter 1 (January to March) 2016 to Quarter 1 (January to March) 2021

Figure 7: Non-EU exports of legal, accounting, management, consulting and public relations increased by £1.7 billion (34.6%) in Quarter 1 2021 compared with Quarter 1 2019

Exports of legal, accounting, management consulting and public relations services, Quarter 1 (January to March) 2016 to Quarter 1 (January to March) 2021



Source: Office for National Statistics - UK trade in services: service type by partner country, non-seasonally adjusted

Financial services have seen growth in exports to EU countries of £0.08 billion (1.4%) and a reduction in imports from EU countries by £0.57 billion (35.2%) in Quarter 1 2021 compared with Quarter 1 2019. This has resulted in a 10.4% decline in EU composition of the world total of financial services imports to 25.3% in Quarter 1 2021 compared with Quarter 1 2019, whereas for exports the composition of EU and non-EU countries to the world total has remained relatively stable since Quarter 1 2016.

As part of the TCA, administrative barriers and limitations faced by EU and UK investors, service suppliers and business travellers are kept to a minimum. This may encourage trade in services and may have contributed to the growth in financial services exports to the EU. The agreement also prohibits new barriers to trade and investment from being introduced, providing confidence for the industry. However, reservations, being the reserved right EU member states hold to not follow these commitments, could result in disruption.

However, reservations, being the reserved right EU member states hold to not follow these commitments, could have resulted in disruption. This, alongside the fact that a specific financial services deal has yet to be agreed, may explain the decline in imports of financial services from the EU.

The downward movement in EU imports of financial services can be largely attributed to explicitly charged and other financial services, where EU imports have decreased by £0.6 billion in Quarter 1 2021 compared with Quarter 1 2019. Downward movement in the value of imports of explicitly charged and other financial services has occurred in large EU trading partners to the UK such as France, Ireland and the Netherlands, as shown in Figure 8. However, this downward movement is not consistent across main partner countries and has been somewhat offset by other European partner countries, including Germany and Switzerland, which saw small increases in Quarter 1 2021 compared with Quarter 1 2019.

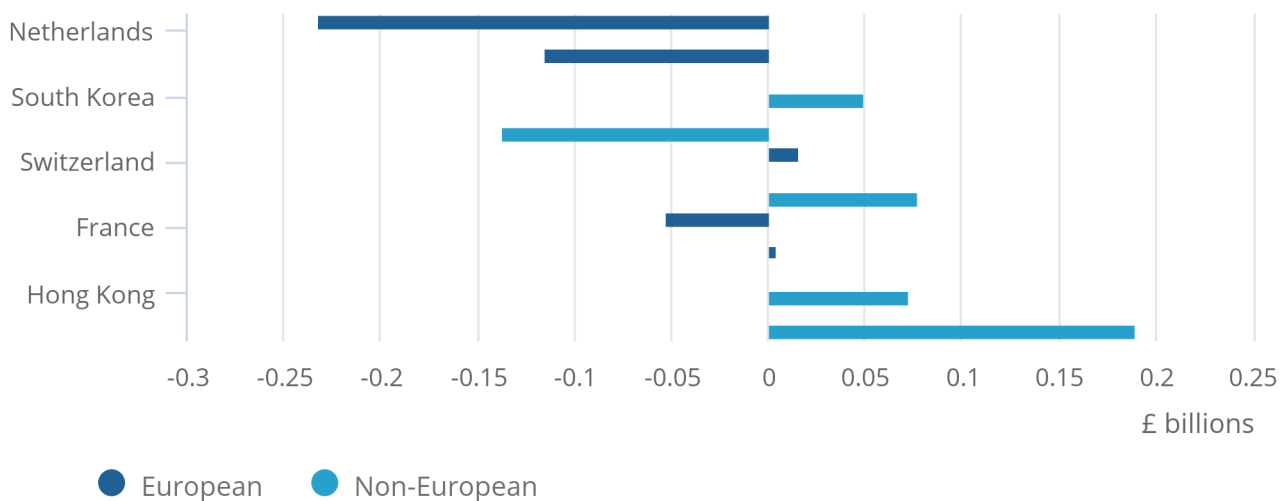
There are also indications of a shift in the contribution of EU and non-EU partner countries to imports of financial services, with the non-EU contribution to the world total having increased to 74.7% (10.4%) in Quarter 1 2021 compared with Quarter 1 2019. While the United States remains the UK's largest non-EU trading partner for imports of financial services, the increase in non-EU contribution is in line with the UK's long-term ambition to [strengthen ties with fast-growing markets in the East](#), with imports of explicitly charged and other financial services from large non-EU partner countries, such as Singapore and South Korea, having increased by £0.078 billion (120%) and £0.050 billion (263%) respectively in Quarter 1 2021 compared with Quarter 1 2019, with upward growth also present for exports.

Figure 8: Imports of explicitly charged and other financial services declined in value for most of the UK's top five European trading partners in Quarter 1 2021

Imports of explicitly charged and other financial services from top five European and non-European trading partners in Quarter 1 (January to March) 2021 compared with Quarter 1 (January to March) 2019

Figure 8: Imports of explicitly charged and other financial services declined in value for most of the UK's top five European trading partners in Quarter 1 2021

Imports of explicitly charged and other financial services from top five European and non-European trading partners in Quarter 1 (January to March) 2021 compared with Quarter 1 (January to March) 2019



Source: Office for National Statistics - UK trade in services: service type by partner country, non-seasonally adjusted

With regard to transportation services, the UK and EU agreed that goods can be imported and exported tariff and quota free if the “Rules of Origin” requirements are met, although ensuring that requirements are met could cause delays. Additionally, road hauliers are permitted to continue to move goods to and throughout the EU without permits, although specialist approval is required for transporting dangerous and perishable goods, and goods in sealed load compartments. There are also additional rules requiring commercial trailers weighing over 750 kilogrammes and non-commercial trailers weighing over 3,500 kilogrammes to register to drive through most EU states.

[The Bank of England's \(BoE\) Agent's summary of business conditions](#) provides additional evidence on the impact on transportation services of rule changes. During Quarter 1 2021, contacts reported increasing freight costs and expected that they would further rise with the implementation of new rules. Contacts also reported that non-tariff barriers imposed by the new trading agreement have impacted output growth. These increasing costs are reflected in the [Services Producer Price Indices \(SPPI\)](#), with the transportation and storage service group seeing the largest price growth of 2.3% between Quarter 1 and Quarter 2 (April to June) 2021. The annual growth rate for the service group, which includes road freight, is the highest on record. However, [the BoE's more recent summary of Quarter 2 2021](#) implied that businesses were adjusting to the new rules, with contacts reporting that EU exit-related costs were stabilising.

This article reports the impacts of coronavirus and the end of the transition period on UK trade in services. We have seen imports and exports of services show a marked decline since the beginning of the pandemic, with trade with EU countries showing greater declines than trade with non-EU countries. While these early indications suggest coronavirus and the UK's exit from the EU have changed the composition of UK trade in services, we will continue to monitor long-term trends.

4 . Glossary

BICS

Business Insights and Conditions Survey.

Exports

Goods or services sold to other countries – the opposite of imports.

Imports

Purchases of foreign goods and services – the opposite of exports.

Total trade

The value of total trade between two trading partners (that is, exports plus imports).

Coronavirus

Coronaviruses are a family of viruses that cause disease in people and animals. They can cause the common cold or more severe diseases, such as COVID-19.

COVID-19

COVID-19 is the name used to refer to the disease caused by the SARS-CoV-2 virus, which is a type of coronavirus. The Office for National Statistics (ONS) takes COVID-19 to mean presence of SARS-CoV-2 with or without symptoms.

EU exit transition period

The EU exit transition is the period agreed in the UK-EU Withdrawal Agreement in which the UK is no longer a member of the EU but continues to be subject to EU rules and remains a member of the single market and customs union. When the UK left the EU on 31 January 2020, it entered the transition period. The transition period came to an end on 31 December 2020.

5 . Data sources and quality

This article presents UK trade data analysis for [trade in services for Quarter 1 \(January to March\) 2021](#), reflecting the most up-to-date trade in services data that are available. It also includes evidence from businesses responding to the [Business Insights and Conditions Survey \(BICS\)](#), which is designed to capture economic-based information from businesses who are currently trading. BICS provides a useful insight into some of the underlying causes of the movements in trade outlined in this article regarding the impact of the coronavirus (COVID-19) pandemic. Recent high-level information on UK trade is also published monthly in our [Trade bulletin](#).

It is worth noting that UK trade has seen challenges with data collection because of social distancing measures as a result of the coronavirus. These have largely impacted both the International Trade in Services (ITIS) Survey and the International Passenger Survey (IPS). Further detail on the challenges and the measures we have taken can be found in Section 11 of the [UK trade release](#) published 12 November 2020.

UK trade data unless stated are in current prices, meaning they have not been adjusted to remove the effects of inflation. Trade in services data are presented on a non-seasonally adjusted basis.

More quality and methodology information on strengths, limitations, appropriate uses, and how the data were created is available in the [UK trade QMI](#).

6 . Related links

[Impacts of the coronavirus on UK trade: July 2020](#)

Article | Released 8 July 2020

The impacts of coronavirus (COVID-19) on UK trade, with a focus on trade in goods.

[Impacts of the coronavirus on UK trade: December 2020](#)

Article | Released 2 December 2020

The impacts of coronavirus (COVID-19) on UK trade, with a focus on trade in services for Quarter 2 (Apr to June) 2020 and trade in goods for Quarter 3 (July to Sept) 2020.

[Impacts of the coronavirus and EU exit on UK trade in goods](#)

Article | Released 25 May 2021

An analysis of UK trade in goods in the context of the ongoing coronavirus pandemic and the end of the EU transition period on 31 December 2020.

