**UK current account deficit shrinks**

***By Sarah O’Connor, Economics Reporter – Financial Times Oct 2011***

The UK current account deficit [shrank sharply in the second quarter](http://www.ons.gov.uk/ons/rel/bop/balance-of-payments/2nd-quarter-2011/index.html) to its lowest level in three years as investment income increased, offering a rare piece of good news on the state of the economy.

The deficit in the current account – the difference between everything the UK spends abroad and everything those abroad spend in the UK – fell to £2bn from £4.1bn in the first quarter. This surprised economists, who were expecting a much bigger deficit. In addition, that first quarter figure was revised down from an initial estimate of £9.4bn.

An increase in the investment surplus drove the improvement in the deficit between the first and second quarters, rather than an improvement in the trade deficit. However, as a result of a broad set of revisions to the data, the trade deficit also looks significantly healthier than it did.

Economists said the data suggested the gradual process of economic rebalancing towards higher exports was more advanced than previously thought. However, some were cautious about whether this could continue. “It seems likely that the surplus on the net income account will be pressurised by markedly slower global growth,” Howard Archer at IHS Global Insight said.

The surplus on direct investment income rose by £1.6bn to £17.1bn in the second quarter. In addition, portfolio investment income recorded a smaller deficit, as UK earnings on portfolio investment abroad increased by £2.1bn.

Meanwhile, the surplus on the trade in services (as opposed to goods) rose to a record £17.8bn. Rising exports of services were driven by business and travel services along with financial services. Blerina Uruci at Barclays Capital pointed out that this cut against UK policymakers’ desire to see more exports of manufactured goods. “With trade in services picking up significantly, the hope that the UK economy would rebalance towards an exporting manufacturing sector is looking increasingly forlorn.”