Box 5

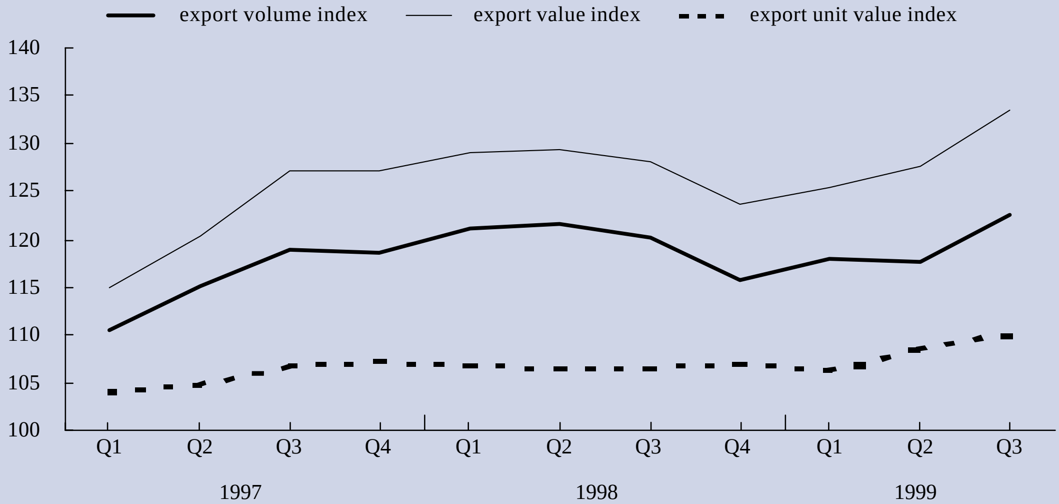
Strong recovery in export volumes

More detailed data on trade volumes and unit values for the first eight months of 1999 point to a strong ongoing recovery in export volumes of goods. Despite this improvement, the current account surplus of the euro area fell by one-quarter during the first 11 months of 1999 compared with the corresponding period of 1998, primarily owing to a €17 billion decrease in the goods surplus. Two major factors contributed to the decline in the goods surplus: first, the low level of export values during the first half of 1999, primarily owing to the "carry-over" effects of the steep decline in foreign demand in 1998; and, second, the strong growth in import prices resulting from the higher price of oil and the change in the exchange rate of the euro.

Following a strong increase in 1997, during the second half of 1998 euro area exports fell as a result of both declining external demand and a loss in price competitiveness associated with the appreciation of the euro. Exports began to recover at the start of 1999, reaching their previous peak in the third quarter of last year, in response to renewed growth in foreign demand and gains in export price competitiveness resulting from the change in the euro exchange rate. As the chart below shows, the decrease and subsequent recovery in export values was primarily a result of movements in export volumes, although higher export prices during 1999 – suggesting that euro area exporters increased their profit margins somewhat – also played a role.

Euro area export volumes, values and unit values in levels

(index: 1995 = 100; seasonally adjusted)

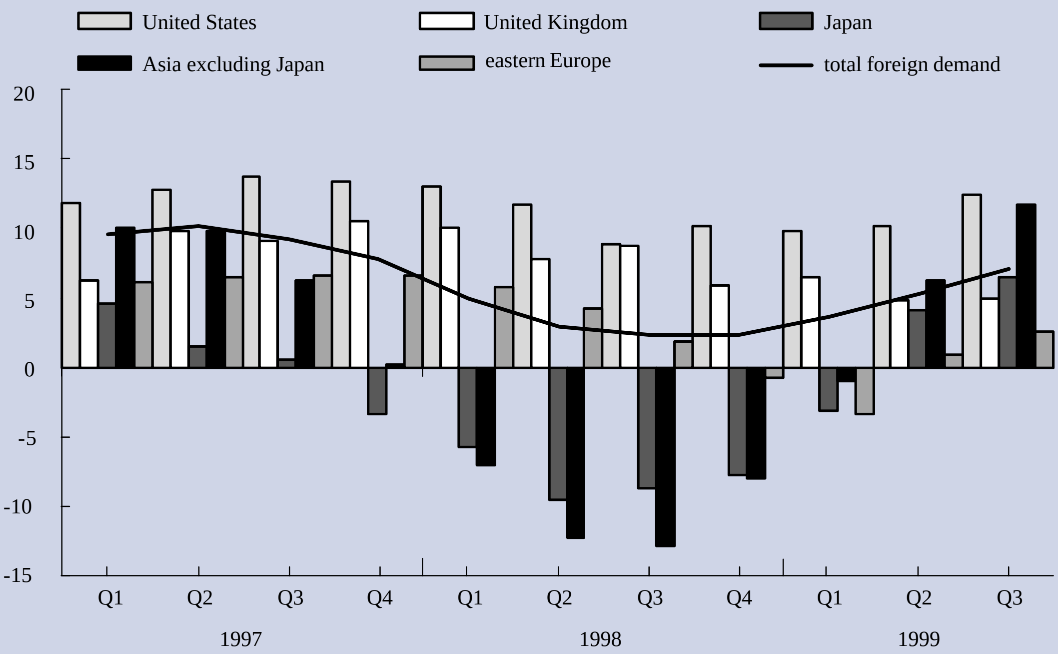


Sources: Eurostat and ECB.
Note: Indices are based on international trade statistics data, which differ from the balance of payments statistics compiled by the ECB; data for the third quarter of 1999 are based on data for July and August.

Movements in foreign demand, defined as a weighted average of the import volumes of the euro area's main export markets, are shown in the first chart below. According to these data the strong negative growth rates for import demand in Japan and the rest of Asia, together with a deceleration in import growth in the United Kingdom, the United States and eastern Europe, appear to explain a large part of the decline in foreign demand in 1998. Similarly, both the rebound in demand in most of these regions, particularly Asia including Japan, and continued robust import growth in the United States would seem to be associated with the recovery in euro area exports in 1999. Although the United Kingdom is the largest market, accounting for 19.3% of the exports of the euro area, Asia including Japan accounts for 18.3%, followed by the United States (14%) and the transition economies of eastern Europe (13.5%).

Annual growth rate of import volumes of the major euro area export markets [1)]

(year-on-year growth rate)

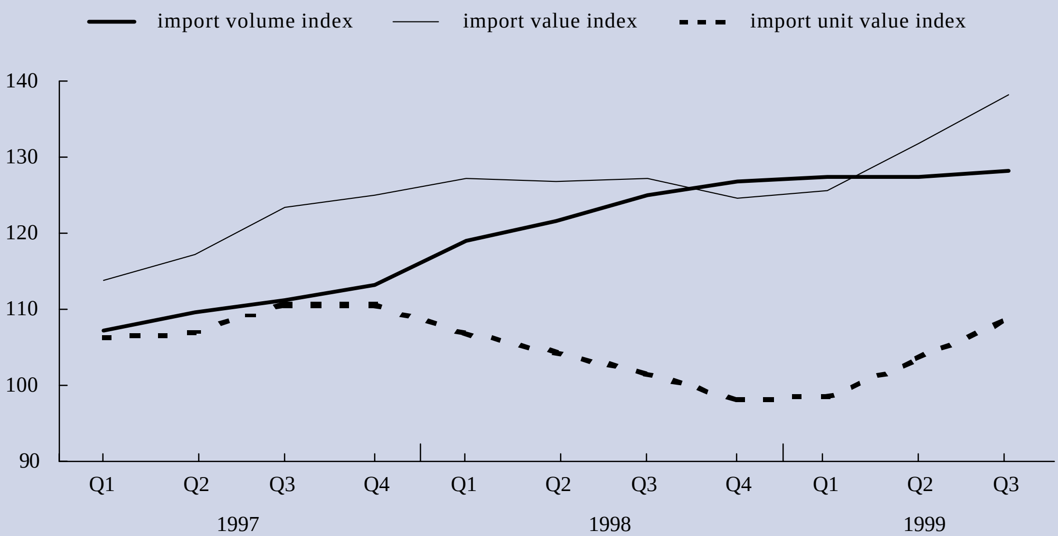


Sources: OECD and IMF (estimates for the third quarter of 1999).
1) Year-on-year percentage changes.

On the imports side, the virtually constant level of imports (in value terms) in 1998 resulted from a combination of substantially higher import volumes and a large fall in import prices (see the chart below). By contrast, during the first three quarters of 1999 the sustained rise in import prices, owing to higher oil prices and the change in the euro exchange rate, explains the high level of imports in value terms, given that import volumes remained flat.

Euro area import volumes, values and unit values in levels

(index: 1995 = 100; seasonally adjusted)



Sources: Eurostat and ECB.
Note: Indices are based on international trade statistics data, which differ from the balance of payments statistics compiled by the ECB; data for the third quarter of 1999 are based on data for July and August.