

Box 6

RECENT DEVELOPMENTS IN EXTRA-EURO AREA TRADE VOLUMES AND PRICES

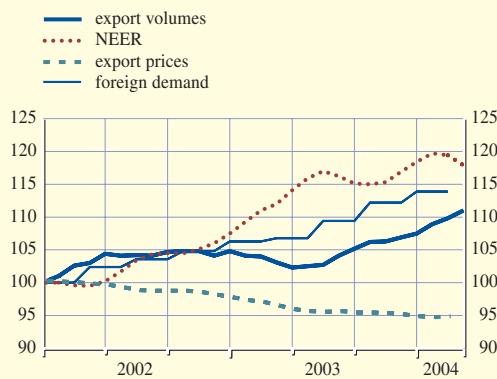
According to Eurostat's external trade statistics, extra-euro area export volumes have grown significantly since the second half of 2003, despite the loss in price competitiveness arising from the past appreciation of the euro. Exports have benefited from strong foreign demand, originating in particular from Asia, while the lagged impact of the past euro appreciation appears to be diminishing gradually. Meanwhile, euro area import volumes grew robustly in the last quarter of 2003, while abating somewhat in the first quarter of 2004. Inflationary pressures from import prices have remained contained in the past three quarters owing to the past appreciation of the euro, which lowered import prices of manufactured goods and partly offset the rise, in US dollar terms, in oil and non-oil commodity prices.

Export volumes recovered, having declined in the last quarter of 2002 and the first two quarters of 2003, growing by more than 6% between the second quarter of 2003 and the first quarter of 2004 (see Chart A). The initial fall can be attributed to the effects of the euro appreciation beginning in the second quarter of 2002, as well as weak foreign demand in the second half of 2002 and in the first half of 2003. Conversely, the subsequent recovery in export volumes can mostly be explained by the pick-up in euro area foreign demand from the second half of 2003 (6.6% between the third quarter of 2003 and the first quarter of 2004).¹ Furthermore, euro area export prices (in euro) – proxied by unit value indices – have fallen by more than 5.5% since the second quarter of 2002, as euro area exporters have cut their profit margins in an effort to offset the resulting loss in price competitiveness. Nevertheless, the slower growth of export volumes compared with foreign demand in 2003 suggests that the euro area lost some export market shares over this period.

¹ Foreign demand figures for the first quarter of 2004 are preliminary and subject to revisions.

Chart A Extra-euro area exports

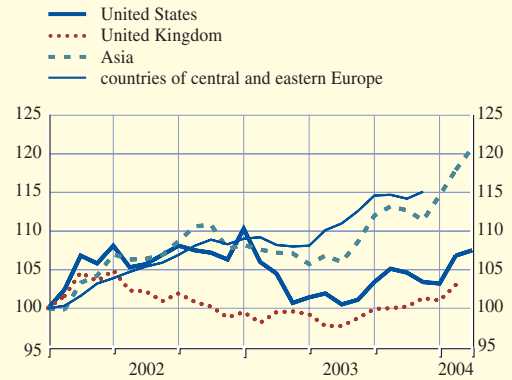
(indices; January 2002 = 100; 3-month moving averages except for foreign demand)



Sources: ECB and Eurostat.
Note: Latest observations relate to April 2004. Foreign demand data for the first quarter of 2004 are preliminary and subject to revisions.

Chart B Extra-euro area export volumes: geographical breakdown

(indices; January 2002 = 100; 3-month moving averages)



Source: Eurostat.
Note: Latest observations relate to March 2004 (except for the United Kingdom – January 2004 – and the countries of central and eastern Europe – December 2003).

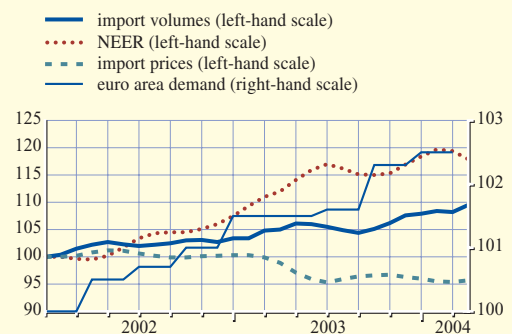
The upturn in export volumes was mostly the result of strong exports to Asia and central and eastern European countries in the second half of 2003 (see Chart B), while exports to the United States picked up significantly in the first quarter of 2004. Turning to the breakdown of euro area export volumes by product group, exports of capital, intermediate and consumer goods have all increased since the second half of 2003. However, the rise in exports of intermediate and especially capital goods was more pronounced, consistent with the recovery in investment expenditure recorded in most euro area trading partners.

For most of 2002 and in the first three quarters of 2003, growth in import volumes has been somewhat sluggish (see Chart C), owing in particular to weak domestic demand over this period, particularly in the import intensive categories of expenditure such as investment. By contrast, import volumes accelerated in the last quarter of 2003 (by roughly 3% compared with the previous quarter) in line with the recovery in domestic demand over this period. This increase was driven by import volumes of consumer and especially capital goods. A smaller increase in import volumes was recorded in the first quarter of 2004, resulting mainly from a substantial decrease in import volumes of capital goods in the same quarter.

Meanwhile, total import prices fell by 3.2% in 2003 compared with 2002 and by 1% quarter on quarter in the first quarter of 2004 (see Chart C). These developments resulted mostly from the downward effect of the euro

Chart C Extra-euro area imports

(indices; January 2002 = 100; 3-month moving averages except for euro area demand)



Sources: ECB and Eurostat.
Note: Latest observations relate to April 2004 (except for euro area demand in the first quarter of 2004).

appreciation on import prices of manufactured goods, this category accounting for roughly 72% of total imports of goods. In addition, the past appreciation of the euro against the US dollar played an important role in offsetting the significant rise, in US dollar terms, in the price of oil and non-oil commodities.