

Box 4

DEVELOPMENTS IN EXTRA-EURO AREA EXPORTS

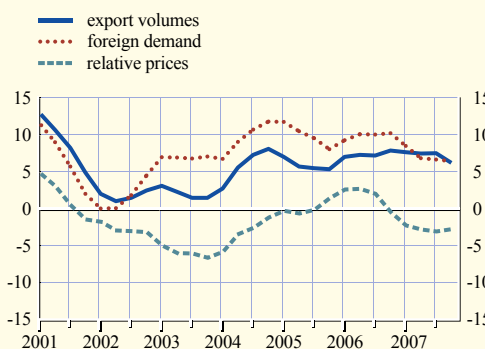
Some slowdown notwithstanding, extra-euro area exports continued to grow robustly in 2007 by around 6% (in volume terms), compared with 8% in 2006. In order to place recent developments in perspective, this box reviews the medium-term trends in extra-euro area exports and focuses more generally on the main drivers of euro area export performance.

After a period of rather subdued growth from 2001 to the end of 2003, extra-euro area export volumes rebounded strongly in 2004, entering a phase of sustained expansion and high growth rates. Despite the slowdown observed towards the end of the year, 2007 marked the fourth consecutive year of strong euro area export performance (see Chart A). The boom in export volumes since 2004 appears to have been largely driven by developments in foreign demand. This, in turn, reflects the strength of the global economy and the rapid expansion in global trade over this period. Euro area export volumes have benefited, in particular, from the strong rise in demand for imports from emerging countries in Asia, oil-exporting countries and the countries that have joined the European Union since 2004.

Robust growth in foreign demand has more than compensated for the dampening effect of a stronger euro. Meanwhile, export prices have increased only moderately since 2006, somewhat alleviating the losses in euro area price competitiveness. On the one hand, the moderation in export prices reflects the adjustment by euro area firms of their profit margins as a means of offsetting the decline in price competitiveness resulting from exchange rate appreciation; on the other, it might also reflect more favourable developments on the

Chart A Extra-euro area exports

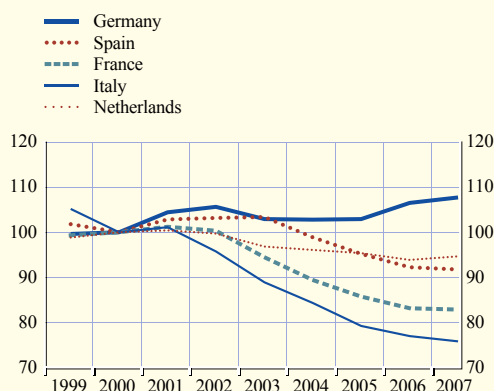
(annual percentage changes; quarterly data)



Sources: ECB, Eurostat.
Note: Relative prices equal competitors' export prices divided by extra-euro area export prices (both in euro terms). An increase reflects a gain in competitiveness. Last observation refers to Q4 2007.

Chart B Export market share of selected euro area countries

(index, 2000=100; annual data)



Sources: Eurostat and ECB calculations.

cost side, as the strengthening of the euro has reduced the price of imported intermediate goods, to some extent shielding euro area firms from the surge in oil and non-oil commodity prices. In this context, the negative effect of higher oil prices has also been partially mitigated by higher euro area exports to oil-exporting countries.¹

However, while the euro area has clearly benefited from the increasing integration of emerging markets in the world economy and strong growth in world trade over the past decade, the emergence of cost-competitive countries as major exporters has also led to growing challenges. As Chart A shows, export volumes generally grew less rapidly than foreign demand over the period from 2002 to

2006, reflecting the losses in export market shares experienced by the euro area over the past decade. Although this partly reflects a decline in price competitiveness against other advanced competitors, the increase in China's world export market share seems to be the main counterpart of this decline in the export market shares of the euro area and other major trading countries over this period.

Nevertheless, there are important differences in export performance across euro area countries. While Germany has increased its market share in recent years, unfavourable price and cost developments often seem to have been a major cause of weaker export performance by other countries (see Chart B). To some extent, these discrepancies may also reflect differences in export specialisation. For example, some countries appear to be overly concentrated in labour-intensive sectors, where emerging economies have a relative advantage. Furthermore, sectoral specialisation may also have made some euro area countries more sensitive to exchange rate movements. Countries that are more specialised in consumer or intermediate goods, or in sectors where products are mainly priced in US dollars, tend to be more affected by exchange rate movements than countries with a higher degree of specialisation in exports of capital goods.

Overall, this analysis suggests that, despite the euro's appreciation, euro area exports continued to grow robustly in 2007, driven primarily by continued robust growth in foreign demand. Looking forward, the latest data on extra-euro area export volumes and survey data on export order books point to a gradual weakening of the growth in export volumes in early 2008. Thereafter, the prospects for extra-euro area exports will largely depend on developments in foreign demand. In this respect, world economic growth is expected to remain resilient overall, supported by robust economic conditions in emerging markets. However, global activity is expected to be less buoyant than in previous years, mainly owing to the economic slowdown in the United States.

¹ For more details, see Box 8 "Oil-bill recycling and extra-euro area exports" in the April 2007 issue of the Monthly Bulletin.