Box 11

NEW EURO AREA INDUSTRIAL IMPORT PRICE AND INDUSTRIAL PRODUCER EXPORT PRICE INDICES

New industrial import price and industrial producer export price indices for the euro area were recently published by Eurostat and will henceforth be included in the “Euro area statistics” section of the Monthly Bulletin. This box introduces the new data and their statistical background and examines recent developments in euro area trade prices.

Import prices are an important indicator of price pressures from abroad. They may affect consumer price inflation both directly, via imported consumer goods, and indirectly, via the use of imported basic and intermediate goods as inputs in the production processes of producers resident in the euro area. Export prices are of interest in assessing the competitiveness of the euro area economy. In addition, import and export price statistics can be used as an input into
other statistics, for example to construct reliable volume measures for cross-border trade in the national accounts.

**Comparison with unit value indices and statistical background**

The new price indices replace the unit value indices from the external trade statistics and are included in Section 7.5 of the “Euro area statistics” section. Price indices are more relevant for monitoring price developments than unit value indices, since the latter are affected not only by price changes but also by changes in the composition and quality of the traded products. For example, if from one period to the next a greater quantity of expensive flat-screen televisions and fewer cheap traditional televisions are imported, the unit value index for televisions would indicate a price increase, even if the prices of the flat-screen and the traditional televisions had not changed. Therefore, if the quality of products increases (decreases), the unit value index will be upward (downward) biased. By contrast, Laspeyres-type price indices follow the so-called matched models principle. This means that a basket of goods is defined in the base period and the same basket is repriced again in each subsequent period. If the characteristics of the products change, statisticians try to quantify the quality change so that only the pure price change is reflected in the index.

Following a revision of the EU Council Regulation concerning short-term statistics in 2005, national statistical institutes of euro area member countries are required to compile industrial import price indices and industrial producer export price indices, including a distinction between international trade within and outside the euro area. In turn these data are then used to compile indices for the euro area as a whole, relating to goods traded between euro area and non-euro area agents. These indices cover prices for industrial goods, i.e. all goods except agricultural and forestry products, but not services. The euro area producer export price index provides a proxy for a full export price index; it includes exports dispatched by producers but excludes exports dispatched by wholesalers and re-exports. The prices recorded in the new import and producer export price indices are expressed in euro and therefore take into account exchange rate movements. The indices are published by Eurostat on a monthly basis.

The industrial import price index is available approximately 45 days after the reference period. In order to reduce the reporting burden, national statistical institutes need to provide data only for product groups for which the Member State’s share in total euro area imports is significant. Hence, for example, France must provide data for 92 product groups and Slovenia for only one product group. This approach ensures sufficient quality for the euro area aggregates; a full national breakdown is not provided. As some countries, notably Italy, have not yet provided data to Eurostat, the euro area indices currently cover approximately 70% of euro area imports of industrial goods. Once all countries meet their legal obligations, coverage will reach around 85%. The index is weighted by import shares and begins in 2005. The industrial producer export price index is available approximately 30 days after the reference period and has a country coverage

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1 The new indices also differ from the unit value indices in terms of the coverage of the data and the classifications used. Whereas the external trade data cover all traded goods, the new price indices are limited to industrial goods. In addition the new price indices are published according to the breakdown by Main Industrial Groupings, which differs from the Broad Economic Categories used in external trade data. The main difference is that energy products are treated as a separate category within the Main Industrial Groupings, whilst these are subsumed within intermediate and consumption goods under Broad Economic Categories.

of over 90%. The index is weighted by turnover shares of goods dispatched to non-euro area customers and begins in 2000.

Developments in industrial producer export prices and industrial import prices

At an aggregate level, the new export and import price indices provide a similar picture to the unit value indices. Total euro area export price inflation (excluding construction) recently picked up, reaching 2.9% in October 2008, after declining from an annual growth rate of around 2% at the beginning of 2006 to less than 1.5% at the end of 2007 (see Chart A). While this acceleration was broad-based, the main driver was the increase in the export prices of energy goods, which also led to higher energy input costs. In addition, over the last few months, there has been some easing of competitive pressures, owing to the depreciation of the euro and higher export prices of euro area competitors (in euro terms). Accordingly, euro area exporters may attempt to increase their profit margins by raising their export prices (in euro terms).

Rising energy and commodity prices were also the main factor behind the strong increase in total euro area import prices, which peaked at 13.3% in June 2008 (see Chart B). The recent large drop in oil prices led to some deceleration in total annual import price inflation, which stood at 8.5% in September 2008. By contrast, prices of all other categories of goods have been either stable or declining in recent years, mainly owing to structural factors. In particular, globalisation has been accompanied by a higher share of low-cost countries acting as suppliers of manufacturing goods imports into the euro area. Until recently, this has exerted some downward pressure on total euro area import prices. The increasing international competition may also explain the continuous decline in capital goods import prices. Looking ahead, these structural factors will reinforce the impact of lower commodity prices on import price inflation.

3 See also the box entitled “Is the downward impact of globalisation on import prices waning?” in the June 2007 issue of the Monthly Bulletin.