

Box 5

RECENT DEVELOPMENTS IN EURO AREA TRADE

This box reviews the main features of the sharp downturn in trade experienced by the euro area in the latter part of 2008 and the first half of 2009, as well as the recent evidence of stabilisation.

National accounts data show that total euro area export volumes (i.e. intra plus extra-euro area trade – goods and services taken together) declined for five consecutive quarters, starting in the second quarter of 2008 (Chart A). The most severe decline took place during the period in which the financial crisis intensified, i.e. in the fourth quarter of 2008 and the first quarter of 2009, with the quarterly rate of decline in the range of 7-9%. The total volume of euro area imports also followed a similar path of contraction, although the decline was somewhat less pronounced.

Chart A Volume of euro area exports of goods and services

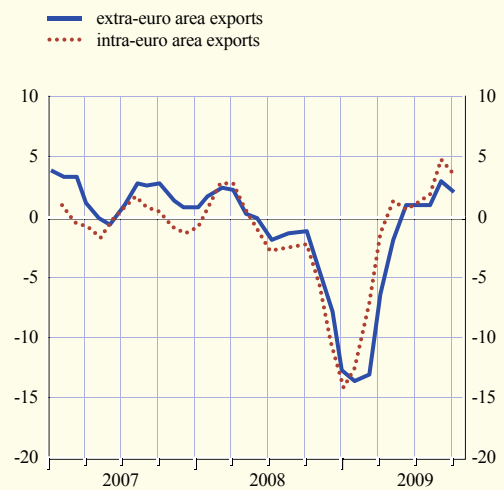
(quarterly percentage changes; quarterly data; seasonally adjusted)



Sources: Eurostat national accounts data and ECB calculations.
Notes: Data covers intra and extra-euro area trade. The latest observations refer to the third quarter of 2009.

Chart B Volume of intra and extra-euro area exports of goods

(three-month-on-three-month percentage changes; monthly data; seasonally adjusted)



Sources: Eurostat external trade statistics and ECB calculations.
Note: The latest observations refer to October 2009.

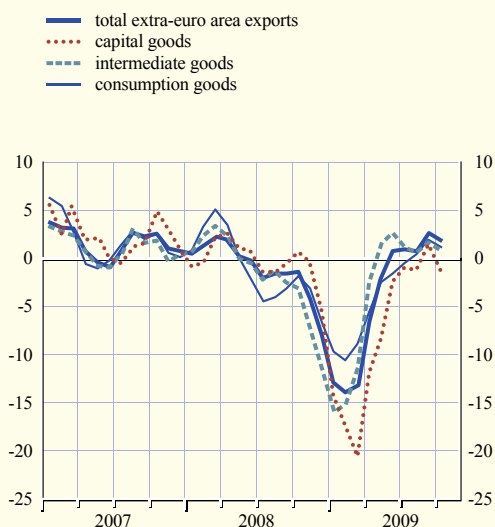
The underlying force behind the contraction in euro area trade was the global decline in economic activity, with goods trade falling significantly more than trade in services (Chart A) and goods trade within the euro area initially decreasing at a slightly higher pace than extra-euro area exports (Chart B). The financial turmoil across the globe was characterised by a fall in confidence, which contributed to the rapid destocking, as well as to the significant decline in investment expenditure, in most regions of the world. This had a strong negative impact on trade in intermediate and capital goods, which contracted relatively more than trade in consumption goods (Chart C).

A number of amplifying factors appear to have played an important role in this major downturn in trade. In particular, the globalisation process has entailed a considerable growth in vertical supply chains, whereby imported inputs are increasingly used in the production of exports. This may have acted as a propagation mechanism when trade contracted, leading to a sharp decline in trade in intermediate goods. Another significant factor which appears to have affected trade negatively was the shortage in, and the rising costs of, trade finance, generated by the rapid tightening in financial conditions at the height of the turmoil. These factors appear to have interacted and magnified the impact on trade that stemmed directly from the decline in world output.

Total euro area exports returned to positive growth in the third quarter of 2009 (Chart A). This upturn was primarily driven by trade in goods, which seems to have been marginally more pronounced in intra-euro area trade flows (Chart B). Some of the factors that contributed to the rapid decline in euro area trade are currently supporting the moderate rebound in euro area trade. The recent improvement in global economic activity and the recovery in the inventory

Chart C Volume of extra-euro area exports of goods, broken down by broad economic category

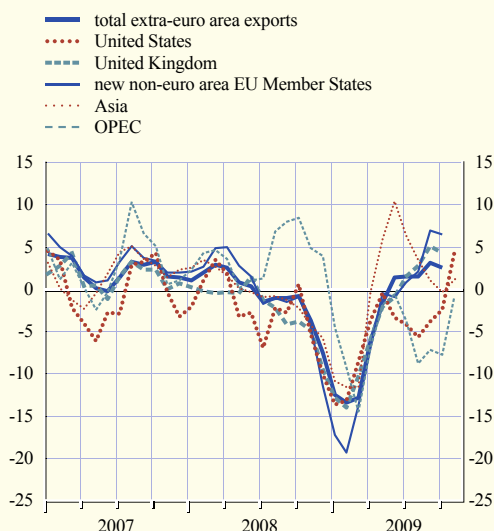
(three-month-on-three-month percentage changes; monthly data; seasonally adjusted)



Sources: Eurostat external trade statistics and ECB calculations.
Note: The latest observations refer to October 2009.

Chart D Volume of extra-euro area exports of goods to selected trading partners

(three-month-on-three-month percentage changes; monthly data; seasonally adjusted)



Sources: Eurostat external trade statistics and ECB calculations.
Note: The latest observations refer to November 2009 except for exports to the United Kingdom (October 2009), new non-euro area EU Member States (October 2009) and total extra-euro area exports (October 2009).

cycle have been the main supporting factors. Global supply chains also appear to have been reactivated somewhat, thereby amplifying the recovery in trade and leading to a stronger rebound in intermediate goods (Chart C).

The macroeconomic stimulus packages and the measures adopted to restore the functioning of the financial system have also played an important role and have contributed to the higher demand for tradables. This appears to be partly corroborated by the particularly strong rebound of trade with Asia (Chart D), where fiscal spending measures have been sizeable. The widespread fiscal schemes supporting the sales of motor vehicles also seem to be having a positive impact on trade. The stabilisation of trade was also paralleled by improving conditions in trade finance.

Looking forward, the strength of the trade recovery remains somewhat uncertain as the recent improvement in euro area trade seems to be partly supported by temporary factors. At the same time, the return of confidence and the rebound in the global economy, notably in Asia, could lead to a stronger than anticipated impact on trade. A resurgence of protectionist pressures could dampen the trade recovery and should be strongly resisted.