

## Box 4

## RECENT DEVELOPMENTS IN EXTRA-EURO AREA TRADE VOLUMES AND PRICES

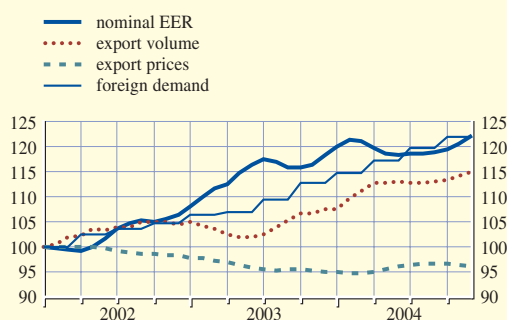
This box describes the latest developments in euro area trade volumes and prices (proxied by unit value indices) at the aggregate level and vis-à-vis selected trading partners, focusing on trade in goods only. All data exclude intra-euro area transactions. Overall, euro area exports were somewhat sluggish in the second half of 2004, in spite of a moderate pick-up in the last quarter of the year. On the import side, import prices have not fallen significantly since the beginning of the euro's appreciation, while the strong rise in import volumes in the third quarter of 2004 mainly reflected robust growth in the import-intensive categories of euro area demand. Regarding the geographical composition of trade, recent developments confirm the increasing importance of Asia and the countries that joined the EU on 1 May 2004 in trade with the euro area.

Real exports picked up moderately in the last quarter of 2004, growing by 1.8% quarter on quarter after a 0.1% increase in the third quarter. Two main factors may explain the sluggishness of exports in the second half of 2004: first, the slowdown in foreign demand for euro area products over this period and second, the effect of the euro's appreciation, compounded by export price increases (in euro terms) in the second and third quarters of the year. The rise in euro area export prices may in turn be related to higher costs, originating in particular from higher oil prices.

Turning to imports, an increase of 0.7% quarter on quarter in volume terms was recorded in the last quarter of 2004, a marked slowdown compared with the third quarter (see Chart C). This development can be attributed mainly to the evolution of euro area demand, particularly the import-intensive categories of expenditure, such as inventories, which grew strongly in the third quarter and subsequently decreased in the fourth. The impact of the euro's appreciation on import volumes appears to have been relatively muted, due in particular to the fact that overall import prices (in euro terms) have not fallen significantly since 2002. Import prices of manufacturing goods have fallen by around 5%, whereas total import prices have increased slightly because of

Chart A Extra-euro area exports

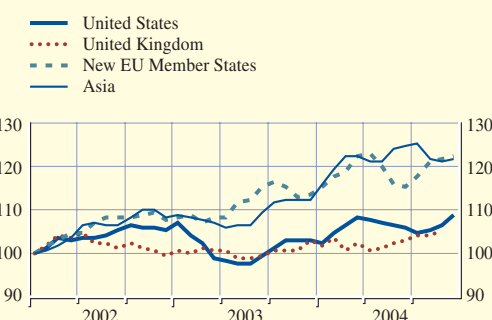
(index: January 2002 = 100; three-month moving averages)



Sources: ECB and Eurostat.  
Note: Last observation relates to December 2004.

Chart B Extra-euro area export volumes by partner country

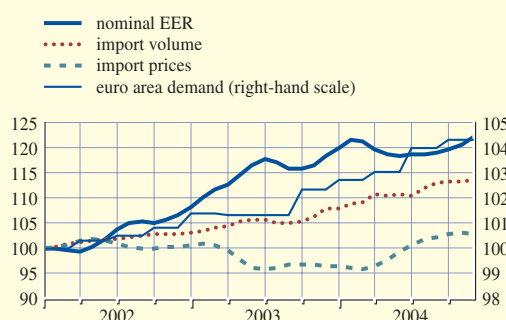
(index: January 2002 = 100; three-month moving averages; monthly data)



Source: Eurostat.  
Note: Last observation relates to December 2004 except for the United Kingdom, for which it relates to November 2004.

**Chart C Extra-euro area imports**

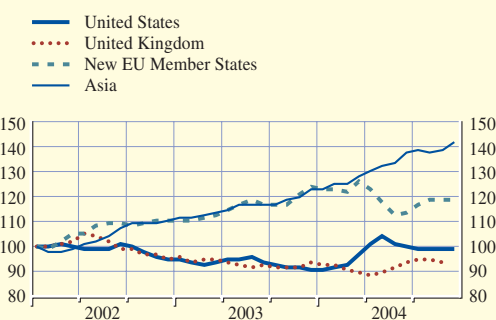
(index: January 2002 = 100; three-month moving averages except for euro area demand)



Sources: ECB and Eurostat.  
Note: Last observation relates to December 2004.

**Chart D Extra-euro area import volumes by partner country**

(index: January 2002 = 100; three-month moving averages; monthly data)



Source: Eurostat.  
Note: Last observation relates to December 2004 except for the United Kingdom, for which it relates to November 2004.

the strong rise in oil prices that started in 2003. In the last quarter of 2004, import prices increased only moderately (by 0.4%), after having increased strongly in the second and third quarters (by 3.5% and 3.1% respectively). This moderate increase was possibly a result of oil prices having risen less markedly in the last quarter of 2004 than in the previous two quarters. It was also due to the fact that import prices of manufactured goods actually fell in the last quarter (by 0.8%) – consistent with the strong appreciation of the euro over this period. This contrasts with the second and third quarters, when they increased by 1.5% and 1.3% respectively, possibly in response to an increase in the costs of exporters to the euro area due to high oil prices.

Taking a longer-run perspective, Asia and the new EU Member States have gained importance as trading partners of the euro area since 1999. Exports to these two rapidly developing regions have increased by approximately 20% each since 2002, whereas exports to the United Kingdom and to the United States have increased by less than 10% over the same period (see Chart B). Although euro area exports to the United States were stimulated by the fast growth of the US economy in 2003 and especially 2004, they seem to have been affected by the appreciation of the euro against the US dollar. Imports from Asia and the new EU Member States have also been more dynamic than imports from the United Kingdom and the United States since 2002 (see Chart D).

These trends are consistent with structural changes ongoing since 1995. Between 1995 and 2004, the shares of Asia and of the new EU Member States in total extra-euro area trade (adding up the total values of imports and exports) increased from 18.5% to 20% and from 7.1% to 10.6% respectively. In the case of Asia, the decrease in the share of Japan (from 5.7% to 3.9%) was more than compensated by a rise in the shares of other Asian countries, particularly China (from 2.9% to nearly 6%). By contrast, the share of the United States was in 2004 roughly equal to that in 1995, slightly below 13%, whereas the share of the United Kingdom decreased from nearly 18% in 1995 to 15.6% in 2004. Such changes partly reflect the rapidly growing internationalisation of production and the catching-up process, particularly regarding the significant expansion of euro area trade with the new EU Member States.