

Trade balances in the main Eurozone economies: signs of a rebound after a difficult period

Since 2019, trade balances in the main Eurozone countries have deteriorated. This general decline is due mainly to the rise in imported commodity prices, gas and oil in particular, as a result of the upswing in demand following the health crisis and then the outbreak of war in Ukraine. Terms of trade, i.e. the ratio of the price of exports to that of imports, have worsened significantly. In addition to the decline in the energy balance, which affected all countries, France stands out because its trade surplus in transport equipment is significantly lower than before the health crisis. This is not the case in Germany, where the trade surplus in transport equipment remains high, despite production difficulties in the automobile industry. In Spain, with support from tourism, the balance of trade has recovered its pre-health crisis level, while in Italy, trade in manufactured goods remains in surplus, bolstered by textile products and capital goods. Since Q4 2022, the terms of trade have improved once again, suggesting a possible upturn in the trade balances of the main Eurozone countries.

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In 2022, the terms of trade in goods were the main determinant of the deterioration in trade balances in the Eurozone

During 2022, the balance of trade (difference in value between exports and imports, ► **Box**) in the main Eurozone countries reached particularly low levels compared to previous years: -4.9 GDP points in France in Q3 2022 (► **Figure 1**), after a decline from the end of 2021; -0.6 points in Germany, also in Q3 2022, after more than 20 years of surplus; -0.7 points in Spain at the beginning of 2022, first trade deficit in 10 years; -3.0 points in Italy at mid-2022, with the balance of trade in deficit since the beginning of 2022. Since then, the balance of trade has improved markedly in Germany and Spain, which have returned to surplus, while it remains degraded in France and Italy.

Movements in the trade balance, as compared to 2015 which is used here as a reference, may be the result either of changes in volumes traded (exports, imports) or fluctuations in their prices. In the years preceding the health crisis and until mid-2021, the dynamics of the trade balance in the main Eurozone countries, were primarily the result of movements in volumes since 2015: changes in foreign trade prices contributed much less, mainly because export and import prices often moved together.

Since the end of 2021, however, changes in foreign trade prices, and in the price of goods in particular, have contributed much more, and negatively, to variations in the balance of trade. In Q3 2022 notably, the change in these prices had a significant effect on the balance of trade (between -2.2 and -4.5 points, depending on the country, ► **Figure 1**, compared, for example, to an effect of between -0.4 and +0.9 points in 2019). This widening of the balance of trade as a result of changes in the prices of quantities exchanged indicates a faster increase in import prices than in export prices, i.e. a deterioration in the terms of trade (ratio of the price of exports to the price of imports, ► **Box**).

In 2022, however, some discrepancies emerged between countries. In France, the change in volumes of traded goods also affected the trade balance, as it had done since early 2020. This was also significantly the case in Germany, since mid-2018. In Italy and Spain, changes in volumes of traded goods influenced the trade balance more moderately. In Spain, change in volumes of services bolstered the trade balance in 2022.

Terms of trade are no longer in decline, and have even improved since Q4 2022

The negative contribution of foreign trade prices to changes in trade balances reflects a more dynamic momentum in the price of imports than in the price of exports. In fact, the terms of trade (ratio of the price of exports to the price of imports) deteriorated continuously in Italy and Germany between mid-2020 and mid-2022. In Spain and France, the decline began about a year later (► **Figure 2**).

However, after reaching a low point in early or mid-2022, terms of trade have improved, or at least are no longer deteriorating. The decline in the prices of imported commodities since summer 2022 has in fact contributed to reducing the price of imports, while export prices have held up better. Thus, having seriously hampered trade balances in 2022, the terms of trade could continue to pick up in 2023 and, on the contrary, help improve them.

The structures of trade balances in the main Eurozone countries reflect strong sectoral features, but all are affected by the increased cost of energy inputs

The energy balance is structurally in deficit in the main Eurozone countries, having seriously deteriorated since the end of 2021, contributing to the widening of their trade deficits up to Q3 2022 (► **Figure 3**). However, in Q4 2022, the energy deficit was reduced in the four main

International economic outlook

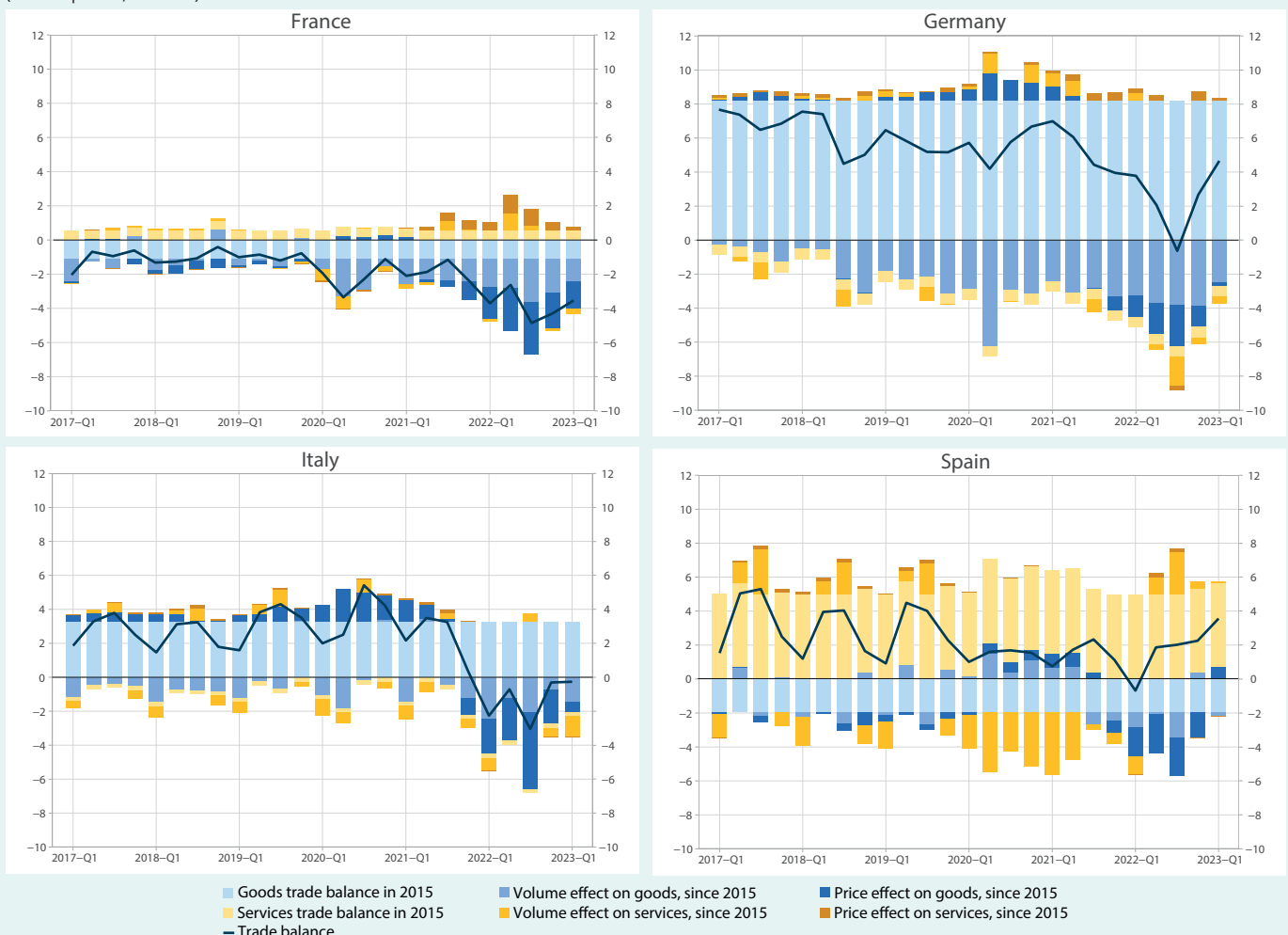
Eurozone economies. Although these changes are mainly due to the rise then the fall in the prices of imported energy inputs (mainly oil and gas), other factors may also have played a role depending on the country. In particular, due to the shutdown of many of its nuclear reactors, France became a net importer of electricity in 2022, although less so towards the end of the year.

Apart from energy, traded goods and services have a different effect, depending on the country, on the trade balances recorded in recent quarters. In France, until 2019, the balance of trade benefitted from a surplus in transport equipment, driven by aeronautical deliveries. This declined considerably during the health crisis, due to the sizeable drop in demand for aeronautical sector goods, then was slow to recover, because of production difficulties in the sector. Meanwhile, the trade deficit in the automobile sector has widened in recent years, especially between 2015 and 2019.

Germany stands out with a very positive balance of trade in goods (excluding energy), both in the years preceding the health crisis and in the recent period. This surplus concerns both transport equipment, particularly automobiles, and other goods. The production difficulties encountered by the German automobile industry since 2021 have not translated into a significant reduction in the trade surplus. However, the trade surplus for other goods has been shrinking over the past 5 years. Spain also has a surplus in transport equipment, offset by a deficit in other goods. As for Italy, it has recorded a high surplus in the trade of capital goods and textiles.

In addition, Spain, and to a lesser extent Italy recorded a significant surplus in tourism, except during the health crisis, resulting in a pronounced seasonality in their trade balance. In France, the tourism surplus is lower than that in Italy or Spain, due to high spending by French tourists abroad, which offsets national tourism receipts. The trade balances of Spain and Italy, excluding energy and tourism, have remained relatively stable over the past 5 years. ●

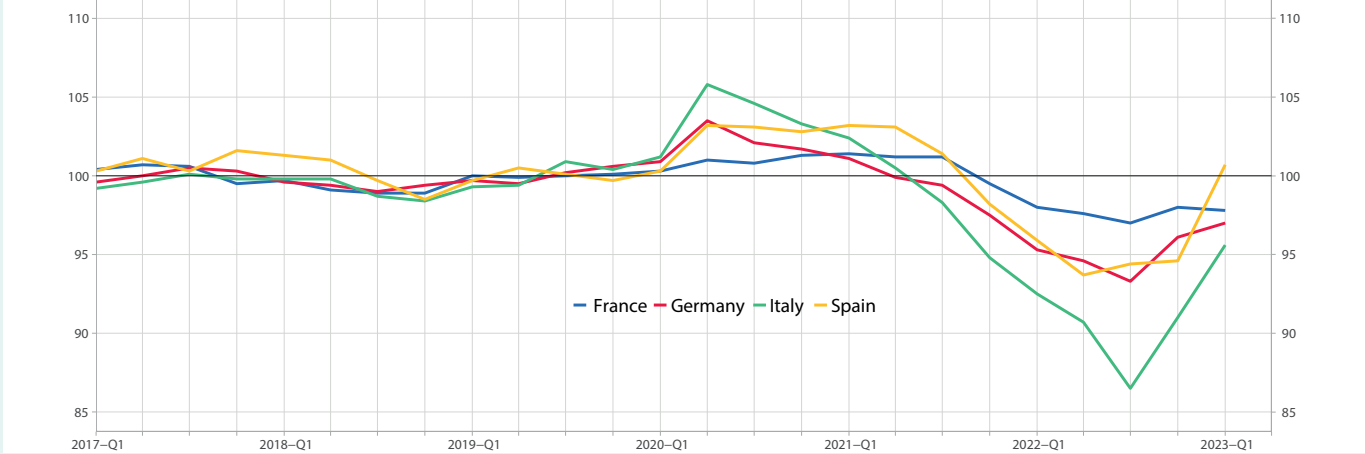
► 1. Trade balance of the main Eurozone economies (in GDP points, in value)



How to read it: in Q4 2022, the French trade balance was in deficit, equivalent to -4.3 GDP points. Changes in the terms of trade in goods since 2015 contributed 2.1 points to this deficit..
Source: Eurostat.

► 2. Terms of trade in the main Eurozone economies

(base 100 in 2019)

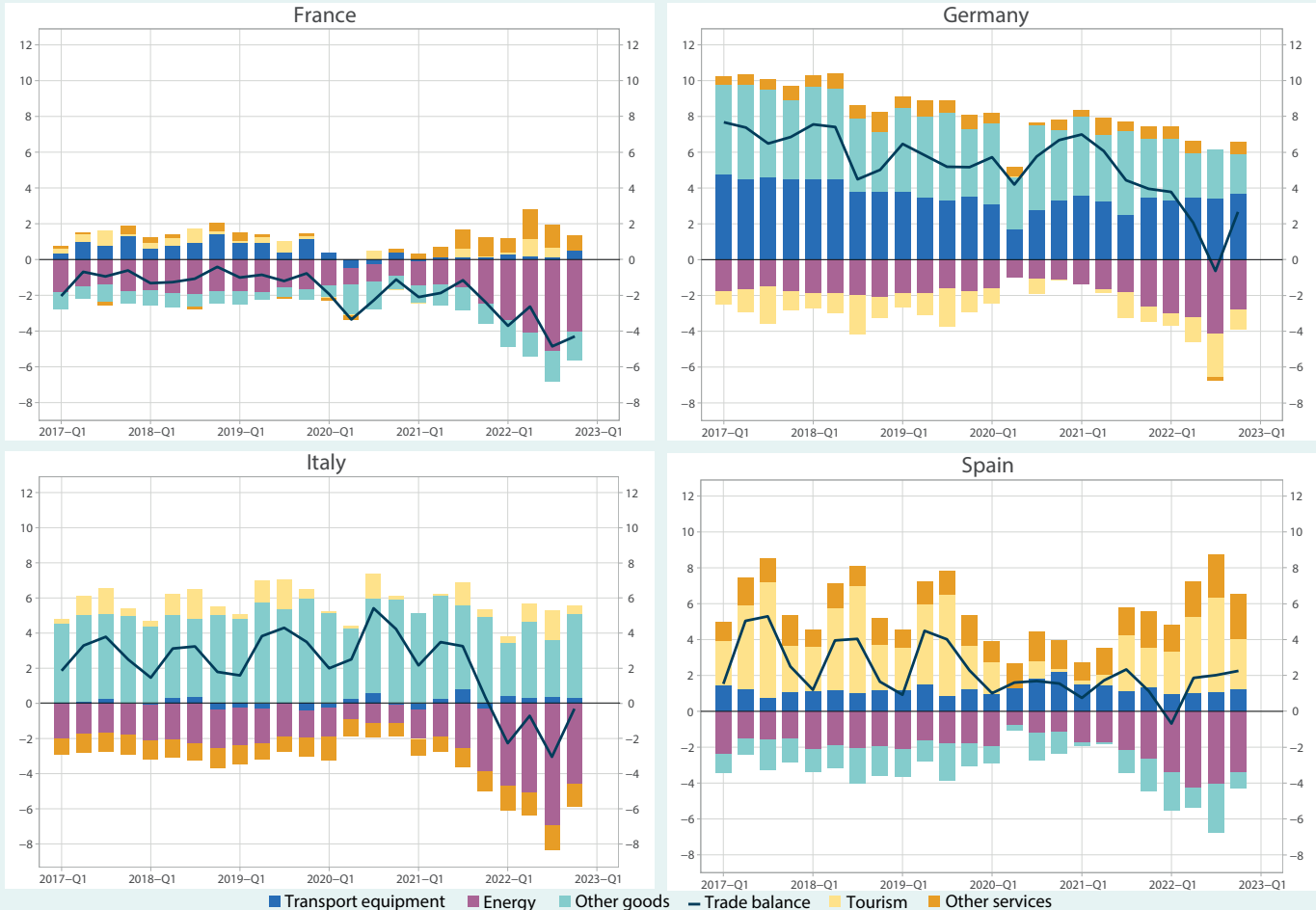


How to read it: in Q4 2022, terms of trade in France, i.e. the ratio of the price of exports to the price of imports, were 2.0% lower than in 2019.

Source: Eurostat.

► 3. Trade balance of the main Eurozone economies

(in GDP points, in value)



How to read it: in Q4 2022, the French trade balance was -4.3 GDP points. The contribution of energy was -4.0 points.

Source: Eurostat, customs and balance of payments data.

Definitions and method

The trade balance corresponds to the difference in value between exports of goods and services and imports of goods and services, expressed in GDP points. It is not seasonally adjusted and can thus be broken down by type of goods and services. The volume effect corresponds to the difference, compared to the 2015 average, in the balance of trade by volume at constant prices compared to 2015. The price effect is the difference between the balance in value and the balance in volume at constant prices compared to 2015.

The contribution of total goods (sum of contributions under “energy”, “transport equipment” and “other goods” headings) is calculated from data on exports of goods published in the national accounts. Contributions of different types of goods (“energy”, “transport equipment”, “other goods”) are calculated from monthly customs data, taken as a quarterly average and assuming that the contributions from customs data are distributed proportionally across the contribution of total goods from the national accounts data.

With regard to services, the process is similar: the contribution of total services (sum of contributions under “tourism” and “other services” headings) is calculated using data from the national accounts; contributions of different types of services (“tourism” and “other services”) are calculated from monthly balance of payments data.

The classification used for international trade in goods is the Standard International Trade Classification (SITC). The classification used for trade in services is the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Terms of trade correspond to the ratio of the price of exports to the price of imports, with base 100 in 2019. ●