RECENT DEVELOPMENTS IN AUSTRIAN FOREIGN TRADE[1]

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Abstract

The paper was prepared as a FIW report and presents an overview of the recent developments in Austrian foreign trade. The first part of the discussion is focusing on the key developments in Europe during the economic and debt crisis and in other relevant countries. It provides an input framework for the second part which focuses on the Austrian foreign trade itself.

Keywords

Austrian Foreign Trade, FDI, Exchange Rates, Exports

I. Introduction

The following discussion deals with the current Austrian foreign trade developments. It consists of two main parts. The first one, described in the Chapter II, is focusing on the international economic environment and external economic relations, and provides an input framework for the Chapter III which is focused on the Austrian foreign trade itself.

II. International economic environment and external economic relations

The debt crisis in Europe and slowdown of Chinese growth stymies global economic growth

After a surprisingly good momentum in the first quarter of 2012, global GDP growth in the second quarter lagged again. As a net result, growth forecasts were barely revised and are now at 3.5% for 2012 and 3.9% for 2013 (IMF, 2012). Global recovery is stymied by the ongoing debt crisis in the euro area and a "cooling-down" in many newly-industrialised countries, especially China (Figure 1).

[1] The paper was prepared as the Short FIW Report No. 9/2012. Short FIW Reports are issued quarterly and inform about current developments in external economies. The publisher is the Competence Center "Forschungsschwerpunkt Internationale Wirtschaft" (FIW, Scope of Research: International Economy). FIW is operated under the authorisation of the Ministry of Economy, Family and Youth (BMWFJ) within the Federal Government internationalization offensive, by three institutions, WIFO, wiiw and WSR. It provides access to international databases of foreign economies, research platforms, and information on topics relating to the external economy. The paper was originally written in German. It was translated by the editors.

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Table 1: Real GDP growth in the most important economies

	2009	2010	2011	2012	2013
	Year-on-year changes in %				
Euro area	−4.4	2.0	1.5	−0.3	1.0
USA	−3.5	3.0	1.7	2.0	2.3
Japan	−5.5	4.4	−0.7	2.4	1.5
OECD	−3.8	3.2	1.8	1.6	2.2
EU 10	−3.7	2.2	3.2	1.2	2.2
China	9.2	10.4	9.2	8.0	8.5
Russia	−7.8	4.3	4.3	4.0	3.9

Source: Eurostat, IMF, OECD, wiiw, 2012

Note: The EU10 includes the Czech Republic, Slovakia, Slovenia, Hungary, Poland, Romania, Bulgaria, Estonia, Lithuania and Latvia.

In the euro area, the recession in 2012 could turn out to be stronger than the originally estimated -0.3%, while a cautiously positive outlook for 2013 ($+1\%$) has significant downside risks. Short-term and medium-term prospects for the euro area depend mainly on developments in Greece and other countries of the “southern euro periphery” (Spain, Italy, and Portugal). Massive fiscal consolidation carried out in these countries (and partly forced on them) is contributing to the ongoing crisis. Thus, for example, Italy, the second largest trading partner of Austria, recorded a decline in gross domestic product for the fourth consecutive quarter (in 2Q12 by 0.8% on a quarterly basis – Table 2). Also in Germany and other “core economies” of the euro area, GDP growth is increasingly hampered by the recession in the “periphery”.

Table 2: Real GDP growth (seasonally adjusted) of Austria’s most important trading partners

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
	Quarter on quarter changes in %						
1 Germany	0.6	1.2	0.5	0.4	−0.1	0.5	0.3
2 Italy	0.2	0.1	0.3	−0.2	−0.7	−0.8	−0.8
3 USA	0.6	0.0	0.6	0.3	1.0	0.5	0.4
4 Switzerland	1.0	0.2	0.5	−0.2	0.4	0.5	−0.1
5 France	0.4	0.9	0.0	0.3	0.0	0.0	0.0
6 Czech Republic	0.6	0.5	0.3	0.0	−0.2	−0.6	−0.2
7 Hungary	0.2	1.4	−0.3	0.0	0.1	−1.0	−0.2
8 United Kingdom	−0.4	0.5	−0.1	0.6	−0.4	−0.3	−0.5
9 Poland	0.9	1.1	1.3	0.7	0.8	0.6	0.4
10 Russia	2.0	0.9	0.6	1.7	1.6	0.6	0.1

Source: Eurostat, Russian Federal State Statistics Service, 2012

After the stabilizing effect of the so-called long-term refinancing operations (LTROs) on the financial markets of the "peripheral countries" had largely died away[4], an EU summit at the end of June 2012 approved a number of further emergency measures, such as centralisation of banking supervision, an upgrade of the European Stability Mechanism (ESM) for the recapitalization of banks, as well as the option to buy government bonds directly by the ESM and/or the ECB. Despite these measures aimed at a deeper EU integration, it remains to be seen whether restrictive economic policy in the countries of the "southern euro periphery" will be in the longer term politically feasible and successful. Should it fail, Greece and other "peripheral countries" might leave the euro area, a move which would result in high bank losses and recession in other euro area countries.

Lower growth prospects in the euro area also dampen economic prospects in the ten Central and Eastern European EU member states (EU10 in Table 1), which will grow on average only by 1.2% in 2012 and 2.2% in 2013 (wiiw, 2012). Several EU10 countries, including the Czech Republic and Hungary which are important for Austrian foreign trade, will even record a recession this year – not least due to their restrictive fiscal policy. At least in the Czech Republic, which has a low public debt, budget consolidation hardly seems necessary.

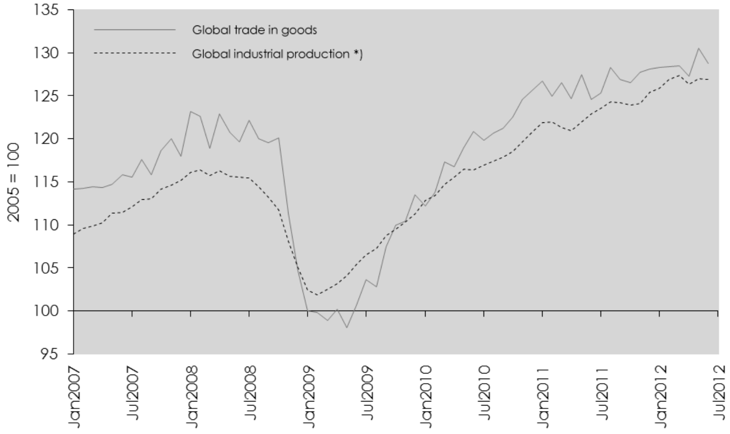
The U.S. and Japan, on the other hand, are expected to experience a relatively robust GDP growth of around 2% in both 2012 and 2013. It is supported by the latest loosening of the "credit crunch" and a revival in the U.S. property market, as well as investments into new production capacities after the disaster at Fukushima in Japan (OECD, 2012). In addition, the expansionary fiscal policy in both countries is facilitated by the historically low yields on their government bonds which are viewed by the financial markets as "safe havens", despite the recent rating downgrades. The continuation of expansionary fiscal policy, however, would require the U.S. to raise its legal ceiling on the level of public debt.

Global industrial production to come to a halt

The expansion of world trade slowed down from 0.8% in the first quarter of 2012 (against the fourth quarter of 2011) to just 0.3% in the second quarter (Figure 1). This happened alongside the stagnation of global industrial production, which had still witnessed robust growth of 1.8% in the first quarter of 2012. The euro area and Japan even recorded a decrease in industrial production in the second quarter of 2012 (Ebregt and van Welzenis, 2012).

[4] Within two LTRO rounds from late 2011 to early 2012, the European Central Bank provided European banks with a total of more than €1 trillion of long-term liquidity.

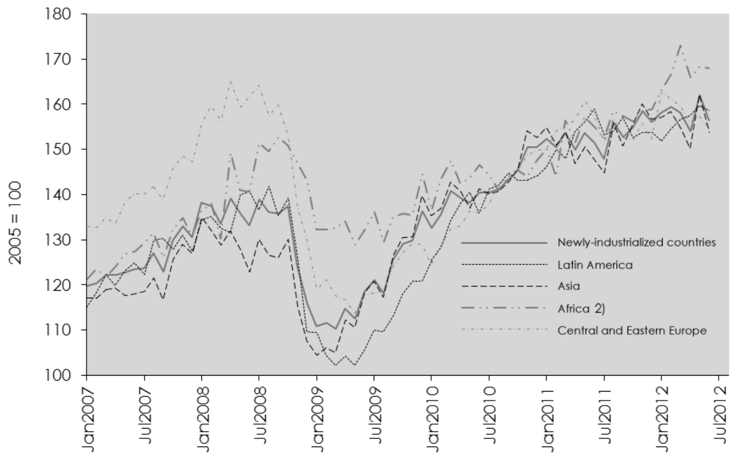
Figure 1: Real world trade



Source: Netherlands Bureau for Economic Policy Analysis (CPB), 2012.
*Notes: World trade calculated as (exports + imports) / 2; *) countries weighted industrial output.*

The latest slowdown of the world trade growth is primarily due to lower growth in the crisis-ridden euro area (Figure 2). After a temporary stagnation in the first quarter of 2012, demand for imports in the euro area dropped again in the second quarter of 2012 (−1.7%), which is partly attributed to the weakening of the euro. In particular, China's exports to the euro area strongly declined in the second quarter of 2012 (OECD, 2012).

Figure 2: Real imports of goods in the key industrial and newly-industrialized countries

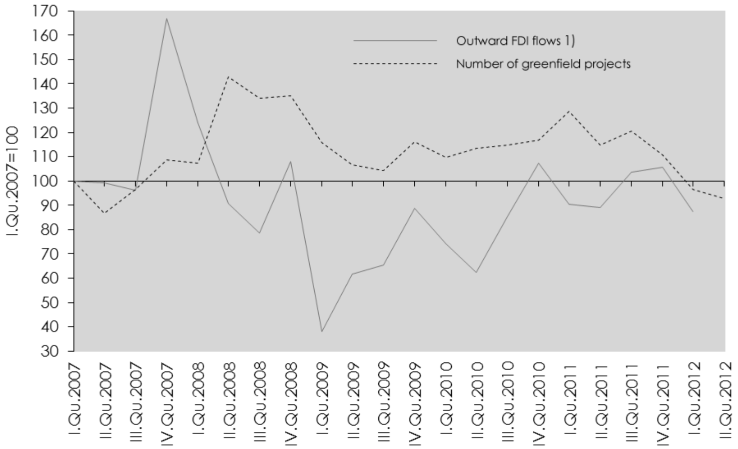


Source: Netherlands Bureau for Economic Policy Analysis (CPB), 2012.
Notes: [1]) OECD excl. Turkey, Mexico, South Korea, Poland, Slovakia, Czech Republic and Hungary; [2]) incl. the Middle East.

Global FDI dynamics subsiding despite abundant corporate liquidity

Despite the economic crisis in large parts of the world, global FDI flows rose in 2011 by 16% to USD 1.5bn, although still falling short of the 23% at their historical peak in 2007 (UNCTAD, 2012). These impressive dynamics were particularly brought about by the turnaround in the raw materials industry and services sector, which have attracted higher FDI flows after two years of decline. As in the year before, the rise of global FDI in 2011 was exclusively accounted for by mergers and acquisitions reflecting corporate restructuring (especially in Europe), while new investment projects stagnated. Also, one could regionally observe regionally divergent trends. FDI flows to OECD countries in 2011 generally rose faster than those to developing and newly-industrialized countries some of which – primarily the politically unstable North Africa – even experienced downward FDI dynamics.

Figure 3: Global FDI flows (inward flows) and the number of new investments projects



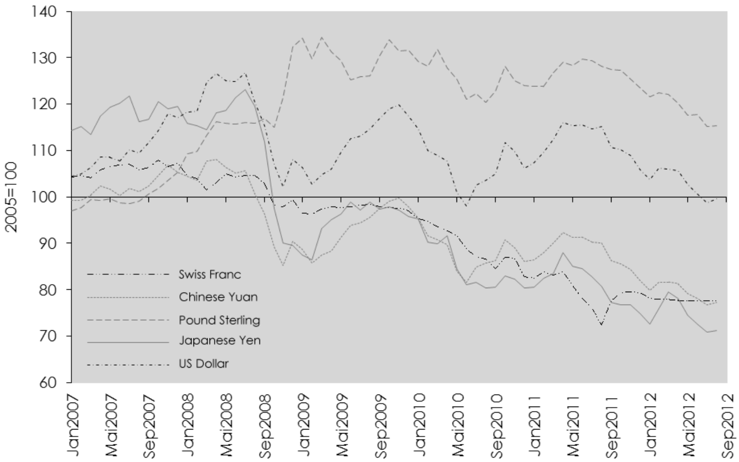
Source: OECD, fDi Markets database, wiiw calculations.
Notes: 1) US dollar-based. Excluding special-purpose entities for Austria, Hungary, Luxembourg and the Netherlands.

According to UNCTAD estimates, global FDI growth will slow down in 2012. This is evidenced, inter alia, by a decrease of cross-border mergers and acquisitions as well as "green field" projects in the first five-six months of the year (Figure 3). This development is all the more astonishing when taking into account the fact that transnational corporations earned record-high profits in 2011 and have very large liquidity buffers, and reflects the present significant global uncertainties. Disregarding large shocks (such as the possible collapse of the euro area), however, the slightly positive dynamics of global FDI flows could be maintained in the medium term.

Euro recovering after steady decline

The recent decline in the ECB policy rate in July 2012 (by 0.25 percentage points to 0.75% p.a.) and especially the increased uncertainty with respect to the future of the euro area, put the euro under devaluation pressure in summer 2012 (Figure 4). However, the redirection of capital flows partly occurred within the Eurozone (from the EU "periphery" to the "safer" eurozone countries such as Germany), so that the euro area as a whole faced only a minor capital flight. Still, the euro devalued between March and July 2012 by 7% in nominal terms against the USD and 12% against the Japanese yen. Since its lowest point in July 2012, the euro has strengthened again, especially against the USD. On the one hand, this has been due to the expectations of the third round of "quantitative easing" (QE3) in the U.S. and, on the other hand, to positive signals from the euro area (such as the announcement by the European Central Bank that it is ready to carry out unlimited purchases of European government bonds and the latest decision of the German Constitutional Court in favour of the ESM).

Figure 4: Nominal exchange rate of the euro against major currencies



Source: Eurostat, wiiw, 2012.
Notes: Exchange rates expressed as units of national currency per euro. Rising / falling index indicates appreciation (depreciation) of the euro. See also the FIW (2012).

The upper limit of the exchange rate against the euro set by Switzerland at CHF 1.20 could be so far defended by massive (though recently declining) purchases of foreign currency by the Swiss National Bank. In the months from May to August 2012, it bought about EUR 150bn euro in foreign exchange and now has about EUR 350bn at its disposal (excluding gold, as of late August 2012) – the fourth largest foreign currency reserves in the world.[5] The surprising decline in Switzerland's GDP in the second quarter of 2012 (on a quarterly basis, Table 2) due to weaker exports and the latest downward revision of GDP growth for the last three quarters suggest that the nominal appreciation of the franc against the euro will not be permitted in future. The same should apply to the Japanese yen: its further appreciation should be counteracted by renewed foreign exchange purchases by the Japanese central bank (which have not taken place since autumn 2011).

[5] See NZZ (2012).

III. Austrian foreign trade[6]

Austrian exports marked by crisis

The weakening of the international environment as a result of the crisis in the European Monetary Union hampers the development of Austrian foreign trade.

Table 3: Development of Austrian foreign trade in goods

	Export				Balance of Trade	
	Nominal		Real	Prices[1]		
	EUR bn	Year-on-year changes, in %			EUR bn	Year-on-year changes, in EUR bn
Q1 2011	29.8	+23.5	+17.8	+4.3	−2.2	−1.0
Q2 2011	30.8	+12.0	+3.3	+3.3	−1.8	−1.0
Q3 2011	30.4	+8.1	+5.1	+2.8	−2.7	−1.6
Q4 2011	30.8	+4.0	+1.8	+2.1	−2.5	−1.3
Q1 2012	30.7	+3.1	+1.6	+1.4	−2.3	−0.1
Q2 2012	30.8	+0.2	−1.3	+1.5	−1.4	+0.3
H1 2011	60.6	+17.3	+12.8	+4.1	−4.0	−2.1
H2 2012	61.5	+1.6	+0.1	+1.5	−3.7	+0.3

	Import				Terms-of-Trade[1]
	Nominal		Real	Prices[1]	
	EUR bn	Year-on-year changes, in %			
Q1 2011	32.0	+26.5	+16.2	+8.8	−3.7
Q2 2011	32.5	+15.2	+8.0	+6.7	−3.1
Q3 2011	33.1	+13.2	+7.2	+5.6	−2.6
Q4 2011	33.4	+8.1	+3.6	+4.3	−2.1
Q1 2012	33.0	+3.0	+0.9	+2.1	−0.7
Q2 2012	32.3	−0.8	−2.6	+1.8	−0.3
H1 2011	64.6	+20.5	+12.0	+7.7	−3.4
H2 2012	65.3	+1.1	−0.8	+1.9	−0.5

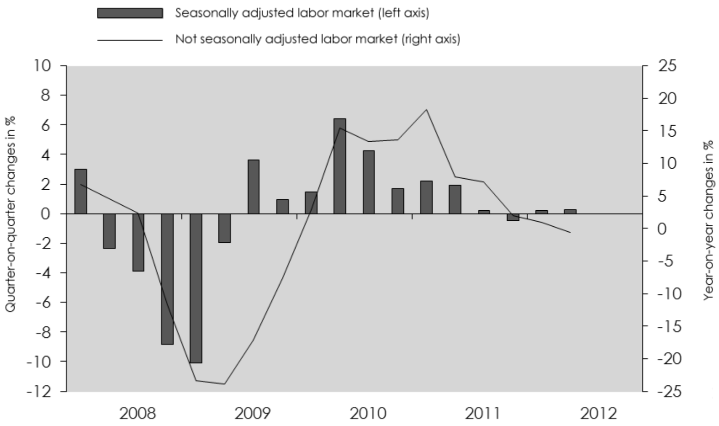
Source: Statistik Austria, WIFO, 2012.

Notes: [1]) Prices according to national accounts.

Exports of goods increased by only 1.6% in nominal terms in the first half of 2012; exports of goods in real terms stagnated. Seasonally adjusted values in a quarter-on-quarter comparison showed hardly any strong recovery so far this year (Figure 5).

[6]The values are generally nominal, be real, i.e., represented by values adjusted for price effects, it is explicitly stated.

Figure 5: Current Development of Austrian real exports of goods according to VGR

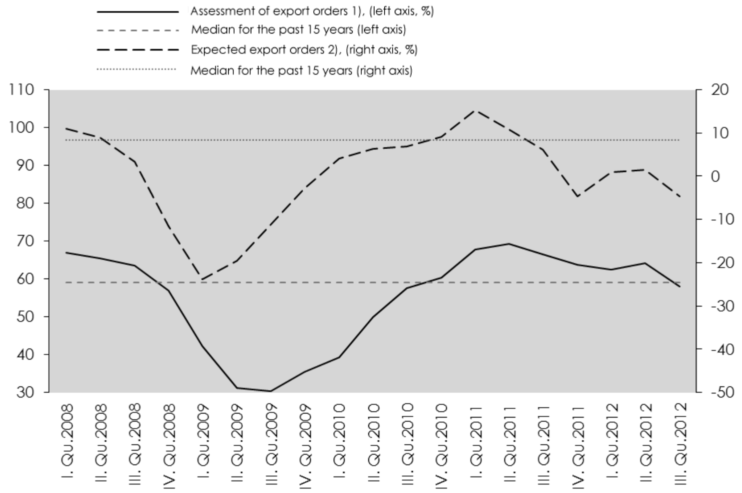


Source: WIFO, Statistik Austria, 2012.

According to initial results of the national income accounting by the WIFO seasonally adjusted real exports expanded by just 0.2% or 0.3% in the first and second quarters of 2012 compared to the previous quarter. Also, the last available values of the monthly series for June 2012 indicate no reversal in this trend. Moreover, results from the WIFO business cycle survey point to a further slowdown in export growth in the second half of the year. The assessment of industrial orders from foreign companies is already slightly below the long-term average and has worsened for the fifth time in a row. Even the outlook for the coming months (expectations of export orders) reveals a significantly pessimistic view of export companies. The negative evaluations clearly outweigh the positive export expectations (Figure 6).

Even weaker than exports, Austrian imports grew by only $+1.1\%$ in nominal terms. According to initial calculations, real imports dropped by -0.8%. While the nominal trend of imports for fuel and energy remained high at $+15\%$, also due to the continuing high prices of crude oil, imports continued to be reduced for industrial goods and some other important sub-sectors. Imports of semi-finished materials, of machinery and consumer products were lower (year-on-year), the only exception being chemical products. As a result, the trade balance in industrial products improved by EUR 790mn; however, the deficit in the trade of energy weighted heavily on the overall result in the first half with a worsening of the deficit by about EUR 730mn. Overall, the first half of the year 2012 saw a slight improvement in the trade balance of EUR 274mn.

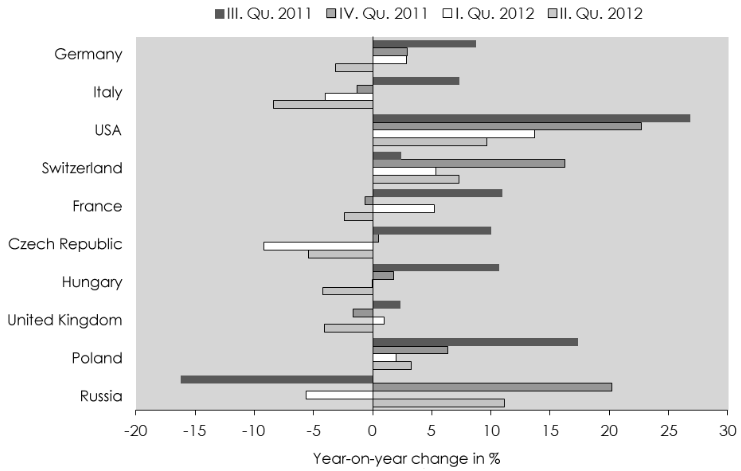
Figure 6: Assessment and projection of Austrian industrial export orders



Source: WIFO, 2012.
Notes: [1]) Share of firms that see their export orders as “adequate” or “more than adequate”. [2]) Share of companies expecting an increase in export orders in the next three months, minus share of firms expecting a decline in export orders in the next three months.

The most important stimuli for Austrian exports in the first half of 2012 stemmed from extra-EU trade (Table 4).

Figure 7: Trends in Austrian exports in 10 partner countries



Source: WIFO, Statistik Austria, 2012.
Note: Sorted by export status in 2011.

Domestic exporters benefited mainly from demand on the U.S. market (increase in exports by +11.7%) and on the Swiss market (+6.3%) as well as from increasing shipments to Russia (+ 2.9% cumulative; +11.1% in the second quarter).

Table 4: Austrian foreign trade in goods with selected regions

	Export		Import		Balance of Trade	
	Q2 2012	H1 2012	Q2 2012	H1 2012	H1 2012	H1 2012
	Year-on-year change in %				MM EUR	Year-on-year change in MM EUR
EU 27	−3.0	−0.9	−3.6	−1.5	−3,831	334
Euro area 17	−3.6	−0.8	−4.1	−2.2	−5,535	599
North	−2.4	0.5	−4.3	−2.3	−6,240	858
South	−7.6	−5.3	−2.9	−2.1	704	−259
EU 7	−0.5	−1.2	−3.6	−0.5	1,066	−56
EU – the rest	−3.2	−1.0	7.2	9.1	638	−210
EFTA	7.3	5.8	3.9	9.4	−175	−123
Western Balkans	−2.1	2.0	10.0	11.3	363	−55
Black Sea area	2.2	1.7	−10.9	−4.0	84	59
NAFTA	11.1	13.3	22.5	13.1	1,779	212
BRIC	4.5	3.3	1.3	8.3	−1,747	−307
6 dynamic Asian countries	12.3	8.5	8.8	5.6	352	55
Other countries	11.4	10.7	10.7	6.8	−549	99
Total	0.2	1.6	−0.8	1.1	−3,724	274

Source: WIFO, Statistik Austria, 2012.

Note: See also FIW (2012). Euro area 17 – north: Belgium, Germany, Estonia, Finland, France, Ireland, Luxembourg, the Netherlands and Slovakia; Euro area 17 – south: Greece, Italy, Malta, Portugal, Slovenia, Spain, Cyprus; EU7: Bulgaria, Lithuania, Latvia, Poland, Romania, Czech Republic, Hungary, Western Balkans: Albania, Bosnia and Herzegovina, Kosovo, Croatia, Macedonia, Montenegro, Serbia, Black Sea Area: Armenia, Azerbaijan, Georgia, Moldova, Turkey, Ukraine, 6 dynamic Asian countries: Hong Kong, Malaysia, Singapore, South Korea, Taiwan, Thailand.

Overall, exports to extra-EU countries rose by 7.5%. By contrast, exports in the northern EU stagnated (+0.5%) with a slight decline in exports to Germany (−0.2%) and the United Kingdom (−1.6%) – and a reduction in exports by 5.3% in the southern EU. Especially significant was the drop in exports to Italy – a major trading partner – by 6.2%. The growth of exports to Central and Eastern European countries (EU7) was also slightly negative. This can be attributed mainly to weak exports to the two most important markets in the region. In the first half of 2012, exports to the Czech Republic – one of the most important markets for Austrian exports in previous years – dropped by 7.3% year-on-year, while exports to Hungary dropped by 2.2%. Austrian exports increased in other countries of the region, including the important market of Poland (+2.6%). Exports to the 6 dynamic countries in Asia rose by 8.5% year-on-year in the first half of 2012, with the dynamics increasing even further in the second quarter. For exports to China, Japan and India, the second quarter already showed first signs of a flattening export growth. Numerous economies in Asia and Latin America are largely dependent on demand from Europe, and thus the crisis in Europe increasingly hampers the dynamic of growth in these newly-industrialized countries. This way, Austrian exporters can less and less rely on demand in these countries. Austrian supply to China in the second quarter still grew by 4.2%; however, exports to Japan and India saw a year-on-year drop by −6.1% and −26.7%, respectively.

The negative trends in exports were spread across nearly all categories of goods.

Table 5: Current dynamics of Austrian exports of goods in selected sectors

	Export		Import		Balance of Trade	
	Q2 2012	H1 2012	Q2 2012	H1 2012	H1 2012	H1 2012
	Year-on-year change, in %				MM EUR	Year-on-year change in MM EUR
Top groups						
Semi-products	−0.9	0,1	−0.4	2.0	124	−181
Finished products	−0.7	1.0	−2.1	−0.5	3,993	611
Investment goods	0.8	3.5	−2.0	−1.3	3,065	727
Consumer goods	−1.6	−0.6	−2.2	−0.1	928	−117
Groups of goods acc. to SITC						
Agrarian products	1.3	3.4	1.3	3.2	−138	5
Nutrition	2.2	3.1	2.3	3.8	−510	−41
Beverages and tobacco	0.4	6.2	5.7	5.8	491	31
Raw materials	−6.4	−5.1	−6.2	−8.9	−1,269	211
Fuel, energy	28.9	19.7	9.6	15.0	−6,220	−731
Industrial Goods	−0.7	1.0	−2.2	−0.5	3,903	790
Chemical products	4.2	4.3	4.6	2.2	−115	156
Processed products	−1.5	0.1	−7.9	−5.7	4,151	644
Steel	−4.2	−1.6	−8.6	−6.7	1,770	85
Machinery, vehicles	−1.7	0.5	−1.8	−0.3	2,349	168
Machinery	−1.5	1.5	−3.9	−2.2	4,770	460
Office machines	7.9	2.3	11.6	8.3	−1,282	−176
Vehicles	−3.9	−2.3	−2.8	−0.4	−1,139	−116
Automobiles	0.9	−2.0	−0.5	4.3	−1,742	−190
Finished consumer products	−2.4	−1.1	−3.1	−0.5	−2,034	−32
Gold (non-monetary)	32.3	43.7	1.5	36.3	−477	−107
Total	0.2	1.6	−0.8	1.1	−3,724	274

Source: WIFO, Statistik Austria, 2012.

The crisis in the euro area led businesses and consumers in Austrian export markets to more prudently plan their investments and consumption of durable consumer goods (such as cars). A positive contribution to growth in nominal terms, can be found only for fuel and energy exports, for chemical products and more recently for office machines (Table 5). In all other groups of products, exports deteriorated steeply in the second quarter of the current year. This mainly concerned machinery exports, transport equipment, as well as consumer products.

IV. Conclusion

In the paper, the current developments of Austrian foreign trade were dealt with. It focused on the key economic indicators, such as real GDP growth, industrial production, and FDI flows in European and other industrial and newly-industrialized countries. In addition, the developments of the Euro exchange rate were presented to give a complete picture of the international environment. On the basis of this analysis, the influence of the international environment, including most notably the economic and debt crisis in Europe, on the Austrian foreign trade itself was discussed.

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