Foreign trade and payments

Foreign trade and current account

External environment

The external conditions for German exporters were no longer quite as favourable in the fourth quarter of 2004 as in the preceding months. One reason for this was that the global economy lost momentum compared with the first half of 2004, not least as a result of the rise in oil prices; all the same, economic growth proved to be so robust that the expansion of the global economy continued on a somewhat flatter path. The other reason was that German suppliers appeared to have been burdened by the temporary appreciation of the euro last year, especially in their trade relations with the dollar area. Overall, German exports stagnated as a result in the final quarter of 2004. In respect of future developments in foreign trade, however, industry appears fairly optimistic, even though export expectations were somewhat more cautious at the start of this year than in the preceding months, according to a survey by the Ifo institute. The latest easing on the foreign exchange markets is likely to lend additional support to this optimism.

Exports of goods

Compared with the previous quarter, nominal exports of goods went up by merely just under ½% in the fourth quarter of 2004 after seasonal and working-day adjustment, after going up by almost 1% in the third quarter. Exports therefore remained almost unchanged on the quarter in real terms, ie after allowing for the slight rise in export prices. The seasonally and working-day-adjusted December figure, which was decidedly low, determined the quarterly result. It is possible that German exporters did not fully exploit the potential of the additional working days in the month.[1] In any case, external developments were noticeably more favourable until November. This is also reflected in the figures for individual countries.

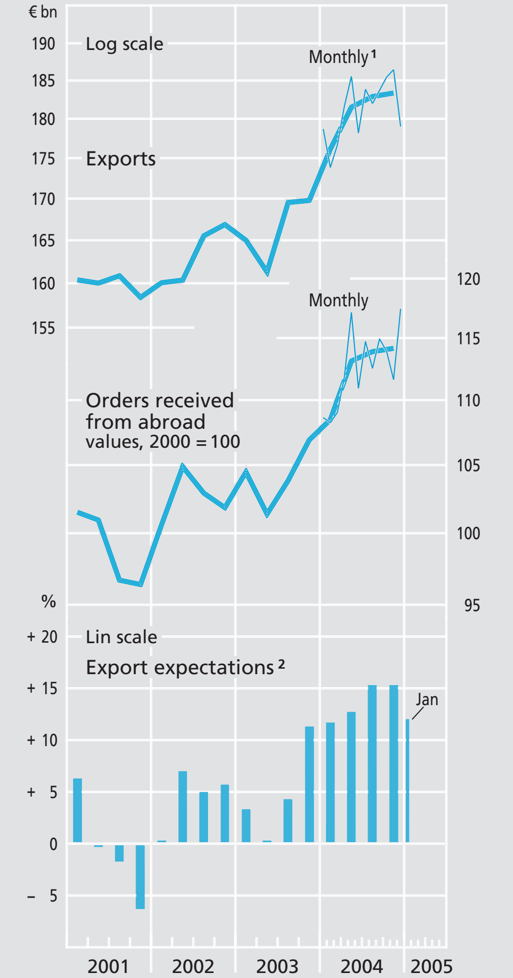
Breakdown of exports

A comparison of the average of October and November 2004 – statistics on foreign trade by region and sector are not yet available for December – with the third quarter shows that German exporters managed to increase the value of exports to both the euro area and third countries (+1½% in each case). In particular, trade with the Netherlands and France contributed towards the growth in exports to other euro-area countries. In France's case, exports of aircraft were a major factor. Overall, German suppliers are likely to have continued to benefit from the comparatively advantageous price and cost developments in Germany in terms of sales within the euro area.

In view of the further appreciation of the euro up to the end of 2004, however, German exporters have been less able to compete on price with third countries in recent months. The shifts in exchange rate parities and the economic differences between regions have led to sales of German products in the individual non-euro-area countries turning out very differently. In the period under review, turnover from exports by German industry to the rapidly growing ten new EU member states went up particularly dynamically (+10½%). Owing to the great importance of these countries to German exports – 9% of Germany's total exports and 16% of German exports to third countries are currently to these countries – this strong growth was due primarily to the increase in sales outside the euro area. The value of exports to

Export trend

Seasonally adjusted, quarterly



1 Monthly values adjusted to match quarterly level. — **2** Results of the Ifo business survey; balances of positive and negative company reports.

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1 December 2004 had two more working days than December 2003, for example. As working-day adjustment is based on the monthly average number of working days, not making full use of the additional working days – for example, when company holidays take place between Christmas and New Year independently of the number of working days in that period – would lead to relatively fewer exports in (seasonally and) working-day-adjusted terms.

Trend in foreign trade by region and by category of goods

Average of October and November 2004 compared with the average of July to September 2004
%; seasonally adjusted

Item	Exports	Imports
Total	+ 1.3	+ 2.1
Selected country/group of countries		
Euro-area countries	+ 1.3	– 0.6
Other EU countries	+ 6.8	+ 5.6
United States	– 1.4	+ 1.2
Japan	– 10.6	– 3.7
China	+ 3.2	+ 10.9
Russian Federation	– 2.2	+ 11.8
OPEC countries	+ 1.7	+ 13.2
Emerging markets in South-East Asia	– 6.8	– 2.5
Categories of goods		
Selected main categories		
Intermediate goods	+ 1.2	+ 0.4
Capital goods	+ 1.8	+ 3.2
Consumer goods	+ 2.7	+ 3.3
Energy	.	– 0.6
Selected categories		
Chemicals	+ 2.5	+ 13.7
Machinery	– 0.4	+ 1.1
Motor vehicles and motor vehicle parts	– 1.9	– 3.9
Information technology	+ 2.4	+ 0.6
Metals and metal products	+ 2.1	+ 2.0

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China (+3%) and the OPEC countries (+1½%) also rose somewhat in the period under review. By contrast, export turnover in most of the other important German sales areas was, in some cases, considerably lower than in the previous period, presumably due, not least, to exchange rate movements. This particularly affected Japan (-10½%) and the emerging markets in South-East Asia (-7%) whereas the decline in exports to the United States was smaller (-1½%).

The greater foreign demand in October and November as a whole was directed primarily at the German consumer goods sector, whose export turnover rose by just over 2½%. However, it also gave rise to a nominal increase of just under 2% in exports of capital goods, the focal point of German exports, and of 1% in intermediate goods. The increase in products of the German chemical industry and the information and communication sector was particularly noticeable (+2½% in each case). In addition, metal products were in greater demand abroad. However, exports of motor vehicle equipment fell (-2%).

Imports of goods

The value of German imports of goods increased by just over ½% in seasonally adjusted terms in the fourth quarter of 2004; they therefore went up much more slowly than in the previous quarter (+4%). Like exports, they stagnated in real terms as import prices rose by just under ½% in the three-month period under review. Goods imported from third countries actually became ½% cheaper. The 6% average appreciation of the euro against the dollar in the fourth quarter vis-à-vis the previous quarter was one contributory factor. The other factor that had a considerable effect on the moderate price developments was the sharp fall in oil prices in the last two months of 2004.

Breakdown of imports

Although there is not yet any information available on the regional and product structure, imports, like exports, fell sharply in December. On an average of October and November compared with the average of the third quarter, there was still an increase of 2½%. This increase can be attributed exclusively to increased imports from third countries (+4% in nominal terms). The value of imports from the Russian Federation went up by 12%. Imports, mainly of crude oil, from the OPEC countries also showed a high nominal rate of increase (+13%). In both cases, however, price effects are likely to have played a significant role.[2] Nevertheless, it was not energy imports that led to the rise in imports; these declined in value overall as German energy importers were evidently reluctant to place orders in view of the sharp price fluctuations on the oil market. The decisive factor was the greater domestic demand for foreign capital and consumer goods as well as for chemical engineering goods, although it must be said here that exports, which were more robust up until November anyway, could also have triggered a greater need for imports. Imports from China and the ten new EU member states rose particularly sharply (+11% and +8½% respectively); these countries positioned themselves as, among other things, important suppliers of information and communications technology goods. By contrast, imports from both Japan (-3½%) and South-East Asia (-2½%) fell in value compared with the preceding three-month period. The same was true of imports from the other euro-area countries (-½%), in which there may have been substitution effects in view of the fact that imported products became 1½% more expensive on an average of October and November.

Current account

The seasonally adjusted trade surplus fell by €½ billion in the fourth quarter of 2004 compared with the previous quarter to €36½ billion. The cause of this was the somewhat sharper increase in nominal imports of goods in comparison with exports. At the same

2 The greatest relief in import prices arising from declining crude oil prices did not occur until December 2004 and therefore cannot yet be reflected in these regional data, which only cover the period until November.

Major items of the balance of payments

€ billion

Item	2003	2004	
	Q4	Q3	Q4
I Current account			
1 Foreign trade [1]			
Exports (fob)	172.0	179.7	190.1
Imports (cif)	140.2	142.8	154.7
Balance	+ 31.8	+ 36.9	+ 35.4
2 Services (balance)	– 5.6	– 13.4	– 7.9
3 Income (balance)	+ 0.3	– 3.8	+ 3.5
4 Current transfers (balance)	– 6.3	– 8.0	– 6.2
Balance on current account [2]	+ 18.4	+ 8.5	+ 21.6
Memo item Balances, seasonally adjusted			
1 Foreign trade	+ 34.2	+ 37.1	+ 36.7
2 Services	– 8.8	– 9.3	– 10.7
3 Income	– 0.5	– 3.2	+ 2.9
4 Current transfers	– 6.2	– 7.2	– 6.1
Current account [2]	+ 16.7	+ 14.5	+ 19.4
II Balance of capital transfers [3]	– 0.0	+ 0.2	– 0.3
III Balance of financial account [4]	– 25.8	– 30.6	– 29.6
IV Change in the reserve assets at transaction values (increase: –) [5]	+ 1.2	+ 1.6	+ 0.0
V Balance of unclassifiable transactions	+ 6.2	+ 20.3	+ 8.3

1 Special trade according to the official foreign trade statistics (source: Federal Statistical Office). — 2 Includes supplementary trade items. — 3 Including the acquisition/disposal of non-produced non-financial assets. — 4 For details see the table "Financial transactions" on page 51. — 5 Excluding allocation of SDRs and changes due to value adjustments.

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time, the deficit on invisible current transactions fell by €6 billion to €14 billion. This fall is attributable mainly to a sharp rise in net cross-border income, which led to a surplus on income of €3 billion. Besides this, slightly smaller net current transfers were paid to non-residents. The deficit on services was €1½ billion up on the quarter. The German current account therefore closed with a seasonally adjusted surplus of €19½ billion in the final quarter of 2004 following one of around €14½ billion in the previous quarter.

Financial transactions

Trends in financial transactions

Relatively favourable stock and bond markets as well as exchange rate movements in favour of the euro determined events on the international financial markets in the final quarter of last year. The interest rate advantage that dollar paper had on the capital market increased further. At the short end, the increase in the federal funds rate played a role. On balance, some of the aforementioned influences cancelled each other out in German financial transactions. If portfolio investment and direct investment are taken together, there were net inflows into Germany of €9 billion in the fourth quarter of 2004.

Portfolio investment

In portfolio investment alone, there were slight (net) inflows of funds amounting to €1 billion; in the previous quarter, there had been net capital imports of €18 billion.

Foreign investment in ...

Foreign investors played a crucial part in this fall. They showed far less interest in German securities in the final quarter than in late summer (€18 billion compared with €38½ billion). The main reason for this was the drop in demand for German bonds and notes, which evidently seemed less attractive to them in view of the changed interest rate situation. On balance, they added just €15 billion worth of German bonds to their portfolios compared with €33½ billion in the previous three-month period. Public bonds accounted for most of this figure (€11 billion). By contrast, bank bonds, which had been in high demand between July and September, played a lesser role in foreign investors' portfolio decisions in the period under review (€3½ billion).

... German bonds and notes ...

... and German shares

There was also less foreign interest in the German equity market in the final quarter of the year. On balance, foreign investors acquired just €1 billion worth of German equities compared with €6½ billion worth in the previous three-month period. Owing to the comparatively strong performance of the DAX and the simultaneous peaking of the euro, profit-taking, especially by investors from outside the euro area, could have reduced net acquisitions.

German investment in ...

German investors likewise reduced their new investment in the international securities markets (€17 billion compared with €20½ billion before), albeit not to the same extent as foreign investors in Germany. In particular, they bought foreign bonds and notes in the final three months of last year (€17½ billion). Euro-denominated foreign long-term debt instruments accounted for the overwhelming majority of these (€15 billion), as has been the case since the beginning of monetary union. These instruments usually carry some-

... foreign bonds and notes

what higher yields than comparable Federal securities (11 basis points on an average of the fourth quarter).

... shares and money market paper

German investors again showed limited interest in foreign shares, too, in the period under review. They added foreign equities to their portfolios from October to December (€2½ billion) after having sold this type of paper on balance in the previous quarter. By contrast, they sold foreign money market paper (€2 billion) and mutual fund certificates of foreign funds (€1 billion), notably money market funds. As yields declined, short-dated paper offered fewer opportunities to make gains than longer-term debt securities.

Foreign direct investment in Germany

As with portfolio investment, direct investment resulted in net capital imports amounting to €8 billion in the period under review. Foreign enterprises invested €2 billion in Germany from October to December. Of major importance was the fact that they provided their branches domiciled in Germany with additional equity capital (€11 billion). At the same time, however, intra-group credit transactions, which likewise come under the category of direct investment, led to a net withdrawal of funds: for example, German subsidiaries repaid substantial loans to their foreign proprietors.

German direct investment abroad

By contrast, German enterprises withdrew around €6 billion net from their branches abroad between October and December. This can also be attributed mainly to credit transactions within groups, which led to net capital imports of €8½ billion. Of these, short-term financial loans played a particularly im-

Financial transactions

€ billion, net capital exports: –

Item	2003	2004	
	Q4	Q3	Q4
1 Direct investment	– 11.9	– 8.2	+ 7.9
German investment abroad	+ 1.1	– 8.0	+ 5.8
Foreign investment in Germany	– 13.0	– 0.2	+ 2.1
2 Portfolio investment	+ 20.4	+ 18.2	+ 0.8
German investment abroad	– 10.7	– 20.4	– 17.0
Shares	– 6.0	+ 6.1	– 2.3
Mutual fund shares	– 0.5	– 3.1	+ 0.8
Bonds and notes	– 6.6	– 17.7	– 17.5
Money market paper	+ 2.4	– 5.6	+ 2.0
Foreign investment in Germany	+ 31.1	+ 38.6	+ 17.8
Shares	+ 20.3	+ 6.7	+ 0.8
Mutual fund shares	+ 0.3	+ 4.0	+ 1.2
Bonds and notes	+ 14.4	+ 33.7	+ 14.8
Money market paper	– 3.9	– 5.9	+ 1.1
3 Financial derivatives 1	– 0.0	– 2.6	– 3.5
4 Credit transactions	– 33.5	– 37.3	– 34.0
Monetary financial institutions 2	– 30.2	– 5.1	– 38.0
Long-term	+ 1.1	+ 4.5	– 7.1
Short-term	– 31.4	– 9.6	– 30.9
Enterprises and individuals	+ 5.1	– 2.5	+ 3.3
Long-term	– 0.8	– 1.8	– 0.6
Short-term	+ 5.9	– 0.7	+ 3.9
General government	– 0.2	+ 3.1	– 2.5
Long-term	+ 1.3	+ 1.4	– 1.1
Short-term	– 1.5	+ 1.8	– 1.3
Bundesbank	– 8.2	– 32.8	+ 3.2
5 Other investment	– 0.7	– 0.7	– 0.9
6 Balance of all statistically recorded capital flows	– 25.8	– 30.6	– 29.6
Memo item Change in the reserve assets at transaction values (increase: –) 3	+ 1.2	+ 1.6	+ 0.0

1 Securitised and non-securitised options and financial futures contracts. — **2** Excluding the Bundesbank. — **3** Excluding allocation of SDRs and changes due to value adjustments.

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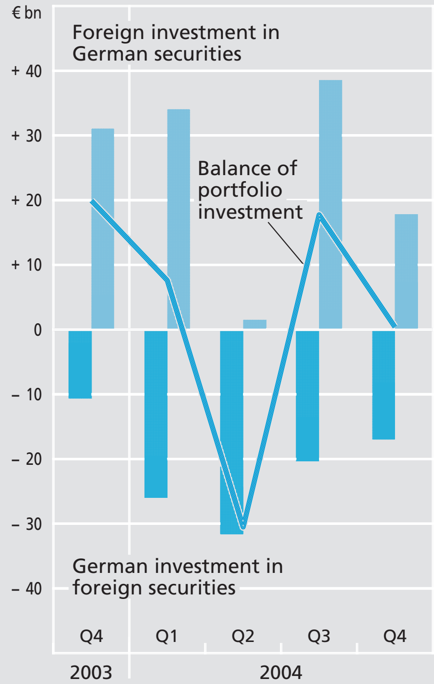
Portfolio investment

Net capital exports: –



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portant role. At the same time, German proprietors provided their foreign branches and subsidiaries with €1 billion worth of equity capital.

Credit transactions of non-banks

The non-securitised credit transactions of non-banks led to net capital imports of €1 billion in the fourth quarter of 2004. Enterprises and individuals repatriated funds amounting to just under €3½ billion net. As is usual at the end of the year, the repatriation of bank deposits held abroad played a decisive role in this respect. Overall, however, the operations of non-banks appear to have been less extensive in the final month of 2004 than in previous years. Cross-border transactions by general government resulted in net capital exports of €2½ billion.

Credit transactions of the banking system

The non-securitised credit transactions of the banks (including the Bundesbank), which essentially reflect all other external transactions, resulted in net capital exports amounting to €35 billion in the period under review compared with €38 billion in the previous quarter. This figure was due mainly to credit institutions' external payments, which alone accounted for outflows of €38 billion. By contrast, the Bundesbank's external assets fell by €3 billion, primarily as a result of transactions within the gross settlement system TARGET.

The Bundesbank's reserve assets

The Bundesbank's reserve assets, which are shown separately from cross-border credit transactions in the balance of payments, remained broadly unchanged at transaction values between October and December. However, there was a €4½ billion fall after revaluation at current market prices. This was due mainly to the depreciation of foreign exchange reserves as well as the reduction in the price of gold. On balance, the reserve assets stood at €71½ billion at the end of 2004 compared with €76½ billion at the end of 2003.