

»» Strong imports make up for weak exports

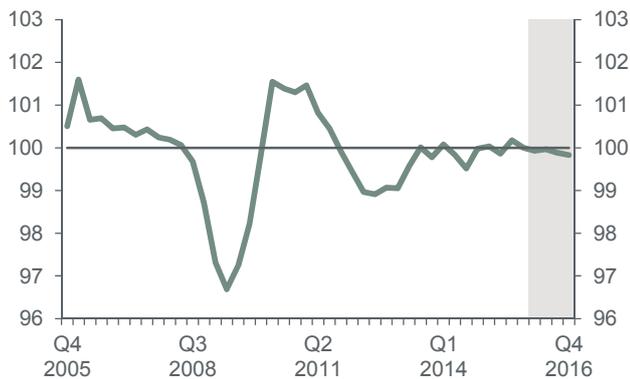
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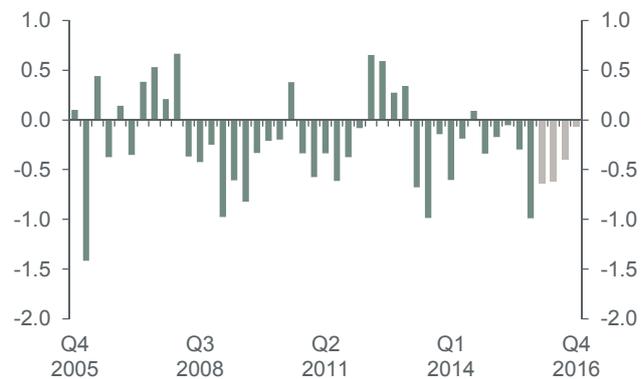
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- External trade momentum continues on long-term levels
- Exports may pick up with global recovery towards the end of the year
- As domestic demand eases slightly later in the year, so will imports

External trade indicator



Balance of export and import momentum



Forecast for 1st quarter 2016 to 4th quarter 2016.

Source: KfW.

The indicator of German external trade activity computed by KfW – the KfW External Trade Barometer – was on the long-term average level of 100 points in the fourth quarter of 2015. The overall indicator has displayed rather unspectacular momentum, almost matching the long-term level since the end of 2013. The sideways movement will continue on an average of 99.9 points over the next four quarters. Accordingly, the German economy cannot expect to receive any major boost from external trade.

The stability on an aggregate level conceals the fact that imports developed more positively last year than exports. This difference was particularly pronounced in the final quarter of 2015. Exports had grown at a below-average pace on the previous year but this weakness is not expected to become entrenched. Imports, in turn, grew at an above-average rate. This momentum, however, will probably ease somewhat throughout the year 2016. Accordingly, the gap between export and import momentum of -0.99 points in Q4 2015 will close to -0.06 points in Q4 2016.

Import momentum had benefited last year from a stable domestic economy – demonstrated by manufacturers' orders received from domestic buyers. Lower international transport costs also supported the trend. These costs are expected to

increase this year and domestic demand will ease somewhat in the second half of the year, slightly dampening the outlook for imports.

In contrast, exports had to negotiate a difficult international environment in 2015. Towards the end of the year, uncertainty about the economic growth of emerging and developing countries increased in particular. The significantly lower pace of incoming orders from abroad was evidence of a further slowdown in growth on 2014. Germany's increased price competitiveness vis-a-vis its trading partners, however, mitigated the negative effects.

In order for Germany's exports to grow more strongly this year, the positive development in many smaller countries and the positive effects of lower commodity prices in importing countries will have to offset the dampening effects for the commodity exporters, the slower growth in China and the geopolitical risks. Germany's price competitiveness, which is not improving at the same rate anymore, may generate a further dampening effect. However, the outlook for Germany's important trading partners, the EU and the USA, remains positive. ■

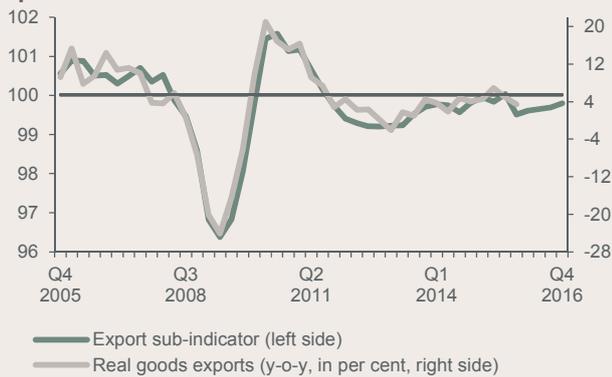
Methodological appendix: Construction of indicators

The external trade indicator is the simple average of the export sub-indicator and the import sub-indicator. The value 100 marks the long-term average. Values above / below 100 represent above-average / below-average growth of imports and exports compared with the previous year.

The indicator as the balance of export and import momentum is the difference between the export sub-indicator and the import sub-indicator. If the value is positive (negative), exports develop more strongly (less strongly) than imports, whereas both factors grow at the same rate when the value is zero.

The indicators and the underlying estimation models are based on quarterly figures. The forecast period comprises four quarters.

Export sub-indicator



Import sub-indicator



Source: KfW

The sub-indicators for imports and exports are obtained from the respective estimated values of an ordinary least squares estimation. All variables used in the estimation are computed as variations on the previous year's quarter and normalised to a mean value of zero and a standard deviation of one based on the period from Q1 1995 to the current margin. The import and export series of the balance of payments statistic are used as dependent variables and deflated with the export and import price index. The explanatory variables used in the export estimation equation are the non-domestic new orders in manufacturing, the Deutsche Bundesbank's indicator of price competitiveness vis-a-vis 56 trading partners and the export-weighted economic trend in the destination countries of German exports on the basis of IMF data and national statistics – where available.

The explanatory variables for imports are domestic use, the domestic new orders in manufacturing, the Baltic Exchange Dry Index as an indicator of international transport costs and a dummy variable. The latter assumes a value of 1 between Q2 2002 and Q1 2006 in order to take into account two structural breaks in the import equation.

Table: Description of variables applied

Description	Forecast	Source of the underlying data
Goods imports and exports based on the balance of payments statistics		Thomson Reuters Datastream: Deutsche Bundesbank
Economic situation of Germany's trading partners weighted with the value of exports	Forecasts based on the IMF's World Economic Outlook and internal economic forecasts; forecast export weights on average for the past four quarters	Thomson Reuters Datastream: IMF, national source.
Domestic use according to national accounts	Autoregressive model	Thomson Reuters Datastream: Federal Statistical Office
Non-domestic new orders in manufacturing	Autoregressive model	Thomson Reuters Datastream: Federal Statistical Office
Domestic new orders in manufacturing	Autoregressive model	Thomson Reuters Datastream: Federal Statistical Office
Indicator of Germany's price competitiveness against 56 trading partners	Autoregressive model	Thomson Reuters Datastream: Deutsche Bundesbank
Baltic Exchange Dry Index	Autoregressive model	Thomson Reuters Datastream: Baltic Exchange