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Executive Summary

# Analyse der österreichischen Handelsbilanz

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## Abstract

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Die vorliegende Analyse der österreichischen Warenverkehrsbilanz diskutiert sowohl die zeitliche Entwicklung der Handelsbilanz und ihre zugrundeliegenden Faktoren als auch die bilateralen Bilanzen mit den wichtigsten Handelspartnern und die Handelsbilanz in ausgewählten Warengruppen. Mit ökonomischen Verfahren werden kurz- und langfristige Effekte identifiziert und die strukturelle Komponente der Handelsbilanz geschätzt. Zudem wird der Einfluss der Finanzmarkt- und Wirtschaftskrise auf die Warenverkehrsbilanz ermittelt. In einem internationalen Vergleich werden Parallelen und Unterschiede zur deutschen und zur Schweizer Handelsbilanz gezeigt.

**Keywords:** External balance, trade balance, foreign trade

**JEL-codes:** F14, F62

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## The Austrian Trade Balance – Summary

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The study analyses the Austrian trade balance (merchandise trade only). Its main findings can be summarised as follows:

- The balance on merchandise trade is determined by relative incomes compared with other countries and by relative prices. The long- and short-term impact channels differ markedly. In recent times, the regional diversification of trade structures has gained importance as a third key factor.
- The relationship between the trade balance and the relative income position exhibits a U-shaped schedule: at low income and productivity levels, a country's trade deficit tends to increase (catching-up phase), while at higher levels it will normally narrow. In the short term, however, a relative increase in demand will always lead to a weaker trade balance.
- Austria's trade balance deteriorated steadily throughout the post-war era until the early 1980s, when the trend turned around. Until the 1980s, Austria was a "technology-taker", growing faster than its trading partners. By that time, the catching-up potential was exhausted and the economy moved from a follower to a leader in technological advance, turning to a positive relationship between income level and foreign trade.
- The influence of relative prices (terms of trade) on the trade balance is negative in the long run. An increase in the terms of trade will weaken the trade balance since the domestically-produced goods become relatively more expensive and demand for them will slacken (volume effect). In the short run, however, the price effect will dominate: as long as demand does not react to the change in relative prices, cheaper imports and/or more expensive exports will improve the trade balance.
- Since the early 1980s, the terms of trade have followed a moderate downward trend that has contributed to the reduction of the trade deficit. Yet, the impact of the terms of trade is altogether small: short-term price effects explain two-thirds of the short-term variation in demand; in the long run, the explanatory power of relative prices for the balance on the foreign exchange of goods is only one-third of that of relative income levels.
- The significant improvement in the trade balance during the first half of the 2000s is mainly due to a stronger position vis-à-vis non-OECD-Europe countries. Higher trade surpluses with the USA and the countries in central and eastern Europe play an important role in this regard.
- Austria's role as exporter of technology was given new impetus by the opening of central and eastern European markets. In the 2000s, regional diversification was another major

factor for Austria's foreign trade position. The transformation and integration of eastern Europe has worked as a catalyst also in this respect.

- The structural (long-term) component of the trade balance has been on an upward trend since the end of the 1970s, lasting until now. The weakening of the trade balance in the wake of the Great Recession is largely a transitory price effect caused by the hike in oil prices and the implicit widening gap in the commodity and energy trade balance.
- A comparison between Austria's and Germany's trade balance reveals a similar trend over time, notwithstanding a substantial difference in level terms. The common trend derives from the close mutual economic linkages and from both countries' high exposure to foreign trade. By comparison, trade development patterns are more uneven between Austria and Switzerland.
- Apart from the difference in level, the trade balances of Germany and Austria did not improve in parallel. The surplus grew faster in Germany in the first half of the last decade and maintained a positive gap vis-à-vis Austria until 2009. In the wake of the recession, the German surplus dropped relatively faster than the Austrian one.
- Of all commodity groups, the Austrian trade surplus is highest for manufactures, both as regards investment and, to a lesser extent, consumer goods. Since the mid-1990s, there has been a marked improvement in both groups. During the crisis of 2008-09, the trade balance for investment goods proved resilient while it weakened for consumer goods. This indicates that part of the higher consumer demand originated from countries which before the crisis enjoyed strong cyclical upswings driven by private consumption. These consumption booms and hence the above-average improvement of the trade balance for consumer goods proved unsustainable.
- For raw materials and energy commodities, the Austrian trade balance shows a sizeable deficit that widened markedly during the 2000s, which is closely related to the oil price increase. The price elasticity of demand for oil being rather small, the jump in world market prices is almost fully reflected by the trade gap. The commodity trade component has also been largely responsible for the weakening of the trade balance between mid-2010 and end-2011. Due to the rather small weight of trade in food and beverages, the strong increase in food prices of 2007 had only minor knock-on effects on the overall trade balance.
- The composition of the trade balance by broad commodity groups exhibits for Austria a similar pattern as for Germany where also finished goods provide the largest contribution to the surplus and the balance is largely negative for the exchange of raw materials. Yet, in Germany the trade surplus for finished goods is markedly higher than in Austria. Likewise, the increase since the 1990s has been much stronger in Germany. By 2012, the German trade surplus for finished goods had returned to the level held before the crisis.
- The direct impact of economic policy on the trade balance is small; the evolution of the export/import relation is rather dependent from relative income levels and thus from the

stage of development of an economy. Market-driven foreign trade prices also play a role and (implicitly) the exchange rate which for the trading partners in the euro area no longer exists and, in any case, is not a matter of national sovereignty.

- In a highly-advanced economy like Austria, an improvement in the trade balance is achieved mainly via productivity advances and income gains. Among the measures to safeguard and strengthen the competitiveness of domestic firms in a sustained way are investment in education, research and development, as well as investment in the social and physical infrastructure. This will enable Austria's manufacturers to further develop their technological leadership.
- Policy measures contributing indirectly to an improvement of the trade balance may also be taken in the area of energy supply, by reducing the dependence of the domestic economy on fossil fuels. The raw materials and energy balance which is closely correlated with the price for crude oil and its substitutes, acts as a major drag on the trade balance. Lower energy imports via stronger reliance on alternative energy sources would thus strengthen the trade balance overall, all the more so as prices of oil and other commodities can be expected to rise further in the long run.
- The Austrian economy can afford being a net importer of commodities and running deficits in merchandise trade, given its solid surplus in services trade. The latter regularly offsets the trade deficit, yielding a current account close to balance and sparing Austria the necessity of taking on foreign debt. A zero-balance on merchandise trade, taken as a policy goal in itself, is not desirable for Austria as it would lead to substantial current account surpluses which would be an indication of insufficient domestic demand and may give rise to external imbalances vis-à-vis other trading partners. An excessive surplus may also jeopardise macro-economic stability within the European Monetary Union.
- The bilateral trade surpluses with Italy, Slovenia and Croatia are narrowing rapidly in the face of the crisis in the three countries. With regard to regional aspects of Austria's merchandise external trade it should be a priority for policy to resolve the euro area crisis in a way that allows the southern European countries to fundamentally consolidate and strengthen their economic performance. The recession in Italy, caused by exaggerated fiscal restraint, lack of growth strategies and therefore ineffective structural reform, as well as the crisis-driven weakness of private consumption and investment in Slovenia and Croatia act as a drag on Austria's trade balance.
- The countries in central and eastern Europe continue the process of catching up economically towards the western EU Member States. Further trade integration and implicitly, a trade surplus of Austria vis-à-vis these countries are therefore desirable from the economic development perspective. In this respect, the EU accession of Croatia should be used as a driver for trade and growth.