

External trade price level and terms of trade, 2007–2008

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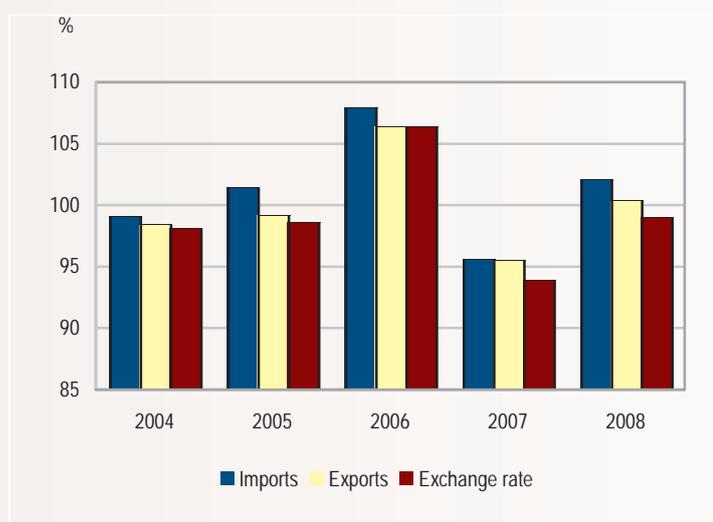
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Longer-term tendency of external trade prices

The longer term **price level change** of external trade reveals that price movements followed primarily the change in the exchange rate of the Hungarian forint. The **forint** appreciated by 4.5% against the major currencies over five years: it slightly strengthened in the period of 2004–2005, depreciated significantly, by 6.5% in 2006, and appreciated to the same extent in the subsequent year. In 2008 a further 1% strengthening followed as a result of the appreciation in the middle of the year and the depreciation in the last quarter.

Figure 1

External trade price indices and exchange rate index (previous year = 100)



Concerning global market price movements the **currency price level** was rising continuously at a moderate rate in the past five years. Stock exchange and other price tendencies mainly affected the price level of food, crude materials, fuels and electric energy, while they had a delayed and lower impact on manufactured goods and machinery.

The increase of the import currency price level was higher than the rise measured in exports all over the period, in which the differing product and

Figure 2

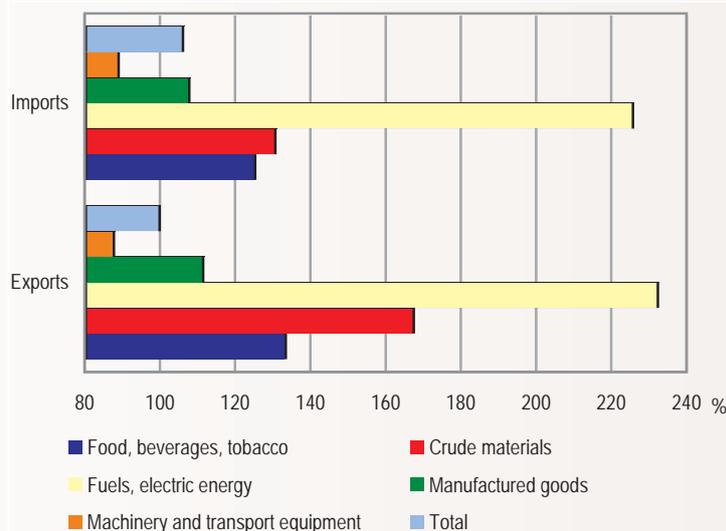
Change of the currency price level (previous year = 100)



currency structure of the two directions of trade had a key role: machinery, showing a decreasing price tendency, had a weight of over 60% in exports and about 50% in imports. The share of fuels and electric energy, which show substantial price rises, was 13% in imports and only 4% in exports. By the end of the period exports were transacted at the price level of 2003. In imports, however, as a consequence of a slow continuous rise, a 6% price increase was recorded over five years.

Figure 3

Change of the external trade price level in 2008 compared to year 2003, by main commodity groups



Terms of trade deteriorated in all the five years, reaching the peak of 2.2% in 2005.

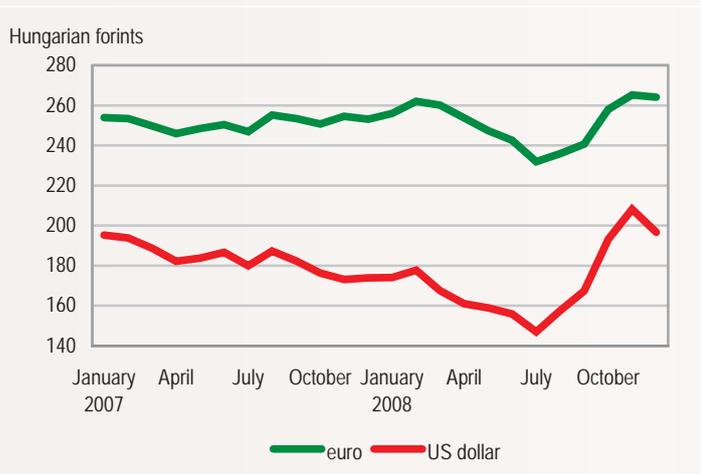
Infra-annual processes, 2007–2008

In all, the Hungarian **forint** somewhat depreciated against the major currencies during the past two years, while there were considerable movements within the period. Our national currency appreciated against the euro from

the middle of 2006, and fluctuated in a relatively narrow band from the beginning of 2007 to the second quarter of 2008. There was another appreciation in summer last year, with the exchange rate approaching 230 forints, which was followed by several waves of depreciation. In autumn the decrease of the forint exchange rate accelerated due to the economic crisis: in December some 30-35 forints more had to be paid against a euro than in July. The price change of the dollar followed a similar tendency to what was mentioned above, though it was more significant.

Figure 4

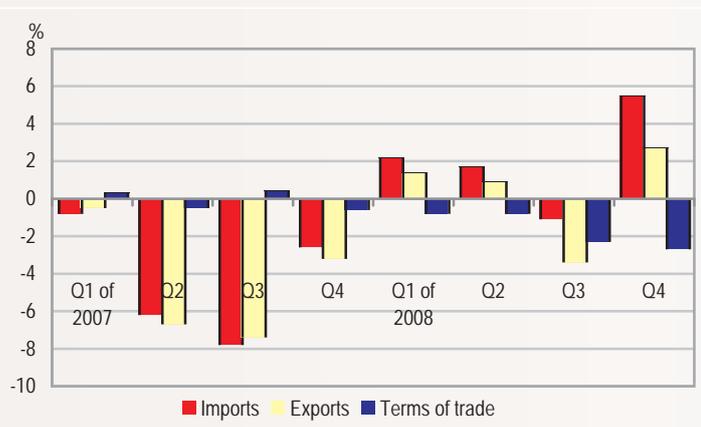
Monthly average currency exchange rates of the National Bank of Hungary



The **currency price level** rose moderately, by 1–2% until the first quarter of 2008, apart from some outstanding months. In the second and third quarters higher rises were recorded than before. The highest price increase occurred in August, when currency prices exceeded the level measured one year earlier by 5.5% in exports and over 8% in imports. In the last months of the year the tendency broke, the currency price level of exports and imports decreased in October and one month later, respectively, below the level of the same period of the previous year. Influenced by changes of both the exchange rate and world market prices the **forint price level** of external trade was lower all over 2007 than in the previous year: an annual decline of about 5% was registered. In 2008 the price level was higher – except for July and August – than a year before but remained below the level observed in the corresponding period of 2006.

Figure 5

Change of price level and terms of trade by quarters (corresponding quarter of the previous year = 100)



External trade transactions in 2007 were made at **terms of trade** of the previous year: monthly data showed either slight improvement or deterioration but changes equalled approximately 1%. In contrast, during the months of 2008 terms of trade deteriorated, with the most severe, 3.6% deterioration having occurred in November.

At an annual level our terms of trade in 2007 were similar to those of the previous year, while they deteriorated by 1.7% in 2008.

Change of external trade prices by main commodity groups

Trade in **machinery and transport equipment** – due to the peculiarities of this product group – is characterised by the fast replacement and obsolescence of products. In case of articles with high turnover usually declines can already be measured in the period of price observation. As a consequence of this their index generally reflects decreasing price changes or ones growing at a lower rate than that of the other product groups. In 2007 external trade in this product group was transacted at a 6–7% lower price level than in the previous year. The next year a more moderate, 3–4% decline followed. Groups with the highest turnover were telecommunications apparatus and equipment, within this mobile phones and parts thereof as well as televisions, and motor vehicle engines and parts thereof in the group of power generating machinery and equipment. The price level of telecommunications apparatus and equipment showed a higher-than-average fall in both years and in both sales directions, while the price decrease of power generating machinery and equipment was lower than that.

The main commodity group of **manufactured goods** contains many product groups from medicaments through metal products to furniture. As a consequence, price movements of product groups reduce the impact of one another: a moderate price level change is specific for this main commodity group. The price level of medicament exports - despite infra-annual price movements - did not change significantly in any of the years. In contrast, export transactions of iron and steel products were made at increasing price levels in both years. A price rise was observed in fertilizer exports, too: in 2008 the average price of the product group was almost 70% higher than a year before.

In fertilizer imports a higher price rise was recorded than in exports: almost twice as much had to be paid for imported fertilizers as in the previous year. In iron and steel imports increasing but moderate price movements were measured, similarly to exports. In medicament imports - as opposed to exports - some price level decline occurred, which resulted from the different product and country structure of the two sales directions.

Table 1

Price index of commodity groups belonging to manufactured goods

(previous year =100.0)

Year	Chemical goods and similar products	Manufactured goods grouped by material	Other manufactured goods	Manufactured goods, total
Imports				
2007	97.5	99.2	95.6	97.8
2008	101.7	101.2	99.8	101.0
Exports				
2007	99.9	100.7	95.6	98.9
2008	101.6	104.4	99.1	101.8

Imports of **fuels and electric energy** – after continuous price level rises from 2003 to 2006 – saw a periodic decrease in the first three quarters of 2007. From November of that year the prices moved upwards again, and a radical drop followed only last December. Within this the price of crude petroleum reached the maximum in summer 2008, while the price level of imported natural gas rose later – due to pricing peculiarities. Expressed in numbers energy imports in 2007 were realized at a 5% lower level than in the previous year. In 2008, however, 31% more had to be paid for imported fuels and electric energy than in the previous year.

The importance of this product group in export sales is significantly lower than in imports. The product structure differs, too, in the two sales directions: in all, crude petroleum and natural gas account for two thirds of imports, while exports consist mainly of petroleum products and electric current. Therefore the price level of energy exports stagnated in 2007, which was followed by a 26% rise, lower than that of imports.

In **food, beverages and tobacco** trade imports expanded dynamically. In spite of this the balance of this product group remained in surplus. As for the structure of sales the largest volume was represented by cereals, vegetables and fruits in exports and by fruits, feeding stuff for animals and to a growing extent by meat and meat preparations in imports in the past period.

Over the two years stock exchange quotations show the rise of wheat prices from the first quarter of 2007 during one year. Subsequently a continuous, lasting price decrease followed: at the end of 2008 quoted prices fell to the level measured in the middle of 2007. The quoted price of soya increased sharply from the last months of 2006 to the middle of 2008, and following a quick drop stood at the level of the second quarter of 2007.

In harmony with international price tendencies the price of exported cereals was growing continuously and markedly until May 2008. Despite the decline observed for the period of June–December the price level at the

end of the year was well above the average recorded two years before. In vegetable and fruit exports considerable seasonal fluctuations were measured in both years in both the product structure of sales and the price level. Due to the price level increase of products with the largest weight food exports in 2007 and in the subsequent year were transacted at 8% and 11% higher price levels, respectively, than in the previous year.

In food, beverages and tobacco imports the price level rose by less than 2% in 2007: the rise in case of vegetables was lowered by the decrease recorded for meat and meat preparations. In 2008 – compared with the low price level of the previous year – prices increased significantly, by 9%: meat was imported at 10%, while feeding stuff – including soya – for animals at more than 25% higher prices than one year earlier.

The weight of **crude materials** in external trade remained at around 2% in the past 2 years, so their price movements had no significant impact on the price level change of the turnover as a whole. The leading products in this main commodity group were oil seeds and vegetable oils in exports and metalliferous ores in imports.

The export prices of oil seeds as well as fats and oils augmented considerably in the second half of 2007 and in the first six months of 2008. In spite of the decline in the second half of last year the export price level of oil seeds and vegetable oils in the last month of the year was 40% and 60% higher, respectively, than in December 2006. The aggregate impact of infra-annual processes was the rise of the crude material export price level by 8% in 2007 and a further 20% after that compared to the previous year as a whole.

Contrarily, import prices of this main commodity group were stable in 2007: the price level rise of vegetable oils was offset by the decrease observed in case of metalliferous ores. In the next year prices typically increased in both groups of products, thus the total price level of this main commodity group was up by 10% compared to 2007.

Further information, data (links):

[Methodology](#)

Contact details:

Eleonora.Baghy@ksh.hu

Telephone: 36-1-345-6706

[Information service](#)

Telephone: 36-1-345-6789

www.ksh.hu