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International trade price indices development in the Q2 2021

In the Q2 2021, compared to the Q1 2021, export prices increased by 2.3% and import prices by 2.6%. The terms of trade reached the value of 99.7%. In the year-on-year (y-o-y) comparison, export prices increased by 1.8% and import prices by 2.3% in the Q2 2021. The terms of trade reached the value of 99.5%.

# Quarter-on-quarter comparison

Export prices increased by 2.3%, quarter-on-quarter (q-o-q), in the Q2 2021, compared to the Q1 2021. The following prices increased the most: prices of ‘crude materials, inedible, except fuels’ by 17.9% (mainly of wood, waste paper, and metal scrap), ‘mineral fuels, lubricants and related materials’ by 10.1% (especially prices of petroleum products and electric current), and prices of ‘chemicals and related products’ by 8.5%. Only prices of ‘beverages and tobacco’ decreased, by 1.6%.

Import prices in the Q2 2021, compared to the Q1 2021, increased by 2.6%, q-o-q. The highest increase of prices was in ‘mineral fuels, lubricants and related materials’ by 13.6% (primarily prices of petroleum and petroleum products and gas) and in ‘crude materials, inedible, except fuels’ by 13.4% (mainly prices of wood). Prices of ‘beverages and tobacco’ decreased by 0.8% and prices of ‘machinery and transport equipment’ by 0.5%.

The terms of trade in the Q2 2021, compared to the Q1 2021, decreased to the value of 99.7%. The lowest negative value of the terms of trade was recorded by ‘mineral fuels, lubricants and related materials’ (96.9%) and the highest positive value was reached by ‘crude materials, inedible, except fuels’ (104.0%).



The international trade in goods (change of ownership) price development was also significantly influenced by the CZK exchange rate to the major foreign currencies. The q-o-q exchange rate index includes two most important currencies in terms of the Czech Republic's international trade, i.e. EUR and USD. Q-o-q indices of the CZK exchange rate to these currencies were weighted by the weight, which pertains to those foreign currencies in the export price index and import price index, respectively.





It is apparent from the Chart No 2 and the Chart No 3 above that in both exports and imports, international trade in goods prices have a relation to exchange rate impacts. Contracts with foreign entities are usually concluded for a longer period and the longer the contract period is, the stronger the relation to exchange rates is.

# Year-on-year comparison

In the Q2 2021, export prices increased by 1.8%, y-o-y (in the Q1 2021 by 3.6%, y-o-y). Prices of the following were increasing the most: prices of ‘mineral fuels, lubricants and related materials’ by 47.2% (mainly of electric current and petroleum products), ‘crude materials, inedible, except fuels’ by 37.6% (primarily prices of metal scrap and of wood), and prices of ‘chemicals and related products’ by 9.5%. Prices of ‘beverages and tobacco’ decreased by 6.2% and prices of ‘miscellaneous manufactured articles’ by 4.1%.

Import prices in the Q2 2021 increased by 2.3%, y-o-y (in the Q1 2021 by 1.4%, y-o-y). Prices of the following increased the most: prices of ‘mineral fuels, lubricants and related materials’ by 71.8% (primarily prices of petroleum and petroleum products), ‘crude materials, inedible, except fuels’ by 21.6% (mainly prices of metalliferous ores and metal scrap), and ‘chemicals and related products’ by 6.0%. Prices of ‘machinery and transport equipment’ decreased by 5.4% and prices of ‘miscellaneous manufactured articles’ by 4.8%.

The terms of trade decreased to the value of 99.5%, year-on-year, in the Q2 2021 (in the Q1 2021 they were at the value of 102.2%, y-o-y) and after nine quarters they got to negative values, see the Chart No 4 below. The negative values of the terms of trade were reached by ‘mineral fuels, lubricants and related materials’ (85.7%), ‘beverages and tobacco’ (95.4%), and ‘manufactured goods classified chiefly by material’ (98.5%). The highest positive value of the terms of trade was recorded by ‘crude materials, inedible, except fuels’ (113.2%).



# International trade in goods price indices, year-on-year, adjusted for exchange rate influence

The Czech Statistical Office also carries out calculations of year-on-year international trade in goods price indices adjusted for effects of exchange rate. Prices in foreign currencies reported in the current month are **converted** to Czech crowns by the **exchange rate** of the same month **of the previous year**. Then they are used for the weighted mean calculation together with prices reported in CZK. The year-on-year adjusted price index for a month is then calculated the way that this exchange rate adjusted base price index of a month is related to the non-adjusted base price index of the corresponding month of the previous year. Adjusted quarter-on-quarter price indices have been calculated similarly since 2017. **Differences between adjusted and non-adjusted price indices may be considerable**; they are obvious in the Chart No 6 and the Chart No 7, for example, in the Q2 2020.

The method employed does not enable to make a 100% exchange rate adjustment because not all trade transactions made in foreign currencies are also reported in foreign currencies; the proportion does not exceed 30%. From the aforementioned it follows that, **at the full exchange rate adjustment, differences** between the price indices published and the exchange rate adjusted price indices **would** probably further **increase**.

The exchange rate adjusted indices described above can also be used to make the exchange rate adjusted breakdown of increments of price indices. The Table 1 gives the **published and exchange rate adjusted breakdown of increments** of export and import price indices, supplemented by the most important two-digit code groups of the SITC 7. The breakdown illustrates well how many percentage points each of the groups “exchange rate contributed” to the index.

In general, it is true that the exchange rate effect decreases the value of price indices in international trade in goods if CZK is strengthening to foreign currencies in total. Conversely, the exchange rate effect pushes the price indices up if CZK is weakening to foreign currencies in total.



It is apparent from the Chart No 6 and the Chart No 7 below how significant the exchange rate influence on the value of the export and import price indices was.

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The Chart No 8 shows the exchange rate influence on the value of the year-on-year terms of trade. 

The Chart No 9 shows the development of the value of the terms of trade when the group of ‘mineral fuels, lubricants and related materials’ is excluded. In this chart, the effect of ‘mineral fuels, lubricants and related materials’ can be observed, which has an influence on the overall value of the y-o-y terms of trade. Since the Q3 2019, ‘mineral fuels, lubricants and related materials’ were increasing the value of the terms of trade; however, in the Q1 2021 there was a turnabout and ‘mineral fuels, lubricants and related materials’ started to decrease the value of the terms of trade. Naturally, it is related to the world market price development, especially in petroleum prices. Import prices, which, compared to export prices, have a higher proportion of crude materials, respond in a more sensitive way to price turbulences. Therefore, when prices of crude materials go down, the terms of trade, as a rule, go up, and, vice versa, when prices of crude materials are increasing, the terms of trade are decreasing.

# Final summary

In the Q2 2021, the exchange rate effect considerably decreased both the export price index and the import prices index, year-on-year. Import prices were increasing faster than export prices and therefore the terms of trade reached negative values. After elimination of the exchange rate effect, the terms of trade were lower than the published terms of trade, and also decreased to negative values. Values free of the exchange rate effect correspond to the exchange rate adjusted indices, see the Charts Nos. 6, 7, and 8.



The closing table gives published **non-adjusted** international trade in goods price indices.

Note: For internal reasons, the Czech decimal comma is used instead of the English decimal point as a decimal separator in tables and charts of this analysis.

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