

RAW MATERIALS PRICES AND EXCHANGE RATES

A fall in world market prices for raw materials means that real income decreases in countries that produce these commodities and increases in countries that are net importers. The effect grows with the size of net raw materials exports relative to GDP. As the change in income does not usually result in an immediate adjustment of real demand for goods and services, exporting countries experience a current-account deficit and net importers a surplus. There is thus a time lag before shifts in relative prices affect volume imports and exports. The current-account deficit, or expectations of a deficit, in a country producing raw materials entails

less demand for that country's currency, which then weakens. The depreciation ultimately helps to restore a balanced economy, for example because higher import prices reduce demand for imported goods. Permanent deteriorations in terms of trade result in a stabilisation of the real exchange rate at a weaker level.

Under these circumstances it is reasonable to assume that countries with a sizeable net export of raw materials experience currency depreciation when international raw materials prices fall. Sweden, however, is not such a country.

Raw materials, including processed raw materials,⁹ do indeed account for a considerable proportion of Swedish exports, almost 30 per cent, but their proportion of imports is almost as big. The proportion of raw materials in exports is also high for Australia and Canada but, as will be seen from Table B1, the shares in imports are considerably smaller than for Sweden.

The net export of raw materials from Sweden in 1997 generated a sizeable surplus: over SEK 50 billion at current prices or 3 per cent of GDP (Table B2). Although Sweden is a net exporter of raw materials, broadly defined, we have benefited from the fall in world market prices. This is because the raw materials that Sweden exports are more highly processed than those that are imported, which means that the interna-

Table B1.

Raw materials, broadly defined, relative to total exports and total imports.

Per cent

	Exports	Imports
Australia	58	12
Canada	31	16
Sweden	29	27

Source: The Riksbank.

Table B2.

Raw materials, broadly defined (foreign trade 1997).

SEK billion and per cent

Group	Exports		Imports		Net SEK bn
	SEK bn	Per cent	SEK bn	Per cent	
Forest products	91	14	15	3	76
Minerals	58	9	42	8	16
Energy	16	3	39	8	-23
Food	18	3	36	7	-18
Raw materials	183	29	133	27	50
Other goods	448	71	367	73	81
Total	631	100	500	100	131

Note. Due to rounding, columns may not sum to totals.

Source: The Riksbank.

⁹ Processed raw materials comprise forest industry products (wood products, pulp and paper), mineral extraction (ore and steel), energy-related products and food (foodstuffs and processed food).

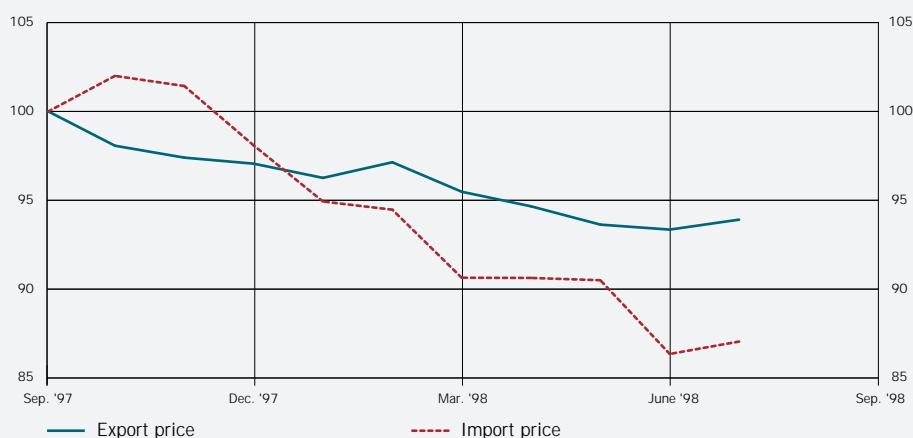
tional price tendencies have had considerably less impact on Swedish export prices than on the import prices. Moreover, Sweden has benefited from the difference in the composition of raw materials between exports and imports in that world market prices for energy-related raw materials, such as crude oil, have fallen more in the past year than pulp prices, for example.¹⁰

The total price index for the raw materials, broadly defined, that Sweden exports has fallen around 6 per cent since the decline in world market prices began in the autumn of 1997; in the same period, the price for

imported raw materials has dropped about 13 per cent, calculated in both cases in Swedish kronor (Fig. B5). All else equal, in the past year the price movements for raw materials have accordingly strengthened the balance of trade by about SEK 10 billion. If anything, therefore, the international price fall for raw materials should have strengthened, not weakened, the krona.

10 Rough estimates indicate that both Canada and Australia are net exporters of all groups of raw materials, which makes them more sensitive to price movements.

Figure B5.
Price of raw materials,
broadly defined.
Index: September
1997=100



Note. Raw materials broadly defined comprise forestry products, minerals extraction, energy-related goods and foodstuffs; EXPI and IMPI from PPI, weights as in Table B2 (for want of available data, forestry products in HMPI have been used as an approximation of forestry products in EXPI). Sources: Statistics Sweden and the Riksbank.

EXPANSIONARY EFFECTS OF INTEREST AND EXCHANGE RATES

The overall effect that the level of interest rates and the real exchange rate are judged to exert on total demand has become more expansionary since the June Report. Between May and August the average monthly level of the real short-term interest rate¹¹ has moved down 0.2 percentage points to about 3.1 per cent (Fig. 5). This is because, following the June cut in the repo rate, nominal short-term interest rates have fallen during the summer. In the same period, households' one-year inflation expectations have

decreased 0.1 percentage point to 1.1 per cent.

The real long-term interest rate is currently about 2.8 per cent, which is about 0.2 percentage points lower than at the time of the June Report. The five-year Swedish T-bond rate has fallen 0.3 percentage points to about 4.6 per cent and five-year inflation expectations¹² have moved down 0.1 percentage point to 1.8 per cent.

The real effective (TCW) exchange rate depreciated from May to August by about 5 per cent. The demand effect of the real exchange rate is thus more expansionary than before.