



Lack of investment weighed on Finnish exports

29 Jun 2017 – Analysis – Finnish economy

Finnish exports have lost market share in world trade continually since the financial crisis. This partly reflects a general trend in the advanced economies. The export shares of advanced economies have contracted as emerging economies have gained a stronger foothold in the global economy. The dwindling demand for Finnish exports may also be related to the current low level of investment in the advanced economies, especially in Europe.



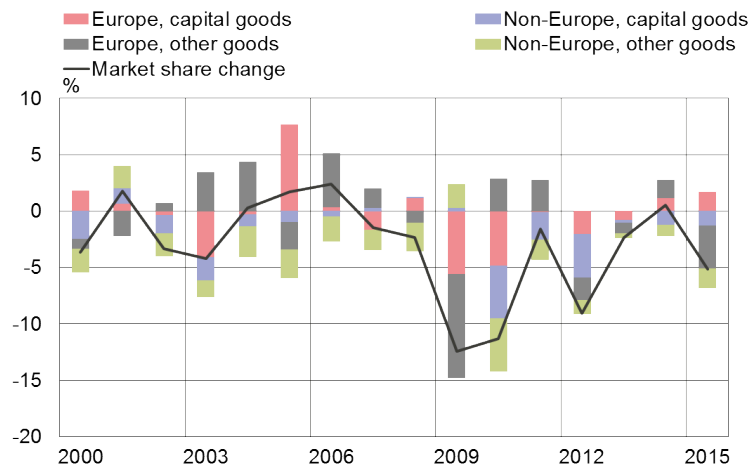
In recent years, capital (investment) goods have contributed roughly a third of the value of Finnish goods exports. In addition, Finland is a large exporter of intermediate goods, demand for which depends on investment. Another unfavourable feature of Finnish exports is their concentration on European countries, where the deceleration in economic growth and investment demand was stronger, on average, than in other advanced economies in the aftermath of the financial and sovereign debt crises.

Here, we explore to what extent the contraction in market share of Finnish exports during and after the global financial crisis can be explained by the weakness of investment demand notably in European countries. Finnish exports have been decomposed into four components: first by destination market into Europe and other export markets, with these two trade flows decomposed further by product structure into capital goods and other export goods.^[1]

The change in market share (Chart 1) portrays the evolution in the value of Finnish exports relative to world trade growth, beginning from the turn of the millennium. The change is positive in years when Finnish exports have increased faster than world trade and, conversely, negative when growth in exports has been slower than world trade growth.

Chart 1

Changes in market shares of Finnish exports, 2000–2015



Sources: Comtrade and calculations by the Bank of Finland.

13 Jun 2017
bofbulletin.fi
34214@Kehikko(en)

In the early post-millennium years, until the eve of the global financial crisis, Finnish exports almost kept pace with world trade growth. Following the onset of the international financial crisis, the performance of Finnish exports has, however, been exceptionally feeble. During the economic crisis that followed in the wake of the financial crisis, in 2009–2010, the market share of Finnish exports was down by as much as a quarter, continuing to shrink until the end of the reference period in 2015, albeit at a more subdued rate.

The importance of each export component for Finnish exports can be illustrated with the help of a chart (overlapping bars in Chart 1), with exports expressed relative to world trade. If one of the four export components has grown faster than world trade, it has supported Finnish export growth relative to world trade. Conversely, if some component has increased more slowly than world trade, its contribution to Finnish export growth has been negative.

The years of the financial crisis and the European sovereign debt crisis saw a marked turnaround on Finland's export markets both inside and outside of Europe. The

1. A breakdown by product structure is not totally unambiguous, as some of the products may serve as either consumer goods or capital goods. The most important of such product groups are mobile phones, here classified as capital goods. Whereas mobile phones, telecommunication networks and other equipment still accounted for roughly 15%, on average, of goods exports prior to the financial crisis, their share has since dropped, standing at 1–2 % in recent years. The share of other capital goods in goods exports has remained broadly unchanged in the reference period.

contraction in the market share of Finnish exports was especially sharp during the economic crisis years of 2009–2010, and was, for the major part, due expressly to the weak performance of Finland’s Europe-bound exports. While world trade growth slowed overall during the economic crisis, Finland’s exports to European countries were down even more.

Most of the contraction in market share in Europe over these years was related specifically to capital goods exports. Europe-bound exports of capital goods stayed muted also in 2010, but declining exports to the rest of the world then weighed even more on the market share of Finnish exports.

Finnish exports have continued to lose market share since 2010, but at a more moderate pace. The market share of Finnish capital goods has faded most noticeably outside Europe, where market shares declined continually in the course of 2010–2015. While capital goods exports to European countries eroded growth in the market share until 2013, their contribution to Finland’s market share was, in fact, marginally positive in 2014–2015.

Over the forecast years 2017–2019, export markets are expected to develop more favourably in terms of the Finnish export structure than in recent years, with economic growth and investment demand gathering momentum in both Europe and other advanced economies.

Tags

[exports](#), [market share](#), [investment](#), [Europe](#)