

Argentina Trade Review No. 42

Higher Sales of Industrial Goods

–January 2007–

- **For the second consecutive month, exports grew at a year-on-year rate higher than 20%, something that had not happened before in 2006: exports increased by 25% in October and 26% in November.**
- **In the eleven-month period, exports grew by 15% compared to the same period in 2005, driven by a significant increase in sales of manufactured goods, which explained 76% of the overall external sales growth.**
- **In November, imports grew at a lower rate than exports (20% y-o-y) in spite of persistent purchases of capital goods. In these eleven months, they were 20% higher than in 2005.**
- **Sales of industrial manufactures by technology content show that, in eleven months, High technology content goods doubled the average growth due to a strong increase in sales of pharmaceutical products, whereas categories of Medium-High content, which account for half of total exports, are on the increase boosted by a dynamic automotive sector.**
- **The strong growth seen in the trade of Argentine goods favoured a persistent trade surplus, accumulating USD 10.93 billion in eleven months, 4% over that of 2005. The continuous improvement in surplus derived from Primary Products, MAO (Manufactures of Agricultural Origin) and Fuels more than compensated for the increase in the negative balance related to MIO (Manufactures of Industrial Origin), resulting from a greater demand driven by the country's high level of activity.**

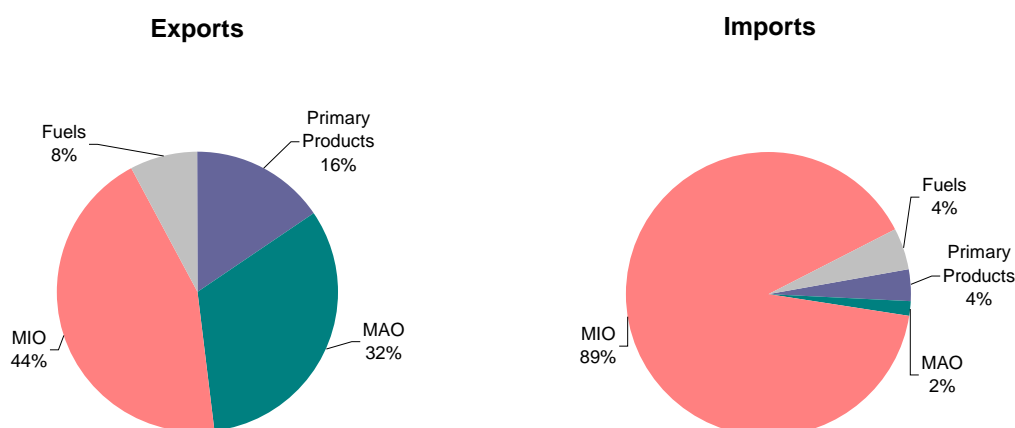
I. Introduction

Argentine exports continue to show remarkable dynamism. In November, they reached USD 4.11 billion, driven by the strong increase in sales of manufactured goods. Exports started to grow by more than 20%, namely 25% in October and 26% in November, something that had not happened before in 2006. Consequently, external purchases in the first eleven months of 2006 totalled USD 42.33 billion, exceeding the value seen in the same period of the previous year by 15%, boosted by the concomitant increase in prices and quantities (+7% and +8% respectively).

All export items showed positive y-o-y variations in the eleven first months of 2006. Regarding the continuous growth of export quantities, Manufactures of Agricultural Origin (MAO) and Manufactures of Industrial Origin (MIO) played the most outstanding role, jointly contributing to the 76% increase in overall external sales and showing the most significant growth in the aforesaid period (+15% and +23% respectively). MIO, in particular, explained 44% of the total change in exports compared to the same period of the previous year (Chart 1).

Chart 1: Contribution to Export and Import Growth

-January-November 2006, in %-

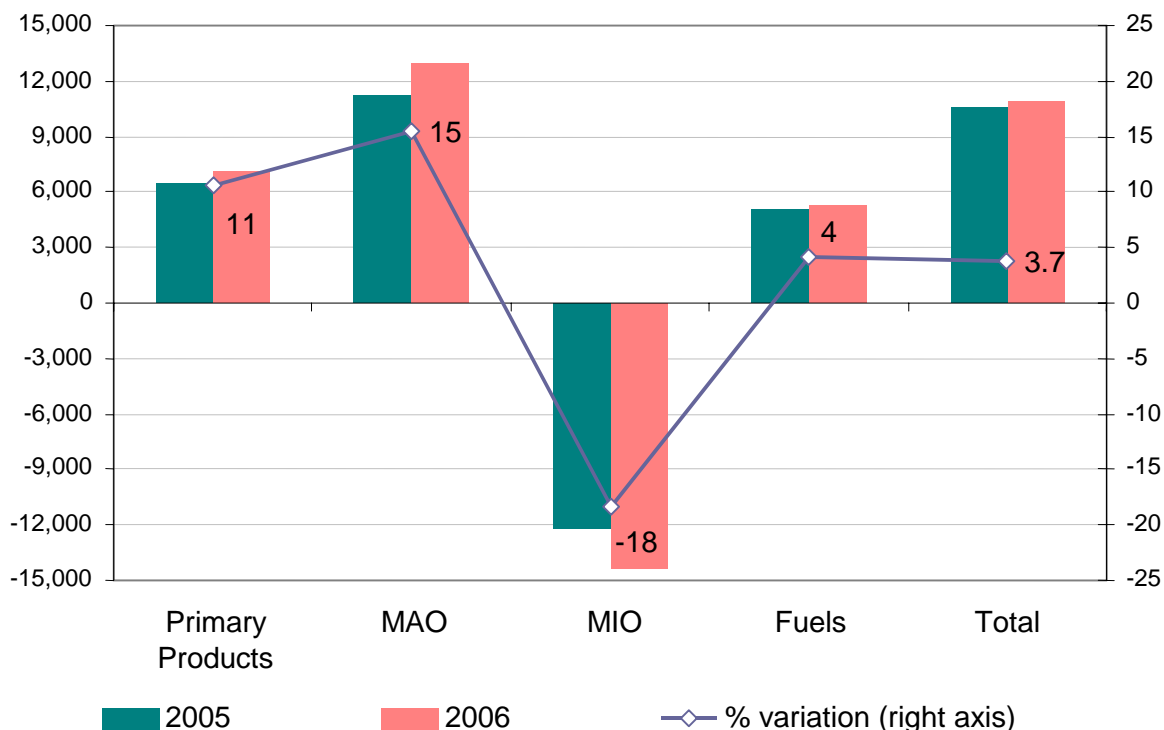


Source: CEI based on INDEC data.

Similarly, in the first eleven months of 2006, imports amounted to USD 31.40 billion, 20% more than in the same period of the previous year. In 2006, growth was boosted mainly by the increase in quantities (+16%) and, to a lesser extent, in prices (+3%); all items exceeded the values recorded in January-November 2005. In particular, the strong demand for machinery and vehicles enabled a 20% growth of MIO, the item that contributed the most to the increase in total imports (Chart 1).

Therefore, the significant expansion of trade in Argentine goods enabled the persistence of trade surplus, November being the second consecutive month when the foreign trade balance grew compared to the same period of the previous year, accumulating a USD 10.93 billion surplus in eleven months, almost 4% over the one recorded in the same period in 2005. In terms of items, the unremitting improvement in the surplus generated by Primary Products, MAO and Fuels more than compensated for the increase in the negative balance generated by MIO as a result of a greater demand driven by the country's high level of activity (Chart 2).

Chart 2: Trade Balance Evolution
-January-November, in USD million and %-



Source: CEI based on INDEC data.

II. Evolution of Exports by Major Items

A. Primary Products and Fuels

In the first eleven months of 2006, exports of primary products grew by 12% year-on-year, boosted by the parallel increase in prices and quantities (+8% and +4% respectively). The decrease in some agricultural products yields was compensated for by the increase in international prices and the outstanding progress of the mineral and fishing sectors.

Growth was driven mainly by higher external sales of copper ore and shellfish (+141% and +122% respectively). The main destinations of copper ore exports, which rose by USD 1 billion compared to the same period in 2005, were Germany, Spain, Korea, Brazil, and India; while the main destinations of shellfish shipments, which were USD 300 million higher than 2005 shipments, were European countries and Brazil.

At the same time, in spite of the important growth recorded in November 2006, cereal and oil seed exports fell throughout the first eleven months of 2006 compared to the same period in 2005. Most part of the drop is explained by soybean (-23%, i.e. USD 500 million less) and maize (-8%, i.e. USD 99 million less), as a consequence of an increase in domestic milling, and of a drought which affected crops in early 2006, respectively.

In the January-November 2006 period, external sales of fuels and energy increased by 7% relative to the same period of the previous year; this is explained by an increase in prices which more than compensated for the drop in quantities sold (+23% and -13% respectively). The items driving this growth were sales of fuels and lubricants to Brazil and Mexico, and petroleum gas and other gaseous hydrocarbons to Brazil and Chile.

B. Manufacturing Sector

1. Manufactures of Agricultural Origin

In the first eleven months of 2006, exports of manufactures of agricultural origin reached USD 13.75 billion in value (+15% y-o-y) due to a higher increase in quantities than in prices (+9% and +5% respectively).

Processed soya products continued to show strong dynamism, inasmuch as oil exports increased by USD 525 million (+27%) and flour exports by USD 427 million (+12%); these two products accounted for most of the increase in MAO. Soya oil main destinations were India, Morocco and South Africa, whereas the main destination of flour was the European Union (EU).

It is also worth highlighting the increase in exports of dairy products (+26%) and beverages (+21%). Apart from the significant expansion of external sales of powdered milk (+28%, i.e. USD 112 million more), mainly to Algeria, Brazil and Venezuela, there was a noteworthy increase in exports of grape wines (+25%, i.e. USD 68 million more), mainly to the United States, the United Kingdom and Brazil.

The main destinations of MAO exports were the EU, the Andean Community, and Africa (+15%, +38% and +32% respectively), which contributed the most to the year-on-year increase in exports of manufactures of agricultural origin, jointly accounting for 60% of the overall change.

2. Manufactures of Industrial Origin

In November 2006, exports of industrial manufactures totalled USD 1.46 billion in value, accumulating USD 13.39 billion so far that year (+23%), owing to an increase in both prices and quantities (+8% and +14% respectively).

In the first eleven months of 2006, exports of transport materials, electrical materials and chemical products (+37%, +17% and +13% respectively) stood out by their volume and dynamism, particularly shipments of land vehicles to Brazil (83%), spare parts and pieces to Venezuela (+98%), plastic materials to Paraguay, Peru and Uruguay (+31%, +86% and +29% respectively) and pharmaceuticals to Brazil, Venezuela and Chile (+14%, +33% and +16% respectively). Exports of precious metals and stones also showed outstanding growth (+272%), driven by sales of non-monetary gold to Switzerland. Furthermore, it is worth noting the significant increase in shipments of tubes and pipes for petroleum to the Middle East.

Bearing in mind the Technology Content of the products sold by Argentina¹, the eleven-month result shows an important increase in products with high technology content, which doubles the MIO average growth and continues to enlarge their share in the latter, mainly due to the increase in sales of pharmaceuticals mostly to Brazil, Chile and Venezuela (Table 1). As for Medium-High content categories, which account for half of total exports, these have been boosted by the dynamism of automotive sector sales, mainly to Brazil and Mexico.

Table 1: MIO Exports by Technology Content and Main Destinations

-January-November 2005 and 2006, in USD million-

Main Trade Partners	Exports in January-November 2006					% Variation compared to 2005				
	High	Medium-High	Medium-Low	Low	Total	High	Medium-High	Medium-Low	Low	Total
Brazil	145	3,315	466	217	4,143	13	24	15	20	23
Chile	103	702	349	235	1,389	165	7	22	11	17
China	4	63	51	8	125	1	-10	-16	-70	-22
US	97	550	406	173	1,226	103	12	-5	6	8
CAN	151	754	266	98	1,269	23	48	-4	35	29
EU	63	527	233	96	921	45	19	-33	5	-1
Rest	407	1,761	1,847	266	4,281	64	19	56	13	36
Total	971	7,673	3,616	1,094	13,354	53	21	21	11	22

Source: CEI based on INDEC data.

Regarding exports with Medium-Low technology content, their growth has been based on higher sales of tubes and pipes and precious metals, basically to Saudi Arabia and Switzerland. Low content exports showed the lowest growth due to the decrease in sales of leather articles to China, in spite of the substantial increase in sales of paper and cardboard.

In the first eleven months of 2006, the most important destinations in terms of volume and growth as regards MIO exports were Brazil, the Andean Community and Chile (23%, 29% and 17% respectively); these contributed most of the growth.

III. Evolution of Imports by Economic Use

In January-November 2006, imports increased by 20% following a rise in prices (+3%) and, to a greater extent, in imported quantities (+16%).

As can be seen in Table 2, capital goods showed a remarkable growth in the reference period as well as the greatest impact on aggregate growth. This behaviour was entirely explained by an increase in quantities (+24%) in view of the decrease in prices (-2%), the main imported products being cell phones from Mexico (+27%), vehicles and chassis from Brazil (+17% and +37% respectively) and aircrafts temporarily brought into the country from France (+USD 198 million).

External purchases of intermediate goods increased by 15% in the reference period, driven mainly by iron ore, organic chemicals, calcined alumina and mineral fertilisers.

¹ For an explanation of the classification and its application to the case of Argentina, see "Contenido Tecnológico y Diferenciación de Producto en las Exportaciones Argentinas", in *Revista del CEI No. 5* (June 2006), available on www.cei.gov.ar.

Table 2: Imports in January-November 2006

-in USD million and %-

	2005	2006	Variation (%)			Contribution to Growth (%)	Impact*	
			USD million	Value	Price			Quantity
Capital Goods	6,320	7,726	1,406	22	-2	24	27	5
Intermediate Goods	9,527	10,974	1,447	15	7	7	28	5
Fuels	1,418	1,650	232	16	17	-	4	1
Parts and Accessories	4,484	5,433	949	21	2	19	18	4
Consumer Goods	2,871	3,632	761	27	n/d	n/d	15	3
Motor Vehicles	1,452	1,882	430	30	n/d	n/d	8	2
Rest	121	108	-13	-11	n/d	n/d	0	0
Total	26,193	31,404	5,211	20	3	16	-	-

*Impact indicator: It is the result of multiplying the variation rate by the share of each activity or product in the initial period, thus obtaining a weighed measure of the contribution of each of them to aggregate growth.

Source CEI based on INDEC data

In the first eleven months of 2006, the main origins of Argentine imports showed positive variations compared to the same period in 2005. Imports from Brazil increased by 16%, from the United States by 6%, from the EU by 21% and from China by 39%.

IV. Evolution of the Trade Balance

In the period comprising the first eleven months of 2006, there was an increase in the positive balance of trade with the main trade partners which more than compensated for the negative balance with Brazil and the United States (Table 3).

At sector level, while the trade deficit corresponding to industrial manufactures increased by 18% in the reference period, agricultural manufactures surplus did so by USD 1.72 billion, i.e. 15%, year-on-year.

Table 3: Trade Balance Percentage Change by Items and Main Destinations

-January-November 2005 and 2006, in USD million-

Main Trade Partners	January-November 2006 Balance					Variation (%)				
	Primary Products	MAO	MIO	Fuels	Total	Primary Products	MAO	MIO	Fuels	Total
Brazil	657	450	-5,661	1,104	-3,450	74	32	-13	48	3
Chile	264	582	962	1,672	3,480	42	15	19	-19	-3
China	1,507	896	-2,667	884	589	-16	-2	-48	347	-46
US	197	793	-2,411	1,189	-232	48	10	-5	-35	-158
CAN	287	685	1,169	-187	1,954	34	38	30	-63	31
EU	2,160	4,152	-3,906	-31	2,375	49	16	-27	-9	22
Rest	2,096	5,357	-1,888	616	6,212	-10	16	-12	80	11
Total	7,169	12,916	-14,401	5,246	10,929	11	15	-18	4	4

Source: CEI based on INDEC data.

V. Final Comments

After a second consecutive month of growth over 20%, Argentine exports are heading towards a record level in 2006. This is the result not only of larger quantities of exported goods, but also of a greater share of manufactures, especially industrial ones, in sales.

It is worth highlighting that, in the case of industrial manufactures, there is evidence of a strong increase in exports of products with a higher technology content, and thus, higher value added. This clearly shows that the success of the policies implemented by the Government is the result not only of higher international prices of raw materials, but also of the support given to market openness and product diversification, with enhanced participation of firms.

Annexe

**Table 4: Exports and Imports by Main Items,
Variation and Impact on Growth
-January-November 2006, in USD million and %-**

Items	Exports				Imports			
	2005	2006	% Var	Impact	2005	2006	% Var	Impact
Total	36,728	42,333	15	15	26,193	31,404	20	20
Primary Products	7,401	8,280	12	2.4	926	1,111	20	0.7
Live Animals	12	13	8	0.0	7	7	7	0.0
Unprocessed fish and shellfish	406	768	89	1.0	12	17	38	0.0
Honey	117	144	23	0.1	0	0	97	0.0
Unprocessed vegetables and legumes	207	250	21	0.1	10	7	-22	0.0
Fresh fruits	658	666	1	0.0	66	70	5	0.0
Cereals	2,602	2,569	-1	-0.1	9	10	9	0.0
Oil seeds and fruits	2,391	1,891	-21	-1.4	189	183	-3	0.0
Unprocessed tobacco	201	229	14	0.1	12	15	29	0.0
Raw wool	30	26	-13	0.0	1	3	119	0.0
Cotton fibres	24	2	-92	-0.1	18	49	165	0.1
Copper ore and its concentrates	675	1,614	139	2.6	0	0	-97	0.0
Rest of primary products	76	108	42	0.1	601	749	25	0.6
Manufactures of Agricultural Origin (MAO)	11,936	13,755	15	15.2	753	839	11	11.5
Meat	1,513	1,483	-2	-0.3	54	54	0	0.0
Processed fish and shellfish	306	378	24	0.6	41	49	20	0.6
Dairy products	546	686	26	1.2	17	10	-39	-1.9
Other products of animal origin	34	39	15	0.0	19	22	19	0.1
Frozen and dried fruits	88	125	42	0.3	2	2	44	0.4
Coffee, tea, yerba mate and spices	62	71	15	0.1	8	9	13	0.1
Milling products	91	112	23	0.2	5	6	31	0.3
Fats and oils	2,945	3,505	19	4.7	33	33	-1	-0.2
Sugars and sugar confectionery	190	271	43	0.7	20	22	9	0.2
Vegetable and fruit food preparations	477	592	24	1.0	36	44	23	1.0
Beverages, spirits and vinegar	330	400	21	0.6	27	27	1	0.0
Residues and wastes of food industry	3,725	4,217	13	4.1	26	31	17	5.3
Tanning and dyeing extracts	35	43	23	0.1	7	7	3	0.0
Raw hides and skins and leathers	767	837	9	0.6	30	46	52	3.2
Processed wools	120	134	12	0.1	1	1	-1	0.0
Rest of MAO	707	862	22	1.3	428	475	11	0.7
Manufactures of Industrial Origin (MIO)	10,923	13,395	23	6.7	23,102	27,796	20	17.9
Chemicals and products thereof	2,104	2,388	13	0.8	4,209	4,863	16	2.5
Plastic and artificial materials	1,057	1,115	5	0.2	1,363	1,484	9	0.5
Rubber and articles thereof	233	289	24	0.2	473	561	19	0.3
Articles of leather, travel goods, etc.	102	106	4	0.0	45	61	35	0.1
Paper or paperboard, printing and publications	454	526	16	0.2	737	799	8	0.2
Textiles and clothing	265	281	6	0.0	815	933	14	0.4
Footwear and parts thereof	27	30	11	0.0	167	231	38	0.2
Glassware, stone and plaster articles	131	153	17	0.1	231	299	29	0.3
Precious metals, stones, coins	133	495	272	1.0	42	68	62	0.1
Base metals and articles thereof	2,113	2,227	5	0.3	1,839	2,110	15	1.0
Machinery and apparatus, electrical material	1,197	1,401	17	0.6	7,753	9,577	24	7.0
Road transport material	2,654	3,647	37	2.7	3,899	4,944	27	4.0
Aircrafts, ships and boats	80	319	299	0.7	515	587	14	0.3
Rest of MIO	375	419	12	0.1	1,014	1,281	26	1.0
Fuels and energy	6,468	6,903	7	1.2	1,412	1,657	17	0.9
Crude oil	2,322	2,227	-4	-0.3	65	34	-47	-0.1
Fuel	2,685	2,929	9	0.7	629	807	28	0.7
Lubricating oils and greases	125	158	26	0.1	81	128	58	0.2
Petroleum gas and other hydrocarbons	1,121	1,353	21	0.6	167	234	40	0.3
Electrical energy	97	136	40	0.1	242	245	1	0.0
Rest	119	99	-17	-0.1	228	209	-8	-0.1

Source: CEI based on INDEC data