

Export weakness under the microscope: Where are the headwinds in the euro area coming from?



No. 192, 26 February 2020

Author: Stephanie Schoenwald, phone +49 69 7431-6446, stephanie.schoenwald@kfw.de

The business cycle in the euro area has suffered from a pronounced decline in export demand for the past two years. While goods exports to countries outside the monetary union still provided a strong boost to growth in 2017, price-adjusted sales to non-euro area markets dropped in the first ten months of last year. Developments in Europe are thus following the global trend (see Figure 1).

Figure 1: Global trade weakness

In per cent on previous year



* for the euro area: January – October, year-to-date

Sources: IMF, Eurostat, KfW Research.

Major clashes on trade and technologies, geopolitical tensions and sanctions have put the brakes on investment, industrial production and the international movement of goods. But external demand is also affected by other factors such as economic developments in target markets, price competitiveness, product quality and changes in preferences. In order to better understand the export weakness, it is useful to look at individual target markets separately.

Loss of momentum mostly due to China and Asia

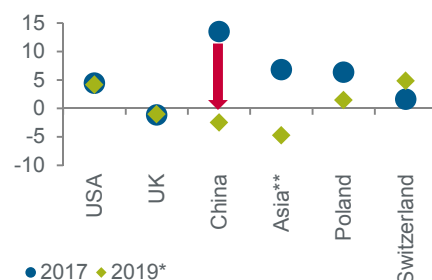
More than 50% of goods exports from the euro area go to six important target markets. Figure 2 compares the real growth of exports to these destinations in 2017 and 2019. The following details are noteworthy:

- Exports to the US have risen steadily, accounting for a share of 14% (2018),

despite the country's protectionist policies. The expansionary fiscal policy is likely to have counteracted the negative impacts of the trade war. Goods exports to the United Kingdom (12.1%), on the other hand, have been on the decline already since 2017, the year after the Brexit vote. Therefore, they did not contribute to the loss of momentum in the period under review either.

Figure 2: Real goods exports from the euro area to the main target markets

In per cent on previous year



* January – October, year-to-date
** Asia = dynamic Asian economies

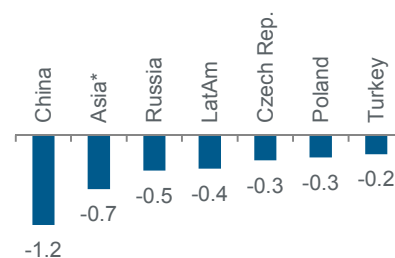
Sources: Eurostat, KfW Research

- The data confirm the views of enterprises in sentiment surveys. Currently most of the slowdown is caused by China (share of 7.5%). Export growth has literally crashed from two-digit rates down to negative territory (-2.6%). This alone reduced the growth of goods exports by 1.2 percentage points (see Figure 3). The development in the dynamic Asian economies that are closely intertwined with China is just as bleak, driving the loss of momentum down by a further 0.7 percentage points. Besides the trade dispute, this was probably caused by the downswing in the global electronics cycle. A swift revival of trade in the region is not to be expected in light of the coronavirus outbreak.

- Home-made economic problems in major emerging economies in Latin America and in Turkey also had a dampening effect. In the case of Russia, sanctions intensified the downturn. As these countries recover, foreign trade is also set to improve.

Figure 3: Target markets that account for most of the growth slowdown

In percentage points, growth difference weighted with export shares (2017), 2019 vs. 2017



* Asia = Asian growth economies

Sources: Eurostat, KfW Research

Thinking beyond the trade dispute

The dispute with the US is troubling China – and has consequences for the rest of the world. Although the most recent de-escalation is to be welcomed in principle, the bilateral partial agreement which provides for increasing China's imports from the US contains clauses that put European exporters at a disadvantage. This shows that Europe should systematically pursue the strengthening of multilateral organisations as an instrument for limiting geostrategic rivalries. But it would be short-sighted to blame Europe's export weakness on the trade conflicts alone. The transition of China's growth model and the rapid expansion of e-mobility can also reduce demand for European products. Policy-makers and business must respond so that Europe can offer an attractive range of products in future as well.