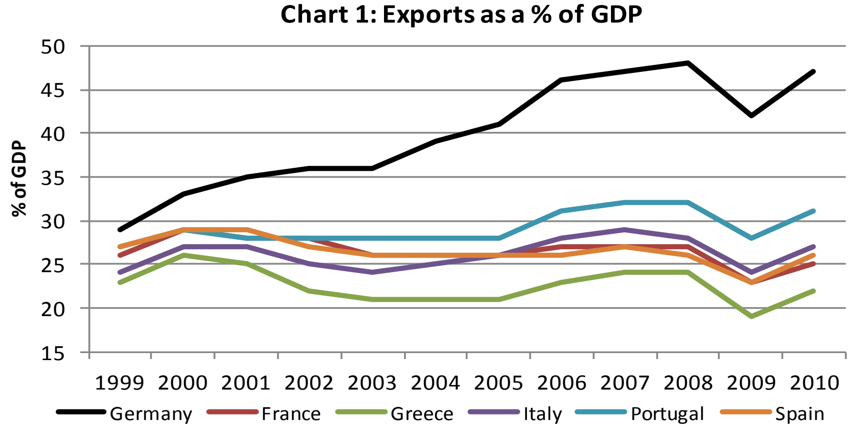
Shifting Euro Zone Export Patterns

Analysts have increasingly begun discussing what means exist to spark Euro Zone growth. Fiscal contraction, particularly in the periphery, has been reducing growth and increasing concern that recession will grip Europe. Many are focusing attention on the need for the periphery to increase exports as one way to generate the economic growth needed to offset austerity and fiscal contraction. In this report we analyze some of the export patterns among six of the EMU countries since 1999: Germany, France, Italy, Spain, Portugal and Greece. At the end of this report we will summarize the results to determine what the data may portend for the ability of the periphery to improve exports.

Total Export Growth

Chart 1 looks at exports for those six countries since the EMU took effect, as a percentage of GDP. This export measure highlights the importance of exports to an economy and provides an indication of the competitiveness of each country.

Chart 1: Exports as a % of GDP

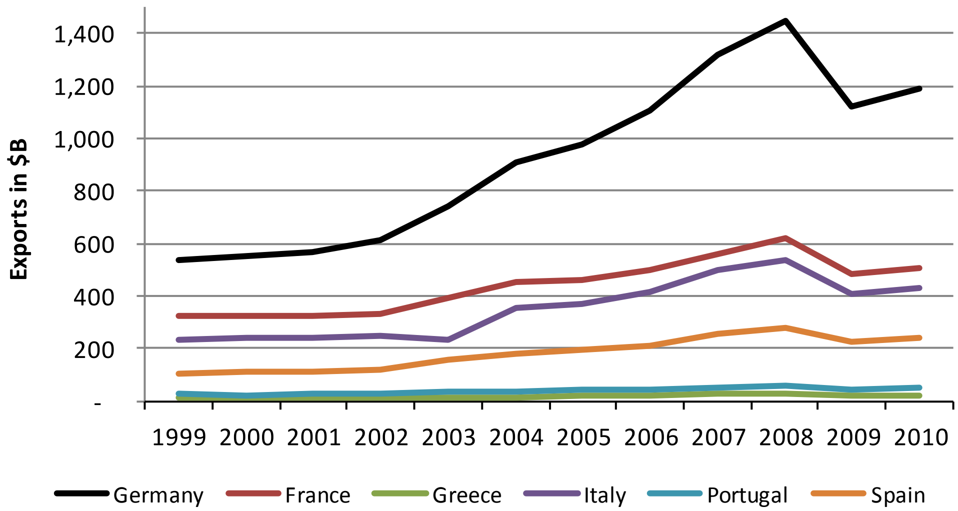


Source: WorldBank

Although the fact that Germany has the greatest share of GDP as exports is not a surprise, the change since the start of the euro is remarkable. In 1999, Germany's share was only between 2% and 6% greater than in these other countries. Since then, Germany's share has grown dramatically while that of the other nations barely changed, such that by 2010, Germany's 47% of GDP was between 16% and 25% of GDP larger than in the other countries. Although there are many explanations for relative export performance, one may be the advent of the euro, which eliminated both the strong deutschemark and the weak currencies of the periphery countries.

Comparing the changes with those in the world as a whole, The CIA World Factbook highlights that world exports relative to gross world product have increased from approximately 14% in 1999 to 22% in 2010, about a 50% increase. The rise in German export growth as a percentage of GDP is consistent with world growth (but at higher levels of GDP). However, the remaining European nations discussed here have all fallen well behind world export growth.

Chart 2:Exports to World ($Bill.)



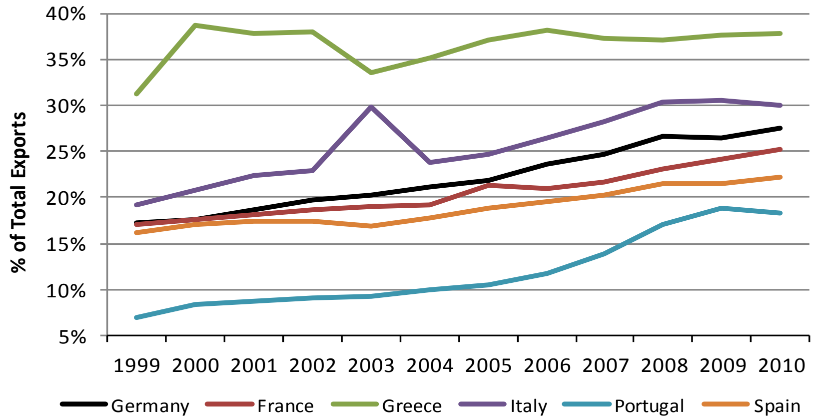
Source: IMF

Chart 2, shows export data by value and reflects the dramatic relative improvement of German exports since the advent of the EMU as well. While export values have increased in all countries shown, Germany's advantage has been increasing over time. For example, in 2010, Germany's total exports were equal in value to the combined exports of the other five countries, compared to 1999, when these other nations exports exceeded Germany's by 30%.

Export Growth to Emerging Markets

One of the notable economic stories over the time horizon analyzed is the growth of emerging market nation economies. Their high rate of growth has caused these markets to be the fastest growing market for exports. Therefore, another important gauge of European export performance is measures of export growth to the emerging markets.

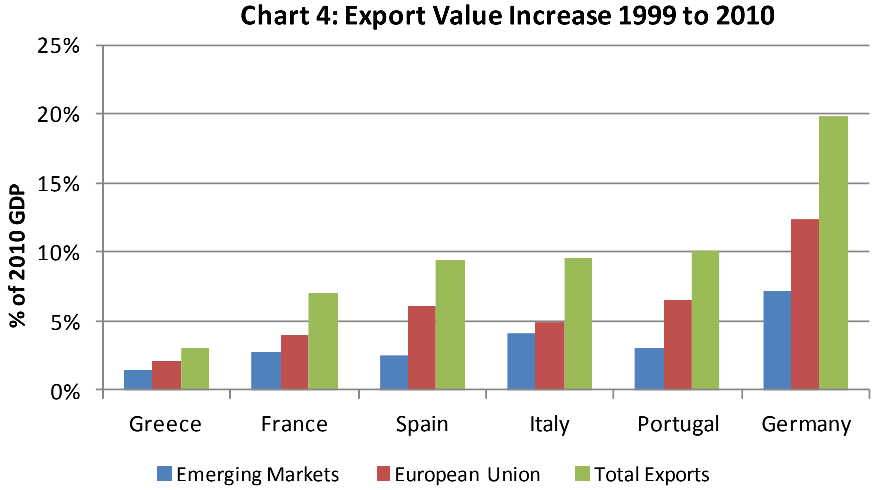
Chart 3: Exports to EM as % of Total Exports



Source: IMF

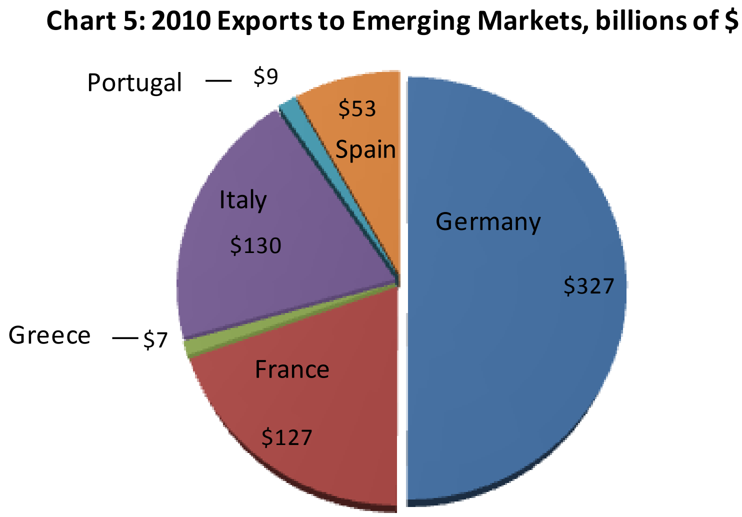
One can see in Chart 3 that all of these countries have increased the share of exports to EM countries relative to each individual country's total exports. The result is that EM countries have become an increasingly important market for European exports. On this front, both Greece and Italy maintain a higher percentage of their exports to EM than does Germany. While Greece is on top in this metric (the first graph in the report, showing Greek exports as a percentage of GDP being the lowest of this group, as well as the below graph) minimize the positive implications for Greece.

Chart 4: Export Value Increase 1999 to 2010



Source: IMF

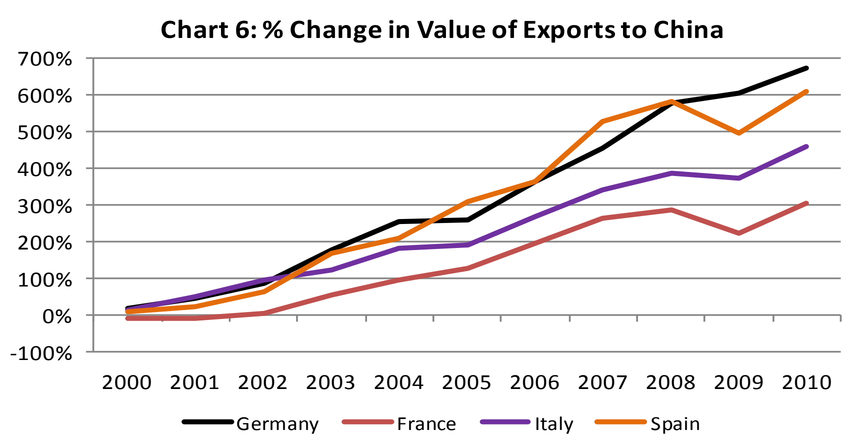
Chart 4 highlights the importance of the increased value of exports to EM, EU and to the world for each country (2010 exports less 1999 exports), relative to 2010 GDP. The increased value of exports as a percentage of GDP from each of these markets for Greece was tiny, as EM, EU and world export increases are only 1%, 2% and 3% of GDP, compared to Germany where it was 7%, 12% and 20% of GDP, respectively. We also note France's position, with the second to least growth in exports relative to GDP, and much closer to Greece than to Germany.



Source: IMF

Chart 5 shows the size of the German export engine relative to the other nations reviewed. Similar to the earlier analysis in this report for total world exports, in 2010 German exports to EM are equal to the exports from the other 5 nations combined. For 1999, as a comparison, again as above, the other nations' exports to EM had been about 30% larger than Germany's.

In Chart 6 below, we look at the rate of change in exports to the largest and fastest growing emerging market, China.

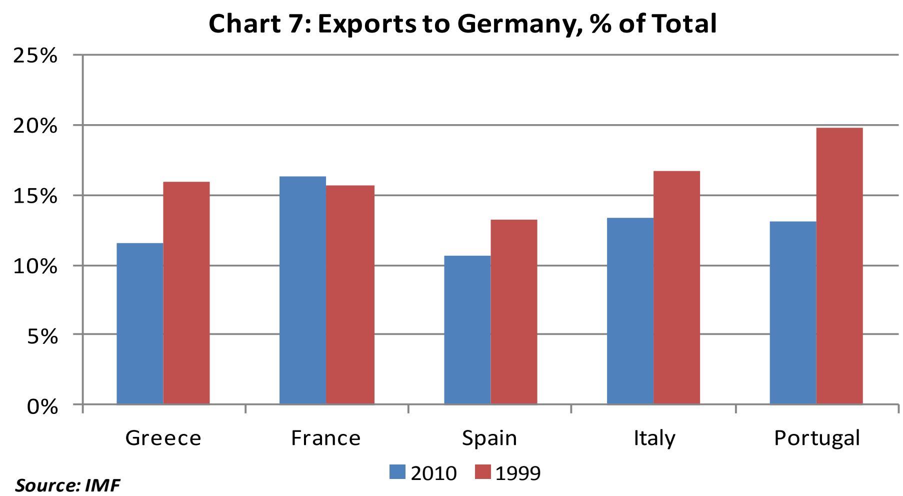


Source: IMF

While all countries have substantially increased the value of exports to China over this period, France's data is the most interesting. The French rate of increase is about a third less than that of the next lowest, Italy, and less than half that of Germany. This is another indication that France is falling behind Germany in competitiveness, but also is concerning regarding comparisons with Italy and Spain.

Export Growth to Germany

In recent years Germany has been the strongest and fastest growing country within the Euro Zone. We thought it would be helpful to see if Germany is proving to be a faster growing market for Europe's export than other markets, thus perhaps allowing the other EMU countries to benefit from Germany's increasing exports. To determine this we compare the percentage of total exports that go to Germany from these countries in 1999 and in 2010.



Source: IMF

Chart 7 shows that 2010 exports to Germany are a smaller percentage relative to total exports for each country than in 1999, except for France where they are unchanged. The German economy is performing well and is often considered the engine of European growth. One could expect that Germany would be an increasing source of export growth for the periphery, but as is shown here, exports to Germany are falling relative to overall exports. Although the actual value of exports to Germany has risen from all countries, Germany has become a relatively smaller market for exports from the periphery.

Summary

We started this report with comments that one potential means for the periphery countries to grow their way out of the ongoing crisis is to increase export growth. While the future is rarely a straight line from the past, there is not much in our analysis of export trends within these EMU countries to offer hope of exports becoming a major source of periphery growth. While German export growth shines in most respects, the periphery, and France as well, have not been able to keep up with world export growth, let alone show any increasing competitiveness in world markets.

In fact, most troubling may be the performance of French exports, which have actually dropped 1% over this period when measured in GDP terms. France is the only country shown that has not diversified exports away from Germany and it was below all but Greece in the increase in the value of exports over this period relative to 2010 GDP. As such, France's export performance is closely tied to the periphery, not Germany.

One part of the export divergence over the time period reviewed, has, of course, been the introduction of the euro. The euro has prevented periphery exports from benefitting from continually weakening currencies, and has allowed German exports to grow unhindered by a strengthening deutschemark. How the Euro Zone deals with this fundamental consequence of monetary union will be one of the main economic stories going forward.

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