Calm before the storm?

Our data says:

The decision by the European Central Bank to lower interest rates to 0.5% aimed to bolster Europe's economy, but if increasing the levels of trade was the primary objective, it was too little, too late. Delta Economics data suggests that Eurozone PMI, industrial production and factory orders data next week will underline the weakness of economic fundamentals in Europe. Our latest trade forecast is unchanged with forecast growth for 2013 at 1.4%. This is the worst growth forecast of any global region and although we are expecting a 0.1% increase imports during the course of the year, our forecast for exports is marginally weaker.

It is the slowdown in the trade forecast of the two major economies, Germany and France that gives the greatest cause for concern. We have revised downwards Germany's forecast by 0.1% to 4.4% and France's by 0.5% to 4.0% corroborating the downward month-on-month trend evident in exports from these countries over the last 18 months. Our expectation is that the euro will continue to fall against the dollar.

Key turning point:

Foot off the accelerator: European trade is dominated by the automotive sector. Our outlook for both private cars and car parts is unchanged on our last forecast but neither is particularly positive. Germany dominates the European automotive supply chain and we are expecting its exports of cars to increase by 2% in 2013. However, sales of automotive vehicles have declined, Germany's imports of iron and steel are 2% lower than 12 months ago; platinum imports are 7.5% lower than 12 months ago. .

We are forecasting a net contraction between Q3 2013 and 2014 of 2%, which mirrors the net contraction of nearly 2% in 2013 for Europe as a whole. French exports in the automotive sector are 18% lower than they were 12 months ago and as a result we forecast a 10% contraction in exports of cars this year. We expect the French and German PMIs and factory output in both countries to be lower. The French trade balance is likely to continue Q1's negative trend. Poland is the hub linking the French, German and Asian automotive supply chains and we are forecasting a 12% drop in imports of parts for internal combustion engine. If this sector continues to deteriorate, we can expect European car sales to drop further.

Losing momentum: Europe's trade has become more dispersed across the G23 since 1991. This trend was more marked in the 1990's and the momentum behind it slowed during the last decade. The current slow-down points to a re-concentration of trade within Europe: globalisation momentum slowed in Q4 2012 as demand in Asia slowed. The Asian financial crisis in 1997, the post dotcom bubble and the 2007/8 global financial crisis caused substantial slowdowns in globalisation momentum demonstrating the vulnerability of extra-European trade to economic uncertainty. If the building momentum towards inter-European trade continues over the next quarter, then we expect a further deterioration in the European economy as demand within the region is too weak to sustain growth through exports.