



# delta

**Delta Economics** | Regional Trade Profiles | Europe

**2<sup>nd</sup> Quarter 2013**

# About Delta Economics

Delta Economics is a pre-eminent source of specialist forecasting and economic research. We provide unique global market insight and analysis through our trade, trade payments and GDP forecasts and conduct economic research that allows our clients to anticipate market developments across a comprehensive range of sectors and continents.

## About the Delta Economics World Trade Outlook

Delta Economics looks at the world from the perspective of the drivers of trade. Unlike other forecasts, we look at the things that affect businesses when they decide to trade abroad: the costs of trade in terms of capital, people and locating in a different country. We also look at reasons for trade: for example, differential economic conditions, investment and comparative advantage (including skills and education, innovation and ease of doing business) and indicators of long term economic development such as population growth and the Human Development Index.

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# Regional Profile | Europe





# 1.

## Europe | Overview

Delta Economics forecasts 1.4% growth in trade in Europe in 2013. This is static compared with last forecast and is our lowest forecast regional growth rate in the world. The flatter growth is a result of contractions in key industries, in particular manufacturing in countries such as Germany, France and the Netherlands, but offset by an improvement in the trade environment in countries such as the UK and stronger exports in biopharmaceuticals, projected to grow at 7.1% in 2013.

We forecast a very slight increase in imports into Europe. This will largely be spurred by an increase in electronics imports such as televisions, semi-conductors and printing machinery. This is encouraging news and demonstrates that in spite of the weak economic climate demand is still on the increase. However, the increase is marginal and is unlikely to have a significant impact on Europe's trade environment and indeed, if exports weaken, could dampen growth.

**Table 1 | Europe's Total Trade Growth**

Europe	2012 Value (bn)	Last Forecast YoY 2013	This Forecast YoY 2013	% Change
Export Growth	5,352	1.3	1.3	→
Import growth	5,528	1.5	1.6	0.1
Total Trade Growth	10,879	1.4	1.4	→

**Table 2 | Europe's top 5 economies**

Top-5 economies (by GDP)	2012 market size (bn)	Total Trade Q1 Forecast	Total Trade Q2 Forecast	% Change
Germany	2,173	4.5	4.4	-0.1
France	938	5	4.5	-0.5
UK	873	1.2	1.7	0.5
Italy	752	6.2	6.2	→
Spain	516	3.1	3	-0.1

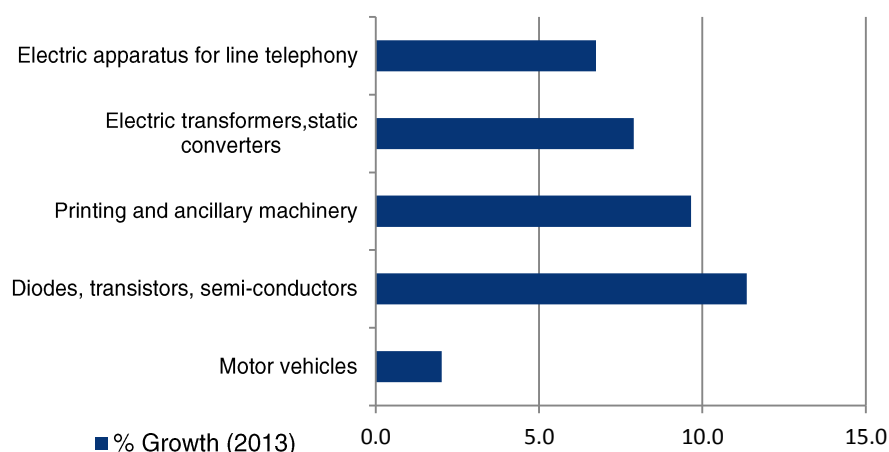
## 2.

# Europe | Top 5 Economies

## Germany

We have revised our forecast downwards slightly to 4.4% total trade growth. This is a very slight revision from the 4.5% forecast last quarter and is a result of weaker growth in exports, most notably of motor vehicles, Germany's largest sector. Flat demand and poor production levels have hurt exports and we forecast just 2% growth in 2013. However, we do not expect the major collapse in Europe's powerhouse that has been forecast by many other analysts and indeed we are forecasting strong growth in a large number of electronics sectors through the remainder of the year.

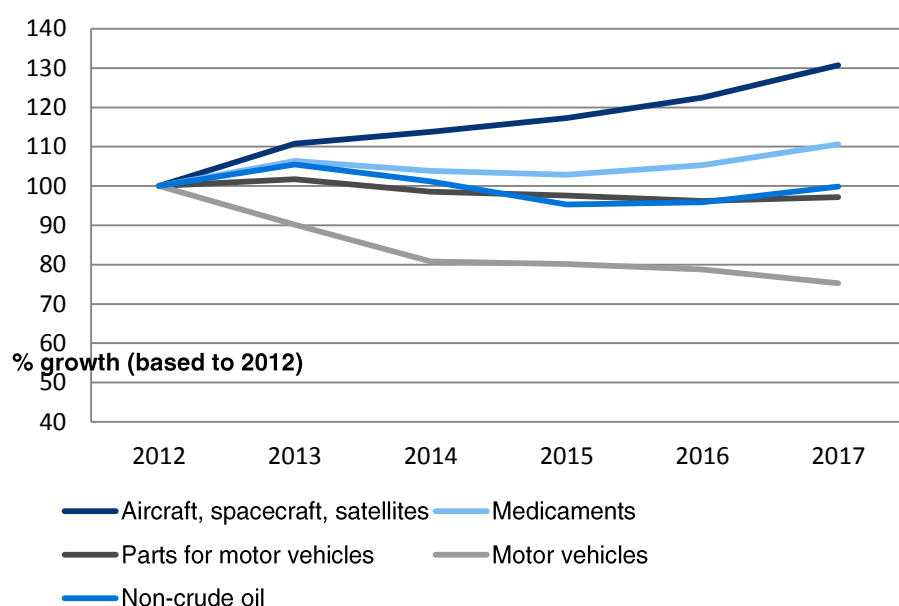
**Graph 1 | Germany's electronics exports compared with motor vehicles (Year-on-Year growth 2013)**



## France

Our forecast for France is 0.5% lower than last time around. France recently missed its deficit target of 4.8% and posted economic growth of just 0.1% in Q1. Our forecast reflects how the French economy is grinding to a standstill with a revised projection of 4.5% total trade growth in 2013; 0.5% slower than last forecast. The main issue is flat demand for French goods, their top-5 export sectors present a very flat trade picture to 2017 – our forecast for growth in motor vehicle exports looks especially negative.

**Graph 2 | France's top-5 export sectors to 2017 (based to 2012)**



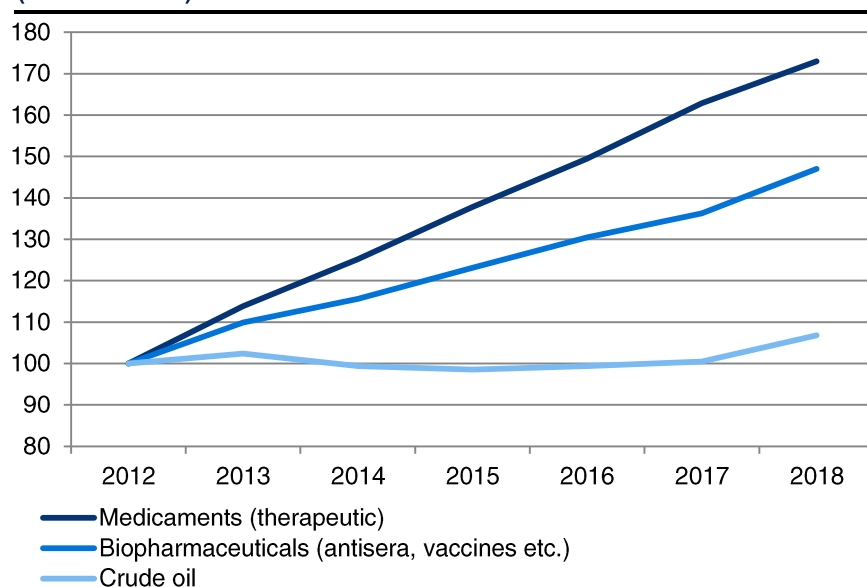
## 2.

# Europe | Top 5 Economies

## United Kingdom

The UK is forecast to see growth of 1.7% in 2013, this is a 0.5% increase from last forecast. The UK posted 0.3% growth in April, avoiding a triple-dip recession. Although growth is still very sluggish we see underlying trade conditions improving slightly. The UK's manufacturing sector, in particular, has shown the biggest improvements over last forecast and, if the manufacturing revival maintains its current momentum, could lead to stronger growth in 2014. Exports of medicines are also forecast to see high levels of growth over the next several years.

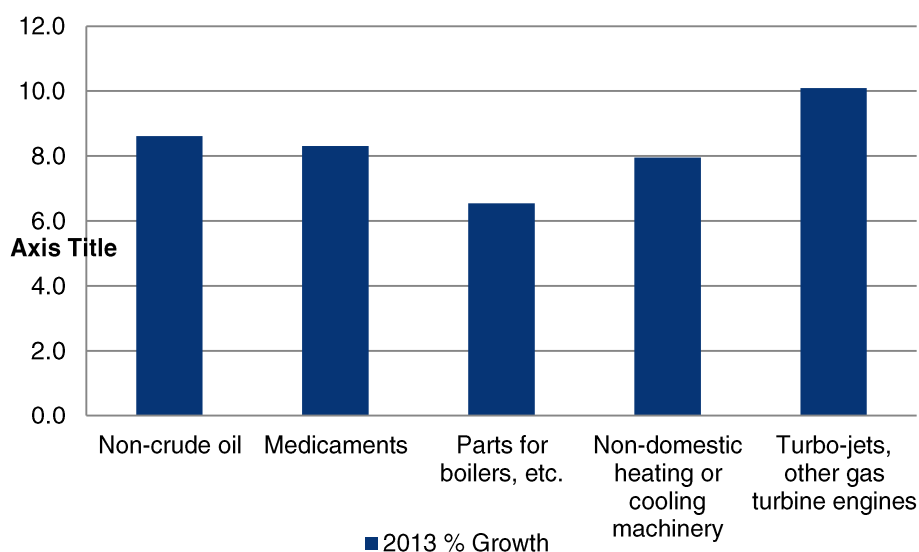
**Graph 3 | UK's exports of medicines compared with crude oil to 2017 (based to 2012)**



## Italy

Our forecast for Italy's trade growth remains high at 6.2%, the same as last quarter. In spite of Italy's economic problems their high level of exports may provide the impetus for overall GDP growth in the short term. It will be of paramount importance for Italy to maintain this level of export growth given the recent contractions experienced in their service sector. We estimate that Italy will see significant growth in a number of their key sectors, most notably in medicaments, non-crude oil and turbo jets.

**Graph 4 | Italy's exports in five key sectors, 2013**

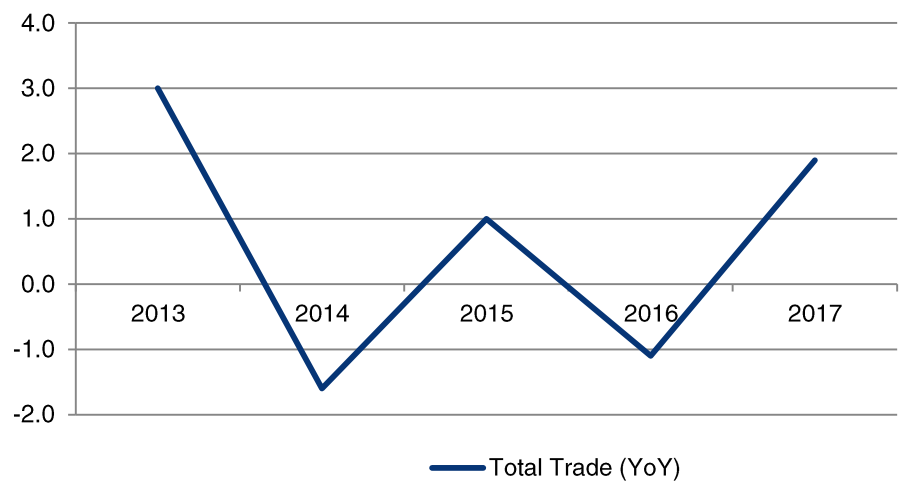


## Europe | Top 5 Economies

### Spain

We forecast Year-on-Year trade growth of 3% in 2013. This is a faster rate of trade growth than we are forecasting for the region as a whole, however it is a 0.1% slowdown from our forecast for Spain last quarter and we see their trade growth falling significantly in 2014 with little sign of a recovery thereafter. Unemployment hit 27.2% in Q1 2013 and their economy has shrunk for seven straight quarters. We expect motor vehicles, their top export sector, to see just 0.2% growth in 2013.

Graph 5 | Spain's total trade growth, 2013-2017





### 3.

## Europe | One to Watch | Poland

Poland's recent economic performance has been poor. The eastern-European country that had for so long seemed immune to the woes in the rest of Europe is now experiencing its worst economic slowdown for four years. Their GDP growth was a lower-than-expected 0.4% in Q1 of 2013 and the budget deficit hit 3.9% of GDP in spite of a 3.5% target.

However, in spite of sluggish economic growth rates, Poland's trade picture is still very positive. Many experts forecast 8% growth in exports in 2013 – our own forecast is slightly more cautious at 6.6%, but this is still one of our highest forecasts for a European country; only Luxembourg (6.7%) has a higher projected growth rate.

We expect the largest growth in exports to be in computers, medicaments and radio and television parts. Poland is traditionally strong in manufacturing and this seems to be an extension of their expertise. However, we also see evidence of slowing trade with European partners contrasted with growth in exports to Asia. For example, 10.5% growth to China, 13.5% to Malaysia and 11.4% to Thailand. Growth with Indonesia and the Philippines is also forecast to be strong at 11.4% and 12.4%, respectively although this growth is from a much smaller base.

It therefore appears that in spite of concerns over the state of the Polish economy, there are still plenty of opportunities outside of the EU and Poland may be able to export its way out of the slowdown.

**Table 3 | Poland's total trade growth (%)**

Trade Flow	2013 % Growth
Total Trade	6.40%
Export Growth	6.60%
Import Growth	6.30%

**Table 4 | Poland's increasing export trade with Asia**

Partner	2013 % Growth
China	10.50%
Malaysia	13.50%
Thailand	11.40%

**Table 5 | Poland's largest export sectors**

Export Sector	2013 % Growth
Computers	16.80%
Medicaments	12.40%
Radio and Television Parts	11.60%

## Europe | Sector Watch

Europe's most recent economic woes have been attributed to both unemployment and a slump in manufacturing. This is a potential cause for concern given that 21 of Europe's top-30 export sectors are directly related to manufacturing.

Motor vehicles are not only Europe's largest manufacturing sector, but also their largest export sector. New car sales have been falling, production targets have been missed and several factories have been closed.

Even Germany, the region's strongest and traditionally most consistent automotive producer, has not been immune to this atrophy announcing recently a 13% first quarter dip in car sales. We are forecasting a 2.2% slowdown in Europe's exports of motor vehicles and just 2% growth in Germany's automotive industry – this is down from our forecast of 2.7% last quarter. (continued)

**Table 6 | Europe's top 5 export sectors**

Top-5 Export Sectors	2012 Value (bn)	Last Forecast	This Forecast	% Change
Motor Vehicles	296	-1.6	-1.6	→
Medicaments	243	1.7	1.7	→
Non-Crude Oil	216	4.7	4.8	0.1
Parts for Motor Vehicles	151	-0.3	-0.3	→
Aircraft, Spacecraft, Satellites	64	8.1	8.1	→

**Table 7 | Europe's top 5 import sectors**

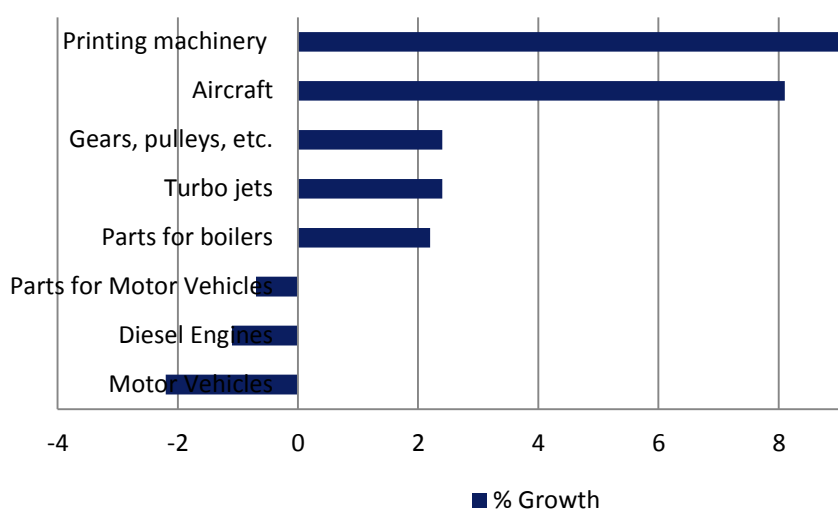
Top-5 Import Sectors	2012 Value (bn)	Last forecast	This forecast	% Change
Crude Oil	403	3.7	3.7	→
Motor Vehicles	241	-3.2	-3.2	→
Non-crude Oil	216	5.5	5.5	→
Medicaments	184	1.2	1.2	→
Parts for Motor Vehicles	136	-0.7	-0.7	→

## Europe | Sector Watch

The good news, however, is that Delta Economics still sees signs of life in Europe's manufacturing sector and we feel it would be unwise to assume that the situation cannot be rectified.

We do not expect trade in all manufacturing sectors to contract; for example, we forecast an 8.1% increase in exports of aircraft and a 2.4% increase in exports of turbo jets. We also expect the UK's manufacturing sector to improve in the second half of the year with exports of diesel engines to increase by 7.7%, turbo jets by 5.4% and printing machinery by 7.2%.

**Graph 6 | Europe manufacturing, forecast year-on-year growth rates, 2013**

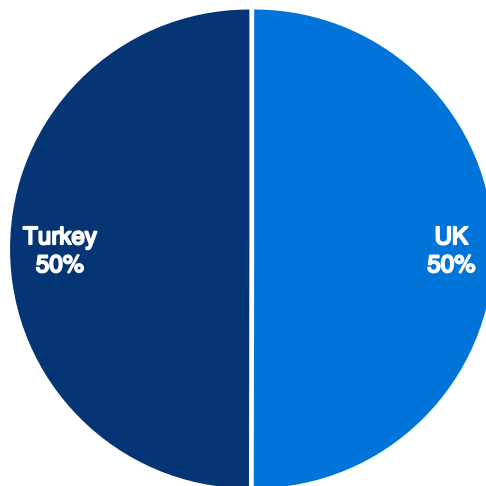


## Europe | The Smart Money

There are still fundamental issues that must be addressed before Europe can begin to improve growth. Whilst unemployment remains at the current level it will be difficult for Europe to progress. It currently stands at 12% in the Eurozone and is rampant in Spain, Greece and Portugal. Taking the example of automotives, if global demand is low production figures will not be met, this leads to layoffs and plant closures. Establishing FTAs with large, fast-growing economies outside of the eurozone will help to economic growth.

This is the philosophy that countries such as Greece have adopted. It is worth keeping an eye on emerging trade routes between Greece and Turkey (predominantly in cotton). The potential strength of this trade route could see Turkey leapfrog the UK as Greece's sixth largest export partner by 2016. This seems all the more plausible now that Greece has been allowed to begin to ease austerity measures, we may see higher rates of trade growth in the coming years.

Graph 7| Value of Greece's exports to the UK and Turkey in 2012



Graph 8| Value of Greece's exports to the UK and Turkey by 2016

