

The negative trend of euro area exports contributes notably to explaining the sluggishness of activity observed throughout 2018. The slowdown in exports came about against a background of less buoyant world trade, associated with the loss of momentum in global activity and with the heightening of trade tensions that affected business confidence and investment. For the year on average, global trade (excluding euro area imports) grew by 4%, compared with 5.6% in 2017. Moreover, the rate of increase of this variable weakened notably as 2018 unfolded (excepting a transitory rebound in the central months), with negative rates being posted at year-end, a relatively uncommon phenomenon in the time series (see Chart 1).

This slowdown in world trade has fed through sharply to exports and to the activity of the European economies, with fairly generalised slackness apparent. In the area as a whole, sales of goods targeted on the rest of the world grew by 2% in 2018 (against 4.3% in 2017)¹, with end-year real rates of increase below 1% (in year-on-year terms) and reductions in some countries such as Germany, Italy and Spain. In parallel, output in the industrial sectors, which is generally more export-oriented than that in services, posted moderate growth over the year as a whole.

The high degree of trade openness of the European economies plays a significant role in explaining the impact of the slowdown in world trade on euro area economic activity. As Chart 2 shows, the average degree of openness of the euro area countries (excluding intra-area trade) is far higher than that of the United States and even exceeds that of China. Admittedly, the creation of the euro area has led to greater trade among its member countries; but the rise in exports to markets outside the area has been even greater. Thus, the share of extra-euro exports in total exports increased from 48% in 2000 to 55% in 2018. During this period, there was a notable increase in the weight of exports to Asia (to China in particular) and to the rest of the EU countries not belonging to the euro area (such as Poland, Romania and Hungary), areas whose significance currently exceeds that of other traditional export markets such as the United States and the United Kingdom.²

A key factor behind the weakness of euro area exports in 2018 is the relatively less dynamic behaviour of the economies which, at present, are comparatively more significant in the euro area foreign trade structure in terms of geographical specialisation. Specifically, there has been a contraction in sales to the United Kingdom over the past year, compounding the weakness recorded

since 2016 when the Brexit referendum was held (see Chart 3). Adding to this, in 2018, was the notable slowdown in exports to the rest of the EU, to Russia and to China. At a greater level of disaggregation, there was a notable decline in exports to Turkey (which technically went into recession in late 2018, and saw its currency depreciate sharply) and to other Asian countries, all of which are comparatively important markets for the euro area. Conversely, exports to the United States were robust, despite the trade tensions with this country. The upshot was a significantly sharper easing in euro area foreign demand³ than that observed in global trade (see Chart 4).

Trade specialisation by product may also have checked the growth of exports. In particular, the difficulties the automobile industry has undergone (owing to the adaptation to new emissions rules and uncertainty over the structural transition from diesel to new technologies) have, given their high weight in the euro area's total exports, adversely impacted sales abroad, especially in Germany (which accounts for more than 50% of total euro area car exports). Also, the slowdown in China, in transition towards a growth model based more on consumption and less on investment, has negatively affected euro area exports, given the high weight of capital goods in sales targeted on China (see Chart 5).

Lastly, a further factor that may have curbed export growth in 2018, especially in the first half of the year, is the euro appreciation in nominal effective terms against its trading partners in 2017.⁴ That would explain why the easing in extra-euro area exports was, generally, sharper than that recorded by the respective export markets. This loss in share was across the board, with the exception of France, whose sales abroad trended somewhat more favourably than the attendant foreign demand (see Chart 6).

In short, the high degree of openness of the euro area economies, along with the geographical orientation and the product-based specialisation of their exports, has made the euro area particular sensitive to external shocks and to the slowdown in world trade. Looking ahead, the uncertainty over the possible escalation in protectionist measures paints a complex picture for European exports, especially in a setting, such as the present, marked by worsening global economic prospects. Among the most significant factors are the findings of the research by the US authorities on car imports from Europe, which might see higher tariffs on this type of product, and the hypothetical effects of diverted trade which a future bilateral trade pact between China and the United States could have on the euro area.

1 Cumulative growth in the year, with data to November 2018.

2 The composition of exports evidences other differences from country to country. Specifically, while in Italy and in France the weight of extra-euro area exports stands at around the average, in Germany it is higher (63%), and in Spain and Portugal lower (47% and 35%, respectively). There are also differences when specific destinations are considered: in Germany, exports to China have a greater weight (at the expense of Africa and the Middle East); and in Spain, Latin America, Africa, the Middle East and the United Kingdom are more important, and the United States, emerging Asia and other EU countries less so.

3 Euro area foreign demand is obtained by weighting the imports from different world regions (based on the Central Planning Bureau series), taking the weight of sales to each of them in extra-euro area exports.

4 The econometric models available suggest that exchange rate movements take between three and four quarters to be reflected in the behaviour of exports. Hence, it is estimated that the appreciation of the euro in 2017 had an adverse impact on export growth in 2018, and a virtually zero effect in 2017.

Chart 1
GLOBAL GOODS IMPORTS EXCLUDING EURO AREA. ANNUAL AND QUARTERLY CHANGE, AND CONTRIBUTIONS

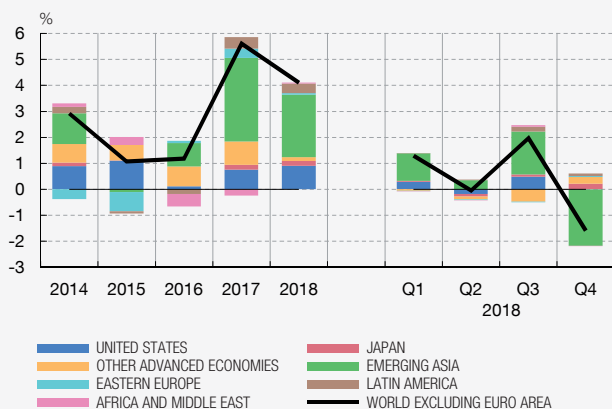


Chart 2
DEGREE OF TRADE OPENNESS (2017) (a)

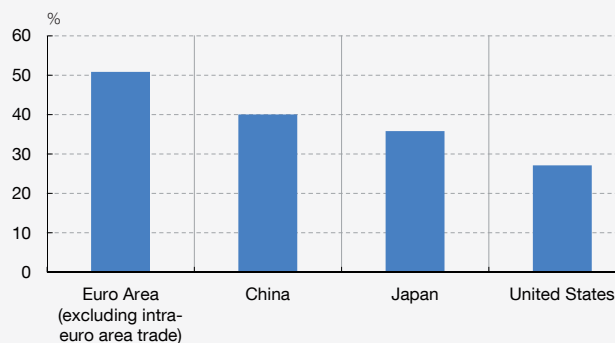


Chart 3
REAL EXTRA-EURO AREA GOODS EXPORTS. ANNUAL CHANGE AND CONTRIBUTION

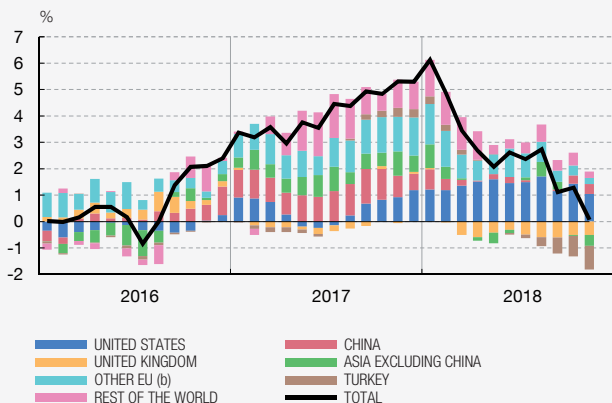


Chart 4
EXTRA-EURO AREA GOODS EXPORTS, EXTERNAL DEMAND AND GLOBAL IMPORTS. REAL TERMS

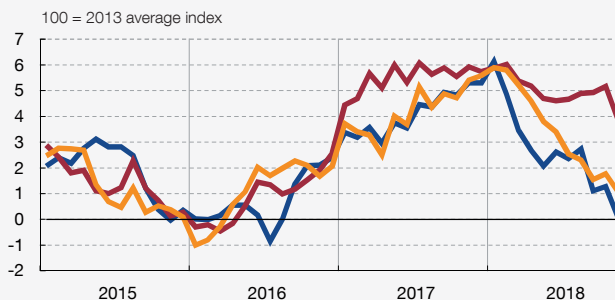


Chart 5
REAL EXTRA-EURO AREA GOODS EXPORTS. ANNUAL CHANGE AND CONTRIBUTION BY TYPE OF PRODUCT

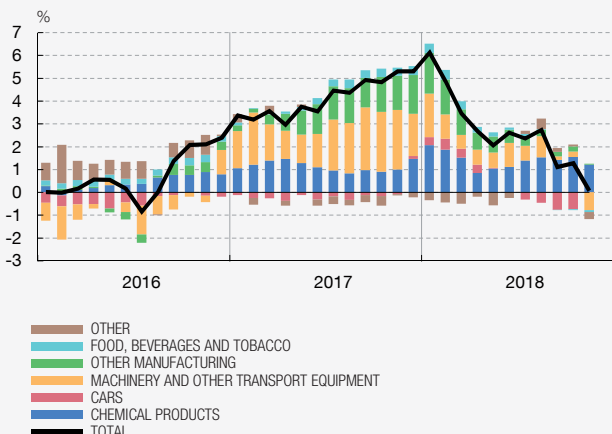
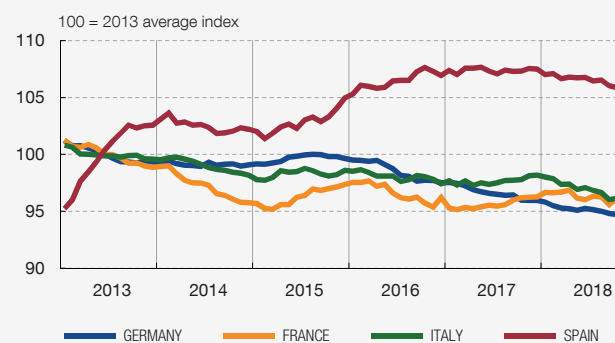


Chart 6
EXTRA-EURO AREA GOODS EXPORT MARKET SHARES (c)



SOURCES: Banco de España, World Bank, Central Planning Bureau, Eurostat and World Trade Organization.

- a Exports plus imports of goods and services as a percentage of GDP.
- b Other EU refers to EU countries (Denmark, Sweden, Poland, Hungary and Romania) that do not belong to the euro area, except United Kingdom.
- c Extra-euro area export market share is the ratio of the extra-euro area exports of each country to its euro area foreign demand.