



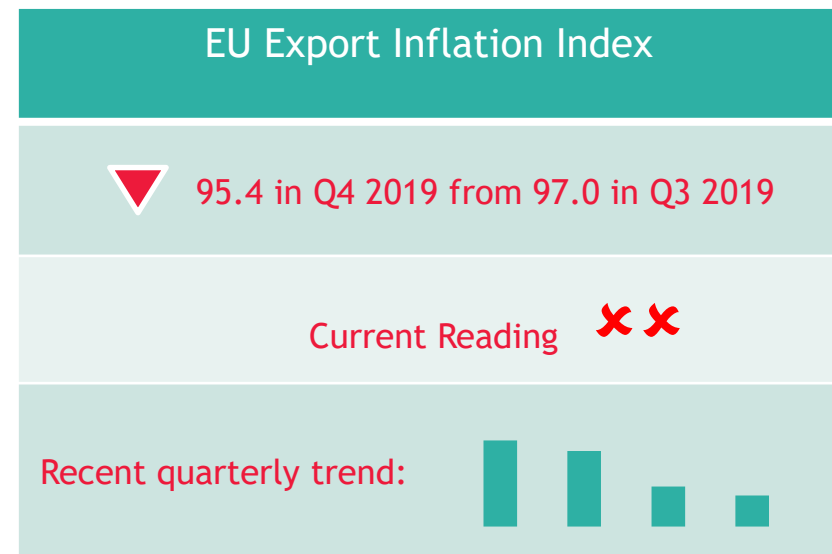
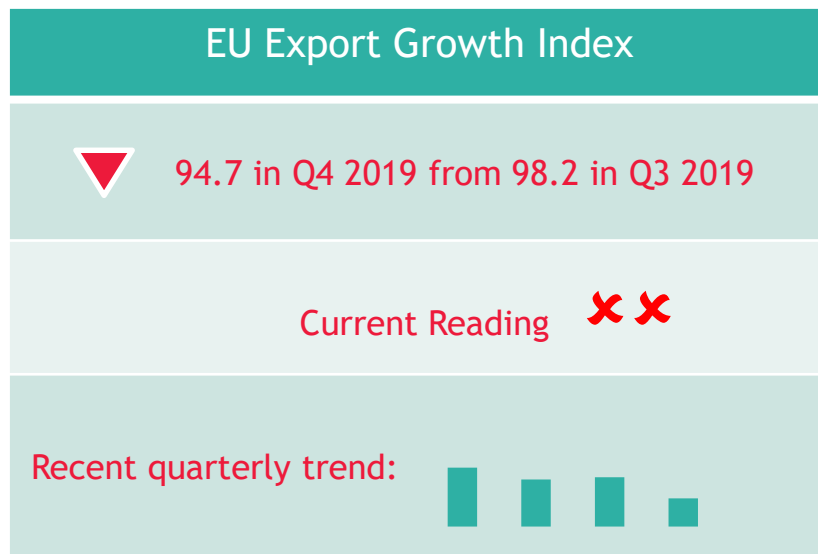
# EUROPEAN EXPORT INDEX

Q1 2020



# BDO EXPORT INDEX - KEY FIGURES

The BDO Export Indices are composite indicators which provide snapshots of the export markets in Europe's five largest economies - Germany, UK, France, Italy & Spain - together accounting for around 70% of EU GDP, as well as the EU as a whole. Using data from a range of European surveys over the past three months, the headline figures in this edition refer to the export outlook for the fourth quarter (October - December) of 2019.

## Summary and key findings



**KEY:** ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months  
x = below 100; xx = below 100 and (joint) lowest in 12 months

 = upward quarterly movement  
 = downward quarterly movement

## BDO EXPORT INDEX - KEY NATIONAL FIGURES

Index	Country	Movement in quarter	Index level
Export Growth Index	EU	▼	94.7 in Q4
	UK	▼	97.5 in Q4
	Germany	▼	93.4 in Q4
	France	▼	93.4 in Q4
	Spain	▲	95.7 in Q4
	Italy	▼	95.5 in Q4
Export Inflation Index	EU	▼	95.4 in Q4
	UK	▼	95.3 in Q4
	Germany	▼	93.7 in Q4
	France	▼	91.8 in Q4
	Spain	▼	92.3 in Q4
	Italy	▲	102.3 in Q4

**KEY:** ▲ = rise from previous quarter

▼ = fall from previous quarter

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# EUROPEAN EXPORT INDEX

## Key Findings

In the fourth quarter of 2019, the BDO EU Export Growth Index fell from 98.2 to 94.7. This takes the Index below the 95 mark that separates expansion from contractionary territory for the first time in more than two years.

The weakest performing countries have been Germany and France, with the former teetering on the brink of recession and the latter facing major economic disruption associated with widespread strike action. Declines in the Export Growth Index were also recorded in the UK and Italy in Q4, although Spain did see a small increase.

Data from a range of sources point to a continued slowdown in international trade as well as a high degree of pessimism from businesses regarding the outlook for exports in the months ahead.

The BDO Export Inflation Index fell for the sixth consecutive quarter, reaching 95.4 in Q4 2019. The country-level indices suggest that in Germany, France and Spain, the annual rate of inflation for exports is in negative territory.

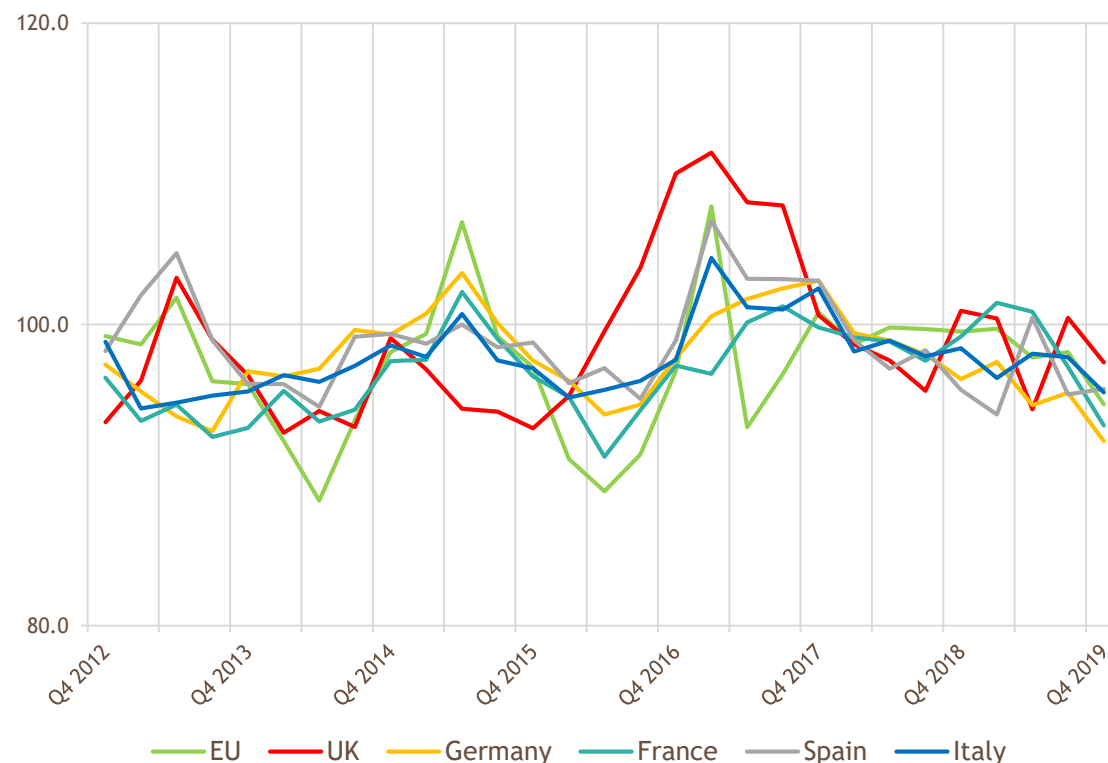
The global trading environment has changed significantly over the past decade, particularly over the last three years. This quarter's In-Focus section looks ahead at some of the key factors that could shape international trade in the 2020s, ranging from the outcomes of trade conflicts to the final shape that Brexit takes.

# EU EXPORT GROWTH SLIPS INTO NEGATIVE TERRITORY IN Q4 2019

- The BDO Export Growth Indices chart annual growth in total exports of Europe's five largest economies and the EU.
- The BDO Export Growth Index fell by 3.5 points to 94.7 in the final quarter of 2019. This is below the 95.0 mark that signals a year-on-year contraction of exports - the first time this has occurred in more than two years.
- The data available from a variety of sources point to a worsening of the outlook for international trade in Q4. The volume of air freight experienced the 12<sup>th</sup> consecutive month of annual decline in October. Indeed, data from the International Air Transport Association show that total freight-tonne kilometres in Europe were 1.5% lower in October than they were during the same month in 2018.
- Furthermore, the latest PMI survey for the manufacturing sector suggests that new export orders in the Eurozone fell for the fourteenth consecutive month in November. However, the rate of decline has dropped somewhat.
- Meanwhile, data from both the Ifo and the European Commission show that businesses' outlook for exports in the coming months is the most gloomy since the Great Recession of 2009.
- Escalating trade tensions have also prompted the World Trade Organisation to downgrade its forecasts for the growth of global merchandise trade volumes in 2019 from 2.6% to 1.2%.

## BDO EXPORT GROWTH INDEX

100 = long-run average growth for EU exports. Greater than 95 = positive growth



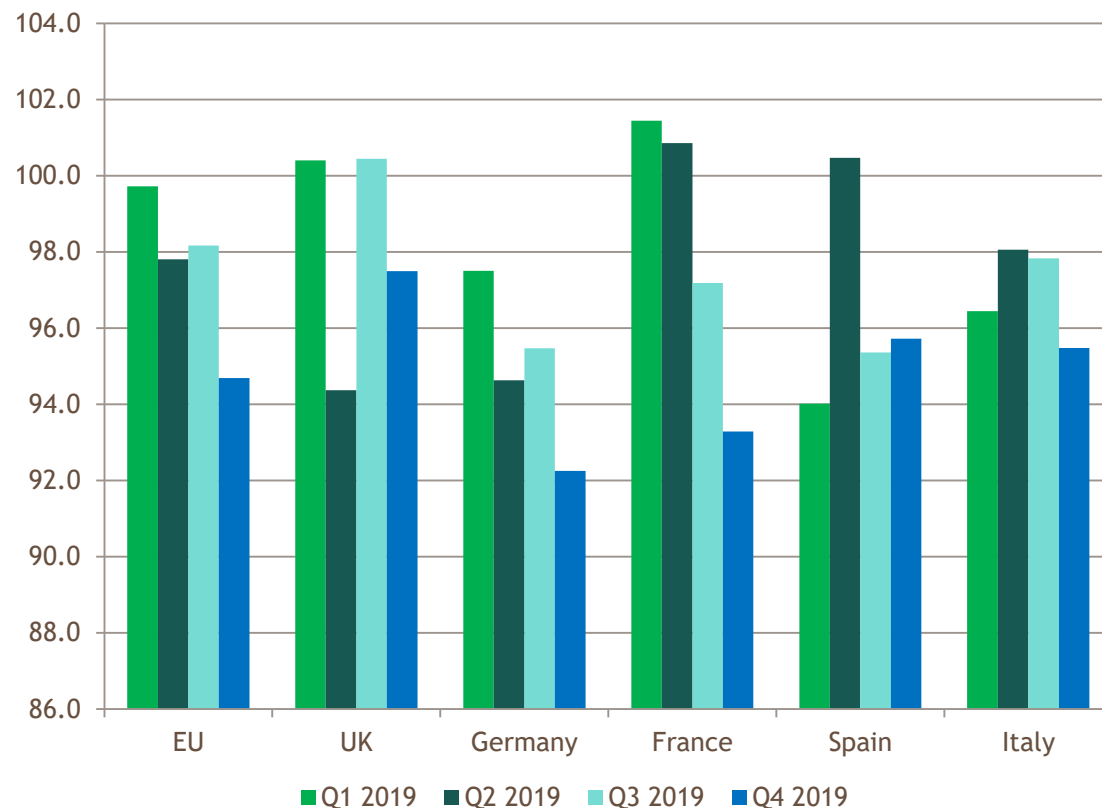
Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

# EXPORT VOLUMES CONTRACT IN GERMANY

- The performance of exporters in the UK exceeded expectations in the third quarter of 2019, with exports rising by 5.3% year-on-year. However, this did slow to 4.0% in October, and it is expected that there was a further deceleration in the remainder of the final quarter of 2019, on the basis of a highly pessimistic outlook among exporting firms.
- The Export Growth Index for Germany declined by 2.1 points to 93.4 in the fourth quarter of 2019. Although export performance did surprise on the upside for October - on the back of strong sales to the US and China - export order books in Germany are the weakest they have been since 2010, suggesting that this improvement will not be sustained.
- Widespread strike action in protest against planned pension reforms had a notable impact on the French economy in Q4. Estimates of the number of striking workers range from 800,000 to 1.5 million, affecting production across a range of industries and generating major disruptions to internal transport links and fuel supplies. Against this backdrop, the Export Growth Index for France dipped below the 95.0 mark to 93.4 in Q4 2019 for the first time in more than three years.
- Italian exporters' outlook for international trade volumes fell to a more than 11-year low in the fourth quarter of 2019. This pushed down the Export Growth Index for Italy to 95.5 in Q4 2019, 2.4 points lower than it was the previous quarter. Italy's export performance continues to be hampered by productivity issues within the country. Indeed, real labour productivity fell in six out of the ten years up to 2018, which has been highly detrimental to the competitiveness of exports.
- Spain was alone out of the countries analysed to register an increase in the Export Growth Index in Q4, with the score inching up by 0.3 points to 95.7.

**BDO EXPORT GROWTH INDEX (NATIONAL)**

100 = long-run average growth for EU exports. Greater than 95 = positive growth



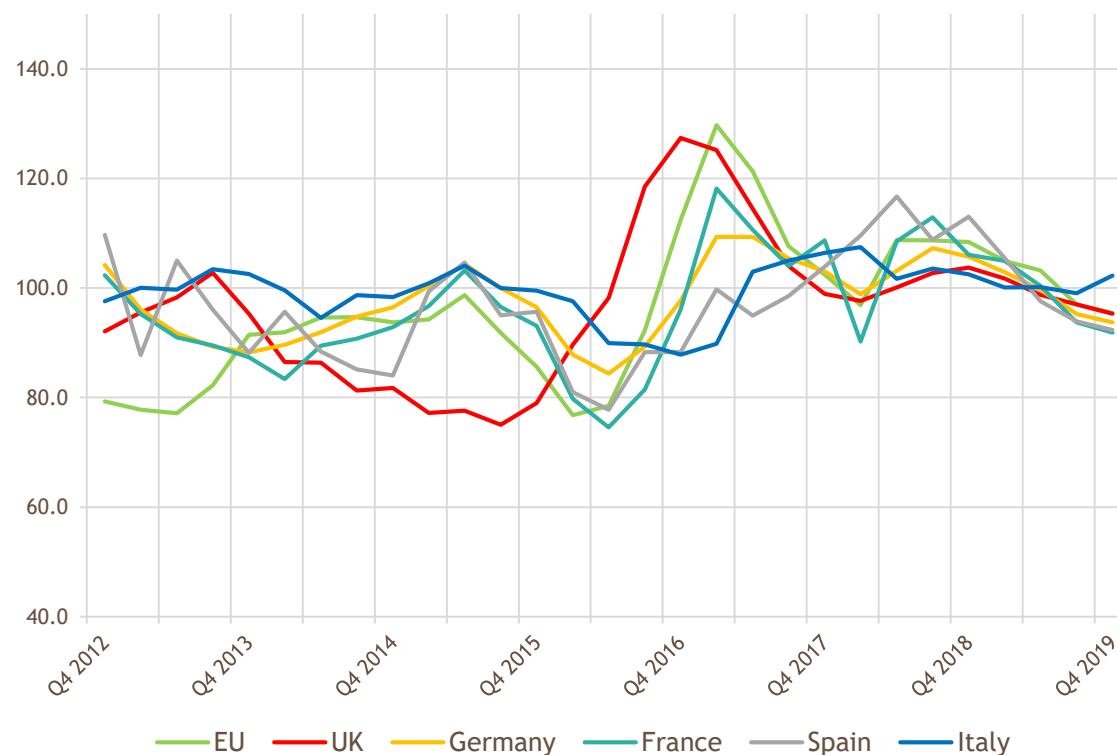
Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

# EXPORT INFLATION FALLS FOR 5<sup>TH</sup> CONSECUTIVE QUARTER

- The BDO Export Inflation Indices show the rate of year-on-year growth in export prices across the EU and its five largest economies.
- The EU Export Inflation Index fell by 1.6 points to 95.4 in Q4 2019. This marks the sixth consecutive quarterly decline in the rate of price growth for European exports.
- The annual rate of consumer price inflation in the Eurozone declined steadily throughout 2019, reaching a near-two year low of 0.7% in October. However, a flash estimate of inflation suggests that the rate of price growth picked up to 1.3% in December, driven largely by the food, alcohol & tobacco categories - in particular unprocessed foods.
- The European Central Bank (ECB) has deployed numerous monetary policy measures to address the recurring issue of below target inflation in the Eurozone. Most recently, the central bank cut the interest rate on its deposit facility to a record low of -0.5%, and has also restarted its net asset purchasing programme to the tune of €20 billion per month.
- There are two key impacts that this loosening of monetary policy can have on the price of European exports. Firstly, they will exert a downward pressure on the euro, which in turn will lower the price of European exports for purchasers outside of the Eurozone. Secondly, the monetary stimulus is designed to spur demand in the Eurozone economy, which in turn can generate higher prices. However, the magnitude of the former effect is limited by the fact that other central banks including the US Federal Reserve have also loosened monetary policy in recent months. Meanwhile, the scope for further monetary stimulus to stoke demand has also been questioned, after many years of ultra-low interest rates and quantitative easing have failed to raise inflation sustainably towards the ECB's target level.
- Since 2003, the ECB has had an inflation target of "close to, but below 2%". However, in its first strategic review in 16 years, there are calls for the central bank to amend this target either to simply 2% or even a 1.5% - 2.5% band. The intention of this shift would be to lessen the pressure for the ECB to tighten monetary policy as inflation rises above 1.5%, while also raising inflation expectations in the economy.

## BDO EXPORT INFLATION INDEX

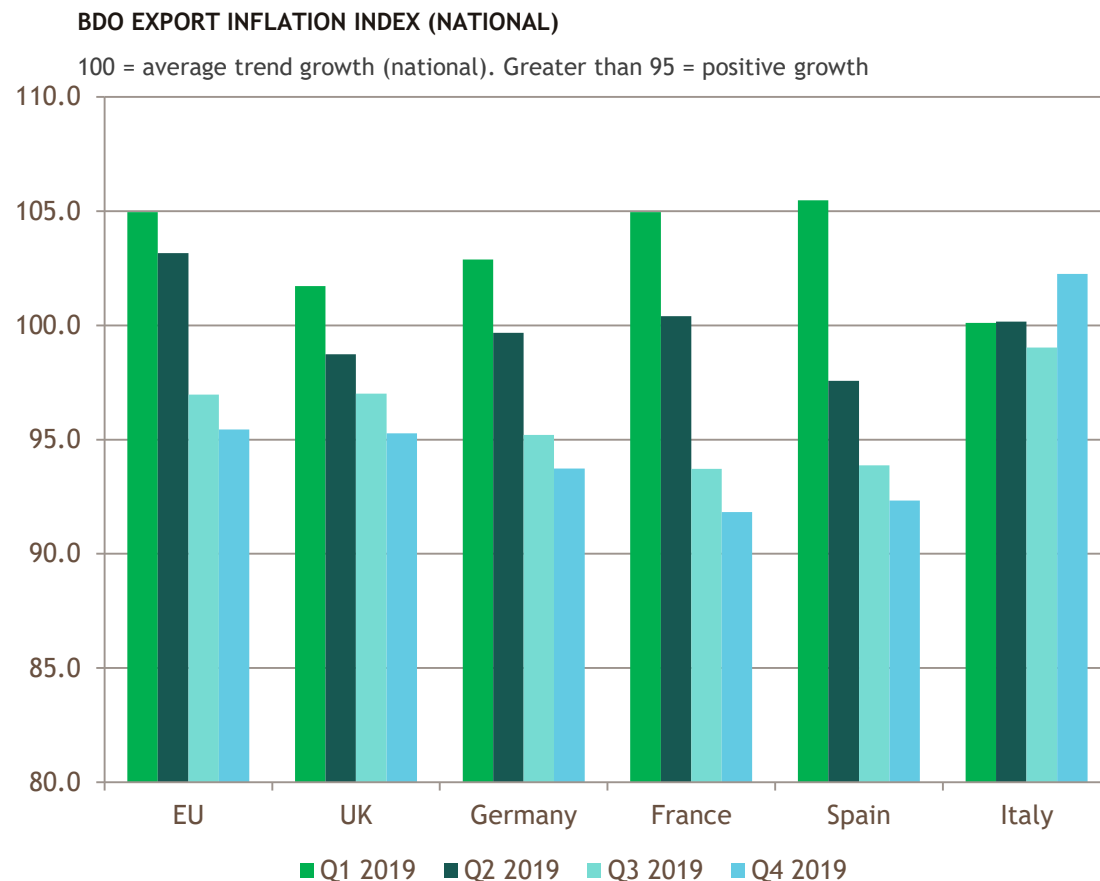
100 = average trend growth. Greater than 95 = positive growth



Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat

# EXPORT PRICES DECLINING YEAR-ON-YEAR IN GERMANY, FRANCE & SPAIN

- The Export Inflation Index for the UK fell by 1.7 points to 95.3 in the fourth quarter of 2019. Over the last few months, there have been some early signs that the shine may be coming off the UK labour market. In particular, the number of vacancies fell to a 2-year low in the three months to November, and the rate of earnings growth has started to recede. Lower wage pressure in the UK will exert a downward pressure on prices in the months ahead.
- The rate of inflation for German exports fell throughout most of 2019, and entered negative territory in October for the first time in two years. Correspondingly, the Export Inflation Index for Germany fell from 95.2 in Q3 to 93.7 in Q4 2019. Germany's economy has been teetering on the brink of recession lately, largely due to weakness in the manufacturing sector. A lack of demand in the German economy will have weighed on export prices in Q4.
- In France, the rate of export price growth fell further into negative territory, as the Export Inflation Index dipped to 91.8 in the fourth quarter of 2019.
- Italy was the only country to see an increase in the Export Inflation Index, with the score rising from 99.0 to 102.3 in Q4 2019. Data from the Organisation for Economic Co-operation and Development suggest that the rate of inflation for Italy's non-commodity exports reached a 12-month high in the final quarter of the year, which exerted an upward pressure on the Export Inflation Index.
- The Export Inflation Index for Spain declined by 1.6 points to 92.3 in Q4 2019, suggesting that export prices have continued to fall year-on-year. Electricity and fuel prices have been a key contributor to the low level of inflation recorded by Spain in recent months.



Source: OECD, European Commission, DG ECFIN Confidence Indicators, IFO Economic Situation Surveys, Eurostat



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# IN FOCUS: EUROPEAN TRADE IN THE 2020s

The environment for global trade has undergone several profound changes in recent years, casting uncertainty over how international trade will be conducted during the next decade. This quarter's In-Focus section explores some of the key factors that will shape the outlook for European exporters in the 2020s.

## 1. Trade wars

The presiding issue affecting the international trading climate in 2019 was the trade war between the US and China. The Phase One agreement signed this month has quelled some fears of continued escalation. However, the agreement omits many of the key sticking points in the US-China relationship, such as China's interventionist approach to its economy. Irrespective of agreements reached in the short term, China's continued ascent as an economic and geopolitical superpower will increasingly be seen as a threat to the US' position, paving the way for further conflict in a plethora of areas throughout the 2020s. As has been the case with the current trade war between the US and China, continued conflict will inevitably have ripple effects for exporters throughout the global economy given the economic weight of the parties involved.

## 2. A move from multilateralism to unilateralism

The US' decision in December to block new judges from being appointed to the World Trade Organization's Appellate Body - the final appeal court that adjudicates international trade disputes - means that the body is now no longer able to function, since the number of sitting judges (1) is below the minimum number required to hear cases (3). Without a multilateral mechanism to resolve and enforce trade issues, it is conceivable that countries will resort to unilateral measures instead, opening the door to the spread of tit-for-tat tariffs. The volatility associated with this would likely lead firms in Europe and elsewhere to shift their focus inwards, given the uncertain access to overseas markets.

## 3. Brexit

When the UK formally withdraws from the European Union it will become the largest purchaser of EU exports outside of the US. With talks on the UK's future trading relationship with the EU set to commence in the coming weeks, there are numerous sensitive issues that could become stumbling blocks in the negotiations, ranging from regulatory alignment to access to fishing waters. The bluff and brinkmanship deployed by both sides so far in the Brexit process sets the scene for a fractious and highly charged negotiation, with the continued risk of a no-deal outcome hovering in the background. This will likely create a climate of uncertainty that will continue to weigh on sentiment and investment among exporters. The nature of the final agreement that is reached on the UK's future relationship with the EU will have a profound impact on exporters in the region. For instance, the cost of exports would be affected by the imposition of tariffs on certain goods, while regulatory divergence could affect many UK businesses' access to EU markets and vice versa.

## 4. Shifting production to the point of consumption

The emergence of manufacturing powerhouses such as China was fuelled to a large extent by a lower cost of labour in these developing countries. However, a combination of automation and a convergence of wages across the global economy mean that this effect will diminish over the next decade, causing an increasing share of production to take place closer to the point of consumption. The impact of this would be a reduction in international trade volumes across the board. This trend will likely be exacerbated by heightened concerns over climate change and the associated efforts to reign in carbon emissions.

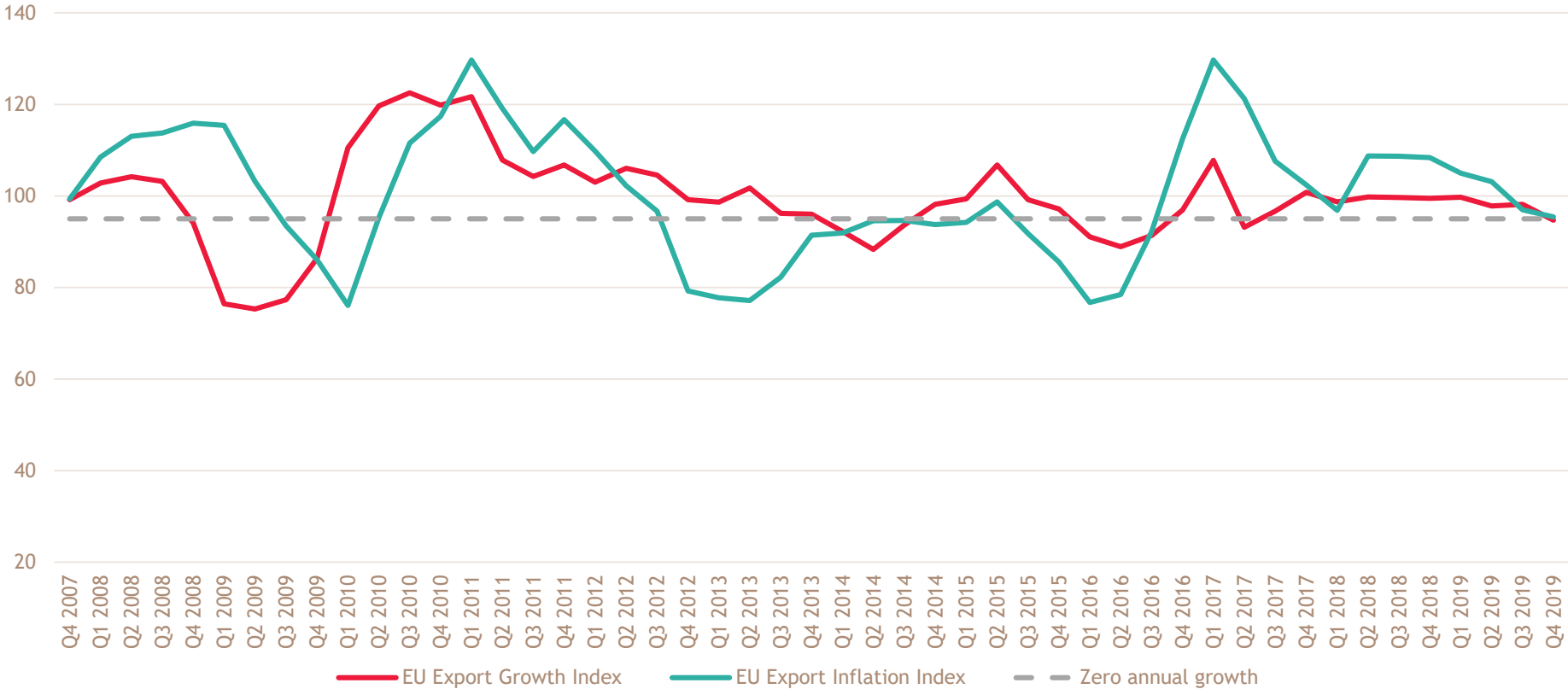
# EXPORT INDICES BY COUNTRY

		Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
BDO Export Growth Index	EU	91.4	96.9	107.8	93.2	96.7	100.8	98.7	99.8	99.7	99.5	99.7	97.8	98.2	94.7
	UK	103.7	110.0	111.4	108.1	107.9	100.6	98.7	97.6	95.6	100.9	100.4	94.4	100.4	97.5
	Germany	94.7	97.8	100.5	101.7	102.4	102.9	99.4	98.9	98.0	96.4	97.5	94.6	95.5	93.4
	France	94.3	97.3	96.7	100.1	101.2	99.8	99.1	98.9	97.6	99.2	101.4	100.9	97.2	93.4
	Spain	95.1	98.9	106.9	103.0	103.0	102.9	98.9	97.1	98.3	95.7	94.0	100.5	95.4	95.7
	Italy	96.3	97.6	104.4	101.1	101.0	102.4	98.2	98.9	97.9	98.4	96.4	98.1	97.8	95.5
BDO Export Inflation Index	EU	92.2	112.4	129.7	121.3	107.6	102.4	96.9	108.8	108.7	108.4	105.0	103.2	97.0	95.4
	UK	118.5	127.4	125.2	114.5	104.0	98.9	97.6	100.1	102.7	103.7	101.7	98.7	97.0	95.3
	Germany	89.3	97.7	109.3	109.3	105.4	103.0	98.9	103.1	107.3	105.7	102.9	99.7	95.2	93.7
	France	81.5	96.1	118.1	110.6	104.0	108.7	90.2	108.5	112.9	106.0	105.0	100.4	93.7	91.8
	Spain	88.3	88.3	99.7	94.9	98.5	103.9	109.6	116.7	108.8	113.0	105.5	97.6	93.9	92.3
	Italy	89.7	87.8	89.8	103.0	105.0	106.4	107.4	101.7	103.5	102.5	100.1	100.2	99.0	102.3

# APPENDIX:

## BDO INDICES

100 = average trend growth. Greater than 95 = positive growth



Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

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## METHOD NOTES

The BDO quarterly European Export Indices are delivered on behalf of BDO LLP by the Centre for Economics and Business Research, a leading independent economics consultancy. Cebr has particular strengths in all forms of macroeconomic and market forecasting for the UK and European economies and in the use of business survey techniques.

The indices are calculated by combining a range of up-to-date business surveys and hard economic data, from European and country-specific sources to 'nowcast' annual growth in the current quarter. Using survey data from sources including the European Commission, IFO, CBI, ISTAT & the Bank of England, as well as trade statistics from the UN and national statistical agencies, Cebr forecasts the level of annual growth in both total exports and export prices

The surveys and historic hard data are combined and correlated against a time series of trade data, individually for export growth and export price growth. Cebr then calculates the strength of the relationship between these variables and the dependent variable, respectively export growth and export price growth for each of the two indices. The variables are then weighted together based on their correlations and strength of relationship. Using this, Cebr nowcasts the current level of export price growth and total value of exports in the current quarter. While there may be some data from months within the quarter of release, a nowcasting exercise is used to project whole quarter figures.

Once a quarterly figure has been calculated, the annual growth rate from the same quarter in the previous year is derived. Finally, the growth rate is scaled into an index with 100 as the average long-term growth trend and 95 as the level dividing expansion from contraction.

The process is repeated for all of the five largest economies in Europe, and the combined European Union. Long-term growth, represented by a reading of 100 in the index, is calculated at a EU level for exports and at a national level for export prices.

The results are useful not only as snapshots of the current trends in the export markets of Europe's largest economies, but also as indicators of turning points and leading indicators of growth.



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