

# Research

## Euroland: In Asia we trust

- In many respects we should no longer expect the US to be the sole locomotive to pull Euroland out of crisis. We should also look to Asia. Exports to Asia are one of the drivers that we believe will help to get Euroland back on track.
- We expect the strong recovery in Asia to continue. A return of Euroland exports to Asia to previous peak levels will lift Euroland GDP by about 0.35%. We project this to happen quickly and expect Asia to continue as a growth engine thereafter.
- The Asian recovery should in particular benefit Germany, which is the most open of the large Euroland economies. A return of German exports to Asia to peak levels would add 0.6% to GDP. For France this would only add 0.2% of GDP.
- Looking further into the composition of exports we see that Germany benefits from a favourable export mix with a high share of capital goods exported to Asia. This is likely to benefit Germany in the recovery phase.
- Euroland competitiveness briefly benefitted from the depreciation of the euro relative to the US dollar, the yuan renminbi and in particular the yen, which took place in the second half of 2008, but has partly been reversed since then.

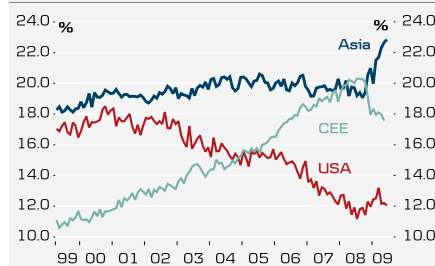
### Asia has risen to become a vital trading partner

A decade ago Euroland exported almost as much to the US as it did to the whole of Asia. This has changed dramatically and today Asia has become almost twice as important as the US as a destination for Euroland exports of goods and services.

China, Japan and the ASEAN (Association of SouthEast Asian Nations) countries are centre stage in the Asian recovery story. Together this group accounts for about 12% of Euroland exports – equivalent to the share of exports that is destined for the US. In addition the Asian country group has a much higher growth potential than the US, so from a trade growth perspective we should focus much more on what is going on in Asia than in the US.

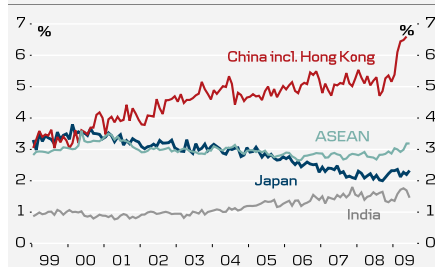
The rise of Asia has been led by China. The share of exports heading for China (including Hong Kong) has doubled within a decade and today more than 6% of Euroland exports are destined for China. India is a rising star too and may soon account for as much Euroland export as Japan, which has seen its share of Euroland exports dwindle for a decade. The prospects for growth in both China and India are very positive and we should expect to see their export share continue to grow for another decade.

**Euroland export destinations (share of total Euroland export)**



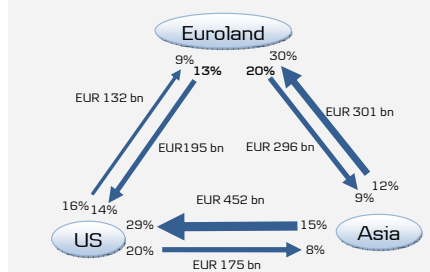
Source: Reuters EcoWin

**Euroland export destinations in Asia (share of total Euroland export)**



Source: Reuters EcoWin

**Trade flows (shares of total imports/exports)**



Source: IMF DOT and Reuters Ecwin (2007 data).

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## Global trade smashed by financial crisis – Exports to Asia quickly rebound

Exports to Asia peaked in early 2008 and fell dramatically in January 2009 following the intensification of the financial crisis. However, unlike exports for other regions it started to rebound immediately. From peak to trough for Euroland exported goods and services to Asia fell 22.3% in value terms. Since January it has rebounded strongly and regained more than 40% of the value lost. Contrary to this exports to the US and central and eastern Europe (CEE) have continued to dwindle. Exports to the US are currently down 28.8% from peak levels while exports to the CEE are down by a massive 35.3%.

The rebound in exports to Asia has so far been pulled by China and to a lesser extent the ASEAN countries. Exports to Japan haven't yet rebounded, but a strong rebound here is expected in the coming months. Exports to India picked up in early-2009 but have experienced a temporary setback since then. Growth is currently picking up at a rapid pace, not only in China but also in Japan and across most of South East Asia. We expect that quarterly growth in China and Japan could reach 11.2% and 4.5% annualised respectively in the current quarter. In 2010 we expect growth to be around 9.8% in China and 3.1% in Japan.

The sharp rebound in Asian growth will lift Euroland exports to Asia significantly and it could return to previous peak levels as soon as the end of the year. This would lift total Euroland exports by EUR43bn annually, or about more than 3.5%.

### Asia helping to put Euroland back on a positive growth track

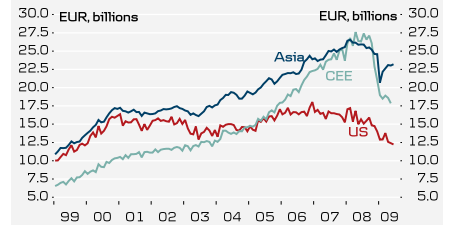
The direct impact of a return of Euroland exports to Asia to peak levels is a 0.5% rise in Euroland GDP, which will significantly help to put Euroland back on a positive growth track in H2 this year. Thereafter, Euroland exports to Asia are projected to return to their pre-crisis growth rate (about 10.5% annually), directly adding about 0.3-0.4 percentage points to Euroland GDP growth annually. The direct impact of the decline in Euroland exports to Asia from peak to trough was a 0.8% reduction in Euroland GDP.

The direct effect of export growth on GDP is, however, partly offset by an increase in imports of intermediate goods. The import content of Euroland exports has risen from 38% in 1995 to about 44% in 2000 (*ECB Occasional Paper no. 30, 2005*) and probably close to 50% today. Thus about half of the direct effect of export growth is offset by the rise in imports of intermediate goods.

Besides the negative impact from an increase in intermediate goods imports there are also positive second round effects on investment and private consumption. The multiplier effect of net export growth – the foreign trade multiplier – is assessed to be about 1.5. A return of Euroland's export to Asia to its peak level will thus increase GDP by an estimated 0.35% when the effect of imports and second round effects are taken into account. Afterwards exports to Asia are expected to contribute 0.25 percentage points to Euroland GDP growth annually.

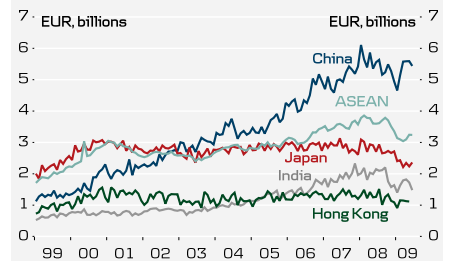
The US is not as open an economy as Euroland, so although Euroland and the US both send about a fifth of their exports to Asia, the US will benefit less from the trade impact of the Asian rebound. The openness of Euroland – measured as exports of goods and services relative to GDP – was 16.9% in 2008 while the openness of the US was 12.8%.

**Euroland export to Asia rebound**



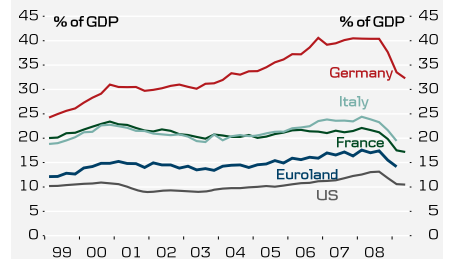
Source: Reuters Ecowin

**Euroland exports pulled by China**



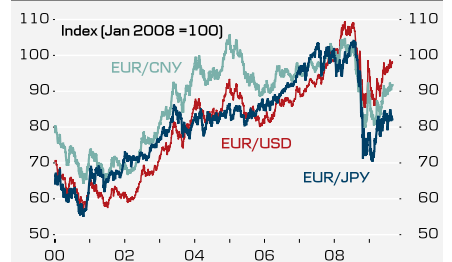
Source: Reuters Ecowin

**Openness (export / GDP)**



Source: Reuters Ecowin

**Currency developments**



Source: Danske Markets

## Euroland competitiveness benefits from JPY and CNY appreciation

Euroland competitiveness benefits from the depreciation of the euro relative to the dollar, the yuan renminbi and in particular the yen, which took place in the second half of 2008, and has only been partly reversed since then. Nevertheless it is important to bear in mind that from 2001 until mid-2008 the euro appreciated significantly and one of the major challenges of the euro area is the high unit labour costs.

Prices on export markets have fallen substantially during the crisis, not least due to the decline in commodity prices, but the euro depreciation in the second half of 2008 has blurred this. Since last September when the crisis escalated export prices have only fallen about 3.6%, which just brings export prices back to their 2007 level. Looking forward a modest export price increase is to be expected primarily driven by commodity prices. Further appreciation of the euro is a significant risk for the export outlook.

## Germany is hard hit because of openness, but should also rebound strongly

The Asian recovery should benefit Germany, in particular, as the most open of the large Euroland economies. For the same reason Germany was among the hardest hit when global trade nosedived. Prior to the crisis exports accounted for more than 40% of GDP in Germany compared with 22% of GDP in France and 24% of GDP in Italy.

Not only does Germany benefit from being open it also has a larger share of exports going to Asia. 12.1% of total German exports went to Asia in 2008, with only 9.4% of French exports.

A return of German exports to Asia to its peak level will directly add about 0.8% to GDP. Taking into account the growth in intermediate goods imports and positive second round effects the total impact is around 0.6% of GDP. For France the direct impact would only be around 0.3% of GDP and the total effect would be around 0.2% of GDP.

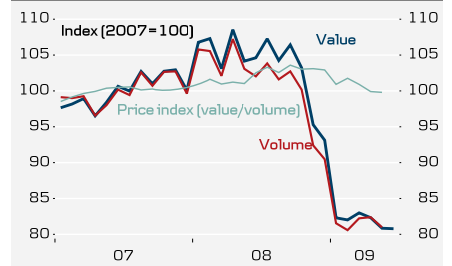
## Germany has a favourable export mix

Looking further into the composition of exports we see that Germany also benefits from a favourable export mix with a high share of capital goods in its exports to Asia (see Annex). The share is particularly high for German exports to ASEAN 4 (Indonesia, Malaysia, Philippines and Thailand) and India where it exceeds 50%. This is likely to benefit Germany in the recovery phase during which investments in the region are likely to pick up strongly. France, Italy and Spain all have higher share of consumer goods exports than Germany. Spain benefits from a large share of industrial supplies in its export mix.

Germany also has a much higher share of passenger cars than the other large Euroland countries in its exports for both Asia and the US. Passenger car production has been cut much more than demand and is expected to experience massive growth in the coming quarters – just to make supply meet demand. There is thus scope for a strong rebound in German passenger car export. This will be further accelerated if demand starts to pick up. France has the highest share of transport equipment in its exports to the region, but passenger cars only amount to a small part of this.

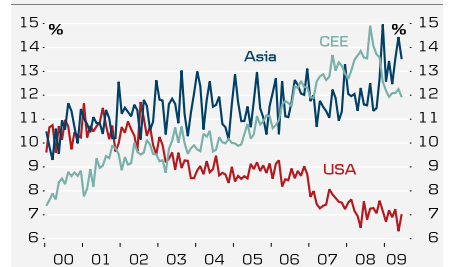
In conclusion, Euroland is expected to benefit from the Asian recovery and Germany should benefit particularly, due to its openness, a large share of export destined for Asia, and a favourable export mix.

Euroland export value and volume



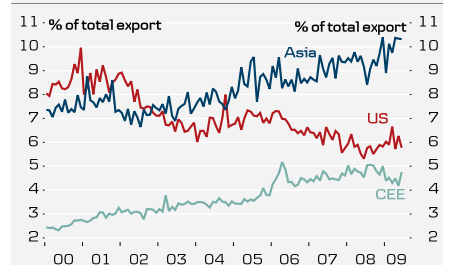
Source: Danske Markets

German export shares



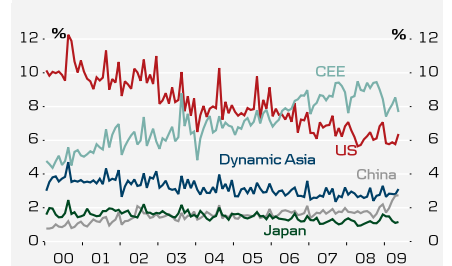
Source: Reuters Ecowin

French export shares



Source: Reuters Ecowin

Italian export shares



Source: Reuters Ecowin

## Annex: Export mix for selected destinations

Share of total export from country/region of origin to destination, %

<b>Euro area</b>	China	Japan	ASEAN4	India	USA
Consumer goods	4.8	21.5	6.8	3.2	14.0
- <i>durable</i>	2.3	10.8	2.6	2.1	6.2
- <i>nondurable</i>	2.5	10.8	4.3	1.1	7.8
Industrial supplies	27.2	25.4	24.4	42.3	27.1
Capital goods	45.1	24.0	46.6	39.1	25.1
Transport equipment	18.5	24.1	14.2	12.0	20.7
- <i>passenger cars</i>	5.6	8.2	1.5	0.6	8.7
Other	4.3	5.0	7.9	3.3	13.1
<b>Germany</b>	China	Japan	ASEAN4	India	USA
Consumer goods	3.5	11.9	5.0	3.5	7.6
- <i>durable</i>	1.8	4.6	1.9	2.2	3.7
- <i>nondurable</i>	1.8	7.3	3.1	1.2	3.9
Industrial supplies	21.1	23.8	22.5	27.7	23.3
Capital goods	49.3	31.9	56.3	56.0	31.3
Transport equipment	22.2	31.5	10.6	9.2	32.7
- <i>passenger cars</i>	10.0	17.8	3.5	1.6	20.5
Other	3.8	0.8	5.7	3.6	5.1
<b>France</b>	China	Japan	ASEAN4	India	USA
Consumer goods	7.9	33.9	8.9	4.2	20.2
- <i>durable</i>	2.5	20.2	1.9	2.4	7.2
- <i>nondurable</i>	5.5	13.7	7.0	1.9	13.0
Industrial supplies	20.1	23.9	16.6	21.8	21.2
Capital goods	28.9	12.4	25.2	26.4	18.2
Transport equipment	36.7	38.5	42.0	45.5	24.5
- <i>passenger cars</i>	0.2	2.0	0.1	0.0	0.1
Other	6.4	-8.7	7.3	2.0	15.9
<b>Italy</b>	China	Japan	ASEAN4	India	USA
Consumer goods	8.9	43.3	10.3	4.3	21.4
- <i>durable</i>	6.9	31.3	7.4	3.5	17.4
- <i>nondurable</i>	2.0	12.0	2.9	0.8	4.1
Industrial supplies	31.4	17.8	26.3	28.8	21.3
Capital goods	52.9	12.5	46.6	52.8	24.5
Transport equipment	5.2	21.3	12.9	11.4	15.9
- <i>passenger cars</i>	1.2	4.7	0.3	0.1	2.6
Other	1.5	5.1	3.9	2.8	16.9
<b>Spain</b>	China	Japan	ASEAN4	India	USA
Consumer goods	5.3	24.5	11.3	2.9	13.7
- <i>durable</i>	2.5	8.3	4.1	1.6	5.4
- <i>nondurable</i>	2.8	16.2	7.2	1.3	8.2
Industrial supplies	47.0	23.6	45.5	51.4	23.1
Capital goods	28.1	13.5	19.5	34.3	22.3
Transport equipment	13.0	10.1	8.5	4.2	11.8
- <i>passenger cars</i>	1.0	2.2	0.7	0.0	0.0
Other	6.6	28.2	15.3	7.2	29.1

Source: Eurostat and own calculations (2008 data).

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