

EUROPEAN ECONOMIC PERSPECTIVES



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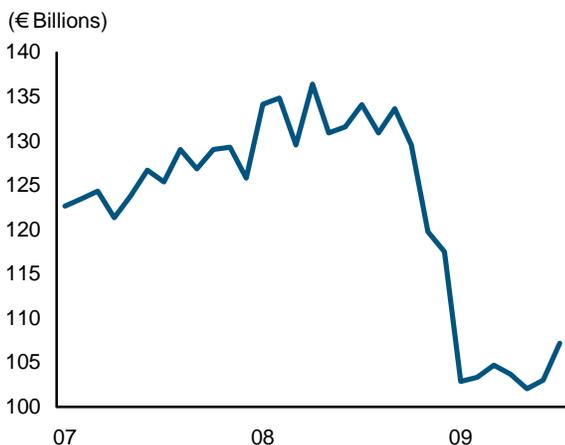
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European Economic Perspectives

Euro-Area Trade Data Hold Two Important Messages

Euro-area exports to non-euro-area countries rose by 4.1% in July, the second consecutive monthly rise and the best performance for more than a year. Of course, this increase must be seen in the context of the massive 24% drop that took place between last September and May. Despite July's rise, the level of exports remains very depressed (**Display 1**).

Display 1: Exports Recover from Low Levels Euro-Area Exports



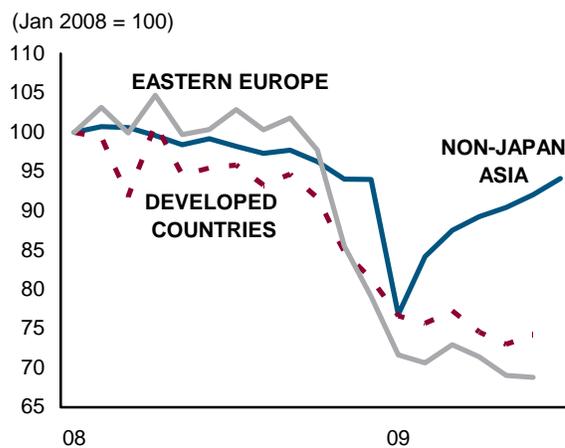
Source: Haver Analytics and AllianceBernstein

Even allowing for this caveat, the July data point to a strong gain in the third quarter and are therefore consistent with other indicators pointing to a better performance from the euro-area economies in the second half of the year. In addition, we think recent export data hold two important messages.

The first relates to the shape of the global recovery. With the release of the July trade data, Eurostat also published a full geographical export breakdown for the second quarter. During this period, total exports declined by 0.7%. However, this masks big regional differences. Exports to other developed countries (44% of exports) fell by 3.2% and exports to eastern

Europe (24% of exports) fell by 2.8%. However, these were almost offset by a 9.3% increase in exports to non-Japan Asia (20% of total exports).

Display 2: Asia Leads the Rebound Euro-Area Exports by Destination



Source: Haver Analytics and AllianceBernstein

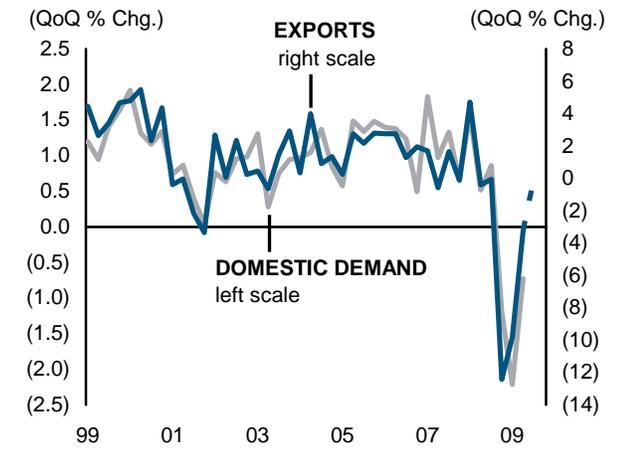
The divergence between exports to non-Japan Asia and exports to the euro area's other major trading partners is huge. The former have increased by 22% since reaching a low in January, and are now back close to levels seen just before last year's collapse (**Display 2**). By contrast, exports to other developed countries and to eastern Europe have only just started to stabilize. Euro-area export data therefore confirm that it is emerging Asia that is leading the global economy out of its deepest postwar slump.

The second message from the trade data is that euro-area domestic demand is starting to pick up. So far, we have talked about euro-area exports to non-euro-area countries. But, because the euro-area countries are sovereign nations with national boundaries, they also report data for trade with each other.

When talking about the euro area in aggregate, it is important to realize that a shipment from Germany to Italy, for example, is not an export at all. It's actually domestic demand. In light of this, it should

not be surprising to find that there is a very good fit between intra-euro-area trade growth and domestic demand growth in the euro area (**Display 3**).

Display 3: Better Signs for Domestic Demand Intra-Euro-Area Exports and Domestic Demand



Source: Haver Analytics and AllianceBernstein

In July, intra-euro-area exports rose by a very strong 7.5%. As monthly trade data can be volatile, one way to gauge the underlying trend is to compare the average level of exports in the three months to July with the average for the previous three months. This gives a reading of -0.1%, far better than the second quarter's 3.3% decline and broadly consistent with flat domestic demand growth. Moreover, given the high entry point provided by the July data, third quarter growth is likely to be even higher than this.

So, not only do the euro-area trade data provide evidence that Asia is leading the world out of recession, they also provide hope that the euro area will soon follow suit.

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