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Europe: An Engine for Global Trade



A central tenet of the International Monetary Fund's (IMF) latest [Regional Economic Outlook](#) released November 13th 2017, is that all European economies are growing, with the dispersion of growth rates at its lowest point in nearly two decades. In turn, the euro area has assumed a role as an 'engine of global trade'. The eurozone's trade surplus grew from in €21 billion (bn) in August to €25bn in September – its highest level on record.

Despite a stronger euro, the driver behind this was a 1.1% rise in export values in September, coupled with a 1.2% decline in import values. On an annualized basis, export growth rose by a whole 2% to 8.8%, whilst import growth slowed from 9.1% to 8.0%. This was the first time in one year that annual export growth exceeded import growth. In turn, exports contributed quite generously to the [robust GDP](#) growth that we witnessed in the third quarter. The goods trade surplus rose from €58.9bn in the second quarter to €64.2bn in the third, an increase equivalent to 0.2% of GDP, according to Capital Economics.

Germany, the eurozone's largest economy and export world champion saw its trade surplus

widen from €21.3bn in August to a 17-month high of €21.8bn in September. This month, it was also reported that German factory orders grew 1% in September, defying economist expectations that they would decline by 1.1%. Foreign orders which Germany received from inside the euro area climbed by a staggering 6.3%. Industrial production should thus be supported over the coming months.

Elsewhere in Europe, the Dutch trade surplus widened from €4bn to €6.3bn, whereas the French deficit widened from €4.2bn to €4.7bn though it remained smaller than that which they nursed earlier in 2017.

With the global macroeconomic backdrop remaining supportive and with global trade growing at a decent pace, surveys of export orders suggest that growth in euro-zone export volumes could accelerate even further. This, coupled with strong PMIs, bodes well for our current overweight in European equities. In October, the eurozone composite PMI outpaced market expectations of 55.9, coming in at 56. IHS Markit said the PMIs point to euro zone economic growth of 0.6-0.7% in the closing quarter of 2017.

The IMF concludes that the imminent growth prospects for Europe are positive, however, governments should take the opportunity during this time of muscular trade activity, to build a buffer to protect their economies against longer-term threats like a slowdown in China, for example. In the mean-time, we remain invested in the European 'engine of global trade' which is set to have a strong finish to 2017.

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