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GLOBAL ECONOMIC & MARKET OUTLOOK

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FOCUS NOTES

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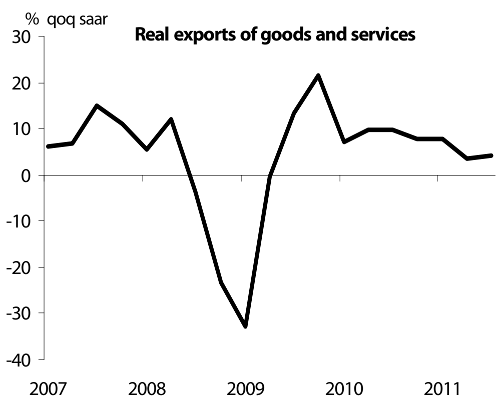
US export growth to be supported by demand in emerging markets

- Although real exports helped the manufacturing sector to become a leading contributor to the economic recovery, the pace of US export growth has recently decelerated significantly.
- The escalation of the European sovereign debt crisis over the summer has led to a slowdown of euro area imports, while the emerging markets slowdown has led to a deceleration of US export growth to developing Asia.
- We believe that even if export demand to the euro area countries declines significantly in the coming months, robust growth in emerging Asian economies is expected to be supportive for US export growth in the quarters ahead.
- Although we do expect a narrower trade deficit, net exports are not expected to be a strong impetus for GDP growth, as global growth remains highly dependent on US consumption.

After the rapid growth period of 2004-2008, real US exports of goods and services reached their peak in the second quarter of 2008, and then began declining as global trade volumes contracted progressively following the 2008-09 recession. The total contraction of real exports between Q2 08 and Q2 09 was roughly 15%, with the reported weakness mainly concentrated in the goods sector (Figure 1).

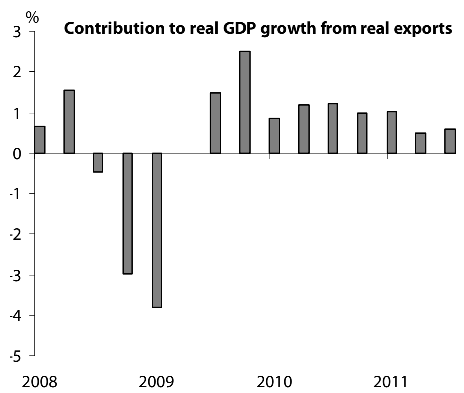
However, right from the beginning of the US recovery, real exports helped the manufacturing sector to become a leading contributor to the economic recovery. In the first two quarters of the recovery (H2 2009), real exports contributed an average of 2.1% to real GDP growth, with the goods sector being the major source of strength (Figure 2).

Figure 1



Source: U.S. Department of Commerce: Bureau of Economic Analysis

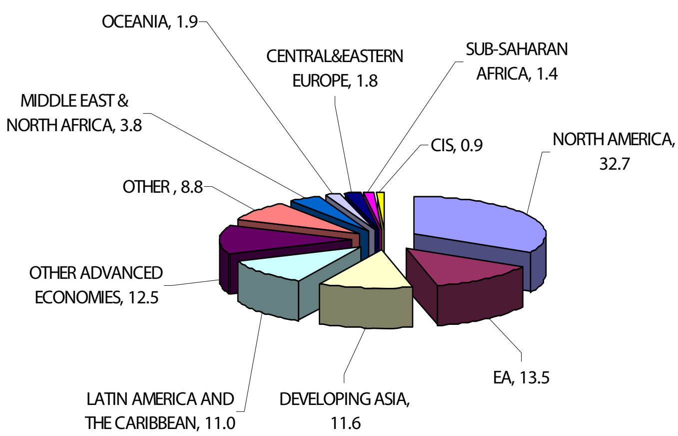
Figure 2



Source: U.S. Department of Commerce: Bureau of Economic Analysis

Nevertheless, in line with the ongoing decent of global economic activity, the pace of US export growth has decelerated significantly over the last two quarters, contributing a mere 0.5% to real economic growth. The escalation of the European sovereign debt crisis over the summer has led to a slowdown of euro area imports, as domestic demand remains anemic or even contracts in several member countries. In particular, US exports to euro area countries, which represent about 13.5% of total US exports (Figure 3), have declined by about 6% over the last six months (Figure 4). The slowdown has been more pronounced in weak member countries, i.e. Greece, Ireland, Portugal and Spain, where the deceleration in imports from the US has ranged between 21% (for Ireland) and 60% (for Portugal) since their recent peak in 2011.

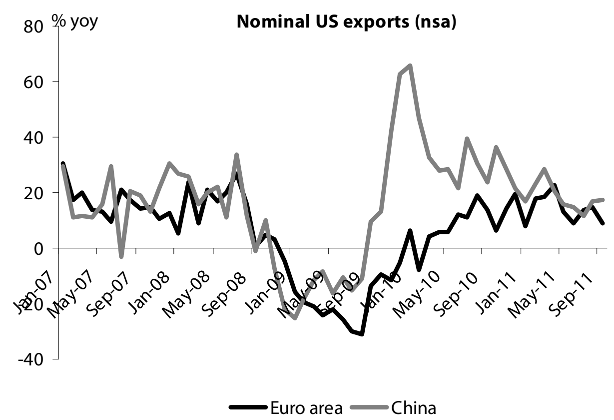
Figure 3: US export weights to partners (%), Q2 11



Source: IMF, Eurobank EFG estimates[1]

Furthermore, a slowdown in US export growth to developing Asia is another important factor that explains the deceleration in US trade's contribution to real economic activity. US exports to developing Asia were increasing by an annual average of 31% in 2010, but this measure has slowed to an average of 17% for the first nine months of 2011. The most important partner in Asia for the US is China, which represents about 6.5% of total US exports. China's growth prospects have weakened in 2011, strongly affected by monetary tightening in response to rising inflation, global demand slowdown and supply-side bottlenecks. In particular, real economic activity decelerated notably to about 8.0% q-o-q saar in H1 2011 from a pace of 12% seen early in the recovery. As a result, US exports to China have declined by a total of 18% since the end of 2010 (Figure 4), with the US machinery exports reporting the most notable decline.

Figure 4



Source: U.S. Census Bureau

Looking ahead, export demand to the euro area is expected to remain subdued, as no economic growth is expected in the area in the coming quarters. According to our estimates, continued uncertainty relating to the sustainability of public finances in some euro area members as well as risks of contagion to core euro area members will contribute to negative growth rates in Q4 2011 and, probably, in Q1 2012. Indeed, exports to the euro area increased on a non-seasonally adjusted basis by a mere 0.5% in September, after a 5.9% reported increase in October. On a seasonally adjusted basis, US exports to the euro area declined by 0.6%, showing the negative effect of the sovereign debt crisis on exports to that region. However, robust growth in emerging Asian economies is expected to be supportive for US export growth in the quarters ahead. Emerging economies are well-positioned to withstand deepening turbulence amid global slowdown, with domestic demand being the main driver of real GDP growth. Reinforcing our view, the negative trend in exports to developing Asia which started in April 2011 has fully reversed in July 2011, increasing by an average of 1.6% over the last couple of months. In addition, exports to China increased on a seasonally adjusted basis by 3.5% m-o-m in September, while exports to the newly industrialized countries[2] -which represent about 7% of total US exports- increased by 10% m-o-m sa.

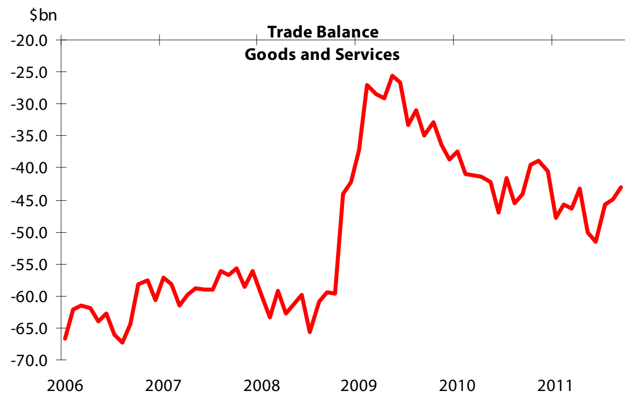
Following the inventory restocking cycle since mid-2009, US imports have been reporting larger increases compared to exports, and remained particularly strong for the very best part of 2010. As a result, the trade deficit gradually increased from 25.5bn in May 2009 to 46.9bn in June 2010 (Figure 5), leading to a negative contribution from net trade to real GDP growth. In particular, net trade subtracted 0.6% from GDP in Q3 09, and this negative contribution gradually surged to roughly 2% in Q2 10. However, with the end of the inventory cycle at the end of 2010, the US trade deficit has been narrowing over the past three

[1] *Look at the appendix for country groups information.*

[2] *Hong Kong, Korea, Singapore and Taiwan.*

months, as real exports have been increasing more than imports. In line with its latest trend, we do expect a narrower trade deficit for Q4 2011, leading to a trade deficit of 410bn in 2011 from 422bn in 2010. Nevertheless, net exports are not expected to be a strong impetus for GDP growth, as global growth remains highly dependent on US consumption. The deceleration of US personal consumption to a lower growth trajectory may affect global demand through global trade linkages. But in the medium term, increasing demand for US goods in Asia could offset the possible further decline in export demand to the euro area and, therefore, support continued export growth in the US, even with a subdued pace of private consumption.

Figure 5



Source: U.S. Census Bureau

Appendix

Country Groups used for the calculation of US export weights

Central and Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Montenegro, Poland, Romania, Serbia and Turkey.

Commonwealth of Independent States (CIS): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Developing Asia: Republic of Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Democratic Republic of Timor-Leste, Tonga, Tuvalu, Vanuatu and Vietnam.

Euro Area (EA): Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia and Spain.

Latin America and the Caribbean: Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

Middle East and North Africa: Algeria, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates and Republic of Yemen.

North America: Canada and Mexico.

Oceania: Australia and New Zealand.

Other Advanced Economies: Czech Rebublic, Denmark, Iceland, Israel, Norway, Singapore, Sweden, Switzerland and the UK.

Sub-Saharan Africa: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe.

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