

**Oranjestad, August 14, 2013** - The euro area is turning into more of a help than a hindrance for the world economy. With data this week predicted to show the 17-nation bloc is growing again after an unprecedented six quarters of crisis-driven contraction, economists from Barclays Plc to JPMorgan Chase & Co. say such stabilization will restore the region as a prop, if not a powerhouse, for international demand and financial markets. “We’re not expecting a boom in Europe, but there is a momentum shift, and you’re going to feel it in markets and the world economy,” said Joseph Lupton, a senior global economist at JPMorgan Chase in New York who also has worked at the Federal Reserve. “There’s a change in perception from when people didn’t see a way out of the crisis to now seeing growth.”

Lupton estimates the euro area accounts for a fifth of global gross domestic product, so a one percentage point home-grown improvement in its economy this year will be enough to boost GDP growth elsewhere by 0.7 percentage point over four quarters.

That will offset the drag of China’s slowdown, with likely winners including nearby trade partners such as the U.K. and eastern European nations, as well as Taiwan, Mexico and Brazil, according to JPMorgan Chase. It forecasts the euro-area economy will grow 1.3 percent in 2014 after shrinking 0.5 percent this year, with imports expanding 3.7 percent after two years of declines.

### **Rising Manufacturing**

The impact already is apparent. Manufacturing in Poland and the Czech Republic rose in July amid increasing export orders to elsewhere in Europe. Chinese exports to the European Union increased 2.8 percent in July, the first gain in five months, data showed last week. Japanese shipments to the EU rose 8.6 percent in June, the most since February 2011.

International Business Machines Corp. and 3M Co. are among the global companies starting to hail improvement in their European businesses. Canton, Massachusetts-based Dunkin’ Brands Group Inc. plans to open more Dunkin’ Donuts stores on the continent next year as it bets on growth being sustained.

“Europe is about to start recovering,” Chief Executive Officer Nigel Travis said in an Aug. 1 interview in Frankfurt. “We’re very excited.”

At BlackRock Inc.'s investment institute, Chief Investment Strategist Ewen Cameron Watt says European companies with exposure to their own region's economies are exceeding earnings expectations, supporting equities.

### **New Index**

To show investors how to take advantage of the changes, Credit Suisse Group AG analysts last month created an index of 19 European stocks that should outpace the rest of the market if the expansion speeds up. Including Cie de Saint-Gobain SA, Europe's largest supplier of building materials, and Siemens AG, its biggest engineering company, the index is up about 25 percent this year, compared with about 8 percent for the Euro Stoxx 50 Index.

The change in sentiment also is cooling market volatility by restraining the bonds of stressed nations. The yield on Italy's 10-year securities today fell to the lowest level relative to similar-maturity German bunds since July 2011.

The recovery still won't be strong enough to turn the euro region into a major engine for international growth, said Huw Pill, chief European economist at Goldman Sachs Group Inc. in London. That's because it will remain a net exporter during the next couple of years as so-called peripheral economies such as Spain continue to pare public- and private-sector debts and refocus their economies toward trade.

### **Export Growth**

Exports have grown faster than imports in recent years, leaving the euro area's trade surplus around 3 percent of GDP in the first quarter, the most since the euro began trading in 1999, according to Goldman Sachs estimates.

"We see a relatively shallow, saucer-shaped profile for economic activity," said Pill, a former economist at the European Central Bank. "That will weigh on demand relative to what we see in the rest of the world, especially the U.S. Exporting into the euro area won't stimulate demand elsewhere."

Nick Kounis, head of macro research at ABN Amro Bank NV in Amsterdam, is more positive, saying growth alone will be a boon to the world after three years of speculation that the euro area might splinter as countries from Greece to Spain chased bailouts and were forced to embrace austerity.

“The fact that you remove a drag will be significant,” Kounis said. “For sure, the main global-growth impulse will still come from the U.S., but Europe will contribute.”

### **Rally Sentiment**

Even if demand stays soft, the escape from the depths of the debt crisis will be enough to rally financial sentiment worldwide, said Christian Schulz, a senior economist at Berenberg Bank in London.

A survey of investors released today by Bank of America Corp. found European equity holdings rising to the highest level in five years. A net 88 percent of portfolio managers saw the economy improving in 2014, with the region leading global growth expectations for the first time in three years. Just 16 percent of respondents cited Europe as the biggest risk, compared with 59 percent in July 2012 and 51 percent who now worry about a hard landing in China.

Europe has “weighed on confidence globally, and that tail risk is now fading,” Schulz said.

### **Emerging Markets**

The region’s economic progress is especially timely because emerging markets including China and Brazil are slowing, having propelled the world out of its recession, said Julian Callow, chief international economist at Barclays in London. The euro-area nevertheless may need to become even stronger to appease foreign criticism that its expansion is led by foreign demand.

In a July 18 interview with Bloomberg Television, U.S. Treasury Secretary Jacob J. Lew said

“the world needs Europe to grow.” Bank of England Governor Mark Carney told reporters in London last week that the U.K.’s biggest trading partner still isn’t going to provide a “very strong demand pull.”

“The euro area will still face a lot of international pressure to import more,” said Callow, a former Bank of England economist. Its “current-account surplus is going to command a lot of attention globally.”

There are other reasons to hold off on declaring an all-clear. Unemployment, at 12.1 percent, remains the highest on record and -- in a sign of how recovery may be patchy across the continent -- is more than 25 percent in Spain and Greece. Economists surveyed by Bloomberg News anticipate growth of only 1 percent next year versus 2.7 percent in the U.S.

Banks haven’t fully cleaned up their balance sheets, and their lending to businesses and households fell the most on record in June. Policy makers still have to complete promised revamps to banking regulation.

### **Political Instability**

Political instability also remains a threat. In Italy, ex-Premier Silvio Berlusconi’s PDL party threatened a mass resignation of parliamentary deputies following his Aug. 1 tax-fraud conviction before Berlusconi backed off, saying the government should “continue its work.” A party-payment scandal is buffeting Spanish Prime Minister Mariano Rajoy, and managing the debt burden and bailout program in Greece leaves that nation a flashpoint.

“The economic mood in the euro zone is at least brightening,” said Nicholas Spiro, managing director of Spiro Sovereign Strategy in London. “Fledgling recoveries risk being snuffed out if political paralysis undermines confidence.”

The gains are taking shape just over a year since ECB President Mario Draghi vowed to do “whatever it takes” to save the euro before going on to create a bond-buying program and reduce the ECB’s benchmark interest rate to a record 0.5 percent. Austerity also is easing, with Berenberg Bank estimating tax increases and spending cuts will moderate to 0.7 percent of

GDP this year from 1.5 percent in 2012.

### **Growing Economy**

A report due tomorrow from the EU's statistics office will show the economy grew 0.2 percent in the second quarter after shrinking 0.3 in the previous three months, according to the median forecast of 41 economists surveyed by Bloomberg News. It last expanded in the third quarter of 2011.

Signs are the pickup will continue. Manufacturing unexpectedly rose in July after two years of contraction, while confidence among executives and consumers improved to a 15-month high. Even though a report today showed industrial output expanded less than economists estimated in June from the previous month, its 0.3 percent rise from a year earlier was the first annual uptick in 20 months.

### **Germany's Economy**

In Germany, factory orders increased in June by the most in eight months, and industrial production rose the most since July 2011. Investor confidence in Europe's largest economy climbed more than economists expected in August, with the ZEW Center for European Economic Research in Mannheim today saying its index of expectations reached 42 from 36.3 in July.

There are also signs of life in the cash-strapped periphery. Industrial output for Italy increased in June by the biggest margin since January and rose in Greece by the most since October. Spain's recession eased in the second quarter, pushing unemployment down for the first time in two years from a record 27 percent. And the crisis economies have balanced their joint current account, according to Berenberg.

"There's not a huge cheer that Europe has escape velocity, but clearly things are stabilizing," said BlackRock's Cameron Watt.

Source:

<http://www.bloomberg.com/news/2013-08-12/europe-growing-again-means-boost-for-global-economy.html>