Eurozone: Exports add to short-term growth optimism

With the third consecutive monthly increase, Eurozone exports suggest continued stable growth in the economy. However, let's not forget this was the last relic of a pre-tariff world

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In the last month in a European trade world without tariffs, Eurozone exports increased only marginally in May by 0.2% MoM, from 0.6% MoM in April. As imports increased by 0.9% MoM, the trade surplus narrowed to 16.9bn euro, from 18bn euro in May. Despite the strengthening of the euro since early summer 2017 (the nominal effective exchange rate appreciated by more than 7% between June 2017 and March 2018), the trade balance between January and May 2018 was still 2.5% higher than between January and May 2017.

At the same time, trade between Eurozone countries increased at a somewhat lower pace. Eurostat does not publish monthly updates of the Eurozone's bilateral trade data. However, for the entire EU, bilateral trade data show that in the first five months of the year growth of European exports to the US was amongst the slowest of all major bilateral export flows, some 2% compared with 2.5% for EU exports going to China or 8.8% for exports going to Japan. Still, looking at the main trading partners, between January and May, the EU ran the largest trading surplus with the

US, some 55bn euro.

While the small rebound of monthly exports bodes well for the short-term outlook for the Eurozone economy, international politics will keep the topic of global trade on media and financial markets centre stage. There are currently few signs that the US administration will tone down its rhetoric on trade. Looking beyond trade, increased and further increasing geopolitical uncertainty are emerging as the biggest risks for the global economy. As European Council President Donald Tusk said this morning at the opening of a summit between China and the European Union, "*we are all aware of the fact that the architecture of the world is changing before our very eyes and it is our common responsibility to make it a change for the better*". For the Eurozone and Europe, the changing geopolitical landscape is probably not only the biggest mid-term to long-term risk for the growth outlook but also for its political future.

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