Optimism Amid Turbulence for Europe

U.K. and Italy are causes for concern but positive indicators for the bloc include improving employment rates and easier lending conditions

"The outlook is negative; but the outlook is negative everywhere," said Dr Alicia Garcia-Herrero, Chief Economist for Asia Pacific at Natixis, at a Chamber roundtable on 6 March on the prospects for Europe in the year ahead.

She noted that "2018 was horrible for everybody" and that the deceleration that Europe has experienced recently is part of a wider slowdown in global growth.

The European Union does face some particular problems, including figuring out where it stands in the confrontation between Mainland China and the United States. But perhaps more worrying for the bloc are the challenges it faces as a manufacturer and exporter.

"Europe is the largest net exporter in the world, especially when you exclude the U.K. The Eurozone is an export machine," Garcia-Herrero said. "So the fact that China is decelerating is very negative for Europe."

Mainland China is causing concern for European exporters for another reason. Improving technology capacity means that Chinese manufacturers are moving closer to being able to compete with their European counterparts – particularly German producers.

"There is a lot of soul-searching about a China that can compete with Germany," she said. "It is very obvious that the competition is becoming more intense."

The question is whether the current downturn in exports from the E.U. is just a cyclical shock, or whether there also structural factors at play. To support its exports, Europe needs to invest more in innovation and education, to improve productivity and increase potential growth, Garcia-Herrero said.

The two key issues for the E.U. right now are the United Kingdom and Italy. Garcia-Herrero noted the difficult of talking about Brexit. Speaking just a few weeks before Britain's planned exit from the E.U., she said that the situation was still so fluid that, "I might have to change the slides tomorrow."

Already, consumer confidence in the U.K. is down, and, regardless of the eventual outcome, the economic consequences of Brexit will be tremendous, she added.

In Italy, meanwhile, the near-term outlook depends on the political situation, and whether the Italian government will be able to continue to use public money to bail out its banks. But more importantly, the country faces structural issues, as its growth has been stagnant for a very long time.

Yet, there are also a number of positive indicators for the E.U., as Garcia-Herrero explained.

"First of all, the unemployment figures in Europe have improved a lot, which is quite impressive. Household income is quite decent, which will support consumption. So we do not expect a recession, just softer growth."

In addition, Europe is currently enjoying accommodative financial conditions – especially when compared to 2010-2012 – which is supporting a lot of lending flows. And, unlike the U.S., Europe is not depending on fiscal measures for growth.

"There is no additional stimulus other than monetary policy. This is good news," she said. "We finance our own debt."

Members of the younger generations in the E.U. are also a source of optimism regarding the bloc's long-term outlook.

"Young Europeans want Europe," Garcia-Herrero said. "They feel very comfortable travelling around, and with open borders. This is very powerful."

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