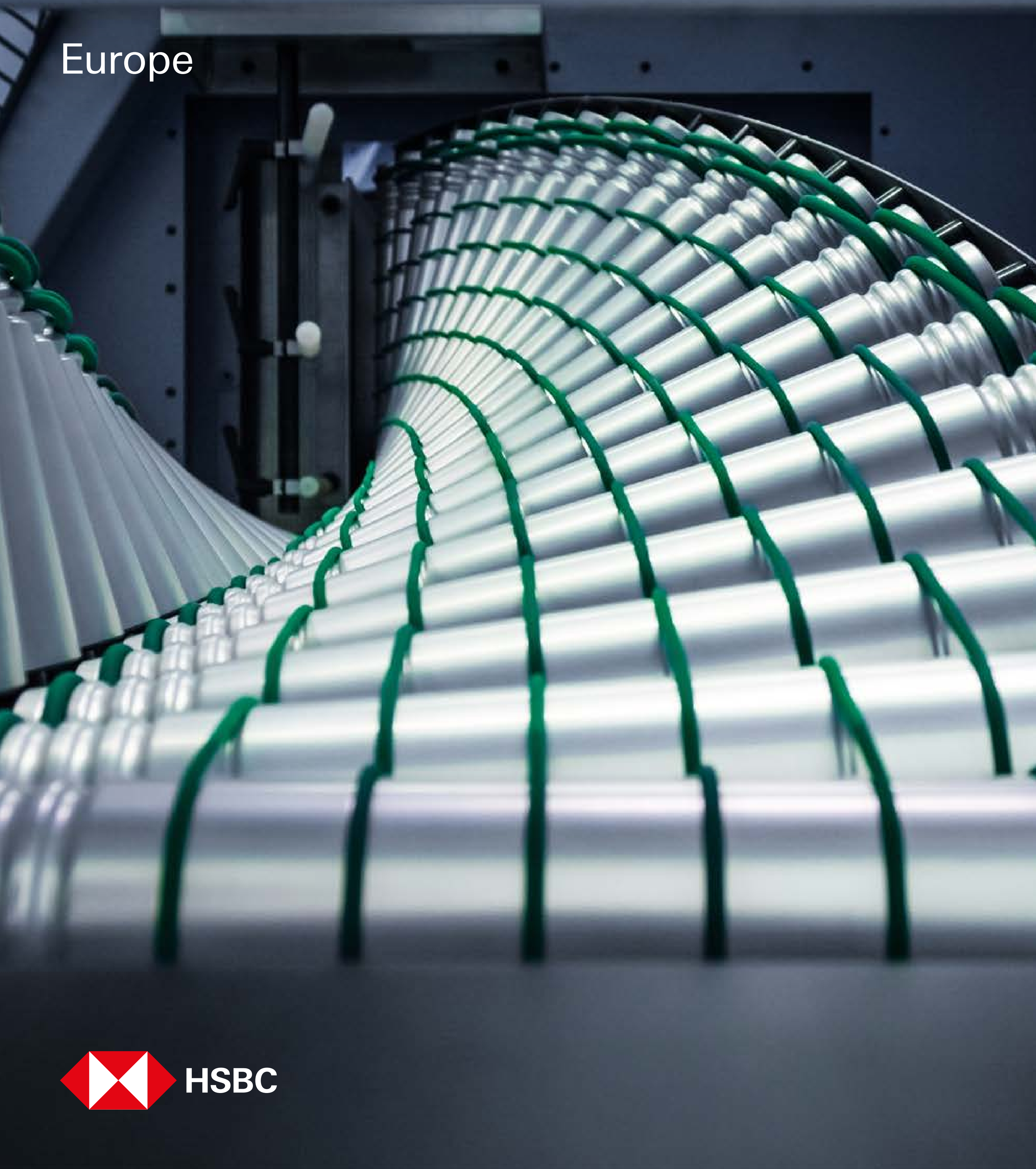
Navigator

Now, next and how for business

Europe



HSBC

Europe

Focussing on the opportunities

The outlook has certainly cooled for European exporters, but this must be viewed in the context of a historically-strong 2017. The HSBC Navigator survey shows that firms in the region are looking forward to opportunities offered by EU efforts to open new markets, with plans to make this a key part of their strategy for the coming years – even as worries about access to the US market persist. Plans to increase use of digital and data are welcome, but the region currently lags other parts of the world on this.

What is happening now

European firms maintaining perspective amidst cyclical cooldown

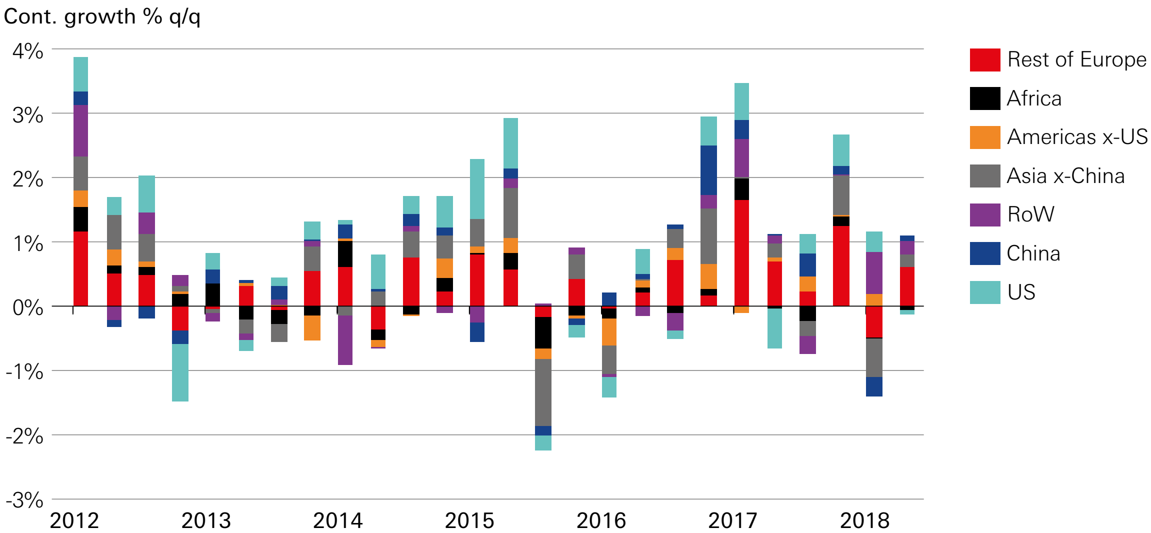
European economies in general remain in a reasonably strong cyclical position. Eurozone GDP growth is expected at around 2% in 2018, there are signs that the UK economy is experiencing a gradual pickup in growth, while activity in Russia is holding up reasonably well against the impact of sanctions. But growth across much of the continent seems to be relying more on domestic demand than trade – September's release of Eurozone trade and industry data disappointed relative to expectations.

Looking at the geographical breakdown of exports from the Eurozone (Fig. 1) underlines the drop-off in export demand from Asia during the first half of 2018. Although quarterly comparisons can be prone to volatility and revision, Eurozone exports to China and the rest of Asia have started to fall, possibly reflecting slower demand for capital goods amidst concerns over the escalating US-China trade dispute. Focussing on German trade data for H1 lends further weight to this argument - Germany's nominal goods exports to Asia fell on a 3m/3m basis as the economy moved into 2018 and have remained in decline on this measure ever since. Perhaps more positively though, intra-Eurozone trade has remained more buoyant, supported by firming wage growth and robust consumer spending.

How your business can respond

- Companies should 'get ahead of the game' and investigate whether forthcoming EU trade deals offer opportunities for their goods and services.
- Explore potential opportunities to capture market share as international supply chains are disrupted by trade barriers between the US and China.

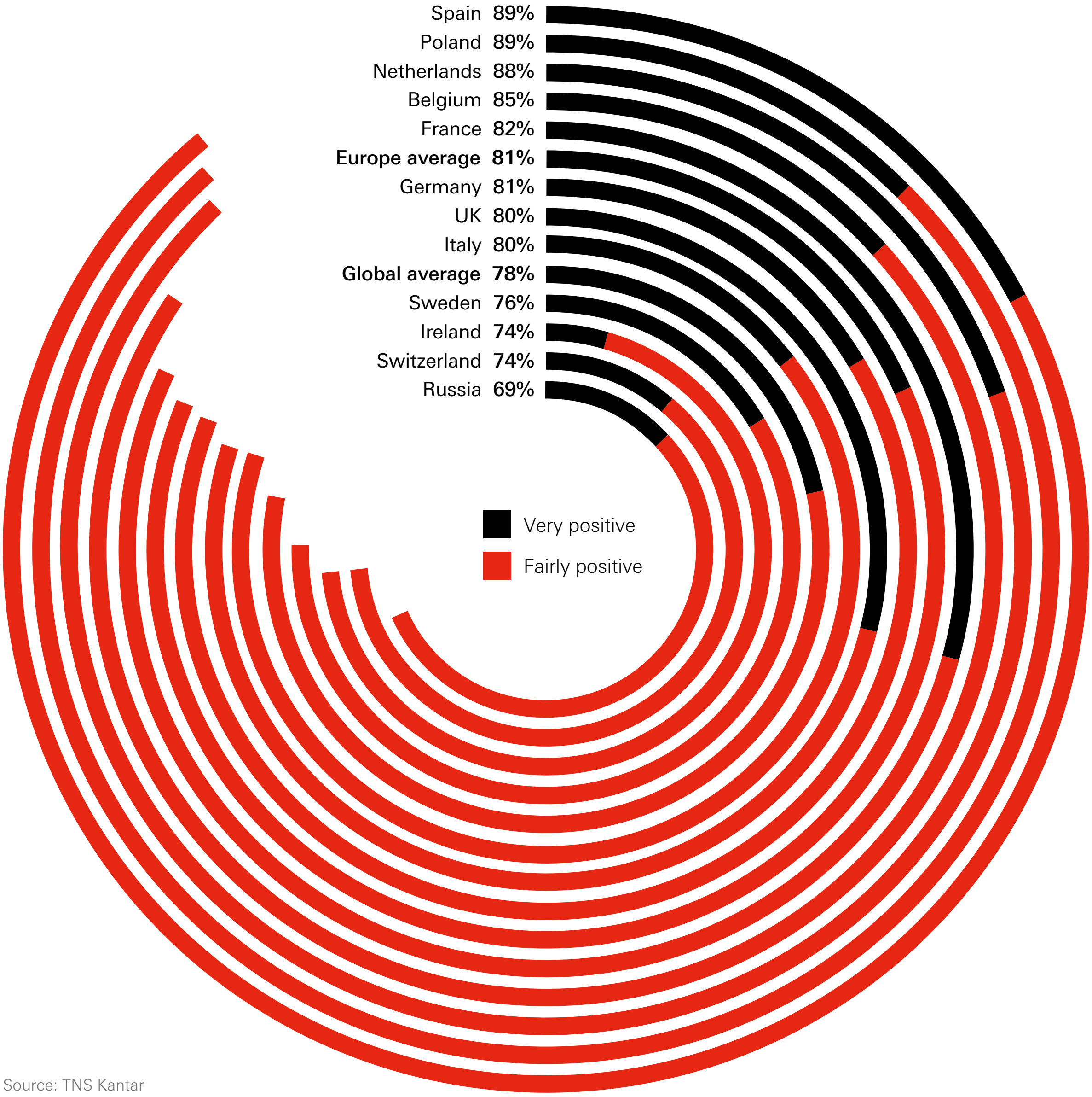
Fig. 1: Euro area exports by destination



Source: Oxford Economics/Haver Analytics

On the other hand, latest Purchasing Managers' Index (PMI) readings for new export orders have fallen sharply in recent months, suggesting that the final quarter of 2018 and the early months of 2019 are unlikely to see a material improvement in demand for Eurozone exports. Export readings from UK business surveys haven't declined as sharply in recent months, but have certainly levelled out, and with rising global protectionism, the risks are tilted toward a deterioration in the months ahead.

Fig. 2: Firms with a positive outlook on the global trading environment



Source: TNS Kantar

That said, the slowdown in trade growth needs to be viewed in the context of an especially-strong 2017, when Eurozone goods exports grew by an impressive 5.5% (almost twice as fast as the year before), and the United Kingdom and Russia also saw exports grow by more than 5% (again, noticeably stronger than the previous couple of years).

European respondents to the HSBC Navigator survey are certainly keeping a sense of perspective, with 63% of firms reporting that the outlook remained "fairly positive", and a further 18% saying the outlook was "very positive" (Fig. 2). More than a quarter (28%) felt that a strong global economy was likely to support their company's outlook, while 23% thought improving relations with buyers and suppliers would help, and 17% took the view that trade agreements would boost prospects.

Looking across European economies reveals an interesting spread of views though. Perhaps unsurprisingly, Russian firms (hindered by sanctions), those in Switzerland (hampered by a strong Franc), and Irish exporters (perhaps fearing a "hard Brexit") were the least optimistic – although in each case over 60% viewed the outlook as either very or fairly positive. Meanwhile Spain and Poland, who are among the more cost-competitive European manufacturers reported the highest level of confidence in the outlook for trade (89% reporting very or fairly positive), perhaps sensing opportunities to compete for the US market share in the event of rising US-Asia trade barriers.

Policy Developments

Autos exposed to US trade policy, but broader EU strategy opens opportunities

Although not the key target for US protectionism over the past year or so (particularly compared with its North American neighbours or Asian trade partners), there has been an escalation in trade tensions between the US and European economies.

The July meeting between the European Commission President and the US President that culminated in an agreement to work towards a zero-tariff deal on non-auto industrial goods looks like a step in the right direction. Longer-term, President Trump has been clear that he views the automotive sector as a special case, suggesting that European access to the car market cannot be taken for granted.

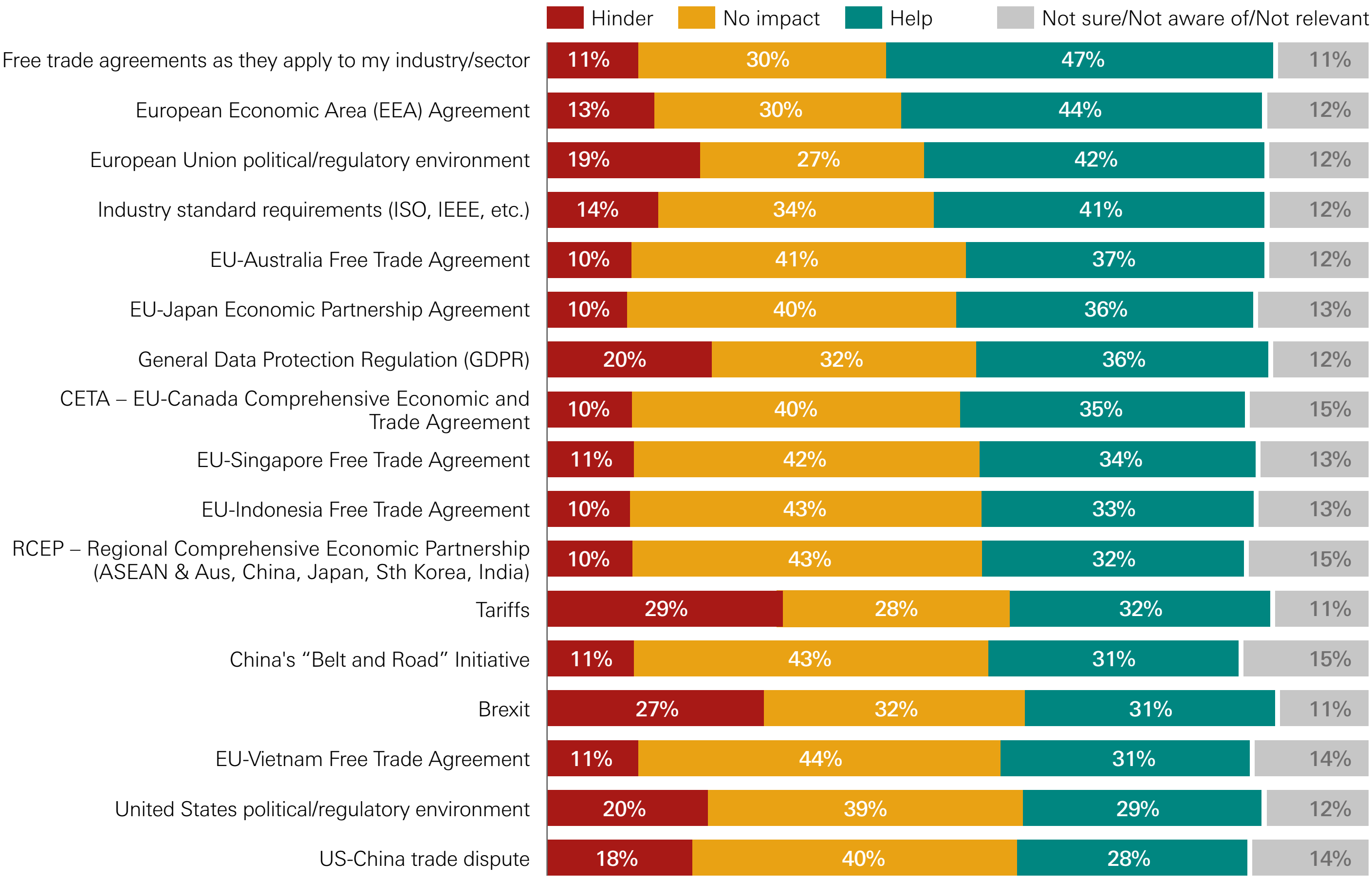
Along with tariffs on steel and aluminium, which were not addressed in July's agreement, this is likely a key factor behind tariffs being the major worry for European firms when it comes to the trade outlook – 29% expect tariffs to be a threat to their trade success in the year ahead (Fig. 3). Given the role business with China (and other emerging Asian economies) played in the Eurozone trade acceleration of 2016-2017, only 18% of respondents were directly worried about the US-China dispute, with 28% of firms feeling this presented opportunities.

More generally, businesses expressed clear optimism about the possible benefits of broader EU efforts to open markets. A third or more of respondents felt that impending deals with Australia, Canada, Japan, Indonesia and Singapore would offer opportunities for their business to expand trade. Over a quarter of firms were worried about the possible impacts of Brexit, with this proportion rising to 31% in the UK and 78% in Ireland (reflecting Irish firms' reliance on UK inputs, or inputs transited through the UK).

How your business can respond

- Explore how firms in your sector can leverage information from external data sets, such as web, social media and sensor data.
- Examine how to balance sustainability issues with 'bottom-line' considerations – increased use of data is a key action in this respect.

Fig. 3: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Competition and investment offer two-pronged strategy for success

Looking at strategic aims for the coming year (Fig. 4), the goal of competing for a larger market share is understandably a key focus for many European companies. Firms also frequently cited a focus on planning and investing for future growth, with measures to boost skills and productivity a key action. This reflects not only the increased role of digital and data, but also the tighter labour markets around the continent – with less scope for expansion by hiring, firms are investing in making their existing staff more productive.

However, firms in Europe were noticeably less likely to be using data now to optimise business performance as compared to their global counterparts (Fig. 5). Just 67% reported they were using data in this respect, compared to three-quarters at the global level. Key laggards were Switzerland (less than 50%) and, perhaps most worryingly, the Eurozone's leading economy, Germany (just 60%). Leaders in the use of data were respondents in Spain, Ireland and the UK - in all three cases just over three quarters of firms

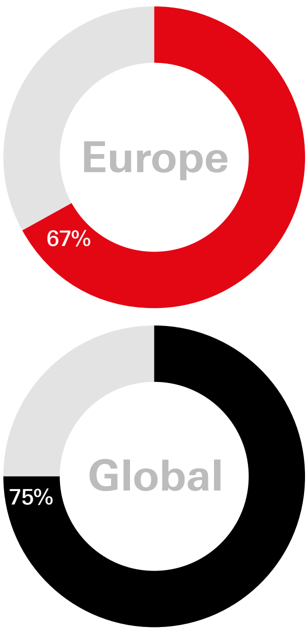
The most frequent data sets being used were operational, sales, and personal data, which two in five firms or more were using. Just over one in four firms were using more sophisticated data sets, such as social media, web, or sensor data from connected devices. This is to be expected, given that the former data sets are more readily available. But Europe risks being left behind if it doesn't engage faster – for example, 43% of ASEAN firms report using web data, and 39% use social media data.

Fig. 4: Top 3 actions for future company direction

1	Growing market share
2	Investing in up-skilling workforce
3	Increasing emphasis on productivity/skills development

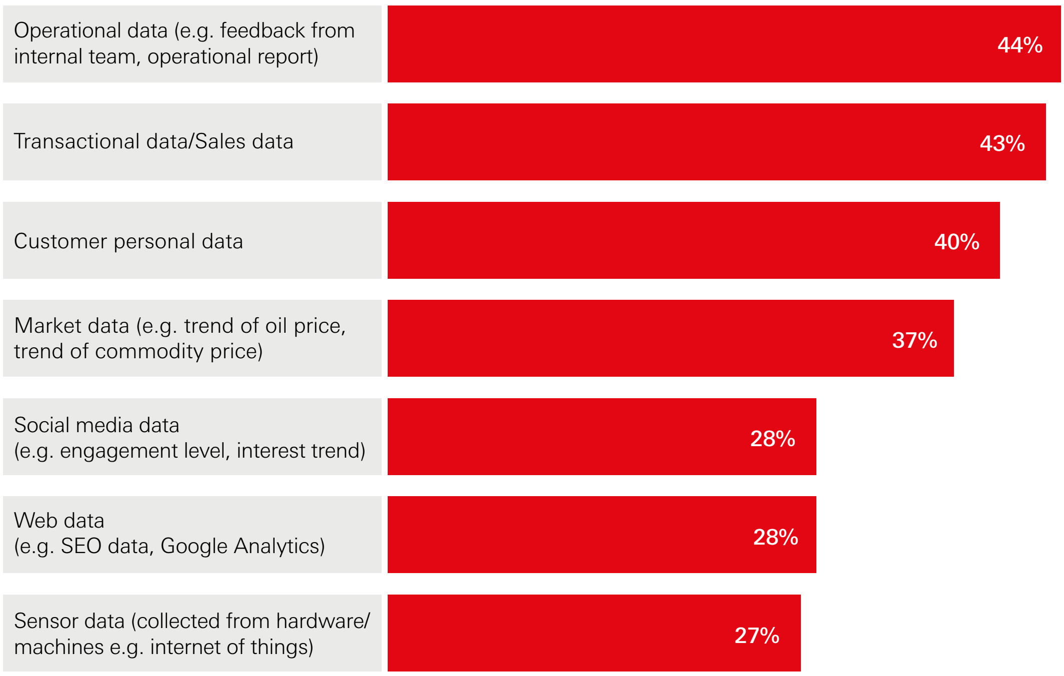
Fig. 5: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used

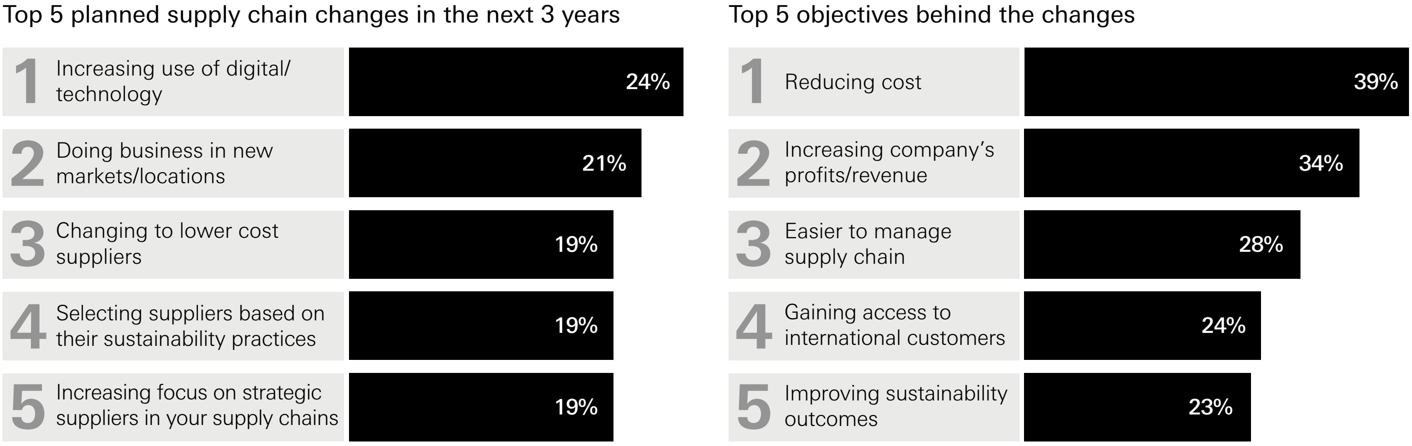


Source: TNS Kantar

Supply chain decisions aim at boosting bottom line and sustainability

It is encouraging that 24% of firms exporting goods and 23% of services exporters aim to increase the use of digital/technology in their supply chains in the next 3 years (Fig. 6 and Fig. 7). This should boost efforts to become more sustainable and improve bottom line. Doing business in new markets and changing to lower cost suppliers will also boost the bottom line but will require complementary efforts to enhance sustainability - 18% of goods firms and 16% of services firms report that improving sustainability will be a key focus of changes to their supply chains for the coming three years. Over a third of respondents in both goods and services acknowledged that cost and profitability were key objectives behind supply chain measures to be taken in the coming years.

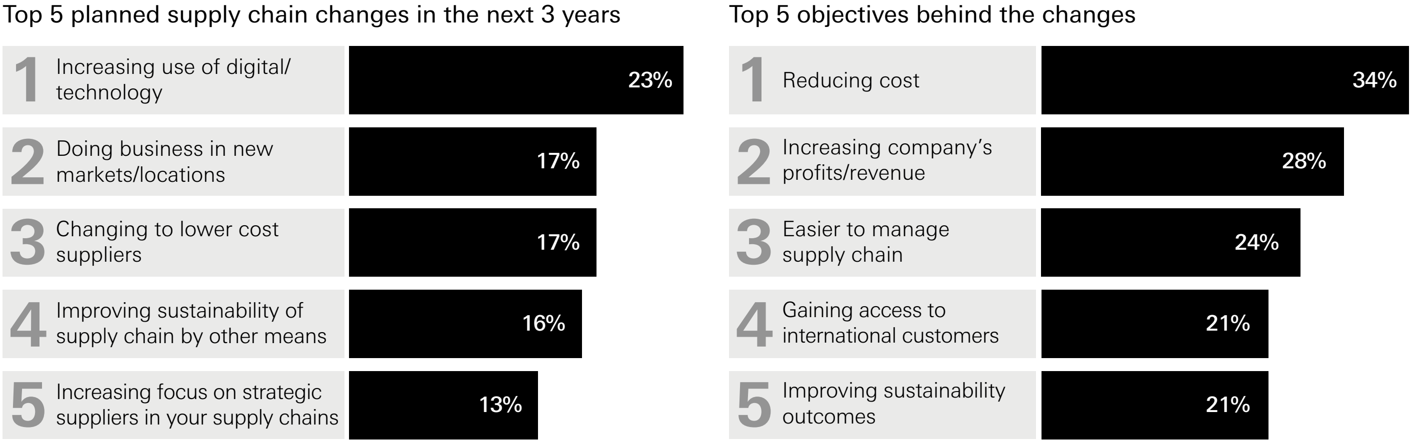
Fig. 6: Supply chain changes for goods



Source: TNS Kantar

In general, environmental and ethical sustainability appears to be important for European companies across both the goods and services sector. Only 15% of companies in the goods sector and 17% in the services sector claim that sustainability is not a focus.

Fig. 7: Supply chain changes for services



Source: TNS Kantar

About HSBC Navigator Europe

The HSBC Navigator survey, which is the most comprehensive of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade) and European results reflect a weighted average of the 12 sample markets in this region - Belgium (200), France (350), Germany (350), Ireland (100), Italy (200), Netherlands (200), Poland (200), Russia (350), Spain (350), Sweden (200), Switzerland (200), UK (500). The survey was conducted over a six-week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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