



EU Macroeconomic Overview



Macroeconomic Thesis

After careful analysis of many leading, lagging, and coincidental indicators of economic wellbeing, I believe that the European Union is currently right of trough in the business cycle. My outlook for the market is that it has the potential to be bullish in the future depending on various geopolitical factors, most notably the impact of COVID-19 vaccination rates and travel restrictions, the fallout of the change in leadership in Afghanistan, and climate change mitigation efforts.

I chose to focus on the European Union because of its pivotal role in maintaining the stability, prosperity, and security of many of the countries in Europe. During this time of uncertainty, I thought it would be interesting to analyze a global leader other than the US to see how they have been impacted by COVID-19 and what their recovery process has looked like thus far. I was intrigued by the amicableness of the EU leaders while developing their initial coronavirus response plan and wanted to research the effectiveness of the implementation of said plan.

After examining various economic criteria such as unemployment rate, consumer price index, German manufacturing PMI, the EURO STOXX 50, the Euro, and consumer spending, it is reasonable to say that the European Union is in post-pandemic recovery mode and to be optimistic about future growth. Unemployment has not yet fully recovered, which can be attributed to the delay in fully reopening the economy due to remaining COVID-19 travel restrictions that are detrimental to the vast tourism sector. The stock market index continues to consistently gain points and the Euro is strengthening. Consumer spending is continuing to rise after its significant drop back in January of 2020, which can be attributed to the reopening of the economy amid the Delta variant.

In addition to remaining negative effects of COVID-19 and climate change being significant weights on their economic wellbeing, the impact and fallout of change in power in Afghanistan will be something to watch. New approaches defense within the EU is opening a new chapter for international diplomacy and could change the way countries within the EU relate to each other.

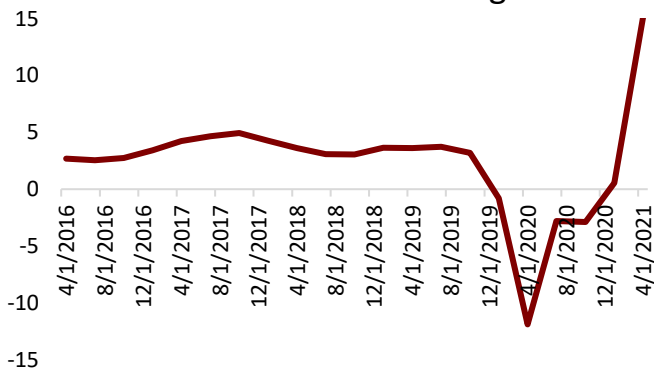
Economic Profile

Country	European Union
Currency	Euro
Population	446 Million
Economy	Developed
GDP	\$15,167 Billion
GDP PPP	\$19,686 Billion
Largest Trading Partner	USA

Market Outlook

Point in Economic Cycle	Right of Trough
Outlook	Bullish

Historical GDP % Change



GDP Growth of the European Union, Percent Change from Year ago, Previous 5 Years (Source: St. Louis FRED)

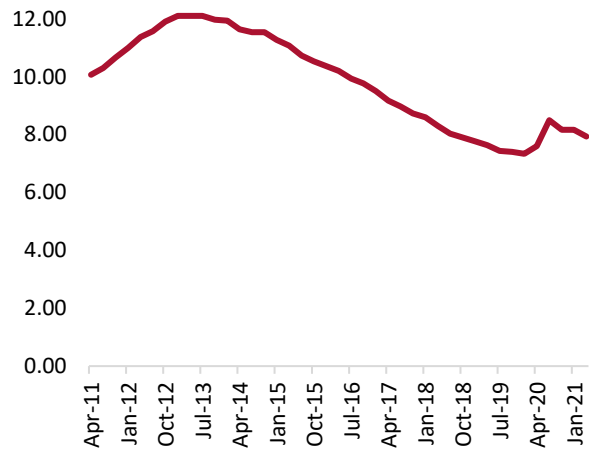


Economic Indicators

Unemployment

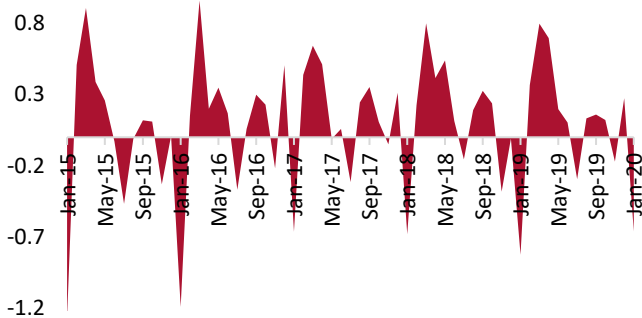
Unemployment is a key indicator of whether a region's economy is strong or weak at a given moment, and also has a direct impact on the purchasing power of consumers. Historically, the unemployment rate in the EU has been consistently lower than the Euro Area. The EU's unemployment rate was 6.90% in July of 2021 which was a decrease from 7.10% in June 2021 and 7.60% in July 2020. Over 12.3 million people were registered as unemployed in July, down from 12.6 in June. Outliers to the current unemployment rate include Greece (14.6%) and Spain (14.3%) on the high end and the Netherlands (3.1%), Malta (3.3%) and Germany (3.6%) on the low end. Despite COVID-19, unemployment rates remained lower than the 10-year historical highs seen in 2012-2014.

Historical Unemployment Rate



Harmonized 10 Year Unemp. Rate: Total All Persons for EU, Annual Percent (Source: St. Louis FRED)

Historical CPI Index % Growth



Consumer Price Index: All Items for EU % Change. Index 2015 = 100 (Source: St. Louis FRED)

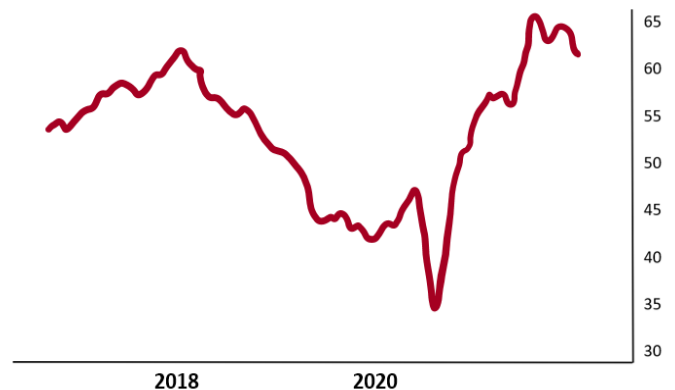
Consumer Price Index

The Consumer Price Index serves as a benchmark for inflation. It uses a basket of goods and compares the price of those goods and the basket as a whole from year to year. CPI growth is discouraged because a higher CPI means interest rates have increased. Inflation is controlled by the EU Central Bank and National Central Banks of the EU Member States. During August 2021 CPI was at 109.5, which was up from 109.14 in July 2021 (0.33% increase) and 106.13 in August 2019 (3.18% increase).

German PMI

Purchasing manager's index shows the direction of economic trends in the manufacturing and services sectors. It summarizes whether market conditions are expanding, contracting, or staying the same in the eyes of purchasing managers. Post Brexit, Germany is one of the biggest economies in the EU, so their PMI is very indicative of the health of Germany and gives insight to the comprehensive wellbeing of the EU. PMI decreased to 62.6 in August of 2021. This is the slowest growth in factory activity that Germany has seen since February of 2021. Manufacturers had difficulty keeping up with demand due to continued supply shortages. Producer optimism about prospects of future of growth is declining.

German Manufacturing PMI



Historical German Manufacturing PMI 2017-2021, (Source: www.tradingeconomics.com)

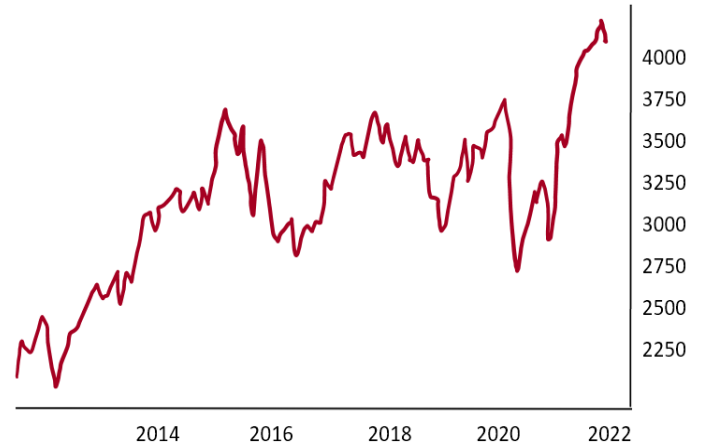


Economic Indicators

EURO STOXX 50 Performance

Fluctuations of the stock markets in the individual EU countries overtime is another key indicator of the wellbeing of the economy because it shows how well the corporations are performing collectively. The EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. It is currently trading at 4197.26 and is has exceeded pre-pandemic levels in terms of overall index. Euronext 100 undertook a 286 point drop between December 2019 and March 2020 and has been rising steadily since.

EURO STOXX 50 Overall Index



Graph of "EURO STOXX 50 Overall Index" for the past 10 years (Source: www.tradingeconomics.com)

Euro Exchange Rate



Real Broad Effective Exchange Rate for Euro Area, Index 2010 = 100, Not Seasonally Adjusted (Source: St. Louis FRED)

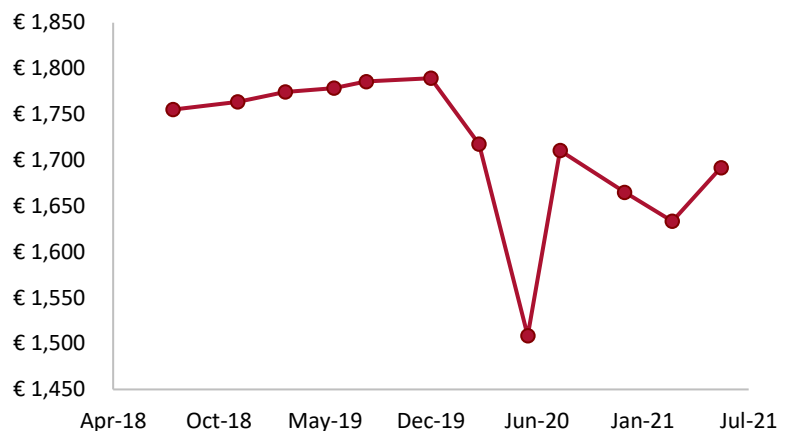
Euro Exchange Rate

The exchange rate of the Euro indicates how well the currency of the EU compares to those of their trading partners. It is a key factor in the determination of how well EU companies that operate on an international scale will do outside of the region. One Euro is currently equal to 1.17 US dollars. The EU recently announced early in 2021 that they will be preventing any strengthening of the Euro that could possibly undermine inflation. This includes cutting interest rates as well as intentions to examine whether the Euro strength since the start of the pandemic can be attributed to stimulus policies.

Consumer Spending

If consumers are spending more, the economy is growing. If they are spending less, it is indicative of a more volatile economic environment. This is why consumer spending habits are another great indicator of the health of the economy, and it correlates well with GDP. In the EU, consumer spending took a 15.6% nosedive between January and July of 2020 due to COVID-19 and has been increasing ever since. Spending increased from 19691.87 EUR Billion in Q2 of 2021, up from 1633.9 EUR Billion in Q1 of 2021. Consumer spending has not recovered to pre-pandemic levels which are in the 1755.197 EUR Billion – 1789.424 EUR Billion range.

Consumer Spending (EUR Billion)



European Union Consumer Spending Since 2017 (Source: www.tradingeconomics.com)



Geopolitical Factors

COVID-19—Travel Restrictions and Vaccine Rollout:

During the State of the European Union address on September 15th, 2021, Commission President Ursula von der Leyen praised the EU's vaccination rollout efforts. More than 700 million doses of the COVID-19 vaccine have been delivered to member states, and roughly the same amount has been delivered by the EU to over 130 countries around the world. The EU plans to increase its expected donation over the next nine months by 200 million doses. To better prepare itself for future health crises, the EU has prioritized the formation of the European Health Union, more specifically the European Health Emergency Preparedness and Response Authority (HERA). This mission of health preparedness and resilience is said to be backed by an investment of €50 billion by 2027. To mitigate additional COVID-19 surges, a qualified majority of EU ambassadors voted to reintroduce travel bans for unvaccinated Americans coming into EU countries, a ban that was previously lifted in June of 2021. This ban is currently a recommendation. The ultimate decision of whether to let unvaccinated American tourists in and what type of screening to subject them to rests with the governments of each individual member state. This guideline is detrimental to European Airlines and for member countries that typically have a strong tourism sector, future slowing their pandemic recovery.

Afghanistan Crisis:

In the wake of the Afghan crisis, von der Leyen stressed the need for the EU to step up on intelligence cooperation. This would allow the EU to create a common assessment of threats and develop a consistent process for how to address them. In simple terms, select EU ambassadors feel strongly that the EU needs to develop a common defense strategy, which is often the precursor to a full-fledged army. One issue that arises from the possibility of a joint EU defense is that it would be divisive among some member states, specifically Eastern and Baltic countries. It could also be perceived as a threat to the NATO, which serves to ensure the freedom and security of member states through political and military means. The EU also created the European Defense Fund, which is a program that is focused on defense development and furthering cross-boarder research. The European Union openly condemns the Taliban and froze €1 billion in development aid funding for Afghanistan in fear that it would be seized. To support the Afghan people, they plan to increase their humanitarian aid by €100 million, in addition to the €200 million humanitarian package that had been agreed upon and announced publicly.

Climate Change:

Another geopolitical factor that will have a major effect on the EU in the future is climate change. In recent weeks, EU member countries have experienced devastating floods in Germany and Belgium along with wildfires in Greece and Italy. In her State of the European Union address, von der Leyen commented on several initiatives the EU is participating in to mitigate the negative effects of climate change. Over the past few months, they have undergone the adoption of a legally binding obligation to reduce greenhouse emissions by 55% between now and 2030 (compared to 1990 levels). From a financial perspective, the EU is set to increase its climate finance contribution by \$4 billion by 2027 and to double its external funding for biodiversity. It is also seeking the backing for the Social Climate Fund proposal, which will address energy poverty using renewable sources.