Will a slowdown in the US economy impact the European Economy?

It is expected that the slowdown of the US economy will only have a small impact on the growth of the European economy. There are some effects that will impact the European growth:

- The reduction of trade between the US and Europe has a direct impact on the European economy. However, since the total of exports from Europe to the US is less than 3% of the European GDP, the size of this effect will be very small.

- A larger indirect effect on the growth of the European economy can be expected from the appreciation of the Euro relative to the dollar. As a result of lower growth of companies in the US and the collapse of the stock market in the US investors will redirect their investments from the US to Europe. As a result of this capital inflow the Euro will appreciate relative to other currencies, which will make European exports more expensive. This effect is partially offset by the fact that oil prices in Europe will go down when the Euro appreciates.

- Finally, it can be expected that the downturn in cyclical industries (electronics and telecommunications) that hit the US will also impact the European economy. Because the European Telecom sector is heavily leveraged due to investments in UMTS licenses and technology, this may impact the European growth.

The impact of the US slowdown on the European economy is reduced by some fundamental differences between the European and US economy:

- European households have invested less in equity and are less leveraged compared to US citizens. An economic downturn will therefore have less impact on the consumption in Europe
- The European economy is less dependent on high tech companies compared to the US economy. Therefore, a downturn in business cycles in this sector of the economy will have less impact on the European economy. Moreover, the collapse in the high-tech stock market that hit the US has much less impact on the European economy.