Flash Economics

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How can Europe survive?

Europe will be in great difficulty because of:

- Its unfavourable demographics and stagnating productivity, and hence the structural weakness of its domestic demand;
- The weakening of its exports as a result of US protectionism and competition from China, even though exports are the only possible growth engine;
- High energy prices;
- European environmental rules that are stricter than those adopted in other countries, particularly now in the United States.

Europe's weight in the world economy will continue to decline.

The only hope is that European industry will rapidly decarbonise, which could be a competitive advantage in the medium term if other countries become aware of the scale of climate change.

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Europe is facing many difficulties

Europe (we are in fact looking at the situation in the **euro zone**) is facing:

- Unfavourable demographics (**Charts 1A/B**);

Chart 1A
Euro zone: Fertility rate (births per woman)

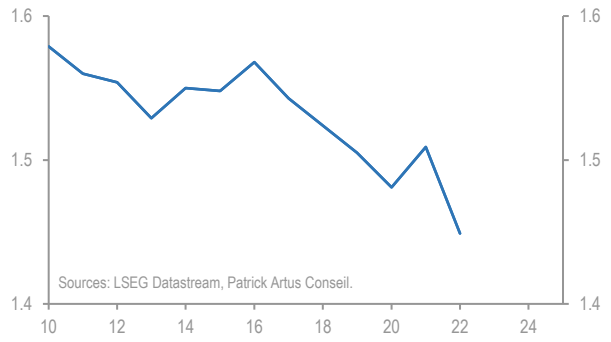
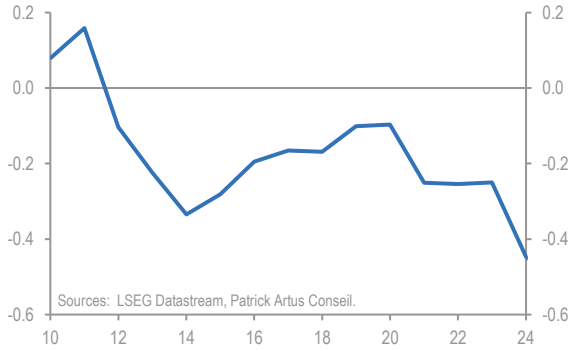
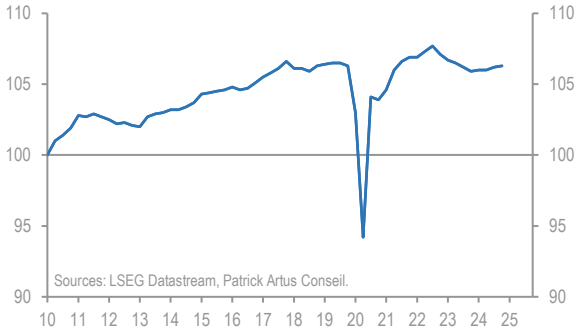


Chart 1B
Euro zone: Population aged 15 to 64 (as % per year)



- **Stagnation in its labour productivity** (**Chart 2**);

Chart 2
Euro zone: Productivity per head (2010.Q1 = 100)



- **Weak domestic demand**, resulting from the decline in the business investment rate since 2023 (**Chart 3**) and the rise in the household savings rate (**Chart 4**).

Chart 3
Euro zone: Investment of corporations
(in value terms, as % of nominal GDP)

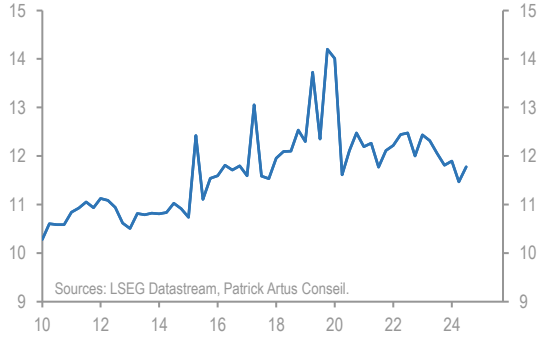
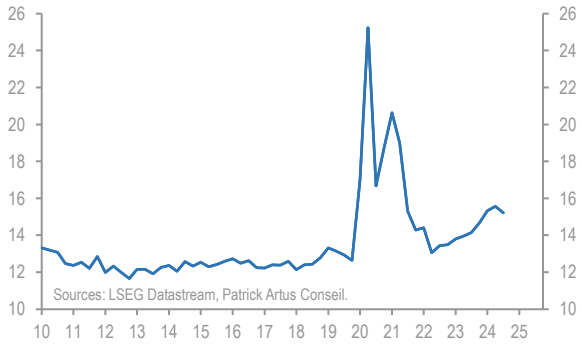


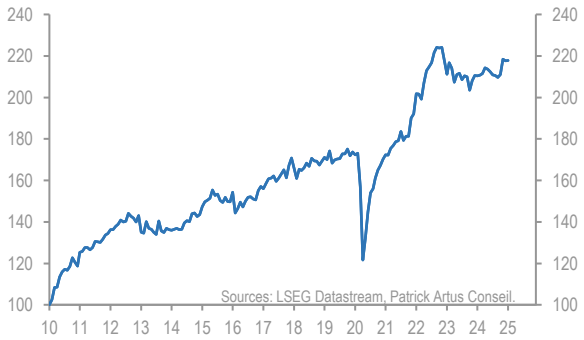
Chart 4
Euro zone: Gross household savings rate
(as % of gross disposable income)



Weak domestic demand means that **the only possible engine for European growth is export growth**.

Unfortunately, **exports of goods from the euro zone are weakening** (**Chart 5**) as a result of US protectionism and competition from China.

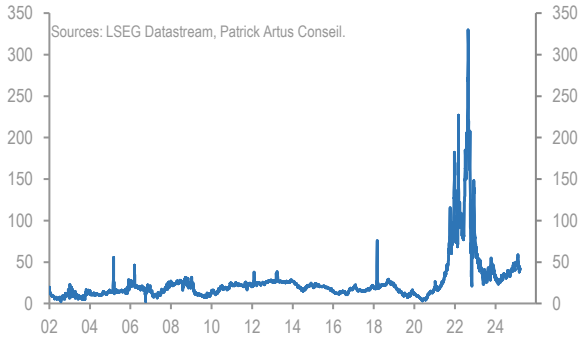
Chart 5
Euro zone: Exports of goods (01.01.2010 = 100)



Europe is also suffering from:

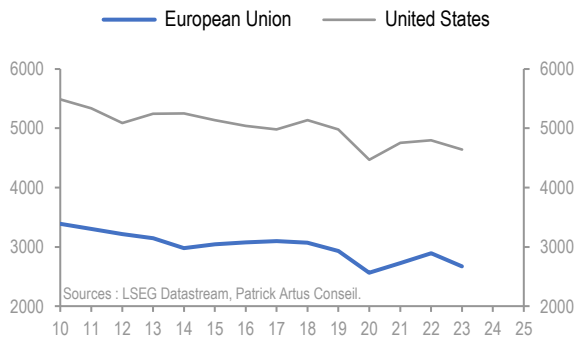
- **High energy prices**, since the start of the war in Ukraine, which has caused natural gas prices to rise sharply (**Chart 6**);

Chart 6
Europe: Natural gas price (€/MWh)



- **Strict environmental rules**, which are now much stricter than those put in place in the United States, following the election of Donald Trump (with, in the United States, the end of energy transition aid, with incentives to produce more natural gas and oil).
  CO_2 emissions (**Chart 7**) will therefore continue to fall rapidly in the eurozone, and not in the United States.

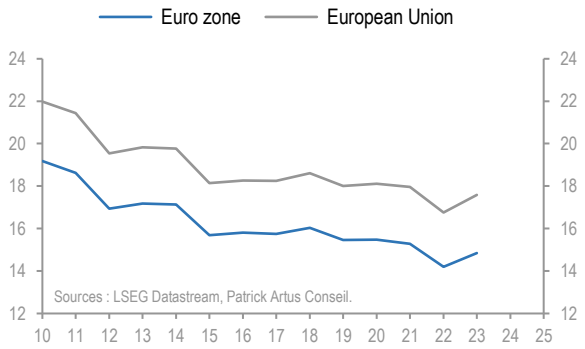
Chart 7
CO_2 emissions (millions of tonnes)



Europe will therefore be in difficulty as a result of weak domestic demand and productivity gains, weaker exports, high energy prices and strict environmental regulations.

Europe's weight in the world economy should therefore continue to decline (**Chart 8**).

Chart 8
Nominal GDP (as % of world GDP)



Summary: how can we be more optimistic about Europe's future?

One hopeful sign is that Europe will rapidly decarbonise its economy (industry, transport, energy, etc..). If the other non-European countries become aware of the growing climate problems at a later stage, Europe could benefit from the location of activities, particularly industrial activities, whose production technology would be green in Europe and not in the other countries that will have fallen behind in their decarbonisation.

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