Europe' s recovery should be welcomed by Brexiteers and Remainers alike

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With the Bank of England MPC deciding in its August meeting that despite inflation likely to stay above target for a while monetary policy should remain ultra loose for the time being, that is good for prospects for the UK economy. On the assumption of easy monetary conditions continuing to exist the IMF in late July had already upped its UK GDP forecast by most of all advanced nations to 7.0% for 2021 after a nearly 10% drop in 2020. But where is Europe going? It matters because, even though we have had the odd month since the turn of the year when we imported more from China than from Germany, the EU as a whole is still the UK's major trading partner, and will remain that for years to come . And this despite a busy Department of Trade signing as many Free Trade Agreements as it can with other nations and regions – some rollovers of previous EU deals that had to be renegotiated once the UK left the region's and some new.

It is hardly a secret however that relations between the two sides have deteriorated markedly over disputes about the implementation of the Northern Ireland protocol- and more. It hasn't affected only goods trad where at least negative trends we saw in the first four months of the year now appear to have plateaued. Latest data suggest that UK service exports to the EU, particularly from the financial sector where regulatory 'equivalence' has still not been granted, have been also seen declines. Yet retaining high UK/EU trade flows will be crucial to maintaining the much needed post pandemic growth momentum.

So as I have argued in a previous blog, what happens in the EU economically in the short and longer term matters hugely for the UK. And since I looked at this last in May, the latest economic indicators have markedly improved. Yes the vaccine roll out took longer that it should have done. But the continent as a whole is catching up fast with the UK in terms of percentages vaccinated. And it is also true that differences between countries remain. But what we are seeing is that growth is now speeding up again across the Eurozone and if anything the recovery rates with those worse hit by the closures due to the pandemic, such as the Southern European ones now also recovering fastest.

GDP grew by 1.9% in the block as a whole in the second quarter and by 2% in the Eurozone. Although still below pre pandemic levels , EU output in the quarter was up 13.2% above the same quarter in 2020 and 13.7% above in the Eurozone . And this even before the holiday season started in earnest. Remember Greece for example, where I am writing this blog from, only opened up to tourists in mid- May . Arrivals in Greece in July were 70% up on a year ago with numbers having recovered to some 65% of those of July 2019, pre- pandemic. The July Eurozone manufacturing PMI showed further expansion in the month for the 13th consecutive month .

At the same time although inflation picked up to 2.1% in July from 1.9% in June this does not seem to worry the European Central Bank(ECB). If anything the ECB seems to have recently increased its purchase of bonds of Eurozone countries in the secondary markets as part of its Pandemic Emergency Asset purchases programme despite concerns from the more hawkish members of the ECB executive council. And there is still, according to estimates some €600b left until next March for the ECB to spend when the programme is meant to run out. With interest rates likely to remain at record low levels, the latest IMF forecasts now suggest growth of 4.6% this year after a fall of 6.5% last year and 4.3% next .

There are still some worries. New Covid variant concerns are multiplying . And the pace of industrial and retail recovery is threatened by supply shortages and lack of skilled workers. Commodity and other input prices have risen sharply from the lows of last year . Not all firms are able to pass those on easily. But for the moment at least stock markets in a number of Eurozone countries are hitting record highs as confidence recovers. Consumers are beginning to spend again gradually reducing their savings ratio which had bounced back up to nearly 22% in early 2021. Retail sales in June were some 5% up on a year ago.

Confidence is helped by the fact that alongside continuing easy monetary conditions the fiscal stance remains supportive even though the economic recovery is well underway . Already 12 National Plans were approved for disbursement on July 13 with tens of billion Euros allocated from the €672.5 billion Recovery and Resilience Facility as part of the Next Generation EU Post-Pandemic Recovery Instrument. A further 4 were approved on July 28 .

More will follow. It won't be plain sailing and there is understandable concern about how that money will be spent. But although the Commission is expected to be tough in overseeing how they get implemented, they are expected to provide extra back-up support to the EU economies for a good few more years to come.

So on balance this is good news for Britain and it should be good news too on UK-EU trade . It simply requires a reversal of the loss of trust that seems to have frustrated the search for a compromise so far. Sadly this at present looks like easier said than done..