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Talking point

The end of the golden era for oil states continues to curb German export growth in 2016

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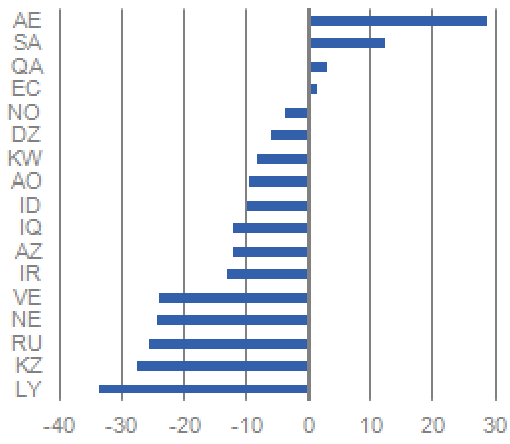
In 2015, exports of German goods to the oil states declined by 7.4%. This was the third fall in a row. Growing exports to the United Arab Emirates (primarily aircraft) and Saudi Arabia prevented an even worse result. As oil prices will initially remain low, German exports to the oil-producing countries are expected to fall again in 2016. Our export indicator points to a decline of approximately 5%. Among the major German industrial sectors, mechanical engineering is likely to be hardest hit by falling demand from the oil states, as was the case in 2015. Overall, the significance of the oil producers as a market for German industry will continue to decline in 2016.

The sharp slump in oil prices has been putting substantial pressure on many oil producers' economies since mid-2014, and further pronounced corrections in the oil price – it has since fallen below USD 30 per barrel this year – reflect the persistently difficult situation in the oil states. The large supply overhang at present indicates that prices will, initially, remain low. The golden era of the oil-producing countries, when prices exceeded USD 100 per barrel and countries used their abundant oil revenues to finance government spending and public investment, appears to be over for the time being. The oil price that the individual producer countries would need in order to balance their budget is, in all cases, higher than the current price of approximately USD 40 per barrel. The massive oil-price-driven economic slowdown in the oil-producing countries also has implications for the German economy, mainly via the foreign trade channel. Overall, lower oil prices are having a positive impact on German exports, but exports to oil-producing countries remain under substantial pressure.

Heterogeneous development

German goods exports to oil countries, 2015, % yoy



Source: Federal Statistical Office

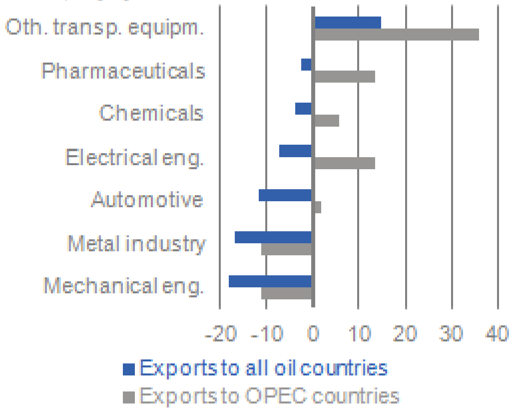
UAE and Saudi-Arabia ensured good result for OPEC in 2015

While German exports to all countries rose by 6.4% in 2015, exports to oil states fell – for the third year in a row – by just over 7%. Exports to non-OPEC oil producers were in free fall, down by more than 20%, with exports to Russia in particular continuing to plummet (-26%) partly due to sanctions. By contrast, exports to OPEC members grew for the fourth consecutive year and were up by roughly 7%.

It is striking that among the OPEC members, essentially only Saudi-Arabia with a rise of 12% and the United Arab Emirates (UAE) with a rise of approximately 29% were responsible for the increase in German exports to OPEC. Exports to all other OPEC states dropped by more than 10%. On the whole, the oil countries' share in total German exports declined, amounting to only 5.9% in 2015, compared with 7.5% in 2012. In absolute terms, the volume of German exports to these countries fell by EUR 11.6 bn between 2012 and 2015.

Exports to oil countries: Ups and downs

German goods exports to oil countries by sector, 2015, % yoy



Source: Federal Statistical Office

Aircraft exports prevent a worse picture – mechanical engineering and metals particularly hard hit

Sector-specific analysis shows that the substantial growth in German exports to the UAE was largely driven by two sectors, namely electrical engineering with an increase of 33% in 2015, and above all other transport equipment (primarily aircraft), which saw an increase of nearly 61% in German exports to the UAE. Excluding these two sectors, goods exported to the UAE would have grown by "only" 7.1%. In the case of Saudi Arabia, the growth in exports in the past year is spread across a much larger number of sectors.

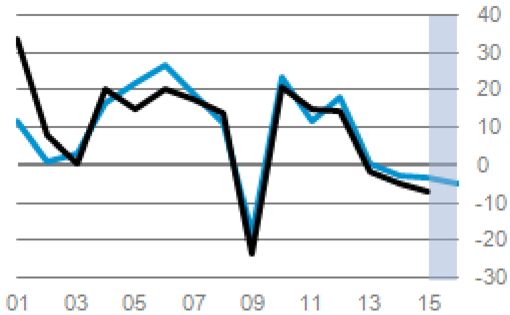
Among the large German industrial sectors, mechanical engineering and metals were most strongly affected by the economic weakness of the oil-producing countries in 2015. Goods exported from these sectors to the countries in question were down by 18% and 17%, respectively. The negative effect is particularly noticeable in the mechanical engineering sector as the oil-producing countries account for 7.8% of all German machinery exports and consequently represent an above-average share. Moreover, German mechanical engineering is highly export-led on the whole. The sector is suffering, in particular, from the slump in trade with Russia over the past three years. In 2015, goods exported from the German mechanical engineering sector to Russia alone amounted to EUR 3.6 bn, down 42.6% from 2012.

Exports to the oil-producing countries likely to fall sharply again in 2016

The outlook for 2016 promises little improvement. In view of persistently low oil prices, many oil-producing countries are likely to see only weak growth and face tight budget restrictions again in 2016. To estimate the impact on German exports we have calculated an export indicator for the oil-producing countries, which comprises a demand stimulus and a price stimulus (exchange rate).*

Export indicator for oil states also negative in 2016

German exports to oil states, % yoy



Black line shows actual change in exports, light blue line shows export indicator.

Sources: Eurostat, Deutsche Bank Research

According to our indicator, demand stimulus is likely to improve slightly this year. This should be mainly driven by an easing of the recession in Russia compared with 2015. However, the somewhat more favourable demand stimulus, in relative terms, is likely to be outweighed by the negative price stimulus as some of the more dramatically weaker currencies in a number of oil states should sharply increase the cost of importing goods, for example, from Germany.

On the whole, our export indicator for the oil-producing countries suggests a further decline of around 5% in German exports to oil states in 2016. Investments in the energy sector especially are likely to be scaled back (further). Among the German industrial sectors, this will probably have a major impact on mechanical engineering. Aircraft exports could provide relief again in 2016, because in this field, most shipments are based on long-term contracts. And the clients, i.e. airlines, are benefiting on the cost side from lower oil prices. All in all, the significance of the oil states as an export market for German industry is likely to decline further in 2016.

* The export indicator for the oil states was calculated using the same approach as for the export indicator for total German exports. For details see: Eric Heymann and Heiko Peters (2016). Double whammy for German exports in 2016. Focus Germany: 2016 GDP Growth: External headwinds & domestic tailwinds. Deutsche Bank Research. Frankfurt am Main.

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Further information:
Current issues "German exports to oil-producing countries to decline in 2015"

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