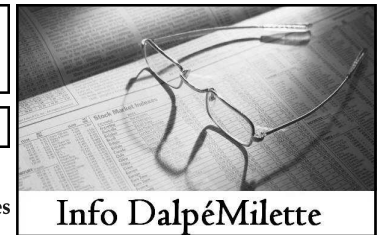


Sujet: L'impact économique des troubles en Europe sur les USA est très faible / The economic impact of Europe on the USA is quite small

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Sovereign Debt Crisis: Transmission Channels

The main channel of transmission of Europe's woes to the U.S. is via financial contagion.

Slower euro area economic growth due to a euro area sovereign debt crisis would have a fairly small direct impact on the U.S. economy, although it is more important for S&P 500 profits. Exports account for only about 12% of GDP in the U.S., and goods exports to Europe comprise less than 20% of total U.S. goods exports. Our **U.S. Investment Strategy** service estimates that even if Italy, Greece,

Portugal and Spain all grow at a pace that is a whopping 5 percentage points below the latest IMF forecast in 2010 and 2011, the estimated hit to U.S. GDP growth is below 0.1 percentage points per year. A potentially more important transmission channel is via the currency translation effect of a weaker euro on U.S. profits. About 20% of corporate profits are earned abroad, of which about 42% are earned in Europe. Thus, a 10% depreciation of the euro versus the dollar, assuming that none of the U.S. exposure to Europe is hedged, would translate into less than one percentage point reduction in total U.S. business earnings. The impact on S&P 500 company profits would be slightly larger, at 1.4%; since overseas earnings account for about a third of total profits for these large companies. An important caveat is that these calculations do not capture the indirect effects of loss of investor confidence, should the euro drop significantly from current levels. Bottom line: Even a worst case scenario for growth in the highly-indebted euro area economies and a substantial euro depreciation should not be enough on their own to derail the U.S. cyclical recovery in the economy and corporate profits, as long as financial contagion is prevented.

