

Sources:

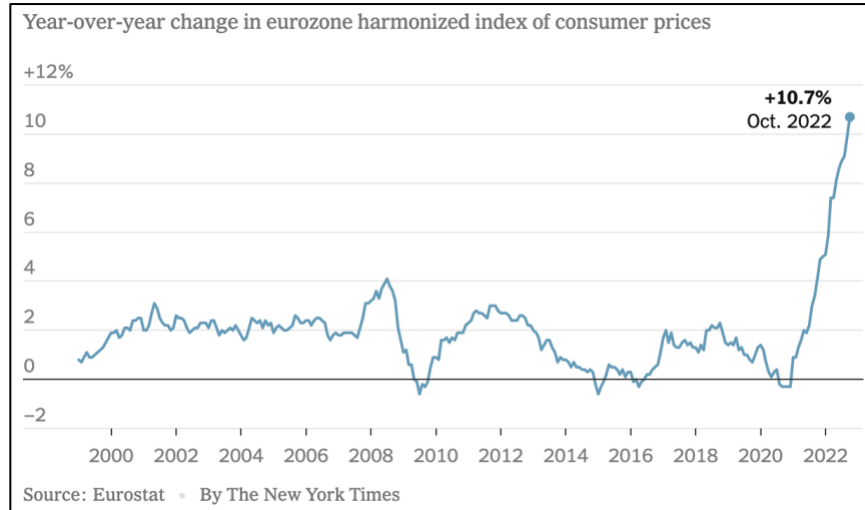
1. *Brexit's Effects on UK Trade are Dramatic, but We Feel them in the EU too* – [The Guardian](#) (Flach)
2. *The Cost of Brexit Becomes Apparent* – [The Economist](#) (Economist)
3. *Inflation in Europe Reaches a Record 10.7% as Officials Face Hard Options* – [New York Times](#) (Cohen)
4. *Unemployment Rates Across Europe* – [Trading Economics](#) (Trading)
5. *German GDP Growth Raises Hopes of Less Severe Recession* – [Reuters](#) (Wagner)
6. *France Raises 2022 Growth Forecast on Consumption, New Jobs* – [Bloomberg](#) (Regan)
7. *Gross Domestic Product at Current Market Prices of Selected European Countries in 2021* – [Statista](#) (Statista)

Introduction: In recent years, the European economy has had to weather and overcome a number of devastating blows to its economy. From the withdrawal of the United Kingdom from the European Union, to the lasting impacts of the Covid-19 pandemic, to an energy crisis brought about by an even more tragic war between Russia and Ukraine, events hampering economic growth continue to transpire. This is appropriately reflected in the lackluster growth of the EU over the past few decades, which show the EU averaging an annual GDP growth rate of only 1.68% since 1996. Although Europe has proved itself capable of surpassing a plethora of obstacles, it is ultimately in the same troubled boat as the rest of the world and will certainly experience reduced economic growth and perhaps even a contraction in the near future.

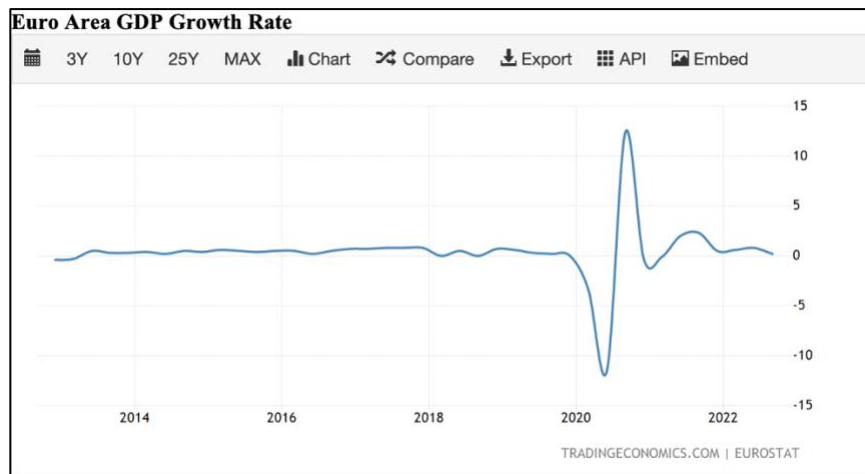
Facts:

- Greatest European GDPs in 2021 were Germany (\$3.57tn), United Kingdom (\$2.53tn), and France (\$2.48tn) (Statista)
- German government predicts GDP growth of 1.4% in 2022 and contract by 0.4% in 2023 (Wagner)
- France's Finance Minister improved economic growth projection from 2.5% to 2.7% for 2022 (Regan)
- Forecast for 2023 GDP growth in France has been reduced from 1.4% to 1% (Regan)
- High inflation not expected to last in France through 2023 (Regan)
- Unemployment is unchanged in Germany (5.5%), up 0.1% in United Kingdom (3.6%), and down 0.1% in France (7.3%), compared to previously (Trading)
- EU energy prices have surged 41.9% over the past 12 months, and inflation is at a high of 10.7% in much of the Eurozone (Cohen)
- Exports from the UK to the EU declined by 40%, and imports 30%, from December 2020 to January 2021, largely due to Brexit (Economist)
- Institute for Economic Research forecasts GDP losses for the EU and even greater GDP loss for the UK (Flach)
- EU lost roughly 1/6 of its economic power and a large share of its foreign and security policy weight because of Brexit (Flach)

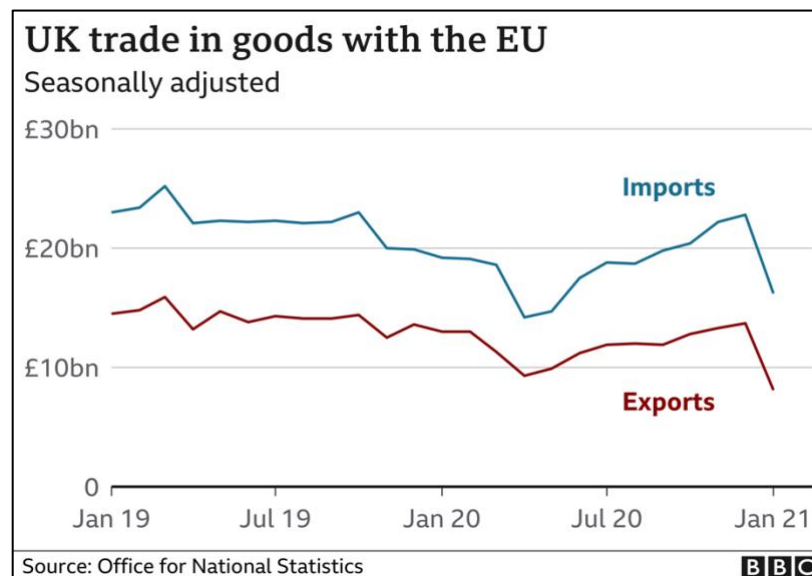
Analysis: Europe's economy is largely led by the European Union, specifically Eurozone countries- those which use the Euro as their official currency. Within this subcategory, the three economic leaders in terms of GDP are: Germany, the United Kingdom, and France (Statista). The largest economy being Germany with a GDP of \$3.57 trillion in 2021, expected growth is only 1.4% in 2022, with an expected contraction of 0.4% in 2023 (Wagner). Taking record-high Eurozone inflation of 10.7% (Cohen) into account, real GDP growth is effectively negative.



Unemployment rates in Germany remain unchanged from previous assessments, holding at 5.5% (Trading), thus suggesting that perhaps demand for labor is still relatively strong. This idea is further supported by the economic climate in France, which has posted a reduced unemployment figure of 7.3%, down from 7.4% (Trading) at the same time last year. France has reduced its GDP forecast for 2023 from 1.4% to 1% (Regan), likely considering higher inflation and reduced consumer spending globally. Despite more conservative projections, France is aiming to reduce inflation through the first quarter of 2023 (Regan), potentially boosting consumer spending and supporting its economy above recession territory.



Furthermore, the United Kingdom accounts for a large part of Europe's economic security and success. This year, the UK has seen an increase in unemployment, up 0.1% to 3.6% (Trading). The UK has not been immune to the energy shortages affecting the European Union, which has seen more than a 41.9% increase in energy prices since Russia invaded Ukraine (Cohen). Energy prices have spiked in England, as have food prices. None of this bodes well for the United Kingdom's economy in the short-term. Taking a longer-term outlook on the UK and Europe, one must consider the impacts of Brexit. While this move has been costly for the UK, it has been so to the EU as well. Since the conclusion of the Brexit transition period in January 2021, the UK saw its exports to the EU drop over 40% (Economist) and its imports from the EU drop roughly 30% (Economist). These economic effects are devastating to both sides of the trade agreements. It is also important to note that, given the net contribution of the UK to the economic power of the European Union, their withdrawal cost the EU about a sixth of its global economic influence (Flach). Now, considering the rocky economies of leading European countries, such as Germany and France, the UK is likely to see a GDP contraction in 2023 (Flach) along with several of its peers. Europe is very much likely to enter a recession and does not currently exhibit strength in its economy.



Lessons Learned: Europe is heavily reliant on global trade, as are its leading countries on each other. Coming out of the Covid-19 pandemic, coupled with Russia's invasion of Ukraine, there are many economic obstacles limiting the growth of Europe's leading economies right now. Further, Brexit has hampered a major trade relationship between the United Kingdom and European Union; that's not to mention the security and policy implications (Flach) of Britain's exit from the EU. Like much of the rest of the world, Europe's economy is fragile for the time being, and it is unlikely to post impressive growth over the near-term. Inflation is high, growth is stagnating, and investment is not optimal. The conditions simply are not that of a strong economy for all the reasons already mentioned. Globalization, for all the benefits it yields, also brings the economic struggles in far reaches of the world to the front door, and Europe is

experiencing this now. The interdependence of modern markets makes it easy for the world's economies to move in tandem, they often rise and fall together.

Implications: Current events continue to limit economic prosperity on a global scale. Globalization has ensured Covid-19 lockdowns in China slow growth in Europe, and the war between Russia and Ukraine spikes inflation in the U.S., and so on. The many economies in the world move along with one another, everyone benefitting from the good times, everyone struggling in the bad. Europe is part of this trend and is equally susceptible to the fragility facing the largest economies in the world. Moving forward, it is not so much a question of "if", but rather, "how severe" the coming recession will be. Key factors that will affect Europe more than elsewhere are the energy shortages exacerbated by sanctions against Russia, the potential rise of Covid-19 related complications, and how well supply chains continue to stabilize. While some countries, like France, seem well positioned to weather a shorter recession, much of Europe will likely be unable to avoid the seemingly inevitable. The strength of Europe's economy is weak and is not likely to see growth through 2023.