

Risks to the rebound

Trade data and policy tracker

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Economics - Global

- ◆ There are some signs that trade is returning to growth...
- ◆ ...with inventories slowly coming into balance....
- ◆ ...but high freight costs, port congestion, Red Sea shipping disruption and rising protectionism pose risks

Remember that upcoming trade rebound we were talking about at the beginning of the year? Well, there are some signs that world trade is starting to return to growth. Global manufacturing new export orders expanded in April 2024 for the first time in more than two years, while world trade volumes grew y-o-y in February. Retail inventories in the US (ex autos) are also slowly coming into balance, meaning we could start to see further inventory replenishment in the coming months that would support demand for tradeable goods. And, despite ongoing shipping disruption, the Global Supply Chain Pressure Index in April 2024 was the lowest it has been since August 2023.

But before we get too excited, it is worth noting that these are still rather challenging times for trade-oriented businesses. The Geopolitical Risk Index has started to climb up again, as have freight rates on the back of tighter container availability and higher fuel costs from ships having to sail around Africa to avoid the Suez Canal. For example, Maersk noted that it is currently using 40% more fuel per journey and the longer sailing time is leading to vessel bunching at ports and capacity shortages (Maersk, 6 May 2024). Meanwhile, disruption is set to continue as Yemen's Houthis said they will now target all ships heading to Israeli ports – not just in the Red Sea region (Reuters, 9 May 2024).

And if we needed any more reminders that protectionism is on the rise, the Biden administration announced on 14 May that it will increase tariffs on USD18bn worth of strategic goods from China including EVs, solar cells and lithium-ion batteries. We think the tariff package is more symbolic than substantial but risks leading to an escalation in bilateral trade tensions, particularly if China retaliates. The US is also reinstating tariffs on bifacial solar panel imports, which are mainly used in utility-scale solar products, and continues to exert pressure on Mexico to clamp down on Chinese goods that are routed through Mexico to the US to avoid tariffs. Mexico recently reinstated tariffs of up to 50% on a goods such as steel, aluminium, textiles, clothing and chemicals from non-FTA countries (e.g. China, India and Korea) until 23 April 2026.

Back to the recovery: To see a meaningful revival in world trade, we will need to see a sustained recovery in consumer demand. Recent data from the Federal Reserve of San Francisco (FRSF) found that (based on some ways of calculating it) US excess savings built up during the pandemic, that helped to support consumer spending, have finally been depleted. But as the FRSF points out, US consumer spending could still be supported by non-pandemic related savings and the strong labour market, among other factors. So, some green shoots for trade. But also some key risks to the rebound.

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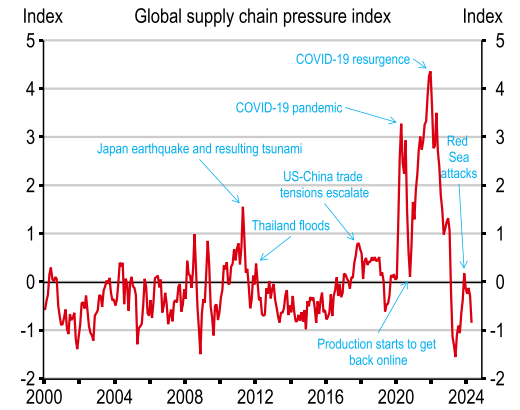
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Monthly trade trends

1. Manufacturing new export orders expanded for the first time in more than two years in April 2024...

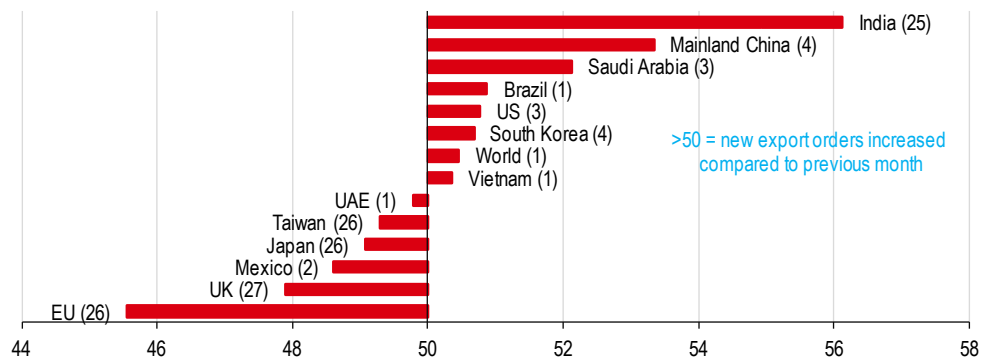


2. ...and supply chain pressures are low despite ongoing shipping disruption



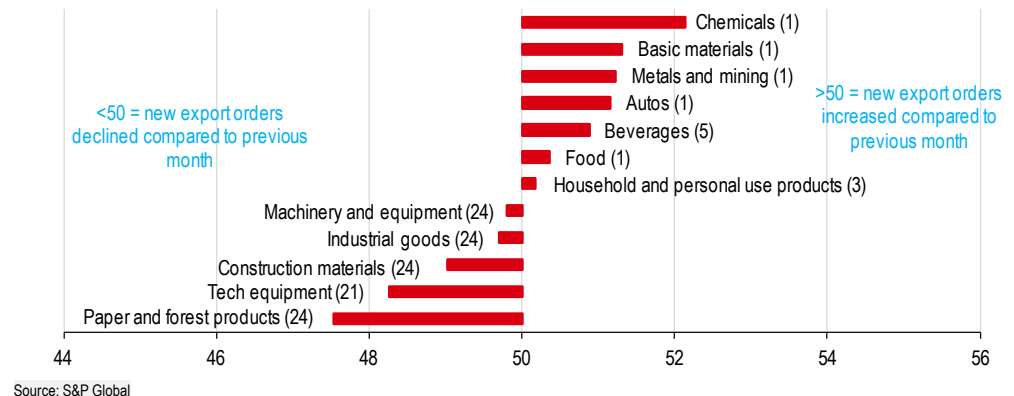
3. Several economies have seen a pick-up in new export orders recently...

PMI manufacturing: New export orders for key economies (April 2024)

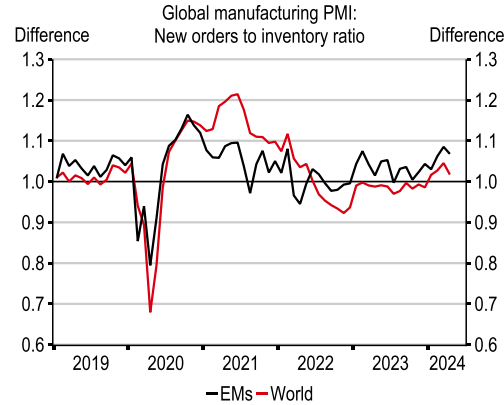


4. ...with the export outlook improving for several sectors as well

PMI manufacturing: New export orders by sector (April 2024)

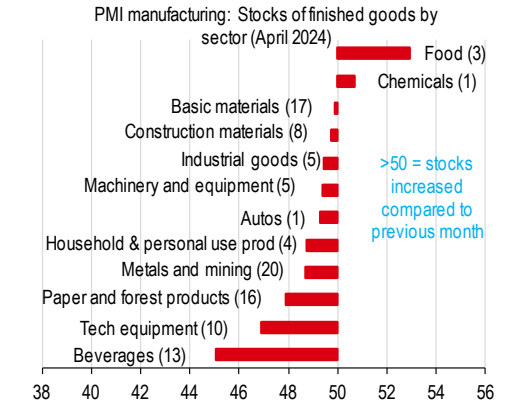


5. New orders are expanding while inventories continue to be drawn down...



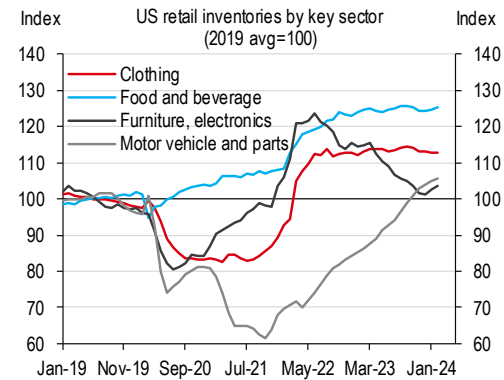
Source: Macrobond, S&P Global. Note: Latest data point for April 2024.

6. ...as businesses destock across the board



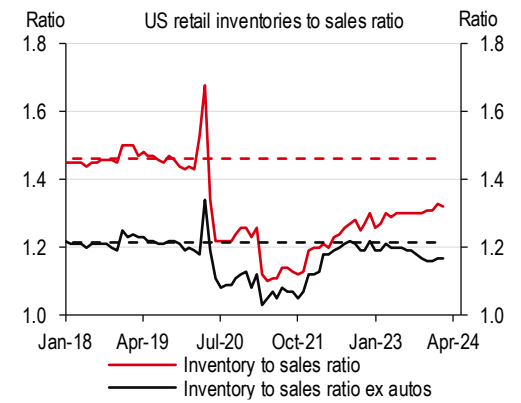
Source: S&P Global

7. US retail inventories remain above pre-pandemic levels in some industries...



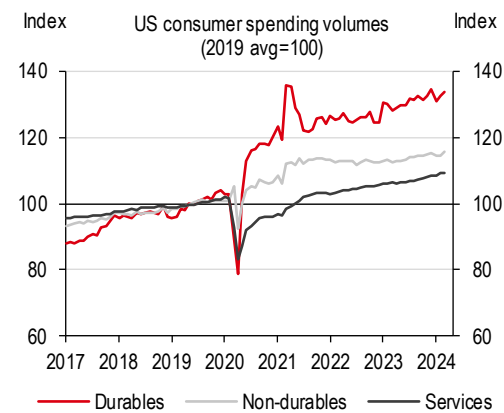
Source: Refinitiv Datastream. Note: Latest data point for February 2024.

8. ...but have largely come back into balance, relative to sales, outside of autos



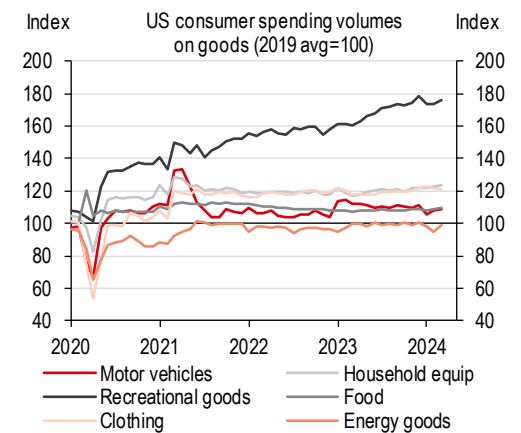
Source: Refinitiv Datastream. Note: Latest data point for February 2024. Dotted lines are 2018-19 average.

9. US consumers are spending more than they did before the pandemic in real terms...



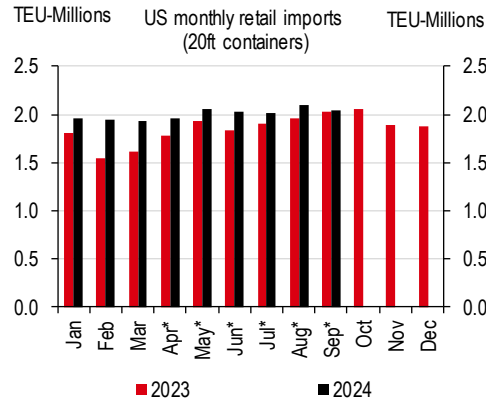
Source: Refinitiv Datastream, BEA. Note: Changes taken from 2019 average.

10. ...on a range of goods



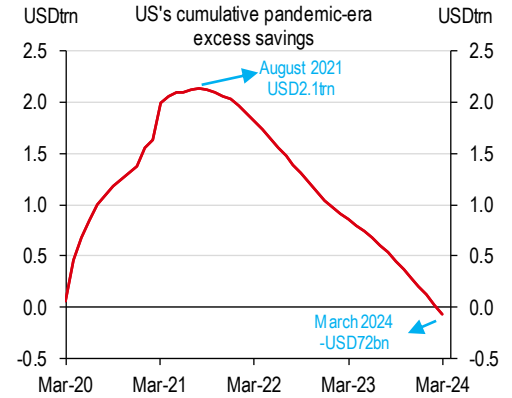
Source: Refinitiv Datastream, BEA. Note: Changes taken from 2019 average.

11. As a result, US retail imports are set to increase over the summer and autumn...



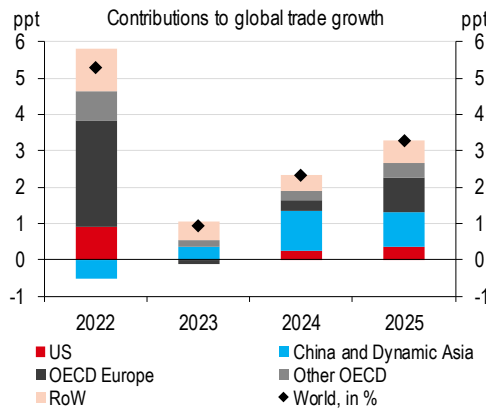
Source: National Retail Federation. Note: *Forecast for 2024.

12. ...but "excess" savings built up over the pandemic have been depleted and this could impact consumer spending



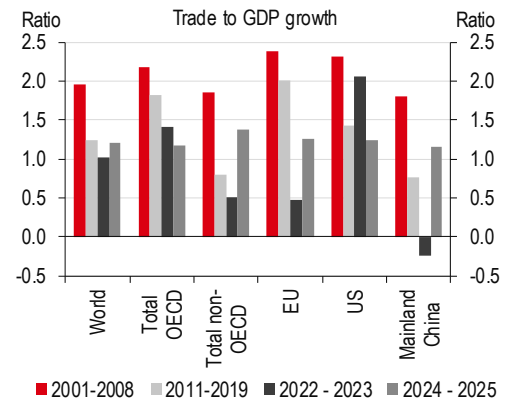
Source: Federal Reserve Bank of San Francisco. Note: This is based on the USD savings each month before the pandemic, whereas using different methods, such as the savings rate, shows some excess savings still there.

13. The OECD expects global trade to strengthen gradually this year and next...



Source: OECD Economic Outlook, Volume 2024 Issue 1

14. ... leading to an increase in trade openness globally in 2024-25



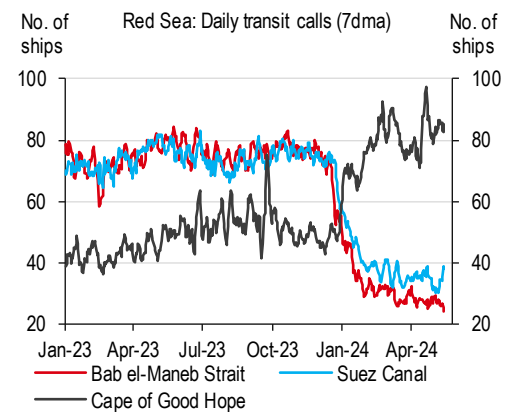
Source: OECD Economic Outlook, Volume 2024 Issue 1

15. But geopolitical risks have flared up again recently...



Source: Macrobond.

16. ...as shipping via the Red Sea remains disrupted



Source: IMF Portwatch. Note: Latest data point for 14 May 2024.

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