

The state of global trade

Any signs of the weakness ending?

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Economics - Global

- ◆ Global trade data remain soft, with weaker goods demand and elevated inventory levels weighing on new orders
- ◆ Geopolitical uncertainty and export bans cloud the outlook...
- ◆ ...with trade data unlikely to turn around any time soon

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The global trade cycle remains thoroughly depressed. Trade volumes are down nearly 4% y-o-y and excluding the height of the pandemic, 2023 looks set to be the worst year for global goods trade since 2009.

This appears to be driven by two key factors – firstly a rotation in spending from goods to services across the global economy – meaning that goods demand has largely stagnated – and secondly, the built-up level of inventories on the books of many firms means it is hard to see where the new orders are coming from.

Supply chains have eased dramatically over the course of the past year or so and the impact is still rippling through the global trading system – with long sought-after products arriving and leading to this build-up of stocks. This overhang may continue to apply disinflationary pressures to the goods side of the economy in the coming months, particularly given the spare capacity at many manufacturers. It's not good news for anyone expecting a quick rebound in this part of the global economy.

The impact is truly global. Based on national trade data, exports are falling in nominal terms in almost all geographies. Those economies tied to the electronics cycle may have seen a sharper payback for pandemic-induced strength in 2021 and 2022, but the broad slowdown in global goods trade is affecting all corners of the world.

The future outlook for trade isn't pretty, either. With inventory levels sat at higher levels and new orders subdued, we need either time to pass (and inventories to be slowly drained) or a pick-up in global goods demand to lead the turnaround. The latter isn't in our forecasts and would be far from expectations of a slowdown in major economies in the coming quarters. Any period of consumer weakness will delay a trade rebound.

Geopolitics don't make things any easier. Export bans on key foodstuffs (notably rice from India) and the continued impact of Russia's invasion of Ukraine continue to make global trade challenging. US-China relations continue to mean softer trade between the two economies, even before China's weaker recovery in 2023 and the broader global trade weakness. Oil and gas prices remain high and volatile.

And so, it's not a pretty time for global goods trade, all in all. The handful of positives are seen in some bottoming out of some leading indicators at very depressed levels and expectations of stronger US imports, while services trade (which is much harder to capture in real time) is likely faring much better. But, based on a broad suite of data it feels we could be waiting for a little while for any upswing in the global trade cycle.

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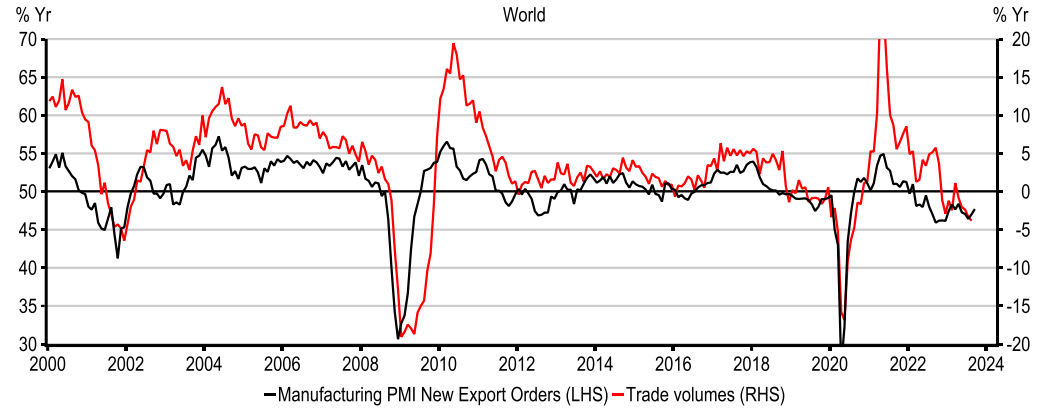
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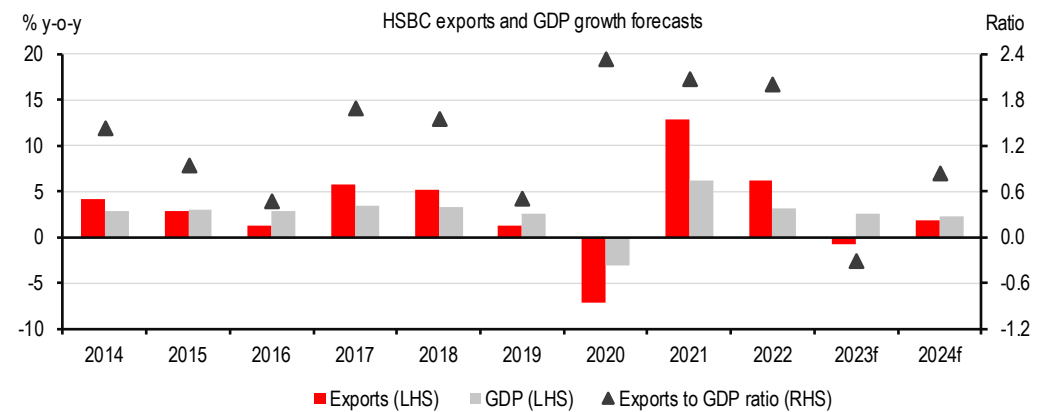
Global trade: Weak and not likely to get better quickly

1. Global goods trade indicators remain very weak...



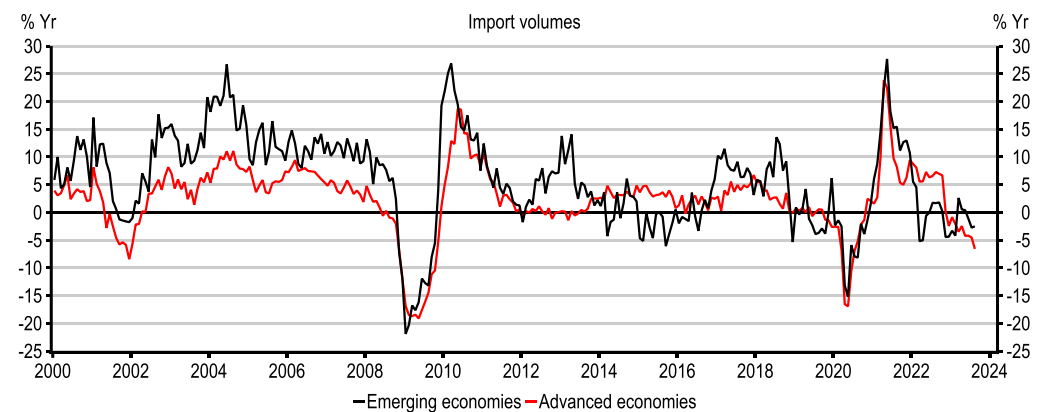
Source: CPB, S&P Global

2. ...and we expect that weakness to continue, with exports growing slower than GDP this year



Source: National sources, HSBC. See *Global economics Quarterly: After the peak?*

3. Weakness in import demand is clearest in the developed world



Source: Macrobond, CPB

4. Most sectors have weak export orders PMIs...



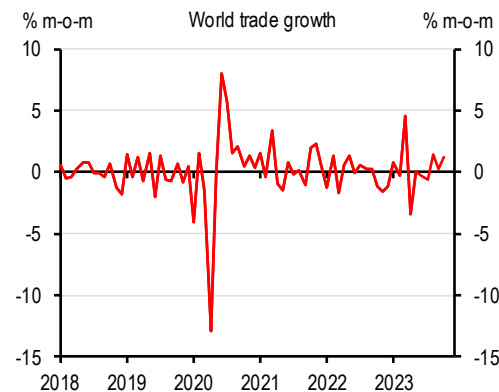
Source: S&P Global. Note: Data for September 2023

5. ...and new orders are low relative to inventories



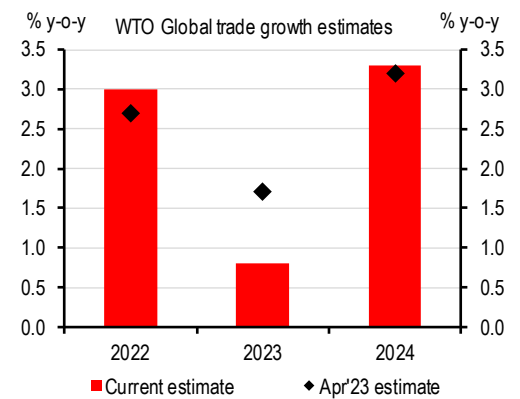
Source: S&P Global. Note: Calculated from the PMI data for New orders and inventories

6. Kiel estimates may be pointing to a little uptick in coming months...



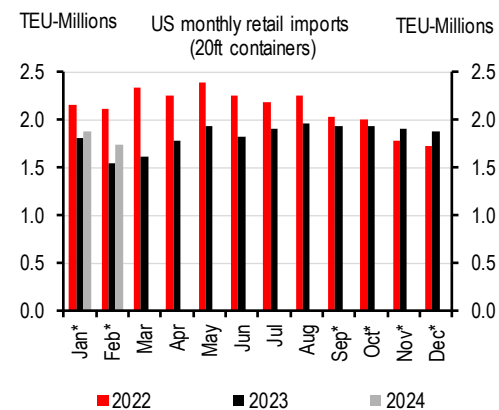
Source: Kiel Institute of World economy

7. ...whereas on a broader level, the trade growth is likely be much slower



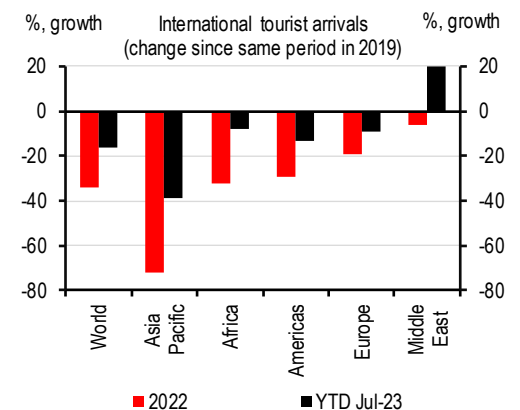
Source: WTO

8. US retail imports are expected to be higher in the upcoming months...



Source: National Retail federation. Note: *are estimates

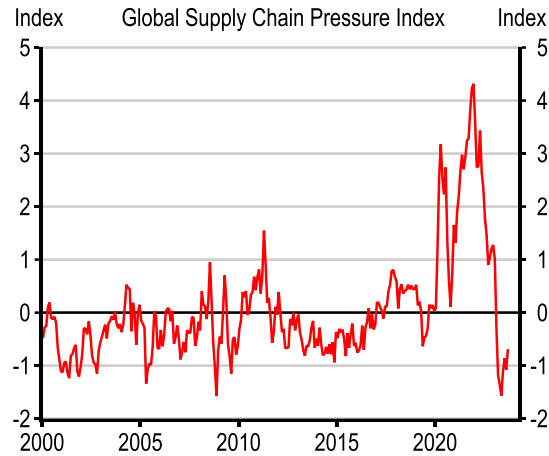
9. ...and tourism sector continues to show improvement



Source: UNWTO

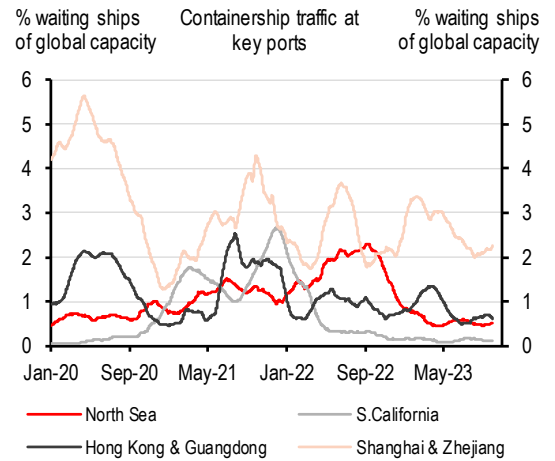
Supply chains are now much looser

10. Supply chains are now very loose



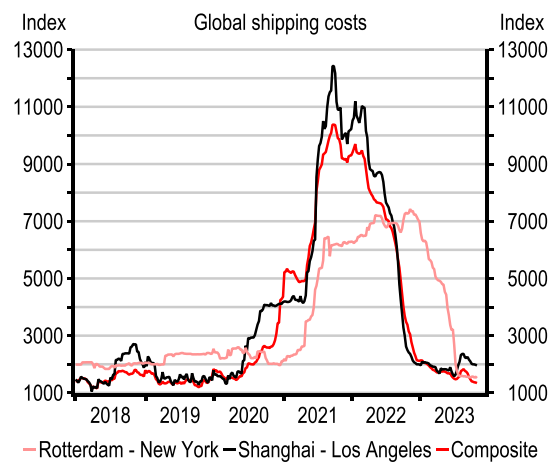
Source: Federal Reserve Bank of New York

11. Fewer boats are waiting at ports...



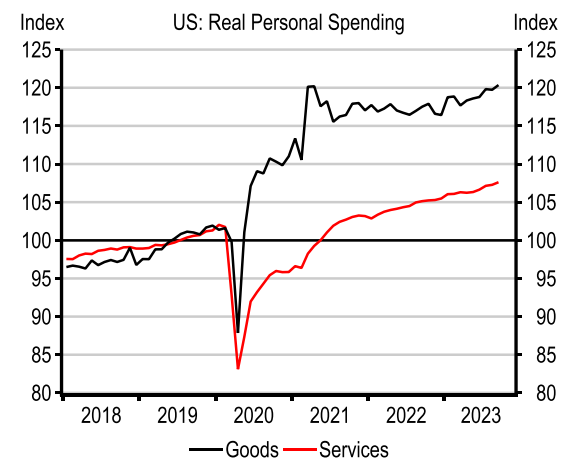
Source: Kiel Institute of World economy

12. ...meaning much lower shipping costs



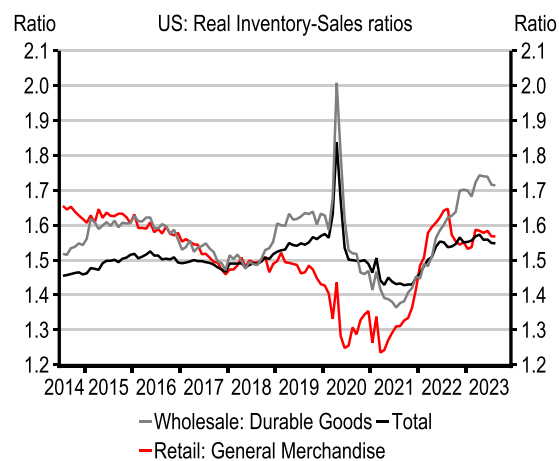
Source: Macrobond

13. Goods spending has flatlined...



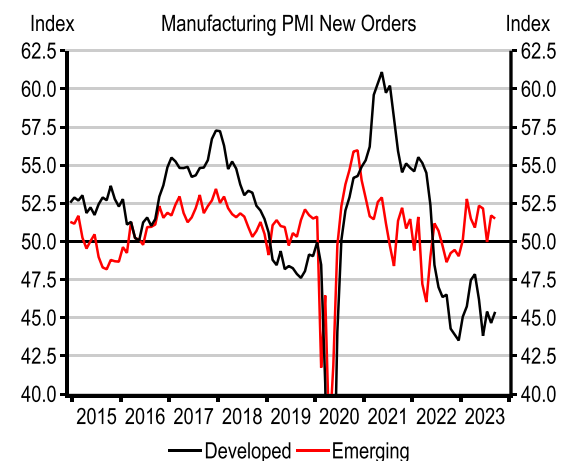
Source: Macrobond

14. ...and inventories have been built up...



Source: Macrobond

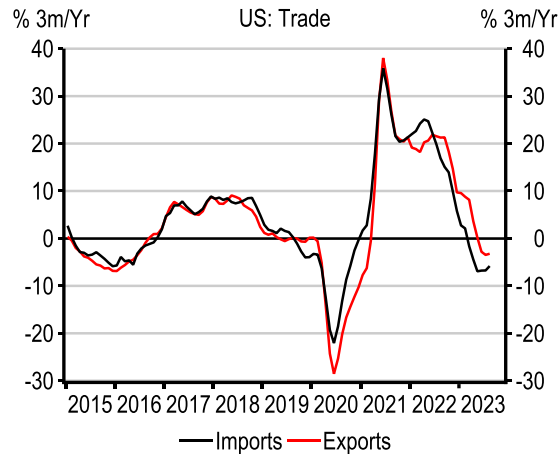
15. ...limiting the need for new orders



Source: Macrobond

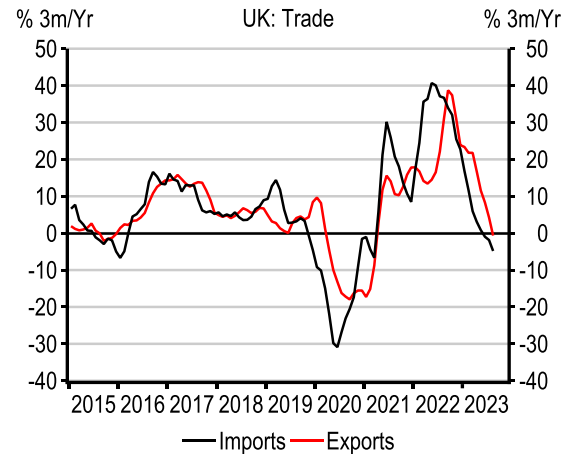
Trade slowdown looks broad-based with not much room for optimism

16. US imports are down, but may be bottoming out...



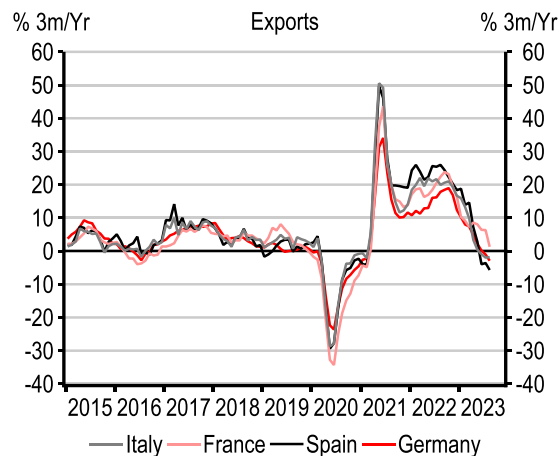
Source: Macrobond

17. ...but they're still getting worse in the UK



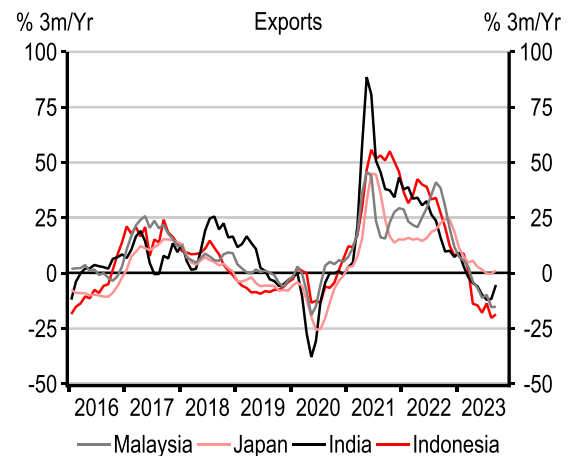
Source: Macrobond

18. European exports are suffering...



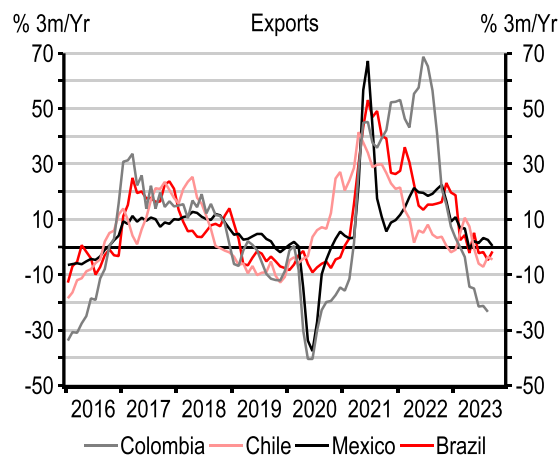
Source: Macrobond

19. ...and there's been some big declines in Asia



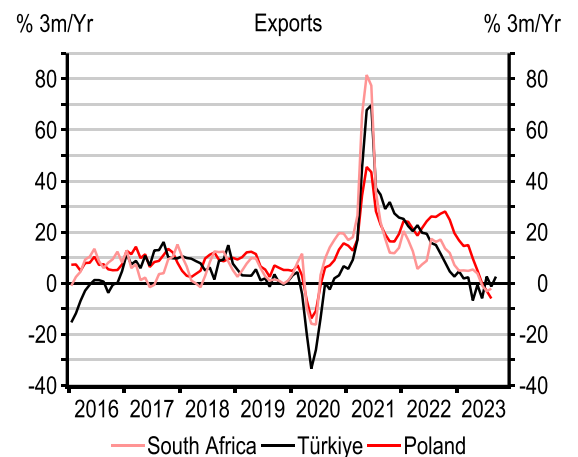
Source: Macrobond

20. Exports are holding up better in Latam...



Source: Macrobond

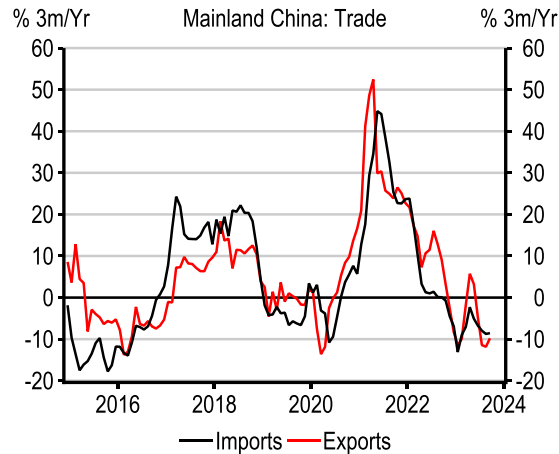
21. ...and in CEEMEA



Source: Macrobond

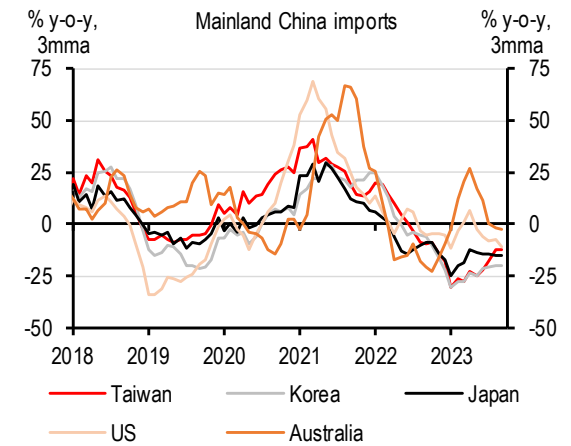
China's slowdown is having a broader impact, too

22. Chinese trade data have been weak...



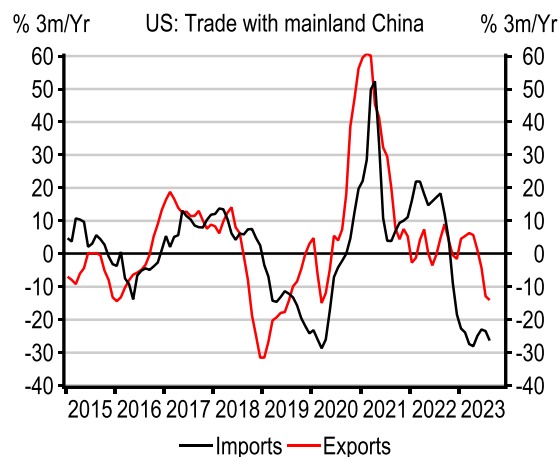
Source: Macrobond

23. ...pulling down imports from a variety of markets



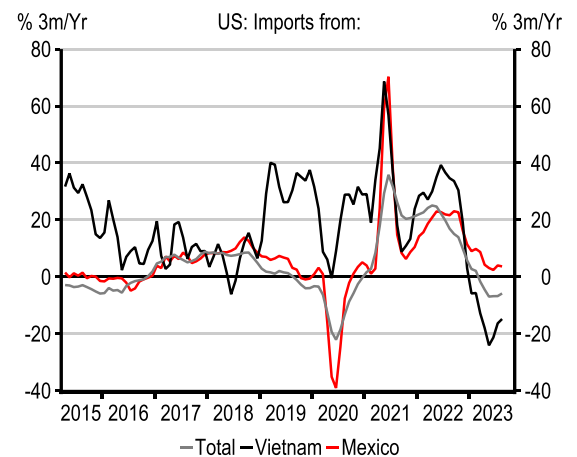
Source: Refinitiv Datastream

24. US trade with China is down considerably...



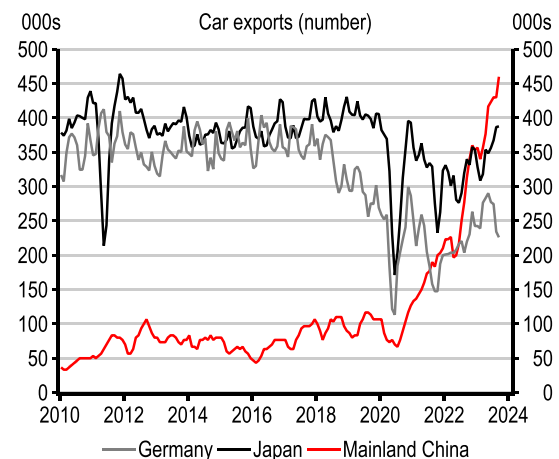
Source: Macrobond

25. ...while Mexico has been a big winner of trade rotations



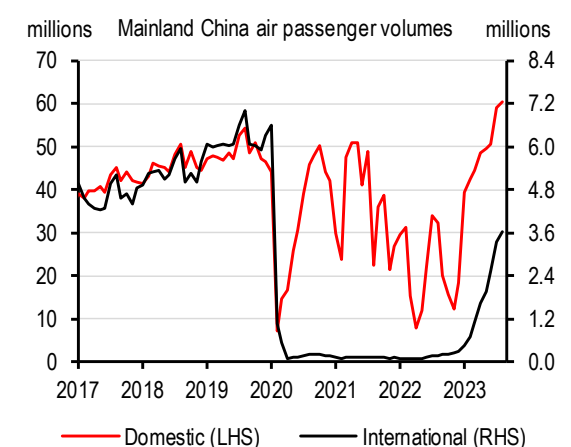
Source: Macrobond

26. Car exports are growing quickly from China...



Source: Macrobond

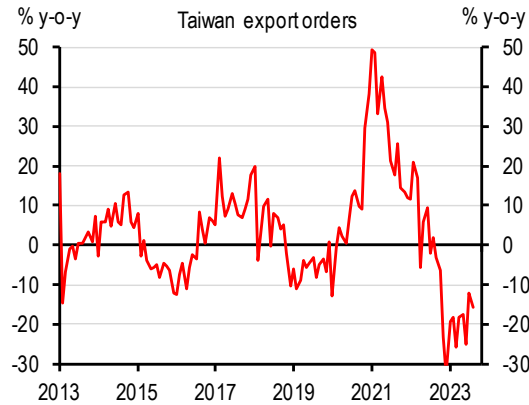
27. ...and tourist numbers are picking up, too



Source: Macrobond

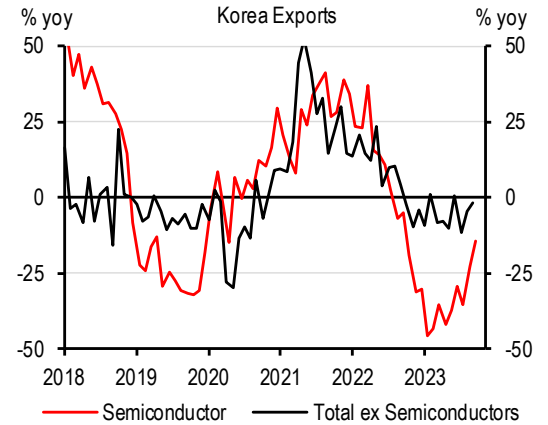
Electronics trade has been more affected than most sectors

28. Taiwan's export orders remain low, albeit a slow recovery may be coming through...



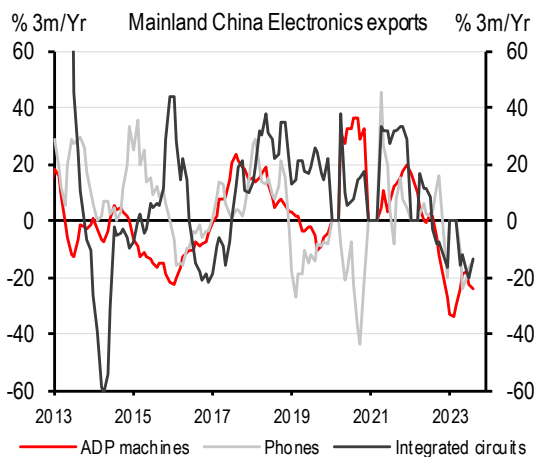
Source: Refinitiv Datastream

29. Korea's semiconductor exports have started to recover a bit



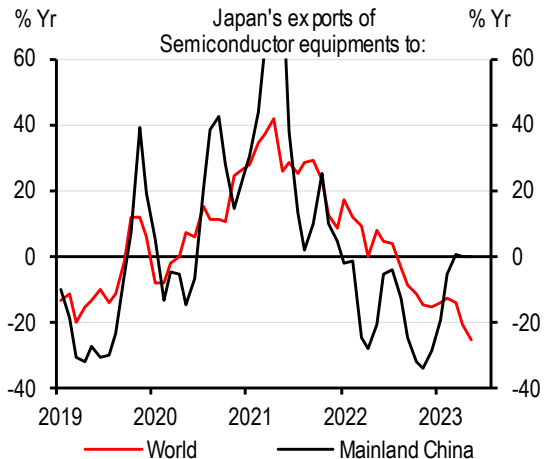
Source: Refinitiv Datastream

30. China's electronics exports may be bottoming out



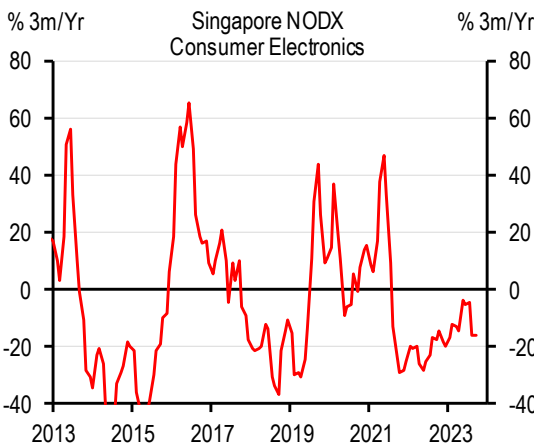
Source: Refinitiv Datastream, National sources. Note: ADP refers to Automatic data processing machines

31. However, Japan's semiconductor equipment's show fewer signs of stabilizing



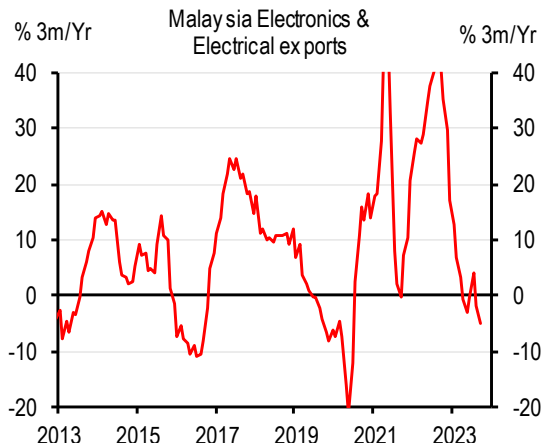
Source: ITC trademap

32. Singapore's electronics exports are still falling...



Source: Refinitiv Datastream

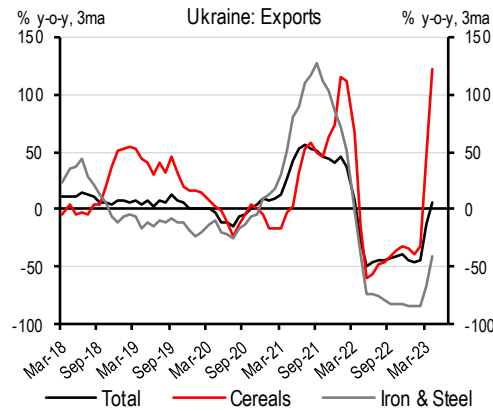
33. ...and Malaysia's are faring the same



Source: Refinitiv Datastream

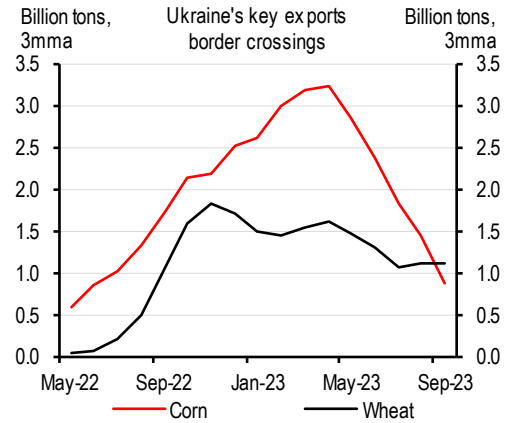
The impact of the invasion of Ukraine is still being seen

34. Ukraine's grain exports had started to pick up from H2 2022 due to the black sea grain deal



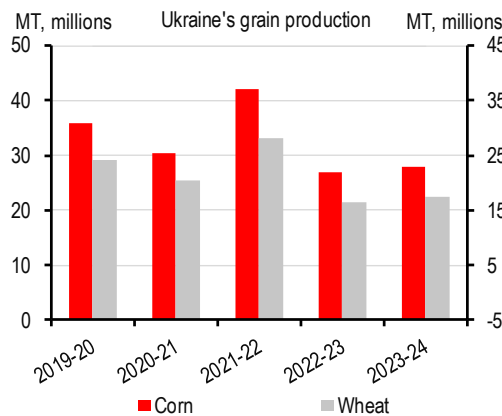
Source: ITC trademap

35. Key exports have gone into reverse again



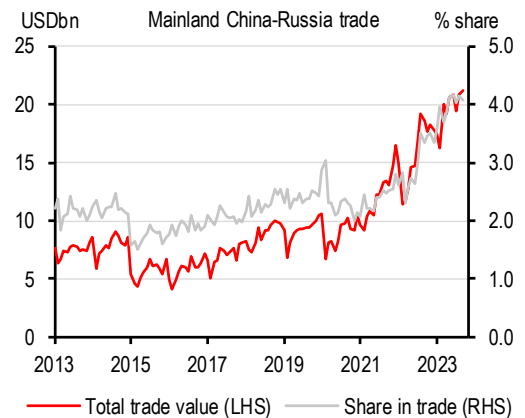
Source: Agricultural ministry of Ukraine

36. Agricultural production estimates are lower



Source: USDA

37. Meanwhile, Russia's isolation has led to stronger economic ties with mainland China...



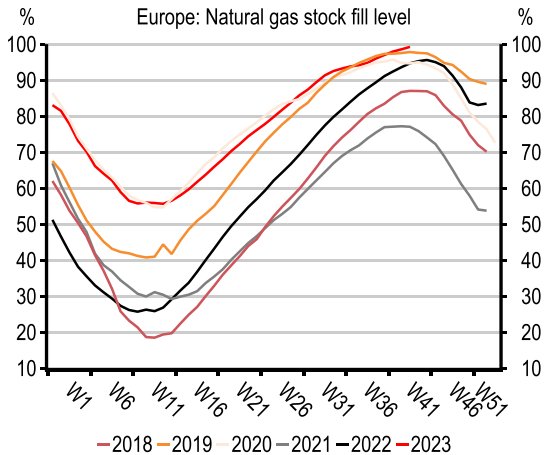
Source: Refinitiv Datastream

38. ...while the EU's import dependence has drastically reduced...



Source: Refinitiv Datastream

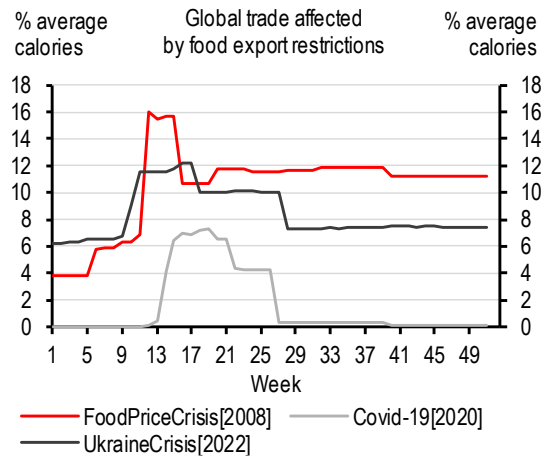
39. ...and gas storage levels have been built up ahead of this winter



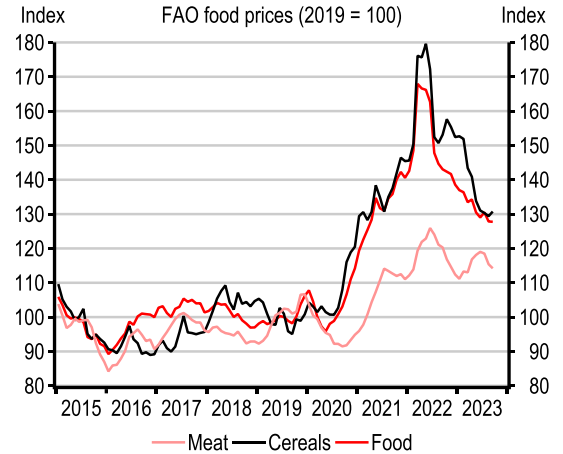
Source: Macrobond

Food export bans are adding to the complications

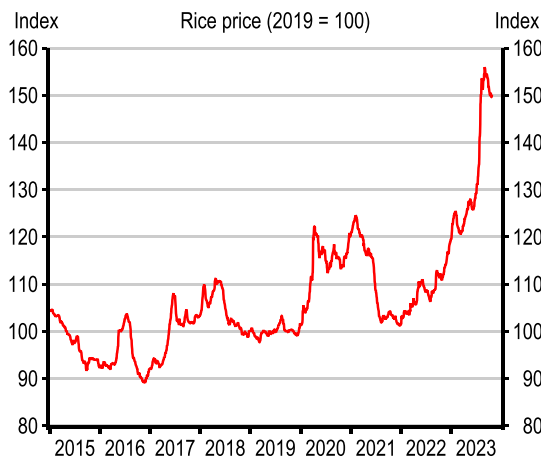
40. Global food trade impacted by export restrictions remaining high



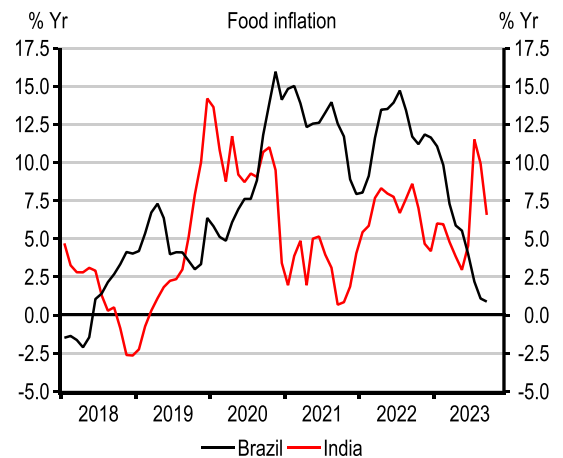
41. While the food prices may be falling in aggregate...



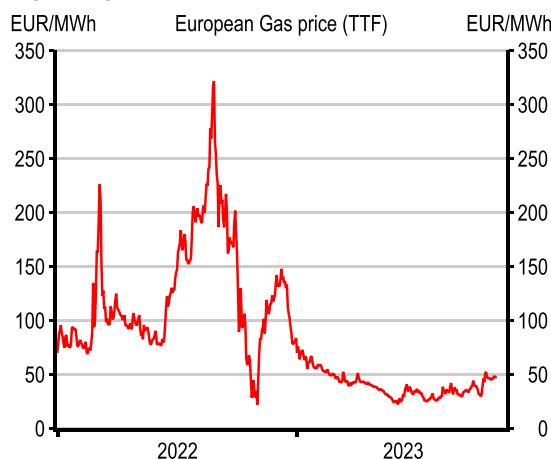
42. ...some, like Rice, have soared on export bans



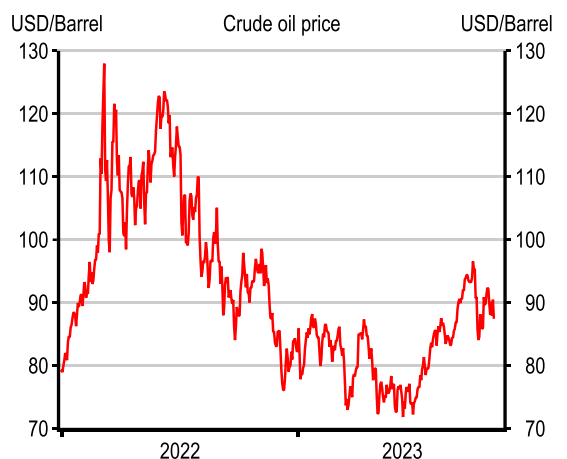
43. The impact on food inflation varies across the world



44. European natural gas prices are edging higher again...

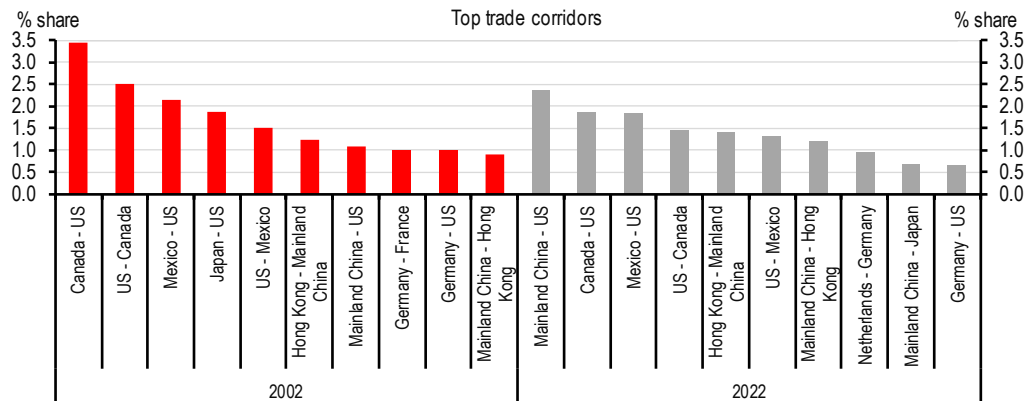


45. ...while oil prices are up and volatile



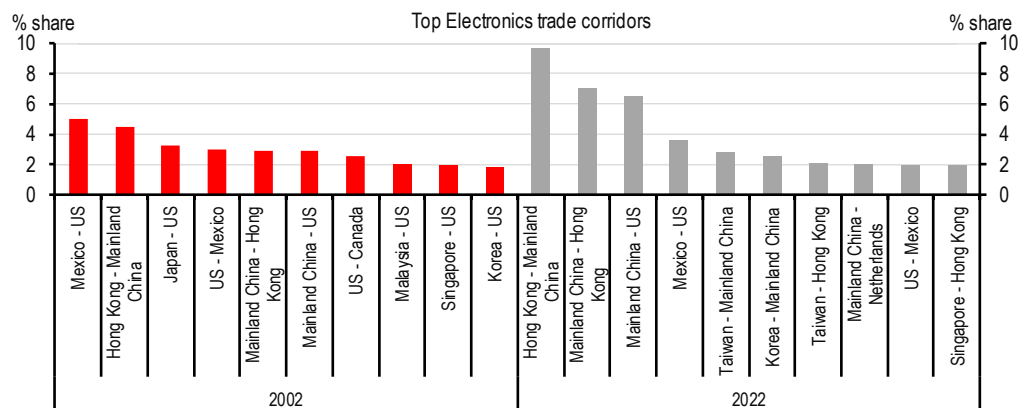
Global trade chains keep evolving

46. North America was the major trading corridor 20 years ago, but now mainland China is the anchor for many key trade links



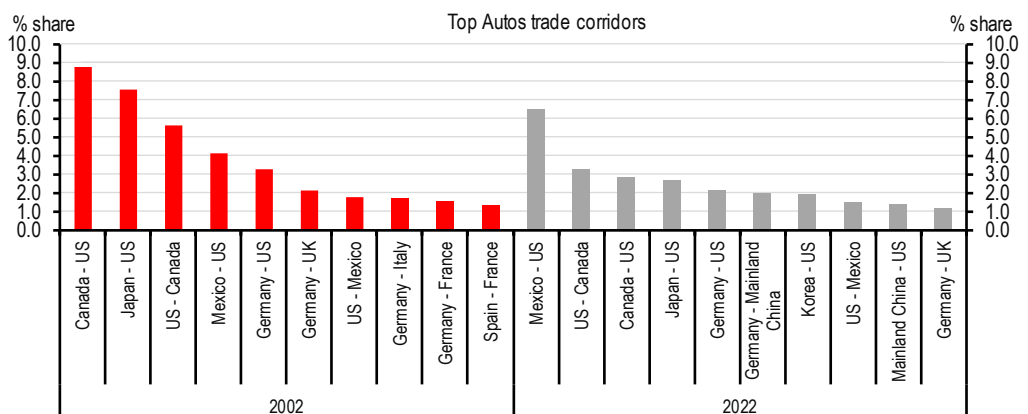
Source: UNCTAD, HSBC

47. Electronics exports are now dominated by mainland China, which was only involved in 3 out of top 10 electronics corridors decades ago



Source: UNCTAD, HSBC

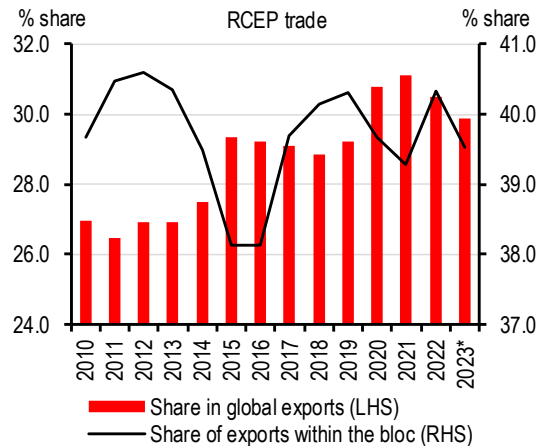
48. North America and Europe were major Auto trade corridors back in 2002, but this is broadening out



Source: UNCTAD, HSBC

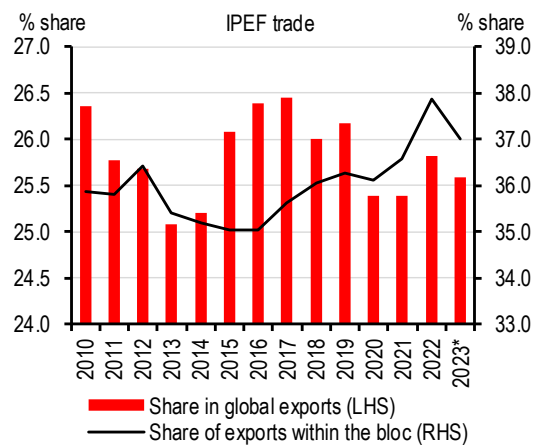
How key are trade deals?

49. RCEP came into effect in 2022, and the year saw a jump in the intra-bloc trade...



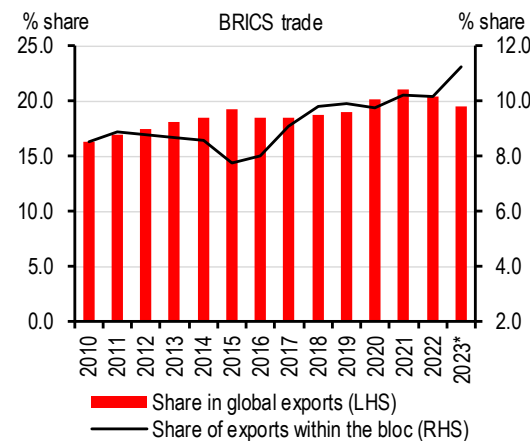
Source: IMF dots. Note: * denotes data only till Apr'23 for the year 2023. Note: RCEP is the Regional Comprehensive Economic Partnership with 15 members

50. ... while IPEF's trade has also sharply risen in 2022, the year it was introduced...



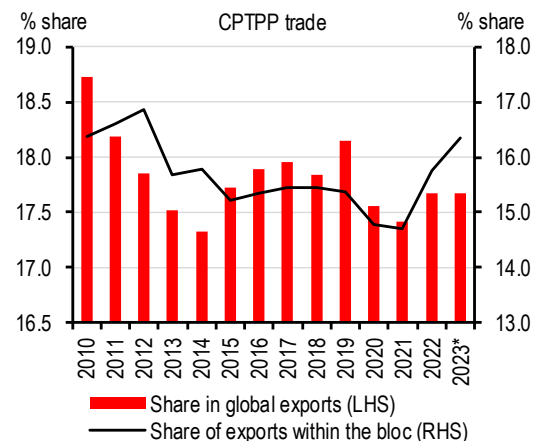
Source: IMF dots. Note: * denotes data only till Apr'23 for the year 2023. Note: IPEF is Indo-Pacific Economic Framework for Prosperity, with 14 members.

51. BRICS's intra trade has climbed, and its global trade share has crossed 20%



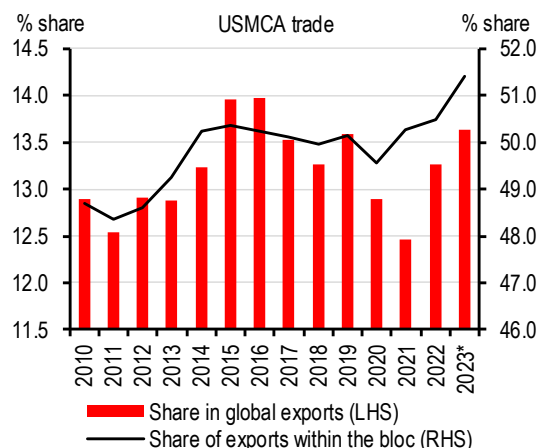
Source: IMF dots. Note: * denotes data only till Apr'23 for the year 2023. Note: Based on BRICS with 5 members. No official trade deal between members.

52. While CPTPP has seen dwindling share of global exports



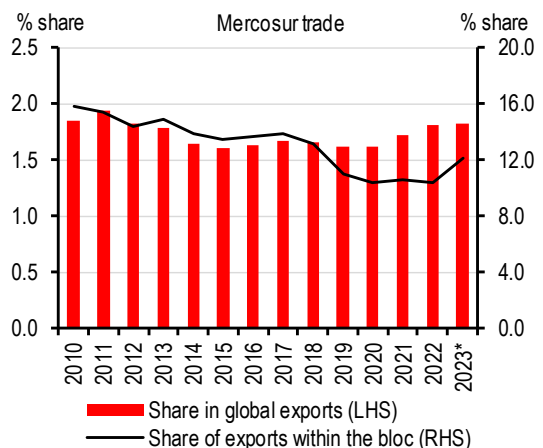
Source: IMF dots. Note: * denotes data only till Apr'23 for the year 2023. Note: CPTPP is Comprehensive and Progressive Agreement for Trans-Pacific Partnership, with 11 members.

53. USMCA has seen a leg up in trade flows following the trade war with mainland China



Source: IMF dots. Note: * denotes data only till Apr'23 for the year 2023. Note: USMCA is United States–Mexico–Canada Agreement, with the three members.

54. South America's Mercosur deal has seen other parts of the world play a bigger role in trade



Source: IMF dots. Note: * denotes data only till Apr'23 for the year 2023. Note: Mercosur only contains four economies: Brazil, Argentina, Paraguay and Uruguay.

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