

# 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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HSBC Bank plc

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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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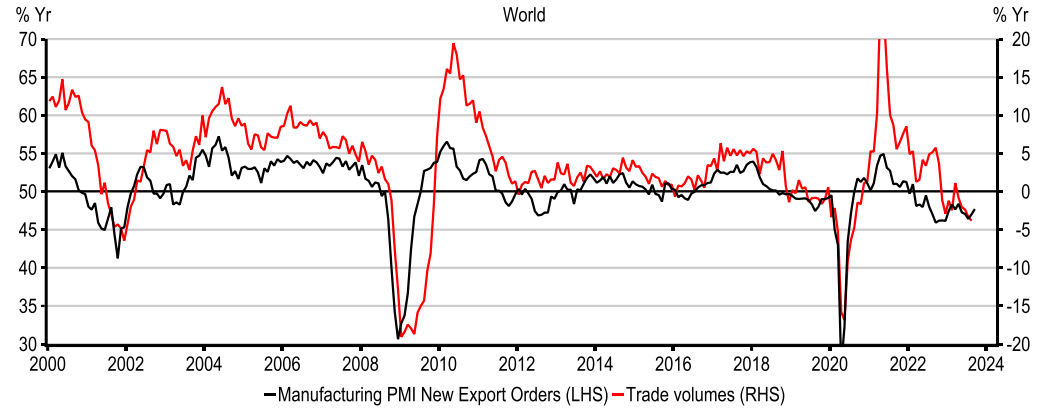
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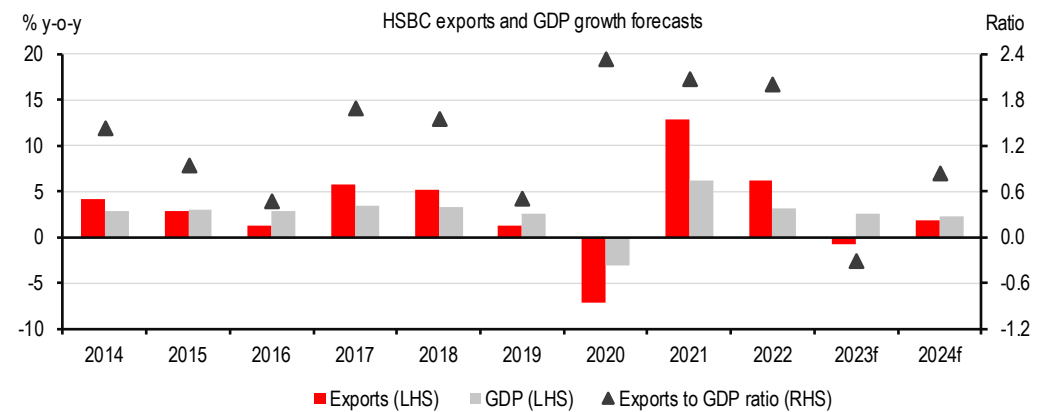
## Global trade: Weak and not likely to get better quickly

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



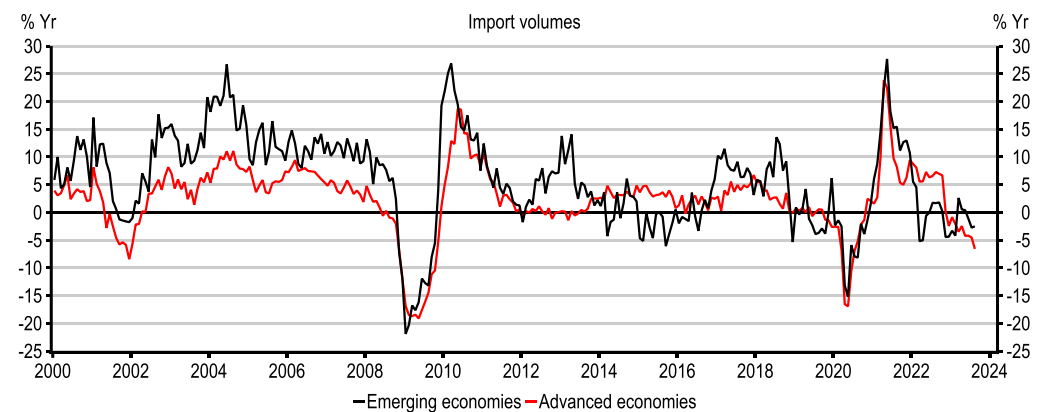
Source: CPB, S&P Global

### 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...



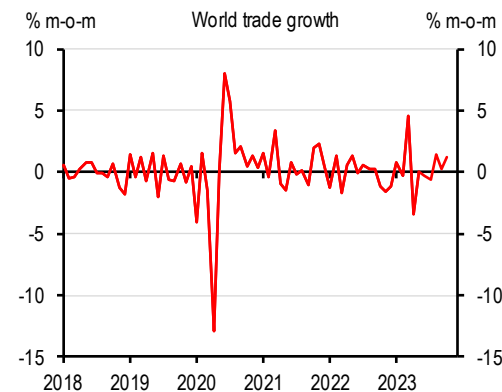
Source: S&P Global. Note: Data for September 2023

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



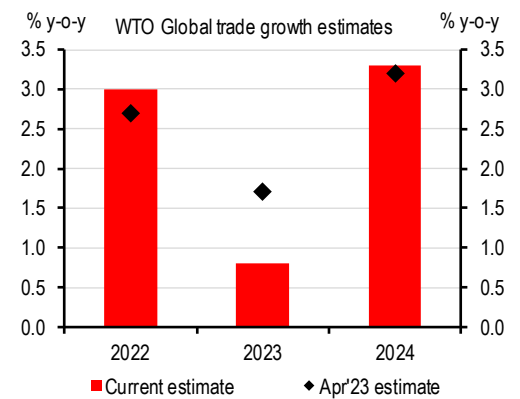
Source: S&P Global. Note: Calculated from the PMI data for New orders and inventories

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



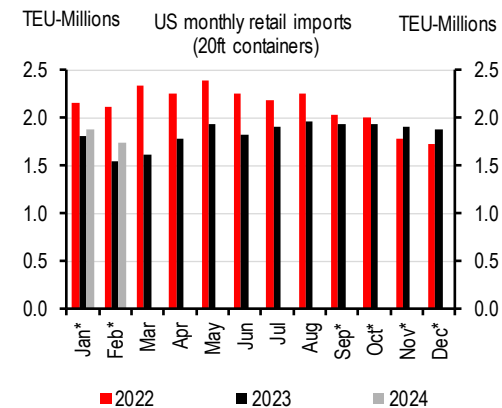
Source: Kiel Institute of World economy

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



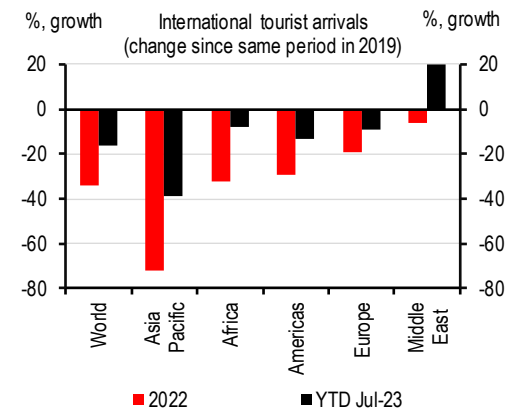
Source: WTO

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



Source: National Retail federation. Note: \*are estimates

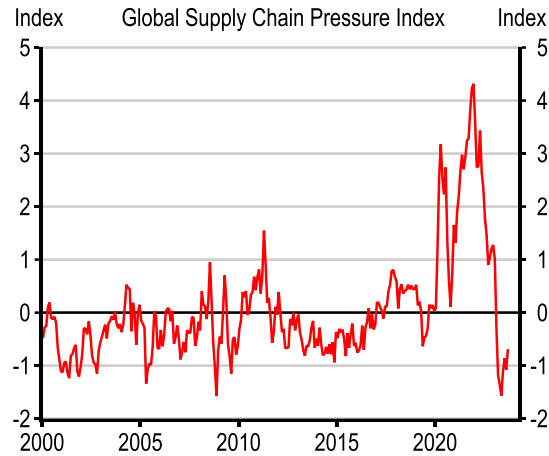
#### 9. ...and tourism sector continues to show improvement



Source: UNWTO

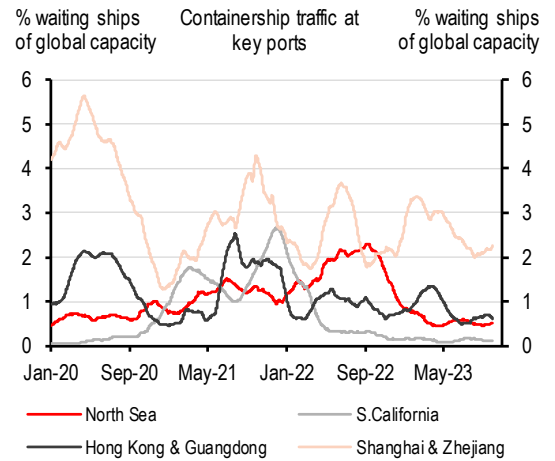
## Supply chains are now much looser

### 10. Supply chains are now very loose



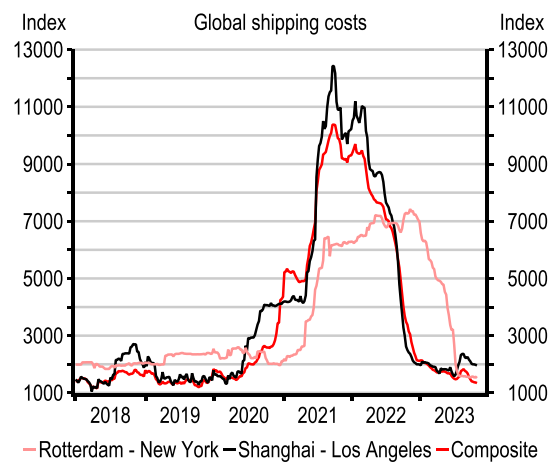
Source: Federal Reserve Bank of New York

### 11. Fewer boats are waiting at ports...



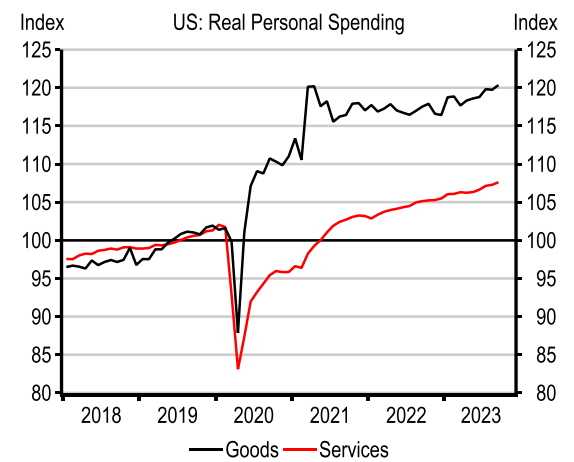
Source: Kiel Institute of World economy

### 12. ...meaning much lower shipping costs



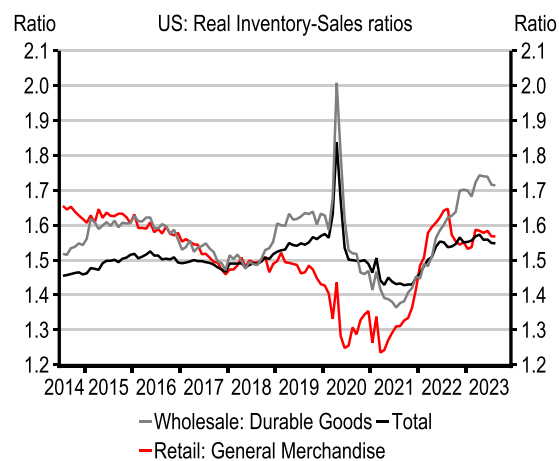
Source: Macrobond

### 13. Goods spending has flatlined...



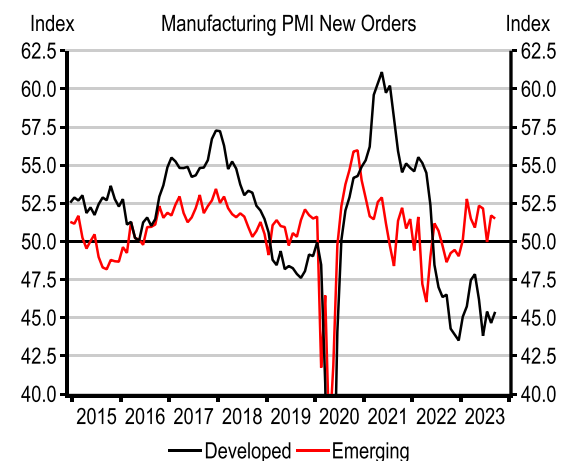
Source: Macrobond

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



Source: Macrobond

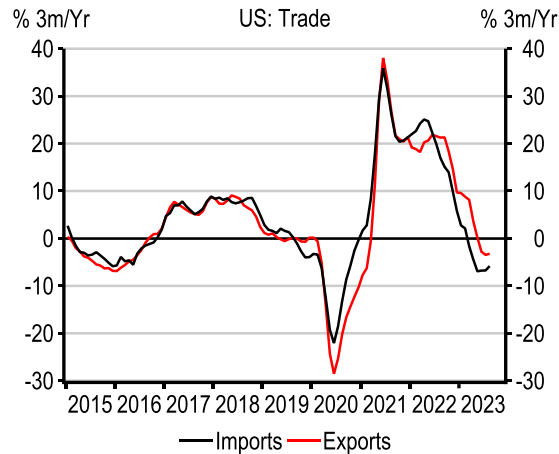
### 15. ...limiting the need for new orders



Source: Macrobond

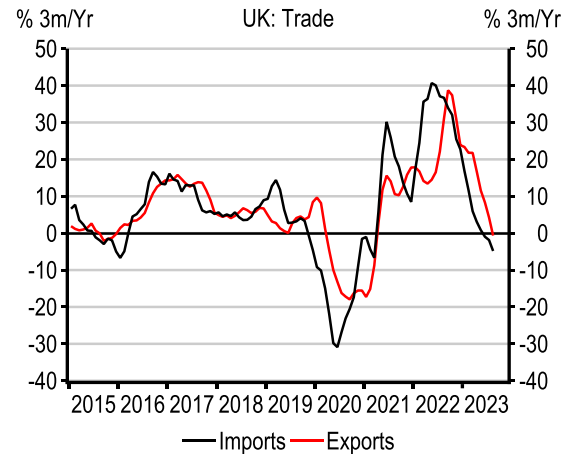
## Trade slowdown looks broad-based with not much room for optimism

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



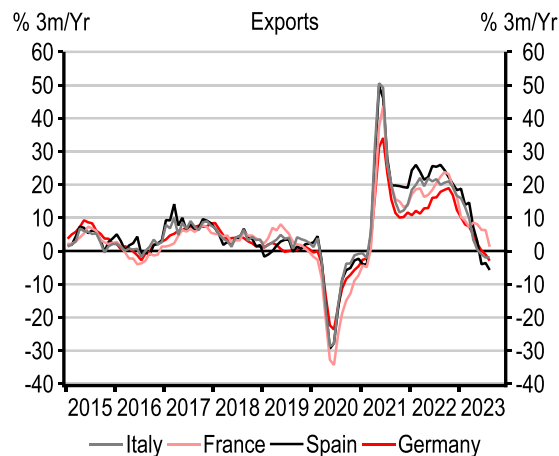
Source: Macrobond

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



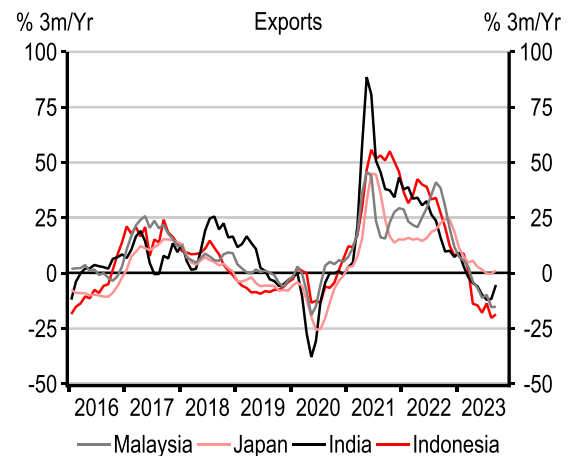
Source: Macrobond

### 18. European exports are suffering...



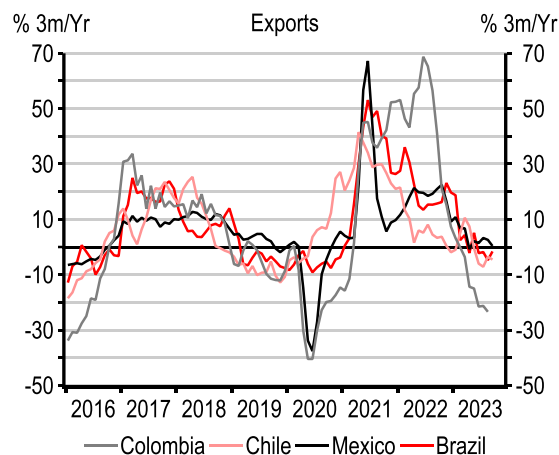
Source: Macrobond

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



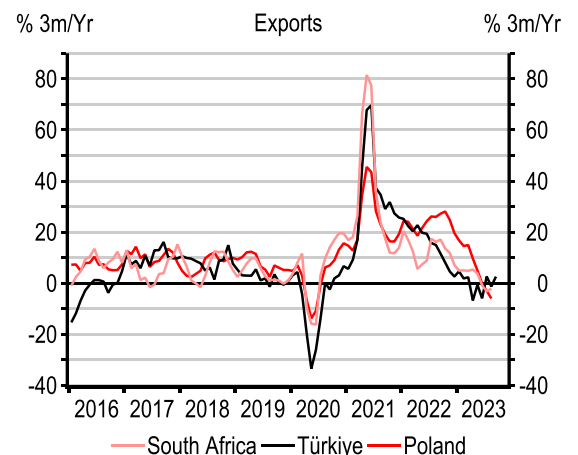
Source: Macrobond

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



Source: Macrobond

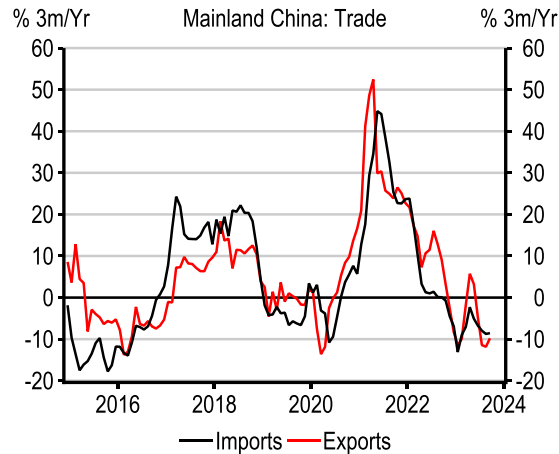
### 21. ...and in CEEMEA



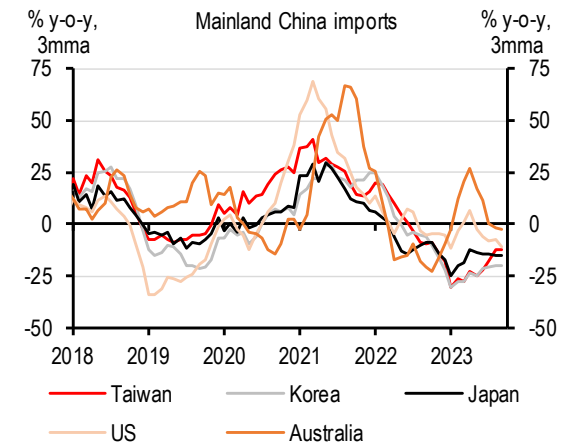
Source: Macrobond

## China's slowdown is having a broader impact, too

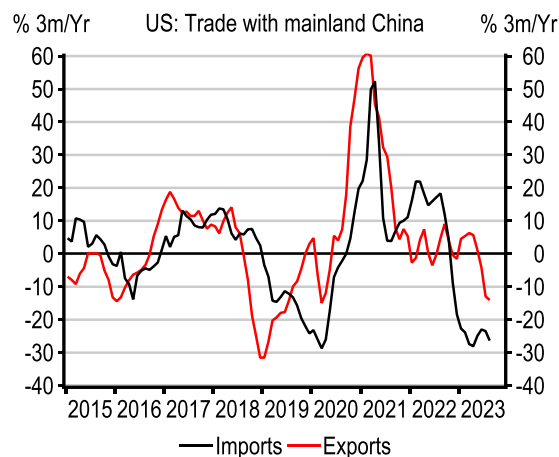
### 22. Chinese trade data have been weak...



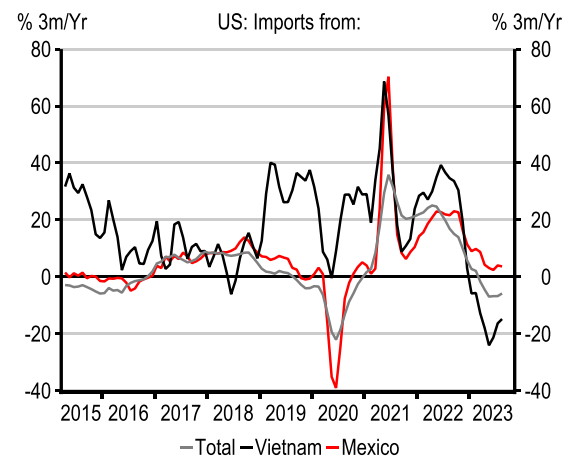
### 23. ...pulling down imports from a variety of markets



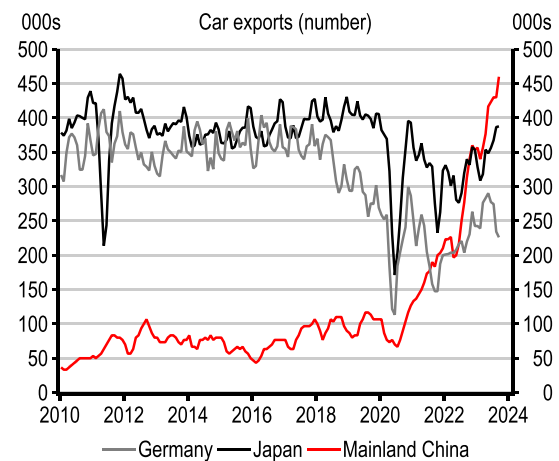
### 24. US trade with China is down considerably...



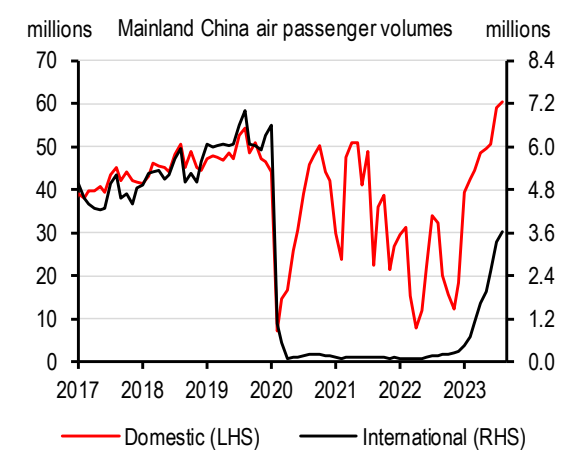
### 25. ...while Mexico has been a big winner of trade rotations



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

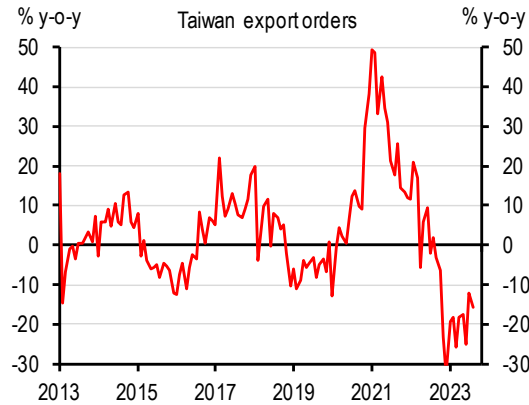


### 27. ...and tourist numbers are picking up, too



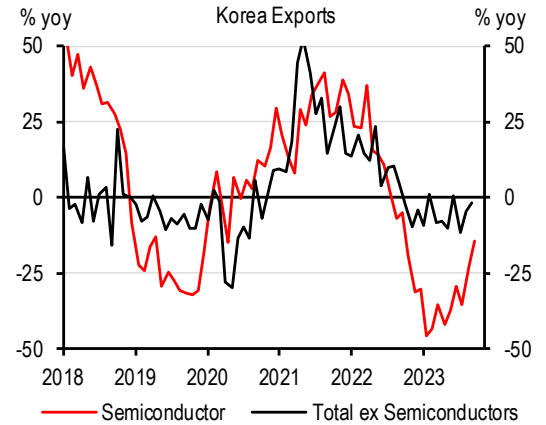
## Electronics trade has been more affected than most sectors

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



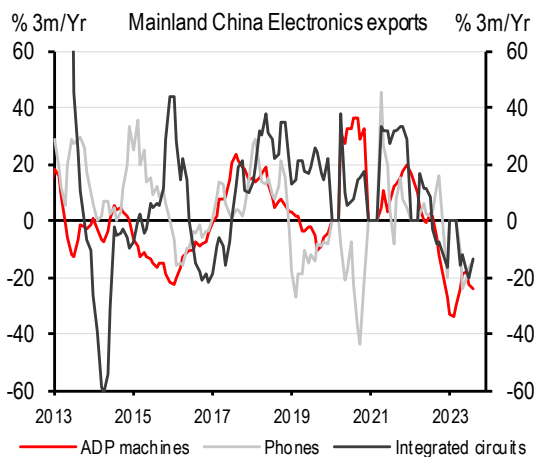
Source: Refinitiv Datastream

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



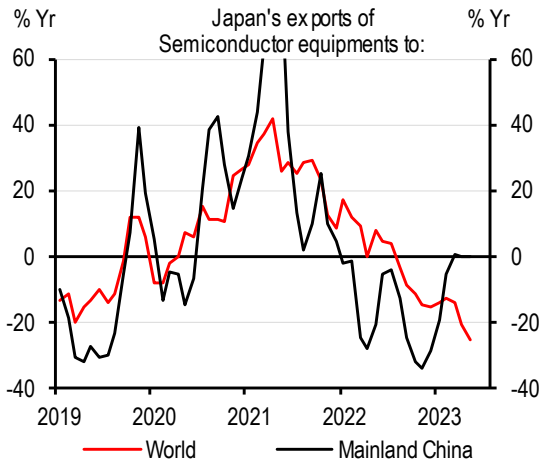
Source: Refinitiv Datastream

**30. China's electronics exports may be bottoming out**



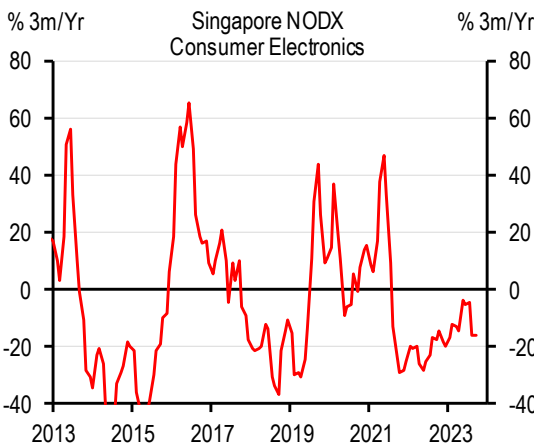
Source: Refinitiv Datastream, National sources. Note: ADP refers to Automatic data processing machines

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



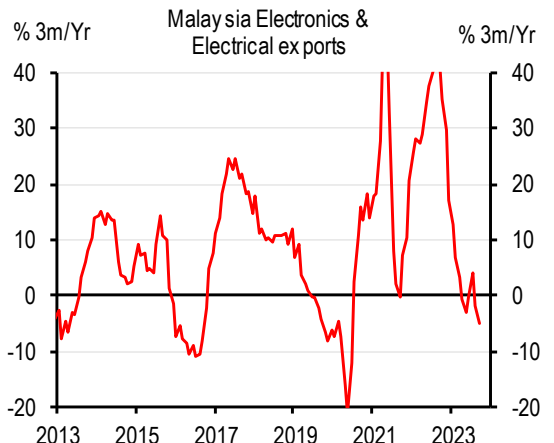
Source: ITC trademap

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



Source: Refinitiv Datastream

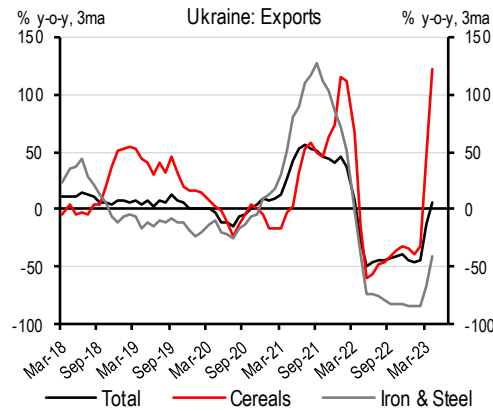
**33. ...and Malaysia's are faring the same**



Source: Refinitiv Datastream

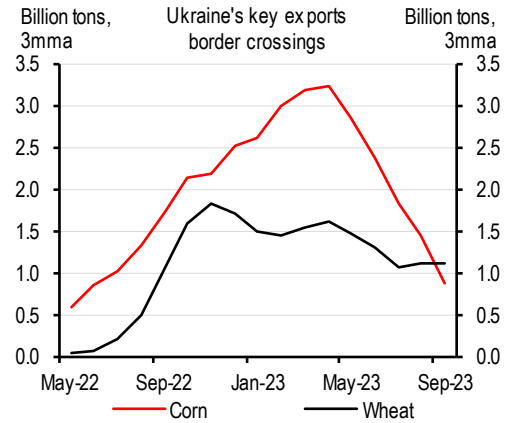
## The impact of the invasion of Ukraine is still being seen

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



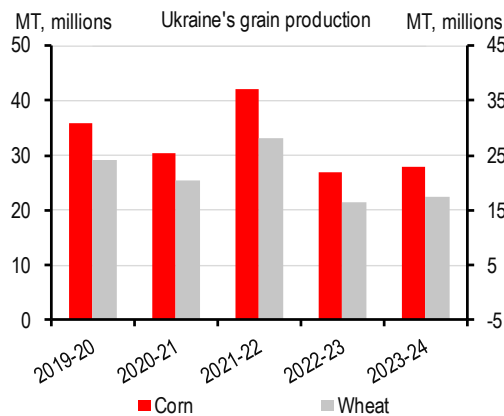
Source: ITC trademap

**35. Key exports have gone into reverse again**



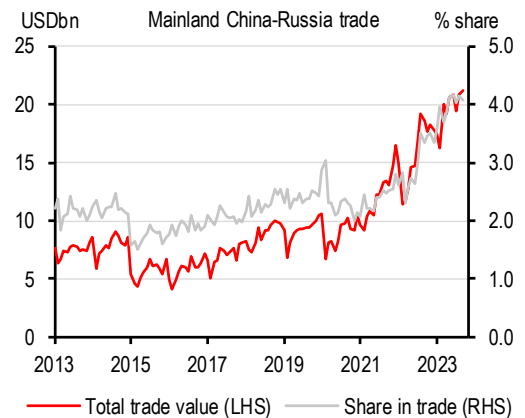
Source: Agricultural ministry of Ukraine

**36. Agricultural production estimates are lower**



Source: USDA

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



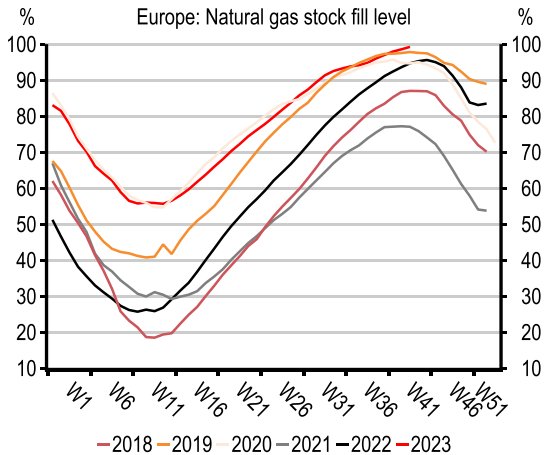
Source: Refinitiv Datastream

**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**

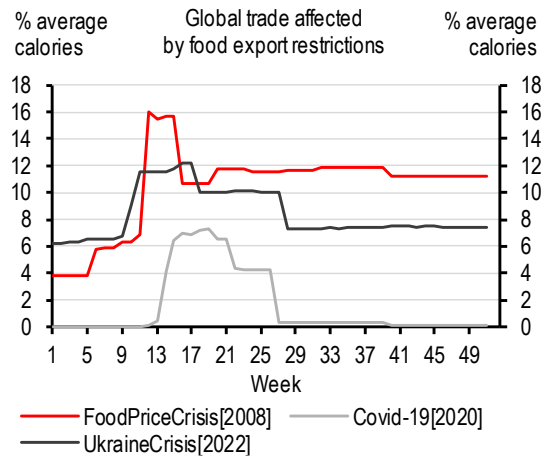


Source: Macrobond



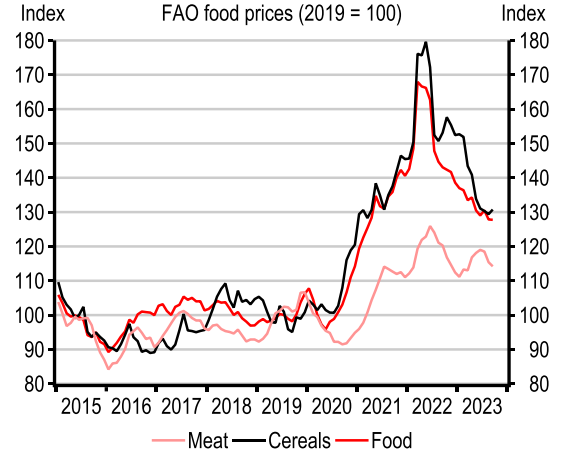
## Food export bans are adding to the complications

**40. Global food trade impacted by export restrictions remaining high**



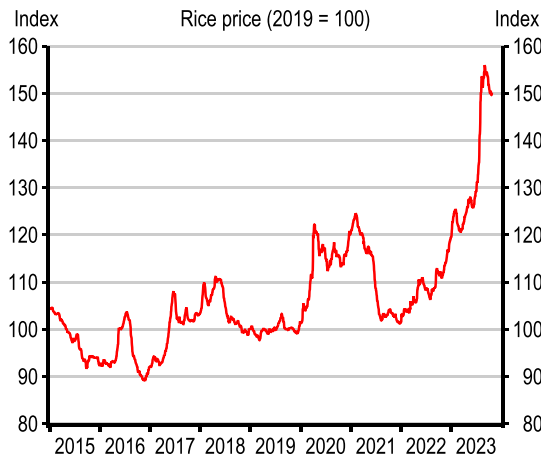
Source: IFRPI

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



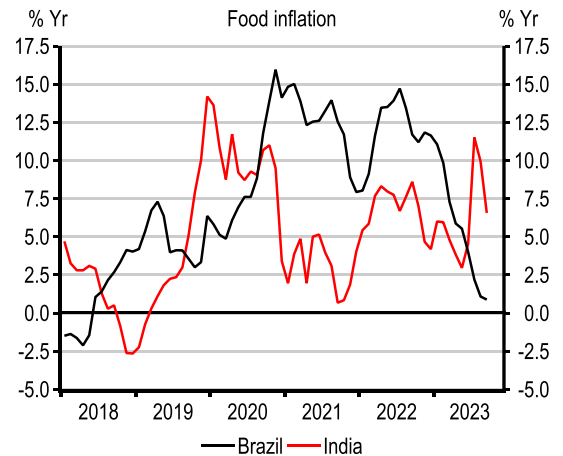
Source: Macrobond

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



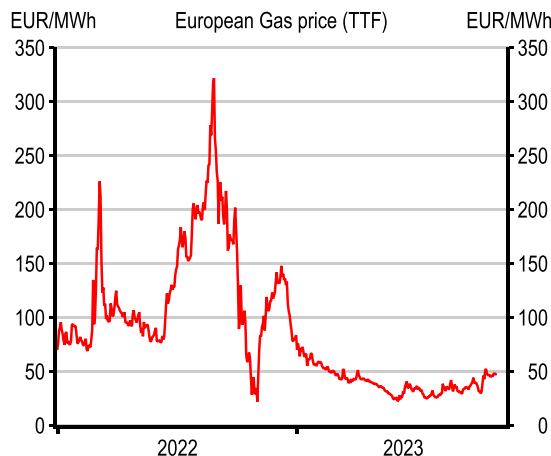
Source: Macrobond, International Grains Council

**43. The impact on food inflation varies across the world**



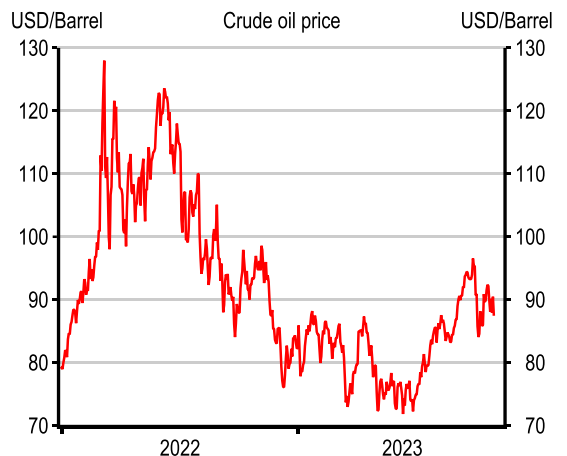
Source: Macrobond

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



Source: Macrobond

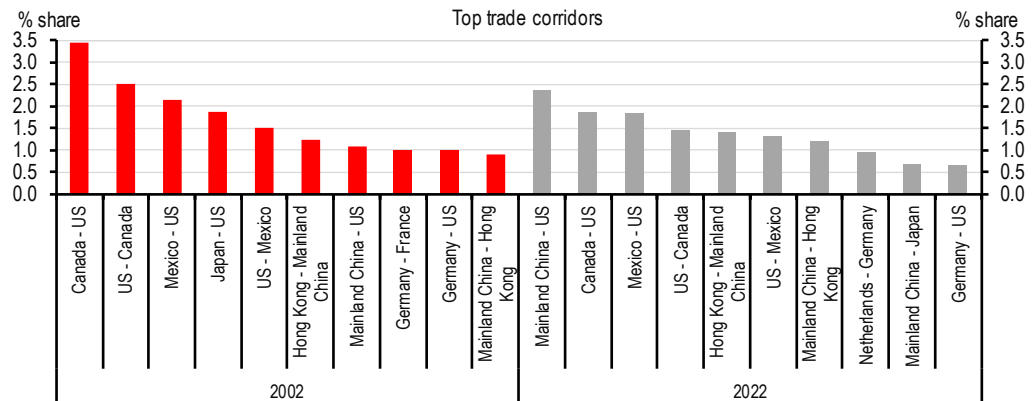
**45. ...while oil prices are up and volatile**



Source: Macrobond

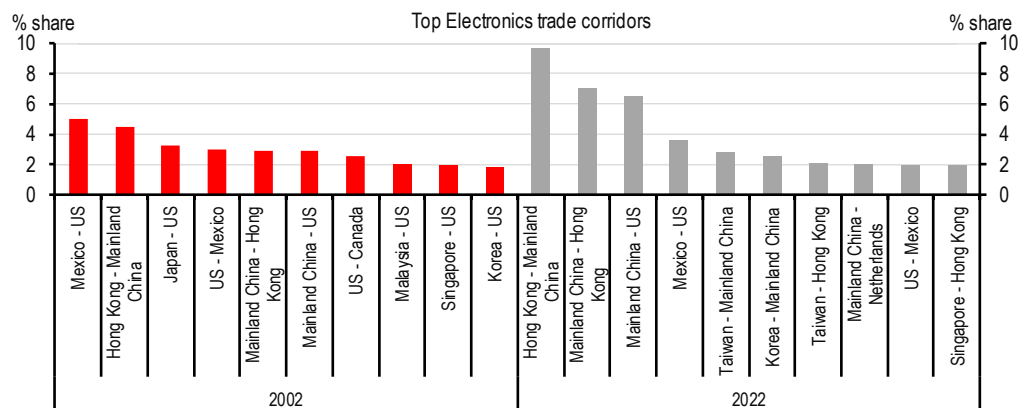
## Global trade chains keep evolving

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



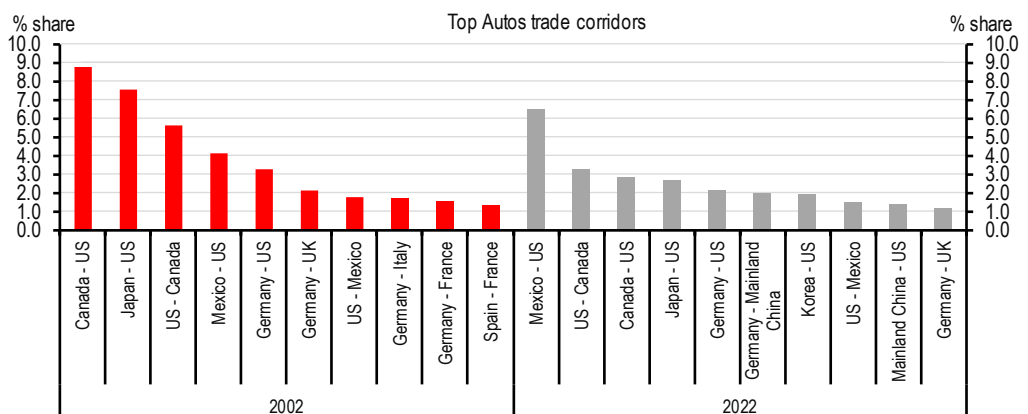
Source: UNCTAD, HSBC

**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

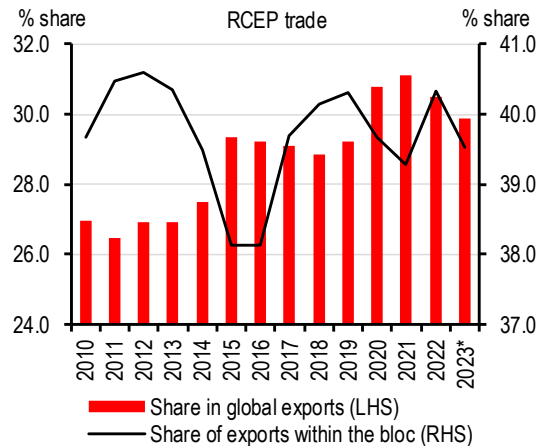
**48. North America and Europe were major Auto trade corridors back in 2002, but this is broadening out**



Source: UNCTAD, HSBC

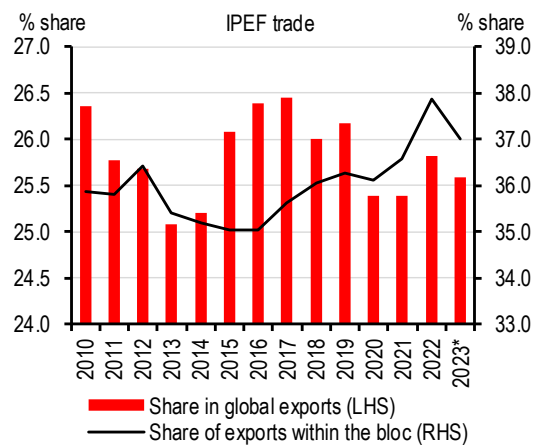
## How key are trade deals?

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



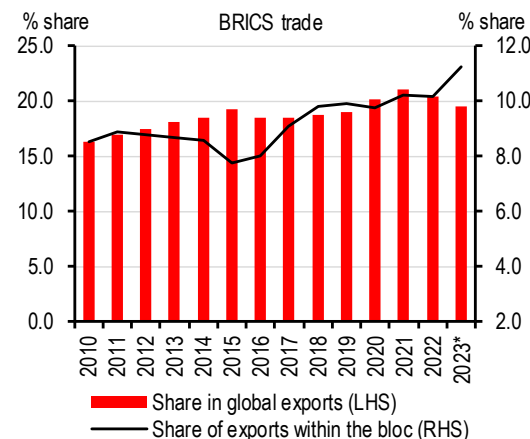
Source: IMF dots. Note: \* denotes data only till Apr'23 for the year 2023. Note: RCEP is the Regional Comprehensive Economic Partnership with 15 members

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



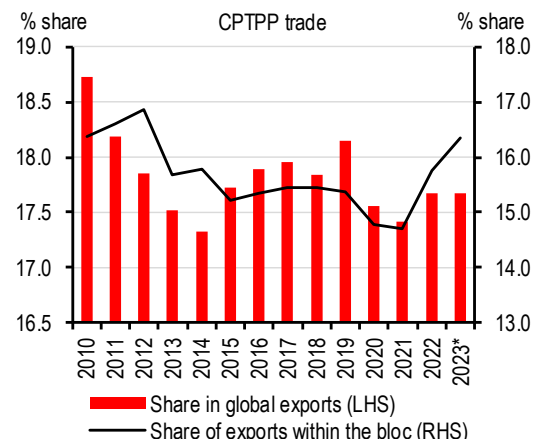
Source: IMF dots. Note: \* denotes data only till Apr'23 for the year 2023. Note: IPEF is Indo-Pacific Economic Framework for Prosperity, with 14 members.

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



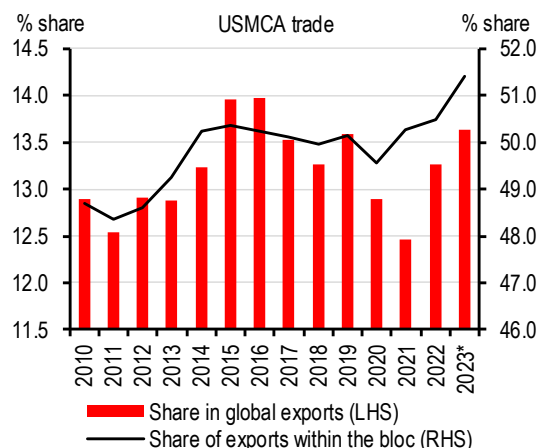
Source: IMF dots. Note: \* denotes data only till Apr'23 for the year 2023. Note: Based on BRICS with 5 members. No official trade deal between members.

**52. While CPTPP has seen dwindling share of global exports**



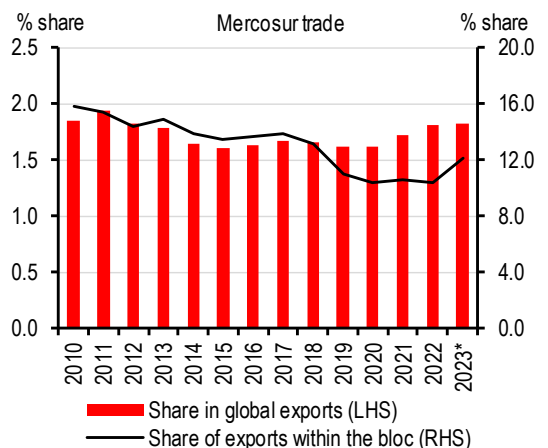
Source: IMF dots. Note: \* denotes data only till Apr'23 for the year 2023. Note: CPTPP is Comprehensive and Progressive Agreement for Trans-Pacific Partnership, with 11 members.

**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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