



GLOBAL ECONOMICS UPDATE

Rebound in trade in March likely to be short-lived

- **Although world trade rebounded in March amid the reopening recovery in China, we don't think this marks the beginning of a broader turnaround in global trade. In fact, timelier data point to renewed falls in April, and the latest business surveys suggest that the decline in export orders has accelerated. Despite weaker demand for traded goods, declining shipping container production has helped sea freight rates to stabilise around their pre-pandemic levels.**
- According to data released by the CPB Netherlands Bureau, real world goods trade rose by 1.5% m/m in March following an upwardly revised 0.8% m/m fall in February (previously -0.9%). But even taking into account the increase in March, world trade still contracted by 0.9% q/q in Q1 (see Chart 1), and the level of world trade has still fallen by around 3% since its September 2022 peak. (See Chart 2.)
- **At a regional level, exports surged by nearly 20% m/m in China to reach a record high amid the reopening rebound.** Though we have some doubts about the recent strength of exports, as monthly trade figures from China tend to be noisy around the start of the year. Meanwhile, exports also rose sharply in some other emerging market regions including the Russia-dominated Commonwealth of Independent States (CIS) and Latin America. In the latter, this was driven by a **27% m/m surge in Brazil**, which was itself driven by unseasonably strong soybean exports. (See Chart 3.) On the other hand, exports fell in both the euro-zone and the UK, marking the fourth and sixth consecutive monthly contractions, respectively. And in both cases – but especially in the UK – exports remain well below their September peaks. (See Chart 4.)
- **Given that the rise in trade in March was largely driven by idiosyncrasies in China and Brazil, we don't think that March marks the beginning of a broader recovery in world trade.** In fact, several timelier indicators point to renewed weakness to come.
- **First of all, timely trade data from early-reporting Asian economies showed that goods trade fell on aggregate in the region in April.** (See Chart 5.) This was mostly driven by a **sharp fall in Chinese trade**, which partly reversed the surge in March, while there were also sizeable falls in both Korea and Singapore. Meanwhile, **advance trade data out of the US** revealed that a sharp fall in exports in April caused the trade deficit to widen again. And Korean nominal export data for the first 20 days of May were fairly weak too.
- Second, in some of the countries where exports have risen in recent months, a lot of the strength has been due to a rebound in their auto exports. Most notably, the available data for China up to April showed that motor vehicle exports have surged by 37% since the start of this year and a huge 77% since a year ago, compared to growth in all other goods exports of only 8% and 5%, respectively. (See Chart 6.) The recent relative strength in auto exports has also been visible in the product breakdown of exports in other countries. **However, we think the drivers of the rebounds in auto sectors globally – namely the boost from the easing of product shortages and strong pent-up demand for vehicles – has largely run out of steam.** So we don't expect auto exports to remain a major boost to world trade for much longer.
- **Finally, the latest survey data also point to a weaker outlook for export demand.** The new export orders component of the global manufacturing PMI survey looks to have fallen further below the 50 no-change mark in May, which based on past form is consistent with a further fall in world trade. (See Chart 7.)
- **Meanwhile, weak global demand for traded goods is clearly weighing on activity in the shipping industry.** Global shipping container production – which surged during the pandemic when the combination of strong demand for goods and bottlenecks at ports led to shortages of shipping containers – has fallen sharply in the past year as demand has weakened. In fact, there are now reports that a surplus of containers is overwhelming ports in China, and Maersk has announced that they are stopping production of dry containers until at least 2024. Perhaps this supply response to weak demand from shipping companies explains why shipping costs have stabilised in recent months. (See Chart 8.) But, having plunged in the past year, freight rates will continue to exert downward pressure on global inflation in the months ahead.



Chart 1: World Real Goods Trade (% q/q)

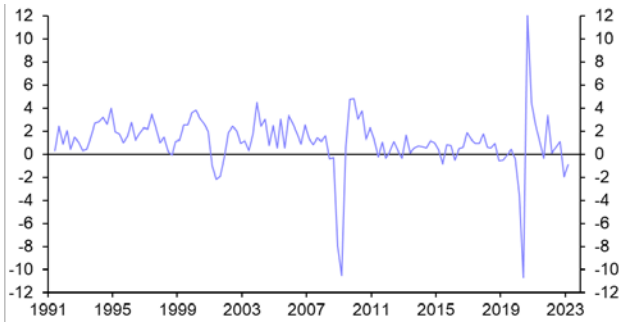


Chart 2: World Real Goods Trade (Dec. 19 = 100)

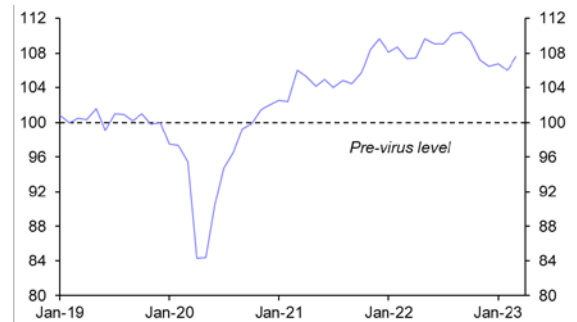


Chart 3: Real Goods Imports (% m/m, Mar. 23)

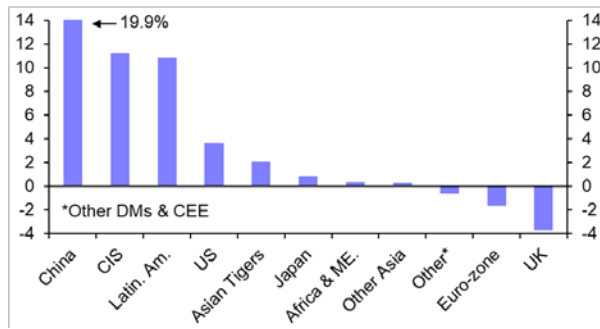


Chart 4: Real Goods Exports (% Change From Sep. 22)

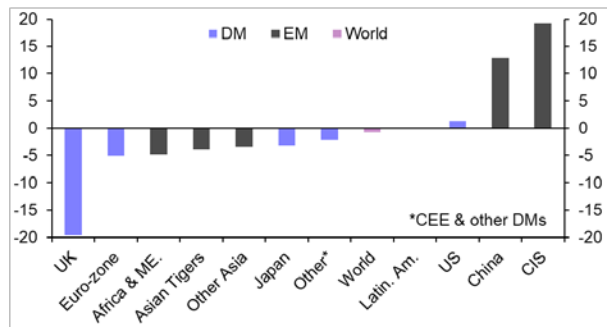


Chart 5: Real Goods Trade of Early Reporter Economies (\$tn, Ann.)

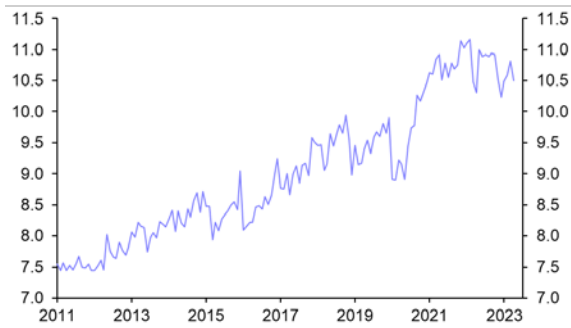


Chart 6: China Nominal Exports (Dec. 2019 = 100)

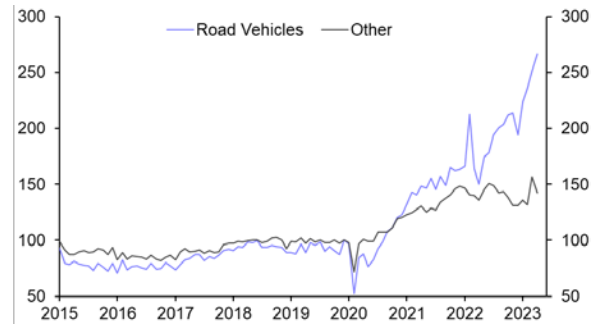


Chart 7: Global Manufacturing PMI* New Export Orders & Real Goods Trade

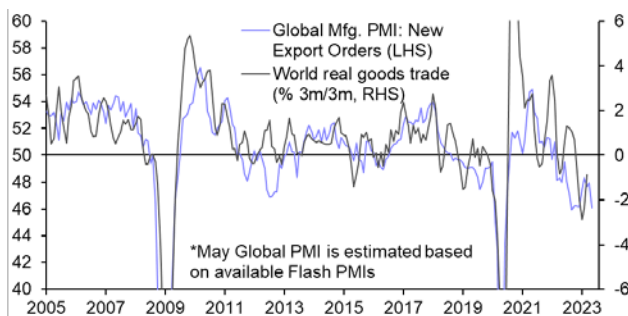
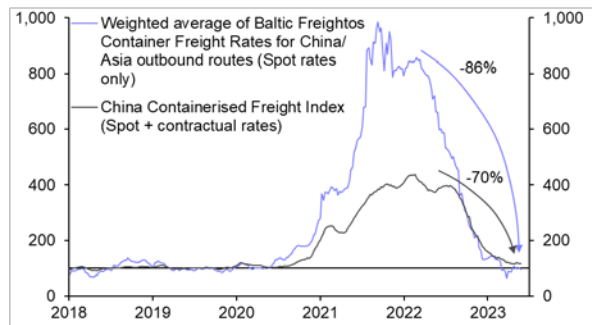


Chart 8: Container Freight Rates on China/Asia Outbound Routes (2018-19 Average = 100)



Sources: Refinitiv, CPB, WIND, S&P Global, Capital Economics



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