



GLOBAL ECONOMICS UPDATE

World trade resumes its decline

- **World trade fell in April and timelier data point to a further fall in May, partly due to a sharp drop in Chinese exports which reversed all of their rebound from earlier this year. And weak demand looks set to weigh on trade in the months ahead.**
- According to the latest data from the CPB Netherlands Bureau, real world goods trade fell by 1.4% m/m in April following an upwardly-revised 1.9% m/m in March (previously 1.5%). This meant that the level of world trade has fallen by about 3.5% from its peak in September 2022. (See Chart 1.)
- **The regional breakdown showed that exports fell in m/m terms in most regions in April.** Exports fell sharply in several emerging markets, including in Latin America, China and the Russia-dominated Commonwealth of Independent States (see Chart 2), with the surges in exports seen in March partly reversed in all three cases. And although exports rose in m/m terms in the UK, the level of exports was still well below its September 2022 peak. (See Chart 3.)
- Meanwhile, although the product breakdown of goods trade is only available up until March for most countries, the data up to that point show that **trade of those goods most popular during the pandemic – such as electronics and furniture – has continued to normalise over the past year or so.** In fact, as a share of total manufactured goods trade, trade of these “pandemic goods” was back around where it would have been had it continued to grow in line with its pre-pandemic trend over the past few years. (See Chart 4.) And timelier data out of China showed that, after briefly rebounding at the start of the year following the reopening of its economy, exports of electronics and furniture fell in both April and May. (See Chart 5.)
- **The available trade data from early reporting economies suggest that trade fell further in May.** Exports fell in several Asian economies. (See Chart 6.) In [China](#), the sharp 6.1% m/m fall in exports in May reversed all of the surge in March and left exports back below their level at the start of this year. This wasn’t a huge surprise to us though, as it supports our view that the sharp rise in exports earlier this year was largely due to distortions to the customs data, as opposed to a sign of a recovery in external demand. Meanwhile, advance trade data from the US also showed a slight fall in *nominal* goods exports in May. (Real US trade data for May are not yet available.) The one relatively bright spot was Korea, where nominal exports data for the first 20 days in June pointed to a second consecutive monthly rise in exports.
- **We think that the weakness in world trade will persist for several months, as the lagged impacts from significant policy tightening will push most advanced economies into mild recessions later this year.** And since goods tend to be more interest rate-sensitive than services, higher interest rates should weigh more heavily on demand for traded goods. Indeed, the latest PMI surveys suggest that demand for goods exports has already weakened markedly. The new export orders component of the global manufacturing PMI has been below the 50 no-change mark – which at face value suggests that orders are contracting – for over a year now. And the pace of contraction appears to have accelerated in June, which based on past form points to world trade contracting by around 2% q/q in Q2. (See Chart 7.)
- **One of the effects of weaker demand has been a plunge in shipping costs over the past year, which has been exerting downward pressure on core goods inflation globally.** After seeming to have stabilised in May, spot freight rates on routes from Asia have fallen again by about 8% m/m in June, while total rates (including contractual rates) have also ticked down slightly. In fact, spot rates are now back *below* their pre-virus average level. (See Chart 8.) With freight rates back around more ‘normal’ levels, it’s possible that they won’t fall much further from here. But the scale of the fall over the past year means that they should continue to weigh on inflation in the coming months.



Chart 1: World Real Goods Trade (Dec. 19 = 100)

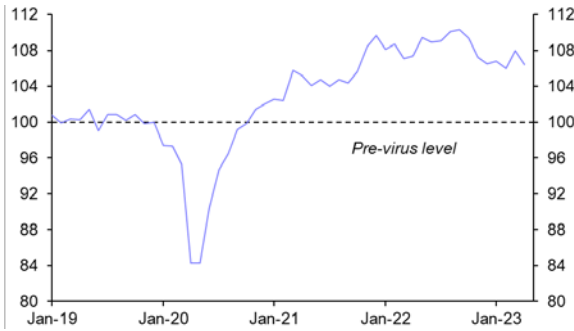


Chart 2: Real Goods Exports (% m/m)

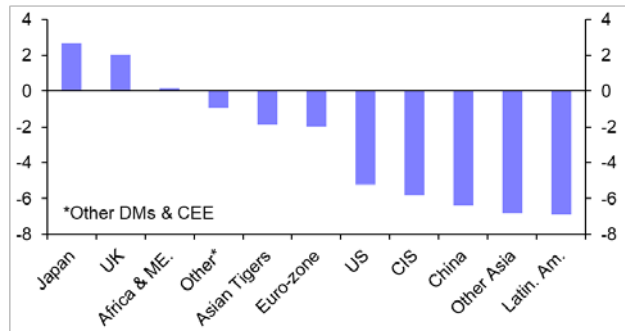


Chart 3: Real Goods Exports (% Change from Sep. 22)

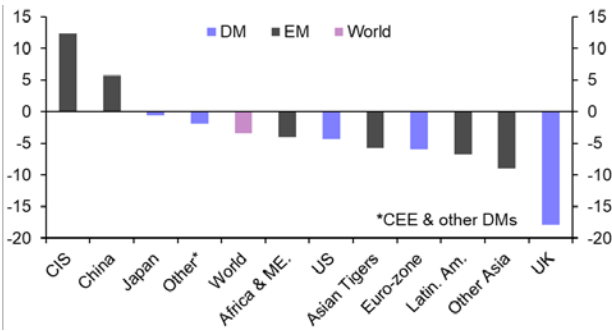


Chart 4: Pandemic Goods* Trade as a % of Total Manufactured Goods Trade

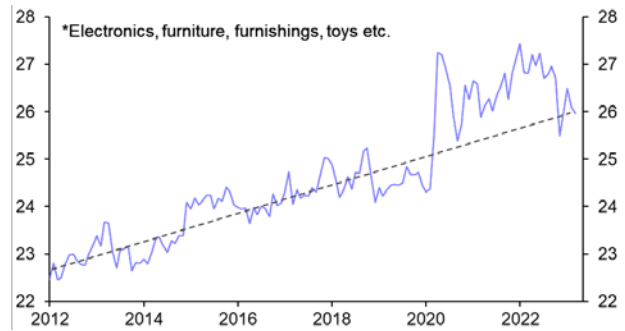


Chart 5: China Nominal Exports (Dec. 2019 = 100)

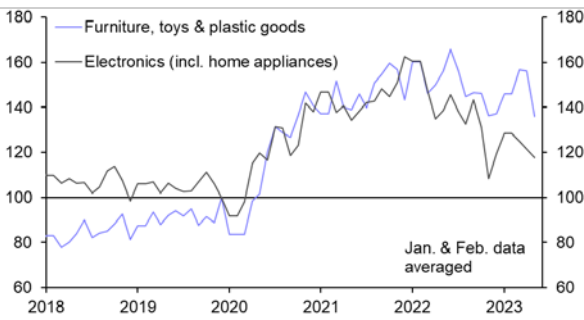


Chart 6: Real Goods Exports of Early Reporter Economies (Dec. 2019 = 100)

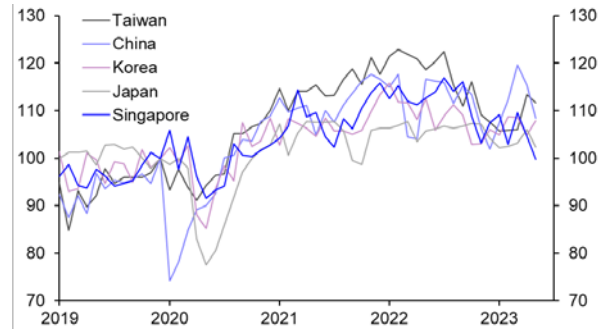
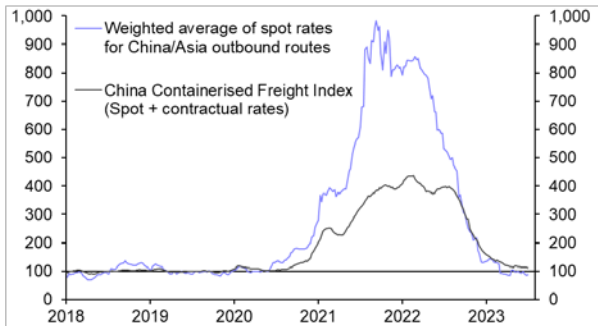


Chart 7: Global Manufacturing PMI* New Export Orders & Real Goods Trade



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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