GLOBAL ECONOMICS UPDATE

World trade probably hasn't reached its trough yet

- **Global goods trade rose slightly in May, but timelier data point to a renewed fall in June. And as spending patterns continue to normalise away from goods towards services at the same time as higher interest rates start to bite, it will probably be several months before we see a clear rebound in world trade.**

- Real world goods trade rose by 0.3% m/m in May following a downwardly revised 1.6% m/m decline in April (previously -1.4%). This means that although world goods trade gathered a bit of momentum over the past few months, rising by 0.7% 3m/3m in May, the level of world trade remained around 3% below its September 2022 peak. (See Chart 1.)

- According to the regional breakdown, goods exports rose sharply in several emerging market regions, most notably in the Russia-dominated Commonwealth of Independent States (CIS) and increased to a lesser extent in the euro-zone and US as well. (See Chart 2.) But exports contracted sharply for the second consecutive month in China. And after briefly ticking up in the UK in April, exports resumed their longstanding decline in May. Indeed, as of May exports were still around 19% below their September peak in the UK. And apart from in CIS, exports were still below September levels in all regions. (See Chart 3.)

- The product breakdown of goods trade is only available for many countries up until April. The data up until then indicate that **trade of those goods which were particularly popular during the pandemic – such as electronics and furniture – has continued to normalise over the past year.** On the other hand, trade in road vehicles has recovered significantly, as supply chain disruptions and product shortages of key auto parts eased, allowing auto manufacturers to clear the large backlogs of orders which had built up during the pandemic. (See Chart 4.)

- **We think there is still some scope for spending patterns to normalise away from goods towards services, which should weigh on global goods trade in the coming months.** And with product shortages seemingly a thing of the past, we also think that the rebound in auto production and hence auto exports has largely run its course. In fact, much timelier trade data for China revealed that after peaking in April, auto exports fell in both May and June. (See Chart 5.)

- Both of these factors help to explain why exports from China fell to their lowest levels since the start of the year in June. **The available data from other early reporters don't paint a particularly rosy picture for world trade either.** Real goods exports from early reporting Asian economies fell for the third consecutive month in June, driven by a particularly sharp fall in exports from Taiwan. (See Chart 6.) And although the 'Advance' trade data out of the US revealed that the goods trade deficit narrowed in June in *nominal* terms, this was largely driven by a 1.4% fall in import values. (Real US trade data for June are not yet available.) Meanwhile, *nominal* Korean exports for the first 20 days of July fell as well.

- **We think that this weakness in global goods trade will persist beyond June and July. We expect the lagged impacts from higher interest rates to weigh more heavily on demand for traded goods, particularly those like autos which are typically financed by credit.** And if, as we expect, most advanced economies tip into mild recessions later this year, then consumers would probably rein in their spending further. Indeed, the latest surveys still suggest that this will be the case. Although the new export orders component of the global manufacturing PMI probably ticked up in July, it will still be well below the 50 no-change mark, which on past form would be consistent with a renewed fall in world goods trade. (See Chart 7.)

- **The good news is that weaker demand for traded goods should continue to weigh on core goods inflation for several months.** Granted, the relationship between shipping costs and DM core goods inflation isn't perfect, and there are many other factors at play which probably explain why core goods inflation has been slower to fall than the decline in shipping costs alone would imply. Nonetheless, with spot container freight rates having fallen by around 80% from a year ago, it still points to further disinflation of DM core goods CPI over the rest of this year. (See Chart 8.)

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

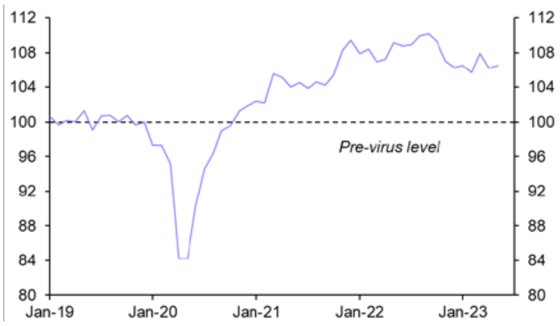


Chart 2: Real Goods Exports (% m/m, May)

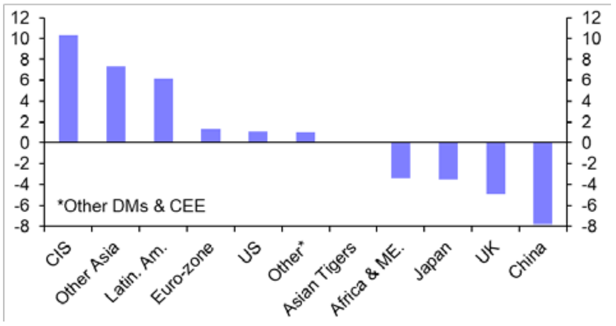


Chart 3: Real Goods Exports (% Change Since Sep. 22)

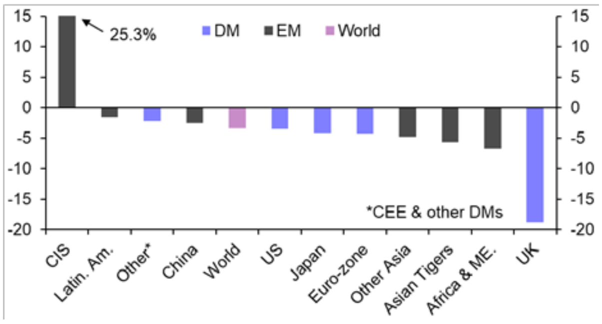


Chart 4: Road Vehicles & Pandemic Goods Trade as a % of Total Manufactured Goods Trade

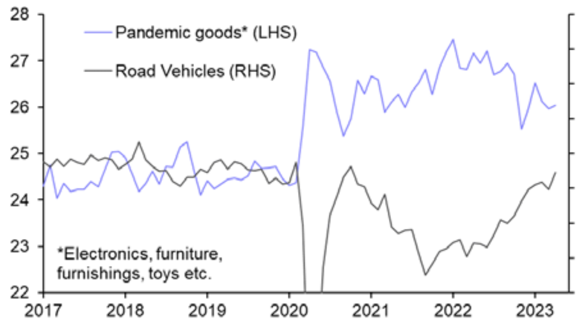


Chart 5: China Nominal Exports (Dec. 2019 = 100)

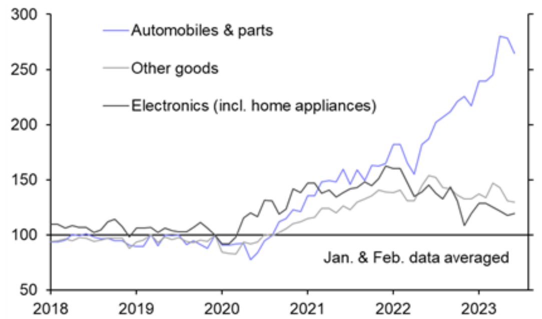


Chart 6: Real Goods Exports of Early Reporter Economies* ($tn, Ann.)

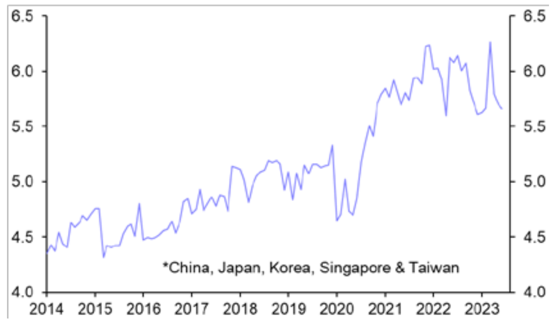
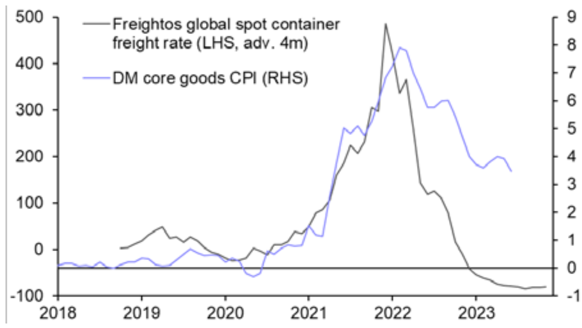


Chart 7: Global Manufacturing PMI* New Export Orders & Real Goods Trade

Chart 8: Global Spot Container Freight Rates & DM Core Goods CPI (% y/y)



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

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