GLOBAL ECONOMICS UPDATE

Further weakness in store for world trade

- **Not only did global goods trade fall in June, but timelier trade and survey data for July and August point to further declines. Meanwhile, with the lagged impact of high interest rates likely to weigh more heavily on demand for certain goods, it could be several months before global trade reaches its trough.**

- According to data released from the CPB Netherlands Bureau, real world goods trade fell by 0.7% m/m in June following an upwardly-revised 0.5% m/m rise in May (previously 0.3% m/m). This left the level of world trade around 4% below its September 2022 peak. (See Chart 1.)

- The regional breakdown revealed that exports rose sharply in m/m terms in Japan, where a rebound in auto exports led to a surge net trade in Q2, and to a lesser extent in China. On the other hand, exports fell in most emerging market regions, most notably in the Russia-dominated Commonwealth of Independent States (CIS). Meanwhile, although exports ticked up in the US and UK in June, the sharp fall in exports over the past three months meant that net trade was nonetheless a drag on Q2 GDP in both cases, while exports fell in the euro-zone in June. (See Chart 2.) **And as of June, exports were still well below their September 2022 peaks in most economies.** (See Chart 3.)

- **Timelier trade data from early reporting economies point to a further fall in trade in July.** Admittedly, advance trade data out of the US showed a 1.5% m/m rise in *nominal* goods exports in July. (Real US trade data for July are not yet available.) But available trade data from national sources for a subset of Asian economies revealed a 2% m/m fall in trade volumes in the region on aggregate in July, largely driven by a fall in exports to China. (See Chart 4.) And in Korea, *nominal* exports data available for the first 20 days of the month point to a sharp fall in exports in August too.

- **In China, the recent weakness in trade has mostly been due to weak domestic demand, causing imports to fall by 5.3% m/m in July according to the official customs data.** (See Chart 5.) This was despite a surge in imports of semiconductor equipment from Japan and the Netherlands ahead of both countries imposing import restrictions on chip manufacturing tools in-line with US policy. We previously made the case that fracturing was unlikely to have a major impact on global trade given that these components only account for a small share of total trade, but that it would probably still have significant impacts on China's long-term growth prospects. Meanwhile, although exports from China didn't fall by as much as imports, we expect exports to decline further over the coming months. In fact, other measures of export orders, such as industrial export sales, have been much weaker than what has been reflected in the customs data in recent months. **And although strong demand for Chinese-made electric vehicles has been a significant prop to goods exports over the past year, demand for other goods such as electronics has continued to weaken as post-pandemic spending patterns normalise away from goods towards services.** (See Chart 6.)

- **The outlook for trade further out isn't much better either. We still expect several advanced economies to fall into mild recessions later this year, which should weigh on their demand for traded goods.** With a lot of the hit from monetary tightening probably still to come, we expect demand for goods, particularly for autos, home furnishings and capital goods, to weaken given that spending on these goods tends to be relatively interest rate-sensitive. Demand for manufactured goods exports appears to have already weakened significantly. The new export orders component of the global manufacturing PMI survey has been below the 50 no-change mark – implying that manufacturing export orders have been contracting – for over a year now. And the pace of contraction seems to have accelerated in August, which based on past form points to a further fall in world trade. (See Chart 7.)

- **Weak demand for and improved supply of traded goods has kept a lid on shipping costs in recent months.** Although spot container freight rates on routes from Asia have risen by around 24% over the past month, both spot and total (including contractual) rates are still about 70% lower than they were a year ago. (See Chart 8.) **Accordingly, shipping costs should continue to exert downward pressure on core goods inflation over the coming months.**

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

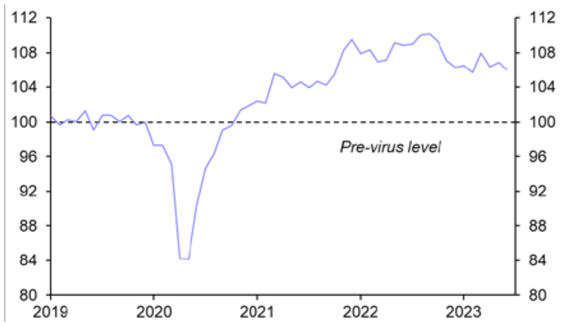


Chart 2: Real Goods Exports (Dec. 2019 = 100)

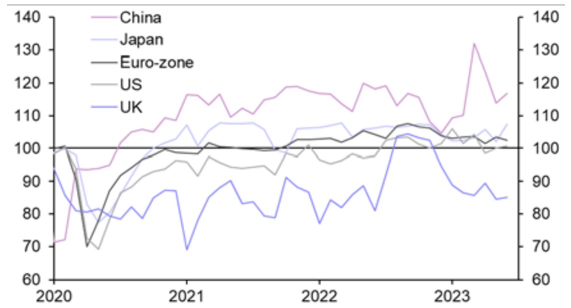


Chart 3: Real Goods Exports (% Change Since Sep. 22)

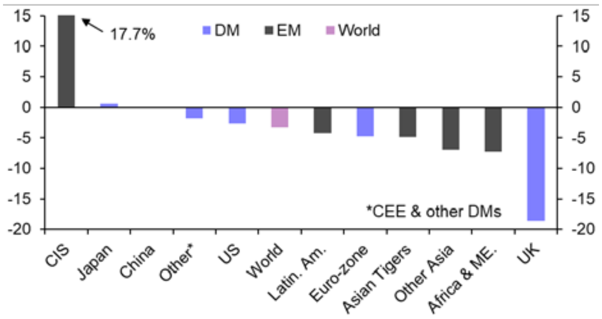


Chart 4: Real Goods Trade of Early Reporter Economies* ($tn, Ann.)

Chart 5: Chinese Goods Trade ($bn, 2010 prices)

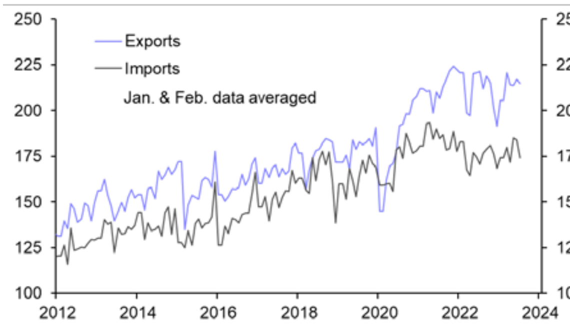


Chart 6: Chinese Goods Exports ($, Dec. 2019 = 100)

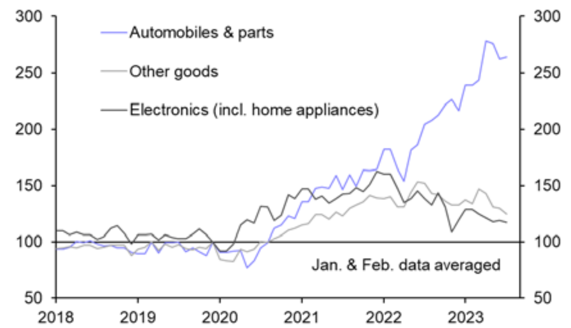
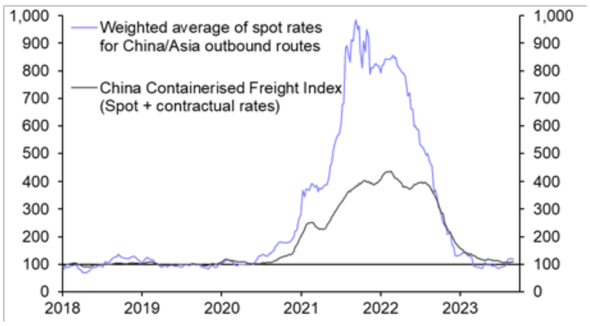


Chart 7: Global Manufacturing PMI* New Export Orders & Real Goods Trade

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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