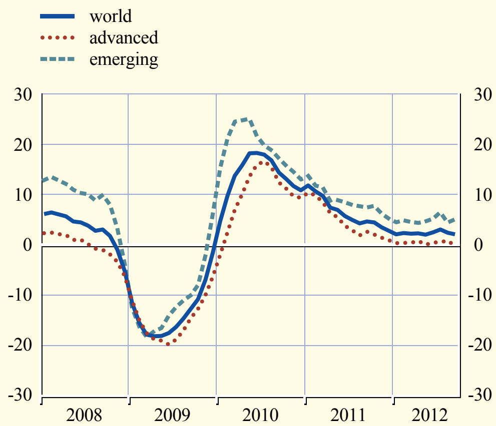
Box 1

GLOBAL TRADE: RECENT DEVELOPMENTS AND SHORT-TERM OUTLOOK

Over the last two years, there has been a widespread deceleration of world trade growth. In year-on-year terms, world import growth slowed in both advanced and emerging market economies, which, in turn, resulted in weak euro area foreign demand growth that declined to 0.5% quarter on quarter in the second quarter of 2012 (see Chart A). This box assesses the factors underlying the recent slowdown in trade and examines the implications of these for the short-term outlook for global trade. Overall, the downturn in trade had a broad geographic base and was driven, in part, by both a lack of investment demand and weak inventory developments. With short-term trade indicators stabilising at levels near to three-year lows, amid a widespread and persistent loss of trade growth momentum, the near-term outlook for trade is weak.

Chart A World merchandise imports

(year-on-year percentage changes (three-month moving average); seasonally and working day adjusted)



Source: Central Planning Bureau (CPB, Netherlands).
Note: The latest observation is for September 2012.

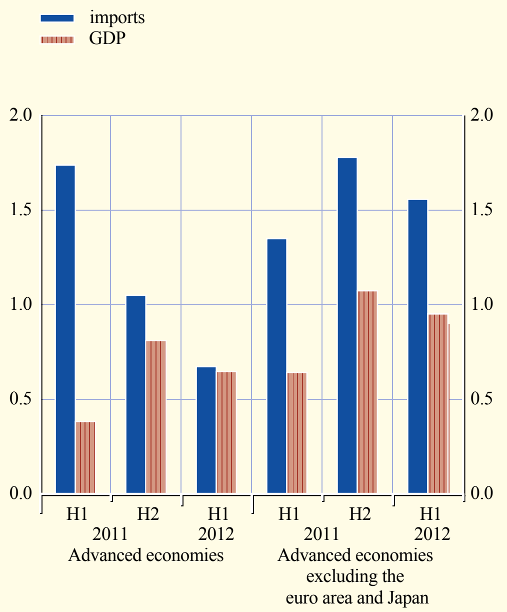
Factors behind the recent relative weakness in trade

In recent quarters, world trade growth has not only declined in absolute terms, but has also been weak relative to global economic activity. Before the global financial crisis, the average ratio of global import growth to GDP growth was 1.8 (as measured over the period 1982-2007). During the first six months of 2012, this ratio fell to 1.0, with the decline in trade growth relative to GDP growth being particularly pronounced in advanced economies since mid-2011. In the euro area, the deceleration in import growth was significantly stronger than the decline in GDP growth over this period. Therefore, these euro area dynamics had a greater negative impact on aggregate imports in advanced economies than on aggregate GDP, thereby partially accounting for the decline in trade relative to growth. Excluding the euro area and Japan (where GDP and trade were affected by the natural disaster in 2011), import growth no longer appears weak relative to economic activity in advanced economies (see Chart B). In emerging economies, the relative weakening of trade was also pronounced, though geographically more widespread, with somewhat stronger effects in central and eastern Europe.

The extent to which trade dynamics track economic activity depends, in part, on which demand components account for changes in GDP growth. In a number of advanced economies, growth decelerated due to declines in the growth contribution of demand components with relatively high import content, namely inventories and fixed investment, which leads to larger declines in import growth relative to GDP growth. This factor explains the subdued trade growth momentum in advanced economies, particularly the euro area, where investment growth turned negative from the second half of 2011, thereby inducing imports to fall. The decline in investment growth can be linked, in part, to the deterioration of business confidence, amid an intensification of euro

Chart B Import and GDP growth in advanced economies

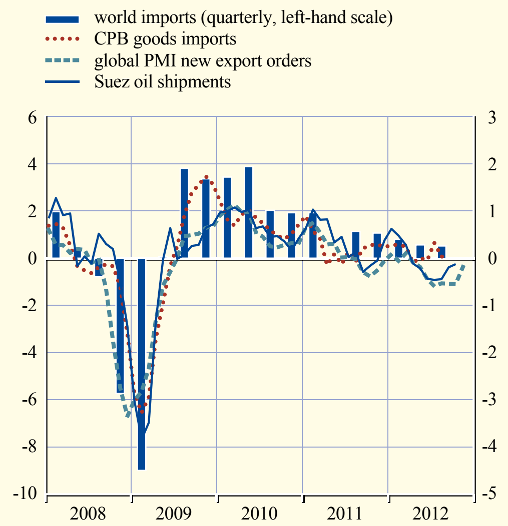
(six-month on six-month percentage changes)



Sources: Eurostat, Haver Analytics and ECB calculations.

Chart C Short-term trade indicators and global trade

(percentage changes)



Sources: CPB, J.P. Morgan, Haver Analytics, IMF and ECB calculations.
Notes: The PMI is expressed in deviations from the neutral threshold of 50. All monthly indicators have been normalised to unit variance and are plotted against the right-hand axis.

area financial tensions and rising economic uncertainty. As for emerging markets, inventories also appear to play a role in the moderation of trade growth; however, the dynamics are more diverse across regions and sectors.

The outlook for global trade

Looking ahead, recent data suggest that global trade will remain weak in the near term. Key short-term indicators of global trade are close to three-year lows, as can be seen for example with the global PMI for new export orders, which (despite the very recent pick-up) fell to values below 47 in July and August – levels last seen in mid-2009. Other indicators, such as data on oil shipments through the Suez Canal and monthly global trade in goods, show similar historically low readings (see Chart C). Overall, these indicators point to weak trade dynamics across different sectors and regions in the second half of 2012. At the same time, there have been signs in recent months of a stabilisation in global trade growth, suggesting that the third quarter may have been the trough.