QNB Economics
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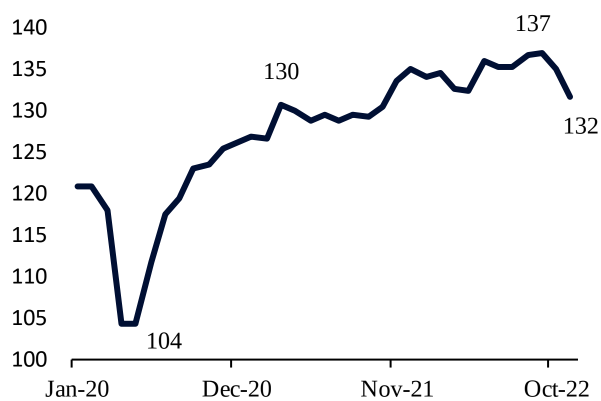
Global trade is set to stabilize in the coming months

Global trade is widely considered a crucial metric for evaluating economic activities between nations. In fact, few indicators can match the insights provided by trade data when it comes to gauging global economic conditions. Rooted in real cross-border transactions, trade data provides a comprehensive understanding of the overall demand for essential products and production factors. This includes physical goods, capital goods, as well as fundamental inputs, such as raw materials and commodities. As a result, global trade data is highly responsive to macroeconomic conditions, fluctuating in accordance with the cycles of economic expansion and contraction.

Recently, after the sharp rebound in activity following the pandemic, global trade started to show signs of weakness. According to the Central Planning Bureau of Netherlands for Economic Policy Analysis (CPB NEPA), global trade volumes contracted by around 4% since its recent peak in August 2022. Surprisingly, this has been taking place even as bottlenecks and supply-chain constraints started to ease. This is in line with a continued decline of trade in early reporting Asian exporters (Japan, South Korea, Singapore and Taiwan). These countries tend to be at the forefront of global trade patterns, as they play a key role in the supply chain of manufacturing activities across continents.

Global trade volume
(Index points, 2020-2022)

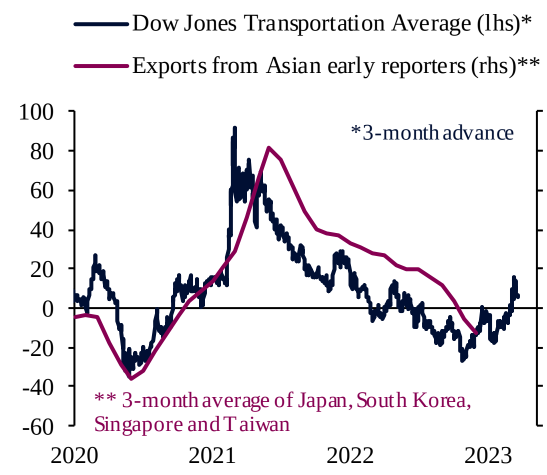


Sources: Haver, CPB NEPA, QNB analysis

However, global trade volume data tend to give us a picture of the recent past rather than the present or incoming future. CPB NEPA data, for example, are released with a delay of three months, which means that their recent prints reflect trade volumes from November 2022. Even the more timely indicator of trade growth in early reporting Asian exporters is also not ideal, as data is still lagging by two months. It is preferable to look at alternative data points that tend to provide forward-looking insights, rather than backward looking ones, i.e., leading indicators that anticipate what the economy is likely to do.

In our view, leading indicators are suggesting that the slump in global trade will be rather shallow and short-lived. Three main points support our analysis.

Key indicators for global trade
(y/y, %, 2020-2022)



Sources: Haver, Federal Reserve Bank of St. Louis, QNB analysis

First, forward-looking investors are also anticipating an improving situation. Indeed, investor expectations about future earnings of the transportation sector, a key leading indicator for future growth in global trade, is pointing to a stabilization and even small recovery in demand for physical goods. The Dow Jones Transportation Average, an equity index comprised of airlines, trucking, marine transportation, railroad and delivery companies, whose performance leads global exports by at least 3 months, suggests that global trade should have bottomed in November 2022 and should return back to an expansionary mode in April 2023.

Second, foreign exchange (FX) movements are also likely to further play their part in supporting global trade. Historically, global trade is negatively correlated with the USD, with trade volumes expanding when the USD is down and vice versa. The USD index is already down 9% from the highs seen in late September 2021. USD weakness, predicated in a more resilient European economy and more aggressive rate hikes from the European Central Bank and the Bank of Japan in recent months, is a major tailwind to global trade growth. Around 40% of global trade flows are invoiced in USD and a weaker USD makes non-US imports cheaper. This increases disposable incomes or even supports the substitution of domestic products for imports, positively affecting trade volumes.

Third, after a year of subdued activity, China is in the midst of a significant economic re-acceleration process. The Chinese economy presented poor performance after 2021, due to an early withdrawal of stimulus policies, Zero Covid policies, a clampdown in real estate activities and tighter regulation for several industries. But these policies are now being all reverted, which, with the support of the lift-off from Covid restrictions and a comprehensive economic "open-up," should enable a major economic rebound. This will likely ignite investment and consumption in China, favouring trade volumes both in Asia and globally.

All in all, global trade volumes are set to improve over the next quarter, as we see signs of further stabilization. However, it remains to be seen whether major headwinds coming from monetary tightening, policy uncertainty and a more hostile geopolitical environment will lead to negative outcomes later in the year.

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