QNB Economics
economics@qnb.com
17 March 2019

Reading the tea leaves of global trade

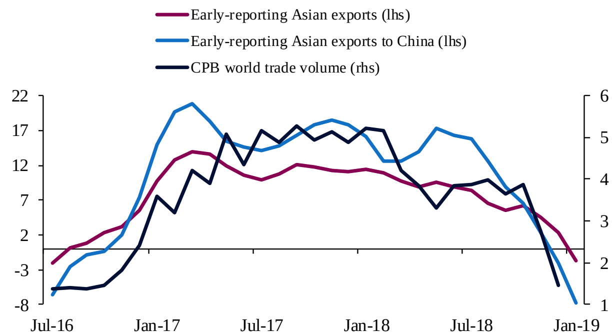
A new wave of optimism has taken over the financial markets in recent weeks, driven by a more dovish Fed and positive rumors about a potential US-China trade deal. However, the upside for global demand has yet to materialize and the bar is high to reignite the 2016-2017 synchronized global economic recovery, especially as significant political risks still persist. Global demand has been weakening across large advanced and emerging economies (US, EU, Japan, and China), dragging growth down. This has resulted in a contraction in trade growth. According to the Dutch Bureau for Economic Policy Analysis (CPB), a leading agency in the monitoring of economic data, global trade volumes fell by 0.9% in the last three months of 2018 – the joint biggest quarterly fall in trade since the aftermath of the global financial crisis in 2009.

Trade growth is one of the most important and reliable gauges of global demand. Emerging Asia has been the main driver of weakness in global trade late last year, as overall trade volumes in the region contracted by 4.2% in the last three months of 2018. Our analysis delves into higher frequency data of regional trade in order to identify the underlying causes of such contraction and draw conclusions about current and short-term future conditions.

While recently released CPB data on trade volumes only go as far as December 2018, we can rely on data from early-reporting and highly-open economies of Asia (Japan, South Korea, Singapore and Taiwan) to have a timelier snapshot of trade. According to this coincident indicator, the global trade slowdown has furthered and turned into a contraction. Worryingly, 3-month average y/y export growth plummeted from two digits in February 2017-February 2018 to a 1.7% contraction in January 2019. This was the first such contraction in more than two years.

The key element in this Asian trade story is China. The country is likely facing now the reversal of the so-called front-loading effect in US-China trade, i.e., US based companies increasing imports from China earlier last year to stock up before new tariffs come into effect. As key Asian exporters are major suppliers to China's export sector, a spill over to intra-regional trade is only natural. As a matter of fact, 3-month average y/y export growth from the cohort of early-reporting Asian countries to China contracted by 7.7% in January 2019.

Key global trade indicators
(3m avg. % y/y)



Sources: Bloomberg, Haver Analytics, QNB Economics analysis

China's economic performance is set to continue being the main source of change in trade volumes over the coming months. Importantly for short-term future conditions, leading indicators for demand in China are a mixed bag.

On the negative side, Spaceknow China Satellite Manufacturing Index, which monitors over six thousand industrial facilities all across China from space imagery and uses algorithms to measure the level of manufacturing activity using surface material classification, has fallen to levels previously seen only during the 2015-2016 slump or the aftermath of the great financial crisis and the European debt crisis.

On a more positive note, however, the Li Keqiang Index, which tracks changes in bank lending, rail freight and electricity consumption to estimate activity and growth, has increased significantly in its latest reading. Moreover, a positive stream of data started to also come from improvements in new orders in China's manufacturing PMI and acceleration in both broad credit growth and infrastructure fixed asset investment spending. This is likely reflecting the initial effects of China's recent monetary and fiscal policy easing, which were designed to support demand.

All in all, with the global economy slowing and the outlook for China still uncertain, trade volumes are expected to remain subdued throughout 2019.

QNB Economics Team:

James Mason
Senior Economist
+974-4453-4643

Luiz Pinto*
Economist
+974-4453-4648

Abdulrahman Al-Jehani
Research Analyst
+974-4453-4436

* Corresponding author