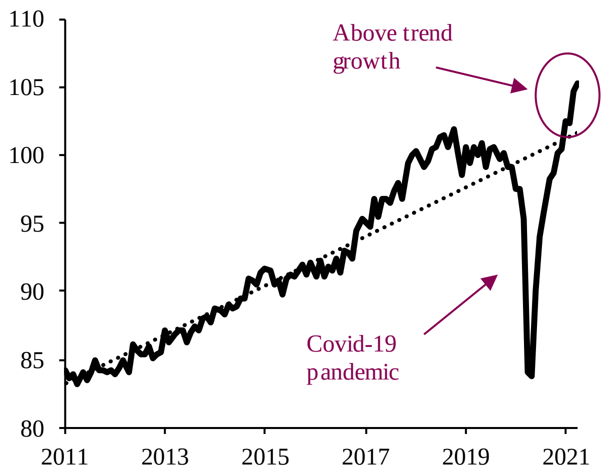
Economic Commentary

Robust global trade growth is set to moderate over the coming quarters

Global trade has been a critical component of the economy over the last few decades, reaching around 43% of global GDP before the Covid-19 pandemic. Traditionally, there is no expansion or contraction of global GDP without meaningful changes in the overall value and volume of trade amongst nations. Therefore, trade is a good barometer of the overall health of the global economy, as long as there are no external shocks that would create imbalances.

Earlier last year, when the spillovers from the pandemic produced unprecedented negative economic shocks, global trade dried up, with flows plummeting by 16%. However, as major economies gradually re-opened and policymakers supported demand with aggressive stimulus, global trade growth had not only recovered but far surpassed the pre-pandemic trend. In fact, the volume of global trade is currently 5% above the long-term trend, suggesting a big thrust from the economic recovery.

Global trade volume
(SA, 2009=100)



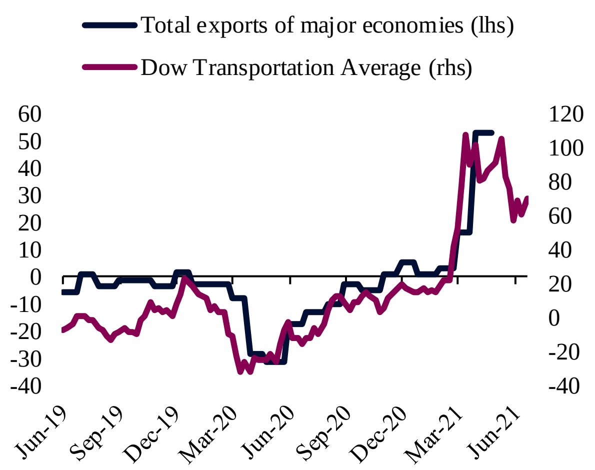
Sources: Netherlands Bureau for Econ. Policy Analysis, QNB analysis

While this sharp recovery was a positive development, we do expect a moderation in global trade growth moving forward. Three main points underpin our view.

First, global trade growth was driven by exceptional demand for physical goods during the pandemic, driven by policy stimulus and a temporary change in spending patterns away from services, as social distancing measures partially shutdown face-to-face activities and the service economy. But both factors are already subsiding and reversing. Strong economic recovery and successful mass vaccination campaigns are leading to a gradual withdrawal of policy stimulus and the re-balancing of spending patterns back to services. Moreover, the demand for physical goods, such as electronics and home building equipment, was "pulled forward" during the pandemic, which means that there is likely to be an extensive period of weaker demand for these goods in the near future.

Second, higher frequency data from key major economies (US, European Union and Japan) point to a moderation in global trade growth. The flash Purchasing Managers' Index (PMI) surveys for June 2021 recorded the first significant slowdown in new export orders from advanced economies since the recession last year. This is in line with changes in new orders for physical goods in Asia, particularly Taiwan, Korea and China, where demand for electronics started to level-off in May. Such movements indicate a slowdown in overall global demand.

Key indicators for global trade
(%, y/y)



Sources: Haver, Bloomberg, QNB analysis

Third, investor expectations about transportation activity, a key leading indicator for future growth in global trade, had also started to indicate a moderation 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 exports by 2-3 months, declined substantially over the last few weeks. The index is not only signalling for a pause in global trade acceleration but for a significant deceleration in growth over the coming months.

All in all, robust growth in global trade is an expression of both the strong recovery path of major economies over the past few quarters and of idiosyncratic factors associated with the pandemic, such as extraordinary demand for physical goods as the service economy was partially shutdown. As the global recovery matures and economies "open up," enabling a full-fledge return of the services sector, global trade is set to moderate. However, such a moderation would be healthy at this point of the global economic cycle. It would be a sign that spending patterns are "normalizing" and would also release the pressure on strained supply chains.

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