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World trade growth is set for a mild slowdown

- World trade growth rebounded fully in 2010, after its sharp slowdown during the 2008-2009 global recession.
- The expansion of world trade continued in 2011, albeit at a much slower pace than in 2010.
- Most of the weakness in world trade volumes during 2011 reflects the relatively sluggish recovery of export volumes in advanced economies, which have yet to reach their pre-recession levels.
- The slowdown in world trade volumes so far has been less severe than the one in the wake of the global financial meltdown in late 2008, and is not expected to reach those levels for several reasons.
- According to our estimates, world trade will expand by 4.9% y-o-y in 2012 down from 6.9% in 2011, before it rebounds by 7.0% in 2013.
- Emerging economies' robust growth and, particularly, their strong domestic demand is expected to be particularly supportive for world trade in the years ahead, as their importance in world trade has increased considerably over the past two decades.

World trade growth rebounded fully in 2010 after its sharp fall during the 2008-2009 global recession

Following a strong growth period of 2004-2007, world trade contracted significantly during the 2008-2009 global recession. The total contraction of world export growth from peak to through was more than 20 percentage points, its steepest fall since World War II, bringing the 2009 rate at almost -11%. As we have analysed in a previous global research edition[1], there is a significant correlation between the size of the decline of export growth and the size of the recovery. Moreover, we found that world export growth regains most of its ground lost in the following year of a recession, although it takes about 3 years on average for a full recoup to take place. However, in the 1975 episode, when the biggest decline in world exports was recorded, the latter returned to pre-recession levels within 1 year. Indeed, this was also the case in the 2008-2009 global recession. World export growth rebounded fully in 2010, surpassing its pre-recession levels and increasing by more than 20 percentage points from trough to peak to around 13% y-o-y.

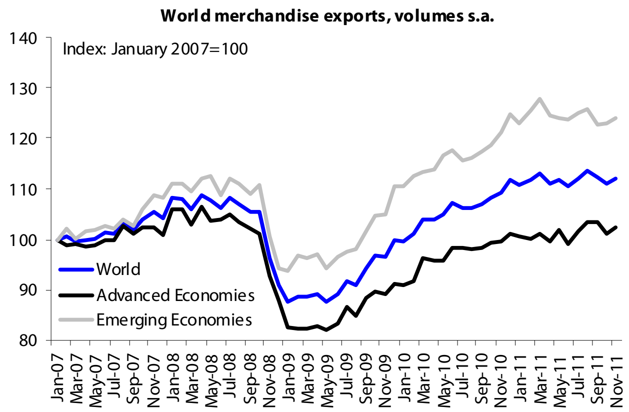
The expansion of world trade continued in 2011, albeit at a much slower pace than in 2010

However, world trade decelerated significantly in 2011, on the back of the deterioration in the global economic environment, with momentum stalling particularly in the second half of the year. The volume of international trade in both goods and services returned to single digit growth rates in 2011, decelerating to 6.9% from around 13% in 2010. Most of the weakness in world trade volumes reflects the relatively sluggish recovery of exports in advanced economies. According to the latest data from the CPB Netherlands Bureau for

[1] *Eurobank EFG Research, Global Economic & Market Outlook, February 2010*

Economic Policy Analysis, the level of merchandise export volumes for advanced economies has yet to recover fully from the 2008-2009 global recession. Indeed, it is hovering about 4.0% below its pre-recession peak. In contrast, the corresponding level for emerging economies is 10.2% above its pre-crisis peak (Figure 1).

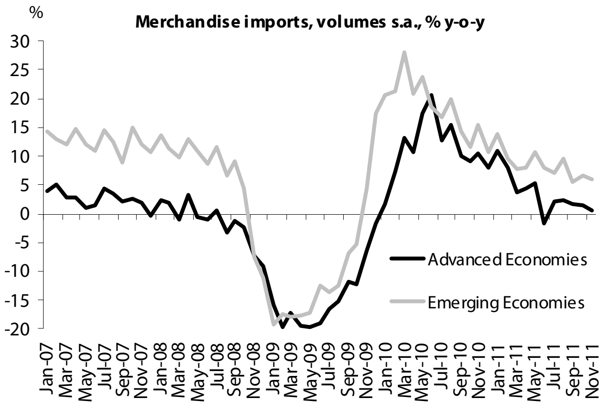
Figure 1



Source: CPB Netherlands Bureau for Economic Policy Analysis, Eurobank EFG estimates

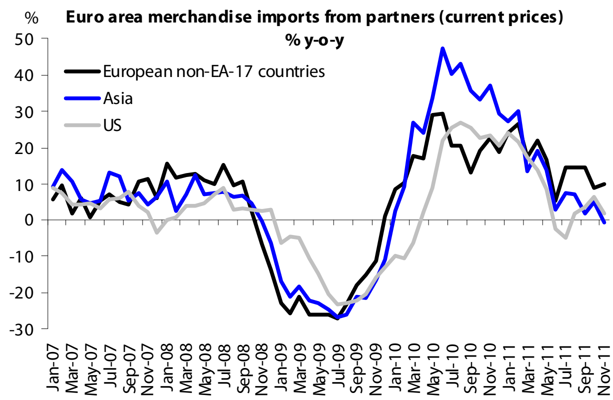
In 2011, multiple shocks to the global economy punctured global trade. The massive earthquake in Japan in March 2011 caused supply chain disruptions that had a negative impact worldwide, particularly in industry sectors such as the car manufacturing industry. The impact of the earthquake on world trade was most pronounced in Asia and, in particular, in China, given that many Japanese firms are integrated with production networks in the region. Merchandise import demand from Asia contracted 3% year-to-April in 2011. Furthermore, the escalation of the euro area sovereign debt crisis along with US debt ceiling discussions over the summer intensified global economic uncertainties, leading to a second round of world trade slowdown. Much of the drop in trade growth was driven by a sharp slowdown in import demand from advanced economies (Figure 2), which account for about 65% of total merchandise world imports. The slowdown came mainly from a slump of euro area imports, which account for 12% of world imports, as domestic demand was hit by the crisis and turned negative in some countries. The European countries outside the euro area, along with some major emerging economies and the US were affected the most due to their close trade links with the region. In particular, euro area imports from other European countries, Asia, and the US, which all together represent around 85% of extra-euro area imports, have declined by about 6-8 percentage points over the course of 2011. The latest data for euro area imports from Asia and the US show that year-on-year growth rates are hovering around zero (Figure 3).

Figure 2



Source: CPB Netherlands Bureau for Economic Policy Analysis

Figure 3



Source: Eurostat

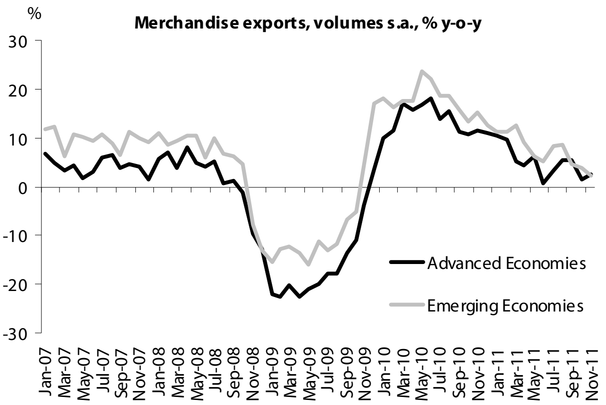
The stagnation in world trade has dampened the growth of exports from emerging markets

Meanwhile, in line with the deterioration in the global economic environment, emerging markets' export demand declined significantly over the last two quarters of 2011 (Figure 4). Emerging Asian exports suffered the most due to their close trade links with developed economies. It is worth noting that EMs importance in world trade has increased considerably over the past two decades. Between 1990 and 2011, their share of merchandise exports in world merchandise exports has increased gradually from about 20% to more than 40%, while that of advanced economies has decreased from 80% to 60% over the same period. Thus, EMs are playing a significant role in

[2] *IMF, World Economic Outlook Update, January 2012*

determining the prospects of world trade. Their robust growth and, particularly, their strong domestic demand is expected to be supportive for world trade in the years ahead. Although EMs economies are slowing down, they are expected to remain the leaders of global growth, growing substantially faster than advanced economies over the next few years. According to the latest IMF forecasts[2], in 2012 and 2013, growth in emerging and developing economies is expected to moderate to still buoyant growth rates of 5.4% and 5.9%, respectively, well above the thirty year average of 4.5%.

Figure 4

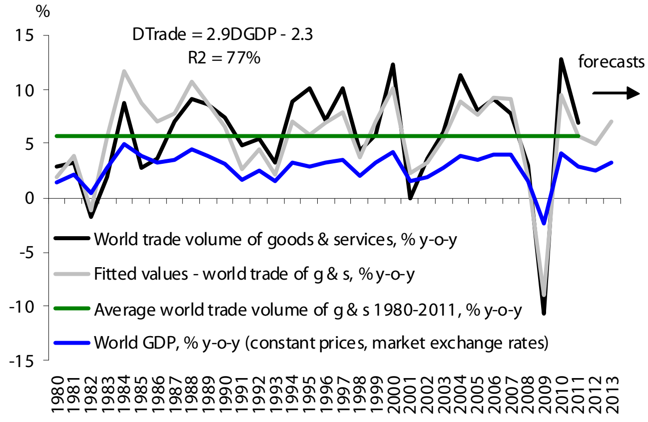


Source: CPB Netherlands Bureau for Economic Policy Analysis

The moderation in world trade growth will continue in 2012, before it rebounds in 2013

The deceleration of global growth in 2011 and the further slowdown expected in 2012 will undermine world trade growth in 2012. However, the slowdown in world trade volumes so far has been less severe than the one in the wake of the global financial meltdown in late 2008, and is not expected to reach those levels for several reasons. First, in the US leading indicators point to accelerating economic activity. Moreover, in the euro area soft activity indicators are beginning to show that the economy is not in a free fall. In addition, the expected moderation in China's real GDP growth from 9.2% in 2011 to 8.6% in 2012 is considered a soft landing, with the risk of a marked slowdown rather low. Figure 5 summarizes the results of a simple regression, using annual data from the IMF World Economic Outlook database, which links world trade growth to real world GDP growth at market exchange rates. Assuming real world GDP growth to slow to 2.5% in 2012 from 2.8% in 2011 and rebound to 3.2% in 2013, the regression suggests that, in 2012, world trade growth will fall below its thirty year average rate of 5.8% to 4.9%, before it rebounds to 7% in 2013. Of course, further downgrades to global growth forecasts would suggest lower export growth forecasts as well.

Figure 5



Source: IMF, Eurobank EFG Research

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