Box A

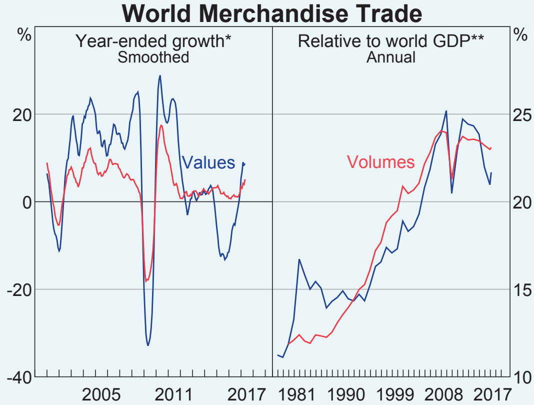
The Recent Pick-up in Global Merchandise Trade

Growth in global merchandise trade, which includes manufactured goods and commodities, has picked up since last year. Growth in merchandise trade values increased to around 9 per cent over the year to May, while growth in trade volumes increased to around 5 per cent (Graph A1).

Trade is very responsive to changes in global demand: that is, when global demand picks up, trade picks up by more, and likewise when it slows. Some of this reflects the production of goods in global supply chains, where components are traded between economies before the final good reaches its destination. The recent pick-up in merchandise trade growth is consistent with the improvement in global economic conditions since last year. This follows subdued growth in global merchandise trade for much of the period since the global financial crisis, most notably between 2014 and early 2016 when global growth eased and falling commodity prices reduced the value of commodity exports.[1]

Global imports and exports should in principle be equal, but measurement gaps and timing differences produce deviations in practice. Viewing trade through the lens of imports shows the sources of demand, while export data show where the production is coming from to meet that demand (Graph A2).

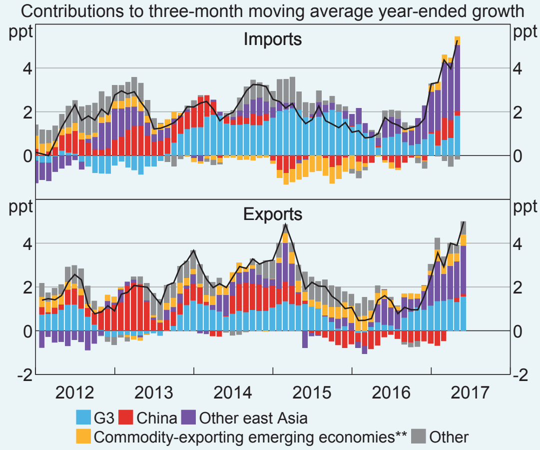
Graph A1
World Merchandise Trade



* Average of exports and imports; values are in US dollars
** Export volumes relative to world real GDP and values relative to world nominal GDP at market exchange rates; observation for 2017 is March quarter only

Sources: CPB Netherlands; IMF; RBA; Thomson Reuters

Graph A2
World Merchandise Trade Volumes*
Contributions to three-month moving average year-ended growth



* Contributions calculated by weighting year-ended growth rates by 2010 fixed nominal share of world exports and imports; euro area weight includes intra-euro area trade
** Aggregate of Central and Eastern European, and Latin American countries

Sources: CEIC Data; CPB Netherlands; RBA

1 See Jääskelä J and T Mathews (2015), 'Explaining the Slowdown in Global Trade', RBA *Bulletin*, September, pp 39–46; and International Monetary Fund (2016), 'Global Trade: What's Behind the Slowdown?', *World Economic Outlook*, October, pp 63–119.

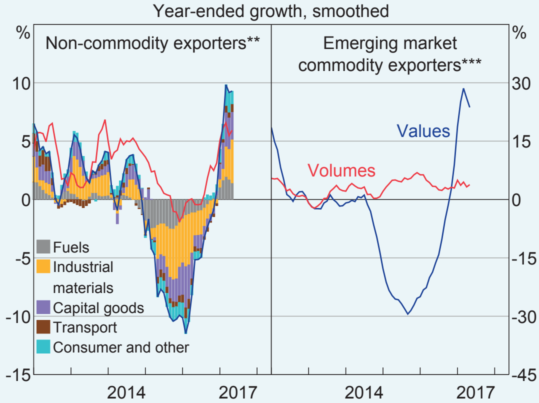
Chinese demand for imports picked up from mid 2016, partly supported by policy stimulus. The increase in imports to China was broad based by types of goods, although it was particularly pronounced for resource imports (especially imports of mineral fuels). More recently, a number of commodity-exporting emerging economies have also contributed to global import growth. These economies, including Brazil and Russia, have exited recessions caused, in large part, by the sharp declines in commodity prices from mid 2014 to late 2015. The recent pick-up in demand from major advanced economies, particularly from the increase in investment, has also led to an increase in imports.

The increase in merchandise import growth has been met by both commodity and non-commodity exporters, and includes a range of export categories (Graph A3). The increase in demand for fuels and industrial materials has contributed to a sharp pick-up in export prices for commodity-exporting economies, although their export volumes growth has been more muted.

Graph A3

World Exports*

Year-ended growth, smoothed



* Aggregates cover 85 per cent of world trade (excludes intra-EU trade)

** Includes China, extra-EU trade, Hong Kong, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and United States

*** Aggregate of African and Middle Eastern, Central and Eastern European, and Latin American countries

Sources: CEIC Data; CPB Netherlands; RBA; Thomson Reuters

The increase in demand for capital goods, particularly electronic goods, has been met predominantly by exports from Asia (excluding China and Japan). These economies are an integral part of global supply chains, and so this sharp increase in demand for exports has been accompanied by a pick-up in production activity and import growth. Together with the increase in intraregional trade in east Asia, this emphasises that a considerable part of the global trade pick-up reflects the production of goods in long supply chains rather than just an increase in global final demand. The increase in global trade has also led to a pick-up in investment growth in the region (especially in the more trade-exposed high-income economies). Unlike in other parts of Asia, the significant increase in Japanese exports has not been associated with a strong increase in imports, reflecting the high domestic value-added component of Japanese exports; instead, in recent months import growth has picked up with the strengthening in domestic demand growth.

Several factors are expected to sustain the recent increase in trade growth. Short-term leading indicators of trade – such as manufacturing export orders and shipping rates – remain at high levels after rising over the past year. Global GDP growth over the next few years is expected to remain robust. Business investment growth in the advanced economies has increased lately, and investment intentions have risen, which should support trade in capital goods.