

Global trade

Global trade flows cool from record growth

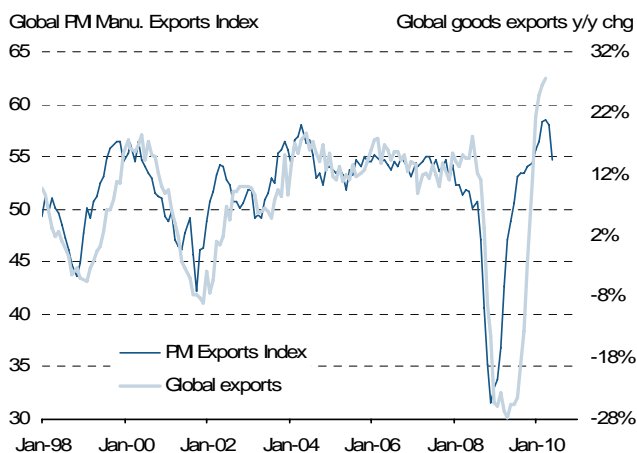
The turnaround in international trade since the depths of the global recession has been nothing short of remarkable. Just over a year ago – in May 2009 – global exports plunged by -27.6% on a year-on-year basis, yet latest official data show a record 27.6% rise. This resurgence in trade has been a key feature of the global recovery, but signs are emerging that expansion of international trade has peaked and that growth in global exports is now slowing.

Record global trade flows

The Manufacturing New Export Orders Index from the JPMorgan Global PMI, compiled by Markit, fell to 54.5 in June – its lowest level since December – to signal an easing in the rate of growth of worldwide exports for the second month running.

Furthermore, the latest 3.6 point drop in the index was the largest monthly deterioration in its level since the height of the financial crisis in late-2008.

Global exports



Sources: Markit, ISM, JPMorgan.

The index is important because it has accurately tracked global exports over the past 12 years and provided a particularly early indication of the strong recovery in global trade flows over the past year. The index reached a record high in April and official data have since shown that global manufacturing exports surged 28% higher than a year ago that month, an all-time high.

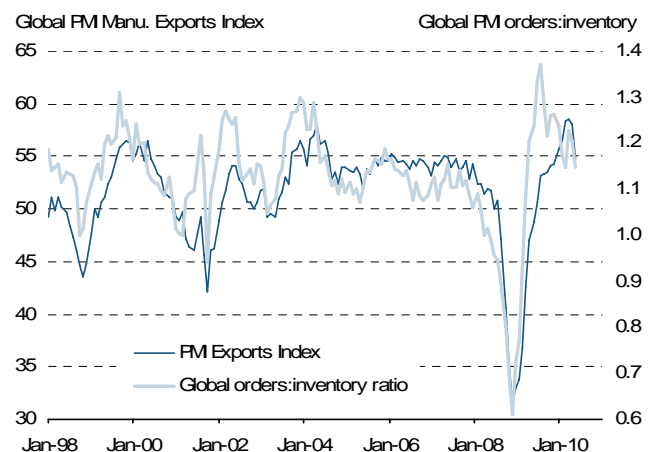
The recent easing in the PMI Export Orders Index therefore needs to be interpreted in the context of that rapid growth, and the June reading remains consistent with still buoyant trade flows.

However, data from the PMIs suggest that growth will continue to slow in coming months, notably because of waning inventory cycle effects and a weaker Asian export trend. Both the inventory cycle and Asian exports have tended to lead changes in global trade flows.

Inventory cycle

The strength of the global recovery in late-2009 and early-2010 was in part attributable to the restocking of warehouses by manufacturers, reversing a cost-cutting depletion of inventories during the height of the financial crisis. The impact of the stock cycle on trade is highlighted by the PMI survey's new orders:inventory ratio. This ratio slumped to a record low in December 2008, giving advance warning of the unprecedented collapse in global exports (the annual rate of decline of which hit a peak of 27.6% in May 2009). The ratio bounced back rapidly, however, hitting a record high in August of last year as strong growth of new orders coincided with still falling inventories. More recently the ratio has shown a downward trend, suggesting that the Global PMI's New Export Orders Index will fall further in coming months.

Exports and inventories



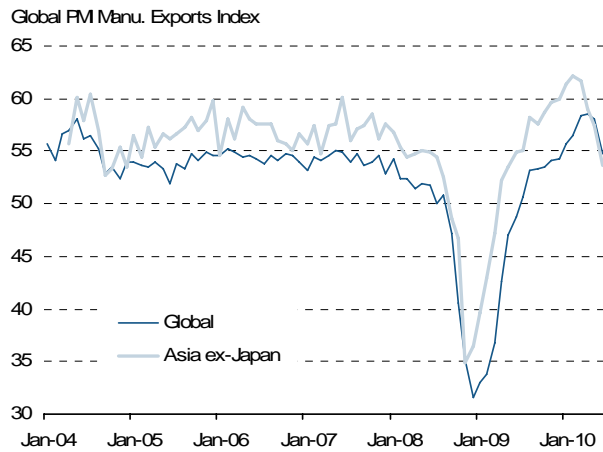
Sources: Markit, ISM, JPMorgan.

Regional export trends: emerging markets lead the developed world

PMI data also illustrate how the slowing in exports has been led by China and other Asian export-oriented emerging economies.

The New Export Orders Index for Asia ex-Japan bottomed-out before the equivalent global index in late-2008 but more recently peaked in February – two months ahead of the peak in the Global PMI's Export Orders Index – and has since fallen sharply to reach its lowest level since May 2009.

Asia ex-Japan v. global exports



Sources: Markit, ISM, JPMorgan.

The distinction between growth of exports from the BRIC¹ emerging economies and the G4² developed economies is even more striking, with BRIC export growth peaking in January, three months before G4 export growth peaked.

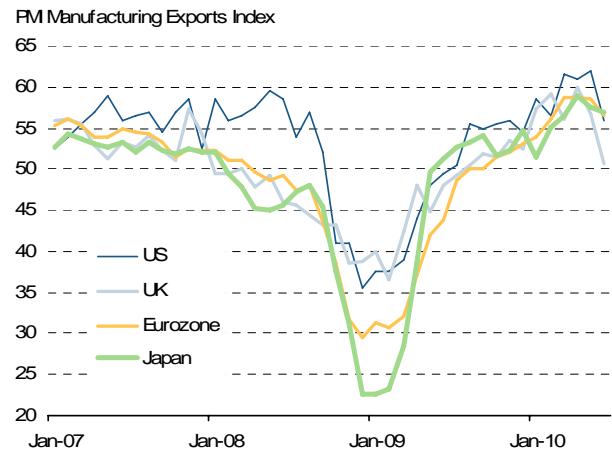
G4 weakness ahead

A further weakening of global trade is therefore indicated by the PMI data. This will be particularly unwelcome news for manufacturers in developed economies, notably within the Eurozone but also the US, UK and Japan, where domestic demand remains lacklustre and unlikely to fill any void caused by slower export sales growth.

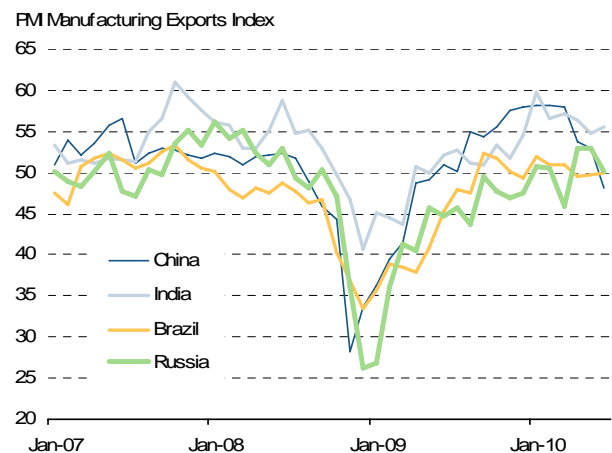
G4 v. BRIC exports



G4 exports



BRIC exports



Sources: Markit, ISM, JPMorgan, HSBC.

¹ Brazil, Russia, India and China.

² The United States, United Kingdom, Japan and the Eurozone.

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