

WTO lowers forecast after sub-par trade growth in first half of 2014

TRADE STATISTICS

WTO economists have reduced their forecast for world trade growth in 2014 to 3.1% (down from the 4.7% forecast made in April) and cut their estimate for 2015 to 4.0% from 5.3% previously.

The downgrade comes in response to weaker-than-expected GDP growth and muted import demand in the first half of 2014, particularly in natural resource exporting regions such as South and Central America. Beyond this specific downward revision, risks to the forecast remain predominantly on the downside, as global growth remains uneven and as geopolitical tensions and risks have risen.

"International institutions have significantly revised their GDP forecasts after disappointing economic growth in the first half of the year," said Director-General Roberto Azevêdo.

"In light of this, the WTO's forecasts for trade growth have also been revised downwards for 2014 and 2015. Uneven growth and continuing geopolitical tensions will remain a risk for both trade and output in the second half of the year.

"This is a moment to remind ourselves that trade can play a positive role here. Cutting trade costs and broadening trade opportunities can be a key ingredient to reversing this trend."

When the last forecast was released in April 2014, conditions for stronger trade growth appeared to be falling into place after a two year slump that saw world merchandise trade grow just 2.2% on average during 2012-13, roughly equal to the rate of growth of world gross domestic product (GDP). Leading indicators at the time pointed to an upturn in developed economies and Europe in particular.

MAIN POINTS

- **World merchandise trade volume expected to rise 3.1% in 2014** as import demand in resource rich regions and China weakens and as Europe stagnates.
- **Trade growth should pick up in 2015 to 4%**, which is still below the average for the last 20 years (1993-2013) of 5.2%, but risks abound in the form of geopolitical tensions, regional conflict and health crises (Ebola).
- **Imports of the EU finally recovered their level of mid-2011** in the latest quarter after rising 2.7% since the first quarter of 2013.
- **Imports of Developing economies and CIS stalled in the first half of 2014**, rising just 0.5% for the year to date compared to 4.7% in 2013
- **Trade growth is slow but steady in the United States**, 2.8% on the export side and 3.5% on the import side for the year to date.

Although growth has strengthened somewhat in 2014, it has remained unsteady. Output fell in the first quarter in the United States (-2.1%, annualized rates) and in the second quarter in Germany (-0.6%), sapping global import demand. China's GDP growth also slowed from 7.7% in 2013 to 6.1% in the first quarter of 2014 before rebounding in the second. The slow first quarter contributed to weak exports in trading partners.

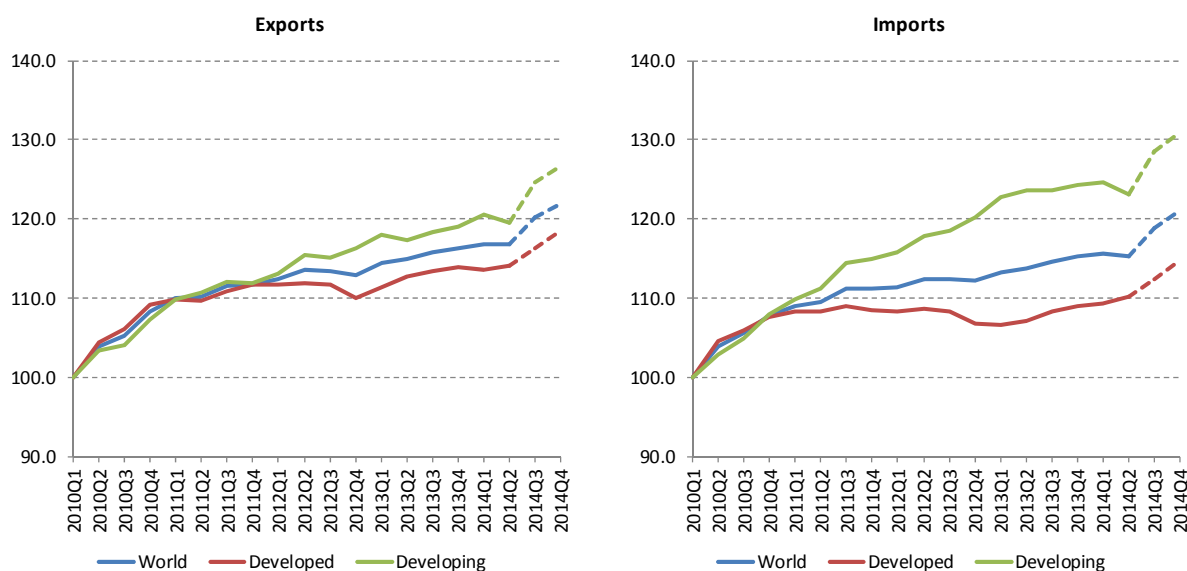
As a result of these and other factors, global trade stagnated in the first half of 2014, as the gradual recovery of import demand in developed countries was offset by declines in developing countries.

Growth in trade and output is expected to be somewhat stronger in the second half of 2014 as governments and central banks may provide policy support to boost growth, and as idiosyncratic factors that weighted on trade in the first half (e.g. harsh winter weather in the United States, a sales tax rise in Japan, etc.) begin to fade. However, several risk factors on the horizon have the potential to produce worse economic outcomes.

Tensions between the European Union and the United States on the one hand and the Russian Federation on the other over Ukraine have already resulted in trade sanctions on certain agricultural commodities, and the number of products affected could widen if the crisis persists. Conflict in the Middle East is also stoking uncertainty, and could lead to a spike in oil prices if the security of oil supplies is threatened. Finally, an outbreak of Ebola haemorrhagic fever in West Africa has proven difficult to contain, and any spread of the disease could trigger a broader panic with major economic implications for West Africa, and perhaps even beyond the region. The presence of several such low probability/high cost risk factors has made the trade forecast particularly difficult to gauge this year.

Chart 1: Merchandise exports and imports by level of development, 2010Q1-2014Q4

(Seasonally adjusted indices, 2010Q1=100)



Source: WTO Secretariat.

Recent global trade developments are illustrated in Chart 1, which shows seasonally-adjusted, quarterly merchandise trade indices in volume terms (i.e. adjusted to account for fluctuations in prices and exchange rates) by level of development.¹ World trade, as measured by the average of exports and imports, only increased 1.8% in the first half of 2014 compared to the same period in 2013, but growth for the year is expected to be higher as imports of developed economies continue to rise, and as imports rebound in developing countries following a dip in the second quarter.

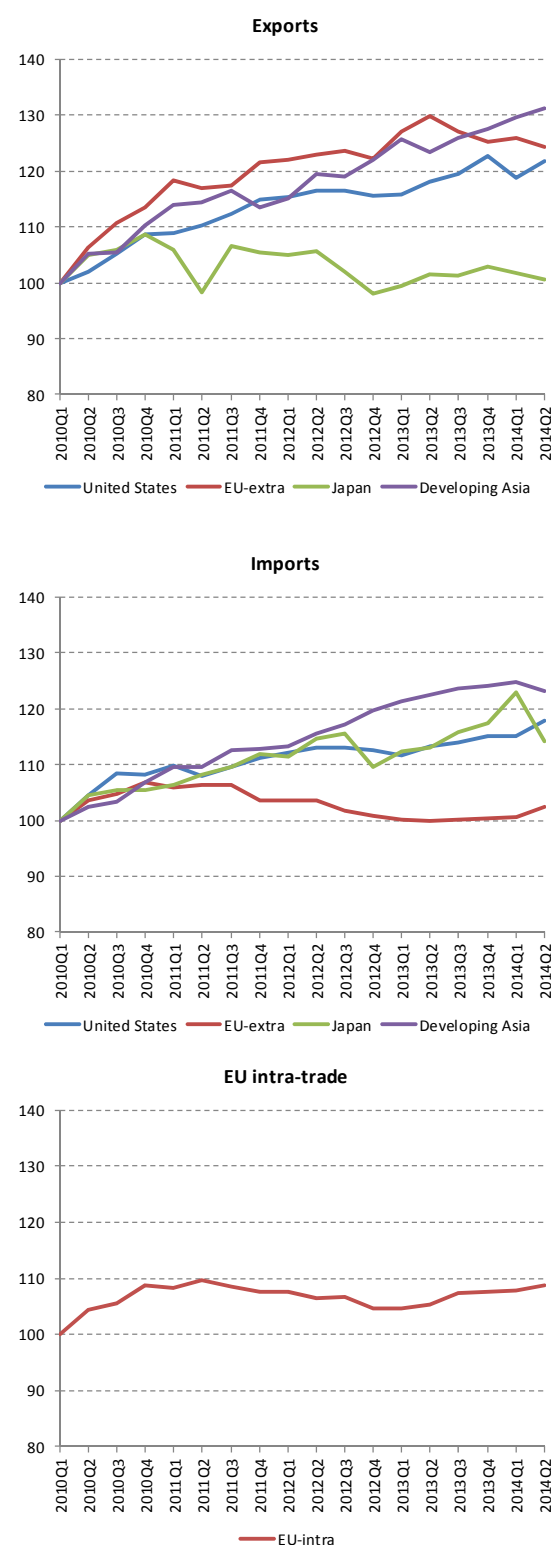
These developments should boost shipments from trading partners in both developed and developing countries. Import demand of developed economies actually outpaced that of developing economies in the first half of the year (2.6% compared to 0.5%). Meanwhile, developed economies' exports were up 1.6% year-on-year in the first six months of 2014 while those of developing economies rose 2.1%.

Asia recorded the fastest export growth of any region in the first half of 2014, with a 4.2% rise over the same period last year. It was followed by North America (3.3%), Europe (1.2%), South and Central America (-0.8%), and Other regions (-2.0%). North America led all regions on the import side with growth of 3.0%, followed by Asia (2.1%), Europe (1.9%), Other regions (-0.4) and South America (-3.4%).

Table 1 summarizes the trade forecasts for 2014 and 2015, which are conditional upon consensus estimates of real GDP at market exchange rates. (Note: The WTO does not forecast GDP itself, relying instead on other organizations' numbers and re-weighted according to WTO country groups). As noted above, the WTO expects the volume of world merchandise trade to grow by 3.1% in 2014 and 4.0% in 2015.

Chart 2: Merchandise exports and imports of selected economies, 2010Q1-2014Q2

(Seasonally adjusted volume indices, 2010Q1=100)



Source: WTO Secretariat.

¹ Data are sourced from WTO short-term trade statistics, which can be downloaded here: http://www.wto.org/english/res_e/statis_e/short_term_stats_e.htm.

Table 1: World merchandise trade and GDP, 2010-2015^a

Annual % change

	2010	2011	2012	2013	2014P	2015P
Volume of world merchandise trade	13.9	5.4	2.3	2.2	3.1	4.0
Exports						
Developed economies	13.4	5.2	1.1	1.5	2.5	3.8
Developing economies	15.0	5.5	4.1	3.9	4.0	4.5
North America	15.0	6.6	4.4	2.8	3.7	3.9
South and Central America	4.7	6.8	0.7	1.4	0.4	3.2
Europe	11.6	5.6	0.8	1.5	2.3	3.5
Asia	22.6	6.4	2.8	4.7	5.0	4.8
Other regions ^b	6.0	1.9	4.2	0.6	-0.1	4.2
Imports						
Developed economies	10.9	3.4	0.0	-0.3	3.4	3.7
Developing economies	18.2	7.7	5.4	5.3	2.6	4.5
North America	15.7	4.4	3.1	1.2	3.9	4.2
South and Central America	22.4	13.0	2.3	3.1	-0.7	4.8
Europe	9.8	3.2	-1.8	-0.5	2.5	3.5
Asia	18.1	6.6	3.7	4.5	4.0	4.3
Other regions ^b	11.4	8.3	10.1	3.3	1.3	3.5
Real GDP at market exchange rates (2005)	4.1	2.8	2.2	2.3	2.6	3.1
Developed economies	2.6	1.4	1.1	1.3	1.8	2.2
Developing economies	7.5	5.8	4.6	4.4	4.3	4.9
North America	2.7	1.8	2.3	2.1	2.1	3.1
South and Central America	6.1	4.5	2.5	3.2	1.2	2.4
Europe	2.2	2.0	-0.2	0.3	1.4	1.7
Asia	7.2	4.2	4.2	4.2	4.6	4.5
Other regions ^b	5.2	4.0	4.2	2.8	2.9	3.9

a Figures for 2014 and 2015 are projections.

b Other regions comprise the Africa, Commonwealth of Independent States and Middle East.

Sources: WTO Secretariat for trade, consensus estimates for GDP.

On the export side, the WTO anticipates a 2.5% increase in shipments from developed economies in 2014, followed by a 3.8% rise in 2015. Meanwhile, exports of developing economies are expected to grow by 4.0% in 2014 and 4.5% in 2015. Imports of developed economies are forecast to rise 3.4% this year and 3.7% next year, while those of developing economies increase 2.6% in 2014 and 4.5% in 2015.

Perhaps the most noteworthy aspect of Table 1 is the prediction of weak or even negative trade growth in South and Central America and Others regions (i.e. Africa, CIS and Middle East) in 2014. Economies in these regions have been negatively affected by a combination of civil conflict, weak non-fuel commodity prices, and the easing of growth in previously buoyant trading partners in Asia. Another notable point is the fact that North America's import demand held up relatively well despite the GDP slowdown in the first quarter (Q1).

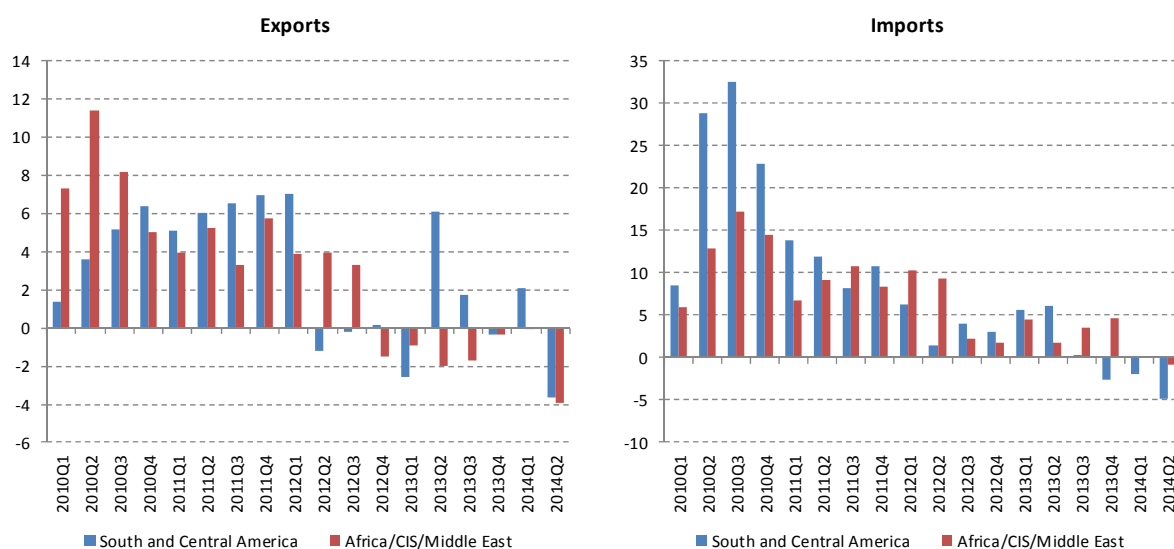
This may be due to the fact that much of the drop in output was caused by changes in inventories, which tend to even out over the business cycle. It may also signal underlying strength in consumption now that unemployment rates have fallen to 6.2%. In contrast, the jobless rate in the euro area remains quite high at 11.5% (10.2% for the European Union as a whole).

Charts 2 and 3 show quarterly trade volume developments for selected national and regional economies. In Chart 2 we see that the European Union's imports from the rest of the world (i.e. extra-imports) and internal trade between members (i.e. intra-trade) have only just returned to their levels of mid-2011, whereas imports of United States, Japan and developing Asia have all risen substantially in the meantime (9%, 6% and 12%, respectively). Given the EU's large 32% share in world merchandise imports, it appears likely that the trade bloc's weak demand will continue to exert a strong drag on global trade for some time to come.

Chart 3 illustrates the extent of the trade slowdown in South and Central America and Other regions (i.e. Africa/CIS/Middle East). In the latest quarter, South and Central America's export and imports were down 3.7% and 4.9% year-on-year, while those of Africa/CIS/Middle East had declined by 3.9% on the export side and 0.9% on the import side. By comparison, exports and imports of Developing Asia were up roughly +6% and +1% in the latest quarter.

Chart 3: Merchandise exports and imports of natural resource exporting regions, 2010Q1-2014Q2

(Non-seasonally adjusted volume indices, 2010Q1=100)



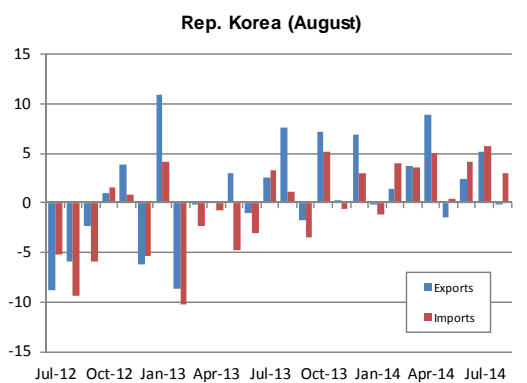
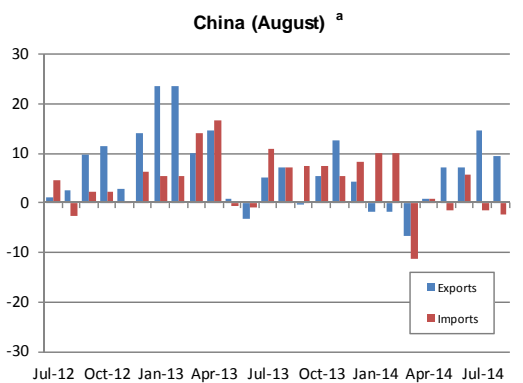
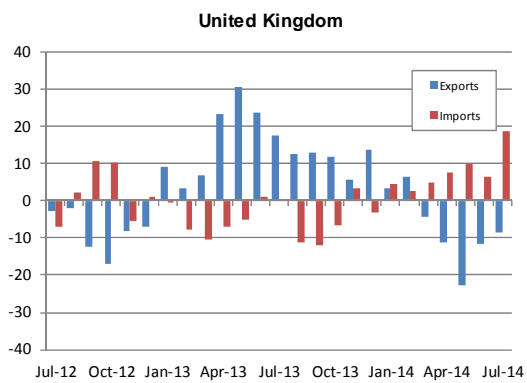
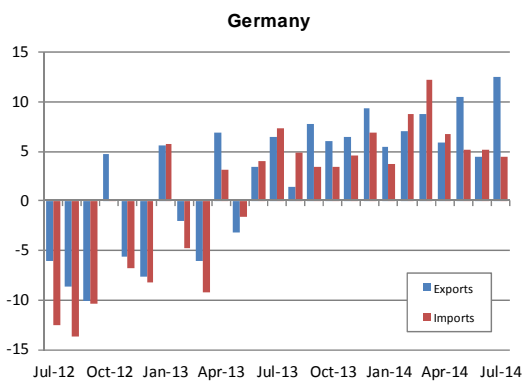
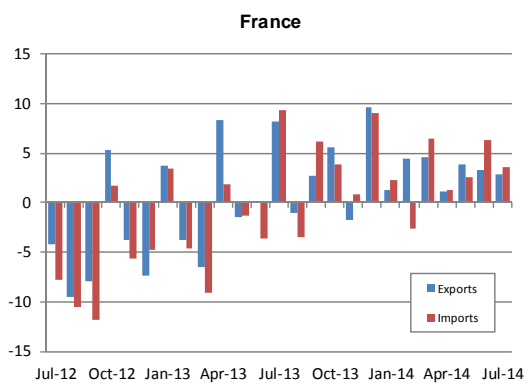
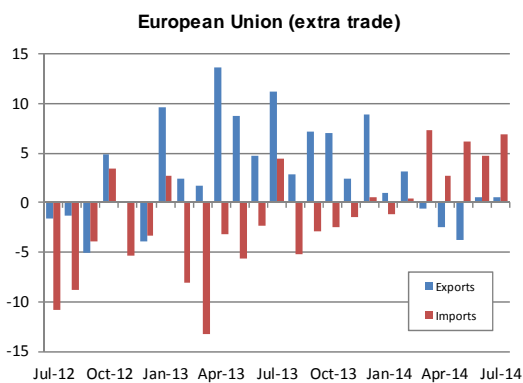
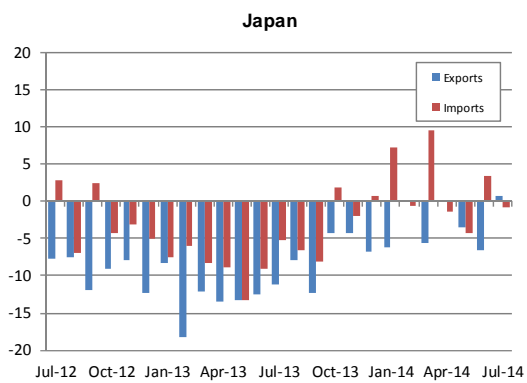
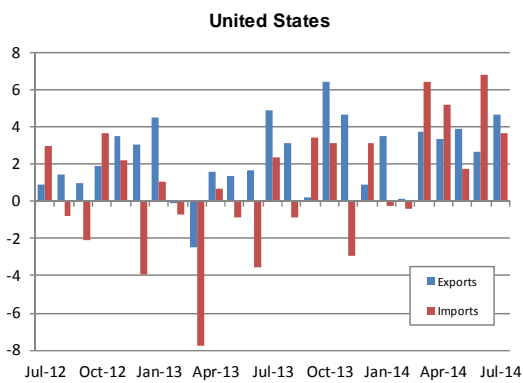
Source: WTO Secretariat.

Finally, nominal merchandise trade statistics in current dollar terms may provide a better indication of current trade trends than statistics in volume terms since the former are generally timelier. These are shown in Chart 4 for selected major traders through July or August depending on data availability. In the chart we observe that year-on-year growth in exports and imports remained positive in the United States in July (+5% and +4%, respectively), as it did in the European Union (+4% and +7% for total trade). Meanwhile, although China's exports were up 9% in August, the country's imports fell 2%. Overall, the trade figures in dollar terms appear to be holding steady and showing modest growth.

Chart 4

Merchandise exports and imports of selected economies, July 2012-July 2014

(Year-on-year percentage change in current dollar values)



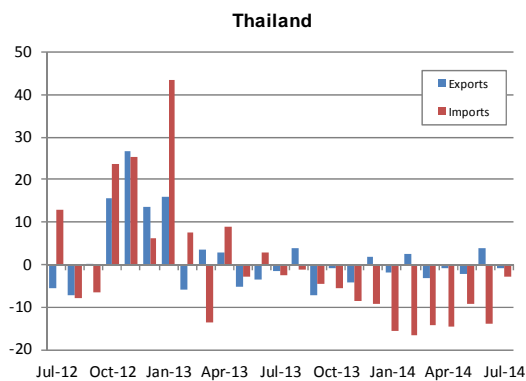
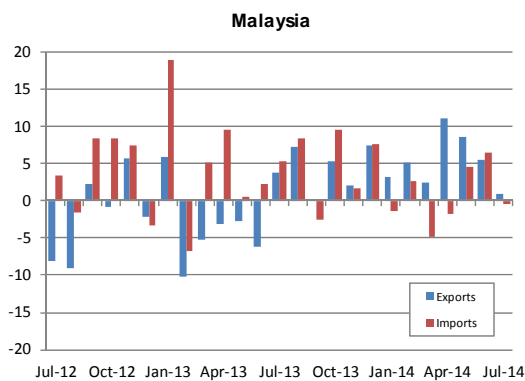
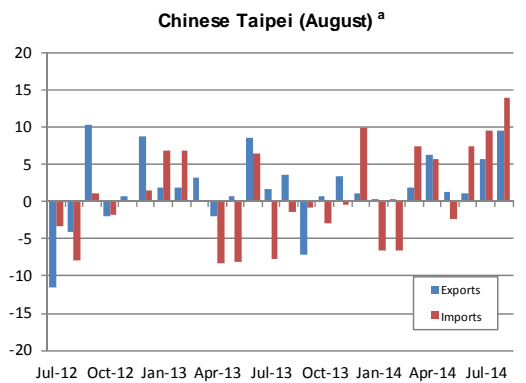
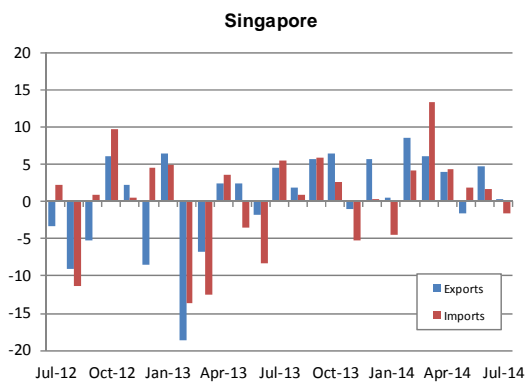
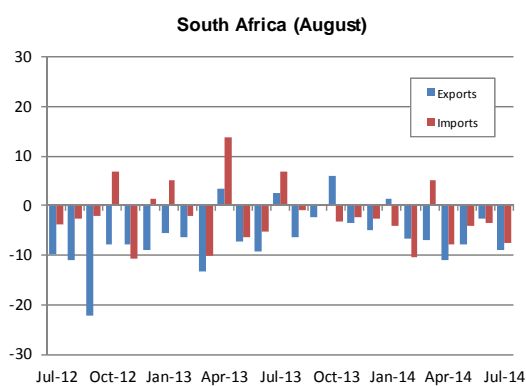
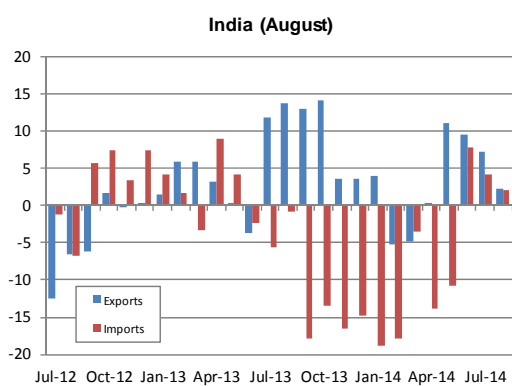
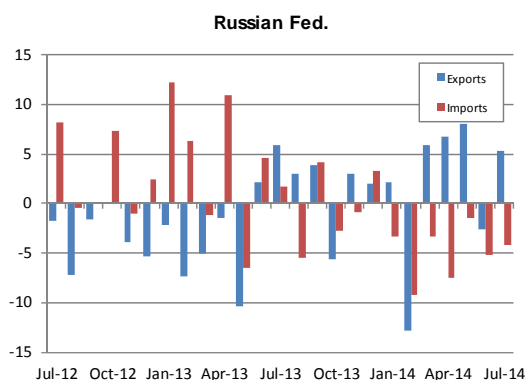
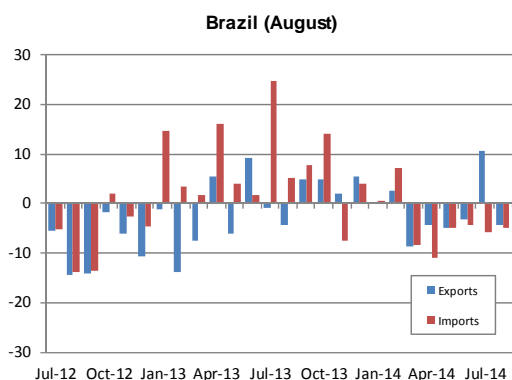
^a January and February averaged to minimize distortions due to lunar new year.

Sources: IMF International Financial Statistics, Global Trade Information Services GTA database, national statistics.

Chart 4 (continued)

Merchandise exports and imports of selected economies, July 2012-July 2014

(Year-on-year percentage change in current dollar values)

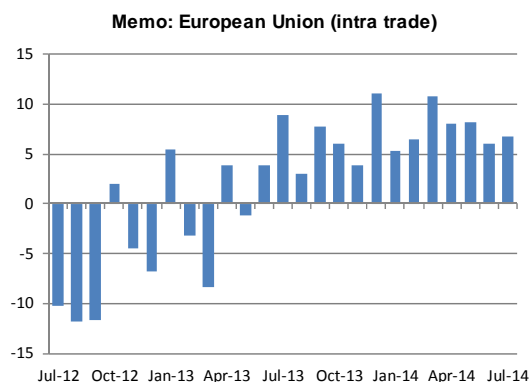
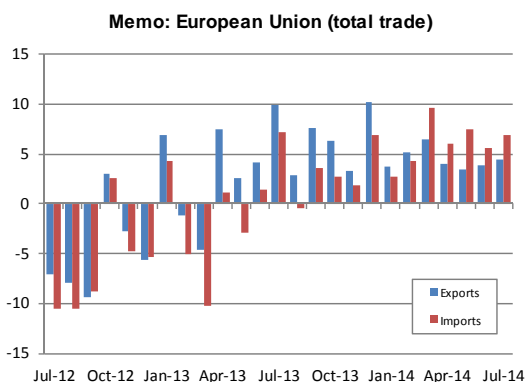
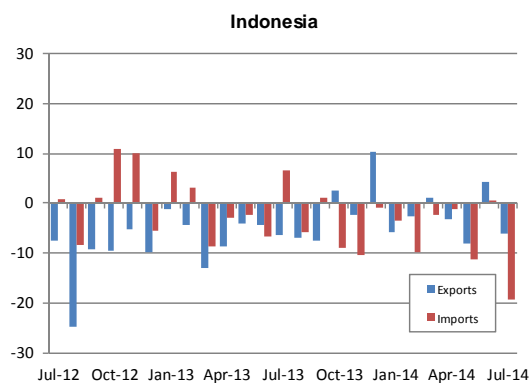
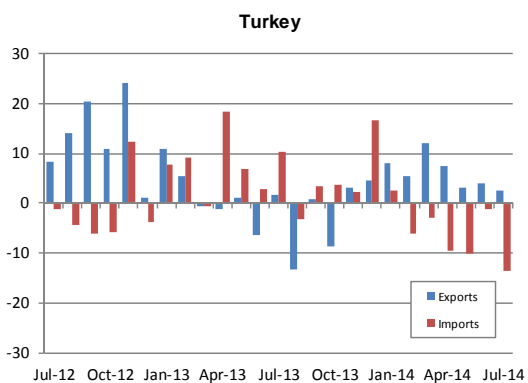
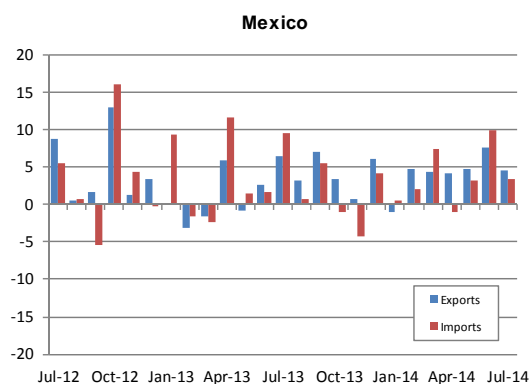
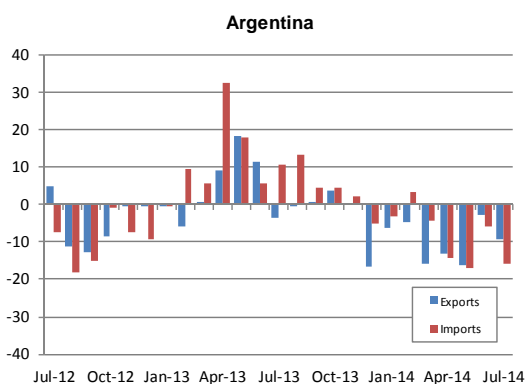
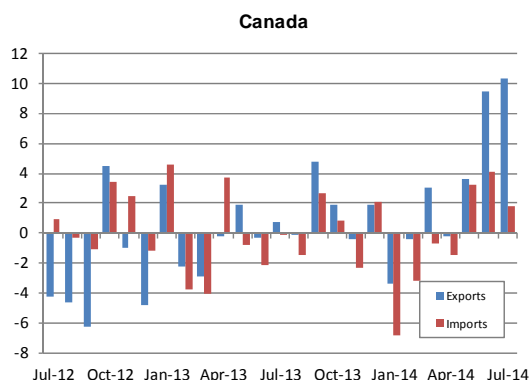
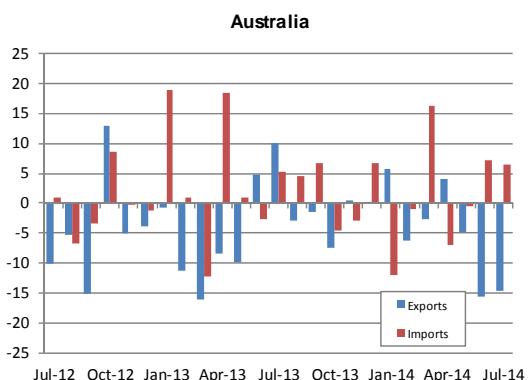


^a January and February averaged to minimize distortions due to lunar new year.

Sources: IMF International Financial Statistics, Global Trade Information Services GTA database, national statistics.

Chart 4 (continued)

Merchandise exports and imports of selected economies, July 2012-July 2014
(Year-on-year percentage change in current dollar values)



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