Chapter III

World trade and GDP growth in 2016 and early 2017

- Growth in the volume of world merchandise trade slowed to 1.3 per cent in 2016, down from 2.6 per cent in 2015, as continuing weakness in the global economy and low commodity prices had a negative impact on global import demand.

- World growth in GDP dropped to 2.3 per cent in 2016, down from 2.7 per cent in 2015, well below the average of 2.8 per cent since 1980.

- The slowdown in world trade partly reflected the further weakening of investment spending, which is the most trade-intensive component of import demand.

- Although merchandise trade increased slightly in volume terms in 2016, it declined in value terms due to a fall in export and import prices. Merchandise exports fell by 3.3 per cent, to US$ 15.46 trillion, in 2016.

- Commercial services trade on a quarterly basis recorded growth of just 0.1 per cent in value terms in 2016, totalling US$ 4.77 trillion. The weakest services component was transport, which tends to reflect fluctuations in goods trade.

- Developing economies' imports dropped 3 per cent in the first quarter of 2016 before rebounding in the second quarter and recovering to their previous level by the end of the year. However, developed economies' imports remained weak throughout the year.

- Trade indicators such as export orders and container throughput in major ports were up in the first quarter of 2017, suggesting stronger trade growth for the year, but the presence of significant risk factors also point to the possibility of less positive outcomes.

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World trade in 2016: Latest trends and driving forces

Overview

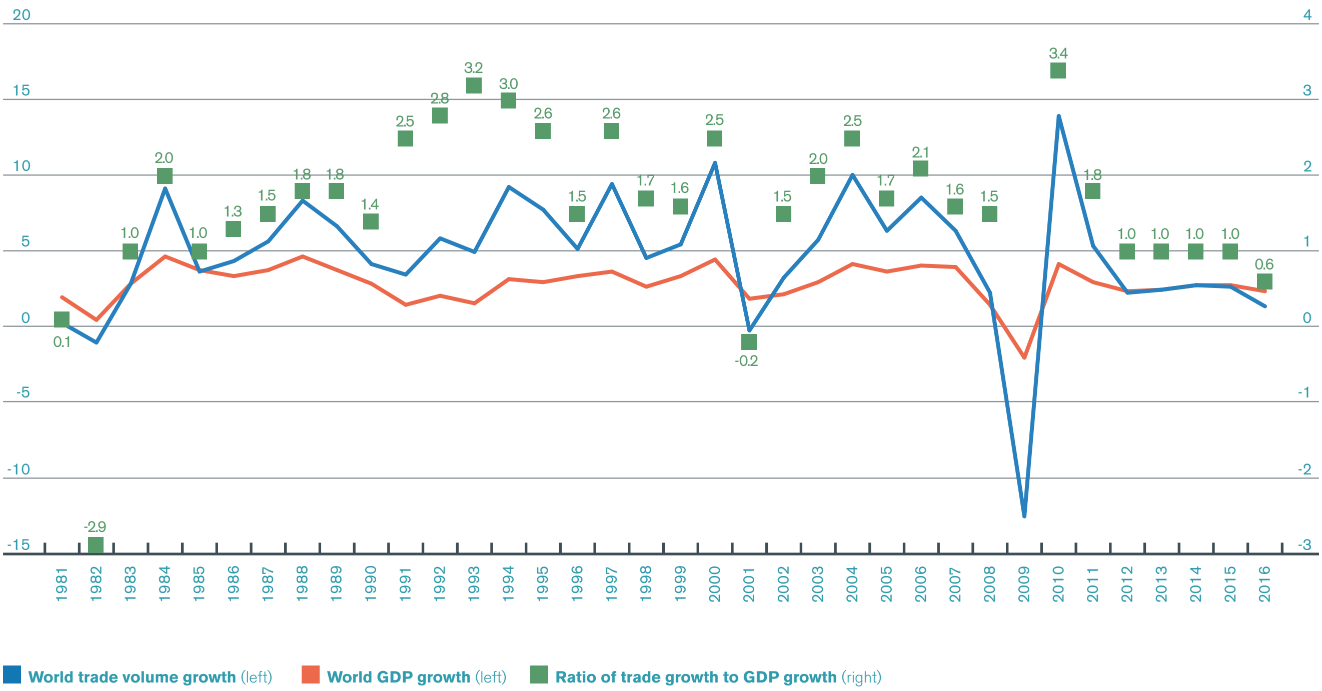
In 2016, world merchandise trade recorded its lowest growth rate in volume terms since the financial crisis of 2008, with an increase of just 1.3 per cent, as measured by the average of exports and imports. This low level of expansion was half as strong as the 2.6 per cent increase recorded in 2015 and well below the 4.7 per cent average annual rate since 1980.

The weakness of trade growth last year was partly due to continuing weakness in the global economy, with economic activity slowing in both developed and developing economies. But it also reflected deeper structural changes in the relationship between trade and economic growth. The most trade-intensive components of global demand were particularly weak in 2016 as investment spending slumped in the United States and as China continued to rebalance its economy away from investment and towards consumption, dampening global import demand.

Lacklustre world trade growth in 2016 was accompanied by weak real GDP growth of 2.3 per cent at market exchange rates. This was down from 2.7 per cent in the previous year and also below the 2.8 per cent average annual rate since 1980. Generally, trade growth is much more volatile than GDP growth at the global level although both tend to rise and fall together.

Since the Second World War, the volume of world merchandise trade has tended to grow about 1.5 times faster than world GDP, although in the 1990s it grew more than twice as fast. However, in the aftermath of the global financial crisis the ratio of trade growth to GDP growth has fallen to around 1:1. Last year marked the first time since 2001 that this ratio dropped below 1 to 0.6 (see Chart 3.1). It is expected to recover partly in 2017 but the further slowing of trade relative to GDP remains a cause for concern.

Chart 3.1:
Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2016
(Annual percentage change and ratio)



Source: WTO Secretariat for trade; consensus estimates for GDP based on reported data from a variety of sources including the International Monetary Fund, the Organisation for Economic Cooperation and Development and the United Nations.

Although world merchandise trade increased slightly in volume terms in 2016, it declined in value terms due to falling export and import prices. World merchandise exports were valued at US$ 15.46 trillion in 2016, down 3.3 per cent from the previous year. The pace of contraction was slower than in 2015, when export values fell 13.5 per cent due to strong appreciation of the US dollar and a plunge in oil prices. All regions recorded declines in merchandise exports in 2016, with the smallest decline registered by Europe (-0.3 per cent) and the largest by the Commonwealth of Independent States (-16.2 per cent). On the import side, Europe saw a small increase (0.2 per cent) while all other regions recorded declines.

The value of world exports of commercial services grew by just 0.1 per cent in 2016, totalling US$ 4.77 trillion. All regions recorded similar levels of growth, with the strongest performance seen in Asia (0.9 per cent). On the import side, Asia outpaced other regions by a wider margin (with growth of 2.6 per cent).

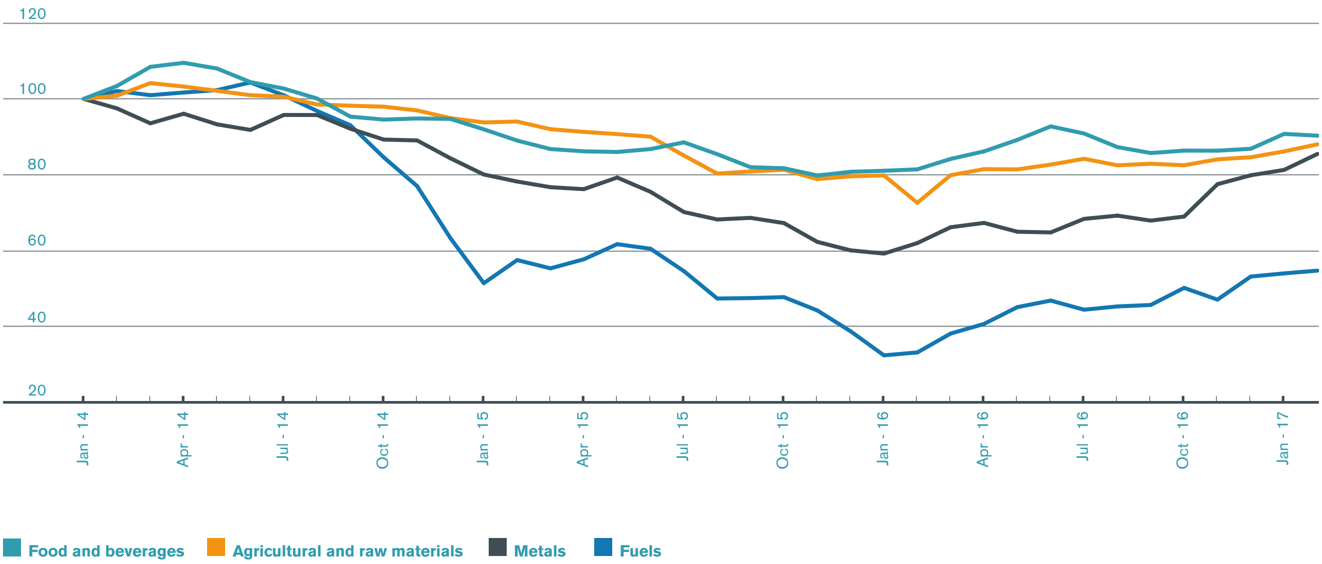
As in 2015, the discrepancy between trade growth in terms of volume and value in 2016 largely reflects declines in commodity prices as well as appreciation of the US dollar. However, these price changes were not as significant in 2016 as they were in 2015 (see Chart 3.2 and Chart 3.3).

Fuels saw the biggest decline in prices of any category of primary commodities in 2016, falling 16.5 per cent year-on-year. Smaller declines were recorded for agricultural raw materials (-5.7 per cent) and metals (-5.4 per cent). In contrast, food prices increased slightly (1.3 per cent). Commodity prices overall fell by around 10 per cent in 2016. This is considerably less than the 35 per cent plunge recorded in 2015 but still significant, particularly for resource-producing countries whose export revenues have continued to fall, albeit at a slower pace.

The weakness of fuel prices was partly explained by the resilience of crude oil production in the United States, including from non-traditional sources such as shale. According to the US Energy Information Administration, oil output declined in the first half of 2016 but rose in the second half, limiting the year-on-year decline in output to 5.5 per cent. However, production for the year was still 77 per cent higher than the level recorded in 2008.

Chart 3.2:

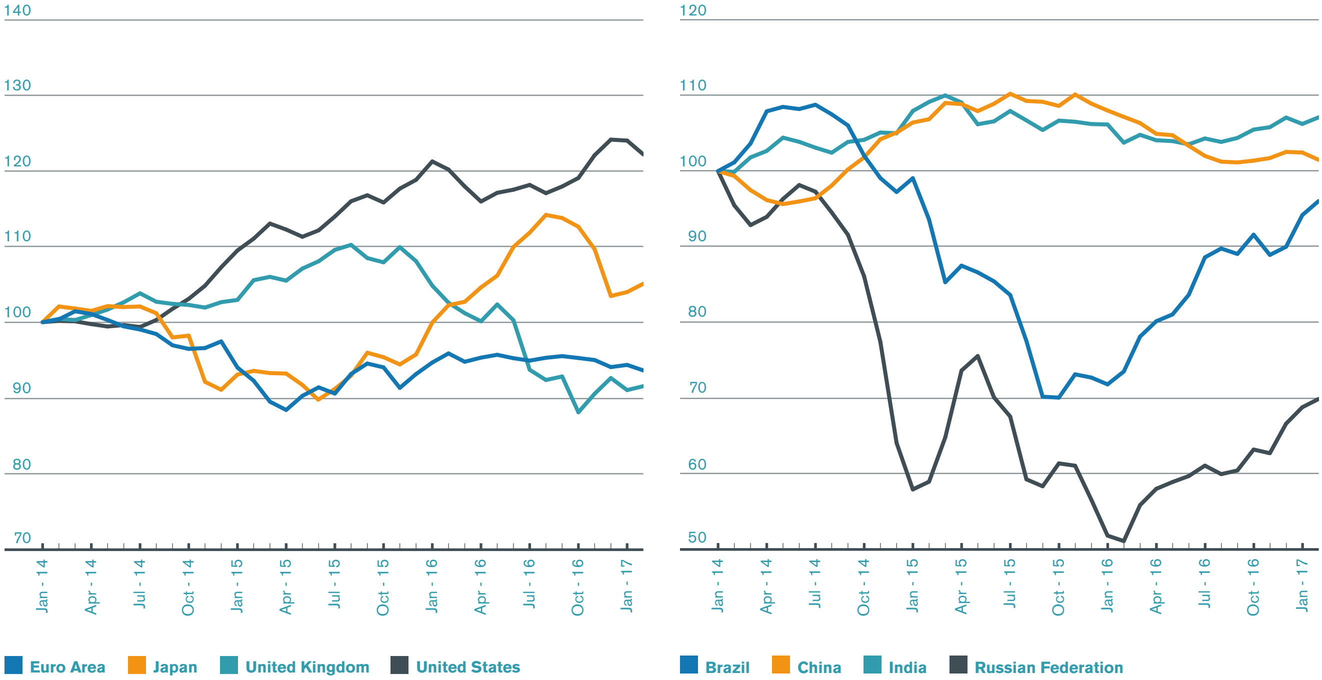
Prices of primary commodities, January 2014 - February 2017
(Indices of US$ values, January 2014 = 100)



Source: International Monetary Fund.

Chart 3.3:

Exchange rates of selected economies, January 2014 - February 2017
(Indices of nominal effective exchange rates, January 2014 = 100)



Source: Bank for International Settlements.

Appreciation of the US dollar also contributed to lower dollar prices for commodities since it allowed the same quantity of goods to be purchased with fewer units of currency. In 2016, the dollar appreciated 4.4 per cent on average against the currencies of US trading partners (i.e. in "nominal effective" terms) after having risen nearly 13 per cent in 2015.

Other major currency developments in 2016 included a 4.6 per cent average depreciation of China's yuan against the currencies of its trading partners and a 10 per cent decline in the average value of the UK pound. The yuan had risen 9.5 per cent in 2015 so the devaluation in 2016 could be seen as a correction. Meanwhile, the nominal effective exchange rate of the euro remained stable in 2016, with a modest rise of 1.9 per cent.

Merchandise trade

The unusually low growth rate of 1.3 per cent in the volume of world merchandise trade in 2016 was the result of several factors that had an impact on imports of both developed and developing economies, although the latter were more strongly affected (see Chart 3.5).

Developing economies suffered a sharp 3 per cent decline in imports in the first quarter of 2016, equivalent to an annual drop of 11.6 per cent, but growth resumed in the second quarter and by the end of the year imports had returned to their previous level. Meanwhile, imports of developed economies continued to grow but at a reduced pace.

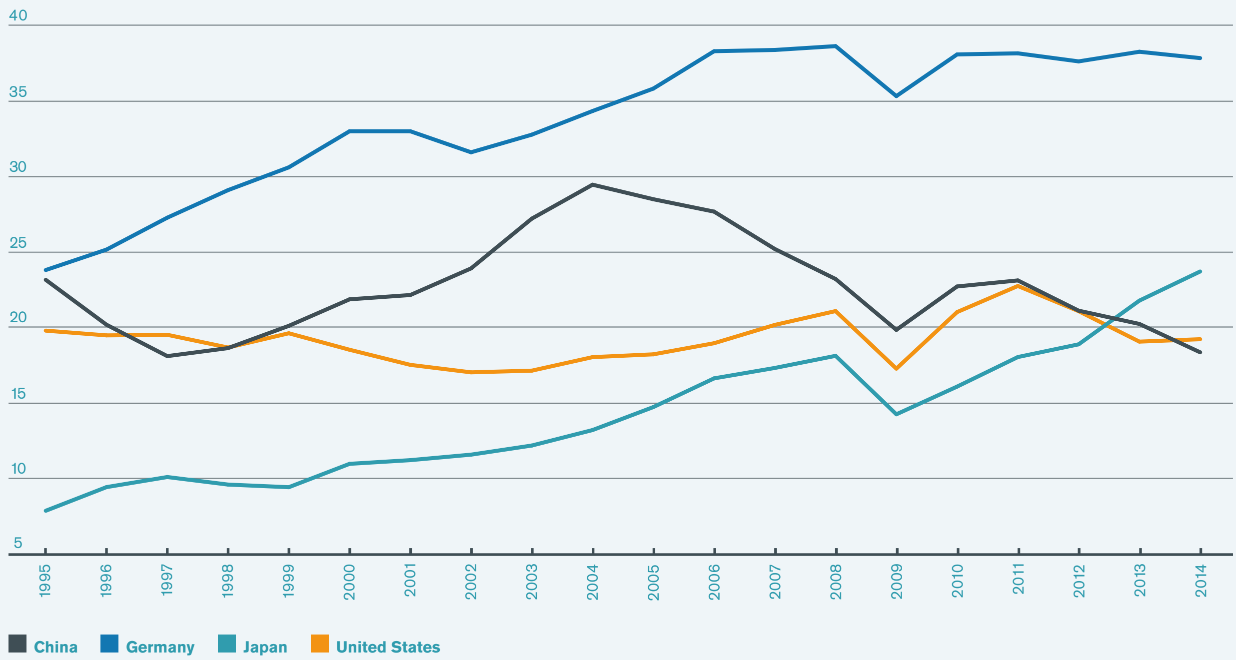
The overall weakness of imports was due on the export side to slow growth of shipments from both developed and developing economies. For 2016, imports of developed economies grew 2.0 per cent while those of developing economies stagnated at 0.2 per cent. Exports recorded modest growth of 1.4 per cent in developed economies and 1.3 per cent in developing economies.

Worldwide, regions were affected to varying degrees by the slump in trade in 2016 (see Chart 3.6). The first quarter was characterized by financial turbulence that affected China and its regional trading partners as fears of an economic slump and currency

Import adjusted demand and the role of investment

A WTO working paper by Auboin and Borino examines the reduced sensitivity of trade to GDP, explaining the post financial crisis trade slowdown in terms of the expenditure components of demand (consumption, government spending, investment and exports). The paper develops an import intensity-adjusted measure of demand (IAD) that takes into account the import content of spending, with investment being the most trade intensive in most countries and government expenditure being the least. This measurement explains as much as 80 per cent of the trade slowdown since 2012-15 and could help to improve the accuracy of trade forecasts in the future. The level and import intensity of investment can change over time, with implications for world trade (see Chart 3.4 and Chart 3.13). For example, the import content of Chinese investment spending fell from around 30 per cent in 2004 to 18 per cent in 2014 as China sourced more intermediate goods domestically. Meanwhile, the imported content of German investment rose from 24 per cent to 38 per cent between 1995 and 2014. These changes could possibly alter the geographic distribution of trade, with stronger trade in Europe and weaker trade in Asia. Low oil prices would also be expected to reduce investment in the energy sector. This probably contributed to the weakness of imports in oil producing and exporting countries in 2016.

Chart 3.4:
Import content of investment of selected economies, 1995-2014
(Share, %)



Source: World Input Output Database (WIOD) 2016 and WTO Secretariat calculations.

depreciation increased. Asian imports dropped in the first quarter but the slump was short-lived and Asia ultimately recorded growth of 2.0 per cent for the year.

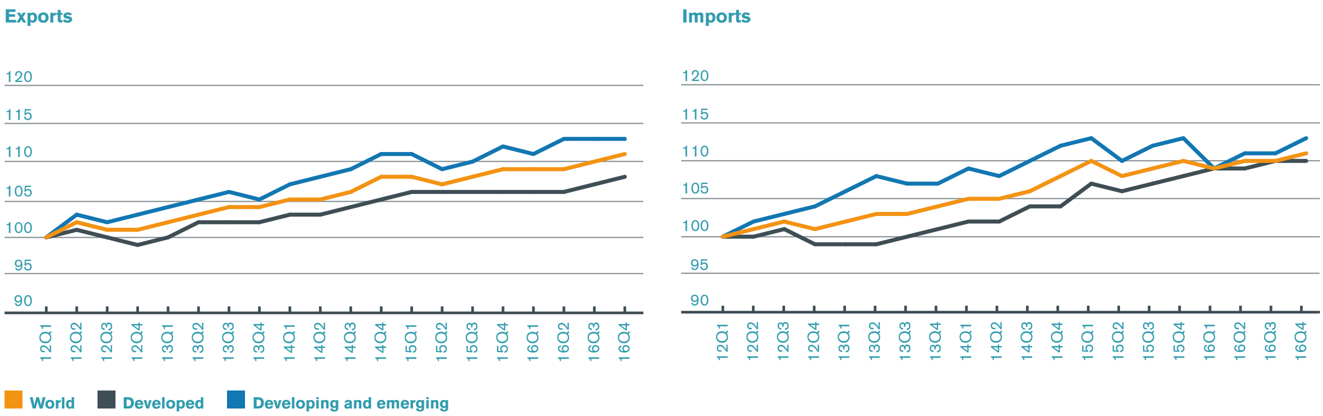
Declines in imports of South America and other regions (comprising Africa, the Middle East and the Commonwealth of Independent States, including associate and former member States) were steeper and more persistent than elsewhere, driven mostly by low commodity prices. Much of South America's decline was due to the situation in Brazil, which remained mired in a severe recession. Meanwhile, Europe's exports and imports grew faster than North America's, which have been mostly flat since the start of 2015.

Despite recording increases in its merchandise exports and imports in 2016, North America was responsible for much of the weakening of trade growth last year (see Chart 3.7). The region only contributed 0.1 percentage points to world import growth of 1.2 per cent in 2016. This is much less than in 2015, when North American imports added 1.2 percentage points to world import growth of 2.9 per cent, or 42 per cent of the total increase.

Asia and Europe were the only regions that made significant positive

Chart 3.5:

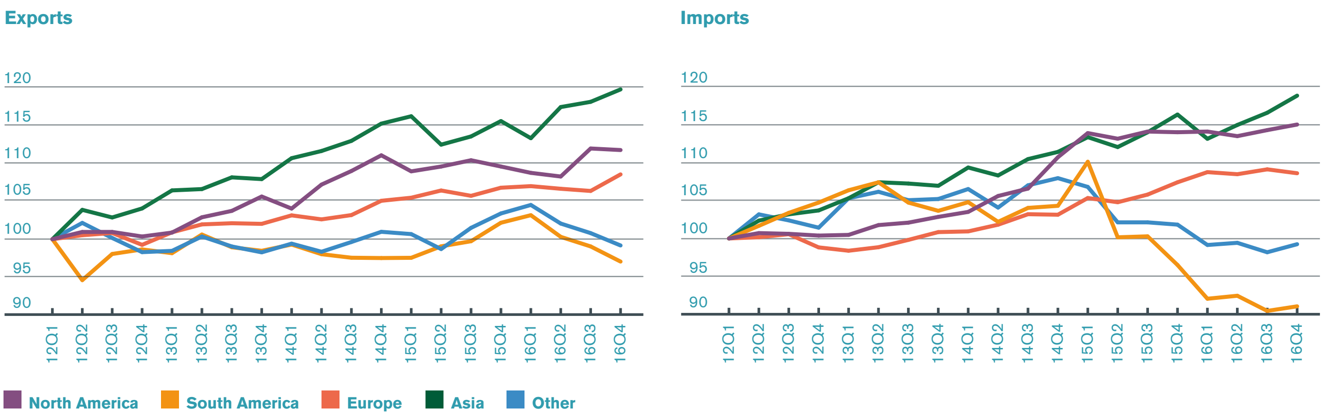
Volume of merchandise exports and imports by level of development, 2012Q1-2016Q4 (Seasonally adjusted indices, 2012Q1 = 100)



Source: WTO Secretariat.

Chart 3.6:

Volume of merchandise exports and imports by region, 2012Q1-2016Q4 (Seasonally adjusted indices, 2012Q1 = 100)

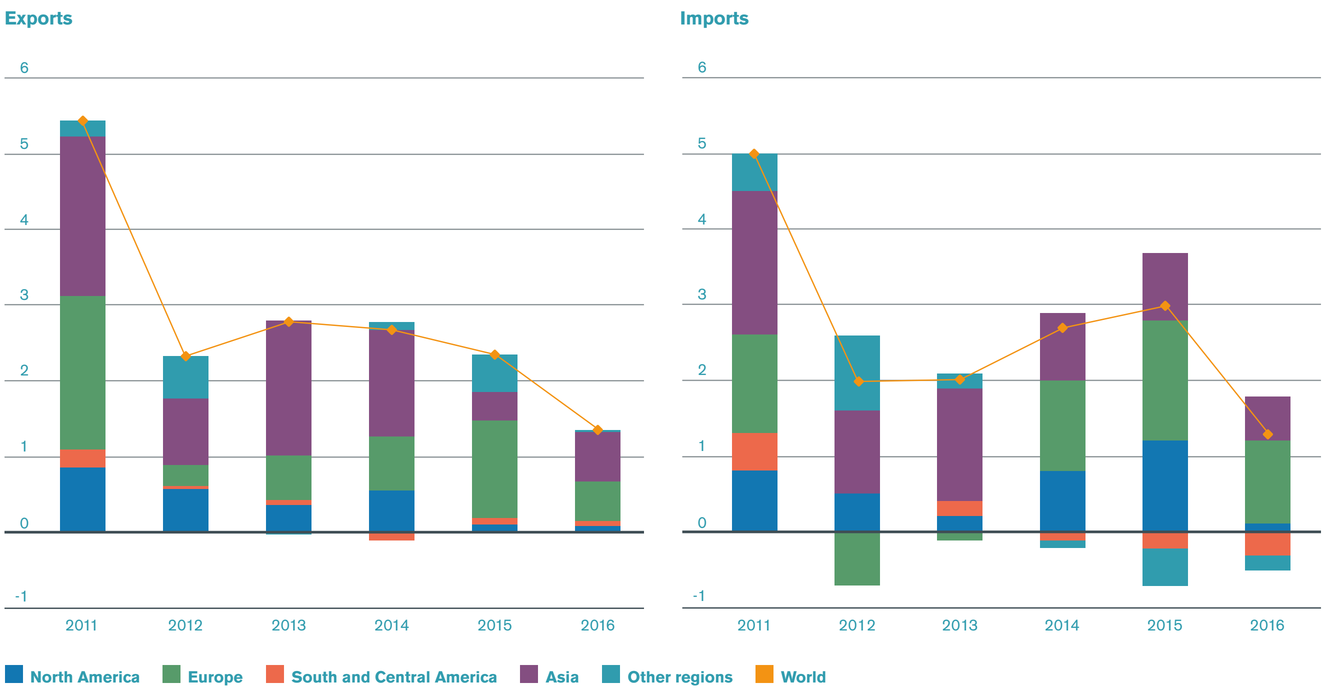


Source: WTO Secretariat.

Chart 3.7:

Contributions to world merchandise trade volume growth by region, 2011-2016

(Annual percentage change, %)



Source: WTO Secretariat.

contributions to global import demand in 2016, Europe contributing 1.6 percentage points (39 per cent of the total increase) and Asia adding 1.9 percentage points (49 per cent of the total).

Low oil prices and declining rates of investment, particularly in the energy sector, are two of the reasons for North America's lacklustre trade performance in 2016. Investment made hardly any contribution to GDP growth in the United States in 2016 (see Chart 3.13).

Investment is the most import intensive component of GDP and has been particularly weak in developed economies since the financial crisis, with sharp contractions in Europe in 2012 and 2013 during the sovereign debt crisis. The contribution of investment to China's economic growth has also declined, albeit more gradually. Investment accounted for more than half of China's GDP growth in 2012-13, but by 2016 this had fallen to 39 per cent.

Commodity prices and exchange rates played a large part in determining regional contributions to world trade growth in 2016. Plunging prices for oil and metals since the middle of 2014 have deprived resource-exporting regions of revenue needed to purchase imports, thereby reducing the volume of their imports. Prices have stabilized and staged a partial recovery since the start of 2016, but a return to price levels of a few years ago is unlikely as long as oil inventories remain high in major economies. Falling commodity prices tend to help net importers and harm net exporters, so their impact at the global level evens out in principle. In practice, however, the price slide since 2014 appears to have had a large negative impact on resource-producing countries without a corresponding boost to resource-importing countries.

Chart 3.8 illustrates that fuels and mining products exerted a strong negative influence on trade growth in value terms for the first three quarters of 2016 but this contribution turned positive in the fourth quarter as commodity prices recovered. This bodes well for trade growth in 2017.

Trade in commercial services

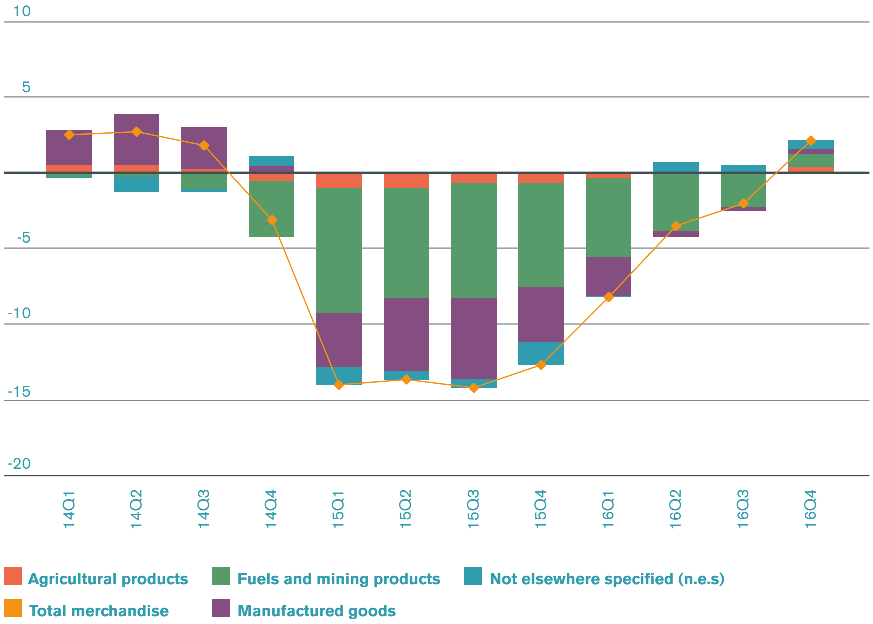
As noted previously, world commercial services trade recorded growth of just 0.1 per cent in 2016. This followed a much sharper decline of 5.5 per cent in

2015, which was strongly influenced by the appreciation of the US dollar. Chart 3.9 shows percentage changes in the dollar value of exports of commercial services since 2013, broken down by the main categories of services trade. Exports of transport services, which are closely linked to goods trade, fell 4.7 per cent in 2016 following a fall of 9.5 per cent in 2015. Other types of services exports saw modest gains last year, including other commercial services (0.9 per cent), a category that includes financial services.

Quarterly data provides additional perspectives on changes in commercial services trade over the course of 2016. Chart 3.10 shows that year-on-year growth in world exports of commercial services strengthened in the first three quarters of 2016 before weakening in the fourth quarter. The weakness in this final period is mostly due to weaker services trade in Europe, since exports and imports of North America and Asia remained quite strong in the final quarter.

Chart 3.8:

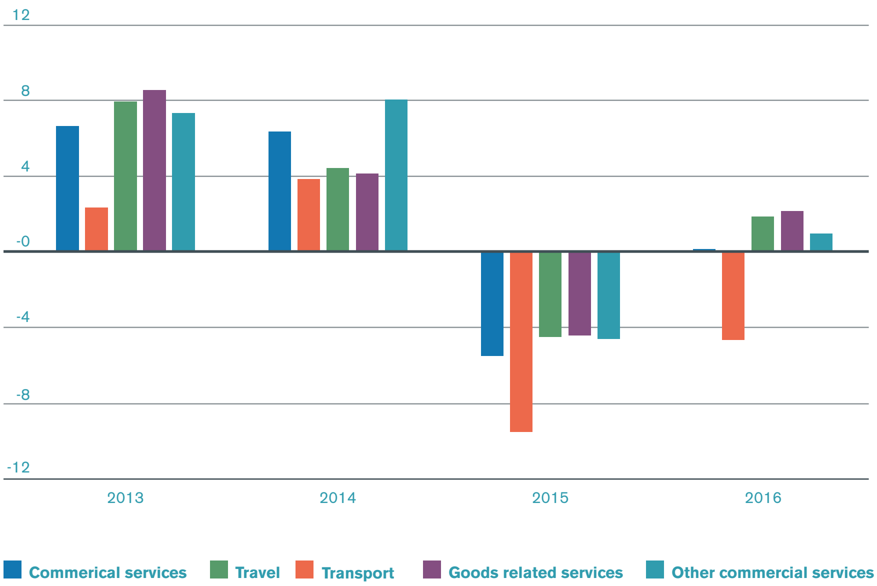
Contributions to year-on-year growth in the current dollar value of world merchandise trade by product, 2014Q1-2016Q4 (Percentage change, %)



Source: WTO Secretariat estimates based on partner statistics.

Chart 3.9:

Growth in the value of exports of commercial services by category, 2013-16 (Annual percentage change, %)



Source: WTO Secretariat.

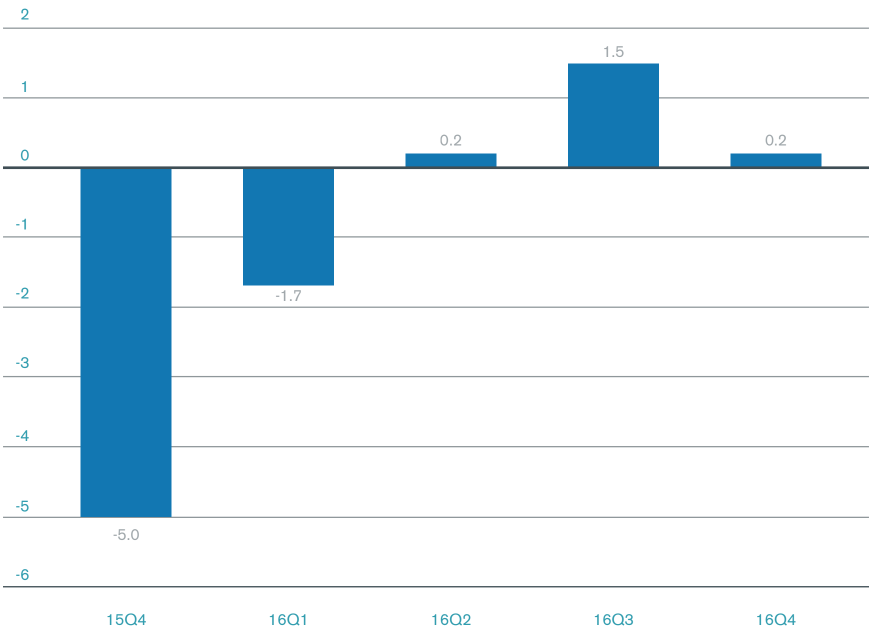
World trade and economic growth in early 2017

Leading indicators of trade were generally positive in the early months of 2017. This suggests a strengthening of trade at the start of this year. For example, container throughput of major ports has recovered from its slump of 2015-16 to reach a record high level in February, with year-on-year growth of 5.2 per cent in the first two months of 2017 (see Chart 3.11). New export orders also climbed to their highest level in several years in February, pointing to faster trade growth in the near future (see Chart 3.12). Balanced against these positive indications are a number of clear and significant risks. Unexpected inflation could force central banks to tighten monetary policy more quickly than they would like, undercutting economic growth and trade in the short-run. Changes in fiscal policy could also have unintended international consequences that could reduce global economic activity and trade. Other factors, such as the uncertainty provoked by the United Kingdom's withdrawal from the European Union, could potentially have an effect.

Finally, the possibility of a rise in the application of restrictive trade policies could affect demand and investment flows, and cut economic growth over the medium to long term. In light of these considerations, the likelihood of downside risks

Chart 3.10:

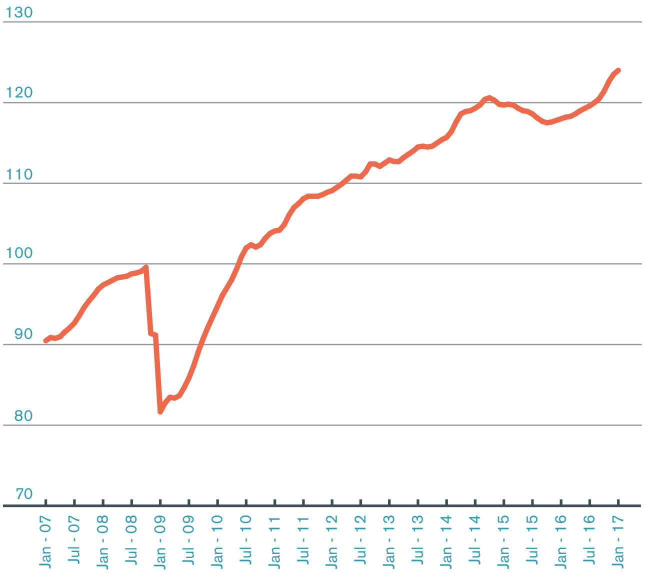
World exports of total commercial services, 2015Q4 - 2016Q4
(year-on-year percentage change,%)



Source: WTO Secretariat.

Chart 3.11:

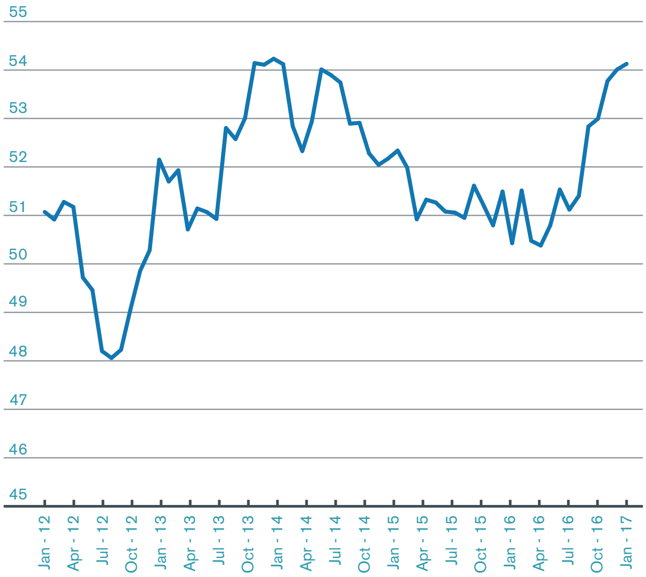
Container shipping throughput index, January 2007 - February 2017
(Seasonally adjusted trend index, 2010 = 100)



Source: Institute for Shipping Economics and Logistics.

Chart 3.12:

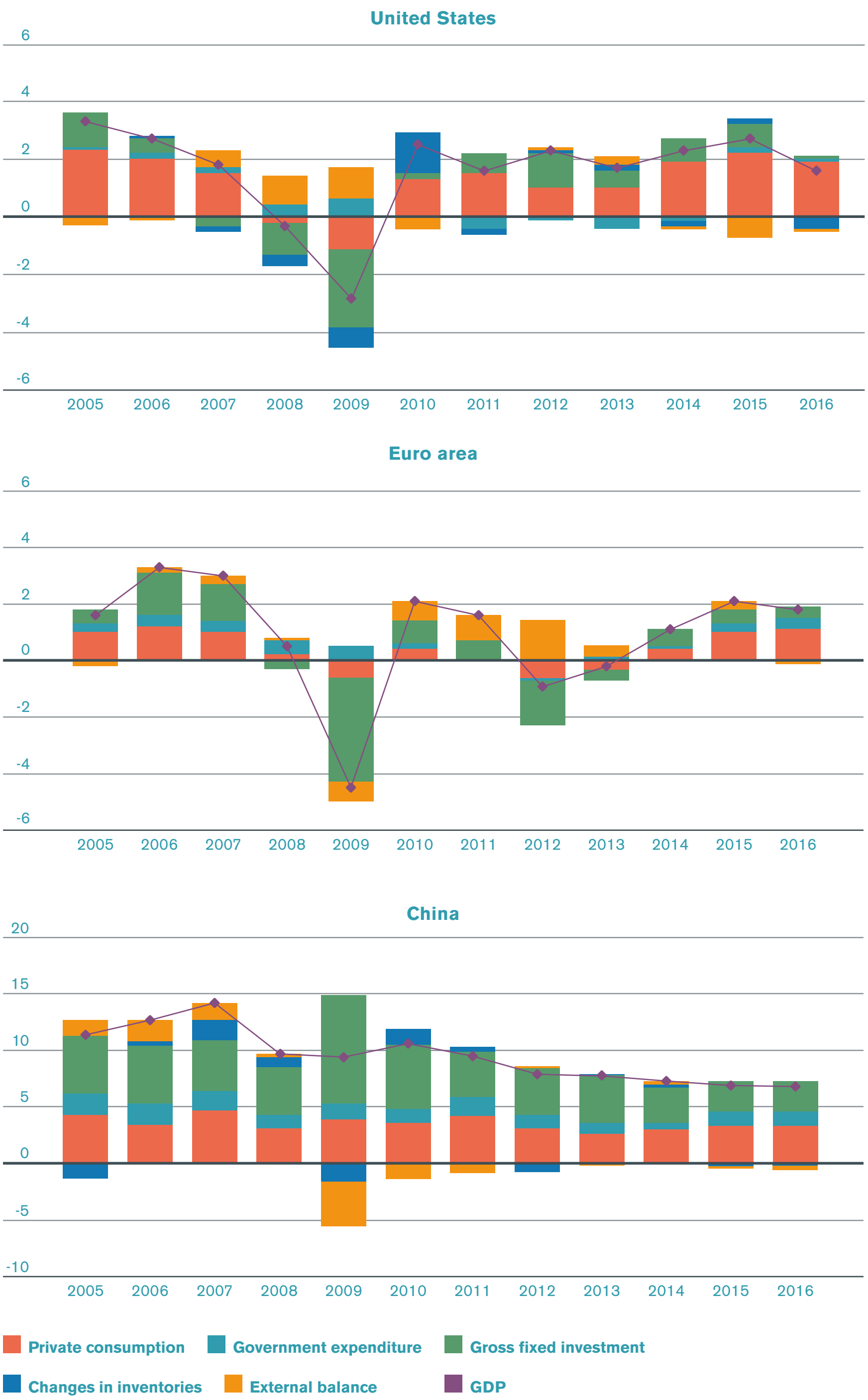
Global purchasing managers index of new export orders, January 2012 – February 2017
(Index, base = 50)



Note: Figures greater than 50 indicate expansion while values less than 50 denote contraction. Source: IHSMarkit.

Chart 3.13:

Contributions to GDP growth of selected economies, 2005-16
(Annual percentage change and percentage points)



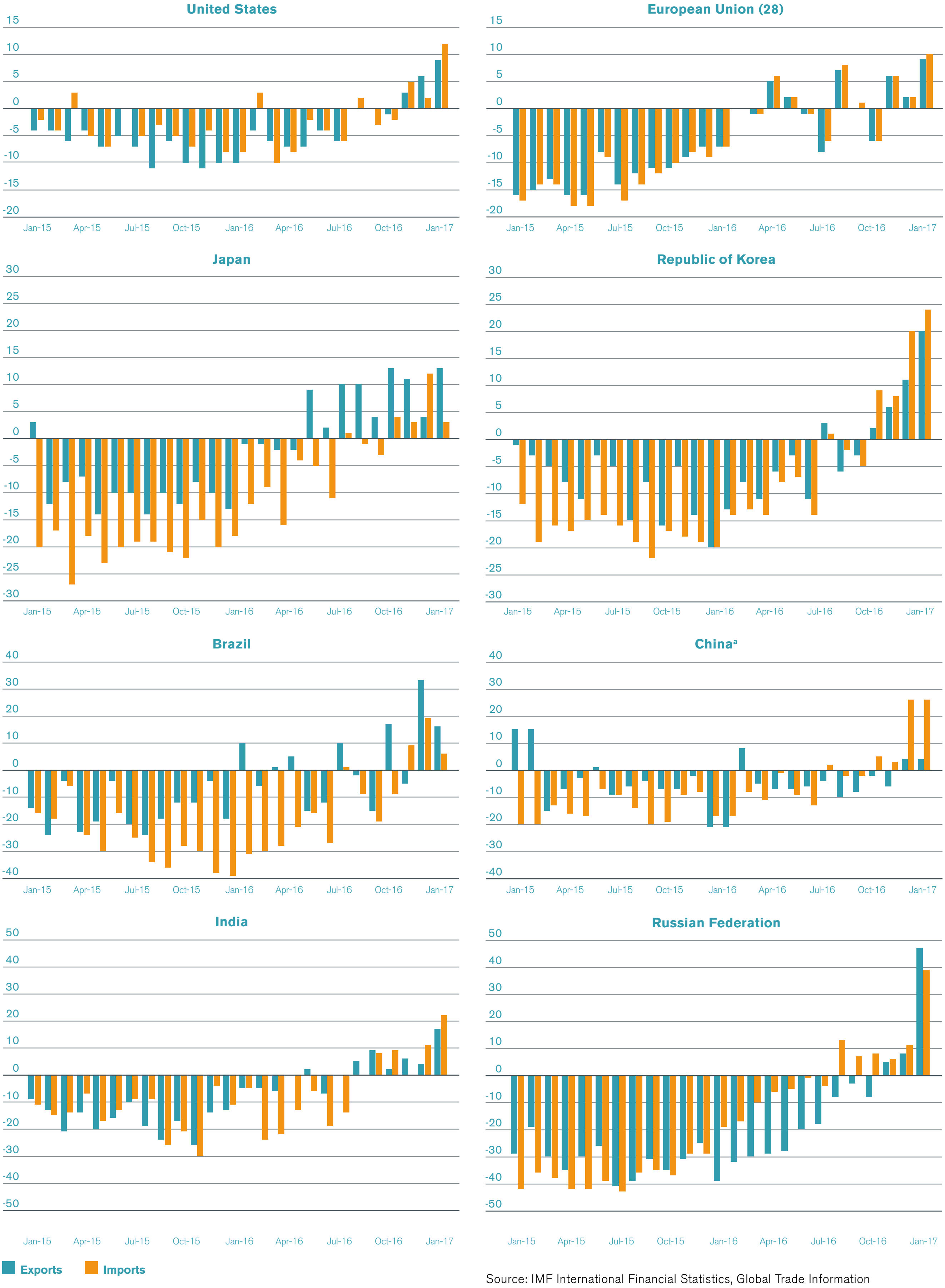
Sources: OECD for the United States and euro area, National Bureau of Statistics and Economist Intelligence Unit for China.

materializing over the course of the year is considerable.

Chart 3.14 shows year-on-year growth in monthly exports and imports of selected major economies up to February of this year. Trade values rose in the early months of 2017 but it is uncertain whether this growth can be sustained throughout the year. Much of the increase can be explained by weakness in trade growth in the previous year rather than strong growth in the current year.

Chart 3.14:

Merchandise exports and imports of selected economies, January 2015–February 2017
(Year-on-year % change in current dollar values)



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

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