

Box 2

TRENDS IN WORLD TRADE FOLLOWING THE FINANCIAL CRISIS

A striking feature of the recent financial crisis was the collapse in world trade, which was highly synchronised across countries and regions.¹ Between the third quarter of 2008 and the second quarter of 2009 global trade volumes declined by approximately 15% and, thus, much more steeply than world GDP, which fell by around 2% over the same period (see Chart A). This partly reflects the fact that global trade is more cyclical than global economic activity, because the more “trade-intensive” GDP components – such as private investment, durable goods consumption and inventories – experience larger swings than non-traded goods and services over the business cycle. The increased presence of global supply chains in recent years may have further amplified this effect.

¹ For more details, see the article entitled “Recent developments in global and euro area trade”, *Monthly Bulletin*, ECB, August 2010.

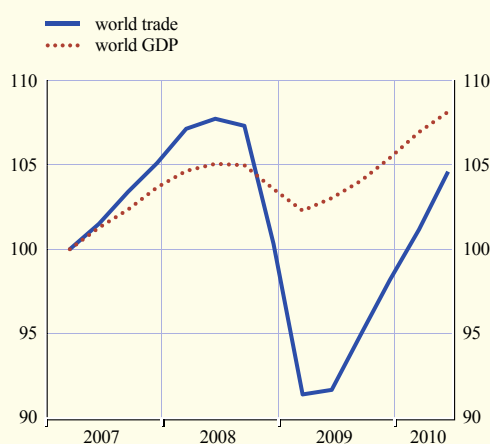
Following this severe downturn, world trade recorded a vigorous rebound which started in the second half of 2009 and continued well into the first half of 2010 (see Chart A). By the second quarter of 2010 global trade had recovered by more than 14% from its trough, although it still remained somewhat below the level recorded in the third quarter of 2008 before the intensification of the financial crisis.

The pace of the recovery in global trade seems to have moderated in the second and third quarters of this year. Monthly data from the Centraal Planbureau (the Netherlands Bureau for Economic Policy Analysis) – which provides timely data on global trade in goods – suggest that the momentum of growth in global trade in goods has slowed, declining from 5.4% in the first quarter of 2010 to 2.8% in July (on a three-month-on-three-month basis). Recent survey-based data point to a further slowdown in growth in the third quarter. The new export orders component of the global Purchasing Managers' Index (PMI), which is strongly correlated with developments in global trade, has declined steadily over the past few months. In September it stood at 52.1, significantly below the peak of 58.5 recorded in April (see Chart B). At the same time, it remained above the expansion/contraction threshold of 50, suggesting that global trade is continuing to expand, although at a more subdued rate than in the first half of the year.

The recent trends in and near-term prospects for global trade are affected by the unwinding of several transitory factors. During the financial crisis, fiscal stimulus measures – most prominently car scrappage schemes – supported global trade. As these measures are being phased out and governments are embarking on a process of fiscal consolidation, the previously supportive effects on trade are unwinding. Moreover, inventory dynamics magnified both the downturn and the subsequent upturn in global trade. More recently, however, inventories have been approaching levels in line with historical averages, which implies that restocking is likely to have a less

Chart A World trade in goods and services and world GDP

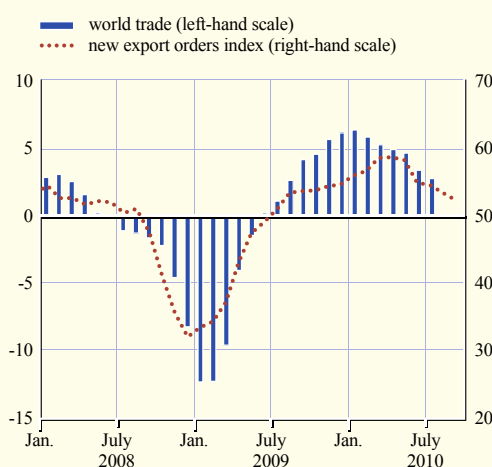
(index: Q1 2007 = 100; quarterly data)



Source: ECB.
Note: The latest observation refers to the second quarter of 2010.

Chart B World trade in goods and the new export orders component of the global PMI

(three-month-on-three-month percentage changes; diffusion index)



Sources: Centraal Planbureau and Markit.
Note: The latest observation refers to September 2010 for the export orders component of the Purchasing Managers' Index (PMI) and July 2010 for world trade.

pronounced effect on global trade in the near term. Finally, the strong rebound in global trade may also reflect a technical correction following the extremely sharp fall during the crisis.

Looking ahead, trade levels are likely to remain below their pre-crisis trajectory for some time to come. First, trade-intensive sectors are credit-sensitive. As lending standards are unlikely to return to pre-crisis standards in the near future, persistent repercussions on the level of trade cannot be ruled out. Second, in several advanced economies, demand for non-tradable goods has increased somewhat relative to demand for durable goods, as consumers repair their balance sheets and thereby tend to reduce their expenditure on durable goods more than their spending on services.² This is also likely to have a negative impact on global trade. In the longer term world trade growth can be expected to continue to outpace growth in economic activity, as emerging economies continue to integrate rapidly into the world economy.

Overall, the vigorous recovery in global trade in recent quarters was partly a technical correction and is waning now, as suggested by recent survey data releases. Meanwhile, there is little evidence that global trade integration has been hindered by the financial crisis. While tight credit standards and balance sheet restructuring are likely to dampen trade growth for some time to come, in the longer term world trade prospects will largely depend on the outlook for global economic activity and the ongoing globalisation process.

² See also Chapter 4 entitled “Do financial crises have lasting effects on trade?”, *World Economic Outlook*, IMF, October 2010.