

World Trade: Recovering Without the Emerging Markets

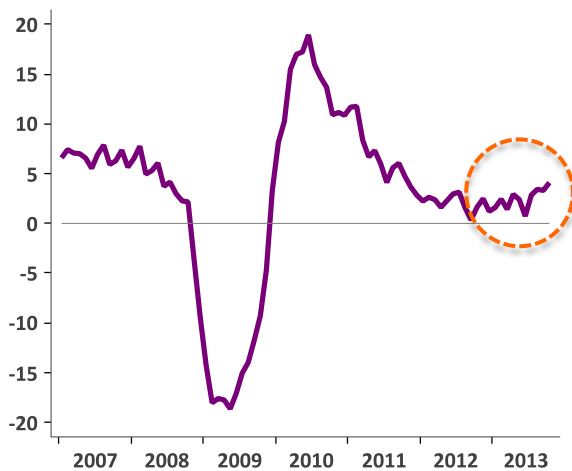
World trade has bounced back a bit since the end of summer. The improving European economy is one big reason. For its part, US demand has been trending more favorably since mid-year. And lastly, Japanese imports are ramping up, posting year-on-year volume growth of 5% in recent months despite significant yen weakening. So the improvement is broadly based and starting to have an impact on activity, at least in the developed countries.

Which means that, yes, this rosy picture leaves out the emerging countries, which continue to grapple with unusually soft growth in demand for imports. The reason for the anomaly? China is buying less, which is hurting export activity in the other emerging countries; Japan has reasserted itself; and demand for capital goods is sluggish. As a result, the driving force behind intra-regional Asian trade – and trade among emerging countries in general – has slackened considerably.

These trends take some of the luster off of the enthusiasm sparked by the encouraging signs coming from the developed world.

World Imports of Goods

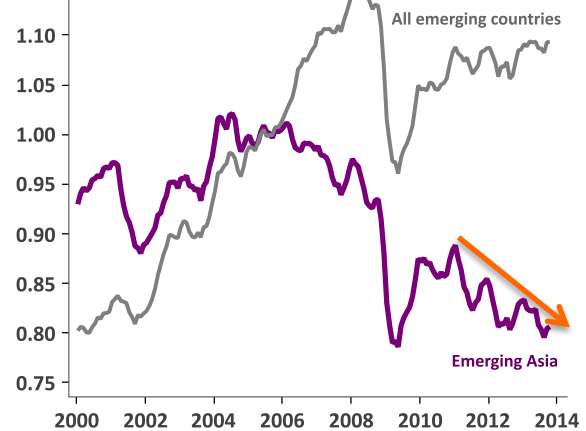
YoY, in volume, %



Sources: RichesFlores Research, CPB, Macrobond

Import Content of the Production of Emerging Countries

Imports/production in volume



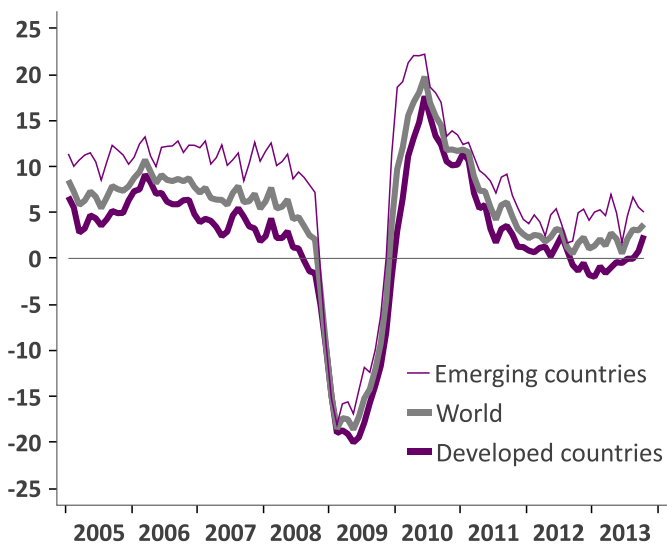
Sources: RichesFlores Research, Macrobond

Nearly stagnant for more than a year, world trade has recently been looking up. In the two months to October, world import volumes grew by more than 4% year on year, the strongest pace in over two years and a trend that probably continued to improve through the end of 2013.

Most industrialized countries were part of the improvement in international demand, although sector support remains fragile.

Growth in World Trade

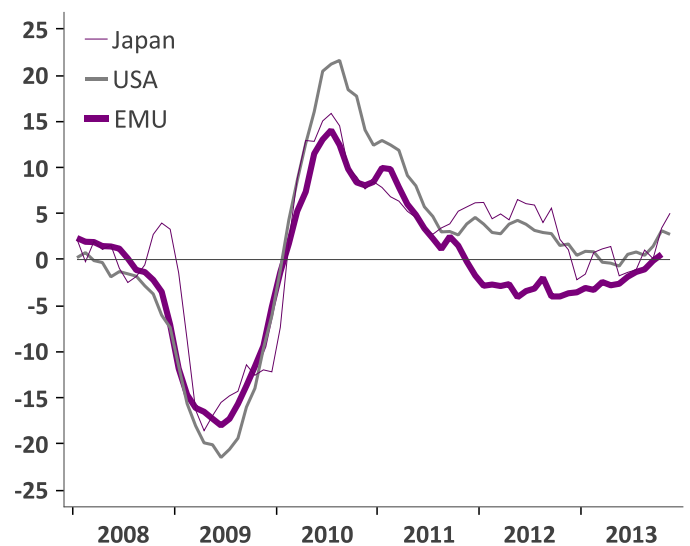
Volume, YoY, 3MMA, in %



Sources: RichesFlores Research, Macrobond

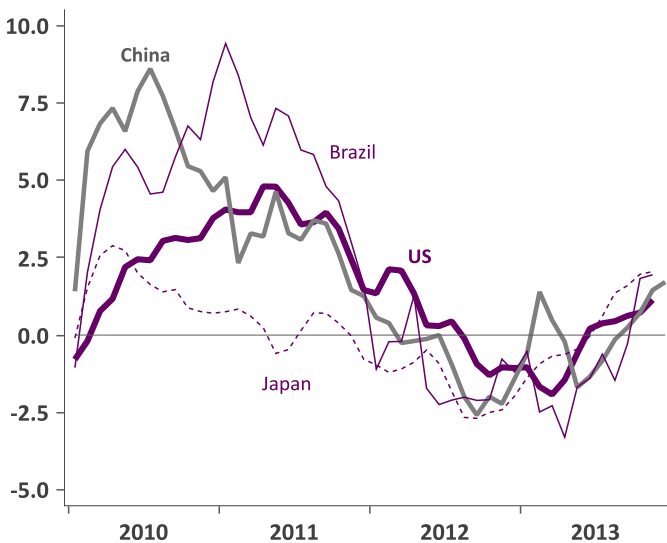
Imports of Goods

12-month growth, volume in %



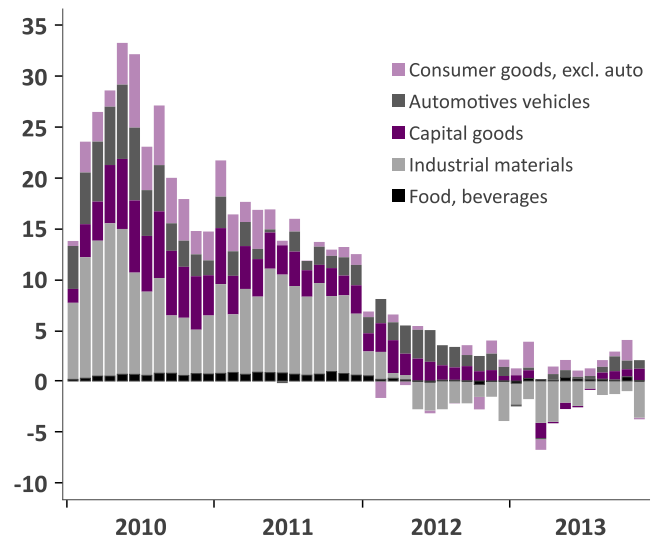
Sources: RichesFlores Research, Macrobond

EU Contributions to Annual Growth of Exports of Different Countries



Sources: RichesFlores Research, Macrobond

Sector Contributions to Annual Growth of US Imports, in % pts



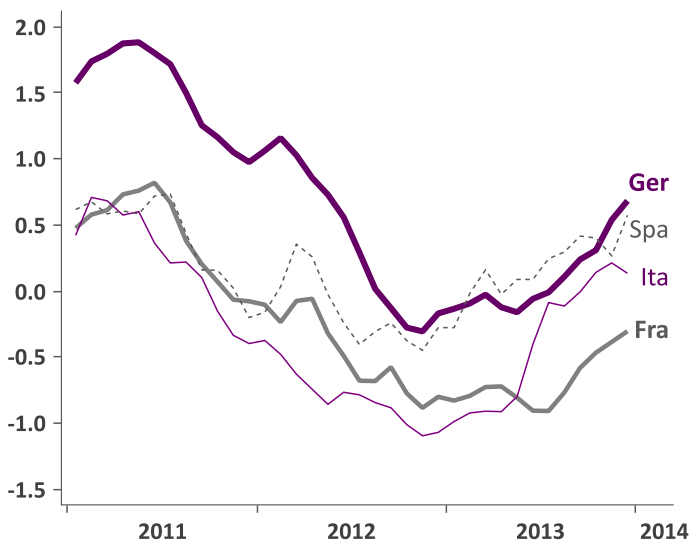
Sources: RichesFlores Research, Macrobond

The improvement in trade, combined with the surge in confidence seen in recent months, is starting to have an impact on activity.

- Export orders have risen in every single euro zone country of late, including France.
- In the U.S., export activity as reflected by the ISM survey has also improved substantially. The export orders index notably heralds a sizeable increase in exports' contribution to annual GDP growth.
- Lastly, Japan's strategy appears to be paying off, with a uniformly impressive impact on export activity and a clear boost to corporate margins.

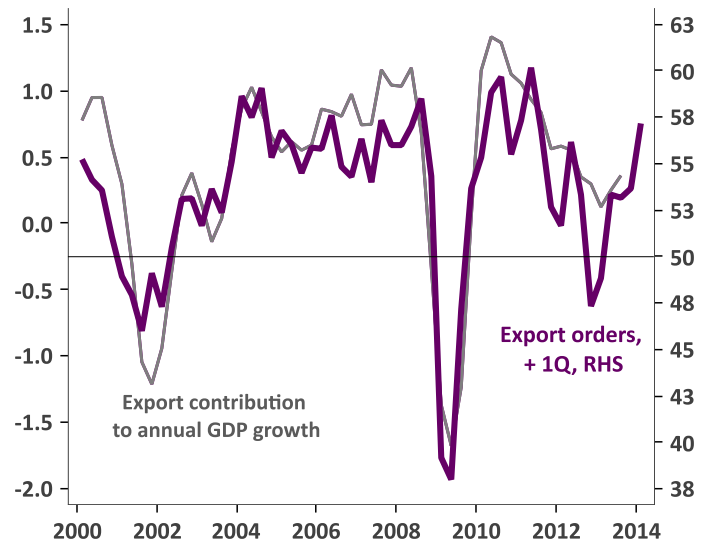
Europe: Business Opinion on Exports

Opinion Balance, centered-standardized, 2MMA



Sources: RichesFlores Research, Macrobond

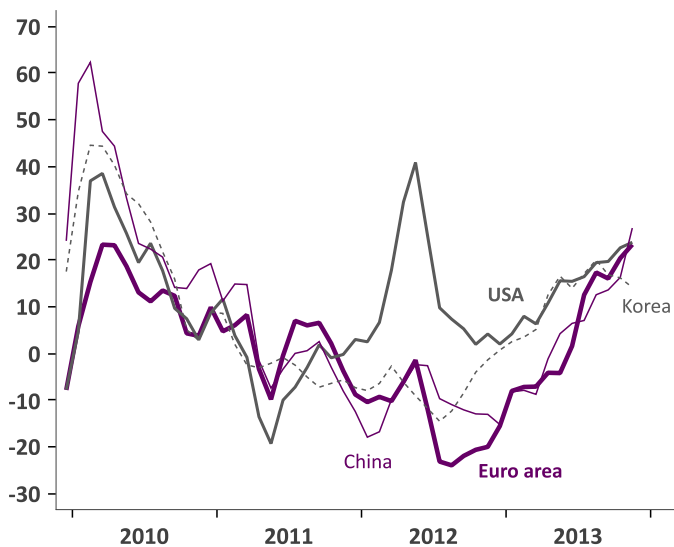
USA: Export Orders and Export Contribution to GDP Growth



Sources: RichesFlores Research, ISM manuf, Macrobond

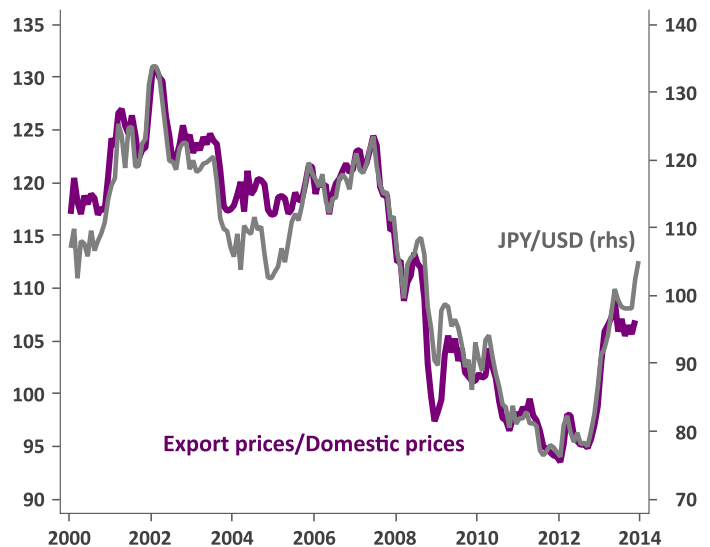
Japan: Exports by Destination

YoY in %, JPY



Sources: RichesFlores Research, Macrobond

Yen's Exchange Rate and Indicator of Japan's Export Margins



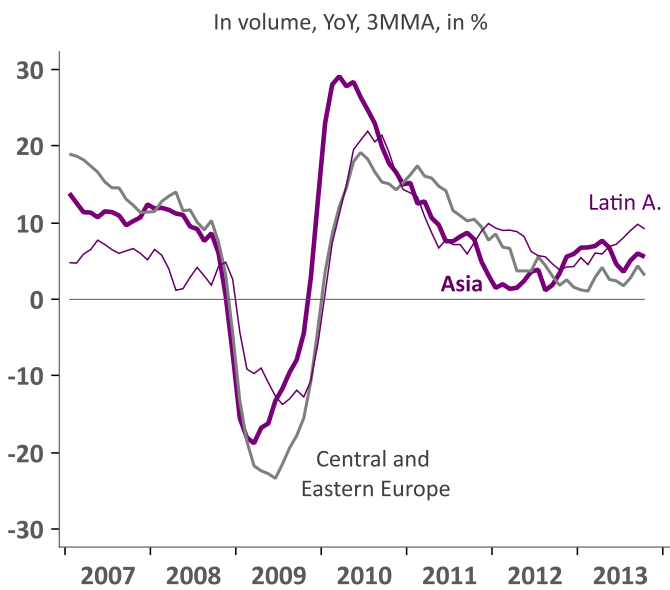
Sources: RichesFlores Research, Macrobond

By contrast, emerging countries continue to lag. While exports to developed countries are picking up, trade between emerging countries remains severely diminished. We see three main reasons for this:

- The Chinese economy, having turned inward, has not yet reasserted itself as the force driving the other emerging countries, as it did from 2005 to 2011,
- Asia appears to be paying a heavy price for Japan's efforts to boost competitiveness,
- The investment recovery is not yet in place at the international level.

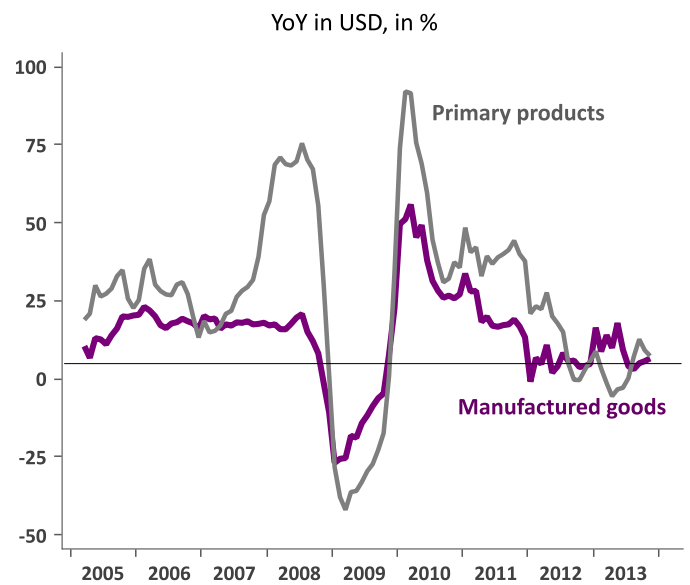
This state of affairs continues to weigh on the outlook for the emerging world and, by extension, for the major export countries, Germany in particular.

Trade of Emerging Countries



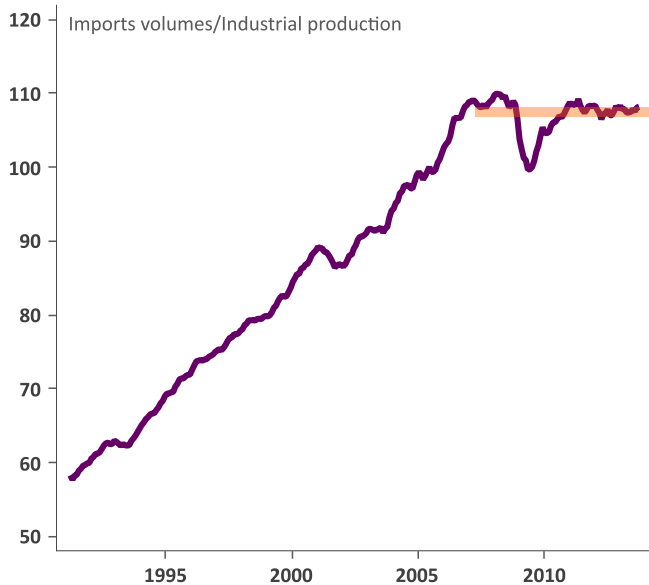
Sources: RichesFlores Research, Macrobond

China's Imports



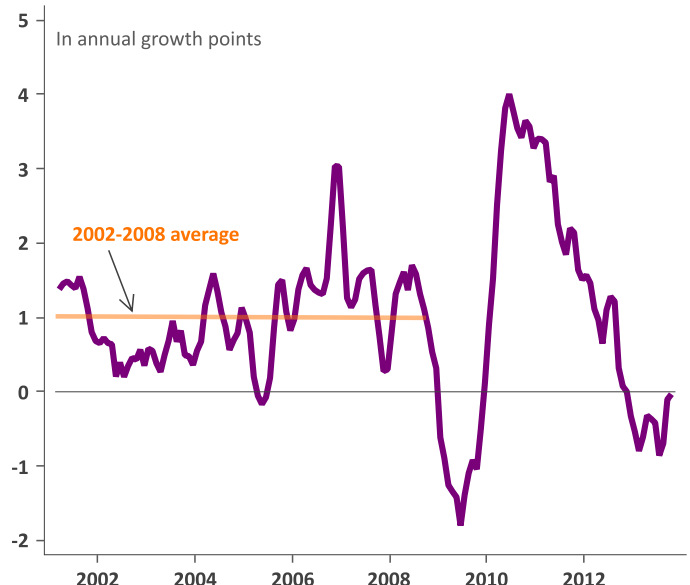
Sources: RichesFlores Research, Macrobond

Import Content of World Production



Sources: RichesFlores Research, Macrobond

BRICs Contribution to German Export Growth



Sources: RichesFlores Research, Macrobond

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