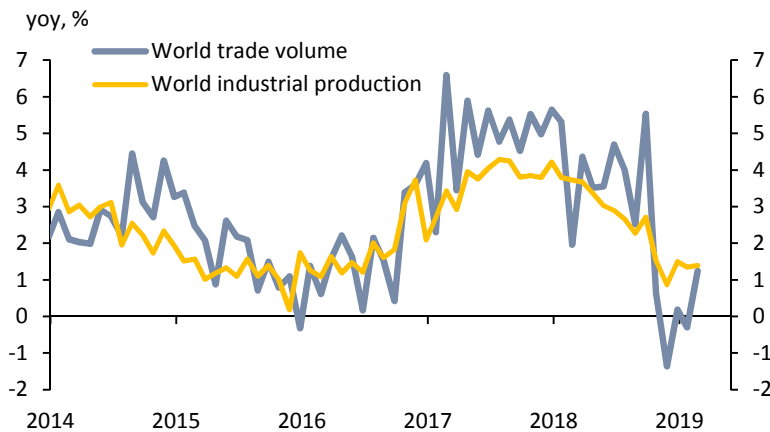




24 May 2019

## World trade volumes bounce in March but remain soft

### World trade volume and industrial production



Source: Netherlands Bureau for Economic Policy Analysis and Berenberg Capital Markets.

- **The global economy is mired in a trade and industrial slump.** The Netherlands Bureau for Economic Policy Analysis estimates that world trade volumes increased by 0.5% m/m in March, lifting its yr/yr change to a modest +1.2% from -0.3%. As with all bouncy high-frequency data, one month's change does not reflect a trend, world trade volumes are 1.9% below the October peak, and its underlying trend is still soft. World industrial production increased by 0.6% m/m, leaving its yr/yr change at 1.4%, also soft. Current conditions resemble the 2014-16 global slump.
- **China's economic slowdown and weakness in export-related manufacturing are driving the global slump.** China has led global trade and economic growth for two decades and its slowdown—which is more pronounced than its official data suggest—is being aggravated by tariffs and trade policy uncertainties. This has soured global manufacturing output, sentiment, and investment. China's big trading partners—Japan, South Korea and Asia, Germany and Brazil among others—are feeling the direct brunt, but it has spread globally.
- **We expect trade volumes to stabilize in H2 and rise modestly.** This will provide a lift to global production and economies, but we caution that the rebound may be more modest than many expect. Presently, any sustained rebound hinges on the efficacy of China's aggressive economic stimulus initiatives and some resolution of the U.S.-China trade impasse that eases uncertainties and unclogs global production supply chains.
- **The U.S.-China negotiations are thorny and complex and go way beyond trade issues.** Treatment of intellectual property (including forced technology transfers and protective investment policies) which is at the leading edge of economic growth prospects and future standards of living, is the major focus of the skirmish. Quite naturally, China does not want to give up the advantages that have been critical to its emergence to super-power status. Also at issue is China's heavy subsidization of its SOEs, which is integral to China's economic system. Both China and the U.S. depend on each other and their leaders need some kind of resolution.
- **We expect "progress" on some aspects of the negotiations to unfold in coming months and ease tensions, but anticipate ongoing skirmishes to continue into the future; that is the nature of battles among global super-powers.**

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