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Daily Observations

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(203) 226-3030

Phil Salinger
Billy Prince

The Tightening of Liquidity Is Creating a Modest Drag on Global Demand but a Larger Drag on Global Trade

The withdrawal of liquidity in the US and Europe has had only a modest impact on demand so far, but that modest decline in spending has been enough to create a more material decline in global trade growth. For logical reasons, cross-border trade tends to be more volatile to the upside and downside than the broader economy, since goods traded between countries tend to be in more cyclical sectors with a relatively high beta to incomes. Recently, the improvement in global growth from 2015 to 2017 of a few percentage points coincided with an increase in global exports of roughly 10%. Now, as the global expansion moderates, the reverse is occurring, and export growth has already hit ~0% in the first few months of the year. The slowdown in import demand has been broad-based across countries and sectors, but has largely emanated from slowing in the US and Europe where the tightening is occurring. This moderation has flowed through to notable economic and asset underperformance in more trade-oriented countries (e.g., most of the European region and particularly trade-exposed parts of Asia). The slowdown in import growth looks largely cyclical so far—i.e., explained by the moderation of global growth from very strong toward potential, rather than by escalating trade tensions or other secular headwinds to globalization such as rising unit labor costs in the emerging world, but these pressures pose additional downside risks to externally exposed economies. These risks are already manifesting to some extent in larger than usual asset market underperformance in these economies relative to the slowdown in global growth (in large part attributable to escalating trade tensions). Going forward, even without a view on the political and secular dynamics, we expect the moderation to continue as monetary and fiscal tightening in the developed world continue to push growth toward potential, which should continue to weaken those around the world reliant on trade.

Note: All trade data shown is non-commodity goods trade-adjusted for re-exports

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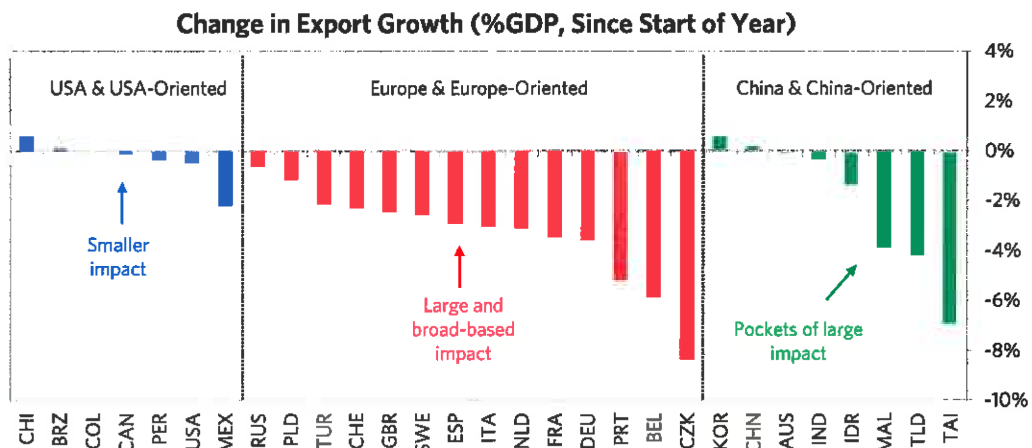
Give Feedback

Even the Modest Slowing So Far Has Created a Large Drag on Externally Oriented Economies

Over the past few years, roughly every economy in the world benefited from the upswing in global growth and trade, particularly those most reliant on exports. Global trade now rolling over has the opposite effect—i.e., it is taking some of the momentum out of the expansion and is already having a large and levered impact on the global economy's externally oriented economies. In terms of how the slowdown in exports is impacting economies, most of Europe is experiencing a material drag from the slowdown in trade, as are several economies in Asia that are very externally exposed and tend to export particularly cyclical goods (e.g., semiconductors and other electronic and computer parts). The US and other economies particularly closely tied to it have experienced a notably smaller drag thus far as they are generally less externally exposed.

Change in Export Growth (%GDP, Since Start of Year)



The relative impacts we are seeing are broadly consistent with how externally oriented different economies are; consistent with the idea that the more externally oriented an economy, the more levered that economy is to global growth and trade. Much of Europe and parts of Asia stand out as particularly export-reliant, especially relative to the US and some of its neighboring economies.

Exports (%GDP)

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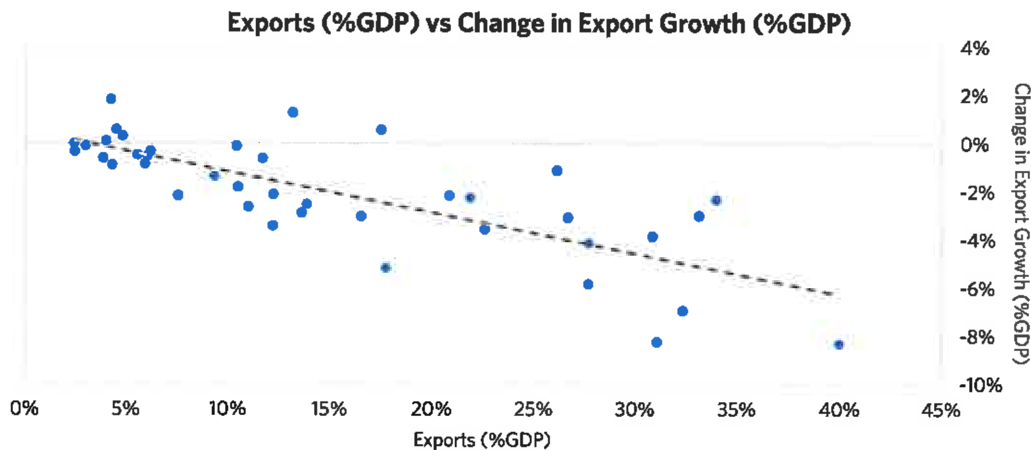
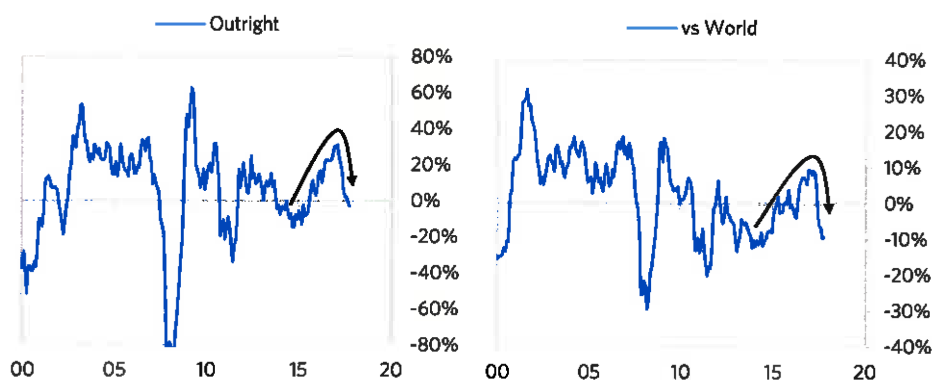
The relationship between an economy's export reliance and the recent drag on growth they have experienced from the trade slowdown has been strong (which is consistent with how it typically works). The chart below shows the level of exports (as a share of GDP) relative to the recent change in export growth (also as a share of GDP)—you can see that the more externally oriented economies have generally experienced a disproportionate drag, and vice versa.



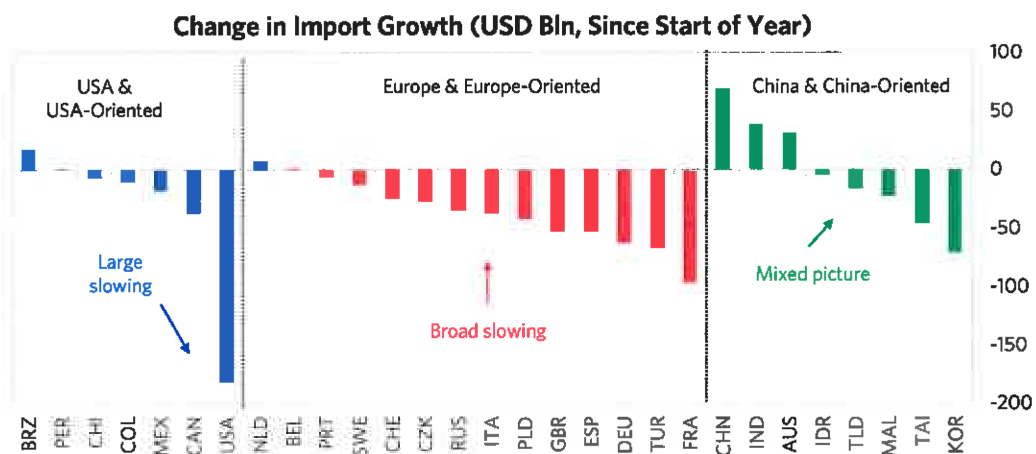
Consistent with their levered economic exposure to global growth, trade-heavy economies' asset performance is similarly sensitive both on an outright basis and relative to global markets more broadly. After a period of outperformance last year amid rising global growth and trade, equities in these economies (shown here in dollar terms) have begun to underperform since the slowdown has taken hold. In addition to the direct impact of slowing trade, some of these markets (e.g., those in Asia) have additionally been hit by rising trade tensions between the US and China. This has driven some modest underperformance relative to how slowdowns in trade typically flow through.



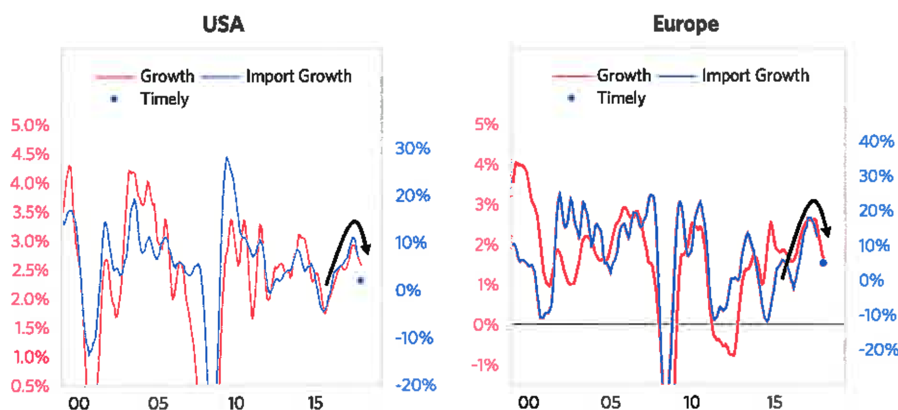
Give Feedback

The Slowdown in Import Demand Has Been Broad-Based, but Led by the US and Europe

Of course, exports will always be in large part a function of who is on the other side of the transaction—i.e., the demand of those choosing to consume imports. When we look at the composition of what economies are driving the slowdown from the demand side, two things are relatively clear: (1) the slowdown appears to fairly broad-based across most of the world's major economies and (2) a majority of the slowdown has come from the US and Europe, consistent with some leveling off/slowing in these economies and their role as major drivers of the global economy. Chinese import demand growth, on the other hand, has remained relatively stable thus far, consistent with (1) policy makers managing to keep growth reasonably stable amid targeted tightening and (2) more generally, the independence of the Chinese economy within the global economic landscape. Going forward, we see pressures for each of these engines of global growth and trade to moderate (see our *Observations* of August 21, 2018).



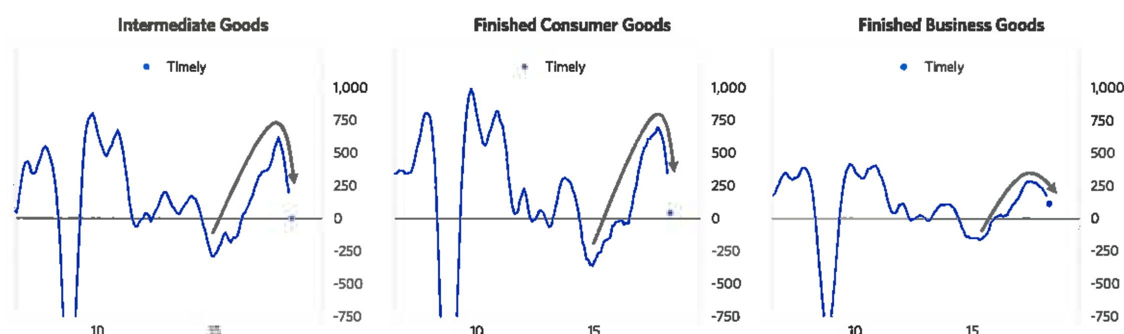
The slowdown in import demand from the US and Europe has occurred roughly in line with the recent leveling off of these economies, albeit at a materially stronger pace (e.g., in the US, you can see the slowdown in import growth has been close to 10% given a ~0.5% move in aggregate growth).



Give Feedback

Looking across sectors, the slowdown in trade has been relatively broad-based, with some modestly outsized slowing in more cyclical sectors such as intermediate goods (in particular, electronic and computer parts) and consumer goods (e.g., autos and home goods). Demand for finished business goods has been more resilient—consistent with these goods making up a smaller portion of global trade and their concentration in moderately less cyclical sectors (e.g., those more tied to longer-term capital investment).

Import Growth by Sector (USD, Bln)



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