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Delta Economics | Global Trade Profile

2nd Quarter 2013

About Delta Economics

Delta Economics is a pre-eminent source of specialist forecasting and economic research. We provide unique global market insight and analysis through our trade, trade payments and GDP forecasts and conduct economic research that allows our clients to anticipate market developments across a comprehensive range of sectors and continents.

About the Delta Economics World Trade Outlook

Delta Economics looks at the world from the perspective of the drivers of trade. Unlike other forecasts, we look at the things that affect businesses when they decide to trade abroad: the costs of trade in terms of capital, people and locating in a different country. We also look at reasons for trade: for example, differential economic conditions, investment and comparative advantage (including skills and education, innovation and ease of doing business) and indicators of long term economic development such as population growth and the Human Development Index.

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Global Trade Profile



Delta Economics is forecasting that World Trade in 2013 will grow by 2.0%...

Against the backdrop of disappointing economic data from China and the USA in April, we see a substantial slowdown in trade during the second part of 2013 as economic fundamentals at a country level slow in key emerging countries, in particular Foreign Direct Investment and GDP. **Our forecast is 0.4% slower than we were forecasting in February for three principle reasons:**

- 1. We have revised our forecast for trade growth in key emerging economies** such as China, India, and Brazil downwards. This reflects domestic economic pressures, which have resulted in slower growth forecasts as well as substantial **forecast deceleration across the automotive sector globally in 2013 of -1.4% since the last forecast.** This is as a result of reduced demand in those countries but will impact both exports and imports in both the automotive and the automotive components sectors in these countries.
- 2. We are forecasting a substantial slowdown in trade growth between 2013 and 2014 in key manufacturing sectors,** which are having a particularly substantial effect on the trade outlook for the emerging economies where final production is increasingly located. Slower automotive trade this year will be accompanied by **slower trade growth in consumer electronics of just 1%** and a deceleration in 2014 to -0.2%.
- 3. Similarly we are seeing a decline in our forecast over the four quarters in core steel sectors.** For example, -7.3% in stainless steel, -2.5% in flat-rolled iron and steel and hot-rolled iron and steel of -0.2%. While iron ore continues to grow, the rate at which it is being converted into traded steel is declining and this suggests that demand for infrastructural goods as well as for cars is likely to remain depressed. The fact that we are forecasting a year-on-year slowdown in iron ore trade globally to 2015 points to how worrying this could be.

Global Trade Profile | Regional Forecast Summary

It is the emerging regions, specifically Asia and MENA
that are slowing in relation to the developed regions of the world...

The relative slowdown in these regions can be explained by the **increasing importance of manufacturing supply chains in Latin America and flatter European markets**. MENA, for example, is a hub for trade between Asia and Europe and a reduction in exports and imports of computers of over 11% in 2013 which suggests that this role is vulnerable to changes in demand or supply conditions in Europe and Asia.

Asia

The forecast for Asian trade **growth has slowed by 0.1%** since the last forecast from 5.5% during 2013 to 5.4%. This in part reflects China's slowdown and a reduced rate of FDI growth.

Indonesia remains a success story for the region. Trade is still forecast to grow by over 10% and emerging trade corridors to Latin America are strong. For example exports of natural rubber from Indonesia to Brazil are forecast to grow by more than 13% while exports of yarns used in stitching car seats will grow by over 12%.

Global Trade Profile | Regional Forecast Summary

Latin America

The forecast for Latin American **growth has remained static at 6.3%**. This is because growth in core commodities exported by Latin America has remained unchanged establishing their role as a supplier of commodities. Trade in automobiles and telephones has also remained steady suggesting that supply chains in these sectors are becoming increasingly embedded in the trade of Latin American economies despite worsening economic conditions in the region.

Brazil: As evidence of the stable economic conditions in Latin America, the growth forecast for Brazil, although 0.1% lower than our last forecast, remains substantial at over 13%. Against the backdrop of a slowdown in automotive trade generally, **we are expecting Brazil's exports of cars to grow by 6.2%% between 2012 and 2013**, corroborated by an increase in rubber and yarns imports, for example, from Indonesia. It is Latin America's own demand for cars that is fuelling the Brazilian automotive sector growth. For example, exports of cars from Brazil to Argentina are forecast to grow by nearly 11% while imports into Brazil from Argentina will grow by over 19% during the next year.

MENA

We have revised our forecast for MENA's **total trade growth downwards by 0.4% from 6.1% to 5.7%** because of a 1% projected slowdown in trade growth in oil and gas between 2013 and 2014, from 3.9% growth in 2013 to 2.8% in 2014. This is caused partly by an 8.3% increase in natural (shale) gas exports from the US, which is having a marked impact on the oil and gas sector.

Infrastructure driving Qatar imports: Total trade is forecast to grow by some 9% during 2012-13 and this growth is driven by its huge infrastructure development. For example, imports of iron ore are forecast to grow by 17%, structures and panels by nearly 18%, stone, flagstones and curbstones by 12.5% and pebbles and gravel by nearly 12% during the course of the year to meet the demands of these projects. We see a 1% slowdown towards the end of the year and into 2014, but the rate of import growth still remains substantial.

Global Trade Profile | Regional Forecast Summary



North America

Our forecast for North America is slightly increased by 0.3% static.

Our forecast for Canada has increased by 0.7% from 1.7% to 2.4% in 2013 but our forecast for the US has declined by 0.1% to 2.3% growth in 2013 and for Mexico by 1.8% from 6.6% to 4.8% for 2013.

China will be key to Mexico's growth in 2013: Mexico's trade is dominated by consumer electronics and automotives – the two sectors globally that are looking weaker. Exports to China, however, are forecast to grow by around 15% in 2013 and we see this as a major shift in global supply chains (especially those originating in North America) from China to Mexico. For example, we are forecasting that exports from Mexico to China of computers will increase by over 11% during 2013. Similarly, exports of telephone equipment (which includes handheld devices and mobiles) will increase by nearly 20% and radio and TV transmitters by 10.4%. These increases are from a relatively low base but still reinforce the increasing importance of Mexico's rapidly developing manufacturing base



Europe

The forecast for Europe is static at 1.4% for the year 2013 despite the forecast of a decline in trade in motor vehicles for the region. This is the lowest forecast for all the regions, but the fact that it has not declined is positive.

Poland's global supply chain role and exposure to Europe is key: Poland's total trade is forecast to grow by 7.6%, which is substantially faster than growth in most other European countries. Over the course of the year we expect export trade with France to grow by 8% and with the UK and the Czech Republic by over 9%. The majority of this trade is in cars and car parts, although we are also expecting nearly 12% growth in its exports of TV receiver equipment. However, the Polish economy is still very vulnerable to the international economic climate generally and Europe in particular. This reflects its importance to German, Korean and Japanese automotive and electronics supply chains.

Global Trade Profile | Regional Forecast Summary

Sub-Saharan Africa

The forecasts for Sub-Saharan Africa are mixed. Our estimates for three of our five focus countries (South Africa, Ghana and Kenya) have risen, while one has remained static (Angola) and one has fallen (Nigeria). The region's economic climate is febrile. On the one hand, some of the major markets have begun to waver as demand from China continues to weaken. On the other, Africa is still seen by investors as the continent of big risks and big rewards.

Nigerian strength masking weakness: Despite being the region leader (and indeed among the global leaders) in our 2013 forecasts, we would urge caution. For the first time, our most recent estimates have dropped, suggesting that the inevitable slowdown, after years of meteoric expansion, could be around the corner. With the shale revolution well underway, oil exports may not always be able to provide the fiscal impetus that they once did. As corruption and inequality reach ever higher and more public levels, investors and policymakers need only to look to South Africa (the country many were predicting Nigeria would soon oust as Sub-Saharan Africa's biggest economy) to see how potent the combination of a flagging resource and social unrest can be.

* The Sub-Saharan forecast is based on five leading economies

We are forecasting a general decline across the world of 2.1% in automotive trade...

Delta expects that exports of cars from Europe to decline by 1.6% and from Asia by 1.1% but MENA will continue to act as a hub between Europe and Africa with growth in its exports of cars of some 11.5% while Latin America, as it grows its own automotive production capacity will also grow rapidly during the course of the year by some 10.6% while North America's car exports will grow by 2.7%.

Some of the reduction in our export growth forecast, for example for Europe and Asia, is due to supply-chain relocation. For example, the fastest growing importing region of car parts will be Latin America with growth in imports of nearly 8%.

Will this decline continue? Platinum is a major component in catalytic converters and so proxies well for the potential growth of the car sector generally. We are forecasting growth of 2.6% in trade globally in the platinum sector, a figure which is forecast to slowdown to 0.7% growth by Q1 2014.

Our trade forecast gives us some evidence of how trade patterns are shifting to reflect consumer demand. Trade in consumer electronics generally is relatively flat with growth of just 1% overall while in the computer sector is forecast to decline substantially, by over 10% during the course of the year. However, electrical equipment for telephones (which includes mobile telephones and hand-held devices) is set to grow by 9.4%. The region with the fastest growth in this sector will be North America which will increase its exports by nearly 11% while Asia's imports will increase by 12.9%.

Key components in this sector include semiconductors, where world growth will be nearly 5% and export growth from Latin America will increase by nearly 30% suggesting a relocation of the global supply chain into that region. As a bellwether for the sector as a whole, though, we are forecasting that manganese trade globally will increase by 28% and this is a key component in lithium batteries which are standard in hand-held devices. Copper trade, also key in consumer electronics, is set to increase by 9.2%.

Although the forecast for the sector as a whole is relatively flat the increasing dominance of the handheld sector over the traditional computing sector means that this sector is growing at the expense of the computing sector.

Global Trade Profile | Trade Finance

Despite a sluggish picture for trade generally, we are forecasting that Trade Finance will grow globally during 2013 by nearly 5%. Growth is likely to be greatest in Trade Finance in emerging markets with trade finance forecast to grow this year alone by over 9 % in India and Brazil and by over 7% in China. Australia is also a fast-growing opportunity for trade finance with growth expected to be 8.1% this year. Similarly Qatar, with its substantial infrastructure growth, is likely to see growth in trade finance of over 11%.

Commodities, in particular iron ore, mineral fuels and precious metals (which includes platinum) remain the strongest sectors for trade finance. Growth in manufacturing related sectors such as electrical machinery, automotives and electrical equipment is substantially slower reflecting the weaker trade situation in these sectors. The only exception is the pharmaceutical sector which, because of its continued growth in trade (expected to be around 7.4% for biopharmaceuticals and 16.4% for pharmaceuticals this year, is very strong. This sector is benefitting from the increased demand for medicines in the emerging world.

Trade Finance represents between 72% and 90% of the value of total trade. The exact ratios vary according to economic and financial conditions affecting the sector, country and the type of finance offered. We use our forecast for trade as a base to calculate trade finance and market-drivers of the credit markets to calculate the ratios.