Peak trade?

This month the IMF has warned that the world is facing the growing risk of economic derailment with the worst monthly collapse in Chinese exports since 2009. In February 2016, China's exports fell 25.4% from February a year earlier.

Historically, outside of recessions, trade volumes have tended to rise significantly faster than GDP (see below). The orthodox view of port investment has been that trade volumes will grow at a significant multiple of real GDP growth (typically a 1.5 – 2x multiple is adopted). Since the GFC, ports have been hit with a double whammy of poor GDP growth and low trade elasticity. The trade elasticity is the multiple between current GDP growth and trade volume growth.

	Trade volume growth rate	Real GDP growth rate	Trade/GDP growth multiple "Trade Elasticity"
1965 - 1970	9.29%	4.95%	1.88
1970 - 1975	4.81%	3.34%	1.44
1975 - 1980	5.98%	3.63%	1.65
1980 - 1985	2.97%	2.85%	1.04
1985 - 1990	6.22%	3.52%	1.77
1990 - 1995	6.34%	3.25%	1.95
1995 - 2000	7.66%	3.85%	1.99
2000 - 2005	5.65%	3.76%	1.50
2005 - 2010	4.20%	3.72%	1.13
2010 - 2015	3.79%	3.35%	1.13

Why has trade elasticity contracted? Is it structural or cyclical?

Our view is that structural factors are important drivers of the recent weak trade growth. In particular, trade elasticity was previously inflated by a number of 'one offs', which boosted trade volumes, and are unlikely to repeat themselves over the next decade. For example:

- containerisation and associated fall in shipping costs;
- the broad-based reduction in global trade barriers since the 1970s;
- the opening up of China, which culminated in it joining the WTO in 2001; and
- the proliferation of globally integrated supply chains which has seen the emergence of Asia, and emerging markets more generally, as manufacturing centres.

In addition, looking ahead, China's transition from an export and investment driven growth model (both of which tend to be very trade intensive) to a growth model more focused on domestic consumption (particularly of services) is likely to dampen trade growth.

Against this, the current composition of growth is quite unusual, with consumption and investment relatively weak on a global basis and government expenditure relatively strong. Given that government expenditure tends to be less trade intensive – this is one cyclical explanation of the current weakness in trade.

While some would hope that recent sluggish trade performance is more cyclical than structural, our view is there are legitimate reasons to be less sanguine and have an expectation of lower volume growth over the next decade than was enjoyed during the boom-time for trade of the late 1990s and early 2000s.

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