

Whiplash

Trade data and policy tracker

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Economics - Global

- ◆ The global trade cycle is starting to turn as the pandemic-induced trade boom fades...
- ◆ ...and high inflation impacts consumer demand, while some businesses look to deplete stocked-up inventories
- ◆ HSBC economists expect world trade growth to slow to 5.4% in 2022 and to 2.1% in 2023, from 12.1% last year

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During the pandemic, we witnessed how surging demand along with disruptions to production led to input shortages and saw some businesses increasingly stock up on components (i.e. the shift to 'just-in-case' manufacturing) to mitigate any future supply chain disruptions. This phenomenon, whereby small changes in customer demand can lead to an even greater response by suppliers, is typically known as the "bullwhip effect".

However, the cycle has inevitably started to turn – raising the question of whether businesses might now experience some whiplash as goods demand normalises or even falls post-pandemic amid a cost of living squeeze. Will some companies look at ways to reduce their excess inventory? In the US, for example, retail inventories of clothing, food and beverages, and furniture and electronics are currently 6-19% above pre-pandemic levels, while over 40% of American households have started saving more, according to a mid-September Ipsos survey.

At the global level, manufacturing inventories have already expanded for the last two months as backlogs of work improve, while, based on PMI data, new export orders fell across all key sectors for the first time in over two years in August 2022. As a result, our global economists now expect world exports of goods and services to rise by 5.4% this year and by 2.1% in 2023. Some economies, such as the UK and France, are only forecast to get back to pre-pandemic export levels after 2024.

Similarly, our shipping team expects world container shipping volumes to fall by 2% y-o-y this year and by 3% y-o-y in 2023 due to slowing demand and additional fleet capacity coming on stream.

But risks remain. India, the world's top rice exporter, recently banned exports of broken rice (used mainly for animal feed), which account for c.10% of the economy's total rice export receipts, and applied a 20% export tax on other varieties but not on basmati rice. Geopolitical tensions in the Taiwan Strait, should they escalate, also risk impacting global electronics supply chains, while mainland China has started exporting gas to Europe after importing greater volumes from Russia this year.

Elsewhere, the UK is still aiming to conclude a trade deal with India by end-October (possibly less ambitious than initially anticipated) but is unlikely to strike a deal with the US anytime soon, according to UK PM Liz Truss (Politico, 20 September 2022).

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Monthly trade trends

1. The global trade cycle is slowing...



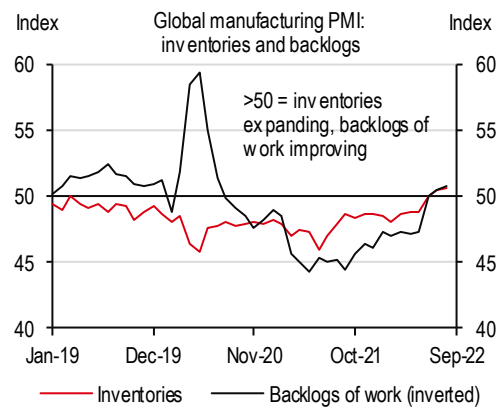
Source: CPB, S&P Global

2. ...as new export orders for key sectors contracted in the latest month...



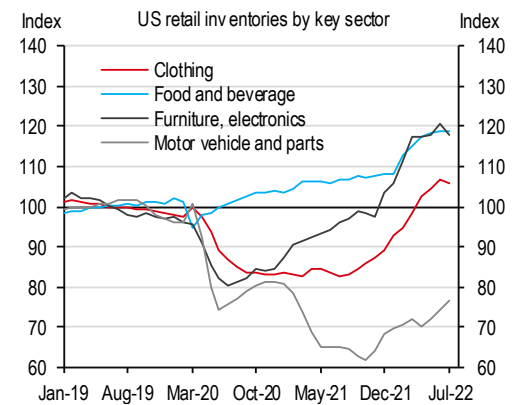
Source: S&P Global

3. Some businesses are holding excess inventory...



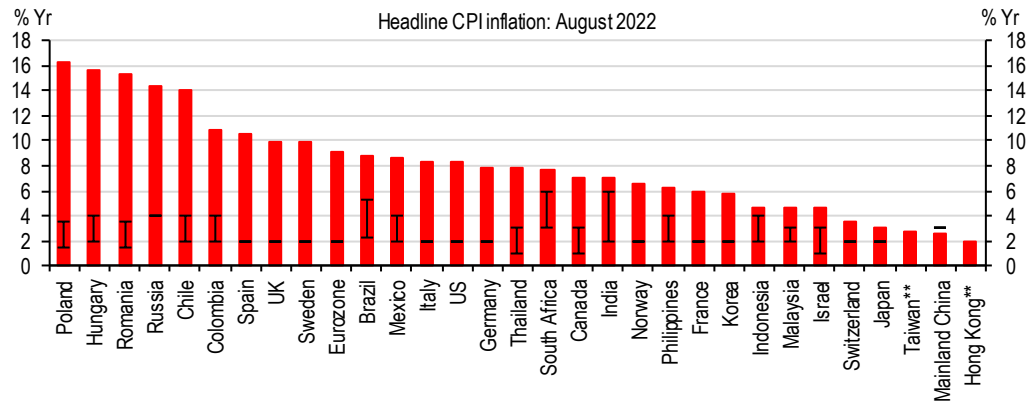
Source: S&P Global. Note: Latest data point for August 2022.

4. ...with retail stocks of consumer goods well above pre-pandemic levels in the US



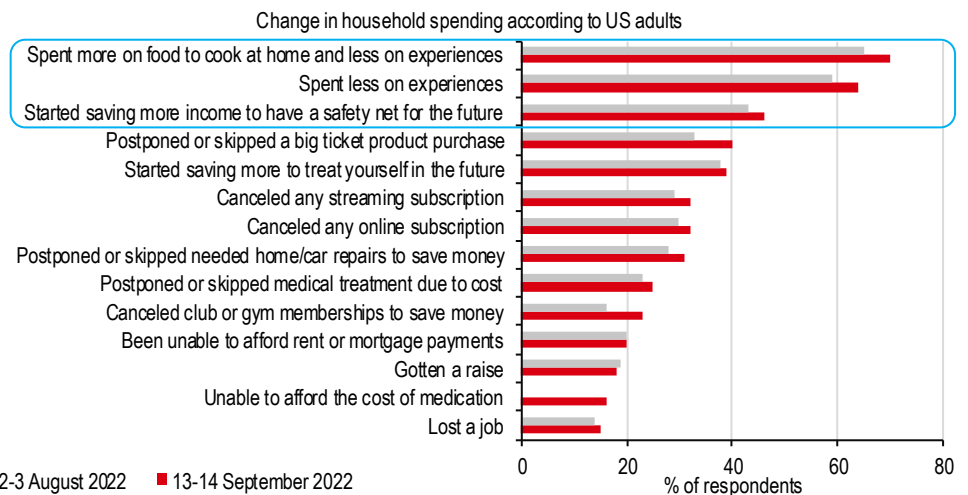
Source: Refinitiv Datastream. Note: Latest data point for July 2022. 2019 avg = 100.

5. Inflation is running high around the world...



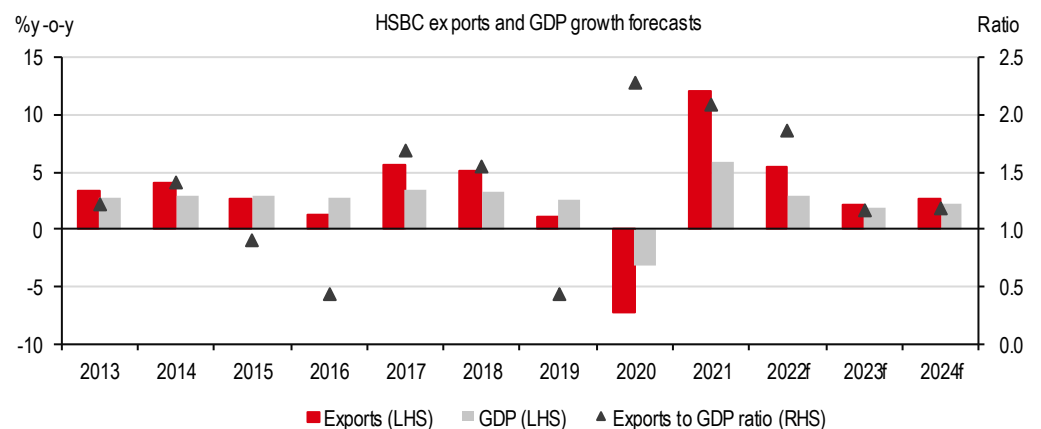
Source: Refinitiv Datastream. Note: Dashes and ranges show central bank inflation targets. **No inflation target.

6. ...leading some US households to pare back on spending, according to survey



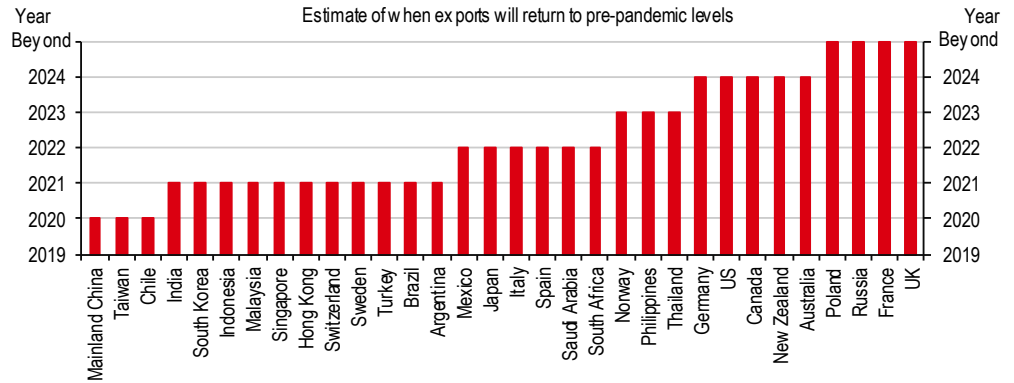
Source: Ipsos. Note: Based on a survey of 1,118 adults conducted between 13-14 September 2022.

7. HSBC economists expect global trade growth to moderate this year and next...



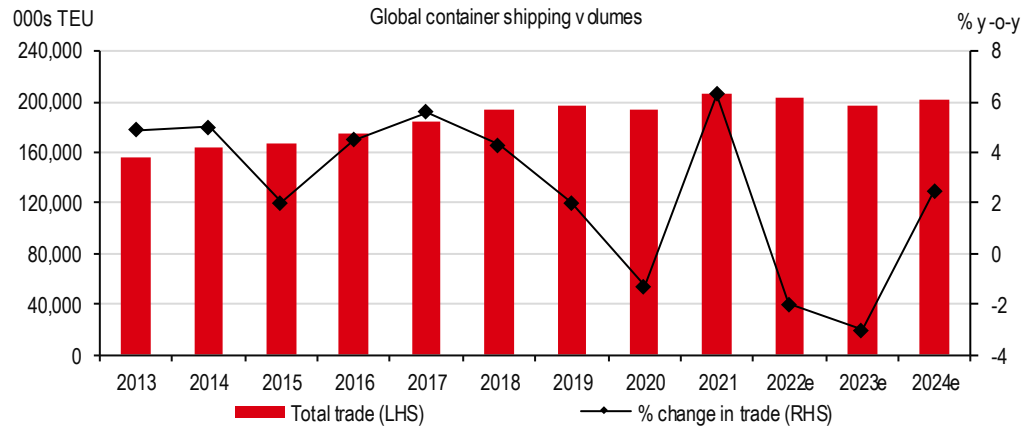
Source: HSBC forecasts. Based on *Global Economics Quarterly: A price worth paying?* 25 September 2022. Note: Exports of goods and services.

8. ...and some economies may only regain pre-pandemic export levels after 2024



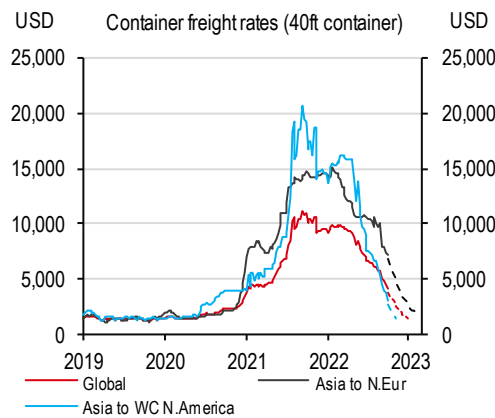
Source: HSBC forecasts. Based on *Global Economics Quarterly: A price worth paying?*, 25 September 2022. Note: India data are on a fiscal year basis. Exports of goods and services.

9. Our shipping team expects global container trade to decline y-o-y in 2022 and 2023...



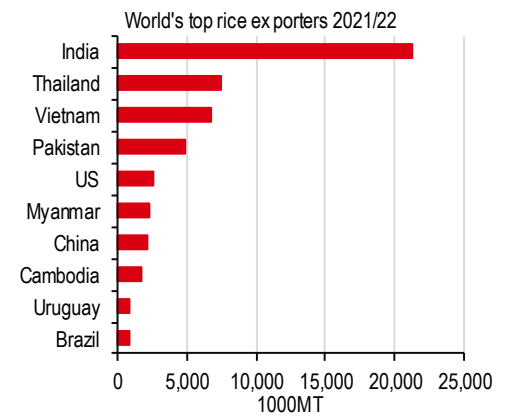
Source: HSBC. See note on *Global Container Shipping: Back to earth*, 1 September 2022.

10. ...which could lead to a further significant correction in freight rates



Source: Refinitiv Datastream. Note: Latest data point for 26 September 2022. Dotted lines are projections based on average w-o-w changes over the past four weeks. N.Eur = North Europe, WC N.America = West Coast North America.

11. But supply chain risks remain as India moved to restrict some rice exports...



Source: USDA

Trade policy calendar

12. Key upcoming trade events

● Deadline ● Event ● Report

Date	Type	Details
early Autumn/Autumn	●	US-Taiwan trade talks to begin
	●	UK Government to publish a Target Operating Model that will set out its new regime of border import controls on EU goods. It will aim to be applied from end-2023.
19 September to 3 October 2022	●	Port workers strike at Liverpool, UK
27 September to 5 October 2022	●	New port workers strike at Felixstowe, UK
October 2022	●	UK and India aim to conclude initial bilateral trade deal
	●	Next round of UK-CPTPP negotiations due to be held
15 October 2022	●	Semi-annual report by the US Treasury on currency practices of major trading partners due
30 to 31 October 2022	●	G20 ministerial meeting in Indonesia
November 2022	●	IPEF ministerial meeting to be held virtually
	●	Indonesia aiming for RCEP deal to take effect
04 November 2022	●	Possible due date for Biden administration to submit its "grand strategy" on China.
14 to 19 November 2022	●	APEC Economic Leaders' Week
15 to 16 November 2022	●	G20 Leaders' Summit
13 to 16 December 2022	●	OECD ministerial conference
January 2022	●	IPEF ministerial meeting to be held in-person
01 January 2023	●	Certain goods sold in Great Britain will now require the UKCA (UK Conformity Assessed) marking as the EU's marking (the CE mark) will no longer be accepted.
15 March 2023	●	US International Trade Commission to submit report to Congress on economic impact of US Section 232 and Section 301 tariffs.
end-2023	●	UK implementation of full border controls and checks on EU exports due to take effect after being postponed from 2022
30 June 2025	●	EU equivalence for UK CCPs due to end (could potentially be extended).
TBC	●	Grace periods for customs formalities on certain GB exports to NI were suspended indefinitely in September 2021.

Source: HSBC, Inside US Trade, Politico, WTO, UK Government, European Commission, European Council, ESRB, UK Parliament, FT, Bloomberg, Unite the Union.

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