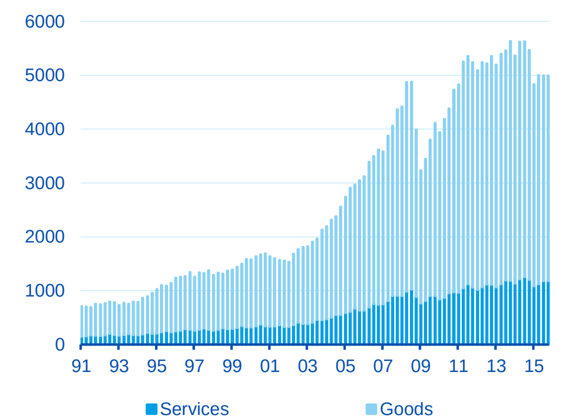
3 The slowdown in world trade continues into 2016

The current adjustment in world trade is less intense than that of 2008-09, but more persistent and with a greater relative contribution from falling prices.

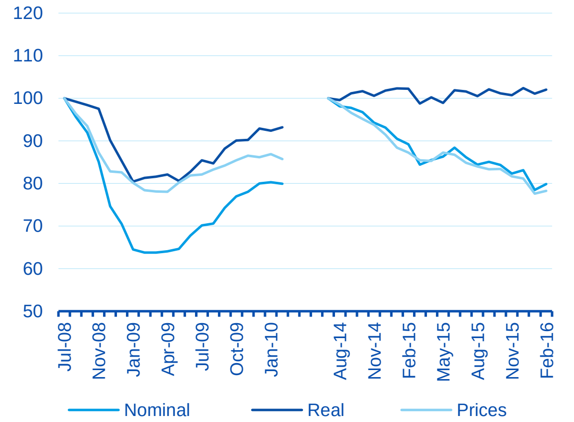
The level of world exports of goods and services[5] **has been falling since the summer of 2014**, with a cumulative decline of 14% up to Q4 2015. All the same, this fall **is only about half that seen during the financial crisis of 2008 and 2009**, the biggest drop in world trade for at least the last 35 years. The breakdown of the movements in goods and services is similar to that of the aggregate: exports of goods have fallen by 15% since mid-2014 compared with the 37% cumulative decline between the end of 2008 and the middle of 2009; and exports of services have fallen by 14% compared with 26% in 2008-09.[6]

Figure 3.1
World exports of goods and services (*)



(*) Quarterly levels expressed in US$ billions.
Source: IMF

Figure 3.2
World exports of goods (*)



(*) Index July 2008 and August 2014 = 100.
Source: Netherlands Bureau for Economic Policy Analysis

The current dynamic of trade differs from that seen in 2008. At that time, the decline of nearly 40% in the level of world exports took place in just two quarters, with trade credit being practically cut off in an environment in which worldwide financial activity and real activity was at a standstill, especially in developed countries, as well as a strong appreciation of the dollar, which also contributed to the decline in nominal levels of exports and imports. After the adjustment came a sudden and intense recovery, with massive liquidity boosting measures on the part of central banks, support for commercial banking and fiscal expansion. At present, with **four quarters of near stagnation to December 2015, we don't see signs of immediate recovery**.

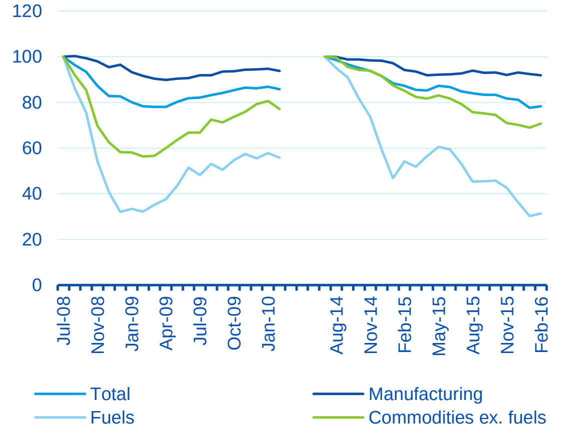
The breakdown of the nominal levels of world exports of goods[7] by volume and prices shows another difference between the 2008-09 crisis and the current adjustment. **The 37% fall in exports of goods in 2008-09 came about with a reduction in both prices and volumes** (nominal figures deflated using available price indices) with approximately equal contributions (Figure 2). The prices that had fallen were those of primary goods (-50%), mainly energy (-65%), although the fall in prices of manufactured goods (-10%) was also significant, as can be seen in Figure 3. **In the current economic situation, more than 95%**

5: IMF quarterly balance of payments statistics.
6: Despite the existence of several organisations that provide data on world trade, such as UNCTAD, the World Bank, the WTO, the OECD or the IMF, there is a consensus that the level of exports of goods reached US$16 trillion in 2015 while those of services surpassed US$4.5 trillion.
7 It is not possible to carry out a similar analysis for exports of services because of the absence of price indicators that would enable us to discriminate between nominal and volume changes. The indicators presented solve this difficulty.

of the fall in exports of goods is due exclusively to the price contraction effect, with only a slight fall in quantities being observed. Additionally, the composition of prices is somewhat different, in that the fall in energy goods (-71%) outweighs that in other primary goods (-33%), and particularly manufactured goods (-4%).

Once again, and as occurred during 2008-09, the current fall in prices coincides with a significant appreciation of the dollar with respects to the rest of currencies[8], which could be interpreted as a causal effect, that is, faced with the appreciation of the unit used to price traded goods, the level of these prices should fall. However, our interpretation is that both events are a manifestation of the same factor: world demand, its effective evolution or expectations thereof. The effective reduction in demand in 2008-09, or expectations of a fall due to the anticipated adjustment in China during the recent period. This would have a negative impact on the prices of traded goods and, in turn, feed the first effect, strengthening the dollar due to its position as a risk-free currency.

Figure 3.3
Price of goods exported by type (*)



(*) Index July 2008 and August 2014 = 100
Source: Netherlands Bureau for Economic Policy Analysis

Table 3.1
Exports of goods and services calculated by different institutions (*)

	Goods					Servicies			
	Unctad	WB	IMF	CPB	BBVA	Unctad	WB	IMF	BBVA
2006	15.7	15.6	17.7	15.4	13.9	13.0	12.7	13.2	11.0
2007	15.7	15.8	15.9	14.8	16.1	20.0	19.3	19.7	17.7
2008	15.0	15.3	14.8	13.9	14.9	12.2	12.7	12.5	13.0
2009	-22.3	-22.5	-22.0	-22.7	-22.0	-9.2	-10.8	-10.9	-11.1
2010	21.9	21.9	21.4	22.2	21.4	9.6	8.0	7.5	7.2
2011	19.9	19.8	21.1	18.8	18.1	12.2	14.5	15.5	11.9
2012	0.7	1.0	0.7	0.6	0.8	2.3	2.4	2.5	2.2
2013	2.2	2.4	3.1	2.2	2.5	5.5	6.1	6.1	5.5
2014	-	0.8	0.9	1.0	2.3	-	5.3	5.3	6.8
2015	-	-	-11.7	-12.1	-9.1	-	-	-5.1	-5.7

(*) Year-on-year rates of change
Source: BBVA Research, Unctad, World Bank, IMF and CPB

New monthly indicators of nominal level and real volume of world exports: up-to-date information of goods and services trade

The most up-to-date information available at the date of writing on the development of world trade goes only as far as the end of 2015. **In these circumstances it would be desirable to have indicators showing us the trends in trade with the most up-to-date data possible,** both because of the significance of this variable for the analysis of the short-term economic situation, as well as to alert us to changes in the phase of the cycle, given its correlation with other signs of activity. With this in mind, we developed four indicators to capture the most up-to-date trend in world exports of goods and services, in nominal terms corrected for price effects.

The strategy followed in order to be able to work with the most up-to-date information possible is to use data for nominal exports and price indicators of countries publishing monthly up-to-date statistics and having a significant share in total world trade [9]. In the indicator for exports of goods we have included 25 countries[10]

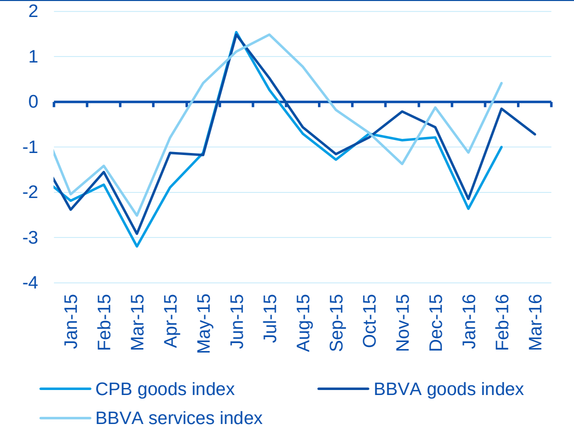
8: According to the evolution of the multilateral effective exchange rate of the dollar prepared by JP Morgan.
9: We used national statistics, which are much more up-to-date than those of international organisations such as the IMF or the World Bank.
10: The 25 countries in the sample for goods are: Europe: Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and Turkey. North America: Canada, US. Latin America: Argentina, Brazil, Chile, Mexico and Peru. Asia and Oceania: Australia, China, Hong Kong, India, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand.

which in 2014 accounted for 70% of world exports, while in the case of the indicators for services, availability of up-to-date monthly data allows us to incorporate only 16 countries[11] which account for 52% of world trade.

To construct our two nominal indicators (goods and services) we added together the exports[12] of the countries selected in each case to obtain an index and applied a three-month moving average to mitigate the high degree of volatility of the data. It is necessary to point out that the dynamics of our indicators of nominal exports of goods and services perfectly replicate those of the available data[13], which take into account all the information (Table 1). Thus, **the sample of countries selected on the basis of timeliness and frequency of data is representative of total world trade.**

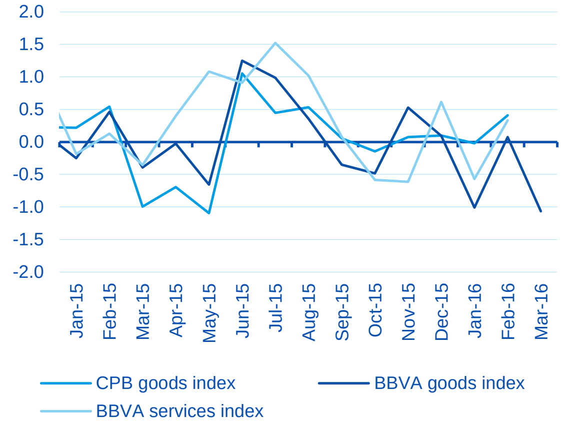
In the case of the indicators of the volumes of goods and services, it is not possible to directly add together values corrected for price effects[14]**.** For each country in the corresponding sample an index of exports is calculated, deflated by its corresponding price index[15], both for goods and for services. The aggregated index for each type of product, good or service results from weighting the rate of monthly change of each country's deflated index by its share in nominal world trade. Lastly, we apply a three-month moving average to smooth the signal.

Figure 4
Nominal indices: BBVA for exports of goods and services, and CPB index of goods(*)



(*) monthly rate of change in percentage, moving three-month average.
Source: BBVA Research, CPB

Figure 5
Volume indices: BBVA for exports of goods and services, and CPB index of goods(*)



(*) monthly rate of change in percentage, moving three-month average.
Source: BBVA Research, CPB

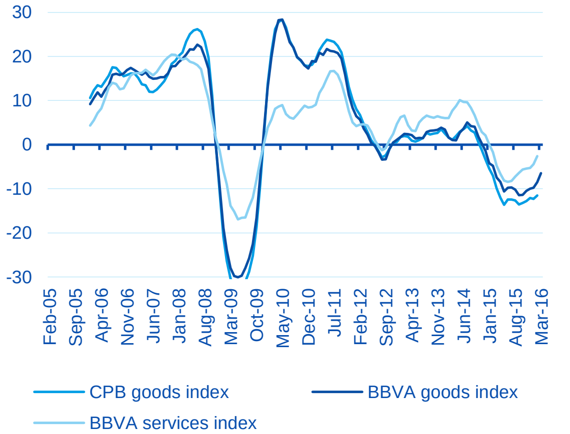
The Netherlands Bureau for Economic Policy Analysis (CPB) publishes monthly indicators of trade in goods[16], which for exports shows similar trends to those presented here. **However, our indicator is more up-to-date; at the time of writing we have a first estimate for March[17]. Moreover, in the case of services there is no up-to-date and frequent reference information for either nominal levels or the volume of trade corrected for the price effect, so our indicators expand the short-term information available on world trade** (see Figures 4 and 5).

11: The 16 countries in the sample for services are: Europe: Belgium, Denmark, France, Germany, Greece, Italy, Portugal, Turkey and the UK. North America: US Latin America: Brazil. Asia and Oceania: Australia, India, Israel, Japan and South Korea.
12: Data in national currencies are converted into dollars at the corresponding rates.
13: See note 2.
14: We deflate the nominal levels of each country by its corresponding price index, adjusted to the basket of products that are local and therefore not comparable with other economies.
15: In the majority of cases it is necessary to convert the indices from a quarterly to a monthly frequency.
16: Monthly monitor of world trade in goods: http://www.cpb.nl/en/world-trade-monitor. It is published in the last ten days of each month with information corresponding to the two previous months.
17: With information as of 1 May: 50% of the exports of goods incorporated each month by the indicator, i.e. 35% of total world exports.

The annual deceleration in world exports of goods and services continued in the first quarter of 2016

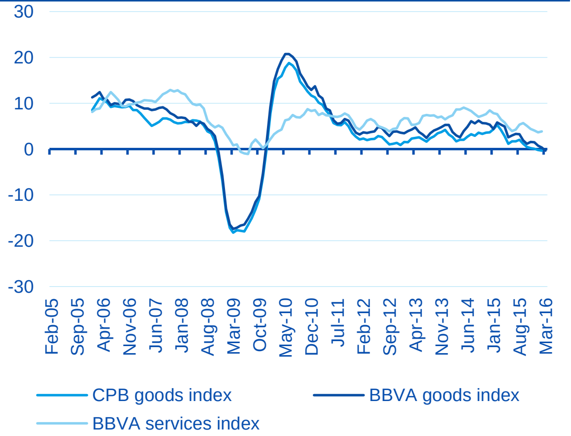
The level of trade in goods and services continued to fall in the first months of the year, both in nominal terms and by volume. With data to March (provisional, with 14 of the 25 countries forming the indicator), exports of goods fell more sharply than in Q4 2015, in both nominal and real terms. Exports of services, with almost complete information from the indicator to the end of February, also fell, but less sharply than in late 2015. Year-on-year rates (Figures 6 and 7) show how in the case of the nominal level of exports, the declines are less steep than in the second part of 2015, but this improvement derives from the acceleration of the price indicators, thus **in terms of volume the slowdown in world trade continues**.

Figure 6
Nominal exports of goods and services, BBVA indices and CPB goods index (*)



(*)annual rate of change in percentage, moving three-month average
Source: BBVA Research, CPB

Figure 7
Exports in volumes of goods and services, BBVA indices and CPB goods index (*)



(*)annual rate of change in percentage, moving three-month average
Source: BBVA Research, CPB

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