

World trade recovery reaches its limit

International trade volumes reached their pre-Covid-19 levels in 3Q20, just before many European countries went back into lockdown. But capacity constraints mean volumes won't be able to rise much further when countries open up again, providing a headwind to the global recovery, and pushing inflation upwards

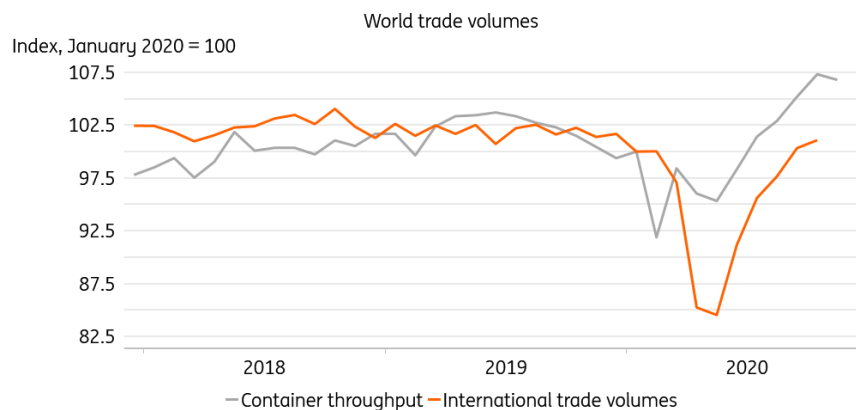


A quick bounceback

Trade recovered quickly after the first lockdowns last year, helping to boost the recovery in world GDP growth. World trade volumes had just reached their January 2020 levels in 3Q20 when several European countries tightened lockdown restrictions once again.

Port throughput, which records the movement of empty containers as well as those containing goods, reached January 2020 levels by mid-2020.

Trade volumes recovered before the second wave of the virus



Source: Macrobond

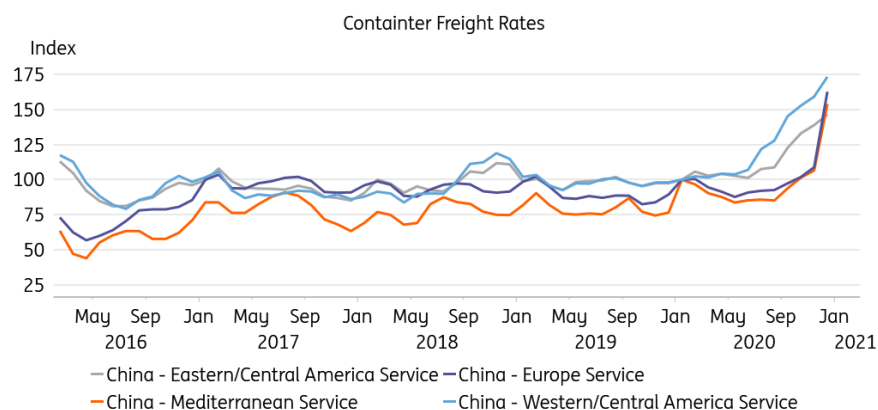
Trade in goods resumed growing in May, as restrictions were relaxed in China and other countries. Industrial production and household spending on consumer goods, both recovered quickly, boosting demand for imports. World trade's resilient performance was very different to what was seen during global financial crisis, when it took almost a year more than GDP to reach its pre-crisis level.

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This said, plummeting world trade volumes during the first wave of lockdowns was disruptive, with some lingering effects. Shipping liners reduced ocean freight capacity by cancelling scheduled trips for some container ships, and diverting others to China-US routes at the expense of China-Europe routes. The changes in ocean freight capacity have left containers stranded, creating acute shortages of empty containers. Air freight capacity has dropped dramatically, forcing some goods to travel by sea.

The pressure on ocean freight capacity is causing prices to rise and shortages, even as countries have gone back into lockdown, reducing demand. Freight rates have risen sharply and shortages of materials and equipment which initially surfaced during the recovery from the first lockdown, have also returned. In December, eurozone manufacturing firms reported supplier delays and shortages.

Capacity constraints are now making themselves felt in freight rates



Source: Macrobond

Bad news for world trade is bad news for the recovery

With freight rates signalling capacity constraints in world trade, it's likely that trade volumes won't be able to rise much further – even to serve catch-up demand – when countries emerge from the second wave of lockdowns. Capacity may only come back onstream slowly as shipping liners wait until the global recovery is more firmly underway before bringing back inactive ships. Even then, containers being unavailable where they are needed will drag on volumes for some time.

Capacity constraints mean that trade volumes won't be able to rise much further even when countries come out of lockdowns

In the near term, limits to global trade growth are likely to be a modest headwind for GDP compared to the far more disruptive domestic lockdowns. More important will be higher freight rates and import prices building inflationary pressures over the course of the year.