

What are the prospects for global trade growth?

At a glance...

The outlook for global economic growth has deteriorated

In October, policymakers will gather in Washington DC to assess global economic growth prospects. However, the outlook now looks less optimistic than it did in January (see Figure 1), mainly due to one-off events in the US and disappointing outturns in Japan and the Eurozone.

Growing trade flows are one of the successes of multilateralism

Despite these short term troubles, one area where there has been longer term success is the growth of world trade. Throughout our analysis, we focus on trade in goods as opposed to goods and services.

Our analysis (see page 3) shows that global trade has increased by a factor of five since 1980, compared with 'just' a tripling of global GDP in the same period.

This trend has had far ranging benefits for businesses and consumers. For example, in the aftermath of the financial crisis, stronger emerging market demand provided a much-needed lifeline for some hard-hit businesses in the advanced economies.

From \$10 trillion in 2013 to \$18 trillion in 2030

We think the global economy will become even more inter-connected in the future. Our analysis shows that the

value of global goods trade is expected to grow in real terms from around \$10 trillion in 2013 to around \$18 trillion in 2030. This implied real trade growth of 3.3% per annum will be an important driver of global growth over this period.

But our projections also show that there will be a reshuffling of the biggest 'actors' in the global trade arena, with Asia becoming ever more important. Specifically, our analysis suggests that by 2030:

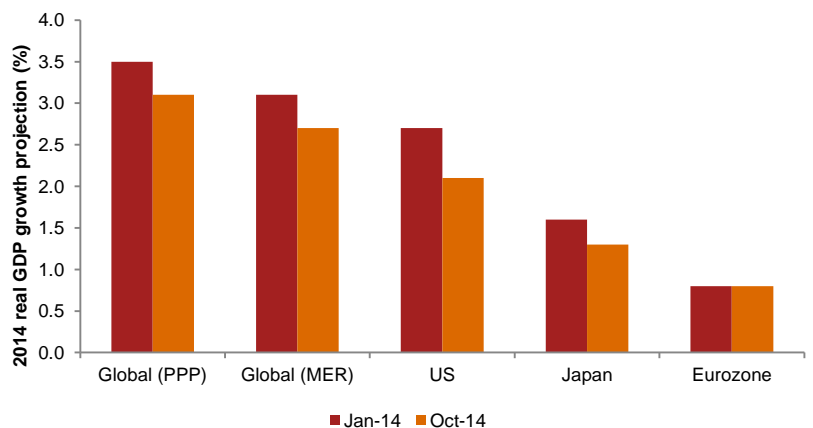
- China could feature in 12 out of the top 20 bi-lateral trade routes; and
- the US and Germany could feature in only 5 out of the busiest 20 bilateral trade routes.

For emerging economies, the best is yet to come

Our analysis shows that trade between emerging economies is projected to grow by around 6% per annum in real terms in the period to 2030, almost twice the global average rate.

By 2030, the trade links between China and India, as well as other South East Asian economies like Malaysia, Indonesia and Singapore, will become ever more important to global trade. This reflects Asia's growing role in the world economy and its rapidly expanding consumer appetite. Our analysis here shows that, since 2012, consumer spending in the largest seven emerging markets ('the E7') has grown four times quicker than that in the G7 (see page 2).

Fig 1: We have lowered our 2014 projections for global growth and for growth in the US and Japan since the beginning of the year



Source: PwC analysis

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Economic update: The end is near for QE in the US

QE likely to come to a halt at the end of October

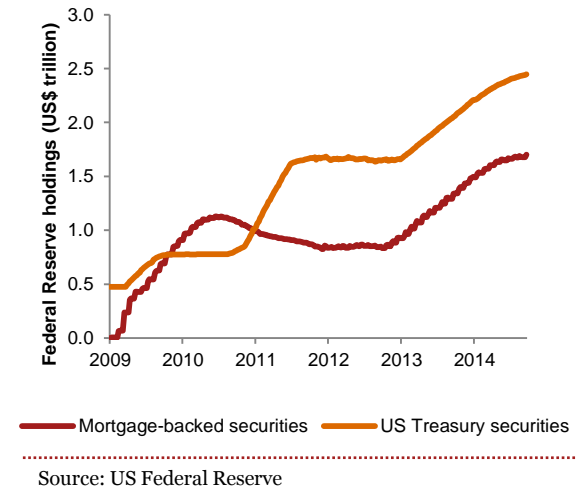
Since 2009, the Fed has expanded its balance sheet by purchasing around \$3.7 trillion worth of mortgage-backed securities and US Treasury debt (see Figure 2). But this policy of quantitative easing ('QE') is likely to be brought to an end at the next meeting of the Federal Open Market Committee (FOMC) in late October. However, the Committee did keep the door open for further purchases in the event of unexpected developments in the labour market or around inflation.

One step closer to normal monetary policy

The likely end of QE is the first step in the Fed's return to normal monetary policy, which will eventually involve raising interest rates and winding down its asset holdings. We see two key points coming out of the latest Fed guidance on this transition:

- the FOMC do not expect to stop renewing maturing QE assets until after interest rates have begun to rise, which we expect to occur gradually from mid-2015 onwards assuming no major data surprises; and
- the FOMC do not expect to sell mortgage-backed securities, suggesting that the Fed will hold this debt to maturity; this "gradual and predictable" approach should reduce the risk of a serious adverse impact on the market prices of these securities during the transition period.

Fig 2: The Fed's holding of mortgage-backed and Treasury securities has increased dramatically since 2009

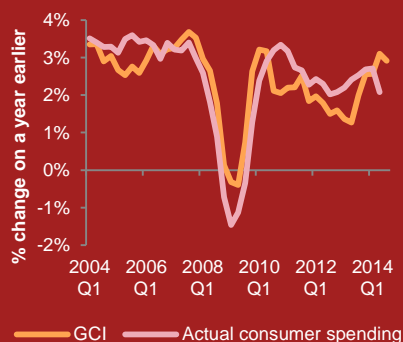


When it comes to giving an early steer on consumer spending trends, our GCI passes the test

What is the GCI?

Consumer spending is the biggest component of the global economy and so a key driver of future growth. Our monthly updated Global Consumer Index (GCI) aims to provide an early steer on consumer spending and growth prospects in the world's 20 largest economies.

Fig 3: The GCI has been a good indicator of trends in consumer spending



So how has our GCI been doing?

Broadly speaking the GCI has been successful at tracking global consumer spending trends (see Figure 3). Our analysis of the numbers show that our index is strongly correlated

(correlation coefficient of +0.8) with actual consumer data sourced from national accounts (which only becomes available at a global level some months after the data used in our index). This is further reinforced by the fact that the Index has, on average, underestimated actual consumer spending by just 0.1 percentage points – a very small average margin of error.

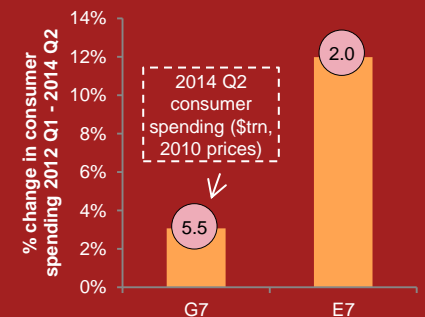
What trends are we seeing in the latest data?

For the month of September, we expect consumption to grow by 2.9% (year-on-year) which is above the long-term rate of 2.7%.

Even though this is a respectable growth rate it comes on the back of a rather abrupt slowdown in global consumption in the second quarter of 2014. This was partly attributed to the rise in consumption tax in Japan - the first such increase in 17 years.

At the same time, we have continued to see disappointing growth in the Eurozone, which is dragging down global consumption. However, if the US and UK remain on a positive growth path this should act as a buffer against some of these more negative influences.

Fig 4: Real consumer spending has grown faster in the E7 than in the G7



E7 consumers on a spending spree

Focusing on the seven largest emerging economies in the world (the 'E7*'), our analysis shows that, since 2012, consumption in these E7 markets has grown four times more quickly than in the G7 (see Figure 4).

In absolute terms, consumer spending in the E7 remains significantly smaller compared to the G7. However, as economic activity continues to shift from the West to the East we expect this to have a positive knock-on impact on living standards in the E7, which will boost consumer demand there for a wide variety of products and services.

*Brazil, Russia, India, China, Mexico, Turkey, Indonesia

Where will the top goods trade routes be in 2030?

Focusing on the bright side: Global trade

One of the long-term successes of multilateralism has been the strengthening of trade flows across the global economy. Our analysis of IMF numbers shows that, since 1980, the volume of global trade has increased by a factor of five, compared with 'just' a tripling of global GDP over the same period (measured in purchasing power parity terms). This trend has been good news for businesses, especially those with a global footprint, which have the ability to cushion a down-turn in their home markets by switching their sales efforts to overseas markets.

Historically, growth in trade was limited to a 'closed club' of Western economies. But successive rounds of GATT trade liberalisation talks and the subsequent establishment of the World Trade Organisation (WTO) in 1995 helped to expand trade on a global basis. Is this trend set to continue and, if so, which will be the busiest merchandise trade routes in 2030?

Goods trade between advanced and emerging economies is projected to grow by around \$4 trillion by 2030

Our estimate is that the total value of global goods trade will continue to grow from around \$10.3 trillion in 2013 to around \$18 trillion in 2030 (in constant 2013 US dollars) with trade between advanced and emerging markets accounting for almost half (\$3.9 trillion) of this increase (see Figure 5).

China, which is by far the largest emerging economy in the world, is expected to grab a bigger slice of the world's top trade routes by 2030 because:

- Chinese consumers are expected to buy more overseas goods as they become wealthier, so leading to higher imports; and
- China will also remain a key player in manufacturing, although it is likely to move to higher valued exports (e.g. cars not textiles) as its relative wage costs get higher in line with increased capital investment and productivity.

Brazil, India, Saudi Arabia and the UAE feature in the Top 20

Our analysis also shows that global trade is expected to enter a new phase in the next two decades, with intra-emerging-market trade growing at around 6% per annum (see Figure 5). Our analysis suggests that by 2030:

- the China – India trade link will grow to become the world's 7th largest trade route, exceeding the size of the Germany-US trade route;
- resource rich economies like Brazil and Saudi Arabia are projected to take advantage of China's appetite for natural resources and further strengthen their already strong trade links with China; and
- trade links between China and other lower cost South East Asian economies (e.g. Indonesia) will intensify as Chinese companies look to take advantage of the relatively lower wages on offer in these markets.

So what does this mean for businesses?

We think there are two key things for businesses to consider in their future plans:

1. China is expected to reinforce its position as the major global goods trading hub. China's lead over the US for the title of 'most places in the top 20' is expected to grow from 2 places in 2013 to 7 places in 2030, further evidence of economic power shifting from the West to the East.
2. The emergence of South East Asia as a centre for global trade will need to be accompanied by major infrastructure investments, particularly in transportation, to allow easier movement of goods to market.

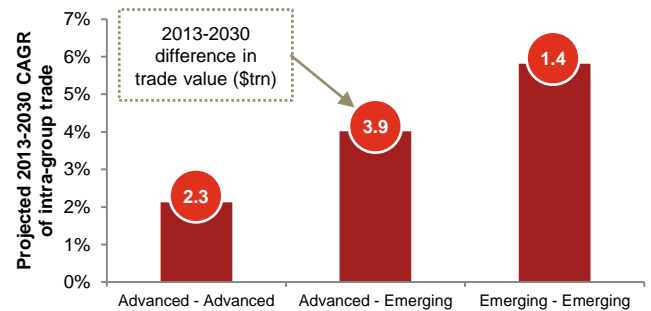
Assumptions underlying projections

Our analysis above was based on an update of our previous research (Future of world trade: Top 25 sea and air freight routes in 2030). Our estimates are based on the following key assumptions:

- national GDP growth rates follow those projected by the IMF in the World Economic Outlook report and our [World in 2050 projections](#);
- trade flows are based on merchandise exports to GDP ratios, which have been fixed at their long-term rates; and
- we project how the destination of each country's exports is expected to evolve over the period using a weighted average of current and future demand, which is driven by GDP growth.

Our analysis is restricted to 29 major economies selected on the basis of their present size (GDP) and the expected growth rate of their trade flows.

Fig 5: We expect goods trade between emerging markets to be the fastest growing bloc



Source: PwC analysis (countries categorised according to IMF country groups)

Table 1: Top 20 bilateral goods trade routes in 2013

Ranking	Bilateral trade pair		Trade value (2013 US\$ bn)
1	China	US	491
2	China	Japan	279
3	China	South Korea	237
4	Germany	France	225
5	Japan	US	200
6	Germany	US	165
7	China	Germany	157
8	Germany	UK	143
9	Germany	Italy	134
10	China	Australia	125
11	UK	US	110
12	South Korea	US	104
13	France	Italy	96
14	China	Singapore	94
15	Hong Kong	US	92
16	Japan	South Korea	91
17	China	Brazil	82
18	Singapore	Malaysia	82
19	UAE	India	80
20	China	Malaysia	77

Source: PwC analysis

Table 2: Top 20 bilateral goods trade routes in 2030

Ranking	Bilateral trade pair		Projected trade value (2013 US\$ bn)	
1	◆	China	US	716
2	◆	China	Japan	390
3	◆	China	South Korea	366
4	◆	Germany	France	277
5	◆	Japan	US	244
6	▲	China	Germany	240
7	✱	China	India	214
8	▼	Germany	US	209
9	▲	China	Singapore	208
10	◆	China	Australia	205
11	▲	China	Malaysia	189
12	✱	China	Indonesia	179
13	▼	Germany	UK	178
14	▲	China	Brazil	165
15	✱	China	Saudi Arabia	164
16	▼	Germany	Italy	163
17	▼	Hong Kong	US	146
18	✱	China	UAE	144
19	▼	South Korea	US	142
20	▼	UAE	India	141

Source: PwC analysis

◆ retains position; ▲ moves up; ▼ moves down; ✱ new entrant

Note: For the purposes of compiling the tables, we have removed intra-European (with the exception of the 4 largest European economies), US-Canada and China-Hong Kong trade routes.

Projections: October 2014

	Share of 2012 world GDP		Real GDP growth				Inflation			
	PPP*	MER*	2013	2014p	2015p	2016-2020p	2013	2014p	2015p	2016-2020p
Global (market exchange rates)		100%	2.5	2.7	3.1	3.2	2.3	2.7	2.8	2.6
Global (PPP rates)	100%		3.0	3.1	3.6	3.6				
United States	19.5%	22.5%	2.2	2.1	3.1	2.4	1.5	1.9	2.2	1.9
China	14.7%	11.4%	7.7	7.4	7.3	7.0	2.6	2.3	3.0	3.4
Japan	5.5%	8.3%	1.5	1.3	1.2	1.2	0.4	2.5	1.7	1.5
United Kingdom	2.8%	3.4%	1.7	3.0	2.6	2.4	2.6	1.7	1.9	2.0
Eurozone	13.5%	16.9%	-0.5	0.8	1.3	1.5	1.4	0.5	1.2	1.5
France	2.7%	3.6%	0.1	0.4	0.9	1.7	1.0	0.7	1.0	1.5
Germany	3.8%	4.7%	0.2	1.5	1.6	1.3	1.6	0.8	1.6	1.7
Greece	0.3%	0.3%	-3.9	0.2	1.8	3.0	-0.9	-1.2	-0.3	1.3
Ireland	0.2%	0.3%	0.2	3.4	2.5	2.5	0.5	0.5	1.5	1.5
Italy	2.2%	2.8%	-1.8	-0.2	0.6	1.0	1.3	0.2	0.9	1.4
Netherlands	0.8%	1.1%	-0.7	0.8	1.5	2.0	2.6	0.9	1.2	1.4
Portugal	0.3%	0.3%	-1.0	0.9	1.6	1.8	0.4	0.0	0.6	1.5
Spain	1.7%	1.8%	-1.2	1.2	1.7	1.5	1.5	-0.1	0.8	1.0
Poland	1.0%	0.7%	1.6	3.2	3.3	3.5	1.2	0.4	1.8	2.5
Russia	3.0%	2.8%	1.3	0.1	0.5	2.5	6.8	7.1	6.3	5.0
Turkey	1.3%	1.1%	4.1	2.8	3.8	4.5	7.5	8.8	7.0	4.8
Australia	1.2%	2.1%	2.4	3.2	2.8	3.1	2.2	2.6	2.6	2.7
India	5.7%	2.6%	4.7	5.2	6.5	6.5	6.3	5.6	5.9	6.0
Indonesia	1.4%	1.2%	5.8	5.2	5.8	6.3	6.4	6.2	5.9	5.1
South Korea	1.9%	1.6%	3.0	3.5	3.6	3.8	1.3	1.7	2.2	2.9
Argentina	0.9%	0.7%	2.9	-1.6	0.6	3.3	-	25.0	25.0	-
Brazil	2.8%	3.1%	2.3	0.5	1.5	4.0	6.2	6.2	5.4	4.8
Canada	1.8%	2.5%	2.0	2.2	2.5	2.2	1.0	2.0	1.8	2.1
Mexico	2.2%	1.6%	1.3	2.6	3.7	3.6	3.8	3.9	3.7	3.6
South Africa	0.7%	0.5%	1.9	1.6	2.5	3.8	5.8	6.2	5.6	4.8
Nigeria	0.5%	0.4%	5.5	6.3	6.2	5.7	8.5	8.5	8.6	7.3
Saudi Arabia	1.1%	1.0%	4.0	4.3	4.4	4.3	3.5	3.1	3.5	4.0

Sources: PwC analysis, National statistical authorities, Thomson Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI), with the exception of the Indian indicator which refers to the Wholesale Price Index (WPI). Argentina's inflation projections use the IPCNu Index released by INDEC which is based in the fourth quarter of 2013 (therefore we do not provide a 2013 estimate). We will provide a 2016-2020 inflation projection once a longer time series of data is available. GDP projections for Argentina use the 2004 base year national account data (previously base year 1993). Our Nigeria GDP projections relate to the new rebased GDP figures but are subject to high margins of error. Also note that the tables above form our main scenario projections and are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios.

Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	0-0.25% (December 2008)	Rate to start to rise during the second half of 2015	28-29 October
European Central Bank	0.05% (September 2014)	Rates on hold following decrease in September	6 November
Bank of England	0.5% (March 2009)	Rate to rise gradually from late 2014 or early 2015	9 October



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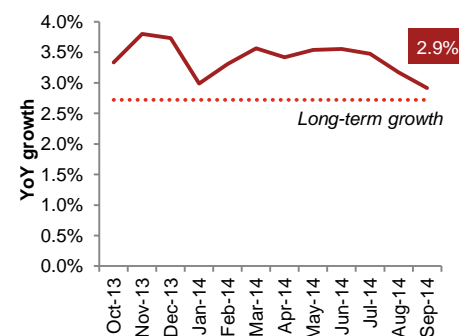
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PwC's Global Consumer Index

Global consumer spending growth falls to 2.9% this month, the lowest rate since July 2013.

Growth in the money supply has slowed while consumer confidence has fallen again this month. Energy commodity prices also fell, exerting downward pressure on the index. However, on a brighter note, industrial production grew strongly.



The GCI is a monthly updated index providing an early steer on consumer spending and growth prospects in the world's 20 largest economies. For more information, please visit www.pwc.co.uk/globalconsumerindex

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