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Strong trade growth continues but momentum may soften in Q2

Trade indicator suggests that the strong rate of trade expansion is likely to continue, while slowing slightly in the second quarter of 2018, according to the WTO's latest World Trade Outlook Indicator (WTOI) released on 17 May. The WTOI's current value of 101.8 remains above the baseline value of 100 for the index but below the previous value of 102.3, which suggests continued solid trade growth in the second quarter of 2018 but probably at a somewhat slower pace than in the first quarter. The recent dip in the WTOI reflects declines in component indices for export orders in particular but also for air freight, which may be linked to rising economic uncertainty due to increased trade tensions. The latest results are broadly in line with the WTO's most recent trade forecast issued on 12 April 2018, which predicted a moderation of merchandise trade volume growth from 4.7% in 2017 to 4.4% in 2018. Risks to the trade forecast posed by rising trade tensions remain present.

The moderate dip in the overall WTOI index was driven by declines in component indices for export orders and air freight. The forward-looking export orders index dropped sharply, falling from an above-trend plateau to a below-trend value (98.1) in the latest month. While the air freight index remains above trend (102.5), it has lost momentum in recent months. Container port throughput remains above trend (105.8) but shows signs of plateauing, while automobile sales (97.9) and agricultural raw materials (95.9) are currently weighing down the WTOI. In contrast to the mixed results elsewhere, the index for electronic components trade (104.2) has turned up, climbing above trend.

Japan exports accelerate in May, trade protectionism remains a risk

Exports rose 8.1 percent in May from the same period a year ago. In April, exports grew an annual 7.8 percent. Japan's exports to the United States rose 5.8 percent year-on-year in May, faster than a 4.3 percent year-on-year in April, due to higher shipments of car parts.

Japan's trade surplus with the United States fell 17.3 percent year-on-year to 340.7 billion yen ($3.08 billion).

Japan's exports rose in May at the fastest pace in four months thanks to increased shipments of cars, car parts, and semiconductor equipment in a sign that global demand is gaining strength.

Exports rose 8.1 percent in May from the same period a year ago, more than the median estimate for a 7.5 percent annual increase expected by economists in a Reuters poll. In April,

exports grew an annual 7.8 percent. Exports are likely to continue to grow thanks to increased demand for manufacturing equipment, cars and car parts, but Japan's trade surplus with the United States makes it a potential target for U.S. President Donald Trump's protectionist policies.

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Imports rose 14.0 percent in the year to May, versus the median estimate for an 8.2 percent increase.

The trade balance was a deficit of 578.3 billion yen ($5.23 billion), versus the median estimate for a 235.0 billion yen deficit. Imports from the United States rose 19.9 percent year-on-year as imports of U.S. aircraft and coal grew. As a result, Japan's trade surplus with the United States fell 17.3 percent year-on-year to 340.7 billion yen ($3.08 billion).The decline in the trade surplus is unlikely to exempt Japan from White House criticism as President Donald Trump's administration raises tariffs to lower the U.S. trade deficit and combat what it says are unfair trade policies.

Trump is pushing ahead with hefty tariffs on $50 billion of Chinese imports, and China's Commerce Ministry has said it would respond with tariffs "of the same scale and strength," sparking fears of a full-blown trade war. Trump has imposed tariffs on steel and aluminium imports, which affect Japanese companies, and has also criticized Japan for its low level of imports of American vehicles.

China says it will protect its interests from 'reckless' US trade threats

China lashed out at renewed threats from the White House on trade. China warned it was ready to fight back if Washington was looking for a trade war. The remarks come days ahead of a planned visit by U.S. Commerce Secretary Wilbur Ross. In an unexpected change in tone, the United States said on Tuesday that it still held the threat of imposing tariffs on $50 billion of imports from China unless Beijing addressed the issue of theft of American intellectual property.

Washington also said it will press ahead with restrictions on investment by Chinese companies in the United States as well as export controls for goods exported to China.

Its tougher stance comes as President Donald Trump prepares for a June 12 summit with North Korean leader Kim Jong Un, whose key diplomatic backer is China, and as Washington steps up efforts to counter what it sees as Beijing's efforts to limit freedom of navigation in the South China Sea.

The trade escalation came after the two sides had agreed during talks in Washington earlier this month to find steps to narrow China's $375 billion trade surplus. Ross is expected to try and get China to agree to firm numbers to buy more U.S. goods during a June 2-4 visit to the Chinese capital."We urge the United States to keep its promise, and meet China halfway in the spirit of the joint statement," Chinese Foreign Ministry spokeswoman Hua Chunying told a daily news briefing, adding that China would take "resolute and forceful" measures to protect its interests if Washington insists upon acting in an "arbitrary and reckless manner."

"When it comes to international relations, every time a country does an about face and contradicts itself, it's another blow to, and a squandering of, its reputation," Hua said.

China has said it will respond in kind to threats by Trump to impose tariffs on up to $150 billion of Chinese goods.

Trade war fears had also receded after the Trump administration said it had reached a deal to put ZTE Corp. back in business after banning China's second-biggest telecoms equipment maker from buying U.S. technology parts for seven years. The easing in tensions had fuelled optimism that agreement was imminent for Chinese antitrust clearance for San Diego-based Qualcomm's $44 billion purchase of Netherlands-based NXP Semicond-uctors, which has been hanging in the balance amid the trade dispute.

Tariffs and tactics

William Zarit, chairman of the American Chamber of Commerce in China, said Washington's threat of tariffs appeared to have been "somewhat effective" thus far."I don't think it is only a tactic, personally," he told reporters on Wednesday, adding that the group does not view tariffs as the best way to address the trade frictions."The thinking became that if the U.S. doesn't have any leverage and there is no pressure on our Chinese friends, then we will not have serious negotiations."

The Global Times, an influential tabloid run by the ruling Communist Party's official People's Daily, said the United States was suffering from a "delusion" and warned that the "trade renege could leave Washington dancing with itself."State news agency Xinhua said China hoped that the United States would not act impulsively but stood ready to fight to protect its own interests.

"China will continue to hold pragmatic consultations with the United States' delegation and hope that the United States will act in accordance with the spirit of the joint statement."

A White House official said the U.S. government plans to shorten the length of visas issued to some Chinese citizens as part of a strategy to prevent intellectual property theft by U.S. rivals. Citing a document issued by the Trump administration in December, the official said the U.S. government would consider restrictions on visas for science and technology students from some countries.

Brexit trade barriers could cost UK £27bn, report argues

Global consultancy firm Oliver Wyman will say that under the most negative scenario of high import tariffs and high regulatory barriers the cost to the economy could total £27bn.Business profits for supermarkets and restaurants could be wiped out because of supply chain disruption. A rise in costs would likely be passed on to consumers, the report will argue. The analysis, to be published next week and seen by the BBC, will make clear that even under the most favourable scenario of no tariffs and few regulatory barriers, there are likely to be increased "red tape" costs.

It will suggest that increased paperwork and delays for customs checks are likely to increase household costs by 1% a year, or £250 per household. The total cost to the economy would be £6.8bn.Economists who support Brexit said that reports of significant economic costs post-Brexit were "alarmist" and that by focusing on the domestic economy, Britain outside the European Union could flourish.

The government has also made it clear that it wants a relationship with the EU that is as "frictionless" as possible when it comes to trade."While the outcomes of Brexit remain unclear, our analysis shows that any scenario will increase costs for UK households," said Duncan Brewer of Oliver Wyman, a consultancy firm that has done major pieces of work on the economic impact of Brexit for the financial services sector and retailers. It has also worked for the government.

A Brexit deal that results in no new tariffs with the EU is still likely to increase the red tape costs of imports, driving down profits for businesses, and driving up prices for consumers," Mr Brewer continued."Looking across the whole supply chain and taking into account multiple different Brexit outcomes, one thing is clear: Brexit will decrease profits for consumer businesses.

"The only question is by how much, which will depend on what deal is negotiated."While businesses will do all they can to absorb rising costs, we expect they will be forced to gradually put up prices for shoppers. If they don't, profits could vanish."The Oliver Wyman analysis looks at different sectors and the possible consequences of Britain's new relationship with the EU.It will suggest that a supermarket chain with annual takings of £10bn would see profits fall by a third under the most benign Brexit scenario modelled.

Prices would need to rise by 2.3% to compensate and ensure the business made as much profit as it did pre-Brexit. The report follows a number of studies, including by government officials, that say there is likely to be a negative economic impact from Brexit. The Bank of England has also said that the Brexit process has already cost households money. Gerard Lyons, of the Economists for Brexit group, which supports Britain leaving the EU, said that although there might be a short-term "hit" from leaving the EU and the political process had not been "ideal", the greater room for manoeuvre for Britain once out of the union would have economic advantages.

"We need pro-growth policies, and should remember that 90% of global growth in the future will come from outside the euro-area," said Mr Lyons, a former chief economist of Standard Chartered bank and now chief economic strategist for Netwealth. He said: "Judgements such as this [by Oliver Wyman] are far too pessimistic."Without the constraints that come from being a member of the EU, our economy can flourish."

Global growth too dependent on cheap borrowing – OECD

Unemployment will drop to its lowest level since 1980 across the world's richest nations, but global growth remains dependent on cheap borrowing and government spending, the Organisation for Economic Cooperation & Development (OECD) has warned in its latest global economy health check. The rise of tit-for-tat protectionist trade barriers, the return of volatile financial markets, and soaring oil prices also spell trouble for the global economy as it heads towards the 10-year anniversary of the 2008 banking collapse, the OECD said.

"The economic expansion is set to continue for the coming two years, and the short-term growth outlook is more favourable than it has been for many years," said Angel Gurría, secretary general of the OECD, the Paris based thinktank for the world's 35 richest nations, including the US, Britain, Mexico and Japan.

"However, the current recovery is still being supported by very accommodative monetary policy, and increasingly by fiscal easing. This suggests that strong, self-sustaining growth has not yet been attained."Central banks in Britain, the eurozone, Japan and the US have kept interest rates low and pumped funds into their economies via quantitative easing to maintain investment and promote growth. Governments have eased back on austerity measures, allowing more state funds for infrastructure projects and welfare payments, especially pensions.

The latest economic outlook for the UK says the economy is in better shape than the OECD expected last September when it predicted that Britain would only manage to grow by 1%. It says the economy will grow by 1.4%, up from its previous estimate of 1%, and 1.3% next year.

Despite the slightly stronger prospects for growth, the unemployment rate would edge up gradually. The main risk to the forecast remained the uncertainty surrounding Brexit."If high uncertainty persists, the drag on capital expenditure could intensify as businesses delay plans further," the report said."By contrast, deferred plans may be brought forward if businesses gain clarity about future trading arrangements, pushing up investment growth in the short run."In addition, prospects of maintaining the closest possible economic relationship with the European Union would lead to stronger-than-expected economic growth," it added.

The outlook calls for governments to reignite economic reforms while low interest rates and strong global growth persist. Countries should improve tax and spending policies to boost investment and raise living standards across the income distribution. Governments should also boost spending on digital and physical infrastructure, enhance research and development collaboration between universities and industry, reduce barriers to entry in professional services sectors and cut red tape. "Policymakers need to put greater focus on structural policies to boost skills and to improve productivity to achieve strong, sustainable and inclusive growth," Gurría said.

Business leaders say economic nationalism is biggest growth threat

Business leaders around the globe have said the rise of economic nationalism triggered by Brexit, Donald Trump and populist politics poses the greatest threat to their growth. According to a survey of 1,300 chief executives from some of the world's biggest companies, carried out by the accountancy company KPMG, British business leaders are notably more pessimistic than their peers. Two-thirds of UK CEOs said they were most worried about the growing use of protectionism, which includes measures such as tariffs and quotas on imports, compared with just over half of their international counterparts.

Such barriers have the potential to protect jobs in the countries that put up trade barriers, but business leaders argue the benefits are outweighed by higher prices for consumers. Bill Michael, UK chair at KPMG, said: "If world trade doors continue to close, there will be an inevitable impact on global growth. This persistent retrenchment is of huge concern to the business leaders I speak to."The warnings come after China and the US stepped back from a potential trade war that could have had damaging repercussions for the global economy. Washington agreed to put "on hold" proposed tariffs on Chinese imports, as the two sides said they had reached "a consensus on taking effective measures" to cut the US trade deficit in goods with China.

Most chief executives in the KPMG survey of 150 UK business leaders and 1,150 from elsewhere around the world said geopolitical risks, regulations and investment in technology would trigger slow growth for their companies over the coming year. European business leaders have become increasingly pessimistic in recent months, despite some of the progress being made in the Brexit talks. According to a study of chief financial officers by the accountancy company Deloitte, 12% said they were less optimistic about the prospects for their business, up from 11% in the autumn.

Half said they were experiencing a high level of financial and economic uncertainty, while business leaders in the UK had the gloomiest outlook in the survey of 1,652 chief financial officers from across Europe. British companies had the lowest investment intentions of those from any of the 20 EU nations in the study. Ian Stewart, the chief UK economist at Deloitte, said: "Europe's recovery saw a slight loss of momentum in the first quarter, with CFO optimism and revenue expectations nudging lower. But outside the UK, businesses are upbeat about spending and hiring."