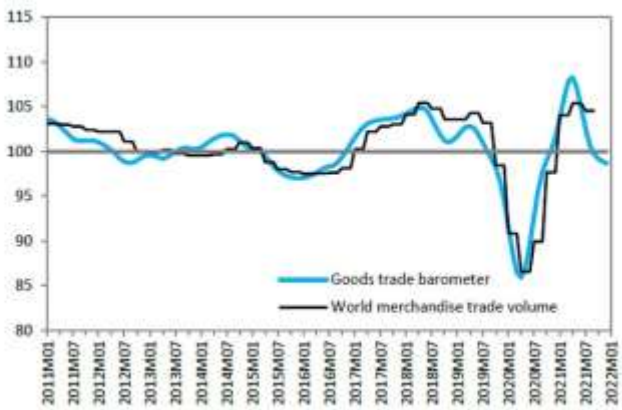
Digest Content

Goods barometer signals possible turning point for trade as supply pressures ease[1]

Supply disruptions have dampened the strength of the rebound in global merchandise trade, but this could be starting to change as supply chain pressures show some signs of easing, the latest WTO Goods Trade Barometer shows.



The current reading of 98.7 is below the barometer's baseline value of 100 and down slightly from last November's reading of 99.5, indicating a loss of momentum in trade at the start of 2022 following last year's strong rebound in trade volumes. However, the index also shows signs of bottoming out, suggesting that merchandise trade may turn up soon even if it remains below trend in the near term.

In addition to ongoing supply chain disruptions, the barometer's weakness is partly explained by the introduction of health restrictions to combat the Omicron wave of COVID-19, which some countries are now scrapping since the new variant's health impact has turned out to be relatively mild. Relaxing these measures could boost trade in the coming months, though future variants of COVID-19 continue to present risks to economic activity and trade.

In the third quarter of 2021, merchandise trade volume growth slowed to 8.1% year-on-year due to base effects — trade had begun to recover in the second half of 2020 — as well as a small quarter-on-quarter decline. Once statistics become available for the fourth quarter of

[1] https://www.wto.org/english/news_e/news22_e/wtoi_21feb22_e.htm

2021, they are likely to show even lower year-on-year growth, even if quarter-on-quarter growth turns positive again.

Cumulatively, the volume of trade in the first three quarters of 2021 was up 11.9% compared to the first three quarters of 2020. This is above the WTO's most recent forecast of 10.8% from last October, but slower year-on-year growth in the fourth quarter should bring the increase for the year more in line with the forecast.

Most of the barometer's component indices were close to their baseline value of 100 indicating on trend growth, the main exceptions being automotive products (92.0) and container shipping (97.2). The automotive products index has actually improved compared to recent months due to the gradually increasing availability of semiconductors, which are used extensively in vehicle production. This increased availability is reflected in the electronic components index (98.6), which is close to trend.

The container shipping index (97.2) dipped further below trend and as port congestion remained an ongoing problem, but its slowing rate of decline could presage a turnaround in the near future. Container throughput of major ports has plateaued at a very high level. Purchasing managers indices show delivery times coming down gradually worldwide, but not fast enough for many producers and consumers.

The Goods Trade Barometer is a composite leading indicator providing real-time information on the trajectory of merchandise trade relative to recent trends ahead of conventional trade volume statistics. Readings of 100 indicate growth in line with medium-term trends; values greater than 100 suggest above-trend growth while values below 100 indicate the reverse.

Export Controls on Belarus[2]

The Administration slapped export controls on Belarus yesterday for its assistance in Russia’s invasion of Ukraine.

The controls will prevent the diversion of products including technology and software in the defense, aerospace and maritime sectors through Belarus and to Russia, the Commerce Department said.

The export controls being imposed on Belarus are the same that already apply to Russia.

The new rule from Commerce’s Bureau of Industry and Security imposes a policy of denial on the export of sensitive items that support Belarus’s defense, aerospace and maritime industries.

It also adds Belarus to the two new Foreign Direct Product rules put in place on Russia as part of Commerce’s Russia sanctions rule, resulting in a near total ban on exports of items to both Russian and Belarusian military end users.

Over 30 countries representing over half the world’s economy have announced sanctions and export controls on Russia, the White House said yesterday.

Sweeping Sanctions

The White House announced that the State Department will impose “sweeping” sanctions targeting Russia’s defense sector. In total, 22 Russian defense-related entities will be

[2] «Washington Trade Daily», Volume 31, Number 44

designated, including firms that make combat aircraft, infantry fighting vehicles, electronic warfare systems, missiles and unmanned aerial vehicles for Russia's military.

Commerce will impose export controls on oil and gas extraction equipment that would support Russia's refining capacity over the long term. "The United States and our Allies and partners do not have a strategic interest in reducing the global supply of energy – which is why we have carved out energy payments from our financial sanctions," according to the fact sheet. "But we and our Allies and partners share a strong interest in degrading Russia's status as a leading energy supplier over time. These actions will help further that goal, while protecting American consumers."

As President Biden announced in his State of the Union address Tuesday night, the United States is closing off US air space to all Russian flights, "further isolating Russia – and adding an additional squeeze on its economy."

House to Act on Russia Oil, WTO Ban[3]

The House is expected to take up legislation banning Russian energy imports and seeking to suspend Russia's World Trade Organization membership.

But lawmakers dropped language to take away Russia's Permanent Normal Trade Relations status at the request of the Administration, according to key House members.

President Biden signed an executive order imposing a ban on imports of Russian oil, gas and coal, making the legislation redundant.

The bill directs the US Trade Representative to "use the voice and influence of the United States at the WTO" to condemn Russia's invasion of Ukraine, encourage other WTO members to suspend trade concession to Russia and "consider further steps with the view to suspend the Russian Federation's participation in the WTO."

Biden bans Russian energy imports[4]

President Biden announced an immediate ban on Russian energy imports, including oil, liquefied natural gas and coal, a move he said targets "the main artery of Russia's economy."

The White House hesitated about imposing the ban out of concern that gas prices will skyrocket even further than they have since Russia invaded Ukraine two weeks ago.

The President acknowledged that the ban will send gas prices even higher. But he said there is strong support among the US people to stop imports of Russian oil and gas.

The decision to impose the energy ban was made in close consultation with US allies, including Europe, President Biden said. He noted that European countries in particular will not be able to take the same action because of their dependence on Russian oil and gas. Washington will be working with the European Union to help Europe lessen its dependence.

The United Kingdom announced yesterday it is phasing out Russian oil imports by the end of this year.

The executive order signed by the President yesterday bans the importation into the United States of crude oil; petroleum; petroleum fuels, oils, and products of their distillation;

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[3] Washington Trade Daily, Volume 31, Number 48
[4] Washington Trade Daily, Volume 31, Number 48

liquefied natural gas; coal and coal products from Russia. It also bans all new US investment in Russia's energy sector.

Record Trade Deficit in January[5]

The US trade deficit hit a new record high in January to $89.7 billion, a $7.7 billion increase over the $82 billion deficit record in December, the Commerce Department reported yesterday.

January exports were $224.4 billion, $3.9 billion less than December exports. Imports, meanwhile, hit $314.1 billion, $3.8 billion more than December imports.

The January increase in the goods and services deficit reflected an increase in the goods deficit of $7.1 billion to $108.9 billion and a decrease in the services surplus of $600 million to $19.2 billion.

Year-over-year, the goods and services deficit increased $24.6 billion, or 37.7 percent, from January 2021. Exports increased $29.9 billion or 15.4 percent, while imports grew $54.4 billion or

21 percent.

The average goods and services deficit increased $7.6 billion to $83.9 billion for the three months ending in January. Year-over-year, the average goods and services deficit increased $17.8 billion from the three months ending in January 2021.

Exports of goods decreased $2.3 billion to $155.9 billion in January, while service exports fell by $1.6 billion to $68.5 billion in January.

Goods imports were up $4.8 billion to $264.8 billion in January and services imports fell by $1 billion to $49.3 billion in January.

The United States recorded deficits in January with China at $33.3 billion, European Union $18 billion, Mexico $12.5 billion, Japan $7.1 billion, Canada $6.8 billion, Germany $5.4 billion, Taiwan $3.9 billion, Italy $3.2 billion, South Korea $3 billion, India $2.4 billion, Saudi Arabia $800 million and France $800 million.

The United States had trade surpluses with South and Central America at $4.4 billion, Hong Kong $2 billion, Singapore $1.3 billion, Brazil $1.1 billion and the United Kingdom $1 billion.

[5] Washington Trade Daily, Volume 31, Number 48