International trade in 2015 and 2016 was markedly sluggish in advanced economies and emerging countries alike. However, following this slack period, in late 2016 trading activity worldwide started to expand at a more sustained pace. The volume of trade in goods grew at an average quarterly rate of 1.3% between December 2016 and September 2017, compared with average growth of 0.3% recorded in the two preceding years. This recovery, however, was uneven, with an upturn in Q1, a slight downturn in Q2 and another upturn in Q3 (see Chart 1). Geographically, the acceleration observed in late 2016 and in early 2017 was mainly due to strong growth in the commercial activity of emerging Asian countries. Buoyant US imports and some recovery in Latin America also contributed positively to world trade growth in the early months of the year. However, the rebound observed in Q3 mainly reflects the expansion of imports in the euro area and other advanced economies, although trade in Asian countries also contributed significantly in September (see Chart 2).

The rebound seen in emerging Asia in early 2017 was largely on the back of the buoyancy of China's trading activity and Asian intra-regional trade (see Chart 3). In part, these dynamics are related to the fiscal and financial stimulus implemented by the Chinese authorities to sustain their economy's expansion, which boosted investment and were passed through to the Asian economies as a whole through regional value chains.[1] Other factors that may have contributed to the pick-up in trade in Q1 are the previous appreciation of the dollar and the recovery of consumption and investment in the US energy sector, which is highly sensitive to the increase in oil prices, boosted by US imports. For its part, Brazil's exit from recession contributed to spur commercial activity in Latin America. Also, the upturn in world trade seen from July and August, supported by the strength of activity in the euro area and other developed economies, was driven

1 European Central Bank, "Economic Bulletin", issue 4/2017.

Chart 1
GROWTH IN THE VOLUME OF GOODS TRADE

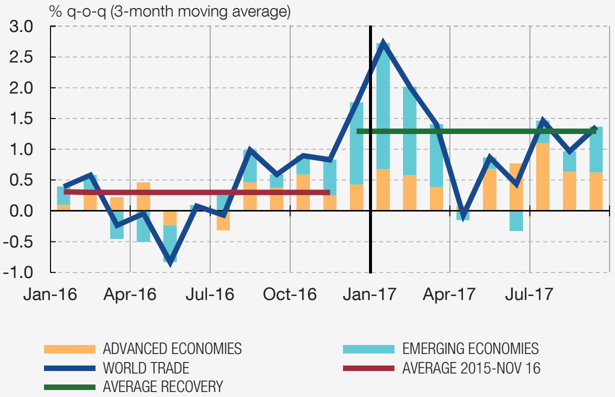


Chart 2
CONTRIBUTION TO TRADE GROWTH

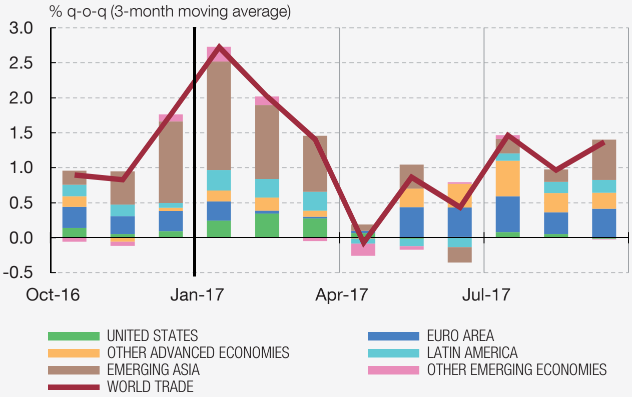


Chart 3
TRADE IN EMERGING ASIA BY TRADE PARTNER

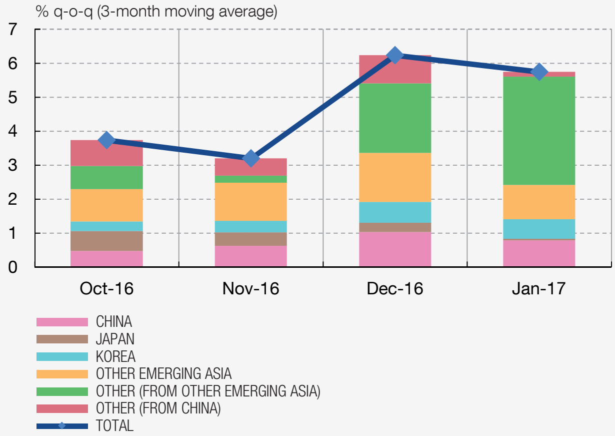
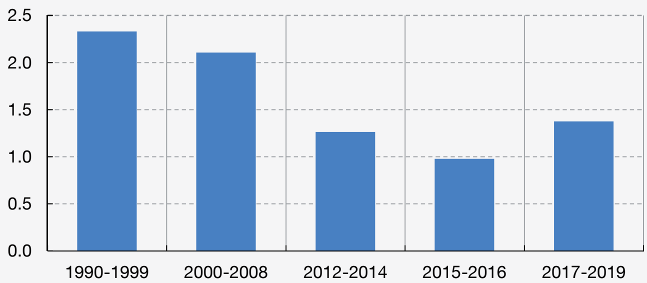


Chart 4
ELASTICITY OF TRADE TO GDP



SOURCES: CPB, IMF DOTS and IMF WEO.

by trade in investment goods, which had been weighing on total trade in recent years. Bilateral trade data suggest that euro area growth also boosted the trading activity of some countries in Eastern Europe through the regional value chains.

The developments seen in the first three quarters of 2017 are consistent with short and medium-term international trade growth projections. In the short term, the significant expansion of world trade is expected to continue, underpinned by the momentum of advanced economies. Among the leading indicators of activity, the Purchasing Managers Indexes (PMIs) relating to changes in production and industry orders remained at high levels in October and November, in line with those recorded in the first half of the year. In the medium term, the projections of different international bodies point to sustained growth in world trade, with annual increases ranging between 3.2% and 4% for 2018. The expansion of trade in advanced economies will benefit from output gaps and ongoing improvement in investment. The pick-up of trade in emerging economies will be favoured by the timid recovery of commodity prices in producing countries, the correction of trade imbalances and sustained growth in China.[2] In this connection, it is expected that Asian emerging economies will continue to contribute substantially to world trade growth, although without returning to the exceptionally buoyant pace of the first half of the year.

Thus, the performance of trade in 2017 is starting to be consistent with a progressive recovery in the elasticity of trade to global GDP. After remaining at very high levels from the 1990s until the onset of the global financial crisis, even exceeding a value of two, the elasticity of world trade to global activity moderated substantially from 2012, with particularly low values (below one) in 2015 and 2016 (see Chart 4). According to several studies, this change was driven in part by temporary factors, such as the composition of demand (given the lesser dynamism of investment, a GDP component with a high import content) or geographical factors, as activity in advanced economies, which are characterised by having a higher elasticity, slowed notably. Other explanations point towards structural factors, such as the halting of the process of developing global value chains or the slowing of trade openness processes.[3] The latest projections indicate that elasticity could in the medium term return to a value between 1.0 and 1.4, remaining at levels below pre-crisis values. An attenuation of the temporary factors mentioned above, with the recovery of advanced economies crystallising as investment increases, and the growing weight of final demand in emerging economies, which would suggest a greater elasticity of trade to activity in these markets too, should contribute to this recovery.

2 See International Monetary Fund, "World Economic Outlook", October 2017; OECD, "Interim Economic Outlook", September 2017; European Commission, "European Commission Forecast, Autumn 2017", November 2017; World Trade Organization, "Trade Statistics and Outlook", press release, 21 September 2017.

3 International Monetary Fund, "Global Trade: What's Behind the Slowdown?", WEO October 2016. IRC Trade task-force, "Understanding the Weakness in Global Trade. What is the New Normal?", European Central Bank Occasional Paper, September 2016.